

**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 and Summit, in Butler County, Pennsylvania :

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

Date: February 14, 2023

PAWC Statement No. 3

**DIRECT TESTIMONY OF
ASHLEY E. EVERETTE**

Introduction

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Q. What is your name and address?

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

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

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

Q. Please state your educational background and professional experience.

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

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

1 **Q. Have you previously submitted testimony before the Pennsylvania Public Utility**
2 **Commission (the “Commission” or “PUC”)?**

3 **A.** Yes. I have testified on behalf of PAWC in several cases before the Commission.¹ Prior
4 to my employment by the Service Company, I testified on behalf of the OCA in
5 approximately 35 proceedings.

6

7 **Q. What is the purpose of your testimony in this proceeding?**

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

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

PAWC'S Financial Fitness

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Q. Please discuss PAWC's financial fitness.

A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of \$5.9 billion and annual revenues of \$769 million for 2021. For 2021, PAWC had operating income of approximately \$342 million and net income of approximately \$229 million. These operating results produced cash flows from operations of approximately \$438 million. Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PAWC is well-positioned from a financial, managerial and technical perspective to ensure that high quality wastewater service meeting all federal and state requirements is provided to BASA's customers and maintained for PAWC's existing customers.

Q. Please discuss PAWC's overall financial fitness and access to capital to acquire the BASA System.

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

1 **Line of Credit**

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

6

7 **Long Term Debt Financing**

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

14

15 **Equity Investments**

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

18

19 **Q. Please explain how PAWC intends to fund the Transaction.**

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

1 **Q. What impact, if any, do you anticipate that the acquisition of the System will have on**
2 **PAWC’s corporate credit ratings?**

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

6 **Q. Do you anticipate the Transaction harming PAWC’s financial status in any manner?**

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

11
12 **Fair Market Value Ratemaking Rate Base**

13 **Q. Please state the rate base requested in the application pursuant to 66 Pa. C.S § 1329.**

14 **A.** The negotiated purchase price for the acquired assets is \$231,500,000 and the average of
15 the appraisals of the buyer’s Utility Valuation Expert (“UVE”) and the seller’s UVE is
16 \$239,271,522. Accordingly, the negotiated purchase price of \$231,500,000 is the fair
17 market value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated
18 purchase price and the average of the UVEs’ appraisals). The fair market value as
19 determined by the Section 1329 process, in addition to the transaction and closing costs
20 described below, becomes part of PAWC’s rate base for ratemaking purposes. Note,
21 however, that PAWC reserves its right in future proceedings to make rate base claims
22 related to the acquisition as may otherwise be permitted under the Pennsylvania Public
23 Utility Code (“Code”).

1 **Q. Please summarize how the Company proposes to record the Transaction.**

2 **A.** As shown on **Appendix A-15**, the Company seeks approval to record the \$231,500,000 net
3 value of the assets on its books. The Company requests to record the acquisition on a net
4 basis consistent with generally accepted accounting principles, which advise that property,
5 plant and equipment acquired in a business combination intended to be held and used
6 should be recognized and measured at fair value, and that the accumulated depreciation of
7 the acquiree is not carried forward in a business combination (*i.e.*, net presentation).²
8 Permitting PAWC to use this accounting treatment for the assets would be consistent with
9 the Commission’s recent decision in *Application of Pennsylvania-American Water*
10 *Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa. C.S. §*
11 *1102(a), for Approval of the Transfer, by Sale, to Pennsylvania-American Water Company,*
12 *of Substantially All of the Assets, Properties and Rights Related to the Wastewater*
13 *Collection and Treatment System Owned by the York City Sewer Authority and Operated*
14 *by the City of York, Docket Nos. A-2021-3024681 et al. (Final Order entered April 14,*
15 *2022) ¶ 3(h).*

16 Section 1329(c) provides that the “ratemaking rate base” is to be incorporated into
17 PAWC’s rate base. As discussed above, the Company requests the Commission approve
18 the \$231,500,000 purchase price as the ratemaking rate base for BASA.³ Since Section
19 1329 does not address the proper accounting treatment of the rate base or approval of a
20 depreciation reserve in determining the ratemaking rate base, the Company believes that
21 recording the net value of \$231,500,000 is appropriate and consistent with Section 1329.

