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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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

CITY OF BUTLER

STATEMENT NO. 1

DIRECT TESTIMONY OF ROBERT A. DANDOY
MAYOR OF THE CITY OF BUTLER

With Regard To
Overview of the City's Sale Process
Benefits of the Proposed Transaction for the City

February 14, 2023

INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert A. Dandoy. My business address is 140 West North Street, Butler, PA 16001.

Q. In what capacity are you affiliated with the City of Butler?

A. I am the current mayor for the City of Butler (the "City"). The City jointly incorporated the Butler Area Sewer Authority ("BASA" or the "Authority") together with the Township of Butler (the "Township").

Q. Please provide a brief description of your education and work experience.

A. I graduated from what is now known as Pennsylvania Western University (formerly Clarion University of Pennsylvania) with a Bachelor's degree in Education in 1974 and received a Master's degree in English from Slippery Rock University of Pennsylvania in 1984. I also have completed all but the dissertation for a Doctoral Program in English at the Indiana University of Pennsylvania. Prior to my role as mayor for the City, I taught English at the high school and college level.

Q. Other than your professional experience, do you have any other experience in the Butler community?

A. Yes. I am heavily involved with the Main Street Program – a grassroots revitalization initiative with a mandate to bring new energy to the City's downtown area that is home to several restaurants and shops, as well as several attractions for performing arts and music.

At one point, I served as the President of the Main Street Program. Similarly, I have volunteered with the arts community, specifically, I served on the board of directors of both the Butler Little Theater and the Musical Theater Guild of Butler.

As a volunteer and now in my role as Mayor, this revitalization initiative is still primary to me as my vision is to elevate our downtown area as a destination with a suite of amenities for our citizens and visitors alike to enjoy.

Q. Have you testified before the Pennsylvania Public Utility Commission ("Commission") before?

A. No.

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

A. My testimony is on behalf of the City and is in support of the application of Pennsylvania-American Water Company ("Pennsylvania-American" or the "Company") to purchase all the assets of the wastewater collection, treatment, and discharge system (the "System") of BASA and begin to furnish wastewater service to BASA customers in this proceeding (the "Proposed Transaction").

Q. What is the purpose of your direct testimony and summarize the key points.

A. The purpose of my testimony is to provide a brief overview of the sale process and provide an overview of the various public benefits of the Proposed Transaction for the City.

Q. Are you sponsoring any Exhibits with your testimony?

A. No.

I. DESCRIPTION OF THE CITY

Q. Please provide a brief description of the City.

A. The City was incorporated in 1918. It is only 35 miles north of Pittsburgh. As part of the Greater Pittsburgh region and the Steel Belt, the City has a rich history from the Industrial Revolution. For example, the Standard Steel Car Company opened one of its largest railcar manufacturing facilities even after it merged with the Pullman Palace Car Company in the 1930s. Additionally, in 1918, Ford opened one of its earliest dealerships in the City. Today, the City is still home to industry – with an AK Steel factory still operating – as well as several small family-owned businesses (admittedly fewer due to the economic fallout after the COVID-19 Pandemic). Also, as the county seat, the City is the center of both city and county governmental activity. The City has a population of approximately 13,000.

Q. Please provide a brief description of the City's governmental structure.

A. The City is governed by a democratically elected mayor and a legislative council consisting of four democratically elected members. The City Council holds public meetings biweekly that I lead as the sitting mayor for the City. The agendas for each meeting are published to the City's website in advance of all meetings to afford our residents an advance notice of what will be discussed. Our residents often attend to share their thoughts, or simply listen to the goings-on in the City. To assist in day-to-day operations and provide necessary expertise, the City also has several Boards and Authorities that serve our residents and community. All meetings of Boards/Authorities are open to the public to ensure that our constituents are provided an opportunity to engage in discussion with the entities that ultimately make decisions.

Q. How is the City's current economic and financial condition?

A. Historically, one of our largest economic drivers was tourism, with attractions for our residents and visitors alike to enjoy. However, like many cities in the Commonwealth, the City is still reeling from the economic downturn caused by the COVID-19 Pandemic. Our downtown area has always been home to numerous family-owned small businesses and restaurants, but in the wake of the Pandemic many places were forced to close their doors. While the City is slowly recovering, our once bustling downtown area is in dire need of resuscitation.

Fortunately, the City Council approved a $10.6 million budget for 2023, only a slight increase from the $10.5 million 2022 budget. Thus, the City could afford the estimated increase in expenses for 2023 without raising our residents' tax rate. Maintaining the 4.1% tax rate is important to us because our population is largely working class, with a median household income of $36,570. With the cost of living rapidly increasing due to inflation, the future of the City's economy is uncertain and financial stability is, as always, not guaranteed.

II. <u>OVERVIEW OF THE SALE PROCESS</u>

Q. Please describe the City's decision to explore a sale of the System.

A. The decision to sell the System was a result of the City, the Township, and the BASA Board conducting their research and due diligence for the future of the System. For years, the Authority has worked diligently to provide safe, reliable, and cost-efficient service to the public. In light of the imminent capital improvement projects required by the Authority's current Corrective Action Plan ("CAP"), we ultimately decided that an exploration of the sale of the System was necessary. Thus, at the City Council meeting held on September 23, 2021, the City Council voted to direct the Authority to explore options for the potential sale of the System to a third party.

Q. Please provide a brief overview of the sale process.

A. From the beginning of this sale process, the Township, the City, and the Authority worked collaboratively to determine whether a sale of the System was in the best interest of our residents and all BASA customers. For about one year, the City, the Township, and the Authority, with the help of capable outside experts, obtained information needed to value the System, assessed future costs of capital and revenue requirements to address the aging System's issues, and weighed the advantages and disadvantages of the Township and City retaining ownership of the System. Throughout calendar year 2022, BASA – with the Township's and the City's input – balanced issues at various executive sessions that addressed Pennsylvania-American's offer and the Proposed Transaction with the interests and concerns of our residents and all of the customers the Authority serves as our primary focus. Ultimately, BASA, with input from the City and Township, determined that the acceptance of Pennsylvania-American's offer was in the best interest of the community due to the considerable financial investment necessary to address the infrastructure challenges posed to upgrade BASA's aging System.

Q. Did the City request and consider public input on the sale of the System?

A. Yes, this was important to us. As stated above, the public was aware that the City, the Township and the Authority were exploring the sale of the System to a third party as early as September 2021, as this exploration was mentioned at a City Council meeting. The City Council kept the public apprised of major developments throughout the sale process through the City Council meetings that took place during that time.

Additionally, before signing the asset purchase agreement ("APA") with Pennsylvania-American, the City hosted an open house on September 27, 2022, with a morning session from 10 a.m. to noon and an evening session from 6 p.m. to 8 p.m., to provide the public an opportunity to speak directly with representatives from the Authority, the City, the Township, and Pennsylvania-American regarding any concerns or thoughts about the sale. At the immediately preceding September 22, 2022 City Council meeting, I encouraged the public's attendance at the open houses to have the opportunity to directly speak with all parties involved in the Proposed Transaction and to share their thoughts. While the City has a beautiful and historical municipal building, our governing offices are located in an older four-story home. Because we wanted to ensure that residents who may be elderly or have a disability would be comfortable attending our open house, we rented out the social hall at St. Peter's Catholic Church which is centrally located downtown in the City and has free parking. There was extensive media coverage of not only Pennsylvania-American's offer, but also of our scheduled open houses. For example, Butler-based media outlets like the Butler Eagle and the Butler Radio Network, as well Western Pennsylvania stations like KDKA radio and WPXI-TV (NBC Pittsburgh) ran numerous stories. In total, there were approximately twenty-three (23) news stories that mentioned the open houses that were open to any member of the public. Significantly, approximately twenty-three (23) individuals took this opportunity and attended the open house hosted by the City, with three of those individuals attending both the morning and evening open houses.

Lastly, the Authority created a website with resources for customers pertaining to the sale including: the reasons the Authority reviewed the offer, the impact the sale will have on the community, and links to several pertinent documents related to the sale (the APA, relevant press releases, etc.). This information is still available for the public to review at https://www.resources4basacustomers.org/.

After receipt and consideration of all public input, on October 13, 2022, the City Council unanimously voted to pass City Resolution No. 2022-10-13 in support of the sale of the System, authorizing the City's special counsel to intervene in the Commission proceedings, and take all actions with respect to effectuating the sale.

Q. Is there anything further you would like to state regarding the sale process?

A. Yes. Throughout this sale process, the City and the Township have developed a strong working relationship and opened the lines of communication. Together, we have collaborated to achieve a goal that will benefit both of our constituents that will inevitably create a more cohesive community between the two municipalities. This intergovernmental cooperation can only benefit our community moving forward knowing that we have a trustworthy partner in the Township that wishes to revitalize the greater Butler area in the same way as the City's leadership.

III. BENEFITS OF THE PROPOSED TRANSACTION

Q. Please state the benefits of the Proposed Transaction.

A. The Proposed Transaction offers numerous benefits for the System, BASA generally, and all its customers. For the purposes of my testimony, I will focus on the benefits to the City and its residents that will be realized as a result of the Proposed Transaction.

From the City's perspective, the two primary benefits of the Proposed Transaction, as described in more detail below, are as follows: (1) engaging an industry expert to improve our aging System while maintaining reliable wastewater service and managing the inevitable rate increases for our residents due to the considerable investment necessary, and (2) providing the opportunity for local economic development as a result of an improved and compliant System – namely, reinvigorating the City's downtown area.

First and foremost, there is an estimated $75 million in necessary capital improvement projects to update the aging System over the next five years. Under the current ownership, this substantial investment into the System would be passed along to the approximate 14,792 BASA customers through *significant* rate increases. Avoiding these significant rate increases is particularly important for my constituents, with the most recent data indicating that almost 24% of our population already falls below the poverty line. Thus, increased utility expense could cause even further financial distress to our hard-working citizens. However, Pennsylvania-American has access to deeper financial resources than the Authority to not only fund the identified projects, but also spread the costs of improving the System across a much larger customer base.

If the Proposed Transaction is approved, BASA customers will experience a $2.50 rate increase before closing on the Proposed Transaction ("Closing") and will not experience another increase for at least one year after Closing. Conversely, absent approval of the Proposed Transaction, the Authority will likely need to impose an abrupt, significant rate increase to our residents (and all BASA customers) to help fund the capital projects. Additionally, qualified lower-income BASA customers will have access to Pennsylvania-American's customer assistance programs to help pay their bills, which is especially important considering the projected increase in rates as the improvement projects commence. BASA has no such program available, meaning these customers could be better situated with access to Pennsylvania-American's programs. The percentage of customers needing this assistance is low, but this program will provide a vital opportunity to each of those customers to save on expenses

Furthermore, the City and the Township – as the incorporating municipalities of BASA – will receive the sale proceeds after the Authority's debt is paid off and the Authority is dissolved. This influx of cash will provide the City with great flexibility in spending, but it also provides significant liquidity and a greater security blanket to allow the City to weather any sort of emergency it may face. In the event that these funds can be allocated elsewhere, they would help allow for redevelopment opportunities that may otherwise not be attainable. For example, since the COVID-19 Pandemic, the City's downtown area and local businesses have experienced a downturn. As stated above, tourism has historically been one of the largest economic drivers. The proceeds from this Proposed Transaction can provide the precise investment necessary to restore the City's downtown area – a key feature that once helped the City be placed in the Smithsonian Magazine's top ten small towns in the United States.

In a similar vein with respect to the benefits to the City's local economy, Pennsylvania-American agreed to award contracts for the anticipated development and improvement projects to local contractors, to the extent practicable and commercially reasonable. Additionally, the System is currently subject to a CAP with the Pennsylvania Department of Environmental Protection ("DEP"). Under the CAP, DEP imposed a "New Connection Prohibition" at the following pump stations: Fisher Heights Pump Station, Brewster Pump Station, Brewster Booster Pump Station, Greenwood Pump Station, Benbrook Pump Station, and Bryson Pump Station. Although the Authority may request – in writing – new sewer connections from the DEP while this prohibition is in effect, any future sewer connections are contingent upon BASA's progress and completion of tasks set forth in the CAP (which, again, require investment and rate increases). While this prohibition of new sewer connections does not impact the City directly, it discourages new businesses from opening in the greater Butler area and the Township because tapping into the System is not a guarantee. With the improved and compliant System, which Pennsylvania-American is better situated to provide, businesses will be more encouraged to open in the greater Butler area and achieve both the Township and the City's goal of a community that is a *destination* for business, industry, culture, and the arts.

Q. One of the benefits you referenced above is the sale proceeds. Does the City know how it will use the proceeds from the Proposed Transaction?

A. The City has not committed to using the proceeds in any particular way at this point. However, as always, our goal is to create a community where our constituents get the greatest bang for their buck. In other words, we wish to enhance our community with improved infrastructure such as repaved roads, sidewalks, and renovated storefronts to create a vibrant downtown community without increasing the cost of citizenship. Toward that end, there are three major areas of investment in our community that the City leadership has in mind.

<u>OPERATING INITIATIVES</u>: We believe that an initial investment into our community with these funds illustrates the significance of this effort and provides immediacy in fulfilling needs. These will likely be needs that have been deferred and in critical need of investment and improvement. This may include (but are not limited to): (1) Completion of the Main Street Streetscape, with a particular focus on sidewalks and benches; (2) Upgrades to parking resources, including but not limited to, paving and landscaping and significant restoration of the Tier Parking facility. The upgrade to the parking facility would include replacement of the antiquated equipment with modern kiosk/electronic payment equipment; (3) Implementation of a vehicle replacement plan for all city departments, which may necessitate immediate purchases of some vehicles and an account set up for long term implementation of a schedule of need and purchases, and (4) Upgrades to city parks, playgrounds and other properties that have not been covered and completed by current projects and funding through grants.

<u>**CORE INITIATIVES**</u>**:** We hope to establish a variety of investments that will fund those areas of services that are central to the City's government. These areas may include, but are not limited to, the following: (1) Establishment of a fund used exclusively to provide money for grants that require "matching funds;" (2) Establishment of a façade program for businesses in the City; (3) Establishment of a grant program for our residents to improve the "curb appeal" and safety of property including sidewalks and removal and cleanup of brush, bushes, trees, and the like; and (4) Establishment of a fund for restoration of the City streets (*i.e.*, paving, repairing potholes, and the like).

<u>**STRATEGIC INITIATIVES**</u>**:** We would like to establish the appropriate investments that will meet the long-range obligations of the City. For example, these investments may include, but are not limited to, the following: (1) Establishment of a fund, the principal of which *cannot* be accessed, except in a situation if the City would enter Act 47 status without use of that fund; (2) Establishment of a fund, the interest of which may be used to meet or minimize the Minimum Municipal Obligation for retirement accounts for the City's employees; and (3) Reduction or reimbursement of the Business Privilege or Mercantile Tax.

Q. Aside from those benefits already mentioned, are you aware of any other benefits to the Proposed Transaction?

A. Additional benefits include, but are not limited to, the following:

- Pennsylvania-American will impose a rate-freeze at $45.50 per EDU for BASA customers for at least one year following Closing;

- In its first base rate case including the System, Pennsylvania-American will request Commission approval to shift the flat rate that BASA customers currently pay to a metered rate. With this shift to a metered rate as opposed to the current flat rate, customers will be charged based on actual use, rather than an automatic flat fee;
- Pennsylvania-American has agreed to retain all active personnel – both union and non-union – employed by BASA with similar pay, retirement and health benefits;
- Pennsylvania-American will maintain an operations center at BASA's current headquarters (for at least ten years) consisting of various managers, customer service representatives, and operators;
- Pennsylvania-American agreed to include the BASA System and its damaged sewer and/or aging laterals in its first petition to the Commission in connection with its Damaged Wastewater Service Lateral pilot program;
- Pennsylvania-American also already provides water service to approximately 19,500 customers in the region. Thus, the BASA customers will now have one bill for both water and wastewater services providing our customers a more efficient payment process for both services. Additionally, this allows Pennsylvania-American to coordinate projects for both the water and the wastewater systems, reducing road closings and any residual costs to the City;
- Pennsylvania-American can draw upon a broad range of engineering and operational experience, as well as deeper financial resources than are available to BASA to address the environmental compliance challenges of the System;

- Pennsylvania-American's capability to make long-term investments in necessary capital improvements to the System; and
- Pennsylvania-American's proven record of environmental stewardship for the operation of wastewater systems to achieve compliance.

Q. Do you believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest?

A. Yes. For the reasons set forth above, I believe there is no question that this is the case.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date as may be necessary or appropriate.

VERIFICATION

I, Robert A. Dandoy, the mayor for the City of Butler, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Robert A. Dandoy

Dated: February 9, 2023

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

TOWNSHIP OF BUTLER

STATEMENT NO. 1

DIRECT TESTIMONY OF DAVE ZARNICK
PRESIDENT OF THE BOARD OF COMMISSIONERS
FOR THE TOWNSHIP OF BUTLER

With Regard To
Overview of the Township's Sale Process
Benefits of the Proposed Transaction for the Township

February 14, 2023

INTRODUCTION

Q. Please state your name and business address.

A. My name is Dave Zarnick. My business address is 290 South Duffy Road, Butler, PA 16001.

Q. In what capacity are you affiliated with the Township of Butler?

A. I am the President of the Board of Commissioners (the "BOC") for the Township of Butler (the "Township"). The Township jointly created the Butler Area Sewer Authority ("BASA" or the "Authority") with the City of Butler (the "City") to operate the wastewater collection and treatment system.

Q. Please provide a brief description of your education and work experience.

A. I graduated from Butler Area High School in 1972 and have lived in the Butler area for my entire life. I am currently self-employed as a consultant for the steel industry, where I advise steel manufacturers to ensure product control practices and engage with vendors providing supplies and services to steel companies. Prior to working as a consultant, I worked at AK Steel (formerly Armco) since 1973 – working up the ladder from a Steel Worker as an initial hire, to Shift Supervisor, to Quality Coordinator, Environmental Coordinator, and ultimately to Lead Supervisor.

I have served as a Commissioner on the Township BOC since 2008, and have been President of the BOC since 2014. In my role on the BOC, I serve on the Executive Committees for Allegheny County & Western Pennsylvania Association of Township

Commissioners and the Pennsylvania State Association of Township Commissioners. I also briefly served as President for both aforementioned associations.

Q. **Other than your professional experience, do you have any other experience in the Butler community?**

A. Yes. I currently serve on the Butler County Recreation Board and I previously served on the Butler Transit Authority Board. In addition, I often volunteer for "Meals on Wheels" with the Butler Area School District and chaperone for the Butler Area High School on field trips and the like.

Q. **Have you testified before the Pennsylvania Public Utility Commission ("Commission") before?**

A. No.

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

A. My testimony is on behalf of the Township, as a joint incorporator of the Authority, and in support of the application of Pennsylvania-American Water Company ("Pennsylvania-American" or the "Company") to purchase all the assets of the wastewater collection, treatment, and discharge system (the "System)" of BASA and begin to furnish wastewater service to BASA customers in this proceeding (the "Proposed Transaction").

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to provide a brief overview of the sale process and provide an overview of the various public benefits of the Proposed Transaction for the Township.

Q. Are you sponsoring any Exhibits with your testimony?

A. No.

I. DESCRIPTION OF THE TOWNSHIP

Q. Please provide a brief description of the Township.

Initially subdivided into North and South Butler, the Township was incorporated in 1804 after Butler County was divided into 13 separate townships. In 1854, North and South Butler were joined into one township within its present boundaries. Today, the Township is a township of the first-class with a population of approximately 17,000. The Township is governed by the BOC consisting of five members that are publicly elected. Pursuant to the Township Code, the BOC appoints a Township Manager to oversee the day-to-day operations of the Township and all its main departments (the Police Department, the Zoning Department, the Public Works Department, and the Building and Grounds Department). The Township Manager implements the policies and procedures established by the BOC and works with Township employees to help bring the BOC's goals to fruition.

Q. How is the Township's financial condition?

A. Financially, the Township is not in distress. However, the Township's costs have increased as we continue to weather the persistent effects related to the supply chain, inflation, and workforce challenges stemming from the COVID-19 Pandemic. The BOC unanimously approved the $9.5 million budget for 2023 – a notable $1.4 million increase from the 2022 budget. At this point, we are able to afford this increase without raising our residents' tax rate; instead, we used approximately $1 million in money transferred from the Township's capital reserve fund. The BOC aims to avoid raising our constituents' tax rate to the extent practicable, and the Township has achieved that goal for 12 consecutive years. As we all are aware, the economy is unpredictable and financial stability is not guaranteed – especially for our individual taxpayers as they also weather inflation and economic challenges.

II. OVERVIEW OF THE SALE PROCESS

Q. Please describe the Township's decision to explore a sale of the System.

A. While the Authority provides safe and reliable services to our residents, the aging System needs significant investments to ensure that this safe and reliable service persists. As such, the Township, the City, and the Authority's Board Members worked together to weigh the pros and cons of the Authority's continued ownership. In short, we determined that the substantial costs that will be necessary in the near future to keep the System up and running efficiently were too great for the Authority to handle and will be better facilitated/addressed by a larger, more experienced public utility. Thus, we determined that it was in the best interest of our residents to explore the potential sale of the System to a third party. This decision was unanimously reached during our September 20, 2021 BOC public meeting.

Q. Please provide a brief overview of the sale process.

A. From the beginning of this sale process, the Township, the City, and the Authority worked cohesively to carefully determine whether a sale of the System was in the best interest of all residents and customers. Together, we worked with special counsel and an industry expert to assess numerous qualitative and quantitative factors that weigh in favor of or against the Authority retaining ownership of the System. Throughout 2022, we weighed and balanced issues at various executive sessions that addressed Pennsylvania-American's offer and the Proposed Transaction with the interests and concerns of our residents and all customers the Authority serves as our primary focus. Ultimately, we determined that the acceptance of Pennsylvania-American's offer was in the best interest of the community due to the considerable financial investment necessary to address the infrastructure challenges posed to upgrade our aging System.

Q. Did the Township request and consider public input on the sale of the System?

A. Yes. Agendas for every BOC meeting are made available for the public in advance and members of the public are invited to provide comments for *any* agenda item in the beginning of every meeting. The public is also offered an additional opportunity to provide comment at the close of every meeting. Furthermore, the media is invited to tape record the meetings so long as the representative from the media announces their name and informs all attendees that the media is tape-recording the meeting.

As stated above, the public was aware that the Township, the City, and the Authority were exploring the sale of the System to a third party as early as September 2021. Despite the opportunity to provide comment on the proposal at the BOC meetings, very few residents made any comments at any BOC meeting.

Additionally, before signing the asset purchase agreement ("APA") with Pennsylvania-American, the BOC hosted an open house on September 29, 2022, with a morning session from 10 a.m. to noon and an evening session from 6 p.m. to 8 p.m., to provide the public an opportunity to speak directly with representatives from the Authority, the City, the Township, and Pennsylvania-American regarding any concerns or thoughts about the sale. Like the City, we selected both a morning and afternoon session because we wanted to ensure that any member of the public who wanted to attend could, and that they would not be prevented from doing so because of work commitments or family schedules. Our open house took place at the Township's Municipal building, a central location for local residents. At the September 19, 2022 BOC meeting, I encouraged the public's attendance at the open houses to have the opportunity to directly speak with all parties involved in the Proposed Transaction and to share their thoughts.

Local media outlets like the Butler Eagle and WBUT radio not only heavily covered the announcement of Pennsylvania-American's offer but ran stories about our open houses so that the public was aware of the opportunity to attend. Additionally, larger regional television stations in Southwestern Pennsylvania like KDKA-TV (CBS Pittsburgh) and WPXI-TV (NBC Pittsburgh) also aired stories on their broadcasts about Pennsylvania-American's offer and our public open houses. In total, approximately twenty-three (23) news stories ran online, in print, on television, and on the radio about our open houses. Thirty-three (33) individuals took this opportunity and attended the open house hosted by the BOC.

The Authority also created a website with resources for customers pertaining to the sale including the reasons the Authority reviewed the offer, the impact the sale will have on the community, and links to several pertinent documents related to the sale (the APA, relevant press releases, etc.). This information remains available for the public to review at https://www.resources4basacustomers.org/.

Finally, after review of public input, on October 11, 2022, the Authority voted unanimously to pass Resolution 10-11-2022 authorizing all actions related to the execution and performance of the APA at the Authority's public meeting.

Q. Is there anything further you would like to state regarding the sale process?

A. Yes. Throughout this sale process, the City and the Township realized that they have many shared goals – namely, the desire to revitalize the Butler area as a whole. Some of that revitalization may well involve intergovernmental cooperation. This new-found, harmonious relationship will only benefit our community moving forward into the future, especially now that we have a partner in the City to make our collective goals come to fruition.

III. BENEFITS OF THE PROPOSED TRANSACTION

Q. Please state the benefits of the Proposed Transaction from the Township's perspective.

A. The Proposed Transaction offers numerous benefits for the System, BASA generally, and all its customers. For the purposes of my testimony, I will focus on the benefits to the Township and its residents that will be realized as a result of the Proposed Transaction.

From the Township's perspective, there are two primary benefits of the Proposed Transaction, as described in more detail below: (1) engaging an industry expert to improve our aging System while maintaining reliable wastewater service and managing the inevitable rate increases for our residents due to the considerable investment necessary, and (2) providing the opportunity for local economic development as a result of an improved and compliant System.

First and foremost, there is an estimated $75 million in necessary capital improvement projects to update the aging System over the next five years. Under its current ownership, this substantial investment into the System would be passed along to the approximately 14,792 BASA customers through *significant* rate increases. Conversely, Pennsylvania-American has access to deeper financial resources than the Authority to not only fund the identified projects, but also allow BASA customers to join a much larger customer base and share the responsibility of improving Pennsylvania-American's entire service area.

If the Proposed Transaction is approved, BASA customers will experience a $2.50 rate increase and will not experience another increase for at least one year. Conversely, absent approval of the Proposed Transaction, the Authority will likely be required to impose an abrupt, significant rate increase to our residents (and all BASA customers) to help fund the projects. Additionally, the few qualified lower-income BASA customers in the Township will have access to Pennsylvania-American's customer assistance programs to help pay their bills, which the Authority does not currently provide to its customers.

Furthermore, the City and the Township – as the incorporating municipalities of BASA – will receive half of the sale proceeds after the Authority's debt is paid and the Authority is dissolved. This influx of cash will provide the Township with flexibility in spending on other public benefits in the coming years without increasing our residents' taxes (as noted above, the BOC has successfully avoided a tax increase for 12 consecutive years). For example, the proceeds from the Proposed Transaction will provide significant liquidity and a greater security blanket to allow the Township to weather any sort of emergency it may face without increasing our residents' property taxes. As I noted above, the Township's current budget for 2023 is $9.4 million; however, the economy is unpredictable and flexibility with finances is essential. Thus, these funds can restore the Township's capital reserve fund to allow for redevelopment opportunities that may otherwise not be attainable. This is significant given the limited development opportunities at present in the Township. Moreover, this financial stability would help both eliminate debt (including $1.2 million of debt incurred pursuant to the construction of our municipal building and $6.5 million incurred in connection with our recreation complex) and mitigate against the risk of future revenue shortfalls.

As for the benefits to the local economy, Pennsylvania-American agreed to award contracts for the anticipated development and improvement projects to local contractors, to the extent it is practicable and commercially reasonable. Additionally, the System is currently subject to a Corrective Action Plan ("CAP") with the Pennsylvania Department of Environmental Protection ("DEP"). Under the CAP, DEP imposed a "New

Connection Prohibition" at the following pump stations: Fisher Heights Pump Station, Brewster Pump Station, Brewster Booster Pump Station, Greenwood Pump Station, Benbrook Pump Station, and Bryson Pump Station. Although the Authority may request – in writing – new sewer connections from DEP while this prohibition is in effect, any future sewer connections are contingent upon BASA's progress and completion of tasks set forth in the CAP. This prohibition of new sewer connections discourages new businesses from opening in the Township as tapping into the System is not a guarantee. With an improved and compliant System, there will be fewer restrictions on new connections (if any) and, as a result, businesses will be encouraged to open in the Township.

Q. One of the benefits you referenced above is the sale proceeds. Has the Township determined how it will use the proceeds from the Proposed Transaction?

A. First and foremost, it is important to note that the Township has not reached any final decisions about the use of the proceeds from the Proposed Transaction, especially considering the fact that the Township does not have the potential proceeds yet and I am not in the business of counting my chickens before they hatch. Nevertheless, there is an array of potential uses that will benefit our community if the Township receives the proceeds from the Proposed Transaction. For example, the BOC may allocate at least portions of the proceeds to the following projects: (1) pay off the Township's General Obligation Note of $1.2 million, (2) fund the Non-Uniform pension plan to 100% currently requiring $2.1 million, (3) fund the construction of a new unified fire station (estimated to cost up to $3.5 million) to enhance fire protection and safety geographically in the Butler area, (4) complete construction of the Pullman Recreation Complex that is estimated to cost up to $6 million), and (5) highway intersection/traffic enhancement at Hansen Avenue/Whitestown Road/Armco Drive (estimated to cost up to $500,000 with the assistance of a grant of $1.4 million). At this time, the area where the Township plans to build the recreation complex is not marketable, but with the sale proceeds, the Township will be able to allocate funding to this project that the Township would otherwise be unable to fund. More significantly, the traffic enhancement project at the highway intersection (referenced above) is particularly important to the Township, as the intersection has been an area where numerous traffic accidents occur. For example, between 2010 and 2020, eight (8) high speed motor vehicle accidents have occurred at this intersection.

These are only a few of the ideas that the Township has considered for use of the proceeds. The reality is that the Township likely will not otherwise be able to make the necessary investment in the above-referenced projects without placing the Township in a risky financial standing. Accordingly, the proceeds from the Proposed Transaction will allow the Township to allocate the funding necessary to enhance safety to our community while simultaneously improving our residents' day-to-day lives *without* risking financial instability in the process.

Q. Aside from those benefits already mentioned, are you aware of any other benefits to the Proposed Transaction?

A. Additional benefits include, but are not limited to, the following:

- Pennsylvania-American will impose a rate-freeze at $45.50 per EDU for BASA customers for at least one year following closing on the Proposed Transaction ("Closing");
- In the first base rate case that includes the System, Pennsylvania-American will request Commission approval to shift the flat rate that BASA customers currently pay to a metered rate. With this shift to a metered rate as opposed to the current flat rate, customers will be charged based on actual use, rather than an automatic flat fee;
- Pennsylvania-American agreed to retain all active personnel – both union and non-union – employed by BASA with substantially similar pay, retirement and health benefits;
- Pennsylvania-American will maintain an operations center at BASA's current headquarters (for at least ten years) consisting of various managers, customer service representatives, and operators;
- Pennsylvania-American has agreed to include the BASA System and its damaged sewer and/or aging laterals in its first petition to the Commission in connection with its Damaged Wastewater Service Lateral pilot program;
- Pennsylvania-American also currently provides water service to approximately 19,500 customers in the region. Thus, the BASA customers will now have one bill for both water and wastewater services providing our customers a more efficient payment process for both services. Additionally, this allows Pennsylvania-American to coordinate projects for both the water and the

wastewater systems, reducing road closings and any residual costs to the Township;

- Pennsylvania-American can draw upon a broad range of engineering and operational experience, as well as deeper financial resources than are available to BASA to address the environmental compliance challenges of the System;
- Pennsylvania-American's capability to make long-term investments in necessary capital improvements to the System;
- Our low-income residents will have access to Pennsylvania-American's customer assistance programs to assist with paying their bills; and
- Pennsylvania-American's proven record of environmental stewardship for the operation of wastewater systems to achieve compliance.

Q. Do you believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest?

A. Yes. For the reasons set forth above, I believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date.

VERIFICATION

I, Dave Zarnick, the President of the Board of Commissioners, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Dave Zarnick

Dated: February 9, 2023

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

BUTLER AREA SEWER AUTHORITY

STATEMENT NO. 1

DIRECT TESTIMONY OF DUANE MCKEE
EXECUTIVE DIRECTOR OF
BUTLER AREA SEWER AUTHORITY

With Regard To
A General Overview of BASA and its Wastewater System
Environmental Compliance Issues with the Wastewater Collection, Treatment, and Discharge System
Challenges with the Wastewater Collection, Treatment, and Discharge System
Benefits of the Proposed Transaction for the System

February 14, 2023

<u>INTRODUCTION</u>

Q. Please state your name and business address.

A. My name is Duane McKee. My business address is 100 Litman Road, Butler, PA 16001.

Q. In what capacity are you affiliated with the Butler Area Sewer Authority?

A. I am Executive Director for the Butler Area Sewer Authority ("BASA" or the "Authority").

Q. Please provide a brief description of your education and work experience.

A. I graduated from Pennsylvania State University with a Bachelor of Science degree in Industrial Engineering. I have served as the BASA Executive Director since September 2017. As Executive Director, I oversee and manage all aspects of the Authority's administration including its finances, sewage treatment, sewage collection engineering services, the pretreatment program, realty transfer infiltration and inflow inspection program, and IT/GIS management systems and safety. Prior to my role as Executive Director for BASA, I worked for the Township of Cranberry in three different roles: between 2007 and 2017, I served as the Assistant Township Manager with a focus based in operations; between 2003 and 2007, I served as the Director of Public Works Operations; and between 1994 and 2004, I served as the Director of Engineering Services.

Q. Have you testified before the Pennsylvania Public Utility Commission ("Commission") before?

A. No.

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

A. My testimony is on behalf of BASA and in support of the application of Pennsylvania-American Water Company ("Pennsylvania-American") to purchase all the assets of the wastewater collection, treatment, and discharge system (the "System") of BASA and begin to furnish wastewater service to BASA customers in this proceeding (the "Proposed Transaction").

Q. What is the purpose of your direct testimony and summarize the key points.

A. The purpose of my testimony is as follows: (1) to provide a description of the System, (2) to describe the challenges with the aging System, and (3) to explain the benefits of the Proposed Transaction with respect to the System.

Q. Are you sponsoring any Exhibits with your testimony?

A. No.

I. DESCRIPTION OF BASA AND ITS WASTEWATER SYSTEM

Q. Please provide a general overview of BASA and its Wastewater System Operations.

A. Pursuant to the Municipality Authorities Act of 1945, the City of Butler (the "City") and the Township of Butler (the "Township") incorporated BASA on November 3, 1962 to serve both municipalities, connect the collection sewers, and expand the sewage treatment plant. The Authority has a service area of approximately 32.5 square miles.

BASA provides wastewater service to both the City and portions of the Township. While the City and the Township incorporated BASA, the Authority also provides service to portions of the following other municipalities: Center Township, the Borough of East Butler, Summit Township, Oakland Township, and Connequenessing Township (the "Service Area").

Q. Please provide a description of BASA's wastewater system.

A. The Authority operates and maintains the System, consisting of 224 miles of interceptor sewers, eight (8) miles of force mains, twenty-three (23) pump stations (Benbrook Pump Station, Brewster and Brewster Booster Pump Station, Bryson Road Pump Station, Center Avenue Pump Station, Cupps Road Pump Station, Deshon Pump Station, Diamond Street Pump Station, Fisher Heights Pump Station, Foxcroft Drive Pump Station, Garden Pump Station, Greenwood Drive Pump Station, Karns Crossing Pump Station, the Links Pump Station, Monroe Street Pump Station, Negley Avenue Pump Station, Northvue Pump Station, Rock Lick Creek Pump Station, Township Line Pump Station, September Drive Pump Station, Sugarcreek Pump Station, Ziegler Avenue Pump Station, Pullman Center Pump Station and Ball Park Pump Station), seven (7) flow equalization tanks, and the wastewater treatment plant located on Litman Road ("WWTP"). The Authority also owns nearly 6,500 manholes. The BASA WWTP has the ability to collect, treat, and convey up to 10 million gallons of sewage per day.

The System serves approximately 14,792 customers in the Service Area – which, as stated above, includes customers in the City, and portions of the Township, Center

Township, the Borough of East Butler, Summit Township, Oakland Township, and Connequenessing Township.

