

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Sections 1102(a) and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa C.S. §§ 1102(a) :
and 1329, for approval of (1) the transfer, by sale, to :
Pennsylvania-American Water Company, of substantially : Docket Nos. A-2022- 3037047
all of the assets, properties and rights related to the : *et al.*
wastewater collection and treatment system owned by the :
Butler Area Sewer Authority, (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish wastewater service to the public in the City of :
Butler, portions of the Borough of East Butler, and portions :
of the Townships of Butler, Center, Connoquenessing, :
Oakland, Penn and Summit, in Butler County, Pennsylvania:

**DIRECT TESTIMONY OF
SCOTT D. FOGELSANGER ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: February 14, 2023

PAWC Statement No. 1

**DIRECT TESTIMONY OF
SCOTT D. FOGELSANGER**

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

2 **A.** My name is Scott D. Fogelsanger, and my business address is 852 Wesley Drive,
3 Mechanicsburg, PA 17011.

4

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

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

8

9 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR MANAGER OF BUSINESS**
10 **DEVELOPMENT?**

11 **A.** I develop and maintain necessary contacts to stay abreast of new business opportunities.
12 I manage the acquisition from initial contact, responding to Requests for Qualifications,
13 Requests for Proposals, Requests for Bids, preparation of the Application for submission
14 to the Pennsylvania Public Utility Commission (“Commission”) and manage the
15 workflows required to close the acquisition. These responsibilities necessitate that I
16 maintain a working knowledge of regulatory and technical developments, new
17 technologies and current trends as they affect the water and wastewater utility industries,
18 and that I be familiar with legislation, regulations and public policy affecting business
19 opportunities.

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

2 **A.** I received a Bachelor of Science in Business Administration (B.S.B.A.) degree in
3 Accounting from Shippensburg University in May of 1987. My experience in the
4 waterworks industry began in September 1987 when I started as a Financial Analyst at
5 AUS Consultants, Inc. During my 25 years at AUS Consultants, I received various
6 promotions to Senior Analyst, Vice President and Principal. I was responsible for
7 preparing various studies and testifying in the disciplines of cost of service, tariff design,
8 bill frequency analysis, rate case preparation, original cost, and depreciation. My clients
9 were investor-owned and municipal utilities in chilled water, electric, gas, steam,
10 telephone, water, and wastewater industries. In May 2013, I started employment at PAWC
11 as Senior Manager of Business Development.

12
13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
14 **PUBLIC UTILITY COMMISSION?**

15 **A.** Yes, I have. A listing of testimony rendered is included as **PAWC Exhibit SDF-1.**

16

17 **DESCRIPTION OF THE APPLICATION**

18 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
19 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM**
20 **OWNED BY THE BUTLER AREA SEWER AUTHORITY (“BASA”) AND**
21 **RELATED APPROVALS?**

1 A. Yes. PAWC filed its Application on February 14, 2023 for approval of PAWC's
2 acquisition of BASA's wastewater collection and treatment system (the "System"). I will
3 refer to the acquisition in my testimony as the "Transaction."

4 The Application was prepared and filed under my direct supervision. As indicated
5 in my Verification attached to the Application, the Application and its numerous
6 appendices are true and correct to the best of my knowledge, information, and belief. We
7 used PAWC records, as well as BASA records, to prepare the Application. For purposes
8 of having a complete evidentiary record in this proceeding upon which the Commission
9 can base its decision, I submit the Application and all of its appendices (Appendices A
10 through K) as **PAWC Exhibit No. SDF-2**.

11
12 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

13 A. There are four requests. First, PAWC is requesting approval of the acquisition under
14 Section 1102 of the Pennsylvania Public Utility Code ("Code"), 66 Pa. C.S. § 1102, similar
15 to many requests that come before the Commission. Specifically, PAWC seeks approval
16 to acquire the System and to obtain the right to begin service in the areas currently served
17 by BASA (the "Service Area"). The Application contains a *pro forma* tariff supplement
18 under which BASA's rates at the time of closing on the Transaction ("Closing") would be
19 initially adopted.

20 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 ("Section 1329"), PAWC
21 is seeking to utilize fair market value for the ratemaking rate base of the System. As
22 explained more-fully below, fair market value under Section 1329 is the lesser of the stated
23 purchase price in the Asset Purchase Agreement ("APA"), dated as of October 11, 2022,

1 or the average of the appraisal of BASA’s Utility Valuation Expert (“UVE”) and the
2 appraisal of PAWC’s UVE.