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

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

1 Asset Purchase Agreement Rate Provisions

2 **Q. Please provide an overview of the rate provisions of the APA.**

3 **A.** Section 7.04 of the APA, dated as of October 11, 2022, contains provisions related to rates.
4 PAWC has committed to adopt, upon closing of the Transaction (“Closing”), BASA’s
5 monthly base rates as provided for on Resolution No. 2-09-2021-1. These rates are shown
6 on Schedule 7.04(a)-2 to the APA.

7 The initial rates to be applicable to the former BASA wastewater customers are set
8 forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application.
9 System customers will be governed by rates for new BASA Rate Zone “XX.” After
10 Closing, System customers will be subject to PAWC’s prevailing wastewater tariff on file
11 with the Commission with respect to all rates other than base rates, such as capacity
12 reservation fees, reconnection fees, IPP charges, and the like, as well as non-rate related
13 terms and conditions of service.

14 Section 7.04 provides that PAWC will not propose to increase BASA’s base rates
15 until the later to occur of (i) the first anniversary of Closing, or (ii) January 1, 2025. PAWC
16 may apply a Distribution System Improvement Charge (“DSIC”) and/or State Tax
17 Adjustment Surcharge if approved by the Commission.

18 BASA’s current rates are a flat rate per EDU. Section 7.04(b) provides that in the
19 first base rate case following Closing, PAWC will propose to move BASA to metered rates.
20 PAWC currently provides metered water service to most System customers and will use
21 this usage data to propose usage-based rates for System customers in the first base rate case
22 that includes the BASA System.

1 **Q. Please provide an overview of PAWC Exhibit AEE-2.**

2 **A.** PAWC will implement BASA’s EDU allocations, consistent with the Section 1329
3 requirement to take on existing rates. PAWC’s current active tariff provides that for
4 customers acquired by the Company through a purchase or acquisition, information on the
5 equivalent dwelling units is available at the Company’s website.⁴ The EDU allocation for
6 BASA that will be posted to PAWC’s website is attached to my testimony as **PAWC**
7 **Exhibit AEE-2.**

8

9 **Q. Please describe special rate provisions of the APA.**

10 **A.** As outlined in Section 4.21, PAWC is taking assignment of an agreement which provides
11 for free service to the Veterans Administration Hospital Reservation in Butler “VA
12 Hospital.” The scope of this agreement, as outlined on Schedule 4.21, is as follows:

13 The government conveyed certain real property to the Township, including a
14 sewage disposal plant located at the Veterans Administration Hospital Reservation,
15 Butler, PA. So long as the VA Hospital original main campus is operated by the
16 government, Butler, upon acquisition of title, will keep available and furnish to, the
17 United States Veterans Administration, or its successor in function, without
18 expense to the government, sewage disposal service.

19

20 A subsequent Memorandum of Understanding is described as follows:

21 Confirming that service will be provided to the VA without expense to the hospital
22 and facilities operated by the department. With respect to space leased or conveyed
23 to entities not owned or operated by the United States Government, the Department
24 has agreed that such space will be subject to payment of usage fees and surcharges
25 to the Authority and will be subject to any and all applicable EPA, DEP and
26 Authority rules and regulations related to sewage.

⁴ The EDU allocations for other acquisitions are posted to the Company’s website at the following link:
<https://www.amwater.com/paaw/customer-service-billing/your-water-and-wastewater-rates>.

1 Consistent with this agreement and the Section 1329 requirement that PAWC adopt
2 existing rates, the pro forma tariff supplement attached as **Appendix A-12** to the
3 Application provides for \$0 rates for the VA Hospital.

4 Section 4.21 of the APA provides that BASA has not entered into any other
5 agreements for free service.
6

7 **Q. Do the rate provisions of the APA include a Rate Stabilization Plan as defined by**
8 **Section 1329?**

9 **A.** The APA does not set forth or require a “rate stabilization plan” as defined by Section
10 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
11 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
12 of a rate stabilization plan.

13 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
14 constant or phase rates in over a period of time after the next base rate case.” As detailed
15 in Section 7.04 of the APA, PAWC will be charging BASA’s current rates (but not other
16 charges) as the Company’s base rates within the service territory. In addition, Section
17 7.04(c) states “Buyer shall not propose to increase Seller Base Rates until the later to occur
18 of (i) the first anniversary of Closing, or (ii) January 1, 2025.”