II. COMPLIANCE ISSUES AND CHALLENGES WITH THE SYSTEM

Q. Please provide an overview of any compliance issues with the System experienced by BASA.

A. In 2018, six total pump stations from the System experienced wet weather sanitary sewer overflows ("SSOs"). The Brewster Booster, Fisher Heights, and Bryson Road Pump Stations have experienced recurring SSOs since the heavy rainfall in 2018. For example, during high flows, the two pumps at the Brewster Pump Station will pump approximately 200 gallons per minute more than the original peak design flow for the pump – *i.e.*, 600 gallons per minute. By way of further example, the Fisher Heights Pump Station only reported one (1) SSO between 2015 and 2017; however, there were four (4) reported SSO events as a result of the record rainfall in 2018. Similarly, the Authority's WWTP located at Litman Road failed the annual whole effluent toxicity ("WET") test in the fourth quarter of 2018.

Additionally, the Authority filed Non-Compliance Reports with the Pennsylvania Department of Environmental Protection ("DEP") for fecal violations on the following dates: May 10, 2021; June 11, 2021; July 18, 2021; August 31, 2021; and February 28, 2022. The Authority also filed a Non-Compliance Report for ammonia nitrogen on May 19, 2021.

In sum, the last few years have brought a noticeable increase in environmental compliance issues for the System.

Q. Is BASA subject to any Corrective Action Plan with DEP as a result of these environmental compliance issues? If so, please provide an overview of the Authority's plan.

A. In accordance with the DEP Chapter 94 regulations, the Authority submitted a Corrective Action Plan (the "CAP") on March 11, 2019 to the DEP to assess and address the recurring wet weather SSOs contributing to excessive infiltration and inflow ("I&I") during the 2018 record rainfall year. More specifically, the CAP seeks to reduce the overloaded conditions and/or to provide the additional capacities, if necessary, to address the hydraulic overload conditions and SSOs.

While BASA has always sought to identify and eliminate excessive I&I sources in the System, the CAP specifically focuses on overflows in the Fisher Heights Pump Station, the Brewster Booster Pump Station, and the Bryson Pump Station. The CAP requires unique tasks for each pump station; however, it generally requires BASA to complete the following actions for each pump station: (1) redirect the SSOs to a different area and install a flow meter to measure the actual volume and flow rate of any SSO, (2) monitor and meter all overflow events at the pump station, (3) initiate a preliminary assessment and design of the existing pump station, pump configuration, and discharge force main to identify feasible alternatives to increase capacity of the pump station, (4) advertise for bids to complete construction of numerous structural improvements to eliminate overflows, and (5) award contracts for the aforementioned recommended structural improvements by January 2023 and begin construction for certain improvements by 2024.

The CAP also imposed a "New Connection Prohibition" at the following pump stations: Fisher Heights Pump Station, Brewster Pump Station, Brewster Booster Pump Station, Greenwood Pump Station, Benbrook Pump Station, and Bryson Pump Station. Although BASA may request – in writing – new sewer connections from DEP while this prohibition is in effect, any future sewer connections are contingent upon BASA's progress and completion of tasks set forth in the CAP.

Q. Is there anything further you would like to address regarding the compliance issues or challenges with the System, generally?

A. As stated above, the System is aging. For example, only three percent (3%) of sewer lines are under ten (10) years old. Conversely, forty-six percent (46%) of the Authority's sewer lines are between twenty-five (25) and thirty-four (34) years old, thirty-one percent (31%) are between thirty-five (35) and eighty-five (85) years old, and twenty percent (20%) are more than eighty-five (85) years old. Similarly, approximately eighty percent (80%) of the Authority's manholes are made of concrete, with the remaining twenty percent (20%) of the manholes made of brick. Concrete and brick manholes are susceptible to the corrosive sewer processes that can exacerbate issues of infiltration in a wastewater system like ours. Rehabilitating and/or replacing our nearly 6,500 manholes is a costly but necessary endeavor to remedy the persistent inflow and infiltration issues with our System.

Through implementation of the CAP, BASA has uncovered several shortcomings in the System and, as a result, it has become evident that a comprehensive overhaul of the aging System is necessary. For example, since 2018, the Authority has conducted 2,601 inspections to address illegal connections and I&I through its Realty Transfer Inspection Program. Nearly forty percent (40%) of these inspections failed and required a replacement lateral. Additionally, as noted above, the CAP required BASA to complete numerous capital improvements to bring the System into compliance, including but not limited to installation of new SSO flow meters and numerous structural improvements in the System to begin as early as spring 2023.

BASA cannot fund the necessary capital improvements without a significant increase in rates to its customers. Even with a significant rate increase, BASA lacks the necessary skillset, expertise, and project experience to complete the large scale, complex projects that are needed to bring the System into compliance. The Authority currently has thirty-three (33) full time employees with an average age of 50 years old. Since 2017, twelve (12) employees have retired from the Authority, and the Authority expects at least two (2) more retirements by April 2023. The less experienced BASA employees will greatly benefit from the leadership of Pennsylvania-American's more experienced capital improvement teams, as well as the enhanced support from a much larger workforce.

In short, while BASA has worked diligently for years to continue to offer safe, reliable, and cost-efficient service to the public, the necessary capital investments to bring its aging System into compliance while simultaneously rendering safe, reliable, and cost-efficient service to the public requires the experience and capital of a larger operator, like Pennsylvania-American, especially considering the $40.6 million BASA in current debt.

III. BENEFITS OF THE PROPOSED TRANSACTION

Q. Please state the benefits of the Proposed Transaction with respect to the System.

A. The Proposed Transaction offers numerous benefits for the System, BASA generally, and its customers. It is my understanding that Paul F. Sybert, the Chairman of the BASA Board, will discuss the overall benefits to customers from the Proposed Transaction. Thus, for purposes of my testimony, I will solely focus on the benefits to the System that will be enjoyed through this partnership with Pennsylvania-American, although it is important to note that the numerous operational benefits I am summarizing will certainly improve the customers' experience, as well.

Pennsylvania-American already provides water service to approximately 19,500 customers in the region. It is my understanding that because of this, the Proposed Transaction will allow for synergies and economies of scale, as the water and wastewater operations in the Service Area will both be handled by common, shared support service. These benefits range from a combined billing process for both services to more efficient capital improvement planning and execution for both systems.

Additionally, Pennsylvania-American – as a leading wastewater provider in the Commonwealth – has the expertise and technical experience with large scale, complex improvement projects, such as those needed for the aging and declining BASA System. Notably, Pennsylvania-American prepared an investment project and recurring project budget estimate totaling approximately $75 million in *necessary* capital investments to update the aging System and address BASA's significant I&I issues over the next five years alone. Some of these projects include, but are not limited to, the following improvements: funding safety improvements at pumping stations; entirely replacing certain pump stations; flood studies and flood hazard reinforcement of the BASA treatment plant; and replacing and/or improving manholes across the System. Pennsylvania-American not only has access to deeper financial resources than the Authority to fund the identified projects but has a much more experienced workforce as well. As I mentioned above, the Authority's workforce on the whole is closer to retirement age than not. After closing of the Proposed Transaction ("Closing"), our remaining younger employees will benefit from the leadership of Pennsylvania-American's more experienced team.

Similarly, Pennsylvania-American estimates that the System requires nearly $1 million of improvements and replacement for its service laterals over the next five (5) years. As stated above, the Authority has conducted 2,601 inspections to address the significant I&I issues with the System through the Realty Transfer Inspection Program. To date, forty percent (40%) of these inspections have revealed that the sewer laterals must be replaced. Under the Authority's ownership, the customers must bear the cost for any replacement or repair to a damaged lateral, which can be up to $8,500. However, if the Proposed Transaction is approved, Pennsylvania-American is committed to including the BASA System and the damaged sewer and/or aging laterals in its first petition to the Commission in connection with its Damaged Wastewater Service Lateral pilot program (the "Program"). This Program will spread the costs of the lateral projects across Pennsylvania-American's large customer base, which the Authority's customers will now have the benefit of joining, allowing them to share the costs of replacing damaged sewer laterals with other Pennsylvania-American customers.

As stated above, the required improvements to the System are vast and imminent per the current CAP in place. The Proposed Transaction will provide immediate benefits to BASA and its customers as a result of Pennsylvania-American's greater access to capital and operational resources to begin the complex overhaul and upgrades to finally address the environmental compliance challenges of the System. Currently, BASA residential customers are charged a flat rate of $43.00 per EDU. The aforementioned infrastructure improvements to the aging System are necessary. Absent approval of the Proposed Transaction, the substantial investment needed to implement these necessary improvements will be passed onto the 14,792 BASA customers through *significant* rate increases. Conversely, under the APA, Pennsylvania-American will impose a rate freeze at $45.50 per EDU[1] for BASA customers for at least one year after Closing. In its first base rate case that includes the System, Pennsylvania-American will request Commission approval to shift the flat rate that BASA customers currently pay to a metered rate – *i.e.*, customers will now only be charged for actual use, rather than a flat rate.

Q. What benefits, if any, will the System receive with respect to environmental compliance?

A. Pennsylvania-American, as the largest investor-owned water and wastewater system in the Commonwealth, has more resources than BASA to resolve the extensive environmental issues identified in the Authority's CAP in a more cost-efficient manner. This ability is one of the primary reasons that the Authority, the City, and the Township

[1] The Authority agreed to raise the rates from $43.00 to $45.50 as part of our negotiations with Pennsylvania-American in order to secure (i) the period of the rate freeze (later of first anniversary of Closing or January 1, 2025), and (ii) the position that Pennsylvania-American would propose moving from BASA's flat rate system to a system based on metered usage in its first base rate proceeding.

ultimately determined that a sale to Pennsylvania-American would be in the best interest of the System and its customers. For example, Pennsylvania-American employs a Manager of Wastewater Compliance, whose *sole* purpose is to address environmental compliance for *all* of the company's wastewater treatment plants in conjunction with its compliance team. BASA's employees will be incorporated into Pennsylvania-American's much larger compliance team, which has shared resources and more advanced management tools. Our employees have worked hard to keep the System in compliance throughout the years; however, the System will greatly benefit from Pennsylvania-American's Environmental Management Plans, which are reviewed and confirmed each quarter to ensure that compliance issues are continuously improving.

Q. Please describe any further benefits from the Proposed Transaction.

A. BASA and its customers will realize many additional benefits from the sale of its wastewater system to Pennsylvania-American beyond those solely related to the System. These benefits include, but are not limited to, the following:

- BASA customers will experience the enhanced customer service and operational functions offered by Pennsylvania-American. For example, the Authority's call center is available from 8:00 a.m. to 4:00 p.m., as opposed to Pennsylvania-American's call center that is available from 7:00 a.m. to 7:00 p.m. Additionally, Pennsylvania-American customers can also reach a representative via electronic mail at any time at inforpa@amwater.com, a service that the Authority does not provide its customers;

- The retention of all active personnel employed by BASA in operating the System with substantially similar retirement and health benefits, a critical requirement for the Proposed Transaction;
- Pennsylvania-American agreed to award contracts for development projects to local Butler County-based contractors, to the extent it is feasible and at a reasonable cost to all ratepayers;
- Pennsylvania-American will maintain an operations center at BASA's current headquarters (for at least ten years) consisting of various managers, customer service representatives, and operators;
- Pennsylvania-American can draw upon a broad range of engineering and operational experience, as well as deeper financial resources than are available to BASA to address the environmental compliance challenges of the System; and
- Pennsylvania-American's capability to make long-term investments in necessary capital improvements to the System.

Q. Do you believe that the Proposed Transaction provides affirmative public benefits and is in the public interest?

A. Yes. For the reasons set forth above, I believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest. I urge the Commission to promptly approve the Proposed Transaction.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date as may be necessary or appropriate.

VERIFICATION

I, Duane McKee, the Execute Director of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Duane McKee

Dated: February 9, 2023

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

BUTLER AREA SEWER AUTHORITY

STATEMENT NO. 2

DIRECT TESTIMONY OF PAUL F. SYBERT
CHAIRMAN OF THE BOARD OF THE
BUTLER AREA SEWER AUTHORITY

With Regard To
Overview of BASA's Sale Process
BASA Rates
Benefits of the Proposed Transaction for the Customers

February 14, 2023

INTRODUCTION

Q. Please state your name and business address.

A. My name is Paul F. Sybert. My business address is 100 Litman Road, Butler, PA 16001.

Q. In what capacity are you affiliated with the Butler Area Sewer Authority?

A. I am Chairman of the Board of Directors (the "Board") for the Butler Area Sewer Authority ("BASA" or the "Authority").

Q. Please provide a brief description of your education and work experience.

A. I graduated from Slippery Rock University in 1986 with a Bachelor's degree in Chemistry. I have over thirty-five (35) years of experience working in the areas of manufacturing support, Security, Health & Safety, Environmental and Information Technology. In addition to my role as Chairman of the BASA Board, I am the Health, Safety, and Environment ("HSE") Manager at Calumet Penreco. As an HSE Manager, I oversee all health, safety, environmental, training and security activities as well budgeting for sites and ensuring OSHA compliance in my region. Prior to my promotion to HSE Manager in 2014, I worked for Calumet Penreco as an Environmental Supervisor between 2003 and 2014 and as a Senior Chemist between 1993 and 2003.

Q. Have you testified before the Pennsylvania Public Utility Commission ("Commission") before?

A. No.

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

A. My testimony is on behalf of BASA and in support of the application of Pennsylvania-American Water Company ("Pennsylvania-American" or the "Company") to purchase all the assets of the wastewater collection, treatment, and discharge system (the "System)" of BASA and begin to furnish wastewater service to BASA customers in this proceeding (the "Proposed Transaction").

Q. What is the purpose of your direct testimony and summarize the key points.

A. The purpose of my testimony is to: (1) discuss the sale process, (2) explain how the Authority sets its rates and (3) provide an overview of the various public benefits of the Proposed Transaction.

Q. Are you sponsoring any Exhibits with your testimony?

A. Yes.

I. <u>OVERVIEW OF THE SALE PROCESS</u>

Q. Please describe the Authority's decision process in concluding that a sale of the System was in the best interest of its customers.

A. The decision to sell the System was the result of deliberate consideration by the Authority's Board, the City of Butler (the "City"), and the Township of Butler (the "Township"). Over the course of its existence, the Authority has sought to provide its customers safe, reliable, and cost-efficient service. However, with the capital projects required by the Authority's Corrective Action Plan ("CAP") now imminent, the

Authority, the City and the Township ultimately agreed that the necessary capital investments to bring the aging System into compliance while simultaneously rendering safe, reliable, and cost-efficient service to the public requires the experience and resources (and capital) of a larger operator, like PAWC, especially in light of BASA's existing $40.6 million in debt.

Together, we undertook a thorough year-long process, along with capable outside engineering experts, to value the System, assess future costs of capital and revenue requirements to address the aging System's issues, and carefully consider the points of view and the numerous qualitative and quantitative factors that weigh in favor of or against the Authority retaining ownership of the System. We weighed and balanced issues at numerous public Board meetings and Executive sessions that addressed Pennsylvania-American's offer and the Proposed Transaction with the interests and concerns of the BASA customers and the community as our primary focus.

Q. Did the Authority request and consider public input on the sale of the System?

A. Yes. As early as September 2021, the Board announced at a public Board meeting that it had recently attended a meeting with Pennsylvania-American, the City, and the Township where the Company indicated its interest in acquiring the BASA System. Thus, the Board, the City, and the Township collectively began exploring the potential sale to a third party. Agendas for every Board meeting are made available for the public in advance and members of the public are invited to provide comments at every Board meeting, which numerous BASA customers did to voice their support and/or concerns regarding the potential sale of the System to a third party. For example, the Board received and considered public comments regarding the potential sale at the following meetings: October 12, 2021; November 9, 2021; December 14, 2021; January 11, 2022; March 8, 2022; May 10, 2022; and June 14, 2022.

Also, throughout 2022, the Board made a deliberate effort to ensure that its customers were continually updated throughout the exploration of the potential sale of the System in the months before ultimately entering the asset purchase agreement ("APA") with Pennsylvania-American. For example, on September 13, 2022, BASA sent a letter to its customers summarizing the offer it received from Pennsylvania-American to acquire the System. This letter was mailed directly to the Authority's customers' addresses, and it was also posted on the website for easy and transparent access. Notably, before signing the APA, the Board announced that the City and Township would be, respectively, hosting two open houses on September 27, 2022 and September 29, 2022 with a morning session from 10 a.m. to noon and an evening session from 6 p.m. to 8 p.m. These open houses provided the public the opportunity to speak directly with representatives from the Authority, the City, the Township, and Pennsylvania-American regarding any concerns or thoughts about the sale.

The Authority also created a website with resources for customers pertaining to the sale including the reasons the Authority reviewed the offer, the impact the sale will have on the community, and links to several pertinent documents related to the sale (the APA, relevant press releases, etc.). This information is available at https://www.resources4basacustomers.org/. A pdf version of the information available on this website is attached as **BASA Exhibit PFS-1** to this testimony.

After the open houses and public input, on October 11, 2022, the Board voted unanimously to pass Resolution 10-11-2022 authorizing all actions related to the execution and performance of the APA at the Board's public meeting.

Finally, BASA sent its customer another letter on October 19, 2022 informing them that the Authority's Board, the City of Butler, and Butler Township voted to move forward with PAWC's offer and sign an APA with the company. This second letter was mailed to customers' addresses and was also posted on the website.

II. BASA'S RATE SETTING PROCESS

Q. How does the Authority establish its annual rates?

A. Pursuant to the Municipality Authorities Act, 53 Pa. C.S. § 5607(d)(9), the Authority must establish reasonable and uniform rates for its customers. The System serves approximately 14,792 customers in the service area – which includes customers in the City and portions of the Township, Center Township, the Borough of East Butler, Summit Township, Oakland Township, and Connequenessing Township. As of July 2022, all residential customers are charged a flat fee of $43.00 per EDU each month.

Q. How frequently has the Authority adjusted its rates?

Rates have only been increased when necessary. Since 2001, the Authority has incrementally adjusted rates fourteen (14) times. If the Proposed Transaction does not get approved, we expect that rate increases will be necessary, as discussed below.

III. BENEFITS OF THE PROPOSED TRANSACTION

Q. Please state the benefits that the Authority's customers will enjoy under the Proposed Transaction.

A. The Proposed Transaction offers numerous benefits for the System, BASA generally, and its customers. For the purposes of my testimony, I will focus on the benefits to the customers that will be enjoyed through this partnership with Pennsylvania-American.

While rate increases for our customers are inevitable due to the necessary capital improvements for the System, the Proposed Transaction will provide a better opportunity to keep rates manageable while simultaneously partnering with an industry expert to improve the aging System. For example, under the APA, Pennsylvania-American will impose a rate-freeze at $45.50 per EDU for BASA customers for at least one year after closing on the Proposed Transaction ("Closing").[1] In the first base rate case that includes the System, Pennsylvania-American will request Commission approval to shift the flat rate that BASA customers currently pay to a metered rate. With this shift to a metered rate as opposed to the current flat rate, customers will be charged based on actual use, rather than an automatic flat fee.

More importantly, there is an estimated $75 million in necessary capital improvement projects needed to update the aging System over the next five (5) years alone. Under the Authority's ownership, this substantial investment into the System would be passed onto the 14,792 BASA customers through *significant* rate increases. Conversely, if the Proposed Transaction is approved, BASA customers will experience a

[1] As part of the negotiations with Pennsylvania-America, the Authority agreed to raise the rates from $43.00 to $45.50 to secure (i) the period of the rate freeze (later of first anniversary of closing or January 1, 2025), and (ii) the commitment that Pennsylvania-American would propose moving from BASA's flat rate system to a system based on metered usage in its first base rate proceeding.

$2.50 rate increase prior to Closing and will not experience another increase for at least one year after Closing. Lower-income BASA customers will also have access to Pennsylvania-American's customer assistance programs to help pay their bills, which is a significant benefit as the Authority does not have a similar or equivalent program for these customers. Thus, absent approval of the Proposed Transaction, the Authority anticipates an abrupt, significant rate increase to our customers to help fund the projects without any viable low-income assistance program available. However, if the Proposed Transaction is approved, customers will benefit from joining a larger customer base that is served by a larger and more experienced service provider that will improve the condition of the System and, thus, the customer experience.

Similarly, Pennsylvania-American has agreed to include the BASA System and its damaged sewer and/or aging private laterals in its first petition to the Commission in connection with its Damaged Wastewater Service Lateral pilot program (the "Program"). Our customers often attend meetings complaining of the aged and damaged laterals on their property. The cost for any replacement of a damaged lateral can reach up to $8,500 that the customers are required to pay themselves. Under Pennsylvania-American's proposed plan for the Program, the cost of repairing or replacing damaged laterals will be shared among all Pennsylvania-American customers, thus improving the wastewater system in the service territory as a whole.

Pennsylvania-American also already provides water service to approximately 19,500 customers in the region. Those who are also BASA customers will now have one bill for both water and wastewater services, providing our customers a more efficient payment process for both services. Additionally, Pennsylvania-American providing both water and wastewater services will provide synergy for future improvements or repairs for any compliance issues with *both* systems.

Q. You detailed several benefits for the customers. Are there any benefits to the employees of the Authority?

A. Yes. Pennsylvania-American agreed to retain all active personnel – both union and non-union – employed by the Authority with substantially similar pay, retirement and health benefits. This was a crucial benefit of the APA from the Board's perspective. Our employees have worked hard to provide safe, reliable, and cost-efficient service to our customers throughout the years. It was imperative that our employees remain employed with similar pay regardless of ownership of the System.

Q. Are you aware of any other benefits to the Proposed Transaction?

A. As stated above, there are ample benefits that the customers will enjoy if the Proposed Transaction is approved. However, there are various other benefits under the Proposed Transaction. These benefits include, but are not limited to, the following:

- Pennsylvania-American agreed to award contracts for development projects to local, Butler County-based contractors, to the extent it is feasible and commercially reasonable;
- Pennsylvania-American will maintain an operations center at BASA's current headquarters (for at least ten years) consisting of various managers, customer service representatives, and operators;

- Pennsylvania-American can draw upon a broad range of engineering and operational experience, as well as deeper financial resources than are available to BASA to address the environmental compliance challenges of the System;
- Pennsylvania-American's capability to make long-term investments in necessary capital improvements to the System; and
- Pennsylvania-American's proven record of environmental stewardship for the operation of wastewater systems to achieve compliance.

Q. Do you believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest?

A. Yes. For the reasons set forth above, I believe that the Proposed Transaction provides substantial affirmative public benefits and is in the public interest. I urge the Commission to promptly approve the Proposed Transaction.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date as may be necessary or appropriate.

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basa

OUR COMMITMENT | HISTORY OF BASA | PROPOSED OFFER | OPEN HOUSES | WHAT OTHERS ARE SAYING | ADDITIONAL RESOURCES | CONTACT US

UPDATE: On Tuesday, October 11, BASA's board of directors voted unanimously to sign an Asset Purchase Agreement (APA) with Pennsylvania American Water, and the board subsequently signed the APA. BASA was engaged in discussions with the company for nearly a year to acquire its wastewater system for $231.5 million. As the sole owners of BASA, the City of Butler and Butler Township officials considered and voted upon individual resolutions regarding the sale. On Thursday, October 13, City of Butler officials voted upon and passed a resolution to support the sale. The resolution passed with the mayor and each city council member voting in the affirmative. On Monday, October 17, Butler Township commissioners also considered and passed a resolution that affirmed support for the sale during their monthly public meeting. Four commissioners voted in the affirmative and one abstained. Next, Pennsylvania American Water will initiate a formal application to the Pennsylvania Public Utility Commission (PUC). The process to secure PUC approval can take anywhere from nine months to one year. To stay updated on this acquisition, please continue to visit this website. Should you have comments, questions, or suggestions regarding this acquisition, you can submit them under the Contact Us tab.

The Butler Area Sewer Authority (BASA) is currently engaged in a discussion with the Pennsylvania American Water Company (PAWC) to sell its wastewater system. Above all, BASA wants to ensure that this proposed acquisition benefits our customers, employees, and the communities we serve.

A decision to potentially sell our sewer system ensures that:

- BASA's current operations center will be maintained for a minimum of 10 years once the facility is acquired.
- PAWC would complete BASA's list of Capital Cost projects and upgrades that total more than $75 million and PAWC commits to use Butler Area contractors for the work.
- BASA's current debt of $49 million will be eliminated using the proceeds from the sale.
- All BASA employees are guaranteed their jobs at the same salaries and will have access to substantially similar retirement/pension and insurance benefits.
- Highest-level of environmental regulations will be adhered to.
- Public transparency for customers.
- As the sole owners of BASA, the City of Butler and Butler Township would use proceeds obtained from the acquisition towards projects that will benefit residents in the local area.

Our Commitment to the Community

That is why we will be hosting a series of open houses, which will be held on September 27 and 29. These open houses will afford us the opportunity to hear directly from our customers and answer their questions. Our commitment to our customers, employees, and local communities remains steadfast. We know that this proposed acquisition will impact them, and they continue to remain our priority.

History of BASA

Under the Municipalities Authorities Act, the City of Butler and Butler Township incorporated the Butler Area Sewer Authority on November 3, 1962. The purpose of this authority was to serve both municipalities, connect the collection sewers, and enlarge and expand the sewage treatment plant.

While the City of Butler and Butler Township solely own BASA, the authority also provides services to six other municipalities including Center Township, East Butler Borough, parts of Connoquenessing Borough, Summit, and Oakland townships, and a small portion of Penn Township.

BASA began providing services to these municipalities at various points in time over the years. Specifically, Center Township, East Butler Borough, and Summit Township in 1974, Oakland Township in 1994, parts of Connoquenessing Borough in 1995, and Penn Township in 2003.

Information on Potential Acquisition

In December 2021, BASA's board of directors entered into an exclusivity agreement with the Pennsylvania American Water Company (PAWC) to discuss a proposed acquisition of our wastewater system.

BASA had a fiduciary responsibility and economic obligation to the communities it serves to thoroughly assess its aging infrastructure, outstanding debt, and what future projects would need to be undertaken just to keep the facility operational.

During the past months, it was important for BASA to deal with PAWC under a confidentiality agreement. This enabled BASA's officials to determine what type of offer from PAWC would benefit the communities it serves. Specifically, two areas of focus for us have been the Capital Cost projects totaling $75,815,000 that need to be completed and BASA's $49 million debt.

After months of ongoing discussions, BASA received an offer from PAWC and agreed to an Asset Purchase Agreement. This procedural step enables BASA to present PAWC's offer to the public. BASA officials have not voted yet on a final decision to sell.

PAWC's Offer

PAWC made a formal offer of $231.5 million to acquire our wastewater management system.

According to PAWC's offer, BASA's debt of $49 million will be eliminated utilizing the proceeds of the sale. PAWC has guaranteed job security for all 34 BASA employees, and it will maintain the existing operations center for a minimum of 10 years. Additionally, PAWC will complete the list of Capital Cost projects, and carry out extensive and much-needed repairs to the facility.

As part of the proposed offer, BASA customers are guaranteed a one-year rate freeze that would become effective on the anniversary of the sale or by January 1, 2025. Currently, BASA can unilaterally raise rates at any time without needing approval from a governing agency. If PAWC wants to raise rates on customers, by law, it must petition the Public Utility Commission (PUC) and obtain approval before it can do that. That process can take anywhere between six and nine months.

If completed, the City of Butler and Butler Township—because they are the sole owners of BASA—will receive proceeds from the sale. While no final decisions have been made yet, a planning process is underway. Officials from the City of Butler and Butler Township would use proceeds obtained from the acquisition towards community projects that will benefit residents in the local area. Specifically, City of Butler and Butler Township officials want to hear directly from residents on what projects they would most benefit from.

Reasons Why We Are Reviewing This Offer

BASA has infrastructure challenges that will require considerable financial investment to maintain the current system for our customers. Our communities are currently being serviced by an aging and declining wastewater system that needs major and expensive repairs. Private companies like PAWC can maintain and conduct upgrades in a more efficient and effective manner as its statewide network enables them to spread out costs among their large ratepayer base. Specifically, aging laterals are another important issue for our customers that will be alleviated should this deal go through. Currently, if a BASA customer's laterals need to be replaced or repaired, the customer is required to foot the bill. On average, lateral replacements can cost customers $8,500. As part of the agreement, PAWC will petition the PUC within two years of closing to request approval to initiate a pilot program that will replace or repair customers' laterals (the pipes that connect homes and businesses to the public sewers to address the stormwater inflow).

Impact on the Community

Customers

- Customers will be guaranteed a minimum one-year rate freeze that would take effect upon closing until the later of the one-year anniversary of the closing or January 1, 2025. BASA's rates are well-below many other sewer authorities across Pennsylvania and have remained arbitrarily low for years. Because of the operational needs that BASA's facility currently requires, it will implement a rate increase of $2.50 dollars prior to or on the day the acquisition is finalized. This rate increase is taking place regardless of whether the acquisition occurs because of the extensive upgrades and repairs that BASA's facility needs. Once this acquisition is finalized, PAWC has guaranteed customers a minimum one-year rate freeze. Currently, BASA can unilaterally raise rates at any time without needing approval from an outside governing agency. If PAWC wants to raise rates on any customers in the future, by law, it must petition the Public Utility Commission (PUC) and obtain approval to allow rates to be raised—a process that takes approximately nine months.
- This will result in a transition from a flat rate fee to a metered rate, meaning customers would only be charged for the wastewater services they use.
- Additionally, low-income residents will have access to PAWC's grant programs that will help them pay bills.
- PAWC will petition the PUC to request approval to initiate a pilot program that will replace or repair customers' laterals to address stormwater inflow (lateral pipes are the pipes that connect homes and businesses to the public sewers). BASA customers have already experienced costly headaches caused by aging laterals that have failed and damaged their properties. Currently, if a BASA customer's laterals need to be replaced or repaired, the customer is required to foot the bill. On average, lateral replacements can cost customers $8,500. If PAWC acquires BASA and the PUC approves the pilot program, it will spread out the costs of these lateral projects and individual customers will not have to face the burden of spending thousands of dollars.

Community

- As the sole owners of BASA, the City of Butler and Butler Township will receive proceeds.
- While no final decisions have been made yet, a planning process is underway. Officials from the City of Butler and Butler Township would use these proceeds towards projects that benefit residents in the local area.

Environmental

- PAWC will undertake necessary permits to operate our wastewater systems and adhere to all Pennsylvania Department of Environmental Protection (DEP) consent decrees.

Employees

- All of our employees (union and non-union) will retain their jobs based on current salaries and collective bargaining agreements.
- Employees will have access to substantially similar retirement/pension plans and benefits (like health, dental, and vision insurance).

Open Houses

City of Butler

Date:
Tuesday, September 27, 2022

Time:
Morning Session
10 am – Noon

Evening Session
6 pm – 8 pm

Location:
St. Peter's Social Hall
127 Franklin St
Butler, PA 16001

Butler Township

Date:
Thursday, September 29, 2022

Time:
Morning Session
10 am – Noon

Evening Session
6 pm – 8 pm

Location:
Municipal Building
290 S Duffy Rd
Butler, PA 16001

What Others Are Saying

According to the American Society of Civil Engineers (ASCE) latest infrastructure report card, Pennsylvania's wastewater systems was given a D—.

Jordan Grady, President of the Butler County Chamber of Commerce, called the potential sale of the authority to PAWC:

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surface waters each year. The average age of most sewer systems is approaching 70 years with many having pipes over 100 years old. 1.6 million homes in PA are served by on-lot systems with failure rates of nearly 20%. Half of the State's Sewage Facilities Plans are over 20 years old. It is estimated that the Commonwealth has a funding gap of $8.4 billion over the next 10 years to repair existing systems, upgrade existing systems to meet regulatory requirements, control Combined Sewer Overflows, address illicit Sanitary Sewer Overflows, and construct new or expand existing systems to meet increasing demands. Available funding over that time is estimated to be $900 million, approximately 10% of the required annual investment."

services," Grady said. He said he trusts the commissioners in Butler Township and council members in Butler to properly invest the funds so that they make "profound impacts on the community as a whole." "The potential sale has the opportunity to be a true win-win for the area," Grady said.

- Butler Eagle, 8/24/22

Brian White, Superintendent, Butler Area School District said:

"One thing that does strike me is so many communities are going through (increases) because of mandated upgrades from the federal government," White said. "As an entity that deals with a lot of unfunded mandates, it's tough." Still, White said he is not sure BASA has the resources to perform the many upgrades that are needed throughout the sewer system. "They might have to raise rates as much as any entity would (to complete upgrades)," White said.

- Butler Eagle, 8/24/22

Local business owner, Joe Gray of Arris Construction said:

"I am highly in favor of this sale. I think it will be an improvement for everyone," Gray said. "The way the system is run and the service provided, I believe, will be better." He said the authority has eschewed rate increases over the years that would have paid for infrastructure upgrades to maintain the system and lines. Now, Gray said, the state Department of Environmental Protection has mandated the system make expensive upgrades without providing any funds to make the repairs. "Regardless of whether the system sells or not, the rates are going up," he said.

- Butler Eagle, 8/24/22

Resources

Confidentiality Agreement
Asset Purchase Agreement
Schedules to Sewer Asset Purchase Agreement
Press Release
BASA Website
City of Butler Website
Butler Township Website
Press Release- Asset Purchase Agreement
Press Release- City of Butler Affirms Sale of BASA
Press Release- Butler Township Votes to Affirm Sale of BASA
Signed Asset Purchase Agreement – 10.11.22
Letter to Customers Regarding Potential Sale
Letter to Customers Regarding Signed Asset Purchase Agreement

BASA Governing Board of Directors
Paul F. Sybert, Chairman
Fred M. Vero, Vice Chairman

Mayor Bob Dandoy
Council Member Daniel G. Herr
Council Member Donald L. Shearer
Council Member Larry W. Christy
Council Member Frederick W. Reese

Butler Township
Commissioner Dave Zarnick, President
Commissioner Sam Zurzolo, Vice President
Commissioner Joseph A. Wiest
Commissioner James Lokhaiser, Jr.
Commissioner Edward Natali

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VERIFICATION

I, Paul F. Sybert, the Chairman of the Board of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Paul F. Sybert

Dated: February 9, 2023

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

BUTLER AREA SEWER AUTHORITY

STATEMENT NO. 2-R

REBUTTAL TESTIMONY OF PAUL F. SYBERT
CHAIRMAN OF THE BOARD OF THE
BUTLER AREA SEWER AUTHORITY

July 18, 2023

Q. Please state your name and business address.

A. My name is Paul Sybert. My business address is 100 Litman Road, Butler, Pennsylvania 16001.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes, I submitted direct testimony (Butler Area Sewer Authority Statement No. 2-R) in support of Pennsylvania-American Water Company ("Pennsylvania-American") Application filed with the Pennsylvania Public Utility Commission (the "Commission") for approval of its acquisition of Butler Area Sewer Authority ("BASA" or the "Authority") wastewater system assets (the "Proposed Transaction").

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Wilfred Adams from Summit Township and Donald Pringle from Center Township (collectively referred herein as "Municipal Protestants" unless individually identified). I will also briefly respond to the testimony of Morgan N. DeAngelo from the Office of the Consumer Advocate. Specifically, I will respond to Ms. DeAngelo's assertions that the Proposed Transaction's substantial public benefits do not significantly outweigh any prospective rate increase.

RESPONSE TO MUNICIPAL PROTESTANTS' TESTIMONY

Q. Is either Center Township or Summit Township a BASA customer?

A. Summit Township is not a BASA customer, nor does it claim to be. It is our understanding that Center Township is a BASA customer; however, Mr. Pringle testified that he is unaware of that fact. *See* Direct Testimony of Donald Pringle, p. 10:21-23.

Q. What is your understanding of the purpose Water Pollution Control Agreement, dated February 20, 1974, that was referenced in the testimony of Donald Pringle (Center Township) and Wilfred Adams (Summit Township)?

