

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :  
Company under Section 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 : Docket No. A-2021-3024058 *et al.*  
substantially all of the assets, properties and rights :  
related to the wastewater collection and conveyance :  
system owned by Borough of Brentwood, (2) the rights :  
of Pennsylvania-American Water Company to begin to :  
offer or furnish wastewater service to the public in the :  
Borough of Brentwood in Allegheny County, :  
Pennsylvania :

---

**DIRECT TESTIMONY OF  
MICHAEL SALVO ON BEHALF OF  
PENNSYLVANIA-AMERICAN WATER COMPANY**

---

Date: March 31, 2023

PAWC Statement No. 1

**DIRECT TESTIMONY OF  
MICHAEL SALVO**

**INTRODUCTION**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

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

**A.** My name is Michael Salvo and my business address is 852 Wesley Drive, Mechanicsburg, PA 17055.

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

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

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

**A.** I develop and maintain necessary contacts to stay abreast of new business opportunities. I also manage acquisitions from initial contact, perform due diligence of an opportunity, respond to Requests for Qualifications, Request for Proposals, Request for Bids, preparation of the Application for submissions to the Pennsylvania Public Utility Commission (“Commission”) and oversee all activities and workflows required to close the acquisition including several post-closing activities. These responsibilities necessitate that I maintain a working knowledge of regulatory and technical developments, new technologies and current trends as they affect the water and wastewater utility industry, and that I be familiar with legislation, regulation and public policy affecting business opportunities.

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

2 **A.** A copy of my curriculum vitae is attached as **PAWC Exhibit MS-1**. I received a Bachelor  
3 of Science degree in mechanical engineering technology in 1987 from The Pennsylvania  
4 State University and a Master of Business Administration in 1996 from Lebanon Valley  
5 College. I have over 35 years of experience in the regulated water and wastewater industry  
6 working in various roles and increasing levels of responsibility including engineering,  
7 water and wastewater operations, administration, labor management, customer service and  
8 business development.

9

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

11 **A.** Yes. I have testified as a witness for PAWC during proceedings at Commission Docket  
12 No. A-2020-3019634.

13

14 **DESCRIPTION OF THE APPLICATION**

15 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**  
16 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER**  
17 **COLLECTION SYSTEM OF THE BOROUGH OF BRENTWOOD (“BOROUGH”**  
18 **OR “BRENTWOOD”) AND RELATED APPROVALS?**

19 **A.** Yes. PAWC filed an Application on March 31, 2023 for approval of PAWC’s acquisition  
20 of the Borough’s wastewater conveyance and collection system facilities (the “System”).  
21 I will refer to the acquisition in my testimony as the “Transaction.” The Application was  
22 prepared and filed under my supervision. As indicated in my Verification attached to the  
23 Application, the Application and its numerous appendices are true and correct to the best

1 of my knowledge, information, and belief. We used PAWC’s records, as well as the  
2 records made available by the Borough, to prepare the Application. For purposes of having  
3 a complete evidentiary record in this proceeding upon which the Commission can base its  
4 decision, I submit the Application and all its appendices (Appendices A through J) as  
5 **PAWC Exhibit MS-2.**

6  
7 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

8 **A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under  
9 Section 1102 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1102, similar  
10 to many previous requests that have come before the Commission. Specifically, PAWC  
11 seeks approval to acquire the System and to obtain the right to begin service in the areas  
12 currently served by the Borough (“Service Area”). The Application contains a *pro forma*  
13 tariff supplement under which the Borough’s rates at the time of closing on the Transaction  
14 (“Closing”) would be initially adopted.

15 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 (“Section 1329”), PAWC  
16 is seeking to utilize the fair market value for ratemaking rate base of the System. As  
17 explained more fully below, fair market value under Section 1329 is the lesser of the stated  
18 purchase price in the Asset Purchase Agreement, dated December 22, 2020, as amended  
19 by the First Amendment to Asset Purchase Agreement dated March 2, 2023 (the “APA”),  
20 and the average of the appraisals of the Borough’s Utility Valuation Expert (“UVE”) and  
21 PAWC’s UVE.