19 While the APA contractually restricts PAWC from proposing an increase in base
20 rates until January 1, 2025, I am advised by counsel that nothing in the APA purports to
21 restrict the Commission’s authority to set rates that it considers to be “just and reasonable”
22 in the context of a base rate proceeding or otherwise. As such, the instant application does
23 not propose a “rate stabilization plan” for approval by the Commission. In a previous

1 Section 1329 proceeding, the Commission stated the following regarding the relationship
2 between rate commitments and rate stabilization plans:⁵

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.

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

13 At this time, it is unknown when Closing will occur or when PAWC will file its
14 next base rate case. Nevertheless, it is clear that Section 7.04 respects the statutory
15 authority of the Commission to set just and reasonable rates. PAWC is not asking the
16 Commission in this Application proceeding to maintain rates for a period of time beyond
17 the next base rate case. Subject to Commission approval, if PAWC’s next base rate case
18 would become effective within one year of Closing or prior to January 1, 2025, PAWC
19 will maintain BASA’s base rates until permitted to increase them. Consequently, the APA
20 does not include a rate stabilization plan.

21
22 **Q. What impact, if any, will there be on the rates of BASA’s direct customers as a result**
23 **of the acquisition of the system?**

⁵ 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), *reversed on other grounds, McCloskey v. Pa. Pub. Util. Comm’n*, 195 A.2d 1055 (Pa. Cmwlth. 2018) (“*Aqua/New Garden*”) pp. 41-42. Internal footnote omitted.

1 A. There will be no immediate impact on the rates of BASA’s customers because PAWC has
2 committed to adopt, upon Closing, BASA’s rates in effect at the time of Closing. PAWC
3 expects to propose to move BASA’s rates toward consolidated rates in future base rate
4 cases. Subject to Commission approval, PAWC anticipates allocating a portion of its
5 wastewater revenue requirement to the combined water and wastewater customer base, as
6 permitted by 66 Pa. C.S. § 1311(c).

7
8 **Q. What impact, if any, will there be on the rates of PAWC’s current water and
9 wastewater customers as a result of the acquisition of the System?**

10 A. There will be no immediate impact on the rates of PAWC’s current water and wastewater
11 customers. PAWC expects to include BASA’s wastewater system in PAWC’s future base
12 rate filings. Any impacts on the rates of PAWC’s existing water and wastewater customers
13 would occur only upon Commission approval as part of a base rate proceeding. A non-
14 binding estimate of possible rate impacts for existing water and wastewater customers is
15 shown in **Appendix A-18-d** and discussed in the Customer Notice section below. BASA’s
16 customers, as part of PAWC’s overall customer base, will become part of PAWC’s overall
17 cost allocation. Nothing contained in the APA would bind the Commission or other
18 interested parties in future ratemaking proceedings.

19
20 **Q. Does PAWC seek the authority to charge non-base rates prior to the first PAWC base
21 rate case in which the System is included?**

22 A. Yes. PAWC is requesting authority from the Commission to approve collection of a
23 distribution system improvement charge (“DSIC”) related to the System in the future, prior

1 to the first base rate case in which the System plant-in-service is incorporated into rate
2 base. PAWC would not begin charging a DSIC until the eligible System plant is approved
3 by the Commission in an amendment to PAWC’s Long Term Infrastructure Improvement
4 Plan for wastewater.

5
6 **CUSTOMER NOTICE**

7 **Q. Is PAWC providing notice to customers of the acquisition?**

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

12
13 **Q. How were the estimates of potential rate impacts calculated for the notices provided**
14 **in Appendix A-18-d?**

15 **A.** These notices were prepared in accordance with the *Steelton Order*.⁶ This Order approved
16 a Settlement in which PAWC agreed to the form and calculation of the notices for future
17 Section 1329 acquisition proceedings (“Settlement”).