A. As stated in the Water Pollution Control Agreement, attached to Pennsylvania-American's Application as Appendix 25.1, the parties to that agreement entered into it "for the purpose of making it possible for a combined application to be made for a Federal Grant under P.L. 92-500 and any and all other Federal and State Grants and so that each in its respective sphere of operation may be bound to do each and everything necessary in the future to assure the obtaining of the proper Grants for the benefit of all the parties and to bring to fruition the 'Water Quality Management Plan for Central Butler County,' commonly called the 'Interim Basin Plan.'" The agreement has nothing to do with setting forth any requirements in the event that the Authority set out to sell the System, which (as the agreement itself notes) is solely "the property of the Butler Area Sewer Authority."

Q. Is it your understanding that Center Township and Summit Township are alleging a breach of the Water Pollution Control Agreement as a basis for the Commission to reject the Proposed Transaction?

A. As I read the testimony offered on behalf of Center Township and Summit Township, yes, they appear to both be claiming that a breach occurred in the lack of "consultation" of Center Township and Summit Township with respect to the Proposed Transaction. In addition to being (a) a gross misstatement of the purpose and explicit terms of the Water Pollution Control Agreement and (b) a gross misstatement of the actual facts, I am advised by counsel that alleged breaches of private contracts, such as those alleged by Center Township and Summit Township in their protests and direct testimony, are non-jurisdictional to the Commission and thus not properly before it.

Q. Why do you state that the allegations of breach by Center and Summit Townships are a gross misstatement of the purpose and explicit terms of the Water Pollution Control Agreement?

A. As noted above, the purpose of the agreement is to deal with grants. There is no requirement that either municipality must be consulted before the sale of the System. In fact, the agreement states that BASA agrees to "consult with and be advised by each Sewer Service Area through the Municipal Corporation or its duly designated Authority in said Sewer Service Area as to all financial matters, the allocation of the same, the apportionment of the debt, all to the end that the highest possible Grant may be received for the entire Sewer Service Area and the project constructed and put into service at the earliest possible opportunity." As the project has been in service for some time now, and the Proposed Transaction has nothing to do with any grant, I fail to see how this agreement is implicated even in the slightest.

Q. Why do you state that the allegations of breach by Center and Summit Townships are a gross misstatement of the actual facts?

A. I state this because even if the Water Pollution and Control Agreement were somehow implicated, it is impossible for Center and Summit Townships to claim that they were not "consulted" with respect to this transaction. As the direct testimony in support of the transaction lays out, BASA made numerous persistent efforts to consult with all customers and municipalities that would be potentially impacted by the Proposed Transaction. Indeed, in discovery responses provided in this proceeding attached hereto as BASA Exhibit FSF-R-1, both Mr. Pringle and Mr. Adams admit that they attended public forums held in connection with the Proposed Transaction as representatives of Center and Summit Townships, respectively.

Q. Why are you offering this testimony if the issue of breach is non-jurisdictional to the Commission?

A. It is my understanding that BASA has filed a motion to strike this testimony and issue. In the event that the motion is granted, it is my understanding that any of my testimony addressing this issue can be withdrawn. However, as Center and Summit Townships have raised the issue, I am advised that we must preserve our response to it via testimony and the ability to address it in briefing until a ruling on that motion is made.

Q. What is your response to the Municipal Protestants' testimony suggesting that the Authority has somehow mismanaged the System?

A. The Authority has not mismanaged the System, although if it had, it would seem to support the Proposed Transaction. As stated in my direct testimony (as well as Duane McKee's direct testimony attached to Pennsylvania-American Application as Appendix, A-13-A), the Authority has always sought to provide its customers with safe, reliable, and cost-efficient wastewater treatment service; however, with capital improvements to update the aging system imminent, the Authority – with assistance from engineering experts – determined that the Proposed Transaction was in the best interests of the BASA customers. The Board made the carefully considered determination that its customers would benefit from Pennsylvania-American's expertise and technical experience implementing large scale capital improvement projects, such as the estimated $75 million investment necessary to improve BASA's wastewater system over the next five (5) years. *See* Appendix A-13-A, BASA Statement No. 2, Direct Testimony of Paul Sybert, pg. 6-9; BASA Statement No. 1, Direct Testimony of Duane McKee, pg. 8-12 (discussing challenges of the BASA system and the various improvements to the system that Pennsylvania-American have identified that will be enjoyed by all BASA customers if the Proposed Transaction is improved). Thus, the Proposed Transaction is not the result of any sort of mismanagement in the past, but a determination that going forward, the System can be much better managed by Pennsylvania-American.

Q. What is your response to the Municipal Protestants' assertion that BASA could implement $75 million worth of capital improvements, as is anticipated as part of the Proposed Transaction, with a $20.00 rate increase to all customers?

A. As indicated in the discovery responses of Center Township and Summit Township, the calculation supporting this assertion was made by counsel, a non-financial expert with presumably no experience in public utility ratemaking who presumably has never visited any of BASA's assets or spoken to anyone at BASA, with what appears to be an online loan amortization calculator with flawed numbers and improper assumptions. *See* BASA Exhibit PFS-R-1. First, and most glaringly, the calculations provided by the Municipal Protestants grossly misstate the equivalent dwelling units (EDUs) BASA serves. The Municipal Protestants' calculations assume that BASA serves 47,000 EDUs; however, BASA serves less than 24,000 EDUs per its 2022 Chapter 94 documents. *See id.* Thus, the calculation of the amount of supposed rate increase per month that it would take to pay for these improvements is flawed at the outset. Moreover, the calculation assumes, without any basis, that a $75,000,000 PennVEST loan would even be available, which I have no reason to believe is the case.

Similarly, these calculations do not consider other economic factors associated with the capital improvement plan such rise in employee costs, material costs, engineering and better understanding any underlying challenges which the project may confront. More broadly speaking, the calculation is a gross oversimplification of the extensive process that BASA undertook to make the decision to sell the System, as detailed in the direct testimony submitted in support of the Proposed Transaction. Without any financial or operational expertise generally and without any specific knowledge of BASA's assets or financial condition, the Municipal Protestants appear to think it is prudent for the BASA Board to use incorrect customer information and seemingly randomly selected 10-year term and 3% interest in floating a $75 million bond. As Board Chair, I would never agree with such an approach.

Q. What is your response to Municipal Protestants' statements that the Authority did not provide opportunity for representatives from Summit and Center respectively to provide feedback on the Proposed Transaction?

A. In my direct testimony, I detailed the numerous efforts by the Authority to provide the public with the opportunity to comment on the Proposed Transaction. *See* Appendix, A-13-A, Butler Area Sewer Authority, Statement No. 2, Direct Testimony of Paul Sybert, pp. 3–5. More specifically, the Authority offered opportunities for public input – including from representatives such as Mr. Pringle and Mr. Adams – at the monthly Board meetings, through the Authority's website at https://www.resources4basacustomers.org/, and at the open houses hosted by the City of Butler and Township of Butler in September 2022 in advance of signing of the Asset Purchase Agreement. *Id.*

As they have conceded in discovery, both Mr. Pringle and Mr. Adams respectively attended at least one of the open houses hosted by the City of Butler and the Township of Butler, and were afforded the opportunity to ask questions and give input at those open houses. *See* BASA Exhibit PFS-R-1. Moreover, not only has Summit Township produced in discovery correspondence indicating that Mr. Adams himself asked, and received answers to, numerous inquiries from BASA related to the Proposed Transaction. *See* BASA Exhibit PFS-R-2.

Q. What is your response to Municipal Protestants' testimony that the Proposed Transaction is not in their best interest because they are not receiving any of the sale proceeds?

A. The testimony lays bare the true issue that Center and Summit Townships have: that they are not set to receive any money as part of the Proposed Transaction. I find this to be curious because, as stated above, the Water Pollution Control Agreement upon which they rely makes clear that the System is owned by BASA, and only BASA. Ultimately, it is my understanding that briefing by the Parties' attorneys will fully address the fact that these two municipalities not receiving sale proceeds is not relevant to the overall determination as to whether the Proposed Transaction has affirmative public benefits.

As stated in the direct testimony offered in support of the Proposed Transaction, and as reiterated below, it does, and those benefits outweigh any potential rate impact. I will also note that in discovery, Summit Township produced a letter sent to the Summit Township Planning Commission by Senate Engineering attached hereto as BASA Exhibit PFS-R-3, who appears to have been retained to review the Act 537 Plan Updated in connection with the Proposed Transaction. In it, Senate Engineering states that "the purchase of the BASA assets by PAWC may make it advantageous for the Summit Township Authority and PAWC to revisit the BASA alternative to determine the actual cost of sending flows to the BASA WWTP." *See* BASA Exhibit PFS-R-3.

<u>RESPONSE TO THE OFFICE OF CONSUMER ADVOCATE</u>

Q. What is your response to Ms. DeAngelo's analysis of the affirmative public benefits of the Proposed Transaction?

A. From my review of her affirmative public benefits analysis, Ms. DeAngelo placed significant weight on the potential rate increase to BASA customers to opine that the Proposed Transaction will, overall, harm the acquired customers. It is important to reiterate that the Board considered the potential rate impact that the Proposed Transaction may have. The Board weighed and balanced all the issues at numerous public Board meetings and Executive sessions that addressed Pennsylvania-American's offer and the Proposed Transaction with the interests and concerns of the BASA customers and the community as our primary focus.

The Board appreciates that BASA lacks the necessary skillset, expertise, and project experience to complete the large scale, complex projects that are needed to bring the wastewater system into compliance. Under the Authority's continued ownership, the Authority anticipated an abrupt, significant rate increase to our customers to help fund the projects without any viable low-income assistance program available. Thus, regardless of ownership, it is clear that rate increases for our customers are inevitable due to the capital improvements needed to improve BASA's aging wastewater system.

Conversely, under the Proposed Transaction, customers will benefit from joining a larger customer base that is served by a larger and more experienced service provider, like Pennsylvania-American, that will improve the condition of the System and, thus, the overall customer experience.

Q. What is your response to Ms. DeAngelo's testimony that the BASA wastewater system is neither "small" nor "troubled" as an implied basis to deny the Proposed Transaction?

A. I have been advised by legal counsel that the Public Utility Code does not require an affirmative showing that a system is distressed, or the customers served by a municipal authority such as BASA to suffer from poor operational management before the authority is permitted to sell its assets. If the Commission required a showing of distress, that would create a perverse incentive for a municipal authority that provides adequate service to its customers to somehow provide unsafe, unreliable, or inadequate service to its customers to ensure that the Commission may approve a proposed sale. Instead, the Authority's legal counsel has advised that the Commission will approve a transaction that affirmatively promotes the service, accommodation, convenience or safety of the public. As stated above and illustrated from my testimony and all other testimony submitted on behalf of the Authority, this Proposed Transaction certainly achieves that. There are challenges ahead however, regarding remediation and maintenance of the system that are best served by consummating this proposed transaction.

CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date as may be necessary or appropriate.

VERIFICATION

I, Paul F. Sybert, the Chairman of the Board of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Paul F. Sybert

Dated: July 18, 2023

BASA Exhibit PFS-R-1

PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PENNSYLVANIA-AMERICAN WATER CO. UNDER SECTION 1102(a) AND 1329 OF THE PENNSYLVANIA PUBLIC UTILITY CODE TO ACQUIRE THE WASTEWATER COLLECTION AND TREATMENT SYSTEM OWNED BY THE BUTLER AREA SEWER AUTHOIRTY AND TO FURNISH WASTEWATER SERVICE TO THE PUBLIC IN BUTLER COUNTY, PENNSYLVANIA	DOCKET NO. A-2022-3037047

ANSWERS TO INTERROGATORIES OF BUTLER AREA SEWER AUTHORITY DIRECTED TO SUMMIT TOWNSHIP – SET 1

Filed on Behalf of Protestant:

SUMMIT TOWNSHIP,
BUTLER COUNTY, PENNSYLVANIA

Counsel of Record for these Parties:

Michael D. Gallagher, Esquire
PA ID No. 59237

Sean M. Gallagher, Esquire
PA ID No. 318872

GALLAGHER LAW GROUP
110 East Diamond Street – Suite 101
Butler, PA 16001-5999
(724) 282-3141

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re: Application of Pennsylvania-American Water Company under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of the assets, properties and rights related to its wastewater collection and treatment system owned by the Butler Area Sewer Authority, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

ANSWERS TO INTERROGATORIES OF BUTLER SEWER AUTHORITY DIRECTED TO SUMMIT TOWNSHIP – SET 1

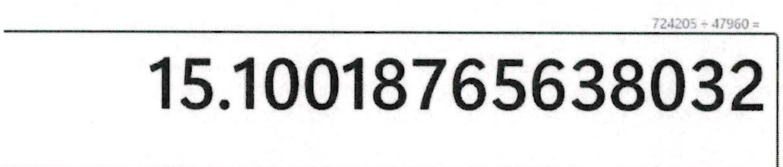
Summit Township herby responds to the Interrogatories of Butler Area Sewer Authority – Set 1 dated July 12, 2023, as follows:

Dated: July 17, 2023

Application of PAWC – Butler Area Sewer Authority
Docket No. A-2023-3037047
Interrogatories of Butler Area Sewer Authority to Summit Township
Set 1
<u>ANSWERS</u>

1. 1. Please provide all documentation related to/supporting the calculations performed and/or developed by or on behalf of Summit Township regarding "the 20-dollar surcharge to the current ratepayers of BASA" that Mr. Adams testified "would be enough to cover a bond issue for 75 million dollars," as referenced on page 5 of Mr. Adams's testimony, detail all referenced calculations, provide the names and curriculum vitae of all individuals involved in performing and/or developing those calculations, and provide all documents consulted and/or created in connection with the calculations.**ANSWER: See below. Calculation performed by counsel.**

For the $75,000,000, if BASA borrowed it from Pennvest, it'd look something like this:



Which divided among the 47k EDUs gets you to $15/mo.

2. Please identify with specificity the federal grant provided "back in the 1970s," as referenced on pages 10-11 of Mr. Adams's testimony, including the name, date, amount, grantor, recipient, and specific purpose of the grant.

ANSWER: **Mr. Adams is referring to the provisions set forth in the 1974 Water Pollution Control Agreement for Central Butler County, Appendix**

A-25-1 of the PAWC Application. Mr. Adams has no knowledge of the specificity of the terms of the Federal Grant.

3. Please provide the past one (1) year of wastewater bills Summit Township has received from the Butler Area Sewer Authority.

ANSWER: **The Summit Township Municipal Building located at 502 Bonniebrook Road, Butler, PA 16002, is not sewered by BASA.**

4. Please state whether any representative from the Summit Township administration attended any public meeting hosted by the Butler Area Sewer Authority, the Township of Butler, and/or the City of Butler where the sale of the Butler Area Sewer Authority's wastewater assets was discussed.

   a. If the answer is in the affirmative, please provide the name of the representative that attended the public meeting and the date of the public meeting.

ANSWER: **Yes. Chairman Willie Adams of Summit Township attended the September 27, 2022, Open House held at St. Peter's Parish Hall.**

5. Please provide the dates and locations of all site visits to any assets of the Butler Area Sewer Authority made by or on behalf of Summit Township, including the names of all individuals who attended.

ANSWER: **None.**

6. Please provide all correspondence between Butler Area Sewer Authority and Summit Township related to the sale of Butler Area Sewer Authority's wastewater assets.

ANSWER: ***See,* the attached documents.**

7. Please provide all correspondence between Butler Area Sewer Authority and Summit Township related to the Act 537 Sewage Planning Updates.

ANSWER: ***See,* the attached documents.**

8. Please provide all correspondence between Pennsylvania-American Water Company and Summit Township related to the sale of Butler Area Sewer Authority's wastewater assets.

ANSWER: ***See,* the attached documents.**

9. Please provide all correspondence between Pennsylvania-American Water Company and Summit Township related to the Act 537 Sewage Planning Updates.

ANSWER: ***See,* the attached documents.**

Respectfully submitted,

GALLAGHER LAW GROUP

Michael D. Gallagher, Esquire
PA I.D. No. 59237
Sean M. Gallagher, Esquire
PA I.D. No. 318872

Solicitors for Summit Township, Butler County, Pennsylvania

110 East Diamond Street, Suite 101
Butler, Pennsylvania 16001
(724) 282-3141

PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PENNSYLVANIA-AMERICAN WATER CO. UNDER SECTION 1102(a) AND 1329 OF THE PENNSYLVANIA PUBLIC UTILITY CODE TO ACQUIRE THE WASTEWATER COLLECTION AND TREATMENT SYSTEM OWNED BY THE BUTLER AREA SEWER AUTHOIRTY AND TO FURNISH WASTEWATER SERVICE TO THE PUBLIC IN BUTLER COUNTY, PENNSYLVANIA

DOCKET NO. A-2022-3037047

ANSWERS TO INTERROGATORIES OF BUTLER AREA SEWER AUTHORITY DIRECTED TO CENTER TOWNSHIP – SET 1

Filed on Behalf of Protestant:

CENTER TOWNSHIP, BUTLER COUNTY, PENNSYLVANIA

Counsel of Record for these Parties:

Michael D. Gallagher, Esquire
PA ID No. 59237

Sean M. Gallagher, Esquire
PA ID No. 318872

GALLAGHER LAW GROUP
110 East Diamond Street – Suite 101
Butler, PA 16001-5999
(724) 282-3141

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re: Application of Pennsylvania-American Water Company under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of the assets, properties and rights related to its wastewater collection and treatment system owned by the Butler Area Sewer Authority, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	: : : : : : : : : :	Docket No. A-2022-3037047

ANSWERS TO INTERROGATORIES OF BUTLER AREA SEWER AUTHORITY DIRECTED TO CENTER TOWNSHIP – SET 1

Center Township hereby responds to the Interrogatories of Butler Area Sewer Authority – Set 1 dated July 12, 2023, as follows:

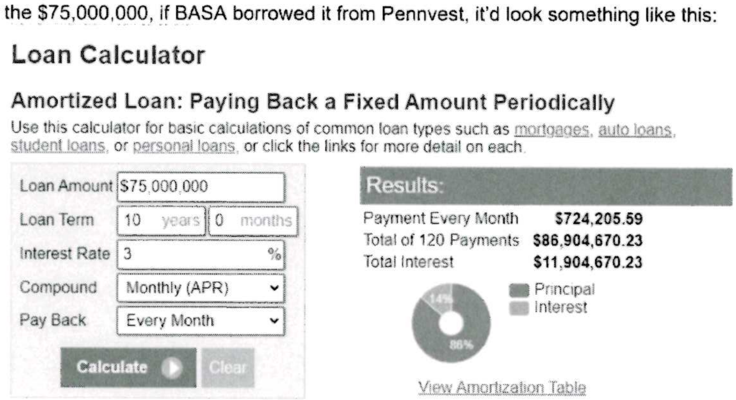
Dated: July 17, 2023

Application of PAWC – Butler Area Sewer Authority
Docket No. A-2023-3037047
Interrogatories of Butler Area Sewer Authority to Center Township
Set 1
ANSWERS

1. Please provide all documentation related to/supporting the calculations performed and/or developed by or on behalf of Center Township regarding "the 75 million dollar senior capital improvements with a 20 dollar rate charge to the current customer," as referenced on pages 6 and 7 of Mr. Pringle's testimony, detail all referenced calculations, provide the names and curriculum vitae of all individuals involved in performing and/or developing those calculations, and provide all documents consulted and/or created in connection with the calculations.

ANSWER: See below. Calculation performed by counsel.

For the $75,000,000, if BASA borrowed it from Pennvest, it'd look something like this:



724205 ÷ 47960 =

15.1001876563803 2

Which divided among the 47k EDUs gets you to $15/mo.

2. Please state whether any representative from the Center Township administration attended any public meeting hosted by the Butler Area Sewer Authority, the Township of Butler, and/or the City of Butler where the sale of the Butler Area Sewer Authority's wastewater assets was discussed.

    a. If the answer is in the affirmative, please provide the name(s) of the representative(s) that attended the public meeting(s) and the date(s) of the public meeting(s).

ANSWER: **Supervisor Donald Pringle attended the September 28, 2023, Public Forum at Butler Township.**

3. Please provide the dates and locations of all site visits to any assets of the Butler Area Sewer Authority made by or on behalf of Center Township, including the names of all individuals who attended.

ANSWER: **Since 2020, none.**

4. Please provide all correspondence between Butler Area Sewer Authority and Center Township related to the sale of Butler Area Sewer Authority's wastewater assets.

ANSWER: ***See,* the documents attached hereto.**

5. Please provide all correspondence between Butler Area Sewer Authority and Center Township related to the Act 537 Sewage Planning Updates.

ANSWER: ***See,* the documents attached hereto.**

6. Please provide all correspondence between Pennsylvania-American Water Company and Center Township related to the sale of Butler Area Sewer Authority's wastewater assets.

ANSWER: ***See,* the documents attached hereto.**

7. Please provide all correspondence between Pennsylvania-American Water Company and Center Township related to the Act 537 Sewage Planning Updates.

ANSWER: ***See*****, the documents attached hereto.**

Respectfully submitted,

GALLAGHER LAW GROUP

Michael D. Gallagher, Esquire
PA I.D. No. 59237
Sean M. Gallagher, Esquire
PA I.D. No. 318872

Solicitors for Center Township, Butler County, Pennsylvania

110 East Diamond Street, Suite 101
Butler, Pennsylvania 16001
(724) 282-3141

234 Freeport Road
Butler, PA 16002
724-282-0322
February 25, 2023

Summit Township
502 Bonniebrook Rd.
Butler, PA 16002

RE: Official Sewage Facility Plan

To Whom It May Concern:

Below are listed my concerns/comments on the Sewage Facility Plan by the acquisition of Butler Area Sewer Authority's Wastewater Facilities.

It took Summit Township 4 years to come up with an Act 537 plan. Your plan was put together inside of a couple months. The township had to explore all alternatives and document all costs to prove that the other alternatives were not feasible. This plan states "Of the two treatment system alternatives identified in Section IV.A., No. 1 was considered to be the only viable option" without anything to back it up. It also states that "Alternative 2 does nothing to help reduce pollution and meet discharge standards" again without any documentation to back it up. BASA, with a market value of 231.5 million dollars and a proven steady stream of income, should have access to funds, whether public or private, to make any needed upgrades or repairs. What is BASA's current debt level? What is the annual cost to service that debt? What is the current annual operating and maintenance costs? What is BASA's annual revenue? Is there grant money available to BASA? How can we decide BASA retaining ownership is not a viable option without knowing these facts?

A third alternative that is never mentioned is a sale to a company other than Pennsylvania American Water Company. Why was the sale not opened to other bidders? Just because PA American is already in the area does not mean there would not be any other interested bidders. How do we know the people of BASA are getting the maximum value from our assets? Are the people being sold short?

BASA, properly run, should be able to reduce pollution and meet or even exceed discharge standards as well as anyone. It's our air, water, and soil. Who is better at protecting them than us? Any private firm's main objective is going to be profits first. BASA's better off being in the hands and control of the people it serves. Will the people be better served doing what is best for the environment or what is best for corporate profits?

Section VII A 3states that "The cost of the rehabilitation is unknown at this time" How do we know PAW is "much better positioned than the authority to address the costs and obligations associated with present and future operations of the sewer system" if we don't know what they are?

How do you decide that there is no other viable option without any research and documentation?

Thank You,

Willie Adams

Willie Adams

BUTLER AREA SEWER AUTHORITY
100 LITMAN ROAD • BUTLER, PA 16001-3256
(724) 282-1978 • FAX (724) 282-7656
www.basapa.org

April 28, 2023

Mr. Willie Adams
234 Freeport Road
Butler, PA 16002

RE: Butler Area Sewer Authority, Butler County
Act 537 Sewage Facilities Plan Special Study
Acquisition of BASA Sewage Facilities by PAWC

Dear Mr. Adams:

Thank you for your correspondence dated February 25, 2023, with comments pertaining to the *Official Sewage Facilitates Plan, Acquisition of Butler Area Sewer Authority's Wastewater Facilities by Pennsylvania American Water Company*. Regarding your questions we offer the following responses below. I will address the questions in the order provided in your correspondence.

1. **What is BASA's current debt level?**

   BASA currently has approximately $46.5 million in debt and other liabilities. For additional information, please visit www.basapa.org, and "Annual Operating and Financial Reports" under the "Admin" tab.

2. **What is the annual cost to service that debt?**

   BASA's total expense for total debt service on bonds and loans for adopted FY 2021-2022 was $3,384,400. For additional information, please visit www.basapa.org, and find BASA's "Operations Budget" under the "Admin" tab.

3. **What is the current annual operating and maintenance costs?**

   BASA's adopted budget for the annual operating and maintenance costs for FY 2021-2022 were $6,187,730. For additional information, please visit www.basapa.org, and find BASA's "Operations Budget" under the "Admin" tab.

4. **What is BASA's annual revenue?**

BASA's total operating revenues for adopted FY 2021-2022 were $11,215,900. For additional information, please visit www.basapa.org, and find BASA's "Operations Budget" under the "Admin" tab.

5. **Is there grant money available to BASA?**

   Yes, BASA is eligible for grant funding open to public utilities. Project eligibility is dependent upon grant requirements and eligibility criteria. BASA has applied for several grants throughout the years.

6. **How can we decide BASA retaining ownership is not a viable option without knowing these facts?**

   After months of thorough research and negotiations with Pennsylvania American Water, BASA made the decision to sell. Throughout the acquisition process, the board has been transparent and communicative with the public and local media. To share information on the sale, BASA held four public open houses, sent out four letters to customers, and maintains a website for customers to learn more and provide comments. The consensus was that this was the right decision for residents, the regional economy, and the environment.

7. **Why was the sale not opened to other bidders?**

   The BASA board selected Pennsylvania American Water as the initial option for the acquisition, given the company's existing regional water services and familiarity among residents. The board conducted a thorough review of Pennsylvania American Water's offer over several months and sought the guidance of external valuation experts to ensure proper valuation of the wastewater system. From a legal perspective, there is no obligation to open the sale to other potential buyers.

8. **How do we know the people of BASA are getting the maximum value from our assets?**

   Again, BASA's board conducted a thorough review of Pennsylvania American Water's offer over several months and sought the guidance of external valuation experts to ensure proper valuation of the wastewater system.

9. **Are the people being sold short?**

   Keeping the public informed has been a top priority for BASA's board throughout the acquisition process. As part of that commitment, BASA held four open houses and maintains a website to hear from the community. After a thorough review of BASA's entire operations, the value of assets, and careful thought and consideration, the board wanted to ensure that this offer from Pennsylvania American Water would benefit customers, local communities, employees, and the environment. To that end, Pennsylvania American Water has accepted BASA's conditions, agreeing to a minimum one-year rate freeze, effective from the day of acquisition until the one-year anniversary of closing or January 1, 2025. Pennsylvania American Water has also agreed to provide its grant or discount program to low-income residents who are currently served by BASA. Additionally, Pennsylvania American Water has committed to petition the PUC within two years of closing to initiate a pilot program to repair customers' laterals, which is currently the responsibility of individual customers.

10. **BASA, properly run, should be able to reduce pollution and meet or even exceed discharge standards as well as anyone. It's our air, water, and soil. Who is better at protecting them than us? Any private firm's main objective is going to be profits first. Will the people be better served doing what is best for the environment or what is best for corporate profits? BASA'S better off being in the hands and control of the people it serves. Will the people be better served doing what is best for the environment or what is best for corporate profits.**

    BASA's infrastructure is aging, and with that comes a burden to meet ever-more-stringent environmental standards and regulation. Pennsylvania American Water has far greater resources to address environmental concerns and modernize the system. Please refer to Section VII Part C of the Act 537 Plan for further information on Pennsylvania American Water's capabilities.

11. **Section VII A 3 States that "The cost of the rehabilitation is unknown at this time" How do we know PAW is "much better positioned than the authority to address the costs and obligations associated with present and future operations of the sewer system" if we don't know what they are?**

    Pennsylvania American Water is better equipped to handle the necessary upgrades for BASA due to their larger rate base and in-house expertise. BASA has over $75 million in capital projects that need completion but lacks the capacity and funding to undertake them all. If BASA were to complete these upgrades and improvements, sewer rates for all customers would need to be significantly increased regardless of the outcome of the acquisition.

12. **How do you decide that there is no other viable option without any research and documentation?**

    The decision to sell BASA was the result of extensive research and discussion by the board. To ensure open dialogue and candid discussions with Pennsylvania American Water, a confidentiality agreement was in place before going public. This allowed for a thorough review of BASA's facility, operations, debt, and upgrades that were needed. Following the expiration of the confidentiality agreement, the board has been very transparent, holding four open houses for residents to ask questions and give feedback on the potential sale, sending four customer letters to keep residents informed, maintaining a website for customers and residents to learn more and leave comments on the sale, and providing information to the local media. After this extensive process, the overwhelming opinion was this was the right move for residents, for our shared regional economy, and the environment.

Thank you for your interest in the Act 537 Sewage Facilities Plan process. As you know, this Special Study was required by DEP for the acquisition of BASA 's sewage facilities by PAWC. As such contains information related the abilities of PAWC to purchase, operate and maintain BASA's assets. Your input is important to the process, and I thank you for your time.

Cordially,

Duane E. McKee

Duane E. McKee
Executive Director
Butler Area Sewer Authority

BASA Exhibit PFS-R-3

SENATE ENGINEERING

SENATE ENGINEERING COMPANY
U-PARC, 420 William Pitt Way
Pittsburgh, PA 15238-1330

P (412) 826-5454 · F (412) 826-5458
senate@senateengineering.com
www.senateengineering.com

March 27, 2023

Planning Commission
Summit Township
502 Bonniebrook Road
Butler, PA 16002

RE: PAWC Act 537 Plan Update for Purchase of BASA Assets
Request for Preliminary Comments
SENATE #11053

Dear Commissioners:

Senate Engineering Company has reviewed the Act 537 Plan Update prepared by Pennsylvania American Water Company (PAWC) for purchase of the Butler Area Sewer Authority (BASA) assets. The document was submitted with a request by the PAWC consultant, Gwin Dobson & Foreman Engineers (GDF), for preliminary comments on the Plan. GDF stated that no official action was required by the Township at this time.

The Plan is developed to facilitate purchase of the BASA assets by PAWC. There are no proposed changes to the existing sewage service area or infrastructure located in Summit Township. The Plan also reviewed the existing zoning in the west half of Summit Township. Since the sewage infrastructure has been in place since the last rezoning was completed in 2018 one could assume there are no conflicts between the BASA facilities and the Township zoning ordinances or other land uses in the existing service area.

The Plan projects population growth through year 2040. For Summit Township the population is projected to increase from 4,515 in 2020 to 5,711 in 2040, or a 26% increase.

One item that is not addressed is potential service by BASA/PAWC to the area that is currently being planned for sewage service by the Summit Township Authority. This area of future sewage service extends largely along the Herman Road corridor from Schnur Road on the east to Loco Lane on the west. The service area extends north to the Summit Elementary School area.

During the Act 537 Plan development for the Summit Township project a number of alternatives were considered, including sending flows to BASA for treatment. Doing so would have eliminated the cost of a wastewater treatment plant (WWTP) in the Township. The BASA charges for treatment, tap fees, etc. were provided to Summit Township, however, at that time BASA could not provide a capital cost for pump station and collection system work that would be required on their facilities to accept and convey the additional Township flows. Since the total cost of the BASA alternative could not be determined it was not selected as the most cost-effective alternative.

It is our understanding that the purchase of BASA by PAWC includes certain monies for improvements to the BASA collection system. In addition PAWC may not charge the same tapping fees and other costs that were discussed by BASA. These may make the alternative of Summit sending flows to BASA a more cost-effective solution for the Summit Township residents than building a new WWTP.

It is our conclusion that the purchase of the BASA assets by PAWC may make it advantageous for the Summit Township Authority and PAWC to revisit the BASA alternative to determine the actual cost of sending flows to the BASA WWTP. Since the Summit Township Authority is moving forward with design and implementation of the approved Act 537 Plan, which includes a new WWTP, it is recommended that the discussions begin as soon as possible.

Sincerely,
SENATE ENGINEERING COMPANY

Rick Barnett, P.E.
Project Manager

cf: Summit Township Board of Supervisors
Summit Township Authority Board Members

H:\SEN\P\011\11053\Response To PAWC Act 537 Plan For BASA Aquisition.Docx

VERIFICATION

I, Paul F. Sybert, the Chairman of the Board of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Paul F. Sybert

Dated: July 18, 2023

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connequenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047 *et al.*

BUTLER AREA SEWER AUTHORITY

STATEMENT NO. 2-SR

SURREBUTTAL TESTIMONY OF PAUL F. SYBERT
CHAIRMAN OF THE BOARD OF THE
BUTLER AREA SEWER AUTHORITY

July 21, 2023

Q. Please state your name and business address.

A. My name is Paul Sybert. My business address is 100 Litman Road, Butler, PA 16001.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I submitted direct testimony (Butler Area Sewer Authority Statement No. 2) and rebuttal testimony (Butler Area Sewer Authority Statement No. 2-R) in support of Pennsylvania-American Water Company ("Pennsylvania-American") Application filed with the Pennsylvania Public Utility Commission (the "Commission") for approval of its acquisition of Butler Area Sewer Authority ("BASA" or the "Authority") wastewater system assets (the "Proposed Transaction").

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Wilfred Adams from Summit Township and Donald Pringle from Center Township (collectively referred herein as "Municipal Protestants" unless individually identified) – namely, the Municipal Protestants' reiterated contention regarding the potential uses of proceeds of the sale of assets exclusively owned by the Authority.

It is my understanding that the Authority, the City of Butler and the Township of Butler have filed a motion to strike the rebuttal testimony of Wilfred Adams from Summit Township and Donald Pringle from Center Township as it was improper under 52 Pa. § 5.243(e). In the event that the motion is granted, it is my understanding that any of my testimony addressing this issue can be withdrawn. However, I am submitting this testimony to preserve it if the motion is denied.

Q. What is your response to the Municipal Protestants' complaints that they will not receive any of the proceeds of the Proposed Transaction?

A. From my review of the Municipal Protestants' rebuttal testimony, it is evident that the respective municipalities take issue with (1) the City of Butler (the "City") and the Township of Butler's (the "Township") exclusively receiving the proceeds of the Proposed Transaction, and (2) the potential uses of the proceeds of the Proposed Transaction. While I have been advised by counsel that the Commission does not have jurisdiction over the use of proceeds from the Proposed Transaction, these arguments are simply illogical.

First, paragraph 4 of the Water Pollution Control Agreement, invoked (wrongly) by the Municipal Protestants, makes clear that "all facilities presently constructed and to be constructed will be the property of the [Authority]." *See* Appendix A-25.1 , at ¶ 4. Further, as set forth in the respective direct testimony of the City of Butler (the "City") and the Township of Butler's (the "Township"), the Authority was jointly incorporated by the City and the Township to operate the wastewater collection and treatment system. Thus, the City and the Township will receive the proceeds from the Proposed Transaction as the joint incorporators of the Authority that *exclusively* owns the assets. Moreover, both David Zarnick from the Township and Mayor Robert A. Dandoy specifically testified that no final decision has been made regarding the use of the proceeds from the Proposed Transaction. *See* Appendix A-13-A, Township of Butler Statement No. 1, Direct Testimony of David Zarnick, p. 10:12-17; City of Butler Statement No. 1, Direct Testimony of Mayor Robert A. Dandoy, p. 11:1-3.

Q: Is there any evidence that the Municipal Protestants have any right to any proceeds related to the transaction?

A. No. In fact, I have been advised by counsel that Center Township sought a seat on the Authority board, via a Complaint in Mandamus filed 1982, pursuant to the same sections of the Water Pollution Control Agreement that the Township cites in the instant proceeding. The Court's decision is attached hereto as Exhibit PFS-SR-1 and the Water Pollution Control Agreement is attached hereto as Exhibit PFS-SR-2 (also attached to Pennsylvania-American's Application as Appendix 25.1).

