
Application of PA-
American Water Company
Pursuant to Sections
507, 1102, 1329 of the
Public Utility Code for
Approval of its
Acquisition of the
Valley Township Water
Treatment and
Distribution System

Docket No.: A-2020-3019859
A-2020-3020178

Call-In Telephonic
Evidentiary Hearing

Pages 71 - 140

Judge's Chambers
Piatt Place
301 5th Avenue
Pittsburgh, PA

INDEX TO EXHIBITS

NUMBER

PAWC Statement No.:

1W (Gabage - Direct, with
Exhibits KEG-1W through
KEG-2W)
2W (Guntrum - Direct, with
Exhibits MJG-1W through
MJG-3W)
3W (Nevirauskas - Direct,
with Exhibit RPN-1W)
4W (Weinert - Direct, with
Exhibit JCW-1W)
1WW (Gabage - Direct, with
Exhibits KEG-1WW through
KEG-2WW)
2WW (Guntrum - Direct, with
Exhibits MJG-1WW
through MJG-3W)

INDEX TO EXHIBITS (Cont.)

NUMBER

3WW (Nevirauskas - Direct,
with Exhibit RPN-1WW)

4WW (Weinert - Direct, with
Exhibit JCW-1WW)

2W-S (Guntrum - Supplemental
Direct)

2WW-S (Guntrum - Supplemental
Direct, with
Exhibit MJG-4)
(PART OF EXHIBIT 2W-S)

Valley Statement No.:

1W (Proctor - Direct)

1WW (Proctor - Direct)

2W (Walker, III - Direct)

2WW (Walker, III - Direct)

1W-S (Proctor - Supplemental
Direct)

1WW-S (Proctor - Supplemental
Direct)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

Dated: October 9, 2020

Amended PAWC Statement No. 1W

**DIRECT TESTIMONY OF
KEITH E. GABAGE**

INTRODUCTION

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

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

4

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

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

8

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

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

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

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

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

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

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

4

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

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

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

17

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

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

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

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

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

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

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

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

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

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

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

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

² Valley Township Authority was subsequently disbanded.

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

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

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

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

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

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

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

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

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

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

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

11
12 **DESCRIPTION OF THE TRANSACTION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14
15 **SERVICE TERRITORY**

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

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

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

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

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

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

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

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

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

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

CONCLUSION

1
2
3
4

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

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

Case	Docket
<p>Application of Pennsylvania-American Water Company (PAWC) for approval of: (1) the transfer, by sale, of substantially all of Paint-Elk Joint Sewer Authority (PEJSA) properties and rights related to its wastewater system to PAWC, and (2) the rights of PAWC to begin to offer or furnish wastewater service to the public in portions of Paint Township and Elk Township, Clarion County, Pennsylvania.</p>	<p>Docket No. A-2013-2395998</p>
<p>Application of Pennsylvania-American Water Company-Wastewater Division (PAWC-WD) for approval of: (1) the transfer, by sale, of substantially all of Shippenville Borough properties and rights related to its wastewater system to PAWC-WD, and (2) the rights of PAWC-WD to begin to offer or furnish wastewater service to the public in Shippenville Borough and an additional portion of Elk Township, Clarion County, Pennsylvania.</p>	<p>Docket No. A-2014-2441953</p>
<p>Application for approval of: 1) the transfer, by sale, of substantially all of the water system property and rights of the McEwensville Municipal Authority to PAWC, and 2) the right of PAWC to begin to offer or furnish water service to the public in McEwensville Borough and an additional portion of Delaware Township, Northumberland County, PA.</p>	<p>Docket No. A-2015-2460981</p>
<p>Application for approval of: 1) the transfer, by sale, of substantially all of the wastewater system assets and rights of the McEwensville Municipal Authority to PAWC-WD, and 2) the right of PAWC-WD to begin to offer or furnish wastewater service to the public in McEwensville Borough, Northumberland County, PA.</p>	<p>Docket No. A-2015-2460981</p>
<p>Application of PAWC for approval of 1) the transfer, by sale, of substantially all of the Borough of Turbotville's assets, properties and rights related to its wastewater collection and treatment system to PAWC, and 2) the right of PAWC to begin to offer or furnish wastewater service to the public in the Borough of Turbotville, Northumberland County Pennsylvania</p>	<p>Docket No. A-2018-3004189</p>

Exhibit KEG-1

Application of Pennsylvania-American Water Company for approval of the transfer, by sale, of substantially all the Municipal Authority of the Borough of Turbotville's assets, properties and rights related to its water treatment and distribution system, to Pennsylvania-American Water Company	Docket No. A-2018-3004191
Section 1329 Application of Pennsylvania-American Water Company–Wastewater Division for the Acquisition of Sadsbury Township's Wastewater System Assets	Docket No. A-2018-3002437

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

Date: October 9, 2020

PAWC Statement No. 2W

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

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

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

3

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

5 **A.** I am employed by Pennsylvania-American Water Company (“PAWC” or the “Company”)
6 as a Senior Project Engineer.

7

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

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

12

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

14 **A.** I received my Bachelor of Science degree in civil engineering in 1994 and a Master of
15 Engineering degree in Environmental Engineering in 1995 from the University of Idaho.
16 In 2010, I received my Master in Business Administration from Lebanon Valley College.
17 I have worked in various engineering roles and have over 24 years of experience in
18 environmental engineering related to municipal and industrial water and wastewater
19 treatment. I have worked at PAWC since 2003 in roles related to the acquisition of water
20 and wastewater facilities. I am a registered Professional Engineer in Pennsylvania and I

1 hold a Project Management Professional certification from the Project Management
2 Institute.

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION (“PUC” OR “COMMISSION”)?**

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

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

10 **A.** My testimony will describe the water system including the source of supply, treatment, and
11 distribution system (“System”) currently owned by the Township of Valley (“Valley”) that
12 PAWC has agreed to acquire (the “Transaction”). I will also explain how the acquired
13 system will be integrated into PAWC’s existing operations, describe PAWC’s technical
14 fitness to run the system, and discuss the benefits of the Transaction.

15
16 **Q. CAN YOU PLEASE DESCRIBE THE SYSTEM?**

17 **A.** The Valley system has three Public Water System Identification Numbers (“PWSIDs”).
18 Valley Springs (PWSID #: 1150185) has three permanent ground water wells. Prior to
19 entering the distribution system, the water is treated with sodium hypochlorite for
20 disinfection and pH adjusted by addition of sodium hydroxide. The system received its
21 ground water rule certification in November 2011. The maximum rated flow from the
22 treatment system is 150 gpm. The Valley Springs system also supplements production
23 with purchased surface water from PAWC’s Coatesville water system. Valley Crossing

1 (PWSID #: 1150197) purchases all its water from PAWC Coatesville. Villages of Hillview
2 (PWSID #: 1150225) purchases all its water from PAWC Coatesville.

3
4 **Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE**
5 **CONSTRUCTION OF THE DISTRIBUTION SYSTEM.**

6 **A.** Based on the mapping that was available and provided by Valley, the distribution system
7 is primarily constructed from ductile iron pipe. The approximate sizes and lengths are
8 listed in the table below.

9

Pipe Diameter and Material	Approximate Pipe Length
6-inch DIP	12,599 ft
8-inch DIP	79,554 ft
10-inch DIP	10,916 ft
12-inch DIP	10,814 ft
14-inch DIP	1,250 ft
TOTAL	115,133 ft

10
11 **Q. PLEASE STATE WHETHER THE SYSTEM CAN PROVIDE AN ADEQUATE**
12 **SUPPLY OF WATER TO MEET PRESENT AND FUTURE CUSTOMER**
13 **DEMANDS.**

14 **A.** Based on the population projections and demand projections the system capacity is
15 adequate to meet present and future customer demands.

16
17 **Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES AND**
18 **SERVICE AREA.**

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

1 **Q. DOES PAWC PROVIDE WATER SERVICE TO VALLEY, WEST CALN AND**
2 **EAST FALLOWFIELD TOWNSHIPS?**

3 **A.** Yes, presently PAWC provides water service in portions of Valley and East Fallowfield
4 Township and provides water service in most of West Caln Township. PAWC is acquiring
5 the wastewater system in Valley under a separate application that will be filed shortly.

6
7 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER**
8 **OPERATIONS FACILITIES IN THE VALLEY AREA.**

9 **A.** PAWC's Coatesville operations center is located within one mile from Valley and houses
10 both the local operations team and operations support staff.

11
12 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY**
13 **OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**

14 **A.** The System will be managed as part of PAWC's Coatesville water department within
15 PAWC's Southeast Area operations. The Valley systems that receive water wholly from
16 PAWC (Valley Crossing, and Villages of Hillview) will be integrated into the PAWC
17 Coatesville water system. The Valley Springs system will continue to operate as a
18 standalone system. The Southeast Area provides a range of shared support services --
19 including purchasing, environmental compliance, health, and safety, meter reading,
20 customer service work and PA One Calls. The water and wastewater operations in Valley
21 will both be supported by common shared support services.

1 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH WATER**
2 **OPERATIONS, AS NEEDED?**

3 **A.** Yes. Current PAWC employees in this area are supported by a shared support team
4 supporting common functions such as payroll, purchasing, environmental compliance,
5 health, and safety. Employees in both the water and wastewater departments will support
6 each other when appropriate and necessary, particularly in emergency situations. As
7 mentioned above, all operations and employees within PAWC and within the broader
8 American Water Works Company, Inc. (“American Water”) footprint have access to each
9 other when circumstances require and/or when a very specialized skill or experience is
10 required to support all local issues.

11
12 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
13 **FACILITIES FOLLOWING THE ACQUISITION?**

14 **A.** No, the System will be operated by PAWC’s existing Coatesville system. It will also have
15 the support of PAWC’s surrounding operations as well as PAWC’s operations throughout
16 the Commonwealth and American Water’s nationwide resources.

17
18 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE SYSTEM?**

19 **A.** The 5-year capital plan for the System is shown on **PAWC Exhibit MJG-1W**.

20
21 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN VALLEY TO**
22 **MAINTAIN ENVIRONMENTAL COMPLIANCE FOR THE SYSTEM? WHY?**

1 A. Yes. PAWC can draw upon a much broader range of engineering and operational
2 experience, as well as deeper financial resources, to address the environmental compliance
3 challenges of the System. In addition, given PAWC's existing platform in relation to the
4 operation of water and wastewater systems in neighboring communities, we believe that
5 PAWC is best positioned to provide those services on a cost-effective basis.

6 PAWC is the Commonwealth's largest investor-owned provider of water and
7 wastewater services. As a leading wastewater provider in Pennsylvania, PAWC brings
8 industry leading expertise and has extensive technical experience in upgrading, operating
9 and maintaining sewer facilities. PAWC is a recognized leader in providing communities
10 in the Commonwealth with well-maintained and reliable water and wastewater service and
11 has extensive local knowledge due to our decades of experience providing water service to
12 neighboring communities.

13 PAWC currently employs approximately 1,100 professionals with expertise in all
14 areas of water and wastewater utility operations including engineering, regulatory
15 compliance, water and wastewater treatment plant operation and maintenance, distribution
16 and collection system operation and maintenance, material management, risk management,
17 human resources, legal, accounting, and customer service. As a subsidiary of American
18 Water, PAWC has available to it additional resources of highly trained professionals who
19 have expertise in various specialized areas. A 50-person team of American Water
20 corporate engineers has handled a wide variety of system evaluations, selecting treatment
21 processes and establishing critical design criteria for water and wastewater treatment
22 systems in order to improve operations and prioritize capital improvements.

1 PAWC has an established track record of successfully managing large capital
2 investment projects in order to provide reliable service to the communities it serves.
3 PAWC has an ongoing program of capital investment focused on systematically replacing
4 and adding new pipes, treatment and pumping facilities, and other water and wastewater
5 infrastructure; thereby minimizing customer disruption caused by infrastructure failure.
6 PAWC has funded in excess of \$1 billion in capital construction over the past five years
7 with expenditures expected to total \$275 million to \$300 million per year for the next five
8 years. Capital planning is performed by in-house engineering staff and operations to
9 establish capacity needs, regulatory impacts, service adequacy and reliability for PAWC's
10 wastewater systems. Project costs, alternatives and risks are also determined.
11 Comprehensive periodic oversight of water and wastewater assets gives PAWC a clear and
12 objective view of needs and potential capital project solutions.

13
14 **Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE WATER**
15 **SERVICE TO VALLEY'S CUSTOMERS.**

16 **A.** PAWC has approximately 670,000 active water customers across the Commonwealth, with
17 customers in 36 counties. A map of PAWC's current service territories is attached to my
18 testimony as **PAWC Exhibit MJG-2W**. PAWC has had no material issues in complying
19 with the Pennsylvania Public Utility Code ("Code") or other regulatory requirements.
20 Moreover, PAWC has the resources, skill and expertise to respond to ever-increasing
21 environmental standards for the treatment of water and to manage the long-term
22 infrastructure issues inherent in water systems.

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

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

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

- 12 • Physical Security Plan - Operational Risk Management Security
13 (American Water Works Service Company, Inc. (“AWWSC”))
 - 14 • Cyber Security Plan - Operational Risk Management Security
15 (AWWSC)
 - 16 • Emergency Response Plan - Operations (PAWC)
 - 17 • Business Continuity Plan - Operational Risk Management (PAWC)
18 and Operations (PAWC)
- 19

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

1 **Q. PLEASE DESCRIBE PAWC'S RELATIONSHIPS WITH COMMISSION**
2 **EMERGENCY RESPONSE STAFF, PENNSYLVANIA EMERGENCY**
3 **MANAGEMENT AGENCY STAFF, AND LOCAL FIRST RESPONDERS.**

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

1 **Q. PLEASE DESCRIBE PAWC’S PARTICIPATION IN PENNSYLVANIA’S “ONE**
2 **CALL” SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
3 **PROGRAM.**

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

9
10 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

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

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

- 1 • Strategic and priority development and implementation of safety
2 improvements based on risk analysis of workplaces, work tasks and
3 related potential injuries and incidents;
4
- 5 • Development of, and measurement against, specific Company and
6 external safety performance targets and safety accountabilities for all
7 employees;
8
- 9 • Ongoing assessment and review of safety processes, activities and
10 supporting programs (including those related to other Company
11 policies, such as the Workplace Conduct and Behavior Policy) to
12 gauge effectiveness, identify program gaps and pinpoint opportunities
13 for continued improvement;
- 14 • Consistency of implementation and compliance with Company and
15 regulatory requirements across the enterprise; and;
16
- 17 • Defined and monitored contractor qualifications and requirements for
18 safety performance in accordance with approved contract documents,
19 applicable laws and regulations.
20

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

23 **A.** As the Transaction is nearing closing, PAWC plans to produce bill inserts or onserts and/or
24 letters to customers to explain the transition, billing, payment options and other items
25 associated with the change in ownership. PAWC’s website will also add content to help
26 educate customers and to address frequently asked questions.
27

28 **Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN VALLEY CUSTOMERS**
29 **EXPECT AS A RESULT OF THE TRANSACTION?**

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

1 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
2 **CUSTOMER SERVICE ENHANCEMENTS?**

3 **A. Yes. *Customer Service.*** Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
4 through Friday. Customers can also reach a customer service representative via email at
5 infopa@amwater.com. In addition, our customers have the ability to manage their account
6 via PAWC's "My H2O" online portal. Finally, PAWC offers emergency support 24 hours
7 a day, seven days a week. All of this means that we are very responsive to our customers
8 and any issues they may have and will provide the same responsive approach to Valley's
9 customers once PAWC acquires the System.

10 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
11 have the option to receive paper bills through the mail or go paperless and receive their
12 bills electronically via the "My H2O" on-line portal. Either way, customers can pay their
13 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
14 check or an electronic funds transfer (which can be set up at the "My H2O" online portal)
15 or pay in person at multiple authorized payment locations across the state. Additionally,
16 customers will transition from a quarterly billing to a monthly billing cycle and will receive
17 a combined monthly bill from PAWC for water and wastewater services.

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

1 toilet leaks, properly disposing of unused pharmaceuticals to keep them out of the
2 wastewater system, conserving water, installing expansion tanks, obtaining Fire
3 Department Grants, and protecting customers from utility imposters.

4 *Customer Assistance Programs.* Finally, as new PAWC customers, Valley's
5 customers will have access to PAWC's customer assistance program called the "H2O Help
6 to Others Program." For water customers, this program offers two main services: (1)
7 grants of up to \$500 per year and (2) a 15% discount on total water charges. Additionally,
8 customers who qualify for the program may also qualify to receive a water saving kit which
9 includes, among other things, a low-flow shower head and low-flow faucet aerators.

10
11 **Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST**
12 **UTILITY EMPLOYEE IMPOSTERS?**

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

1 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
2 **PROCEDURE.**

3 **A.** PAWC is governed by Chapter 14 of the Code, Responsible Utility Customer Protection
4 Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission's regulations commonly known as
5 Chapter 56, 52 Pa. Code § 56.1 *et seq.* This law and Commission regulations provide the
6 process and procedures for customer billing, collections, payment arrangements, medical
7 certifications, Protection from Abuse Orders, termination of service, reconnection of
8 service, and customer dispute resolution procedures. PAWC has a customer compliance
9 team located in the Mechanicsburg office responsible for ensuring that customer disputes
10 and complaints are resolved in compliance with the Commission's regulations.
11 Additionally, the Company has a customer advocacy team located in the Mechanicsburg
12 office responsible for addressing any customer disputes and escalated concerns.

13
14 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO VALLEY'S CUSTOMERS**
15 **CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR**
16 **INTERESTS?**

17 **A.** No.

18
19 **Q. DO PAWC'S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
20 **THEIR INTERESTS?**

21 **A.** Yes. The Office of Consumer Advocate ("OCA") represents residential customers of
22 public utilities; the Office of Small Business Advocate ("OSBA") represents small
23 commercial customers of public utilities; and, the Commission's Bureau of Investigation

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

5 **CONCLUSION**

6 **Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE,**
7 **ADEQUATE, AND RELIABLE WATER SERVICE TO VALLEY’S**
8 **CUSTOMERS?**

9 **A.** Yes.

10
11 **Q. DO YOU BELIEVE THAT THE PROPOSED TRANSACTION WOULD RESULT**
12 **IN AN AFFIRMATIVE PUBLIC BENEFIT OF A SUBSTANTIAL NATURE?**

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

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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

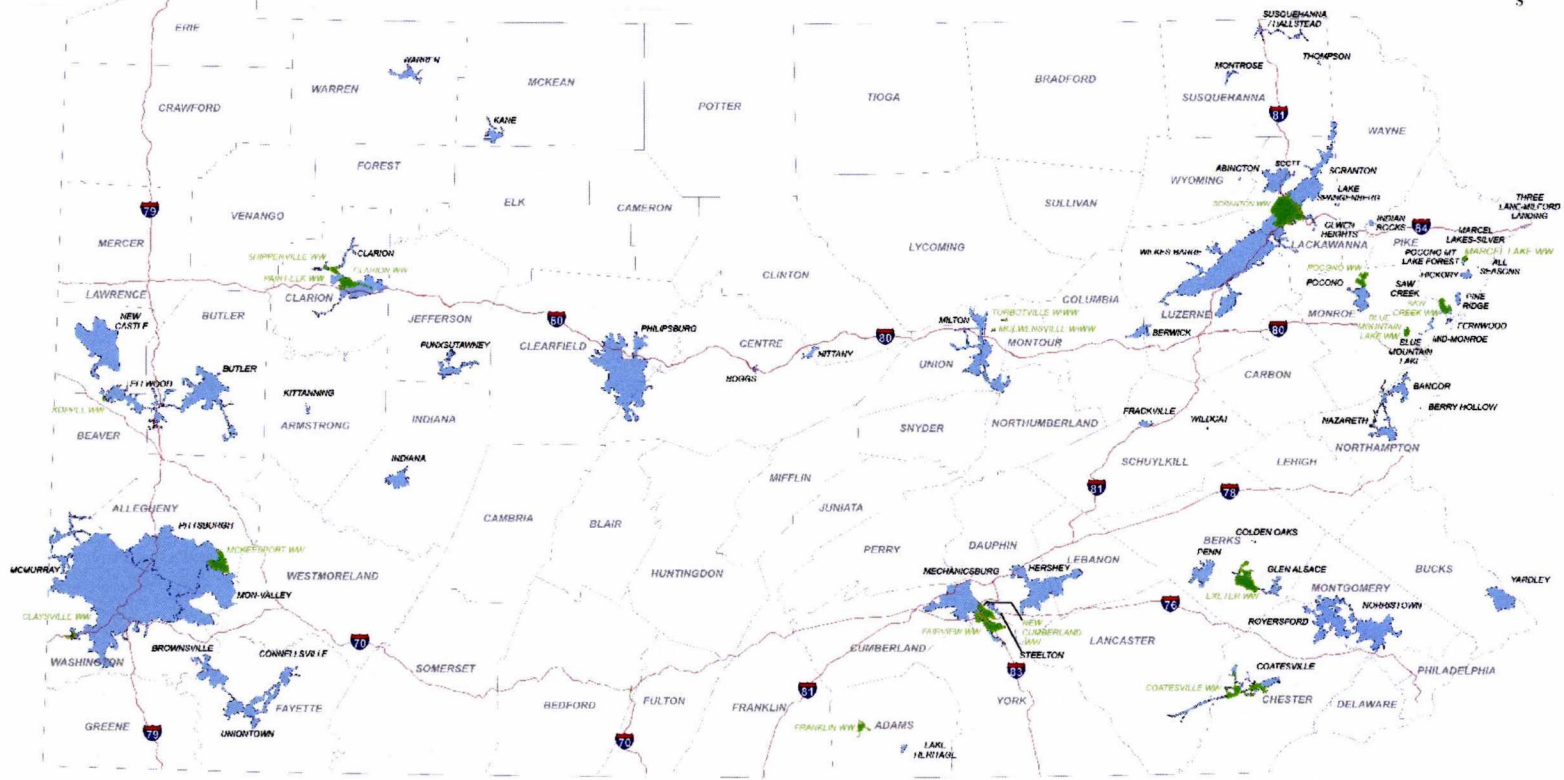
**PAWC EXHIBIT
MJG-1W**

Valley Water Capital Plan

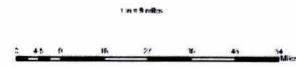
Year After Closing	1	2	3	4	5
Capital Improvement					
Safety	\$ 30,000				
Security	\$ 30,000				
SCADA	\$ 50,000				
GIS Survey	\$ 45,000				
Misc. improvements	\$ 100,000	\$ 50,000			
Meter replacement	\$ 110,000	\$ 110,000	\$ 110,000		
Distribution System Improvements		\$ 200,640	\$ 200,640	\$ 200,640	\$ 200,640
Hillview pump station improvements			\$ 100,000	\$ 500,000	\$ 500,000
Valley Springs improvements		\$ 50,000	\$ 150,000		
Reoccurring capital projects	\$ 185,000	\$ 145,000	\$ 145,000	\$ 145,000	\$ 145,000
Total	\$ 550,000	\$ 555,640	\$ 705,640	\$ 845,640	\$ 845,640

**PAWC EXHIBIT
MJG-2W**

Existing Service Territory Pennsylvania American Water Company



- Legend**
- PAWC WATER
 - PAWC WASTEWATER



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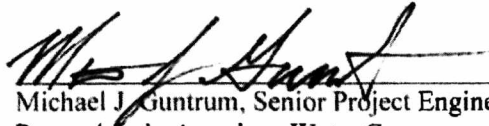
**PAWC EXHIBIT
MJG-3W**

CASES PREVIOUSLY TESTIFIED IN

Case	Docket Number
Pennsylvania-American Water Company Acquisition of Sadsbury Township Wastewater System	Docket No. A-2018-3002437
Pennsylvania American Water Company Acquisition of Borough of Kane Wastewater System	Docket No. A-2019-3014248
Pennsylvania-American Water Company Acquisition of the Borough of New Cumberland Borough	Docket No. A-2016-2544151
Pennsylvania-American Water Company Acquisition of Borough of Royersford Wastewater System	Docket No. A-2020-3019634

VERIFICATION

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



Michael J. Guntrum, Senior Project Engineer
Pennsylvania-American Water Company

Dated: October 7, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

Date: October 9, 2020

PAWC Statement No. 3W

**DIRECT TESTIMONY OF
ROD P. NEVIRAUSKAS**

INTRODUCTION

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

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

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor’s Degree in Economics from the University of Massachusetts. Since beginning my employment with a subsidiary of the American Water Works Company, Inc. (“AWW” or “American Water”) in 1980, I have held various positions of increasing responsibilities in rates and finance. In October 2004, I was named Director of Rates and Regulations for the American Water Works Shared Services Center (“SSC”), a financial services organization providing national support to AWW’s subsidiary operating companies. In 2005, I was promoted to the position of Director of Financial Services at the SSC. In that capacity, I led the SSC Rates and Regulations group in supporting rate case filings for all of AWW’s regulated operating subsidiaries. On January 1, 2009, I assumed the position of Director of Rates and Regulations for the states of Pennsylvania, Virginia and Maryland. In late 2011, AWW re-organized its divisional structure, and

1 responsibility for rate and regulatory matters in West Virginia, Virginia and Maryland were
2 transferred to the Mid-Atlantic Division of AWW, of which PAWC is a member. On April
3 1, 2017, I was promoted to Senior Director with regulatory responsibility for Pennsylvania
4 and West Virginia.
5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
7 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION” OR**
8 **“PUC”)?**

9 **A.** Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in
10 support of rate filings and financings in the States of Connecticut, Rhode Island, New
11 Jersey, New Hampshire, Maryland, New York, Ohio, West Virginia and the
12 Commonwealths of Massachusetts, Virginia and Pennsylvania.
13

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

15 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
16 water treatment and distribution system (“System”) currently owned and operated by
17 Valley Township (“Township”), which PAWC has agreed to purchase (“Transaction”).
18 Second, my testimony addresses: (a) the identification of ratemaking rate base as required
19 in 66 Pa. C.S § 1329 for PAWC’s acquisition of the System; (b) the benefits of the
20 Transaction; (c) the customer notices associated with the Transaction; (d) an estimate of
21 the range of transaction and closing costs incurred by PAWC; (e) an overview of the rate
22 provisions contained in the Asset Purchase Agreement (“APA”) for PAWC’s acquisition
23 of the System; (f) a recommendation regarding a separate cost of service study for this

1 acquisition; (g) a statement regarding PAWC's intentions with respect to accrual of certain
2 post-acquisition improvement costs and deferral of related depreciation; and, (h) the
3 authentication of certain Application appendices.

4
5 **PAWC'S FINANCIAL FITNESS**

6 **Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.**

7 A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of
8 \$5.3 billion and annual revenues of \$689 million for 2019. For 2019, PAWC had operating
9 income of approximately \$330 million and net income of approximately \$187 million.
10 These operating results produced cash flows from operations of approximately \$355
11 million.

12
13 **Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO
14 CAPITAL TO ACQUIRE THE TOWNSHIP'S ASSETS?**

15 A. Yes. PAWC has strong operating cash flows and net income and, therefore, a strong
16 balance sheet. PAWC's strong operating and financial performance allows it to obtain
17 competitive interest rates for long-term debt financing and access to equity investments
18 from its parent company. PAWC is a financially-sound business that can financially
19 support the acquisition of the System as well as the ongoing operating and investment
20 commitments that will be required to operate, maintain and improve those assets in serving
21 the public.

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Line of Credit

PAWC presently has liquidity through a \$400 million line of credit through American Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American Water. PAWC’s strong credit ratings allow PAWC to obtain additional capacity on this line of credit.

Long Term Debt Financing

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

Equity Investments

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

Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE ACQUISITION.

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

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

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

3

4

FAIR MARKET VALUE RATE BASE

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

7 A. The negotiated purchase price for the acquired water and wastewater assets is \$20,575,000.
8 The purchase prices for each system and the average of the appraisals of the buyer’s Utility
9 Valuation Expert (“UVE”) and the seller’s UVE are shown in the chart below:

	<u>Purchase Price</u>	<u>Average Appraisal</u>
10 Water	\$7,325,000	\$11,051,185
11 Wastewater	\$13,950,000	\$19,463,530

13

14 Accordingly, the negotiated purchase prices totaling \$20,575,000 are the fair market value
15 for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase price
16 and the average of the UVEs’ appraisals). The fair market value as determined by the
17 Section 1329 process, in addition to the transaction and closing costs described below,
18 becomes part of PAWC’s rate base for ratemaking purposes. Note, however, that PAWC
19 reserves its right in future proceedings to make rate base claims related to the acquisition
20 as may otherwise be permitted under the Pennsylvania Public Utility Code (“Code”).

21

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

23 A. The System’s customers will be served by a large, financially sound company that has the
24 capability to finance necessary capital additions. PAWC is fit to provide safe and adequate
25 service to the Township’s customers. Given its size, access to capital and its recognized

1 strengths in system planning, capital budgeting and construction management, PAWC is
2 well-positioned from a financial, managerial and technical perspective to ensure that high
3 quality wastewater service meeting all federal and state requirements is provided to the
4 Township's customers and maintained for PAWC's existing customers. As discussed in
5 the testimony of PAWC witness Michael J. Guntrum, PAWC's Senior Project Engineer,
6 PAWC Statement No. 2W, PAWC plans improvements in the service to the Township's
7 water and wastewater customers over the next five years. Furthermore, the acquisition
8 furthers the Commission's goals of consolidation and regionalization of water and
9 wastewater systems within the Commonwealth. PAWC currently provides water for resale
10 and bulk wastewater treatment to the Township. As explained in PAWC witness
11 Guntrum's testimony in Statement No. 2W, this acquisition will enable PAWC to directly
12 provide distribution and treatment service to the Township's customers, most of which are
13 currently indirectly provided service by PAWC's Coatesville water and wastewater
14 treatment plants.

15 The ratemaking rate base of the Transaction equates to an average of approximately
16 \$4,386 per water customer and \$4,464 per wastewater customer.¹ This average rate base
17 per customer is less than the average per-customer ratemaking rate base approved by the
18 Commission in other recent Section 1329 applications, including PAWC's recently
19 approved acquisition of the wastewater system assets of the Borough of Kane Authority,
20 at \$8,697 per customer² and the acquisition of the water system assets of the Steelton

¹ Water: \$7,325,000 purchase price / 1,670 customers = \$4,386.

Wastewater: \$13,950,000 purchase price / 3,125 customers = \$4,464.

² Docket No. A-2019-3014248, Opinion and Order entered June 18, 2020. \$17,560,000 ratemaking rate base approved (Recommended Decision p. 24) / 2,019 customers (p. 9) = average rate base of \$8,697 per customer.

1 Borough Authority (“Steelton”) at \$8,293 per customer.³ The Commission approved the
2 Kane acquisition on June 18, 2020 and the Steelton acquisition on October 3, 2019, finding
3 the settlements of the application proceedings to be in the public interest.
4

5 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF THE**
6 **TOWNSHIP’S CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
7 **SYSTEM?**

8 **A.** PAWC has committed to adopt, upon closing of the Transaction, the Township’s current
9 minimum charge and consumption charge then in effect at the time of closing.

10 PAWC expects to propose to move the Township’s rates toward consolidated rates
11 in future base rate cases. Subject to Commission approval, PAWC anticipates allocating a
12 portion of its wastewater revenue requirement to the combined water and wastewater
13 customer base, as permitted by 66 Pa. C.S. § 1311(c). As PAWC customers, the cost of
14 service to Township customers can be allocated among a larger group of customers,
15 thereby mitigating the per-customer impact of capital improvements and increases in
16 operating costs.
17

18 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC’S**
19 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
20 **SYSTEM?**

³ Docket No. A-2019-3006880, Opinion and Order entered October 3, 2019 (“*Steelton Order*”). \$20.5 million ratemaking rate base approved (Recommended Decision p. 36) / 2,472 customers (Recommended Decision p. 10) = average rate base of \$8,293 per customer.

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

3 **A.** These notices were prepared in accordance with the *Steelton Order*.⁴ This Order approved
4 a Settlement in which PAWC agreed to the form and calculation of the notices for future
5 Section 1329 acquisition proceedings (“Settlement”).

6 In the Settlement, the Joint Petitioners (PAWC, the Commission’s Bureau of
7 Investigation & Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”), the
8 Office of Small Business Advocate (“OSBA”) and the Borough of Steelton) agreed to the
9 form of the notices to be sent to existing PAWC water and wastewater customers and the
10 notice to be sent to the customers of the system being acquired. The forms of the notices
11 were attached to the Settlement as Appendix E and Appendix F.

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

14
15 **Q. ARE THE NOTICES TO EXISTING PAWC CUSTOMERS AND THE**
16 **CUSTOMERS OF THE SYSTEM BEING ACQUIRED SUBSTANTIALLY IN THE**
17 **FORM INDICATED BY APPENDIX E AND APPENDIX F TO THE ABOVE-**
18 **REFERENCED SETTLEMENT?**

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

⁴ The Valley water system is a current bulk water customer of PAWC. Because the situation of the acquired system being a bulk water customer was not addressed in the Steelton Settlement, the Company discussed the reflection of these bulk revenues in the calculation with I&E, OCA and OSBA prior to filing. The notice contained in PAWC Exhibit RPN-1W reflects the methodology discussed with these parties.

1 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 2 **IMPACT SHOWN IN THE NOTICE TO THE TOWNSHIP’S CUSTOMERS.**

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

Valley Township Water Customers				
Rate Class	Average Usage	Average Monthly Bill at the Township’s Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$30.05	\$60.91	103%
Commercial	22,000 gal/month	\$156.24	\$316.70	103%
Industrial	476,000 gal/month	\$3,969.84	\$8,046.87	103%

5 The 103% increase shown in the chart above is calculated as 100% of the revenue
 6 deficiency divided by the Year One revenues of the System.⁵ The current average monthly
 7 bill is calculated using the Township’s existing water rates, which will be adopted by
 8 PAWC at closing.⁶ The potential average monthly bill after acquisition is calculated by
 9 increasing the current average monthly bill amounts by the 103% increase. This
 10 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
 11 (Exhibit G). Please refer to **PAWC Exhibit RPN-1W** for the calculation of the customer
 12 notice.

13
 14 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 15 **IMPACT SHOWN IN THE NOTICE TO PAWC WATER CUSTOMERS.**

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

⁵ See note 4, above.
⁶ As discussed in the APA Rate Provisions section below, PAWC intends to bill customers on a monthly basis, and Valley’s existing quarterly rates are prorated for purposes of calculating monthly billing. The Township’s existing rates are shown in **Appendix A-18-a**.

PAWC Existing Water Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$60.85	\$60.91	0.1%
Commercial	22,000 gal/month	\$291.80	\$292.09	0.1%
Industrial	476,000 gal/month	\$4,530.44	\$4,534.97	0.1%

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

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

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

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

1 A. Yes. As discussed above, the calculation of estimated potential rate impacts to PAWC and
2 Township customers were performed in conformance with the PAWC’s Settlement at
3 Docket No. A-2019-3006880. Ultimately, any rate impacts of the acquisition will be
4 determined by the Commission in future base rate proceedings.
5

6 **TRANSACTION AND CLOSING COSTS**

7 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
8 **FOR THE TRANSACTION.**

9 A. As set forth in the Commission’s *Final Implementation Order* at Docket No. M-2016-
10 2543193, transaction and closing costs include the Utility Valuation Expert (“UVE”)
11 appraisal fees and the buyer’s closing costs, including reasonable attorney fees. In
12 accordance with the *Final Implementation Order* and traditional ratemaking principles,
13 reasonable transaction and closing costs are not to be decided in this Application
14 proceeding; instead, PAWC must justify the costs by a “preponderance of the evidence” in
15 a future base rate proceeding.

16 As a practical matter, the exact extent of such costs cannot be known at the time of
17 filing the Application and will not be finally known until after closing of the Transaction.
18 The costs depend on a number of variables, including whether this Application is settled
19 or fully-litigated. PAWC will track such costs and incorporate them into rate base in a
20 future base rate proceeding as appropriate. Nevertheless, attached to the Application as
21 **Appendix A-10** is PAWC’s estimate of the anticipated range of transaction and closing
22 costs (approximately \$441,000 to \$656,000).
23

APA RATE PROVISIONS

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

A. Section 7.03 of the APA, dated as of December 17, 2019, contains provisions related to rates. PAWC has committed to adopt, upon closing of the Transaction, the Township’s current minimum charge and consumption charge then in effect at the time of closing.

The initial rates to be applicable to the former Township water customers are set forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application. System customers will be governed by rates for new Valley Rate Zone “XX.” The current usage rate (consumption charge) utilized by Valley is a rate per thousand gallons beyond 10,000 gallons per quarter. The Township’s customers are currently billed quarterly. Under PAWC ownership, and set forth in the *pro forma* tariff supplement, attached as **Appendix A-12**, the usage rate per thousand gallons is converted to a usage rate per hundred gallons, beyond 3,400 gallons per month. This billing per 100 gallons corresponds to how all other PAWC customers are billed. PAWC intends to bill customers on a monthly basis, and Valley’s existing rates will be prorated for purposes of calculating monthly billing. Valley does not currently bill for fire protection, and PAWC will adopt this practice until its next rate case.

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

A. The APA does not set forth or require a “rate stabilization plan” as defined by Section 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at

1 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
2 of a rate stabilization plan.

3 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
4 constant or phase rates in over a period of time after the next base rate case.” As detailed
5 in Section 7.03 of the APA, PAWC will be charging the Township’s current rates (but not
6 other charges) as PAWC’s base rates within the service territory. The APA provides that
7 PAWC shall not propose to increase base rates until after the second anniversary of the
8 Closing Date.

9 The Township is not included in PAWC’s base rate case that is currently pending
10 before the Commission. PAWC does not anticipate that the Township’s rates will be held
11 constant after the next base rate case and therefore the APA provision does not fall within
12 the definition of a “rate stabilization plan” as defined by 66 Pa. C.S. § 1329. Interested
13 parties will have an opportunity to participate in the first base rate case in which the System
14 is included and address issues, including cost allocation, as appropriate.

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

1 following regarding the relationship between rate commitments and rate stabilization
2 plans:⁸

3 The ALJ determined that the rate commitment provision contained in the APA does
4 not trump the Commission’s ultimate authority to set and allocate rates. We agree.
5 Here, the APA provides firm, unqualified guarantees to the seller as a term of the
6 APA. However, it does not purport to hold rates constant or phase rates in over a
7 period time after the next base rate case. It offers no tariff language for us to
8 approve. Thus, we decline to hold that the rate commitment constitutes a rate
9 stabilization plan pursuant to Section 1329(g) of the Code.”), *reversed on other*
10 *grounds, McCloskey v. Pa. Pub. Util. Comm’n*, 195 A.2d 1055 (Pa. Cmwlth. 2018)
11 (“*Aqua/New Garden*”).
12

13 PAWC was careful in negotiating the APA to respect the statutory authority of the
14 Commission to set just and reasonable rates.

15 In its pending base rate case, PAWC has asked the Commission to approve tariff
16 provisions allowing for a Regionalization and Consolidation Surcharge (“RCS”). The RCS
17 would reduce regulatory lag in the recovery of the capital investment being made by
18 PAWC in order to regionalize and consolidate its system through acquisitions. This
19 regulatory lag results from PAWC’s adoption of the rates being charged by the selling
20 municipality at the time of the acquisition pursuant to the requirements of Section 1329 --
21 which, in some instances, are substantially below the costs of providing service to the
22 customers of the acquired system. The proposed RCS would allow PAWC to recover the
23 revenue requirement shortfall resulting from the acquisition in a more timely manner. The
24 System, however, is not included in PAWC’s pending base rate case and, because of
25 Section 1329’s requirement to adopt existing rates for acquired customers, the RCS would
26 not apply to System customers under the proposed tariff provisions.

⁸ 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 Exclusion of Township customers from the RCS does not make Section 703(a) of
2 the APA a rate stabilization plan because, as discussed above, approval is not being
3 requested in this proceeding. *See Aqua/New Garden*. If approved in PAWC's pending
4 base rate case, the RCS would be a tariff provision with the force and effect of law – not a
5 rate stabilization plan. Under Section 1329, PAWC must adopt the existing base rates of
6 the acquired customers, with the specific exclusion of the DSIC (as discussed below).
7 System customers would be exempt from the RCS until the next base rate case because of
8 the mandates of Section 1329 and the Commission-approved tariff adopting the RCS; not
9 as the result of any contractual obligation between PAWC and the Township under the
10 APA.

11
12 **Q. DOES PAWC SEEK THE AUTHORITY TO CHARGE NON-BASE RATES PRIOR**
13 **TO PAWC'S FIRST BASE RATE CASE IN WHICH THE SYSTEM IS**
14 **INCLUDED?**

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

1 **POST-ACQUISITION IMPROVEMENT COSTS**

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

4 **A.** I am advised by counsel that Section 1329(f) allows “an acquiring public utility’s post
5 acquisition improvements that are not included in a distribution system improvement
6 charge [to] accrue allowance for funds used during construction [“AFUDC”] after the date
7 the cost was incurred until the asset has been in service for a period of four years or until
8 the asset is included in the acquiring public utility’s next base rate case, whichever is
9 earlier.” Section 1329(f) also provides that “[d]epreciation on an acquiring public utility’s
10 post acquisition improvements that have not been included in the calculation of a
11 distribution system improvement charge shall be deferred for book and ratemaking
12 purposes.”

13
14 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION**
15 **IMPROVEMENTS?**

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

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

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

8

9

COST OF SERVICE STUDY

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SEPARATE COST OF SERVICE**
11 **STUDY (“COSS”) PROVISION OF PRIOR PAWC SECTION 1329**
12 **ACQUISITIONS.**

13 **A.** As part of the settlement of prior Section 1329 acquisition proceedings, PAWC has agreed
14 that in the next base rate case, PAWC will submit a cost of service study removing the
15 revenues, expenses and rate base associated with the acquired system and will submit a
16 separate cost of service study for the acquired system.⁹

17

18 **Q. PLEASE DISCUSS WHETHER PAWC SHOULD BE REQUIRED TO PROVIDE**
19 **A SEPARATE COSS FOR VALLEY IN PAWC’S NEXT RATE CASE.**

20 **A.** As discussed above, Valley is currently a bulk water and wastewater customer of PAWC.
21 Upon acquisition, the Valley customers will be direct PAWC customers and will continue
22 to be served by PAWC’s Coatesville water and wastewater treatment plants. I believe it is

⁹ See, for example, the Steelton settlement referenced above, paragraph 23.

1 appropriate that Valley be included in the COSS that includes the Coatesville water
2 treatment plant rather than in a separate COSS. By including Valley in this COSS, the
3 Valley system would also be part of the depreciation study that will be performed for the
4 service area including Coatesville. In my opinion, this is preferable to establishing separate
5 depreciation rates for Valley, which is and will be physically connected to the Coatesville
6 system.

7 Additionally, as stated previously, PAWC expects to propose to move the
8 Township's rates toward consolidated rates in future base rate cases. Under these
9 circumstances, a cost of service study for the Valley System would be of limited value in
10 PAWC's next base rate case. In my opinion, the expense of a separate cost of service study
11 would not be warranted by the benefits to be gained from such a study..

12
13 **AUTHENTICATION OF APPLICATION APPENDICES**

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

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

18
19 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
20 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

21 **A.** **Appendix A-10** is PAWC's estimate of the anticipated range of transaction and closing
22 costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the Application.
23 In addition, based on financial statements provided by the Township and on PAWC's

1 audited financial statements, the following appendices were prepared: **Appendix C**
2 (balance sheet of the Township as of December 31, 2019),¹⁰ **Appendix D** (audited balance
3 sheet of PAWC as of December 31, 2019), **Appendix E** (income statement of the
4 Township for the 12 months ended December 31, 2019),¹¹ **Appendix F** (audited income
5 statement of PAWC for the 12 months ended December 31, 2019), **Appendix G** (*pro forma*
6 balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma*
7 consolidated income statement of PAWC and the Township for 12 months) and **Appendix**
8 **K** (estimated annual revenues and expenses).

9
10 **Q. HOW WERE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND**
11 **APPENDIX K PREPARED?**

12 **A.** I reviewed the financial information of PAWC, to which I have direct access, and I
13 reviewed the financial and rate information provided by the Township, to which I received
14 access through the Transaction due diligence process.

15
16 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
17 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
18 **INFORMATION, AND BELIEF?**

19 **A.** Yes.

¹⁰ Valley does not have a separate balance sheet for the water system. All balance sheet items are reflected on a Township-wide basis. As such, the balance sheet shown for Valley in Appendix C is blank.

¹¹ Valley does not have a separate income statement for the water system; however, the information in Appendix E is provided based on information separately identified for the system in the audited Annual Audit and Financial Report.

CONCLUSION

1
2
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4

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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

Valley Township Water Customers

Water

Rate Class	Average Usage	Average Monthly Bill at Valley Township Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$30.05	\$60.91	\$30.86 or 103%
Commercial	22,000 gal/month	\$156.24	\$316.70	\$160.46 or 103%
Industrial	476,000 gal/month	\$3,969.84	\$8,046.87	\$4,077.03 or 103%

PAWC Current Customers

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$60.85	\$60.91	\$0.06 or 0.1%
Commercial	22,000 gal/month	\$291.80	\$292.09	\$0.29 or 0.1%
Industrial	476,000 gal/month	\$4,530.44	\$4,534.97	\$4.53 or 0.1%

**Pennsylvania American Water Company
Acquisition of Water Assets of the Valley Township
Docket No. A-2020-3019859**

Valley Township Water

Residential		
	Minimum Charge	\$28.12
36.30	0.8400	1.93
34.00		
		\$30.05

Rate Impact 102.7%
\$30.86
Total \$60.91

PAWC - Water

Zone 1 - Residential		
5/8"	Service Charge	\$16.50
36.30	1.2217	44.35
		\$60.85

Rate Impact 0.1%
\$0.06
Total \$60.91

Commercial		
	Service Charge	\$28.12
220.00	0.8400	156.24
34.00		
		\$156.24

Rate Impact 102.7%
\$160.46
Total \$316.70

Zone 1 - Commercial		
1"	Service Charge	\$41.60
160.00	1.2205	195.28
60.00	0.9153	54.92
220.00		
		\$291.80

Rate Impact 0.1%
\$0.29
Total \$292.09

Industrial		
	Service Charge	\$28.12
4,760.00	0.8400	3,969.84
34.00		
		\$3,969.84

Rate Impact 102.7%
\$4,077.03
Total \$8,046.87

Zone 1 - Industrial		
2"	Service Charge	\$196.35
160.00	1.1843	189.49
4,600.00	0.9010	4,144.60
4,760.00		
		4,530.44

Rate Impact 0.1%
\$4.53
Total \$4,534.97

Full COS - 100% of Increase applied to Valley Township Water Customers		
Revenue Requirement Increase	\$	722,220
Current Valley Township water revenues		703,000
Estimated Increase to wastewater customers		102.7%

Amount of increase allocated to water customers:		
Revenue Requirement Increase	\$	722,220
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)		650,769,554
Estimated Increase to Water Customers		0.1%

**Pennsylvania American Water Company
Acquisition of Water Assets of the Valley Township
Docket No. A-2020-3019859**

Revenue Requirement Increase

Rate Base	\$	7,325,000	Appendix A-11
Rate of Return %		7.81%	See Calculations
Rate of Return		<u>572,000</u>	
O&M		362,000	Appendix K
Taxes Other		15,000	Appendix K
Depreciation		150,000	Appendix K
Taxes		162,000	See Calculations
Revenue Requirement		<u>1,261,000</u>	
Add Bulk Water Revenues (46% of per books 2019)		164,220	
Valley Township Water Year-1 Revenues		703,000	Appendix K
Total Revenue Deficiency (Rev. Req. + Bulk Rev. - Year 1 Rev.)		722,220	

Summary

Revenue Requirement

Rate Base	\$	7,325,000
Pretax ROR %		10.02%
Pretax ROR		<u>734,000</u>
Plus: O&M Expense		362,000
Taxes Other		15,000
Depreciation		<u>150,000</u>
Total Revenue Requirement		<u><u>1,261,000</u></u>

Income Tax Calculation

Revenues	\$	1,261,000
Less: O&M Expense		362,000
Taxes Other		15,000
Depreciation		150,000
Interest		<u>173,000</u>
SIT Taxable Income		561,000
State Income Tax Rate		<u>9.99%</u>
State Income Tax		56,000
FIT Taxable Income		505,000
Federal Income Tax Rate		<u>21.00%</u>
Federal Income Tax		<u>106,000</u>
Total Income Taxes		<u><u>162,000</u></u>

Interest

Rate Base	\$	7,325,000
Weighted Cost of Debt		<u>2.36%</u>
	\$	<u>173,000</u>

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	44.89%	5.25%	2.36%		2.36%
Preferred Stock	0.17%	8.66%	0.01%	1.40631	0.01%
Common Equity	54.94%	9.90%	<u>5.44%</u>	<u>1.40631</u>	<u>7.65%</u>
			7.81%		10.02%

Cost of Equity for Distribution System Improvement Charge (DSIC) 9.90% M-2020-3019868

Capital Structure based on PAWC last water base rate case R-2017-2595853 PAWC Statement No. 13, Exhibit No. 13-A, Schedule 12.

Revenue Multiplier

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

VERIFICATION

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



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

Dated: *October 7, 2020*

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**DIRECT TESTIMONY OF
JEROME C. WEINERT, PE, ASA, CDP
UTILITY VALUATION EXPERT
SELECTED BY
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: October 7, 2020

PAWC Statement No. 4 W

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Please state your name, business address, and occupation.**

2 **A.** My name is Jerome C. Weinert. My business address is 8555 West Forest Home Avenue,
3 Suite 201, Greenfield, WI 53228. I am a Principal and Director of AUS Consultants, Inc.
4 (“AUS Consultants”). This testimony was prepared by me.

5

6 **Q. Please describe your qualifications and indicate if you are registered as a Utility**
7 **Valuation Expert with the Pennsylvania Public Utility Commission (“PUC” or**
8 **“Commission”).**

9 **A.** My curriculum vitae (“CV”) is attached to my report and this testimony. **PAWC Exhibit**
10 **JCW-1.** AUS Consultants is a registered Utility Valuation Expert with the PUC. We
11 obtained that registration in 2016 and were informed of our renewal by the PUC’s Secretary
12 on January 13, 2020.

13

14 **Q. What is the purpose of your testimony?**

15 **A.** This direct testimony provides clarification and explanation of the appraisal I provided to
16 Pennsylvania-American Water Company (“PAWC”), the “Acquiring Public Utility”
17 pursuant to 66 Pa. C.S. § 1329(a)(5) and in accordance with the Uniform Standards of
18 Professional Appraisal Practice (“USPAP”) (2020-2021 Edition).

19

20 **Q. Are you advocating for any party or outcome?**

21 **A.** No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa. C.S. § 1329(a)(3),
22 requires that I perform the appraisal with impartiality, objectivity, and independence, and
23 without accommodation of personal interests. In addition, the USPAP Ethics Rule requires

DIRECT TESTIMONY OF JEROME C. WEINERT

1 that I not perform the assignment with bias, that I must not advocate the cause or interest
2 of any party or issue and that I must not accept an assignment that includes the reporting
3 of predetermined opinions and conclusions.

4
5 **Q. Do you have any affiliation with either Valley (the “Selling Utility” pursuant to 66 Pa.**
6 **C.S. § 1329(a)(5)) or the Acquiring Public Utility?**

7 **A.** No. Other than the current assignment to provide the subject appraisal, and similar on-
8 going assignments to provide appraisals of other utility systems, I have no business or
9 personal relationships with any party to the proposed acquisition.

10
11 **Q. What is your fee arrangement to deliver the appraisal?**

12 **A.** A copy of the fee arrangement is included with the Application as **Appendix A-7.1**. In
13 summary, AUS Consultants are to receive \$25,200 plus expenses in compensation for our
14 appraisal.

15
16 **Q. Will you receive that fee regardless of whether the Commission approves the**
17 **proposed transaction or whether it closes?**

18 **A.** Yes. 66 Pa. C.S. § 1329(a)(3) mandates that I comply with the USPAP when developing
19 my appraisal. Under the USPAP, I cannot perform the appraisal with bias and acceptance
20 of a fee contingent on a particular outcome like closing or Commission approval would
21 violate that Ethics Rule.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Have you prepared any exhibits, schedules, or appendices to accompany your direct**
2 **testimony?**

3 **A.** Yes. The appraisal I submitted to the Acquiring Public Utility pursuant to Section
4 1329(a)(5) is included in the Application as **Appendix A-5.1**. The appraisal includes a
5 narrative and supporting exhibits in sections. All were prepared under my supervision and
6 control. Also, as stated above, attached to this testimony as **PAWC Exhibit JCW-1** is my
7 CV.