18 In the Settlement, the Joint Petitioners (PAWC, the Commission’s Bureau of
19 Investigation & Enforcement, the Office of Consumer Advocate, the Office of Small
20 Business Advocate and the Borough of Steelton) agreed to the form of the notices to be
21 sent to existing PAWC water and wastewater customers and the notice to be sent to the

⁶ *Application of Pennsylvania-American Water Company Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Water System Assets of the Steelton Borough Authority*, Docket No. A-2019-3006880 (Opinion and Order entered Oct. 3, 2019) (“*Steelton Order*”).

1 customers of the system being acquired. The forms of the notices were attached to the
2 Settlement as Appendix E and Appendix F.

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

5
6 **Q. Please discuss adjustments made to the notice calculation as a result of the Company's**
7 **2022 base rate case.**

8 **A.** The customer notice calculation attached as **PAWC Exhibit AEE-1** incorporates the
9 authorized water and wastewater revenues, the allocation of wastewater revenue
10 requirement to water operations, and the wastewater capital structure from the 2022 base
11 rate case.

12 The Settlement provided that revenues from certain acquisitions were excluded
13 from the calculation and there was no notice requirement for these recently acquired
14 customers. Because the Company recently concluded a base rate case, the calculation is
15 updated to include revenues from all systems that were included in the Company's 2022
16 base rate case.

17
18 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**
19 **BASA's customers.**

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

BASA Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at BASA's Rates at Closing	Potential Average Monthly Bill	Potential Increase

Residential	3,212 gal/month	\$45.50	\$88.45	94.4%
Commercial	22,561 gal/month	\$273.00	\$530.71	94.4%
Industrial	528,207 gal/month	\$6,006.00	\$11,675.66	94.4%

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2 The 94.4% increase shown in the chart above is calculated as 100% of the revenue
3 deficiency after the Act 11 allocation to water customers,⁷ divided by the Year One
4 revenues of the System. The current average monthly bill is calculated using BASA’s
5 wastewater rates that will be in effect at Closing and the average usage for each customer
6 class as reflected in the filing of PAWC’s most recent base rate case (Docket No. R-2022-
7 3031672). For residential customers, BASA charges a flat rate per EDU. For non-
8 residential customers, the rate shown reflects BASA’s rate schedule of 1 EDU = 4,000
9 gallons.⁸

10 The potential average monthly bill after acquisition is calculated by increasing the
11 current average monthly bill amounts by the 94.4% increase. This methodology was used
12 to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to
13 **PAWC Exhibit AEE-1** for the calculation of the customer notice.

14
15 **Q. Please summarize the rate impact calculation in the notice to PAWC wastewater**
16 **customers.**

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

⁷ The allocation of a portion of the wastewater revenue requirement to water customers pursuant to Act 11 of 2012 (66 Pa. C.S. § 1311(c)) is referred to in this testimony as the “Act 11 allocation.” For calculating the notice in this case, the Settlement requires PAWC to use the Act 11 allocation from wastewater to water from PAWC’s prior base rate case. In PAWC’s last base rate case, 33% of the wastewater revenue requirement for 2023 was allocated to water customers under Act 11. See Docket No. R-2022-3031673, Summary Proof of Revenues. The Settlement was approved by Order entered December 8, 2022 (“2022 Rate Case”).

⁸ For example, 22,561 gallons / 4,000 gallons = 5.64 EDUs. Consistent with BASA’s existing rates of 1 EDU = 4,000 gallons, the rate shown is \$45.50 per EDU x 6 EDUs, or \$273.00. See also **PAWC Exhibit AEE-2**.

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$114.12	7.0%
Commercial	22,561 gal/month	\$509.46	\$545.12	7.0%
Industrial	528,207 gal/month	\$11,143.19	\$11,923.21	7.0%

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10 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**
 11 **PAWC water customers.**

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

PAWC Existing Water Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.79	0.8%
Commercial	22,561 gal/month	\$371.82	\$374.79	0.8%
Industrial	528,207 gal/month	\$5,985.08	\$6,032.96	0.8%

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1 The 0.8% increase shown in the chart above represents the potential impact on
2 PAWC water customers of the Act 11 allocation to water customers. This allocation to
3 water customers is divided by PAWC's applicable water revenues from PAWC's most
4 recent base rate case.