3 Third, PAWC is seeking the accrual and deferral of certain post-acquisition
4 improvement costs. Specifically, PAWC is seeking the accrual of Allowance for Funds
5 Used During Construction (“AFUDC”) for post-acquisition improvements (which will not
6 be recovered through its Distribution System Improvement Charge (“DSIC”)) for book and
7 ratemaking purposes, as well as the deferral of depreciation related to post-acquisition
8 improvements (which will not be recovered through the DSIC) for book and ratemaking
9 purposes.

10 Fourth, PAWC is seeking Certificates of Filing or approvals under Section 507 of
11 the Code, 66 Pa. C.S. §507, for the APA and certain municipal agreements to be assumed
12 by PAWC as a result of the Transaction.

13
14 **Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE**
15 **FAIR MARKET VALUE PROVISIONS OF SECTION 1329?**

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

1 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
2 **APPLICATION?**

3 **A.** Section 1329 requires that the Application include (1) copies of the two UVE appraisals,
4 (2) the purchase price, (3) the ratemaking rate base, (4) the transaction and closing costs,
5 and (5) the proposed tariff. However, the Commission has expanded the filing
6 requirements beyond those specifically required by the statute.

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

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

16
17 **DESCRIPTION OF TESTIMONY FILED WITH THE APPLICATION**

18 **Q. IS PAWC FILING AS PART OF ITS APPLICATION TESTIMONY PREPARED**
19 **BY BASA?**

20 **A.** Yes. PAWC's Application includes at **Appendix A-13**, the written direct testimony of Paul
21 F. Sybert, Chairman of the Board of BASA (Butler Area Sewer Authority Statement No.
22 1), Duane McKee, Executive Director of BASA (Butler Area Sewer Authority Statement
23 No. 2), Dave Zarnick, President of the Board of Commissioners for the Township of Butler

1 (Township of Butler Statement No. 1), Robert A. Bandoy, Mayor of the City of Butler
2 (City of Butler Statement No. 1), and the written direct testimony of BASA's selected
3 UVE, Mr. Harold Walker III, Manager, Financial Studies, for Gannett Fleming Valuation
4 and Rate Consultants, LLC (Butler Area Sewer Authority Statement No. 3). PAWC is not
5 sponsoring the testimony of Mr. Sybert, Mr. McKee, Mr. Zarnick, Mr. Bandoy, or Mr.
6 Walker, but has included their testimony in the Application pursuant to the Final
7 Supplemental Implementation Order in *Implementation of Section 1329 of the Public*
8 *Utility Code*, Docket No. M-2016-2543193 and in anticipation of BASA's intervention and
9 participation in the proceeding. PAWC reserves the right to submit rebuttal testimony
10 regarding BASA's testimony, as appropriate.

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

15 **A.** In addition to my direct testimony, PAWC will submit the written direct testimony of Mr.
16 Daniel J. Hufton, P.E., an Engineering Manager for PAWC (PAWC Statement No. 2), and
17 Ms. Ashley E. Everette, American Water Works Service Company Senior Director of Rates
18 and Regulatory for Mid Atlantic Division (PAWC Statement No. 3). PAWC is also
19 sponsoring direct testimony by its selected UVE, Mr. Jerome C. Weinert, Principal and
20 Director of Weinert Appraisal & Depreciation Services LLC, d/b/a AUS Consultants.
21 (PAWC Statement No. 4).

22 Mr. Hufton will describe engineering and environmental challenges associated with
23 the System, support PAWC's technical fitness to operate the System, explain certain

1 commitments and improvements to be made by PAWC and other matters. Mr. Hufton will
2 also address the anticipated day-to-day operation of the System once it is acquired by
3 PAWC, including staffing and the customer service enhancements that PAWC intends to
4 implement for the benefit of BASA's customers. Ms. Everette will address the initial rates,
5 rules, and regulations for BASA's customers as well as the impact of the Transaction on
6 PAWC's existing customers. Ms. Everette will also discuss the financing of the
7 Transaction, recording the acquisition at the net value of the assets and PAWC's overall
8 financial fitness. Mr. Weinert will provide supporting testimony for his fair market
9 valuation report.

10
11 **Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION**
12 **INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUESTS FOR**
13 **RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
14 **PROCEEDING?**

15 **A.** My direct testimony describes the Transaction. I will explain why the Transaction is in the
16 public interest and provides affirmative public benefits of a substantial nature, and why the
17 Transaction should be promptly approved by the Commission. I will also discuss why
18 PAWC is legally, financially, and technically fit to acquire and operate the System.