22 Third, PAWC is seeking the accrual and deferral of certain post-acquisition  
23 improvement costs. Specifically, PAWC is seeking the accrual of Allowance for Funds

1 Used During Construction (“AFUDC”) for post-acquisition improvements (which will not  
2 be recovered through its Distribution System Improvement Charge (“DSIC”) for book and  
3 ratemaking purposes, as well as the deferral of depreciation related to post-acquisition  
4 improvements (which will not be recovered through the DSIC) for book and ratemaking  
5 purposes.

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

9  
10 **Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE**  
11 **FAIR MARKET VALUE PROVISION OF SECTION 1329?**

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

18  
19 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**  
20 **APPLICATION?**

21 **A.** Section 1329 requires that the Application include: (1) copies of two UVE appraisals, (2)  
22 the purchase price, (3) the ratemaking rate base, (4) the transaction and closing costs, and

1 (5) the proposed tariff. However, the Commission has expanded the filing requirements  
2 beyond those specifically required by the statute.

3  
4 **Q. WHAT DOES THE COMMISSION REQUIRE BE INCLUDED IN A SECTION  
5 1329 APPLICATION?**

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

12  
13 **DESCRIPTION OF TESTIMONY FILED WITH THE APPLICATION**

14 **Q. IS PAWC FILING, AS PART OF ITS APPLICATION, TESTIMONY PREPARED  
15 BY THE BOROUGH?**

16 **A.** Yes. PAWC's Application includes at **Appendix A-13**, the written direct testimony of  
17 George Zboyovsky, Borough Manager of the Borough of Brentwood (Brentwood  
18 Statement No. 1), and the written direct testimony of Brentwood’s selected UVE, Harold  
19 Walker III, Manager, Financial Studies, for Gannett Fleming Valuation and Rate  
20 Consultants, LLC (Brentwood Statement No. 2). PAWC is not sponsoring the testimony  
21 of Mr. Zboyovsky, or Mr. Walker, but has included their testimony in the Application  
22 pursuant to the Final Supplemental Implementation Order in *Implementation of Section*  
23 *1329 of the Public Utility Code*, Docket No. M-2016-2543193 and in anticipation of

1 Brentwood's intervention and participation in the proceeding. PAWC reserves the right to  
2 submit rebuttal testimony regarding Brentwood's testimony, as appropriate.

3  
4 **Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE**  
5 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**  
6 **MATTER AREAS.**

7 **A.** In addition to my direct testimony, PAWC will submit the written direct testimony of Mr.  
8 Daniel J. Hufton, P.E., an Engineering Manager for PAWC (PAWC Statement No. 2), and  
9 Ms. Ashley E. Everette, Senior Director of Rates and Regulatory for American Water  
10 Works Service Company (PAWC Statement No. 3). PAWC is also sponsoring direct  
11 testimony by its selected UVE, Mr. Jerome C. Weinert, Principal and Director of Weinert  
12 Appraisal & Depreciation Services LLC, ("WAD Consultants"). (PAWC Statement No.  
13 4).

14 Mr. Hufton will describe engineering and environmental challenges associated with  
15 the System, support PAWC's technical fitness to operate the System, explain certain  
16 commitments and improvements to be made by PAWC and other matters. Mr. Hufton will  
17 also address the anticipated day-to-day operation of the System once it is acquired by  
18 PAWC, including staffing and the customer service enhancements that PAWC intends to  
19 implement for the benefit of Brentwood's customers. Ms. Everette will address the initial  
20 rates, rules, and regulations for Brentwood's customers as well as the impact of the  
21 Transaction on PAWC's existing customers. Ms. Everette will also discuss the financing  
22 of the Transaction, recording the acquisition at the net value of the assets and PAWC's

1 overall financial fitness. Mr. Weinert will provide supporting testimony for his fair market  
2 valuation report.

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

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

12  
13 **DESCRIPTION OF THE TRANSACTION**

14 **Q. TO THE BEST OF YOUR KNOWLEDGE, WHY DID BRENTWOOD WANT TO**  
15 **SELL ITS SYSTEM?**

16 **A.** It is my understanding Brentwood procured the sale of their wastewater collection system  
17 due to increasing regulatory complexities, to generate upfront proceeds for other long-term  
18 needs of the Borough, to keep rates reasonable while ensuring prudent investment in the  
19 sewer collection system, and to provide valued customer service to residents by an  
20 experienced and effectively-managed utility.