8
9 **Q. Please summarize your results of the application of the cost, market, and income**
10 **approaches to valuation.**

11 **A.** The summary results of the cost, income, and market approaches is presented below.
12

Appraisal Approach	Value Indicator	Weight	Wtd Value Indicator
Cost	11,664,026	50%	5,832,013
Income	11,528,534	40%	4,611,414
Market	11,269,420	10%	1,126,942
Appraisal Conclusion			11,570,369

13
14
15 **Q. Please describe any assumptions, extraordinary assumptions, hypothetical**
16 **conditions, and/or limiting conditions that you applied to the valuation.**

17 **A.** The major assumptions and limiting conditions used in preparing our appraisal of the
18 Valley Township (“Valley”) Water System (“System”) are described in our appraisal report
19 “Fair Market Appraisal Report of Valley Township (PA) Water System, as of December

DIRECT TESTIMONY OF JEROME C. WEINERT

1 17, 2019.” Beyond the above-described assumptions, there are no extraordinary¹ or
2 hypothetical² assumptions (as defined in the 2020-2021 edition of USPAP).

3
4 **Q. How was each assumption used and what was its result?**

5 **A.** The assumptions are detailed in my appraisal report and are discussed further in this
6 testimony.

7
8 **Q. How did you develop the weighting applied to each approach in your appraisal and**
9 **why are the individual weights you chose appropriate for this proposed transaction?**

10 **A.** For the cost approach I chose a weighting of 50%. It is my opinion that this weighting is
11 appropriate for the cost approach because the major purpose of this appraisal is to be an
12 input to the Commission’s establishment of cost for future ratemaking and the cost
13 approach conclusion is directly reflective of the property cost.

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

¹ Extraordinary assumption: an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions. 2020-2021 USPAP page 4.

² Hypothetical condition: a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but used for the purpose of analysis. 2020-2021 USPAP page 4.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 For the income approach, I chose a weighting of 40%. It is my opinion that this
2 weighting is appropriate for the income approach because the income approach reflects the
3 value of the property's return to the property's owner. The 40% weight accomplishes that
4 objective.

5
6 **Q. Did you conduct an on-site inspection of the Selling Utility's assets, and if so, what
7 was its result on the appraisal?**

8 A. Yes. AUS Consultants conducted an on-site inspection of Valley's water assets during
9 June 2020. The on-site inspection was mainly used to provide an overview of the System
10 and verify its condition.

11
12 **Q. What Utility Earnings Report was used to create the capital structure used in your
13 appraisal?**

14 A. I used a market required capital structure based on an analysis of the market capital
15 structure analysis (detailed in the Cost of Capital / Required Return portion of our appraisal
16 report). Information used in developing the market capital structure was obtained from
17 financial statistics reported in Value Line Investment Survey for the water / wastewater
18 industry published in their January 10, 2020 issue.

19
20 **Q. What capital structure was used in your appraisal?**

21 A. The capital structure used in my appraisal is included below.

DIRECT TESTIMONY OF JEROME C. WEINERT

Water and Wastewater Cost of Capital							
First Quarter 2020 (1-1-2020)							
As an Investor-Owned Utility							
Weighted Cost of Capital (Discount Rate)							
(1)	(2)	(2a)	(3)	(3a)	(4)	(4a)	(5)
	Portion of Capital AUS Input	Type of Data	Capital Cost AUS Input	Type of Data	Tax Rate	Tax affect on cost of capital	After-tax Market Capital Cost (2)*(3)*(4a)
Debt	26%	Market	3.23%	Market	28.89%	71.11%	0.60%
Equity	74%	Market	9.90%	Market	0.0%	100.0%	7.33%
Total Capital r	100.0%						7.93%
Growth (g)							1.82%
Rate without Growth: $[(1+r)/(1+g)]-1$							6.00%

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Cost Approach

4 **Q. Regarding your application of the cost approach, what method did you use to**
5 **determine the cost approach result (e.g. original cost, replacement cost, reproduction**
6 **cost)?**

7 **A.** I used the replacement cost method.

8

9 **Q. Please explain why you chose the replacement cost method.**

10 **A.** I chose the replacement cost method because it is considered the proper starting point for
11 a cost approach. Replacement cost reflects the appraisal date cost of providing the
12 property’s functionality and capacity at the appraisal date using recognized materials and
13 labor costs.

14

15 **Q. What index did you use for that method?**

16 **A.** I used the Handy Whitman Index of Public Utility Construction Costs for the Water
17 Industry (North Eastern US Region), AUS Telephone Index (General Plant), and various
18 United States Bureau of Labor Statistics cost index series.

DIRECT TESTIMONY OF JEROME C. WEINERT

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Q. Under your application of the cost approach what assets did you value or trend differently from other assets and why was that necessary?

A. I costed each property account with cost trends appropriate for the property contained in the account. As such, the costing of each property account may differ from account to account. It is my opinion that an accurate appraisal requires each property account be costed with cost trends reflective of the property contained in the account. Valley’s property as detailed in the Pennoni Associates, Inc. Engineer’s Assessment of \$6,843,616 was determined to have a replacement cost new of \$15,320,978 summarized as follows:

Pennsylvania American Water Company
Valley Township Water System
Water System
Investor-Owned Utility
As of December 17, 2019

Replacement Cost New (RCN)

(1)	(2)	(3)	(9)	(10)	(13)	(14)	(15)	(16)
Account	Account	Asset Description	Original Cost	Costing Parameter	Cost Translator	Reproduction Cost New (RCN)	Reproduction Cost New (RCN) to Replacement Cost New (COR)	Replacement Cost New (COR)
Input	Input	Input	OC \$s	Input	Calculation	RCN \$s	COR \$s / RCN \$s	COR \$s
Eng Assmnt NARUC Code	AUS Input NARUC Code	Pennoni Associates, Inc.'s Valley Water Engineers Assessment Asset Description	Eng Assmnt Original Cost	AUS Input Cost Index Table	Translator	RCN	AUS Input COR / RCN Factor	Col (14) * (15) COR
303.20	303.20	303.20 DISTRIBUTION RESERVOIRS AND STANDPIPES LAND	1	USBL51	1.20	1	1.00	1
303.30	303.30	303.30 WTP & WELLS LANDPURIFICATION LAND	1	USBL51	1.46	1	1.00	1
304.30	304.30	304.3 WTP - LARGE STRUCTURES	176,847	HWW-18	2.87	506,668	1.00	506,668
304.40	304.40	304.4 Vaults & Meter Pits	221,428	HWW-145	1.51	333,359	1.00	333,359
307.20	307.20	307.00 WELLS AND SPRINGS	74,873	HWW-12	1.95	146,102	1.00	146,102
311.20	311.20	311.20 PUMPING EQUIPMENT - ELECTRIC	9,675	HWW-19	1.03	9,985	1.00	9,985
311.30	311.30	311.30 PUMPING EQUIPMENT - BOOSTER ELECTRIC	9,571	HWW-19	1.23	11,772	1.00	11,772
320.30	320.30	320.30 WTP EQUIPMENT LARGE STRUCTURES	84,211	HWW-117	1.98	166,588	1.00	166,588
330.40	330.40	330.4 DISTRIBUTION RESERVOIRS AND STANDPIPES	478,330	HWW-123	2.82	1,346,301	1.00	1,346,301
331.40	331.40	331.4 Distribution - Mains - Ductile Iron	4,314,166	HWW-135	2.30	9,912,614	1.00	9,912,614
333.40	333.40	333.00 SERVICES	937,011	HWW-139	1.97	1,844,022	1.00	1,844,022
334.40	334.40	334.40 METERS AND METER INSTALLATIONS	171,050	HWW-140	1.83	313,009	1.00	313,009
335.40	335.40	335.00 FIRE HYDRANTS	326,483	HWW-142	2.12	691,030	1.00	691,030
346.40	346.40	346.4 COMMUNICATION EQUIPMENT - SCADA	39,970	USBL52	0.99	39,526	1.00	39,526
		Grand Total	6,843,616		2.24	15,320,978	1.00	15,320,978

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12
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14

These results are detailed in the Application **Appendix A-5.1** (AUS Appraisal) under the Cost Approach section.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Under your application of the cost approach, what year-end date did you use for**
2 **calculating the depreciation or condition of the property?**

3 **A. I used the date of December 17, 2019.**

4
5 **Q. How did you determine the depreciation parameters of survival/retirement**
6 **characteristics and service lives for the utility property under the cost approach?**

7 **A. I determined those parameters based on our review of the depreciation studies filed by**
8 PAWC in support of their depreciation parameters (Iowa-type Survival Characteristics and
9 Service Lives) and the resultant depreciation expense and rate base (net book) in their
10 recent General Rate Cases (R-2017-2595853 and R-2020-3019371) and AUS Consultants’
11 experience in preparing depreciation studies for the water and wastewater industry and our
12 experience appraising water and wastewater properties.

13
14 **Q. Why are those parameters appropriate?**

15 **A. Those parameters are appropriate because the parameters reflect the actual service life**
16 experienced by PAWC in serving water customers in the Commonwealth of Pennsylvania
17 and which were adjudicated by the PUC in the 2017 General Rate Cases and will be
18 adjudicated by the PUC in the 2020 General Rate Cases (Docket Nos. R-2020-3019369
19 and R-2020-30193371). The parameters in the following table also reflect AUS
20 Consultants’ experience of the survival / retirement characteristics of normal and functional
21 service lives of water properties:

22

DIRECT TESTIMONY OF JEROME C. WEINERT

**Pennsylvania American Water Company
Valley Township Water System
Water Distribution System
Investor-Owned Utility
December 17, 2019**

Summary of Account Costing and Depreciation Parameters Used in the Depreciation Original Cost and the Depreciated

(1)	(2)	(4)	(5)	(6)	(6b)	
Account Number	Description	(4a) Survivor / Retirement Curve	(4b) Normal Service Life years	(5) Economic Obsolescence % of CORLD	(6) (6a) Tax Depreciation Table	(6b) Life
303.20	303.20 DISTRIBUTION RESERVOIRS AND STANDPIPES	L/Z	NonDep	0.00	0.00% MACRS	0.00
303.30	303.30 WTP & WELLS LANDPURIFICATION LAND	Z	NonDep	0.00	0.00% MACRS	0.00
304.40	304.4 Vaults & Meter Pits	R3.0		75.00	0.00% MACRS	25.00
307.20	307.00 WELLS AND SPRINGS	S0.0		55.00	0.00% MACRS	25.00
311.20	311.20 PUMPING EQUIPMENT - ELECTRIC	S0.0		42.00	0.00% MACRS	25.00
311.30	311.30 PUMPING EQUIPMENT - BOOSTER ELECTRIC	S0.0		42.00	0.00% MACRS	25.00
320.30	320.30 WTP EQUIPMENT LARGE STRUCTURES	S0.5		60.00	0.00% MACRS	25.00
330.40	330.4 DISTRIBUTION RESERVOIRS AND STANDPIPES	S0.5		65.00	0.00% MACRS	25.00
331.40	331.4 Distribution - Mains - Ductile Iron	R2.0		110.00	0.00% MACRS	25.00
333.40	333.00 SERVICES	R2.5		70.00	0.00% MACRS	25.00
334.40	334.40 METERS AND METER INSTALLATIONS	L1.0		25.00	0.00% MACRS	25.00
335.40	335.00 FIRE HYDRANTS	R2.5		75.00	0.00% MACRS	25.00
346.40	346.4 COMMUNICATION EQUIPMENT - SCADA	SQ.0		12.00	0.00% MACRS	12.00

Also, due the age of Valley's early property installations the maximum depreciation was limited to 85% of the cost new.

Q. What was the result of the application of the depreciation parameters to the previously described replacement cost new of \$15,320,978?

A. With the application of the above described depreciation parameters, the replacement cost new of \$15,320,978 results in a replacement cost new less depreciation of \$11,664,026 determined as follows:

DIRECT TESTIMONY OF JEROME C. WEINERT

Pennsylvania American Water Company
 Valley Township Water System
 Water System
 Investor-Owned Utility
 As of December 17, 2019

Replacement Cost New less Depreciation (RCNLD)

(18)	(19)	(21)	(22)	(23)	(24)	(28)	(29)	(30)	(31)
Account	Description	Age at December 17, 2019 Appraisal Date	Replacement Cost New (COR)	Retirement Dispersion lowa-type	Normal Service Life (NSL)	Normal Remaining Life	Total Life Expectancy	Condition	Preliminary Cost Approach (COR less Normal Depreciation)
Input	Input	years	COR \$s	Input	years	years	years	% of COR	CORLD \$s
Eng Assmnt	Pennoni Associates, Inc.'s Valley Water Engineers Assessment	Calculation	Calculation	Input	Input	Calculation	Calculation	Calculation	Calculation
Account	Description	Age	RCN	lowa	NL	Rem Life	Total Life	Condition	CORLD
			Col (18)	AUS Input	AUS Input		Col (21) + (28)	Col (28) / (29)	Col (22) * (30)
353.20	303.20 DISTRIBUTION RESERVOIRS AND STANDPIPES LAND	10.83	1	ZNonDep	-	-	-	100.00%	1
353.30	303.30 WTP & WELLS LANDPURIFICATION LAND	18.49	1	ZNonDep	-	-	-	100.00%	1
354.40	304.3 WTP - LARGE STRUCTURES	31.50	506,668	R2.5	60.00	32.23	63.73	51.00%	256,236
355.30	304.4 Vaults & Meter Pits	17.66	333,359	R3.0	75.00	58.08	75.74	77.00%	255,870
360.21	307.00 WELLS AND SPRINGS	26.67	146,102	S0.0	55.00	36.40	63.07	59.00%	85,499
360.23	311.20 PUMPING EQUIPMENT - ELECTRIC	0.50	9,985	S0.0	42.00	41.59	42.09	99.00%	9,866
361.21	311.30 PUMPING EQUIPMENT - BOOSTER ELECTRIC	2.50	11,772	S0.0	42.00	39.68	42.18	94.00%	11,075
361.22	320.30 WTP EQUIPMENT LARGE STRUCTURES	20.03	166,588	S0.5	60.00	43.96	63.99	70.00%	115,877
361.23	330.4 DISTRIBUTION RESERVOIRS AND STANDPIPES	28.28	1,346,301	S0.5	65.00	42.92	71.20	61.00%	815,734
363.20	331.4 Distribution - Mains - Ductile Iron	20.86	9,912,614	R2.0	110.00	91.72	112.58	82.00%	8,081,515
363.20	333.00 SERVICES	20.50	1,844,022	R2.5	70.00	51.38	71.88	72.00%	1,320,985
363.20	334.40 METERS AND METER INSTALLATIONS	13.31	313,009	L1.0	25.00	15.94	29.25	55.00%	170,870
363.20	335.00 FIRE HYDRANTS	19.94	691,030	R2.5	75.00	56.95	76.89	74.00%	512,653
360.21	346.4 COMMUNICATION EQUIPMENT - SCADA	3.55	39,526	SQ.0	12.00	8.47	12.02	70.00%	27,845
	Grand Total	21.53	15,320,978		94.08	75.43	96.96	76.13%	11,664,026

The above replacement cost new less depreciation represents the preliminary cost approach conclusion which was tested for economic obsolescence based on the results of the income and market approaches which will be described in the remainder of this testimony. Based on our review of the preliminary cost approach and the results of the income and market approaches, no economic obsolescence exists at the preliminary cost approach conclusion of \$11,664,026; therefore, the final cost approach conclusion was determined to be \$11,664,026. These results are detailed in the Application **Appendix A-5.1** (AUS Appraisal) under the Cost Approach section.

Market Approach

Q. Regarding your application of the market approach, what methods did you use to determine the market approach result?

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **A.** I used the comparable sales of water and wastewater properties in the Commonwealth of
2 Pennsylvania subsequent to the passage of Section 1329 and financial market value ratios
3 of publicly traded water and wastewater companies as reported in the January 10, 2020
4 issue of Value Line Investment Survey.

5

6 **Q.** **What assumptions, analyses, and/or adjustments did you make under each method?**

7 **A.** Under the comparable sales method, it is my opinion that sales amount to depreciated
8 replacement cost is the best indicator in arriving at the appraised value of physical assets
9 operating as a water system. Under the financial ratios method, I believe that an accurate
10 result depends on using the weighted mean of the ratio of the market debt and equity to
11 book debt and equity.

12

13 **Q.** **What were the results of the market analysis you performed?**

14 **A.** The comparable sales analysis produced a result of \$11,269,420. The financial market
15 analysis produced a result of \$11,331,625 detailed as follows:

DIRECT TESTIMONY OF JEROME C. WEINERT

Pennsylvania American Water Company
 Valley Township Water System
 Water System
 Investor-Owned Utility
 As of December 17, 2019

Comparable Sales Approach

Market Sales Data

Central Tendency and Reliability Analysis

Market Sales Analysis - PP/OCLD

	Simple	Weighted
Mean	2.082	1.9992
Standard Deviation	0.8607	0.6008
Median	1.608	1.5598
Mode	Not Applicable	1.5598

Market Sales Analysis - PP/CORLD

	Simple	Weighted
Mean	0.8130	0.9285
Standard Deviation	0.1852	0.1086
Median	0.8908	0.9637
Mode	Not Applicable	0.9919

Conclusion 2.0000 AUS Input Conclusion 0.9314 AUS Input

Valley Township Water System's OCLD 5,370,438 AUS Cost Approach Valley Township Water System's CORLD 11,664,026 AUS Cost Approach

Market Value Indication 10,740,877 Market Value Indication 10,863,874

Market Sales Analysis - PP/Customer

	Simple	Weighted
Mean	7441	9,157
Standard Deviation	4031	3,158
Median	8221	6,312
Mode	Not Applicable	7,825
Forecast	7,293	

Market Sales Analysis - PP/Cash Flow (EBITDA)

	Simple	Weighted
Mean	22.38	22.00
Standard Deviation	12.00	8.00
Median	21.00	13.00
Mode	Not Applicable	Not Applicable
Forecast	17.00	

Conclusion 7,300 AUS Input Conclusion 520,405 AUS Income Approach

Valley Township Water System's Customers 1,596 Valley Info Flows Valley Township Water System's Cash Flows 22.00 AUS Input

Market Value Indication 11,650,800 Market Value Indication 11,448,901

Financial Basis¹

	Market Value per Share to Book Value per Share	
Financial Markets		
Market to Book (equity)	3.40	
Market to Book (equity and debt)	2.11	
Use (equity and debt)	2.11	AUS Input

Valley Township Water System's OCLD 5,370,438 AUS Cost Approach

Market Value Indication 11,331,625

Summary of Market Analyses

Indicators	
OCLD	10,740,877
CORLD	10,863,874
Customers	11,650,800
Cash Flow (EBITDA)	11,448,901
Value Line	11,331,625
Mean	11,207,215
Median	11,331,625
Conclusion	11,269,420

1

2

3

Q. Which results were used to determine your market approach result?

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **A.** I used the results of \$11,269,420 because I believe those results represent an accurate
2 assessment and it was based on the relationship of market comparable sales to the
3 replacement cost new less depreciation of those properties. These results are detailed in
4 the Application **Appendix A-5.1** (AUS Appraisal) under the Market Approach section.

5

6 **Q.** **What was the calculation you used to determine your overall market approach**
7 **results?**

8 **A.** The calculation I used consisted of the ratio of the market sales to their depreciated original
9 cost, replacement cost new less depreciation, customers, and cash flows (EBITDA) of
10 Valley's property.

11

12 **Q.** **What comparable transactions or comparable sales did you evaluate to develop your**
13 **market approach?**

14 **A.** I examined the following transactions to develop the result of my market approach:

15

DIRECT TESTIMONY OF JEROME C. WEINERT

Approximate Date	Buyer	Seller	County	Type of Facility	Initial Purchase Price	Final Purchase Price ¹	Number of Total Customers	Relationship to the passage of Section 1329
6/1/2016	PA American Water	City of McKeesport	Allegheny	Wastewater Collection and Treatment	159,000,000	159,000,000	21,953	Post
8/1/2016	Aqua PA	New Garden Twp. SA	Chester	Collection and Treatment for and Owned	29,500,000	29,500,000	2,106	Post
12/1/2017	Aqua PA	Limerick Township	Montgomery	Wastewater Collection and Treatment	64,373,000	64,373,000	5,434	Post
12/10/2017	Aqua PA	East Bradford Township	Chester	Wastewater Collection and paid for treatment Capacity	5,000,000	5,000,000	1,248	Post
	SUEZ	Mahoning	Carbon	Water Treatment and Distribution System	4,734,800	4,734,800	2,806	Post
	SUEZ	Mahoning	Carbon	Wastewater Collection and Treatment	4,765,200	4,765,200	2,806	Post
6/1/2018	Aqua PA	Cheltenham	Montgomery	Wastewater Collection	50,250,000	50,250,000	10,500	Post
11/14/2018	PA American Water	Steelton	Dauphin	Water Distribution and Treatment	22,500,000	22,500,000	2,325	Post
	PA American Water	Sadsbury	Chester	Wastewater Collection	9,250,000	9,250,000	998	Post
5/28/2018	PA American Water	Exeter	Berks	Wastewater Collection and Treatment	96,000,000	96,000,000	9,000	Post
10/29/2018	Aqua PA	East Norriton	Montgomery	Wastewater Collection	21,000,000	21,000,000	4,950	Post
9/30/2018	PA American	Kane	McKean	Wastewater Collection and Treatment	17,560,000	17,560,000	2006	Post

Note: ¹ Final Purchase Price reflects the agreed upon purchase price achieved to settle the acquisition application

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Income Approach

Q. Regarding your application of the income approach, what method did you use to determine the income approach result?

A. I used the discounted cash flow method.

Q. What assumptions did you employ to develop your income approach result?

A. Under the income approach, it is my opinion that the results of the future operations of the Valley System must be considered. I believe that an accurate result depends on adjusting recent results of the system’s operation to better reflect how those results will migrate over future periods under the operation as a rate regulated water system regulated by the PUC.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. What discount rate did you use to calculate your income approach?**

2 **A.** I used a discount rate of 7.93% and a capitalization rate of 6.00%.

3

4 **Q. Please explain how you developed the discount rate.**

5 **A.** In each case, the discount rate was a market discount rate at the appraisal date and was
6 determined using the weighted average cost of capital (“WACC”) of both debt and equity.

7 The inputs to the WACC determination, capital structure, cost of debt, cost of equity, and

8 income tax rate (state and federal) were determined based on an analysis of Value Line

9 Investment Surveys and the Ibbotson Stock, Bonds, Bills, and Inflation (“Ibbotson SBBI”)

10 2020 Edition (SBBI activity over the period 1926 through 2019). The cost of debt was

11 determined at December 10, 2019, based on the Value Line Investment Survey. The cost

12 of equity was based on the capital asset pricing model (“CAPM”) and the Dividend Growth

13 Model (“DGM”), two recognized cost of equity estimating models and the PUC’s Bureau

14 of Technical Utility Services’ Report on Quarterly Earnings of Jurisdictional Utilities for

15 Year-ending December 31, 2019. The above described data for Valley’s appraisal can be

16 found in the exhibits to my appraisal report in the section entitled Cost of Capital / Required

17 Return.

18

19 **Q. What capital structure inputs differ from those identified in capital structure set forth
20 earlier in your testimony?**

21 **A.** None. As described in the previous discussion of the capital structure, we utilized a market

22 required capital structure based on analysis of the water / wastewater industry’s market

23 capital structure as defined by analysis of market financials as published in Value Line

DIRECT TESTIMONY OF JEROME C. WEINERT

1 Investment Survey (January 10, 2020). The theory in appraisal is to estimate the value of
2 a property in an arm's length transaction wherein the purchaser finances the purchase with
3 capital (debt and equity) available in the financial markets at the appraisal date. Those are
4 the current (appraisal date) financial markets.

5
6 **Q. What is the source and basis of the alternative input you propose in the income
7 approach?**

8 **A.** As discussed above, we used Value Line Investment Survey to develop a market required
9 capital structure. Please see Application **Appendix A-5.1** (AUS Appraisal) Income
10 Approach section for the cost of capital of the Income Approach and Cost of Capital /
11 Required Return section for the basis of the Cost of Capital / Required Return.

12
13 **Q. If you used a terminal value in your discounted cash flow analysis what is the number
14 of years over which the cash flows are considered?**

15 **A.** I considered those cash flows over 19 periods with period 20 representing all future periods.
16

17 **Q. What is the basis for using this number of years?**

18 **A.** It is my opinion that the use of 19 periods is a reasonable number of periods for the forecast
19 revenues and expenses to stabilize.

20
21 **Q. What is your Income Approach conclusion?**

22 **A.** AUS Consultants' income approach conclusion was determined to be \$11,528,534 detailed
23 as follows:

DIRECT TESTIMONY OF JEROME C. WEINERT

1

**Pennsylvania American Water Company
Valley Township Water System
Water System
Potential Purchaser: Investor-Owned Utility
As of December 17, 2019
Discounted Cash Flow Analysis**

Discount Rate:		7.93%											
Capitalization Rate:		6.00%											
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Period	Age	Revenues	O&M Expenses	Tax Depreciation	Cash Flow from Operations	Taxable Income before State & Federal Taxes	State and Federal Taxes @ 28.89%	Capital Expenditures	Change in Working Capital	Net Cash Flows	Period Present Worth Factor (PW)	PW of Cashflow	Accumulated PW of Cashflows
					(3)-(4)	(6)-(5)	(7) *28.89%			(9)-(4)-(8)-(9)-(10)		(11)*(12)	Sum (13)
1	0.5	718,202	500,233	296,474	217,969	(78,505)	(22,680)	72,624	946	167,079	0.963	160,897	160,897
2	1.5	736,157	496,203	299,239	239,954	(59,285)	(17,128)	73,247	970	182,865	0.892	163,116	324,013
3	2.5	975,408	492,295	302,054	483,113	181,059	52,308	73,877	12,919	344,009	0.826	284,151	608,164
4	3.5	999,793	488,503	304,917	511,290	206,373	59,621	74,508	1,317	375,844	0.766	287,897	896,061
5	4.5	1,024,788	484,826	307,833	539,962	232,129	67,062	75,152	1,350	396,398	0.709	281,046	1,177,107
6	5.5	1,306,605	493,333	310,798	813,272	502,474	145,165	75,797	15,217	577,093	0.657	379,150	1,556,257
7	6.5	1,339,270	501,998	313,811	837,272	523,461	151,228	76,430	1,765	607,849	0.609	370,180	1,926,437
8	7.5	1,372,752	510,825	316,880	861,927	545,047	157,464	77,087	1,808	625,568	0.564	352,820	2,279,257
9	8.5	1,612,984	519,816	320,003	1,093,168	773,165	223,367	77,751	12,973	779,077	0.523	407,457	2,686,714
10	9.5	1,653,309	528,976	323,180	1,124,333	801,153	231,453	78,420	2,177	812,283	0.484	393,145	3,079,859
11	10.5	1,694,642	538,305	326,412	1,156,337	829,925	239,765	79,097	2,232	835,243	0.449	375,024	3,454,883
12	11.5	1,906,472	547,809	329,699	1,358,663	1,028,964	297,268	79,777	11,438	970,180	0.416	403,595	3,858,478
13	12.5	1,954,134	557,490	331,596	1,396,644	1,065,048	307,693	80,468	2,575	1,005,908	0.385	387,275	4,245,753
14	13.5	2,002,987	567,353	334,992	1,435,634	1,100,642	317,976	81,162	2,637	1,033,859	0.357	369,088	4,614,841
15	14.5	2,173,241	577,399	338,447	1,595,842	1,257,395	363,261	81,865	9,194	1,141,522	0.331	377,844	4,992,685
16	15.5	2,216,706	587,633	341,960	1,629,073	1,287,113	371,847	82,572	2,347	1,172,307	0.306	358,726	5,351,411
17	16.5	2,261,040	598,059	345,532	1,662,981	1,317,449	380,611	83,285	2,394	1,196,691	0.284	339,860	5,691,271
18	17.5	2,441,923	608,679	345,803	1,833,244	1,487,441	429,722	84,007	9,767	1,309,748	0.263	344,464	6,035,735
19	18.5	2,490,761	619,500	346,078	1,871,261	1,525,183	440,625	84,736	2,638	1,343,262	0.244	327,756	6,363,491
20 and beyond	19.5	2,540,576	630,523	349,775	1,910,053	1,560,278	450,764	85,470	2,690	1,371,129	3.767	5,165,043	11,528,534
Age	19.5			19.5				1,577,332					
PW(Age) = 1/(1+Discount Rate) ^{Age}				0.226						6,700,885			
PW to Perpetuity = 1/Capitalization Rate				16.667						(1,237,656)			
PW(20and beyond) = PW to Perpetuity * PW Factor(19.5)				3.767						5,463,229	0.226	1,234,690	7,598,181
Net Plant ADIT													
Rate Base													
Annual Plant Construction Inflation Rate										0.0422 Input			
Plant Inflation over 19.5 years										12,487,364	0.226	2,822,144	9,185,635
PP		7,325,000											
OCLD		5,370,438											
PP/OCLD		1.364											
RCNLD		11,664,026											
RCNLD/PP		1.592358489								8,699,418.82	0.226	1,966,069	8,329,560
Average													9,160,477

2

3

4

These results are detailed in the Application **Appendix A-5.1** (AUS Appraisal) under the

5

Income Approach section.

6

7

Q. What number of Selling Utility customers or equivalent dwelling units did you use to

8

value the Selling Utility's system and how did you develop that number?

9

A. I did not use customers/EDUs in developing the forecasted revenues and expenses. Instead,

10

I used past and budgeted results from operations to establish forecasted operating results.

11

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Did you make any updates to your appraisal after it was submitted to the Buyer, and**
2 **if so, what was the update, when was it made, and why was it necessary?**

3 **A. I did update my initial appraisal after it was submitted to PAWC since an additional year**
4 **of financials (2019) was available and a final Engineers Assessment dated April 20, 2020**
5 **was received in early May 2020.**

6
7 **Q. Does this conclude your direct testimony?**

8 **A. It does. However, by filing this direct testimony I understand that I may have the**
9 **opportunity to submit additional testimony responsive to challenges to my appraisal.**

Curriculum Vitae (CV) of Jerome C. Weinert, P.E., CDP, ASA

Mr. Weinert is currently Principal and Director of AUS Consultants, Depreciation and Valuation. He has forty-eight (2020-1972) years' experience in valuation and depreciation consulting and management. AUS, with offices across the country, has provided consulting services to the regulated utility industry nationally for over thirty-nine years. A partial list of services provided includes valuations depreciation studies, rate of return studies, cost of service studies, and rate design.

Prior to joining AUS in 1987, Mr. Weinert was employed by American Appraisal Associates, Inc. (American) for sixteen years in their Regulated Industries Group. He held various positions at American, the last being supervising appraiser. Among his other valuation responsibilities, he directed the firm's utility industry capital recovery studies and AUS Consultant's valuation of communication company assets and businesses.

Mr. Weinert graduated from the Milwaukee School of Engineering with a Bachelor of Science degree in Mechanical Engineering and received a master's in business administration from Marquette University. He is a registered professional engineer (1976) (by examination) in the state of Wisconsin as well as a senior member (1982) of the American Society of Appraisers in the public utility valuation field. This latter designation is obtained by written examination primarily in the areas of utility valuation, depreciation, and the economics of regulated firms. He is also a Certified Depreciation Professional (1997) (CDP) and founding member of the Society of Depreciation Professionals and the Society's 1995 President and sponsor of the Society's Certification and re-certification program; as such Mr. Weinert developed these programs and oversaw their initial introduction into the Society. He also worked in conjunction with Society members in the development of the Society's training programs which as of 2003 has become the only such formalized depreciation training program in the North America and is an instructor in several of its courses.

During his professional career related to valuations and depreciation matters Mr. Weinert has testified before various courts and public service commissions on these subjects. He has also assisted numerous utilities in preparing capital recovery plans which specifically address the issues of plant replacement. Mr. Weinert has also presented expert testimony on valuation matters. Mr. Weinert has testified before the Pennsylvania Public Utility Commission on regulatory matters associated with Pennsylvania Section 1329 matters. On matters related to eminent domain issues, Mr. Weinert has presented expert testimony in the Massachusetts Superior Court, the Court of Common Pleas, Fayette County, Ohio, the New Hampshire Public Utilities Commission, the Twentieth Judicial Court (deposition only) in Charlotte County, Florida, the Nineteenth Judicial Circuit Court in St. Lucie County, Florida (deposition only). In regard to ad valorem taxation, Mr. Weinert has presented study results to the New York State Board of Equalization and Assessment (now the New York Office of Real Property Services (NY ORPS)), pertaining to useful life and net salvage values for all types of utility property subject to the Board's mass appraisal model. Mr. Weinert has appeared before the Valuation Adjustment Board in Florida for Duval, Hillsborough, Okeechobee, and Palm Beach counties, the Twelfth Judicial Circuit Sarasota County, Florida, the California Board of Equalization and Assessment, the Arizona Board of Assessment, the Missouri Board of Taxation, the Colorado and Texas Departments of Review, the Massachusetts Tax Appeal Court, the Superior Court of the State of Arizona in the County of Maricopa, the State Tax Appeal Board of the State of Montana, the New York City Tax Commission and the Public Utility Commission of Pennsylvania Section 1329 hearings (8).

Mr. Weinert has appeared before regulatory bodies in Alaska, Arkansas, Illinois, Indiana, Iowa, Missouri, Nevada, Nebraska, North Carolina, Ohio, Oregon, Pennsylvania, and South Carolina in support of rate-base valuation determination and capital recovery. He has presented testimony on depreciation matters

before the Canadian Radio-Television and Telecommunications Commission (CRTC) and the United States Federal Energy Regulatory Commission (FERC). In terms of water and wastewater acquisitions and applications for regulatory approval of rate base Mr. Weinert has testified for two investor-owned acquisitions of municipal wastewater authorities one representing the municipality and secondly for the acquiring investor-owned utility. He has submitted study results to the State Commissions of Alabama, Alaska, Arkansas, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, Oregon, Pennsylvania, South Carolina, Washington, and Wisconsin, and the Federal Communications Commission.

Mr. Weinert has presented papers on valuation and depreciation topics to professional and utility industry trade organizations. He also directed AUS Consultants' semi-annual week-long depreciation training programs (1988-1997). These specialized training courses, offered at basic and advanced levels, teach depreciation study techniques to public utility and public service commission staff specialists. The training includes depreciation theory and concepts and hands-on experience with personal computer-based analytical depreciation programs.

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
2020				
AT&T Communications	North America	2019	2020	Ad Valorem Tax Appraisal
AT&T Communications	California	2019	2020	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2019	2020	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2019	2020	Ad Valorem Tax Appraisal
Verizon New York, Inc.	New York	2019	2020	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2019	2020	Ad Valorem Tax Appraisal
East Norriton Township, PA	East Norriton Wastewater	2019	2020	Fair Market Value 1329
Pennsylvania American Water Company	Kane Wastewater	2019	2020	Fair Market Value 1329
Pennsylvania American Water Company	Royersford Wastewater	2019	2020	Fair Market Value 1329
2019				
AT&T Communications	North America	2018	2019	Ad Valorem Tax Appraisal
AT&T Communications	California	2018	2019	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2018	2019	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2018	2019	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2018	2019	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2018	2019	Ad Valorem Tax Appraisal
Cheltenham Township, PA	Cheltenham Wastewater	2018	2019	Fair Market Value 1329
Pennsylvania American Water Company	Steelton Water	2018	2019	Fair Market Value 1329
Pennsylvania American Water Company	Exeter Wastewater	2018	2019	Fair Market Value 1329
2018				
AT&T Communications	North America	2017	2018	Ad Valorem Tax Appraisal
AT&T Communications	California	2017	2018	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2017	2018	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2017	2018	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2017	2018	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2017	2018	Ad Valorem Tax Appraisal
Level 3 Communications, LLC	North America	2017	2018	Ad Valorem Tax Appraisal
Level 3 Communications, LLC	California	2017	2018	Ad Valorem Tax Appraisal
CenturyLink Communications, LLC	North America	2017	2018	Ad Valorem Tax Appraisal
CenturyLink Communications, LLC	California	2017	2018	Ad Valorem Tax Appraisal
East Bradford Township, PA	East Bradford Wastewater	2017	2018	Fair Market Value 1329
Pennsylvania American Water Company	Sadsbury Wastewater	2017	2018	Fair Market Value Appraisal
Pennsylvania American Water Company	Kane Wastewater	2017	2018	Fair Market Value Appraisal
2017				
AT&T Communications	North America	2016	2017	Ad Valorem Tax Appraisal
AT&T Communications	California	2016	2017	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2016	2017	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2016	2017	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2016	2017	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2016	2017	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2016	2017	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2016	2017	Ad Valorem Tax Appraisal
Level 3 Communications	California	2016	2017	Ad Valorem Tax Appraisal

QUALIFICATIONS 3

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Whitpain Township, PA	Whitpain Wastewater	2016	2017	Appraisal for Planning
Plymouth Township, PA	Plymouth Wastewater	2016	2017	Appraisal for Planning
East Norriton Township, PA	East Norriton Wastewater	2016	2017	Appraisal for Planning
Pennsylvania American Water Company	Sadsbury Wastewater	2016	2017	Fair Market Value Appraisal
Pennsylvania American Water Company	McKeesport Wastewater	2016	2017	Fair Market Value Appraisal
Intermountain Gas Company	Idaho	2016	2017	Depreciation Study
2016				
AT&T Communications	North America	2015	2016	Ad Valorem Tax Appraisal
AT&T Communications	California	2015	2016	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2015	2016	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2015	2016	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2015	2016	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2015	2016	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2015	2016	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2015	2016	Ad Valorem Tax Appraisal
Level 3 Communications	California	2015	2016	Ad Valorem Tax Appraisal
New Garden Township, PA	New Garden Wastewater	2016	2016	Fair Market Value Appraisal
2015				
AT&T Communications	North America	2014	2015	Ad Valorem Tax Appraisal
AT&T Communications	California	2014	2015	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2014	2015	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2014	2015	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2014	2015	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2014	2015	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2014	2015	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2014	2015	Ad Valorem Tax Appraisal
Level 3 Communications	California	2014	2015	Ad Valorem Tax Appraisal
Verizon Wireless	Nationwide	2014	2015	Ad Valorem Tax Appraisal
2014				
AT&T Communications	North America	2013	2014	Ad Valorem Tax Appraisal
AT&T Communications	California	2013	2014	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2013	2014	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2013	2014	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2013	2014	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2013	2014	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2013	2014	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2013	2014	Ad Valorem Tax Appraisal
Level 3 Communications	California	2013	2014	Ad Valorem Tax Appraisal
Cascade Natural Gas Corporation	Oregon & Washington	2013	2014	Depreciation Study
Intermountain Gas Company	Idaho	2013	2014	Depreciation Study
Virgin Islands Telephone Corporation	US Virgin Islands	2013	2014	Depreciation Study
Verizon Wireless	Nationwide	2013	2014	Ad Valorem Tax Appraisal
2013				
AT&T Communications	North America	2012	2013	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
AT&T Communications	California	2012	2013	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2012	2013	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2012	2013	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2012	2013	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2012	2013	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2012	2013	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2012	2013	Ad Valorem Tax Appraisal
Sprint Nextel Corporation	North America	2012	2013	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	New England Mass	2002-2007	2013	Ad Valorem Tax Appraisal
2012				
AT&T Communications	North America	2011	2012	Ad Valorem Tax Appraisal
AT&T Communications	California	2011	2012	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2011	2012	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2011	2012	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2011	2012	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2011	2012	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2011	2012	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2011	2012	Ad Valorem Tax Appraisal
Sprint Nextel Corporation	North America	2011	2012	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2011	2012	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	Florida - revised	2008	2012	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2012	2012	Ad Valorem Tax Appraisal
2011				
AT&T Communications	North America	2010	2011	Ad Valorem Tax Appraisal
AT&T Communications	California	2010	2011	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2010	2011	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2010	2011	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2010	2011	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2010	2011	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2010	2011	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2010	2011	Ad Valorem Tax Appraisal
Global Crossing	North America	2010	2011	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2010	2011	Depreciation Study
Sprint Nextel Corporation	North America	2010	2011	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2010	2011	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	Florida - revised	2008	2011	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2010	2011	Depreciation Study
Virgin Islands Telephone Corporation	US Virgin Islands	2010	2011	Technical Update of Depreciat

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Study				
2010				
AT&T Communications	North America	2009	2010	Ad Valorem Tax Appraisal
AT&T Communications	California	2009	2010	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2009	2010	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2009	2010	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2009	2010	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2009	2010	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2009	2010	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2009	2010	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2009	2010	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2009	2010	Ad Valorem Tax Appraisal
Global Crossing	North America	2009	2010	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2009	2010	Ad Valorem Tax Appraisal
2009				
AT&T Communications	North America	2008	2009	Ad Valorem Tax Appraisal
AT&T Communications	California	2008	2009	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2008	2009	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2008	2009	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2008	2009	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2008	2009	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2008	2009	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2008	2009	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2008	2009	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2008	2009	Ad Valorem Tax Appraisal
Embarq Northwest	Washington	2008	2009	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2008	2009	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2008	2009	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan & Arizona	2008	2009	Ad Valorem Tax Appraisal
Global Crossing	North America	2008	2009	Ad Valorem Tax Appraisal
AboveNet, Inc	North America/California	2003	2009	Ad Valorem Tax Appraisal
Verizon Wireless	Ohio Properties	2004-2005	2009	Ad Valorem Tax Appraisal
Virgin Islands Telephone Corporation	US Virgin Islands	2008	2009	Depreciation Study
Sprint Nextel Corporation	North America	2008	2009	Ad Valorem Tax Appraisal
2008				
AT&T Communications	North America	2007	2008	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
AT&T Communications	California	2007	2008	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2007	2008	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2007	2008	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2007	2008	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2007	2008	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2007	2008	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2007	2008	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2007	2008	Ad Valorem Tax Appraisal
Embarq Northwest	Washington	2007	2008	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	California	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	New England Mass	2002-2007	2008	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2007	2008	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan & Arizona	2007	2008	Ad Valorem Tax Appraisal
Global Crossing	North America	2007	2007	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2007	2008	Depreciation Study

2007

AT&T Communications	North America	2006	2007	Ad Valorem Tax Appraisal
AT&T Communications	California	2006	2007	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2006	2007	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2006	2007	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2006	2007	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2006	2007	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2006	2007	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2006	2007	Ad Valorem Tax Appraisal
Embarq North Carolina	North Carolina	2006	2007	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	California	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2006	2007	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2006	2007	Ad Valorem Tax Appraisal
Qwest Communications Corporation	North America California	2006	2007	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan, & Arizona	2006	2007	Ad Valorem Tax Appraisal
Level 3 Communications	Arizona	2002 - 2006	2007	Ad Valorem Tax Appraisal
Global Crossing	North America	2006	2007	Ad Valorem Tax Appraisal
Alaska Communications System, Inc. (ACS)	ACS of Alaska ACS of Anchorage ACS of Fairbanks ACS of the Northland ACS Holdings	2006	2007	Depreciation Studies
Intermountain Gas Company	Idaho	2006	2007	Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
2006				
AT&T Communications	Palm Beach Florida	2000 - 2003	2006	Ad Valorem Tax Appraisal
AT&T Communications	North America	2005	2006	Ad Valorem Tax Appraisal
AT&T Communications	California	2005	2006	Ad Valorem Tax Appraisal
Sprint Florida, Inc.	Florida	2005	2006	Ad Valorem Tax Appraisal
Sprint Texas, Inc.	Texas,	2005	2006	Ad Valorem Tax Appraisal
Sprint Missouri, Inc.	Missouri	2005	2006	Ad Valorem Tax Appraisal
Sprint North Carolina	North Carolina	2005	2006	Ad Valorem Tax Appraisal
Sprint Virginia	Virginia	2005	2006	Ad Valorem Tax Appraisal
Embarq Nevada	Nevada	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	California	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2005	2006	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	Massachusetts	2002-2--5	2006	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2005	2006	Ad Valorem Tax Appraisal
Level 3 Communications	Arizona	2002-2006	2006	Ad Valorem Tax Appraisal
Global Crossing	North America	2005	2006	Ad Valorem Tax Appraisal
Indianapolis Power & Light	IPL	2005	2006	Depreciation Study
2005				
AT&T Communications	North America	2004	2005	Ad Valorem Tax Appraisal
AT&T Communications	California	2004	2005	Ad Valorem Tax Appraisal
Sprint Florida, Inc.	Florida	2004	2005	Ad Valorem Tax Appraisal
Sprint PCS	North America	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	California	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2004	2005	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2004	2005	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2004	2005	Ad Valorem Tax Appraisal
Global Crossing	North America	2004	2005	Ad Valorem Tax Appraisal
Global Crossing	New York Special Franchise Property	2003 & 2004	2005	Ad Valorem Tax Appraisal
Indianapolis Power & Light	IPL	2004	2005	Depreciation Study
2004				
Sprint Florida, Inc.	Florida	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	California	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	New England	2003	2004	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2003	2004	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2003	2004	Ad Valorem Tax Appraisal
Global Crossing	North America	2003	2004	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2003	2004	Ad Valorem Tax Appraisal
AT&T Communications	North America	2003	2004	Ad Valorem Tax Appraisal
AT&T Communications	California	2003	2004	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2003	2004	Depreciation Study
2003				
Sprint Florida, Inc.	Florida	2002	2003	Ad Valorem Tax Appraisal
Verizon Communications	California	2002	2003	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Verizon Communications	Northwest	2002	2003	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2002	2003	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2002	2003	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2002	2003	Ad Valorem Tax Appraisal
AT&T Communications	North America	2002	2003	Ad Valorem Tax Appraisal
AT&T Communications	California	2002	2003	Ad Valorem Tax Appraisal
Global Crossing	North America	2002	2003	Ad Valorem Tax Appraisal
Verizon Wireless	Broward County, FL	1998 through 2002	2003	Ad Valorem Tax Appraisal
2002				
Sprint Florida, Inc.	Florida	2001	2002	Ad Valorem Tax Appraisal
Verizon Communications	California	2001	2002	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2001	2002	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2001	2002	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2001	2002	Ad Valorem Tax Appraisal
Global Crossing	North America	2001	2002	Ad Valorem Tax Appraisal
AT&T Wireless	Plymouth, MI	2001	2002	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2001	2002	Ad Valorem Tax Appraisal
AT&T Communications	North America	2001	2002	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2001	2002	Depreciation Study
AT&T Communications	California	2001	2002	Ad Valorem Tax Appraisal
2001				
Verizon	Verizon - New York	2001	2001-2	Functional Obsolescence & Useful Life studies for valuation
Sprint Florida, Inc.	Sprint Florida, Inc.	2000	2001	Ad Valorem Tax Appraisal
Verizon Communications	California	2000	2001	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2000	2001	Ad Valorem Tax Appraisal
Global Crossing	North America	2000	2001	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2000	2001	Ad Valorem Tax Appraisal
Sprint Corporation	Centel - Nevada	2000	2001-2	Depreciation Study
Alaska Communications System, Inc. (ACS)	ACS of Alaska	2000	2001	Depreciation Study
	ACS of Anchorage			
	ACS of Fairbanks			
	ACS of the Northland			
	ACS Holdings			
2000				
Sprint PCS	BTS Equipment	2000	2000	Economic Life Study
Telus Communications	Telus - Alberta & British Columbia	2000	2000	Depreciation study Phase III Price Caps
Sprint Florida, Inc.	Florida	1999	2000	Ad Valorem Tax Appraisal
Verizon Communications	California	1999	2000	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	1999	2000	Ad Valorem Tax Appraisal
1999				
Sprint Corporation	Centel - Nevada	1998	1999	Depreciation Study
Intermountain Gas Company	Intermountain Gas Company	1998	1999	Depreciation Study
Sprint Florida, Inc.	Florida	1998	1999	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Sprint Communications, LP	North America	1998	1999	Ad Valorem Tax Appraisal
1998				
Frontier Corporation	Frontier Telephone of Rochester	1998	1997	Valuation depreciation Lives and Net Salvage Parameters
Pacific Telecom, Inc.	Telephone Utilities of Washington	1997	1998	Depreciation Study
Sprint Florida, Inc.	Florida	1997	1998	Ad Valorem Tax Appraisal
Verizon Communications	Florida	1997	1998	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	1997	1998	Ad Valorem Tax Appraisal
Sprint Corporation	United Telephone Company of South Carolina	1998	1998	Depreciation Expense Universal Service Fund
Sprint Corporation	Carolina Telephone and Telegraph and Central Telephone of North Carolina	1998	1998	Depreciation Expense Universal Service Fund
Telus Communications	Telus - Edmonton (TCE)	1997	1998	Depreciation Study Phase II Price Caps
1997				
Sprint Corporation	Centel - Nevada	1997	1997	Unbundling/ Inter-connection Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of Oregon	1996	1997	Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of Alaska 1996 And the Northland		1997	Depreciation Study
Telus Communications	Telus - TCI formerly AGT	1996	1997	Depreciation Study Phase II Price Caps
Indianapolis Power & Light	IPL	1996	1997	Depreciation Study
Sprint Florida, Inc.	Florida	1996	1997	Ad Valorem Tax Appraisal
Verizon Communications	Florida	1996	1997	Ad Valorem Tax Appraisal
Pacific Telecom, Inc.	Eagle Telephone (Colorado) 1996		1997	Depreciation Study
1996				
Intermountain Gas Company	Intermountain Gas Company	1995	1996	Depreciation Study
Sprint Florida, Inc.	Florida	1995	1996	Ad Valorem Tax Appraisal
Century Telephone	Century Telephone of Ohio, Inc.	1995	1996	Depreciation Study
Telus Communications	AGT Limited (Alberta Government Telephones)	1995	1996	Depreciation Study
Johnson County Kansas Office of the Assessor	Useful Life of Computer Equipment	1995	1995	Useful/Market Life Analysis

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Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Milwaukee Metropolitan Sewerage District	Milwaukee Metropolitan Sewerage District	1995	1996	Depreciation Study
Sprint Corporation	Long Distance Division	1995	1995	Depreciation/Recovery Status Study
Sprint Corporation	Cellular Division	1995	1995	Depreciation/Recovery Status Study
Pacific Telecom, Inc.	Alascom, Inc.	1994	1995	Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of the Northland	1993	1994	Depreciation Study
	Telephone Utilities of Alaska	1993	1994	Depreciation Study
Indiana Energy	Indiana Gas Company	1993	1994	Depreciation Study
Columbia Gas Transmission	Gas Pipeline Property in Sullivan County, NY	1993	1993	Useful Life Study
United Telephone - Midwest Group	United Telephone Company of Missouri	1993	1993	Modernization/Depreciation Study
Intermountain Gas Co.	Intermountain Gas Co.	1992	1993	Depreciation Study
Pacific Telecom, Inc.	Alascom, Inc.	1992	1993	Depreciation Study
	Telephone Utilities of Oregon, Inc.	1991	1992	Depreciation Study
	Telephone Utilities of Washington, Inc.	1991	1992	Depreciation Study
Small Telephone Company Coalition	Oregon Small Telephone Companies	1991	1992	Depreciation Support
United Telephone Systems	United Telephone Co. of Pennsylvania	1991	1992	Instructional Depreciation Study
New York State Division of Equalization and Assessment	Electric, Gas, Water, Telephone, Pipeline, Steam, CATV	1991	1992	Useful Lives and Net Salvage Values
Rochester Telephone Company	Enterprise Telephone	1991	1992	Study Review
Indiana Energy	Indiana Gas/Richmond Gas/Terre Haute Gas	1990	1991	Depreciation Study
American Electric Power	Indiana/Michigan Power Co.	1990	1991	Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Year</u>	<u>Study Performed</u>	<u>Year</u>	<u>Activity</u>
Rochester Telephone Company	Rochester Telephone Co.	1990	1991		Study Review
United Telephone Systems	United Telephone Co. of Florida	1990	1991		Instructional Depreciation Study
United Telephone Systems	United Telephone Co. of Oregon	1989	1990		Study Review
Telephone and Data Systems, Inc.	Quincy Telephone Company	1990	1991		Depreciation Study
Telephone and Data Systems, Inc.	Wolverine Telephone Company	1989	1990		Depreciation Study
Indiana Energy	Indiana Gas Company, Inc.	1989	1990		Depreciation Study
Intermountain Gas Co.	Intermountain Gas Co.	1989	1990		Remaining Life/Net Salvage Support
North-West Telephone Company	North-West Telephone Company	1989	1990		Study Review
United Telephone System	United of Texas	1989	1990		Instructional Depreciation Study
	United of Missouri	1989	1990		Instructional Depreciation Study
Milwaukee Water	Milwaukee Water	1989	1990		Depreciation Study
Indiana Natural Gas Corp.	Indiana Natural Gas Corp.	1989	1990		Depreciation Study
Pacific Telecom	Telephone Utilities of the Northland	1989	1990		Depreciation Study
	Telephone Utilities of Alaska	1989	1990		Depreciation Study
	Alascom	1989	1990		Depreciation Study
	Telephone Utilities of Washington, Inc.	1988	1989		Depreciation Study
WICOR	Wisconsin Gas Company	1988	1989		Depreciation Study
ALLTEL	ALLTEL - Kentucky, Inc.	1987	1989		Depreciation Study
	ALLTEL - Ohio, Inc.	1988	1989		Depreciation Study

