

**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 all of the assets, properties and rights related to the wastewater collection and treatment system owned and operated by Towamencin Township and Towamencin Municipal Authority, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the Township of Towamencin and portions of the Townships of Franconia, Lower Salford and Worcester and the Borough of Lansdale, all in Montgomery County, Pennsylvania :

Docket Nos. A-2023-3039900
et al.

**DIRECT TESTIMONY OF
E. CHRISTOPHER ABRUZZO, ESQ., ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: May 15, 2023

PAWC Statement No. 1

**DIRECT TESTIMONY OF
E. CHRISTOPHER ABRUZZO**

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

2 **A.** My name is E. Christopher Abruzzo, Esq., and my business address is 852 Wesley Drive,
3 Mechanicsburg, PA 17055.

4

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

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

8

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

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

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

2 **A.** I received a Bachelor of Science (B.S.) degree in Food Marketing from St. Joseph's
3 University in May of 1988 and my Juris Doctor (J.D.) from the Widener University School
4 of Law in 1992. I was employed as a criminal prosecutor by the Dauphin County District
5 Attorney's Office and the Pennsylvania Office of Attorney General for approximately
6 20 years. In January 2011, I was appointed deputy chief of staff to Governor Tom Corbett.
7 In that role, I served as the Governor's chief liaison to the Commission and the
8 Pennsylvania Department of Environmental Protection. I held that role for two years
9 before being appointed the acting Secretary of the Pennsylvania Department of
10 Environmental Protection in April of 2013. I was nominated by Governor Corbett and then
11 confirmed by the Senate of Pennsylvania in December of 2013 as Secretary of the
12 Department of Environmental Protection. In 2015, I began my employment with PAWC
13 as the Director of Water Quality and Environmental Compliance. In that capacity,
14 I participated on the due diligence teams associated with numerous acquisitions. I held
15 that role for five years before being promoted to the role of Senior Director of Business
16 Development in September of 2020.

17
18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

19 **A.** No.
20

21 **DESCRIPTION OF THE APPLICATION**

22 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
23 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM**

1 **OWNED AND OPERATED BY THE TOWAMENCIN MUNICIPAL AUTHORITY**
2 **(THE “AUTHORITY”) AND THE TOWNSHIP OF TOWAMENCIN (THE**
3 **“TOWNSHIP”) AND RELATED APPROVALS?**

4 **A.** Yes. PAWC filed its Application on May 15, 2023 for approval of PAWC’s acquisition of
5 the wastewater collection and treatment system owned and operated by the Township and
6 the Authority (the “System”). I will refer to the acquisition in my testimony as the
7 “Transaction.”

8 The Application was prepared and filed under my direct supervision. As indicated
9 in my Verification attached to the Application, the Application and its numerous
10 appendices are true and correct to the best of my knowledge, information, and belief. We
11 used PAWC records, as well as the Authority’s and Township’s records, to prepare the
12 Application. For purposes of having a complete evidentiary record in this proceeding upon
13 which the Commission can base its decision, I submit the Application and all of its
14 appendices (Appendices A through K) as **PAWC Exhibit ECA-1**.

15
16 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

17 **A.** There are four requests. First, PAWC is requesting approval of the acquisition under
18 Section 1102 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1102, similar
19 to many requests that come before the Commission. Specifically, PAWC seeks approval
20 to acquire the System and to obtain the right to begin service in the area currently served
21 by the System (the “Service Area”).¹ The Application contains a *pro forma* tariff

¹ On or about May 12, 2023, the Township filed an Application for a Certificate of Public Convenience with the Commission because, in preparing for this Transaction, it became apparent that the Township was providing extra-territorial service without a certificate of public convenience. The service area requested by PAWC in this Application includes the System’s current service area (both inside the Township and as requested in the Application).

1 supplement under which System rates at the time of closing on the Transaction (“Closing”)
2 would be initially adopted.

3 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 (“Section 1329”), PAWC
4 is seeking to utilize fair market value for the ratemaking rate base of the System. As
5 explained more-fully below, fair market value under Section 1329 is the lesser of the stated
6 purchase price in the Asset Purchase Agreement (“APA”),² or the average of the appraisal
7 of the Township’s Utility Valuation Expert (“UVE”) and the appraisal of PAWC’s UVE.