5 The current average monthly bill is shown at PAWC's Zone 1 rates effective
6 January 28, 2023 and the average usage for each customer class as reflected in the filing of
7 PAWC's most recent base rate case (Docket No. R-2022-3031672). The average monthly
8 bill for PAWC Zone 1 customers after acquisition is calculated by increasing the average
9 monthly bill amounts by the 0.8% increase, which was calculated as explained above. This
10 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
11 (Exhibit G). Please refer to **PAWC Exhibit AEE-1** for the calculation of the customer
12 notice.

13
14 **Q. Do you have any further comments on the customer notices PAWC is providing in**
15 **this proceeding?**

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

20
21 **LOW-INCOME PROGRAMS**

22 **Q. Please summarize PAWC's tariffed low income discounts.**

1 **A.** PAWC’s low-income tariff rider provides low-income customers with discounts to fixed
 2 and volumetric charges. PAWC’s low-income discount includes three tiers of discount,
 3 with the discount level dependent on the customer’s percentage of Federal Poverty Level
 4 (“FPL”). The tariff discounts are summarized below.⁹

	Tier 1 (0-50% FPL)	Tier 2 (51-100% FPL)	Tier 3 (101-150% FPL)
Water Service Charge Discount	80%	65%	40%
Water Usage Charge Discount	80%	50%	25%
Wastewater Total Bill Discount	80%	55%	30%

5

6 **Q. Will BASA customers be eligible for these discounts upon acquisition?**

7 **A.** Yes. Because PAWC is already the water provider in the Butler area, any customers
 8 enrolled in the low income discount for their water service will be automatically enrolled
 9 in the discount for wastewater service at the time of Closing.

10 As part of a recent Order in PAWC’s Arrearage Management Program (“AMP”),
 11 the Commission required that a settlement between PAWC and other parties be modified
 12 to include income verification for low-income customers participating in the AMP.¹⁰
 13 PAWC anticipates that this income verification requirement will also apply to the bill
 14 discount program, and thus, will also apply to BASA customers.

⁹ Refer to Tariff Water-PA P.U.C. No. 5, page 17 and Tariff Wastewater PA P.U.C. No. 16, page 16.

¹⁰ Docket No. P-2021-3028195, Order Entered December 28, 2022.

1 **Q. Please summarize the current cost of PAWC’s low-income discount programs to its**
2 **legacy customer base.**

3 **A.** PAWC’s low-income discount program provides discounts between 30% and 80% of the
4 water and wastewater bill to customers with an FPL of 150% or less. These discounts have
5 a small impact on customer’s bills of approximately \$1.30 per month for residential water
6 customers and approximately \$2.60 per month for residential wastewater customers.¹¹

7
8 **Q. Will the Transaction have a significant impact on PAWC’s low-income discount**
9 **program costs?**

10 **A.** No. Of the 14,792 customers, approximately 560 will be enrolled in the low-income
11 discount upon Closing. The discounts to these customers will represent approximately 1%
12 of the total revenues of the BASA system. When compared to PAWC’s total wastewater
13 revenue, the discounts to BASA customers represents approximately 0.01% of revenue.

14 The low income discount provides a measurable benefit to the customers who are
15 enrolled in the program while the impact on non-low income legacy customers is
16 anticipated to be minimal.

17

18 **TRANSACTION AND CLOSING COSTS**

19 **Q. Please describe the estimated transaction and closing costs for the Transaction.**

20 **A.** As set forth in the Commission’s *Final Implementation Order* at Docket No. M-2016-
21 2543193, transaction and closing costs include the UVE’s appraisal fee and the buyer’s

¹¹ Cost allocation was not disclosed in the Company’s black box rate case settlement in the Company’s recent base rate proceeding, Docket No. R-2022-3031673, *et al.* The amounts shown in this paragraph are calculated as the discounted revenue divided by the number of residential customers.

1 closing costs, including reasonable attorney fees. In accordance with the *Final*
2 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
3 closing costs are not to be decided in this Application proceeding; instead, PAWC must
4 justify the costs by a “preponderance of the evidence” in a future base rate proceeding.

5 As a practical matter, the exact extent of such costs cannot be known at the time of
6 filing the Application and will not be finally known until after Closing. The costs depend
7 on a number of variables, including whether this Application is settled or fully litigated.
8 PAWC will track such costs and incorporate them into rate base in a future base rate
9 proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is
10 PAWC’s estimate of the anticipated range of transaction and closing costs (approximately
11 \$1,164,250 to \$1,286,750).