**Utility Industries
Capital Recovery Activities Client List**

<u>Company</u>	<u>Property</u>	<u>Year</u>	<u>Study Performed</u>	<u>Year</u>	<u>Activity</u>
	Western Reserve Telephone Company	1988	1989		Depreciation Study
Milwaukee Metropolitan Sewer District	Milwaukee Metropolitan Sewer District	1988	1989		Depreciation Study
United Telephone Company	United of Ohio Telephone Company	1988 1988	1989 1989		ELG Support ELG Support
United Telecom	U.S. Sprint	1988	1988		Useful Life Study
Pacific Telecom	Telephone Utilities of Oregon	1987	1988		Depreciation Study
	Telephone Utilities of Eastern Oregon	1987	1988		Depreciation Study
	Rose Valley Telephone Company	1987	1988		Depreciation Study
United Telephone	United of Minnesota	1987	1988		Capital Planning Support
Wisconsin Southern Gas	Wisconsin Southern Gas	1987	1988		Depreciation Study
Pacific Telecom	Glacier State Telephone Company	1986	1987		Depreciation Study
	Sitka Telephone Co.	1986	1987		Depreciation Study
	Juneau-Douglas Tel Company	1986	1987		Depreciation Study
Pacific Telecom	Telephone Utilities of Alaska	1986	1987		Depreciation Study
	Alascom	1986	1987		Depreciation Study
Lincoln Telecommunications	Lincoln Telephone and Telegraph Company	1986	1987		Digital Switching Service Life
Northwest Natural Gas Corporation	Northwest Natural Gas Corporation	1985	1986		Depreciation Study
ALLTEL	Western Reserve Telephone Company	1984	1985		Depreciation Study
	ALLTEL - Ohio	1984	1985		Depreciation Study
	ALLTEL - Alabama	1984	1985		Depreciation Study
Gulf Telephone Co.	Gulf Telephone Company	1984	1985		Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
United Telephone Systems, Inc.	United of Iowa	1984	1985	Depreciation Study
	United of Arkansas	1984	1985	Depreciation Study
Pacific Telecom	Telephone Utilities of Washington	1983	1984	Depreciation Study
	Telephone Utilities of Eastern Oregon	1983	1984	Depreciation Study
Pacific Telecom	Telephone Utilities of Oregon	1983	1984	Depreciation Study
	Northwestern Telephone Systems, Inc., Oregon	1983	1984	Depreciation Study
	Rose Valley Telephone Company	1983	1984	Depreciation Study
United Telecommunications	All United Telephone Companies	1983	1984	Capital Recovery Strategy
Lincoln Telecommunications	Lincoln Telephone & Telegraph Company	1983	1984	Depreciation Study
ALLTEL	ALLTEL - Mississippi	1982	1983	Depreciation Study
	ALLTEL - Michigan	1982	1983	Depreciation Study
North Carolina Natural Gas Corp.	North Carolina Natural Gas Corporation	1982	1983	Depreciation Study
Mid Continent Telephone (Currently ALLTEL)	Western Reserve Telephone	1982	1983	Depreciation Study
	Mid Ohio Telephone	1982	1982	Depreciation Study
	Florence Telephone Company	1980	1981	Depreciation Study
	Leeds Telephone Co.	1980	1981	Depreciation Study
	Elmore Coosa Tel Company	1980	1981	Depreciation Study
	Brookville Telephone Company	1980	1981	Depreciation Study
	Mid-Pennsylvania Telegraph	1980	1981	Depreciation Study
	Telephone Utilities (Currently Pacific Telecom)	Telephone Utilities of Oregon	1979	1980
	Telephone Utilities of	1979	1980	Depreciation Study

Papers and Seminars

	Eastern Oregon			
	Northwestern Telephone Systems, Inc.-Oregon	1979	1980	Depreciation Study
	Rose Valley Telephone Company	1979	1980	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1979	1980	Depreciation Study
Telephone Utilities	Telephone Utilities of Washington	1978	1979	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1978	1979	Depreciation Study
Rochester Telephone	Rochester Telephone (Indiana)	1977	1978	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1977	1978	Depreciation Study
Princeton Telephone	Princeton Telephone (Indiana)	1976	1977	Depreciation Study
Northwestern Telephone	Northwestern Telephone (Illinois)	1975	1976	Depreciation Study

Papers and Seminars

- 2011 Training Instructor Depreciation Basics Sessions A & B and Life and Salvage Analysis
Society of Depreciation Professionals 25th Annual Meeting
Atlanta, GA September 20-22, 2011
- 2010 Will the Real Cost Approach Please Stand Up?
National Association of Property Tax Representatives Transportation, Energy, & Communications (NAPTR-TEC)
Scottsdale, Arizona October 25-27, 2010
- Issues Affecting Assessment of Regulated Industries
Institute for Professionals in Taxation (IPT) Property Tax Symposium
Austin, Texas October 31 – November 3, 2010
- 2009 (Valuing) Intangibles
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 28, 2009
- Fair Value Accounting (Appraisal Panelist)
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 29, 2009
- 2008 Valuation Issues Valuation of Assets and the Impact of Depreciation
Society of Depreciation Professionals Annual Meeting
Greenville, SC September 21-26, 2008
- Obsolescence in the Long-Distance and Local Transport Networks
Technology Futures Inc. Asset Valuation Conference
Austin Texas February 8, 2008
- 2007 Communications Industry Issues
National Association of Property Tax Representative – Transportation, Energy, & Communications
New Orleans, LA October 30, 2007
- 2006 Appraisal Procedures & Issues in a Changing communications Industry
Florida Chapter International Association of Assessing Officers' Tangible Personal Property Conference
Ocala, Florida January 12, 2006
- Valuation of Intangibles
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 25, 2006
- SDP 20 years of History and Beyond
Society of Depreciation Professionals 20th Annual Meeting
Long Beach, CA September 18, 2006
- 2005 Valuation in a World with Asset Impairments
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas August 1, 2005

Papers and Seminars

- 2004 Depreciation in the Valuation of Assets
Society of Depreciation Professionals' Eighteenth Annual Meeting
Washington, D.C., September 13, 2004
- 2003 Cost Approach and the Use of Appraisal Guidelines
Institute for Professionals in Taxation – Property Tax Symposium
Fort Lauderdale, FL, September 17, 2003
- Cost Approach – Obsolescence and Depreciation
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, July 28, 2003
- 2000 Appraisal Issues Associated with Technological Change in the Wireline Telecommunications Industry
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, July 31, 2000
- The Impact of Advancing Technology and the Changing Regulatory Environment on Obsolescence Calculations for Ad Valorem Valuation Purposes
Journal of Property Tax Management, Spring 2000
- 1996 How to Develop a Reproduction/Replacement Cost New Less Depreciation Approach to Value
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, August 4, 1996
- 1995 Valuation Method, Techniques and Strategies (How to Quantify Stranded Investment) (Market, Income, & Cost Approach)
AGA Depreciation Committee Meeting
Denver, Colorado, August 6-9, 1995, jointly presented with Earl Robinson of AUS Consultants
- 1994 Integrating Future Expectations for the Telephone Industry into Historical Depreciation Analysis
United States Telephone Association (USTA's 1994 Capital Recovery Seminar)
Scottsdale, Arizona, September 12-13, 1994
- 1994 Capital Recovery: United States versus Canada
Canadian Telephone Industry's Annual Capital Recovery Seminar
Edmonton, Alberta, Canada June 14-15, 1994
- 1990 Capital Recovery: Methods, Terminology, Procedures, and Record Keeping
United States Telephone Association (USTA)'s
1990 Non-FCC Subject and Small Company Capital Recovery Seminar
Minneapolis, Minnesota April 10_11, 1990
- Integration of Technology Forecasting Into Historical Life Studies
29th Iowa State Regulatory Conference
Ames, Iowa May 15-17, 1990
- The 1990's and the Second Wave of Major Plant Retirements in the Communications Industry
NARUC's Seventh Biennial Information Conference
Columbus, Ohio September 12-14, 1990

Papers and Seminars

How Do We Incorporate Change into the Study Filing Procedures?
USTA's 1990 Capital Recovery Seminar
Chicago, Illinois October 16_17, 1990

1989 Plant Modernization: Capital Planning and Capital Recovery
Midwest Utilities Conference
Chicago, Illinois September 11_14, 1989

Price Indexes Today: Procedures, Uses, and Misuses
Society of Depreciation Professionals' Third Annual Meeting
New Orleans, Louisiana December 6_7, 1989

1988 Plant Modernization: Capital Planning and Capital Recovery
National Association of Regulatory Utility Commissioners (NARUC)'s
Sixth Biennial Regulatory Information Conference
Columbus, Ohio September 14_16, 1988

Papers and Seminars

- 1997 Sprint Corporation - West Finance Center
Overland Park, Kansas, August 1997
- 1997 Rochester Telephone Corporation
Rochester, New York, April 1997
- 1996 Sprint-Florida-Vista United Telecommunications
Altamonte Springs, Florida August 27-29, 1996
- 1994 Saskatchewan Telecommunications
Regina, Saskatchewan, Canada, June 1994
- 1994 AUS Consultants/Leroy J. Murphy and Associates 1994 Capital Recovery Seminar
May 1994
- 1993 Manitoba Telephone System, Winnipeg, Manitoba, December 1993
- 1993 Society of Depreciation Professionals Annual Meeting
Charleston, South Carolina September 30, 1993
- 1993 SPRINT - Local Telephone Division
Atlanta, Georgia August 11-12, 1993
- 1993 AUS Consultants/Leroy J. Murphy and Associates 1993 Capital Recovery Seminar
Chicago, Illinois May 11 - 13, 1993
- 1993 Canadian Telephone Capital Recovery Seminar
Halifax, Nova Scotia April 20 - 22, 1993
- 1993 United Telephone, Midwest Group
Overland Park, Kansas January 20, 1993
- 1992 BellSouth Corporation
Birmingham, Alabama November 23, 1992
- 1992 Sprint - Local Telephone Division
Kansas City, Kansas November 18 - 20, 1992
- 1992 Society of Depreciation Professionals Annual Meeting
San Antonio, Texas September 9 - 10, 1992
- 1992 AUS Consultants/Leroy J. Murphy and Associates 1992 Capital Recovery Seminar
Chicago, Illinois October 6 - 8, 1992
- 1991 Society of Depreciation Professionals Annual Meeting
Nashville, Tennessee November 20-22, 1991
- 1991 ALLTEL Corporation Microcomputer Depreciation Studies System Training
Hudson, Ohio October 14-16, 1991

Capital Recovery Training

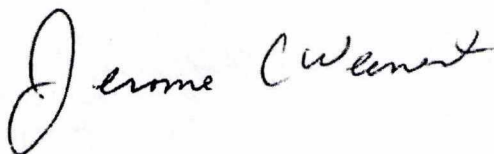
- 2016 Society of Depreciation Professionals
Annual Training
Charleston, South Carolina, September 18-23, 2016
- 2015 Society of Depreciation Professionals
Annual Training
Austin Texas September 2015
- 2014 Society of Depreciation Professionals
Annual Training
New Orleans, Louisiana September 2014
- 2013 Society of Depreciation Professionals
Annual Training
Salt Lake City, Utah September 2013
- 2012 Society of Depreciation Professionals
Annual Training
Minneapolis, Minnesota, September 16-18, 2012
- 1991 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation
Studies System Training
Kansas City, Kansas September 23-25, 1991
- 1991 AUS Consultants/Leroy J. Murphy and Associates 1991 Capital Recovery Seminar
Lake Geneva, Wisconsin September 17-19, 1991
- 1991 Rochester Telephone Corporation, Capital Recovery/Microcomputer Depreciation Studies
System Training, Rochester, New York September 3-7, 1991
- 1991 Ameritech Services, Microcomputer Depreciation Studies System Training
Chicago, Illinois May 16-17, 1991
- 1991 AUS Consultants/Leroy J. Murphy and Associates 1991 Capital Recovery Seminar
Washington, D.C. April 9_11, 1991
- 1990 United Telecommunications, Inc., Capital Recovery Seminar
Overland Park, Kansas December 1990
- 1990 AUS Consultants/Leroy J. Murphy and Associates 1990 Capital Recovery Seminar
Chicago, Illinois September 24_27, 1990
- 1990 AUS Consultants/Leroy J. Murphy and Associates 1990 Capital Recovery Seminar
Chicago, Illinois January 29-February 1, 1990
- 1990 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation Studies
System Training, Chicago, Illinois July 1990
- 1989 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation Studies
System Training, Chicago, Illinois July 1989

Capital Recovery Training

- 1989 AUS Consultants/Leroy J. Murphy and Associates 1989 Capital Recovery Seminar
 Chicago, Illinois March 6_9, 1989
- 1988 AUS Consultants/Leroy J. Murphy and Associates 1988 Capital Recovery Seminar
 Chicago, Illinois July 25_28, 1988
- 1988 United Telecommunications, Inc., Microcomputer Depreciation Studies System Training
 Kansas City, Kansas January 1988

VERIFICATION

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



Jerome C. Weinert, P.E. Principal and Director
AUS Consultants, Inc.

Dated: *October 7, 2020*

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water	:	
Company under Section 1102(a) of the Pennsylvania	:	
Public Utility Code, 66 Pa C.S. § 1102(a), for approval	:	
of (1) the transfer, by sale, of substantially all of Valley	:	
Township’s assets, properties and rights related to its	:	
wastewater collection and conveyance	:	Docket No. A-2020-3020178
system to Pennsylvania-American Water	:	
Company, and (2) the rights of Pennsylvania-American	:	
Water Company to begin to offer or furnish wastewater	:	
service to the public in Valley Township, and limited	:	
portions of East Fallowfield Township,	:	
Sadsbury Township and West Caln Township,	:	
Chester County, Pennsylvania	:	

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

**DIRECT TESTIMONY OF
KEITH E. GABAGE**

INTRODUCTION

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

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

4

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

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

8

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

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

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

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

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

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

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

4

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

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

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

17

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

19 **A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under
20 66 Pa. C.S. § 1102, similar to many requests that come before the Commission.
21 Specifically, PAWC seeks approval to acquire the Wastewater System and the right to
22 begin service in the areas currently served by Valley (the “Service Area”), to include all
23 areas pursuant to Valley’s Act 537 Plan. The Application contains a *pro forma* tariff

Amended Appendix A-14-a

1 supplement (**Appendix A-12**) under which Valley’s current rates would be initially
2 adopted and would apply to all areas within the Service Area.

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

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

17 Fourth, PAWC is seeking Certificates of Filing for approval under Section 507 of
18 the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 507, of (a) the APA, and (b)
19 the November 16, 1988 Sewer and Water Service Agreement Between West Caln
20 Township, Valley, Valley Township Authority¹ and Highlands Corporate Center.² These
21 agreements are between PAWC and a municipal corporation and are therefore required to

¹ Valley Township Authority was subsequently disbanded.

² Valley will assign this contract to PAWC at closing. In addition, Valley will assign some other contracts with municipal corporations to PAWC at closing, but those agreements will either terminate or become obsolete at closing.

1 be filed with the Commission under Section 507. PAWC requests that the Commission
2 issue Certificates of Filing or otherwise approve these agreements if the Commission
3 deems that Certificates of Filing or approvals for these agreements are necessary under 66
4 Pa. C.S. § 507.

5
6 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
7 **APPLICATION?**

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

13
14 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
15 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
16 **SECTION 1329?**

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

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

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

10

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

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

19

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

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

5
6 **Q.** **PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE**
7 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**
8 **MATTER AREAS.**

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

20 Mr. Guntrum will also describe engineering and environmental issues associated
21 with the System, support PAWC's technical fitness to operate the Wastewater System, and
22 explain certain commitments made by PAWC in the APA. Mr. Guntrum will also address
23 the anticipated day-to-day operation of the Wastewater System once it is acquired by

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

7
8 **DESCRIPTION OF THE TRANSACTION**

9 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
10 **PROCESS.**

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

21 On October 18, 2019, PFM issued, on behalf of Valley, the Request for Bids
22 (“RFB”); the second step of the process, which indicated that proposals were due on
23 November 15, 2019. The RFB was later modified to require that proposals were due on

Amended Appendix A-14-a

1 November 18, 2019. PAWC submitted its proposal timely on November 18, 2019 and was
2 notified by PFM later that day that PAWC was the only bidder. On November 19, 2019,
3 PFM presented PAWC's offer to Valley's Supervisors. PAWC then attended a Valley
4 Board of Supervisors' Meeting on December 17, 2019, at the request of PFM. At this
5 meeting, PFM presented, and the Board opened the meeting for public discussion. PAWC
6 assisted in answering questions from the members of the public in attendance and at the
7 conclusion of the public discussion the Board of Supervisors approved and signed the APA.

8 Pursuant to Section 1329, PAWC and Valley retained the services of Pennoni
9 Associates, Inc. on February 12, 2020, for the completion of The Engineer's Assessment
10 of Tangible Assets, which is included as **Appendix A-15-a** of this Application. Also
11 pursuant to Section 1329, on or about August 23, 2019, and April 20, 2020, PAWC and
12 Valley, respectively, retained their UVEs to use The Engineer's Assessment of Tangible
13 Assets in preparing their fair market valuation reports. These reports and electronic
14 working papers are included as **Appendix A-5-a** and **Appendix A-5-b** of this Application.
15 To complete these reports, PAWC retained the services of AUS Consultants, Inc. and
16 Valley retained the services of Gannett Fleming Valuation and Rate Consultants, LLC.
17 These reports value the System as of December 17, 2019, and March 31, 2020,
18 respectively. The average of these two appraisals is \$19,463,530. The arms-length
19 negotiated purchase price for the Wastewater System, as provided for in the APA, is
20 \$13,950,000.

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

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

10 Upon closing of the Transaction, PAWC will take ownership of the Wastewater
11 System and begin rendering Wastewater service to Valley's current customers and Valley
12 will permanently discontinue providing or furnishing Wastewater service to the public
13 within Valley and limited portions of West Caln, Sadsbury and East Fallowfield
14 Townships, Chester County, Pennsylvania.

15

16 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
17 **GOVERNING THE TRANSFER OF ASSETS?**

18 **A.** The terms of purchase of specific properties, assets and rights to be transferred to PAWC
19 are defined and described in the APA's Section 2.01. Generally, the APA states that every
20 asset, property and right owned by Valley, and used in the provision of wastewater service,
21 whether real, personal, mixed, tangible or intangible, and including all the physical plant,
22 property, equipment and facilities comprising the Wastewater System owned by Valley
23 shall be conveyed to PAWC. All interests in real estate, including leases, easements and

1 access to public rights-of-way, owned by Valley and relating to the Wastewater System, as
2 well as all assigned contracts, which are listed in the APA's Schedule 4.13, also will be
3 conveyed to PAWC.

4 Section 2.02 and Schedule 2.02(h) of the APA provide a list of assets not included
5 in the sale. They generally exclude: any contracts, licenses and leases that are not otherwise
6 Assigned Contracts; the seals, organizational documents, minute books, or other records
7 having to do with the organization of the Seller; cash and cash equivalents; insurance
8 policies of Seller; all rights to any outstanding lien related to a non-payment by a System
9 customer existing at or prior to the Closing Date; any assets, properties and rights used by
10 Seller other than those that primarily relate to the Wastewater System; the MS4 system real
11 property and any and all connecting facilities originating from the Seller's terminus point
12 of the collection facilities at the edge-of-road or curb-line when the facilities are located
13 within a public right-of-way or the edge of an easement when the collection facilities are
14 located within private property to and throughout the customer's property.

15
16 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF VALLEY'S AS PART**
17 **OF THE TRANSACTION?**

18 **A.** Yes, PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
19 day of closing. Per Section 2.04 of the APA, PAWC will assume any and all liabilities and
20 obligations: (1) arising under Valley's NPDES Permits (arising from, related to or based
21 on events or circumstances occurring on or after the Closing Date) and (2) arising out of
22 or relating to the System or the Acquired Assets on or after the Closing including: (a) all
23 liabilities and obligations under the Assigned Contracts and Authorizations and Permits

1 resulting from events that occur or conditions that arise on or after the Closing; (b) any
2 litigation against Valley related to the System or the Acquired Assets resulting from events
3 that occur on or after the Closing; (c) all liabilities and obligations for Taxes related to the
4 System, its operation, and the Acquired Assets on or after the Closing.

5
6 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
7 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

8 **A.** The consideration for the purchase of the System is set forth in Section 3.01 of the APA.
9 The arm's length negotiated purchase price is \$13,950,000.

10
11 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO VALLEY'S**
12 **CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.**

13 **A.** As set forth in Section 7.03 of the APA and as will be explained more-fully in the Direct
14 Testimony of Mr. Nevirauskas, PAWC Statement No. 3 WW, PAWC will adopt Valley's
15 rates at the time of Closing of the Transaction. Moreover, the parties recognize that
16 ratemaking authority is vested with the Commission. Other charges, such as PAWC's
17 DSIC and State Tax Adjustment Surcharge, will apply and may be subject to increases.
18 PAWC will bill all Valley customers on a monthly basis, effective following closing. The
19 effective rates are shown in the APA **Appendix A-24-a (CONFIDENTIAL)**, Schedule
20 7.03, and referenced in **Appendix A-18-a through A-18-c** to the Application (**PAWC**
21 **Exhibit KEG-2 WW**).

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

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

7

8 **TRANSACTION IS IN THE PUBLIC INTEREST**

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

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

20 PAWC currently employs approximately 1,100 professionals with expertise in all
21 areas of water and wastewater utility operations, including engineering, regulatory
22 compliance, water and wastewater treatment plant operation and maintenance, distribution
23 and collection system operation and maintenance, materials management, risk

Amended Appendix A-14-a

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

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

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

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

23 **A.** As of December 31, 2020, Valley furnished wastewater service to 3,125 customers.

1 As of August 31, 2020 PAWC, furnished wastewater services to approximately 75,253
2 customers in Pennsylvania, inclusive of 69,692 residential customers, 5,303 commercial
3 customers, 203 municipal customers, 44 industrial customers, and 11 bulk customers.

4
5 **Q. CAN YOU PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN**
6 **THE PUBLIC INTEREST?**

7 **A.** The Transaction will result in affirmative public benefits of a substantial nature. First,
8 PAWC, as a large and long-established public utility, has the managerial, technical, and
9 financial fitness to operate the System in a safe and efficient manner in compliance with
10 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and
11 regulatory requirements. PAWC has extensive experience in the operation of wastewater
12 collection, treatment, transportation and disposal systems. The acquisition fosters the
13 Commission's stated goal of regionalizing wastewater systems to provide greater
14 environmental and economic benefits to customers.

15 Second, Valley's current customers will benefit in several ways from becoming
16 PAWC customers. PAWC is a large, financially-sound company that has the capacity to
17 finance necessary capital additions and improvements that will benefit its customers. In
18 addition, given its size, its access to capital, and its recognized strengths in system
19 planning, capital budgeting, and construction management, PAWC is well-positioned to
20 ensure that high quality wastewater service meeting all applicable state and federal
21 regulatory requirements is provided to Valley's customers. Additionally, PAWC is subject
22 to the jurisdiction of the Commission and must comply with the Code. Valley is not
23 regulated by the Commission and does not need to comply with the Code.

Amended Appendix A-14-a

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

7 Finally, the Transaction will benefit PAWC's existing customers and Valley's
8 current customers in the long-term by expanding PAWC's customer base. There will be
9 no immediate rate impact on PAWC's existing customers, and we expect that the
10 Transaction will help PAWC maintain reasonable rates for all its customers going forward.
11 Moreover, by adding additional connections to the entire PAWC system, there are more
12 customers to share future infrastructure investment cost, which promotes stable rates across
13 the entire PAWC system. Customers who benefit from near-term improvements will one
14 day help pay for improvements on behalf of other customers on other parts of the PAWC
15 system. Being able to spread the costs of investing in and maintaining public wastewater
16 systems over a growing customer base, particularly in a time of increased environmental
17 requirements, is essential to the continued success of wastewater systems and maintaining
18 reasonable rates for customers. There is also a clear legislative intent associated with
19 Section 1329 and its allowance of fair market valuation for ratemaking purposes. The
20 General Assembly intended to facilitate the acquisition of municipal water and wastewater
21 systems by investor-owned utilities for the benefit of municipal corporations and their
22 customers.

1 **PAWC'S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

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

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

7
8 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
9 **OPERATE THE SYSTEM?**

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

12 As part of the Application, PAWC provided the audited internal balance sheet, as
13 of December 31, 2019, for PAWC (**Appendix D to PAWC Exhibit KEG-2 WW**), as well
14 as the audited income statement, as of December 31, 2019 for PAWC (**Appendix F to**
15 **PAWC Exhibit KEG-2 WW**). Those documents show that PAWC had total assets of
16 approximately \$5.3 billion as of December 31, 2019. Further, they show that PAWC had
17 net income of approximately \$187 million for the 12 months ending December 31, 2019.
18 These figures further demonstrate that PAWC has the financial stability and wherewithal
19 to acquire the System and operate it in the public interest. My colleague, Mr. Nevirauskas,
20 will provide additional details in PAWC Statement No. 3 on the financial health of PAWC
21 and its ability to access capital.

1 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
2 **SYSTEM?**

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

11

12

SERVICE TERRITORY

13 **Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY PAWC IN THE**
14 **APPLICATION.**

15 **A.** As part of its Application, PAWC is seeking the right to provide service in the service area
16 served by Valley as shown in the maps and descriptions attached as **Appendix A-16-a**
17 **through A-16-f to PAWC Exhibit KEG-2 WW.** No municipal authority, corporation,
18 partnership or individual other than Valley is now furnishing or has corporate or franchise
19 rights to furnish service similar to that to be rendered by PAWC in the Service Area covered
20 by the Application, and no competitive condition will be created. As discussed above,
21 upon closing of the Transaction, Valley will permanently discontinue all wastewater
22 service to the public.

1 Valley also provides wastewater service in limited portions of West Caln, East
2 Fallowfield and Sadsbury Townships which are also served by PAWC. The agreements
3 related to these communities are included in **Appendix A-25-a** and identified on Schedule
4 4.13 to the APA. The agreements will terminate after closing on the Transaction with
5 Valley.

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

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

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

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

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

1
2
3
4

CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

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

Case	Docket
<p>Application of Pennsylvania-American Water Company (PAWC) for approval of: (1) the transfer, by sale, of substantially all of Paint-Elk Joint Sewer Authority (PEJSA) properties and rights related to its wastewater system to PAWC, and (2) the rights of PAWC to begin to offer or furnish wastewater service to the public in portions of Paint Township and Elk Township, Clarion County, Pennsylvania.</p>	<p>Docket No. A-2013-2395998</p>
<p>Application of Pennsylvania-American Water Company-Wastewater Division (PAWC-WD) for approval of: (1) the transfer, by sale, of substantially all of Shippenville Borough properties and rights related to its wastewater system to PAWC-WD, and (2) the rights of PAWC-WD to begin to offer or furnish wastewater service to the public in Shippenville Borough and an additional portion of Elk Township, Clarion County, Pennsylvania.</p>	<p>Docket No. A-2014-2441953</p>
<p>Application for approval of: 1) the transfer, by sale, of substantially all of the water system property and rights of the McEwensville Municipal Authority to PAWC, and 2) the right of PAWC to begin to offer or furnish water service to the public in McEwensville Borough and an additional portion of Delaware Township, Northumberland County, PA.</p>	<p>Docket No. A-2015-2460981</p>
<p>Application for approval of: 1) the transfer, by sale, of substantially all of the wastewater system assets and rights of the McEwensville Municipal Authority to PAWC-WD, and 2) the right of PAWC-WD to begin to offer or furnish wastewater service to the public in McEwensville Borough, Northumberland County, PA.</p>	<p>Docket No. A-2015-2460981</p>
<p>Application of PAWC for approval of 1) the transfer, by sale, of substantially all of the Borough of Turbotville's assets, properties and rights related to its wastewater collection and treatment system to PAWC, and 2) the right of PAWC to begin to offer or furnish wastewater service to the public in the Borough of Turbotville, Northumberland County Pennsylvania</p>	<p>Docket No. A-2018-3004189</p>

Exhibit KEG-1

Application of Pennsylvania-American Water Company for approval of the transfer, by sale, of substantially all the Municipal Authority of the Borough of Turbotville's assets, properties and rights related to its water treatment and distribution system, to Pennsylvania-American Water Company	Docket No. A-2018-3004191
Section 1329 Application of Pennsylvania-American Water Company–Wastewater Division for the Acquisition of Sadsbury Township's Wastewater System Assets	Docket No. A-2018-3002437

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

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

Date: October 9, 2020

PAWC Statement No. 2WW

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

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

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

3

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

5 **A.** I am employed by Pennsylvania-American Water Company (“PAWC” or the “Company”)
6 as a Senior Project Engineer.

7

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

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

12

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

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

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

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION?**

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

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

10 **A.** My testimony will describe the wastewater collection and conveyance system (“System”)
11 currently owned by the Valley Township (“Valley” or the “Township”) that PAWC has
12 agreed to acquire (the “Transaction”). I will also explain how the acquired system will be
13 integrated into PAWC’s existing operations, describe PAWC’s technical fitness to run the
14 system, and discuss the benefits of the Transaction.

15
16 **Q. CAN YOU PLEASE DESCRIBE THE SYSTEM?**

17 **A.** The Valley system is a sanitary sewer collection system only that discharges all sewage
18 into PAWC’s Coatesville wastewater system for final treatment. Valley’s sewer system is
19 comprised of approximately 44 miles of interceptors, force mains, and tributary collection
20 sewers divided into three drainage basins. There are also three intermunicipal connections
21 in which wastewater is conveyed through the Township’s sewer system via existing
22 conveyance agreements with PAWC. There are six sewage pumping stations in Valley’s

1 sewer system. The pumping station at the Coatesville Country Club, located in West Caln
2 Township, will remain a private pump station and will not be dedicated to PAWC.

3
4 **Q. WHAT IS AN “MS4” SYSTEM?**

5 **A.** An MS4 system is a “municipal separate storm sewer system.”

6
7 **Q. IS PAWC ACQUIRING AN MS4 SYSTEM?**

8 **A.** No. PAWC will not be acquiring the MS4 system of Valley.

9
10 **Q. IS THE VALLEY SYSTEM A COMBINED SEWER SYSTEM?**

11 **A.** No. The Valley System is not a combined sewer system.

12
13 **Q. DOES THE SYSTEM HAVE AN INDUSTRIAL PRETREATMENT PROGRAM?**

14 **A.** There are no significant or categorical industrial users in the System. Therefore, the
15 Township does not have an Industrial Pretreatment Program (“IPP”).

16
17 **Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE**
18 **CONSTRUCTION OF THE COLLECTION SYSTEM.**

19 **A.** Based on the mapping that was available and provided by Valley, the collection system is
20 primarily constructed from vitrified clay pipe with newer portions constructed with PVC
21 piping. The approximate sizes and lengths are listed in the table below.

Pipe Diameter and Material	Approximate Pipe Length
Force Mains and Low-Pressure Sewers	28,661 ft
6-inch SDR 35	207 ft
8-inch Asbestos Cement	69,164 ft
8-inch DIP	191 ft
8-inch SDR 35	109,601 ft
8-inch VCP	4,431 ft
10-inch Asbestos Cement	6,933 ft
10-inch DIP	123 ft
10-inch SDR 35	7,044 ft
12-inch Asbestos Cement	742 ft
12-inch SDR 35	196 ft
15-inch Asbestos Cement	6,097 ft
18-inch Asbestos Cement	62 ft
TOTAL	233,452 ft

1

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

5 **A.** Based on the population projections and demand projections as provided in Valley's latest
6 Chapter 94 Report included in **Appendix A-20-c**, the conveyance capacity is adequate to
7 meet present and future customer demands.

1 **Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES.**

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

4
5 **Q. DOES PAWC PROVIDE WASTEWATER SERVICE TO WEST CALN,
6 SADBURY TOWNSHIP AND EAST FALLOWFIELD TOWNSHIPS?**

7 **A.** Yes, presently PAWC provides wastewater service in portions of West Caln Township and
8 East Fallowfield Township and most of Sadsbury Township. PAWC is acquiring the water
9 system in Valley under a separate application that will be filed shortly.

10
11 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER
12 OPERATIONS FACILITIES IN THE VALLEY AREA.**

13 **A.** PAWC's Coatesville operations center is located within one mile from Valley and houses
14 both the local operations team and operations support staff.

15
16 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY
17 OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**

18 **A.** The System will be managed as part of PAWC's Coatesville wastewater department within
19 PAWC's Southeast Area operations. The Southeast Area provides a range of shared
20 support services -- including purchasing, environmental compliance, health, and safety,
21 meter reading, customer service work and PA One Call. The water and wastewater
22 operations in Valley will both be supported by common shared support services.

1 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH**
2 **WASTEWATER OPERATIONS, AS NEEDED?**

3 **A.** Yes. Current PAWC employees in this area are supported by a shared support team
4 supporting common functions such as payroll, purchasing, environmental compliance,
5 health, and safety. Employees in both the water and wastewater departments will support
6 each other when appropriate and necessary, particularly in emergency situations. As
7 mentioned above, all operations and employees within PAWC and within the broader
8 American Water Works Company, Inc. (“American Water”) footprint have access to each
9 other when circumstances require and/or when a very specialized skill or experience is
10 required to support all local issues.

11
12 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
13 **FACILITIES FOLLOWING THE ACQUISITION?**

14 **A.** No, the System will be operated by PAWC’s existing Coatesville system. It will also have
15 the support of PAWC’s surrounding operations as well as PAWC’s operations throughout
16 the Commonwealth and American Water’s nationwide resources.

17
18 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE SYSTEM?**

19 **A.** The 5-year capital plan for the System is shown on **PAWC Exhibit MJG-1 WW.**

20
21 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN VALLEY TO**
22 **MAINTAIN ENVIRONMENTAL COMPLIANCE FOR THE SYSTEM? WHY?**

1 A. Yes. PAWC can draw upon a much broader range of engineering and operational
2 experience, as well as deeper financial resources, to address the environmental compliance
3 challenges of the System. In addition, given PAWC's existing platform in relation to the
4 operation of water and wastewater systems in neighboring communities, we believe that
5 PAWC is best positioned to provide those services on a cost-effective basis.

6 PAWC is the Commonwealth's largest investor-owned provider of water and wastewater
7 services. As a leading wastewater provider in Pennsylvania, PAWC brings industry
8 leading expertise and has extensive technical experience in upgrading, operating and
9 maintaining sewer facilities. PAWC is a recognized leader in providing communities in
10 the Commonwealth with well-maintained and reliable water and wastewater service and
11 has extensive local knowledge due to our decades of experience providing water service to
12 neighboring communities.

13
14 PAWC currently employs approximately 1,100 professionals with expertise in all areas of
15 water and wastewater utility operations including engineering, regulatory compliance,
16 water and wastewater treatment plant operation and maintenance, distribution and
17 collection system operation and maintenance, material management, risk management,
18 human resources, legal, accounting, and customer service. As a subsidiary of American
19 Water, PAWC has available to it additional resources of highly trained professionals who
20 have expertise in various specialized areas. American Water currently owns or operates
21 approximately 200 wastewater operations through its subsidiaries in a number of states.
22 American Water's experience includes the full breadth of treatment processes, from
23 facultative ponds to membrane biological reactors in every climate zone across the U.S.

1 More-advanced technologies allow a number of American Water's plants to utilize effluent
2 for reuse applications, eliminating discharge to receiving streams. These diverse facilities
3 have provided American Water operators and process experts with deep experience in the
4 operation and maintenance of every possible type of wastewater treatment technology, as
5 well as the experience available to support PAWC's operations staff and facilities. A 50-
6 person team of American Water corporate engineers has handled a wide variety of system
7 evaluations, selecting treatment processes and establishing critical design criteria for water
8 and wastewater treatment systems in order to improve operations and prioritize capital
9 improvements.

10
11 PAWC has an established track record of successfully managing large capital investment
12 projects in order to provide reliable service to the communities it serves. PAWC has an
13 ongoing program of capital investment focused on systematically replacing and adding
14 new pipes, treatment and pumping facilities, and other water and wastewater infrastructure;
15 thereby minimizing customer disruption caused by infrastructure failure. PAWC has
16 funded in excess of \$1 billion in capital construction over the past five years with
17 expenditures expected to total \$275 million to \$300 million per year for the next five years.
18 Capital planning is performed by in-house engineering staff and operations to establish
19 capacity needs, regulatory impacts, service adequacy and reliability for PAWC's
20 wastewater systems. Project costs, alternatives and risks are also determined.
21 Comprehensive periodic oversight of water and wastewater assets gives PAWC a clear and
22 objective view of needs and potential capital project solutions.

1 **Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE**
2 **WASTEWATER SERVICE TO VALLEY'S CUSTOMERS.**

3 **A.** PAWC has approximately 75,087 active wastewater customers across the Commonwealth,
4 with customers in Adams, Beaver, Chester, Clarion, Cumberland, Lackawanna, Monroe,
5 Northumberland, Pike, Washington, and York counties. A map of PAWC's current service
6 territories is attached to my testimony as **PAWC Exhibit MJG-2 WW**. PAWC has had
7 no material issues in complying with the Pennsylvania Public Utility Code ("Code"), the
8 Clean Streams Law, or other regulatory requirements. Moreover, PAWC has the resources,
9 skill and expertise to respond to ever-increasing environmental standards for the treatment
10 of wastewater and to manage the long-term infrastructure issues inherent in wastewater
11 systems.

12
13 **Q. DOES PAWC MAINTAIN CYBER SECURITY, PHYSICAL SECURITY,**
14 **BUSINESS CONTINUITY, AND EMERGENCY PLANS?**

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

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

- 1 • Physical Security Plan - Operational Risk Management Security (American
2 Water Works Service Company, Inc. (“AWWSC”))
3
- 4 • Cyber Security Plan - Operational Risk Management Security (AWWSC)
5 Emergency Response Plan - Operations (PAWC)
- 6 • Business Continuity Plan - Operational Risk Management (PAWC) and
7 Operations (PAWC)
8

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

15
16 **Q. PLEASE DESCRIBE PAWC’S RELATIONSHIPS WITH COMMISSION
17 EMERGENCY RESPONSE STAFF, PENNSYLVANIA EMERGENCY
18 MANAGEMENT AGENCY STAFF, AND LOCAL FIRST RESPONDERS.**

19 **A.** PAWC has a strong working relationship with the Commission’s Emergency Response
20 Staff. PAWC provides the Commission with emergency response numbers for all PAWC
21 operating areas each year. The Commission provides emergency numbers for its staff,
22 which PAWC distributes to all of PAWC’s operating areas for inclusion in the PAWC
23 Emergency Response Plans. For those emergencies that warrant communication to the
24 Commission’s Emergency Preparedness Liaison Officer (“EPLO”), PAWC has contacted
25 Commission staff numerous times in the past to advise of situations and actions taken by
26 PAWC. Each year PAWC conducts emergency response tabletop exercises to test response
27 to emergency situations, including weather emergencies, contamination of supply, damage

1 to facilities, cyber-attack, and other perils. The Commission’s emergency response staff
2 has participated in those exercises each year since 2006. We also invite local first
3 responders to participate, such as fire departments, police departments, hazmat responders,
4 local prison personnel, as well as the Pennsylvania Department of Environmental
5 Protection (“DEP”), and the Pennsylvania Governor’s Office of Homeland Security
6 (“OHS”) personnel. PAWC has participated in Pennsylvania Water/Wastewater Agency
7 Response Network (“PaWARN”) and Pennsylvania Emergency Management Agency
8 (“PEMA”) sponsored exercises over the years. Our current relationship with PEMA is
9 through the Commission EPLO and PaWARN.

10
11 **Q. PLEASE DESCRIBE PAWC’S PARTICIPATION IN PENNSYLVANIA’S “ONE**
12 **CALL” SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
13 **PROGRAM.**

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

19
20 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

21 **A.** Yes. American Water and PAWC have made safety a value and not just a goal. It is very
22 important to us that every employee and contractor return home safely every day. We
23 make safety a value instead of a goal because goals change, but values do not change.

1 Safety performance is fundamental to our Company’s culture and key to its success.
2 Employees are expected to conduct themselves in a safe manner, in accordance with our
3 Health and Safety policy and with the Health and Safety Procedures and Practices Manual.
4 PAWC establishes, implements, promotes and manages safety programs, activities and
5 training that enable continued safety improvement, injury reduction and compliance with
6 applicable Federal, State and local requirements. Safety programs are developed and
7 implemented in accordance with Company policy and applicable practices and include:

- 8 • Supporting practices that are developed, reviewed and updated to provide
9 guidance on safe performance of activities in the workplace and are reflective of
10 changes in organizational, operational and regulatory needs;
- 11 • Strategic and priority development and implementation of safety improvements
12 based on risk analysis of workplaces, work tasks and related potential injuries and
13 incidents;
- 14 • Development of, and measurement against, specific Company and external safety
15 performance targets and safety accountabilities for all employees;
- 16 • Ongoing assessment and review of safety processes, activities and supporting
17 programs (including those related to other Company policies, such as the
18 Workplace Conduct and Behavior Policy) to gauge effectiveness, identify
19 program gaps and pinpoint opportunities for continued improvement;
- 20 • Consistency of implementation and compliance with Company and regulatory
21 requirements across the enterprise; and;
- 22 • Defined and monitored contractor qualifications and requirements for safety
23 performance in accordance with approved contract documents, applicable laws
24 and regulations.
25

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

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

1 **Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN ALLEY CUSTOMERS**
2 **EXPECT AS A RESULT OF THE TRANSACTION?**

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

7
8 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
9 **CUSTOMER SERVICE ENHANCEMENTS?**

10 **A.** Yes. *Customer Service.* Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
11 through Friday. Customers can also reach a customer service representative via email at
12 infopa@amwater.com. In addition, our customers have the ability to manage their account
13 via PAWC's "My H20" online portal. Finally, PAWC offers emergency support 24 hours
14 a day, seven days a week. All of this means that we are very responsive to our customers
15 and any issues they may have and will provide the same responsive approach to Valley's
16 customers once PAWC acquires the System.

17 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
18 have the option to receive paper bills through the mail or go paperless and receive their
19 bills electronically via the "My H20" on-line portal. Either way, customers can pay their
20 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
21 check or an electronic funds transfer (which can be set up at the "My H20" online portal)
22 or pay in person at multiple authorized payment locations across the state. Additionally,

1 customers will transition from a wastewater quarterly billing to a monthly billing cycle and
2 will receive a combined monthly bill from PAWC for water and wastewater services.

3 *Customer Information and Education Programs.* PAWC provides extensive
4 customer information and education programs that will be available to Valley's current
5 customers through brochures, bill inserts, and educational videos posted on PAWC's
6 website. Our customers always have full access to a wide range of topics, including
7 information on preventing sewer overflows, preventing frozen pipes, beneficially re-using
8 residuals from water treatment plants for community gardens, detecting and fixing silent
9 toilet leaks, properly disposing of unused pharmaceuticals to keep them out of the
10 wastewater system, conserving water, installing expansion tanks, obtaining Fire
11 Department Grants, and protecting customers from utility imposters.

12 *Customer Assistance Programs.* Finally, as new PAWC customers, Valley's
13 customers will have access to PAWC's customer assistance program called the "H2O Help
14 to Others Program." For wastewater customers, this program offers two main services: (1)
15 grants of up to \$500 per year and (2) a 15% discount on total wastewater charges.
16 Additionally, customers who qualify for the program may also qualify to receive a water
17 saving kit which includes, among other things, a low-flow shower head and low-flow
18 faucet aerators.

19
20 **Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST**
21 **UTILITY EMPLOYEE IMPOSTERS?**

22 **A.** Yes, PAWC has developed communications tools and programs to regularly educate
23 customers about the tactics used by utility employee imposters and what homeowners need

1 to know to protect themselves. The communications vehicles include bill inserts, news
2 releases, social media posts and website information about imposter-related crimes and
3 precautions that customers can take. In addition, PAWC helped form the Keystone
4 Alliance to Stop Utility Imposters, a coalition of water, gas and electric utilities, along with
5 the Commission, Pennsylvania District Attorneys Association and Pennsylvania Chiefs of
6 Police Association, to launch a public awareness campaign using public service
7 announcements, print materials, posters and community presentations.

8
9 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
10 **PROCEDURE.**

11 **A.** PAWC is governed by Chapter 14 of the Code, Responsible Utility Customer Protection
12 Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission's regulations commonly known as
13 Chapter 56, 52 Pa. Code § 56.1 *et seq.* This law and Commission regulations provide the
14 process and procedures for customer billing, collections, payment arrangements, medical
15 certifications, Protection from Abuse Orders, termination of service, reconnection of
16 service, and customer dispute resolution procedures. PAWC has a customer compliance
17 team located in the Mechanicsburg office responsible for ensuring that customer disputes
18 and complaints are resolved in compliance with the Commission's regulations.
19 Additionally, the Company has a customer advocacy team located in the Mechanicsburg
20 office responsible for addressing any customer disputes and escalated concerns.

21 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO VALLEY'S CUSTOMERS**
22 **CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR**
23 **INTERESTS?**

1 A. No.

2

3 **Q. DO PAWC'S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
4 **THEIR INTERESTS?**

5 A. Yes. The Office of Consumer Advocate ("OCA") represents residential customers of
6 public utilities; the Office of Small Business Advocate ("OSBA") represents small
7 commercial customers of public utilities; and, the Commission's Bureau of Investigation
8 & Enforcement ("I&E") represents the general public interest. Moreover, the Commission,
9 an independent regulatory agency, has regulatory oversight of matters involving public
10 utilities. The Commission and all of the public advocates are funded by regulatory
11 assessments on public utilities.

12

13 **CONCLUSION**

14

15 **Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE,**
16 **ADEQUATE, AND RELIABLE WASTEWATER SERVICE TO VALLEY'S**
17 **CUSTOMERS?**

18 A. Yes.

19

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

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

4

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

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

**PAWC EXHIBIT
MJG-1 WW**

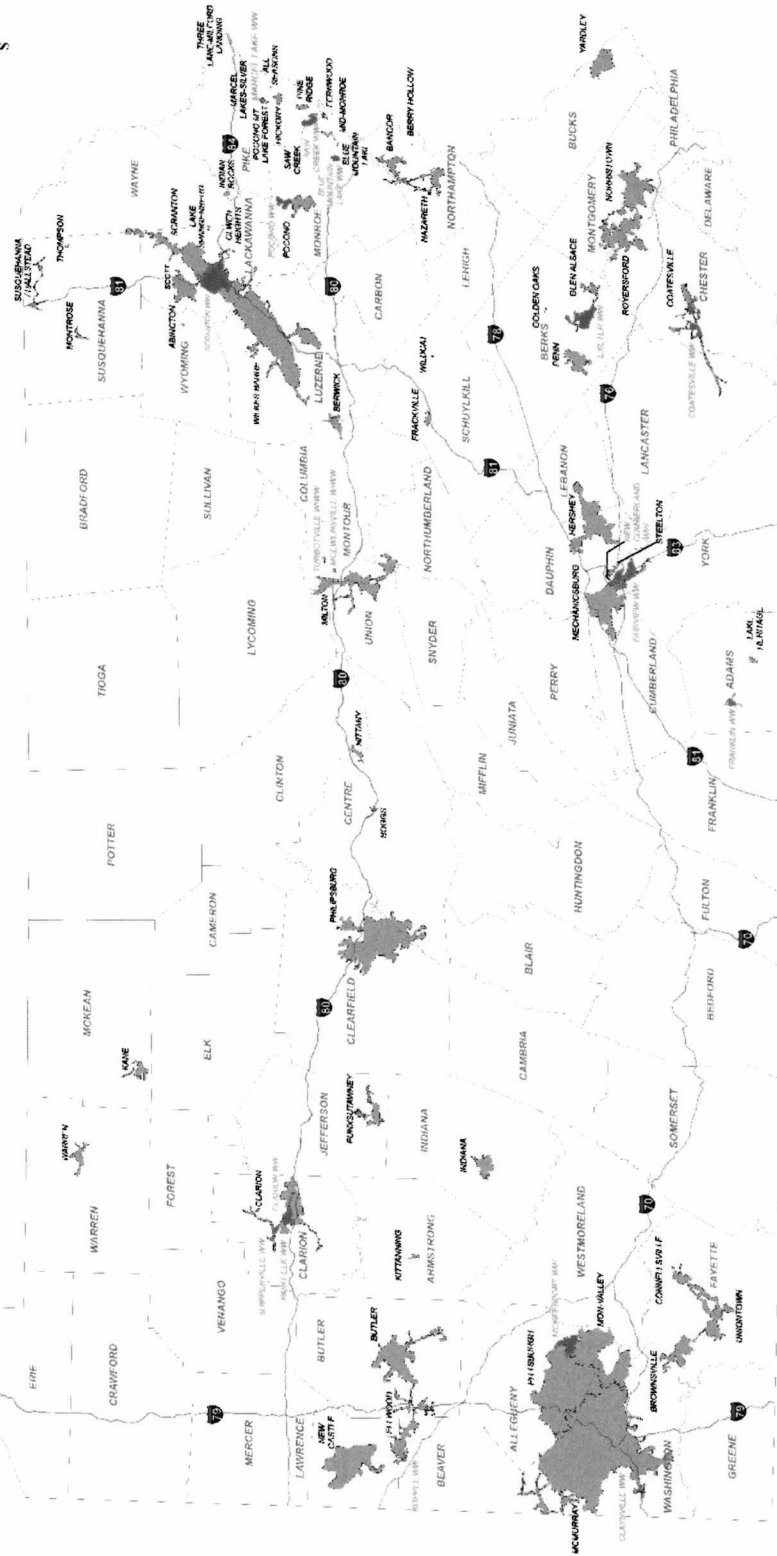
Valley Wastewater Capital Plan

Year After Closing	1	2	3	4	5
Capital Improvement					
Safety	\$ 50,000	\$ 50,000			
Security	\$ 50,000	\$ 50,000			
SCADA	\$ 50,000	\$ 150,000			
GIS Survey and Sewer condition based assessment	\$ 170,280	\$ 170,280			
Targeted I/I improvements			\$ 681,120	\$ 681,120	\$ 681,120
Misc. pump station improvements		\$ 100,000	\$ 100,000		
Reoccurring capital improvements	\$ 715,000	\$ 355,000	\$ 365,000	\$ 365,000	\$ 365,000
Total	\$ 320,280	\$ 520,280	\$ 781,120	\$ 681,120	\$ 681,120

**PAWC EXHIBIT
MJG-2 WW**



Existing Service Territory Pennsylvania American Water Company



- Legend**
- PAWC WATER
 - PAWC WASTEWATER



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**PAWC EXHIBIT
MJG-3WW**

CASES PREVIOUSLY TESTIFIED IN

Case	Docket Number
Pennsylvania-American Water Company Acquisition of Sadsbury Township Wastewater System	Docket No. A-2018-3002437
Pennsylvania American Water Company Acquisition of Borough of Kane Wastewater System	Docket No. A-2019-3014248
Pennsylvania-American Water Company Acquisition of the Borough of New Cumberland Borough	Docket No. A-2016-2544151
Pennsylvania-American Water Company Acquisition of Borough of Royersford Wastewater System	Docket No. A-2020-3019634

VERIFICATION

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



Michael J. Guntrum, Senior Project Engineer
Pennsylvania-American Water Company

Dated: October 7, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

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

Date: October 9, 2020

PAWC Statement No. 3WW

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS**

INTRODUCTION

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22

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

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

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor’s Degree in Economics from the University of Massachusetts. Since beginning my employment with a subsidiary of the American Water Works Company, Inc. (“AWW” or “American Water”) in 1980, I have held various positions of increasing responsibilities in rates and finance. In October 2004, I was named Director of Rates and Regulations for the American Water Works Shared Services Center (“SSC”), a financial services organization providing national support to AWW’s subsidiary operating companies. In 2005, I was promoted to the position of Director of Financial Services at the SSC. In that capacity, I led the SSC Rates and Regulations group in supporting rate case filings for all of AWW’s regulated operating subsidiaries. On January 1, 2009, I assumed the position of Director of Rates and Regulations for the states of Pennsylvania, Virginia and Maryland. In late 2011, AWW re-organized its divisional structure, and

1 responsibility for rate and regulatory matters in West Virginia, Virginia and Maryland were
2 transferred to the Mid-Atlantic Division of AWW, of which PAWC is a member. On April
3 1, 2017, I was promoted to Senior Director with regulatory responsibility for Pennsylvania
4 and West Virginia.
5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
7 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION” OR**
8 **“PUC”)?**

9 **A.** Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in
10 support of rate filings and financings in the States of Connecticut, Rhode Island, New
11 Jersey, New Hampshire, Maryland, New York, Ohio, West Virginia and the
12 Commonwealths of Massachusetts and Pennsylvania.
13

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

15 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
16 wastewater system (“System”) currently owned and operated by Valley Township
17 (“Valley” or the “Township”), which PAWC has agreed to purchase (“Transaction”).
18 Second, my testimony addresses: (a) the identification of ratemaking rate base as required
19 in 66 Pa. C.S § 1329 for PAWC’s acquisition of the System; (b) the benefits of the
20 Transaction; (c) the customer notices associated with the Transaction; (d) an estimate of
21 the range of transaction and closing costs incurred by PAWC; (e) an overview of the rate
22 provisions contained in the Asset Purchase Agreement (“APA”) for PAWC’s acquisition
23 of the System; (f) a recommendation regarding a separate cost of service study for this

1 acquisition; (g) a statement regarding PAWC's intentions with respect to accrual of certain
2 post-acquisition improvement costs and deferral of related depreciation; and, (h) the
3 authentication of certain Application appendices.

4
5 **PAWC'S FINANCIAL FITNESS**

6 **Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.**

7 **A.** PAWC is the Commonwealth's largest water and wastewater provider, with total assets of
8 \$5.3 billion and annual revenues of \$689 million for 2019. For 2019, PAWC had operating
9 income of approximately \$330 million and net income of approximately \$187 million.
10 These operating results produced cash flows from operations of approximately \$355
11 million.

12
13 **Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO
14 CAPITAL TO ACQUIRE THE TOWNSHIP'S ASSETS?**

15 **A.** Yes. PAWC has strong operating cash flows and net income and, therefore, a strong
16 balance sheet. PAWC's strong operating and financial performance allows it to obtain
17 competitive interest rates for long-term debt financing and access to equity investments
18 from its parent company. PAWC is a financially-sound business that can financially
19 support the acquisition of the System as well as the ongoing operating and investment
20 commitments that will be required to operate, maintain and improve those assets in serving
21 the public.

1 **Line of Credit**

2 PAWC presently has liquidity through a \$400 million line of credit through American
3 Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American Water. PAWC’s
4 strong credit ratings allow PAWC to obtain additional capacity on this line of credit.

5

6 **Long Term Debt Financing**

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

13

14 **Equity Investments**

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

17

18 **Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE ACQUISITION.**

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

21

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

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

3

4 **FAIR MARKET VALUE RATE BASE**

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

7 A. The negotiated purchase price for the acquired water and wastewater assets is \$20,575,000.
8 The purchase prices for each system and the average of the appraisals of the buyer’s Utility
9 Valuation Expert (“UVE”) and the seller’s UVE are shown in the chart below:

	<u>Purchase Price</u>	<u>Average Appraisal</u>
10 Water	\$7,325,000	\$11,051,185
11 Wastewater	\$13,950,000	\$19,463,530

12
13
14 Accordingly, the negotiated purchase prices totaling \$20,575,000 are the fair market value
15 for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase price
16 and the average of the UVEs’ appraisals). The fair market value as determined by the
17 Section 1329 process, in addition to the transaction and closing costs described below,
18 becomes part of PAWC’s rate base for ratemaking purposes. Note, however, that PAWC
19 reserves its right in future proceedings to make rate base claims related to the acquisition
20 as may otherwise be permitted under the Pennsylvania Public Utility Code (“Code”).

21

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

23 A. The System’s customers will be served by a large, financially sound company that has the
24 capability to finance necessary capital additions. PAWC is fit to provide safe and adequate
25 service to the Township’s customers. Given its size, access to capital and its recognized

1 strengths in system planning, capital budgeting and construction management, PAWC is
2 well-positioned from a financial, managerial and technical perspective to ensure that high
3 quality wastewater service meeting all federal and state requirements is provided to the
4 Township's customers and maintained for PAWC's existing customers. As discussed in
5 the testimony of PAWC witness Michael J. Guntrum, PAWC's Senior Project Engineer,
6 PAWC Statement No. 2 WW, PAWC plans improvements in the service to the Township's
7 water and wastewater customers over the next five years. Furthermore, the acquisition
8 furthers the Commission's goals of consolidation and regionalization of water and
9 wastewater systems within the Commonwealth. PAWC currently provides water for resale
10 and bulk wastewater treatment to the Township. As explained in PAWC witness Guntrum's
11 testimony in Statement No. 2 WW, this acquisition will enable PAWC to directly provide
12 distribution and collection service to the Township's customers, most of which are
13 currently indirectly provided service by PAWC's Coatesville water and wastewater
14 treatment plants.

15 The ratemaking rate base of the Transaction equates to an average of approximately
16 \$4,386 per water customer and \$4,464 per wastewater customer.¹ This average rate base
17 per customer is less than the average per-customer ratemaking rate base approved by the
18 Commission in other recent Section 1329 applications, including PAWC's recently
19 approved acquisition of the wastewater system assets of the Borough of Kane Authority,
20 at \$8,697 per customer² and the acquisition of the water system assets of the Steelton

¹ Water: \$7,325,000 purchase price / 1,670 customers = \$4,386.

Wastewater: \$13,950,000 purchase price / 3,125 customers = \$4,464.

² Docket No. A-2019-3014248, Opinion and Order entered June 18, 2020. \$17,560,000 ratemaking rate base approved (Recommended Decision p. 24) / 2,019 customers (p. 9) = average rate base of \$8,697 per customer.

1 Borough Authority at \$8,293 per customer.³ The Commission approved the Kane
2 acquisition on June 18, 2020 and the Steelton acquisition on October 3, 2019, finding the
3 Settlements of the application proceedings to be in the public interest.

4
5 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF THE**
6 **TOWNSHIP'S CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
7 **SYSTEM?**

8 **A.** PAWC has committed to adopt, upon closing of the Transaction, the Township's current
9 minimum charge and consumption charge then in effect at the time of closing. Valley
10 currently has a policy of providing a 5% discount to customers for early payment of flat
11 rate wastewater bills. PAWC is not assuming that discount, as PAWC intends to apply its
12 standard rules and regulations to Valley customers. Continuation of the 5% discount for
13 Valley customers would be discriminatory towards PAWC's legacy customers who do not
14 receive a quick-pay discount.

15 PAWC expects to propose to move the Township's rates toward consolidated rates
16 in future base rate cases. Subject to Commission approval, PAWC anticipates allocating a
17 portion of its wastewater revenue requirement to the combined water and wastewater
18 customer base, as permitted by 66 Pa. C.S. § 1311(c). As PAWC customers, the cost of
19 service to Township customers can be allocated among a larger group of customers,
20 thereby mitigating the per-customer impact of capital improvements and increases in
21 operating costs.

³ Docket No. A-2019-3006880, Opinion and Order entered October 3, 2019 ("*Steelton Order*"). \$20.5 million ratemaking rate base approved (Recommended Decision p. 36) / 2,472 customers (Recommended Decision p. 10) = average rate base of \$8,293 per customer.

1 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC'S**
2 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
3 **SYSTEM?**

4 **A.** There is no immediate impact on the rates of PAWC's current customers. PAWC expects
5 to include the Township's water and wastewater operations in PAWC's future base rate
6 filings. Any impacts on the rates of PAWC's existing customers would occur only upon
7 Commission approval as part of a base rate proceeding. A non-binding estimate of possible
8 rate impacts for existing customers is shown in **Appendix A-18-d** and discussed in the
9 Customer Notice section below. The Township's customers, as part of PAWC's overall
10 customer base, will become part of PAWC's overall cost allocation. Nothing contained in
11 the APA would bind the Commission or other interested parties in future ratemaking
12 proceedings.

13
14 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**
15 **STATUS IN ANY MANNER?**

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

20

21 **CUSTOMER NOTICE**

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

1 A. Yes. PAWC is providing notice of the acquisition to existing PAWC water and wastewater
2 customers as well as to the Township’s wastewater customers. The notices to PAWC
3 customers and Township wastewater customers are attached to the application as
4 **Appendix A-18-d**. These notices contain a non-binding estimate of the potential rate
5 impact of the acquisition.

6
7 **Q. HOW WERE THE ESTIMATES OF POTENTIAL RATE IMPACTS**
8 **CALCULATED FOR THE NOTICES PROVIDED IN APPENDIX A-18-D?**

9 A. These notices were prepared in accordance with the *Steelton Order*.⁴ This Order approved
10 a Settlement in which PAWC agreed to the form and calculation of the notices for future
11 Section 1329 acquisition proceedings (“Settlement”).

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

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

⁴ The Valley wastewater system is a current bulk wastewater customer of PAWC. Because the situation of the acquired system being a bulk wastewater customer was not addressed in the Steelton Settlement, the Company discussed the reflection of these bulk revenues in the calculation with I&E, OCA and OSBA prior to filing. The notice contained in PAWC Exhibit RPN-1WW reflects the methodology discussed with these parties.

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

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

6
 7 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 8 **IMPACT SHOWN IN THE NOTICE TO THE TOWNSHIP'S CUSTOMERS.**

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

Valley Township Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at the Township's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$62.25	\$77.56	25%
Commercial	22,000 gal/month	\$267.99	\$333.92	25%
Industrial	476,000 gal/month	\$5,352.79	\$6,669.58	25%

11
 12 The 25% percentage increase shown in the chart above is calculated as 100% of the
 13 revenue deficiency after the Act 11 allocation to water customers,⁵ divided by the Year
 14 One revenues of the System.⁶ The current average monthly bill is calculated using the

⁵ The allocation of a portion of the wastewater revenue requirement to water customers pursuant to Act 11 of 2012 (66 Pa. C.S. § 1311(c)) is referred to in this testimony as the "Act 11 allocation." For calculating the notice in this case, the Settlement requires PAWC to use the Act 11 allocation from wastewater to water from PAWC's last base rate case. In PAWC's last base rate case, 46% of the wastewater revenue requirement was allocated to water customers under Act 11. See Docket No. R-2017-2595853, Joint Petition for Settlement paragraph 35d and the Summary Proof of Revenues. The Settlement was approved by Order entered December 7, 2017 ("2017 Rate Case"). References herein to PAWC's "most recent base rate" or "last base rate case" are to the 2017 Rate Case and not to PAWC's currently pending base rate case at Docket Nos. R-2020- 3019369 and R-2020-3019371.

⁶ The Valley wastewater system is a current bulk wastewater customer of PAWC. Because the situation of the acquired system being a bulk wastewater customer was not addressed in the Steelton Settlement, the Company discussed the

Township’s existing wastewater rates, which will be adopted by PAWC at closing.⁷ The potential average monthly bill after acquisition is calculated by increasing the current average monthly bill amounts by the 25% percentage increase. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1 WW** for the calculation of the customer notice.

Q. PLEASE SUMMARIZE THE RATE IMPACT CALCULATION IN THE NOTICE TO PAWC WASTEWATER CUSTOMERS.

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

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$64.93	\$66.42	2.3%
Commercial	22,000 gal/month	\$280.22	\$286.67	2.3%
Industrial	476,000 gal/month	\$5,547.08	\$5,674.66	2.3%

The 2.3% percentage increase shown in the chart above is calculated by dividing 100% of the revenue deficiency after the Act 11 allocation to water customers by total wastewater revenues. The “total wastewater revenues” include PAWC’s wastewater revenues from existing customers, which were determined to be \$26,935,197 in PAWC’s

reflection of these bulk revenues in the calculation with I&E, OCA and OSBA prior to filing. The notice contained in PAWC Exhibit RPN-1WW reflects the methodology discussed with these parties.

⁷ As discussed in the APA Rate Provisions section below, PAWC intends to bill customers on a monthly basis, and Valley’s existing quarterly rates are prorated for purposes of calculating monthly billing. The Township’s existing rates are shown in **Appendix 18-a**.

1 last base rate case, as well as the Year One revenues from the System (\$2,674,000 as shown
 2 on **Appendix K**). This methodology was used to comply with the Settlement at Docket
 3 No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1WW** for the
 4 calculation of the customer notice.

5
 6 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 7 **IMPACT SHOWN IN THE NOTICE TO PAWC WATER CUSTOMERS.**

8 **A.** As shown in **Appendix A-18-d**, the notice to PAWC’s existing water customers shows the
 9 following information regarding the potential rate impacts of the acquisition:

PAWC Existing Water Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$60.85	\$60.91	0.1%
Commercial	22,000 gal/month	\$291.80	\$292.09	0.1%
Industrial	476,000 gal/month	\$4,530.44	\$4,534.97	0.1%

10
 11 The 0.1% percentage increase shown in the chart above represents the potential
 12 impact on PAWC water customers of the Act 11 allocation to water customers. This
 13 allocation to water customers is divided by PAWC’s applicable water revenues, which
 14 were \$667,585,862 in PAWC’s most recent base rate case.⁸

15 The current average monthly bill is shown at PAWC’s current Zone 1 rates and the
 16 average usage for each customer class as reflected in the filing of PAWC’s most recent

⁸ Consistent with the *Steelton* settlement, the 2017 base rate case is considered PAWCs most recent base rate case. PAWC has a base rate case pending before the Commission. The Settlement indicates that the notice will be revisited by the parties after the conclusion of this base rate case.

1 base rate case (Docket No. R-2017-2595853). The average monthly bill for PAWC Zone
2 1 customers after acquisition is calculated by increasing the current average monthly bill
3 amounts by the 0.1% percentage increase, which was calculated as explained above. This
4 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
5 (Exhibit G). Please refer to **PAWC Exhibit RPN-1WW** for the calculation of the
6 customer notice.

7
8 **Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE CUSTOMER NOTICES**
9 **PAWC IS PROVIDING IN THIS PROCEEDING?**

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

14
15 **TRANSACTION AND CLOSING COSTS**

16 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
17 **FOR THE TRANSACTION.**

18 **A.** As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
19 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
20 closing costs, including reasonable attorney fees. In accordance with the *Final*
21 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
22 closing costs are not to be decided in this Application proceeding; instead, PAWC must
23 justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

1 As a practical matter, the exact extent of such costs cannot be known at the time of
2 filing the Application and will not be finally known until after closing of the Transaction.
3 The costs depend on a number of variables, including whether this Application is settled
4 or fully-litigated, and whether this Application is consolidated with PAWC's Application
5 to acquire Valley's water system. PAWC will track such costs and incorporate them into
6 rate base in a future base rate proceeding as appropriate. Nevertheless, attached to the
7 Application as **Appendix A-10** is PAWC's estimate of the anticipated range of transaction
8 and closing costs (approximately \$534,000 to \$749,000).

9
10 **APA RATE PROVISIONS**

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

12 **A.** Section 7.03 of the APA, dated as of December 17, 2019, contains provisions related to
13 rates. PAWC has committed to adopt, upon closing of the Transaction, the Township's
14 flat rates and metered rates (including the current minimum charge and consumption
15 charge) then in effect at the time of closing.

16 The initial rates to be applicable to the former Township wastewater customers are
17 set forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application.
18 System customers will be governed by rates for new Valley Rate Zone "XX." The current
19 usage rate (consumption charge) utilized by Valley is a rate per thousand gallons beyond
20 10,000 gallons. The Township's customers are currently billed quarterly. Under PAWC
21 ownership, and set forth in the *pro forma* tariff supplement, attached as **Appendix A-12**,
22 the usage rate per thousand gallons is converted to a usage rate per hundred gallons beyond
23 3,400 gallons, thereby corresponding to how all other PAWC customers are billed. The

1 Company intends to bill customers on a monthly basis, and Valley’s existing rates will be
2 prorated for purposes of calculating monthly billing. As discussed earlier, Valley currently
3 provides a 5% discount to customers for early payment of flat rate wastewater bills. PAWC
4 is not assuming this discount. After PAWC closes on the Transaction, System customers
5 will be subject to PAWC’s prevailing wastewater tariff on file with the Commission with
6 respect to all rates other than the minimum charge and consumption charge, including
7 capacity reservation fees (except as discussed below), reconnection fees and the like, as
8 well as non-rate related terms and conditions of service.

9 Certain developers, as detailed on Schedule 7.03(b) of the Asset Purchase
10 Agreement, have purchased sewer treatment capacity from Valley. PAWC will charge
11 these developers only the \$382.92 difference between the Township’s current tapping fee
12 and the amount paid by the developers in 2004. Other than the developers identified on
13 Schedule 7.03(b) of the Asset Purchase Agreement, PAWC will charge a capacity
14 reservation fee of \$4,000 per new equivalent dwelling unit for the allocation of treatment,
15 pumping, and transmission, truck and interceptor main capacity, commencing with the date
16 of Closing.

17 No capacity fee will be charged for any applicant for wastewater service that meets
18 the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code § 65.1 (excluding
19 clause (iii) of that definition) if “wastewater” were substituted for “water.”
20

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

1 A. The APA does not set forth or require a “rate stabilization plan” as defined by Section
2 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
3 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
4 of a rate stabilization plan.

5 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
6 constant or phase rates in over a period of time after the next base rate case.” As detailed
7 in Section 7.03 of the APA, PAWC will be charging the Township’s current rates (but not
8 other charges, with the exception of the capacity fee for certain developers as discussed
9 above) as the Company’s base rates within the service territory. The APA provides that
10 PAWC will not propose an increase in base rates until after the second anniversary of the
11 Closing Date.

12 The Township is not included in PAWC’s base rate case that is currently pending
13 before the Commission. The Company does not anticipate that the Township’s rates will
14 be held constant after the next base rate case and therefore the APA provision does not fall
15 within the definition of a “rate stabilization plan” as defined by 66 Pa. C.S. § 1329.
16 Interested parties will have an opportunity to participate in the first base rate case in which
17 the System is included and address issues, including cost allocation, as appropriate.

18 Moreover, while the APA contractually restricts PAWC from proposing an increase
19 in base rates until after the second anniversary of the Closing Date, nothing in the APA
20 purports to restrict the Commission’s authority to set rates that it considers to be “just and
21 reasonable” in the context of a base rate proceeding or otherwise. As such, the instant
22 Application does not propose a “rate stabilization plan” for approval by the Commission.

1 In a previous Section 1329 proceeding, the Commission stated the following regarding the
2 relationship between rate commitments and rate stabilization plans:⁹

3 The ALJ determined that the rate commitment provision contained in the APA does
4 not trump the Commission’s ultimate authority to set and allocate rates. We agree.
5 Here, the APA provides firm, unqualified guarantees to the seller as a term of the
6 APA. However, it does not purport to hold rates constant or phase rates in over a
7 period of time after the next base rate case. It offers no tariff language for us to
8 approve. Thus, we decline to hold that the rate commitment constitutes a rate
9 stabilization plan pursuant to Section 1329(g) of the Code.”), *reversed on other*
10 *grounds, McCloskey v. Pa. Pub. Util. Comm’n*, 195 A.2d 1055 (Pa. Cmwlth. 2018)
11 (“*Aqua/New Garden*”). PAWC was careful in negotiating the APA to respect the
12 statutory authority of the Commission to set just and reasonable rates.
13

14 In its pending base rate case, PAWC has asked the Commission to approve tariff
15 provisions allowing for a Regionalization and Consolidation Surcharge (“RCS”). The RCS
16 would reduce regulatory lag in the recovery of the capital investment being made by
17 PAWC in order to regionalize and consolidate its system through acquisitions. This
18 regulatory lag results from PAWC’s adoption of the rates being charged by the selling
19 municipality at the time of the acquisition pursuant to the requirements of Section 1329 --
20 which, in some instances, are substantially below the costs of providing service to the
21 customers of the acquired system. The proposed RCS would allow PAWC to recover the
22 revenue requirement shortfall resulting from the acquisition in a more-timely manner. The
23 System, however, is not included in PAWC’s pending base rate case and, because of
24 Section 1329’s requirement to adopt existing rates for acquired customers, the RCS would
25 not apply to System customers under the proposed tariff provisions.

⁹ 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 Exclusion of Township customers from the RCS does not make Section 703(a) of
2 the APA a rate stabilization plan because, as discussed above, approval is not being
3 requested in this proceeding. *See Aqua/New Garden*. If approved in PAWC’s pending
4 base rate case, the RCS would be a tariff provision with the force and effect of law – not a
5 rate stabilization plan. Under Section 1329, PAWC must adopt the existing base rates of
6 the acquired customers – with the specific exclusion of the DSIC (as discussed below).
7 System customers would be exempt from the RCS until the next base rate case because of
8 the mandates of Section 1329 and the Commission-approved tariff adopting the RCS; not
9 as the result of any contractual obligation between PAWC and the Township under the
10 APA.

11
12 **Q. DOES PAWC SEEK THE AUTHORITY TO CHARGE NON-BASE RATES PRIOR**
13 **TO PAWC’S FIRST BASE RATE CASE IN WHICH THE SYSTEM IS**
14 **INCLUDED?**

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

1 **POST-ACQUISITION IMPROVEMENT COSTS**

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

4 **A.** I am advised by counsel that Section 1329(f) allows “an acquiring public utility’s post
5 acquisition improvements that are not included in a distribution system improvement
6 charge [to] accrue allowance for funds used during construction [“AFUDC”] after the date
7 the cost was incurred until the asset has been in service for a period of four years or until
8 the asset is included in the acquiring public utility’s next base rate case, whichever is
9 earlier.” Section 1329(f) also provides that “[d]epreciation on an acquiring public utility’s
10 post acquisition improvements that have not been included in the calculation of a
11 distribution system improvement charge shall be deferred for book and ratemaking
12 purposes.”

13
14 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION**
15 **IMPROVEMENTS?**

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

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

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

8

9

COST OF SERVICE STUDY

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SEPARATE COST OF SERVICE**
11 **STUDY (“COSS”) PROVISION OF PRIOR PAWC SECTION 1329**
12 **ACQUISITIONS.**

13 **A.** As part of the settlement of prior Section 1329 acquisition proceedings, PAWC has agreed
14 that in the next base rate case, PAWC will submit a cost of service study removing the
15 revenues, expenses and rate base associated with the acquired system and will submit a
16 separate cost of service study for the acquired system.¹⁰

17 **Q. PLEASE DISCUSS WHETHER PAWC SHOULD BE REQUIRED TO PROVIDE**
18 **A SEPARATE COSS FOR VALLEY IN PAWC’S NEXT RATE CASE.**

19 **A.** As discussed above, Valley is currently a bulk water and wastewater customer of PAWC.
20 Upon acquisition, the Valley customers will be direct PAWC customers and will continue
21 to be served by PAWC’s Coatesville water and wastewater treatment plants. I believe it is
22 appropriate that Valley be included in the COSS that includes the Coatesville wastewater

¹⁰ See, for example, the Steelton settlement referenced above, paragraph 23.

1 treatment plant rather than in a separate COSS. By including Valley in this COSS, the
2 Valley system would also be part of the depreciation study that will be performed for the
3 service area including Coatesville. In my opinion, this is preferable to establishing separate
4 depreciation rates for Valley, which is and will be physically connected to the Coatesville
5 system.

6 Additionally, as stated previously, PAWC expects to propose to move the Township's rates
7 toward consolidated rates in future base rate cases. Under these circumstances, a cost of
8 service study for the Valley System would be of limited value in PAWC's next base rate
9 case. In my opinion, the expense of a separate cost of service study would not be warranted
10 by the benefits to be gained from such a study.

11 12 AUTHENTICATION OF APPLICATION APPENDICES

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

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

17
18 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
19 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

20 **A.** **Appendix A-10** is the Company's estimate of the anticipated range of transaction and
21 closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the
22 Application. In addition, based on financial statements provided by the Township and on
23 PAWC's audited financial statements, the following appendices were prepared: **Appendix**

1 C (balance sheet of the Township as of December 31, 2019),¹¹ **Appendix D** (audited
2 balance sheet of PAWC as of December 31, 2019), **Appendix E** (income statement of the
3 Township for the 12 months ended December 31, 2019),¹² **Appendix F** (audited income
4 statement of PAWC for the 12 months ended December 31, 2019), **Appendix G** (*pro forma*
5 balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma*
6 consolidated income statement of PAWC and the Township for 12 months) and **Appendix**
7 **K** (estimated annual revenues and expenses).

8
9 **Q. HOW WERE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND**
10 **APPENDIX K PREPARED?**

11 **A.** I reviewed the financial information of PAWC, to which I have direct access, and I
12 reviewed the financial and rate information provided by the Township, to which I received
13 access through the Transaction due diligence process.

14
15 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
16 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
17 **INFORMATION, AND BELIEF?**

18 **A.** Yes.

19 **CONCLUSION**

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

¹¹ Valley does not have a separate balance sheet for the wastewater system. All balance sheet items are reflected on a Township-wide basis. As such, the balance sheet shown for Valley in Appendix C is blank.

¹² Valley does not have a separate income statement for the wastewater system; however, the information in Appendix E is provided based on information separately identified for the system in the audited Annual Audit and Financial Report.

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

Valley Township Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Valley Township Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$62.25	\$77.56	\$15.31 or 24.6%
Commercial	22,000 gal/month	\$267.99	\$333.92	\$65.93 or 24.6%
Industrial	476,000 gal/month	\$5,352.79	\$6,669.58	\$1,316.79 or 24.6%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$64.93	\$66.42	\$1.49 or 2.3%
Commercial	22,000 gal/month	\$280.22	\$286.67	\$6.45 or 2.3%
Industrial	476,000 gal/month	\$5,547.08	\$5,674.66	\$127.58 or 2.3%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$60.85	\$60.91	\$0.06 or 0.1%
Commercial	22,000 gal/month	\$291.80	\$292.09	\$0.29 or 0.1%
Industrial	476,000 gal/month	\$4,530.44	\$4,534.97	\$4.53 or 0.1%

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Valley Township
Docket No. A-2020-3020178

Valley Township Wastewater

Residential		
	Minimum Charge	\$59.67
36.30	1.1200	2.58
34.00		
		\$62.25

Rate Impact 24.6%
 \$15.31
 Total \$77.56

PAWC - Wastewater

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

Rate Impact 2.3%
 \$1.49
 Total \$66.42

PAWC - Water

Zone 1 - Residential		
5/8"	Service Charge	\$16.50
36.30	1.2217	44.35
		\$60.85

Rate Impact 0.1%
 \$0.06
 Total \$60.91

Commercial		
	Service Charge	\$59.67
220.00	1.1200	208.32
34.00		
		\$267.99

Rate Impact 24.6%
 \$65.93
 Total \$333.92

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

Rate Impact 2.3%
 \$6.45
 Total \$286.67

Zone 1 - Commercial		
1"	Service Charge	\$41.60
160.00	1.2205	195.28
60.00	0.9153	54.92
220.00		
		\$291.80

Rate Impact 0.1%
 \$0.29
 Total \$292.09

Industrial		
	Service Charge	\$59.67
4,760.00	1.1200	5,293.12
34.00		
		\$5,352.79

Rate Impact 24.6%
 \$1,316.79
 Total \$6,669.58

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

Rate Impact 2.3%
 \$127.58
 Total \$5,674.66

Zone 1 - Industrial		
2"	Service Charge	\$196.35
160.00	1.1843	189.49
4,600.00	0.9010	4,144.60
4,760.00		
		4,530.44

Rate Impact 0.1%
 \$4.53
 Total \$4,534.97

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Valley Township
Docket No. A-2020-3020178**

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 1,217,780
Act 11 Percentage (R-2017-2595853 Proof of Revenues)	<u>46%</u>
Amount of increase allocated to water through Act 11	560,179
Amount of increase allocated to wastewater customers	\$ 657,601

Increase applied to Valley Township Wastewater Customers	
Revenue Requirement Increase - After Act 11	\$ 657,601
Current Valley Township Wastewater revenues	2,674,000
Estimated Increase to wastewater customers	24.6%

Amount of Increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 657,601
Current Valley Township Wastewater revenues	2,674,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)	<u>26,162,360</u>
Estimated Increase to wastewater customers	2.3%

Amount of Increase allocated to water customers:	
Revenue Requirement Increase	\$ 560,179
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)	650,769,554
Estimated Increase to Water Customers	0.1%

Pennsylvania American Water Company R-2017-2595853 - Proof of Revenues Act 11 Allocation						
	Water Operations	Wastewater Excluding Scranton		Scranton Wastewater	Combined Wastewater	Total Company
Additional Annual Operating Revenue Before Act 11	\$ 51,581,090	\$ 5,290,300		\$ 4,977,893	\$ 10,268,193	\$ 61,849,283
ACT 11 Allocation - WW COS Recovered from Water	4,700,000	(2,383,000)	45%	(2,317,000)	(4,700,000)	46% \$ -
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	5,568,193	54% 61,849,283

**Pennsylvania American Water Company
 Acquisition of Wastewater Assets of the Valley Township
 Docket No. A-2020-3020178**

Revenue Requirement Increase

Rate Base	\$	13,950,000	Appendix A-11
Rate of Return %		7.12%	See Calculations
Rate of Return		<u>993,000</u>	
O&M		693,000	Appendix K
Taxes Other		28,000	Appendix K
Depreciation		443,000	Appendix K
Taxes		243,000	See Calculations
Revenue Requirement		2,400,000	
Add Bulk Wastewater Revenues (46% of per books 2019)		1,491,780	
Valley Township Wastewater Year-1 Revenues		2,674,000	Appendix K
Total Revenue Deficiency (Rev. Req. + Bulk Rev. - Year 1 Rev.)		1,217,780	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Valley Township
Docket No. A-2020-3020178

Summary

<u>Revenue Requirement</u>	
Rate Base	\$ 13,950,000
Pretax ROR %	8.86%
Pretax ROR	1,236,000
Plus: O&M Expense	693,000
Taxes Other	28,000
Depreciation	443,000
Total Revenue Requirement	2,400,000

<u>Income Tax Calculation</u>	
Revenues	\$ 2,400,000
Less: O&M Expense	693,000
Taxes Other	28,000
Depreciation	443,000
Interest	396,000
SIT Taxable Income	840,000
State Income Tax Rate	9.99%
State Income Tax	84,000
FIT Taxable Income	756,000
Federal Income Tax Rate	21.00%
Federal Income Tax	159,000
Total Income Taxes	243,000

<u>Interest</u>	
Rate Base	\$ 13,950,000
Weighted Cost of Debt (1.85% + 0.99%)	2.84%
	\$ 396,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	35.24%	5.25%	1.85%		1.85%
Wastewater Financing	21.51%	4.59%	0.99%		0.99%
Preferred Stock	0.13%	8.66%	0.01%	1.40631	0.01%
Common Equity	43.12%	9.90%	4.27%	1.40631	6.00%
			7.12%		8.86%

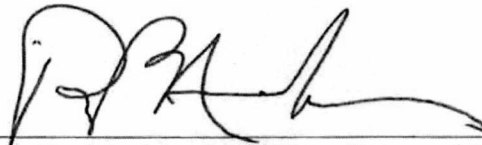
Cost of Equity for Distribution System Improvement Charge (DSIC) 9.90% M-2020-3019868

Capital Structure based on PAWC last wastewater base rate case R-2017-2595853 PAWC Statement No. 13, Exhibit No. 13-A, Schedule 12.

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

VERIFICATION

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



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

Dated: *October 7, 2020*

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

**DIRECT TESTIMONY OF
JEROME C. WEINERT, PE, ASA, CDP
UTILITY VALUATION EXPERT
SELECTED BY
PENNSYLVANIA-AMERICAN WATER COMPANY**

DIRECT TESTIMONY OF JEROME C. WEINERT

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Please state your name, business address, and occupation.**

2 **A.** My name is Jerome C. Weinert. My business address is 8555 West Forest Home Avenue,
3 Suite 201, Greenfield, WI 53228. I am a Principal and Director of AUS Consultants, Inc.
4 (“AUS Consultants”). This testimony was prepared by me.

5
6 **Q. Please describe your qualifications and indicate if you are registered as a Utility**
7 **Valuation Expert (“UVE”) with the Pennsylvania Public Utility Commission (“PUC”**
8 **or “Commission”).**

9 **A.** My curriculum vitae (“CV”) is attached to my report and this testimony. **PAWC Exhibit**
10 **JCW-1 WW.** AUS Consultants is a registered UVE with the PUC. We obtained that
11 registration in 2016 and were informed of our renewal by the PUC’s Secretary on January
12 13, 2020.

13
14 **Q. What is the purpose of your testimony?**

15 **A.** This direct testimony provides clarification and explanation of the appraisal I provided to
16 Pennsylvania-American Water Company (“PAWC”), the Acquiring Public Utility
17 pursuant to 66 Pa. C.S. § 1329(a)(5) and in accordance with the Uniform Standards of
18 Professional Appraisal Practice (“USPAP”) (2020-2021 Edition).

19
20 **Q. Are you advocating for any party or outcome?**

21 **A.** No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa. C.S. § 1329(a)(3),
22 requires that I perform the appraisal with impartiality, objectivity, and independence, and
23 without accommodation of personal interests. In addition, the USPAP Ethics Rule requires

DIRECT TESTIMONY OF JEROME C. WEINERT

1 that I not perform the assignment with bias, that I must not advocate the cause or interest
2 of any party or issue and that I must not accept an assignment that includes the reporting
3 of predetermined opinions and conclusions.

4
5 **Q. Do you have any affiliation with either Valley Township (“Valley”), the Selling Utility**
6 **pursuant to 66 Pa. C.S. § 1329(a)(5), or the Acquiring Public Utility?**

7 **A.** No. Other than the current assignment to provide the subject appraisal, and similar on-
8 going assignments to provide appraisals of other utility systems, I have no business or
9 personal relationships with any party to the proposed acquisition.

10
11 **Q. What is your fee arrangement to deliver the appraisal?**

12 **A.** A copy of the fee arrangement is included with the Application as **Appendix A-7.1**. In
13 summary, AUS Consultants are to receive \$25,200 plus expenses in compensation for our
14 appraisal.

15
16 **Q. Will you receive that fee regardless of whether the Commission approves the**
17 **proposed transaction or whether it closes?**

18 **A.** Yes. 66 Pa. C.S. § 1329(a)(3) mandates that I comply with the USPAP when developing
19 my appraisal. Under the USPAP, I cannot perform the appraisal with bias and acceptance
20 of a fee contingent on a particular outcome like closing or Commission approval would
21 violate that Ethics Rule.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Have you prepared any exhibits, schedules, or appendices to accompany your direct**
2 **testimony?**

3 **A.** Yes. The appraisal I submitted to the Acquiring Public Utility pursuant to Section
4 1329(a)(5) is included in the Application as **Appendix A-5.1**. The appraisal includes a
5 narrative and supporting exhibits in sections. All were prepared under my supervision and
6 control. Also, as stated above, attached to this testimony as **PAWC Exhibit JCW-1 WW**
7 is my CV.

8
9 **Q. Please summarize your results of the application of the cost, market, and income**
10 **approaches to valuation.**

11 **A.** The summary results of the cost, income, and market approaches is presented below.

12

Appraisal Approach	Value Indicator	Weight	Wtd Value Indicator
Cost	19,252,333	50%	9,626,166
Income	19,154,327	40%	7,661,731
Market	17,931,623	10%	1,793,162
Appraisal Conclusion			19,081,059

13

14

15 **Q. Please describe any assumptions, extraordinary assumptions, hypothetical**
16 **conditions, and/or limiting conditions that you applied to the valuation.**

17 **A.** The major assumptions and limiting conditions used in preparing our appraisal of Valley's
18 Wastewater Collection System (the "System") are described in our appraisal report "Fair
19 Market Appraisal Report of Valley Township (PA) Wastewater System, as of December

DIRECT TESTIMONY OF JEROME C. WEINERT

1 17, 2019.” Beyond the above-described assumptions, there are no extraordinary¹ or
2 hypothetical² assumptions (as defined in the 2020-2021 edition of USPAP).

3
4 **Q. How was each assumption used and what was its result?**

5 **A.** The assumptions are detailed in my appraisal report and are discussed further in this
6 testimony.

7
8 **Q. How did you develop the weighting applied to each approach in your appraisal and**
9 **why are the individual weights you chose appropriate for this proposed transaction?**

10 **A.** For the cost approach I chose a weighting of 50%. It is my opinion that this weighting is
11 appropriate for the cost approach because the major purpose of this appraisal is to be an
12 input to the Commission’s establishment of cost for future ratemaking and the cost
13 approach conclusion is directly reflective of the property cost.

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

¹ Extraordinary assumption: an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions. 2020-2021 USPAP page 4.

² Hypothetical condition: a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but used for the purpose of analysis. 2020-2021 USPAP page 4.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 For the income approach, I chose a weighting of 40%. It is my opinion that this
2 weighting is appropriate for the income approach because the income approach reflects the
3 value of the property's return to the property's owner. The 40% weight accomplishes that
4 objective.

5
6 **Q. Did you conduct an on-site inspection of the Selling Utility's assets, and if so, what
7 was its result on the appraisal?**

8 **A.** Yes. AUS Consultants conducted an on-site inspection of Valley's wastewater assets
9 during June 2020. The on-site inspection was mainly used to provide an overview of the
10 System and verify its condition.

11
12 **Q. What Utility Earnings Report was used to create the capital structure used in your
13 appraisal?**

14 **A.** I used a market required capital structure based on an analysis of the market capital
15 structure analysis (detailed in the Cost of Capital / Required Return portion of our appraisal
16 report). Information used in developing the market capital structure was obtained from
17 financial statistics reported in Value Line Investment Survey for the water / wastewater
18 industry published in their January 10, 2020 issue.

19
20 **Q. What capital structure was used in your appraisal?**

21 **A.** The capital structure used in my appraisal is included below.

DIRECT TESTIMONY OF JEROME C. WEINERT

Water and Wastewater Cost of Capital							
First Quarter 2020 (1-1-2020)							
As an Investor-Owned Utility							
Weighted Cost of Capital (Discount Rate)							
(1)	(2)	(2a)	(3)	(3a)	(4)	(4a)	(5)
	Portion of Capital	Type of Data	Capital Cost	Type of Data	Tax Rate	Tax affect on cost of capital	After-tax Market Capital Cost
	AUS Input		AUS Input				(2)*(3)*(4a)
Debt	26%	Market	3.23%	Market	28.89%	71.11%	0.60%
Equity	74%	Market	9.90%	Market	0.0%	100.0%	7.33%
Total Capital r	100.0%						7.93%
Growth (g)							1.82%
Rate without Growth: $[(1+r)/(1+g)]-1$							6.00%

1

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3 **Cost Approach**

4 **Q. Regarding your application of the cost approach, what method did you use to**
 5 **determine the cost approach result (e.g. original cost, replacement cost, reproduction**
 6 **cost)?**

7 **A.** I used the replacement cost method.

8

9 **Q. Please explain why you chose the replacement cost method.**

10 **A.** I chose the replacement cost method because it is considered the proper starting point for
 11 a cost approach. Replacement cost reflects the appraisal date cost of providing the
 12 property's functionality and capacity at the appraisal date using recognized materials and
 13 labor costs.

14

15 **Q. What index did you use for that method?**

16 **A.** I used the Handy Whitman Index of Public Utility Construction Costs for the Water
 17 Industry (North Eastern US Region), AUS Telephone Index (General Plant), and various
 18 United States Bureau of Labor Statistics cost index series.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Under your application of the cost approach what assets did you value or trend**
 2 **differently from other assets and why was that necessary?**

3 **A.** I costed each property account with cost trends appropriate for the property contained in
 4 the account. As such, the costing of each property account may differ from account to
 5 account. It is my opinion that an accurate appraisal requires each property account be
 6 costed with cost trends reflective of the property contained in the account. Valley's
 7 property as detailed in the Pennoni Associates, Inc. Engineer's Assessment of \$13,389,110
 8 was determined to have a replacement cost new of \$31,729,237 summarized as follows:
 9

Pennsylvania American Water Company
 Valley Township Wastewater System
 Wastewater Collection System
 Investor-Owned Utility
 As of December 17, 2019

Replacement Cost New (RCN)

(1)	(2)	(3)	(9)	(10)	(13)	(14)	(15)	(16)
Account	Account	Asset Description	Original Cost	Costing Parameter	Cost Translator	Reproduction Cost New (RCN)	Reproduction Cost New (RCN) to Replacement Cost New (COR)	Replacement Cost New (COR)
Input	Input	Input	OC \$s	Input	Calculation	RCN \$s	COR \$s / RCN \$s	COR \$s
Eng Assmnt NARUC Code	AUS Input NARUC Code	Pennoni Associates, Inc. Valley Wastewater Engineer Assessment Asset Description	Eng Assmnt Original Cost	AUS Input Cost Index Table	Translator	RCN	AUS Input COR / RCN Factor	Col (14) * (15)
353.20	353.20	Land & Land Rights - Original Basin	3,368	USBL51	5.86	19,749	1.00	19,749
353.30	353.30	Land & Land Rights - Pumping	3	USBL51	1.84	6	1.00	6
354.30	354.30	Structures & Improvements - Pumping	1,712,310	HWW-18	1.66	2,843,619	1.00	2,843,619
355.30	355.30	Generating Equipment - Pumping	21,547	USBL54	1.71	36,781	1.00	36,781
360.21	360.21	Collection Sewers - Force - Mains	1,187,519	HWW-144	1.67	1,986,812	1.00	1,986,812
360.23	360.23	Collection Sewers - Force - Manholes / Meter Pits	20,733	HWW-145	1.22	25,356	1.00	25,356
361.21	361.21	Collection Sewers - Gravity - Mains	6,263,231	HWW-144	2.87	17,984,560	1.00	17,984,560
361.22	361.22	Collection Sewers - Gravity - Mains Relining	52,870	HWW-144	1.11	58,580	1.00	58,580
361.23	361.23	Collection Sewers - Gravity - Manholes	2,183,510	HWW-145	2.08	4,533,510	1.00	4,533,510
363.20	363.20	Service Laterals	1,934,160	HWW-139	2.17	4,198,363	1.00	4,198,363
365.20	365.20	Flow Measuring Installations Meter Pits	9,859	HWW-140	4.25	41,901	1.00	41,901
Grand Total	Grand Total	Grand Total	13,389,110		2.37	31,729,237	1.00	31,729,237

10
 11
 12 These results are detailed in the Application **Appendix A-5.1** (AUS Appraisal) under the
 13 **Cost Approach** section.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Under your application of the cost approach, what year-end date did you use for**
2 **calculating the depreciation or condition of the property?**

3 **A.** I used the date of December 17, 2019.
4

5 **Q. How did you determine the depreciation parameters of survival/retirement**
6 **characteristics and service lives for the utility property under the cost approach?**

7 **A.** I determined those parameters based on our review of the depreciation studies filed by
8 PAWC in support of their depreciation parameters (Iowa-type Survival Characteristics and
9 Service Lives) and the resultant depreciation expense and rate base (net book) in their
10 recent General Rate Cases (R-2017-2595853 and R-2020-3019371) and AUS Consultants'
11 experience in preparing depreciation studies for the water and wastewater industry and our
12 experience appraising water and wastewater properties. The following table summarizes
13 those studies and AUS Consultants' review of the depreciation parameters:

DIRECT TESTIMONY OF JEROME C. WEINERT

Summary of PAWC Depreciation Studies Prepared for Rate Case

Account	Account Description	Iowa Curves		Service Life		Remaining Life	
		12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019
				years	years	years	years
354.20	STRUCTURES AND IMPROVEMENTS - COLLECTION	R3	R3	45	45	39.1	33.3
354.30	STRUCTURES AND IMPROVEMENTS - SPP	R2.5	S0	50	55	45.2	32.6
354.40	STRUCTURES AND IMPROVEMENTS - TDP	R2	S0	65	55	56.6	31.7
354.70	STRUCTURES AND IMPROVEMENTS - GENERAL	S1	S1	35	35	33.3	23.2
355.00	POWER GENERATION EQUIPMENT	R2.5	S0.5	35	35	29.7	19.3
360.10	COLLECTION SEWERS - FORCE MAINS	S2	R3	70	75	53.1	52.5
361.10	COLLECTION SEWERS - GRAVITY MAINS	R2.5	R2.5	70	80	56.9	54.8
361.20	MANHOLES	S1.5	S2.5	50	50	41.3	32.2
363.00	SERVICES	R3	R3	38	47	22.9	30.2
364.00	FLOW MEASURING DEVICES	L3	L2.5	20	15	13.3	5.1
365.00	FLOW MEASURING INSTALLATIONS	S1.5	S2	30	25	23.1	10.8
370.00	RECEIVING WELLS	R3	R3	50	50	42.7	33.7
371.00	PUMPING EQUIPMENT	S0	S0.5	40	30	35.5	18.2
380.00	TREATMENT EQUIPMENT	5-R2	S1.5	45	35	37.1	20.1
381.00	PLANT SEWERS	R3	R3	50	50	43.1	32.7
382.00	OUTFALL SEWER LINES	R3	R3	50	50	37.8	28.3
389.10	OTHER PLANT AND MISCELLANEOUS EQUIPMENT - INTANGIBLES	S2.5	S2.5	20	20	13.6	11.3
389.60	OTHER PLANT AND MISCELLANEOUS EQUIPMENT - CPS	SQ	SQ	20	5	12.3	3.5
390.00	OFFICE FURNITURE AND EQUIPMENT	L4	SQ	15	20	9.5	10.1
391.00	TRANSPORTATION EQUIPMENT	SQ	L4	25	14	19.9	9.8
392.00	STORES EQUIPMENT	SQ	SQ	20	25	16.4	17.2
393.00	TOOLS, SHOP AND GARAGE EQUIPMENT	SQ	SQ	15	20	11.3	15.4
394.00	LABORATORY EQUIPMENT	L2.5	SQ	16	15	8.7	10.4
395.00	POWER OPERATED EQUIPMENT	SQ	R2	15	22	10.3	13.2
396.00	COMMUNICATION EQUIPMENT	SQ	SQ	15	15	9.6	6.9
397.00	MISCELLANEOUS EQUIPMENT		SQ		15		12.8
398.00	OTHER TANGIBLE PLANT		SQ		25		21.5

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Q. Why are those parameters appropriate?

A. Those parameters are appropriate because the parameters reflect the actual service life experienced by PAWC in serving wastewater customers in the Commonwealth of Pennsylvania and which were adjudicated by the PUC in the 2017 General Rate Cases and will be adjudicated by the PUC in the 2020 General Rate Cases (Docket Nos. R-2020-3019369 and R-2020-30193371). The parameters in the following table also reflect AUS Consultants' experience of the survival / retirement characteristics of normal and functional service lives of wastewater properties:

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**Pennsylvania American Water Company
Valley Township Wastewater System
Wastewater Collection System
Investor-Owned Utility
December 17, 2019**

Summary of Account Costing and Depreciation Parameters Used in the Depreciation Original Cost and the Depreciated Replacement Cost New Studies

(1)	(2)	(4)	(5)	(6)	(6b)	
Account Number	Description	(4a) Survivor / Retirement Curve Iowa	(4b) Normal Service Life years	(5) Economic Obsolescence % of CORLD	(6a) Tax Depreciation Table	(6b) Life
353.20	Land & Land Rights - Original Basin	ZNonDep	0.00	0.00%	Non-Depr	0.00
353.30	Land & Land Rights - Pumping	ZNonDep	0.00	0.00%	Non-Depr	0.00
353.40	Land & Land Rights - Treatment	ZNonDep	0.00	0.00%	Non-Depr	0.00
354.30	Structures & Improvements - Pumping	R4.0	45.00	0.00%	MACRS	25.00
355.30	Generating Equipment - Pumping	R3.0	35.00	0.00%	MACRS	25.00
360.21	Collection Sewers - Force - Mains	R3.0	75.00	0.00%	MACRS	25.00
360.23	Collection Sewers - Force - Manholes / Meter Pits	R3.0	75.00	0.00%	MACRS	25.00
361.21	Collection Sewers - Gravity - Mains	R2.5	80.00	0.00%	MACRS	25.00
361.22	Collection Sewers - Gravity - Mains Relining	R2.5	60.00	0.00%	MACRS	25.00
361.23	Collection Sewers - Gravity - Manholes	R2.5	80.00	0.00%	MACRS	25.00
363.20	Service Laterals	R3.0	45.00	0.00%	MACRS	25.00
365.20	Flow Measuring Installations Meter Pits	S2.0	30.00	0.00%	MACRS	25.00
364.40	Flow Measuring Devices - WWTP	S2.0	30.00	0.00%	MACRS	25.00

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3

Also, due the age of Valley Township's early property installations the maximum depreciation was limited to 85% of the cost new.

4

5

6 **Q. What was the result of the application of the depreciation parameters to the**
7 **previously described replacement cost new of \$31,729,237?**

7

8 **A. With the application of the above described depreciation parameters, the replacement cost**
9 **new of \$31,729,237 results in a replacement cost new less depreciation of \$19,252,333**
10 **determined as follows:**

10

DIRECT TESTIMONY OF JEROME C. WEINERT

Pennsylvania American Water Company
 Valley Township Wastewater System
 Wastewater Collection System
 Investor-Owned Utility
 As of December 17, 2019

Replacement Cost New less Depreciation (CORLDD)

(18)	(19)	(21)	(22)	(23)	(24)	(28)	(29)	(30)	(31)
Account	Description	Age at December 17, 2019 Appraisal Date	Replacement Cost New (COR)	Retirement Depreciation lowe-type	Normal Service Life (NSL)	Normal Remaining Life	Total Life Expectancy	Condition	Preliminary Cost Approach (COR less Normal Depreciation)
Input	Input	years	COR \$s		years	years	years	% of COR	CORLDD \$s
Eng Assmnt	Harmon Associates, Inc.'s Valley Wastewater Engineers Assessment	Calculation	Calculation	Input	Input	Calculation	Calculation	Calculation	Calculation
Account	Description	Age	RCN	lowe	NL	Rem Life	Total Life	Condition	CORLDD
353.20	Land & Land Rights - Original Basin	46.50	19,749	ZNonDep	-	-	-	1.00	19,749
353.30	Land & Land Rights - Pumping	26.76	6	ZNonDep	-	-	-	1.00	6
354.40	Structures & Improvements - Pumping	16.38	2,843,619	R4.0	45.00	28.99	45.37	0.64	1,821,032
355.30	Generating Equipment - Pumping	29.50	36,781	R3.0	35.00	10.11	39.61	0.26	9,388
360.21	Collection Sewers - Force - Mains	18.79	1,986,812	R3.0	75.00	57.14	75.93	0.75	1,498,282
360.23	Collection Sewers - Force - Manholes / Meter Pits	11.50	25,356	R3.0	75.00	64.04	75.54	0.85	21,496
361.21	Collection Sewers - Gravity - Mains	34.90	17,984,560	R2.5	80.00	49.57	84.48	0.59	10,631,978
361.22	Collection Sewers - Gravity - Mains Relining	5.50	58,580	R2.5	60.00	54.94	60.44	0.91	53,249
361.23	Collection Sewers - Gravity - Manholes	28.68	4,533,510	R2.5	80.00	54.71	83.39	0.66	2,995,110
363.20	Service Laterals	23.77	4,198,363	R3.0	45.00	24.29	48.05	0.52	2,195,757
360.21	Flow Measuring Installations Meter Pits	49.50	41,901	S2.0	30.00	4.50	54.00	0.15	6,285
Grand									
Total	Grand Total	29.82	31,729,237		71.71	45.48	75.27	0.61	19,252,333

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The above replacement cost new less depreciation represents the preliminary cost approach conclusion which was tested for economic obsolescence based on the results of the income and market approaches which will be described in the remainder of this testimony. Based on our review of the preliminary cost approach and the results of the income and market approaches, no economic obsolescence exists at the preliminary cost approach conclusion of \$19,252,333; therefore, the final cost approach conclusion was determined to be \$19,252,333. These results are detailed in the Application **Appendix A-5.1** (AUS Appraisal) under the Cost Approach section.

Market Approach

Q. Regarding your application of the market approach, what methods did you use to determine the market approach result?

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1 **A.** I used the comparable sales of water and wastewater properties in the Commonwealth of
2 Pennsylvania subsequent to the passage of Section 1329 and financial market value ratios
3 of publicly traded water and wastewater companies as reported in the January 10, 2020
4 issue of Value Line Investment Survey.

5

6 **Q.** **What assumptions, analyses, and/or adjustments did you make under each method?**

7 **A.** Under the comparable sales method, it is my opinion that sales amount to depreciated
8 replacement cost is the best indicator in arriving at the appraised value of physical assets
9 operating as a wastewater collection system. Under the financial ratios method, I believe
10 that an accurate result depends on using the weighted mean of the ratio of the market debt
11 and equity to book debt and equity.

12

13 **Q.** **What were the results of each analysis you performed?**

14 **A.** The comparable sales analysis produced a result of \$17,931,623. The financial market
15 analysis produced a result of \$19,443,097 detailed as follows:

16

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Pennsylvania American Water Company
 Valley Township Wastewater System
 Wastewater Collection System
 Investor-Owned Utility
 As of December 17, 2019

Comparable Sales Approach

Market Sales Data

Central Tendency and Reliability Analysis

Market Sales Analysis - PP/OCLD

	Simple	Weighted
Mean	2.082	1.9992
Standard Deviation	0.8607	0.6008
Median	1.608	1.5598
Mode	Not Applicable	1.5601

Conclusion 2.0000 AUS Input

Valley Township Wastewater System OCLD 9,214,738

Market Value Indication 18,429,476

Market Sales Analysis - PP/Customer

	Simple	Weighted
Mean	7441	9,157
Standard Deviation	4031	3,158
Median	8221	6,312
Mode	Not Applicable	7,825
Forecast	7,293	

Conclusion 7,300

Valley Township Wastewater System Customers 1,596

Market Value Indication 11,650,800

Market Sales Analysis - PP/Cash Flows (EBITDA)

	Simple	Weighted
Mean	22.38	21.58
Standard Deviation	11.60	8.02
Median	20.93	13.00
Mode	Not Applicable	Not Applicable
Forecast		

Conclusion 22.00 AUS Input

Valley Township Wastewater System Cash Flows 685,766

Market Value Indication 15,086,845

Summary of Market Analyses

Indicators	
OCLD	18,429,476
CORLD	17,931,623
Customers	11,650,800
Cash Flows	15,086,845
Value Line	19,443,097
Mean	16,508,368
Median	17,931,623
Conclusion	17,931,623

Market Sales Analysis - PP/CORLD

	Simple	Weighted
Mean	0.813	0.9285
Standard Deviation	0.1852	0.1086
Median	0.8908	0.9637
Mode	Not Applicable	0.9919

Conclusion 0.9314 AUS Input

Valley Township Wastewater System CORLD 19,252,333

Market Value Indication 17,931,623

Financial Basis¹

Financial Markets	Market Value per Share to Book Value per Share
Market to Book (equity)	3.40
Market to Book (equity and debt)	2.11
Use (equity and debt)	2.11

Valley Wastewater Info AUS Input

Valley Township Wastewater System OCLD 9,214,738

Market Value Indication 19,443,097

1

2

3 **Q. Which results were used to determine your market approach result?**

4 **A.** I used the results of \$17,931,623 because I believe those results represent an accurate
 5 assessment and it was based on the relationship of market comparable sales to the

DIRECT TESTIMONY OF JEROME C. WEINERT

1 replacement cost new less depreciation of those properties. These results are detailed in
 2 the Application **Appendix A-5.1** (AUS Appraisal) under the Market Approach section.

3
 4 **Q. What was the calculation you used to determine your overall market approach**
 5 **results?**

6 **A.** The calculation I used consisted of the ratio of the market sales to their replacement cost
 7 new applied to the replacement cost new less depreciation of Valley’s property.

8
 9 **Q. What comparable transactions or comparable sales did you evaluate to develop your**
 10 **market approach?**

11 **A.** I examined the following transactions to develop the result of my market approach:

12

Pennsylvania American Water Company
 Valley Township Wastewater System
 Wastewater Collection System
 Investor-Owned Utility
 As of December 17, 2019

Comparable Sales Approach

Market Sales Data

RowID	Approximate Date	Buyer	Seller	County	Type of Facility	Initial Purchase Price	Final Purchase Price ¹	Number of Total Customers	OCA Market Value per customer	Relationship to the passage of Section 1329	Average Purchase Price per Customer	AUS Market Value per customer
20	6/1/2016	PA American Water	City of McKeesport	Allegheny	Collection and Treatment Wastewater	180,000,000	159,000,000	21,953	7,197	Post	7,242.75	7,243
21	8/1/2016	Aqua PA	New Garden Twp. SA	Chester	Collection and Paid for and Owned Treatment Wastewater	29,500,000	29,500,000	2,106	14,008	Post	14,007.60	14,008
22	12/1/2017	Aqua PA	Limerick Township	Montgomery	Collection and Treatment Wastewater	64,373,000	64,373,000	5,434	11,846	Post	9,264	11,846
23	12/10/2017	Aqua PA	East Bradford Township	Chester	Collection and paid for treatment Capacity Water Treatment and Distribution System Wastewater	5,000,000	5,000,000	1,248	4,006	Post	4,006.41	4,006
24		SUEZ	Mahoning	Carbon	Collection and Treatment Wastewater	4,734,800	4,734,800	2,806		Post		1,687
25		SUEZ	Mahoning	Carbon	Collection and Treatment Wastewater	4,765,200	4,765,200	2,806		Post		1,698
26	6/1/2018	Aqua PA	Cheltenham	Montgomery	Collection Wastewater	50,250,000	50,250,000	10,500		Post	4,785.71	4,786
27	11/14/2018	PA American Water	Steelton	Dauphin	Water Distribution and Treatment Wastewater	22,500,000	21,750,000	2,325		Post	9,354.84	9,355
28		PA American Water	Sadsbury	Chester	Collection Wastewater	9,250,000	8,600,000	998		Post	8,617.23	8,617
29	5/28/2018	PA American Water	Exeter	Berks	Collection and Treatment Wastewater	96,000,000	96,000,000	9,000		Post	10,666.67	10,667
30	10/29/2018	Aqua PA	East Norriton	Montgomery	Collection Wastewater	21,000,000	21,000,000	4,950		Post	4,242.42	
31	9/30/2018	PA American	Kane	McKean	Collection and Treatment	17,560,000	17,560,000	2006		Post	8,753.74	

Notes:

¹ Final Purchase Price reflects the agreed upon purchase price achieved to settle the acquisition application

13

1 **Income Approach**

2 **Q. Regarding your application of the income approach, what method did you use to**
3 **determine the income approach result?**

4 **A.** I used the discounted cash flow method.

5

6 **Q. What assumptions did you employ to develop your income approach result?**

7 **A.** Under the income approach, it is my opinion that the results of the future operations of
8 Valley's System must be considered. I believe that an accurate result depends on adjusting
9 recent results of the System's operation to better reflect how those results will migrate over
10 future periods under the operation as a rate regulated wastewater system regulated by the
11 PUC.

12

13 **Q. What discount rate did you use to calculate your income approach?**

14 **A.** I used a discount rate of 7.93% and 6.00% capitalization rate.

15

16 **Q. Please explain how you developed the discount rate.**

17 **A.** In each case, the discount rate was a market discount rate at the appraisal date and was
18 determined using the weighted average cost of capital ("WACC") of both debt and equity.
19 The inputs to the WACC determination, capital structure, cost of debt, cost of equity, and
20 income tax rate (state and federal) were determined based on an analysis of Value Line
21 Investment Surveys and the Ibbotson Stock, Bonds, Bills, and Inflation ("Ibbotson SBBBI")
22 2020 Edition (SBBBI activity over the period 1926 through 2019). The cost of debt was
23 determined at December 10, 2019, based on the Value Line Investment Survey. The cost

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1 of equity was based on the capital asset pricing model (“CAPM”) and the Dividend Growth
2 Model (“DGM”), two recognized cost of equity estimating models and the PUC’s Bureau
3 of Technical Utility Services’ Report on Quarterly Earnings of Jurisdictional Utilities for
4 Year-ending September 30, 2019. The above described data for Valley’s appraisal can be
5 found in the exhibits to my appraisal report in the section entitled Cost of Capital / Required
6 Return.

7
8 **Q. What capital structure inputs differ from those identified in capital structure set forth**
9 **earlier in your testimony?**

10 **A.** None. As described in the previous discussion of the capital structure, we utilized a market
11 required capital structure based on analysis of the water / wastewater industry’s market
12 capital structure as defined by analysis of market financials as published in Value Line
13 Investment Survey (January 10, 2020). The theory in appraisal is to estimate the value of
14 a property in an arm’s length transaction wherein the purchaser finances the purchase with
15 capital (debt and equity) available in the financial markets at the appraisal date. Those are
16 the current (appraisal date) financial markets.

17
18 **Q. What is the source and basis of the alternative input you propose in the income**
19 **approach?**

20 **A.** As discussed above, we used Value Line Investment Survey to develop a market required
21 capital structure. Please see Application **Appendix A-5.1** (AUS Appraisal) Income
22 Approach section for the cost of capital of the Income Approach and Cost of Capital /
23 Required Return section for the basis of the Cost of Capital / Required Return.

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1 **Q. If you used a terminal value in your discounted cash flow analysis what is the number**
2 **of years over which the cash flows are considered?**

3 **A.** I considered those cash flows over 19 periods with period 20 representing all future periods.
4

5 **Q. What is the basis for using this number of years?**

6 **A.** It is my opinion that the use of 19 periods is a reasonable number of periods for the forecast
7 revenues and expenses to stabilize.
8

9 **Q. What is your Income Approach conclusion?**

10 **A.** AUS Consultants' income approach conclusion was determined to be \$19,154,327 detailed
11 as follows:

DIRECT TESTIMONY OF JEROME C. WEINERT

**Pennsylvania American Water Company
Valley Township Wastewater System
Wastewater Collection System
Potential Purchase: Investor-Owned Utility
As of December 17, 2018
Discounted Cash Flow Analysis**

Discount Rate: Capitalization Rate														
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
											Period Present Worth Factor (PW)	PW of Cashflow	Accumulated PW of Cashflows	
Period	Age	Revenues	O&M Expenses	Tax Depreciation	Cash Flow from Operations	Taxable Income before State & Federal Taxes	State and Federal Taxes @ 28.89%	Capital Expenditures	Change in Working Capital	Net Cash Flows				
					(3)-(4)	(6)-(5)	(7) *28.89%			(3)-(4)-(8)-(9)-(10)		(11)*(12)	Sum (13)	
1	0.5	2,857,439	3,122,464	561,233	(265,025)	(826,258)	(238,706)	127,144	5,956	(159,419)	0.963	(153,520)	(153,520)	
2	1.5	2,972,157	3,183,915	565,173	(211,788)	(776,961)	(224,464)	129,051	6,195	(122,570)	0.892	(109,332)	(262,852)	
3	2.5	3,685,912	3,246,645	569,249	439,267	(129,982)	(37,552)	130,987	38,542	307,290	0.826	253,822	(9,030)	
4	3.5	3,833,891	3,310,589	573,465	523,302	(50,163)	(14,492)	132,951	7,991	396,852	0.766	303,989	294,959	
5	4.5	3,987,810	3,375,802	577,824	612,008	34,184	9,876	134,945	8,312	458,875	0.709	325,342	620,301	
6	5.5	4,730,060	3,438,275	582,329	1,291,785	709,456	204,962	136,970	40,081	909,772	0.657	597,720	1,218,021	
7	6.5	4,900,956	3,502,149	589,917	1,398,807	808,890	233,688	150,021	9,229	1,005,869	0.609	612,574	1,830,595	
8	7.5	5,078,027	3,567,447	595,037	1,510,580	915,543	264,500	152,162	9,562	1,084,356	0.564	611,577	2,442,172	
9	8.5	5,566,177	3,634,194	600,317	1,931,983	1,331,666	384,718	154,334	26,360	1,366,571	0.523	714,717	3,156,889	
10	9.5	5,767,282	3,702,414	605,760	2,064,868	1,459,108	421,536	156,537	10,859	1,475,936	0.484	714,353	3,871,242	
11	10.5	5,975,653	3,772,132	611,373	2,203,521	1,592,148	459,971	158,775	11,252	1,573,523	0.449	706,512	4,577,754	
12	11.5	6,550,091	3,843,375	617,158	2,706,716	2,089,558	603,673	161,044	31,019	1,910,980	0.416	794,968	5,372,722	
13	12.5	6,786,745	3,916,168	623,118	2,870,577	2,247,459	649,291	163,347	12,781	2,045,158	0.385	787,386	6,160,108	
14	13.5	7,031,949	3,990,540	629,257	3,041,409	2,412,152	696,871	165,684	13,241	2,165,613	0.357	773,124	6,933,232	
15	14.5	7,207,929	4,066,518	635,581	3,641,411	3,005,830	868,384	168,055	36,502	2,568,470	0.331	850,164	7,783,396	
16	15.5	7,785,008	4,147,105	634,884	3,637,903	3,003,019	867,572	158,959	4,162	2,607,210	0.306	797,806	8,581,202	
17	16.5	7,862,858	4,229,296	641,243	3,633,562	2,992,319	864,481	161,344	4,204	2,603,533	0.284	739,403	9,320,605	
18	17.5	8,413,258	4,313,124	647,794	4,100,134	3,452,340	997,381	163,764	29,722	2,909,267	0.263	765,137	10,085,742	
19	18.5	8,497,391	4,398,620	654,541	4,098,771	3,444,230	995,038	166,220	4,543	2,932,970	0.244	715,645	10,801,387	
20 and beyond	19.5	8,582,365	4,485,819	661,489	4,096,546	3,435,057	992,388	168,713	4,589	2,930,856	2.850	8,352,940	19,154,327	
Age				19.5				3,041,007						
PW(Age) = 1/(1+Discount Rate) ^{Age}				0.226						Net Plant ADIT	10,175,851			
PW to Perpetuity = 1/Capitalization Rate				12.610							(1,548,965)			
PW _(20and Beyond) = PW to Perpetuity * PW Factor _(19.5)				2.850						Rate Base	8,626,886	0.226	1,949,676	
										Annual Plant Construction Inflation Rate		0.0422 Input		
										Plant Inflation over 19.5 years	19,718,571	0.226	4,456,397	
										PP	13,950,000			
										OCLD	9,214,738			
										PP/OCLD	1,514			
										RCNLD	19,252,333			
										RCNLD/PP	1,380095529			
											11,905,927.12	0.226	2,690,740	
										Average			15,163,825	

These results are detailed in the Application **Appendix A-5.1 (AUS Appraisal)** under the **Income Approach** section.

Q. What number of Selling Utility customers or equivalent dwelling units did you use to value the Selling Utility’s system and how did you develop that number?

A. I did not use customers/EDUs in developing the forecasted revenues and expenses. Instead, I used past and budgeted results from operations to establish forecasted operating results.

DIRECT TESTIMONY OF JEROME C. WEINERT

1 **Q. Did you make any updates to your appraisal after it was submitted to the Acquiring**
2 **Public Utility, and if so, what was the update, when was it made, and why was it**
3 **necessary?**

4 **A.** I did update my initial appraisal after it was submitted to PAWC since an additional year
5 of financials (2019) was available and a final Engineers Assessment dated May 28, 2020
6 was available, which I received in early May 2020.

7

8 **Q. Does this conclude your direct testimony?**

9 **A.** It does. However, by filing this direct testimony I understand that I may have the
10 opportunity to submit additional testimony responsive to challenges to my appraisal.

Curriculum Vitae (CV) of Jerome C. Weinert, P.E., CDP, ASA

Mr. Weinert is currently Principal and Director of AUS Consultants, Depreciation and Valuation. He has forty-eight (2020-1972) years' experience in valuation and depreciation consulting and management. AUS, with offices across the country, has provided consulting services to the regulated utility industry nationally for over thirty-nine years. A partial list of services provided includes valuations depreciation studies, rate of return studies, cost of service studies, and rate design.

Prior to joining AUS in 1987, Mr. Weinert was employed by American Appraisal Associates, Inc. (American) for sixteen years in their Regulated Industries Group. He held various positions at American, the last being supervising appraiser. Among his other valuation responsibilities, he directed the firm's utility industry capital recovery studies and AUS Consultant's valuation of communication company assets and businesses.

Mr. Weinert graduated from the Milwaukee School of Engineering with a Bachelor of Science degree in Mechanical Engineering and received a master's in business administration from Marquette University. He is a registered professional engineer (1976) (by examination) in the state of Wisconsin as well as a senior member (1982) of the American Society of Appraisers in the public utility valuation field. This latter designation is obtained by written examination primarily in the areas of utility valuation, depreciation, and the economics of regulated firms. He is also a Certified Depreciation Professional (1997) (CDP) and founding member of the Society of Depreciation Professionals and the Society's 1995 President and sponsor of the Society's Certification and re-certification program; as such Mr. Weinert developed these programs and oversaw their initial introduction into the Society. He also worked in conjunction with Society members in the development of the Society's training programs which as of 2003 has become the only such formalized depreciation training program in the North America and is an instructor in several of its courses.

During his professional career related to valuations and depreciation matters Mr. Weinert has testified before various courts and public service commissions on these subjects. He has also assisted numerous utilities in preparing capital recovery plans which specifically address the issues of plant replacement. Mr. Weinert has also presented expert testimony on valuation matters. Mr. Weinert has testified before the Pennsylvania Public Utility Commission on regulatory matters associated with Pennsylvania Section 1329 matters. On matters related to eminent domain issues, Mr. Weinert has presented expert testimony in the Massachusetts Superior Court, the Court of Common Pleas, Fayette County, Ohio, the New Hampshire Public Utilities Commission, the Twentieth Judicial Court (deposition only) in Charlotte County, Florida, the Nineteenth Judicial Circuit Court in St. Lucie County, Florida (deposition only). In regard to ad valorem taxation, Mr. Weinert has presented study results to the New York State Board of Equalization and Assessment (now the New York Office of Real Property Services (NY ORPS)), pertaining to useful life and net salvage values for all types of utility property subject to the Board's mass appraisal model. Mr. Weinert has appeared before the Valuation Adjustment Board in Florida for Duval, Hillsborough, Okeechobee, and Palm Beach counties, the Twelfth Judicial Circuit Sarasota County, Florida, the California Board of Equalization and Assessment, the Arizona Board of Assessment, the Missouri Board of Taxation, the Colorado and Texas Departments of Review, the Massachusetts Tax Appeal Court, the Superior Court of the State of Arizona in the County of Maricopa, the State Tax Appeal Board of the State of Montana, the New York City Tax Commission and the Public Utility Commission of Pennsylvania Section 1329 hearings (8).

Mr. Weinert has appeared before regulatory bodies in Alaska, Arkansas, Illinois, Indiana, Iowa, Missouri, Nevada, Nebraska, North Carolina, Ohio, Oregon, Pennsylvania, and South Carolina in support of rate-base valuation determination and capital recovery. He has presented testimony on depreciation matters

before the Canadian Radio-Television and Telecommunications Commission (CRTC) and the United States Federal Energy Regulatory Commission (FERC). In terms of water and wastewater acquisitions and applications for regulatory approval of rate base Mr. Weinert has testified for two investor-owned acquisitions of municipal wastewater authorities one representing the municipality and secondly for the acquiring investor-owned utility. He has submitted study results to the State Commissions of Alabama, Alaska, Arkansas, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, Oregon, Pennsylvania, South Carolina, Washington, and Wisconsin, and the Federal Communications Commission.

Mr. Weinert has presented papers on valuation and depreciation topics to professional and utility industry trade organizations. He also directed AUS Consultants' semi-annual week-long depreciation training programs (1988-1997). These specialized training courses, offered at basic and advanced levels, teach depreciation study techniques to public utility and public service commission staff specialists. The training includes depreciation theory and concepts and hands-on experience with personal computer-based analytical depreciation programs.

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
2020				
AT&T Communications	North America	2019	2020	Ad Valorem Tax Appraisal
AT&T Communications	California	2019	2020	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2019	2020	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2019	2020	Ad Valorem Tax Appraisal
Verizon New York, Inc.	New York	2019	2020	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2019	2020	Ad Valorem Tax Appraisal
East Norriton Township, PA	East Norriton Wastewater	2019	2020	Fair Market Value 1329
Pennsylvania American Water Company	Kane Wastewater	2019	2020	Fair Market Value 1329
Pennsylvania American Water Company	Royersford Wastewater	2019	2020	Fair Market Value 1329
2019				
AT&T Communications	North America	2018	2019	Ad Valorem Tax Appraisal
AT&T Communications	California	2018	2019	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2018	2019	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2018	2019	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2018	2019	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2018	2019	Ad Valorem Tax Appraisal
Cheltenham Township, PA	Cheltenham Wastewater	2018	2019	Fair Market Value 1329
Pennsylvania American Water Company	Steelton Water	2018	2019	Fair Market Value 1329
Pennsylvania American Water Company	Exeter Wastewater	2018	2019	Fair Market Value 1329
2018				
AT&T Communications	North America	2017	2018	Ad Valorem Tax Appraisal
AT&T Communications	California	2017	2018	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2017	2018	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2017	2018	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2017	2018	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2017	2018	Ad Valorem Tax Appraisal
Level 3 Communications, LLC	North America	2017	2018	Ad Valorem Tax Appraisal
Level 3 Communications, LLC	California	2017	2018	Ad Valorem Tax Appraisal
CenturyLink Communications, LLC	North America	2017	2018	Ad Valorem Tax Appraisal
CenturyLink Communications, LLC	California	2017	2018	Ad Valorem Tax Appraisal
East Bradford Township, PA	East Bradford Wastewater	2018	2018	Fair Market Value 1329
Pennsylvania American Water Company	Sadsbury Wastewater	2017	2018	Fair Market Value Appraisal
Pennsylvania American Water Company	Kane Wastewater	2017	2018	Fair Market Value
Appraisal				
2017				
AT&T Communications	North America	2016	2017	Ad Valorem Tax Appraisal
AT&T Communications	California	2016	2017	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2016	2017	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2016	2017	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2016	2017	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2016	2017	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2016	2017	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2016	2017	Ad Valorem Tax Appraisal
Level 3 Communications	California	2016	2017	Ad Valorem Tax Appraisal

QUALIFICATIONS 3

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Whitpain Township, PA	Whitpain Wastewater	2016	2017	Appraisal for Planning
Plymouth Township, PA	Plymouth Wastewater	2016	2017	Appraisal for Planning
East Norriton Township, PA	East Norriton Wastewater	2016	2017	Appraisal for Planning
Pennsylvania American Water Company	Sadsbury Wastewater	2016	2017	Fair Market Value Appraisal
Pennsylvania American Water Company	McKeesport Wastewater	2016	2017	Fair Market Value Appraisal
Intermountain Gas Company	Idaho	2016	2017	Depreciation Study
2016				
AT&T Communications	North America	2015	2016	Ad Valorem Tax Appraisal
AT&T Communications	California	2015	2016	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2015	2016	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2015	2016	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2015	2016	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2015	2016	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2015	2016	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2015	2016	Ad Valorem Tax Appraisal
Level 3 Communications	California	2015	2016	Ad Valorem Tax Appraisal
New Garden Township, PA	New Garden Wastewater	2016	2016	Fair Market Value Appraisal
2015				
AT&T Communications	North America	2014	2015	Ad Valorem Tax Appraisal
AT&T Communications	California	2014	2015	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2014	2015	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2014	2015	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2014	2015	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2014	2015	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2014	2015	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2014	2015	Ad Valorem Tax Appraisal
Level 3 Communications	California	2014	2015	Ad Valorem Tax Appraisal
Verizon Wireless	Nationwide	2014	2015	Ad Valorem Tax Appraisal
2014				
AT&T Communications	North America	2013	2014	Ad Valorem Tax Appraisal
AT&T Communications	California	2013	2014	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2013	2014	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2013	2014	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2013	2014	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2013	2014	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2013	2014	Ad Valorem Tax Appraisal
Level 3 Communications	North America,	2013	2014	Ad Valorem Tax Appraisal
Level 3 Communications	California	2013	2014	Ad Valorem Tax Appraisal
Cascade Natural Gas Corporation	Oregon & Washington	2013	2014	Depreciation Study
Intermountain Gas Company	Idaho	2013	2014	Depreciation Study
Virgin Islands Telephone Corporation	US Virgin Islands	2013	2014	Depreciation Study
Verizon Wireless	Nationwide	2013	2014	Ad Valorem Tax Appraisal
2013				
AT&T Communications	North America	2012	2013	Ad Valorem Tax Appraisal

QUALIFICATIONS 4

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
AT&T Communications	California	2012	2013	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2012	2013	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2012	2013	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2012	2013	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2012	2013	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2012	2013	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2012	2013	Ad Valorem Tax Appraisal
Sprint Nextel Corporation	North America	2012	2013	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2012	2013	Ad Valorem Tax Appraisal
Verizon Communications	New England Mass	2002-2007	2013	Ad Valorem Tax Appraisal
2012				
AT&T Communications	North America	2011	2012	Ad Valorem Tax Appraisal
AT&T Communications	California	2011	2012	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2011	2012	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2011	2012	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2011	2012	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2011	2012	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2011	2012	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2011	2012	Ad Valorem Tax Appraisal
Sprint Nextel Corporation	North America	2011	2012	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2011	2012	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2011	2012	Ad Valorem Tax Appraisal
Verizon Communications	Florida - revised	2008	2012	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2012	2012	Ad Valorem Tax Appraisal
2011				
AT&T Communications	North America	2010	2011	Ad Valorem Tax Appraisal
AT&T Communications	California	2010	2011	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2010	2011	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2010	2011	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2010	2011	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2010	2011	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2010	2011	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2010	2011	Ad Valorem Tax Appraisal
Global Crossing	North America	2010	2011	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2010	2011	Depreciation Study
Sprint Nextel Corporation	North America	2010	2011	Ad Valorem Tax Appraisal
Verizon Wireless	Palm Beach, Florida	2010	2011	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2010	2011	Ad Valorem Tax Appraisal
Verizon Communications	Florida - revised	2008	2011	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2010	2011	Depreciation Study
Virgin Islands Telephone Corporation	US Virgin Islands	2010	2011	Technical Update of Depreciat

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
2010				
AT&T Communications	North America	2009	2010	Ad Valorem Tax Appraisal
AT&T Communications	California	2009	2010	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2009	2010	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2009	2010	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2009	2010	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2009	2010	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2009	2010	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2009	2010	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2009	2010	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2009	2010	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California	2009	2010	Ad Valorem Tax Appraisal
Global Crossing	North America	2009	2010	Ad Valorem Tax Appraisal
MetroPCS	Palm Beach, Florida	2009	2010	Ad Valorem Tax Appraisal
2009				
AT&T Communications	North America	2008	2009	Ad Valorem Tax Appraisal
AT&T Communications	California	2008	2009	Ad Valorem Tax Appraisal
AT&T Communications	Florida	2008	2009	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2008	2009	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2008	2009	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2008	2009	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2008	2009	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2008	2009	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2008	2009	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2008	2009	Ad Valorem Tax Appraisal
Embarq Northwest	Washington	2008	2009	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2008	2009	Ad Valorem Tax Appraisal
Verizon Communications	New England - Mass	2008	2009	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2008	2009	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan & Arizona	2008	2009	Ad Valorem Tax Appraisal
Global Crossing	North America	2008	2009	Ad Valorem Tax Appraisal
AboveNet, Inc	North America/California	2003	2009	Ad Valorem Tax Appraisal
Verizon Wireless	Ohio Properties	2004-2005	2009	Ad Valorem Tax Appraisal
Virgin Islands Telephone Corporation	US Virgin Islands	2008	2009	Depreciation Study
Sprint Nextel Corporation	North America	2008	2009	Ad Valorem Tax Appraisal
2008				
AT&T Communications	North America	2007	2008	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
AT&T Communications	California	2007	2008	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2007	2008	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2007	2008	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2007	2008	Ad Valorem Tax Appraisal
AT&T - Southwestern Bell Telephone Company	Arkansas, Kansas, Missouri, Oklahoma, Texas	2007	2008	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2007	2008	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2007	2008	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2007	2008	Ad Valorem Tax Appraisal
Embarq Northwest	Washington	2007	2008	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	California	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2007	2008	Ad Valorem Tax Appraisal
Verizon Communications	New England Mass	2002-2007	2008	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2007	2008	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan & Arizona	2007	2008	Ad Valorem Tax Appraisal
Global Crossing	North America	2007	2007	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2007	2008	Depreciation Study
2007				
AT&T Communications	North America	2006	2007	Ad Valorem Tax Appraisal
AT&T Communications	California	2006	2007	Ad Valorem Tax Appraisal
AT&T - Indiana Bell Telephone Company	Indiana	2006	2007	Ad Valorem Tax Appraisal
AT&T - Michigan Bell Telephone Company	Michigan	2006	2007	Ad Valorem Tax Appraisal
AT&T - Wisconsin Bell Telephone Company	Wisconsin	2006	2007	Ad Valorem Tax Appraisal
Embarq Florida, Inc.	Florida	2006	2007	Ad Valorem Tax Appraisal
Embarq Texas, Inc.	Texas	2006	2007	Ad Valorem Tax Appraisal
Embarq Missouri, Inc.	Missouri	2006	2007	Ad Valorem Tax Appraisal
Embarq North Carolina	North Carolina	2006	2007	Ad Valorem Tax Appraisal
Embarq Virginia	Virginia	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	California	2006	2007	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2006	2007	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	North America	2006	2007	Ad Valorem Tax Appraisal
Qwest Communications Corporation	North America California	2006	2007	Ad Valorem Tax Appraisal
Level 3 Communications	North America, California, Michigan, & Arizona	2006	2007	Ad Valorem Tax Appraisal
Level 3 Communications	Arizona	2002 - 2006	2007	Ad Valorem Tax Appraisal
Global Crossing	North America	2006	2007	Ad Valorem Tax Appraisal
Alaska Communications System, Inc. (ACS)	ACS of Alaska ACS of Anchorage ACS of Fairbanks ACS of the Northland ACS Holdings	2006	2007	Depreciation Studies
Intermountain Gas Company	Idaho	2006	2007	Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
2006				
AT&T Communications	Palm Beach Florida	2000 - 2003	2006	Ad Valorem Tax Appraisal
AT&T Communications	North America	2005	2006	Ad Valorem Tax Appraisal
AT&T Communications	California	2005	2006	Ad Valorem Tax Appraisal
Sprint Florida, Inc.	Florida	2005	2006	Ad Valorem Tax Appraisal
Sprint Texas, Inc.	Texas,	2005	2006	Ad Valorem Tax Appraisal
Sprint Missouri, Inc.	Missouri	2005	2006	Ad Valorem Tax Appraisal
Sprint North Carolina	North Carolina	2005	2006	Ad Valorem Tax Appraisal
Sprint Virginia	Virginia	2005	2006	Ad Valorem Tax Appraisal
Embarq Nevada	Nevada	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	California	2005	2006	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2005	2006	Ad Valorem Tax Appraisal
Verizon Business (formerly MCI)	Massachusetts	2002-2--5	2006	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2005	2006	Ad Valorem Tax Appraisal
Level 3 Communications	Arizona	2002-2006	2006	Ad Valorem Tax Appraisal
Global Crossing	North America	2005	2006	Ad Valorem Tax Appraisal
Indianapolis Power & Light	IPL	2005	2006	Depreciation Study
2005				
AT&T Communications	North America	2004	2005	Ad Valorem Tax Appraisal
AT&T Communications	California	2004	2005	Ad Valorem Tax Appraisal
Sprint Florida, Inc.	Florida	2004	2005	Ad Valorem Tax Appraisal
Sprint PCS	North America	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	Florida	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	California	2004	2005	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2004	2005	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2004	2005	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2004	2005	Ad Valorem Tax Appraisal
Global Crossing	North America	2004	2005	Ad Valorem Tax Appraisal
Global Crossing	New York Special Franchise Property	2003 & 2004	2005	Ad Valorem Tax Appraisal
Indianapolis Power & Light	IPL	2004	2005	Depreciation Study
2004				
Sprint Florida, Inc.	Florida	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	California	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2003	2004	Ad Valorem Tax Appraisal
Verizon Communications	New England	2003	2004	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2003	2004	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2003	2004	Ad Valorem Tax Appraisal
Global Crossing	North America	2003	2004	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2003	2004	Ad Valorem Tax Appraisal
AT&T Communications	North America	2003	2004	Ad Valorem Tax Appraisal
AT&T Communications	California	2003	2004	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2003	2004	Depreciation Study
2003				
Sprint Florida, Inc.	Florida	2002	2003	Ad Valorem Tax Appraisal
Verizon Communications	California	2002	2003	Ad Valorem Tax Appraisal

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Verizon Communications	Northwest	2002	2003	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2002	2003	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2002	2003	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2002	2003	Ad Valorem Tax Appraisal
AT&T Communications	North America	2002	2003	Ad Valorem Tax Appraisal
AT&T Communications	California	2002	2003	Ad Valorem Tax Appraisal
Global Crossing	North America	2002	2003	Ad Valorem Tax Appraisal
Verizon Wireless	Broward County, FL	1998 through 2002	2003	Ad Valorem Tax Appraisal
2002				
Sprint Florida, Inc.	Florida	2001	2002	Ad Valorem Tax Appraisal
Verizon Communications	California	2001	2002	Ad Valorem Tax Appraisal
Verizon Communications	Northwest	2001	2002	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2001	2002	Ad Valorem Tax Appraisal
Level 3 Communications	North America	2001	2002	Ad Valorem Tax Appraisal
Global Crossing	North America	2001	2002	Ad Valorem Tax Appraisal
AT&T Wireless	Plymouth, MI	2001	2002	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2001	2002	Ad Valorem Tax Appraisal
AT&T Communications	North America	2001	2002	Ad Valorem Tax Appraisal
Intermountain Gas Company	Idaho	2001	2002	Depreciation Study
AT&T Communications	California	2001	2002	Ad Valorem Tax Appraisal
2001				
Verizon	Verizon - New York	2001	2001-2	Functional Obsolescence & Useful Life studies for valuation
Sprint Florida, Inc.	Sprint Florida, Inc.	2000	2001	Ad Valorem Tax Appraisal
Verizon Communications	California	2000	2001	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	2000	2001	Ad Valorem Tax Appraisal
Global Crossing	North America	2000	2001	Ad Valorem Tax Appraisal
Sprint PCS	Cost Indexes	2000	2001	Ad Valorem Tax Appraisal
Sprint Corporation	Centel - Nevada	2000	2001-2	Depreciation Study
Alaska Communications System, Inc. (ACS)	ACS of Alaska	2000	2001	Depreciation Study
	ACS of Anchorage			
	ACS of Fairbanks			
	ACS of the Northland			
	ACS Holdings			
2000				
Sprint PCS	BTS Equipment	2000	2000	Economic Life Study
Telus Communications	Telus - Alberta & British Columbia	2000	2000	Depreciation study Phase III Price Caps
Sprint Florida, Inc.	Florida	1999	2000	Ad Valorem Tax Appraisal
Verizon Communications	California	1999	2000	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	1999	2000	Ad Valorem Tax Appraisal
1999				
Sprint Corporation	Centel - Nevada	1998	1999	Depreciation Study
Intermountain Gas Company	Intermountain Gas Company	1998	1999	Depreciation Study
Sprint Florida, Inc.	Florida	1998	1999	Ad Valorem Tax Appraisal

QUALIFICATIONS 9

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Sprint Communications, LP	North America	1998	1999	Ad Valorem Tax Appraisal
1998				
Frontier Corporation	Frontier Telephone of Rochester	1998	1997	Valuation depreciation Lives and Net Salvage Parameters
Pacific Telecom, Inc.	Telephone Utilities of Washington	1997	1998	Depreciation Study
Sprint Florida, Inc.	Florida	1997	1998	Ad Valorem Tax Appraisal
Verizon Communications	Florida	1997	1998	Ad Valorem Tax Appraisal
Sprint Communications, LP	North America	1997	1998	Ad Valorem Tax Appraisal
Sprint Corporation	United Telephone Company of South Carolina	1998	1998	Depreciation Expense Universal Service Fund
Sprint Corporation	Carolina Telephone and Telegraph and Central Telephone of North Carolina	1998	1998	Depreciation Expense Universal Service Fund
Telus Communications	Telus - Edmonton (TCE)	1997	1998	Depreciation Study Phase II Price Caps
1997				
Sprint Corporation	Centel - Nevada	1997	1997	Unbundling/ Inter-connection Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of Oregon	1996	1997	Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of Alaska 1996 And the Northland		1997	Depreciation Study
Telus Communications	Telus - TCI formerly AGT	1996	1997	Depreciation Study Phase II Price Caps
Indianapolis Power & Light	IPL	1996	1997	Depreciation Study
Sprint Florida, Inc.	Florida	1996	1997	Ad Valorem Tax Appraisal
Verizon Communications	Florida	1996	1997	Ad Valorem Tax Appraisal
Pacific Telecom, Inc.	Eagle Telephone (Colorado) 1996		1997	Depreciation Study
1996				
Intermountain Gas Company	Intermountain Gas Company	1995	1996	Depreciation Study
Sprint Florida, Inc.	Florida	1995	1996	Ad Valorem Tax Appraisal
Century Telephone	Century Telephone of Ohio, Inc.	1995	1996	Depreciation Study
Telus Communications	AGT Limited (Alberta Government Telephones)	1995	1996	Depreciation Study
Johnson County Kansas Office of the Assessor	Useful Life of Computer Equipment	1995	1995	Useful/Market Life Analysis

QUALIFICATIONS 10

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
Milwaukee Metropolitan Sewerage District	Milwaukee Metropolitan Sewerage District	1995	1996	Depreciation Study
Sprint Corporation	Long Distance Division	1995	1995	Depreciation/Recovery Status Study
Sprint Corporation	Cellular Division	1995	1995	Depreciation/Recovery Status Study
Pacific Telecom, Inc.	Alascom, Inc.	1994	1995	Depreciation Study
Pacific Telecom, Inc.	Telephone Utilities of the Northland	1993	1994	Depreciation Study
	Telephone Utilities of Alaska	1993	1994	Depreciation Study
Indiana Energy	Indiana Gas Company	1993	1994	Depreciation Study
Columbia Gas Transmission	Gas Pipeline Property in Sullivan County, NY	1993	1993	Useful Life Study
United Telephone - Midwest Group	United Telephone Company of Missouri	1993	1993	Modernization/Depreciation Study
Intermountain Gas Co.	Intermountain Gas Co.	1992	1993	Depreciation Study
Pacific Telecom, Inc.	Alascom, Inc.	1992	1993	Depreciation Study
	Telephone Utilities of Oregon, Inc.	1991	1992	Depreciation Study
	Telephone Utilities of Washington, Inc.	1991	1992	Depreciation Study
Small Telephone Company Coalition	Oregon Small Telephone Companies	1991	1992	Depreciation Support
United Telephone Systems	United Telephone Co. of Pennsylvania	1991	1992	Instructional Depreciation Study
New York State Division of Equalization and Assessment	Electric, Gas, Water, Telephone, Pipeline, Steam, CATV	1991	1992	Useful Lives and Net Salvage Values
Rochester Telephone Company	Enterprise Telephone	1991	1992	Study Review
Indiana Energy	Indiana Gas/Richmond Gas/Terre Haute Gas	1990	1991	Depreciation Study
American Electric Power	Indiana/Michigan Power Co.	1990	1991	Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Year</u>	<u>Study Performed</u>	<u>Year</u>	<u>Activity</u>
Rochester Telephone Company	Rochester Telephone Co.	1990	1991		Study Review
United Telephone Systems	United Telephone Co. of Florida	1990	1991		Instructional Depreciation Study
United Telephone Systems	United Telephone Co. of Oregon	1989	1990		Study Review
Telephone and Data Systems, Inc.	Quincy Telephone Company	1990	1991		Depreciation Study
Telephone and Data Systems, Inc.	Wolverine Telephone Company	1989	1990		Depreciation Study
Indiana Energy	Indiana Gas Company, Inc.	1989	1990		Depreciation Study
Intermountain Gas Co.	Intermountain Gas Co.	1989	1990		Remaining Life/Net Salvage Support
North-West Telephone Company	North-West Telephone Company	1989	1990		Study Review
United Telephone System	United of Texas	1989	1990		Instructional Depreciation Study
	United of Missouri	1989	1990		Instructional Depreciation Study
Milwaukee Water	Milwaukee Water	1989	1990		Depreciation Study
Indiana Natural Gas Corp.	Indiana Natural Gas Corp.	1989	1990		Depreciation Study
Pacific Telecom	Telephone Utilities of the Northland	1989	1990		Depreciation Study
	Telephone Utilities of Alaska	1989	1990		Depreciation Study
	Alascom	1989	1990		Depreciation Study
	Telephone Utilities of Washington, Inc.	1988	1989		Depreciation Study
WICOR	Wisconsin Gas Company	1988	1989		Depreciation Study
ALLTEL	ALLTEL - Kentucky, Inc.	1987	1989		Depreciation Study
	ALLTEL - Ohio, Inc.	1988	1989		Depreciation Study

**Utility Industries
Capital Recovery Activities Client List**

<u>Company</u>	<u>Property</u>	<u>Year</u>	<u>Study Performed</u>	<u>Year</u>	<u>Activity</u>
	Western Reserve Telephone Company	1988	1989		Depreciation Study
Milwaukee Metropolitan Sewer District	Milwaukee Metropolitan Sewer District	1988	1989		Depreciation Study
United Telephone Telephone Company	United of Ohio Telephone Company	1988 1988	1989 1989		ELG Support ELG Support
United Telecom	U.S. Sprint	1988	1988		Useful Life Study
Pacific Telecom	Telephone Utilities of Oregon	1987	1988		Depreciation Study
	Telephone Utilities of Eastern Oregon	1987	1988		Depreciation Study
	Rose Valley Telephone Company	1987	1988		Depreciation Study
United Telephone	United of Minnesota	1987	1988		Capital Planning Support
Wisconsin Southern Gas	Wisconsin Southern Gas	1987	1988		Depreciation Study
Pacific Telecom	Glacier State Telephone Company	1986	1987		Depreciation Study
	Sitka Telephone Co.	1986	1987		Depreciation Study
	Juneau-Douglas Tel Company	1986	1987		Depreciation Study
Pacific Telecom	Telephone Utilities of Alaska	1986	1987		Depreciation Study
	Alascom	1986	1987		Depreciation Study
Lincoln Telecommunications	Lincoln Telephone and Telegraph Company	1986	1987		Digital Switching Service Life
Northwest Natural Gas Corporation	Northwest Natural Gas Corporation	1985	1986		Depreciation Study
ALLTEL	Western Reserve Telephone Company	1984	1985		Depreciation Study
	ALLTEL - Ohio	1984	1985		Depreciation Study
	ALLTEL - Alabama	1984	1985		Depreciation Study
Gulf Telephone Co.	Gulf Telephone Company	1984	1985		Depreciation Study

Appraisal & Capital Recovery Activities Client List

<u>Company</u>	<u>Property</u>	<u>Study Year</u>	<u>Year Performed</u>	<u>Activity</u>
United Telephone Systems, Inc.	United of Iowa	1984	1985	Depreciation Study
	United of Arkansas	1984	1985	Depreciation Study
Pacific Telecom	Telephone Utilities of Washington	1983	1984	Depreciation Study
	Telephone Utilities of Eastern Oregon	1983	1984	Depreciation Study
Pacific Telecom	Telephone Utilities of Oregon	1983	1984	Depreciation Study
	Northwestern Telephone Systems, Inc., Oregon	1983	1984	Depreciation Study
	Rose Valley Telephone Company	1983	1984	Depreciation Study
United Telecommunications	All United Telephone Companies	1983	1984	Capital Recovery Strategy
Lincoln Telecommunications	Lincoln Telephone & Telegraph Company	1983	1984	Depreciation Study
ALLTEL	ALLTEL - Mississippi	1982	1983	Depreciation Study
	ALLTEL - Michigan	1982	1983	Depreciation Study
North Carolina Natural Gas Corp.	North Carolina Natural Gas Corporation	1982	1983	Depreciation Study
Mid Continent Telephone (Currently ALLTEL)	Western Reserve Telephone	1982	1983	Depreciation Study
	Mid Ohio Telephone	1982	1982	Depreciation Study
	Florence Telephone Company	1980	1981	Depreciation Study
	Leeds Telephone Co.	1980	1981	Depreciation Study
	Elmore Coosa Tel Company	1980	1981	Depreciation Study
	Brookville Telephone Company	1980	1981	Depreciation Study
	Mid-Pennsylvania Telegraph	1980	1981	Depreciation Study
	Telephone Utilities (Currently Pacific Telecom)	Telephone Utilities of Oregon	1979	1980
	Telephone Utilities of	1979	1980	Depreciation Study

Papers and Seminars

	Eastern Oregon			
	Northwestern Telephone Systems, Inc.-Oregon	1979	1980	Depreciation Study
	Rose Valley Telephone Company	1979	1980	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1979	1980	Depreciation Study
Telephone Utilities	Telephone Utilities of Washington	1978	1979	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1978	1979	Depreciation Study
Rochester Telephone	Rochester Telephone (Indiana)	1977	1978	Depreciation Study
United Telephone Systems, Inc.	United of Ohio	1977	1978	Depreciation Study
Princeton Telephone	Princeton Telephone (Indiana)	1976	1977	Depreciation Study
Northwestern Telephone	Northwestern Telephone (Illinois)	1975	1976	Depreciation Study

Papers and Seminars

- 2011 Training Instructor Depreciation Basics Sessions A & B and Life and Salvage Analysis
Society of Depreciation Professionals 25th Annual Meeting
Atlanta, GA September 20-22, 2011
- 2010 Will the Real Cost Approach Please Stand Up?
National Association of Property Tax Representatives Transportation, Energy, & Communications (NAPTR·TEC)
Scottsdale, Arizona October 25-27, 2010
- Issues Affecting Assessment of Regulated Industries
Institute for Professionals in Taxation (IPT) Property Tax Symposium
Austin, Texas October 31 – November 3, 2010
- 2009 (Valuing) Intangibles
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 28, 2009
- Fair Value Accounting (Appraisal Panelist)
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 29, 2009
- 2008 Valuation Issues Valuation of Assets and the Impact of Depreciation
Society of Depreciation Professionals Annual Meeting
Greenville, SC September 21-26, 2008
- Obsolescence in the Long-Distance and Local Transport Networks
Technology Futures Inc. Asset Valuation Conference
Austin Texas February 8, 2008
- 2007 Communications Industry Issues
National Association of Property Tax Representative – Transportation, Energy, & Communications
New Orleans, LA October 30, 2007
- 2006 Appraisal Procedures & Issues in a Changing communications Industry
Florida Chapter International Association of Assessing Officers' Tangible Personal Property Conference
Ocala, Florida January 12, 2006
- Valuation of Intangibles
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas July 25, 2006
- SDP 20 years of History and Beyond
Society of Depreciation Professionals 20th Annual Meeting
Long Beach, CA September 18, 2006
- 2005 Valuation in a World with Asset Impairments
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas August 1, 2005

Papers and Seminars

- 2004 Depreciation in the Valuation of Assets
Society of Depreciation Professionals' Eighteenth Annual Meeting
Washington, D.C., September 13, 2004
- 2003 Cost Approach and the Use of Appraisal Guidelines
Institute for Professionals in Taxation – Property Tax Symposium
Fort Lauderdale, FL, September 17, 2003
- Cost Approach – Obsolescence and Depreciation
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, July 28, 2003
- 2000 Appraisal Issues Associated with Technological Change in the Wireline Telecommunications Industry
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, July 31, 2000
- The Impact of Advancing Technology and the Changing Regulatory Environment on Obsolescence
Calculations for Ad Valorem Valuation Purposes
Journal of Property Tax Management, Spring 2000
- 1996 How to Develop a Reproduction/Replacement Cost New Less Depreciation Approach to Value
Appraisal for Ad Valorem Taxation, Wichita State University
Wichita, Kansas, August 4, 1996
- 1995 Valuation Method, Techniques and Strategies (How to Quantify Stranded Investment) (Market, Income, & Cost Approach
AGA Depreciation Committee Meeting
Denver, Colorado, August 6-9, 1995, jointly presented with Earl Robinson of AUS Consultants
- 1994 Integrating Future Expectations for the Telephone Industry into Historical Depreciation Analysis
United States Telephone Association (USTA's 1994 Capital Recovery Seminar)
Scottsdale, Arizona, September 12-13, 1994
- 1994 Capital Recovery: United States versus Canada
Canadian Telephone Industry's Annual Capital Recovery Seminar
Edmonton, Alberta, Canada June 14-15, 1994
- 1990 Capital Recovery: Methods, Terminology, Procedures, and Record Keeping
United States Telephone Association (USTA's
1990 Non-FCC Subject and Small Company Capital Recovery Seminar
Minneapolis, Minnesota April 10_11, 1990
- Integration of Technology Forecasting Into Historical Life Studies
29th Iowa State Regulatory Conference
Ames, Iowa May 15-17, 1990
- The 1990's and the Second Wave of Major Plant Retirements in the Communications Industry
NARUC's Seventh Biennial Information Conference
Columbus, Ohio September 12-14, 1990

Papers and Seminars

How Do We Incorporate Change into the Study Filing Procedures?
USTA's 1990 Capital Recovery Seminar
Chicago, Illinois October 16_17, 1990

1989 Plant Modernization: Capital Planning and Capital Recovery
Midwest Utilities Conference
Chicago, Illinois September 11_14, 1989

Price Indexes Today: Procedures, Uses, and Misuses
Society of Depreciation Professionals' Third Annual Meeting
New Orleans, Louisiana December 6_7, 1989

1988 Plant Modernization: Capital Planning and Capital Recovery
National Association of Regulatory Utility Commissioners (NARUC)'s
Sixth Biennial Regulatory Information Conference
Columbus, Ohio September 14_16, 1988

Papers and Seminars

- 1997 Sprint Corporation - West Finance Center
Overland Park, Kansas, August 1997
- 1997 Rochester Telephone Corporation
Rochester, New York, April 1997
- 1996 Sprint-Florida-Vista United Telecommunications
Altamonte Springs, Florida August 27-29, 1996
- 1994 Saskatchewan Telecommunications
Regina, Saskatchewan, Canada, June 1994
- 1994 AUS Consultants/Leroy J. Murphy and Associates 1994 Capital Recovery Seminar
May 1994
- 1993 Manitoba Telephone System, Winnipeg, Manitoba, December 1993
- 1993 Society of Depreciation Professionals Annual Meeting
Charleston, South Carolina September 30, 1993
- 1993 SPRINT - Local Telephone Division
Atlanta, Georgia August 11-12, 1993
- 1993 AUS Consultants/Leroy J. Murphy and Associates 1993 Capital Recovery Seminar
Chicago, Illinois May 11 - 13, 1993
- 1993 Canadian Telephone Capital Recovery Seminar
Halifax, Nova Scotia April 20 - 22, 1993
- 1993 United Telephone, Midwest Group
Overland Park, Kansas January 20, 1993
- 1992 BellSouth Corporation
Birmingham, Alabama November 23, 1992
- 1992 Sprint - Local Telephone Division
Kansas City, Kansas November 18 - 20, 1992
- 1992 Society of Depreciation Professionals Annual Meeting
San Antonio, Texas September 9 - 10, 1992
- 1992 AUS Consultants/Leroy J. Murphy and Associates 1992 Capital Recovery Seminar
Chicago, Illinois October 6 - 8, 1992
- 1991 Society of Depreciation Professionals Annual Meeting
Nashville, Tennessee November 20-22, 1991
- 1991 ALLTEL Corporation Microcomputer Depreciation Studies System Training
Hudson, Ohio October 14-16, 1991

Capital Recovery Training

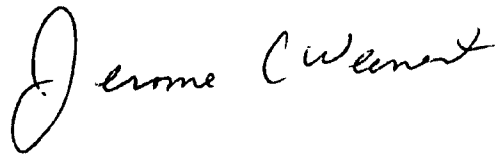
- 2016 Society of Depreciation Professionals
Annual Training
Charleston, South Carolina, September 18-23, 2016
- 2015 Society of Depreciation Professionals
Annual Training
Austin Texas September 2015
- 2014 Society of Depreciation Professionals
Annual Training
New Orleans, Louisiana September 2014
- 2013 Society of Depreciation Professionals
Annual Training
Salt Lake City, Utah September 2013
- 2012 Society of Depreciation Professionals
Annual Training
Minneapolis, Minnesota, September 16-18, 2012
- 1991 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation
Studies System Training
Kansas City, Kansas September 23-25, 1991
- 1991 AUS Consultants/Leroy J. Murphy and Associates 1991 Capital Recovery Seminar
Lake Geneva, Wisconsin September 17-19, 1991
- 1991 Rochester Telephone Corporation, Capital Recovery/Microcomputer Depreciation Studies
System Training, Rochester, New York September 3-7, 1991
- 1991 Ameritech Services, Microcomputer Depreciation Studies System Training
Chicago, Illinois May 16-17, 1991
- 1991 AUS Consultants/Leroy J. Murphy and Associates 1991 Capital Recovery Seminar
Washington, D.C. April 9_11, 1991
- 1990 United Telecommunications, Inc., Capital Recovery Seminar
Overland Park, Kansas December 1990
- 1990 AUS Consultants/Leroy J. Murphy and Associates 1990 Capital Recovery Seminar
Chicago, Illinois September 24_27, 1990
- 1990 AUS Consultants/Leroy J. Murphy and Associates 1990 Capital Recovery Seminar
Chicago, Illinois January 29-February 1, 1990
- 1990 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation Studies
System Training, Chicago, Illinois July 1990
- 1989 United Telecommunications, Inc., Capital Recovery/Microcomputer Depreciation Studies
System Training, Chicago, Illinois July 1989

Capital Recovery Training

- 1989 AUS Consultants/Leroy J. Murphy and Associates 1989 Capital Recovery Seminar
 Chicago, Illinois March 6_9, 1989
- 1988 AUS Consultants/Leroy J. Murphy and Associates 1988 Capital Recovery Seminar
 Chicago, Illinois July 25_28, 1988
- 1988 United Telecommunications, Inc., Microcomputer Depreciation Studies System Training
 Kansas City, Kansas January 1988

VERIFICATION

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

A handwritten signature in black ink that reads "Jerome C. Weinert". The signature is written in a cursive style with a large, looped initial "J".

Jerome C. Weinert, P.E. Principal and Director
AUS Consultants, Inc.

Dated: October 7, 2020



July 21, 2021

VIA E-MAIL

David P. Zambito

Direct Phone 717-703-5892
Direct Fax 215-989-4216
dzambito@cozen.com

Honorable Conrad A. Johnson
Honorable Emily I. DeVoe
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Piatt Place, Suite 220
301 Fifth Avenue
Pittsburgh, PA 15222

Re: In re: Application of Pennsylvania-American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of Valley Township's assets, properties and rights related to its water treatment and distribution system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish water service to the public in Valley Township, a portion of West Caln and East Fallowfield Townships, Chester County, Pennsylvania; Docket Nos. A-2020-3019859 *et al.*

In re: Application of Pennsylvania-American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of Valley Township's assets, properties and rights related to its wastewater collection and conveyance system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in Valley Township, and limited portions of East Fallowfield Township, Sadsbury Township, and West Caln Township, Chester County, Pennsylvania; Docket No. A-2020-3020178 *et al.*

Supplemental Direct Testimony of Pennsylvania-American Water Company

Dear Administrative Law Judges Johnson and DeVoe:

Enclosed please find copies of the following testimony, submitted on behalf of Pennsylvania-American Water Company, in the above-referenced matter:

Supplemental Direct Testimony of Michael J. Guntrum, PE, PAWC St. No. 2W-S and 2WW-S (with verification), together with PAWC Exhibit MJG-4.

Copies have been served on all parties, as indicated on the enclosed Certificate of Service.

Should you have any questions or concerns, please contact me. Thank you.

Respectfully submitted,

Cozen O'Connor



By: David P. Zambito, Esq.
Counsel for *Pennsylvania-American Water
Company*

Enclosures

cc: Rosemary Chiavetta, Secretary (*Cover Letter and Certificate of Service Only*)
Per Certificate of Service
Susan Simms Marsh, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

and

In re: Application of Pennsylvania-American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of Valley Township's assets, properties and rights related to its wastewater collection and conveyance system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in Valley Township, and limited portions of East Fallowfield Township, Sadsbury Township and West Caln Township, Chester County, Pennsylvania :
: Docket No. A-2020-3020178, *et al.*

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of July, 2021 served a true copy of the foregoing **Supplemental Direct Testimony of Michael J. Guntrum, PE** upon the parties, listed below in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a party).

Due to the COVID-19 Pandemic, Service is Being Made by E-Mail Only

Erin K. Fure, Esq.
Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101
Counsel for *Office of Small Business Advocate*
efure@pa.gov

Erika McLain, Esq.
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17120
Counsel for *Bureau of Investigation and Enforcement*
ermclain@pa.gov

Christine Maloni Hoover, Esq.
Erin Gannon, Esq.
Harrison Breitman, Esq.
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
Counsel for *Office of Consumer Advocate*
CHoover@paoca.org
EGannon@paoca.org
HBreitman@paoca.org

Nick Miskanic
Paul Zander
Clinton McKinley
Pennsylvania Public Utility Commission
400 North Third Street
Harrisburg, PA 17120
nmiskanic@pa.gov
pzander@pa.gov
cmckinley@pa.gov

Thomas Wyatt, Esq. (PA I.D. 89342)
Matthew S. Olesh, Esq. (PA I.D. 206553)
Sydney N. Melillo, Esq. (PA I.D. 328031)
Obermayer Rebmann Maxwell & Hippel,
LLP
Centre Square West
1500 Market Street, Suite 3400
Philadelphia, PA 19102
Counsel for *Valley Township*
Thomas.Wyatt@obermayer.com
Matthew.Olesh@obermayer.com
Sydney.Melillo@obermayer.com

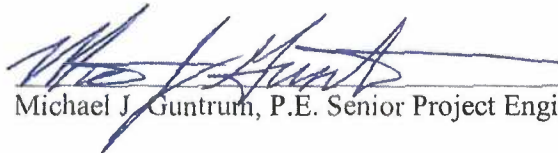
Respectfully submitted,



David P. Zambito, Esquire (PA ID 80017)
Jonathan P. Nase, Esquire (PA ID 44003)
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101
(717) 703-5892
dzambito@cozen.com
jnase@cozen.com
Attorneys for *Pennsylvania-American Water Company*

VERIFICATION

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


Michael J. Guntrum, P.E. Senior Project Engineer

Dated: 7/21/21

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178, *et al*
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

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

**SUPPLEMENTAL DIRECT TESTIMONY
OF
MICHAEL J. GUNTRUM, P.E.
ADDRESSING COMMISSIONER RALPH V. YANORA’S JULY 1, 2021 LETTER**

Date: July 21, 2021

PAWC Statement 2W-S
PAWC Statement 2WW-S

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

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

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

3

4 **Q. MR. GUNTRUM DID YOU SUBMIT TESTIMONY PREVIOUSLY IN THIS**
5 **PROCEEDING?**

6 **A.** Yes, I previously submitted PAWC Statement No. 2-W and PAWC Statement No. 2-WW on
7 October 9, 2020.

8

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

10 **A.** The purpose of this supplemental direct testimony is to update my direct testimony, PAWC
11 Statement No. 2-W and Statement No. 2-WW, to address the matters raised in the letter from
12 Commissioner Ralph V. Yanora dated July 1, 2021 (“Commissioner Yanora’s Letter”), at
13 these dockets, which is attached as **PAWC Exhibits MJG-4W** and **MJG-4WW**.
14 Commissioner Yanora has asked the parties to address questions that generally request
15 information regarding the Valley Township (“Valley”) water distribution system’s customer-
16 owned lead service lines, cross connections, commercial meters, valves, backflow prevention
17 and unaccounted-for water. I will address some of the questions regarding customer-owned
18 lead service lines, cross connections, backflow prevention and unaccounted-for water.

1 **Q. WHAT WERE PAWC’S EFFORTS TO INCLUDE VTWDS IN ITS ACT 120 OF 2018,**
2 **66 PA. C.S. § 1311(B)(2), CUSTOMER-OWNED LEAD SERVICE LINE**
3 **REPLACEMENTS? (COMMISSIONER YANORA’S LETTER QUESTION NO. 2)**

4 **A.** PAWC filed its Application on October 9, 2020, for approval of PAWC’s acquisition of
5 Valley’s water treatment and distribution facilities system (the “Water System”).
6 Additionally, PAWC, on October 9, 2020, filed its Application for approval of PAWC’s
7 acquisition of Valley’s wastewater collection and conveyance system (the “Wastewater
8 System”) (collectively referred to herein as the “Applications”). I will refer to the acquisition
9 in my testimony as the “Transaction.”

10 Once the Pennsylvania Public Utility Commission (“Commission” or “PUC”) takes
11 action on PAWC’s Applications and closing on the Transaction takes place, PAWC will
12 incorporate the Valley Water System customer-owned service lines (if any) into the
13 Company’s inventory process as part of its compliance with the Environmental Protection
14 Agency’s (“EPA”) Lead and Copper rules. PAWC will incorporate customer-owned lead
15 service lines (if any) into the Company’s lead service line replacement plan.

16
17 **Q. WHAT WERE PAWC’S EFFORTS TO INCLUDE VTWDS IN ITS TARIFF CROSS-**
18 **CONNECTION CONTROL REQUIREMENTS REGARDING 25 PA. CODE**
19 **§§ 109.709, 109.609 AND ANY APPLICABLE PROVISIONS OF THE**
20 **INTERNATIONAL PLUMBING CODE? (COMMISSIONER YANORA’S LETTER**
21 **QUESTION NO. 3)**

22 **A.** At this time, the Commission has not taken action on PAWC Applications. If the Applications
23 are approved, immediately following closing of the Transaction, Valley’s customers will be

1 subject to PAWC’s prevailing water tariff on file with, and as approved by, the Commission,
2 including all non-rate related terms and conditions of service, including cross connection
3 requirements.

4
5 **Q. PLEASE EXPLAIN A “CROSS-CONNECTION”.**

6 **A.** Cross connections are defined in the Pennsylvania Department of Environmental Protection’s
7 (“PA DEP’s”) regulations (25 Pa. Code § 109.1) as follows:

8 Cross-connection—An arrangement allowing either a direct or
9 indirect connection through which backflow, including backsiphonage, can
10 occur between the drinking water in a public water system and a system
11 containing a source or potential source of contamination, or allowing treated
12 water to be removed from any public water system, used for any purpose or
13 routed through any device or pipes outside the public water system, and
14 returned to the public water system. The term does not include connections
15 to devices totally within the control of one or more public water systems
16 and connections between water mains.
17

18 **Q. THE DEFINITION USES THE TERMS “BACKFLOW” AND**
19 **“BACKSIPHONAGE.” PLEASE EXPLAIN THOSE TERMS.**

20 **A.** In general, the terms refer to the flow of water back into a public water system from a
21 customer’s home or business. For example, some customers obtained public water service
22 after their on-lot wells became deficient in water quantity or quality. Unless the well is
23 separated from the customer’s internal plumbing system, water could backflow from a
24 compromised well into the public water supplier’s system. Backsiphonage can occur when
25 there is a substantial drop in water pressure within the public water supplier’s system, which
26 happens when there is a main break. The drop in pressure on the public water supplier’s system
27 can cause water to be siphoned from the customer’s home or business back into the water
28 distribution grid. If the “backflow” or “backsiphonage” contains contaminants or pathogens,

1 they can be distributed to the water supplied to other customers on the system, who can
2 unknowingly consume that water or use it for other potable purposes.

3
4 **Q. WHAT IS THE PRINCIPAL METHOD USED TO PREVENT THE RISKS OF**
5 **BACKFLOW AND BACKSIPHONAGE FROM CUSTOMER PREMISES THAT**
6 **POSE HIGHER RISKS OF POTENTIAL CONTAMINATION?**

7 **A.** Backflow and backsiphonage can be prevented by installing backflow prevention devices
8 between the customer's internal plumbing and a public water supplier's service line.
9 Backflow prevention devices are mentioned in Question No. 8 of Commissioner Yanora's
10 letter, and I discuss the various forms of backflow prevention later in my testimony.

11
12 **Q. DO THE PA DEP REGULATIONS IMPOSE A REQUIREMENT ON PUBLIC**
13 **WATER SUPPLIERS TO INSTALL BACKFLOW PREVENTION DEVICES?**

14 **A.** No. Section 109.608 of the PA DEP regulations addresses a public water supplier's design
15 and construction of its own facilities and provides that "a public water system may not be
16 designed or constructed in a manner which creates a cross-connection." However, the cross
17 connections that could produce backflow or backsiphonage from customers' homes and
18 businesses is addressed in Section 109.709 of the PA DEP regulations. That regulation places
19 the obligation for eliminating cross-connections on customers of public water suppliers:

20 § 109.709. Cross-connection control program.

21
22 (a) No person may introduce contaminants into a public water supply
23 through a service connection of a public water system.

24
25 (1) It shall be the responsibility of the customer to eliminate
26 cross-connections or provide backflow devices to prevent
27 contamination of the distribution system from both

1 backsiphonage and backpressure. Individual backflow
2 preventors shall be acceptable to the public water supplier.

- 3
4 (2) If the customer fails to comply with paragraph (1) within
5 a reasonable period of time, the water supplier shall
6 discontinue service after reasonable notice has been made to
7 the customer.

8
9 **Q. WHAT OBLIGATION IS IMPOSED ON A PUBLIC WATER SUPPLIER BY THE PA**
10 **DEP REGULATIONS?**

- 11 **A.** Section 109.709(b) requests a public water supplier to develop a program to enforce its
12 customers' obligation:

13 At the direction of the Department, the public water supplier
14 shall develop and implement a comprehensive control program for
15 the elimination of existing cross-connections or the effective
16 containment of sources of contaminations, and prevention of future
17 cross-connections. A description of the program, including the
18 following information, shall be submitted to the Department for
19 approval:

- 20
21 (1) A description of the methods and procedures to be used.
22
23 (2) An implementation schedule for the program.
24
25 (3) Legal authority for implementation of the program,
26 such as, by ordinance or rules.
27
28 (4) A time schedule for inspection of nonresidential
29 customers' premises for cross-connections with
30 appropriate recordkeeping.
31
32 (5) A public education program for residential customers.
33
34 (6) A description of the methods and devices which will
35 be used to protect the water system.
36
37 (7) A program for the review of plans for new users to
38 assure that no new cross-connections are developed.
39
40 (8) Provisions for discontinuance of water service, after
41 reasonable notice, to premises where cross-connections
42 exist.

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Q. HAS PAWC DEVELOPED AND IMPLEMENTED A CROSS-CONNECTION CONTROL PROGRAM?

A. Yes, it has.

Q. AS A PUBLIC UTILITY SUBJECT TO THE JURISDICTION OF THE PUC, WHAT IS THE SOURCE OF THE COMPANY’S AUTHORITY TO REQUIRE ITS CUSTOMERS TO COMPLY WITH ITS CROSS-CONNECTION PROGRAM?

A. The Company’s water service tariff includes rules that incorporate the terms of its cross-connection control program. The cross-connection program rules have been approved by the Commission.

Q. WHAT ARE THE COMPLIANCE MATERIALS OF PAWC’S EFFORTS TO INCLUDE VTWDS IN ITS OPERATION AND MAINTENANCE PLANS REQUIRED BY 25 PA. CODE § 109.702 AS THEY RELATE TO ADEQUATE, SAFE, AND REASONABLE SERVICE FOR UTILITY CUSTOMERS AND EMPLOYEES? (COMMISSIONER YANORA’S LETTER QUESTION NO. 4)

A. The Company has Operation and Maintenance Plans meeting the regulatory requirements in 25 Pa. Code § 109.702 for each of its water systems. Once the Commission takes action on PAWC’s Applications and closing on the Transaction takes place, the Company will update the Operation and Maintenance Plans to include the Valley Water System.

1 **Q. HOW WILL PAWC INTEGRATE VTWDS INTO PAWC TARIFF BACKFLOW**
2 **PREVENTION REQUIREMENTS REGARDING RESIDENTIAL FIRE**
3 **PROTECTION AND IRRIGATION AND WHETHER PAWC HAS A PLAN FOR**
4 **INSPECTION AND TESTING OF FIRE HYDRANTS? (COMMISSION YANORA'S**
5 **LETTER QUESTION NO. 8)**

6 **A.** PAWC has developed calibrated hydraulic models for water systems previously acquired. The
7 plan for the Valley Water System is consistent with this practice. PAWC will develop and
8 calibrate a hydraulic model, testing hydrants as part of the calibration process. Additionally,
9 PAWC regularly inspects and exercises valves and hydrants. PAWC plans to integrate the
10 Valley Water System into the Company's standard practices based on the Tariff requirements.

11
12 **Q. REGARDING FIRE HYDRANTS IN THE VTWDS, HAS PAWC SURVEYED THE**
13 **NUMBER OF FIRE HYDRANTS THAT DO NOT PROVIDE A MINIMUM FLOW**
14 **OF 500 PGM AT 20 PSIG? (COMMISSIONER YANORA'S LETTER QUESTION NO.**
15 **9)**

16 **A.** At this time, the Commission has not taken action on PAWC's Applications. Consequently,
17 PAWC has not surveyed Valley's fire hydrants to determine the minimum flow. The Company
18 has developed calibrated hydraulic models for systems previously acquired. The plan for the
19 Valley Water System is consistent with this practice. PAWC will develop and calibrate a
20 hydraulic model, testing hydrants as part of the calibration process. Additionally, PAWC
21 regularly inspects and exercises valves and hydrants. PAWC will integrate the Valley Water
22 System into the Company's standard practices based on the Tariff requirements.

23

1 **Q. HAS PAWC DETERMINED IF VTWDS RESIDENTIAL CUSTOMERS HAVE**
2 **AMERICAN SOCIETY OF SANITARY ENGINEERS 1024 BACKFLOW**
3 **ASSEMBLIES INSTALLED AT METER LOCATIONS? (COMMISSIONER**
4 **YANORA’S LETTER QUESTION NO. 10)**

5 **A.** At this time, the Commission has not taken action on PAWC’s Applications. Consequently,
6 PAWC has not undertaken an assessment of the customer-owned backflow assemblies.

7

8 **Q. FINALLY, HAS PAWC EVALUATED THE VTWDS LOST AND UNACCOUNTED-**
9 **FOR WATER PERFORMANCE SINCE 2018? (COMMISSIONER YANORA’S**
10 **LETTER QUESTION NO. 11)**

11 **A.** At this time, the Commission has not taken action on PAWC’s Applications. Consequently,
12 PAWC has not completed an evaluation to determine a precise estimate of the Valley Water
13 System’s lost and unaccounted-for water performance since 2018.

14

15 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

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

PAWC EXHIBITS MJG-4W AND MJG-4WW
COMMISSIONER RALPH V. YANORA'S
LETTER DATED JULY 1, 2021



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

RALPH V. YANORA
COMMISSIONER

July 1, 2021

Rosemary Chiavetta
Secretary, PA Public Utility Commission
400 North Street
Harrisburg, PA 17120

Re: Application of Pennsylvania-American Water Company Pursuant to Sections 507, 1102, and 1329 of the Public Utility Code for Approval of its Acquisition of the Valley Township Water Treatment and Distribution System and Valley Township Wastewater Collection and Conveyance System; Docket Nos. A-2020-3019859, A-2020-3020178

Dear Secretary Chiavetta,

Pursuant to Section 106 of the Procedures Manual of the Pennsylvania Public Utility Commission, I request that you inform the appropriate parties of the following issues that I wish the parties to examine in the above-referenced docket.

- 1) The estimated number of company-owned lead service lines and the number of customer-owned lead service lines in the Valley Township water distribution system (VTWDS);
- 2) PAWC's efforts to include VTWDS in its Act 120 of 2018, 66 Pa. C.S. § 1311(b)(2), customer-owned lead service line replacements;
- 3) PAWC's efforts to include VTWDS in its tariff cross-connection control requirements regarding 25 Pa. Code §§ 109.709, 109.609 and any applicable provisions of the International Plumbing Code;
- 4) Compliance materials of PAWC's efforts to include VTWDS in its operation and maintenance plans required by 25 Pa. Code §109.702 as they relate to adequate, safe, and reasonable service for utility customers and employees;
- 5) The number of VTWDS commercial meters in the system, the number tested, and the number passed or failed for year 2020;
- 6) The number of VTWDS valves exercised in calendar year 2020 and the frequency of valve maintenance;

- 7) The number of VTWDS commercial and industrial customers that have testable backflow prevention devices and the number of devices that were tested for calendar year 2020;
- 8) The integration of VTWDS into PAWC tariff backflow prevention requirements regarding residential fire protection and irrigation and whether PAWC has a plan for inspection and testing of fire hydrants;
- 9) Whether PAWC has surveyed the number of VTWDS fire hydrants that do not provide a minimum flow of 500 gpm at 20 psig;
- 10) Whether PAWC has determined if VTWDS residential customers have American Society of Sanitary Engineers 1024 backflow assemblies installed at meter locations; and
- 11) Whether PAWC has evaluated the VTWDS lost and unaccounted water performance since 2018 and any relevant results.

Thank you for your attention to this matter. Please contact Shaun Sparks of my office at 717-787-3464 or shsparks@pa.gov should you have any questions regarding my request.

**Application of Pennsylvania-American Water Company for Acquisition of
the Water Assets of Valley Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3019859**

13. Seller Testimony
- a. Provide seller direct testimony supporting the application, if any.
 - b. Provide seller UVE direct testimony.

RESPONSE:

- a. See enclosed the Direct Testimony of Patrice Proctor, Chairwoman of the Board of Supervisors on behalf of Valley, **VT Statement No. 1 W.**
- b. See enclosed the Direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming on behalf of Valley, **VT Statement No. 2 W.**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**VALLEY TOWNSHIP
STATEMENT NO. 1 W**

DIRECT TESTIMONY OF

PATRICE PROCTOR

CHAIRWOMAN, BOARD OF SUPERVISORS

VALLEY TOWNSHIP

With Regard To

A General Overview of the Transaction

Valley’s Water System and Operations

Benefits of the Proposed Transaction

Valley’s Rates

October 9, 2020

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A.** My name is Patrice Proctor. My business address is 1145 West Lincoln Highway,
4 Coatesville, PA 19320.

5 **Q. In what capacity are you affiliated with Valley Township?**

6 **A.** I am the Chairwoman of the Board of Supervisors (the “Board”) for Valley Township
7 (“Valley” or the “Township”). The Board is Valley’s governing body, comprised of five
8 members who are elected to six-year terms. The Board appoints the members of the
9 various advisory boards, commissions and authorities. An administrative staff, led by the
10 Township Manager, coordinates and directs the work to various township departments
11 and carries out the administrative policies of the Board.

12

13 **Q. Please provide a brief description of your education and work experience.**

14 I graduated from Peirce College with an Associate of Science degree in 1978, and from
15 Penn State University with a Bachelor of Science degree in 1980. I have served as one of
16 Valley’s Supervisors since I was first appointed to fill an unexpired term in 2002, before
17 being elected to the Board for the first time in 2003. Prior to that, I worked as a
18 Supervisor for Vanguard and for Providian Insurance.

19

20 **Q. Have you testified before the Pennsylvania Public Utility Commission (“PUC” or**
21 **“Commission”) before?**

22 **A.** No.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **Q. On whose behalf are you testifying in this proceeding?**

2 **A.** My testimony is on behalf of the Township and in support of the application of
3 Pennsylvania-American Water Company (“PAWC”) to purchase the Township’s water
4 system (the “System”) in this proceeding.

5
6 **Q. What are the purposes of your direct testimony and summarize the key points.**

7 **A.** The purpose of my testimony is as follows: (1) to provide a description of the System,
8 (2) to describe the anticipated benefits of the sale of the System assets to PAWC under
9 and in accordance with an Asset Purchase Agreement dated as of December 17, 2019
10 between the Township and PAWC (the “Proposed Transaction”), and (3) to describe how
11 Valley sets its annual rates.

12 In particular, I will focus on the numerous benefits of the Proposed Transaction that are
13 most important to Valley and the customers who use the System, including:

- 14 • Improving Valley’s financial condition and outlook by increasing its reserve fund
15 balance considerably, providing it with the ability to mitigate against the risk of
16 revenue shortfalls, allowing it the flexibility to undertake necessary future non-
17 System related capital projects, enabling redevelopment, eliminating debt, and
18 potentially lowering the total cost of residency for residents through tax stabilization;
- 19 • Enabling Valley to reallocate of its administration time to focus on other key
20 initiatives of the Township;
- 21 • PAWC already provides water service to some Township residents, which provides
22 synergies;
- 23 • The preservation of all jobs related to the System;

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

- 1 • Adding property to Valley’s property tax rolls through increased development
2 opportunities;
- 3 • Benefits from PAWC’s expertise, long-standing capital improvement programs, and
4 its experience in improving and correcting systems with compliance issues;
- 5 • Township residents will benefit from enhanced customer service and operational
6 functions through expanded customer service center hours, additional payment
7 options (including by phone or online), enhanced customer information and education
8 programs, access to PAWC’s customer assistance program, and PAWC’s team of
9 experienced water and wastewater professionals;
- 10 • PAWC’s capability to make long-term investments in necessary capital
11 improvements to the water system;
- 12 • PAWC’s proven record of environmental stewardship for the operation of water
13 systems; and
- 14 • Regulation of the service provided to Valley’s customers will fall under PUC
15 jurisdiction, which will ensure regulatory oversight, require approval for all rate
16 increases, and provide significant consumer protections.

17

18 **Q. Are you sponsoring any Exhibits with your testimony?**

19 **A.** No.

20

21 **II. DESCRIPTION OF VALLEY AND ITS WATER SYSTEM**

22 **Q. Please provide a general overview of Valley.**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **A.** Valley was formed in 1852. It is a Township of the Second Class located in Chester
2 County, Pennsylvania. The size of the Township is approximately six (6) square miles.
3 The Township is governed by its Board. Presently, there are approximately 7,600
4 residents in the Township. According to the 2016 American Community Survey by the
5 U.S. Bureau of the Census, the Township’s median household income is \$57,415.

6
7 **Q.** **Please provide a description of the Township’s water system.**

8 **A.** The Township owns, operates and maintains the System, which distributes approximately
9 65 million gallons per year of drinking water to approximately 1,669 customers. The
10 System provides water service to Township residents, as well as 22 residents of West
11 Caln Township and East Fallowfield Township. The System is supplied by Township-
12 owned wells and bulk water purchased from PAWC. The Township owns and operates
13 the Mineral Springs Water Treatment Plant (“WTP”), three public water supply wells,
14 one 150,000 gallon elevated tank, and approximately 22 miles of water mains for public
15 water use.

16
17 **Q.** **Please confirm that the water sources and water system customers are metered in**
18 **accordance with 52 Pa. Code § 65.7?**

19 **A.** Yes, the water sources and water system customers are metered in accordance with 52 Pa.
20 Code § 65.7.

21
22 **Q.** **Please provide an overview of any compliance issues with the water system**
23 **experienced by the Township.**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **A.** Valley is party to an April 28, 2020 consent decree (the “Consent Decree”) with the
2 Commonwealth of Pennsylvania Department of Environmental Protection (“DEP”). The
3 violations detailed in the Consent Decree stemmed from the Township’s failure to submit
4 (a) requisite certifications to the DEP relating to the completion of an Uninterrupted
5 System Service Plan (“USSP”) and (b) a Comprehensive Monitoring Plan (“CMP”) to
6 assure that all sources, purchased interconnections and entry points are included in
7 compliance monitoring at the entry points and in the distribution system. To rectify these
8 issues, the Township agreed to do the following within 30 days of execution of the
9 Consent Decree: (a) submit the requisite CMPs to the DEP and (b) develop the requisite
10 USSPs and certify as to their completion to the DEP. The Township also agreed to pay a
11 civil penalty of \$3,000. Valley’s Board ratified and publicly approved the Consent
12 Decree on May 12, 2020, and has since fully complied with it.

13

14 **III. SALE PROCESS**

15 **Q. Please describe the Township’s decision process in concluding that a sale of the**
16 **water system was in the best interest of the Township.**

17 **A.** The decision to sell the System (in addition to the Township’s wastewater system) was
18 the result of deliberate consideration by the Township, its administration and our
19 residents. We undertook a thorough process, along with capable outside experts, to value
20 the System, assess future costs of capital and revenue requirements, evaluate the ongoing
21 time commitments of Township personnel to address System issues, and carefully
22 consider from various stakeholder points of view the numerous qualitative and
23 quantitative factors that weigh in favor of or against the Township keeping the

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 System. We weighed and balanced issues at numerous public meetings and working
2 sessions that addressed the Proposed Transaction.

3 Ultimately, the decision to sell resulted from three main considerations. First, the
4 Township desired to exit the water business and instead focus its resources and energy on
5 other core government functions while ensuring safe and reasonable service at affordable
6 rates for its residents. Second, the System's aging infrastructure will require additional
7 investment over time, which we project will cause significant rate increases if the System
8 remains with the Township. Third, the Township desired to generate significant up-front
9 sale proceeds to be used for other Township purposes.

10 After the Township made the decision to sell the System based on these considerations,
11 we issued a request for bids. PAWC submitted the only bid for the System in the amount
12 of \$7,325,000.00 (along with a bid for \$13,950,000.00 for the Township's wastewater
13 system). We determined that this bid was in the best interest of, and provided the greatest
14 value to, Valley, and so it was accepted.

15
16 **Q. Did the Township request public input on the sale?**

17 **A.** Yes, multiple public meetings were held in the Township to receive input from residents
18 on the state of the System and the advantages and disadvantages of the potential sale.
19 The potential sale was discussed at a public Board meeting at every significant juncture
20 in the Proposed Transaction process, including prior to engaging PFM Financial Advisors
21 LLC ("PFM") as our consultant, prior to releasing the request for bid from qualified
22 firms, shortly after the bidding deadline occurred, and when the Board unanimously
23 chose to accept PAWC's bid.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 A full chronology of the public process undertaken regarding the potential sale is as
2 follows:

- 3 • June 4, 2019: The Board publicly entered into an agreement with PFM for “Phase
4 II and III” evaluations and services, in which PFM undertook outreach to
5 potential investors and/or system operators to confirm market interest in candidate
6 assets, establishment of a timeline for potential transactions, and identification of
7 key issues;
- 8 • October 1, 2019: Following pre-qualifications of interested purchasers, the Board
9 publicly authorized PFM to proceed with the release of a request for bids;
- 10 • October 18, 2019: The Township released its Request for Bids;
- 11 • November 18, 2019: PAWC submitted a bid for the purchase of Township water
12 and sanitary sewer systems in the amount of \$21,275,000 (\$13,950,000 for the
13 sanitary sewer system; and \$7,325,000 for the water system);
- 14 • December 3, 2019: The Board held a public meeting where it provided an update
15 on the PAWC bid and authorized the delivery of a letter to all Township residents
16 regarding the proposed Board action to be taken with respect to the sale; and
- 17 • December 17, 2019: After a presentation from PFM and public comment from
18 Township residents, the Board accepted PAWC’s bid.

19
20 **Q. Did the Board hold a vote at a regularly scheduled public meeting on the sale,**
21 **following input from the Township residents?**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 A. Yes, the Board decided that the Proposed Transaction is in the best interests of the
2 Township. After numerous public meetings, as detailed above, the Board unanimously
3 voted on December 17, 2019 to accept PA American Water’s bid.
4

5 **Q. Please describe the process that the Township used to hire a Utility Valuation**
6 **Expert (“UVE”) for the transaction.**

7 A. When the Board voted to unanimously accept PAWC’s bid on December 17, 2019, it also
8 authorized me to take all steps necessary to effectuate the award, including seeking
9 proposals from and selecting a UVE. On April 20, 2020, the Township received a
10 proposal from Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett
11 Fleming”), which was accepted after review and consideration. Gannett Fleming is not
12 affiliated with the Township.
13

14 **IV. BENEFITS OF THE PROPOSED TRANSACTION**

15 **Q. Please describe the benefits of the Proposed Transaction for Valley.**

16 A. Valley will benefit from the Proposed Transaction as it will transfer its water assets to a
17 long-standing and well-run utility – PAWC. There are three key benefits of the Proposed
18 Transaction to the Township and its residents. The sale will (1) improve the Township’s
19 financial condition and outlook, (2) enable the Township to reallocate its administration
20 time to focus on other key initiatives of the Township, and (3) provide for synergies
21 given that PAWC already provides a portion of the Township’s water and treats the
22 Township’s wastewater.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 First, the Proposed Transaction will greatly improve the Township's financial condition.
2 Most notably, the proceeds of the sale will provide the Township with a significantly
3 increased reserve fund balance. Currently, the Township's reserve fund is
4 approximately \$1,166,367.43. The proceeds of the Proposed Transaction would increase
5 this amount by \$7,325,000 – an amount that is more than 1.5 times the Township's
6 typical yearly revenue (approximately \$4,760,455). Not only will this provide the
7 Township with great flexibility, but it also provides significant liquidity to allow the
8 Township to weather any sort of emergency it may face. At the time the Proposed
9 Transaction was contemplated, such an emergency was purely theoretical. However, in
10 these uncertain times, and facing a pandemic, the need for liquidity in order to weather
11 the storm is all too real due to anticipated future revenue shortfalls. The sale of the
12 System would provide the Township with the security blanket that simply can no longer
13 be taken for granted. In the event that these funds can be allocated elsewhere, they would
14 help allow for redevelopment opportunities that would otherwise not be attainable. This
15 is significant given the limited development opportunities at present in the Township.
16 Moreover, this financial stability would help both eliminate debt and mitigate against the
17 risk of future revenue shortfalls.

18 Second, with respect to reallocating administrative time and expense, given the time and
19 economic impact on the Township of dealing with the System, by reallocating Township
20 administration time to focusing on other key initiatives of the Township, the Proposed
21 Transaction will provide significant public benefits.

22 Finally, PAWC already provides a portion of the Township's water and treats the
23 Township's wastewater. My understanding is that because of this, the Proposed

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 Transaction will allow for synergies, such as the fact that the water and wastewater
2 operations in Valley will both be supported by common shared support services. These
3 benefits include more efficient combined billing processes and capital replacement
4 planning and execution.

5
6 **Q. Please describe any further benefits from the Proposed Transaction.**

7 **A.** The Township will realize many additional benefits from the sale of its water system to
8 PAWC. These benefits include, but are not limited to, the following:

- 9 • The preservation of all jobs related to the System;
- 10 • Adding property to the Township's property tax rolls through increased development
11 opportunities;
- 12 • PAWC can draw upon a broad range of engineering and operational experience, as
13 well as deeper financial resources than are available to the Township, to address the
14 environmental compliance challenges of the System;
- 15 • The Township will benefit from PAWC's capital improvement programs, and its
16 experience in improving and correcting systems with compliance issues.
- 17 • Valley residents will benefit from enhanced customer service and operational
18 functions through expanded customer service center hours, additional payment
19 options (including by phone or online), enhanced customer information and
20 education programs, access to PAWC's customer assistance program, and PAWC's
21 team of experienced water and wastewater professionals;
- 22 • PAWC's capability to make long-term investments in necessary capital
23 improvements to the System; and

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

- 1 • PAWC's proven record of environmental stewardship for the operation of water
2 systems.

3

4 **Q. Do you believe that the Proposed Transaction provides affirmative public benefits of**
5 **a substantial nature and is in the public interest?**

6 **A.** Yes. For the reasons set forth above, I believe that the Proposed Transaction provides
7 substantial affirmative public benefits and is in the public interest. I urge the
8 Commission to promptly approve the Proposed Transaction.

9

10 **V. RATES**

11 **Q. How does Valley set the rates it charges customers for water service?**

12 **A.** Rates are governed by the Valley Township Code, and are set by the Board by ordinance
13 after consideration of the costs of providing service. Any rate increases must be approved
14 by the Board through an ordinance.

15

16 **Q. How frequently does Valley adjust rates?**

17 **A.** Rates have only been increased when necessary. Over the past decade, Valley adjusted
18 rates one (1) times: the rates were raised once in 2011 from \$80.33 per quarter to \$84.35.

19

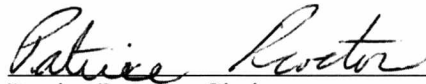
20 **VI. CONCLUSION**

21 **Q. Does this conclude your testimony?**

22 **A.** Yes, it does. However, I reserve the right to file additional testimony at a later date as
23 may be necessary or appropriate.

VERIFICATION

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



Patrice Proctor, Chairwoman
Valley Township Board of Supervisors

Dated: *October 7, 2020*

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Valley Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3020178**

13. Seller Testimony
- a. Provide seller direct testimony supporting the application, if any.
 - b. Provide seller UVE direct testimony.

RESPONSE:

- a. See enclosed the Direct Testimony of Patrice Proctor, Chairwoman, Board of Supervisors on behalf of Valley Township, **VT Statement No. 1WW**.
- b. See enclosed the Direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming on behalf of Valley Township, **VT Statement No. 2WW**.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

**VALLEY TOWNSHIP
STATEMENT NO. 1 WW**

DIRECT TESTIMONY OF

PATRICE PROCTOR

CHAIRWOMAN, BOARD OF SUPERVISORS

VALLEY TOWNSHIP

With Regard To

A General Overview of the Transaction

Valley’s Wastewater Collection and Treatment System and Operations

Benefits of the Proposed Transaction

Valley’s Rates

October 9, 2020

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 I. **INTRODUCTION**

2 Q. **Please state your name and business address.**

3 A. My name is Patrice Proctor. My business address is 1145 West Lincoln Highway,
4 Coatesville, PA 19320.

5
6 Q. **In what capacity are you affiliated with Valley Township?**

7 A. I am the Chairwoman of the Board of Supervisors (the “Board”) for Valley Township
8 (“Valley” or the “Township”). The Board is Valley’s governing body, comprised of five
9 members who are elected to six-year terms. The Board appoints the members of the
10 various advisory boards, commissions and authorities. An administrative staff, led by the
11 Township Manager, coordinates and directs the work to various township departments
12 and carries out the administrative policies of the Board.

13
14 Q. **Please provide a brief description of your education and work experience.**

15 I graduated from Peirce College with an Associate of Science degree in 1978, and from
16 Penn State University with a Bachelor of Science degree in 1980. I have served as one of
17 Valley’s Supervisors since I was appointed to fill an unexpired term in 2002 before being
18 elected to the Board for the first time in 2003. Prior to that, I worked as a Supervisor for
19 Vanguard and for Providian Insurance.

20
21 Q. **Have you testified before the Pennsylvania Public Utility Commission (“PUC” or
22 “Commission”) before?**

23 A. No.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **Q. On whose behalf are you testifying in this proceeding?**

2 **A.** My testimony is on behalf of the Township and in support of the application of
3 Pennsylvania-American Water Company (“PAWC”) to purchase the Township’s
4 wastewater collection and treatment system (the “System”) in this proceeding.

5
6 **Q. What are the purposes of your direct testimony and summarize the key points.**

7 **A.** The purpose of my testimony is as follows: (1) to provide a description of the System,
8 (2) to describe the anticipated benefits of the sale of the System assets to PAWC under
9 and in accordance with an Asset Purchase Agreement dated as of December 17, 2019
10 between the Township and PAWC (the “Proposed Transaction”), and (3) to describe how
11 Valley sets its annual rates.

12 In particular, I will focus on the numerous benefits of the Proposed Transaction that are
13 most important to Valley and the customers who use the System, including:

- 14 • Improving Valley’s financial condition and outlook by increasing its reserve fund
15 balance considerably, providing it with the ability to mitigate against the risk of
16 revenue shortfalls, allowing it the flexibility to undertake necessary future non-
17 System related capital projects, enabling redevelopment, eliminating debt, and
18 potentially lowering the total cost of residency for residents through tax stabilization;
- 19 • Enabling Valley to reallocate its administration time to focus on other key initiatives
20 of the Township;
- 21 • PAWC already provides wastewater treatment service to Township residents through
22 its treatment plant in Coatesville, which provides synergies;
- 23 • The preservation of all jobs related to the System;

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

- 1 • Adding property to Valley’s property tax rolls through increased development
2 opportunities;
- 3 • Benefits from PAWC’s expertise, long-standing capital improvement programs, and
4 its experience in improving and correcting systems with compliance issues;
- 5 • Township residents will benefit from enhanced customer service and operational
6 functions through expanded customer service center hours, additional payment
7 options (including by phone or online), enhanced customer information and education
8 programs, access to PAWC’s customer assistance program, and PAWC’s team of
9 experienced water and wastewater professionals;
- 10 • PAWC’s capability to make long-term investments in necessary capital
11 improvements to the wastewater system;
- 12 • PAWC’s proven record of environmental stewardship for the operation of wastewater
13 systems; and
- 14 • Regulation of the service provided to Valley’s customers will fall under PUC
15 jurisdiction, which will ensure regulatory oversight, require approval for all rate
16 increases, and provide significant consumer protections.

17

18 **Q. Are you sponsoring any Exhibits with your testimony?**

19 **A. No.**

20

21 **II. DESCRIPTION OF VALLEY AND ITS WASTEWATER SYSTEM**

22 **Q. Please provide a general overview of Valley.**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **A.** Valley was formed in 1852. It is a Township of the Second Class located in Chester
2 County, Pennsylvania. The size of the Township is approximately six (6) square miles.
3 The Township is governed by its Board. Presently, there are approximately 7,600
4 residents in the Township. According to the 2016 American Community Survey by the
5 U.S. Bureau of the Census, the Township’s median household income is \$57,415.

6
7 **Q.** **Please provide a description of the Township’s wastewater system.**

8 **A.** The Township owns, operates and maintains the System, consisting of a sanitary
9 wastewater collection and conveyance system made up of approximately thirty-nine (39)
10 miles of interceptors, force mains, and tributary collection sewers. Collected wastewater
11 is transmitted to the treatment plant owned by PAWC in Coatesville, Pennsylvania (the
12 Coatesville District Wastewater Treatment Plant).

13 The System serves approximately 3,164 customers. The System collects and conveys
14 sanitary wastewater from Township residents, as well as 30 residents of West Caln
15 Township, Sadsbury Township and East Fallowfield Township.

16
17 **Q.** **Please provide an overview of any compliance issues with the wastewater system**
18 **experienced by the Township.**

19 **A.** The Township currently has an Act 537 plan with the Pennsylvania Department of
20 Environmental Protection (“DEP”), which identifies and documents the Township’s
21 sewage disposal needs.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **III. SALE PROCESS**

2 **Q. Please describe the Township’s decision process in concluding that a sale of the**
3 **wastewater system was in the best interest of the Township.**

4 **A. The decision to sell the System (in addition to the Township’s water system) was the**
5 **result of deliberate consideration by the Township, its administration and our residents.**

6 We undertook a thorough process, along with capable outside experts, to value the
7 System, assess future costs of capital and revenue requirements, evaluate the ongoing
8 time commitments of Township personnel to address System issues, and carefully
9 consider from various stakeholder points of view the numerous qualitative and
10 quantitative factors that weigh in favor of or against the Township keeping the
11 System. We weighed and balanced issues at numerous public meetings and working
12 sessions that addressed the Proposed Transaction.

13 Ultimately, the decision to sell resulted from three main considerations. First, the
14 Township desired to exit the sanitary sewer business and instead focus its resources and
15 energy on other core government functions while ensuring safe and reasonable service at
16 affordable rates for its residents. Second, the System’s aging infrastructure will require
17 additional investment over time, which we project will cause significant rate increases if
18 the System remains with the Township. Third, the Township desired to generate
19 significant up-front sale proceeds to be used for other Township purposes.

20 After the Township made the decision to sell the System based on these considerations,
21 we issued a request for bids. PAWC submitted the only bid for the System in the amount
22 of \$13,950,000.00 (along with a bid for \$7,325,000.00 for the Township’s water system).

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 We determined that this bid was in the best interest of, and provided the greatest value to,
2 Valley, and so it was accepted.

3

4 **Q. Did the Township request public input on the sale?**

5 **A.** Yes, multiple public meetings were held in the Township to receive input from residents
6 on the state of the System and the advantages and disadvantages of the potential sale.

7 The potential sale was discussed at a public Board meeting at every significant juncture

8 in the Proposed Transaction process, including prior to engaging PFM Financial Advisors

9 LLC (“PFM”) as our consultant, prior to releasing the request for bid from qualified

10 firms, shortly after the bidding deadline occurred, and when the Board unanimously

11 chose to accept PAWC’s bid.

12 A full chronology of the public process undertaken regarding the potential sale is as

13 follows:

- 14 • June 4, 2019: The Board publicly entered into an agreement with PFM for “Phase
15 II and III” evaluations and services, in which PFM undertook outreach to
16 potential investors and/or system operators to confirm market interest in candidate
17 assets, establishment of a timeline for potential transactions, and identification of
18 key issues;
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20 publicly authorized PFM to proceed with the release of a request for bids;
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VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

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8 Township residents, the Board accepted PAWC's bid.

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10 **Q. Did the Board hold a vote at a regularly scheduled public meeting on the sale,**
11 **following input from Township residents?**

12 **A.** Yes, the Board decided that the Proposed Transaction is in the best interests of the
13 Township. After numerous public meetings, as detailed above, the Board unanimously
14 voted on December 17, 2019 to accept PAWC's bid.

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16 **Q. Please describe the process that the Township used to hire a Utility Valuation**
17 **Expert ("UVE") for the transaction.**

18 **A.** When the Board voted to unanimously accept PAWC's bid on December 17, 2019, it also
19 authorized me to take all steps necessary to effectuate the award, including seeking
20 proposals from and selecting a UVE. On May 28, 2020, the Township received a
21 proposal from Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett
22 Fleming"), which was accepted after review and consideration. Gannett Fleming is not
23 affiliated with the Township.

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **IV. BENEFITS OF THE PROPOSED TRANSACTION**

2 **Q. Please describe the benefits of the Proposed Transaction for Valley.**

3 **A. Valley will benefit from the Proposed Transaction as it will transfer its wastewater assets**
4 **to a long-standing and well-run utility – PAWCWC. There are three key benefits of the**
5 **Proposed Transaction to the Township and its residents. The sale will (1) improve the**
6 **Township’s financial condition and outlook, (2) enable the Township to reallocate its**
7 **administration time to focus on other key initiatives of the Township, and (3) provide for**
8 **synergies given that PAWC already provides a portion of the Township’s water and treats**
9 **the Township’s wastewater.**

10 **First, the Proposed Transaction will greatly improve the Township’s financial condition.**
11 **Most notably, the proceeds of the sale will provide the Township with a significantly**
12 **increased reserve fund balance. Currently, the Township’s reserve fund is approximately**
13 **\$1,166,367.43. The proceeds of the Proposed Transaction would increase this amount by**
14 **\$13,950,000 – an amount that is more than 2.9 times the Township’s typical yearly**
15 **revenue (approximately \$4,760,455). Not only will this provide the Township with great**
16 **flexibility, but it also provides significant liquidity to allow the Township to weather any**
17 **sort of emergency it may face. At the time the Proposed Transaction was contemplated,**
18 **such an emergency was purely theoretical. However, in these uncertain times, and facing**
19 **a pandemic, the need for liquidity in order to weather the storm is all too real due to**
20 **anticipated future revenue shortfalls. The sale of the System would provide the**
21 **Township with the security blanket that simply can no longer be taken for granted. In the**
22 **event that these funds can be allocated elsewhere, they would help allow for**
23 **redevelopment opportunities that would otherwise not be attainable. This is significant**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 given the limited development opportunities at present in the Township. Moreover, this
2 financial stability would help both eliminate debt and mitigate against the risk of future
3 revenue shortfalls.

4 Second, with respect to reallocating administrative time and expense, given the time and
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7 Transaction will provide significant public benefits.

8 Finally, PAWC already provides a portion of the Township's water and treats the
9 Township's wastewater. My understanding is that because of this, the Proposed
10 Transaction will allow for synergies, such as the fact that the water and wastewater
11 operations in Valley will both be supported by common shared support services. These
12 benefits include more efficient combined billing processes and capital replacement
13 planning and execution.

14
15 **Q. Please describe any further benefits from the Proposed Transaction.**

16 **A.** The Township will realize many additional benefits from the sale of its wastewater
17 system to PAWC. These benefits include, but are not limited to, the following:

- 18 • The preservation of all jobs related to the System;
- 19 • Adding property to the Township's property tax rolls through increased development
20 opportunities;
- 21 • PAWC can draw upon a broad range of engineering and operational experience, as
22 well as deeper financial resources than are available to the Township, to address the
23 environmental compliance challenges of the wastewater system such as: the retrofit

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 and maintenance of aging pump stations; the installation of pump station meters and
2 flow data loggers; sanitary sewer inflow and infiltration elimination; industrial
3 pretreatment program management; fats, oils and grease (FOG) maintenance
4 program management; sanitary sewer pipe capacity upgrades; and permitting.

- 5 • The Township will benefit from PAWC's capital improvement programs, and its
6 experience in improving and correcting systems with compliance issues.
- 7 • Valley residents will benefit from enhanced customer service and operational
8 functions through expanded customer service center hours, additional payment
9 options (including by phone or online), enhanced customer information and
10 education programs, access to PAWC's customer assistance program, and PAWC's
11 team of experienced water and wastewater professionals;
- 12 • PAWC's capability to make long-term investments in necessary capital
13 improvements to the wastewater system; and
- 14 • PAWC's proven record of environmental stewardship for the operation of
15 wastewater systems.

16
17 **Q. Do you believe that the Proposed Transaction provides affirmative public benefits of**
18 **a substantial nature and is in the public interest?**

19 **A. Yes. For the reasons set forth above, I believe that the Proposed Transaction provides**
20 **substantial affirmative public benefits and is in the public interest. I urge the**
21 **Commission to promptly approve the Proposed Transaction.**

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 V. RATES

2 Q. How does Valley set the rates it charges wastewater customers?

3 A. Rates are governed by the Valley Township Code, and are set by the Board by ordinance
4 after consideration of the costs of providing service. Any rate increases must be approved
5 by the Board through an ordinance.

6

7 Q. How frequently does Valley adjust rates?

8 A. Rates have only been increased when necessary. Over the past decade, Valley adjusted
9 rates three (3) times: the quarterly sewer rates were raised twice in 2011 and once again
10 in 2012, from \$160.14 per quarter to \$220.00 per quarter.

11

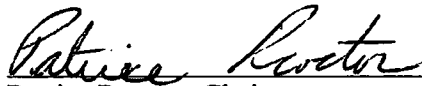
12 VI. CONCLUSION

13 Q. Does this conclude your testimony?

14 A. Yes, it does. However, I reserve the right to file additional testimony at a later date as
15 may be necessary or appropriate.

VERIFICATION

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



Patrice Proctor, Chairwoman
Valley Township Board of Supervisors

Dated: 10-7-2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

VALLEY TOWNSHIP

STATEMENT NO. 2W

DIRECT TESTIMONY

OF

HAROLD WALKER, III

FAIR MARKET VALUE APPRAISAL

September 16, 2020

Prepared by:

GANNETT FLEMING
VALUATION AND RATE CONSULTANTS, LLC



Valley Forge, Pennsylvania

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INTRODUCTION

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21

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

A. My name is Harold Walker III and my business address is 1010 Adams Avenue, Audubon, Pennsylvania.

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

A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”) as Manager, Financial Studies.

Q. WOULD YOU DESCRIBE BRIEFLY GANNETT FLEMING?

A. Yes. Since 1915, Gannett Fleming and its predecessors have been helping clients in public pricing policy and related financial matters for managerial purposes, before regulatory commissions and courts of law. Gannett Fleming is registered as a Utility Valuation Expert (“UVE”) in the Commonwealth of Pennsylvania. Gannett Fleming is also a registered Municipal Advisor with the SEC and I am a licensed Municipal Advisor Representative (Series 50) with the Municipal Securities Rulemaking Board (“MSRB”) and the Financial Industry Regulatory Authority (“FINRA”). Gannett Fleming is a subsidiary of Gannett Fleming, Inc.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, FINANCIAL STUDIES OF GANNETT FLEMING?

1 **A.** I supervise and develop financial and economic studies on behalf of investor-owned and
2 municipally-owned water, wastewater, electric, natural gas distribution and transmission,
3 oil pipeline, and telephone utilities, as well as resource-recovery companies.

4
5 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND YOUR EDUCATIONAL**
6 **BACKGROUND AND EMPLOYMENT EXPERIENCE?**

7 **A.** My educational background, business experience and qualifications are provided in a
8 Curriculum Vitae included as **Appendix A.**

9
10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
11 **PUBLIC UTILITY COMMISSION?**

12 **A.** Yes. I have testified before the Pennsylvania Public Utility Commission (“Commission”
13 or “PUC”), as well as other state regulatory commissions, on many occasions, as shown on
14 **Appendix A.**

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

17 **A.** My testimony describes and explains the fair market value appraisal of the Valley
18 Township (“Township”) water system assets (“Water System”) that I and staff, working
19 under my direction, performed. Gannett Fleming was engaged by the Township to perform
20 this appraisal. Our report is entitled “Valley Township Water System Assets Fair Market
21 Value Appraisal at March 31, 2020. (“Gannett Fleming Appraisal Report”). The appraisal
22 and its report was developed to meet the criteria established in Section 1329 of the

1 Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329 (“Determination of the fair
2 market value of water and wastewater assets”).

3 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
4 2016 and Governor Wolf signed Act 12 into law adding Section 1329 of the Code which
5 established the legislative requirements facilitating the acquisition of municipal and
6 authority water and wastewater systems by private investor-owned utilities and other
7 entities which are rate-regulated by the Commission. This legislation was intended to
8 facilitate the acquisition of water and wastewater systems in order to facilitate capital
9 improvements to the water and wastewater properties.

10
11 **QUALIFICATION AS UTILITY VALUATION EXPERT**

12 **Q. IS GANNETT FLEMING ON THE COMMISSION’S REGISTRY OF UTILITY
13 VALUATION EXPERTS?**

14 **A.** Yes. Gannett Fleming is a UVE in the Commonwealth of Pennsylvania approved by the
15 PUC (Utility Code 9919244).

16
17 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH GANNETT FLEMING WAS
18 PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION
19 EXPERTS.**

20 **A.** After passage of Section 1329 of the Code, the Commission established an application
21 process by which the Commission would approve and designate firms to be placed on the
22 Commission’s “Registry of Utility Valuation Experts.” To be included on the registry, the
23 UVEs must establish their qualifications. Gannett Fleming submitted its original

1 application and the required proof of experience in September of 2016 and received
2 confirmation and approval from the Commission of Gannett Fleming's placement on the
3 Commission's UVE Registry in December of 2016. Renewal of inclusion on the
4 Commission's UVE Registry must be done annually. Gannett Fleming submitted its 2018
5 renewal application and the required proof of experience in December of 2017 and received
6 confirmation and approval from the Commission of Gannett Fleming's placement on the
7 Commission's UVE Registry in January of 2018. In 2018, Gannett Fleming submitted its
8 2019 renewal application and the required proof of experience in December of 2018 and
9 received confirmation and approval from the Commission of Gannett Fleming's placement
10 on the Commission's UVE Registry in January of 2019. Again in 2019, Gannett Fleming
11 submitted its 2020 renewal application and the required proof of experience in December
12 of 2019 and received confirmation and approval from the Commission of Gannett
13 Fleming's placement on the Commission's UVE Registry in January of 2020.

14
15 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
16 **OR SUSPENDED?**

17 **A.** No.

18
19 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
20 **APPRAISAL OF UTILITY ASSETS?**

21 **A.** Yes. In addition to serving as an expert witness on various financial and economic matters
22 before utility regulatory commissions for over 30 years, I have also provided valuations of
23 utility assets services for more than 20 years. In that capacity I have testified on valuation

1 matters before the Commission and sponsored or adopted Gannett Fleming's UVE
2 appraisals in Section 1329 of the Code in the New Garden Township proceeding, the
3 Limerick Township proceeding, the East Bradford Township proceeding, the Mahoning
4 Township (water) proceeding, the Mahoning Township (wastewater) proceeding, the
5 Exeter Township proceeding, the Cheltenham Township proceeding, the East Norriton
6 Township proceeding, the Kane Borough proceeding, the Delaware County Regional
7 Water Quality Control Authority proceeding and the Borough of Royersford proceeding.
8 In addition to testifying in Section 1329 proceedings, I have also testified and filed reports
9 on valuation matters in California, Illinois, New Hampshire and Pennsylvania in courts of
10 law and regulatory commissions.¹

11
12 **Q. HAVE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF DERIVED ANY**
13 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF THE WATER**
14 **SYSTEM'S ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?**

15 **A.** No.

16
17 **Q. ARE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF AN IMMEDIATE**
18 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
19 **PENNSYLVANIA-AMERICAN WATER COMPANY ("PAWC") OR THE**
20 **TOWNSHIP?**

21 **A.** No.

¹ An electronic link to the PA PUC Dockets where I have testified in the last two years is provided in response to Section 1329 Application Standard Data Requests 15-d. All other testimony relating to valuation is more than two years old and therefore, is not provided.

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Q. IS GANNETT FLEMING IN COMPLIANCE WITH APPLICABLE PENNSYLVANIA LAWS?

A. Yes.

Q. DOES GANNETT FLEMING HAVE THE FINANCIAL AND TECHNICAL FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE WASTEWATER ASSETS OF THE TOWNSHIP?

A. Yes, to be placed on the Commission’s “Registry of Utility Valuation Experts” Gannett Fleming had to establish its qualifications.

Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY POTENTIAL CONFLICT OF INTEREST THAT WOULD CAST DOUBT UPON YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND FAIR VALUATION IN THIS PROCEEDING?

A. No.

Q. HAVE YOU CORRESPONDED WITH BUYER’S UVE WITH REGARD TO ITS RESPECTIVE FAIR MARKET VALUE APPRAISAL OF THE ASSETS AT ISSUE IN THIS CASE?

A. No.

1 **Q. DO YOU HAVE ANY AFFILIATION WITH EITHER THE SELLING UTILITY**
2 **OR THE ACQUIRING PUBLIC UTILITY?**

3 **A.** No. Other than the current assignment to provide the subject appraisal, and similar
4 assignments to provide appraisals of other utility systems, I have no business or personal
5 relationships with any party to the proposed acquisition.

6

7 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

8 **Q. WHAT IS THE GANNETT FLEMING FEE ARRANGEMENT TO DELIVER THE**
9 **APPRAISAL?**

10 **A.** Gannett Fleming is being compensated on an hourly basis. Our fee arrangement is included
11 as Appendix A-7.2 to PAWC's Application. True, correct, and complete copies of Gannett
12 Fleming's invoices to the Township for this matter, as of the date of PAWC's Application
13 filing, are also included in Appendix A-7.2.

14

15 **Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT GANNETT**
16 **FLEMING WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?**

17 **A.** The estimated total compensation that Gannett Fleming will receive for its services in this
18 matter as of the date of PAWC's Application filing is \$28,000, which represents
19 approximately 0.27% of the fair market valuation. I estimate our fee will total \$75,000 if
20 this proceeding is fully litigated, which represents approximately 0.71% of the fair market
21 valuation.

1 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
2 **NEGOTIATED?**

3 **A.** Gannett Fleming submitted a proposal to provide the required services in April 2020, which
4 the Township accepted.

5
6 **Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR**
7 **SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?**

8 **A.** Yes.

9

10 **Q. WILL GANNETT FLEMING RECEIVE ITS FEE REGARDLESS OF WHETHER**
11 **THE COMMISSION APPROVES THE PROPOSED TRANSACTION OR**
12 **WHETHER IT CLOSES?**

13 **A.** Yes. 66 Pa. C.S. § 1329(a)(3) mandates that I comply with the Uniform Standards of
14 Professional Appraisal Practice (“USPAP”) when developing an appraisal. Under the
15 USPAP, I cannot perform the appraisal with bias, and acceptance of a fee contingent on a
16 particular outcome, like closing or Commission approval, would violate the Ethics Rule.

17

18 **Q. ARE YOU ADVOCATING FOR ANY PARTY OR OUTCOME?**

19 **A.** No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa. C.S. § 1329(a)(3),
20 requires that I perform the appraisal with impartiality, objectivity, and independence, and
21 without accommodation of personal interests. I have not performed this appraisal
22 assignment with bias and I am not advocating the cause or interest of any party or issue.

1 Further, I have not accepted this or any assignment that includes the reporting of
2 predetermined opinions and conclusions.

3
4 **FAIR MARKET VALUATION OF WATER SYSTEM ASSETS**

5 **Q. PLEASE IDENTIFY APPENDIX A-5.2 TO PAWC's APPLICATION IN THIS**
6 **PROCEEDING?**

7 **A.** Appendix 5.2 of PAWC's application includes the Gannett Fleming Appraisal Report dated
8 July 15, 2020.

9
10 **Q. HOW DO YOU RECOGNIZE IT?**

11 **A.** I personally prepared, and also directed and supervised Gannett Fleming personnel in
12 preparing, the report, and recognize it as Gannett Fleming's work product.

13
14 **Q. IS APPENDIX A-5.2 A TRUE, COMPLETE, AND ACCURATE COPY OF THE**
15 **GANNETT FLEMING APPRAISAL REPORT?**

16 **A.** Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

17
18 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
19 **GANNETT FLEMING APPRAISAL REPORT.**

20 **A.** In accordance with Section 1329 of the Code, the Township engaged Gannett Fleming to
21 prepare the fair market valuation report of the Water System. The Township provided
22 financial statements and budget statements regarding the Water System and a copy of the

1 Engineering Assessment² as required by Section 1329(a)(4). In addition, Gannett Fleming
2 reviewed the assets, reviewed additional information provided by the Township and
3 conducted additional research regarding the Township and the Water System, including a
4 site visit. After those activities and data gathering, we developed the appraisal.

5 The appraisal contains a letter of transmittal; a table of contents detailing all the
6 sections of the report and work papers; and a narrative report explaining our methodology
7 and conclusions.

8 The intent of the valuation report is to provide the appraisal results, as well as the
9 entire appraisal work file, in sufficient detail to satisfy the parties' and Commission's
10 review requirements of Section 1329 and the Commission's Final Implementation Order,
11 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
12 2543193 (Order Entered October 27, 2016) and Final Supplemental Implementation Order
13 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
14 2543193 (Order Entered February 28, 2019). In addition to a copy of the appraisal report,
15 I have provided supporting work papers for the appraisal report in Appendix A-4.3 of
16 PAWC's Application. The relevant work papers have also been submitted to the
17 Commission and provided to the public advocates in **CONFIDENTIAL** live electronic
18 format.

19
20 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE GANNETT**
21 **FLEMING APPRAISAL REPORT SINCE ITS PREPARATION?**

22 **A.** No.

² "Valley Township Water Facilities Engineering Assessment and Original Cost" and related files prepared by Pennoni Associates Inc.

1 **Q. WAS THE FAIR MARKET VALUATION OF THE WATER SYSTEM ASSETS**
2 **DETERMINED IN COMPLIANCE WITH USPAP?**

3 **A.** Yes. Our fair market valuation was determined in compliance with USPAP 2020-2021
4 Edition.

5

6 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
7 **PREPARING YOUR VALUATION?**

8 **A.** Yes.

9

10 **Q. DID YOU INCLUDE ANY EXTRAORDINARY ASSUMPTIONS OR**
11 **HYPOTHETICAL CONDITIONS IN DEVELOPING YOUR APPRAISAL?**

12 **A.** No.

13

14 **Q. DID YOU INCLUDE ANY LIMITING CONDITIONS IN DEVELOPING YOUR**
15 **APPRAISAL?**

16 **A.** Yes. We accepted all information and data provided by the Township as it pertains to this
17 assignment “as is” after a limited review. That is, we neither audited nor verified any data,
18 engineering assessment, financial record or operating data provided for this assignment.
19 We assumed all title to all assets included in the appraisal is good and marketable and no
20 hazardous conditions or materials exist which could affect the assets.

21

22 **Q. PLEASE SUMMARIZE YOUR RESULTS OF THE APPLICATION OF THE**
23 **COST, MARKET AND INCOME APPROACHES.**

1 A. Please see the below table:

Approach	Indicated Value	Weight	Weighted Value
Cost Approach	\$10,238,573	33.30%	\$3,409,445
Market Approach	11,826,043	33.40%	3,949,898
Income Approach	9,528,715	33.30%	3,173,062
		100%	\$10,532,405
Conclusion			\$10,532,000

2

3

4 **Q. PLEASE FURTHER DESCRIBE EACH APPROACH IN THE DEVELOPMENT**
5 **OF YOUR APPRAISAL.**

6 A. We developed our appraisal utilizing the cost, income, and market approaches as required
7 by USPAP and Section 1329 of the Code. We used seven methods under the Cost, Market
8 and Income Approaches to valuation: Original Cost Method, Replacement Cost Method,
9 Capitalization of Earnings Method, Market Multiple Discounted Cash Flow Method,
10 Capitalization Discounted Cash Flow Method, Market Multiples Method, and Selected
11 Transactions Method.

12 The results from the capitalization of earnings method, the market multiple
13 discounted cash flow method and the capitalization discounted cash flow method form the
14 basis for our Income Approach. Our Market Approach is supported by the market
15 multiples method and the selected transactions method. The results from the original cost
16 method form the basis for our replacement cost method, and both methods form the basis
17 for our Cost Approach. These approaches are summarized below.

18 *Cost Approach.* The cost approach utilized the original cost method, the
19 reproduction cost method and the replacement cost method. The replacement cost method
20 was calculated by trending (trended cost method) the asset inventory from the original cost

1 new method. The original cost method determined the original cost new measure of the
2 cost of the assets when first constructed based on the information contained in the
3 Engineering Assessment. The original cost new inventory was trended using the Handy
4 Whitman Index of Public Utility Construction Costs for the water industry to produce the
5 reproduction cost new and was converted to replacement cost new after obsolescence was
6 factored. The calculated accrued depreciation was determined for the original cost new
7 and for the replacement cost new as of March 31, 2020. The calculated accrued
8 depreciation was based on the assets' attained ages, and the service life of the assets. The
9 cost basis of depreciable assets was reduced annually by the accumulated depreciation to
10 reflect the loss in the service value of the assets since being constructed. All land and land
11 rights were valued at original cost.

12 *Income Approach.* The income approach utilized the capitalization of earning (cash
13 flow) method and the discounted cash flow method. The capitalization of earning method
14 converted a single base economic income number to a value by dividing it by a
15 capitalization rate. The discounted cash flow method used estimates of future debt free net
16 cash flow and discounted them to arrive at a present value or price of the cash flows. The
17 capitalization rate and the discount rate were developed based on market debt and equity
18 rates at the appraisal date. The discounted cash flow method reflected two types of
19 discounted cash flow analyses, the EBIT and EBITDA terminal value model and a
20 capitalization of terminal value model.³

21 *Market Approach.* The market approach was developed based on the market
22 multiples method and the selected transaction method. The market multiples method was

³ EBIT is earnings before interest and taxes and EBITDA is earnings before interest, tax, depreciation and amortization.

1 based on the market price data of publicly traded corporations engaged in the same or a
2 similar line of business as the Water System. The market price data of these comparable
3 publicly traded corporations was used to calculate the market multiples for the comparable
4 publicly traded corporations at the appraisal date. The selected transactions method used
5 certain public information relating to the purchase or sales of businesses involved in the
6 same or a similar business line as the Water System to calculated market multiples at the
7 time of transaction (sale/purchase). The calculated market multiples determined by the
8 market multiples method and the selected transaction method were then multiplied by the
9 corresponding Water System financial and operating statistic to produce an indicated value
10 for the Water System.

11
12 **Q. PLEASE STATE THE NUMBER OF CUSTOMERS YOU USED IN DEVELOPING**
13 **YOUR APPRAISAL AND THE SOURCE OF THAT NUMBER.**

14 **A.** The number of customers I used was 1,669. This customer count number was provided by
15 the Township.

16
17 **Q. DID YOU MAKE ANY UPDATES TO YOUR APPRAISAL AFTER IT WAS**
18 **SUBMITTED TO THE SELLER/BUYER, AND IF SO, WHAT WAS THE**
19 **UPDATE, WHEN WAS IT MADE, AND WHY WAS IT NECESSARY?**

20 **A.** No.

21
22 **Q. DID YOU PERFORM AN ON-SITE INSPECTION OF THE WATER SYSTEM?**

23 **A.** Yes. Gannett Fleming viewed the water system assets on June 17, 2020.

1 **Q. DID YOU RELY UPON A LICENSED ENGINEER’S ASSESSMENT OF THE**
2 **TANGIBLE ASSETS OF THE WATER SYSTEM IN PERFORMING YOUR**
3 **VALUATION?**

4 **A.** Yes. The Township provided a copy of the Engineering Assessment and this information
5 was incorporated into our Cost Approach in our appraisal.

6 **Cost Approach**

7 **Q. DID YOU USE THE REPRODUCTION COST OR THE REPLACEMENT COST**
8 **IN YOUR COST APPROACH?**

9 **A.** We utilized the original cost new (“OCN”) to calculate the trended original cost (“TOC”) measures, or the reproduction cost of the depreciable assets by multiplying the OCN by
10 specific cost indices. We converted reproduction cost new to replacement cost new after
11 factoring in obsolescence. We used the TOC method because the mandated use of the
12 Engineering Assessment’s original cost essentially dictates the use of TOC over the
13 reproduction cost or the replacement cost methods.
14

15

16 **Q. WHAT INDEX, IF ANY, DID YOU USE FOR THAT METHOD?**

17 **A.** The original cost new inventory was trended using the Handy Whitman Index of Public
18 Utility Construction Costs for the water industry to produce the reproduction cost new.

19

20 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH WHAT ASSETS DID**
21 **YOU VALUE OR TREND DIFFERENTLY FROM OTHER ASSETS AND WHY**
22 **WAS THAT NECESSARY?**

1 A. Handy Whitman does not publish indices for all plant accounts. Accordingly, in limited
2 instances when Handy Whitman plant account indices were not available, we used the U.S.
3 Bureau of Labor Statistics, Producer Price Index which best matches the assets being
4 trended.⁴

5
6 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH, WHAT YEAR-END
7 DATE DID YOU USE FOR CALCULATING THE DEPRECIATION RESERVE?**

8 A. We used the date of March 31, 2020.

9
10 **Q. HOW DID YOU DETERMINE THE DEPRECIATION PARAMETERS OF
11 SURVIVAL/RETIREMENT CHARACTERISTICS AND SERVICE LIVES FOR
12 THE UTILITY PROPERTY UNDER THE COST APPROACH?**

13 A. We determined the average service lives of depreciable assets based on the materials used
14 for construction and how long the depreciable assets are likely to meet service demands.

15
16 **Q. WHY ARE THOSE PARAMETERS APPROPRIATE?**

17 A. We believe our average service lives of depreciable assets are appropriate based on our
18 experience of having determined average service lives for numerous other water and
19 wastewater utilities and given the fact they resemble those used by other Pennsylvania
20 water companies.

⁴ The plant account which Handy Whitman indices were not available included account 346.00 Communication Equipment.

1 **Income Approach**

2 **Q. REGARDING YOUR APPLICATION OF THE INCOME APPROACH, WHAT**
3 **METHOD DID YOU USE TO DETERMINE THE INCOME APPROACH**
4 **RESULT?**

5 **A.** I used the Capitalization of Earnings Method, Market Multiple Discounted Cash Flow
6 Method (“Market Multiple DCF”), and Capitalization Discounted Cash Flow Method
7 (“Capitalization DCF”). I refer to the Market Multiple DCF and the Capitalization DCF
8 collectively as the DCF method.

9

10 **Q. WHAT ASSUMPTIONS DID YOU EMPLOY TO DEVELOP YOUR INCOME**
11 **APPROACH RESULT?**

12 **A.** All general assumptions are listed on page 3 of Exhibit 12, and page 7 of Exhibits 13, 14,
13 15 and 16.⁵

14

15 **Q. DID YOU USE PAWC’S CAPITALIZATION RATE OR THEIR DISCOUNT**
16 **RATE IN YOUR INCOME APPROACH TO VALUATION?**

17 **A.** No. Use of PAWC’S capitalization rate or their discount rate in an income approach to
18 valuation is not consistent with the standard of value of fair market value because the
19 “buyer” under the standard of value of fair market value is not a specific entity (i.e.,
20 PAWC), but rather a hypothetical buyer. Use of PAWC’S capitalization rate or their
21 discount rate in an income approach to valuation is only used under the standard of value

⁵ Exhibit references herein are to the Exhibits in the Gannett Fleming Appraisal Report.

1 of investment value.⁶ In accordance with Section 1329 of the Code, the standard of value
2 is fair market value, not investment value.

3
4 **Q. PLEASE EXPLAIN THE CAPITALIZATION RATE AND THE DISCOUNT RATE**
5 **USED IN YOUR INCOME APPROACH TO VALUATION.**

6 **A.** The capitalization rate used in the capitalization of earnings method and the discount rate
7 used in the DCF method are related. The discount rate is the opportunity cost rate related
8 to the risk of the cash flows. The capitalization rate is simply the discount rate minus the
9 expected growth rate. If no growth is assumed, the capitalization rate is equal to the
10 discount rate.

11 As explained previously, under the standard of value of fair market value the
12 “buyer” is not a specific entity (i.e., PAWC), but rather a hypothetical buyer. Accordingly,
13 the hypothetical bidder/buyer may range from large regional municipal authorities
14 (“MUNI”) to investor owned utilities (“IOU”). For a MUNI, the appropriate discount rate
15 is the current municipal revenue bond yield on March 31, 2020 of 3.70%. The appropriate
16 IOU discount rate is the current net of tax overall cost of capital (weighted average cost of
17 capital) on March 31, 2020 and ranges from 5.95% to 7.16%.⁷

18 For a MUNI, the appropriate discount rate is the current municipal revenue bond
19 yield, 3.70%, because debt is the only major source of capital available to finance an

⁶ Pratt, Shannon P. “Defining Standards of Value.” Valuation 34, no. 2, June 1989.

<http://www.appraisers.org/docs/default-source/college-of-fellows-articles/defining-standards-of-value.pdf>.

⁷ Both the American Society of Appraisers, ASA Business Valuation Standards, 2009, and the National Association of Certified Valuation Analysts, Professional Standards, 2007, use the same definition: “Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) determined by the weighted average, at market values, of the cost of all financing sources in the business enterprise's capital structure.”

1 acquisition (developed on Exhibit 20, pages 2-6). Although a MUNI likely carries equity
2 on their books (balance sheet), all existing equity is already invested in other assets and
3 therefore, cannot be used to finance an acquisition.⁸ For valuation purposes, an embedded
4 cost of debt, or the historical cost of all debt issuances outstanding is not used because this
5 capital is already invested in assets. Whereas the marginal cost of debt, 3.70%, at the
6 valuation date is used in accordance with accepted valuation practice and used for market
7 valuation purposes.

8 As discussed previously, for an IOU, the appropriate discount rate is the net of tax
9 overall cost of capital (weighted average cost of capital), 5.95% to 7.16% (Exhibit 20,
10 pages 2-9). In this instance, the net of tax overall cost of capital (weighted average cost of
11 capital) is based on the Comparable Group's market value capital structure of 24.4% debt
12 and 75.6% equity, a market cost of debt of 3.69% and a range of market cost of equity of
13 7.01% to 8.61% based on the Comparable Group's market value CAPM on March 31,
14 2020.⁹ The Comparable Group's net of tax overall cost of capital (weighted average cost
15 of capital) is used as a proxy to conform to the "hypothetical buyer" or "hypothetical seller"
16 of fair market valuation. Use of the buyer's net of tax overall cost of capital (weighted
17 average cost of capital) would produce an investment valuation, not a fair market valuation.
18 The supporting documentation for the development of the MUNI and IOU discount rates
19 are shown on pages 2 to 9 of Exhibit 20.

⁸ For example, when a municipal or government entity, such as the Commonwealth of Pennsylvania, finances construction of a road or bridge, they only consider the marginal debt cost despite having "equity" reflected on their books (balance sheet).

⁹ For example of the net of tax overall cost of capital, see <http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/weighted-average-cost-capital-wacc-2905>. Also see <http://www.wallstreetmojo.com/weighted-average-cost-capital-wacc/>, or <http://accountingexplained.com/misc/corporate-finance/wacc>.

1 **Q. WHY IS THE NET OF TAX OVERALL COST OF CAPITAL APPROPRIATE TO**
2 **USE?**

3 **A.** The net of tax overall cost of capital is appropriate because the cash flows being discounted
4 are after tax, or net of tax. The income approach uses estimates of future free cash flow
5 and discounts them to arrive at a present value or price of the cash flows. Generally, this
6 analysis begins with an estimate of the Debt Free Net Cash Flow over the next five to
7 twenty years along with a terminal value. In each year, the Debt Free Net Cash Flow is
8 comprised of projected EBIT, minus income taxes, plus projected depreciation and
9 amortization, plus or minus projected changes in net cash working capital, less projected
10 capital expenditures.

11
12 **Q. WHAT IS THE BASIS FOR THE GROWTH RATE USED TO CALCULATE THE**
13 **CAPITALIZATION RATE USED IN THE INCOME APPROACH?**

14 **A.** The growth rate used to calculate the capitalization rate reflects the growth in the Debt Free
15 Net Cash Flow subsequent to the terminal value year. For the Township, the growth rate
16 of 0.0% was used based on current level of rates. Under both MUNI and IOU ownership
17 a growth rate of 0.2% was used based on the projected growth in population (1.1%),
18 projected inflation (2.0%) and the actual growth in the Debt Free Net Cash Flow in the
19 years prior to the terminal value year. Under MUNI ownership the average growth in the
20 Debt Free Net Cash Flow for the last two years prior to the terminal value year was 0.2%
21 and 0.4% under IOU ownership. A growth of 0.2% was deemed reasonable based on the
22 aforesaid.

1 **Q. WHAT UTILITY EARNINGS REPORT WAS USED TO CREATE THE CAPITAL**
2 **STRUCTURE USED IN YOUR APPRAISAL?**

3 **A.** As documented previously in footnotes 7 and 9, book value capitalization is not used in
4 fair market valuation determination. Therefore, we did not use the 6.55% Comparable
5 Group's DSIC (distribution system improvement charge) related net of tax overall cost of
6 capital in our valuation because a "hypothetical buyer" cannot finance an acquisition at
7 such a rate and therefore, its use would provide a meaningless result. The Comparable
8 Group's 6.55% DSIC related cost was determined based the Comparable Group's book
9 value capital structure of 46.6% debt and 53.4% equity, a cost of debt of 3.69% and a DSIC
10 cost of equity of 9.95% based on the February 2020 Earnings Report. However, we note
11 the 6.55% Comparable Group's DSIC related net of tax overall cost of capital falls within
12 the 5.95% to 7.16% range of discount rates used in our Income Approach.

13 If we used the 6.55% Comparable Group's DSIC related net of tax overall cost of
14 capital in our valuation shown on Exhibit 16, the results of the Capitalization DCF would
15 show a value for the Water System of \$7.3 million. Further, the results of the Market
16 Multiple DCF would show a value of \$9.6 million and collectively, the DCF method based
17 on the IOU ownership scenario and a 0.2% growth assumption would indicate a value of
18 \$8.5 million for the Water System. The DCF method based on the MUNI ownership
19 scenario indicates a value of \$10.6 million and the DCF method based on the IOU
20 ownership scenario using DSIC indicates a value of \$8.5 million. Collectively, the DCF
21 method indicates a value of \$9.5 million when DSIC is considered.

1 **Q. IF YOU USED A TERMINAL VALUE IN YOUR DISCOUNTED CASH FLOW**
2 **ANALYSIS WHAT IS THE NUMBER OF YEARS OVER WHICH THE CASH**
3 **FLOWS ARE CONSIDERED?**

4 **A.** The use of a “terminal value” in a Discounted Cash Flow analysis is reasonable and is in
5 accordance with accepted valuation practice. Simply put, the “terminal value” is a
6 mathematical shortcut to avoid having to show and/or calculate annual Debt Free Net Cash
7 Flows for hundreds of time periods, or hundreds of years. Within the Discounted Cash
8 Flow analysis, the “terminal value” is simply a point in time in which the growth in annual
9 Debt Free Net Cash Flows changes from multiple growth rates to a constant growth rate.
10 For example, in our Discounted Cash Flow analysis, the growth rate of annual Debt Free
11 Net Cash Flows during time periods 1 through 24 changes multiple times due to the various
12 general assumptions listed in the Gannett Fleming Appraisal Report. Subsequent to time
13 period 24, the growth in annual Debt Free Net Cash Flows is a constant growth rate.
14 Accordingly, period 24, or year 24, is the “terminal value” year in our DCF method.

15

16 **Market Approach**

17 **Q. REGARDING YOUR APPLICATION OF THE MARKET APPROACH, WHAT**
18 **METHODS DID YOU USE TO DETERMINE THE MARKET APPROACH**
19 **RESULT?**

20 **A.** I used the market multiples method and the selected transaction method.

21

22 **Q. WHAT ASSUMPTIONS, ANALYSES, AND/OR ADJUSTMENTS DID YOU**
23 **MAKE UNDER EACH METHOD?**

1 A. The general assumptions used for the market multiples method are listed on page 1 of
2 Exhibit 17. No assumptions were made under the selected transaction method.

3

4 **Q. REGARDING YOUR APPLICATION OF THE MARKET MULTIPLES**
5 **METHOD, DID YOU LIMIT YOUR PROXY GROUP USED FOR CALCULATING**
6 **MARKET VALUE TO ONLY COMPANIES WHICH ENGAGE IN**
7 **PENNSYLVANIA FAIR MARKET VALUE ACQUISITIONS?**

8 A. No.

9

10 **Q. REGARDING YOUR APPLICATION OF THE COMPARABLE SALES USED TO**
11 **ESTABLISH THE VALUATION, DID YOU LIMIT THE TRANSACTIONS**
12 **SELECTED TO THOSE THAT YOU PREVIOUSLY APPRAISED?**

13 A. No.

14

15 **Q. PLEASE STATE THE COMPARABLE TRANSACTIONS YOU USED IN**
16 **DEVELOPING YOUR MARKET APPROACH.**

17 A. Please see PAWC's Application Appendix A-5.2 (the Gannett Fleming Appraisal Report),
18 Exhibit 18, pages 2 and 3, which shows that we reviewed the following transactions¹⁰ in
19 developing the selected transactions method:

- 20 • Sale of the Municipal Authority of the City of McKeesport's wastewater system
21 to PAWC in 2017.

¹⁰ The years listed indicate when the applicant sought approval or when the Commission approved each of the transactions.

- 1 • Sale of New Garden Township Sewer Authority to Aqua Pennsylvania, Inc.
2 ("Aqua") in 2017.
- 3 • Sale of Limerick Township Wastewater to Aqua in 2017.
- 4 • Sale of East Bradford Township Wastewater to Aqua in 2018.
- 5 • Sale of Mahoning Township's water system to Suez Water Pennsylvania Inc.
6 ("SWPA") in 2018.
- 7 • Sale of Mahoning Township's wastewater system to SWPA in 2018.
- 8 • Sale of Sadsbury Township's wastewater system to PAWC in 2018.
- 9 • Sale of Exeter Township's wastewater system to PAWC in 2019.
- 10 • Sale of the Steelton Borough Authority's water system to PAWC in 2019.
- 11 • Sale of Cheltenham Township's wastewater system to Aqua in 2019.
- 12 • Sale of East Norriton Township's wastewater system to Aqua in 2019.
- 13 • Sale of Kane Borough Authority's water system to PAWC Company in 2020.

14 As a check on the transactions I studied, that are listed above, I also reviewed the
15 purchase of Connecticut Water Service, Inc. by SJW Group (Exhibit 18 page 4) which was
16 announced in 2018 and approved in 2019.

17

18 **Q. WHAT WERE THE RESULTS OF THE MARKET APPROACH ANALYSIS YOU**
19 **PERFORMED?**

20 **A.** The results of the market multiples method are shown on page 1 of Exhibit 17 and the
21 results of the selected transactions method are shown on page 1 of Exhibit 18. The
22 conclusion regarding the Market Approach analysis is explained on pages 41 and 42 of our
23 appraisal.

1
2 **CONCLUSION**

3 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF**
4 **THE WATER SYSTEM’S ASSETS TO BE PURCHASED BY PAWC?**

5 **A.** Fair market value is defined as “the price, expressed in terms of cash equivalents, at which
6 property would change hands between a hypothetical willing and able buyer and a
7 hypothetical willing and able seller, acting at arm’s length in an open and unrestricted
8 market, when neither is under compulsion to buy or sell and when both have reasonable
9 knowledge of the relevant facts.”

10 Based on our analysis, as described in the Gannett Fleming Appraisal Report, the
11 estimate of the fair market value of the Water System as of March 31, 2020 is \$10,532,000
12 (rounded). The results of the analyses and calculations are summarized in Table 1 for the
13 Water System as follows:

<u>Valuation Approach</u>	<u>Indicated Value</u>
Cost Approach	\$10,238,573
Income Approach	9,528,715
Market Approach	11,826,043

14 **Table 1**
15

16 We used seven methods under the Cost, Market and Income Approaches to
17 valuation: Original Cost Method, Replacement Cost Method, Capitalization of Earnings
18 Method, Market Multiple Discounted Cash Flow Method, Capitalization Discounted Cash

1 Flow Method, Market Multiples Method, and the Selected Transactions Method.

2 The results from the capitalization of earnings method, the market multiple
3 discounted cash flow method and the capitalization discounted cash flow method form the
4 basis for our Income Approach. Our Market Approach is supported by the market
5 multiples method and the selected transactions method. The results from the original cost
6 method form the basis for our replacement cost method, and both methods form the basis
7 for our Cost Approach.

8 We considered the results of each approach as an indicator of value individually, or
9 as independent indicators of value. Therefore, all three approaches to valuation were given
10 consideration in arriving at our estimate of the fair market value conclusion. In our opinion,
11 each of the valuation approaches utilized in our appraisal is relevant. Accordingly, we
12 assign an equal weight to the result of each approach. Our conclusion regarding the fair
13 market value can be described by the weightings given the specific results of the three
14 approaches to valuation. The results of our analysis, shown on Exhibit 19, indicate a range
15 of value for the Water System of \$9.5 million to \$11.8 million and collectively indicate a
16 fair market value of \$10,532,000 for the Water System.

17
18 **Q. GENERALLY SPEAKING, IS IT COMMON FOR DIFFERENT APPRAISERS TO**
19 **REACH VARYING OPINIONS OF FAIR MARKET VALUE?**

20 **A.** Yes. I do not think the underlying results of the models employed for valuation purposes
21 are ever the same from one appraiser to another appraiser. Further, the conclusion of value
22 from one appraiser to another appraiser usually differs as well. I believe these are some of

1 the reasons the results of the conclusion of value from two different UVEs are averaged
2 under Section 1329, 66 Pa. C.S. § 1329.

3

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

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

APPENDIX A
Professional Qualifications
of
Harold Walker, III
Manager, Financial Studies
Gannett Fleming Valuation and Rate Consultants, LLC.

EDUCATION

Mr. Walker graduated from Pennsylvania State University in 1984 with a Bachelor of Science Degree in Finance. His studies concentrated on securities analysis and portfolio management with an emphasis on economics and quantitative business analysis. He has also completed the regulation and the rate-making process courses presented by the College of Business Administration and Economics Center for Public Utilities at New Mexico State University. Additionally, he has attended programs presented by The Institute of Chartered Financial Analysts (CFA).

Mr. Walker was awarded the professional designation "Certified Rate of Return Analyst" (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is based upon education, experience and the successful completion of a comprehensive examination. He is also a member of the Society of Utility and Regulatory Financial Analysts (SURFA) and has attended numerous financial forums sponsored by the Society. The SURFA forums are recognized by the Association for Investment Management and Research (AIMR) and the National Association of State Boards of Accountancy for continuing education credits.

Mr. Walker is also a licensed Municipal Advisor Representative (Series 50) by Municipal Securities Rulemaking Board (MSRB) and Financial Industry Regulatory Authority (FINRA).

BUSINESS EXPERIENCE

Prior to joining Gannett Fleming Valuation and Rate Consultants, LLC., Mr. Walker was employed by AUS Consultants - Utility Services. He held various positions during his eleven years with AUS, concluding his employment there as a Vice President. His duties included providing and supervising financial and economic studies on behalf of investor owned and municipally owned water, wastewater, electric, natural gas distribution and transmission, oil pipeline and telephone utilities as well as resource recovery companies.

In 1996, Mr. Walker joined Gannett Fleming Valuation and Rate Consultants, LLC. In his capacity as Manager, Financial Studies and for the past twenty years, he has continuously studied rates of return requirements for regulated firms. In this regard, he supervised the preparation of rate of return studies in connection with his testimony and in the past, for other individuals. He also assisted and/or developed dividend policy studies, nuclear prudence studies, calculated fixed charge rates for avoided costs involving cogeneration projects, financial decision studies for capital budgeting purposes and developed financial models for determining future capital requirements and the effect of those requirements on investors and ratepayers, valued utility property and common stock for acquisition and divestiture, and assisted in the private placement of fixed capital securities for public utilities.

Head, Gannett Fleming GASB 34 Task Force responsible for developing Governmental Accounting Standards Board (GASB) 34 services, and educating Gannett Fleming personnel and Gannett Fleming clients on GASB 34 and how it may affect them. The GASB 34 related services include inventory of assets, valuation of assets, salvage estimation, annual depreciation rate determination, estimation of depreciation reserve, asset service life determination, asset condition assessment, condition assessment documentation, maintenance estimate for asset preservation, establishment of condition level index, geographic information system (GIS) and data management services, management discussion and analysis (MD&A) reporting, required supplemental information (RSI) reporting, auditor interface, and GASB 34 compliance review.

Mr. Walker was also the Publisher of C.A. Turner Utility Reports from 1988 to 1996. C.A. Turner Utility Reports is a financial publication which provides financial data and related ratios and forecasts covering the utility industry. From 1993 to 1994, he became a contributing author for the Fortnightly, a utility trade journal. His column was the Financial News column and focused mainly on the natural gas industry.

In 2004, Mr. Walker was elected to serve on the Board of Directors of SURFA. Previously, he served as an ex-officio directors as an advisor to SURFA's existing President. In 2000, Mr. Walker was elected President of SURFA for the 2001-2002 term. Prior to that, he was elected to serve on the Board of Directors of SURFA during the period 1997-1998 and 1999-2000. Currently, he also serves on the Pennsylvania Municipal Authorities Association, Electric Deregulation Committee.

EXPERT TESTIMONY

Mr. Walker has submitted testimony or been deposed on various topics before regulatory commissions and courts in 25 states including: Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, Nevada, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, and West Virginia. His testimonies covered various subjects including: fair market value, the taking of natural resources, appropriate capital structure and fixed capital cost rates, depreciation, fair rate of return, purchased water adjustments, synchronization of interest charges for income tax purposes, valuation, cash working capital, lead-lag studies, financial analyses of investment alternatives, and fair value. The following tabulation provides a listing of the electric power, natural gas distribution, telephone, wastewater, and water

service utility cases in which he has been involved as a witness. Additionally, he has been involved in a number of rate proceedings involving small public utilities which were resolved by Option Orders and therefore, are not listed below.

<u>Client</u>	<u>Docket No.</u>	
Alpena Power Company	U-10020	
Armstrong Telephone Company - Northern Division	92-0884-T-42T	
Armstrong Telephone Company - Northern Division	95-0571-T-42T	
Artesian Water Company, Inc.	90 10	
Artesian Water Company, Inc.	06 158	
Aqua Illinois Consolidated Water Divisions and Consolidated Sewer Divisions	11-0436	
Aqua Illinois Hawthorn Woods Wastewater Division	00620/07 0621/08 0067	
Aqua Illinois Hawthorn Woods Water Division	07 0620/07 0621/08 0067	
Aqua Illinois Kankakee Water Division	10-0194	
Aqua Illinois Kankakee Water Division	14-0419	
Aqua Illinois Vermilion Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Wastewater Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Water Division	07 0620/07 0621/08 0067	
Aqua Pennsylvania Wastewater Inc	A-2016-2580061	*
Aqua Pennsylvania Wastewater Inc	A-2017-2605434	*
Aqua Pennsylvania Wastewater Inc	A-2018-3001582	*
Aqua Pennsylvania Wastewater Inc	A-2019-3008491	*
Aqua Pennsylvania Wastewater Inc	A-2019-3009052	*
Aqua Pennsylvania Wastewater Inc	A-2019-3015173	*
Aqua Virginia - Alpha Water Corporation	Pue-2009-00059	
Aqua Virginia - Blue Ridge Utility Company, Inc.	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Earlysville Forest Water Company	Pue-2009-00059	
Aqua Virginia - Heritage Homes of Virginia	Pue-2009-00059	
Aqua Virginia - Indian River Water Company	Pue-2009-00059	
Aqua Virginia - James River Service Corp.	Pue-2009-00059	

Aqua Virginia - Lake Holiday Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Holiday Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Shawnee	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Wastewater)	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Water)	Pue-2009-00059	
Aqua Virginia - Mountainview Water Company, Inc.	Pue-2009-00059	
Aqua Virginia - Powhatan Water Works, Inc.	Pue-2009-00059	
Aqua Virginia - Rainbow Forest Water Corporation	Pue-2009-00059	
Aqua Virginia - Shawnee Land	Pue-2009-00059	
Aqua Virginia - Sydnor Water Corporation	Pue-2009-00059	
Aqua Virginia - Water Distributors, Inc.	Pue-2009-00059	
Berkshire Gas Company	18-40	
Borough of Hanover	R-2009-2106908	
Borough of Hanover	R-2012-2311725	
Borough of Hanover	R-2014-242830	
Borough of Royersford	A-2020-3019634	*
Chaparral City Water Company	W 02113a 04 0616	
California-American Water Company	CIVCV156413	*
Connecticut-American Water Company	99-08-32	
Connecticut Water Company	06 07 08	
Citizens Utilities Company Colorado Gas Division	-	
Citizens Utilities Company Vermont Electric Division	5426	
Citizens Utilities Home Water Company	R 901664	
Citizens Utilities Water Company of Pennsylvania	R 901663	
City of Bethlehem - Bureau of Water	R-00984375	
City of Bethlehem - Bureau of Water	R 00072492	
City of Bethlehem - Bureau of Water	R-2013-2390244	
City of Dubois – Bureau of Water	R-2013-2350509	
City of Dubois – Bureau of Water	R-2016-2554150	

City of Lancaster Sewer Fund	R-00005109	
City of Lancaster Sewer Fund	R-00049862	
City of Lancaster Sewer Fund	R-2012-2310366	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Water Fund	R-00984567	
City of Lancaster Water Fund	R-00016114	
City of Lancaster Water Fund	R 00051167	
City of Lancaster Water Fund	R-2010-2179103	
City of Lancaster Water Fund	R-2014-2418872	
Coastland Corporation	15-cvs-216	
Consumers Pennsylvania Water Company Roaring Creek Division	R-00973869	
Consumers Pennsylvania Water Company Shenango Valley Division	R-00973972	
Country Knolls Water Works, Inc.	90 W 0458	
East Resources, Inc. - West Virginia Utility	06 0445 G 42T	
Elizabethtown Water Company	WR06030257	
Forest Park, Inc.	19-W-0168 & 19-W-0269	
Hampton Water Works Company	DW 99-057	
Hidden Valley Utility Services, LP	R-2018-3001306	
Hidden Valley Utility Services, LP	R-2018-3001307	
Illinois American Water Company	16-0093	
Indian Rock Water Company	R-911971	
Indiana Natural Gas Corporation	38891	
Jamaica Water Supply Company	-	
Kane Borough Authority	A-2019-3014248	*
Kentucky American Water Company, Inc.	2007 00134	
Middlesex Water Company	WR 89030266J	
Millcreek Township Water Authority	55 198 Y 00021 11	*
Missouri-American Water Company	WR 2000-281	
Missouri-American Water Company	SR 2000-282	
Mount Holly Water Company	WR06030257	
New Jersey American Water Company	WR 89080702J	
New Jersey American Water Company	WR 90090950J	
New Jersey American Water Company	WR 03070511	
New Jersey American Water Company	WR-06030257	

New Jersey American Water Company	WR08010020	
New Jersey American Water Company	WR10040260	
New Jersey American Water Company	WR11070460	
New Jersey American Water Company	WR15010035	
New Jersey American Water Company	WR17090985	
New Jersey American Water Company	WR19121516	
New Jersey Natural Gas Company	GR19030420	
Newtown Artesian Water Company	R-911977	
Newtown Artesian Water Company	R-00943157	
Newtown Artesian Water Company	R-2009-2117550	
Newtown Artesian Water Company	R-2011-2230259	
Newtown Artesian Water Company	R-2017-2624240	
Newtown Artesian Water Company	R-2019-3006904	
North Maine Utilities	14-0396	*
Northern Indiana Fuel & Light Company	38770	
Oklahoma Natural Gas Company	PUD-940000477	
Palmetto Wastewater Reclamation, LLC	2018-82-S	
Pennichuck Water Works, Inc.	DW 04 048	*
Pennichuck Water Works, Inc.	DW 06 073	
Pennichuck Water Works, Inc.	DW 08 073	
Pennsylvania Gas & Water Company (Gas)	R-891261	
Pennsylvania Gas & Water Co. (Water)	R 901726	
Pennsylvania Gas & Water Co. (Water)	R-911966	
Pennsylvania Gas & Water Co. (Water)	R-22404	
Pennsylvania Gas & Water Co. (Water)	R-00922482	
Pennsylvania Gas & Water Co. (Water)	R-00932667	
Public Service Company of North Carolina, Inc.	G-5, Sub 565	
Public Service Electric and Gas Company	ER181010029	
Public Service Electric and Gas Company	GR18010030	
Sierra Pacific Power Company d/b/a NV Energy	19-06002	
Presque Isle Harbor Water Company	U-9702	
St. Louis County Water Company	WR-2000-844	
Suez Water Delaware, Inc.	19-0615	
Suez Water New Jersey, Inc.	WR18050593	
Suez Water Owego-Nichols, Inc.	17-W-0528	
Suez Water Pennsylvania, Inc.	R-2018-3000834	
Suez Water Pennsylvania, Inc.	A-2018-3003519	*

Suez Water Rhode Island, Inc.	Docket No. 4800	
Suez Water Owego-Nichols, Inc.	19-W-0168 & 19-W-0269	
Suez Water New York, Inc.	19-W-0168 & 19-W-0269	
Suez Westchester, Inc.	19-W-0168 & 19-W-0269	
Suez Water Pennsylvania, Inc.	A-2018-3003517	*
Town of North East Water Fund	9190	
Township of Exeter	A-2018-3004933	*
United Water New Rochelle	W-95-W-1168	
United Water Toms River	WR-95050219	
Valley Water Systems, Inc.	06 10 07	
Virginia American Water Company	PUR-2018-00175	
West Virginia-American Water Company	15-0676-W-42T	
West Virginia-American Water Company	15-0675-S-42T	
Wilmington Suburban Water Corporation	94-149	
York Water Company	R-901813	
York Water Company	R-922168	
York Water Company	R-943053	
York Water Company	R-963619	
York Water Company	R-994605	
York Water Company	R-00016236	
Young Brothers, LLC	2019-0117	

* - Testimony related to valuation

VERIFICATION

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



Harold Walker III, Manager, Financial Services
Gannett Fleming

Dated: October 7, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

VALLEY TOWNSHIP
STATEMENT NO. 2WW
DIRECT TESTIMONY
OF
HAROLD WALKER, III
FAIR MARKET VALUE APPRAISAL
October 9, 2020

Prepared by:
GANNETT FLEMING
VALUATION AND RATE CONSULTANTS, LLC



Valley Forge, Pennsylvania

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INTRODUCTION

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21

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

A. My name is Harold Walker III and my business address is 1010 Adams Avenue, Audubon, Pennsylvania.

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

A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”) as Manager, Financial Studies.

Q. WOULD YOU DESCRIBE BRIEFLY GANNETT FLEMING?

A. Yes. Since 1915, Gannett Fleming and its predecessors have been helping clients in public pricing policy and related financial matters for managerial purposes, before regulatory commissions and courts of law. Gannett Fleming is registered as a Utility Valuation Expert (“UVE”) in the Commonwealth of Pennsylvania. Gannett Fleming is also a registered Municipal Advisor with the SEC and I am a licensed Municipal Advisor Representative (Series 50) with the Municipal Securities Rulemaking Board (“MSRB”) and the Financial Industry Regulatory Authority (“FINRA”). Gannett Fleming is a subsidiary of Gannett Fleming, Inc.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, FINANCIAL STUDIES OF GANNETT FLEMING?

1 A. I supervise and develop financial and economic studies on behalf of investor-owned and
2 municipally-owned water, wastewater, electric, natural gas distribution and transmission,
3 oil pipeline, and telephone utilities, as well as resource-recovery companies.
4

5 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND YOUR EDUCATIONAL**
6 **BACKGROUND AND EMPLOYMENT EXPERIENCE?**

7 A. My educational background, business experience and qualifications are provided in a
8 Curriculum Vitae included as **Appendix A**.
9

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

12 A. Yes. I have testified before the Pennsylvania Public Utility Commission (“Commission”
13 or “PUC”), as well as other state regulatory commissions, on many occasions, as shown on
14 **Appendix A**.
15

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

17 A. My testimony describes and explains the fair market value appraisal of the Valley
18 Township (“Township”) wastewater system assets (“Wastewater System”) that I and staff,
19 working under my direction, performed. Gannett Fleming was engaged by the Township
20 to perform this appraisal. Our report is entitled “Valley Township Wastewater System
21 Assets Fair Market Value Appraisal at April 30, 2020” (“Gannett Fleming Appraisal
22 Report”). The appraisal and its report was developed to meet the criteria established in

1 Section 1329 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329
2 (“Determination of the fair market value of water and wastewater assets”).

3 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
4 2016 and Governor Wolf signed Act 12 into law adding Section 1329 of the Code which
5 established the legislative requirements facilitating the acquisition of municipal and
6 authority water and wastewater systems by private investor-owned utilities and other
7 entities which are rate-regulated by the Commission. This legislation was intended to
8 facilitate the acquisition of water and wastewater systems in order to facilitate capital
9 improvements to the water and wastewater properties.

10 **QUALIFICATION AS UTILITY VALUATION EXPERT**

11 **Q. IS GANNETT FLEMING ON THE COMMISSION’S REGISTRY OF UTILITY**
12 **VALUATION EXPERTS?**

13 **A.** Yes. Gannett Fleming is a UVE in the Commonwealth of Pennsylvania approved by the
14 PUC (Utility Code 9919244).

15
16 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH GANNETT FLEMING WAS**
17 **PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION**
18 **EXPERTS.**

19 **A.** After passage of Section 1329 of the Code, the Commission established an application
20 process by which the Commission would approve and designate firms to be placed on the
21 Commission’s “Registry of Utility Valuation Experts.” To be included on the registry, the
22 UVEs must establish their qualifications. Gannett Fleming submitted its original
23 application and the required proof of experience in September of 2016 and received

1 confirmation and approval from the Commission of Gannett Fleming's placement on the
2 Commission's UVE Registry in December of 2016. Renewal of inclusion on the
3 Commission's UVE Registry must be done annually. Gannett Fleming submitted its 2018
4 renewal application and the required proof of experience in December of 2017 and received
5 confirmation and approval from the Commission of Gannett Fleming's placement on the
6 Commission's UVE Registry in January of 2018. In 2018, Gannett Fleming submitted its
7 2019 renewal application and the required proof of experience in December of 2018 and
8 received confirmation and approval from the Commission of Gannett Fleming's placement
9 on the Commission's UVE Registry in January of 2019. Again in 2019, Gannett Fleming
10 submitted its 2020 renewal application and the required proof of experience in December
11 of 2019 and received confirmation and approval from the Commission of Gannett
12 Fleming's placement on the Commission's UVE Registry in January of 2020.

13
14 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
15 **OR SUSPENDED?**

16 **A.** No.

17
18 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
19 **APPRAISAL OF UTILITY ASSETS?**

20 **A.** Yes. In addition to serving as an expert witness on various financial and economic matters
21 before utility regulatory commissions for over 30 years, I have also provided valuations of
22 utility assets services for more than 20 years. In that capacity I have testified on valuation
23 matters before the Commission and sponsored or adopted Gannett Fleming's UVE

1 appraisals in Section 1329 of the Code in the New Garden Township proceeding, the
2 Limerick Township proceeding, the East Bradford Township proceeding, the Mahoning
3 Township (water) proceeding, the Mahoning Township (wastewater) proceeding, the
4 Exeter Township proceeding, the Cheltenham Township proceeding, the East Norriton
5 Township proceeding, the Kane Borough proceeding, the Delaware County Regional
6 Water Quality Control Authority proceeding, the Borough of Royersford proceeding and
7 the Valley Township (water) proceeding. In addition to testifying in Section 1329
8 proceedings, I have also testified and filed reports on valuation matters in California,
9 Illinois, New Hampshire and Pennsylvania in courts of law and regulatory commissions.¹

10
11 **Q. HAVE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF DERIVED ANY**
12 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF THE WASTEWATER**
13 **SYSTEM'S ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?**

14 **A.** No.

15
16 **Q. ARE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF AN IMMEDIATE**
17 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
18 **PENNSYLVANIA-AMERICAN WATER COMPANY ("PAWC") OR THE**
19 **TOWNSHIP?**

20 **A.** No.

¹ An electronic link to the PA PUC Dockets where I have testified in the last two years is provided in response to Section 1329 Application Standard Data Requests 15-d. All other testimony relating to valuation is more than two years old and therefore, is not provided.

1 **Q. IS GANNETT FLEMING IN COMPLIANCE WITH APPLICABLE**
2 **PENNSYLVANIA LAWS?**

3 **A. Yes.**

4

5 **Q. DOES GANNETT FLEMING HAVE THE FINANCIAL AND TECHNICAL**
6 **FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL**
7 **CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE**
8 **WASTEWATER ASSETS OF THE TOWNSHIP?**

9 **A. Yes, to be placed on the Commission’s “Registry of Utility Valuation Experts” Gannett**
10 **Fleming had to establish its qualifications.**

11

12 **Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY**
13 **POTENTIAL CONFLICT OF INTEREST THAT WOULD CAST DOUBT UPON**
14 **YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND**
15 **FAIR VALUATION IN THIS PROCEEDING?**

16 **A. No.**

17

18 **Q. HAVE YOU CORRESPONDED WITH BUYER’S UVE WITH REGARD TO ITS**
19 **RESPECTIVE FAIR MARKET VALUE APPRAISAL OF THE ASSETS AT ISSUE**
20 **IN THIS CASE?**

21 **A. No.**

1 **Q. DO YOU HAVE ANY AFFILIATION WITH EITHER THE SELLING UTILITY**
2 **OR THE ACQUIRING PUBLIC UTILITY?**

3 **A.** No. Other than the current assignment to provide the subject appraisal, and similar
4 assignments to provide appraisals of other utility systems, I have no business or personal
5 relationships with any party to the proposed acquisition.

6

7 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

8 **Q. WHAT IS THE GANNETT FLEMING FEE ARRANGEMENT TO DELIVER THE**
9 **APPRAISAL?**

10 **A.** Gannett Fleming is being compensated on an hourly basis. Our fee arrangement is included
11 as **Appendix A-7.2** to PAWC's Application. True, correct, and complete copies of
12 Gannett Fleming's invoices to the Township for this matter, as of the date of PAWC's
13 Application filing, are also included in **Appendix A-7.2**.

14

15 **Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT GANNETT**
16 **FLEMING WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?**

17 **A.** The estimated total compensation that Gannett Fleming will receive for its services in this
18 matter as of the date of PAWC's Application filing is \$30,000, which represents
19 approximately 0.15% of the fair market valuation. I estimate our fee will total \$75,000 if
20 this proceeding is fully litigated, which represents approximately 0.38% of the fair market
21 valuation.

1 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
2 **NEGOTIATED?**

3 **A.** Gannett Fleming submitted a proposal to provide the required services in May 2020, which
4 the Township accepted.
5

6 **Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR**
7 **SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?**

8 **A.** Yes.
9

10 **Q. WILL GANNETT FLEMING RECEIVE ITS FEE REGARDLESS OF WHETHER**
11 **THE COMMISSION APPROVES THE PROPOSED TRANSACTION OR**
12 **WHETHER IT CLOSES?**

13 **A.** Yes. 66 Pa. C.S. § 1329(a)(3) mandates that I comply with the Uniform Standards of
14 Professional Appraisal Practice (“USPAP”) when developing an appraisal. Under the
15 USPAP, I cannot perform the appraisal with bias, and acceptance of a fee contingent on a
16 particular outcome, like closing or Commission approval, would violate the Ethics Rule.
17

18 **Q. ARE YOU ADVOCATING FOR ANY PARTY OR OUTCOME?**

19 **A.** No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa. C.S. § 1329(a)(3),
20 requires that I perform the appraisal with impartiality, objectivity, and independence, and
21 without accommodation of personal interests. I have not performed this appraisal
22 assignment with bias and I am not advocating the cause or interest of any party or issue.

1 Further, I have not accepted this or any assignment that includes the reporting of
2 predetermined opinions and conclusions.

3
4 **FAIR MARKET VALUATION OF WASTEWATER SYSTEM ASSETS**

5 **Q. PLEASE IDENTIFY APPENDIX A-5.2 TO PAWC'S APPLICATION IN THIS**
6 **PROCEEDING?**

7 **A. Appendix A-5.2** of PAWC's application includes Gannett Fleming's appraisal report dated
8 August 3, 2020.

9
10 **Q. HOW DO YOU RECOGNIZE IT?**

11 **A.** I personally prepared, and also directed and supervised Gannett Fleming personnel in
12 preparing, the report, and recognize it as Gannett Fleming's work product.

13
14 **Q. IS APPENDIX A-5.2 A TRUE, COMPLETE, AND ACCURATE COPY OF**
15 **THE GANNETT FLEMING APPRAISAL REPORT?**

16 **A.** Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

17
18 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
19 **GANNETT FLEMING APPRAISAL REPORT.**

20 **A.** In accordance with Section 1329 of the Code, the Township engaged Gannett Fleming to
21 prepare the fair market valuation report of the Wastewater System. The Township
22 provided financial statements and budget statements regarding the Wastewater System and

1 a copy of the Engineering Assessment² as required by Section 1329(a)(4). In addition,
2 Gannett Fleming reviewed the assets, reviewed additional information provided by the
3 Township and conducted additional research regarding the Township and the Wastewater
4 System, including a site visit. After those activities and data gathering, we developed the
5 appraisal.

6 The appraisal contains a letter of transmittal; a table of contents detailing all the
7 sections of the report and work papers; and a narrative report explaining our methodology
8 and conclusions.

9 The intent of the valuation report is to provide the appraisal results, as well as the
10 entire appraisal work file, in sufficient detail to satisfy the parties' and Commission's
11 review requirements of Section 1329 and the Commission's Final Implementation Order,
12 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
13 2543193 (Order Entered October 27, 2016) and Final Supplemental Implementation Order
14 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
15 2543193 (Order Entered February 28, 2019). In addition to a copy of the appraisal report,
16 I have provided supporting work papers for the appraisal report in **Appendix A-4.3** of
17 PAWC's Application. The relevant work papers have also been submitted to the
18 Commission and provided to the public advocates in **CONFIDENTIAL** live electronic
19 format.
20

21 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE GANNETT**
22 **FLEMING APPRAISAL REPORT SINCE ITS PREPARATION?**

² "Valley Township Sewerage Facilities Engineering Assessment and Original Cost" and related files prepared by Pennoni Associates Inc.

1 A. No.

2

3 **Q. WAS THE FAIR MARKET VALUATION OF THE WASTEWATER SYSTEM**
4 **ASSETS DETERMINED IN COMPLIANCE WITH USPAP?**

5 A. Yes. Our fair market valuation was determined in compliance with USPAP 2020-2021
6 Edition.

7

8 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
9 **PREPARING YOUR VALUATION?**

10 A. Yes.

11

12 **Q. DID YOU INCLUDE ANY EXTRAORDINARY ASSUMPTIONS OR**
13 **HYPOTHETICAL CONDITIONS IN DEVELOPING YOUR APPRAISAL?**

14 A. No.

15

16 **Q. DID YOU INCLUDE ANY LIMITING CONDITIONS IN DEVELOPING YOUR**
17 **APPRAISAL?**

18 A. Yes. We accepted all information and data provided by the Township as it pertains to this
19 assignment “as is” after a limited review. That is, we neither audited nor verified any data,
20 engineering assessment, financial record or operating data provided for this assignment.

21 We assumed all title to all assets included in the appraisal is good and marketable and no
22 hazardous conditions or materials exist which could affect the assets.

1 **Q. PLEASE SUMMARIZE YOUR RESULTS OF THE APPLICATION OF THE**
2 **COST, MARKET AND INCOME APPROACHES.**

3 **A.** Please see the below table:

Approach	Indicated Value	Weight	Weighted Value
Cost Approach	\$21,165,301	33.30%	\$7,048,045
Market Approach	17,780,741	33.40%	5,938,767
Income Approach	20,599,324	33.30%	6,859,575
		100%	\$19,846,387
Conclusion			\$19,846,000

4
5 **Q. PLEASE FURTHER DESCRIBE EACH APPROACH IN THE DEVELOPMENT**
6 **OF YOUR APPRAISAL.**

7 **A.** We developed our appraisal utilizing the cost, income, and market approaches as required
8 by USPAP and Section 1329 of the Code. We used seven methods under the Cost, Market
9 and Income Approaches to valuation: Original Cost Method, Replacement Cost Method,
10 Capitalization of Earnings Method, Market Multiple Discounted Cash Flow Method,
11 Capitalization Discounted Cash Flow Method, Market Multiples Method, and the Selected
12 Transactions Method.

13 The results from the capitalization of earnings method, market multiple discounted
14 cash flow method and the capitalization discounted cash flow method form the basis for
15 our Income Approach. Our Market Approach is supported by the market multiples method
16 and selected transactions method. The results from the original cost method form the basis
17 for our replacement cost method, and both methods form the basis for our Cost Approach.
18 These approaches are summarized below.

19 *Cost Approach.* The cost approach utilized the original cost method, reproduction
20 cost method and replacement cost method. The replacement cost method was calculated

1 by trending (trended cost method) the asset inventory from the original cost new method.
2 The original cost method determined the original cost new measure of the cost of the assets
3 when first constructed based on the information contained in the Engineering Assessment.
4 The original cost new inventory was trended using the Handy Whitman Index of Public
5 Utility Construction Costs for the water industry to produce the reproduction cost new and
6 was converted to replacement cost new after obsolescence was factored. The calculated
7 accrued depreciation was determined for the original cost new and for the replacement cost
8 new as of April 30, 2020. The calculated accrued depreciation was based on the assets'
9 attained ages, and the service life of the assets. The cost basis of depreciable assets was
10 reduced annually by the accumulated depreciation to reflect the loss in the service value of
11 the assets since being constructed. All land and land rights were valued at original cost.

12 *Income Approach.* The income approach utilized the capitalization of earning (cash
13 flow) method and the discounted cash flow method. The capitalization of earning method
14 converted a single base economic income number to a value by dividing it by a
15 capitalization rate. The discounted cash flow method used estimates of future debt free net
16 cash flow and discounted them to arrive at a present value or price of the cash flows. The
17 capitalization rate and the discount rate were developed based on market debt and equity
18 rates at the appraisal date. The discounted cash flow method reflected two types of
19 discounted cash flow analyses, the EBIT and EBITDA terminal value model and a
20 capitalization of terminal value model.³

21 *Market Approach.* The market approach was developed based on the market
22 multiples method and the selected transaction method. The market multiples method was

³ EBIT is earnings before interest and taxes and EBITDA is earnings before interest, tax, depreciation and amortization.

1 based on the market price data of publicly traded corporations engaged in the same or a
2 similar line of business as the Wastewater System. The market price data of these
3 comparable publicly traded corporations was used to calculate the market multiples for the
4 comparable publicly traded corporations at the appraisal date. The selected transactions
5 method used certain public information relating to the purchase or sales of businesses
6 involved in the same or a similar business line as the Wastewater System to calculated
7 market multiples at the time of transaction (sale/purchase). The calculated market
8 multiples determined by the market multiples method and the selected transaction method
9 were then multiplied by the corresponding Wastewater System financial and operating
10 statistic to produce an indicated value for the Wastewater System.

11
12 **Q. PLEASE STATE THE NUMBER OF CUSTOMERS YOU USED IN DEVELOPING**
13 **YOUR APPRAISAL AND THE SOURCE OF THAT NUMBER.**

14 **A.** The number of customers I used was 3,125. This customer count number was provided by
15 the Township.

16
17 **Q. DID YOU MAKE ANY UPDATES TO YOUR APPRAISAL AFTER IT WAS**
18 **SUBMITTED TO THE SELLER/BUYER, AND IF SO, WHAT WAS THE**
19 **UPDATE, WHEN WAS IT MADE, AND WHY WAS IT NECESSARY?**

20 **A.** No.

21
22 **Q. DID YOU PERFORM AN ON-SITE INSPECTION OF THE WASTEWATER**
23 **SYSTEM?**

1 A. Yes. Gannett Fleming viewed the wastewater system assets on June 17, 2020.

2

3 **Q. DID YOU RELY UPON A LICENSED ENGINEER’S ASSESSMENT OF THE**
4 **TANGIBLE ASSETS OF THE WASTEWATER SYSTEM IN PERFORMING**
5 **YOUR VALUATION?**

6 A. Yes. The Township provided a copy of the Engineering Assessment and this information
7 was incorporated into our Cost Approach in our appraisal.

8 **Cost Approach**

9 **Q. DID YOU USE THE REPRODUCTION COST OR THE REPLACEMENT COST**
10 **IN YOUR COST APPROACH?**

11 A. We utilized the original cost new (“OCN”) to calculate the trended original cost (“TOC”)
12 measures, or the reproduction cost of the depreciable assets by multiplying the OCN by
13 specific cost indices. We converted reproduction cost new to replacement cost new after
14 factoring in obsolescence. We used the TOC method because the mandated use of the
15 Engineering Assessment’s original cost essentially dictates the use of TOC over the
16 reproduction cost or the replacement cost methods.

17

18 **Q. WHAT INDEX, IF ANY, DID YOU USE FOR THAT METHOD?**

19 A. The original cost new inventory was trended using the Handy Whitman Index of Public
20 Utility Construction Costs for the water industry to produce the reproduction cost new.

1 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH WHAT ASSETS DID**
2 **YOU VALUE OR TREND DIFFERENTLY FROM OTHER ASSETS AND WHY**
3 **WAS THAT NECESSARY?**

4 **A.** Handy Whitman does not publish indices for all plant accounts. Accordingly, in limited
5 instances when Handy Whitman plant account indices are not available, we use the U.S.
6 Bureau of Labor Statistics, Producer Price Index which best matches the assets being
7 trended. However, in this instance, only Handy Whitman plant account indices were used
8 for the Wastewater System.

9
10 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH, WHAT YEAR-END**
11 **DATE DID YOU USE FOR CALCULATING THE DEPRECIATION RESERVE?**

12 **A.** We used the date of April 30, 2020.

13
14 **Q. HOW DID YOU DETERMINE THE DEPRECIATION PARAMETERS OF**
15 **SURVIVAL/RETIREMENT CHARACTERISTICS AND SERVICE LIVES FOR**
16 **THE UTILITY PROPERTY UNDER THE COST APPROACH?**

17 **A.** We determined the average service lives of depreciable assets based on the materials used
18 for construction and how long the depreciable assets are likely to meet service demands.

19
20 **Q. WHY ARE THOSE PARAMETERS APPROPRIATE?**

21 **A.** We believe our average service lives of depreciable assets are appropriate based on our
22 experience of having determined average service lives for numerous other water and

1 wastewater utilities and given the fact they resemble those used by other Pennsylvania
2 wastewater companies.

3
4 **Income Approach**

5 **Q. REGARDING YOUR APPLICATION OF THE INCOME APPROACH, WHAT**
6 **METHOD DID YOU USE TO DETERMINE THE INCOME APPROACH**
7 **RESULT?**

8 **A.** I used the Capitalization of Earnings Method, Market Multiple Discounted Cash Flow
9 Method (“Market Multiple DCF”), and Capitalization Discounted Cash Flow Method
10 (“Capitalization DCF”). I refer to the Market Multiple DCF and the Capitalization DCF
11 collectively as the DCF method.

12
13 **Q. WHAT ASSUMPTIONS DID YOU EMPLOY TO DEVELOP YOUR INCOME**
14 **APPROACH RESULT?**

15 **A.** All general assumptions are listed on page 3 of Exhibit 12, and page 7 of Exhibits 13, 14,
16 15 and 16.⁴

17
18 **Q. DID YOU USE PAWC’S CAPITALIZATION RATE OR THEIR DISCOUNT**
19 **RATE IN YOUR INCOME APPROACH TO VALUATION?**

20 **A.** No. Use of PAWC’S capitalization rate or their discount rate in an income approach to
21 valuation is not consistent with the standard of value of fair market value because the
22 “buyer” under the standard of value of fair market value is not a specific entity (i.e.,

⁴ Exhibit references herein are to the Exhibits in the Gannett Fleming Appraisal Report.

1 PAWC), but rather a hypothetical buyer. Use of PAWC'S capitalization rate or their
2 discount rate in an income approach to valuation is only used under the standard of value
3 of investment value.⁵ In accordance with Section 1329 of the Code, the standard of value
4 is fair market value, not investment value.

5
6 **Q. PLEASE EXPLAIN THE CAPITALIZATION RATE AND THE DISCOUNT RATE**
7 **USED IN YOUR INCOME APPROACH TO VALUATION.**

8 **A.** The capitalization rate used in the capitalization of earnings method and the discount rate
9 used in the DCF method are related. The discount rate is the opportunity cost rate related
10 to the risk of the cash flows. The capitalization rate is simply the discount rate minus the
11 expected growth rate. If no growth is assumed, the capitalization rate is equal to the
12 discount rate.

13 As explained previously, under the standard of value of fair market value the
14 “buyer” is not a specific entity (i.e., PAWC), but rather a hypothetical buyer. Accordingly,
15 the hypothetical bidder/buyer may range from large regional municipal authorities
16 (“MUNI”) to investor owned utilities (“IOU”). For a MUNI, the appropriate discount rate
17 is the current municipal revenue bond yield on April 30, 2020 of 3.88%. The appropriate
18 IOU discount rate is the current net of tax overall cost of capital (weighted average cost of
19 capital) on April 30, 2020 and ranges from 4.98% to 6.18%.⁶

⁵ Pratt, Shannon P. “Defining Standards of Value.” Valuation 34, no. 2, June 1989.
<http://www.appraisers.org/docs/default-source/college-of-fellows-articles/defining-standards-of-value.pdf> .

⁶ Both the American Society of Appraisers, ASA Business Valuation Standards, 2009, and the National Association of Certified Valuation Analysts, Professional Standards, 2007, use the same definition: “Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) determined by the weighted average, at market values, of the cost of all financing sources in the business enterprise's capital structure.”

1 For a MUNI, the appropriate discount rate is the current municipal revenue bond
2 yield, 3.88%, because debt is the only major source of capital available to finance an
3 acquisition (developed on Exhibit 20, pages 2-6). Although a MUNI likely carries equity
4 on their books (balance sheet), all existing equity is already invested in other assets and
5 therefore, cannot be used to finance an acquisition.⁷ For valuation purposes, an embedded
6 cost of debt, or the historical cost of all debt issuances outstanding is not used because this
7 capital is already invested in assets. Whereas the marginal cost of debt, 3.88%, at the
8 valuation date is used in accordance with accepted valuation practice and used for market
9 valuation purposes.

10 As discussed previously, for an IOU, the appropriate discount rate is the net of tax
11 overall cost of capital (weighted average cost of capital), 4.98% to 6.18% (Exhibit 20,
12 pages 2-9). In this instance, the net of tax overall cost of capital (weighted average cost of
13 capital) is based on the Comparable Group's market value capital structure of 25.2% debt
14 and 74.8% equity, a market cost of debt of 2.96% and a range of market cost of equity of
15 5.94% to 7.54% based on the Comparable Group's market value CAPM on April 30, 2020.⁸
16 The Comparable Group's net of tax overall cost of capital (weighted average cost of
17 capital) is used as a proxy to conform to the "hypothetical buyer" or "hypothetical seller"
18 of fair market valuation. Use of the buyer's net of tax overall cost of capital (weighted
19 average cost of capital) would produce an investment valuation, not a fair market valuation.

⁷ For example, when a municipal or government entity, such as the Commonwealth of Pennsylvania, finances construction of a road or bridge, they only consider the marginal debt cost despite having "equity" reflected on their books (balance sheet).

⁸ For an example of the net of tax overall cost of capital, see <http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/weighted-average-cost-capital-wacc-2905>. Also see <http://www.wallstreetmojo.com/weighted-average-cost-capital-wacc/>, or <http://accountingexplained.com/misc/corporate-finance/wacc>.

1 The supporting documentation for the development of the MUNI and IOU discount rates
2 are shown on pages 2 to 9 of Exhibit 20.

3
4 **Q. WHY IS THE NET OF TAX OVERALL COST OF CAPITAL APPROPRIATE TO**
5 **USE?**

6 **A.** The net of tax overall cost of capital is appropriate because the cash flows being discounted
7 are after tax, or net of tax. The income approach uses estimates of future free cash flow
8 and discounts them to arrive at a present value or price of the cash flows. Generally, this
9 analysis begins with an estimate of the Debt Free Net Cash Flow over the next five to
10 twenty years along with a terminal value. In each year, the Debt Free Net Cash Flow is
11 comprised of projected EBIT, minus income taxes, plus projected depreciation and
12 amortization, plus or minus projected changes in net cash working capital, less projected
13 capital expenditures.

14
15 **Q. WHAT IS THE BASIS FOR THE GROWTH RATE USED TO CALCULATE THE**
16 **CAPITALIZATION RATE USED IN THE INCOME APPROACH?**

17 **A.** The growth rate used to calculate the capitalization rate reflects the growth in the Debt Free
18 Net Cash Flow subsequent to the terminal value year. For the Township, the growth rate
19 of 0.0% was used based on current level of rates. Under both MUNI and IOU ownership
20 a growth rate of 0.4% was used based on the projected growth in population (1.1%),
21 projected inflation (2.0%) and the actual growth in the Debt Free Net Cash Flow in the
22 years prior to the terminal value year. Under MUNI ownership the average growth in the
23 Debt Free Net Cash Flow for the last two years prior to the terminal value year was 0.8%

1 and 0.3% under IOU ownership. A growth of 0.4% was deemed reasonable based on the
2 aforesaid.

3
4 **Q. WHAT UTILITY EARNINGS REPORT WAS USED TO CREATE THE CAPITAL**
5 **STRUCTURE USED IN YOUR APPRAISAL?**

6 **A.** As documented previously in footnotes 6 and 9, book value capitalization is not used in
7 fair market valuation determination. Therefore, we did not use the 6.31% Comparable
8 Group's DSIC (distribution system improvement charge) related net of tax overall cost of
9 capital in our valuation because a "hypothetical buyer" cannot finance an acquisition at
10 such a rate and therefore, its use would provide a meaningless result. The Comparable
11 Group's 6.31% DSIC related cost was determined based on the Comparable Group's book
12 value capital structure of 46.6% debt and 53.4% equity, a cost of debt of 2.96% and a DSIC
13 cost of equity of 9.95% based on the February 2020 Earnings Report. However, we note
14 the 6.31% Comparable Group's DSIC related net of tax overall cost of capital is just above
15 the 4.98% to 6.18% range of discount rates used in our Income Approach.

16 If we used the 6.31% Comparable Group's DSIC related net of tax overall cost of
17 capital in our valuation shown on Exhibit 16, the results of the Capitalization DCF would
18 show a value for the Wastewater System of \$13.5 million. Further, the results of the Market
19 Multiple DCF would show a value of \$18.2 million and collectively, the DCF method
20 based on the IOU ownership scenario and a 0.4% growth assumption would indicate a
21 value of \$16.0 million for the Wastewater System. The DCF method based on the MUNI
22 ownership scenario indicates a value of \$23.1 million and the DCF method based on the

1 IOU ownership scenario using DSIC indicates a value of \$16.0 million. Collectively, the
2 DCF method indicates a value of \$19.5 million when DSIC is considered.

3
4 **Q. IF YOU USED A TERMINAL VALUE IN YOUR DISCOUNTED CASH FLOW**
5 **ANALYSIS WHAT IS THE NUMBER OF YEARS OVER WHICH THE CASH**
6 **FLOWS ARE CONSIDERED?**

7 **A.** The use of a “terminal value” in a Discounted Cash Flow analysis is reasonable and is in
8 accordance with accepted valuation practice. Simply put, the “terminal value” is a
9 mathematical shortcut to avoid having to show and/or calculate annual Debt Free Net Cash
10 Flows for hundreds of time periods, or hundreds of years. Within the Discounted Cash
11 Flow analysis, the “terminal value” is simply a point in time in which the growth in annual
12 Debt Free Net Cash Flows changes from multiple growth rates to a constant growth rate.
13 For example, in our Discounted Cash Flow analysis, the growth rate of annual Debt Free
14 Net Cash Flows during time periods 1 through 24 changes multiple times due to the various
15 general assumptions listed in the Gannett Fleming Appraisal Report. Subsequent to time
16 period 24, the growth in annual Debt Free Net Cash Flows is a constant growth rate.
17 Accordingly, period 24, or year 24, is the “terminal value” year in our DCF method.

18
19 **Market Approach**

20 **Q. REGARDING YOUR APPLICATION OF THE MARKET APPROACH, WHAT**
21 **METHODS DID YOU USE TO DETERMINE THE MARKET APPROACH**
22 **RESULT?**

23 **A.** I used the market multiples method and the selected transaction method.

1 **Q. WHAT ASSUMPTIONS, ANALYSES, AND/OR ADJUSTMENTS DID YOU**
2 **MAKE UNDER EACH METHOD?**

3 **A.** The general assumptions used for the market multiples method are listed on page 1 of
4 Exhibit 17. No assumptions were made under the selected transaction method.

5
6 **Q. REGARDING YOUR APPLICATION OF THE MARKET MULTIPLES**
7 **METHOD, DID YOU LIMIT YOUR PROXY GROUP USED FOR CALCULATING**
8 **MARKET VALUE TO ONLY COMPANIES WHICH ENGAGE IN**
9 **PENNSYLVANIA FAIR MARKET VALUE ACQUISITIONS?**

10 **A.** No.

11
12 **Q. REGARDING YOUR APPLICATION OF THE COMPARABLE SALES USED TO**
13 **ESTABLISH THE VALUATION, DID YOU LIMIT THE TRANSACTIONS**
14 **SELECTED TO THOSE THAT YOU PREVIOUSLY APPRAISED?**

15 **A.** No.

16
17 **Q. PLEASE STATE THE COMPARABLE TRANSACTIONS YOU USED IN**
18 **DEVELOPING YOUR MARKET APPROACH.**

19 **A.** Please see PAWC's Application **Appendix A-5.2** (the Gannett Fleming Appraisal Report),
20 Exhibit 18, pages 2 and 3, which shows that we reviewed the following transactions⁹ in
21 developing the selected transactions method:

⁹ The years listed indicate when the applicant sought approval or when the Commission approved each of the transactions.

- 1 • Sale of the City of McKeesport to Pennsylvania American Water Company in
2 2017.
- 3 • Sale of New Garden Township Sewer Authority to Aqua Pennsylvania in 2017.
- 4 • Sale of Limerick Township Wastewater to Aqua Pennsylvania in 2017.
- 5 • Sale of East Bradford Township Wastewater to Aqua Pennsylvania in 2018.
- 6 • Sale of Mahoning Township Water system to Suez Water Pennsylvania in 2018.
- 7 • Sale of Mahoning Township Wastewater system to Suez Water Pennsylvania
8 in 2018.
- 9 • Sale of Sadsbury Township Wastewater to Pennsylvania American Water
10 Company in 2018.
- 11 • Sale of Exeter Township Wastewater to Pennsylvania American Water
12 Company in 2019.
- 13 • Sale of Steelton Borough Authority Water to Pennsylvania American Water
14 Company in 2019.
- 15 • Sale of Cheltenham Township Wastewater to Aqua Pennsylvania in 2019.
- 16 • Sale of East Norriton Township Wastewater to Aqua Pennsylvania in 2019.
- 17 • Sale of Kane Borough Authority Water to Pennsylvania American Water
18 Company in 2020.

19 As a check on the transactions I studied, that are listed above, I also reviewed the
20 purchase of Connecticut Water Service, Inc by SJW Group (Exhibit 18 page 4) which was
21 announced in 2018 and approved in 2019.

1 **Q. WHAT WERE THE RESULTS OF MARKET APPROACH ANALYSIS YOU**
2 **PERFORMED?**

3 **A.** The results of the market multiples method are shown on page 1 of Exhibit 17 and the
4 results of the selected transactions method are shown on page 1 of Exhibit 18. The
5 conclusion regarding the Market Approach analysis is explained on pages 41 and 42 of our
6 appraisal.

7 **CONCLUSION**

8 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF**
9 **THE WASTEWATER SYSTEM’S ASSETS TO BE PURCHASED BY PAWC?**

10 **A.** Fair market value is defined as “the price, expressed in terms of cash equivalents, at which
11 property would change hands between a hypothetical willing and able buyer and a
12 hypothetical willing and able seller, acting at arm’s length in an open and unrestricted
13 market, when neither is under compulsion to buy or sell and when both have reasonable
14 knowledge of the relevant facts.”

15 Based on our analysis, as described in our appraisal report, the estimate of the fair
16 market value of the Wastewater System as of April 30, 2020 is \$19,846,000 (rounded).
17 The results of the analyses and calculations are summarized in Table 1 for the Wastewater
18 System as follows:

<u>Valuation Approach</u>	<u>Indicated Value</u>
Cost Approach	\$21,165,301
Income Approach	20,599,324
Market Approach	17,780,741

19 **Table 1**

1 We used seven methods under the Cost, Market and Income Approaches to
2 valuation: Original Cost Method, Replacement Cost Method, Capitalization of Earnings
3 Method, Market Multiple Discounted Cash Flow Method, Capitalization Discounted Cash
4 Flow Method, Market Multiples Method, and the Selected Transactions Method.

5 The results from the capitalization of earnings method, market multiple discounted
6 cash flow method and the capitalization discounted cash flow method form the basis for
7 our Income Approach. Our Market Approach is supported by the market multiples method
8 and selected transactions method. The results from the original cost method form the basis
9 for our replacement cost method, and both methods form the basis for our Cost Approach.

10 We considered the results of each approach as an indicator of value individually, or
11 as independent indicators of value. Therefore, all three approaches to valuation were given
12 consideration in arriving at our estimate of the fair market value conclusion. In our opinion,
13 each of the valuation approaches utilized in our appraisal is relevant. Accordingly, we
14 assign an equal weight to the result of each approach. Our conclusion regarding the fair
15 market value can be described by the weightings given the specific results of the three
16 approaches to valuation. The results of our analyses, shown on Exhibit 19, indicate a range
17 of value for the Wastewater System of \$17.8 million to \$21.2 million and collectively
18 indicate a fair market value of \$19,846,000 for the Wastewater System.

19
20 **Q. GENERALLY SPEAKING, IS IT COMMON FOR DIFFERENT APPRAISERS TO**
21 **REACH VARYING OPINIONS OF FAIR MARKET VALUE?**

22 **A.** Yes. I do not think the underlying results of the models employed for valuation purposes
23 are ever the same from one appraiser to another appraiser. Further, the conclusion of value

1 from one appraiser to another appraiser usually differs as well. I believe these are some of
2 the reasons the results of the conclusion of value from two different UVEs are averaged
3 under Section 1329, 66 Pa. C.S. § 1329.

4

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

6 **A. Yes.**

APPENDIX A
Professional Qualifications
of
Harold Walker, III
Manager, Financial Studies
Gannett Fleming Valuation and Rate Consultants, LLC.

EDUCATION

Mr. Walker graduated from Pennsylvania State University in 1984 with a Bachelor of Science Degree in Finance. His studies concentrated on securities analysis and portfolio management with an emphasis on economics and quantitative business analysis. He has also completed the regulation and the rate-making process courses presented by the College of Business Administration and Economics Center for Public Utilities at New Mexico State University. Additionally, he has attended programs presented by The Institute of Chartered Financial Analysts (CFA).

Mr. Walker was awarded the professional designation "Certified Rate of Return Analyst" (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is based upon education, experience and the successful completion of a comprehensive examination. He is also a member of the Society of Utility and Regulatory Financial Analysts (SURFA) and has attended numerous financial forums sponsored by the Society. The SURFA forums are recognized by the Association for Investment Management and Research (AIMR) and the National Association of State Boards of Accountancy for continuing education credits.

Mr. Walker is also a licensed Municipal Advisor Representative (Series 50) by Municipal Securities Rulemaking Board (MSRB) and Financial Industry Regulatory Authority (FINRA).

BUSINESS EXPERIENCE

Prior to joining Gannett Fleming Valuation and Rate Consultants, LLC., Mr. Walker was employed by AUS Consultants - Utility Services. He held various positions during his eleven years with AUS, concluding his employment there as a Vice President. His duties included providing and supervising financial and economic studies on behalf of investor owned and municipally owned water, wastewater, electric, natural gas distribution and transmission, oil pipeline and telephone utilities as well as resource recovery companies.

In 1996, Mr. Walker joined Gannett Fleming Valuation and Rate Consultants, LLC. In his capacity as Manager, Financial Studies and for the past twenty years, he has continuously studied rates of return requirements for regulated firms. In this regard, he supervised the preparation of rate of return studies in connection with his testimony and in the past, for other individuals. He also assisted and/or developed dividend policy studies, nuclear prudence studies, calculated fixed charge rates for avoided costs involving cogeneration projects, financial decision studies for capital budgeting purposes and developed financial models for determining future capital requirements and the effect of those requirements on investors and ratepayers, valued utility property and common stock for acquisition and divestiture, and assisted in the private placement of fixed capital securities for public utilities.

Head, Gannett Fleming GASB 34 Task Force responsible for developing Governmental Accounting Standards Board (GASB) 34 services, and educating Gannett Fleming personnel and Gannett Fleming clients on GASB 34 and how it may affect them. The GASB 34 related services include inventory of assets, valuation of assets, salvage estimation, annual depreciation rate determination, estimation of depreciation reserve, asset service life determination, asset condition assessment, condition assessment documentation, maintenance estimate for asset preservation, establishment of condition level index, geographic information system (GIS) and data management services, management discussion and analysis (MD&A) reporting, required supplemental information (RSI) reporting, auditor interface, and GASB 34 compliance review.

Mr. Walker was also the Publisher of C.A. Turner Utility Reports from 1988 to 1996. C.A. Turner Utility Reports is a financial publication which provides financial data and related ratios and forecasts covering the utility industry. From 1993 to 1994, he became a contributing author for the Fortnightly, a utility trade journal. His column was the Financial News column and focused mainly on the natural gas industry.

In 2004, Mr. Walker was elected to serve on the Board of Directors of SURFA. Previously, he served as an ex-officio directors as an advisor to SURFA's existing President. In 2000, Mr. Walker was elected President of SURFA for the 2001-2002 term. Prior to that, he was elected to serve on the Board of Directors of SURFA during the period 1997-1998 and 1999-2000. Currently, he also serves on the Pennsylvania Municipal Authorities Association, Electric Deregulation Committee.

EXPERT TESTIMONY

Mr. Walker has submitted testimony or been deposed on various topics before regulatory commissions and courts in 25 states including: Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, Nevada, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, and West Virginia. His testimonies covered various subjects including: fair market value, the taking of natural resources, appropriate capital structure and fixed capital cost rates, depreciation, fair rate of return, purchased water adjustments, synchronization of interest charges for income tax purposes, valuation, cash working capital, lead-lag studies, financial analyses of investment alternatives, and fair value. The following tabulation provides a listing of the electric power, natural gas distribution, telephone, wastewater, and water

service utility cases in which he has been involved as a witness. Additionally, he has been involved in a number of rate proceedings involving small public utilities which were resolved by Option Orders and therefore, are not listed below.

<u>Client</u>	<u>Docket No.</u>	
Alpena Power Company	U-10020	
Armstrong Telephone Company - Northern Division	92-0884-T-42T	
Armstrong Telephone Company - Northern Division	95-0571-T-42T	
Artesian Water Company, Inc.	90 10	
Artesian Water Company, Inc.	06 158	
Aqua Illinois Consolidated Water Divisions and Consolidated Sewer Divisions	11-0436	
Aqua Illinois Hawthorn Woods Wastewater Division	00620/07 0621/08 0067	
Aqua Illinois Hawthorn Woods Water Division	07 0620/07 0621/08 0067	
Aqua Illinois Kankakee Water Division	10-0194	
Aqua Illinois Kankakee Water Division	14-0419	
Aqua Illinois Vermilion Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Wastewater Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Water Division	07 0620/07 0621/08 0067	
Aqua Pennsylvania Wastewater Inc	A-2016-2580061	*
Aqua Pennsylvania Wastewater Inc	A-2017-2605434	*
Aqua Pennsylvania Wastewater Inc	A-2018-3001582	*
Aqua Pennsylvania Wastewater Inc	A-2019-3008491	*
Aqua Pennsylvania Wastewater Inc	A-2019-3009052	*
Aqua Pennsylvania Wastewater Inc	A-2019-3015173	*
Aqua Virginia - Alpha Water Corporation	Pue-2009-00059	
Aqua Virginia - Blue Ridge Utility Company, Inc.	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Earlysville Forest Water Company	Pue-2009-00059	
Aqua Virginia - Heritage Homes of Virginia	Pue-2009-00059	
Aqua Virginia - Indian River Water Company	Pue-2009-00059	
Aqua Virginia - James River Service Corp.	Pue-2009-00059	

Aqua Virginia - Lake Holiday Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Holiday Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Shawnee	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Wastewater)	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Water)	Pue-2009-00059	
Aqua Virginia - Mountainview Water Company, Inc.	Pue-2009-00059	
Aqua Virginia - Powhatan Water Works, Inc.	Pue-2009-00059	
Aqua Virginia - Rainbow Forest Water Corporation	Pue-2009-00059	
Aqua Virginia - Shawnee Land	Pue-2009-00059	
Aqua Virginia - Sydnor Water Corporation	Pue-2009-00059	
Aqua Virginia - Water Distributors, Inc.	Pue-2009-00059	
Berkshire Gas Company	18-40	
Borough of Hanover	R-2009-2106908	
Borough of Hanover	R-2012-2311725	
Borough of Hanover	R-2014-242830	
Borough of Royersford	A-2020-3019634	*
Chaparral City Water Company	W 02113a 04 0616	
California-American Water Company	CIVCV156413	*
Connecticut-American Water Company	99-08-32	
Connecticut Water Company	06 07 08	
Citizens Utilities Company Colorado Gas Division	-	
Citizens Utilities Company Vermont Electric Division	5426	
Citizens Utilities Home Water Company	R 901664	
Citizens Utilities Water Company of Pennsylvania	R 901663	
City of Bethlehem - Bureau of Water	R-00984375	
City of Bethlehem - Bureau of Water	R 00072492	
City of Bethlehem - Bureau of Water	R-2013-2390244	
City of Dubois – Bureau of Water	R-2013-2350509	
City of Dubois – Bureau of Water	R-2016-2554150	

City of Lancaster Sewer Fund	R-00005109	
City of Lancaster Sewer Fund	R-00049862	
City of Lancaster Sewer Fund	R-2012-2310366	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Water Fund	R-00984567	
City of Lancaster Water Fund	R-00016114	
City of Lancaster Water Fund	R 00051167	
City of Lancaster Water Fund	R-2010-2179103	
City of Lancaster Water Fund	R-2014-2418872	
Coastland Corporation	15-cvs-216	
Consumers Pennsylvania Water Company Roaring Creek Division	R-00973869	
Consumers Pennsylvania Water Company Shenango Valley Division	R-00973972	
Country Knolls Water Works, Inc.	90 W 0458	
East Resources, Inc. - West Virginia Utility	06 0445 G 42T	
Elizabethtown Water Company	WR06030257	
Forest Park, Inc.	19-W-0168 & 19-W-0269	
Hampton Water Works Company	DW 99-057	
Hidden Valley Utility Services, LP	R-2018-3001306	
Hidden Valley Utility Services, LP	R-2018-3001307	
Illinois American Water Company	16-0093	
Indian Rock Water Company	R-911971	
Indiana Natural Gas Corporation	38891	
Jamaica Water Supply Company	-	
Kane Borough Authority	A-2019-3014248	*
Kentucky American Water Company, Inc.	2007 00134	
Middlesex Water Company	WR 89030266J	
Millcreek Township Water Authority	55 198 Y 00021 11	*
Missouri-American Water Company	WR 2000-281	
Missouri-American Water Company	SR 2000-282	
Mount Holly Water Company	WR06030257	
New Jersey American Water Company	WR 89080702J	
New Jersey American Water Company	WR 90090950J	
New Jersey American Water Company	WR 03070511	
New Jersey American Water Company	WR-06030257	

New Jersey American Water Company	WR08010020	
New Jersey American Water Company	WR10040260	
New Jersey American Water Company	WR11070460	
New Jersey American Water Company	WR15010035	
New Jersey American Water Company	WR17090985	
New Jersey American Water Company	WR19121516	
New Jersey Natural Gas Company	GR19030420	
Newtown Artesian Water Company	R-911977	
Newtown Artesian Water Company	R-00943157	
Newtown Artesian Water Company	R-2009-2117550	
Newtown Artesian Water Company	R-2011-2230259	
Newtown Artesian Water Company	R-2017-2624240	
Newtown Artesian Water Company	R-2019-3006904	
North Maine Utilities	14-0396	*
Northern Indiana Fuel & Light Company	38770	
Oklahoma Natural Gas Company	PUD-940000477	
Palmetto Wastewater Reclamation, LLC	2018-82-S	
Pennichuck Water Works, Inc.	DW 04 048	*
Pennichuck Water Works, Inc.	DW 06 073	
Pennichuck Water Works, Inc.	DW 08 073	
Pennsylvania Gas & Water Company (Gas)	R-891261	
Pennsylvania Gas & Water Co. (Water)	R 901726	
Pennsylvania Gas & Water Co. (Water)	R-911966	
Pennsylvania Gas & Water Co. (Water)	R-22404	
Pennsylvania Gas & Water Co. (Water)	R-00922482	
Pennsylvania Gas & Water Co. (Water)	R-00932667	
Public Service Company of North Carolina, Inc.	G-5, Sub 565	
Public Service Electric and Gas Company	ER181010029	
Public Service Electric and Gas Company	GR18010030	
Sierra Pacific Power Company d/b/a NV Energy	19-06002	
Presque Isle Harbor Water Company	U-9702	
St. Louis County Water Company	WR-2000-844	
Suez Water Delaware, Inc.	19-0615	
Suez Water New Jersey, Inc.	WR18050593	
Suez Water Owego-Nichols, Inc.	17-W-0528	
Suez Water Pennsylvania, Inc.	R-2018-3000834	
Suez Water Pennsylvania, Inc.	A-2018-3003519	*

Suez Water Rhode Island, Inc.	Docket No. 4800	
Suez Water Owego-Nichols, Inc.	19-W-0168 & 19-W-0269	
Suez Water New York, Inc.	19-W-0168 & 19-W-0269	
Suez Westchester, Inc.	19-W-0168 & 19-W-0269	
Suez Water Pennsylvania, Inc.	A-2018-3003517	*
Town of North East Water Fund	9190	
Township of Exeter	A-2018-3004933	*
United Water New Rochelle	W-95-W-1168	
United Water Toms River	WR-95050219	
Valley Township (water)	A-2020-3019859	*
Valley Water Systems, Inc.	06 10 07	
Virginia American Water Company	PUR-2018-00175	
West Virginia-American Water Company	15-0676-W-42T	
West Virginia-American Water Company	15-0675-S-42T	
Wilmington Suburban Water Corporation	94-149	
York Water Company	R-901813	
York Water Company	R-922168	
York Water Company	R-943053	
York Water Company	R-963619	
York Water Company	R-994605	
York Water Company	R-00016236	
Young Brothers, LLC	2019-0117	

* - Testimony related to valuation

VERIFICATION

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



Harold Walker III, Manager, Financial Services
Gannett Fleming

Dated: October 7, 2020



Matthew S. Olesh
215.665.3043
matthew.olesh@obermayer.com
www.obermayer.com

Obermayer Rebmann Maxwell & Hippel LLP
Centre Square West
1500 Market Street | Suite 3400
Philadelphia, PA 19102-2101
P: 215.665.3000
F: 215.665.3165

July 21, 2021

Via electronic mail

Honorable Conrad A. Johnson
Honorable Emily I. DeVoe
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Piatt Place, Suite 220
301 Fifth Avenue
Pittsburgh, PA 15222

RE: Docket Nos. A-2020-3019859, A-2020-3020178; Application of Pennsylvania-American Water Company to Acquire Valley Township's Water Treatment and Distribution and Wastewater Collection and Conveyance System

Dear Administrative Law Judges Johnson and DeVoe:

Enclosed please find a copy of the following testimony, submitted on behalf of Valley Township in the above-referenced matter:

Supplemental Direct Testimony of Patrice Proctor, Chairwoman of the Board of Supervisors of Valley Township (Valley Township St. No. 1W-S and 1WW-S)

Copies have been served on all parties via electronic mail. Thank you.

Very truly yours,

Matthew S. Olesh

Enclosures

cc: Rosemary Chiavetta, Secretary (*Cover Letter and Certificate of Service Only*)
Nick Miskanic, Legal Assistant, Office of Administrative Law Judge
All parties of record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American
Water Company Pursuant to Sections 507,
1102, and 1329 of the Public Utility Code for
Approval of its Acquisition of the Valley
Township Water Treatment and Distribution
System and Valley Township Wastewater
Collection and Conveyance System.

Docket Nos. A-2020-3019859,
A-2020-3020178

**VALLEY TOWNSHIP
STATEMENT NO. 1W-S and 1WW-S**

**SUPPLEMENTAL DIRECT TESTIMONY OF
PATRICE PROCTOR
CHAIRWOMAN OF THE BOARD OF SUPERVISORS
FOR VALLEY TOWNSHIP**

**With Regard to Inquiries Submitted by
Commissioner Ralph V. Yanora of the Pennsylvania
Public Utility Commission**

July 21, 2021

VALLEY TOWNSHIP, CHESTER COUNTY
SUPPLEMENTAL DIRECT TESTIMONY OF PATRICE PROCTOR

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Patrice Proctor. My business address is 1145 West Lincoln Highway,
4 Coatesville, PA 19320.

5

6 **Q. In what capacity are you affiliated with Valley Township?**

7 A. I am the Chairwoman of the Board of Supervisors for Valley Township.

8

9 **Q. Are you the same Patrice Proctor who previously submitted prepared direct**
10 **testimony in this proceeding?**

11 A. Yes.

12

13 **Q. What is the purpose of your testimony?**

14 A. My testimony responds to four (4) inquiries submitted by Commissioner Ralph V.
15 Yanora on July 1, 2021 regarding the application of Pennsylvania-American Water
16 Company (“PAWC”) to purchase the Valley Township Water Treatment and Distribution
17 System (“VTWDS”) and Valley Township Wastewater Collection and Conveyance
18 System.

19

20 **RESPONSES TO COMMISSIONER YANORA**

21 **Q. Please provide the estimated number of company-owned lead service lines and the**
22 **number of lead service lines in the VTWDS. (Commissioner Yanora’s Letter No. 1)**

VALLEY TOWNSHIP, CHESTER COUNTY
SUPPLEMENTAL DIRECT TESTIMONY OF PATRICE PROCTOR

1 A. Valley Township is unaware of any Valley-owned or customer-owned lead service lines
2 in the VTWDS. Lead service lines ceased use in 1986, and the oldest part of the
3 VTWDS was constructed two years later in 1988.

4

5 **Q. Please provide the number of VTWDS commercial meters in Valley Township's**
6 **system, the number tested, and the number passed or failed in calendar year 2020.**
7 **(Commissioner Yanora's Letter Question No. 5)**

8 A. In calendar year 2020, there were thirty-three (33) commercial meters in the VTWDS.
9 However, none of the VTWDS commercial meters were tested in 2020.

10

11 **Q. Please provide the number of VTWDS valves exercised in calendar year 2020 and**
12 **the frequency of valve maintenance. (Commissioner Yanora's Letter Question No.**
13 **6)**

14 A. There were approximately five (5) valves exercised in calendar year 2020. Additionally,
15 the Township does not have a routine valve exercising or maintenance program.

16

17 **Q. Please provide the number of VTWDS commercial and industrial customers that**
18 **have testable backflow prevention devices and the number of devices that were**
19 **tested for calendar year 2020. (Commissioner Yanora's Letter Question No. 7)**

20 A. The number of commercial and industrial customers with testable backflow prevention
21 devices is not known to the Township. Additionally, no backflow prevention devices
22 were tested in calendar year 2020.

23

VALLEY TOWNSHIP, CHESTER COUNTY
SUPPLEMENTAL DIRECT TESTIMONY OF PATRICE PROCTOR

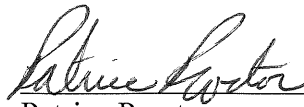
1 VI. **CONCLUSION**

2 Q. **Does this conclude your supplemental direct testimony?**

3 A. Yes, it does. However, I reserve the right to file additional testimony during the course
4 of this proceeding as may be necessary or appropriate.

VERIFICATION

I, Patrice Proctor, the Chairwoman of the Board of Supervisors for Valley Township, hereby verify that the statements of fact made in the foregoing *Supplemental Testimony* are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).


Patrice Proctor

Dated: July 21, 2021

CERTIFICATE OF SERVICE

I, Matthew Olesh, Esq., hereby certify that I have served a true and correct copy of the foregoing *Supplemental Direct Testimony* upon the parties list below in accordance with the requirements of 52 Pa. Code §§ 1.54 (relating to service by a party) via electronic mail.

Susan Simms Marsh
Pennsylvania American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055
Susan.Marsh@amwater.com

Erika McLain
PUC Bureau Of Investigation And
Enforcement
400 North Street, 2nd Floor West
Harrisburg, PA 17120
ermclain@pa.gov

Erin K. Fure
Office of Small Business Advocate
Forum Place
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
efure@pa.gov

Christine M. Hoover
Erin L. Gannon
Harrison W. Breitman
Office of Consumer Advocate
Forum Place
555 Walnut Street, 5th Floor
Harrisburg, PA 17101
choover@paoca.org
egannon@paoca.org
hbreitman@paoca.org

David P. Zambito, Esq.
Jonathan P. Nase, Esq.
Cozen O'Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101
jnase@cozen.com
dzambito@cozen.com

Dated: July 21, 2021

/s/ Matthew Olesh _____



Matthew S. Olesh
215.665.3043
matthew.olesh@obermayer.com
www.obermayer.com

Obermayer Rebmann Maxwell & Hippel LLP
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Philadelphia, PA 19102-2101
P: 215.665.3000
F: 215.665.3165

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CHAIRWOMAN OF THE BOARD OF SUPERVISORS
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VALLEY TOWNSHIP, CHESTER COUNTY
SUPPLEMENTAL DIRECT TESTIMONY OF PATRICE PROCTOR

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VALLEY TOWNSHIP, CHESTER COUNTY
SUPPLEMENTAL DIRECT TESTIMONY OF PATRICE PROCTOR

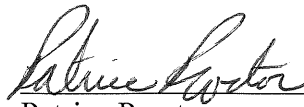
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Patrice Proctor

Dated: July 21, 2021

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PUC Bureau Of Investigation And
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400 North Street, 2nd Floor West
Harrisburg, PA 17120
ermclain@pa.gov

Erin K. Fure
Office of Small Business Advocate
Forum Place
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
efure@pa.gov

Christine M. Hoover
Erin L. Gannon
Harrison W. Breitman
Office of Consumer Advocate
Forum Place
555 Walnut Street, 5th Floor
Harrisburg, PA 17101
choover@paoca.org
egannon@paoca.org
hbreitman@paoca.org

David P. Zambito, Esq.
Jonathan P. Nase, Esq.
Cozen O'Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101
jnase@cozen.com
dzambito@cozen.com

Dated: July 21, 2021

/s/ Matthew Olesh _____