1 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**  
2 **PROCESS.**

3 **A.** On September 25, 2020, Brentwood issued the Borough of Brentwood Sewer System Sale  
4 - Request for Bids (“RFB”) for the sale of the wastewater collection system assets. On  
5 October 28, 2020, PAWC submitted a proposal to acquire Brentwood’s wastewater system  
6 assets. After the RFB submittals and subsequent arms-length negotiations, on December  
7 7, 2020, Brentwood Borough Council approved the sale of the wastewater collection  
8 system assets and execution of the APA. On December 22, 2020, Brentwood and PAWC  
9 entered into the APA for the sale of substantially all the assets, properties, and rights of the  
10 Borough’s System at an agreed-upon price.

11  
12 **Q. WHY IS PAWC FILING THIS APPLICATION WITH THE COMMISSION FOR**  
13 **REGULATORY APPROVAL TO ACQUIRE THE BRENTWOOD BOROUGH**  
14 **WASTEWATER COLLECTION SYSTEM APPROXIMATELY TWO YEARS**  
15 **AFTER THE APA WAS SIGNED?**

16 **A.** The delay in filing PAWC's application to acquire Brentwood's wastewater collection  
17 system was due to first resolving certain rights and obligations of Brentwood and PAWC  
18 pertaining to a certain Pittsburgh Zone Project Agreement (commonly referred to as the “Z  
19 Agreement”) of December 1, 1949, between Allegheny County Sanitary Authority  
20 (“ALCOSAN”), the City of Pittsburgh, and Borough of Brentwood. The Z Agreement was  
21 determined to not be directly assignable to PAWC. On March 2, 2023, Brentwood and  
22 PAWC entered into a Cooperation and Allocation of Responsibilities Agreement defining  
23 and agreeing to allocate certain rights and obligations to PAWC under the Z Agreement

1 while Brentwood will remain primarily responsible for its municipal rights and obligations  
2 under the Z Agreement. See **Appendix A-25.3**.

3  
4 **Q. DID BRENTWOOD CONDUCT PUBLIC INPUT HEARINGS REGARDING THE**  
5 **ACQUISITION?**

6 **A.** Yes, the Borough held a public meeting on the sale of the Borough's sanitary sewer system  
7 on November 30, 2020. In addition, as explained by Borough Manager Mr. Zboyovsky in  
8 his testimony, the Borough openly discussed the potential sale at several public Council  
9 meetings where residents had the opportunity to attend and provide comments.

10  
11 **Q. WHAT IS THE Z AGREEMENT AND WHY IS THIS AGREEMENT NOT**  
12 **ASSIGNABLE TO PAWC?**

13 **A.** The Z Agreement between ALCOSAN, the City of Pittsburgh, and the Borough of  
14 Brentwood serves as a foundational document for the entire ALCOSAN service area and  
15 defines the relationship between the parties. ALCOSAN serves as the sole and exclusive  
16 provider of wastewater treatment and disposal service with respect to wastewater generated  
17 by customers for Brentwood and 82 other municipalities and imposes numerous  
18 obligations upon Brentwood with regard to rates, billing, and payment (among other  
19 requirements). Although it is PAWC's understanding that ALCOSAN does not oppose  
20 PAWC's acquisition of Brentwood's System, ALCOSAN has opposed the direct  
21 assignment of the Z Agreement from Brentwood to PAWC. To resolve this issue,  
22 Brentwood and PAWC have entered into the Cooperation and Allocation of

1 Responsibilities Agreement describing both Brentwood's and PAWC's rights and  
2 obligations under the Z Agreement.

3  
4 **Q. CAN YOU PROVIDE AN OVERVIEW OF THE ASSET PURCHASE**  
5 **AGREEMENT?**

6 **A.** Yes. The APA is attached as **Appendix A-24-a** to the Application. The APA sets forth  
7 the terms and conditions pursuant to which the Borough will sell, transfer and convey all  
8 assets of the System, and PAWC will purchase the System as well as substantially all  
9 assets, properties and rights that the Borough owns and uses in connection with the System.  
10 The APA sets forth the entire understanding of the parties with respect to the Transaction.  
11 Under the APA, the closing of the Transaction will occur after the receipt of all applicable  
12 governmental approvals, including approvals from this Commission, and after all  
13 applicable conditions have been met (or waived) by the parties. Upon Closing, PAWC will  
14 take ownership of the System and begin rendering wastewater services to Brentwood's  
15 current customers and Brentwood will permanently discontinue providing or furnishing  
16 wastewater services to the public.

