

**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 : Docket Nos. A-2023-3039900  
system owned and operated by Towamencin : *et al.*  
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 :

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

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**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 and treatment system (the “System”) currently owned and operated  
10 by the Towamencin Municipal Authority (the “Authority”) and the Township of  
11 Towamencin (the “Township”), which PAWC has agreed to purchase (the  
12 “Transaction”). Second, my testimony addresses: (a) the identification of ratemaking rate  
13 base as required in 66 Pa. C.S § 1329 for PAWC’s acquisition of the System; (b) an  
14 overview of the rate provisions contained in the Asset Purchase Agreement (“APA”) for  
15 PAWC’s acquisition of the System; (c) the customer notices associated with the  
16 Transaction; (d) a description of PAWC’s low-income programs; (e) an estimate of the  
17 range of transaction and closing costs incurred by PAWC; (f) a statement regarding  
18 PAWC’s intentions with respect to accrual of certain post-acquisition improvement costs  
19 and deferral of related depreciation; and, (g) the authentication of certain Application  
20 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 \$6.6 billion and annual revenues of \$818 million for 2022. For 2021, PAWC had operating income of approximately \$357 million and net income of approximately \$236 million. These operating results produced cash flows from operations of approximately \$370 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 the System's customers and maintained for PAWC's existing customers.

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

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

1           **Line of Credit**

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

6  
7           **Long Term Debt Financing**

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

14  
15          **Equity Investments**

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

18  
19          **Q. Please explain how PAWC intends to fund the Transaction.**

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

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

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

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

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

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

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

14 **A.** The negotiated purchase price for the acquired assets is \$104,000,000 and the average of  
15 the appraisals of the buyer’s Utility Valuation Expert (“UVE”) and the seller’s UVE is  
16 \$104,096,362. Accordingly, the negotiated purchase price of \$104,000,000 is the fair  
17 market value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated  
18 purchase price and the average of the UVEs’ appraisals). The fair market value as  
19 determined by the Section 1329 process, in addition to the transaction and closing costs  
20 described below, becomes part of PAWC’s rate base for ratemaking purposes. Note,  
21 however, that PAWC reserves its right in future proceedings to make rate base claims  
22 related to the acquisition as may otherwise be permitted under the Pennsylvania Public  
23 Utility Code (“Code”).

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

2 **A.** As shown on **Appendix A-15-f**, the Company seeks approval to record the \$104,000,000  
3 net value of the assets on its books. The Company requests to record the acquisition on a  
4 net basis consistent with generally accepted accounting principles, which advise that  
5 property, plant and equipment acquired in a business combination intended to be held and  
6 used should be recognized and measured at fair value, and that the accumulated  
7 depreciation of the acquiree is not carried forward in a business combination (*i.e.*, net  
8 presentation).<sup>2</sup> Permitting PAWC to use this accounting treatment for the assets would be  
9 consistent with the Commission’s recent decision in *Application of Pennsylvania-*  
10 *American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code,*  
11 *66 Pa. C.S. § 1102(a), for Approval of the Transfer, by Sale, to Pennsylvania-American*  
12 *Water Company, of Substantially All of the Assets, Properties and Rights Related to the*  
13 *Wastewater Collection and Treatment System Owned by the York City Sewer Authority and*  
14 *Operated by the City of York, Docket Nos. A-2021-3024681 et al. (Final Order entered*  
15 *April 14, 2022) ¶ 3(h).*

16 Section 1329(c) provides that the “ratemaking rate base” is to be incorporated into  
17 PAWC’s rate base. As discussed above, the Company requests the Commission approve  
18 the \$104,000,000 purchase price as the ratemaking rate base for the System.<sup>3</sup> Since Section  
19 1329 does not address the proper accounting treatment of the rate base or approval of a  
20 depreciation reserve in determining the ratemaking rate base, the Company believes that  
21 recording the net value of \$104,000,000 is appropriate and consistent with Section 1329.

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

<sup>3</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 Asset Purchase Agreement Rate Provisions

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

3 **A.** The First Amendment to the Asset Purchase Agreement modified the APA’s provisions  
4 related to rates. As amended, PAWC has committed to adopt, upon closing of the  
5 Transaction (“Closing”), the System’s base rates in effect at closing. The initial rates to be  
6 applicable to the former System wastewater customers are set forth in the *pro forma* tariff  
7 supplement attached as **Appendix A-12** to the Application. System customers will be  
8 governed by rates for new Towamencin Rate Zone “XX.” After Closing, System  
9 customers will be subject to PAWC’s prevailing wastewater tariff on file with the  
10 Commission with respect to all rates other than base rates, such as capacity reservation  
11 fees, reconnection fees, and the like, as well as non-rate related terms and conditions of  
12 service. PAWC may apply a Distribution System Improvement Charge (“DSIC”) and/or  
13 State Tax Adjustment Surcharge if approved by the Commission.

14 The System’s current rates are a flat rate per EDU for residential and certain  
15 commercial customers, and a usage-based rate with a minimum charge for certain  
16 commercial customers.

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

19 **A.** There will be no immediate impact on the rates of the System’s customers because PAWC  
20 has committed to adopt, upon Closing, the System’s rates in effect at the time of Closing.  
21 PAWC expects to propose to move the System’s rates toward consolidated rates in future  
22 base rate cases. Subject to Commission approval, PAWC anticipates allocating a portion

1 of its wastewater revenue requirement to the combined water and wastewater customer  
2 base, as permitted by 66 Pa. C.S. § 1311(c).

3  
4 **Q. What impact, if any, will there be on the rates of PAWC’s current water and  
5 wastewater customers as a result of the acquisition of the System?**

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

15  
16 **Q. Does PAWC seek the authority to charge non-base rates prior to the first PAWC base  
17 rate case in which the System is included?**

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

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**CUSTOMER NOTICE**

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

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

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

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

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

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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 The Joint Petitioners also agreed to the Rate Impact Calculations for these notices.

2 Those calculations are discussed in more detail below.

3  
4 **Q. Please discuss adjustments made to the notice calculation as a result of the Company's**  
5 **2022 base rate case.**

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

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

15  
16 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**  
17 **the System's customers.**

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

<b>System Wastewater Customers</b>				
Rate Class	Average Usage	Average Monthly Bill at the System's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$49.16	\$85.83	74.6%
Commercial	22,561 gal/month	\$182.20	\$318.12	74.6%
Industrial	528,207 gal/month	\$4,268.83	\$7,453.38	74.6%

1           The 74.6% increase shown in the chart above is calculated as 100% of the revenue  
2           deficiency after the Act 11 allocation to water customers,<sup>5</sup> divided by the Year One  
3           revenues of the System. The current average monthly bill is calculated using the System’s  
4           wastewater rates that will be in effect at Closing and the average usage for each customer  
5           class as reflected in the filing of PAWC’s most recent base rate case (Docket No. R-2022-  
6           3031672).

7           The potential average monthly bill after acquisition is calculated by increasing the  
8           current average monthly bill amounts by the 74.6% increase. This methodology was used  
9           to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to  
10          **PAWC Exhibit AEE-1** for the calculation of the customer notice.

11  
12   **Q.    Please summarize the rate impact calculation in the notice to PAWC wastewater**  
13    **customers.**

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

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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”).

<b>PAWC Existing Wastewater Customers</b>				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$109.96	3.1%
Commercial	22,561 gal/month	\$509.46	\$525.25	3.1%
Industrial	528,207 gal/month	\$11,143.19	\$11,488.63	3.1%

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The 3.1% increase shown in the chart above is calculated by dividing 100% of the revenue deficiency after the Act 11 allocation to water customers by total wastewater revenues. The “total wastewater revenues” include PAWC’s wastewater revenues from existing customers excluding other operating revenues as well as the Year One revenues from the System. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1** for the calculation of the customer notice.

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

**A.** As shown in **Appendix A-18-d**, the notice to PAWC’s existing water customers 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 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.45	0.3%
Commercial	22,561 gal/month	\$371.82	\$372.94	0.3%
Industrial	528,207 gal/month	\$5,985.08	\$6,003.04	0.3%

14



1 **A.** PAWC’s low-income tariff rider provides low-income customers with discounts to fixed  
 2 and volumetric charges. PAWC’s low-income discount includes three tiers of discount,  
 3 with the discount level dependent on the customer’s percentage of Federal Poverty Level  
 4 (“FPL”). The tariff discounts are summarized below.<sup>6</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%

5

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

7 **A.** Yes, System customers will become eligible for the discount for wastewater service at the  
 8 time of Closing.

9 As part of a recent Order in PAWC’s Arrearage Management Program (“AMP”),  
 10 the Commission required that a settlement between PAWC and other parties be modified  
 11 to include income verification for low-income customers participating in the AMP.<sup>7</sup>  
 12 PAWC anticipates that this income verification requirement will also apply to the bill  
 13 discount program, and thus, will also apply to System customers.

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<sup>6</sup> Refer to Tariff Water-PA P.U.C. No. 5, page 17 and Tariff Wastewater PA P.U.C. No. 16, page 16.

<sup>7</sup> Docket No. P-2021-3028195, Order Entered December 28, 2022.

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

3 **A.** PAWC’s low-income discount program provides discounts between 30% and 80% of the  
4 water and wastewater bill to customers with an FPL of 150% or less. These discounts have  
5 a small impact on customer’s bills of approximately \$1.30 per month for residential water  
6 customers and approximately \$2.60 per month for residential wastewater customers.<sup>8</sup>

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

10 **A.** No. Of the 14,792 customers, PAWC estimates that approximately 377 will enroll in the  
11 low-income discount. The discounts to these customers will represent approximately 1%  
12 of the total revenues of the System. When compared to PAWC’s total wastewater revenue,  
13 the discounts to System customers represents approximately 0.04% of revenue.

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

17

18 **TRANSACTION AND CLOSING COSTS**

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

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

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<sup>8</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 closing costs, including reasonable attorney fees. In accordance with the *Final*  
2 *Implementation Order* and traditional ratemaking principles, reasonable transaction and  
3 closing costs are not to be decided in this Application proceeding; instead, PAWC must  
4 justify the costs by a “preponderance of the evidence” in a future base rate proceeding.

5 As a practical matter, the exact extent of such costs cannot be known at the time of  
6 filing the Application and will not be finally known until after Closing. The costs depend  
7 on a number of variables, including whether this Application is settled or fully litigated.  
8 PAWC will track such costs and incorporate them into rate base in a future base rate  
9 proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is  
10 PAWC’s estimate of the anticipated range of transaction and closing costs (approximately  
11 \$696,000 to \$868,000).

### 13 Post-Acquisition Improvement Costs

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

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

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

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

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

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

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

17  
18 **Authentication of Application Appendices**

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

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

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

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

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

17 **A.** Yes.

18

19 **CONCLUSION**

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

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

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<sup>9</sup> The timing difference in restating the Township’s and the Authority’s financial statements for Appendix G and Appendix H to December 31, 2022 is assumed by PAWC to be immaterial.

Pennsylvania American Water Company  
Acquisition of Wastewater Assets of the Towamencin  
Docket No. A-2023-\*\*\*\*\*

### Towamencin Wastewater Customers

**Wastewater**

Rate Class	Average Usage	Average Monthly Bill at Towamencin Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$49.16	\$85.83	\$36.67 or 74.6%
Commercial	22,561 gal/month	\$182.20	\$318.12	\$135.92 or 74.6%
Industrial	528,207 gal/month	\$4,268.83	\$7,453.38	\$3,184.55 or 74.6%

### PAWC Current Customers

**Wastewater**

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$109.96	\$3.31 or 3.1%
Commercial	22,561 gal/month	\$509.46	\$525.25	\$15.79 or 3.1%
Industrial	528,207 gal/month	\$11,143.19	\$11,488.63	\$345.44 or 3.1%

**Water**

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$69.24	\$69.45	\$0.21 or 0.3%
Commercial	22,561 gal/month	\$371.82	\$372.94	\$1.12 or 0.3%
Industrial	528,207 gal/month	\$5,985.08	\$6,003.04	\$17.96 or 0.3%

Pennsylvania American Water Company  
Acquisition of Wastewater Assets of the Towamencin  
Docket No. A-2023-\*\*\*\*\*

Towamencin Wastewater

Residential		
	Minimum Charge	\$49.16
32.12	0.0000	0.00
		\$49.16

Rate Impact 74.6%  
\$36.67  
Total \$85.83

PAWC - Wastewater

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

Rate Impact 3.1%  
\$3.31  
Total \$109.96

PAWC - Water

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

Rate Impact 0.3%  
\$0.21  
Total \$69.45

Commercial		
	Service Charge	\$49.16
225.61	0.8082	133.04
61.00		
		\$182.20

Rate Impact 74.6%  
\$135.92  
Total \$318.12

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

Rate Impact 3.1%  
\$15.79  
Total \$525.25

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 0.3%  
\$1.12  
Total \$372.94

Industrial		
	Service Charge	\$49.16
5,282.07	0.8082	4,219.67
61.00		
		\$4,268.83

Rate Impact 74.6%  
\$3,184.55  
Total \$7,453.38

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

Rate Impact 3.1%  
\$345.44  
Total \$11,488.63

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 0.3%  
\$17.96  
Total \$6,003.04

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

Revenue Requirement Increase (Attachment page 2)	\$ 7,731,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)	33%
Amount of increase allocated to water through Act 11	<u>2,551,230</u>
Amount of increase allocated to wastewater customers	\$ 5,179,770

<b>Increase applied to Towamencin Customers</b>	
Revenue Requirement Increase - After Act 11	\$ 5,179,770
Current Towamencin revenues	6,947,000
<b>Estimated Increase to wastewater customers</b>	<b>74.6%</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	\$ 5,179,770
Current Towamencin revenues	6,947,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	<u>159,681,891</u>
	166,628,891
<b>Estimated Increase to wastewater customers</b>	<b>3.1%</b>

<b>Amount of increase allocated to water customers:</b>	
Revenue Requirement Increase	\$ 2,551,230
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>0.3%</b>

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

**Pennsylvania American Water Company  
Acquisition of Wastewater Assets of the Towamencin  
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**Revenue Requirement Increase**

Rate Base	\$	104,000,000	Appendix A-11
Rate of Return %		7.10%	See Calculations
Rate of Return		<u>7,384,000</u>	
O&M		2,966,000	Appendix K
Taxes Other		161,000	Appendix K
Depreciation		2,055,000	Appendix K
Taxes		2,112,000	See Calculations
Revenue Requirement		<u>14,678,000</u>	
Towamencin Year-1 Revenues		6,947,000	Appendix K
Revenue Requirement Increase		7,731,000	

Pennsylvania American Water Company  
Acquisition of Wastewater Assets of the Towamencin  
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Summary

<u>Revenue Requirement</u>	
Rate Base	\$ 104,000,000
Pretax ROR %	9.05%
Pretax ROR	9,412,000
Plus: O&M Expense	2,966,000
Taxes Other	161,000
Depreciation	2,055,000
Total Revenue Requirement	14,594,000

<u>Income Tax Calculation</u>	
Revenues	\$ 14,594,000
Less: O&M Expense	2,966,000
Taxes Other	161,000
Depreciation	2,055,000
Interest	2,101,000
SIT Taxable Income	7,311,000
State Income Tax Rate	9.99%
State Income Tax	730,000
FIT Taxable Income	6,581,000
Federal Income Tax Rate	21.00%
Federal Income Tax	1,382,000
Total Income Taxes	2,112,000

<u>Interest</u>	
Rate Base	\$ 104,000,000
Weighted Cost of Debt (1.87% + 0.15%)	2.02%
	\$ 2,101,000

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%	5.08%	1.38326	7.03%
			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.

**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

**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, **Ashley E. Everette**, hereby state that the facts set forth in PAWC Statement No. 3 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



Ashley E. Everette  
Senior Director of Rates and Regulatory  
American Water Works Service Company