The Court specifically held that "[t]he 10-page comprehensive agreement made no provision for a re-organization of the membership of BASA." See Exhibit PFS-SR-1, p. 3. Further, counsel has advised that Center did not "join" BASA by entering the Water Pollution Control Agreement, but instead, only agreed to be served by BASA. *Id.* at 4. Thus, counsel has advised that this Court order forecloses any viable argument that the Municipal Protestants are members of the Authority or entitled to any proceeds. Instead, the Municipal Protestants simply agreed to have their residents served by BASA. To me, it is common sense that agreeing to accept service from BASA does not grant customers an equity interest in the Authority such that the customers should receive a share of the proceeds for any sale of assets exclusively owned by BASA.

Q. What is your response to the Municipal Protestants' testimony suggesting that the fact that BASA is receiving the proceeds of the Proposed Transaction is the equivalent of BASA's customers paying a tax to the City of Butler and the Township of Butler?

A. At all points in time, the amounts paid by residents of Center and Summit Townships was for the services BASA provided. It did not give those residents any sort of equity interest in BASA's assets, nor was the approval of Center and Summit Townships required for the Proposed Transaction.

Q. What is your response to the Municipal Protestants' testimony that, after the sale, Pennsylvania-American would only be subject to the jurisdiction of the Pennsylvania Department of Environmental Protection?

A. While the testimony is somewhat unclear, it is my understanding that this is incorrect. The PUC has jurisdiction over Pennsylvania-American's operations, which I understand is not the case for BASA. Moreover, the Pennsylvania Department of Environmental Protection is more than capable of regulating environmental matters. I am not aware of any instance where the DEP was unable to handle a matter that was exacerbated due to the lack of EPA involvement.

Q. What is your response to the Municipal Protestants' complaints that BASA could create a fund for low-income customers akin to Pennsylvania-American's?

A. At the moment, BASA has no such fund, and like everything else, any increase in costs or decrease in revenue would necessarily have an impact on the rates BASA charges.

Q. What is your response to the Municipal Protestants' testimony that the fact that Pennsylvania-American will provide both water and wastewater service creates a monopoly?

A. I am advised by counsel that Pennsylvania-American has the exclusive right to provide water service in its service territory. BASA currently has the exclusive right to provide wastewater service in its service. If the transaction is approved, PAWC would have the exclusive right to provide water and wastewater service in its service territory. Further, Pennsylvania-American's rates are regulated by the PUC, whereas BASA's are not, which provides more protection to the extent that any “monopoly” does exist.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does. However, I reserve the right to file additional testimony at a later date as may be necessary or appropriate.

BASA Exhibit PFS-SR-1

IN THE COURT OF COMMON PLEAS OF BUTLER COUNTY, PENNSYLVANIA

THE TOWNSHIP OF CENTER, THE TOWNSHIP OF SUMMIT, AND EAST BUTLER BOROUGH	:	CIVIL DIVISION - LAW
	:	A.D. No. 82-231
vs.	:	Book 121 Page 391
THE CITY OF BUTLER AND THE BUTLER AREA SEWER AUTHORITY; RONALD FORCHT, MAYOR; WILLIAM HULTON, COUNCILMAN; JANE McKAIN; RICHARD SCHONTZ; and JAMES HORAN	:	

PROTHONOTARY'S OFFICE-BUTLER CO.
ENTERED & FILED
OCT 17 9 42 AM '86
PROTHONOTARY

Plaintiffs: Leo Stepanian, Esquire
City of Butler: James Coulter, Esquire
BASA: Lee C. McCandless, Esquire

George P. Kiester, Senior Judge
October 15, 1986

ISSUES

Did the City of Butler and Butler Area Sewer Authority abuse their discretion by refusing to provide Plaintiffs' representation on Butler Area Sewer Authority?

Does the failure to provide representation on Butler Area Sewer Authority violate the rights of the residents of Plaintiffs under the Equal Protection Clause of the Fourteenth Amendment to the United States Constitution?

HISTORY and FACTS

On April 23, 1982 Plaintiff municipalities filed a Complaint in Mandamus for the entry of a judgment ordering Defendants to provide representation for the Plaintiffs on the board of the Authority. The case is at issue on the motions filed by the City and the Plaintiff for summary judgment. At a hearing on September 12, 1986 the parties stipulated to certain facts which became part of the record.

The Butler Area Sewer Authority (BASA) was incorporated by the City of Butler and the Township of Butler on or about the year 1962 under the Municipality Authorities Act, 53 PS 301, establishing representation on BASA as follows:

Butler City - 3 members
Butler Township - 2 members

A Consent Order dated January 23, 1974 relating to Sewage Regionalization and involving Butler City, Butler Township, Summit Township, Center Township, East Butler Borough, Butler Area Sewer Authority, Deshon Area Sanitary Disposal and Sewer Authority, Meridian Area Water and Sewer Authority, Butler Township Area Water and Sewer Authority, Municipal Water and Sewer Authority of Center Township and East Butler Borough Sewer Authority, Butler County was entered into between the Department of Environmental Resources of the Commonwealth of Pennsylvania (Department) and BASA. (Ex. A to p.o.'s and Answer of BASA)

On February 20, 1974 a comprehensive Water Pollution Control Agreement was made between BASA and these parties:

> The City of Butler, A Third Class City; Township of Butler, a First Class Township; Township of Center, a Second Class Township; Township of Summit, a Second Class Township; Borough of East Butler; Deshon Area Sanitary Disposal and Sewer Authority; East Butler Borough Sewer Authority; Meridian Water and Sewer Authority; and the Municipal Water and Sewer Authority of Center Township, all of Butler County, Pennsylvania (Ex. B to p.o.'s and Answer of BASA)

Inter alia the aforementioned agreement (Ex. B) provides for the operation, maintenance, repair services, debt services and treatment of sewage for the project. The 10 page comprehensive agreement made no provision for a re-organization of the membership of BASA.

At or prior to April 15, 1981 the Plaintiffs requested representation on BASA. The Township of Butler consented. By resolutions of the Council on April 15, 1981 and May 5, 1982 the City of Butler denied the request.

The record establishes that in addition to the City of Butler, the Township of Butler and others BASA services

Summit Township - 260 accounts

Center Township - 1680 accounts

Seventy-five percent of the population of Center Township is serviced by the BASA sewer system. The record does not establish the number of accounts in the other municipalities.

LAW and DISCUSSION

The Municipality Authorities Act of 1945, PL 382 as amended (53 PS 309(b)) provides in part,

> "(b) If the Authority is incorporated by two or more municipalities, the board shall consist of a number of members at least equal to the number of municipalities incorporating the Authority, but in no event less than five. When one or more additional municipalities join an existing Authority, each of such joining municipalities shall have such membership on the board as the municipalities then members of the Authority and the joining municipalities may determine by appropriate resolutions. The members of the board of a joint Authority shall each be appointed by the governing body of the incorporating or joining municipality he represents and their terms of office shall commence on the date of appointment...."

The above section upon which Plaintiffs rely is inapplicable because Plaintiffs have not "joined" BASA. They only agreed to be served by BASA. Joining requires consent and agreement of all participating municipalities.

In addition after incorporation a municipality may join the Authority only _if_ the Authority by resolution expresses its consent. BASA has not expressed its consent. Section 304 language is explicit and clear.

A change in the membership of the Authority requires an agreement between all the participating municipalities as well as the Authority.

An amendment to the articles of incorporation changing the number of board members requires a resolution of the Authority as well as adoption of the same by the participating municipalities. (Section 305).

The Derry case cited by the parties is not in point with the case before this Court. In Derry the Authority may or may not have agreed to expand its members. A dispute arose over the number and distribution of the members among the participating municipalities. The Commonwealth Court concluded

> "7. The Municipality Authorities Act of May 2, 1945, P.L. 382, §3.1, as amended, 53 P.S. §304, grants a municipality authority, such as Latrobe Authority, discretion in determining whether non-member municipalities shall be permitted to join said authority. The Court may require that such discretion be excercised as found to be reasonable. See Falls and Middletown Townships v. Lower Bucks County Joint Municipal Authority, 45 Pa. D.&C. 2d 381 (1968).
> Commonwealth v. Derry Twp., et al
> 10 Comm. Ct. 619, 632 (1968). 314 A2d 868

On appeal the Supreme Court remanded one issue of the Derry case for an evidentiary hearing stating

> "[8] However, the record does not disclose whether Youngstown has in fact bargained away its representation rights, a determination which must be made prior to any adjudication of Youngstown's appeal. Therefore, we remand the case to the Commonwealth Court for an evidentiary hearing."
> Comm. v. Derry Twp., etc. 466 Pa 31
> (1976)

A final disposition of this issue in the Derry Twp. case is not reported.

In the case before this Court the record is complete. There is no evidence that any party bargained away its rights to representation. The rights of the parties are fully set forth in the agreement of February 20, 1974 and the Act of Assembly.

The Defendants did not abuse their discretion. Nothing in the law required either the participating municipalities or the Authority to amend the articles and increase the membership of the Authority or to agree to do the same for any reason, such as an expanded service area as in this case.

ONE MAN - ONE VOTE PRINCIPLE

The only cited case in point with this factual situation is that of Derry Twp. (supra) in which Judge Kramer wrote,

> "Representation according to population is not required in this case as the Latrobe Authority is an appointed body. See Sailors v. Board of Education of the County of Kent, 387 U.S. 105, 87 S. Ct. 1549, 18 L. Ed. 650 (1967)"

BASA provides a limited governmental service to some of the residents of Plaintiffs municipal districts. These residents elected the local officials with legislative powers on the one man - one vote principle. Those elected officials entered into the contract of February 20, 1974 with BASA to provide the expanded sewer service.

Even if the cogent reasoning of Plaintiffs developed into the law of the land, (which we consider most unlikely), this record would be incomplete. If the Court took judicial notice of census statistics or was furnished with the number of accounts serviced by BASA in each municipality equal, proportionate representation would probably result in the creation of an authority board of unmanageable size.

Plaintiffs'claim to equal representation on BASA is not based on legal or constitutional rights. The issue is one that should be decided by the various representatives on a political basis as to what is fair, reasonable and in the best interests of all those being served by BASA.

ORDER OF COURT

AND NOW, October 16, 1986 the Motion of the City of Butler for Summary Judgment is granted and that of Plaintiffs is denied.

Plaintiffs' Complaint in Mandamus is dismissed.

BY THE COURT,

George P. Kiester

GEORGE P. KIESTER
Senior Judge
Specially Presiding

October 17, 1986, Copy of Order mailed to James A. Taylor and Leo M. Stepanian, Esquire cls

(over)

EXHIBIT "E"

WATER POLLUTION CONTROL AGREEMENT
FOR CENTRAL BUTLER COUNTY

THIS AGREEMENT entered into as of the 20th day of February 1974, between the CITY OF BUTLER, a Third Class City; TOWNSHIP OF BUTLER, a First Class Township; TOWNSHIP OF CENTER, a Second Class Township; TOWNSHIP OF SUMMIT, a Second Class Township; BOROUGH OF EAST BUTLER; DESHON AREA SANITARY DISPOSAL AND SEWER AUTHORITY; EAST BUTLER BOROUGH SEWER AUTHORITY; MERIDIAN WATER AND SEWER AUTHORITY; and the MUNICIPAL WATER AND SEWER AUTHORITY OF CENTER TOWNSHIP, all of Butler County, Pennsylvania, parties of the first part,

And

BUTLER AREA SEWER AUTHORITY of 125 Pittsburgh Road, Butler, Pennsylvania, party of the second part.

WHEREAS, each of the Municipal Authorities heretofore named constitute a body corporate and politic and a governmental instrumentality existing under and by virtue of the Act of the General Assembly of the Commonwealth of Pennsylvania approved May 2, 1945, P. L. 382, as amended, and

WHEREAS, the second party is a duly constituted governmental instrumentality existing under and by virtue of the Act of the General Assembly of the Commonwealth of Pennsylvania approved May 2, 1945, P. L. 382, duly constituted by the joint action of the City of Butler and the Township of Butler to maintain and operate a sewerage collection and disposal system in the drainage area composed of part of the area involving all the first parties, and

WHEREAS, the first parties have each spent large sums of money in planning, obtaining feasibility reports, and for engineering expense in preparation for applying for separate sewerage facilities grants for their respective areas, and

WHEREAS, during the period of preparation the laws, as well as the rules, regulations and criteria upon which Grants are to be made have changed, and

WHEREAS, during said period of preparation in accordance with the Federal Water Pollution Control Act, as amended, and changes heretofore referred to, there has developed what is known as the "Water Quality Management Plan for Central Butler County" commonly referred to as the "Interim Basin Plan" Alternate No. 5, as may be amended, which has been approved and adopted by Federal, State, and Local Planning and Regulatory Agencies as the guideline for all future expansion of the sewerage system in said areas, and

WHEREAS, it is the desire of all parties to adopt and implement the "Water Quality Management Plan" and to provide the facilities to serve said area in accordance with the said plan in order to further the health, welfare, safety and general conditions of the combined area, and

WHEREAS, the parties hereto have joined herein for the purpose of making it possible for a combined application to be made for a Federal Grant under P. L. 92-500 and any and all other Federal and State Grants and so that each in its respective sphere of operation may be bound to do each and everything necessary in the future to assure the obtaining of the proper Grants for the benefit of all the parties and to bring to fruition the "Water Quality Management Plan for Central Butler County", commonly called the "Interim Basin Plan".

NOW, THEREFORE, in consideration of the foregoing and in further consideration of the covenants hereinafter set forth to be made and kept by the parties hereto intending to be legally bound hereby, it is agreed as follows:

COVENANTS ON THE PART OF THE FIRST PARTIES

The covenants to be performed by the first parties are not joint covenants but it is agreed that they will be performed by the respective Municipalities or the Authority within the Municipality according to the authority, duties and obligations vested in either under the laws of the Commonwealth of Pennsylvania so that said covenants are in some instances joint and/or joint and several.

1. The first parties agree to employ their own counsel and their own engineer to gather data, and prepare plans for the development of a feasible sewerage plan in their respective Sewer Service Areas and coordinate and merge the same into one over-all plan covering the entire area involved known as the "Butler Area Interim Basin Plan".

2. The first parties agree to have all the engineering work done and fully coordinated and merged in the area plan on or before March 1, 1974, so that the second party may make one application for Permits and Grants covering the entire area in aid of construction on or before the above date.

3. The first parties, or their designated Authority within the respective district, agree to act in an advisory capacity to the Butler Area Sewer Authority in the formation, execution, and financing, and the retirement of any bond issue, incurred in the total project, except the parties of the first part shall have the right to set the surcharge for their

respective Sewer Service Area, the said minimum surcharge to be sufficient for the scheduled retirement of that party or district's share of the total bonded indebtedness.

4. The first parties and all their designated authorities agree that all rights of way, all sewer lines, collecting systems and, in fact, all facilities presently constructed and to be constructed will be the property of the Butler Area Sewer Authority and the obligation of maintaining and serving the users thereof will be that of the Butler Area Sewer Authority.

5. The first parties agree that all construction in each of their districts will be done by and under the supervision and specifications of the Butler Area Sewer Authority and in accordance with its Rules and Regulations now existing or that may hereafter be enacted after consultation and advice of each Municipality and Authority herein represented. However, the first parties retain the right to appoint their own inspectors during construction.

6. The first parties agree to enact any and all Ordinances, Resolutions, execute all Contracts and Agreements, etc., necessary and proper to accomplish the fruition of a sewerage system as evisioned by the "Interim Basin Report" and will approve all plans, specifications, costs properly allocated to each of the Sewer Service Areas, and financial documents in order to promptly carry out the purpose of this Agreement and the entire project and make possible and assure the repayment of each Sewer Service Area's share of any bonds issued by the Butler Area Sewer Authority for the construction of this project.

7. The first parties agree, within six months of the date of this Agreement, to enact an Ordinance, if said Municiplaity has not already done so, as authorized by the Act of May 1, 1933, P. L. 103 (53 P. S. 66501.1) as amended, and similar laws applicable to other municipalities of the first

parties, requiring all owners of property having a building within 150 feet from the sewerage system to connect thereto and use said sewer system.

8. The first parties do hereby grant, insofar as they have the power and authority to do so, to the second party, the right to lay, use and construct sewers, trunk lines interceptor lines, collection lines, pump station, and to condemn property by eminent domain for said purpose, all in accordance with the "Interim Basin Plan" Alternate No. 5, as may be amended, to assess the properties according to the benefits received, treat the sewage and charge for the same with the full power and authority to lien the properties for either capital expenditures or for quarterly statements and either capital improvements or for treatment and maintenance costs as the first parties may do under the Municipal or Authority Law applicable. The first parties have the duty to secure rights of ways, and fee simple titles required by the condemnation, or otherwise, and to turn the same over to the second party before any construction contracts are granted in the respective Sewer Service Areas.

9. The first parties agree that the Rules and Regulations of the Butler Area Sewer Authority shall apply in all Sewer Service Areas and any connection fees collected by the second party in the various areas will be applied to the bonded indebtedness incurred for said district until the indebtedness is retired then they are to be credited to the revenue fund of the second party. Tap-in fees at all times are to be applied to the second party's revenue fund.

10. Any of the first parties presently operating a system, agree that before any contracts are let they will turn over the complete ownership of their rights of ways, land, lines

and all facilities to the second party so that these facilities may be pledged to secure any bond issue but that each will continue to operate its facilities until such time as any additions are completed and the second party begins to treat the sewerage after which the full responsibility for maintenance and operation and billing will be that of the second party.

COVENANTS ON THE PART OF THE SECOND PARTY

1. The second party agrees to coordinate and merge the plans of the respective Sewer Service Areas into one merged plan and to make application for Grants in aid of construction of sewerage treatment works and facilities covering the entire area as set forth in the "Water Quality Management Plan for Central Butler County" on or before the 1st day of March, 1974.

2. The second party, upon a Grant being properly issued, agrees to provide for the balance of each Sewer Service Area's project costs, outstanding indebtedness and obligations by the sale of Bonds issued by the Butler Area Sewer Authority in which the revenues over and above operating expense and the various "surcharges" in each Sewer Service Area will be pledged tp tje retirement of the bond issue.

3. The second party, upon completion of the project, and assuming all facilities, agrees to maintain and service the entire area under the Rules and Regulations of the Butler Area Sewer Authority now existing or which may be hereafter enacted.

4. The second party agrees to keep an accurate set of books which may be examined by any of the parties hereto,

their representative, agent, or any citizen during any business hours. The books will show an allocation of the grant to each Sewer District Service Area in proportion to the amount received on the construction in each Sewer District Service Area so that there will be able to be established from said books, in accordance with the Trust Indenture, a surcharge for the capital investment of each Sewer District Service ARea which will be applied to the retirement of the capital debt and which books will properly reflect each Sewer Service ARea's payment of the capital debt and interest.

5. The second party agrees to render bills to the owners of all those properties benefitted, to be known as a surcharge, as established or determined by the first parties in their respective Sewer Service Area but not less than the amount reqyired to retire the debt accrued for capital improvements charged to each Sewer Service Area which it is anticipated will vary from area to area as the costs of improvements vary. Bills in accordance with Rules and Regulations of the Butler Area Sewer Authority will be also rendered to such users for operation, maintenance, repair service, debt services, and treatment of sewage, which charge will be uniform throughout the entire project.

6. The second party will prepare plans to remodel, enlarge and improve the present sewerage treatment plant in accordance with State and Federal requirements and specifications and in order to adequately treat the process the sewage of the entire area as set forth in the "Interim Basin Plan for Central Butler County."

7. The second party agrees to consult with and be advised by each Sewer Service Area through the Municipal Corporation or its duly designated Authority in said Sewer Service Area

as to all financial matters, the allocation of the same, the apportionment of the debt, all to the end that the highest possible Grant may be received for the entire Sewer Service Area and the project constructed and put into service at the earliest possible opportunity.

8. The second party agrees that its Rules and Regulations shall apply in all Sewer Service Areas and that all connection fees in each Sewer Service Area shall be applied to the retirement of the debt incurred for the capital improvements charged to that Sewer Service Area but the tap-in fees will be paid to the Revenue Fund of the entire Area.

9. The parties hereby agree that the term "Surcharge" as used in this agreement is to apply to each equivalent unit, as defined in the Butler Area Sewer Authority Rules and Regulations.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed as of the date first above written by their proper officers and the corporate seal affixed pursuant to the duly constituted action of each, spread upon their official minutes, and intending to be legally bound hereby.

ATTEST:

Alice S. Johnston
Clerk

CITY OF BUTLER, BUTLER COUNTY, PENNSYLVANIA

BY Frank C. Le Fevre
Mayor

ATTEST:

Mary Jane [illegible]
Secretary

TOWNSHIP OF BUTLER, BUTLER COUNTY PENNSYLVANIA

BY [illegible]
President

ATTEST:

Secretary

TOWNSHIP OF CENTER, BUTLER COUNTY, PENNSYLVANIA

BY Harry A. Mercer
President

ATTEST:

John A. Reddick
Secretary

TOWNSHIP OF SUMMIT, BUTLER COUNTY, PENNSYLVANIA

BY Rodney E. Scott
President

ATTEST:

~~Walter E. Deal~~
Secretary
Rita A. Thompson

BOROUGH OF EAST BUTLER, BUTLER COUNTY, PENNSYLVANIA

BY ~~Samuel W. Gallagher~~
President
Kenneth E. Crispin

ATTEST:

J F Sauerburger
Secretary

DESHON AREA SANITARY DISPOSAL AND SEWER AUTHORITY

BY Cameron M. Stover
President

ATTEST:

Walter E Deal
Secretary

EAST BUTLER BOROUGH SEWER AUTHORITY

BY Samuel W Gallagher
President

ATTEST:

Thomas W. Roe
Secretary

MERIDIAN WATER AND SEWER AUTHORITY

BY Ralph R. Cicerchi
President

ATTEST:

MUNICIPAL WATER AND SEWER AUTHORITY OF CENTER TOWNSHIP

Emest M Brownnell
Secretary

BY Casper J. Ball
President

(First Parties)

ATTEST:

BUTLER AREA SEWER AUTHORITY

Secretary

BY
President

(Second Party)

VERIFICATION

I, Paul F. Sybert, the Chairman of the Board of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Paul F. Sybert

Dated: July 21, 2023

BUTLER AREA SEWER AUTHORITY
BUTLER, PENNSYLVANIA

DIRECT TESTIMONY
OF
HAROLD WALKER, III

BUTLER AREA SEWER AUTHORITY STATEMENT NO. 3

FAIR MARKET VALUE APPRAISAL

BUTLER AREA SEWER AUTHORITY
WASTEWATER SYSTEM ASSETS

February 2023

Prepared by:

GANNETT FLEMING

TABLE OF CONTENTS

INTRODUCTION

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

A. My name is Harold Walker III, and my business address is 1010 Adams Avenue, Audubon, Pennsylvania.

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

A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") as Manager, Financial Studies.

Q. WOULD YOU DESCRIBE BRIEFLY GANNETT FLEMING?

A. Yes. Since 1915, Gannett Fleming and its predecessors have been helping clients in public pricing policy and related financial matters for managerial purposes, before regulatory commissions and courts of law. Gannett Fleming is registered as a Utility Valuation Expert ("UVE") in the Commonwealth of Pennsylvania. Gannett Fleming is also a registered Municipal Advisor with the United States Securities and Exchange Commission ("SEC") and I am a licensed Municipal Advisor Representative (Series 50) with the Municipal Securities Rulemaking Board ("MSRB") and the Financial Industry Regulatory Authority ("FINRA"). Gannett Fleming is a subsidiary of Gannett Fleming, Inc.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, FINANCIAL STUDIES OF GANNETT FLEMING?

A. I supervise and develop financial and economic studies on behalf of investor-owned and municipally owned water, wastewater, electric, natural gas distribution and transmission, oil pipeline, and telephone utilities, as well as resource-recovery companies.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT EXPERIENCE?

A. My educational background, business experience and qualifications are provided in a Curriculum Vitae included as **Appendix HW-1**.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?

A. Yes. I have testified before the Pennsylvania Public Utility Commission ("Commission" or "PUC"), as well as other state regulatory commissions, on many occasions, as shown on **Appendix HW-1**.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony describes and explains the fair market value appraisal of the Butler Area Sewer Authority ("BASA") wastewater system assets ("Wastewater System") that I and staff, working under my direction, performed. Gannett Fleming was engaged by the BASA to perform this appraisal. Our report is entitled "Butler Area Sewer Authority Wastewater System Assets Fair Market Value Appraisal at January 19, 2023" ("Gannett Fleming Appraisal Report"). The appraisal and its report were developed to meet the criteria established in Section 1329 of the Pennsylvania Public Utility Code ("Code"), 66 Pa. C.S. § 1329 ("Determination of the fair market value of water and wastewater assets").

In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of 2016 and Governor Wolf signed Act 12 into law adding Section 1329 of the Code which established the legislative requirements facilitating the acquisition of municipal and authority water and wastewater systems by private investor-owned utilities and other entities which are rate-regulated by the Commission. This legislation was intended to facilitate the acquisition of water and wastewater systems in order to facilitate capital improvements to the water and wastewater properties.

QUALIFICATION AS UTILITY VALUATION EXPERT

Q. IS GANNETT FLEMING ON THE COMMISSION'S REGISTRY OF UTILITY VALUATION EXPERTS?

A. Yes. Gannett Fleming is a UVE in the Commonwealth of Pennsylvania approved by the PUC (Utility Code 9919244).

Q. PLEASE DESCRIBE THE PROCESS BY WHICH GANNETT FLEMING WAS PLACED ON THE COMMISSION'S REGISTRY OF UTILITY VALUATION EXPERTS.

A. After passage of Section 1329 of the Code, the Commission established an application process by which the Commission would approve and designate firms to be placed on the Commission's "Registry of Utility Valuation Experts." To be included on the registry, the UVEs must establish their qualifications. Gannett Fleming submitted its original application and the required proof of experience in September of 2016 and received confirmation and approval from the Commission of Gannett Fleming's placement on the Commission's UVE Registry in December of 2016. Renewal of inclusion on the Commission's UVE Registry must be done annually. Gannett Fleming has timely submitted annual renewal applications since its initial inclusion and has been confirmed for continued placement on the Commission's UVE Registry each year since 2016, including most recently in January of 2023.

Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED OR SUSPENDED?

A. No.

Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND APPRAISAL OF UTILITY ASSETS?

A. Yes. In addition to serving as an expert witness on various financial and economic matters before utility regulatory commissions for over 35 years, I have also provided valuations of utility asset services for more than 20 years. In that capacity I have testified on valuation matters before the Commission and sponsored or adopted Gannett Fleming's UVE appraisals under Section 1329 of the Code in the New Garden Township proceeding, the Limerick Township proceeding, the East Bradford Township proceeding, the Mahoning Township (water) proceeding, the Mahoning Township (wastewater) proceeding, the Exeter Township proceeding, the Cheltenham Township proceeding, the East Norriton Township proceeding, the Kane Borough proceeding, the Delaware County Regional

Water Quality Control Authority proceeding, the Borough of Royersford proceeding, the Valley Township (water) proceeding, the Valley Township (wastewater) proceeding, the Upper Pottsgrove proceeding, the Lower Makefield Township proceeding, the East Whiteland Township proceeding, the Willistown Township proceeding, Shenandoah Borough proceeding and the City of Beaver Falls proceeding. In addition to testifying in Section 1329 proceedings, I have also testified and filed reports on valuation matters in California, Illinois, New Hampshire, and Pennsylvania in courts of law and regulatory commissions.[1]

Q. HAVE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF DERIVED ANY MATERIAL FINANCIAL BENEFIT FROM THE SALE OF THE WASTEWATER SYSTEM ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?

A. No.

Q. ARE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF AN IMMEDIATE FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER PENNSYLVANIA-AMERICAN WATER COMPANY ("PAWC") OR THE BASA?

A. No.

Q. IS GANNETT FLEMING IN COMPLIANCE WITH APPLICABLE PENNSYLVANIA LAWS?

[1] An electronic link to the PUC Dockets where I have testified in the last two years is provided in response to Section 1329 Application Standard Data Request 15-d. All other testimony relating to valuation is more than two years old and, therefore, is not provided.

A. Yes.

Q. DOES GANNETT FLEMING HAVE THE FINANCIAL AND TECHNICAL FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE WASTEWATER ASSETS OF THE BASA?

A. Yes, to be placed on the Commission's "Registry of Utility Valuation Experts" Gannett Fleming had to establish its qualifications.

Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY POTENTIAL CONFLICT OF INTEREST THAT WOULD CAST DOUBT UPON YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND FAIR VALUATION IN THIS PROCEEDING?

A. No.

Q. HAVE YOU CORRESPONDED WITH BUYER'S UVE WITH REGARD TO ITS RESPECTIVE FAIR MARKET VALUE APPRAISAL OF THE ASSETS AT ISSUE IN THIS CASE?

A. No.

Q. DO YOU HAVE ANY AFFILIATION WITH EITHER THE SELLING UTILITY OR THE ACQUIRING PUBLIC UTILITY?

A. No. Other than the current assignment to provide the subject appraisal, and similar assignments to provide appraisals of other utility systems, I have no business or personal relationships with any party to the proposed acquisition.

FEES PAID FOR UTILITY VALUATION EXPERT SERVICES

Q. WHAT IS THE GANNETT FLEMING FEE ARRANGEMENT TO DELIVER THE APPRAISAL?

A. Gannett Fleming is being compensated on an hourly basis. Our fee arrangement is included as Appendix A-7 to PAWC's Application. True, correct, and complete copies of Gannett Fleming's invoices to the BASA for this matter, as of the date of PAWC's Application filing, are also included in **Appendix A-7.2**.

Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT GANNETT FLEMING WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?

A. The estimated total compensation that Gannett Fleming will receive for its services in this matter as of the date of PAWC's Application filing is approximately $25,000, which represents approximately 0.01% of the fair market valuation. I estimate our fee will total $75,000 if this proceeding is fully litigated, which represents approximately 0.03% of the fair market valuation.

Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS NEGOTIATED?

A. Gannett Fleming submitted a proposal to provide the required services in October 2022, which the BASA accepted.

Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?

A. Yes.

Q. WILL GANNETT FLEMING RECEIVE ITS FEE REGARDLESS OF WHETHER THE COMMISSION APPROVES THE PROPOSED TRANSACTION OR WHETHER IT CLOSES?

A. Yes. 66 Pa.C.S. § 1329(a)(3) mandates that I comply with the Uniform Standards of Professional Appraisal Practice ("USPAP") when developing an appraisal. Under the USPAP, I cannot perform the appraisal with bias, and acceptance of a fee contingent on a particular outcome, like closing or Commission approval, would violate the Ethics Rule.

Q. ARE YOU ADVOCATING FOR ANY PARTY OR OUTCOME?

A. No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa.C.S. § 1329(a)(3), requires that I perform the appraisal with impartiality, objectivity, and independence, and without accommodation of personal interests. I have not performed this appraisal assignment with bias, and I am not advocating the cause or interest of any party or issue. Further, I have not accepted this or any assignment that includes the reporting of predetermined opinions and conclusions.

FAIR MARKET VALUATION OF WASTEWATER SYSTEM ASSETS

Q. PLEASE IDENTIFY APPENDIX A-5.2 TO PAWC'S APPLICATION IN THIS PROCEEDING?

A. Appendix A-5.2 of PAWC's application includes Gannett Fleming's appraisal report dated February 2, 2023.

Q. HOW DO YOU RECOGNIZE IT?

A. I personally prepared, and also directed and supervised Gannett Fleming personnel in preparing, the report, and recognize it as Gannett Fleming's work product.

Q. IS APPENDIX A-5.2 A TRUE, COMPLETE, AND ACCURATE COPY OF THE GANNETT FLEMING APPRAISAL REPORT?

A. Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE GANNETT FLEMING APPRAISAL REPORT.

A. In accordance with Section 1329 of the Code, the BASA engaged Gannett Fleming to prepare the fair market valuation report of the Wastewater System. The BASA provided financial statements and budget statements regarding the Wastewater System and a copy of the Engineering Assessment[2] as required by Section 1329(a)(4). In addition, Gannett Fleming reviewed the assets, reviewed additional information provided by the BASA and

[2] "Engineer's Assessment Study For: Butler Area Sewer Authority Sanitary Sewer System" and related files prepared by Herbert, Rowland & Grubic, Inc.".

conducted additional research regarding the BASA and the Wastewater System, including a site visit. After those activities and data gathering, we developed the appraisal.

The appraisal contains a letter of transmittal; a table of contents detailing all the sections of the report and work papers; and a narrative report explaining our methodology and conclusions.

The intent of the valuation report is to provide the appraisal results, as well as the entire appraisal work file, in sufficient detail to satisfy the parties' and Commission's review requirements of Section 1329 and the Commission's Final Implementation Order, *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 (Order Entered October 27, 2016), and Final Supplemental Implementation Order, *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 (Order Entered February 28, 2019). In addition to a copy of the appraisal report, I have provided supporting work papers for the appraisal report in Appendix A-4.3 of PAWC's Application. The relevant work papers have also been submitted to the Commission and provided to the public advocates in **CONFIDENTIAL** live electronic format.

Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE GANNETT FLEMING APPRAISAL REPORT SINCE ITS PREPARATION?

A. No.

Q. WAS THE FAIR MARKET VALUATION OF THE WASTEWATER SYSTEM ASSETS DETERMINED IN COMPLIANCE WITH USPAP?

A. Yes. Our fair market valuation was determined in compliance with USPAP 2020-2021 Edition. On February 19, 2021, the Appraisal Foundation's Appraisal Standards Board ("ASB") announced that the current edition of the USPAP would be extended by one year, until December 31, 2022. On August 11, 2022, the ASB announced that the current edition of the USPAP would be extended by another year. The 2020-2021 USPAP will now be effective until December 31, 2023.

Q. DID YOU EMPLOY THE COST, MARKET, AND INCOME APPROACHES IN PREPARING YOUR VALUATION?

A. Yes.

Q. DID YOU INCLUDE ANY EXTRAORDINARY ASSUMPTIONS OR HYPOTHETICAL CONDITIONS IN DEVELOPING YOUR APPRAISAL?

A. No.

Q. DID YOU INCLUDE ANY LIMITING CONDITIONS IN DEVELOPING YOUR APPRAISAL?

A. Yes. We accepted all information and data provided by the BASA as it pertains to this assignment "as is" after a limited review. That is, we neither audited nor verified any data, engineering assessment, financial record or operating data provided for this assignment. We assumed all title to all assets included in the appraisal is good and marketable and no hazardous conditions or materials exist which could affect the assets. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

The economic and industry information and data included in our Appraisal have been obtained from various printed or electronic reference sources that we believe to be reliable. We have not performed any corroborating procedures to substantiate that information and data.

Q. PLEASE SUMMARIZE YOUR RESULTS OF THE APPLICATION OF THE COST, MARKET, AND INCOME APPROACHES.

A. Please see the below table:

Approach	Indicated Value	Weight	Weighted Value
Cost Approach	254,729,592	33.33%	$84,901,373
Market Approach	178,105,462	33.34%	59,380,361
Income Approach	264,469,512	33.33%	88,147,688
		100%	$232,429,422
Conclusion			**$232,429,000**

Q. PLEASE FURTHER DESCRIBE EACH APPROACH IN THE DEVELOPMENT OF YOUR APPRAISAL.

A. We developed our appraisal utilizing the cost, income, and market approaches as required by USPAP and Section 1329 of the Code. We used seven methods under the Cost, Market, and Income Approaches to valuation: Original Cost Method, Replacement Cost Method, Capitalization of Earnings Method, Market Multiple Discounted Cash Flow Method, Capitalization Discounted Cash Flow Method, Market Multiples Method, and the Selected Transactions Method.

The results from the market multiple discounted cash flow method and the capitalization discounted cash flow method form the basis for our Income Approach. Our Market Approach is supported by the market multiples method and selected transactions method. The results from the original cost method form the basis for our replacement cost method, and both methods form the basis for our Cost Approach. These approaches are summarized below.