17  
18 **Q. PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS GOVERNING**  
19 **THE TRANSFER OF ASSETS.**

20 **A.** The specific properties, assets, and rights to be transferred to PAWC are defined and  
21 described in the APA's Section 2.01, while the excluded assets are defined in Section 2.02  
22 of the APA. Generally, the APA states that every asset, property, business, goodwill,  
23 properties and rights owned by the Borough and used in the provision of sanitary

1 wastewater service, whether real, personal, mixed, tangible or intangible, and including all,  
2 property, equipment and facilities comprising the System owned by the Borough shall be  
3 conveyed to PAWC. The Engineering Assessment (**Appendix A-15-a**) contains a list of  
4 the wastewater system inventory used in connection with the System to be conveyed to  
5 PAWC. All interests in real estate, including leases, easements, and access to public rights-  
6 of-way, owned by the Borough, and relating to the System are defined and described in  
7 **Schedule 4.09**, as well as all assigned contracts to be conveyed to PAWC in **Schedule**  
8 **4.13**. I note, however, that the Z Agreement was determined not to be assignable.

9 Items that will not be transferred include: the Borough's cash and cash equivalents,  
10 including accounts receivable and amounts earned by the Borough but not yet billed  
11 attributable to services rendered and EDU fees owed at or before the Closing Date; the  
12 Borough's insurance policies; all rights to any action, claims and proceedings being  
13 pursued by the Borough; all assets, properties and rights used by the Borough other than  
14 those which primarily relate to the operations of the System and described in Schedule 2.02  
15 (g); any and all stormwater facilities; and any and all connecting facilities originating from  
16 the Borough's terminus point of the collection facilities at the main or edge-of-road to and  
17 throughout the customer's property, including grinder pumps, if any (the "Customer Sewer  
18 Laterals").

19  
20 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF THE BOROUGH AS**  
21 **PART OF THE TRANSACTION?**

22 **A.** Yes. PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the  
23 day of and after Closing on the Transaction. Per Section 2.04 of the APA, PAWC will

1 assume, among other items: (i) all liabilities and obligations associated with the Assigned  
2 Contracts, Authorizations and Permits following their transfers on the day of and after  
3 Closing; (ii) any litigation initiated against the Borough relating to the System or the  
4 acquired assets resulting from events that occur on or after Closing or conditions that arise  
5 on or after Closing; and (iii) all liabilities and obligations under the Consent Order  
6 attributable to the period after the Closing Date; (iv) all liabilities and obligations for taxes  
7 relating to the system, its operations, acquired assets and assumed liabilities attributable to  
8 the period after the Closing Date; and (v) all liabilities and obligations arising out of or  
9 relating to PAWC's ownership or operations of the System and the acquired assets on or  
10 after the Closing Date. PAWC will not assume or be liable for any liabilities or obligations  
11 other than the Assumed Liabilities.

12  
13 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**  
14 **PURCHASE PRICE OF THE TRANSACTION?**

15 **A.** The consideration for the purchase of the System as set forth in Section 3.01 of the APA,  
16 as amended, is \$19,364,443, subject to certain adjustments. Section 3.01 of the APA was  
17 amended on March 2, 2023, to reflect the prudent capital expenditures made by the  
18 Borough in the System since execution of the APA on December 22, 2020. In addition  
19 to the purchase price, PAWC will pay the Borough up to \$70,000 as reimbursement for  
20 engineering and legal fees incurred related to the Transaction, upon receipt of invoices  
21 evidencing the amount of transaction-related fees incurred, prior to Closing.

1 **Q. PLEASE DESCRIBE IN MORE DETAIL HOW MISSING EASEMENTS WILL BE**  
2 **HANDLED AFTER CLOSING**

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

5  
6 **Q. HAS PAWC MADE ANY COMMITMENTS IN THE APA THAT WILL BE**  
7 **IMPLEMENTED AFTER THE CLOSING OF THE TRANSACTION?**

8 **A.** There are no specific APA commitments other than those outlined in the Phase II Consent  
9 Order and Agreement. My colleague, Mr. Daniel J. Hufton, P.E., discusses this agreement  
10 in his testimony. PAWC Statement No. 2.