19
20 **DESCRIPTION OF THE TRANSACTION**

21 **Q. TO THE BEST OF YOUR KNOWLEDGE, WHY DID BASA WANT TO SELL ITS**
22 **SYSTEM?**

1 A. Witnesses for BASA, the City of Butler and the Township of Butler discuss this in more
2 detail in their testimony, but based on my conversations with BASA personnel, it is my
3 understanding that BASA wanted to seek a long-term solution to ensure the viability of its
4 aging sewer system infrastructure. Specifically, two areas of focus for BASA were the
5 ever-increasing cost of capital projects that BASA needed to complete (totaling
6 \$75,815,000) along with BASA’s current debt obligation of \$40.6 million.

7 By selling the System, BASA and its customers will receive numerous benefits,
8 including:

- 9 • BASA customers will be guaranteed a minimum one-year rate freeze that would take
10 effect upon Closing until the later of the one-year anniversary of the Closing or January
11 1, 2025.
- 12 • Low-income residents will have access to PAWC’s grant programs that will help them
13 pay bills.
- 14 • All of BASA’s current debt (approximately \$40.6 million) liability will be eliminated.
- 15 • PAWC will secure the funding for and execute a major capital program totaling more
16 than \$75,000,000 over the first five years of ownership to not only comply with BASA’s
17 current Pennsylvania Department of Environmental Protection (“DEP”)-mandated
18 Corrective Action Plan, but also to address many other deficient areas within BASA’s
19 wastewater treatment and collection system.
- 20 • PAWC will petition the Commission to request approval to initiate a pilot program that
21 will replace or repair customers’ wastewater laterals to address stormwater inflow.
- 22 • PAWC will undertake necessary permits to operate BASA’s wastewater systems and
23 adhere to all DEP consent decrees.

- All of BASA employees (union and non-union) will retain their jobs based on current salaries and collective bargaining agreements having access to substantially similar retirement/pension plans and benefits (like health, dental, and vision insurance).

If BASA did not sell the System, in the next five years, it would have needed to significantly increase customer rates due to the substantial debt requirements associated with the major capital program totaling more than \$75,000,000 while not having the capacity to complete identified capital projects.

Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION PROCESS.

A. PAWC and BASA entered into an exploratory process through the execution of a confidentiality agreement in December 2021 to determine if an acquisition would be in the best interest of all stakeholders. Various meetings were held between PAWC and BASA officials along with informational gathering exercises. In parallel to this due diligence, various meetings were conducted, and information was exchanged with the two incorporating municipalities to ensure complete transparency and awareness.

After approximately ten months of extensive due diligence by all parties, deal terms were presented and negotiated in principle in September 2022. However, prior to binding itself through a purchase agreement, BASA then conducted a thorough public awareness campaign that included the development and rollout of a new website that focused on all aspects of the potential acquisition, publicized and conducted numerous public meetings seeking comments and engagement from the ratepayers, sent out informational letters to

1 all BASA customers on the proposed acquisition, and held various events for the local
2 media to answer questions and create additional awareness.

3 After BASA's public input and gathering process was complete, the BASA Board
4 with unanimous support from both incorporating municipalities, executed the negotiated
5 APA with PAWC in October 2022.

6
7 **Q. DID BASA CONDUCT PUBLIC INPUT HEARINGS REGARDING THE**
8 **ACQUISITION?**

9 **A.** Yes, BASA conducted four (4) public input meetings along with various press conferences
10 for the local media. As discussed above, BASA developed a new website that detailed the
11 proposed acquisition (up to and including posting a complete draft of the APA on its
12 website).

13
14 **Q. PLEASE PROVIDE AN OVERVIEW OF THE APA.**

15 **A.** The APA is attached as **Appendix A-24-a** to the Application (**PAWC Exhibit SDF-2**).
16 The APA sets forth the terms and conditions pursuant to which BASA will sell, and PAWC
17 will purchase, the System, as well as substantially all assets, properties and rights that
18 BASA owns and uses in connection with the System. The APA sets forth the entire
19 understanding of the parties with respect to the Transaction. Under the APA, the Closing
20 of the Transaction will occur after the receipt of all applicable governmental approvals,
21 including approvals from this Commission, and after all applicable conditions have been
22 met (or waived) by the parties. Upon Closing, PAWC will take ownership of the System

1 and begin rendering wastewater services to BASA's current customers and BASA will
2 permanently discontinue providing or furnishing wastewater service to the public.