13 **Post-Acquisition Improvement Costs**

14 **Q. Please state your understanding of Section 1329 with respect to post-acquisition**
15 **improvement costs.**

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

1 distribution system improvement charge shall be deferred for book and ratemaking
2 purposes.”

3
4 **Q. Does PAWC intend to accrue AFUDC for post-acquisition improvements?**

5 **A.** Yes. As summarized in the Direct Testimony of PAWC Witness Mr. Daniel Hufton, P.E.,
6 PAWC’s Engineering Manager, PAWC Statement No. 2, PAWC will be making post-
7 acquisition improvements to the System. As such, PAWC will likely accrue AFUDC
8 consistent with what is permitted under Section 1329. PAWC will address any claims for
9 AFUDC in the first base rate proceeding in which BASA’s assets are included.

10
11 **Q. Does PAWC intend to defer depreciation on non-DSIC-eligible post-acquisition
12 improvements for book and ratemaking purposes?**

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

17
18 **Authentication of Application Appendices**

19 **Q. Are you familiar with the Application filed by PAWC in this proceeding?**

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

1 **Q. Please identify which application appendices were prepared by you or under your**
2 **supervision and control?**

3 **A. Appendix A-10** is the Company’s estimate of the anticipated range of transaction and
4 closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the
5 Application. In addition, based on financial statements provided by BASA and on
6 PAWC’s audited financial statements, the following appendices were prepared: **Appendix**
7 **C** (balance sheet of BASA as of July 31, 2022), **Appendix D** (audited balance sheet of
8 PAWC as of December 31, 2021), **Appendix E** (income statement of BASA for the 12
9 months ended July 31, 2022), **Appendix F** (audited income statement of PAWC for the 12
10 months ended December 31, 2021), **Appendix G** (*pro forma* balance sheet of PAWC,
11 giving effect to the transfer), **Appendix H** (*pro forma* consolidated income statement of
12 PAWC and BASA for 12 months) and **Appendix K** (estimated annual revenues and
13 expenses).¹²

14
15 **Q. Are Appendices A-10 and A-12, Appendices C through H, and Appendix K true and**
16 **correct to the best of your knowledge, information, and belief?**

17 **A. Yes.**

18

19 **CONCLUSION**

20 **Q. Does this conclude your testimony?**

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

¹² The timing difference in restating BASA’s financial statements for Appendix G and Appendix H to December 31, 2021 is assumed by PAWC to be immaterial.

Butler Area Sewer Authority Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Butler Area Sewer Authority Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$45.50	\$88.45	\$42.95 or 94.4%
Commercial	22,561 gal/month	\$273.00	\$530.71	\$257.71 or 94.4%
Industrial	528,207 gal/month	\$6,006.00	\$11,675.66	\$5,669.66 or 94.4%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$114.12	\$7.47 or 7.0%
Commercial	22,561 gal/month	\$509.46	\$545.12	\$35.66 or 7.0%
Industrial	528,207 gal/month	\$11,143.19	\$11,923.21	\$780.02 or 7.0%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.79	\$0.55 or 0.8%
Commercial	22,561 gal/month	\$371.82	\$374.79	\$2.97 or 0.8%
Industrial	528,207 gal/month	\$5,985.08	\$6,032.96	\$47.88 or 0.8%

Pennsylvania American Water Company
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Butler Area Sewer Authority Wastewater

Residential		
	Flat Rate	\$45.50
32.12	0.0000	0.00
		\$45.50

Rate Impact 94.4%
 \$42.95
 Total \$88.45

PAWC - Wastewater

Zone 1 - Residential		
	Service Charge	\$14.30
32.12	2.8750	92.35
		\$106.65

Rate Impact 7.0%
 \$7.47
 Total \$114.12

PAWC - Water

Zone 1 - Residential		
5/8"	Service Charge	\$17.50
32.12	1.6108	51.74
		\$69.24

Rate Impact 0.8%
 \$0.55
 Total \$69.79

Commercial		
	Rate per EDU	\$45.50
225.61	0.0000	273.00
		\$273.00
1 EDU = 4,000 gallons		