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

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

18
19 **Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE**
20 **FAIR MARKET VALUE PROVISIONS OF SECTION 1329?**

² As discussed further herein, the APA was executed as of June 14, 2022, and was amended on March 23, 2023. For ease of reference, the June 14, 2022 document will be referred to as the Original APA, the March 23, 2023 document will be referred to as the “First Amendment,” and the term “APA” will be used to refer to the APA, as amended.

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

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

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

14
15 **Q. WHAT DOES THE COMMISSION REQUIRE BE INCLUDED IN A SECTION**
16 **1329 APPLICATION?**

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

1 **DESCRIPTION OF TESTIMONY FILED WITH THE APPLICATION**

2 **Q. IS PAWC FILING AS PART OF ITS APPLICATION TESTIMONY PREPARED**
3 **BY THE AUTHORITY OR THE TOWNSHIP?**

4 **A.** Yes. PAWC's Application includes at **Appendix A-13**, the written direct testimony of
5 H. Charles Wilson III, Chairman of the Board of Supervisors for the Township of
6 Towamencin, John Minihan, a member of the Board of Directors of the Authority, and the
7 written direct testimony of the Township's selected UVE, Mr. Dylan W. D'Ascendis, a
8 Partner with ScottMadden, Inc. PAWC is not sponsoring the testimony of Messrs. Wilson,
9 Minihan, or D'Ascendis, but has included their testimony in the Application pursuant to
10 the Final Supplemental Implementation Order in *Implementation of Section 1329 of the*
11 *Public Utility Code*, Docket No. M-2016-2543193 and in anticipation of the Township's
12 and the Authority's intervention and participation in the proceeding. PAWC reserves the
13 right to submit rebuttal testimony regarding the Township's and the Authority's testimony,
14 as appropriate.

15
16 **Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE**
17 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**
18 **MATTER AREAS.**

19 **A.** In addition to my direct testimony, PAWC will submit the written direct testimony of
20 Mr. Michael J. Guntrum, P.E., a Senior Project Engineer for PAWC (PAWC Statement
21 No. 2), and Ms. Ashley E. Everette, American Water Works Service Company, Senior
22 Director of Rates and Regulatory (PAWC Statement No. 3). PAWC is also sponsoring
23 direct testimony by a UVE, Mr. Harold Walker III, Manager, Financial Studies, Gannett

1 Fleming Valuation and Rate Consultants, LLC. PAWC Statement No. 4. Mr. Walker was
2 originally retained by NextEra Water Pennsylvania, LLC f/k/a NextEra Towamencin
3 Wastewater, LLC (“NextEra”).

4 Mr. Guntrum will describe engineering and environmental challenges associated
5 with the System, support PAWC's technical fitness to operate the System, explain certain
6 commitments and improvements to be made by PAWC, and other matters. Mr. Guntrum
7 will also address the anticipated day-to-day operation of the System once it is acquired by
8 PAWC, including staffing, and the customer service enhancements that PAWC intends to
9 implement for the benefit of the System’s customers. Ms. Everette will address the initial
10 rates, rules, and regulations for the System’s customers as well as the impact of the
11 Transaction on PAWC's existing customers. Ms. Everette will also discuss the financing
12 of the Transaction, recording the acquisition at the net value of the assets and PAWC's
13 overall financial fitness. Mr. Walker will provide supporting testimony for his fair market
14 valuation report.

15
16 **Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION**
17 **INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUESTS FOR**
18 **RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
19 **PROCEEDING?**

20 **A.** My direct testimony describes the Transaction. I will explain why the Transaction is in the
21 public interest and provides an affirmative public benefit of a substantial nature, and why
22 the Transaction should be promptly approved by the Commission. I will also discuss why
23 PAWC is legally, financially, and technically fit to acquire and operate the System.