3
4 **Q. PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS GOVERNING**
5 **THE TRANSFER OF ASSETS.**

6 **A.** The specific properties, assets and rights to be transferred to PAWC are defined and
7 described in the APA's Section 2.01, while the excluded assets are defined in Section 2.02
8 of the APA. Generally, the APA states that every asset, property, business, goodwill and
9 right owned by BASA and used in the provision of sanitary wastewater service, whether
10 real, personal, mixed, tangible or intangible, and including all the physical plant, property,
11 equipment and facilities comprising the System owned by BASA shall be conveyed to
12 PAWC. The Engineering Assessment (**Appendix A-15-a**) contains a list of the wastewater
13 system inventory used in connection with the System to be conveyed to PAWC. All
14 interests in real estate, including leases, easements and access to public rights-of-way,
15 owned by BASA and relating to the System are defined and described in Schedule 4.09, as
16 well as all assigned contracts to be conveyed to PAWC in Schedule 4.15. I note, however,
17 that some contracts in Schedule 4.15 are non-material and PAWC continues to review such
18 contracts to determine whether assumption of such contracts is cost-effective and in the
19 best interest of PAWC's customers.

20 Items that will not be transferred include, among other items: BASA's cash and
21 cash equivalents, including accounts receivable; BASA's insurance policies; all rights to
22 any action, suit or claims being pursued by BASA; and all assets, properties and rights used
23 by BASA other than those which primarily relate to the operations of the System.

1 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF BASA AS PART OF**
2 **THE TRANSACTION?**

3 **A.** Yes. PAWC is accepting certain “Assumed Liabilities” as part of this Transaction on the
4 day of and after Closing on the Transaction. Per Section 2.04 of the APA, PAWC will
5 assume, among other items: (i) all liabilities and obligations associated with the Assigned
6 Contracts, Authorizations and Permits following their transfers on the day of and after
7 Closing; (ii) any litigation initiated against BASA relating to the System resulting from
8 events that occur on or after Closing; and (iii) all liabilities and obligations for Taxes
9 relating to the System after the Closing Date. PAWC will not assume or be liable for any
10 liabilities or obligations other than the Assumed Liabilities.

11
12 **Q. PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
13 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

14 **A.** The consideration for the purchase of the System as set forth in Section 3.03 of the APA is
15 the negotiated purchase price of \$231,500,000, subject to certain adjustments. PAWC gave
16 BASA a \$3,000,000 Letter of Credit on October 11, 2022. PAWC has agreed that two
17 escrow accounts will be established at Closing: (i) \$9,200,000 will be placed into an
18 Indemnity Escrow Fund to pay for BASA’s post-Closing obligations, and (ii) an amount
19 to be determined will be placed in an Easement Escrow Fund for all of the easements that
20 are missing as of Closing as set forth in Section 3.02 of the APA.

21
22 **Q. PLEASE DESCRIBE IN MORE DETAIL HOW MISSING EASEMENTS WILL BE**
23 **HANDLED AFTER CLOSING.**

1 A. As of the Closing Date, BASA will fund an easement escrow fund in the amount of Two
2 Thousand Dollars (\$2,000) for each missing easement.

3
4 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO BASA’S CUSTOMERS**
5 **FOLLOWING THE CLOSING OF THE TRANSACTION.**

6 A. As will be explained more fully in the Direct Testimony of Ms. Ashley E. Everette, PAWC
7 Statement No. 3, PAWC has committed to implement, upon Closing of the Transaction,
8 BASA’s wastewater rates then in effect at Closing. Prior to Closing, BASA will implement
9 a monthly rate of \$45.50/EDU. PAWC will not propose to increase this rate until the later
10 of (i) the first anniversary of Closing, or (ii) January 1, 2025. In PAWC’s first wastewater
11 base rate filing that incorporates the System, PAWC will propose to the Commission that
12 PAWC move from a flat rate to a rate based on metered usage as stated in Section 7.04 of
13 the APA.

14 Immediately upon Closing, BASA’s customers will be subject to PAWC’s
15 prevailing wastewater tariff on file with the Commission with respect to miscellaneous fees
16 and charges and rules and regulations for wastewater service, including but not limited to
17 PAWC’s Industrial Pretreatment Program (“IPP”). BASA customers will not be charged
18 the DSIC until after PAWC’s Long Term Infrastructure Improvement Plan has been
19 amended to include the System. All of BASA’s customers will continue to be billed on a
20 monthly basis. The monthly rates are shown in PAWC's *pro forma* tariff in **Appendix A-**
21 **12** to the Application.

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

3 **A.** Yes. PAWC has agreed to maintain an operations center at BASA’s headquarters for at
4 least ten years after Closing, consisting of managers, customer service representatives and
5 operators. Section 7.09. In addition, PAWC has committed to offer employment to eligible
6 BASA employees following the Closing of the Transaction, subject to certain conditions.
7 Section 7.03(a). PAWC has also agreed to use commercially reasonable efforts to develop
8 a pilot program for a customer-owned damaged wastewater service lateral replacement
9 program, and to petition the Commission for approval of that pilot program. Section 7.10.