Rate Impact 94.4%
 \$257.71
 Total \$530.71

Zone 1 - Commercial		
	Service Charge	\$35.00
225.61	2.1030	474.46
		\$509.46

Rate Impact 7.0%
 \$35.66
 Total \$545.12

Zone 1 - Commercial		
1"	Service Charge	\$46.60
160.00	1.5613	249.81
65.61	1.1493	75.41
225.61		
		\$371.82

Rate Impact 0.8%
 \$2.97
 Total \$374.79

Industrial		
	Rate per EDU	\$45.50
5,282.07	0.0000	6,006.00
		\$6,006.00
1 EDU = 4,000 gallons		

Rate Impact 94.4%
 \$5,669.66
 Total \$11,675.66

Zone 1 - Industrial		
	Service Charge	\$35.00
5,282.07	2.1030	11,108.19
		11,143.19

Rate Impact 7.0%
 \$780.02
 Total \$11,923.21

Zone 1 - Industrial		
2"	Service Charge	\$224.00
160.00	1.4200	227.20
5,122.07	1.0804	5,533.88
5,282.07		
		5,985.08

Rate Impact 0.8%
 \$47.88
 Total \$6,032.96

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Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 17,895,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)	33%
Amount of increase allocated to water through Act 11	<u>5,905,350</u>
Amount of increase allocated to wastewater customers	\$ 11,989,650

Increase applied to Butler Area Sewer Authority Wastewater Customers	
Revenue Requirement Increase - After Act 11	\$ 11,989,650
Current Butler Area Sewer Authority Wastewater revenues	12,698,000
Estimated Increase to wastewater customers	94.4%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 11,989,650
Current Butler Area Sewer Authority Wastewater revenues	12,698,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	<u>159,681,891</u>
	172,379,891
Estimated Increase to wastewater customers	7.0%

Amount of increase allocated to water customers:	
Revenue Requirement Increase	\$ 5,905,350
PAWC Water Revenues (R-2022-3031672 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	781,722,135
Estimated Increase to Water Customers	0.8%

Pennsylvania American Water Company R-2022-3031672 Summary Proof of Revenues Act 11 Allocation									
	Water Operations	Wastewater SSS General Operations	Royersford Wastewater Operations	Pottsgrove Wastewater Operations	York Wastewater Operations	CSS Wastewater Operations	Total Wastewater	Total Company	
Additional Annual Operating Revenue Before Act 11	\$ 56,408,658	\$ 21,348,733	\$ 1,946,621	\$ 1,347,477	\$ 19,505,813	\$ 37,442,700	\$ 81,591,344	\$ 138,000,002	
Act 11 Allocation - WW COS Recovered from Water	26,961,881	(3,598,461)	(1,328,921)	(496,449)	(\$12,512,409)	(9,025,641)	(26,961,881)	33%	\$ -
Additional Annual Operating Revenue	83,370,539	17,750,272	617,700	851,028	6,993,404	28,417,059	54,629,463	67%	138,000,002

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
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Revenue Requirement Increase

Rate Base	\$ 231,500,000	Appendix A-11
Rate of Return %	7.10%	See Calculations
Rate of Return	<u>16,437,000</u>	
O&M	4,384,000	Appendix K
Taxes Other	735,000	Appendix K
Depreciation	4,527,000	Appendix K
Taxes	4,510,000	See Calculations
Revenue Requirement	<u>30,593,000</u>	
Butler Area Sewer Authority Wastewater Year-1 Revenues	12,698,000	Appendix K
Revenue Requirement Increase	17,895,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
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Summary