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

14 **A.** As set forth in Section 7.03 of the APA and explained more fully in the Direct Testimony  
15 of Ms. Everette, PAWC Statement No. 3, PAWC has committed to implement, upon  
16 Closing of the Transaction, the Borough's wastewater rates then in effect at Closing, as set  
17 forth on Schedule 7.03. PAWC will not increase this rate until after the second anniversary  
18 of the Closing Date.

19 Immediately upon Closing, the Borough's customers will be subject to PAWC's  
20 prevailing wastewater tariff on file with the Commission with respect to miscellaneous fees  
21 and charges, rules, and regulations for wastewater service. Borough customers will not be  
22 charged the DSIC until after PAWC's Long Term Infrastructure Improvement Plan has  
23 been amended to include the System. All Borough customers will continue to be billed

1 monthly. The monthly rates are shown in PAWC's *pro forma* tariff in **Appendix A-12** to  
2 the Application.

3  
4 **Q. WILL PAWC BE ASSUMING ANY CONTRACTS AS PART OF THE**  
5 **TRANSACTION?**

6 **A.** Yes, **Appendix A-25** lists all Brentwood contracts that PAWC currently intends to assume  
7 at Closing. Prior to Closing, PAWC will review all contracts and a final determination will  
8 be made on which contracts will be assumed and which will be terminated or revised. As  
9 described previously, the Z Agreement will not be directly assigned to PAWC.

10  
11 **DESCRIPTION OF PAWC AND THE BOROUGH'S SYSTEM**

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

13 **A.** PAWC, a subsidiary of American Water Works Company, Inc. ("American Water"), is the  
14 largest regulated public utility corporation duly organized and existing under the laws of  
15 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,  
16 storing, supplying, distributing, and selling water to the public, and collecting, treating,  
17 transporting, and disposing of wastewater for the public. Water and wastewater services  
18 are furnished by PAWC to the public in a service territory encompassing more than 417  
19 communities in 37 counties. Overall, PAWC serves a combined population of over 2.3  
20 million people across the Commonwealth and is American Water's largest subsidiary.

21 PAWC currently employs approximately 1,150 professionals with expertise in all  
22 areas of water and wastewater utility operations, including engineering, regulatory  
23 compliance, water and wastewater treatment plant operation and maintenance, distribution

1 and collection system operation and maintenance, materials management, risk  
2 management, human resources, legal, accounting, customer service, and business  
3 development. PAWC has the expertise, the record of environmental compliance, the  
4 commitment to invest in necessary capital improvements and resources, and the  
5 experienced managerial and operating personnel necessary to provide safe and reliable  
6 wastewater services to the residents of the Service Area. In addition, PAWC currently  
7 provides water service to the Borough's wastewater customers.

8 PAWC takes pride in being a good corporate citizen by sponsoring and  
9 participating in local community events, providing environmental and firefighting support  
10 grants, offering the "H2O Help to Others Assistance Program" to help low-income  
11 customers pay their bills, and supporting economic growth through infrastructure  
12 improvements in the communities served by PAWC. In 2022, PAWC donated more than  
13 \$528,000 to organizations in the communities it serves through grants, scholarships, and  
14 general charitable giving, and \$600,000 to assist customers in paying their water or  
15 wastewater bills. Through collaboration with the American Water Charitable Foundation,  
16 the company helped provide an additional \$122,000 in funding to more than 300 non-profit  
17 organizations across Pennsylvania. In addition, financial support is not the only way  
18 PAWC supports the communities it serves. Through partnerships, programming and  
19 volunteerism, PAWC demonstrates its commitment to being a good and supportive  
20 neighbor. That is why PAWC and its dedicated employees play active roles in supporting  
21 environmental and education initiatives related to water, from watershed clean-ups to  
22 educational programs focused on drinking water and source water protection, as well as  
23 supporting youth education, health and wellness initiatives, community sustainability

1 projects and more to address community-specific needs. PAWC is eager to partner with  
2 the Borough in providing a sustainable long-term future for the System. Customers of the  
3 System will benefit from a stable company with a robust business model and reliable  
4 service.

5  
6 **Q. HOW MANY CUSTOMERS DOES THE WASTEWATER COLLECITON**  
7 **SYSTEM CURRENTLY SERVE AND HOW MANY CUSTOMERS DOES PAWC**  
8 **CURRENTLY SERVE?**

9 **A.** As of March 2023, the Borough furnished wastewater services to approximately 3,980  
10 active customers. As of February 28, 2023, PAWC furnished wastewater service to  
11 approximately 97,325 residential, commercial, industrial, municipal and bulk customers in  
12 Pennsylvania. As of February 28, 2023, PAWC furnished water service to approximately  
13 680,144 customers in Pennsylvania.