10 My colleague, Mr. Daniel J. Hufton, P.E., will discuss capital investment
11 commitments in greater detail in his written direct testimony, PAWC Statement No. 2. Mr.
12 Hufton also will discuss anticipated day-to-day operation of the System once it is acquired
13 by PAWC, including staffing, in his written direct testimony.

14
15 **Q. WILL PAWC BE ASSUMING ANY CONTRACTS AS PART OF THE**
16 **TRANSACTION?**

17 **A.** Yes, **Appendix A-25** lists all BASA contracts and their dollar value that PAWC currently
18 intends to assume at Closing. Prior to Closing, PAWC will review all contracts and a final
19 determination will be made on which contracts will be assumed and which will be
20 terminated or revised.

21
22 **BACKGROUND INFORMATION ON PAWC AND THE SYSTEM**

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

1 A. PAWC, a subsidiary of American Water Works Company, Inc. (“American Water”), is the
2 largest regulated public utility corporation duly organized and existing under the laws of
3 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
4 storing, supplying, distributing, and selling water to the public, and collecting, treating,
5 transporting and disposing of wastewater for the public. Water and wastewater services
6 are furnished by PAWC to the public in a service territory encompassing more than 417
7 communities in 37 counties. Overall, PAWC serves a combined population of over 2.3
8 million people across the Commonwealth and is American Water’s largest subsidiary.

9 PAWC currently employs approximately 1,150 professionals with expertise in all
10 areas of water and wastewater utility operations, including engineering, regulatory
11 compliance, water and wastewater treatment plant operation and maintenance, distribution
12 and collection system operation and maintenance, materials management, risk
13 management, human resources, legal, accounting, and customer service. PAWC has the
14 expertise, the record of environmental compliance, the commitment to invest in necessary
15 capital improvements and resources, and the experienced managerial and operating
16 personnel necessary to provide safe and reliable wastewater services to the residents of the
17 Service Area. In addition, PAWC currently provides water service to BASA’s wastewater
18 customers.

19 PAWC takes pride in being a good corporate citizen by sponsoring and
20 participating in local community events, providing environmental and firefighting support
21 grants, offering the “H2O Help to Others Assistance Program” to help low-income
22 customers pay their bills, and supporting economic growth through infrastructure
23 improvements in the communities served by PAWC. In 2021, PAWC donated more than

1 \$400,000 to organizations in the communities it serves through grants, scholarships, and
2 general charitable giving, and \$600,000 to assist customers in paying their water or
3 wastewater bills. Through collaboration with the American Water Charitable Foundation,
4 the company helped provide an additional \$158,000 in funding to more than 300 non-profit
5 organizations across Pennsylvania. In addition, financial support is not the only way
6 Pennsylvania American Water supports the communities it serves. Through partnerships,
7 programming and volunteerism, the Company demonstrates its commitment to being a
8 good neighbor. That's why the Company and its dedicated employees play active roles in
9 supporting environmental and education initiatives related to water, from watershed clean-
10 ups to educational programs focused on drinking water and source water protection, as well
11 as supporting youth education, health and wellness initiatives, community sustainability
12 projects and more to address community-specific needs, PAWC is eager to partner with
13 municipalities in the Service Area in providing a sustainable long-term future for the
14 System. Customers of the System will benefit from a stable company with a robust
15 business model and reliable service.

16
17 **Q. HOW MANY CUSTOMERS DOES THE SYSTEM CURRENTLY SERVE AND**
18 **HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

19 **A.** As of December 31, 2022, the System furnished wastewater services to approximately
20 14,792 customers. As of January 31, 2023 PAWC furnished wastewater service to
21 approximately 97,305 residential, commercial, industrial, municipal and bulk customers
22 in Pennsylvania. As of January 31, 2023, PAWC furnished water service to
23 approximately 679,777 customers in Pennsylvania.

1 **THE TRANSACTION IS IN THE PUBLIC INTEREST**

2 **Q. PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN THE PUBLIC**
3 **INTEREST.**

4 A. The Transaction will result in affirmative public benefits of a substantial nature. First,
5 PAWC, as a large and long-established public utility, has the managerial, technical, and
6 financial fitness to operate the System in a safe and efficient manner in compliance with
7 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and
8 regulatory requirements. PAWC has extensive experience in the operation of wastewater
9 collection and treatment systems including specific experience with the types of treatment
10 technologies employed in the System. PAWC continues to develop expertise for the
11 benefit of the Commonwealth through its current operation of 38 wastewater treatment
12 plants providing service to approximately 97,305 customers Pennsylvania.

