

**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 :

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

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Date: March 31, 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.<sup>1</sup> 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 collection system (“System”) currently owned by the Brentwood Borough  
10 (“Brentwood”), 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.

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<sup>1</sup> 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 Brentwood's customers and maintained for PAWC's existing customers.

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

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 \$19,364,443 and the average of the  
15 appraisals of the buyer’s Utility Valuation Expert (“UVE”) and the seller’s UVE is  
16 \$21,827,775. Accordingly, the negotiated purchase price of \$19,364,443 is the fair market  
17 value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase  
18 price and the average of the UVEs’ appraisals). The fair market value as determined by  
19 the Section 1329 process, in addition to the transaction and closing costs described below,  
20 becomes part of PAWC’s rate base for ratemaking purposes. Note, however, that PAWC  
21 reserves its right in future proceedings to make rate base claims related to the acquisition  
22 as may otherwise be permitted under the Pennsylvania Public 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 \$19,364,443 net  
3 value of the assets on its books. The Company requests to record the acquisition on a net  
4 basis consistent with the Commission’s recent decision in *Application of Pennsylvania-*  
5 *American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code,*  
6 *66 Pa. C.S. § 1102(a), for Approval of the Transfer, by Sale, to Pennsylvania-American*  
7 *Water Company, of Substantially All of the Assets, Properties and Rights Related to the*  
8 *Wastewater Collection and Treatment System Owned by the York City Sewer Authority and*  
9 *Operated by the City of York, Docket Nos. A-2021-3024681 et al. (Final Order entered*  
10 *April 14, 2022) ¶ 3(h).*

11 Section 1329(c) provides that the “ratemaking rate base” is to be incorporated into  
12 PAWC’s rate base. As discussed above, the Company requests the Commission approve  
13 the \$19,364,443 purchase price as the ratemaking rate base for Brentwood.<sup>2</sup> Since Section  
14 1329 does not address the proper accounting treatment of the rate base or approval of a  
15 depreciation reserve in determining the ratemaking rate base, the Company believes that  
16 recording the net value of \$19,364,443 is appropriate and consistent with Section 1329.

17 **Asset Purchase Agreement Rate Provisions**

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

19 **A.** Section 7.03 of the APA, dated as of December 22, 2020, contains provisions related to  
20 rates. PAWC has committed to adopt, upon closing of the Transaction (“Closing”),  
21 Brentwood’s rates in effect at Closing.

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<sup>2</sup> “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           The initial rates to be applicable to the former Brentwood wastewater customers  
2 are set forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the  
3 Application. System customers will be governed by rates for new Brentwood Rate Zone  
4 “XX.” After Closing, System customers will be subject to PAWC’s prevailing wastewater  
5 tariff on file with the Commission with respect to all rates other than base rates, such as  
6 reconnection fees, as well as non-rate related terms and conditions of service.

7  
8 **Q. Please describe Brentwood’s existing rates.**

9 **A.** Brentwood’s current rates for its collection service include a monthly service charge as  
10 well as a volumetric rate based on water usage.

11           Brentwood also collects a monthly service charge as well as a volumetric rate per  
12 thousand gallons of water usage for treatment service, at the rates set by the treatment  
13 provider, Allegheny County Sanitary Authority (“ALCOSAN”).

14  
15 **Q. Please describe how PAWC will apply Brentwood’s existing rates.**

16 **A.** As shown on **Appendix A-12**, PAWC will adopt Brentwood’s existing rates, which consist  
17 of a monthly fixed service charge of \$4.57 and a usage charge of \$0.8910 per 100 gallons  
18 for collection service, as well as a monthly fixed charge and a usage charge as determined  
19 by ALCOSAN for treatment service. Because the charges for treatment service are  
20 determined by ALCOSAN and are subject to change, the ALCOSAN rates are not  
21 contained in the Company’s tariff. Instead, as Brentwood does, PAWC will bill customers  
22 the treatment charges at the rates determined by ALCOSAN.

1           Brentwood currently does not bill five Borough properties for wastewater service.  
2 PAWC will bill all wastewater customers upon acquisition.

3  
4 **Q. Please summarize PAWC’s obligation regarding the ALCOSAN charges and how any**  
5 **shortfall between the amounts billed to customers and amounts collected from**  
6 **customers will be handled.**

7 **A.** PAWC will be obligated to pay the full amount of the treatment charges to ALCOSAN.  
8 Any shortfall between what PAWC bills its customers related to ALCOSAN charges and  
9 what it collects from customers may be a component of uncollectible expense in future rate  
10 cases.

11  
12 **Q. Do the rate provisions of the APA include a rate stabilization plan as defined by**  
13 **Section 1329?**

14 **A.** The APA does not set forth or require a “rate stabilization plan” as defined by Section  
15 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at  
16 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support  
17 of a rate stabilization plan.

18           Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates  
19 constant or phase rates in over a period of time after the next base rate case.” As detailed  
20 in Section 7.03 of the APA, PAWC will be charging Brentwood’s current rates as the  
21 Company’s base rates within the service territory. In addition, Section 7.03(a) states “The  
22 Base Rate shall not be increased until after the second anniversary of the Closing Date.”

1           While the APA contractually restricts PAWC from increasing base rates until after  
2           the second anniversary of the Closing Date, I am advised by counsel that nothing in the  
3           APA purports to restrict the Commission’s authority to set rates that it considers to be “just  
4           and reasonable” in the context of a base rate proceeding or otherwise. As such, the instant  
5           application does not propose a “rate stabilization plan” for approval by the Commission.  
6           In a previous Section 1329 proceeding, the Commission stated the following regarding the  
7           relationship between rate commitments and rate stabilization plans:<sup>3</sup>

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

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

19           At this time, it is unknown when Closing will occur or when PAWC will file its  
20           next base rate case. PAWC is not asking the Commission in this Application proceeding  
21           to maintain rates for a period of time beyond the next base rate case. If PAWC’s next base  
22           rate case would become effective within two years of Closing, PAWC will maintain  
23           Brentwood’s base rates, subject to Commission approval. Consequently, the APA does  
24           not include a rate stabilization plan.  
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<sup>3</sup> See *Application of Aqua Pennsylvania Wastewater, Inc. Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority*, Docket No. A-2016-2580061 (Opinion and Order entered Jun. 29, 2017), pp. 41-42. Internal footnote omitted.

1 **Q. What impact, if any, will there be on the rates of Brentwood’s customers as a result**  
2 **of the acquisition of the System?**

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

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

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

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

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

7

8

**CUSTOMER NOTICE**

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

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

15

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

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

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<sup>4</sup> *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           In the Settlement, the Joint Petitioners (PAWC, the Commission’s Bureau of  
2 Investigation & Enforcement, the Office of Consumer Advocate, the Office of Small  
3 Business Advocate and the Borough of Steelton) agreed to the form of the notices to be  
4 sent to existing PAWC water and wastewater customers and the notice to be sent to the  
5 customers of the system being acquired. The forms of the notices were attached to the  
6 Settlement as Appendix E and Appendix F.

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

9  
10 **Q. Please discuss adjustments made to the notice calculation as a result of the Company’s**  
11 **2022 base rate case.**

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

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

21  
22 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**  
23 **Brentwood’s customers.**

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

<b>Brentwood Wastewater Customers</b>				
Rate Class	Average Usage	Average Monthly Bill at Brentwood's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$73.96	\$80.32	8.6%
Commercial	22,561 gal/month	\$436.10	\$473.60	8.6%
Industrial	528,207 gal/month	\$10,210.24	\$11,088.32	8.6%

3  
4 The 8.6% increase shown in the chart above is calculated as 100% of the revenue  
5 deficiency after the Act 11 allocation to water customers,<sup>5</sup> divided by the Year One  
6 revenues of the System.<sup>6</sup> The current average monthly bill is calculated using Brentwood's  
7 wastewater rates that will be in effect at Closing (inclusive of ALCOSAN charges) and the  
8 average usage for each customer class as reflected in the filing of PAWC's most recent  
9 base rate case (Docket No. R-2022-3031672).

10 The potential average monthly bill after acquisition is calculated by increasing the  
11 current average monthly bill amounts by the 8.6% 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.**

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<sup>5</sup> 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").

<sup>6</sup> For purposes of this analysis, "Year One revenues of the System" includes both projected collection revenues and the treatment charges that PAWC will bill on behalf of ALCOSAN.

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

<b>PAWC Existing Wastewater Customers</b>				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$106.86	0.2%
Commercial	22,561 gal/month	\$509.46	\$510.48	0.2%
Industrial	528,207 gal/month	\$11,143.19	\$11,165.48	0.2%

3  
 4 The 0.2% increase shown in the chart above is calculated by dividing 100% of the  
 5 revenue deficiency after the Act 11 allocation to water customers by total wastewater  
 6 revenues. The “total wastewater revenues” include PAWC’s wastewater revenues from  
 7 existing customers excluding other operating revenues as well as the Year One revenues  
 8 from the System. This methodology was used to comply with the Settlement at Docket  
 9 No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1** for the  
 10 calculation of the customer notice.

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

14 **A.** As shown below, the estimated impact of the Brentwood acquisition on water customers is  
 15 estimated to be 0.00%. As shown on Exhibit AEE-1, the amount of increase allocated to  
 16 water customers through Act 11 is estimated to be \$170,610. When divided by PAWC’s

1 current water revenues of \$781 million,<sup>7</sup> the result is less than 0.00%. However, in keeping  
2 with the Steelton settlement, PAWC is providing the information below.

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

<b>PAWC Existing Water Customers</b>				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.24	0.0%
Commercial	22,561 gal/month	\$371.82	\$371.82	0.0%
Industrial	528,207 gal/month	\$5,985.08	\$5,985.08	0.0%

5  
6 The 0.0% increase shown in the chart above represents the potential impact on  
7 PAWC water customers of the Act 11 allocation to water customers. This allocation to  
8 water customers is divided by PAWC's applicable water revenues from PAWC's most  
9 recent base rate case.

10 The current average monthly bill is shown at PAWC's Zone 1 rates effective  
11 January 28, 2023, and the average usage for each customer class as reflected in the filing  
12 of PAWC's most recent base rate case (Docket No. R-2022-3031672). The average  
13 monthly bill for PAWC Zone 1 customers after acquisition is calculated by increasing the  
14 average monthly bill amounts by the 0.0% increase, which was calculated as explained  
15 above. This methodology was used to comply with the Settlement at Docket No. A-2019-  
16 3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1** for the calculation of the  
17 customer notice.

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<sup>7</sup> Refer to Exhibit AEE-1.

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

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

7  
8

**LOW-INCOME PROGRAMS**

9 **Q. Please summarize PAWC’s tariffed low income discounts.**

10 **A.** PAWC’s low-income tariff rider provides low-income customers with discounts to fixed  
11 and volumetric charges. PAWC’s low-income discount includes three tiers of discount,  
12 with the discount level dependent on the customer’s percentage of Federal Poverty Level  
13 (“FPL”). The tariff discounts are summarized below.<sup>8</sup>

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

14

15 **Q. Will Brentwood customers be eligible for these discounts upon acquisition?**

16 **A.** Yes. Because PAWC is already the water provider in Brentwood, any customers enrolled  
17 in the low income discount for their water service will be automatically enrolled in the  
18 discount for wastewater service at the time of Closing.

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<sup>8</sup> Refer to Tariff Water-PA P.U.C. No. 5, page 17 and Tariff Wastewater PA P.U.C. No. 16, page 16.

1           As part of a recent Order in PAWC’s Arrearage Management Program (“AMP”),  
2           the Commission required that a settlement between PAWC and other parties be modified  
3           to include income verification for low-income customers participating in the AMP.<sup>9</sup>  
4           PAWC anticipates that this income verification requirement will also apply to the bill  
5           discount program, and thus, will also apply to Brentwood customers.

6  
7   **Q.   Please summarize the current cost of PAWC’s low-income discount programs to its**  
8   **legacy customer base.**

9   **A.**   PAWC’s low-income discount program provides discounts between 30% and 80% of the  
10   water and wastewater bill to customers with an FPL of 150% or less. These discounts have  
11   a small impact on customer’s bills of approximately \$1.30 per month for residential water  
12   customers and approximately \$2.60 per month for residential wastewater customers.<sup>10</sup>

13  
14   **Q.   Will the Transaction have a significant impact on PAWC’s low-income discount**  
15   **program costs?**

16   **A.**   No. Of the 3,974 customers, approximately 334 will be enrolled in the low-income  
17   discount upon Closing. The discounts to these customers will represent approximately 4%  
18   of the total revenues of the Brentwood System. When compared to PAWC’s total  
19   wastewater revenue, the discounts to Brentwood customers represents approximately  
20   0.10% of revenue.

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<sup>9</sup> Docket No. P-2021-3028195, Order Entered December 28, 2022.

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

10

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

12 A. Yes. As summarized in the Direct Testimony of PAWC Witness Mr. Daniel Huffton, P.E.,  
13 PAWC’s Engineering Manager, PAWC Statement No. 2, PAWC will be making post-  
14 acquisition improvements to the System. As such, PAWC will likely accrue AFUDC  
15 consistent with what is permitted under Section 1329. PAWC will address any claims for  
16 AFUDC in the first base rate proceeding in which Brentwood’s assets are included.

17

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

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

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**Authentication of Application Appendices**

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

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

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

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

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

**A.** Yes.

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**CONCLUSION**

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

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

## Borough of Brentwood Wastewater Customers

### Wastewater

Rate Class	Average Usage	Average Monthly Bill at Borough of Brentwood Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$73.96	\$80.32	\$6.36 or 8.6%
Commercial	22,561 gal/month	\$436.10	\$473.60	\$37.50 or 8.6%
Industrial	528,207 gal/month	\$10,210.24	\$11,088.32	\$878.08 or 8.6%

## PAWC Current Customers

### Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$106.86	\$0.21 or 0.2%
Commercial	22,561 gal/month	\$509.46	\$510.48	\$1.02 or 0.2%
Industrial	528,207 gal/month	\$11,143.19	\$11,165.48	\$22.29 or 0.2%

### Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.24	\$0.00 or 0.0%
Commercial	22,561 gal/month	\$371.82	\$371.82	\$0.00 or 0.0%
Industrial	528,207 gal/month	\$5,985.08	\$5,985.08	\$0.00 or 0.0%

**Pennsylvania American Water Company**  
**Acquisition of Wastewater Assets of the Borough of Brentwood**  
**Docket No. A-2021-3024058**

Borough of Brentwood Wastewater

Residential		
	Flat Rate	\$11.87
32.12	1.9330	62.09
		\$73.96

Rate Impact 8.6%  
 \$6.36  
 Total \$80.32

PAWC - Wastewater

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

Rate Impact 0.2%  
 \$0.21  
 Total \$106.86

PAWC - Water

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

Rate Impact 0.0%  
 \$0.00  
 Total \$69.24

Commercial		
	Service Charge	\$11.87
225.61	1.9330	436.10
		\$436.10

Rate Impact 8.6%  
 \$37.50  
 Total \$473.60

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

Rate Impact 0.2%  
 \$1.02  
 Total \$510.48

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 0.0%  
 \$0.00  
 Total \$371.82

Industrial		
	Service Charge	\$11.87
5,282.07	1.9330	10,210.24
		\$10,210.24

Rate Impact 8.6%  
 \$878.08  
 Total \$11,088.32

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

Rate Impact 0.2%  
 \$22.29  
 Total \$11,165.48

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 0.0%  
 \$0.00  
 Total \$5,985.08

**Pennsylvania American Water Company  
Acquisition of Wastewater Assets of the Borough of Brentwood  
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**Estimated Rate Increase**

Revenue Requirement Increase (Attachment page 2)	\$ 517,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)	33%
Amount of increase allocated to water through Act 11	<u>170,610</u>
Amount of increase allocated to wastewater customers	\$ 346,390

<b>Increase applied to Borough of Brentwood Wastewater Customers</b>	
Revenue Requirement Increase - After Act 11	\$ 346,390
Current Borough of Brentwood Wastewater revenues (collection + treatment)	4,031,000
<b>Estimated Increase to wastewater customers</b>	<b>8.6%</b>

<b>Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:</b>	
Revenue Requirement Increase	\$ 346,390
Current Borough of Brentwood Wastewater revenues (collection + treatment)	4,031,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	<u>159,681,891</u>
	163,712,891
<b>Estimated Increase to wastewater customers</b>	<b>0.2%</b>

<b>Amount of increase allocated to water customers:</b>	
Revenue Requirement Increase	\$ 170,610
PAWC Water Revenues (R-2022-3031672 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	781,722,135
<b>Estimated Increase to Water Customers</b>	<b>0.0%</b>

<b>Pennsylvania American Water Company</b>									
<b>R-2022-3031672 Summary Proof of Revenues</b>									
<b>Act 11 Allocation</b>									
	Water	Wastewater SSS	Royersford	Pottsgrove				Total	Total
	Operations	General	Wastewater	Wastewater	York Wastewater	CSS Wastewater	Wastewater	Wastewater	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 Borough of Brentwood  
Docket No. A-2021-3024058**

**Revenue Requirement Increase**

Rate Base	\$	19,364,443	Appendix A-11
Rate of Return %		7.10%	See Calculations
Rate of Return		<u>1,375,000</u>	
O&M - Collection		226,000	Appendix K
O&M - Treatment		2,216,000	Appendix K
Taxes Other		32,000	Appendix K
Depreciation		322,000	Appendix K
Taxes		377,000	See Calculations
Revenue Requirement		<u>4,548,000</u>	
Borough of Brentwood Wastewater Year-1 - Collection Revenues		1,815,000	Appendix K
Borough of Brentwood Wastewater Year-1 - Treatment Charges		<u>2,216,000</u>	Appendix K
Borough of Brentwood Wastewater Year-1 Revenues - Total		4,031,000	
Revenue Requirement Increase		<u><u>517,000</u></u>	

**Pennsylvania American Water Company**  
**Acquisition of Wastewater Assets of the Borough of Brentwood**  
**Docket No. A-2021-3024058**

**Summary**

<b><u>Revenue Requirement</u></b>	
Rate Base	\$ 19,364,443
Pretax ROR %	9.05%
Pretax ROR	<u>1,752,000</u>
Plus: O&M Expense	226,000
Taxes Other	32,000
Depreciation	<u>322,000</u>
Total Revenue Requirement	<u><u>2,332,000</u></u>

<b><u>Income Tax Calculation</u></b>	
Revenues	\$ 2,332,000
Less: O&M Expense	226,000
Taxes Other	32,000
Depreciation	322,000
Interest	<u>391,000</u>
SIT Taxable Income	1,361,000
State Income Tax Rate	8.49%
State Income Tax	<u>116,000</u>
FIT Taxable Income	1,245,000
Federal Income Tax Rate	21.00%
Federal Income Tax	<u>261,000</u>
Total Income Taxes	<u><u>377,000</u></u>

<b><u>Interest</u></b>	
Rate Base	\$ 19,364,443
Weighted Cost of Debt (1.87% + 0.15%)	<u>2.02%</u>
	\$ 391,000

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>	<u>1.38326</u>	<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**

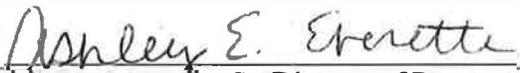
Statutory State Tax Rate	0.0849
Statutory Federal Tax Rate	0.21
1- State Tax Rate	0.9151
Fed Rate Times (1-State Tax Rate)	0.192171
Effective Tax Rate	0.277071
1-Eff Tax Rate	0.722929
Reciprocal	1.38326

**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.

3/28/23

Date \_\_\_\_\_

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