14  
15 **THE TRANSACTION IS IN THE PUBLIC INTEREST**

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

18 **A.** The Transaction will result in affirmative public benefits of a substantial nature. First,  
19 PAWC, as a large and long-established public utility, has the managerial, technical, and  
20 financial fitness to operate the System in a safe and efficient manner in compliance with  
21 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and  
22 regulatory requirements. PAWC has extensive experience in the operation of wastewater  
23 collection and treatment systems. PAWC continues to develop expertise for the benefit of

1 the Commonwealth through its current operation of 38 wastewater treatment plants  
2 providing service to approximately 97,325 customers Pennsylvania.

3 The acquisition fosters the Commission's stated goal of consolidating and  
4 regionalizing water and wastewater systems to provide greater environmental and  
5 economic benefits to customers. My colleague, Mr. Daniel J. Hufton, P.E., discusses this  
6 in detail in his testimony (PAWC Statement No. 2). After Closing, PAWC's McKeesport  
7 leadership, support teams, and third-party support, as needed, will support each other when  
8 appropriate and necessary, particularly in emergency situations. The Borough's  
9 wastewater collection system is located within PAWC's water distribution system  
10 footprint. PAWC can draw upon a much broader range of engineering and operational  
11 experience than can the Borough, as well as deeper financial resources, to address  
12 operational challenges and required system investment and improvements. Additionally,  
13 given PAWC's proximate water operations, PAWC is well positioned to provide utility  
14 services on a long-term, cost-effective basis.

15 Second, the Borough's current customers will benefit in several ways from  
16 becoming PAWC wastewater customers. PAWC is a large, financially-sound company  
17 that has the capacity to finance necessary capital additions and improvements that will  
18 benefit its customers. In addition, given its size, its access to capital, and its recognized  
19 strengths in system planning, capital budgeting, and construction management, PAWC is  
20 well-positioned to ensure that high quality wastewater service meeting all applicable state  
21 and federal regulatory requirements is provided to the Borough's customers. There is also  
22 a general public benefit being that PAWC is subject to the jurisdiction of the Commission

1 requiring PAWC to provide adequate, efficient, safe and reliable service at just and  
2 reasonable rates. Currently, the Borough has no such regulatory oversight.

3 Third, the Borough's current customers will benefit from the enhanced and proven  
4 customer service that PAWC provides. My colleague, Mr. Daniel J. Hufton, P.E., discusses  
5 these customer service enhancements in more detail in PAWC Statement No. 2.  
6 Nevertheless, I would like to note that they include, but are not limited to, extended  
7 customer service and call center hours, enhanced customer information and educational  
8 programs and access to PAWC's customer assistance program. Additionally, through  
9 community giving, partnerships and volunteering, PAWC demonstrates its commitment to  
10 programs that address community-specific needs. One example is PAWC's H2O – Help  
11 to Others Program, which for more than twenty-five years has assisted low-income  
12 customers. In 2011, the program was expanded to include wastewater customers. And just  
13 this year, it began to offer tiered discounts based on percentage of federal poverty level.  
14 My colleague, Ms. Ashley E. Everette, will provide more details about this program in her  
15 testimony. PAWC Statement No. 3.

16 Finally, the Transaction will benefit PAWC's existing wastewater customers in the  
17 long-term by expanding PAWC's customer base. There will be no immediate rate impact  
18 on PAWC's existing customers. By adding additional connections to the entire PAWC  
19 system, there are more customers to share future infrastructure investment costs, which  
20 promotes stable rates across the entire PAWC system. Customers who benefit from near-  
21 term improvements will one day help pay for improvements on behalf of other customers  
22 on other parts of the PAWC system. Being able to spread the costs of investing in and  
23 maintaining public wastewater systems over a growing customer base, particularly in a

1 time of aging infrastructure and increased environmental requirements, is essential to the  
2 continued success and longevity of wastewater systems and maintaining reasonable rates  
3 for customers. As a matter of public policy, the Pennsylvania Legislature recognized the  
4 importance of consolidation and cost sharing in the passage of Act 11 of 2012. As the  
5 Commission stated in a recent PAWC base rate case:

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

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

14 There is also a clear legislative intent associated with Section 1329 and its  
15 allowance of fair market valuation for ratemaking purposes. The General Assembly  
16 intended to facilitate the acquisition of municipal water and wastewater systems by  
17 investor-owned utilities for the benefit of municipal corporations and their residents. Some  
18 of these benefits to the customers of the Borough, and the citizens residing in the area, are  
19 described in the direct testimony of the Borough.

20  
21 **Q. PLEASE EXPLAIN WHY THE TRANSACTION WOULD FOSTER THE**  
22 **COMMISSION'S GOAL OF PROMOTING THE REGIONALIZATION AND**  
23 **CONSOLIDATION OF WASTEWATER SYSTEMS.**

24 **A.** The Transaction would promote consolidation in the industry because it would reduce the  
25 total number of wastewater providers. In addition, it would promote regionalization

1 because PAWC would provide both water and wastewater services to the Borough's  
2 customers.

3  
4 **Q. DOES THE REGIONALIZATION AND CONSOLIDATION OF WASTEWATER**  
5 **SYSTEMS BENEFIT THE PUBLIC?**

6 **A.** Yes, it does. I am advised by counsel that the Commission has a Statement of Policy at 52  
7 Pa. Code § 69.721, which states that the Commission believes that further regionalization  
8 and consolidation of water and wastewater systems may result in greater environmental  
9 and economic benefits to customers. Regionalization and consolidation have economic  
10 benefits for customers because they allow the use of better and consistent management  
11 practices and allowing greater economies of scale. Examples of economies of scale  
12 include:

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

27  
28 Additionally, regionalization and consolidation have environmental benefits for  
29 customers and the public-at-large. Small public utilities are often troubled systems.  
30 Consolidation promotes the acquisition of these systems by qualified system operators with

1 the financial, technical and legal fitness necessary to meet increasingly stringent  
2 environmental requirements.

3  
4 **PAWC'S LEGAL, FINANCIAL, AND TECHNICAL FITNESS**

5 **Q. PLEASE TELL US WHY PAWC IS LEGALLY FIT TO ACQUIRE AND**  
6 **OPERATE THE WASTEWATER SYSTEM.**

7 **A.** PAWC is a Commission-regulated public utility with a very good compliance history.  
8 There are no pending legal proceedings that would suggest that PAWC is not legally fit to  
9 provide wastewater service to customers of the Borough's System.

10  
11 **Q. CAN YOU PLEASE EXPLAIN WHY PAWC IS FINANCIALLY FIT TO**  
12 **ACQUIRE AND OPERATE THE WASTEWATER SYSTEM?**

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

15 As part of the Application, PAWC provided the audited internal balance sheet, as  
16 of December 31, 2021, for PAWC (**Appendix D**), as well as the audited income statement,  
17 as of December 31, 2021, for PAWC (**Appendix F**). Those documents show that PAWC  
18 had total assets of approximately \$5.9 billion as of December 31, 2021. Further, they show  
19 that PAWC had net income of approximately \$228.7 million for the 12 months ending  
20 December 31, 2021. These figures are further demonstration that PAWC has the financial  
21 stability and wherewithal to acquire the System and operate it in the public interest. My  
22 colleague, Ms. Ashley E. Everette, will provide additional details in PAWC Statement No.  
23 3 on the financial health of PAWC and its ability to access capital.

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

3 **A.** As I discussed earlier, PAWC is engaged in the business of collecting, treating, transporting  
4 and disposing of wastewater for the public. PAWC is the largest investor-owned water and  
5 wastewater utility in the Commonwealth of Pennsylvania and PAWC already has  
6 significant water and wastewater operations throughout Pennsylvania. PAWC is  
7 experienced in undertaking and completing water and wastewater system acquisitions with  
8 public and private sector owners and successfully integrating those assets into our business  
9 operations. In fact, PAWC is often called upon by the Commission to step in and resolve  
10 troubled water and wastewater systems, resolving compliance issues and providing the  
11 excellent service that customers expect and deserve. My colleague, Mr. Daniel J. Hufton,  
12 P.E., will explain in greater detail in PAWC Statement No. 2, specifically how PAWC  
13 intends to operate the System once acquired.

14  
15 **DESCRIPTION OF THE SERVICE AREA**

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

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

1 As discussed above, upon Closing of the Transaction, the Borough will permanently  
2 discontinue all wastewater service to the public.

3  
4 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

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

7 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.  
8 C.S. §§ 1102(a), 1329, the Application requests Code Section 507 Certificates of Filing or  
9 approvals. According to PAWC’s counsel, the APA, as amended, and any contract with a  
10 municipal corporation that will be assumed by PAWC must be filed with the Commission  
11 pursuant to Code Section 507. Aside from the APA, PAWC has identified three contracts  
12 requiring Certificates of Filing or approvals under Section 507 (see **Appendices A-25.1**  
13 **through A-25.3**).

14  
15 **Q. PLEASE DESCRIBE THE MUNICIPAL CONTRACTS TO BE ASSUMED BY**  
16 **PAWC.**

17 **A.** As noted, PAWC is assuming the contracts listed on **Appendix A-25**, which includes an  
18 Agreement with the City of Pittsburgh for construction of a sanitary sewer trunk line along  
19 Streets Run and the Borough’s connection thereto and a Joint Management Agreement for  
20 the Streets Run Sewer with the Borough of Baldwin, Borough of Whitehall, and West  
21 Mifflin Sanitary Sewer Municipal Authority.

22 Brentwood is currently taking the steps necessary to assign the contracts to PAWC  
23 upon Closing. Commission approval of the continuation of these contracts is necessary in

1 order for PAWC, after Closing, to provide wastewater service as Brentwood has previously  
2 done. Approval is reasonable and serves an important public purpose because the services  
3 provided under the contracts are essential to the provision of wastewater service in  
4 neighboring communities. To the extent that PAWC renegotiates contracts with the  
5 municipalities, PAWC will promptly file such contracts for Commission approval under  
6 Section 507.

7  
8 **CONCLUSION**

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

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

## EXHIBIT MS-1

Michael.salvo@amwater.com  
(717) 554-2700

### MICHAEL SALVO

**PROFESSIONAL SUMMARY** 35+ years of progressively responsible Water & Wastewater Utility operations, administration, labor management, mergers and acquisition, regulatory, legislative, and environmental compliance experience.

---

**CORE QUALIFICATIONS**

- Experienced in all areas of the water and wastewater utility industry
- Extensive knowledge of regulated water and wastewater utility operations
- Experienced in identifying, developing, securing business opportunities, managing the regulatory approval, and closing processes

---

**PA AMERICAN WATER EXPERIENCE** **SENIOR MANAGER, BUSINESS DEVELOPMENT**  
2016 - Present

**SENIOR DIRECTOR, FIELD OPERATIONS (EASTERN PA)**  
2008 - 2016

**MANAGER NEWTORK OPERATIONS (EASTERN PA, VIRGINIA, MARYLAND)**  
2004 - 2008

**OPERATIONS MANAGER (NORTH AND CENTRAL OPERATIONS)**  
1997 - 2004

**OPERATIONS SUPERINTENDENT (CENTRAL OPERATIONS)**  
1991 - 1997

**ENGINEER (PITTSBURGH)**  
1987 - 1991

---

**EDUCATION** LEBANON VALLEY COLLEGE –M., Business Administration –1996

PENN STATE UNIVERSITY – B.S., Mechanical Engineering Technology –1987

---

**MEMBERSHIPS** AMERICAN WATER WORKS ASSOCIATION  
NATIONAL ASSOCIATION OF WATER COMPANIES  
PAWARN

---

BOARDS / CIVIC  
AFFILIATIONS

PRESIDENT AND EXECUTIVE COUNCIL - JUVENILE DIABETES RESEARCH  
FOUNDATION (JDRF) - PENNSYLVANIA

BOARD MEMBER - AGNUS WALKER FOUNDATION, AMERICAN ASSOCIATION OF  
NEUROSCIENCE NURSING

EXTRAORDINARY/EUCHARISTIC MINISTER

BOARD MEMBER, WILKES-BARRE CHAMBER OF COMMERCE (2011-2016)

BOARD MEMBER, NATIONAL ASSOCIATION OF WATER COMPANIES (2010-2014)

---

## VERIFICATION

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



---

Michael Salvo, Senior Manager, Business Development  
Pennsylvania-American Water Company

Dated 3/28/23