13 The acquisition fosters the Commission's stated goal of consolidating and
14 regionalizing water and wastewater systems to provide greater environmental and
15 economic benefits to customers. My colleague, Mr. Daniel J. Hufton, P.E., discusses this
16 in detail in his testimony. PAWC Statement No. 2. After Closing, PAWC's Butler Water
17 System employees and BASA System employees will be under the same management and
18 support teams, and employees of both departments will support each other when
19 appropriate and necessary, particularly in emergency situations. The BASA wastewater
20 treatment plant is located within five miles of PAWC's Butler Water Treatment Plant.
21 PAWC can draw upon a much broader range of engineering and operational experience
22 than can BASA, as well as deeper financial resources, to address operational challenges
23 and support growth and development. Additionally, given PAWC's proximate water

1 operations, PAWC is well positioned to provide utility services on a long-term, cost-
2 effective basis.

3 Second, BASA's current customers will benefit in several ways from becoming
4 PAWC wastewater customers. PAWC is a large, financially-sound company that has the
5 capacity to finance necessary capital additions and improvements that will benefit its
6 customers. In addition, given its size, its access to capital, and its recognized strengths in
7 system planning, capital budgeting, and construction management, PAWC is well-
8 positioned to ensure that high quality wastewater service meeting all applicable state and
9 federal regulatory requirements is provided to BASA's customers. There is also a general
10 public benefit being that PAWC is subject to the jurisdiction of the Commission requiring
11 PAWC to provide adequate, efficient, safe and reliable service at just and reasonable rates.
12 Currently, BASA has no such regulatory oversight.

13 Third, BASA's current customers will benefit from the enhanced and proven
14 customer service that PAWC provides. My colleague, Mr. Daniel J. Hufton, P.E., discusses
15 these customer service enhancements in more detail in PAWC Statement No. 2.
16 Nevertheless, I would like to note that they include, but are not limited to, usage-based
17 billing, extended customer service and call center hours, enhanced customer information
18 and educational programs and access to PAWC's customer assistance program.
19 Additionally, through community giving, partnerships and volunteering, PAWC
20 demonstrates its commitment to programs that address community-specific needs. One
21 example is PAWC's H2O – Help to Others Program, which for more than twenty-five years
22 has assisted low-income customers. In 2011, the program was expanded to include

1 wastewater customers. My colleague, Ms. Ashley E. Everette, will provide more details
2 about this program in her testimony. PAWC Statement No. 3.

3 Fourth, residents of the area will benefit from the tax revenues that PAWC will pay
4 to municipal governments in the area. BASA's facilities are not subject to tax. Utility
5 operational costs are higher, in part, due to these expenses, but there is a public benefit of
6 having more private property on the tax rolls as a result of the Transaction.

7 Finally, the Transaction will benefit PAWC's existing wastewater customers in the
8 long-term by expanding PAWC's customer base. There will be no immediate rate impact
9 on PAWC's existing customers. By adding additional connections to the entire PAWC
10 system, there are more customers to share future infrastructure investment costs, which
11 promotes stable rates across the entire PAWC system. Customers who benefit from near-
12 term improvements will one day help pay for improvements on behalf of other customers
13 on other parts of the PAWC system. Being able to spread the costs of investing in and
14 maintaining public wastewater systems over a growing customer base, particularly in a
15 time of increased environmental requirements, is essential to the continued success and
16 longevity of wastewater systems and maintaining reasonable rates for customers. As a
17 matter of public policy, the Pennsylvania Legislature recognized the importance of
18 consolidation and cost sharing in the passage of Act 11 of 2012. As the Commission stated
19 in a recent PAWC base rate case:

20 We also agree with the Company's argument that, in the
21 circumstances, applying Section 1311(c) in conjunction with Section 1329
22 is in the public interest because otherwise, larger viable public utilities
23 would be discouraged from acquiring municipal and wastewater systems
24 and contravene the legislative intent and the Commission's policy of
25 encouraging consolidation and regionalization.

1 *Pa. Pub. Util. Comm'n v. PAWC*, Docket Nos. R-2020-3019369, *et al.* (Opinion and Order
2 entered Feb. 25, 2021) p. 82.