<u>Revenue Requirement</u>	
Rate Base	\$ 231,500,000
Pretax ROR %	9.05%
Pretax ROR	<u>20,951,000</u>
Plus: O&M Expense	4,384,000
Taxes Other	735,000
Depreciation	<u>4,527,000</u>
Total Revenue Requirement	<u><u>30,597,000</u></u>
 <u>Income Tax Calculation</u>	
Revenues	\$ 30,597,000
Less: O&M Expense	4,384,000
Taxes Other	735,000
Depreciation	4,527,000
Interest	<u>4,676,000</u>
SIT Taxable Income	16,275,000
State Income Tax Rate	8.49%
State Income Tax	<u>1,382,000</u>
FIT Taxable Income	14,893,000
Federal Income Tax Rate	21.00%
Federal Income Tax	<u>3,128,000</u>
Total Income Taxes	<u><u>4,510,000</u></u>
 <u>Interest</u>	
Rate Base	\$ 231,500,000
Weighted Cost of Debt (1.87% + 0.15%)	<u>2.02%</u>
	\$ 4,676,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	42.26%	4.43%	1.87%		1.87%
Wastewater Financing	5.65%	2.57%	0.15%		0.15%
Preferred Stock	0.01%	9.70%	0.00%	1.38326	0.00%
Common Equity	52.08%	9.75%	<u>5.08%</u>	1.38326	<u>7.03%</u>
			7.10%		9.05%

Cost of Equity for Distribution System Improvement Charge (DSIC) 9.75% M-2022-3035196
Capital Structure based on PAWC's last wastewater base rate case R-2022-3031673 PAWC Statement No. 13-R, Exhibit AEB-13-R, Schedule 13.
State Income Tax Rate of 8.49% in effect 1/1/2024

Revenue 'Multiplier

Statutory State Tax Rate	0.0849
Statutory Federal Tax Rate	0.21
1- State Tax Rate	0.9151
Fed Rate Times (1-State Tax Rate)	0.192171
Effective Tax Rate	0.277071
1-Eff Tax Rate	0.722929
Reciprocal	1.38326

PENNSYLVANIA-AMERICAN WATER COMPANY

Related to Section A, Rule 26. Equivalent Dwelling Units or EDU

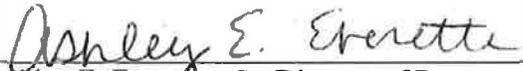
Unit Schedule for Butler Area Sewer Authority	
Category	Units
Each Dwelling Unit = average water usage of 4,000 gallons per month	1
Each Residential Premise	1
Apartments or other buildings used exclusively for residential purposes (a) Each residential premise therein	1
Commercial, Industrial, Institutional, and Municipal and Public I. In the event the Company believes that most or all of the wastewater from said building or property is discharged to the public sewer system as sanitary sewage, industrial waste, or both, the Company will determine, by whatever means it deems most suitable, the average water usage for the billing period of said building or property. That usage, expressed in the number of gallons per month, will then be divided by 4,000 to determine the number of unit charges, rounded to the nearest full unit, to which that building or property is subject.	Gallons per month/4,000 = 1 unit
II. In the event the Company believes much of the wastewater from said building or property does not reach the public sewer system and an investigation establishes the fact that the only waste entering the system is sanitary sewage originating from the concern's own employees, or if no water usage data is available as the property is supplied by a well for example, then the Company may require that concern to report the total number of employees worked each month. That number will then be divided by 9 to determine the number of unit charges, rounded to the nearest full unit to which that building or property is subject.	Number of employees worked each month/9
II. In the event the Company finds that although said building or property excludes much of its wastewater from the public sewer system, it does discharge certain industrial wastes as well as sanitary sewage to that system, the Company will determine in such manner and by such method as it may deem practical the average volume of sanitary sewage and/or industrial wastes entering its sewers. (The Company may require or permit the installation of additional meters in such a manner as to facilitate such a determination.) Once the average volume of sewage and waste entering the Company's sewers has been established, that volume, expressed in gallons per month, will be divided by 4,000 to determine the number of unit charges, rounded to the nearest full unit, to which that building or property is subject.	Gallons per month/4,000 = 1 unit
Mixed-Use Property I. Building or property served with a single water line, supplying water to both a residential premise, as well as a non-residential concern(s), such as a commercial or institutional service(s). The unit charge will be a minimum of one unit for each residential premise and each non-residential concern.	Minimum 1
II. In the event that the water usage for the single service line exceeds the minimum charge, i.e. the total number of residential premises, plus non-residential concerns, then the account will be charged based on the metered water usage.	If water usage > 4,000, then units = water usage/4,000

VERIFICATION

I, Ashley E. Everette, 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.

2/10/23

Date



Ashley E. Everette, Sr. Director of Rates and
Regulatory American Water, Mid-Atlantic Division