

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Aqua Pennsylvania, Inc. :
pursuant to Sections 507, 1102, and 1329 :
of the Public Utility Code for Approval : Docket No. A-2022-3034143
of its Acquisition of the Water System :
Assets of Shenandoah Borough and MABS :

Direct Testimony
of
Morgan N. DeAngelo

on Behalf of
the Pennsylvania Office of Consumer Advocate

March 20, 2023

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1 **Introduction**

2 **Q. Please state your name, business address and occupation.**

3 A. My name is Morgan N. DeAngelo. My business address is 555 Walnut Street, Forum
4 Place, 5th Floor, Harrisburg, Pennsylvania 17101. I am currently employed as a
5 Regulatory Analyst by the Pennsylvania Office of Consumer Advocate (OCA).

6 **Q. Please describe your educational background and qualifications to provide
7 testimony in this case.**

8 A. I have a Master's Degree in Business Administration and a Bachelor of Business
9 Administration Degree, with a concentration in Finance and a minor in Accounting from
10 Wilkes University. My educational background and qualifications are further described in
11 Appendix A.

12 **Q. On whose behalf are you testifying in this proceeding?**

13 A. I am testifying on behalf of the OCA.

14 **Purpose of Direct Testimony**

15 **Q. What is the purpose of your Direct Testimony in this proceeding?**

16 A. The purpose of my Direct Testimony is to provide my recommendations regarding the
17 Application and supporting documents submitted by Aqua Pennsylvania, Inc. (Aqua or
18 Company) for the acquisition of the water system assets (Assets) of the Borough of
19 Shenandoah (Shenandoah or the Borough) and the Municipal Authority of the Borough
20 of Shenandoah (MABS or Authority). I provide an analysis of whether the acquisition, if
21 approved by the Pennsylvania Public Utility Commission (Commission), would provide
22 substantial affirmative public benefits.

1 **Q. Does the OCA recommend adjustments to the UVE appraisals ?**

2 A. No. The OCA has reviewed the Utility Valuation Engineer (UVE) valuations and would
 3 recommend reasonable adjustments to both appraisals under all three valuation
 4 approaches. The OCA does not anticipate that those adjustments would reduce the
 5 average of the appraisals below the purchase price that Aqua would use for ratemaking
 6 rate base. The OCA has determined not to address the valuations, based on the facts and
 7 circumstances of this proceeding, but that does not constitute the OCA’s acceptance or
 8 agreement with the methods, inputs and assumptions used by the UVEs.

9 **Overview of Application**

10 **Q. Please describe the general nature of Aqua’s application.**

11 A. Aqua’s Application provided “the ratemaking rate base determined pursuant to Section
 12 1329(c)(2) of the Public Utility Code is \$12,000,000.” (Application p. 16, ¶ 59).

13 **Q. In addition to the \$12,000,000 rate base, what additional expenses will Aqua record
 14 for ratemaking purposes with respect to its Section 1329 application?**

15 A. Aqua witness William C. Packer stated that “The UVE fees for Aqua’s appraisals
 16 received as of the date of the Application totaled \$15,978. Aqua’s UVE fees will be
 17 included in the transaction and closing costs of this Proposed Transaction as stated
 18 below” (Aqua Statement 1, p. 18, ln. 3-4). Mr. Packer also stated that “Based off the
 19 scope of work, the methods used as accepted industry practice, and that the UVE’s fees
 20 were less than 5% of the fair market value benchmark noted in the Final Implementation
 21 Order and Final Supplemental Implementation Order, I believe the fees are reasonable”
 22 (Aqua Statement 1, p. 18, ln. 5-8). Aqua’s Application indicated “Aqua will incur

1 transaction and closing costs of approximately \$457,000, which it will include in its rate
2 base.” (Application p. 16, ¶ 60).

3 **Transaction and Closing Costs**

4 **Q. Do you have any recommendations regarding Aqua’s claim for transaction and**
5 **closing costs?**

6 A. Yes. Under Section 1329(d)(iv), Aqua is required to estimate its transaction and closing
7 costs but the actual costs cannot be known until closing. In its next base rate case, the
8 actual costs claimed will be reviewed. To help that review, Aqua should be required to
9 separately identify any outside legal fees when it makes a claim for recovery in its next
10 base rate case. Also, Aqua should not be permitted to claim any transaction and closing
11 costs incurred by Shenandoah. Section 1329 does not allow transaction and closing costs
12 incurred by the *selling* utility to be included in the acquiring utility’s ratemaking rate
13 base.

14 **Q. What is the net book value of the MABS’ water system assets that are being**
15 **acquired by Aqua?**

16 A. Aqua provided the Engineering Assessment submitted by Penonni Associates Inc.
17 (Penonni) as Exhibit D to the Application. Based on the Penonni analysis, Gannett
18 Fleming indicated the original cost of the MABS’ water system is \$19,380,636. With the
19 calculated accrued depreciation reserve of \$8,595,893, the net book value of the MABS’
20 water assets is \$10,784,743.¹

¹ Net book value under Section 1329 (and as reflected in the Engineer’s report) does not reflect an offset for contributed plant or capital as is done in ratemaking. 66 Pa. C.S. § 1329(d)(5).

1 **Q. By how much does the purchase price exceed the net book value?**

2 A. Aqua agreed to pay \$12,000,000 for the MABS' system, or \$1,215,257 (11%) over the
3 net book value that was computed by Gannett Fleming.

4 **Q. How will the acquisition impact Aqua's revenues?**

5 A. Aqua witness Packer calculates that for Year 1 (2023), that proposed transaction will
6 create an annual revenue deficiency of \$865,000. (Aqua Statement 1, Appendix A, p.1).

7 **Q. How many customers does the MABS water system serve?**

8 A. MABS provides service to 2,899 customers (2,652 residential, 200 commercial, 5
9 industrial, 39 public).

10 **Analysis of Affirmative Public Benefits**

11 **Q. What is required for approval of an application for a certificate of public
12 convenience?**

13 A. A public utility must file an application asking for a certificate of public convenience,
14 which will only be granted if the Commission determines that it is necessary and proper.
15 The Commission may impose conditions on its granting of the certificate. Section
16 1103(a) of the Public Utility Code states as follows:

17 A certificate of public convenience shall be granted by order of the commission,
18 only if the commission shall find or determine that the granting of such certificate
19 is necessary or proper for the service, accommodation, convenience, or safety of
20 the public. The commission, in granting such certificate, may impose such
21 conditions as it may deem to be just and reasonable.²

22 I have been advised by counsel that the Pennsylvania Courts and the Commission have
23 construed this as requiring that a proposed acquisition of, or merger with, a public utility

² 66 Pa. C.S. § 1103(a).

1 “will affirmatively promote the service accommodation, convenience, or safety of the
2 public in some substantial way.”³ Also, the Courts have explained:

3 [T]he Commission must perform “the balancing test required by
4 Section 1102 of the Code to weigh all the factors for and against the
5 transaction, *including the impact on rates*, to determine if there is a
6 substantial public benefit.”⁴

7 **Q. How will current MABS customers’ rates be impacted by the proposed transaction?**

8 A. Mr. Packer stated the current average monthly bill of a residential MABS customer is
9 approximately \$43.46 per month. He provided calculations in Appendix A to his
10 testimony showing that, in the first Aqua rate case where Aqua includes the MABS
11 system, the average bill for the acquired residential customers would increase by
12 approximately 44.87% to \$62.96, if 100% of the \$865,000 revenue deficiency is applied
13 to those customers.

14 **Q. Does Mr. Packer claim that MABS customers will benefit from the acquisition?**

15 A. Yes. Mr. Packer stated, “Aqua is projecting there will likely be less operating and
16 maintenance costs under its ownership through reductions in costs for System
17 maintenance, as well as efficiencies in administrative and general costs, such as
18 insurance, auditing and legal, and environmental, among others” (Aqua Statement 1, p.
19 13, ln. 15-18). He also stated that operating expenses will be lower: “Specifically
20 referencing MABS 2020 Financial statements, Operating Expenses were approximately
21 \$1.7 million, whereas the Company is projecting annual expenses of approximately \$1.2
22 million for the System under Aqua’s ownership” (Aqua Statement 1 p. 13, ln. 18-21).

³ *City of York v. Pennsylvania Public Utility Commission*, 449 Pa. 136, 141, 209 A.2d 825,828 (1973).

⁴ *Application of Aqua Pennsylvania Wastewater, Inc.*, Docket No. A-2021-3024267, Order Entered January 13, 2022, p 8 (quoting *McCloskey v. Pennsylvania Public Utility Commission*, 195 A.3d 1055, 1066-1067 (Pa. Cmwlth. 2018), *appeal denied*, 207 A.3d 290 (Pa. 2019)).

1 **Q. Do you have any comments?**

2 A. Mr. Packer estimated that operating expenses for the system might be \$500,000 per year
3 lower for Aqua than for MABS. His estimated savings should be put into perspective.
4 Even if there is a decrease in operating expenses, Mr. Packer estimates that the *overall*
5 *increase* in annual costs under Aqua ownership will generate an \$865,000 annual revenue
6 deficiency and increase rates for the acquired MABS customers. As shown on page 1 of
7 Mr. Packer's Appendix A, Aqua's projected annual revenue requirement for the MABS
8 system is roughly \$2.8 million.⁵ The present annual revenue from MABS customers is
9 approximately \$1.9 million. The overall costs of Aqua ownership include nearly
10 \$900,000 for return to shareholders. As discussed in more detail below, this cost does not
11 exist for MABS, except in repaying debts at a lower rate. Further, Aqua has to pay
12 Pennsylvania sales tax and state and federal income taxes that MABS does not, which
13 adds a few hundred thousand dollars to revenue requirement under Aqua ownership.⁶

14 **Q. How will existing Aqua customers' rates be impacted by the proposed transaction?**

15 A. Under Section 1329, the ratemaking rate base approved in this proceeding will be
16 incorporated into Aqua's revenue requirement in its first base rate case post-closing.
17 Aqua calculates that in that base rate case, if 20% of the revenue deficiency of \$865,000
18 caused by the MABS acquisition is applied to the existing Aqua water customers, the
19 estimated incremental rate effect is a \$0.08 or 0.10% monthly increase for water
20 customers. (Aqua Statement 1, Appendix A, p. 1).

⁵ This is calculated by adding \$1,643,617 expenses (O&M, depreciation, taxes other, income taxes) to the \$894,811 return on rate base (including capital investment and removing depreciation for Year 1), plus \$254,362 to reflect a gross up for expenses generated by the additional revenue from increasing rates (\$610,638 x 1.416433).

⁶ Mr. Packer calculates tax expense of \$94,687 in addition to the tax expense reflected in the gross up on revenue produced by increasing rates. Most of the \$254,362 gross up is for taxes. (Aqua Statement 1, Appendix A, p. 1).

1 **Q. Does Mr. Packer claim that Aqua’s existing customers will benefit from the**
2 **acquisition?**

3 A. Mr. Packer testified the acquisition will increase Aqua’s customer base, which would
4 result in “future” infrastructure investments across the state being shared at a lower
5 incremental cost per customer for all of Aqua’s customers. He also stated, “The
6 connections per MABS’ records are approximately 2,900, which equates to an
7 approximately \$4,100 purchase price per connection and is approximately 50% less than
8 the Company’s existing rate base per connection, projected at approximately \$8,500”
9 (Aqua Statement 1, p. 14, ln. 9-11). Additionally, Mr. Packer stated, “the System
10 characteristics demonstrate that there are economies of scale that can be achieved as a
11 result of this acquisition, thus benefiting existing customers” (Aqua Statement 1, p. 14,
12 ln. 14-15).

13 **Q. Do you have any comments?**

14 A. Adding customers alone does not increase economies of scale. There is no information to
15 show that the proposed transaction would make any customers’ rates more affordable in
16 the near term, and there has also been no showing that the transaction would make rates
17 more affordable in the long-term due to economies of scale. Aqua has not provided a
18 sufficient basis to show that its acquisition of the MABS assets will create actual
19 economies of scale, such that existing or acquired customers will experience a benefit.

20 **Q. Do you have any other comments about the rate impact?**

21 A. Yes. Mr. Packer’s calculated revenue deficiency and rate impacts in Appendix A to his
22 testimony are based on Aqua making capital investment in the MABS system of
23 \$710,100 in Year 1. In response to I&E-I-18, Aqua provided a schedule showing a

1 breakdown of projected capital investments for Years 1-10. I have attached that schedule
 2 to my testimony as Appendix B.

	Year 1	Year 2	Year 3	Year 4	Year 5
Capital Investments	\$ 710,100	\$ 3,438,600	\$ 2,205,500	\$ 1,793,000	\$ 3,976,500

	Year 6	Year 7	Year 8	Year 9	Year 10
Capital Investments	\$ 3,629,500	\$ 1,738,000	\$ 1,870,000	\$ 1,892,000	\$ 1,947,000

3 The projected investment in every year after Year 1 is more than twice the investment in
 4 Year 1. In some years, the projected investment is five times the investment in Year 1. As
 5 such, the rate impact for Year 1 is not fully representative of the projected rate impact of
 6 the proposed transaction in the short term (and near term).

7 **Q. Did you recalculate the projections?**

8 A. Yes. The total 10-year capital investment is \$23,200,200. I recalculated Mr. Packer’s rate
 9 projections for 2024 (Year 2), using the average capital investment projected for Years 1-
 10 10, or \$2.3 million. I also used a State Income Tax Rate of 8.49%, in which will be
 11 implemented beginning January 1, 2024. These changes to the inputs increase the
 12 projected annual revenue deficiency by 21.73%, from \$865,000 to \$1,053,000. If the
 13 recalculated 2024 revenue deficiency is applied to the MABS customers, all else being
 14 equal, rates for those customers could increase by 54.62% compared to Mr. Packer’s
 15 calculation for 2023 (Year 1) of a 44.87% increase. This recalculation is attached as
 16 Schedule MND-1 to my testimony. I provide this comparison to show that the actual rate
 17 impact in the short and near term could be higher (10% higher for the MABS residential
 18 customers, using a conservative average of Aqua’s planned capital investment over the
 19 next 10 years).

1 **Q. Mr. Kelly testified on page 12 of his Direct Testimony that he believes that Aqua is**
2 **technically fit to operate the System, do you agree?**

3 A. Yes. However, Aqua's technical fitness as a public utility does not in itself produce
4 affirmative public benefits.

5 **Q. Mr. Kelly testified on page 15 of his Direct Testimony that he believes that the**
6 **proximity of the Aqua's existing operations is a public benefit. Do you agree?**

7 A. In some ways. The proposed interconnection and the proximity to Aqua's existing
8 systems are positive aspects of the transaction. However, regionalization/consolidation at
9 any cost does not promote affirmative public benefits. MABS currently operates a local
10 office within the MABS system, so the customers will not experience an improvement
11 from Aqua maintaining a local office. Also, to the best of my knowledge, at this time,
12 there are no significant service or quality concerns about the water service being received
13 by customers. It appears that the change in ownership will not provide a perceptible
14 change in the service currently received by MABS customers although their rates will
15 increase.

16 **Q. On pages 10-11 of his Direct Testimony, MABS witness Pietkiewicz describes what**
17 **he believes are benefits to be the benefits of the transaction including his claim that**
18 **Aqua's ability to spread the cost of making improvements over a larger customer**
19 **base means that rates will go up less with Aqua owning the system. Do you agree?**

20 A. No, not necessarily. While Aqua has access to financing, MABS has access to capital as
21 well. The report attached to Mr. Pietkiewicz's testimony discusses the option to raise

1 rates by 6% and borrow at a 5% interest rate.⁷ (Aqua Statement 5, Appendix A, p. 7).

2 Under Aqua ownership MABS' rates could increase by 45% based on a cost of capital for
3 Aqua of 7.24%. (Aqua Statement 1, Appendix A). As discussed above, the return to Aqua
4 shareholders on the MABS' ratemaking rate base and the subsequent taxes on those
5 returns cause most of the projected annual revenue deficiency. Under MABS' ownership
6 these costs do not exist.

7 **Q. On page 11 of his testimony, Mr. Pietkiewicz states that MABS customers will**
8 **benefit from Aqua's 24/7/365 customer service and emergency contact number. Do**
9 **you agree?**

10 A. No. According to the MABS website, www.goh2o.net/mabs, not only is there a customer
11 service telephone number that can be accessed Monday-Friday 9:00AM to 4:00PM, but
12 there is an emergency answering service as well, that can be used after hours. Thus,
13 MABS already has the ability to address emergencies outside of business hours.

14 **Q. Please describe the MABS bill payment options as presented on their website.**

15 A. When you go to the MABS website, you are presented with multiple options of inquiry,
16 including online payment, Consumer Confidence Reports, and contact information. When
17 you click on the "online payment" option, you are re-directed to where you can sign in to
18 pay or view bills. The page indicates MABS accepts PayPal products and Venmo, in
19 addition to making a payment by phone or check account balances 24/7 with its
20 automated phone service.⁸

⁷ The available information indicates that MABS' existing cost of debt is lower – 4.05% for its existing loan until September 2025. (Aqua Exhibit J2, p. 17). Aqua witness Walker indicated the current municipal revenue bond yield on July 8, 2022 is 3.81%. (Aqua Statement 6, p. 20, ln. 15-16).

⁸ <https://goh2o.net/mabs>

1 **Q. Does Aqua’s billing system offer any advantages over the MABS system from a**
2 **billing system perspective?**

3 A. No, it does not provide any advantages over the MABS current billing system that are
4 immediately apparent. Aqua witness Mr. Clark indicated “Aqua provides customer
5 service through a toll-free number that customers can call from 8:00AM-5:00PM EST for
6 regular business, which expands on MABS’ current business hours. The same customer
7 service number houses Aqua’s 24/7/365 emergency response line. MABS customers will
8 benefit from expanded bill payment options including payment by text message” (Aqua
9 Statement 3, p. 3, ln. 22-23, p. 4, ln. 1-3). The only functional difference between Aqua’s
10 billing system and MABS appears to be that Aqua offers the option to make bill
11 payments through text messages. Moreover, if there are any advantages to be had when
12 comparing the MABS’ billing system over Aqua’s billing system, they are outweighed by
13 the significant costs that ratepayers will bear based on the proposed ratemaking rate base.

14 **Low-Income Assistance Program**

15 **Q. Mr. Pietkiewicz stated that access to Aqua’s low-income assistance program is a**
16 **benefit of Aqua ownership. Do you have any comment?**

17 A. Yes. The 2015 study attached to Mr. Pietkiewicz’s testimony stated that “[b]ased on US
18 Census data, 30.7% of households in Shenandoah are below the poverty level”. (Aqua
19 Statement 5, Appendix A, p. 7). The study also stated that the household affordability
20 limit for Shenandoah was \$561 per year. Aqua calculates that water bills for an average
21 MABS residential customer could increase by 45% under its ownership, from \$521.52 to
22 \$755.52 per year. Currently, MABS rates are below the affordability rate calculated in the
23 2015 study. If Aqua is permitted to acquire the MABS system, when new rates are

1 established for the acquired residential customers bills for those customers are likely to
2 exceed the household affordability limit.

3 **Q. Do you have a recommendation?**

4 A. Yes. Unless MABS customers know about and enroll, the existence of Aqua's low-
5 income programs will not provide a benefit. If the Commission approves the transaction,
6 Aqua should provide a letter to the acquired customers that provides information
7 regarding its low-income programs, including a description of the available programs,
8 eligibility and requirements, and Aqua's contact information. The letter should be sent
9 within 30 days after closing so that eligible customers can benefit from the program as
10 soon as possible and before rates are increased. Also, Aqua should include the same
11 information regarding low-income programs in bills sent to Shenandoah customers within
12 90 days after closing.

13 **Q. Based on your analysis of affirmative public benefits from the proposed transaction,**
14 **what do you conclude?**

15 A. While there are some public benefits of the proposed transaction, as filed, it is not
16 apparent that they outweigh the projected rate impact. If the Application is approved, it
17 should be conditioned on the requirements that I have identified above (and below),
18 which are summarized at the end of my testimony.

1 **Additional Necessary Conditions for Approval**

2 **DSIC**

3 **Q. Is Aqua requesting the implementation of a DSIC for MABS customers at closing?**

4 A. No. Mr. Packer stated “Aqua intends to amend its Long-Term Infrastructure
5 Improvement Plan (“LTIIIP”) to include MABS in the LTIIIP and file the amended LTIIIP
6 with the PUC. Aqua will include a request in that filing to initiate the DSIC for MABS
7 customers as permitted by Section 1329.” (Aqua Statement 1 p. 10, ln. 11-14).

8 **Q. Do you have a concern about Aqua’s proposal?**

9 A. Yes. Although Section 1329(d)(4) provides that MABS rates will not increase until new
10 base rates are approved in Aqua’s next base rate case post-closing, the statute does allow
11 Aqua to collect a DSIC during this time. Aqua does not commit to *when* it will file an
12 amended LTIIIP. Having the acquired customers pay a DSIC is one small way in which
13 Aqua’s existing customers can receive a short-term benefit from the acquisition – by
14 spreading the costs recovered through the DSIC over a larger customer base.

15 **Q. What is your recommendation?**

16 A. Aqua’s amended LTIIIP including the MABS customers should be filed within 90 days of
17 closing. Additionally, the proposed projects reflected in the amended LTIIIP should be in
18 addition to, and not re-prioritize, any capital improvements that Aqua has already
19 committed to undertake for existing customers. Also, Aqua should not include MABS
20 system-related investments in its DSIC until Aqua collects a DSIC from MABS
21 customers. The last two requirements protect Aqua’s existing customers by helping to
22 ensure the acquisition does not mean that (1) projects in their service areas will not be

1 carried out as planned and (2) they will not pay for projects in the MABS service area
2 through their DSIC rates until MABS customers are also paying DSIC rates.

3 **Cell Tower Revenue**

4 **Q. Please discuss the Certain Cell Tower Revenue addressed by the APA.**

5 A. Aqua is acquiring the MABS water assets on which the cell towers are located but
6 proposes for the Borough to keep the revenues from the lease agreements, that should
7 otherwise benefit Aqua customers. (Aqua Exhibit B, Excluded Assets, Schedule
8 2.02(g)(4)). For ten years all or part of this revenue will be kept by the municipality
9 rather than inure to the benefit of Aqua customers. In total, Aqua proposes to forego a
10 total of \$133,140 in revenue from the cell tower lease agreements over 10 years. Aqua's
11 response to OCA-IV-1 showing this breakdown is attached to my testimony as Appendix
12 C.

13 **Q. Do you have a recommendation?**

14 A. Yes. In future base rate cases, Aqua should be required to impute the revenue received
15 from the Cell Towers, as defined in Schedule 2.02(g)(4) of the Asset Purchase
16 Agreement, to the benefit of ratepayers, as if Aqua received and retained all revenues
17 beginning on the closing date. In this way, Aqua customers who are paying for the
18 MABS assets will receive the full benefit of the revenues generated by those assets.

19 **Free Water Service**

20 **Q. Does MABS currently provide free water service?**

21 A. Yes. Aqua's response to the Commission's Standard Data Requests, no. 6, shows that
22 MABS does not bill 12 entities for service: eight Fire Companies (Shenandoah
23 Ambulance, Rescue Hook and Ladder Fire Co., Polish American Fire Co., Phoenix Fire

1 Co., Columbia Fire Co., Defender Hose Fire Co., Shenandoah Heights Fire Co., William
2 Penn Fire Co. No. 1) and four Borough-owned properties (Shenandoah Borough Hall,
3 Shenandoah Police Department, Shenandoah Library, and Shenandoah Building Garage).
4 Also, MABS does not bill for public hydrants in the Borough. Aqua proposes that it will
5 stop free service for the Borough-owned properties and public hydrants in the Borough
6 and begin billing them at closing. Aqua proposes to continue free service to the Fire
7 Companies listed above until its next base rate case. (Aqua Exhibit BB, no. 6.) Aqua
8 Exhibit BB, no. 6 is attached to my testimony as Appendix D.

9 **Q. Do you agree with Aqua providing free service?**

10 A. No. At Closing, Aqua should charge the Fire Companies the applicable rates contained in
11 the pro forma tariff submitted with the Application (Aqua Exhibit G). Counsel for OCA
12 will address the legal issues in their briefs, but it is my understanding that free water
13 service is not permitted. Although other Aqua ratepayers are not at risk to subsidize the
14 cost of serving the Fire Companies in base rates until new rates are established in a base
15 rate case that includes the MABS system, existing customers and the other acquired
16 customers will not benefit from the Fire Companies contributing revenues through the
17 DSIC. Currently, Aqua has four pending Section 1329 acquisitions (DELCORA,
18 Willistown, Shenandoah and Beaver Falls). Two more Section 1329 acquisitions have
19 closed but not had new base rates set (Lower Makefield and East Whiteland). If free
20 service is permitted for entities acquired in Section 1329 acquisitions it will have a
21 cumulative impact on existing customers.

1 **Miscellaneous Charges**

2 **Q. Please address the Miscellaneous Charges Aqua proposes to implement.**

3 A. In the pro forma tariff filed with the Application, Aqua proposes to charge the MABS
4 customers a “Miscellaneous Charge” labeled “D.E.P. Commercial” and “D.E.P.
5 Residential.” (Aqua Exhibit G). It appears those charges are costs related to compliance
6 with DEP requirements. For PUC-regulated utilities, those types of costs are recovered in
7 base rates, rather than a separate line item. Based on 2,652 residential customers and 200
8 commercial customers paying \$1 per month, these fees represent \$34,224 annually.

9 **Q. What is your recommendation?**

10 A. The Miscellaneous Charges should be eliminated for the purpose of the rates that apply to
11 MABS customers until their new rates are set in a base rate case.

12 **Easements**

13 **Q. Did Aqua indicate whether MABS has identified all real estate, including leases,
14 easement rights, and access to public rights-of-ways that must be transferred to
15 Aqua?**

16 A. At the point of writing this testimony, there is no indication of any problematic easements
17 and in response to I&E Set I Interrogatories, 15.B, stated “MABS expects to transfer all
18 missing easements, leases, and right of ways necessary and essential for the operation of
19 the water system to Aqua at the time of Closing.” Aqua also indicated “MABS is still in
20 the process of identifying easements and rights-of-way. We believe our abstractor will
21 have the search complete by the end February 2023.” (Response to I&E-I-14A). I&E-I-
22 15.B is attached to my testimony as Appendix E, and I&E-I-14.A is attached to my
23 testimony as Appendix F.

1 **Q. What is your recommendation?**

2 A. As a condition for approval of the application, the Commission should require that the
3 closing of the transaction shall not be permitted to occur until Aqua has (1) identified all
4 missing easements including public rights-of-way and other property rights and (2) taken
5 any and all necessary actions to obtain the missing easements and other property rights so
6 that they may be conveyed to Aqua at closing. Also, Aqua should not be permitted to
7 recover in rates any costs for obtaining and conveying the missing easements and other
8 property rights.

9 **Cost of Service Study (COSS)**

10 **Q. Should a separate cost of service study be required for the acquired MABS system**
11 **when Aqua files its next base rate?**

12 A. Yes. In accordance with Section 1329, the rate base valuation for MABS is different than
13 for acquisitions approved under the traditional regulatory framework, where assets are
14 valued for ratemaking purposes at original cost net of accumulated depreciation and net
15 of contributions. The costs associated with the acquired MABS system should be
16 separately evaluated in Aqua's next general rate case, from Aqua's previously owned
17 water utility systems. A COSS would provide necessary information needed to establish
18 rates that reflect the costs of the acquired system. Additionally, Aqua should submit a
19 COSS that removes all costs and revenues associated with the operation of the MABS
20 system.

21 **Conclusion**

22 **Q. Please summarize your recommendations.**

23 A. The Application should only be approved subject to the following additional conditions:

- 1 • Aqua will separately identify any outside legal fees when it makes a claim for
2 recovery in its next base rate case and will not be permitted to claim any
3 transaction and closing costs incurred by Shenandoah.

- 4 • Aqua will mail a welcome letter to the acquired customers within 30 days after
5 the closing that provides information about its customer-assistance programs,
6 including a description of the available programs, eligibility and requirements,
7 and Aqua’s contact information. Aqua will provide the same information in a bill
8 insert that is sent within the first 90 days after closing.

- 9 • Aqua’s will file an amended LTIP including the MABS customers within 90
10 days of closing and approved before Aqua begins charging the DSIC to the
11 acquired customers. The proposed projects reflected in the amended LTIP should
12 be in addition to, and not re-prioritize, any capital improvements that Aqua has
13 already committed to undertake for existing customers. Aqua should not include
14 System-related investments in its DSIC until Aqua collects a DSIC from System
15 customers.

- 16 • In future base rate cases, Aqua will impute the revenue received from the Cell
17 Towers, as defined in Schedule 2.02(g)(4) of the Asset Purchase Agreement, to
18 the benefit of ratepayers, as if Aqua received and retained all revenues beginning
19 on the closing date.

- 20 • Aqua will not provide free water service to any entities. The Fire Companies will
21 be charged applicable tariffed rates for service.

- 22 • “Miscellaneous Charges” will be removed from the tariff approved in this
23 proceeding.

- 24 • Closing of the transaction will not be permitted to occur until Aqua has (1)
25 identified all missing easements including public rights-of-way and other property
26 rights and (2) taken any and all necessary actions to obtain any missing easements
27 and other property rights so they can be conveyed at closing.

- 28 • At the time of filing its next base rate case, Aqua will submit a cost of service
29 study that removes all costs and revenues associated with the operation of the
30 MABS system and will also provide a separate cost of service study for the
31 MABS system.

32 **Q. Does this conclude your direct testimony?**

33 A. Yes. However, I reserve the right to modify or supplement my testimony if necessary.

OCA Schedule MND-1

Aqua Pennsylvania, Inc. - Water
Shenandoah Water Acquisition

Docket No. R-2022-3034143
Schedule MND-1
March 20, 2023

1.)	<u>Shenandoah Water Acquisition</u>	2023	
		<u>Year 1</u>	<u>Notes</u>
	Revenue	\$ 1,927,789	
	O&M	1,203,215	
	Depreciation	389,505	***2.72% Composite Depreciation Rate
	Taxes Other	72,626	
	Income Taxes	\$ 1,619	*****21% Federal & 8.99% State
	Operating Income	\$ 260,824	
	Rate Base at Fair Market Value	\$ 12,000,000	
	Capital Investments (Year 1)	\$ 2,320,020	
	Rate Base (Including Capital Investments less depreciation year 1)	\$ 13,930,515	
	Interest Expense ^	256,600	
	^ Includes Interest Expense synchronized with rate base		
	Required Operating Income (Rate Base x Rate of Return)	\$ 1,008,151	
	Operating Income Deficiency	\$ 747,327	
	Gross Revenue Conversion Factor	1.408541	
	Revenue Deficiency (Excess) \$	\$ 1,053,000	
	Revenue Deficiency (Excess) %	54.62%	
	Increase applied to Acquired (Authority) customers 80% Cost of Service	\$ 456,842	
	Increase %	23.70%	
	Increase applied to Acquired (Authority) customers 100%	\$ 1,053,000	
	Increase %	54.62%	
	Increase applied to Acquired (Authority) customers 50%	\$ 526,500	
	Increase %	27.31%	
	Increase applied to Existing (Company Wastewater) customers 50%	\$ -	
	Increase %	0.00%	
	Increase applied to Existing (Company Water) customers 20% - Cost of Serv	\$ 596,158	
	Increase %	0.11%	

	Avg. Usage / Kga	Estimated Monthly Increase	Estimated Monthly Increase	Estimated Percentage Increase
Residential - All Sizes/Classes - 80% Cost of Service	2.79	\$	6.91	15.90%
Commercial - All Sizes/Classes - 80% Cost of Service	6.18	\$	12.49	15.90%
Industrial - All Sizes/Classes - 80% Cost of Service	318.75	\$	167.05	15.90%
Public - All Sizes/Classes - 80% Cost of Service	55.70	\$	35.16	15.90%
Residential - All Sizes/Classes - 100% Cost of Service	2.79	\$	19.50	54.62%
Commercial - All Sizes/Classes - 100% Cost of Service	6.18	\$	35.25	54.62%
Industrial - All Sizes/Classes - 100% Cost of Service	318.75	\$	471.52	54.62%
Public - All Sizes/Classes - 100% Cost of Service	55.70	\$	99.24	54.62%
Residential - All Sizes/Classes - 50% Revenue Deficiency	2.79	\$	9.75	27.31%
Commercial - All Sizes/Classes - 50% Revenue Deficiency	6.18	\$	17.62	27.31%
Industrial - All Sizes/Classes - 50% Cost of Service	318.75	\$	235.76	27.31%
Public - All Sizes/Classes - 50% Cost of Service	55.70	\$	49.62	27.31%
Impact Existing Customers (Company Wastewater) - Residential - 50%	4.00	\$	-	0.00%
Impact Existing Customers (Company Wastewater) - Commercial - 50%	8.33	\$	-	0.00%
Impact Existing Customers (Company Wastewater) - Industrial - 50%	1.50	\$	-	0.00%
Impact Existing Customers (Company Wastewater) - Public - 50%	8.33	\$	-	0.00%
Impact Existing Customers (Company Water) - Residential - 20% Cost of Service	4.00	\$	0.08	0.11%
Impact Existing Customers (Company Water) - Commercial - 20% Cost of Serv	33.38	\$	0.47	0.11%
Impact Existing Customers (Company Water) - Industrial - 20% Cost of Service	200.15	\$	2.28	0.11%
Impact Existing Customers (Company Water) - Public - 20% Cost of Service	33.38	\$	0.47	0.11%

2.)	<u>Rate of Return</u>			
		<u>Ratio</u>	<u>Cost Rate</u>	<u>WACC</u>
	Debt	46.05%	4.00%	1.84%
	Equity	53.95%	10.00%	5.40%
		100.00%		7.24%

3.)	<u>Gross Revenue Conversion Factor</u>		
	Dollar of Revenue		1.0000000
	Less: Gross Receipts (Revenue) Tax	0.00%	0.0000000
	Less: Reg Assessments	0.62%	0.0062419
	Less: Bad Debts	1.17%	0.0117050
	State Taxable Income		0.9820531
	State Income Tax	8.49%	0.0833763
	Federal Taxable Income		0.8986768
	Federal Tax Rate	21.00%	
	Federal Income Tax		0.1887221
	Net Revenue Dollar		0.7099547
	Gross Revenue Conversion Factor		1.4085406
	EFT	27.7071%	

Appendix A

**QUALIFICATIONS OF
MORGAN N. DEANGELO**

Education:

2020 M.B.A., Wilkes University

2018 B.B.A. concentration in Finance, minor in Accounting, Wilkes University

Positions:

June 2020 – Present Regulatory Analyst, Pennsylvania Office of Consumer Advocate

2018 – 2020 Graduate Assistant, Office of Student Development,
Wilkes University

Experience:

I am currently employed by the Pennsylvania Office of Attorney General, Office of Consumer Advocate (OCA) as a Regulatory Analyst. In this position, my responsibilities of reviewing utility company filings with the Pennsylvania Public Utility Commission (Commission) and analyzing the financial, economic, rate of return, and policy issues that are relevant to the filings.

Additionally, I am tasked with preparing recommendations for the OCA's involvement in utility filings with the PA PUC, writing testimony and presenting oral testimony on behalf of the OCA.

Relevant Training:

IPU Regulatory Studies - Intermediate Course, August 2020

IPU Accounting and Ratemaking Course, February 2021

Previous Cases where testimony was submitted:

- Petition of Twin Lakes Utilities, Inc., P-2020-3020914
- Application of Pennsylvania American Water Company, A-2020-3019634
- PaPUC v. UGI Utilities, Inc. – Electric Division, R-2021-3023618
- PaPUC v. Pittsburgh Water and Sewer Authority, R-2021-3024773, R-2021,3024774, R-2021-3024779
- PaPUC v. Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., R-2021-3027285, R-2021-3027186
- PaPUC v. City of Lancaster – Water Department, R-2021-3026682
- Application of Aqua Pennsylvania Wastewater, Inc., A-2021-3027268
- PaPUC v. Borough of Ambler – Water, R-2022-3031704
- PaPUC v. Citizens' Electric Company of Lewisburg, PA, R-2022-3032369, C-2022-3032529
- PaPUC v. Valley Energy, R-2022-3032300, C-2022-3032533
- PaPUC v. Pennsylvania American Water Company, R-2022-3031672, C-2022-3032485, R-2022-3031673, C-2022-3032487
- PaPUC v. The York Water Company, R-2022-3031340, C-2022-3032868, C-2022-3032902, R-2022-3032806, C-2022-3032869, C-2022-3033016

Appendix B

APPLICATION OF AQUA PENNSYLVANIA, INC.
DOCKET NO. A-2022-3034143
BUREAU OF INVESTIGATION AND ENFORCEMENT
SET I INTERROGATORIES

- I&E-I-18** Reference Aqua Statement No. 2, p. 6 that states Aqua will invest approximately \$23 million over the next 10 years and approximately \$13 million of this investment would be for distribution main replacement:
- A. Identify each of the projects that comprise the projected capital improvement cost or investment, by line item and by year, for the total capital investment of \$23 million over the next ten years.
 - B. Explain the underlying basis/need for each of the projects referenced in Part A above.
 - C. Clarify whether the information about the projected capital improvement cost by year was provided to the Gannett Fleming and ScottMadden.

RESPONSE

- A. Please see I&E-I-18 Attachment 1.
- B. Distribution system projects include leak detection and repair, which will be informed by the American Water Works Association Water Audit tool, to identify unaccounted for water (“UAW”) in the System. Distribution mains will be reviewed based on age, material, and break history for prioritized replacement to help address UAW. Meter replacement will allow for RF capabilities and more accurate meter reads. Aqua plans to repaint the water treatment plant tank as well as the Kehly Run and Shenandoah Heights (Swatara Road) tanks, due to the age of their existing coating systems consistent with standard maintenance of Aqua owned systems. Aqua has back-up power scheduled to be installed at pump station Nos. 5 and 7, which will provide for improved reliability in the System. Aqua also has scheduled renovations to pump station Nos. 5 and 7 and replacement of filters and controls at the treatment plant. Finally, Aqua has planned studies and repairs for each of the dams as part of Aqua’s dam maintenance program. The studies will evaluate the performance associated with spillway capacity and structural stability. The monitoring equipment will add data to routine inspections and aid with emergency preparedness and response.
- C. No.

Appendix B

System Component	Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
1	Distribution											
2	Distribution	\$ 50,000					\$ 50,000					\$ 100,000
3	Distribution	\$ 50,000	\$ 50,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 155,000
4	Distribution	\$ 150,000	\$ 150,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 525,000
5	Distribution	\$ 150,000										\$ 150,000
6	Distribution	\$ 200,000	\$ 490,000	\$ 290,000								\$ 980,000
7	Storage		\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 13,500,000
8	Storage					\$ 900,000	\$ 1,000,000					\$ 1,000,000
9	Storage						\$ 600,000					\$ 600,000
10	Safety Measures	\$ 50,000										\$ 50,000
11	Back-up Power		\$ 100,000									\$ 100,000
12	Back-up Power		\$ 50,000									\$ 50,000
13	Treatment		\$ 250,000									\$ 250,000
14	Distribution		\$ 500,000									\$ 500,000
15	Raw Pumping					\$ 1,000,000						\$ 1,000,000
16	Treatment	\$ 25,000		\$ 25,000		\$ 25,000	\$ 25,000					\$ 100,000
16a	Treatment			\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000					\$ 200,000
17	Dams											\$ -
18	Raven Run #2	\$ 4,000										\$ 4,000
19					\$ 20,000	\$ 40,000			\$ 180,000			\$ 240,000
20	Raven Run #3		\$ 3,000									\$ 3,000
21		\$ 4,000										\$ 4,000
22	Ringtown #5	\$ 4,000		\$ 80,000								\$ 80,000
23		\$ 4,000										\$ 4,000
24						\$ 40,000	\$ 60,000		\$ 200,000			\$ 300,000
25	Ringtown #6		\$ 30,000									\$ 30,000
26		\$ 4,000										\$ 4,000
27			\$ 3,000									\$ 3,000
28							\$ 40,000	\$ 60,000			\$ 250,000	\$ 350,000
	Contingency 10%	\$ 69,100	\$ 312,600	\$ 200,500	\$ 163,000	\$ 361,500	\$ 334,500	\$ 158,000	\$ 170,000	\$ 172,000	\$ 177,000	\$ 2,118,200
	TOTALS	\$ 710,100	\$ 3,438,600	\$ 2,205,500	\$ 1,793,000	\$ 3,976,500	\$ 3,629,500	\$ 1,738,000	\$ 1,870,000	\$ 1,892,000	\$ 1,947,000	\$ 23,200,200
	Rolling Total	\$ 1,079,100	\$ 4,517,700	\$ 6,404,200	\$ 8,197,200	\$ 12,173,700	\$ 15,853,200	\$ 17,591,200	\$ 19,461,200	\$ 21,353,200	\$ 23,300,200	

Appendix C

Respondent: Leo Pietkiewicz and William C. Packer
 Date: 02/28/2023

APPLICATION OF AQUA PENNSYLVANIA, INC.

DOCKET NO. A-2022-3034143

OFFICE OF CONSUMER ADVOCATE

SET IV INTERROGATORIES

OCA-IV-1 Please refer to the Asset Purchase Agreement, Schedule 2.02(g), “Certain Cell Tower Revenue.”

- a. What revenues are anticipated for the Municipality: “(i) From the Closing Date to the fifth anniversary of the Closing Date, the Municipality will retain all revenues from the Cell Towers”?
- b. What revenues are anticipated for the Municipality and for the Buyer: “From the fifth anniversary of the Closing Date to the eleventh anniversary of the Closing Date, Municipality will receive the first \$10,000 of revenue from the Cell Towers and Buyer retain the remaining revenue”?

RESPONSE

The Cell Tower Agreement was entered into September 1, 2016. Anticipated revenues for the fiscal years ending September 1 would be as follows:

- a. Through the fifth anniversary of Closing:

<u>Year</u>	<u>Borough</u>
2024	\$13,800
2025	\$13,800
2026	\$13,800
2027	\$15,870
2028	\$15,870
Total	\$73,140

- b. After the fifth, and through the eleventh, anniversary of Closing:

<u>Year</u>	<u>Borough</u>	<u>Aqua</u>
2029	\$10,000	\$5,870
2030	\$10,000	\$5,870
2031	\$10,000	\$5,870

Appendix C

<u>Year</u>	<u>Borough</u>	<u>Aqua</u>
2032	\$10,000	\$8,250
2033	\$10,000	\$8,250
2034	\$10,000	\$8,250
Total	\$60,000	\$42,360

Following the eleventh anniversary of Closing, all Cell Tower Revenues will be retained by Aqua.

Appendix D

Respondent: William C. Packer
Vice President – Regulatory Accounting and Regional Controller of Aqua Pennsylvania, Inc.
Date: October 6, 2022

AQUA PENNSYLVANIA, INC.
SHENANDOAH BOROUGH / MABS
Section 1329 Application Standard Data Requests

Rates/Ratemaking

6. Provide a listing of any entities that currently receive free service from the Seller.

Response: Customers / entities that receive free water service from MABS include:

Fire Companies

- Shenandoah Ambulance – N Main Street
- Rescue Hook and Ladder Fire Co – N Main Street
- Polish American Fire Co – W Centre Street
- Phoenix Fire Co – Jardin Street
- Columbia Fire Co – W Centre Street
- Defender Hose Fire Co – Furnace Street
- Shenandoah Heights Fire Co – Swatara Road
- William Penn Fire Co. No. 1 – Mount Olive Boulevard

Borough Owned Properties

- Shenandoah Borough Hall – 15 W Washington Street
- Shenandoah Police Department – 15 W Washington Street
- Shenandoah Library – 15 W Washington Street
- Shenandoah Building Garage – Herald Street

MABS does not bill for public hydrants in the Borough of Shenandoah (“Borough”). Upon Closing, Aqua will bill the Borough for public hydrants within the Borough.

Aqua will continue free service to the Fire Companies listed above until Aqua’s next base rate case. Borough Owned Properties will begin to be billed at Closing.

Appendix E

Respondent: Leo Pietkiewicz

Date: 01/13/2023

APPLICATION OF AQUA PENNSYLVANIA, INC.
DOCKET NO. A-2022-3034143
BUREAU OF INVESTIGATION AND ENFORCEMENT
SET I INTERROGATORIES

- I&E-I-15** Reference the Asset Purchase Agreement, Section 4.09 provisions regarding transfer of MABS's real estate including leases, easement rights, and access to public rights-of-way related to the water system. Provide the following:
- A. Name of abstractor, date when abstractor commenced title search assignment, and the expected date when the final abstractor's report will be available; listing all identified and missing real estate, leases, easement rights, and access to public rights-of-way that must be transferred to Aqua to facilitate Aqua's operation of MABS water system.
 - B. State whether MABS expects to transfer all missing easements, leases, and right of way to Aqua before the closing date.
 - C. If the answer to Part B above is no, explain how Aqua and MABS will handle the transfer of missing easements, leases, and right of way after the closing date.

RESPONSE

- A. The abstractor is Assured Realty Transfer, located at 139 West Lake Drive, Pine Grove, PA 17963. The principle's name is Robert Pugh. Mr. Pugh commenced an initial title search in the summer of 2021. This search identified all properties and land owned by MABS or its predecessors. The search did not identify any easements or rights of way because at that time, MABS did not provide the mapping necessary to identify the location of transmission/distribution lines. MABS provided the mapping for the transmission/distribution lines in the summer of 2022. At that time, Mr. Pugh began the second phase of his search to identify all of the easements, right of ways, etc. for the system, and this search is ongoing.
- B. Yes. MABS expects to transfer all missing easements, leases, and right of ways necessary and essential for the operation of the water system to Aqua at the time of Closing.
- C. N/A

Appendix F

Respondent: Leo Pietkiewicz

Date: 01/13/2023

APPLICATION OF AQUA PENNSYLVANIA, INC.
DOCKET NO. A-2022-3034143
BUREAU OF INVESTIGATION AND ENFORCEMENT
SET I INTERROGATORIES

- I&E-I-14** Reference the Asset Purchase Agreement, Section 4.09 provisions regarding transfer of MABS's real estate including leases, easement rights, and access to public rights-of-way related to the water system. Provide the following:
- A. Indicate whether MABS has identified all real estate, including leases, easement rights, and access to public rights-of-way that must be transferred to Aqua to facilitate Aqua's operation of the MABS water system.
 - B. If MABS has identified all real estate, including leases, easement rights, and access to public rights-of-way that must be transferred to Aqua to facilitate Aqua's operation of the MABS water system, state whether it has the present ability to transfer them to Aqua. If not, explain why not.
 - C. If MABS has not identified all real estate, including leases, easement rights, and access to public rights-of-way that must be transferred to Aqua to facilitate Aqua's operation of the MABS's water system, explain why not and provide the anticipated date that identification will be complete.

RESPONSE

- A. No. MABS has identified all fee simple real estate. MABS is still in the process of identifying easements and right-of-ways. We believe our abstractor will have the search complete by the end of February 2023.
- B. MABS has the present ability to transfer the fee simple Real Estate to Aqua. As of yet there is no indication of any problematic easements, further information will be available upon the completion of the search.
- C. Please see the response to part A and I&E-I-15 part A.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Aqua Pennsylvania, Inc. :
pursuant to Sections 507, 1102 and :
1329 of the Public Utility Code for : Docket No. A-2022-3034143
Approval of its Acquisition of the :
Water System Assets of Shenandoah :
Borough and MABS :

VERIFICATION

I, Morgan N. DeAngelo, hereby state that the facts set forth in my Direct Testimony, OCA Statement 1, are true and correct (or 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 herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: March 20, 2023
*343020

Signature: Morgan N. DeAngelo
Morgan N. DeAngelo

Address: Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923