1 **DESCRIPTION OF THE TRANSACTION**

2 **Q. PLEASE DESCRIBE THE HISTORY OF THE TRANSACTION.**

3 **A.** On June 14, 2022, the Township (as Seller), the Authority, and NextEra entered into an
4 asset purchase agreement. The Original APA explained that the Authority currently leases
5 the System to the Township, but the Township intends to terminate the lease, dissolve the
6 Authority and acquire possession and operational control of the assets of the System on or
7 before Closing.

8 On March 23, 2023, the Township, the Authority and NextEra signed the First
9 Amendment. In addition, on March 23, 2023, the Township, the Authority, NextEra and
10 PAWC entered into an Assignment and Assumption Agreement of Asset Purchase
11 Agreement (the “Assignment”), by which PAWC acquired all of NextEra’s rights and
12 obligations under the APA.

13
14 **Q. TO THE BEST OF YOUR KNOWLEDGE, WHY DID THE TOWNSHIP AND THE**
15 **AUTHORITY WANT TO SELL THE SYSTEM?**

16 **A.** Witnesses for the Township and the Authority will discuss this in more detail in their
17 testimony but based on my conversations with Township and Authority personnel, it is my
18 understanding that the Township and the Authority wanted to seek a long-term solution to
19 ensure the viability of its aging sewer system infrastructure while also addressing the
20 Township’s financial liabilities and obligations. Specifically, areas of focus included
21 Township and Authority debt obligations of roughly \$17 million, underfunded
22 OPEB/Pension funding (approximately \$7 million) and the ever-increasing cost of capital
23 projects that the Authority needs to complete (totaling at least \$37 million).

1 By selling the System, the Township and the Authority and the System’s customers
2 will receive numerous benefits, including:

- 3 • All Authority and Township debt will be paid and the Township will receive
4 the net proceeds of the Transaction to accomplish Township goals, such as:
5 funding pension and OPEB liabilities, jump starting key township capital
6 projects, and establishing sufficient capital reserves to fund township-wide
7 initiatives. These reserve accounts include: a Facilities and Major
8 Equipment Fund, a Fire Service Equipment and Apparatus Fund, a
9 Stormwater MS4 Fund, a Compliance Fund, and a Transportation and
10 Roadway Projects Fund. All of these reserve accounts will generate
11 sufficient funds to ensure the Township properly supports the necessary and
12 vital needs of the community.
- 13 • Paying off all debt and properly funding pension and OPEB costs will return
14 approximately \$1.5 million to the township budget annually, thus reducing
15 or eliminating the need for property tax increases over the next five to ten
16 years.
- 17 • Low-income residents will have access to PAWC’s customer assistance
18 programs that will help them pay bills.
- 19 • PAWC will undertake necessary permits to operate the System and will
20 invest in System upgrades estimated to cost \$22 million in the first five
21 years, and as much as \$37 million over the first ten years.

- 1 • All employees involved in the operation of the System will be offered
2 employment with PAWC, subject to PAWC's existing standard hiring
3 policies and procedures.
- 4 • PAWC's operational expertise will improve Towamencin's compliance
5 with environmental regulations, especially relating to the operation of its
6 industrial pre-treatment program ("IPP"). PAWC will develop IPP
7 discharge limits based on applicable water quality regulations and work
8 with our industrial customers to develop the proper strategy to meet these
9 IPP limits.
- 10 • If the System is not sold, current rates are predicted to double over the next
11 ten years to pay for the identified improvements and the increase in labor
12 costs.

13
14 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
15 **PROCESS.**

16 **A.** Witnesses for the Township and the Authority will also discuss this in more detail in their
17 testimony, since PAWC was not involved in the sale of the System to NextEra. Based on
18 my review of public documents, however, I can say that the Township issued a Request for
19 Qualifications on February 12, 2021. All parties who submitted responses were determined
20 to be eligible for consideration. A Request for Bids was issued on December 23, 2021.
21 Four bidders submitted bids and the Township selected NextEra as the winning bidder.
22 The Original APA was dated as of June 14, 2022.