Cost Approach. The cost approach utilized the original cost method and replacement cost method. The original cost method determined the original cost of the assets when "new" or first constructed based on the information contained in the Engineering Assessment. The original cost new inventory was then trended using the Handy Whitman Index of Public Utility Construction Costs for the water industry to produce the trended cost, or reproduction cost, and was converted to replacement cost new after obsolescence was factored. The calculated accrued depreciation was determined for the original cost new and for the replacement cost new as of January 19, 2023. The calculated accrued depreciation was based on the assets' attained ages, and the service life of the assets. The cost basis of depreciable assets was reduced annually by the accumulated depreciation to reflect the loss in the service value of the assets since being constructed. All land and land rights were valued at original cost.

Income Approach. The income approach utilized the capitalization of earnings (cash flow) method and two discounted cash flow methods. The capitalization of earnings method converted a single base economic income number to a value by dividing it by a capitalization rate. The discounted cash flow methods used estimates of future debt free net cash flow and discounted them to arrive at a present value or price of the cash flows.

The capitalization rate and the discount rate were developed based on market debt and equity rates at the appraisal date. The discounted cash flow methods reflected two types of discounted cash flow analyses, the EBIT and EBITDA terminal value model (market multiple discounted cash flow method) and a capitalization of terminal value model (capitalization discounted cash flow method).[3]

Market Approach. The market approach was developed based on the market multiples method and the selected transactions method. The market multiples method was based on the market price data of publicly traded corporations engaged in the same or a similar line of business as the Wastewater System. The market price data of these comparable publicly traded corporations was used to calculate the market multiples for the comparable publicly traded corporations at the appraisal date. The selected transactions method used certain public information relating to the purchase or sale of businesses involved in the same or a similar business line as the Wastewater System to calculated market multiples at the time of transaction (sale/purchase). The calculated market multiples determined by the market multiples method and the selected transactions method were then multiplied by the corresponding Wastewater System financial and operating statistic to produce an indicated value for the Wastewater System.

Q. PLEASE STATE THE NUMBER OF CUSTOMERS YOU USED IN DEVELOPING YOUR APPRAISAL AND THE SOURCE OF THAT NUMBER.

A. The number of customers I used was 14,699. This customer count number was provided by the BASA.

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[3] "EBIT" is earnings before interest and taxes and "EBITDA" is earnings before interest, tax, depreciation, and amortization.

Q. DID YOU MAKE ANY UPDATES TO YOUR APPRAISAL AFTER IT WAS SUBMITTED TO THE SELLER, AND IF SO, WHAT WAS THE UPDATE, WHEN WAS IT MADE, AND WHY WAS IT NECESSARY?

A. No.

Q. DID YOU PERFORM AN ON-SITE INSPECTION OF THE WASTEWATER SYSTEM?

A. A construction manager engineer from our parent company viewed or observed the Wastewater System's facilities on January 16, 2023.

Q. DID YOU RELY UPON A LICENSED ENGINEER'S ASSESSMENT OF THE TANGIBLE ASSETS OF THE WASTEWATER SYSTEM IN PERFORMING YOUR VALUATION?

A. Yes. The BASA provided a copy of the Engineering Assessment and this information was incorporated into our Cost Approach in our appraisal.

<u>Cost Approach</u>

Q. DID YOU USE THE REPRODUCTION COST OR THE REPLACEMENT COST IN YOUR COST APPROACH?

A. We utilized the original cost new ("OCN") to calculate the trended original cost ("TOC") measures, or the reproduction cost of the depreciable assets by multiplying the OCN by specific cost indices. We converted reproduction cost new to replacement cost new after factoring in obsolescence. We used the TOC method because the mandated use of the

Engineering Assessment's original cost essentially dictates the use of TOC over the reproduction cost or the replacement cost methods.

Q. WHAT INDEX, IF ANY, DID YOU USE FOR THAT METHOD?

A. The original cost new inventory was trended using the Handy Whitman Index of Public Utility Construction Costs for the water industry to produce the reproduction cost new.

Q. UNDER YOUR APPLICATION OF THE COST APPROACH WHAT ASSETS DID YOU VALUE OR TREND DIFFERENTLY FROM OTHER ASSETS AND WHY WAS THAT NECESSARY?

A. We did not trend land and land rights. That is, all land and land rights were valued at original cost. Plant accounts were trended mainly using the Handy Whitman plant account indices. In limited instances, when Handy Whitman plant account indices were not available, we used the U.S. Bureau of Labor Statistics, Producer Price Index which best matches the assets being trended.[4]

Q. UNDER YOUR APPLICATION OF THE COST APPROACH, WHAT YEAR-END DATE DID YOU USE FOR CALCULATING THE DEPRECIATION RESERVE?

A. We used the date of January 19, 2023.

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[4] The plant accounts for which Handy Whitman indices were not available included: 390.00 Office Furniture and Equipment; 390.70 Computers and Printers; 391.70 Transportation Equipment; 395.70 Power Operated Equipment; 396.00 Communication Equipment; and 397.70 Miscellaneous Equipment.

Q. HOW DID YOU DETERMINE THE DEPRECIATION PARAMETERS OF SURVIVAL/RETIREMENT CHARACTERISTICS AND SERVICE LIVES FOR THE UTILITY PROPERTY UNDER THE COST APPROACH?

A. We determined the average service lives of depreciable assets based on the materials used for construction and how long the depreciable assets are likely to meet service demands.

Q. WHY ARE THOSE PARAMETERS APPROPRIATE?

A. We believe our average service lives of depreciable assets are appropriate based on our experience of having determined average service lives for numerous other water and wastewater utilities and given the fact they resemble those used by other Pennsylvania wastewater companies.

<u>Income Approach</u>

Q. REGARDING YOUR APPLICATION OF THE INCOME APPROACH, WHAT METHOD DID YOU USE TO DETERMINE THE INCOME APPROACH RESULT?

A. We used the Market Multiple Discounted Cash Flow Method ("Market Multiple DCF"), and Capitalization Discounted Cash Flow Method ("Capitalization DCF") to determine the Income Approach result. We refer to the Market Multiple DCF and the Capitalization DCF collectively as the DCF method. We used the capitalization of earning method to estimate value under current ownership and operations. The capitalization of earning method was not used to determine the Income Approach result.

Q. WHAT ASSUMPTIONS DID YOU EMPLOY TO DEVELOP YOUR INCOME APPROACH RESULT?

A. All general assumptions are listed on page 3 of Exhibit 12, and page 6 of Exhibits 13, 14, 15 and 16.[5]

Q. DID YOU USE PAWC'S CAPITALIZATION RATE OR THEIR DISCOUNT RATE IN YOUR INCOME APPROACH TO VALUATION?

A. No. Use of PAWC's capitalization rate or their discount rate in an income approach to valuation is not consistent with the standard of value of fair market value because the "buyer" under the standard of value of fair market value is not a specific entity (i.e., PAWC), but rather a hypothetical buyer. Use of PAWC's capitalization rate or their discount rate in an income approach to valuation is only used under the standard of value of investment value.[6] In accordance with Section 1329 of the Code, the standard of value is fair market value, not investment value.

Q. PLEASE EXPLAIN THE CAPITALIZATION RATE AND THE DISCOUNT RATE USED IN YOUR INCOME APPROACH TO VALUATION.

A. The capitalization rate used in the capitalization of earnings method and the discount rate used in the DCF method are related. The discount rate is the opportunity cost rate related to the risk of the cash flows. The capitalization rate is simply the discount rate minus the

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[5] Exhibit references herein are to the Exhibits in the Gannett Fleming Appraisal Report.

[6] Pratt, Shannon P. "Defining Standards of Value." Valuation 34, no. 2, June 1989. http://www.appraisers.org/docs/default-source/college-of-fellows-articles/defining-standards-of-value.pdf.

expected growth rate. If no growth is assumed, the capitalization rate is equal to the discount rate.

As explained previously, under the standard of value of fair market value the "buyer" is not a specific entity (i.e., PAWC), but rather a hypothetical buyer. Accordingly, the hypothetical bidder/buyer may range from large regional municipal authorities ("MUNI") to investor-owned utilities ("IOU"). For a MUNI, the appropriate discount rate is the current municipal revenue bond yield on January 19, 2023 of 3.97%. The appropriate IOU discount rate is the current net of tax overall cost of capital (weighted average cost of capital) on January 19, 2023, and ranges from 7.85% to 9.75%.[7]

For a MUNI, the appropriate discount rate is the current municipal revenue bond yield, 3.97%, because debt is the only major source of capital available to finance an acquisition (developed on Exhibit 23, pages 2-5). Although a MUNI likely carries equity on their books (balance sheet), all existing equity is already invested in other assets and therefore, cannot be used to finance an acquisition.[8] For valuation purposes, an embedded cost of debt, or the historical cost of all debt issuances outstanding is not used because this capital is already invested in assets. Whereas the marginal cost of debt, 3.97%, at the valuation date is used in accordance with accepted valuation practice and used for market valuation purposes.

As discussed previously, for an IOU, the appropriate discount rate is the net of tax overall cost of capital (weighted average cost of capital), 7.85% to 9.75% (Exhibit 23,

[7] Both the American Society of Appraisers, ASA Business Valuation Standards, 2009, and the National Association of Certified Valuation Analysts, Professional Standards, 2007, use the same definition: "Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) is determined by the weighted average, at market values, of the cost of all financing sources in the business enterprise's capital structure."

[8] For example, when a municipal or government entity, such as the Commonwealth of Pennsylvania, finances construction of a road or bridge, they only consider the marginal debt cost despite having "equity" reflected on their books (balance sheet).

pages 2-8). In this instance, the net of tax overall cost of capital (weighted average cost of capital) is based on the Comparable Group's market value capital structure of 23.8% debt and 76.2% equity, a market cost of debt of 5.07% and a range of market cost of equity of 9.17% to 11.65%.[9] The Comparable Group's net of tax overall cost of capital (weighted average cost of capital) is used as a proxy to conform to the "hypothetical buyer" or "hypothetical seller" of fair market valuation. Use of the buyer's net of tax overall cost of capital (weighted average cost of capital) would produce an investment valuation, not a fair market valuation. The supporting documentation for the development of the MUNI and IOU discount rates is shown on pages 2 to 8 of Exhibit 23.

Q. WHY IS THE NET OF TAX OVERALL COST OF CAPITAL APPROPRIATE TO USE?

A. The net of tax overall cost of capital is appropriate because the cash flows being discounted are after tax, or net of tax. The income approach uses estimates of future free cash flow and discounts them to arrive at a present value or price of the cash flows. Generally, this analysis begins with an estimate of the Debt Free Net Cash Flow over the next five to twenty years along with a terminal value. In each year, the Debt Free Net Cash Flow is comprised of projected EBIT, minus income taxes, plus projected depreciation and amortization, plus or minus projected changes in net cash working capital, less projected capital expenditures.

[9] For an example of the net of tax overall cost of capital, see http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/weighted-average-cost-capital-wacc-2905. Also see http://www.wallstreetmojo.com/weighted-average-cost-capital-wacc/, or http://accountingexplained.com/misc/corporate-finance/wacc.

Q. WHAT IS THE BASIS FOR THE GROWTH RATE USED TO CALCULATE THE CAPITALIZATION RATE USED IN THE INCOME APPROACH?

A. The growth rate used to calculate the capitalization rate reflects the growth in the Debt Free Net Cash Flow after the terminal value year. For the BASA, a growth rate of 0.1% was used based on the current level of cash flow and rates. Under both MUNI and IOU ownership a growth rate of 0.2% was used based on the projected growth in population (0.3%), projected inflation (2.5%) and the actual growth in the Debt Free Net Cash Flow in the years prior to the terminal value year. Under MUNI ownership the average growth in the Debt Free Net Cash Flow for the last two years prior to the terminal value year was 0.2% and 0.2% under IOU ownership. A growth of 0.2% was deemed reasonable based on the aforesaid.

Q. WHAT UTILITY EARNINGS REPORT WAS USED TO CREATE THE CAPITAL STRUCTURE USED IN YOUR APPRAISAL?

A. As documented previously in footnotes 6 and 8, book value capitalization is not used in fair market valuation determination. Therefore, we did not use the 6.76% Comparable Group's DSIC (distribution system improvement charge) related net of tax overall cost of capital in our valuation because a "hypothetical buyer" cannot finance an acquisition at such a rate and, therefore, its use would provide a meaningless result. The Comparable Group's 6.76% DSIC related cost was determined based on the Comparable Group's book value capital structure of 49.1% debt and 50.9% equity, a cost of debt of 5.07% and a DSIC cost of equity of 9.75% based on the June 2022 Earnings Report (public meeting October 27, 2022). However, we note the 6.76% Comparable Group's DSIC related net of tax overall cost of capital falls below the 7.85% to 9.75% range of discount rates used in our Income Approach.

If we used the 6.76% Comparable Group's DSIC (distribution system improvement charge) related net of tax overall cost of capital in our valuation shown on Exhibit 16, the results of the Capitalization DCF would show a value for Wastewater System of $282.8 million. Further, the results of the Market Multiple DCF would show a value of $420.7 million and collectively, the DCF method based on the IOU ownership scenario and a 0.2% growth assumption indicates a value of $353.3 million for the Wastewater System. The DCF method based on the MUNI ownership scenario indicates a value of $273.2 million and the DCF method based on the IOU ownership scenario using DSIC indicates a value of $353.3 million. Collectively, the DCF method indicates a value of $313.3 million when DSIC is considered.

Q. IF YOU USED A TERMINAL VALUE IN YOUR DISCOUNTED CASH FLOW ANALYSIS WHAT IS THE NUMBER OF YEARS OVER WHICH THE CASH FLOWS ARE CONSIDERED?

A. The use of a "terminal value" in a Discounted Cash Flow analysis is reasonable and is in accordance with accepted valuation practice. Simply put, the "terminal value" is a mathematical shortcut to avoid having to show and/or calculate annual Debt Free Net Cash Flows for hundreds of time periods, or hundreds of years. Within the Discounted Cash Flow analysis, the "terminal value" is simply a point in time in which the growth in annual Debt Free Net Cash Flows changes from multiple growth rates to a constant growth rate. For example, in our Discounted Cash Flow analysis, the growth rate of annual Debt Free

Net Cash Flows during time periods 1 through 20 changes multiple times due to the various general assumptions listed in the Gannett Fleming Appraisal Report. After time period 20, the growth in annual Debt Free Net Cash Flows is a constant growth rate. Accordingly, period 20, or year 20, is the "terminal value" year in our DCF method.

Market Approach

Q. REGARDING YOUR APPLICATION OF THE MARKET APPROACH, WHAT METHODS DID YOU USE TO DETERMINE THE MARKET APPROACH RESULT?

A. I used the market multiples method and the selected transaction method.

Q. WHAT ASSUMPTIONS, ANALYSES, AND/OR ADJUSTMENTS DID YOU MAKE UNDER EACH METHOD?

A. The general assumptions used for the market multiples method are listed on page 1 of Exhibit 18. No assumptions were made under the selected transaction method.

Q. REGARDING YOUR APPLICATION OF THE MARKET MULTIPLES METHOD, DID YOU LIMIT YOUR PROXY GROUP USED FOR CALCULATING MARKET VALUE TO ONLY COMPANIES WHICH ENGAGE IN PENNSYLVANIA FAIR MARKET VALUE ACQUISITIONS?

A. No.

Q. REGARDING YOUR APPLICATION OF THE COMPARABLE SALES USED TO ESTABLISH THE VALUATION, DID YOU LIMIT THE TRANSACTIONS SELECTED TO THOSE THAT YOU PREVIOUSLY APPRAISED?

A. No.

Q. PLEASE STATE THE COMPARABLE TRANSACTIONS YOU USED IN DEVELOPING YOUR MARKET APPROACH.

A. Please see PAWC's Application Appendix A-5.2 (the Gannett Fleming appraisal), Exhibit 19, pages 2 and 3, which shows that we reviewed the following transactions[10] in developing the selected transactions method:

- Sale of the City of McKeesport Wastewater system to Pennsylvania-American Water Company in 2017.
- Sale of New Garden Township Sewer Authority to Aqua Pennsylvania in 2017.
- Sale of Limerick Township Wastewater system to Aqua Pennsylvania in 2017.
- Sale of East Bradford Township Wastewater system to Aqua Pennsylvania in 2018.
- Sale of Mahoning Township Water system to Suez Water Pennsylvania in 2018.
- Sale of Mahoning Township Wastewater system to Suez Water Pennsylvania in 2018.
- Sale of Sadsbury Township Wastewater system to Pennsylvania-American Water Company in 2018.

[10] The years listed indicate when the applicant sought approval or when the Commission approved each of the transactions.

- Sale of Exeter Township Wastewater system to Pennsylvania-American Water Company in 2019.
- Sale of Steelton Borough Authority Water system to Pennsylvania-American Water Company in 2019.
- Sale of Cheltenham Township Wastewater system to Aqua Pennsylvania in 2019.
- Sale of East Norriton Township Wastewater system to Aqua Pennsylvania in 2019.
- Sale of Kane Borough Authority Wastewater system to Pennsylvania-American Water Company in 2020.
- Sale of Royersford Borough Authority Wastewater system to Pennsylvania-American Water Company in 2021.
- Sale of Upper Pottsgrove Township Wastewater system to Pennsylvania-American Water Company in 2021.
- Sale of Valley Township Wastewater system to Pennsylvania-American Water Company in 2021.
- Sale of Valley Township Water system to Pennsylvania-American Water Company in 2021.
- Sale of Upper Pottsgrove Township Wastewater system to Pennsylvania-American Water Company in 2020.
- Sale of York City Sewer Authority Wastewater system to Pennsylvania-American Water Company in 2021.

- Sale of Lower Makefield Township Wastewater system to Aqua Pennsylvania in 2021.
- Sale of Willistown Township Wastewater Wastewater system to Aqua Pennsylvania in 2021.
- Sale of East Whiteland Township Wastewater system to Aqua Pennsylvania in 2021.

As a check on the transactions I studied, that are listed above, I also reviewed the purchase of Connecticut Water Service, Inc. by SJW Group (Exhibit 20 page 2), which was approved in 2019, the purchase of New England Service Company, Inc. ("NESC") by Aquarion Company, parent of Aquarion Water Company (Exhibit 20 page 3), approved in 2021 and the purchase of The Torrington Water Company, Inc. by Aquarion Company, parent of Aquarion Water Company (Exhibit 20 page 4), approved in 2022.[11]

Q. WHAT WERE THE RESULTS OF THE MARKET APPROACH ANALYSIS YOU PERFORMED?

A. The results of the market multiples method and the results of the selected transactions method are shown on Exhibit 21. The conclusion regarding the Market Approach analysis is explained on page 47 of our appraisal.

CONCLUSION

Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF THE WASTEWATER SYSTEM'S ASSETS TO BE PURCHASED BY PAWC?

[11] NESC was the sole stockholder of four regulated water companies operating in three separate states.

A. Fair market value is defined as "the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."[12]

Based on our analysis, as described in our appraisal report, the estimate of the fair market value of the Wastewater System as of January 19, 2023 is $232,429,000 (rounded). The results of the analyses and calculations are summarized in Table 1 for the Wastewater System as follows:

Valuation Approach	Indicated Value
Cost Approach	$254,729,592
Income Approach	264,469,512
Market Approach	178,105,462

Table 1

We considered the results of each approach as an indicator of value individually, or as independent indicators of value. Therefore, all three approaches to valuation were given consideration in arriving at our estimate of the fair market value conclusion. Based on these facts, our conclusion regarding the fair market value is $232.4 million. Our conclusion regarding the fair market value can be described by the weights and the specific results of the three approaches to valuation that are shown on Exhibit 22. The results of our analyses, shown on Exhibit 22, indicate a range of value for the Wastewater System of

[12] The International Glossary of Business Valuation Standards.

$178.1 million to $264.5 million and collectively indicate a fair market value of $232,429,000 for the Wastewater System.

Q. GENERALLY SPEAKING, IS IT COMMON FOR DIFFERENT APPRAISERS TO REACH VARYING OPINIONS OF FAIR MARKET VALUE?

A. Yes. I do not think the underlying results of the models employed for valuation purposes are ever the same from one appraiser to another appraiser. Further, the conclusion of value from one appraiser to another appraiser usually differs as well. I believe these are some of the reasons the results of the conclusion of value from two different UVEs are averaged under Section 1329, 66 Pa.C.S. § 1329.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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

EXHIBIT HW-1
Professional Qualifications
of
Harold Walker, III
Manager, Financial Studies
Gannett Fleming Valuation and Rate Consultants, LLC.

EDUCATION

Mr. Walker graduated from Pennsylvania State University in 1984 with a Bachelor of Science Degree in Finance. His studies concentrated on securities analysis and portfolio management with an emphasis on economics and quantitative business analysis. He has also completed the regulation and the rate-making process courses presented by the College of Business Administration and Economics Center for Public Utilities at New Mexico State University. Additionally, he has attended programs presented by The Institute of Chartered Financial Analysts (CFA).

Mr. Walker was awarded the professional designation "Certified Rate of Return Analyst" (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is based upon education, experience, and the successful completion of a comprehensive examination. He is also a member of the Society of Utility and Regulatory Financial Analysts (SURFA) and has attended numerous financial forums sponsored by the Society. The SURFA forums are recognized by the Association for Investment Management and Research (AIMR) and the National Association of State Boards of Accountancy for continuing education credits.

Mr. Walker is also a licensed Municipal Advisor Representative (Series 50) by Municipal Securities Rulemaking Board (MSRB) and Financial Industry Regulatory Authority (FINRA).

BUSINESS EXPERIENCE

Prior to joining Gannett Fleming Valuation and Rate Consultants, LLC., Mr. Walker was employed by AUS Consultants - Utility Services. He held various positions during his eleven years with AUS, concluding his employment there as a Vice President. His duties included providing and supervising financial and economic studies on behalf of investor owned and municipally owned water, wastewater, electric, natural gas distribution and transmission, oil pipeline and telephone utilities as well as resource recovery companies.

In 1996, Mr. Walker joined Gannett Fleming Valuation and Rate Consultants, LLC. In his capacity as Manager, Financial Studies and for the past twenty years, he has continuously studied rates of return requirements for regulated firms. In this regard, he supervised the preparation of rate of return studies in connection with his testimony and in the past, for other individuals. He also assisted and/or developed dividend policy studies, nuclear prudence studies, calculated fixed charge rates for avoided costs involving cogeneration projects, financial decision studies for capital budgeting purposes and developed financial models for determining future capital requirements and the effect of those requirements on investors and ratepayers, valued utility property and common stock for acquisition and divestiture, and assisted in the private placement of fixed capital securities for public utilities.

Head, Gannett Fleming GASB 34 Task Force responsible for developing Governmental Accounting Standards Board (GASB) 34 services and educating Gannett Fleming personnel and Gannett Fleming clients on GASB 34 and how it may affect them. The GASB 34 related services include inventory of assets, valuation of assets, salvage estimation, annual depreciation rate determination, estimation of depreciation reserve, asset service life determination, asset condition assessment, condition assessment documentation, maintenance estimate for asset preservation, establishment of condition level index, geographic information system (GIS) and data management services, management discussion and analysis (MD&A) reporting, required supplemental information (RSI) reporting, auditor interface, and GASB 34 compliance review.

In 2004, Mr. Walker was elected to serve on the Board of Directors of SURFA. Previously, he served as an ex-officio directors as an advisor to SURFA's existing President. In 2000, Mr. Walker was elected President of SURFA for the 2001-2002 term. Prior to that, he was elected to serve on the Board of Directors of SURFA during the period 1997-1998 and 1999-2000. He also previously served on the Pennsylvania Municipal Authorities Association, Electric Deregulation Committee.

EXPERT TESTIMONY

Mr. Walker has submitted testimony or been deposed on various topics before regulatory commissions and courts in 26 states including: Arizona, California, Colorado, Connecticut, Delaware, Hawaii, Idaho, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, Nevada, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, and West Virginia. His testimonies covered various subjects including: fair market value, the taking of natural resources, appropriate capital structure and fixed capital cost rates, depreciation, fair rate of return, purchased water adjustments, synchronization of interest charges for income tax purposes, valuation, cash working capital, lead-lag studies, financial analyses of investment alternatives, benchmarking, and fair value. The following tabulation provides a listing of the electric power, natural gas distribution, telephone, wastewater, and water service utility cases in which he has been involved as a witness.

Client	Docket No.	
Alpena Power Company	U-10020	
Armstrong Telephone Company - Northern Division	92-0884-T-42T	
Armstrong Telephone Company - Northern Division	95-0571-T-42T	
Artesian Water Company, Inc.	90 10	
Artesian Water Company, Inc.	06 158	
Aqua Illinois Consolidated Water Divisions and Consolidated Sewer Divisions	11-0436	
Aqua Illinois Hawthorn Woods Wastewater Division	07 0620/07 0621/08 0067	
Aqua Illinois Hawthorn Woods Water Division	07 0620/07 0621/08 0067	
Aqua Illinois Kankakee Water Division	10-0194	
Aqua Illinois Kankakee Water Division	14-0419	
Aqua Illinois Vermilion Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Wastewater Division	07 0620/07 0621/08 0067	
Aqua Illinois Willowbrook Water Division	07 0620/07 0621/08 0067	
Aqua Pennsylvania, Inc	A-2022-3034143	*
Aqua Pennsylvania Wastewater Inc	A-2016-2580061	*
Aqua Pennsylvania Wastewater Inc	A-2017-2605434	*
Aqua Pennsylvania Wastewater Inc	A-2018-3001582	*
Aqua Pennsylvania Wastewater Inc	A-2019-3008491	*
Aqua Pennsylvania Wastewater Inc	A-2019-3009052	*
Aqua Pennsylvania Wastewater Inc	A-2019-3015173	*
Aqua Pennsylvania Wastewater Inc	A-2021-3024267	*
Aqua Pennsylvania Wastewater Inc	A-2021-3026132	*
Aqua Pennsylvania Wastewater Inc	A-2021-3027268	*
Aqua Virginia - Alpha Water Corporation	Pue-2009-00059	
Aqua Virginia - Blue Ridge Utility Company, Inc.	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Caroline Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Earlysville Forest Water Company	Pue-2009-00059	
Aqua Virginia - Heritage Homes of Virginia	Pue-2009-00059	
Aqua Virginia - Indian River Water Company	Pue-2009-00059	

Aqua Virginia - James River Service Corp.	Pue-2009-00059	
Aqua Virginia - Lake Holiday Utilities, Inc. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Holiday Utilities, Inc. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Wastewater)	Pue-2009-00059	
Aqua Virginia - Lake Monticello Services Co. (Water)	Pue-2009-00059	
Aqua Virginia - Lake Shawnee	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Wastewater)	Pue-2009-00059	
Aqua Virginia - Land'or Utility Company (Water)	Pue-2009-00059	
Aqua Virginia - Mountainview Water Company, Inc.	Pue-2009-00059	
Aqua Virginia - Powhatan Water Works, Inc.	Pue-2009-00059	
Aqua Virginia - Rainbow Forest Water Corporation	Pue-2009-00059	
Aqua Virginia - Shawnee Land	Pue-2009-00059	
Aqua Virginia - Sydnor Water Corporation	Pue-2009-00059	
Aqua Virginia - Water Distributors, Inc.	Pue-2009-00059	
Atlantic City Sewerage Company	WR21071006	
Berkshire Gas Company	18-40	
Berkshire Gas Company	22-20	
Borough of Hanover	R-2009-2106908	
Borough of Hanover	R-2012-2311725	
Borough of Hanover	R-2014-242830	
Borough of Hanover	R-2021-3026116	
Borough of Hanover	P-2021-3026854	
Borough of Royersford	A-2020-3019634	*
Chaparral City Water Company	W 02113a 04 0616	
California-American Water Company	CIVCV156413	*
Connecticut-American Water Company	99-08-32	
Connecticut Water Company	06 07 08	
Citizens Utilities Company Colorado Gas Division	-	
Citizens Utilities Company Vermont Electric Division	5426	
Citizens Utilities Home Water Company	R 901664	
Citizens Utilities Water Company of Pennsylvania	R 901663	

City of Beaver Falls	A-2022-3033138	*
City of Bethlehem - Bureau of Water	R-00984375	
City of Bethlehem - Bureau of Water	R 00072492	
City of Bethlehem - Bureau of Water	R-2013-2390244	
City of Bethlehem - Bureau of Water	R-2020-3020256	
City of Dubois – Bureau of Water	R-2013-2350509	
City of Dubois – Bureau of Water	R-2016-2554150	
City of Lancaster Sewer Fund	R-00005109	
City of Lancaster Sewer Fund	R-00049862	
City of Lancaster Sewer Fund	R-2012-2310366	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Sewer Fund	R-2019-3010955	
City of Lancaster Water Fund	R-00984567	
City of Lancaster Water Fund	R-00016114	
City of Lancaster Water Fund	R 00051167	
City of Lancaster Water Fund	R-2010-2179103	
City of Lancaster Water Fund	R-2014-2418872	
City of Lancaster Water Fund	R-2021-3026682	
Coastland Corporation	15-cvs-216	
Consumers Pennsylvania Water Company		
Roaring Creek Division	R-00973869	
Consumers Pennsylvania Water Company		
Shenango Valley Division	R-00973972	
Country Knolls Water Works, Inc.	90 W 0458	
East Resources, Inc. - West Virginia Utility	06 0445 G 42T	
Elizabethtown Water Company	WR06030257	
Forest Park, Inc.	19-W-0168 & 19-W-0269	
Hampton Water Works Company	DW 99-057	
Hidden Valley Utility Services, LP	R-2018-3001306	
Hidden Valley Utility Services, LP	R-2018-3001307	
Illinois American Water Company	16-0093	
Illinois American Water Company	22-0210	
Indian Rock Water Company	R-911971	
Indiana Natural Gas Corporation	38891	
Jamaica Water Supply Company	-	
Kane Borough Authority	A-2019-3014248	*

Kentucky American Water Company, Inc.	2007 00134	
Middlesex Water Company	WR 89030266J	
Millcreek Township Water Authority	55 198 Y 00021 11	*
Missouri-American Water Company	WR 2000-281	
Missouri-American Water Company	SR 2000-282	
Mount Holly Water Company	WR06030257	
Nevada Power Company d/b/a NV Energy	20-06003	
New Jersey American Water Company	WR 89080702J	
New Jersey American Water Company	WR 90090950J	
New Jersey American Water Company	WR 03070511	
New Jersey American Water Company	WR-06030257	
New Jersey American Water Company	WR08010020	
New Jersey American Water Company	WR10040260	
New Jersey American Water Company	WR11070460	
New Jersey American Water Company	WR15010035	
New Jersey American Water Company	WR17090985	
New Jersey American Water Company	WR19121516	
New Jersey American Water Company	WR22010019	
New Jersey Natural Gas Company	GR19030420	
New Jersey Natural Gas Company	GR21030679	
Newtown Artesian Water Company	R-911977	
Newtown Artesian Water Company	R-00943157	
Newtown Artesian Water Company	R-2009-2117550	
Newtown Artesian Water Company	R-2011-2230259	
Newtown Artesian Water Company	R-2017-2624240	
Newtown Artesian Water Company	R-2019-3006904	
North Maine Utilities	14-0396	*
Northern Indiana Fuel & Light Company	38770	
Oklahoma Natural Gas Company	PUD-940000477	
Palmetto Utilities, Inc.	2020-281-S	
Palmetto Wastewater Reclamation, LLC	2018-82-S	
Pennichuck Water Works, Inc.	DW 04 048	*
Pennichuck Water Works, Inc.	DW 06 073	
Pennichuck Water Works, Inc.	DW 08 073	
Pennsylvania Gas & Water Company (Gas)	R-891261	
Pennsylvania Gas & Water Co. (Water)	R 901726	
Pennsylvania Gas & Water Co. (Water)	R-911966	

Pennsylvania Gas & Water Co. (Water)	R-22404	
Pennsylvania Gas & Water Co. (Water)	R-00922482	
Pennsylvania Gas & Water Co. (Water)	R-00932667	
Philadelphia Gas Works	R-2020-3017206	
Public Service Company of North Carolina, Inc.	G-5, Sub 565	
Public Service Electric and Gas Company	ER181010029	
Public Service Electric and Gas Company	GR18010030	
Presque Isle Harbor Water Company	U-9702	
Sierra Pacific Power Company d/b/a NV Energy	19-06002	
Sierra Pacific Power Company d/b/a NV Energy	22-06014	
St. Louis County Water Company	WR-2000-844	
Suez Water Delaware, Inc.	19-0615	
Suez Water Idaho, Inc.	SUZ-W-20-02	
Suez Water New Jersey, Inc.	WR18050593	
Suez Water New Jersey, Inc.	WR20110729	
Suez Water Owego-Nichols, Inc.	17-W-0528	
Suez Water Pennsylvania, Inc.	R-2018-3000834	
Suez Water Pennsylvania, Inc.	A-2018-3003519	*
Suez Water Pennsylvania, Inc.	A-2018-3003517	*
Suez Water Rhode Island, Inc.	Docket No. 4800	
Suez Water Owego-Nichols, Inc.	19-W-0168 & 19-W-0269	
Suez Water New York, Inc.	19-W-0168 & 19-W-0269	
Suez Westchester, Inc.	19-W-0168 & 19-W-0269	
Town of North East Water Fund	9190	
Township of Exeter	A-2018-3004933	*
United Water New Rochelle	W-95-W-1168	
United Water Toms River	WR-95050219	
Upper Pottsgrove Township	A-2020-3021460	*
Valley Township (water)	A-2020-3019859	*
Valley Township (wastewater)	A-2020-3020178	*
Valley Water Systems, Inc.	06 10 07	
Virginia American Water Company	PUR-2018-00175	
Virginia American Water Company	PUR-2021-00255	
West Virginia-American Water Company	15-0676-W-42T	
West Virginia-American Water Company	15-0675-S-42T	
Wilmington Suburban Water Corporation	94-149	
York Water Company	R-901813	

York Water Company	R-922168
York Water Company	R-943053
York Water Company	R-963619
York Water Company	R-994605
York Water Company	R-00016236
Young Brothers, LLC	2019-0117

* - Testimony related to valuation

VERIFICATION

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

Harold Walker III, Manager of Financial Studies
Gannett Fleming Valuation and Rate Consultants LLC

Dated: 2/6/23

BUTLER AREA SEWER AUTHORITY
BUTLER, PENNSYLVANIA

REBUTTAL TESTIMONY
OF
HAROLD WALKER, III

BUTLER AREA SEWER AUTHORITY STATEMENT NO. 3-R

FAIR MARKET VALUE APPRAISAL

BUTLER AREA SEWER AUTHORITY
WASTEWATER SYSTEM ASSETS

July 18, 2023

Prepared by:

GANNETT FLEMING

TABLE OF CONTENTS

INTRODUCTION

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

A. My name is Harold Walker III, and my business address is 1010 Adams Avenue, Audubon, Pennsylvania.

Q. ARE YOU THE SAME HAROLD WALKER III WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes.

SCOPE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") was engaged by the Butler Area Sewer Authority ("BASA") to perform a fair market value appraisal of the BASA's wastewater system assets ("Wastewater System"). The purpose of my testimony is to respond to and comment on the direct testimony submitted by the Office of Consumer Advocate ("OCA") witness Ralph C. Smith.

RESPONSE TO OCA WITNESS SMITH

Q. WOULD YOU PLEASE SUMMARIZE THE TOPICS THAT YOU WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. Yes. In his direct testimony, Mr. Smith proposed adjustments to the Gannett Fleming Income Approach to valuation. All of Mr. Smith's proposed adjustments/changes are downward, or negative, adjustments to Gannett Fleming's appraisal report.[1] My rebuttal testimony addresses Mr. Smith's recommended adjustments to Gannett Fleming's appraisal report.

Q. DO MR. SMITH'S RECOMMENDATIONS MEET A STANDARD OF VALUE OF FAIR MARKET VALUE?

A. No. For the reasons discussed later in my testimony, Mr. Smith's recommendations do not meet a standard of value of fair market value and are in direct violation of Section 1329 of the Public Utility Code ("Code").

Q. DID MR. SMITH PERFORM AN APPRAISAL OF BASA'S WASTEWATER SYSTEM ASSETS?

A. No, for the reasons discussed in detail later in my testimony.

Q. HAS MR. SMITH EVER PERFORMED A FAIR MARKET VALUE APPRAISAL OF OTHER WASTEWATER SYSTEM ASSETS?

A. No, not according to his qualifications that are attached as Appendix A (i.e., Qualifications of Ralph C. Smith) to his direct testimony.

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[1] Appendix A-5.2 of PAWC's Application includes Gannett Fleming's appraisal report of the Wastewater System.

Q. HAS MR. SMITH EVER VALUED UTILITY PROPERTY?

A. No, not according to his qualifications that are attached as Appendix A (i.e., Qualifications of Ralph C. Smith) to his direct testimony.

<u>Income Approach</u>

Q. WOULD YOU PLEASE SUMMARIZE MR. SMITH'S ADJUSTMENTS TO THE GANNETT FLEMING INCOME APPROACH AND IDENTIFY THE MATTERS THAT YOU WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. Yes. Mr. Smith recommends adjustments to the Gannett Fleming Income Approach to valuation. He disagrees with the manner of determining the "terminal value" used in the Income Approach (DCF model). He also disagrees with the capitalization rates used in the model and presents what he believes are more appropriate capitalization rates.

Q. DO YOU HAVE ANY COMMENTS REGARDING PAGE 32 OF MR. SMITH'S TESTIMONY WHERE HE DISCUSSES EXHIBIT 16 FROM THE GANNETT FLEMING APPRAISAL?

A. Yes. On page 32 of Mr. Smith's testimony he states, "[d]ue to difficulties in matching up the Gannett Fleming Excel file for Exhibit 16 with what was filed in the Application as the Gannett Fleming for [sic] Exhibit 16, the impact of removing the growth assumption from the Gannett Fleming IOU scenario in the Income Approach has not yet been quantified." However, Exhibit 16 from the Gannett Fleming appraisal shows all the information Mr.

Smith would have required to conduct the analyses that he discussed in his testimony.[2]

Exhibit 16 from the Gannett Fleming appraisal shows the Income Approach to valuation based on the discounted cash flow method ("DCF") under the scenario of the Wastewater System being owned and operated by an investor owned utility ("IOU") as explained on page 36 of the Gannett Fleming appraisal. Specifically, page 36 of the Gannett Fleming appraisal explains, "[w]e use two different assumptions for the Wastewater System's future operations in the DCF methods: MUNI ownership shown on Exhibits 13 and 15; and IOU ownership shown on Exhibits 14 and 16."

Q. ON PAGES 23 TO 26 OF MR. SMITH'S TESTIMONY, HE COMPARES THE DCF METHOD'S FUTURE REVENUES FROM MR. WEINERT'S APPRAISAL AND THOSE SHOWN IN THE GANNETT FLEMING APPRAISAL. HAVE YOU REVIEWED MR. WEINERT'S APPRAISAL?

A. No. I have not reviewed Mr. Weinert's appraisal ("WAD Appraisal").

Q. GENERALLY SPEAKING, IS IT COMMON FOR DIFFERENT APPRAISERS TO REACH VARYING OPINIONS OF FAIR MARKET VALUE?

A. Yes. I do not think the underlying results of the models employed for valuation purposes are ever the same from one appraiser to another appraiser. Further, the conclusion of value from one appraiser to another appraiser usually differs as well. I believe these are some of the reasons the results of the conclusion of value from two different UVEs are averaged under Section 1329, 66 Pa. C.S. § 1329.

[2] All Exhibits referenced in this Rebuttal Testimony are part of the Gannett Fleming appraisal unless noted otherwise.

Q. MR. SMITH COMPARES THE DCF METHOD'S FUTURE REVENUES FROM THE WAD APPRAISAL AND THOSE SHOWN IN THE GANNETT FLEMING APPRAISAL PAGES 23 TO 26 OF HIS TESTIMONY. ARE YOU SURPRISED THE REVENUES DO NOT MATCH?

A. No. The fact that the WAD appraisal and Gannett Fleming's appraisal may reflect different revenues in the Income Approach to valuation is not surprising since rarely do experts agree on every aspect of an appraisal. An appraisal is an opinion of fair market value and is not a "mechanical" process. There are numerous reasons why revenues in the Income Approach to valuation may differ from appraiser to appraiser including; different rates of inflation, differences in capital expenditures, differences in depreciation rates, differences in customer growth, frequency and magnitude of rate adjustments, years modeled, differences in the interpretation of information gleaned during the appraisal process, differences in the components of the initial cost of service, and differences in assumed market participants, to name just a few.

Q. WHAT REVENUES DOES MR. SMITH SHOW ON PAGE 25 OF HIS TESTIMONY?

A. Page 25 of Mr. Smith's testimony purports to show future revenues from the Gannett Fleming appraisal. Specifically, Mr. Smith shows revenues from Exhibit 15, which reflects a municipal market participant, or municipal ownership and operation. As explained on page 32 of the Gannett Fleming appraisal, for the Wastewater System, the market participants are assumed to include IOU and larger regional municipal authorities

("MUNI"). Mr. Smith only lists the revenues from a MUNI market participant on page 25 of his testimony and ignores the IOU market participant revenues that are shown Exhibit 16. Table 1 displays both the revenues shown on Exhibit 15 (MUNI) and the revenues shown on Exhibit 16 (IOU), which Mr. Smith neglected to include in his comparison of revenues.

		Schedule 15 MUNI				**Schedule 16 IOU**			
		Total Operating Revenues	**Dollar Change**	**Annual Percent Change**	**Cummulative Percent change for Year1**	**Total Operating Revenues**	**Dollar Change**	**Annual Percent Change**	**Cummulative Percent change for Year1**
Year 1	2024	$13,014,394				$13,014,394			
Year 2	2025	$19,213,164	$6,198,770	47.6%	47.6%	$27,808,456	$14,794,062	113.7%	113.7%
Year 3	2026	$18,694,659	$ (518,505)	-2.7%	43.6%	$27,372,936	$ (435,520)	-1.6%	110.3%
Year 4	2027	$18,872,484	$ 177,825	1.0%	45.0%	$27,633,746	$ 260,810	1.0%	112.3%
Year 5	2028	$21,827,731	$2,955,247	15.7%	67.7%	$41,667,600	$14,033,854	50.8%	220.2%
Year 6	2029	$21,901,610	$ 73,879	0.3%	68.3%	$41,808,935	$ 141,335	0.3%	221.3%
Year 7	2030	$21,975,742	$ 74,132	0.3%	68.9%	$41,950,751	$ 141,816	0.3%	222.3%
Year 8	2031	$24,245,302	$2,269,560	10.3%	86.3%	$45,872,572	$ 3,921,821	9.3%	252.5%
Year 9	2032	$24,327,402	$ 82,100	0.3%	86.9%	$46,028,205	$ 155,633	0.3%	253.7%
Year 10	2033	$24,409,781	$ 82,379	0.3%	87.6%	$46,184,366	$ 156,161	0.3%	254.9%
Year 11	2034	$24,980,321	$ 570,540	2.3%	91.9%	$47,728,340	$ 1,543,974	3.3%	266.7%
Year 12	2035	$25,064,920	$ 84,599	0.3%	92.6%	$47,890,282	$ 161,942	0.3%	268.0%
Year 13	2036	$25,149,806	$ 84,886	0.3%	93.2%	$48,052,774	$ 162,492	0.3%	269.2%
Year 14	2037	$25,737,714	$ 587,908	2.3%	97.8%	$48,696,994	$ 644,220	1.3%	274.2%
Year 15	2038	$25,824,888	$ 87,174	0.3%	98.4%	$48,862,230	$ 165,236	0.3%	275.4%
Year 16	2039	$26,299,568	$ 474,680	1.8%	102.1%	$49,028,027	$ 165,797	0.3%	276.7%
Year 17	2040	$26,388,652	$ 89,084	0.3%	102.8%	$49,685,348	$ 657,321	1.3%	281.8%
Year 18	2041	$26,900,114	$ 511,462	1.9%	106.7%	$49,853,944	$ 168,596	0.3%	283.1%
Year 19	2042	$26,991,240	$ 91,126	0.3%	107.4%	$50,023,113	$ 169,169	0.3%	284.4%
Year 20	2043	$27,541,410	$ 550,170	2.0%	111.6%	$50,593,613	$ 570,500	1.1%	288.8%
Annual Revenues Year 20 less Year 1		$14,527,016				$37,579,219			
Percent Increase Over Year 1		111.6%				288.8%			

Table 1

Q. WHAT ARE MR. SMITH'S CRITICISMS OF THE INCOME APPROACH CONTAINED IN THE GANNETT FLEMING FAIR MARKET VALUE APPRAISAL?

A. Mr. Smith disagrees with the manner of determining the "terminal value" used in the Income Approach (DCF model). He also disagrees with the capitalization rates used in the model and presents what he believes are more appropriate capitalization rates. The end result of Mr. Smith's "re-calculation" of the DCF models is a downward, or negative, adjustment to the Income Approach.

Q. DOES MR. SMITH EXPRESS HIS MISGIVINGS CONCERNING A CAPITALIZATION RATE CONCEPT TO ESTIMATE THE TERMINAL VALUE OF A REGULATED PUBLIC UTILITY WHEN VALUING PUBLIC UTILITY ASSETS?

A. Yes. On pages 21 and 22, Mr. Smith explains his belief of why it is inappropriate to apply a capitalization rate concept to estimate the terminal value of a regulated public utility.

> While the use of capitalization rates may be appropriate for an unregulated/non-utility business enterprise, this approach is not realistic or appropriate for determining the terminal value of public utilities. Moreover, there are concerns about the accuracy of attempting to make projections that far out into the future. The theory underlying the use of capitalization rates is that a firm's net cash flow will grow at a constant rate in perpetuity without significant reinvestment greater than historical depreciation. However, such is not the case for regulated utilities. A **regulated utility's net cash flow is a direct function of its plant in service**. (*Emphasis has been added*)

Q. DO YOU AGREE WITH MR. SMITH'S ASSERTION THAT A "REGULATED UTILITY'S NET CASH FLOW IS A DIRECT FUNCTION OF ITS PLANT IN SERVICE," FROM PAGE 22 OF HIS TESTIMONY?

A. No, not in the context presented in his testimony. The value of the investment in plant and equipment for the BASA's wastewater system assets is being determined in these proceedings. The appraised value estimated by WAD Consultants and Gannett Fleming is $246.1 million and $232.4 million, respectively (OCA Statement 2 page 14). The purchase price negotiated by PAWC and BASA is $231.5 million (OCA Statement 2 page 13); all of which are considerably higher than the original net cost of the plant and equipment.

Q. DOES MR. SMITH EXPLAIN HIS USE OF THE PHRASE "CAPITALIZATION RATE CONCEPT?"

A. Yes. On page 21, Mr. Smith explains his use of the phrase "capitalization rate concept" as pertaining to the development of the terminal value used in the Income Approach to valuations.

> In calculating the terminal value, both of these analysts utilized what is known as a "capitalization rate" **to project future cash flows in perpetuity**. In simple terms, each of these analysts calculated a terminal value (in nominal terms) by applying the projected cash flow in the last year of the model to a capitalization rate. Specifically, the last model year's annual cash flow is multiplied by 1 divided by the calculated capitalization rate. Mathematically, this approach escalates annual cash flows at **a constant annual growth rate (percent) in perpetuity.** It essentially assumes that net cash flows would **grow at a constant annual growth rate to infinity**. A capitalization rate is defined as a firm's total cost of capital (k) minus its expected future annual constant rate of growth (g). (*Emphasis has been added*)

Page 32 of the Gannett Fleming appraisal explains that the capitalization rate and the discount rate are related under the Income Approach to valuation.

The discount rate is the market participant's opportunity cost rate related to the risk of the cash flows. For the Wastewater System, the market participants are assumed to include IOU and larger regional municipal authorities ("MUNI"). For the Wastewater System, the appropriate discount rate is the current municipal revenue bond yield on January 19, 2023, of 3.97%. The appropriate IOU discount rate is the current net of tax overall cost of capital (weighted average cost of capital) on January 19, 2023, and ranges from 7.85% to 9.75%.[3] The capitalization rate is simply the discount rate minus the expected growth rate. If no growth is assumed, the capitalization rate is equal to the discount rate.

Q. HAS THE PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PA PUC") EXPRESSED MISGIVINGS OR CONCERNS REGARDING THE USEFULNESS OF APPLYING A CAPITALIZATION RATE CONCEPT TO ESTIMATE THE TERMINAL VALUE OF A REGULATED PUBLIC UTILITY IN A 1329 PROCEEDING IN WHICH GANNETT FLEMING HAS BEEN INVOLVED ~~IN~~?

A. No. Gannett Fleming has applied a capitalization rate concept to estimate the terminal value as part of its fair market value appraisal in eighteen Section 1329 fair market value proceedings. The PA PUC has not adjusted the capitalization rate concept used by Gannett Fleming in any one of the prior proceedings. I should also note the Commission has never accepted a recommended elimination of the growth rate reflected in the capitalization rate used by Gannet Fleming in their capitalization of earnings method or DCF method in a Section 1329 fair market value proceeding.

[3] Both the American Society of Appraisers, ASA Business Valuation Standards, 2009, and the National Association of Certified Valuation Analysts, Professional Standards, 2007, use the same definition: "Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) determined by the weighted average, at market values, of the cost of all financing sources in the business enterprise's capital structure."

Q. ON PAGE 21 OF MR. SMITH'S TESTIMONY HE USES THE TERMS "PERPETUITY" AND "INFINITY" WHEN EXPLAINING THE CAPITALIZATION RATE USED IN THE INCOME APPROACH TO VALUATION. DOES THE INCOME APPROACH TO VALUATION REALLY REFLECT OR ASSUME A CASH FLOW INTO PERPETUITY OR INFINITY?

A. No, not in the literal sense. The use of the term "perpetuity" or "infinity" in areas of finance relate to the time value of money. "The time value of money is a basic financial concept that holds that money in the present is worth more than the same sum of money to be received in the future. This is true because money that you have right now can be invested and earn a return, thus creating a larger amount of money in the future."[4] The present value ("PV") of a dollar to be received sometime in the future can be determined using PV factor tables or mathematically. In financial parlance, the terms "perpetuity" and "infinity" refer to the time period that a present value factor approaches zero.

For example, at a discount rate of 10%, ~~a~~ $1.00 received ~~in~~ 105 years in the future has zero, or no value because the PV factor is zero in time period 105. However, in this example, the PV of ~~a~~ $1.00 began approaching zero long before time period 105 because ~~a~~ $1.00 received in 44 years is only worth $0.01 today at a discount rate of 10%. Therefore, in this example, the terms "perpetuity" and "infinity" would refer to sometime between year 44 and year 105. So in finance, the terms "perpetuity" and "infinity" do not refer to eternity, but rather to the time period that a present value factor approaches zero.

[4] "Time Value of Money," *Corporate Finance Institute*, Updated May 15, 2023. Accessed 7/17/23. https://corporatefinanceinstitute.com/resources/valuation/time-value-of-money/

Q. ON PAGE 31 OF MR. SMITH'S TESTIMONY HE DISCUSSES HIS ADJUSTMENT TO ~~THE~~ GANNETT FLEMING'S INCOME APPROACH. CAN YOU EXPLAIN THE ADJUSTMENT MR. SMITH MADE TO GANNETT FLEMING'S INCOME APPROACH?

A. Yes. Mr. Smith recommends removing or excluding the growth rate used to determine the capitalization rate used in Gannett Fleming's DCF method.[5] As explained previously, the capitalization rate is simply the discount rate minus the expected growth rate. If no growth is assumed, the capitalization rate is equal to the discount rate. Mr. Smith recommends removing or excluding the growth rate because he believes the growth rate is "speculative." On page 31 Mr. Smith states, "[t]he assumption of 0.2% growth has been removed as being speculative and unsupported."

Q. IS GANNETT FLEMING'S 0.2% GROWTH RATE "SPECULATIVE AND UNSUPPORTED?"

A. No. The specific 0.2% growth rate used in the DCF method is explained on page 36 of the Gannett Fleming appraisal and contributing factors to growth in general are discussed throughout pages 9 to 22 of the Gannett Fleming appraisal. Further, page 22 of my Direct Testimony (Appendix A-13-b of PAWC's Application) explains the basis for the growth rate used to calculate the capitalization rate used in the Income Approach.

> Under both MUNI and IOU ownership a growth rate of 0.2% was used based on the projected growth in population (0.3%), projected inflation (2.5%) and the actual growth in the Debt Free Net Cash Flow in the years prior to the terminal value year. Under MUNI ownership the average growth in the Debt Free Net Cash Flow for the last two years prior to the terminal value year was 0.2% and 0.2% under IOU ownership. A growth

[5] The Gannett Fleming's DCF method is explained on pages 36 to 39 of the Gannett Fleming appraisal.

of 0.2% was deemed reasonable based on the aforesaid.

The growth rates and/or inflation rates cited above are from applicable regional planning commission reports and published information. Specifically, the cited projected inflation rate of 2.5% is based on the consensus forecast by *Blue Chip Financial Forecasts* which is forecasted to decrease from 3.4% to 2.3%, and average 2.8%, from 1st quarter 2023 to 2nd quarter 2024 (page 127 of Exhibit 23). Even Mr. Smith testifies, on page 26, that the U.S. Federal Reserve is attempting to "reduce inflation to levels closer to 2% annually." The cited population growth of 0.3% is based on The Southwestern Pennsylvania Commission regional planning agency's population forecast for the Wastewater System's service area shown on page 2 of Exhibit 3 which totals 8.4% from 2020 to 2045 and is equivalent to a compound growth rate of 0.34%.[6] While the cited growth in "Debt Free Net Cash Flow for the last two years prior to the terminal value year" is just based on simple arithmetic.

Accordingly, the 0.2% growth rate used in Gannett Fleming's DCF method is not "speculative and unsupported" as contended by Mr. Smith. If anything, Mr. Smith's selection of no growth or a 0.0% growth rate is "speculative and unsupported" since he testified that the U.S. Federal Reserve is attempting to "reduce inflation to levels closer to 2% annually." Additionally, Mr. Smith provided no support for his use of, or assumption of 0.0% growth reflected in his capitalization rate.

[6] The Southwestern Pennsylvania Commission ("SPC") is the regional planning agency serving the 10-county Southwestern Pennsylvania region. The 10-county Southwestern Pennsylvania region includes the counties of Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington, and Westmoreland, and the City of Pittsburgh. The SPC publishes population projections for the 10-county Southwestern Pennsylvania region and the <u>municipalities which comprise the counties</u>, which include the Wastewater System's service area.

Q. IS MR. SMITH'S CAPITALIZATION RATE REFLECTING ZERO GROWTH AN APPROPRIATE CAPITALIZATION RATE TO USE FOR FAIR MARKET VALUATION PURPOSES?

A. No. Mr. Smith's capitalization rate reflecting zero growth is not appropriate and is not determined in accordance with accepted valuation practice. Mr. Smith's use of, or assumption of, 0.0% growth reflected in his capitalization rate does not reflect a "reasonable knowledge of the relevant facts," nor a "principle of anticipation," nor is it based on "rational and supportable assumptions." Conversely, the Income Approach to valuation used in Gannett Fleming's appraisal is based on the discounted cash flow method ("DCF method") which values the **potential for profit** in an investment and reflects future events. Gannett Fleming used the DCF method to be consistent with the required standard of value of fair market value.[7] Fair market value is defined as "the price, expressed in terms of cash equivalents, at which property would change hands between a **hypothetical** willing and able **buyer** and a **hypothetical** willing and able **seller**, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."[8] The DCF method "is based on the principle of anticipation - i.e., value is created by the anticipation of future benefits. DCF analysis reflects investment criteria and requires the appraiser to make **rational and supportable assumptions**."[9]

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[7] Pratt, Shannon P. "Defining Standards of Value." Valuation 34, no. 2, June 1989. http://www.appraisers.org/docs/default-source/college-of-fellows-articles/defining-standards-of-value.pdf .

[8] Emphasis to the text has been added. The original text is from *The International Glossary of Business Valuation Standards.*

[9] Appraisal Standards Board, "First Exposure Draft of proposed new Advisory Opinions and Advisory Opinion Revisions in conjunction with the 2016-17 edition of the Uniform Standards of Professional Appraisal Practice" pg. 6. (Emphasis added)

Q. ON PAGE 32 OF MR. SMITH'S TESTIMONY HE STATES, "THE IMPACT OF REMOVING THE GROWTH ASSUMPTION FROM THE GANNETT FLEMING IOU SCENARIO IN THE INCOME APPROACH HAS NOT YET BEEN QUANTIFIED." WHAT WOULD THE IMPACT BE OF REMOVING THE GROWTH ASSUMPTION FROM GANNETT FLEMING'S IOU SCENARIO IN THE INCOME APPROACH TO VALUATION?

A. The impact of assuming Mr. Smith's no growth assumption under the IOU scenario in the Income Approach to valuation could have been determined by Mr. Smith had he looked at page 5 of Exhibit 16. Specifically, the two "boxes" on the left side of the page 5 of Exhibit 16 titled "DCF With Capitalization of Terminal Value Model @ 7.85%" and "DCF With Capitalization of Terminal Value Model @ 9.75%" show the no growth assumption recommended by Mr. Smith.

Page 1 of OCA Exhibit RCS-5 only reflects the no growth assumption recommended by Mr. Smith for the MUNI scenario. If the information shown on page 5 of Exhibit 16 (IOU scenario) were placed on page 1 of OCA Exhibit RCS-5 it would have produced a total adjustment of -$2,145,559 (negative), not the -$1,929,020 (negative) that is currently shown on page 1 of OCA Exhibit RCS-5. The calculation of the -$2,145,559 (negative) adjustment is shown on Table 2. If the -$2,145,559 (negative) adjustment that is shown on Table 2 were reflected on OCA Exhibit RCS-1, the "Weighted Result" column for the total Gannett Fleming appraisal, which currently reads $231,786,480, would show $231,629,196 after the 33.33% weighting were applied to the adjustment shown in Table 2.

To be clear, I do not recommend the adjustments shown in Table 2, nor do I believe that Mr. Smith's no growth assumption is appropriate because it is based on a "speculative and unsupported" growth assumption of 0.0% growth. The information provided in Table 2 is only provided because Mr. Smith claimed he could not gather the data even though the sought after information was shown on page 5 of Exhibit 16.

Line No.	Description	Per Gannett Fleming (A)	OCA Adjusted (B)	OCA Adjustment (C) = (B) - (A)
	Part I: Gannett Flemming Income Approach			
	Municpal Ownership			
1	DCF With Capitalization of Terminal Value Model @ 3.77% / 3.97%	$ 266,688,578	$258,972,497	$ (7,716,081)
2	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 3.77% / 3.97%	$ 279,684,623	$279,684,623	
3	Median	$ 273,186,600	$269,328,560	$ (3,858,041)
	IOU Ownership			
4	DCF With Capitalization of Terminal Value Model @ 7.65% / 7.85%	$ 236,176,862	$234,289,261	$ (1,887,601)
5	DCF With Capitalization of Terminal Value Model @ 9.55% / 9.75%	$ 177,441,507	$176,575,351	$ (866,156)
6	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 7.85%	$ 359,018,321	$359,018,321	
7	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 9.75%	$ 275,327,987	$275,327,987	
8	Median	$ 255,752,425	$254,808,624	$ (433,078)
9	Total Income Approach Valuation (Median of Lines 3 and 8)	$ 264,469,512	$262,068,592	$ (2,145,559)

Table 2

Q. ON PAGE 30 OF MR. SMITH'S TESTIMONY HE COMPARES THE RESULT OF GANNETT FLEMING'S INCOME APPROACH TO THE RESULT OF THE

MARKET APPROACH. IS THIS A MEANINGFUL COMPARISON FOR MR. SMITH TO MAKE?

A. No. On page 30 Mr. Smith notes the result of Gannett Fleming's Income Approach "was the highest of his three valuation results" but then he selectively compares it to the Market Approach result which was the lowest of the three valuation results. Although the Income Approach "was the highest of his three valuation results," it is only 4% higher than the Cost Approach result. Conversely, the Market Approach result is 30% below the Cost Approach result.

Q. YOU PREVIOUSLY TESTIFIED "THE PA PUC HAS NOT ADJUSTED THE CAPITALIZATION RATE CONCEPT USED BY GANNETT FLEMING IN ANY ONE OF THE PRIOR PROCEEDINGS." WHAT PA PUC PROCEEDINGS WERE YOU REFERRING TO?

A. I was referring to the Orders in the fully litigated Section 1329 fair market value proceedings. Specifically, the proposed adjustments to the capitalization rate concept used by Gannett Fleming were rejected by the PA PUC in the New Garden Township proceeding (Docket No. A-2016-2580061), the Limerick Township proceeding (Docket No. A-2017-2605434), the Cheltenham Township proceeding (Docket No. A-2019-3008491), the Lower Makefield Township proceeding (Docket No. A-2021-3024267), the East Whiteland Township proceeding (Docket No. A-2021-3026132), and the Willistown Township proceeding (Docket No. A-2021-3027268).

CONCLUSION

Q. IS THERE ANYTHING PRESENTED IN MR. SMITH'S TESTIMONY THAT WOULD RESULT IN YOU ALTERING YOUR FAIR MARKET VALUE APPRAISAL OF THE WASTEWATER SYSTEM'S ASSETS?

A. No, there was nothing presented in Mr. Smith's testimony which would result in our changing our fair market value appraisal of the Wastewater System.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does. However, I reserve the right to supplement my testimony as additional issues arise during this proceeding.

VERIFICATION

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

Harold Walker III, Manager of Financial Studies
Gannett Fleming Valuation and Rate Consultants LLC

Dated: July 18, 2023

OCA Statement 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

Direct Testimony
of
Morgan N. DeAngelo

on Behalf of
the Pennsylvania Office of Consumer Advocate

July 12, 2023

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Introduction

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

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

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

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

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

A. I am testifying on behalf of the OCA.

Purpose of Direct Testimony

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

A. The purpose of my Direct Testimony is to provide my recommendations regarding the Application and supporting documents submitted by Pennsylvania-American Water Company (PAWC or Company) for the acquisition of the assets, properties and rights related to the wastewater collection and treatment system (Assets) of the Butler Area Sewer Authority (BASA). I provide an analysis of whether the acquisition, if approved by the Pennsylvania Public Utility Commission (Commission), would provide substantial affirmative public benefits. Ultimately, I conclude that there is insufficient evidence of an affirmative public benefit that would result from this transaction and, as such, the Commission should deny the application. If the Commission approves the application, it should impose the requirements that I outline below in addition to approving the adjustments recommended by OCA witness Ralph Smith.

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

A. Yes. The OCA has reviewed the Utility Valuation Engineer (UVE) valuations. OCA witness, Ralph Smith, addressed his analysis and recommendations in OCA Statement 2.

Overview of Application

Q. Please describe the general nature of PAWC's application.

A. PAWC seeks approval to acquire the Assets of the BASA system for a purchase price of $231,500,000. (Section 3.03 of the APA).

Q. In addition to the purchase price of $231,500,000, what other expenses will PAWC record for ratemaking purposes with respect to its Section 1329 Application?

A. PAWC witness, Ashley Everette stated that "In accordance with *the Final Implementation Order* and traditional ratemaking principles, reasonable transaction closing costs are not to be decided in this Application proceeding; instead PAWC must justify the costs by a "preponderance of the evidence" in a future base rate proceeding". (PAWC Statement No. 3, p. 19, ln. 2-4). She also indicated that "Attached to the Application as Appendix A-10 is PAWC's estimate of the anticipated range of the transaction and closing costs (approximately $1,163,250 to $1,286,750)". (PAWC Statement No. 3, p. 19, ln. 9-11).

Q. Do you have any recommendations regarding PAWC's claim for transaction and closing costs?

A. Yes. Under Section 1329(d)(iv), PAWC is required to estimate its transaction and closing costs, but the actual costs cannot be known until closing. In its next base rate case, the actual costs claimed will be reviewed. To help that review, PAWC should be required to separately identify all of its closing costs by cost category, including any outside legal fees when it makes a claim for recovery in its next base rate case. Also, PAWC should not be permitted to claim any transaction and closing costs incurred by BASA. Section 1329 does not allow transaction and closing costs incurred by the *selling* utility to be included in the acquiring utility's ratemaking rate base.

Q. What is the net book value of the BASA system Assets that are being acquired by PAWC?

A. PAWC provided Engineering Assessments submitted by Weinert Appraisal and Depreciation Services, LLC (Weinert) as Appendix A-5.1 to the Application and Gannett Fleming as Appendix A-5.2 to the Application. Based on the Weinert's analysis, the original cost of the BASA wastewater system is \$144,573,880 and the net book value is \$90,190,859.[1] Based on Gannett Fleming's analysis, the original cost of the BASA wastewater system is \$143,771,330 and the net book value is \$93,409,083. For the purpose of my testimony, when I reference the net book value of the BASA system I will use the average of the two assessments, which is \$91,799,971.[2]

[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).

[2] (\$90,190,859 + \$93,409,083) / 2 = \$91,799,971

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

A. PAWC agreed to pay $231,500,000 for the BASA system, or $139,700,029 (152%)[3] over the average net book value that was computed by Weinert Consultants and Gannett Fleming.

Q. How will the acquisition impact PAWC's revenues?

A. PAWC witness Ashley Everette calculates that for Year 1, the proposed transaction will create an annual revenue requirement of $30,593,000, with an annual revenue deficiency of $17,895,000. (PAWC Statement No. 3, Exhibit AEE-1, p. 4).

Q. How many customers does the BASA wastewater system serve?

A. BASA provides service to 14,792 active residential, commercial, industrial and public customers, over approximately 27.4 square miles of service territory. (Application p. 5, ¶ 8). The Chapter 94 Report indicated "Based on the Authority's billing records, the BASA WWTP served an average of 23,541 Equivalent Dwelling Units (EDUs) in 2021". (Appendix A-20-c). Additionally, 908 future connections (EDU's) are projected for the years 2023 through 2026. (Appendix A-17-a)

Q. What are BASA's current rates?

A. As of July 2022, all residential customers are charged a flat fee of $43.00 per EDU, monthly. (BASA Statement No. 2, p. 5, ln. 15-16) Prior to Closing, BASA will implement a monthly rate of $45.50 per EDU. (APA Section 7.04(a)). This rate is based on an average water usage of 3,212 gal/month, as shown in the notice to BASA customers. (Appendix A-18-d).

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[3] ((($231,500,000 - $91,799,971 = $139,700,029) / ($91,799,971)) *100) = 152%

Q. What will the rates be for BASA customers post-Closing?

A. PAWC will continue to charge BASA customers $45.50 per EDU and will not propose to increase this rate until the later of (i) the first anniversary of Closing, or (ii) January 1, 2025. (PAWC Statement No. 1, p. 13, ln. 9-10). Under PAWC ownership, BASA system customers' base rates will be set forth in a separate BASA Rate Zone "XX" and will be subject to PAWC's prevailing wastewater tariff on file with the Commission with respect to all rates other than base rates, such as capacity reservation fees, reconnection fees, and the like, as well as non-rate related terms and conditions of service. (PAWC Statement No. 3, p. 7, ln. 9-13).

Q, What is the proposed rate impact for BASA customers?

A. As shown in the notice provided to BASA customers, based on an average usage of 3,213 gal/month, the average bill at Closing of $45.50 would increase by $42.95 or 94.4% to $88.45 (Appendix A-18-d) at the later of (i) the first anniversary of Closing, or (ii) January 1, 2025.

Q. What are the current rates for PAWC Rate Zone 1 wastewater customers?

A. As shown in the notice provided to PAWC customers, based on an average usage of 3,212 gal/month, the average current bill for PAWC Rate Zone 1 wastewater customers is $106.65 monthly. (Appendix A-18-d).

Customer Notice

Q. Does the notices provided to PAWC and BASA customers include the estimated rate impact of the five-year, $75.8 million capital investment obligations contained in the APA?

A. No.

Q. How do the numbers change when the first year of the capital investment obligation is included?

A. As stated above, the proposed transaction will create an annual revenue deficiency of $17,895,000. If the planned 2024 capital investment of $8,590,000, shown in Schedule 7.11 of Appendix A-24-a, is included in the calculation, the estimated annual revenue requirement is $31,202,000 and the revenue deficiency is $18,504,000. (PAWC Response to OCA-I-22).

Q. How much does that change the estimated dollar and percentage increases to monthly customer bills?

A. With the first-year capital investment included in the calculation, the potential increase will be $44.91 or 98.7% (PAWC Response to OCA-III-2b), compared to $42.95 or 94.4% that was in the customer notice (Appendix A-18-d).

Q. Do you have any recommendations?

A. Yes. I recommend that in future 1329 filings, PAWC should include the projected capital investment in its calculation of the annual revenue deficiency, and that PAWC should provide notice to customers of this total rate impact. This is consistent with how Aqua Pennsylvania calculates rate impact for purposes of its Section 1329 customer notices. An example from Aqua's most recent Section 1329 filing is attached to my testimony as OCA Exhibit MND-1.

Q. Do you have any additional recommendations?

A. Yes. PAWC's notices should also include rate impacts at more than just average usage. Therefore, I recommend PAWC should provide in its notices a range of impacts to include calculations of bills at 25% less than average usage and at 25% more than average usage, in addition to the average usage. This will show a more realistic range of what potential customer bills will look like.

BASA System Overview

Q. Does the BASA System have any compliance issues?

A. BASA witness Duane McKee discussed compliance issues and challenges with the system in his direct testimony. He indicated that "In 2018, six total pump stations from the System experienced wet weather sanitary sewer overflows ("SSOs")." (BASA Statement No. 1, p. 4, ln. 7-8). Mr. McKee also stated, "the Authority filed Non-Compliance Reports with the Pennsylvania Department of Environmental Protection ("DEP") for fecal violations on the following dates: May 10, 2021; June 11, 2021; July 18, 2021; August 31, 2021; and February 28, 2022. The Authority also filed a Non-Compliance Report for ammonia nitrogen on May 19, 2021." (BASA Statement No. 1, p. 4, ln. 17-21).

Q. Does BASA have a Corrective Action Plan (CAP) with DEP?

A. Yes. According to Mr. McKee, "the Authority submitted a Corrective Action Plan (the "CAP") on March 11, 2019 to DEP to assess and address the recurring wet weather SSOs contributing to excessive infiltration and inflow ("I&I") during the 2018 record rainfall year." (BASA Statement No. 1, p. 5, ln. 4-7). He also stated the CAP seeks to reduce the overload conditions and/or to provide the additional capacities, if necessary, to address the hydraulic overload conditions and SSOs. (BASA Statement No. 1, p. 5, ln. 7-9).

Q. Are there any anticipated capital improvements?

A. In his direct testimony, Mr. McKee stated, "Through the implementation of CAP, BASA has uncovered several shortcomings in the System and, as a result, it has become evident that a comprehensive overhaul of the aging System is necessary." (BASA Statement No. 1, p. 6, ln. 21-23). He also stated, "Pennsylvania-American prepared an investment project and recurring project budget estimate totaling approximately $75 million in necessary capital investments to update the aging System and address BASA's significant I&I issues over the next five years alone". (BASA Statement No. 3, p. 8, ln. 19-22).

Q. Are any of the improvements and upgrades mentioned above urgent?

A. Mr. McKee indicated "the CAP required BASA to complete numerous urgent capital improvements to bring the System into compliance, including but not limited to installation of new SSO flow meters and numerous structural improvements in the System to begin as early as spring 2023". (BASA Statement No. 1, p. 7, ln. 3-6). There is no evidence to support that BASA is not complying with CAP deadlines while the sale is pending.

Q. Is BASA financially fit to complete the improvements and upgrades?

A. According to the Application, BASA has approximately $40.6 million in existing debt. (Application p. 10, ¶ 32a). In his direct testimony, Mr. McKee claimed that "BASA cannot fund the necessary capital improvements without a significant increase in rates to its customers". (BASA Statement No. 1, p. 7, ln. 7-8). When asked in discovery to provide any calculations/worksheets showing that if the BASA system is not sold, it would need to significantly increase customer rates, PAWC replied "There were no calculations and/or worksheets prepared related to the significant customer rate increases if the BASA system was not sold. It is realistic to assume the BASA's customer rates would have increased substantially as a result of the debt financing that would have been required to complete the projected $75,000,000 of capital improvements. The principal and interest payments for this additional debt financing would have been recovered through increased customer rates." (PAWC Response to OCA-III-5).

Q. Is there any indication on the record that BASA's rates would increase to the same extent they would under PAWC ownership if there was no acquisition?

A. No. As I stated above, there were no calculations and/or worksheets prepared to determine how much BASA's customer rates would increase in order to fund any necessary capital improvements, if the acquisition did not happen.

Q. Is BASA technically fit to complete the improvements and upgrades?

A. In his direct testimony, Mr. McKee stated "BASA lacks the necessary skillset, expertise, and project experience to complete the large scale, complex projects that are needed to bring the System into compliance. The Authority currently has thirty-three (33) full time employees with an average age of 50 years old. Since 2017, twelve (12) employees have retired from the Authority, and the Authority expects at least two (2) more retirements by April 2023". (BASA Statement No. 1, p. 7, ln. 8-13).

Q. Do you consider the seller's system to be small or troubled using the criteria from Section 1327/Section 529/PUC policy statement criteria?

A. As stated above, the BASA System serves approximately 14,792 customers in its service area. This is not a "small" system. Although Mr. McKee stated, "the Authority's workforce on the whole is closer to retirement age than not" (BASA Statement No. 1, p. 9, ln. 5-6), there is no information that indicates BASA is not able to hire additional employees or pursue other options for operation and maintenance of its system. Additionally, the system is not "troubled". As the system ages, it is going to need standard improvements. Needing standard improvements does not constitute a system being "troubled". Section 1327(a)(3) of the Public Utility Code states "the public utility, municipal corporation or person from which the property was acquired was not, at the time of acquisition, furnishing and maintaining adequate, efficient, safe and reasonable service and facilities…". While the BASA system may have previous compliance issues, it seems to be complying with CAP guidelines, and at this point it appears BASA is providing adequate, efficient, safe and reasonable service to its customers.

<u>Analysis of Affirmative Public Benefits</u>

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

A. To acquire a municipal wastewater system a public utility must file an application asking for a certificate of public convenience, which will only be granted if the Commission determines that the acquisition is necessary or proper for the service, accommodation, convenience, or safety of the public. The Commission may impose conditions on its granting of the certificate. Section 1103(a) of the Public Utility Code states as follows:

> A certificate of public convenience shall be granted by order of the commission, only if the commission shall find or determine that the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public. The commission, in granting such certificate, may impose such conditions as it may deem to be just and reasonable.[4]

I have been advised by counsel that the Pennsylvania Courts and the Commission have construed this as requiring that a proposed acquisition of, or merger with, a public utility "will affirmatively promote the service accommodation, convenience, or safety of the public in some substantial way."[5] Also, the Courts have explained:

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

Q. How will current BASA customers' rates be impacted by the proposed transaction?

A. Ms. Everette stated the current average monthly bill of a residential BASA customer at the time of Closing will be approximately $45.50 per month. She provided calculations in Exhibit AEE-1 to her testimony showing that, in the first PAWC rate case where PAWC includes the BASA system, the average bill for the acquired residential customers would increase by approximately 94.4% to $88.45, if 100% of the $17,895,000 revenue deficiency[7] is applied to those customers. One of the reasons for the higher rates is that PAWC has to pay Pennsylvania sales taxes and state and federal income taxes. BASA does not have these expenses. Another difference is that PAWC will earn a return on the proposed $231,000,000 ratemaking rate base. (PAWC Exhibit AEE-1, p. 4). BASA does

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4 66 Pa. C.S. § 1103(a).

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

6 *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)) (emphasis added).

7 For consistency, I will use the revenue requirement amount used in PAWC's filing in the remainder of my testimony, although I have recommended including planned capital investment in the calculation of revenue deficiency going-forward.

not earn an equity return on its assets. In addition, PAWC uses a mix of debt and equity financing for capital improvements. Equity cost rates are higher than debt costs rates. When asked in discovery to provide any and all calculations/worksheets showing that if BASA system is not sold, it would need to significantly increase customer rates, PAWC responded "There were no calculations and/or worksheets prepared related to the significant customer rate increases if the BASA system was not sold. It is realistic to assume that BASA's customer rates would have increased substantially as a result of the debt financing that would have been required to complete the projected $75,000,000 of capital improvements. The principal and interest payments for this additional debt financing would have been recovered through increased customer rates". (PAWC Response to OCA-III-5).

Q. Would the 94.4% increase in rates bring the BASA rates to Rate Zone 1 rates?

A. No. PAWC's current Rate Zone 1 rates are $106.65 for a customer using 3,212 gallons of water per month (the usage amount used in calculating the notice to BASA customers and the impact of the revenue requirement shortfall). Presumably, in the next rate case, PAWC would propose to increase the Rate Zone 1 rates as well, which would result in a continuing gap even after a very large increase for BASA customers.

Q. Does PAWC have any other pending Section 1329 acquisitions?

A. Yes. In addition to BASA, PAWC has pending Section 1329 acquisitions of the Brentwood and Towamencin wastewater systems.

Q. What are the pending revenue deficiencies for each of those systems and for PAWC in total?

A. The annual revenue deficiency for Brentwood is $517,000. The annual revenue deficiency for Towamencin is $487,000. These two deficiencies, combined with the BASA revenue deficiency equal approximately $18,904,000 in total annual revenue deficiency for PAWC's pending Section 1329 acquisitions. This amount does not include the impact of any planned capital investment for any of the systems which will only further exacerbate the revenue shortfall that must be recovered through rates.

Q. Do you have any comment about using the 3,212 gallons of water per month usage level to calculate the rate impact of the revenue requirement shortfall created by the ratemaking rate base?

A. Yes. I am using the same usage level so that all of the bill impact numbers can be easily compared. However, there are existing customers and BASA customers who use much higher levels of water every month. The rate impact on those customers will then be much higher than what I am discussing in this testimony.

Q. Did PAWC state that it will maintain the existing base rates for the BASA wastewater customers for at least one year from the Closing Date?

A. Yes. At page 6 of BASA witness Paul Sybert's direct testimony, he stated "under the APA, Pennsylvania-American will impose a rate-freeze at $45.50 per EDU for BASA customers for at least one year after closing on the Proposed Transaction ("Closing").[8]"

[8] According to BASA witness Duane McKee, as part of the negotiations with Pennsylvania-American, the Authority agreed to raise the rates from $43.00 to $45.50 to secure (i) the period of the rate freeze (later of first anniversary of closing or January 1, 2025), and (ii) the commitment that Pennsylvania-American would propose moving from BASA's flat rate system to a system based on metered usage in its first base rate proceeding.

(BASA Statement No. 1, p. 10, ln. 10-11).

Q. In that scenario, what impact would the one-year rate freeze have on rates for existing PAWC customers?

A. If PAWC files a base rate case with new rates effective before the end of this one-year rate freeze, the entire revenue deficiency associated with the BASA acquisition would be paid by existing wastewater customers and, possibly, by existing PAWC water customers.

Q. Has PAWC indicated that it will not be filing a base rate case with effective dates within one year of closing?

A. No. PAWC witness, Everette stated "At this time, it is unknown when Closing will occur or when PAWC will file its next base rate case". (PAWC Statement No. 3, p. 10, ln. 13-14). PAWC filed its most recent base rate cases in April 2017, April 2020 and April 2022.

Q. Based on that, is the rate freeze proposed by PAWC a plan that will hold rates constant or phase rates in over a period of time after the next base rate case as stated in Section 1329(d)(1)(v) and (g)?

A. Yes. The rate freeze proposed by PAWC has the potential to hold rates constant or phase rates in over a period of time after its next base rate case.

Q. What is required if an applicant proposes a rate stabilization plan?

A. In the Final Implementation Order of Section 1329 of the Public Utility Code, the Commission stated, "if a rate stabilization is proposed, the applicant will be required to provide testimony, schedules, and work papers that establish the basis for the plan and its impact on existing customers who need to cover the revenue requirement that would be shifted to them under the plan”.[9]

Q. Did PAWC provide that information here?

A. No. PAWC claims that since there is no language in PAWC’s proposed tariff requesting that rates be held constant or phased in over a period of time after the next rate case, Section 7.03 of the APA, does not constitute a rate stabilization plan.

Q. Do you agree that PAWC’s proposal is not a rate stabilization plan?

A. No. In my view, PAWC has proposed a rate stabilization plan by agreeing not to propose any increase to BASA base rates “until after the first anniversary of the Closing Date” and asking the Commission to approve that agreement. Thus, it is an agreement to hold rates constant and phased in after the first anniversary of closing. It would be helpful in evaluating the benefits and harms of the proposed transaction, and to fully assess the customer impact of PAWC’s rate freeze, if PAWC would provide the information that the Commission requires for a rate stabilization plan as part of the Application. The legal arguments regarding whether PAWC’s proposal is a rate stabilization plan will be addressed by the OCA’s counsel, but in my view PAWC’s filing is deficient because it did not include a rate stabilization plan.

Q. Do any witnesses claim that PAWC’s existing customers will benefit from the acquisition?

A. PAWC witness Scott Fogelsanger testified “the Transaction will benefit existing wastewater customers in the long-term by expanding PAWC’s customer base”. (PAWC

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9 Final Implementation Order, No. M-2016-2543193, p. 27 (Order entered October 27, 2016).

Statement No. 1, p. 19, ln. 7-8). He also stated, "Regionalization and consolidation have economic benefits for customers because they allow the use of better management practices and they allow greater economies of scale". (PAWC Statement No. 1, p. 20-21, ln. 23, 1-2). He then goes on to describe some examples of economies of scale. Similarly, PAWC witness Daniel Hufton notes, "regionalization provides many benefits, including lower cost of treatment due to economies of scale and ability to apply advanced treatment technology more effectively". (PAWC Statement No. 2, p. 13, ln. 5-7).

Q. Do you have any comments?

A. There is no indication how long it will take for this transaction to benefit PAWC's existing customers and I do not believe that it will do so at all let alone in the near term. Adding customers alone does not increase economies of scale. There is no information to show that the proposed transaction would make any customers' rates more affordable in the near term as compared to the absence of the transaction, and there has also been no showing that the transaction would make rates more affordable in the long-term due to economies of scale. There is, in fact, nothing at all to suggest that this transaction will be at all beneficial to PAWC's existing customers. In exchange for the transaction, they may well be required to pay higher rates if the PUC assigns a portion of the revenue deficiency to existing customers. The average rate base per BASA customer is $15,650 (PAWC Response to OCA-I-11) and the average net plant in service per existing PAWC wastewater customer is $12,271(PAWC Response to OCA-I-12). Additionally, when asked in discovery if it is possible that an acquisition which expands the customer base will increase per-customer costs over the long term, PAWC responded, "Yes. A number of factors can influence long-term costs such as the initial acquisition price, the amount of capital investment over time, customer growth, and impacts to O&M expense." (PAWC Response to OCA-I-10). PAWC has not provided a sufficient basis to show that its acquisition of BASA at the purchase price negotiated will create actual economies of scale, such that existing or acquired customers will experience a benefit.

Q. Do you believe BASA customers will be harmed by this transaction?

A. Yes. As I mentioned earlier in my testimony the rate increase as a result of this transaction is a harm to BASA customers. Furthermore, the annual revenue deficiency that will be recovered through rates is from this acquisition only.

Q. Mr. Hufton addressed on pages 18 and 21 of his Direct Testimony how PAWC is technically fit to run the BASA system. Do you agree?

A. Yes. So is BASA. PAWC's technical fitness as a public utility does not in itself mean that its acquisition of another fit wastewater system will produce affirmative public benefits.

Q. On page 11 of his testimony, Mr. McKee states that BASA customers will benefit from access to PAWC's call center from 7:00 a.m. – 7:00 p.m. via phone and via electronic email at any time. Do you agree?

A. It may provide a minimal benefit. PAWC offers longer hours than BASA's call center, which is available from 8:00 a.m. – 4:00 p.m. Currently, BASA has three employees that serve as customer liaisons through the phone and the in-person window at BASA. However, having local staff available to customers is a benefit, compared to PAWC's national call centers. Additionally, customers, have access to their utility through following weblink: https://www.basapa.org. This site provides all payment options, including a direct link to the online payment link operated by a third-party provider, and information regarding BASA.

Q. Please describe the BASA bill payment options.

A. In response to OCA-II-7, BASA currently offers the following payment methods to its customers:

1) by Direct Payment Plan (*i.e.,* auto-pay) at no cost to the customer;

2) by mail via check made payable to Butler Area Sewer Authority or BASA, sent to 100 Litman Road, Butler, PA 16001-3256 at no cost to the customer;

3) by credit card via an online portal operated by third-party provider, Value Payment Systems, and the associated convenience fees may vary;

4) in-person via the drive-up teller window or the customer service window located inside the Authority office at 100 Litman Road, Butler, PA 16001-3256, at no cost to the customer; and

5) via check placed in the drop-off payment box located on the left side of the drive-up teller window at the Authority office at 100 Litman Road, Butler, PA 16001-3256, at no cost to the customer.

Q. Does PAWC's billing system offer any advantages over the BASA system?

A. No, it does not provide any advantages over the BASA current billing system that are immediately apparent. The only functional difference between PAWC's billing system and BASA appears to be that PAWC offers the option to make bill payments at 3 in-person payment locations at Wal-Mart stores located in the BASA service area. (PAWC Response to OCA-I-28). I agree that this provides incremental benefit. Additionally, as stated above, BASA has a customer service window located inside the Authority office and a drive-up window in Butler, PA. BASA customers would lose this benefit if acquired by PAWC.

Q. Do you believe this acquisition should be approved?

A. No. The overall acquisition does not meet the standards required by the Public Utility Code and should be denied. There are no affirmative public benefits that outweigh the known harms associated with the increased costs as a result of this transaction. If the Commission determines that the public benefits to this transaction outweigh the known and quantifiable harm associated with the rate increase that will be needed to fund the revenue deficiency, then I believe there are significant additional requirements that the Commission should impose as a condition of such approval. I outline these below.

Low-Income Assistance Program

Q. Did any witnesses address BASA low-income customers?

A. Yes. In his direct testimony, City of Butler Mayor, Robert Dandoy stated that "qualified lower-income BASA customers will have access to Pennsylvania-American's customer assistance programs to help pay their bills, which is especially important considering the projected increase in rates as the improvement projects commence". (City of Butler Statement No. 1, p. 9, ln. 6-9).

Q. Do you have any comments?

A. Yes. Mr. Dandoy stated, "our population is largely working class, with a median household income of $36,570". (City of Butler Statement No. 1, p. 4, ln. 15-16). According to US Census data, 23.8% of the population in the City of Butler are in poverty.[10] If PAWC is permitted to acquire the BASA system, when new rates are established for the acquired residential customers that move them to or toward cost of service, bills for those customers are likely to be exceedingly burdensome.

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10 https://www.census.gov/quickfacts/butlercitypennsylvania

Q. Do you have a recommendation?

A. Yes. Unless BASA customers know about and enroll, the existence of PAWC's low-income programs will not provide a benefit. PAWC witness Everette stated, "Because PAWC is already the water provider in the Butler area, any customers enrolled in the low income discount for their water service will be automatically enrolled in the discount for wastewater service at the time of Closing" (PAWC Statement No. 3, p. 17, ln. 7-9). However, not all eligible PAWC water customers are enrolled in its low-income programs. If the Commission approves the transaction, PAWC should provide a letter to the acquired customers that provides information regarding its low-income programs, including a description of the available programs, eligibility and requirements, and PAWC's contact information. The letter should be sent within 30 days after closing so that eligible customers can benefit from the program as soon as possible and before rates are increased. Also, PAWC should include the same information regarding low-income programs in bills sent to BASA customers within 90 days after closing.

Q. Do you have any recommendations regarding a hardship fund?

A. Yes. PAWC's bill discount program is limited to 150% of Federal Poverty Income Guidelines. That program will not help BASA customers who are above 150% of FPIG who will pay higher rates under PAWC ownership. It also does not help existing PAWC wastewater and water customers who are above 150% of FPIG and whose rates will increase due to this acquisition. I recommend that, if the proposed acquisition is approved, it should be conditioned on the requirement that PAWC make an annual contribution of $500,000[11] to the hardship fund annually for five years following closing.

[11] The OCA calculated this number by rounding down from 0.25% of the $231.5 million purchase price.

These contributions should not be recovered in rates and all unspent funds at the end of the program year should be rolled over and added to the budget for the hardship grant program in the following year(s). This will provide a concrete and actual benefit to PAWC's existing and acquired customers that will provide a small offset to the rate increases that will result from approval of this acquisition.

<u>Free Service</u>

Q. Does BASA currently provide free wastewater service?

A. Yes. BASA's response to the Commission's Standard Data Requests, no. 6, shows that BASA does not bill the VA Medical Center for wastewater service. PAWC plans to continue providing free service to the VA Medical Center upon closing. Specifically, PAWC stated "Upon closing, the Company will continue to offer free service to the VA Medical Center pursuant to Section 4.21 of the Asset Purchase Agreement ("APA") and Section 1329's requirement that existing rates be adopted at closing." (Appendix A-4.1, 6.)

Q. What is the special rate provision in the APA?

A. As described in her testimony, Ms. Everette stated:

> "PAWC is taking assignment of an agreement which provides for free service to the Veterans Administration Hospital Reservation in Butler "VA Hospital." The scope of this agreement, as outlined on Schedule 4.21, is as follows: The government conveyed certain real property to the Township, including a sewage disposal plant located at the Veterans Administration Hospital Reservation, Butler, PA. So long as the VA Hospital original main campus is operated by the government, Butler, upon acquisition of title, will keep available and furnish to, the United States Veterans Administration, or its successor in function, without expense to the government, sewage disposal service. A subsequent Memorandum of Understanding is described as follows: Confirming that service will be provided to the VA without expense to the hospital and facilities operated by the department. With respect to space leased or conveyed to entities not owned or

(231,500,000 x 0.0025) = 578,750, rounded down to 500,000.

> operated by the United States Government, the Department has agreed that such space will be subject to payment of usage fees and surcharges to the Authority and will be subject to any and all applicable EPA, DEP and Authority rules and regulations related to sewage. Consistent with this agreement and the Section 1329 requirement that PAWC adopt existing rates, the pro forma tariff supplement attached as **Appendix A-12** to the Application provides for $0 rates for the VA Hospital." (PAWC Statement No. 3, p. 8-9, ln. 10-26, 1-3).

Q. Do you agree with PAWC providing free service?

A. No. At Closing, PAWC should charge the VA Medical Center the applicable rates contained in the pro forma tariff submitted with the Application (Appendix A-12). Counsel for OCA will address the legal issues in their briefs, but it is my understanding that free water service is not permitted under the Public Utility Code. Although other PAWC ratepayers are not at risk to subsidize the cost of serving the VA Medical Center in base rates until new rates are established in a base rate case that includes the BASA system, existing customers and the other acquired customers will not benefit from VA Medical Center contributing revenues through the DSIC. If free service is permitted for other entities acquired in Section 1329 acquisitions it will have a cumulative impact on existing customers between base rate cases. Also, it delays the transition of the VA Medical Center to paying for service, and toward paying its cost of service, which puts other ratepayers at risk to subsidize the deficiency.

Q. Did PAWC quantify how much additional annual revenue it would receive if it charged the VA Hospital for service?

A. Yes. Confidential Response to OCA-I-16 indicated what additional annual revenue to VA Hospital would produce. Based off of 4,000 gallons per month per EDU[12], PAWC

[12] PAWC Exhibit AEE-2.

calculated a total estimated annual revenue of $108,108, based on a monthly bill at $45.50/EDU and 198 EDUs.

Q. Does PAWC address Industrial Pretreatment Program (IPP) fees?

A. Yes. In its initial filing, PAWC proposed that BASA customers should be subject to the (IPP) fees in PAWC's prevailing wastewater tariff on file with the Commission (PAWC Statement No. 3-S, p. 2, ln. 18-19). PAWC later revised its pro forma tariff to eliminate IPP fees for the BASA system. In its Supplemental Testimony, PAWC witness Hufton addressed PAWC's position:

> "In my opinion, it is inappropriate for IUs to avoid IPP fees. Fees are intended to recover actual industrial wastewater treatment costs. The IUs are the cost causers of the treatment costs and should be required to pay for the treatment. Otherwise, the costs fall upon the [sewage treatment plant] STP owner/operator and eventually other ratepayers who receive service from the STP (but who do not necessarily contribute pollutants). Industrial treatment costs are easily identifiable and should be paid by the IUs who have caused them and failed to properly treat their industrial wastewater. If there are no IPP fees, the IUs would have little to no incentive to pretreat their wastewater discharges because there would be no financial penalty and the IUs could shift costs to others – thereby essentially having their operations subsidized." (PAWC Statement No. 2-S, p. 3, ln. 11-20)

Counsel for OCA will address the legal issues in their briefs, but the OCA supports charging IPP fees to industrial customers in the BASA system on the basis that it provides for the same charges that are charged to existing industrial customers. If not charged to industrial customers in the BASA system, it would provide an advantage to those customers and disadvantage all other PAWC customers.

DSIC

Q. Is PAWC requesting the implementation of a DSIC for BASA customers at closing?

A. Ms. Everette stated "PAWC is requesting authority from the Commission to approve collection of a distribution system improvement charge ("DSIC") related to the System in the future, prior to the first base rate case in which the System plant-in-service is incorporated into rate base. PAWC would not begin charging a DSIC until the eligible System plant is approved by the Commission in an amendment to PAWC's Long Term Infrastructure Improvement Plan for wastewater.". (PAWC Statement No. 3, p. 11-12, ln. 22-23, 1-4).

Q. Do you have a concern about PAWC's proposal?

A. Yes. Although Section 1329(d)(4) provides that BASA rates will not increase until new base rates are approved in PAWC's next base rate case post-closing, the statute does allow PAWC to collect a DSIC during this time. PAWC filed an amended LTIIP that included the BASA system, which was approved by the Commission on June 15, 2023, in Docket No. P-2023-3038874. Having the acquired customers pay a DSIC is one small way in which PAWC's existing customers can receive a short-term benefit from the acquisition – by spreading the costs recovered through the DSIC over a larger customer base.

Q. What is your recommendation?

A. I recommend that PAWC should not include investments in the BASA system in its DSIC until the DSIC is applied to customers in the BASA system. The Commission has already approved an amended LTIIP that includes BASA. No later than the next quarterly DSIC filing after closing on the transaction, if approved, PAWC should file a compliance tariff supplement to apply the DSIC to BASA customers. I note that this is consistent with PAWC's agreement in the settlement of the 2022 rate case.

Q. PAWC requests the accrual of Allowance for Funds Used During Construction (AFUDC) for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. Do you have a recommendation?

A. Yes. I recommend no preapproval in this proceeding, and any AFUDC should be addressed in PAWC's first base rate case that includes the BASA system.

Q. In PAWC Statement No. 1, p. 12, Mr. Fogelsanger indicated "PAWC gave BASA a $3,000,000 Letter of Credit on October 11, 2022." Do you have any concerns?

A. No. The letter was a part of the APA. However, the attachment in response to OCA-III-7 stated, "As beneficiary, the Butler Area Sewer Authority is returning the enclosed letter of credit (LC) in the amount of $3,000,000.00, issued on October 6, 2022, with LC number 18136975-00-000 for cancelation." Therefore, it is no longer part of the transaction.

<u>Cost of Service Study (COSS)</u>

Q. Should a separate cost of service study be required for the acquired BASA system when PAWC files its next base rate?

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

Concerns Raised From Customers

Q. Please discuss the comments BASA received through the "submit our comment" tool on its website, www.resources4asacustomers.org.

A. In response to OCA-III-13, BASA provided a screenshot of comments it received on its website. Below is a subset of the comments that reflect those with concerns and opposition to the sale. The comments read:

> "I don't understand why we would sell our local nonprofit authority to a corporation. Instead of funds being reinvested in Butler, some would go toward executive pay, lobbyists, and dividends. I say keep it local!"

> "I think all users are looking at a cost increase for the sewer treatment, regardless who owns the system. The time has came to do the upgrading of it. I think PWSA is better equipped and experienced to operate and repair the system, from a financial perspective. Until now, BASA was able to maximize the life of system at minimal cost. The BASA system was paid for by the users, and accordingly any leftover profits should be compensated as subsidized sewer rate increase credit. I don't agree with Butler City & Butler Township rolling the profits into their general funds, as it isn't truly their profits to be gained."

> "As a downtown business owner, I am concerned with our rates once the sale is completed. I have heard that PAWC would plan a significant rate hike once the buyout is completed and the one year rate freeze has expired. Even if they require approval from the PUC, they have the resources to convince the PUC of the necessity for such a rate hike. Furthermore, our business utilizes significantly more water for day-to-day operations. By the PAWC switching to a metered rate, I am concerned with future costs to our utility bills as a result of the acquisition.

> "Our house was built in 1997, we purchased in 2020, and it is currently served with a private, residential well. This is our first house and our first experience with a well so we try to be careful not to overuse or run it dry. Our family consists of two adults and a toddler with plans for another and we also actively work to be environmentally conscious. We have implemented water conservation measures

such as a high-efficiency washing machine and dishwasher, 1.6gal/flush toilets, 1.5gal/min shower heads with trickle valves, 1-to-1 reverse osmosis filtration, etc. Using the PAWC 2022 Fee Schedule for Western PA Zone 1, the utilized EDU rate is lower than the 400gal/day maximal value defined within PaDEP Regulation at 25 Pa Code: 73.17, however, the unmetered rate is still high for our family and many of our elderly neighbors all served with private wells. PAWC believes that unmetered residents are using ~3,457.99 gallons of water per month. The widow living further down our street does not use that much water. According to the EPA's Interactive Private Domestic Well Map (https://gispub.epa.gov/wellmap,) there are large tracts of the BASA service area utilizing private wells as of 2010. I would like more information as to whether metered service is treated more favorably as alluded to within the document, Application of PAWC for Acquisition of the Wastewater Assets of Pottsgrove Township, on the PUC website (https://www.puc.pa.gov/pcdocs/1693900.pdf) where there is a, "Special rate for customers who elect the metered option…". Metered customers are billed at 60% of the EDU rate while the unmetered (private wells) must pay 100%. Is it possible to meter a private well and how would we opt-in? I would also like to know whether PAWC intends to accept residual waste which includes "frac wastewater" like at their recently completed, 2015, Clarion acquisition, where a permit was applied for in 2019 - I'm an engineer, not a lawyer so please, read these and double-check me -

Now, I can see how there would be potential positive outcomes possible from a PAWC acquisition such as the cited lateral replacement program but, that would be a pilot program, which could only be submitted for approval after PAWC acquires BASA - so, even if the acquisition is successful, PUC may not approve. I believe it would be important to understand the details of the program such as how long the pilot would run, limitations, targeted number of repairs per year, and if there is a maximum number of repairs defined on any timescale. Would there be a follow-up to the pilot? I do not want to seem unreasonable because I do vaguely understand the challenges the acquisition would address, emphasis on maintenance and modernization, but I don't want PAWC to purchase BASA only to see my, your, our neighbors with private wells as a source of revenue growth, disappointment from the possible promise of (often urgent) lateral repairs dependent on a much larger process and timetable, or

PAWC utilizing our area as a fracking wastewater treatment facility like they have begun doing in Clarion."

"I know that our rates will skyrocket either way. But I'd rather pay to KEEP the utility than to give up local control."

Q. City of Butler Statement No. 1, page 6 indicated there were September open houses to discuss the acquisition. Were there any written records kept for these open houses?

A. In response to OCA-III-14, written records were provided from the September open houses. A subset of comments reflecting concerns and opposition to the sale read:

> "We do not approve. Just because Butler will pay off a debt only to stick property owners with a higher bill!"
>
> "I am 76 years old and live alone in my home. I am on Social Security and at the end of my budget now. How can you increase the sewer rates again?"
>
> "I'm not opposed to the sale of the sewer authority; however, I do have concerns about how quickly sewer fees could change and the impact they would have on the rate payers. I live in Center Twp., and I've calculated a possible rate change from flat fee to a usage fee based on water consumption. I would be paying at least 2.54 times the amount I currently pay. That's a big jump! It would be beneficial to the rate payers if the rate increases could be implemented slowly, say over a 5-year period, so that the rate payers could slowly work into the new usage fees. Adjust the wastewater tariff, each year, and provide the projections so that a rate payer can begin budgeting from the beginning and know what the future years will additionally cost. One other item I have concern about is that PAWC will have a monopoly on the local area. When water rates goes up so will sewer rates. As for the proceeds from the sale, it would be nice to see all the communities that contribute flow to the system, receive a fair share percentage based on number of rate payers per community. Those that have paid, now get something back, and then figure out how that money can be applied as a credit to each rate payer, possibly over a period to help offset the changing rate fee structure. So, the money doesn't go back to each community, but is escrowed and used by PAWC, over a period of time to offset rate fees.
> There needs to be a fair and equitable plan, over a period of time, to move the rate payers from the current flat rate to the proposed, usage rate. It's my opinion that those associated with BASA decision making are and should be responsible for protecting the interests for the BASA rate payers if the sale of the BASA system ultimately takes place."

<u>Conclusion</u>

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

A. While there are some public benefits of the proposed transaction, as filed, it is not apparent that they outweigh the projected rate impact. Therefore, the Application should be denied. If the Application is approved, there are conditions that should be adopted that will hopefully mitigate the harm of the transaction, although the conditions will not eliminate the harm.

Q. Please summarize your recommendations.

A. If the Commission determines to approve the application, these following recommended conditions should be adopted because they are reasonable and appropriate;

1. At the time of its next base rate case, PAWC will submit a cost-of-service study that removes all costs and revenues associated with the operation of the BASA system and will also provide a separate cost of service study for the BASA system.

2. Rate freeze.

   a. (1) existing ratepayers should not be required to fund any rate freeze. If PAWC proposes to freeze BASA rates beyond the effective date of new rates in PAWC's first base rate case that includes the BASA system Assets, PAWC should be required to calculate its compliance proof of revenue using the new rate otherwise applicable to PAWC customers at the conclusion of its base rate case, not BASA's frozen rate.

      (2) In the first PAWC base rate case that includes the BASA system, when PAWC provides customer notice, it should provide notice to customers in the BASA system that their rates may increase. I am advised by OCA counsel that notice is necessary so the Commission can exercise its discretion to set rates in that proceeding for customers in the BASA system that are in excess of the limitations in the BASA asset purchase agreement. I recommend the notice be based on rates that reflect the lesser of (a) full cost of service for the BASA system, based on the cost of service study for the BASA system and (b) PAWC's proposed Rate Zone 1 rates. This will help to mitigate the potential level of subsidy by PAWC's other water and wastewater customers. The average current rate for PAWC Rate Zone 1 wastewater customers is $106.65, monthly, while BASA's rates at Closing will be $45.50, monthly.

4. PAWC should provide the information that the Commission requires for a rate stabilization plan.

5. In future 1329 filings, PAWC should include the projected capital investment in its calculation of the annual revenue deficiency, and that PAWC should provide notice to customers of this total rate impact.

6. PAWC's notices should also include rate impacts at more than just average usage. Therefore, I recommend PAWC should provide in its notices a range of impacts to include calculations of bills at 25% less than average usage and at 25% more than average usage, in addition to the average usage.

7. LTIIP and DSIC: (1) PAWC should not include investments in the BASA system in its DSIC until the DSIC is applied to customers in the BASA system. (2) No later than the next quarterly DSIC filing after Closing, PAWC should file a compliance tariff supplement to apply the DSIC to BASA customers.

5. IPP: I recommend that rates PAWC proposed in its original filing and supplemental testimony should be adopted.

6. VA Hospital. No free service. I recommend that upon closing, PAWC should charge otherwise applicable rates. Additionally, the contract should not be approved (PAWC lists the contracts with the VA Hospital as one of the non-507 contracts that it wants the PUC to approve). Or, in the alternative, BASA can negotiate a rate for service with the VA Hospital that is put in place before closing – just as it is already increasing rates for all customers before closing (explain and cite to App. A-4.1 (response 8), App. A-24-a (APA) ¶ 7.04(a) and Schedules 7.04(a)-1, 7.04(a)-2). That updated contract should be submitted before close of record in this proceeding and other parties should have the opportunity to review if PAWC seeks approval of the updated contract in this proceeding.

7. Transaction/closing costs. PAWC should not be permitted to claim transaction or closing costs incurred by BASA. Outside legal fees used in transaction/closing should be separately identified in the next Base Rate Case.

8. Claims for Allowance for Funds Used During Construction and Deferred Depreciation: I recommend no preapproval in this proceeding, should be addressed in PAWC's first base rate case that includes the BASA system.

9. CAP enrollment. PAWC should be required to work with local CBOs with offices local to the areas served by the BASA system for purposes of providing information and enrolling customers in PAWC's customer assistance programs.

10. Welcome Letter. Should include the payment options (including low income programs, eligibility requirements, PAWC contact info), free places to pay, and in-person bill payment locations reasonably proximate to the areas served by the BASA system. Should also provide information about the local CBOs that it will work with.

11. PAWC should be required to make an annual contribution of $500,000 to the hardship fund for five years following closing. These contributions should not be recovered in rates and all unspent funds at the end of the program year should be rolled over and added to the budget for the hardship grant program in the following year(s). This will provide a concrete and actual benefit to PAWC's existing and acquired customers that will provide a small offset to the rate increases that will result from approval of this acquisition.

Q. Does this conclude your Direct Testimony?

A. Yes. However, I reserve the right to modify if necessary.

Appendix A

Qualifications of Morgan N. DeAngelo

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 include 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
- Application of Aqua Pennsylvania, Inc., A-2022-3034143
- Application of Community Utilities of Pennsylvania, Inc., A-2022-3036744, A-2022-3036745
- PaPUC v. UGI Utilities, Inc. - Electric Division, R-2022-3037368

Appendix B

OCA Exhibit MND-1

Aqua Pennsylvania, Inc. - Water
Shenandoah Water Acquisition

1.) **Shenandoah Water Acquisition**

		2023 Year 1	Notes
Revenue	$	1,927,789	
O&M		1,203,215	
Depreciation		345,715	****2.72% Composite Depreciation Rate*
Taxes Other		72,626	
Income Taxes	$	22,061	******21% Federal & 8.99% State*
Operating Income	**$**	**284,172**	
Rate Base at Fair Market Value	$	12,000,000	
Capital Investments *(Year 1)*	$	710,100	
Rate Base *(Including Capital Investments less depreciation year 1)*	$	12,364,385	
Interest Expense ^		227,752	
^ Includes Interest Expense syncronized with rate base			
Required Operating Income ***(Rate Base x Rate of Return)***	**$**	**894,811**	
Operating Income Deficiency	**$**	**610,638**	
Gross Revenue Conversion Factor		1.416433	
Revenue Deficiency (Excess) $	**$**	**865,000**	
Revenue Deficiency (Excess) %		**44.87%**	
Increase applied to Acquired (Authority) customers 80% Cost of Service	**$**	**306,442**	
Increase %		**15.90%**	
Increase applied to Acquired (Authority) customers 100%	**$**	**865,000**	
Increase %		**44.87%**	
Increase applied to Acquired (Authority) customers 50%	**$**	**432,500**	
Increase %		**22.44%**	
Increase applied to Existing (Company Wastewater) customers 50%	**$**	**-**	
Increase %		**0.00%**	
Increase applied to Existing (Company Water) customers 20% - Cost of Service	**$**	**558,558**	
Increase %		**0.10%**	

	Avg. Usage / Kgal	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	44.87%
Commercial - All Sizes/Classes - 100% Cost of Service	6.18	$ 35.25	44.87%
Industrial - All Sizes/Classes - 100% Cost of Service	318.75	$ 471.52	44.87%
Public - All Sizes/Classes - 100% Cost of Service	55.70	$ 99.24	44.87%
Residential - All Sizes/Classes - 50% Revenue Deficiency	2.79	$ 9.75	22.44%
Commercial - All Sizes/Classes - 50% Revenue Deficiency	6.18	$ 17.62	22.44%
Industrial - All Sizes/Classes - 50% Cost of Service	318.75	$ 235.76	22.44%
Public - All Sizes/Classes - 50% Cost of Service	55.70	$ 49.62	22.44%
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	0.10%
Impact Existing Customers (Company Water) - Commercial - 20% Cost of Service	33.38	$ 0.44	0.10%
Impact Existing Customers (Company Water) - Industrial - 20% Cost of Service	200.15	$ 2.14	0.10%
Impact Existing Customers (Company Water) - Public - 20% Cost of Service	33.38	$ 0.44	0.10%

2.) **Rate of Return**

	Ratio	Cost Rate	WACC
Debt	46.05%	4.00%	1.84%
Equity	53.95%	10.00%	5.40%
	100.00%		7.24%

3.) **Gross Revenue Conversion Factor**

Dollar of Revenue		1.0000000
Less: Gross Receipts (Revenue) Tax	0.00%	0.0000000
Less: Reg Assesments	0.62%	0.0062419
Less: Bad Debts	1.17%	0.0117050
State Taxable Income		0.9820531
State Income Tax	8.9999%	0.0883838
Federal Taxable Icome		0.8936693
Federal Tax Rate	21.00%	
Federal Income Tax		0.1876706
Net Revenue Dollar		0.7059987
Gross Revenue Conversion Factor		1.4164331
EFT	28.1099%	

Appendix C

PAWC Response to OCA-I-22

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority (“BASA”)

Docket No. A-2022-3037047

PAWC Responses to Set I Interrogatories

Propounded by Office of Consumer Advocate

OCA-I-22 What are the annual revenue requirement and revenue deficiency for the BASA system if the planned 2024 capital investment shown in Schedule 7.11 of Appendix A-24-a is included in the calculation? Please provide supporting calculations in native format.

Response: If the planned 2024 capital investment shown in Schedule 7.11 of Appendix A-24-a is included in the calculation, the estimated revenue requirement is $31,202,000 and the revenue deficiency is $18,504,000. Refer to OCA-I-22 Attachment for the supporting calculations.

Responsible Witness: **Ashley E. Everette, Senior Director – Rates and Regulatory**
American Water Works Service Company

Date: **April 28, 2023**

Pennsylvania American Water Company **OCA-I-21_Attachment**
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Revenue Requirement Increase

Ratemaking Rate Base/Purchase Price	$	231,500,000	Appendix A-11
2024 Projected Capital Investment	$	8,590,000	APA Schedule 7.11
Rate of Return %		7.10%	See Calculations
Rate of Return		17,046,000	
O&M		4,384,000	Appendix K
Taxes Other		735,000	Appendix K
Depreciation on purchase price		4,527,000	Appendix K
Depreciation on post-acquisition capital investment		193,000	[1]
Taxes		4,510,000	See Calculations
Revenue Requirement		31,202,000	
Butler Area Sewer Authority Wastewater Year-1 Revenues		12,698,000	Appendix K
Revenue Requirement Increase		18,504,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Summary

Revenue Requirement		
Rate Base	$	231,500,000
Pretax ROR %		9.05%
Pretax ROR		20,951,000
Plus: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Total Revenue Requirement		30,597,000
Income Tax Calculation		
Revenues	$	30,597,000
Less: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Interest		4,676,000
SIT Taxable Income		16,275,000
State Income Tax Rate		8.49%
State Income Tax		1,382,000
FIT Taxable Income		14,893,000
Federal Income Tax Rate		21.00%
Federal Income Tax		3,128,000
Total Income Taxes		4,510,000
Interest		
Rate Base	$	231,500,000
Weighted Cost of Debt (1.87% + 0.15%)		2.02%
	$	4,676,000

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.
State Income Tax Rate of 8.49% in effect 1/1/2024

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

PENNSYLVANIA-AMERICAN WATER COMPANY
WASTEWATER SSS GENERAL OPERATIONS

TABLE 2. SUMMARY OF ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE, AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO WASTEWATER PLANT AS OF DECEMBER 31, 2023

	DEPRECIABLE GROUP	SURVIVOR CURVE	ORIGINAL COST AS OF DECEMBER 31, 2023	BOOK DEPRECIATION RESERVE	FUTURE ACCRUALS	CALCULATED ANNUAL ACCRUAL AMOUNT	CALCULATED ANNUAL ACCRUAL RATE	COMPOSITE REMAINING LIFE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)/(3)	(8)
	DEPRECIABLE PLANT							
354.20	STRUCTURES AND IMPROVEMENTS - COLLECTION	45-R3	3,612,200.53	297,122	3,315,079	96,348	2.67	34.4
354.30	STRUCTURES AND IMPROVEMENTS - SPP	55-S0	18,566,095.31	7,611,923	10,954,172	344,938	1.86	31.8
354.40	STRUCTURES AND IMPROVEMENTS - TDP	55-S0	153,334,778.46	79,389,942	73,944,836	2,660,957	1.74	27.8
354.70	STRUCTURES AND IMPROVEMENTS - GENERAL	35-S1	4,070,803.79	2,007,181	2,063,623	86,335	2.12	23.9
355.00	POWER GENERATION EQUIPMENT	35-S0.5	8,021,589.23	2,880,147	5,141,442	234,190	2.92	22.0
360.10	COLLECTION SEWERS - FORCE MAINS	75-R3	45,561,550.15	4,624,544	40,937,006	773,411	1.70	52.9
361.10	COLLECTION SEWERS - GRAVITY MAINS	80-R2.5	184,392,031.37	45,103,176	139,288,855	2,792,821	1.51	49.9
361.20	MANHOLES	50-S2.5	30,039,047.08	11,440,838	18,598,209	782,893	2.61	23.8
363.00	SERVICES	47-R3	46,563,946.78	24,671,948	21,891,999	1,023,840	2.20	21.4
364.00	FLOW MEASURING DEVICES	15-L2.5	599,501.42	284,926	314,575	55,186	9.21	5.7
365.00	FLOW MEASURING INSTALLATIONS	25-S2	272,564.04	230,488	42,076	10,482	3.85	4.0
370.00	RECEIVING WELLS	50-R3	143,419.77	37,636	105,784	3,200	2.23	33.1
371.00	PUMPING EQUIPMENT	30-S0.5	19,524,019.44	2,649,119	16,874,900	930,890	4.77	18.1
380.00	TREATMENT EQUIPMENT	35-S1.5	88,159,162.46	18,610,808	69,548,354	3,260,297	3.70	21.3
381.00	PLANT SEWERS	50-R3	6,183,989.54	1,696,089	4,487,901	139,968	2.26	32.1
382.00	OUTFALL SEWER LINES	50-R3	604,388.91	255,857	348,532	12,614	2.09	27.6
389.10	OTHER PLANT AND MISCELLANEOUS EQUIPMENT - INTANGIBLES	20-S2.5	2,057,547.56	329,600	1,727,948	112,889	5.49	15.3
390.00	OFFICE FURNITURE AND EQUIPMENT	20-SQ	759,062.66	144,758	614,305	42,424	5.59	14.5
391.00	TRANSPORTATION EQUIPMENT	14-L4	1,627,652.53	771,796	855,857	124,345	7.64	6.9
392.00	STORES EQUIPMENT	25-SQ	107,351.44	37,632	69,719	4,300	4.01	16.2
393.00	TOOLS, SHOP AND GARAGE EQUIPMENT	20-SQ	1,300,973.27	344,614	956,359	62,704	4.82	15.3
394.00	LABORATORY EQUIPMENT	15-SQ	418,758.86	210,580	208,179	33,391	7.97	6.2
395.00	POWER OPERATED EQUIPMENT	22-R2	542,370.71	430,952	111,419	10,647	1.96	10.5
396.00	COMMUNICATION EQUIPMENT	15-SQ	4,946,898.15	1,191,435	3,755,463	329,937	6.67	11.4
397.00	MISCELLANEOUS EQUIPMENT	15-SQ	1,237,451.91	169,275	1,068,177	81,253	6.57	13.1
398.00	OTHER TANGIBLE PLANT	25-SQ	14,231.50	2,222	12,010	586	4.12	20.5
	TOTAL DEPRECIABLE PLANT		**622,661,386.87**	**205,424,608**	**417,236,779**	**14,010,846**	**2.25**	
	NONDEPRECIABLE PLANT							
352.10	FRANCHISES		221,139.78					
353.20	LAND AND LAND RIGHTS - COLLECTION		1,857,560.19					
353.30	LAND AND LAND RIGHTS - SPP		203,839.26					
353.40	LAND AND LAND RIGHTS - TDP		3,853,717.18					
	TOTAL NONDEPRECIABLE PLANT		**6,136,256.41**					
	AMORTIZATION OF NET SALVAGE					**1,515,247**		
	TOTAL UTILITY PLANT		**628,797,643.28**	**205,424,608**	**417,236,779**	**15,526,093**		

VERIFICATION

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

4/28/23

Date

Ashley E. Everette

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

<u>Appendix D</u>

PAWC Response to OCA-III-2

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority ("BASA")

Docket No. A-2022-3037047

PAWC Responses to Set III Interrogatories

Propounded by Office of Consumer Advocate

OCA-III-2 Referencing PAWC Exhibit AEE-1 and PAWC's response to OCA-1-20 and OCA-1-21:

a. What is the Potential Increase for BASA customers, in dollars and percentage, if one-fifth of the planned capital investment shown in Schedule 7.11 of Appendix A-24-a is included in the calculation? Please provide supporting calculations in native format.

b. What is the Potential Increase for BASA customers, in dollars and percentage, if year 1 (labeled as "2024") of the planned capital investment shown in Schedule 7.11 of Appendix A-24-a is included in the calculation? Please provide supporting calculations in native format.

Response

a. Please refer to OCA-III-2_Attachment 1 for the requested information

b. Please refer to OCA-III-2_Attachment 2 for the requested information.

Responsible Witness: **Ashley E. Everette, Senior Director – Rates and Regulatory American Water Works Service Company**

Date: **June 5, 2023**

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Butler Area Sewer Authority Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Butler Area Sewer Authority Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	$45.50	$91.86	$46.36 or 101.9%
Commercial	22,561 gal/month	$273.00	$551.19	$278.19 or 101.9%
Industrial	528,207 gal/month	$6,006.00	$12,126.11	$6,120.11 or 101.9%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	$106.65	$114.65	$8.00 or 7.5%
Commercial	22,561 gal/month	$509.46	$547.67	$38.21 or 7.5%
Industrial	528,207 gal/month	$11,143.19	$11,978.93	$835.74 or 7.5%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	$69.24	$69.79	$0.55 or 0.8%
Commercial	22,561 gal/month	$371.82	$374.79	$2.97 or 0.8%
Industrial	528,207 gal/month	$5,985.08	$6,032.96	$47.88 or 0.8%

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Butler Area Sewer Authority Wastewater

Residential		
	Flat Rate	$45.50
32.12	0.0000	0.00
		$45.50

Rate Impact	101.9%
	$46.36
Total	$91.86

PAWC - Wastewater

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

Rate Impact	7.5%
	$8.00
Total	$114.65

PAWC - Water

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

Rate Impact	0.8%
	$0.55
Total	$69.79

Commercial		
	Rate per EDU	$45.50
225.61	0.0000	273.00
		$273.00
1 EDU = 4,000 gallons		

Rate Impact	101.9%
	$278.19
Total	$551.19

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

Rate Impact	7.5%
	$38.21
Total	$547.67

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	0.8%
	$2.97
Total	$374.79

Industrial		
	Rate per EDU	$45.50
5,282.07	0.0000	6,006.00
		$6,006.00
1 EDU = 4,000 gallons		

Rate Impact	101.9%
	$6,120.11
Total	$12,126.11

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

Rate Impact	7.5%
	$835.74
Total	$11,978.93

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	0.8%
	$47.88
Total	$6,032.96

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	$	19,312,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)		33%
Amount of increase allocated to water through Act 11		6,372,960
Amount of increase allocated to wastewater customers	$	12,939,040

Increase applied to Butler Area Sewer Authority Wastewater Customers		
Revenue Requirement Increase - After Act 11	$	12,939,040
Current Butler Area Sewer Authority Wastewater revenues		12,698,000
Estimated Increase to wastewater customers		**101.9%**

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:		
Revenue Requirement Increase	$	12,939,040
Current Butler Area Sewer Authority Wastewater revenues		12,698,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)		159,681,891
		172,379,891
Estimated Increase to wastewater customers		**7.5%**

Amount of increase allocated to water customers:		
Revenue Requirement Increase	$	6,372,960
PAWC Water Revenues (R-2022-3031672 Proof of Revenues excl. Other Operating Revenues & Contract Sales)		781,722,135
Estimated Increase to Water Customers		**0.8%**

Pennsylvania American Water Company
R-2022-3031672 Summary Proof of Revenues
Act 11 Allocation

	Water Operations	Wastewater SSS General Operations	Royersford Wastewater Operations	Upper Pottsgrove Wastewater	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 **OCA-III-02_Attachment 1**
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Revenue Requirement Increase

Rate Base	$	231,500,000	Appendix A-11
One-fifth of capital investment from 2024-2028	$	15,163,000	APA Schedule 7.11
Rate of Return %		7.10%	See Calculations
Rate of Return		17,513,000	
O&M		4,384,000	Appendix K
Taxes Other		735,000	Appendix K
Depreciation on purchase price		4,527,000	Appendix K
Depreciation on post-acquisition capital investment		341,000	[1]
Taxes		4,510,000	See Calculations
Revenue Requirement		32,010,000	
Butler Area Sewer Authority Wastewater Year-1 Revenues		12,698,000	Appendix K
Revenue Requirement Increase		19,312,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Summary

Revenue Requirement		
Rate Base	$	231,500,000
Pretax ROR %		9.05%
Pretax ROR		20,951,000
Plus: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Total Revenue Requirement		30,597,000
Income Tax Calculation		
Revenues	$	30,597,000
Less: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Interest		4,676,000
SIT Taxable Income		16,275,000
State Income Tax Rate		8.49%
State Income Tax		1,382,000
FIT Taxable Income		14,893,000
Federal Income Tax Rate		21.00%
Federal Income Tax		3,128,000
Total Income Taxes		4,510,000
Interest		
Rate Base	$	231,500,000
Weighted Cost of Debt (1.87% + 0.15%)		2.02%
	$	4,676,000

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.
State Income Tax Rate of 8.49% in effect 1/1/2024

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

Seller's Wastewater Customer Notice - Proposed impact Calculated

Determine:

Full Cost of Service (COS)
Seller's Current Rates vs. Full Cost of Service Rates Increase % calculated based on : 100% of COS acquisition revenue deficiency after ACT 11 allocation t Year One Revenues of Acquired System

Note: For purposes of calculating rate impact for wastewater customer notices, the term "Buyer's app settlement of PAWC's most recent (2017) wastewater base rate case. This amount specifically exclude not reflected in the 2017 base rate case. This issue will be revisited by the parties after the conclusion proceeding.

Note: No notice requirement for customers in wastewater systems already acquired under Section 13 be revisited by the parties after the conclusion of the next base rate case or as part of a settlement bet o water

licable wastewater revenue" means $26,935,197, which is the revenue approved in the
s revenues from the Scranton system and any systems acquired under Section 1329 that were
of the next base rate case or as part of a settlement between PAWC and the OCA in that

29 that were not reflected in the most recent (2017) wastewater base rate case. This issue will
:ween PAWC and the OCA in that proceeding.

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Butler Area Sewer Authority Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Butler Area Sewer Authority Rates at Closing	Potential Average Monthly Bill	Potential Increase		
Residential	3,212 gal/month	$45.50	$90.41	$44.91	or	98.7%
Commercial	22,561 gal/month	$273.00	$542.45	$269.45	or	98.7%
Industrial	528,207 gal/month	$6,006.00	$11,933.92	$5,927.92	or	98.7%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase		
Residential	3,212 gal/month	$106.65	$114.44	$7.79	or	7.3%
Commercial	22,561 gal/month	$509.46	$546.65	$37.19	or	7.3%
Industrial	528,207 gal/month	$11,143.19	$11,956.64	$813.45	or	7.3%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase		
Residential	3,212 gal/month	$69.24	$69.79	$0.55	or	0.8%
Commercial	22,561 gal/month	$371.82	$374.79	$2.97	or	0.8%
Industrial	528,207 gal/month	$5,985.08	$6,032.96	$47.88	or	0.8%

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Butler Area Sewer Authority Wastewater

Residential		
	Flat Rate	$45.50
32.12	0.0000	0.00
		$45.50

Rate Impact	98.7%
	$44.91
Total	$90.41

PAWC - Wastewater

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

Rate Impact	7.3%
	$7.79
Total	$114.44

PAWC - Water

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

Rate Impact	0.8%
	$0.55
Total	$69.79

Commercial		
	Rate per EDU	$45.50
225.61	0.0000	273.00
		$273.00
1 EDU = 4,000 gallons		

Rate Impact	98.7%
	$269.45
Total	$542.45

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

Rate Impact	7.3%
	$37.19
Total	$546.65

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	0.8%
	$2.97
Total	$374.79

Industrial		
	Rate per EDU	$45.50
5,282.07	0.0000	6,006.00
		$6,006.00
1 EDU = 4,000 gallons		

Rate Impact	98.7%
	$5,927.92
Total	$11,933.92

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

Rate Impact	7.3%
	$813.45
Total	$11,956.64

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	0.8%
	$47.88
Total	$6,032.96

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
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Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	$ 18,697,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)	33%
Amount of increase allocated to water through Act 11	6,170,010
Amount of increase allocated to wastewater customers	$ 12,526,990

Increase applied to Butler Area Sewer Authority Wastewater Customers	
Revenue Requirement Increase - After Act 11	$ 12,526,990
Current Butler Area Sewer Authority Wastewater revenues	12,698,000
Estimated Increase to wastewater customers	**98.7%**

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	$ 12,526,990
Current Butler Area Sewer Authority Wastewater revenues	12,698,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	159,681,891
	172,379,891
Estimated Increase to wastewater customers	**7.3%**

Amount of increase allocated to water customers:	
Revenue Requirement Increase	$ 6,170,010
PAWC Water Revenues (R-2022-3031672 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	781,722,135
Estimated Increase to Water Customers	**0.8%**

Pennsylvania American Water Company
R-2022-3031672 Summary Proof of Revenues
Act 11 Allocation

	Water Operations	Wastewater SSS General Operations	Royersford Wastewater Operations	Upper Pottsgrove Wastewater	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

Revenue Requirement Increase

Rate Base	$	231,500,000	Appendix A-11
2024 Projected Capital Investment	$	8,590,000	APA Schedule 7.11
Rate of Return %		7.10%	See Calculations
Rate of Return		17,046,000	
O&M		4,384,000	Appendix K
Taxes Other		735,000	Appendix K
Depreciation on purchase price		4,527,000	Appendix K
Depreciation on post-acquisition capital investment		193,000	[1]
Taxes		4,510,000	See Calculations
Revenue Requirement		31,395,000	
Butler Area Sewer Authority Wastewater Year-1 Revenues		12,698,000	Appendix K
Revenue Requirement Increase		18,697,000	

Pennsylvania American Water Company **OCA-III-01_Attachment 2**
Acquisition of Wastewater Assets of the Butler Area Sewer Authority
Docket No. A-2022-3037047

Summary

Revenue Requirement		
Rate Base	$	231,500,000
Pretax ROR %		9.05%
Pretax ROR		20,951,000
Plus: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Total Revenue Requirement		30,597,000
Income Tax Calculation		
Revenues	$	30,597,000
Less: O&M Expense		4,384,000
Taxes Other		735,000
Depreciation		4,527,000
Interest		4,676,000
SIT Taxable Income		16,275,000
State Income Tax Rate		8.49%
State Income Tax		1,382,000
FIT Taxable Income		14,893,000
Federal Income Tax Rate		21.00%
Federal Income Tax		3,128,000
Total Income Taxes		4,510,000
Interest		
Rate Base	$	231,500,000
Weighted Cost of Debt (1.87% + 0.15%)		2.02%
	$	4,676,000

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.
State Income Tax Rate of 8.49% in effect 1/1/2024

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

Seller's Wastewater Customer Notice - Proposed impact Calculated

Determine:

Full Cost of Service (COS)
Seller's Current Rates vs. Full Cost of Service Rates Increase % calculated based on : 100% of COS acquisition revenue deficiency after ACT 11 allocation t Year One Revenues of Acquired System

Note: For purposes of calculating rate impact for wastewater customer notices, the term "Buyer's app settlement of PAWC's most recent (2017) wastewater base rate case. This amount specifically exclude not reflected in the 2017 base rate case. This issue will be revisited by the parties after the conclusion proceeding.

Note: No notice requirement for customers in wastewater systems already acquired under Section 13 be revisited by the parties after the conclusion of the next base rate case or as part of a settlement bet o water

licable wastewater revenue" means $26,935,197, which is the revenue approved in the
s revenues from the Scranton system and any systems acquired under Section 1329 that were
of the next base rate case or as part of a settlement between PAWC and the OCA in that

29 that were not reflected in the most recent (2017) wastewater base rate case. This issue will
:ween PAWC and the OCA in that proceeding.

VERIFICATION

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

6/5/23

Date

Ashley E. Everette

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

Appendix E

PAWC Response to OCA-II-7

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority (“BASA”)

Docket No. A-2022-3037047

PAWC Responses to Set II Interrogatories

Propounded by Office of Consumer Advocate

OCA-II-7 What payment methods are currently offered to BASA customers to pay their wastewater bills, such as in-person, website, phone? Identify each payment method and associated fees or charges, if any.

Response: BASA currently offers the following payment methods to its customers:

1) by Direct Payment Plan (*i.e.,* auto-pay) at no cost to the customer;

2) by mail via check made payable to Butler Area Sewer Authority or BASA, sent to 100 Litman Road, Butler, PA 16001-3256 at no cost to the customer;

3) by credit card via an online portal operated by third-party provider, Value Payment Systems, and the associated convenience fees may vary;

4) in-person via the drive-up teller window or the customer service window located inside the Authority office at 100 Litman Road, Butler, PA 16001-3256, at no cost to the customer; and

5) via check placed in the drop-off payment box located on the left side of the drive-up teller window at the Authority office at 100 Litman Road, Butler, PA 16001-3256, at no cost to the customer.

Responsible Witness: **Duane McKee, Executive Director of Butler Area Sewer Authority**

Date: **May 1, 2023**

VERIFICATION

I, Duane McKee, the Execute Director of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Dated: May 1, 2022

Duane E McKee

Duane McKee

Appendix F

PAWC Response to OCA-III-5

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority ("BASA")

Docket No. A-2022-3037047

PAWC Responses to Set III Interrogatories

Propounded by Office of Consumer Advocate

OCA-III-5 Please refer to PAWC Statement 1, page 9. Please provide any and all calculations/worksheets showing that if the BASA system is not sold, it would need to significantly increase customer rates.

Response: There were no calculations and/or worksheets prepared related to the significant customer rate increases if the BASA system was not sold. It is realistic to assume that BASA's customer rates would have increased substantially as a result of the debt financing that would have been required to complete the projected $75,000,000 of capital improvements. The principal and interest payments for this additional debt financing would have been recovered through increased customer rates.

Responsible Witness: **Scott D. Fogelsanger, Senior Manager – Business Development**
Pennsylvania-American Water Company

Date: **June 5, 2023**

VERIFICATION

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

Scott D. Fogelsanger

Scott D. Fogelsanger, Senior Manager – Business Development
Pennsylvania-American Water Company

Dated: June 5, 2023

Appendix G

PAWC Response to OCA-I-28

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority (“BASA”)

Docket No. A-2022-3037047

PAWC Responses to Set I Interrogatories

Propounded by Office of Consumer Advocate

OCA-I-28 If the acquisition is approved, will PAWC have in-person payment options in, or reasonably proximate to, the BASA service area? If yes, please answer:

a. How many and where will they be located?

b. What fee, if any, will be required to make in-person bill payments?

Response:

a. There are currently 3 in-person payment locations at Wal-Mart stores for the existing PAWC water customers in the BASA service area located at:

400 Butler Commons, Butler, PA 16001
20245 Route 19, Cranberry Township, PA 16066
300 l-Mart Dr, Gibsonia, PA 16044

These payment locations will also be available to wastewater customers in the BASA service area following the closing of the transaction.

b. No fees are charged to customers for in-person bill payments at these locations.

Responsible Witness: **Scott D. Fogelsanger, Senior Manager – Business Development**
Pennsylvania-American Water Company

Date: **April 28, 2023**

VERIFICATION

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

Scott D. Fogelsanger

Scott D. Fogelsanger, Senior Manager – Business Development
Pennsylvania-American Water Company

Dated: April 28, 2023

Appendix H

PAWC Response to OCA-III-7

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority ("BASA")

Docket No. A-2022-3037047

PAWC Responses to Set III Interrogatories

Propounded by Office of Consumer Advocate

OCA-III-7 Please refer to PAWC Statement 1, page 12.

a. Please provide all memoranda and written agreements regarding the $3,000,000 Letter of Credit PAWC gave to BASA on October 11, 2022.

b. Will PAWC seek to recover any part of the $3,000,000 from ratepayers?

c. Will any of the funds utilized in these accounts be provided by PAWC's shareholders? If so, how much?

Response

a. Please see Exhibit C to the Asset Purchase Agreement. According to the APA and Exhibit C, the Letter of Credit ensures that PAWC will file an application with the PUC seeking approval of the acquisition within six months of completion of both appraisals by the Utility Valuation Experts. If it does not do so, Seller may exercise its right to terminate the APA and draw upon the Letter of Credit. PAWC did file the application with the PUC within six months of the completion of both appraisals, so Seller could not terminate the APA and cannot draw upon the Letter of Credit. Please see May 24, 2023, letter from Duane E. McKee, Executive Director of BASA, cancelling the Letter of Credit at **OCA-III-7_Attachment**.

b. No.

c. No.

Responsible Witness: **Scott D. Fogelsanger, Senior Manager – Business Development**
Pennsylvania-American Water Company

Date: **June 5, 2023**

BUTLER AREA SEWER AUTHORITY
100 LITMAN ROAD • BUTLER, PA 16001-3256
(724) 282-1978 • FAX (724) 282-7656
www.basapa.org

May 24, 2023

PNC Bank, N.A.
Attention: Trade Service Operations
Letter of Credit Dept., P7-PFSC-02-T
500 First Avenue, 2nd Floor
Pittsburgh, PA 15219

RE: Cancelation of Irrevocable Standby Letter of Credit Number 18136975-00-000

To whom it may concern,

As beneficiary, the Butler Area Sewer Authority is returning the enclosed letter of credit (LC) in the amount of USD $3,000.000.00, issued on October 6, 2022, with LC number 18136975-00-000 for cancelation.

If you have any questions regarding this request for cancellation, please do not hesitate to call. I can be reached at (724) 282-1978 extension 111.

Cordially,

Duane E. McKee

Duane E. McKee
Executive Director
Butler Area Sewer Authority

VERIFICATION

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

Scott D. Fogelsanger

Scott D. Fogelsanger, Senior Manager – Business Development
Pennsylvania-American Water Company

Dated: June 5, 2023

Appendix I

PAWC Response to OCA-III-13

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority (“BASA”)

Docket No. A-2022-3037047

PAWC Responses to Set III Interrogatories

Propounded by Office of Consumer Advocate

OCA-III-13 On BASA’s website www.resources4basacustomers.org, please provide all comments received though the “submit your comment” tool.

Response: *See*, **OCA-III-13 Attachment 1.**

Responsible Witness: **Duane McKee, Executive Director**
Butler Area Sewer Authority

Date: **June 9, 2023**

Submitted At	First Name	Last Name	Address	Email Address	Phone	Comments	Locale	Submission Source
2022-09-14T18:27:43.871Z	Becky	Farmer	REDACTED	REDACTED	REDACTED	I would like to receive updates.	US	https://www.resources4basacustomers.org/
2022-09-16T16:27:40.498+00:00	Mary Lee	Hart				I don't understand why we would sell our local nonprofit authority to a corporation. Instead of funds being reinvested in Butler, some would go toward executive pay, lobbyists, and dividends. I say keep it local.	US	https://www.resources4basacustomers.org/
2022-09-19T20:52:00.250+00:00	Edward	Wise				Please provide information on what will happen to the customers that have grinder pumps. Presently the cost of the grinder pump is added as a service to the bill.	US	https://www.resources4basacustomers.org/
2022-09-20T16:01:44.570+00:00	James	Day				I think all users are looking at a cost increase for the sewer treatment, regardless who owns the system. The time has came to do the upgrading of it. I think PWSA is better equipped and experienced to operate and repair the system, from a financial perspective. Until now, BASA was able to maximize the life of system at minimal cost. The BASA system was paid for by the users, and accordingly any leftover profits should be compensated as subsidized sewer rate increase credit. I don't agree with Butler City & Butler Township rolling the profits into their general funds, as it isn't truly their profits to be gained.	US	https://www.resources4basacustomers.org/
2022-09-26T14:53:24.350+00:00	Phil	Mason				Thank you for updating us regarding the proposed offer from PAWC. As a downtown business owner, I am concerned with our rates once the sale is completed. I have heard that PAWC would plan a significant rate hike once the buyout is completed and the one year rate freeze has expired. Even if they require approval from the PUC, they have the resources to convince the PUC of the necessity for such a rate hike. Furthermore, our business utilizes significantly more water for day-to-day operations. By the PAWC switching to a metered rate, I am concerned with future costs to our utility bills as a result of the acquisition. I would be happy to discuss this with anyone from the board that might know more details than what was mentioned on the mailed correspondence to the community. Thank you for your time! Phil Mason	US	https://www.resources4basacustomers.org/
2022-09-30T04:38:56.316+00:00	Donald	Noble				Our house was built in 1997, we purchased in 2020, and it is currently served with a private, residential well. This is our first house and our first experience with a well so we try to be careful not to overuse or run it dry. Our family consists of two adults and a toddler with plans for another and we also actively work to be environmentally conscious. We have implemented water conservation measures such as a high-efficiency washing machine and dishwasher, 1.6gal/flush toilets, 1.5gal/min shower heads with trickle valves, 1-to-1 reverse osmosis filtration, etc. Using the PAWC 2022 Fee Schedule for Western PA Zone 1, the utilized EDU rate is lower than the 400gal/day maximal value defined within PaDEP Regulation at 25 Pa Code: 73.17, however, the unmetered rate is still high for our family and many of our elderly neighbors all served with private wells. PAWC believes that unmetered residents are using ~3,457.99 gallons of water per month. The widow living further down our street does not use that much water. According to the EPA's Interactive Private Domestic Well Map (https://gispub.epa.gov/wellmap,) there are large tracts of the BASA service area utilizing private wells as of 2010. I would like more information as to whether metered service is treated more favorably as alluded to within the document, Application of PAWC for Acquisition of the Wastewater Assets of Pottsgrove Township, on the PUC website (https://www.puc.pa.gov/pcdocs/1693900.pdf) where there is a, "Special rate for customers who elect the metered option…". Metered customers are billed at 60% of the EDU rate while the unmetered (private wells) must pay 100%. Is it possible to meter a private well and how would we opt-in? I would also like to know whether PAWC intends to accept residual waste which includes "frac wastewater" like at their recently completed, 2015, Clarion acquisition, where a permit was applied for in 2019 - I'm an engineer, not a lawyer so please, read these and double-check me - (https://files.dep.state.pa.us/Water/Wastewater%20Management/eDMRPortalFiles/Permits/PA0023434_NPDES_PERMIT_20210811_DRAFT_V2.pdf Ss3.s.ii.1, p12.) Now, I can see how there would be potential positive outcomes possible from a PAWC acquisition such as the cited lateral replacement program but, that would be a pilot program, which could only be submitted for approval after PAWC acquires BASA - so, even if the acquisition is successful, PUC may not approve. I believe it would be important to understand the details of the program such as how long the pilot would run, limitations, targeted number of repairs per year, and if there is a maximum number of repairs defined on any timescale. Would there be a follow-up to the pilot? I do not want to seem unreasonable because I do vaguely understand the challenges the acquisition would address, emphasis on maintenance and modernization, but I don't want PAWC to purchase BASA only to see my, your, our neighbors with private wells as a source of revenue growth, disappointment from the possible promise of (often urgent) lateral repairs dependent on a much larger process and timetable, or PAWC utilizing our area as a fracking wastewater treatment facility like they have begun doing in Clarion. Apologies for the length, once I started doing math, I couldn't stop. Thank you for your attention to this matter and your time, my family appreciates it!	US	https://www.resources4basacustomers.org/
2022-09-30T13:38:26.612+00:00	Mary Lee	Hart				I trust Fred Vero. And Bob Dandoy. And Larry Christy. And Dave Zarnick. I don't trust PAWC, a for-profit corporation that exists to make money for its shareholders. It must pay taxes, executive salaries (the President and CEO of American Water earns almost $4M a year), lobbyists, shareholders, and advertisers. Two cities in Indiana sold their water utilities to Indiana American Water. Both regretted it, and tried to get the utility back. It took Ft. Wayne 13 years, and many court cases. Mooresville couldn't afford to buy their utility back. In Philadelphia, city residents own their water utility. Suburban Philadelphia residents, where the water systems are owned by corporations, pay about twice as much for water. The World Water Council looked at the 500 largest community water systems in the US and reported that the average bill for customers of private companies is 59% higher than that of public utilities. A report in Utilities Policy found that publicly run systems offer more transparency and accountability than privately run systems, and that a private company is automatically accountable to its shareholders, not its customers. The Week, a weekly newsmagazine, has an article in its current issue titled "Finding Cash in the Sewer System". The first sentence is "Your water and sewer systems are becoming a hot new investment for private companies, said Liam Denning, and there will be a price to pay". I know that our rates will skyrocket either way. But I'd rather pay to KEEP the utility than to give up local control.	US	https://www.resources4basacustomers.org/
2022-11-30T22:05:01.585+00:00	Ron	Ricci				I got a payment required letter in mail. We just moved into house in July. I honestly thought this bill was included in my water. What should I do?	US	https://www.resources4basacustomers.org/
2022-12-14T18:32:07.909+00:00	Vanessa	S.				Concerns with Butler Eagle Article. Based on the paperwork distributed October of this year customers were lead to believe that there would be a rate lock on sewage with this merger for a year. However as stated in a recent Butler Eagle article we have reason to believe that rates will have a substantial increase starting in January. As a customer we would like some clarification on this matter.	US	https://www.resources4basacustomers.org/
2023-01-03T14:15:07.881+00:00	Cory	St. Esprit				I received an invoice for $52.96 for my property at 221 S. Main Street, Butler PA 16001. Acct. ending in 891-6. This is a tenant occupied business with only 1 water meter. The tenant has been billed separately for the water. Can you confirm if this is a Sewer Charge instead of water? However the invoice came from PA American Water.	US	https://www.resources4basacustomers.org/
2023-02-27T21:31:15.584+00:00	charles J.	kreinbucher				I received a communication on 2-27-23 explaining the sale of the BASA. In a previous communication it was stated that rates would be adjusted to reflect actual water usage rather than every customer receiving the identical bill. That clause is missing from the recent communication. As a household of 2 senior citizens, this is a concern since we use far less water than a household of multiple family members who use far more water taking showers, doing laundry, flushing toilets, running dish washers, etc., etc. For the most part, what comes in the spigot goes down the sewer so as stated previously, sewer bills should be adjusted to reflect water usage. Hopefully this will occur. I look forward to your response. