

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2021-3026132

AQUA STATEMENT NO. 1-R

**REBUTTAL TESTIMONY OF
WILLIAM C. PACKER**

**With Regard To:
Easement and Property Rights
Cost of Service Study
Affirmative Public Benefit
Long-Term Infrastructure Improvement Plan
Rate Freeze**

March 18, 2022

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A. My name is William C. Packer. My business address is 762 West Lancaster Avenue,**
4 Bryn Mawr, Pennsylvania 19010.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A. I am employed by Essential Utilities, Inc. (“Essential”), as Vice President, Regulatory**
8 Accounting and Regional Controller. In this position, I am Controller of Aqua
9 Pennsylvania, Inc. (“Aqua PA”) and oversee the financial operations of Aqua New
10 Jersey, Inc. (“Aqua NJ”). Additionally, I oversee rate issues for all subsidiaries of
11 Essential. Aqua PA is the parent company to Aqua Pennsylvania Wastewater, Inc.
12 (“Aqua” or the “Company”).

13
14 **Q. Are you the same William C. Packer who submitted direct testimony in this**
15 **proceeding?**

16 **A. Yes. I submitted direct testimony with the Application filed with the Pennsylvania Public**
17 Utility Commission (“PUC” or the “Commission”) on July 23, 2021.

18
19 **Q. What is the purpose of your rebuttal testimony?**

20 **A. My rebuttal testimony addresses portions of the direct testimony of the Commission’s**
21 Bureau of Investigation and Enforcement (“I&E”) witnesses Christopher Keller and
22 Ethan Cline, Office of Consumer Advocate (“OCA”) witness Noah Eastman, and Office
23 of Small Business Advocate (“OSBA”) witness Brian Kalcic.

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Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. No

Q. Please briefly summarize the positions of the other parties that you will address in your rebuttal testimony.

A. Yes. The OSBA recommends that the Commission reject any rate freeze that goes beyond the date of new rates in Aqua’s next base rate case. I&E recommends that if the Commission approves the Application, it reject any rate freeze and recognize that the Company’s estimated revenue requirement includes only one year of plant additions and that the more time between closing and the Company’s next rate case would increase the revenue requirement. I&E also recommends conditions regarding missing easements and cost of service studies. The OCA claims that Aqua has not supported the Application by providing affirmative public benefits, and recommends that, if the Commission approves the Application, it should reject the rate freeze. The OCA also recommends that if the Commission approves the Application, it adopt certain conditions regarding cost of service studies, future long-term infrastructure improvement plan filings, and allowance for funds used during construction and deferred depreciation.

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1 **II. RESPONSE TO OSBA WITNESS KALCIC**

2 **Q. Please summarize the issue raised in the direct testimony of OSBA witness Kalcic**
3 **concerning the rate freeze in Section 7.03 of the Asset Purchase Agreement**
4 **(“APA”).**

5 **A.** Mr. Kalcic discusses the rate freeze in Section 7.03 of the APA and states that, depending
6 on the timing of the Company’s next rate filing, the rate freeze could extend beyond the
7 effective date of new rates. Mr. Kalcic states that it is inappropriate to freeze rates
8 beyond the effective date of rates in the Company’s next base rate proceeding. He,
9 therefore, recommends that the Commission reject any rate freeze that extends beyond
10 the effective date of new rates in the first base rate case following the closing of the
11 transaction. In the alternative, he recommends that Aqua should impute revenues to East
12 Whiteland Township (“EWT” or the “Township”) customers to make up for any revenue
13 shortfall where a rate freeze would extend beyond the effective date of new rates in the
14 first base rate proceeding following the closing of the transaction.

15
16 **Q. Do you agree with Mr. Kalcic’s recommendation?**

17 **A.** Not entirely. I disagree with Mr. Kalcic’s request to reject the rate freeze in the APA.
18 Mr. Kalcic’s request is based upon speculation of future events and the timing of a rate
19 case filing that is dependent on many different factors. Mr. Kalcic’s request is
20 unnecessary as demonstrated in the Company’s most recently concluded base rate case,
21 whereby the Tobyhanna Sewer System acquired by the Company was included in Rate
22 Zone 4, despite the fact that the asset purchase agreement also had a rate freeze provision.
23 The Company’s proposed tariff treated the existing rates in effect through the duration of

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1 the rate freeze period as a special charge. Once the expiration of the contractual rate
2 freeze had elapsed, those customers immediately became subject to Rate Zone 4 tariff
3 rates. Nonetheless, the Company’s proof of revenue was calculated at the full cost of
4 service rate, not the frozen existing rate, thus no existing customer was harmed or paid
5 for the rate freeze. If the same situation would occur for EWT, the Company would
6 make a similar proposal for the EWT system and its customers.

7
8 **III. RESPONSE TO I&E WITNESS CHRISTOPHER KELLER**

9 **A. Property Rights**

10 **Q. Please summarize the issues raised by I&E Witness Keller concerning the transfer**
11 **of property rights.**

12 **A.** At pages 4 through 5 of his direct testimony, Mr. Keller discusses his concerns with
13 missing easements and property rights that may exist at the time of closing of the
14 proposed transaction. Mr. Keller states that the Utility Valuation Experts’ (“UVE”)
15 appraisals may be inaccurate or incomplete if all property rights are not transferred to
16 Aqua at closing. Mr. Keller then recommends that if the Commission approves the
17 proposed transaction it should condition that approval such that closing will not be
18 permitted until EWT has:

19 (1) Identified all missing easements including rights-of way and other property
20 rights;

21 (2) Taken any and all necessary actions to obtain the missing easements and other
22 property rights so they may be conveyed to Aqua at closing; and

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1 (3) Borne all costs and expenses for obtaining and conveying the missing
2 easements and other property rights so that Aqua's ratepayers are not
3 burdened with those costs.

4 Additionally, Mr. Keller recommends that for situations beyond EWT's control
5 where it is unable to transfer certain missing easements or other property rights at
6 closing, Aqua and EWT may proceed to closing provided that an escrow account is
7 established of an appropriate portion of the purchase price to ensure the Township
8 obtains any remaining missing easements or other property rights post-closing and
9 delivers them to Aqua.

10
11 **Q. Do you agree with Mr. Keller's recommendation regarding the proposed conditions**
12 **concerning easements and other property rights?**

13 **A.** No. As referenced in Mr. Keller's direct testimony and Exhibit No. 1 thereto, EWT has
14 identified the property rights to be transferred to Aqua at closing, and that at the time of
15 Aqua's response to I&E-I-21 there were 22 properties with missing easements. Since
16 that date, and as of the filing of this rebuttal testimony, the number of missing easements
17 has been reduced to 15 that EWT will need to obtain. EWT and Aqua continue to work
18 through the list of missing easements and, again, are not aware of any that will not be
19 obtained by closing. Nevertheless, in light of the applicable APA provisions identified
20 below, regardless of the time it takes to identify and transfer the missing easements to
21 Aqua, customers will be protected from and will not absorb any of the costs related
22 thereto. Further, there is no uncertainty regarding these rights, since the Township is
23 required to ensure that all rights do eventually get transferred to Aqua.

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1 Additionally, Mr. Keller’s recommendations are already contemplated in the APA
2 entered into between Aqua and EWT on January 8, 2021, and are, therefore, unnecessary.
3 Notably, Section 6.05 (Easement) states that “the Seller shall, at its sole cost and expense,
4 cause an abstractor . . . to perform a search of the public land records of Chester County .
5 . . to (i) identify and provide Buyer with title information on all recorded Easements, and
6 (ii) together with Seller, identify all Missing Easements.” Application Exhibit B, Section
7 6.05(a). Section 6.05 goes on to state that

8 [i]f during the process of Abstractor’s review and investigation of Chester
9 County land records, Seller determines that there is a Missing Easement,
10 Seller shall take any and all actions (including the use of its power of
11 condemnation) to obtain any Missing Easements so the same may be sold,
12 assigned, transferred and conveyed to Buyer at Closing All costs and
13 expenses incurred in connection with obtaining each Missing Easement
14 (including payment to a landowner in connection with condemnation, in
15 lieu of condemnation or otherwise) shall be paid by Seller and no additional
16 consideration shall be payable by Buyer for any Missing Easement.

17
18 Application Exhibit B, Section 6.05(c).
19

20 **Q. Do the provisions from the APA you note above adequately address Mr. Keller’s**
21 **concerns?**

22 **A.** Yes. While Mr. Keller notes that Section 6.05 provides a process for identification and
23 conveyance of easements and other property rights, Mr. Keller then states that, because
24 Section 6.06 of the APA notes that EWT may own interests in or have the legal right to
25 use or occupy the real property and easements necessary to operate the system and that
26 are not specifically identified in Schedule 4.09, it is important that the Commission adopt
27 his recommended condition. Mr. Keller fails to note that the remainder of Section 6.06
28 goes on to state that, if a parcel of unscheduled real property is discovered,

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1 Seller shall convey, assign or otherwise transfer any rights to each parcel of
2 Unscheduled Real Property, without additional consideration payable by
3 Buyer, in such a manner as to provide Buyer with reasonable assurances
4 that Buyer may use or occupy the Unscheduled Real Property as it was used
5 by the Seller as of the Effective Date.”
6

7 Application Exhibit B, Section 6.06.
8

9 Therefore, the APA specifically contemplates the rights and responsibilities of
10 Aqua and EWT with regard to property identified that may not have been listed on
11 Schedule 4.09 and Mr. Keller’s recommended condition is not necessary and should be
12 rejected.
13

14 **B. Future Rate Impacts**

15 **Q. Please summarize Mr. Keller’s statements concerning future rate impacts for**
16 **system improvements funded by Aqua and the impact of taxes and depreciation.**

17 **A.** Mr. Keller noted that Aqua estimates approximately \$17 million (\$16.92 million) in
18 capital projects over the next 10 years needed for system upgrades and that these projects
19 would be funded under Aqua’s weighted average cost of capital. Mr. Keller notes that
20 the impact of those capital projects would be \$727,600 higher under Aqua ownership due
21 to Aqua’s higher cost of capital. Mr. Keller then states that in applying Aqua’s gross-up
22 factor for taxes, the difference increases to \$1,257,201.

23 Mr. Keller goes on to state that Aqua pays federal and state taxes and that annual
24 depreciation is included in rates for Aqua. Mr. Keller notes these components are not
25 part of EWT’s current rates. Finally, Mr. Keller states that he is not making a
26 recommendation for the Commission to deny the Application; rather, he believes it is

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1 important to remind the parties of the impact of the acquisition on the rates of EWT and
2 Aqua customers.

3
4 **Q. Do you agree with Mr. Keller's discussion of future rate impacts from cost of**
5 **capital, taxes, and depreciation?**

6 **A.** Mr. Keller's observations as far as the differences between municipal cost of service as
7 compared to an investor-owned utility are well known and he notes his discussion serves
8 only as a reminder. I concede that these differences exist. I do not agree with any
9 inference that the existence of a difference in the pre-tax cost of capital is a basis for the
10 denial of a FMV application.

11
12 **IV. RESPONSE TO I&E WITNESS ETHAN CLINE**

13 **A. Rate Freeze**

14 **Q. Please summarize Mr. Cline's testimony direct regarding the proposed rate freeze.**

15 **A.** Mr. Cline does not believe that the three-year rate freeze is a reasonable provision to
16 include in the APA and he therefore recommends that the Commission reject the rate
17 freeze. Mr. Cline states that the rate freeze is unnecessary and would constitute a rate
18 stabilization plan, that it adds no value to the transaction, and that the rate freeze will
19 cause 100% of the revenue deficiency to be recovered from other Aqua customers. He
20 further states that the parties failed to acknowledge that the Commission makes a final
21 determination on rates regardless of any rate freeze.

22

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1 **Q. Do you agree with Mr. Cline’s statements on pages 7 and 8 of his direct testimony**
2 **regarding the end point of the three year rate freeze and Aqua’s recent rate case**
3 **filing history?**

4 **A.** No. A rate freeze is not on its own a rate stabilization plan. The Company is not
5 proposing in this application a predetermined rate plan that, if approved, would
6 potentially bind the PUC from increasing or modifying tariff rates in future base rate
7 cases. Moreover, Mr. Cline’s position presumes, incorrectly, that the Company will be
8 filing a base rate case including the EWT system prior to the expiration of the rate freeze
9 period, which as of today, is not a known fact. The Company is currently involved in a
10 base rate case before the PUC with a procedural schedule that runs through the month of
11 May of 2022. The Company has a track record over the past twenty years of filing rate
12 cases on a reasonably predictable cadence. With the utilization of the fully projected
13 future test year procedure provided in Section 1311 of the Public Utility Code, that
14 cadence has been every three years. Given this experience, there is a likelihood that this
15 system will not see a rate increase prior to the expiration of the rate freeze period in the
16 APA. Even if there was some overlap, that would merely be a matter of months and can
17 be dealt with a proposed effective date of new rates for EWT customers being
18 synchronized to the exact day and month of the expiration. In this instance, there would
19 be zero chance of any amount of the authorized increase for this system being funded
20 entirely by existing customers. The Company has accomplished this before with our
21 prior acquisition of the Tobyhanna system that had a similar provision. Given the
22 aforementioned facts, I disagree with Mr. Cline’s assertions.

23

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1 **Q. Mr. Cline criticizes Aqua and the Township for not acknowledging that the**
2 **Commission makes the ultimate determination regarding rate increases post-**
3 **closing. Do you agree with Mr. Cline that the Commission is the only entity that**
4 **makes final decisions on rate increases?**

5 **A. Yes.**

6
7 **Q. Please respond to Mr. Cline’s claims that the estimated rate impact is understated**
8 **and that other factors could increase the estimated rate impact.**

9 **A. The Company’s calculations of the differences between the cost of service of a municipal**
10 **owned entity as compared to an investor-owned are not understated. This system will**
11 **likely have a rate increase within five years. The exact amount would be impossible to**
12 **precisely calculate, nor is a precise calculation the purpose of Appendix A. This was**
13 **recognized by the Commission in its Final Supplemental Implementation Order on the**
14 **implementation of Section 1329.¹ There will be both increasing and decreasing factors**
15 **such as additional capital, offsetting amounts for depreciation, and increasing O&M**
16 **expenses, offset by additional customer revenue.**

17
18 **Q. Do you agree with Mr. Cline’s recommendation that the rate freeze should be**
19 **removed?**

20 **A. No.**

21

¹ See *Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 Final Supplemental Implementation Order at 32-34 (February 28, 2019).

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1 **Q. Please comment on Mr. Cline’s recommendation that the record should indicate**
2 **that the Company’s estimated revenue requirement includes only one year of post-**
3 **acquisition plant additions and more time between closing and the next base rate**
4 **case would increase revenue requirement.**

5 **A.** I believe that Mr. Cline’s recommendation is unnecessary. The Company provided a
6 non-binding estimate of the incremental rate impact of the transaction on customers. The
7 Commission’s ultimate determination of a rate increase to the EWT customers is not
8 known. As such his recommendation should be rejected.

9

10 **B. Cost of Service Study**

11 **Q. Please describe Mr. Cline’s recommendation that Aqua file a Cost of Service Study**
12 **(“COSS”) in its next base rate case.**

13 **A.** At pages 15 through 19 of his direct testimony, Mr. Cline recommends that Aqua file a
14 COSS with its next rate case. Mr. Cline recommends that Aqua separately identify plant
15 in service costs at the time the EWT system was purchased, the cost of any plant
16 retirements, and the cost of any plant investments.

17

18 **Q. Do you agree with Mr. Cline’s recommendation regarding a COSS?**

19 **A.** Yes, in part. The Company agrees that, in its next base rate case filing that includes the
20 EWT system, it will include a separate COSS for the EWT system using the same
21 methodology it used for other systems acquired through Section 1329 proceedings in the
22 base rate case at Docket Nos. R-2021-3027385 and R-2021-3027386.

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1 **V. RESPONSE TO OCA WITNESS NOAH EASTMAN**

2 **A. Rate Stabilization**

3 **Q. On page 4 of Mr. Eastman’s direct testimony, he discusses the rate impact the three-**
4 **year rate freeze would have on Aqua’s current customers. Please respond.**

5 **A.** For the same reasons as set forth in response to Mr. Kalcic, the Company would propose
6 a delayed effective date of its tariff related to the EWT system similar to the Company’s
7 proposal in the Tobyhanna acquisition.

8
9 **Q. Do you agree with Mr. Eastman’s recommendation that the Commission should**
10 **reject any rate freeze that extends beyond the date of new rates?**

11 **A.** No. As stated above, the Company would address this potential issue through a delayed
12 effective date of the tariff for EWT customers.

13
14 **Q. At page 5 of Mr. Eastman’s direct testimony, he concludes that the rate freeze is a**
15 **rate stabilization plan. Is the three-year rate freeze a rate stabilization plan?**

16 **A.** The three-year rate freeze is not a rate stabilization plan for the reasons I stated earlier.
17 The Company will not be filing a stand-alone rate case for EWT outside of its
18 consolidated existing water and wastewater systems.

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1 **Q. Mr. Eastman presents an alternative recommendation on pages 15-16 of his direct**
2 **testimony if the Commission does not reject the rate freeze. Please summarize Mr.**
3 **Eastman's recommendation.**

4 **A.** Mr. Eastman states that if the Commission does not reject the rate freeze, the
5 Commission should condition approval of the acquisition on the recognition that the
6 Commission retains ultimate authority to set rates, including the ability to allocate
7 revenues that may be inconsistent with the terms of the APA.

8
9 **Q. Please respond to Mr. Eastman's alternate recommendation.**

10 **A.** As stated above, in response to Mr. Cline and Mr. Kalcic, Aqua recognizes that the
11 Commission is the ultimate authority when setting rates. The Company expects that the
12 expiration of the rate freeze period will align with the effective date of new rates from its
13 next rate case filed on a three-year cycle. To the extent there was any overlap between the
14 effective date of new rates and the end date of the rate freeze period the Company would
15 address this issue as it has done in the past with a delayed effective date of new rates.

16
17 **B. Affirmative Public Benefits**

18 **Q. Mr. Eastman states that the Township is financially fit to complete the**
19 **improvements Aqua projects over the next ten years. Please respond.**

20 **A.** The financial fitness of the seller is not a factor to consider in approving the sale. There
21 are many factors that go into the decision of a municipality to either continue to run and
22 operate a utility or decide to exit the utility service by virtue of a sale. This process was
23 initiated by EWT because they made the determination that exiting the provision of sewer

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1 service is in the best interest of their constituents. Continued improvements and planned
2 upgrades to infrastructure are an important part of providing safe and reliable service. In
3 this instance, the Company is a proven alternative for EWT. The Company not only has
4 the financial resources, it has the technical expertise, greater operational resources, and a
5 larger customer base over which costs can be spread. Furthermore, this is all the
6 Company does, 365 days per year, 24 hours per day, we provide safe, reliable, and
7 dependable utility service. By comparison, municipal governments have a multitude of
8 other services they need to allocate time and energy to in order to ensure they are
9 addressing the needs of their citizens. Ownership being retained by an entity that no
10 longer wants to provide wastewater service or has determined they are not as equipped to
11 address the needs of the utility would likely result in deferred maintenance and costly
12 urgent repairs. While it may be true that the Township can borrow or use cash on hand to
13 make future infrastructure improvements, it is not known whether they will in the short
14 term or long term. Aqua has consistently focused on prudently investing in infrastructure
15 which is a substantial benefit of this transaction.

16
17 **Q. On pages 7-9 of his direct testimony, Mr. Eastman defines economies of scale and**
18 **states that economies of scale are not realized in rate base per EDU, capital cost per**
19 **customer, and the reduction in operating expenses. Do you agree with this**
20 **criticism?**

21 **A.** No. Mr. Eastman and I are not of the same understanding of economies of scale relative
22 to public utilities. Mr. Eastman references a textbook definition of Economies of Scale
23 and then compares that to examples I reference in my direct testimony of not only

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1 positive indicators of potential future economies of scale (i.e., rate base per EDU), but
2 also by real tangible examples of operating and maintenance cost reductions (i.e.,
3 \$800,000 less as operated by the Company). Mr. Eastman’s view of these examples
4 without recognizing the overall benefits of this transaction, may lead one to conclude
5 there are no benefits. This is simply not the case.

6 The Company is not in the business of producing cars or widgets, we are in the
7 business of providing utility service. While this application points out examples and
8 calculations relative to the EWT system, the underlying regulatory concepts and
9 principles of consolidation are central to the public benefit of this transaction. Simply
10 said, the Company is providing more service (i.e., “output”), to more customers, for less
11 overall incremental cost. Wastewater systems, like other public utility systems, are
12 generally analyzed and reviewed based on the complete makeup of the entire system.
13 This is how public utilities operate, and their existence depends on taking advantage of
14 economies of scale and scope. Mr. Eastman’s review of particular systems for
15 individualized economic analyses are inconsistent with the public interest and adverse to
16 the basic utility model that allows public utility systems to exist. In fact, just looking
17 over the past five years of capital investments on the Company’s wastewater systems
18 acquired demonstrates this reality.

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<i>Schedule - (WCP - R.1)</i>			
<u>Aqua Pennsylvania Wastewater Inc.</u> <u>(Incremental Investments)</u>	<u>Incremental Capital</u>		<u>UPIS Investments January</u>
	<u>Investment per Connection</u>	<u>Connections</u>	<u>2017 - August 2021</u>
Base systems (Non-FMV)	\$6,301	16,302	\$102,711,340
FMV Systems	\$167	23,810	\$3,983,227
Total			
Average Incremental Investment			
<u>without FMV Systems</u>	\$6,301	16,302	\$102,711,340
Average Incremental Investment <u>with</u>			
FMV Systems	\$2,660	40,112	\$106,694,566

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While I am not an attorney, I am aware of and have been advised that, based on a decision of the Supreme Court of Pennsylvania in a Verizon / MCI merger proceeding, an acquiring utility is not required to offer specific evidence on how a transaction would offer substantial public benefit over the acquired utility. The Commission, moreover, is not required to secure legally binding commitments or to quantify benefits where that may be impracticable, burdensome, or impossible.

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There is a significant difference between owning and operating a wastewater system and performing due diligence on a wastewater system. Due diligence typically consists of one on-site visit and a review of designated information on a historical basis. Once our team of wastewater operators is managing the system, specific quantifiable public benefits will be more readily available.

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1 **Q. On page 9 of Mr. Eastman’s direct testimony, he comments on why the cost of**
2 **ownership under Aqua is higher than under the Township. Please respond.**

3 **A.** Mr. Eastman points out three reasons why the cost of ownership of the system is higher
4 under Aqua ownership: (1) Aqua pays taxes that EWT does not, (2) the transaction is
5 under Section 1329 where the purchase price can be incorporated into rate base without
6 offsetting amounts for contributed property, and (3) Aqua will seek a fair return on rate
7 base which increases the revenue requirement above the Township’s cost of debt.

8 To begin, while I do agree with Mr. Eastman that these factors can create a higher
9 cost of ownership, they are not a reason to deny this transaction. In my view, this cost of
10 capital argument is really about a disagreement with the Legislature and the Public Utility
11 Code, which allow and encourage regulated public utilities like Aqua to own, operate and
12 consolidate with other water and wastewater providers in the Commonwealth. The
13 differences in cost of capital and income taxes that regulated public utilities pay are
14 known to the Commission and Legislature. The Commission has never concluded that
15 those differences are significant enough to outweigh other public benefits nor has the
16 Commission ignored the other regulatory tools and benefits afforded to regulated public
17 utilities to share costs.

18 Regarding Mr. Eastman’s statement that the ratemaking rate base determination
19 has no offsetting of contributed property, this is part of Section 1329 and meant to
20 encourage the consolidation of water and wastewater systems across the Commonwealth.
21 Simply because this transaction is being presented under Section 1329 does not mean that
22 it is not in the public interest.

23

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1 **Q. Mr. Eastman, on page 10 of his direct testimony, states that Aqua’s customer service**
2 **and emergency response is not a benefit. Please respond.**

3 **A.** Mr. Eastman notes that during regular business hours customers can call the sewer
4 department and outside of regular business hours customers can call the police
5 department. Aqua on the other hand has a 24/7/365 staffed control room to direct
6 emergency calls to field service personnel. In my view, police officers should not be
7 addressing sewer issues. Having their time freed up for other Township purposes would
8 be a benefit. Having dedicated staff and an established process to address sewer
9 emergencies, as Aqua does, is a benefit to customers.

10

11 **Q. On page 10 of Mr. Eastman’s direct testimony, he comments on the Township’s bill**
12 **payment options and states that having the same option is not a benefit. Do you**
13 **agree?**

14 **A.** No. Mr. Eastman states that the Township hopes to have online bill payment in the near
15 future, but this is not the same as currently having an online bill payment option. Mr.
16 Eastman also does not recognize that Aqua’s payment options include payment by phone
17 and by text message. These expanded bill payment options, which are in place today
18 with Aqua, are a public benefit.

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1 **Q. Mr. Eastman discusses Aqua’s low-income programs on page 10 of his direct**
2 **testimony, concluding that these programs may not constitute a public benefit.**
3 **Please respond.**

4 **A.** While Mr. Eastman notes that some customers may benefit from Aqua’s low-income
5 programs, he states that projected rate increases could increase the number of customers
6 who would need that assistance and that, if EWT bills are increased then decreased
7 through low-income programs, this is not a benefit. Mr. Eastman misses the point here in
8 that Aqua offers low-income assistance programs that are not currently offered by EWT.
9 These programs are well established and have been reviewed by the Commission. This is
10 a clear public benefit for low-income customers who would benefit from such a program.

11
12 **Q. Mr. Eastman also discusses that Chapter 14 of the Public Utility Code is not**
13 **necessarily a benefit. Please comment.**

14 **A.** Mr. Eastman does not recognize that Chapter 14 of the Public Utility Code provides
15 added process and benefits that customers would be able to take advantage of under
16 Aqua’s ownership. While Mr. Eastman notes that there is no evidence of billing or
17 payment issues in EWT, under Aqua ownership in the future, however, the benefits of
18 Chapter 14, which do not exist today for EWT customers, will be accessible to them.

19
20 **Q. On pages 11-12 of his direct testimony, Mr. Eastman concludes that there is no net**
21 **affirmative public benefit to this transaction. Do you agree?**

22 **A.** No, I do not. Equally as important is that the representatives of EWT do not agree with
23 his conclusions and assertions on this matter and, from their perspective, no one is in a

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1 better position to speak for the benefits afforded to their citizens and improvement of
2 service levels.

3
4 **Q. Mr. Eastman further discusses affirmative public benefits on page 13 of his direct**
5 **testimony. Do you agree with his analysis?**

6 **A.** No. Aside for reciting the typical differences in cost of service between a municipally
7 run system as compared to an investor-owned utility, his conclusions and observations
8 are short sighted in my opinion. It is understood that utility infrastructure, specifically,
9 and infrastructure, in general, nationally is in need of upgrade. Aqua, like other investor-
10 owned utilities, is part of that solution. The Company's model for deploying resources to
11 that need is the ability to leverage our size, scale, and expertise to this task. Aqua in its
12 135-year existence is made of many acquisitions and expansion of service territory over
13 its time. This steady growth and diversification of systems across the Commonwealth
14 has enabled it to upgrade and remediate many systems and the Company does this with
15 reasonable cost allocation to all of its customers. The same model that allows the
16 Company to acquire and improve troubled systems, like those the Company has acquired
17 under Section 529 of the Public Utility Code, allows it to acquire and integrate systems
18 that do not have those environmental or operational issues. This is the ultimate
19 affirmative public benefit and one that I believe the Commission supports.

20 Over this time period, the Company has acquired both viable and non-viable
21 systems. Not all of the Company's systems require the same level of capital investment,
22 thus the diversification of how costs are deployed and spread over time is what avoids
23 rate shock. In the case of EWT, there are many positive factors to be recognized. The

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1 Company has overlapping service territories, thus presenting operational efficiencies
2 between our water and wastewater utilities. The short-term capital needs of the existing
3 system are not extensive, thus suggesting a declining rate base and therefore declining
4 cost of service. The Company can operate the system for less operating and maintenance
5 costs. While this application is but a mere snapshot of what is in front of us today, the
6 likelihood that this system will produce further long-term benefits is high.

7
8 **C. Long-Term Infrastructure Improvement Plan (“LTIIIP”)**

9 **Q. Please summarize Mr. Eastman’s discussion of future LTIIIP filings.**

10 **A.** Mr. Eastman agrees with Aqua that Aqua must file and receive approval of an amended
11 LTIIIP that includes the EWT system prior to charging the distribution system
12 improvement charge (“DSIC”) to EWT customers. Mr. Eastman recommends that any
13 EWT projects reflected in the amended LTIIIP should be in addition to, and not
14 reprioritize, any capital improvements that Aqua was already committed to undertake for
15 Aqua’s existing customers.

16
17 **Q. Do you agree with Mr. Eastman’s recommendation regarding a future amended**
18 **LTIIIP?**

19 **A.** Yes, in part. If Aqua proposes to modify its LTIIIP to include the EWT system, the
20 projects added for EWT will be in addition to those that Aqua plans for existing systems.
21 However, as projects may be shifted around under any capital plan, the Company must
22 maintain the ability to prioritize projects and allocate projects based on system needs as
23 they evolve during an LTIIIP period.

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D. Allowance for Funds Used During Construction (“AFUDC”)

Q. Please summarize Mr. Eastman’s recommendation regarding AFUDC.

A. Mr. Eastman notes that Section 1329(f) addresses AFUDC and deferred depreciation, but does not specify when the buyer must make those claims. Mr. Eastman, therefore, recommends that approval of this acquisition should be conditioned on the requirement that claims for AFUDC and deferred depreciation should be made no later than Aqua’s next base rate case.

Q. Do you agree with Mr. Eastman’s recommendation on AFUDC and deferred depreciation?

A. Yes, with an additional clarification. I agree that if claims are made for AFUDC and deferred depreciation they should be made in Aqua’s first base rate case that includes the EWT system, and not simply Aqua’s next base rate case.

E. Cost of Service Study

Q. Did Mr. Eastman recommend, in agreement with Mr. Garrett’s testimony, that Aqua file a COSS in its next base rate case for EWT?

A. Yes.

Q. Will the Company agree to file a COSS in its next base rate case?

A. Yes. Aqua will file a COSS in its next base rate case with the information I set forth above in my response to Mr. Cline.

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1

2 **VI. CONCLUSION**

3 **Q. Does this conclude your rebuttal testimony?**

4 Yes, it does; however, I reserve the right to supplement my rebuttal testimony as
5 additional issues and facts arise during the course of this proceeding.

VERIFICATION

I, William C. Packer, Vice President, Regulatory Accounting and Regional Controller of Aqua Pennsylvania Wastewater, Inc., hereby state that the facts set forth in my Rebuttal Testimony, Aqua Statement No. 1-R, at PaPUC Docket No. A-2021-3026132, 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 herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: March 30, 2022



William C. Packer
Vice President – Regulatory Accounting &
Regional Controller
Aqua Pennsylvania Wastewater, Inc.