1 In terms of the negotiation of the First Amendment and the Assignment, NextEra
2 contacted American Water in December 2022 and expressed its desire to sell its
3 Pennsylvania assets. PAWC’s familiarity with the assets involved in the discussions was
4 a benefit in negotiations. NextEra and the Township had made substantial progress in the
5 preparation of their Section 1329 Application. The engineer’s assessment and independent
6 appraisals were completed. The average of the Fair Market Value appraisals was
7 represented to be approximately \$104 million. That is the price at which PAWC agreed to
8 purchase Towamencin’s System.

9
10 **Q. DID THE TOWNSHIP OR THE AUTHORITY CONDUCT PUBLIC INPUT**
11 **HEARINGS REGARDING THE ACQUISITION?**

12 **A.** The Township formed a Sewer Committee comprised of five individuals to evaluate the
13 concept of selling the System, and to make recommendations to the Board of Supervisors.
14 Twelve monthly updates were posted to the Township’s website, beginning in February of
15 2021 and continuing through January 2022. These updates contained the progress made
16 each month, from obtaining a valuation of the System through the issuance of a Request
17 for Bids. Each presentation by PFM Financial Advisors (“PFM”) to the Sewer Committee
18 and Board of Supervisors was posted to this website. The Township also posted multiple
19 Frequently Asked Questions (“FAQs”) documents. After the bids were received, all action
20 taken with respect to the bids was conducted at regularly scheduled Board of Supervisors
21 meetings or at specially scheduled town hall-style public meetings. PFM provided the
22 results of the bidding process and the public benefits of the sale of the sewer system assets

1 at these meetings. In fact, NextEra appeared at the second town hall meeting and fielded
2 questions from the public about the potential acquisition of the System.

3
4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE APA.**

5 **A.** The Original APA and the First Amendment are attached as **Appendices A-24-a.1 and**
6 **A-24-a.2** to the Application (**PAWC Exhibit ECA-1**). These documents set forth the
7 terms and conditions pursuant to which the Township and the Authority will sell, and
8 PAWC will purchase, the System, as well as substantially all assets, properties and rights
9 that the Township and the Authority own and use in connection with the System. The APA
10 sets forth the entire understanding of the parties with respect to the Transaction. Under the
11 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 the System's
15 current customers and the Township and the Authority will permanently discontinue
16 providing or furnishing wastewater service to the public.

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

20 **A.** As stated previously, the Township is the Seller of the System because it will dissolve the
21 Authority and acquire the assets prior to or at Closing. The specific properties, assets and
22 rights to be transferred to PAWC are defined and described in the APA's Section 2.01,
23 while the excluded assets are defined in Section 2.02 of the APA. Generally, the APA

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

13 Items that will not be transferred include, among other items: cash, including
14 accounts receivable, insurance policies, and assets listed on Schedule 2.02(h).

15
16 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF THE AUTHORITY**
17 **AS PART OF THE TRANSACTION?**

18 **A.** Yes. PAWC is accepting certain “Assumed Liabilities” as part of this Transaction on the
19 day of and after Closing on the Transaction. Per Section 2.04(a) of the APA, PAWC will
20 assume, all liabilities and obligations associated with the Assigned Contracts on and after
21 Closing. PAWC will not assume or be liable for any liabilities or obligations other than
22 the Assumed Liabilities.

1 **Q. PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
2 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

3 **A.** The consideration for the purchase of the System as set forth in Section 1 of the First
4 Amendment, is the negotiated purchase price of \$104,000,000. An amount to be
5 determined will be placed in a Missing Easement Escrow for all of the easements that are
6 missing as of Closing as set forth in Section 6.05(e) of the APA.

7
8 **Q. PLEASE DESCRIBE IN MORE DETAIL HOW MISSING EASEMENTS WILL BE**
9 **HANDLED AFTER CLOSING.**

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

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

15 **A.** As will be explained more fully in the Direct Testimony of Ms. Ashley E. Everette, PAWC
16 Statement No. 3, PAWC has committed to implement, upon Closing of the Transaction,
17 the System's wastewater rates then in effect at Closing. The System's rates are currently
18 \$37.50 per equivalent dwelling unit ("EDU") per month, but the Township expects to
19 increase rates to \$49.16 per EDU per month as of January 1, 2024. PAWC will not increase
20 base rates for the System's direct customers until the first general base rate case after
21 Closing in which the System assets are incorporated.

22 Immediately upon Closing, the System's customers will be subject to PAWC's
23 prevailing wastewater tariff on file with the Commission with respect to miscellaneous fees

1 and charges and rules and regulations for wastewater service. The System's customers will
2 not be charged the DSIC until PAWC files, and the Commission approves, a revision to
3 PAWC's Long Term Infrastructure Improvement Plan to include the System's service area.
4 The System's customers will continue to be billed on a monthly basis. The monthly rates
5 are shown in PAWC's *pro forma* tariff in **Appendix A-12** to the Application.

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

9 **A.** Yes. In Section 7.03 of the APA, PAWC has committed to offer employment to certain
10 Authority employees following the Closing of the Transaction, subject to certain
11 conditions.

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

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

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

1 **BACKGROUND INFORMATION ON PAWC AND THE SYSTEM**

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

3 **A.** PAWC, a subsidiary of American Water Works Company, Inc. (“American Water”), is the
4 largest regulated public utility corporation duly organized and existing under the laws of
5 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
6 storing, supplying, distributing, and selling water to the public, and collecting, treating,
7 transporting and disposing of wastewater for the public. Water and wastewater services
8 are furnished by PAWC to the public in a service territory encompassing more than
9 417 communities in 37 counties. Overall, PAWC serves a combined population of over
10 2.3 million people across the Commonwealth and is American Water’s largest subsidiary.

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

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

1 improvements in the communities served by PAWC. In 2022, PAWC donated more than
2 \$528,000 to organizations in the communities it serves through grants, scholarships, and
3 general charitable giving, and \$650,000 to assist customers in paying their water or
4 wastewater bills. Through collaboration with the American Water Charitable Foundation,
5 the Company helped provide an additional \$420,000 in funding to more than 320 non-
6 profit organizations across Pennsylvania.

7 Financial support is not the only way PAWC supports the communities it serves.
8 Through partnerships, programming and volunteerism, the Company demonstrates its
9 commitment to being a good neighbor. That is why the Company and its dedicated
10 employees play active roles in supporting environmental and education initiatives related
11 to water, from watershed clean-ups to educational programs focused on drinking water and
12 source water protection, as well as supporting youth education, health and wellness
13 initiatives, community sustainability projects and more to address community-specific
14 needs. PAWC is eager to partner with municipalities in the Service Area in providing a
15 sustainable long-term future for the System. Customers of the System will benefit from a
16 stable company with a robust business model and reliable service.

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

20 **A.** As of April 30, 2023, the System furnished wastewater services to approximately 5,886
21 direct customers. The System also has six intermunicipal agreements by which it provides
22 service indirectly to additional residential and commercial customers. Upper Gwynedd
23 Township recently upgraded its collection system and diverted a large portion of flow from

1 the System to Upper Gwynedd's own treatment plant. The numbers shown above reflect
2 the loss of the Upper Gwynedd Township flows/customers.

3 As of March 31, 2023, PAWC furnished wastewater service to approximately
4 97,562 residential, commercial, industrial, municipal and bulk customers in Pennsylvania.
5 As of March 31, 2023, PAWC furnished water service to approximately 680,616 customers
6 in Pennsylvania.

7
8 **THE TRANSACTION IS IN THE PUBLIC INTEREST**

9 **Q. PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN THE PUBLIC**
10 **INTEREST.**

11 A. The Transaction will result in an affirmative public benefit of a substantial nature. First,
12 PAWC, as a large and long-established public utility, has the managerial, technical, and
13 financial fitness to operate the System in a safe and efficient manner in compliance with
14 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and
15 regulatory requirements. PAWC has extensive experience in the operation of wastewater
16 collection and treatment systems including specific experience with the types of treatment
17 technologies employed in the System. PAWC continues to develop expertise for the
18 benefit of the Commonwealth through its current operation of 38 wastewater treatment
19 plants providing service to approximately 97,562 customers in Pennsylvania.

20 The acquisition fosters the Commission's stated goal of consolidating and
21 regionalizing water and wastewater systems to provide greater environmental and
22 economic benefits to customers. My colleague, Mr. Michael J. Guntrum, P.E., discusses
23 this in detail in his testimony (PAWC Statement No. 2). After Closing, PAWC's Southeast

1 Operations wastewater employees and System employees will be under the same
2 management and support teams, and employees of both departments will support each
3 other when appropriate and necessary, particularly in emergency situations. The System's
4 wastewater treatment plant is located within 15 miles of PAWC's Royersford Wastewater
5 Treatment Plant. PAWC can draw upon a much broader range of engineering and
6 operational experience than can the System, as well as deeper financial resources, to
7 address operational challenges and support growth and development.

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

18 Third, the System's current customers will benefit from the enhanced and proven
19 customer service that PAWC provides. My colleague, Mr. Michael J. Guntrum, P.E.,
20 discusses these customer service enhancements in more detail in PAWC Statement No. 2.
21 Nevertheless, I would like to note that they include, but are not limited to, extended
22 customer service and call center hours, enhanced customer information and educational
23 programs and access to PAWC's customer assistance program. Additionally, through

1 community giving, partnerships and volunteering, PAWC demonstrates its commitment to
2 programs that address community-specific needs. One example is PAWC's H2O – Help
3 to Others Program, which for more than twenty-five years has assisted low-income
4 customers. In 2011, the program was expanded to include wastewater customers. My
5 colleague, Ms. Ashley E. Everette, will provide more details about this program in her
6 testimony (PAWC Statement No. 3).

7 Fourth, residents of the area will benefit from the tax revenues that PAWC will pay
8 to municipal governments in the area. The System's facilities are not subject to tax at this
9 time. Utility operational costs are higher, in part, due to these expenses, but there is a
10 public benefit of having more private property on the tax rolls as a result of the Transaction.

11 Finally, the Transaction will benefit PAWC's existing wastewater customers in the
12 long-term by expanding PAWC's customer base. There will be no immediate rate impact
13 on PAWC's existing customers. By adding additional connections to the entire PAWC
14 system, there are more customers to share future infrastructure investment costs.
15 Increasing the number of customers promotes stable rates across the entire PAWC system.
16 Customers who benefit from near-term improvements will one day help pay for
17 improvements on behalf of other customers on other parts of the PAWC system. Being
18 able to spread the costs of investing in and maintaining public wastewater systems over a
19 growing customer base, particularly in a time of increased environmental requirements, is
20 essential to the continued success and longevity of wastewater systems and maintaining
21 reasonable rates for customers. As a matter of public policy, the Pennsylvania Legislature
22 recognized the importance of consolidation and cost sharing in the passage of Act 11 of
23 2012. As the Commission stated in a recent PAWC base rate case:

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

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

9 There is also a clear legislative intent associated with Section 1329 and its
10 allowance of fair market valuation for ratemaking purposes. The General Assembly
11 intended to facilitate the acquisition of municipal water and wastewater systems by
12 investor-owned utilities for the benefit of municipal corporations and their residents. Some
13 of these benefits to the System’s customers, and the citizens residing in the area, are
14 described in the direct testimony of the Township’s and Authority’s witnesses.

15
16 **Q. PLEASE EXPLAIN WHY THE TRANSACTION WOULD FOSTER THE**
17 **COMMISSION’S GOAL OF PROMOTING THE REGIONALIZATION AND**
18 **CONSOLIDATION OF WASTEWATER SYSTEMS?**

19 **A.** The Transaction would promote consolidation in the industry because it would reduce the
20 total number of wastewater providers. In addition, it would promote regionalization
21 because PAWC provides wastewater services in nearby communities, including
22 Royersford.

23
24 **Q. DOES THE REGIONALIZATION AND CONSOLIDATION OF WASTEWATER**
25 **SYSTEMS BENEFIT THE PUBLIC?**

1 A. Yes, it does. I am advised by counsel that the Commission has a Statement of Policy at
2 52 Pa. Code § 69.721, which states that the Commission believes that further
3 regionalization and consolidation of water and wastewater systems may result in greater
4 environmental and economic benefits to customers. Regionalization and consolidation
5 have economic benefits for customers because they allow the use of better management
6 practices and they allow greater economies of scale. Examples of economies of scale
7 include:

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

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

26
27 **PAWC’S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

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

1 A. PAWC is a Commission-regulated public utility with a good compliance history. There
2 are no pending legal proceedings that would suggest that PAWC is not legally fit to provide
3 service to customers of the System.

4
5 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
6 **OPERATE THE SYSTEM?**

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

9 As part of the Application, PAWC provided the audited internal balance sheet, as
10 of December 31, 2022 for PAWC (**Appendix D**), as well as the audited income statement,
11 as of December 31, 2022, for PAWC (**Appendix F**). Those documents show that PAWC
12 had total assets of approximately \$6.57 billion as of December 31, 2022. Further, they
13 show that PAWC had net income of approximately \$236 million for the 12 months ending
14 December 31, 2022. These figures are further demonstration that PAWC has the financial
15 stability and wherewithal to acquire the System and operate it in the public interest. My
16 colleague, Ms. Ashley E. Everette, will provide additional details in PAWC Statement
17 No. 3 on the financial health of PAWC and its ability to access capital.

18
19 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
20 **SYSTEM.**

21 A. As I discussed earlier, PAWC is engaged in the business of collecting, treating, transporting
22 and disposing of wastewater for the public. PAWC is the largest investor-owned water and
23 wastewater utility in the Commonwealth of Pennsylvania and PAWC already has

1 significant water and wastewater operations throughout Pennsylvania. PAWC is
2 experienced in undertaking and completing water and wastewater system acquisitions with
3 public and private sector owners and successfully integrating those assets into our business
4 operations. In fact, PAWC is often called upon by the Commission to step in and resolve
5 troubled water and wastewater systems, resolving compliance issues and providing the
6 excellent service that customers expect and deserve. For example, in recent years PAWC
7 acquired Winola Water Company, Delaware Sewer Company, Clean Treatment Sewage
8 Company, Nittany Water Company, Wildcat Park Corporation, and the Sewer Authority
9 of the City of Scranton, among others, and quickly improved the reliability and safety of
10 those systems by investing the necessary capital to move the systems toward regulatory
11 compliance. My colleague, Mr. Michael J. Guntrum, P.E., will explain in greater detail in
12 PAWC Statement No. 2, specifically how PAWC intends to operate the System once
13 acquired.

14 **DESCRIPTION OF THE SERVICE AREA**

15
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 those customers
19 currently served by the System in the Township and portions of the Townships of Lower
20 Salford, Worcester and Franconia, as well as portions of the Borough of Lansdale, as shown
21 in the maps and descriptions attached as **Appendices A-16-a through e and A-16-f**
22 **(CONFIDENTIAL)**. No municipal authority, corporation, partnership or individual other
23 than the System is now furnishing or has corporate or franchise rights to furnish service

1 similar to that to be rendered by PAWC in the Service Area covered by the Application,
2 and no competitive condition will be created. As discussed above, upon Closing of the
3 Transaction, the Township and the Authority will permanently discontinue all wastewater
4 service to the public.

5
6 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

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

9 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.
10 C.S. §§ 1102(a), 1329, the Application requests Code Section 507 Certificates of Filing or
11 approvals, 66 Pa. C.S. § 507. According to PAWC’s counsel, the APA, the First
12 Amendment, the Assignment, and any other contract between PAWC and a municipal
13 corporation must be filed with the Commission pursuant to Section 507 of the Code. Aside
14 from the APA, the First Amendment, and the Assignment, PAWC has identified seven
15 contracts requiring Certificates of Filing or approvals under Section 507 (see **Appendices**
16 **A-25.1 through A-25.7 to PAWC Exhibit ECA-1**).

17
18 **Q. PLEASE DESCRIBE THE MUNICIPAL CONTRACTS TO BE ASSUMED BY**
19 **PAWC.**

20 **A.** As noted, PAWC is assuming the contracts listed on Schedule 4.15 of the APA. The list
21 of contracts includes:

- 22 • Agreement among Hatfield Township, Hatfield Township Municipal Authority,
23 Towamencin Township and Upper Gwynedd –Towamencin Municipal Authority
24 re Derstine Watershed Area and other areas dated October 13, 2010, which
25 incorporates by reference the 2001 Agreement among the same parties;

- 1 • Agreement between Borough of Lansdale, Township of Upper Gwynedd,
2 Township of Towamencin, Lansdale Sewer Authority, and the Upper Gwynedd-
3 Towamencin Municipal Authority dated December 29, 1969;
- 4 • Transportation and Capacity Agreement between Towamencin Township, Upper
5 Gwynedd-Towamencin Municipal Authority, Lower Salford Township Authority
6 and Lower Salford Township dated September 18, 1989 and Modification
7 Agreement dated August 24, 1994 (modifies but does not terminate the 1989
8 Agreement) and as modified by the Letter dated July 28, 2016 to Towamencin from
9 LSTA and Emails between Towamencin Township and Lower Salford Authority
10 dated October 7, 2016;
- 11 • Agreement among Towamencin Township, Franconia Township Authority,
12 UGTMA and JDJ Associates (a/k/a Asher's Chocolates) dated December 17, 1997;
- 13 • Customer Service Agreement by and between Towamencin Township and Upper
14 Gwynedd Township dated March 2, 2015; and
- 15 • Worcester Township (no formal contracts but as a result of the settlement of a
16 lawsuit, Towamencin Township passed Ordinance No. 89-7 dated July 26, 1989
17 creating the Hollis Hills Sanitary Sewer District and Ordinance No. 89-12 dated
18 February 22, 1989 creating the Milestone Sanitary Sewer District).

19 The Township and the Authority are currently taking the steps necessary to assign
20 the contracts to PAWC upon Closing. Commission approval of the continuation of these
21 contracts is necessary in order for PAWC, after Closing, to provide wastewater service as
22 the System has previously done. Approval is reasonable and serves an important public
23 purpose because the services provided under the contracts are essential to the provision of
24 wastewater service in neighboring communities. To the extent that PAWC renegotiates
25 contracts with municipalities, PAWC will promptly file such contracts for Commission
26 approval under Section 507.

27

28 **Q. DOES PAWC EXPECT TO EXECUTE OTHER AGREEMENTS RELATING TO**
29 **THIS TRANSACTION THAT REQUIRE COMMISSION APPROVAL**
30 **PURSUANT TO SECTION 507?**

31 A. Yes. PAWC intends to execute an agreement with the North Penn Water Authority
32 (“NPWA”) by which NPWA will provide water meter readings to PAWC, in order for

1 PAWC to bill System customers. This agreement is currently being negotiated, but a *pro*
2 *forma* draft of this agreement is attached to the Application as **Appendix A-25.7**.

3

4

CONCLUSION

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

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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

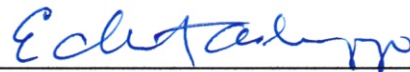
In re: Application of Pennsylvania-
American Water Company under Sections
1102(a) and 1329 of the Pennsylvania
Public Utility Code, 66 Pa C.S. §§ 1102(a)
and 1329, for approval of (1) the transfer,
by sale, to Pennsylvania-American Water
Company, of substantially all of the assets,
properties and rights related to the
wastewater collection and treatment
system owned and operated by
Towamencin Township and Towamencin
Municipal Authority, and (2) the rights of
Pennsylvania-American Water Company
to begin to offer or furnish wastewater
service to the public in the Township of
Towamencin and portions of the
Townships of Franconia, Lower Salford
and Worcester and the Borough of
Lansdale, all in Montgomery County,
Pennsylvania

**Docket Nos. A-2023-3039900
et al.**

VERIFICATION

I, **E. Christopher Abruzzo, Esq.**, hereby state that the facts set forth in PAWC Statement No. 1 and accompanying exhibits, if any, are true and correct to the best of my knowledge, information, and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: May 15, 2023



E. Christopher Abruzzo, Esq.
Senior Director of Business Development
Pennsylvania-American Water Company