3 There is also a clear legislative intent associated with Section 1329 and its
4 allowance of fair market valuation for ratemaking purposes. The General Assembly
5 intended to facilitate the acquisition of municipal water and wastewater systems by
6 investor-owned utilities for the benefit of municipal corporations and their residents. Some
7 of these benefits to the customers of BASA, and the citizens residing in the area, are
8 described in the direct testimony of BASA, City of Butler and Township of Butler
9 witnesses.

10
11 **Q. PLEASE EXPLAIN WHY THE TRANSACTION WOULD FOSTER THE**
12 **COMMISSION'S GOAL OF PROMOTING THE REGIONALIZATION AND**
13 **CONSOLIDATION OF WASTEWATER SYSTEMS?**

14 **A.** The Transaction would promote consolidation in the industry because it would reduce the
15 total number of wastewater providers. In addition, it would promote regionalization
16 because PAWC would provide both water and wastewater services to BASA's customers.

17
18 **Q. DOES THE REGIONALIZATION AND CONSOLIDATION OF WASTEWATER**
19 **SYSTEMS BENEFIT THE PUBLIC?**

20 **A.** Yes, it does. I am advised by counsel that the Commission has a Statement of Policy at 52
21 Pa. Code § 69.721, which states that the Commission believes that further regionalization
22 and consolidation of water and wastewater systems may result in greater environmental
23 and economic benefits to customers. Regionalization and consolidation have economic

1 benefits for customers because they allow the use of better management practices and they
2 allow greater economies of scale. Examples of economies of scale include:

- 3 • PAWC’s ability to obtain supplies (such as mains, treatment chemicals and
4 purchased power costs (electricity, natural gas and diesel fuel)) at lower
5 rates because it is able to buy in bulk;
- 6 • PAWC’s size gives it greater purchasing power, allowing it to negotiate
7 better rates for purchases than the System;
- 8 • PAWC can move equipment (such as emergency generators, portable
9 pumps, excavating equipment, and vacuum-jetter trucks) around its system,
10 whereas BASA currently must buy or rent any equipment it needs;
- 11 • PAWC’s size allows it to spread fixed costs across a larger asset platform
12 and customer base;
- 13 • PAWC’s staffed engineering department allows it to perform planning,
14 design construction management services internally rather than contracting
15 the work out at higher cost to consulting engineers.

16 In addition, regionalization and consolidation have environmental benefits for
17 customers and the public-at-large. Small public utilities are often troubled systems.
18 Consolidation promotes the acquisition of these systems by qualified system operators with
19 the financial, technical and legal fitness necessary to meet increasingly stringent
20 environmental requirements.

21
22 **PAWC’S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

23 **Q. PLEASE TELL US WHY PAWC IS LEGALLY FIT TO ACQUIRE AND**
24 **OPERATE THE SYSTEM.**

25 **A.** PAWC is a Commission-regulated public utility with a good compliance history. There
26 are no pending legal proceedings that would suggest that PAWC is not legally fit to provide
27 service to customers on BASA’s System.

1 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
2 **OPERATE THE SYSTEM?**

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

5 As part of the Application, PAWC provided the audited internal balance sheet, as
6 of December 31, 2021 for PAWC (**Appendix D**), as well as the audited income statement,
7 as of December 31, 2021, for PAWC (**Appendix F**). Those documents show that PAWC
8 had total assets of approximately \$5.9 billion as of December 31, 2021. Further, they show
9 that PAWC had net income of approximately \$228.7 million for the 12 months ending
10 December 31, 2021. These figures are further demonstration that PAWC has the financial
11 stability and wherewithal to acquire the System and operate it in the public interest. My
12 colleague, Ms. Ashley E. Everette, will provide additional details in PAWC Statement No.
13 3 on the financial health of PAWC and its ability to access capital.

14

15 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
16 **SYSTEM.**

17 **A.** As I discussed earlier, PAWC is engaged in the business of collecting, treating, transporting
18 and disposing of wastewater for the public. PAWC is the largest investor-owned water and
19 wastewater utility in the Commonwealth of Pennsylvania and PAWC already has
20 significant water and wastewater operations throughout Pennsylvania. PAWC is
21 experienced in undertaking and completing water and wastewater system acquisitions with
22 public and private sector owners and successfully integrating those assets into our business
23 operations. In fact, PAWC is often called upon by the Commission to step in and resolve

1 troubled water and wastewater systems, resolving compliance issues and providing the
2 excellent service that customers expect and deserve. My colleague, Mr. Daniel J. Hufton,
3 P.E., will explain in greater detail in PAWC Statement No. 2, specifically how PAWC
4 intends to operate the System once acquired.

5
6 **DESCRIPTION OF THE SERVICE AREA**

7 **Q. PLEASE EXPLAIN THE SERVICE AREA SOUGHT BY PAWC IN THE**
8 **APPLICATION.**

9 **A.** As part of its Application, PAWC is seeking the right to provide service to the customers
10 currently served by BASA as shown in the maps and descriptions attached as **Appendices**
11 **A-16-a through e and A-16-f (CONFIDENTIAL)**. No municipal authority, corporation,
12 partnership or individual other than BASA is now furnishing or has corporate or franchise
13 rights to furnish service similar to that to be rendered by PAWC in the Service Area covered
14 by the Application, and no competitive condition will be created. As discussed above,
15 upon Closing of the Transaction, BASA will permanently discontinue all wastewater
16 service to the public.

17
18 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

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

21 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.
22 C.S. §§ 1102(a), 1329, the Application requests Code Section 507 Certificates of Filing or
23 approvals. According to PAWC's counsel, the APA and any contract with a municipal

1 corporation that will be assumed by PAWC must be filed with the Commission pursuant
2 to Code Section 507. Aside from the APA, PAWC has identified four contracts requiring
3 Certificates of Filing or approvals under Section 507 (see **Appendices A-25.1 through A-**
4 **25.4 to PAWC Exhibit No. SDF-2**).

5
6 **Q. PLEASE DESCRIBE THE MUNICIPAL CONTRACTS TO BE ASSUMED BY**
7 **PAWC.**

8 **A.** As noted, PAWC is assuming the contracts listed on Schedule 4.15 of the APA. The list
9 of contracts on the APA's Schedule 4.15 includes a water pollution control agreement for
10 Central Butler County, two Connoquenessing Township Service Agreements, and a
11 Service Agreement with Oakland Township.

12 BASA is currently taking the steps necessary to assign the contracts to PAWC upon
13 Closing. Commission approval of the continuation of these contracts is necessary in order
14 for PAWC, after Closing, to provide wastewater service as BASA has previously done.
15 Approval is reasonable and serves an important public purpose because the services
16 provided under the contracts are essential to the provision of wastewater service in
17 neighboring communities. To the extent that PAWC renegotiates contracts with the
18 municipalities, PAWC will promptly file such contracts for Commission approval under
19 Section 507.

20
21 **CONCLUSION**

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

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

SCOTT D. FOGELSANGER
SUMMARY OF TESTIMONY

<u>Pennsylvania Public Utility Commission:</u>	
Appalachian Utilities, Inc.	R-00963557
Borough of Media – Water Works	R-912150
Borough of Hanover	R-00027522
Borough of Quakertown	R-2011-2251181
Citizens Water Company of Confluence	R-00932746
City of DuBois – Bureau of Water	R-00050671
Columbia Water Company	R-00061496
Columbia Water Company	R-2008-0245157
Country Place Waste Treatment Co., Inc.	R-00932568
Emporium Water Company	R-00932567
Emporium Water Company	R-00005050
Emporium Water Company	R-00061297
Mercer Water Company	R-901689
Middlesex Water Company (New Jersey)	WR12010027
National Utilities, Inc.	R-00932828
National Utilities, Inc.	R-00953416
Newtown Artesian Water Company, The	R-2008-2042293
NRG Energy Center Harrisburg LLC	R-2008-2028395
NRG Energy Center Pittsburgh LLC	R-00061435
Pennsylvania American Water Company	A-2019-3006880 (1)
Pennsylvania American Water Company	A-2020-3021460 (2)
Pennsylvania Utility Company – Sewer Division	R-2009-2103980
Pennsylvania Utility Company – Water Division	R-2009-2103937
Pittsburgh Thermal, L.P.	R-00994641
Redstone Water Company, Inc.	R-00974227
Rockwood Water Company	R-00932771
Total Environmental Solutions, Inc. – Treasure Lake W	R-00072493
Total Environmental Solutions, Inc. – Treasure Lake S	R-00072495
Tidewater Utilities, Inc. (Delaware)	11-397
Trigen – Philadelphia Energy Corporation	R-2009-2111011
Tri-Valley Water Supply, Inc.	R-00963806
United Water Delaware	04-121
Valley Energy, Inc.	R-00049345
Wellsboro Electric Company	R-00016356
Wellsboro Electric Company	R-00049313

Notes:

- (1) PAWC witness for the acquisition of the Steelton Borough Authority’s water system.
- (2) PAWC witness for the acquisition of Valley Township’s water and wastewater systems.

VERIFICATION

I, Scott D. Fogelsanger 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.



Scott D. Fogelsanger, Senior Manager – Business Development
Pennsylvania-American Water Company

Dated: 2/9/2023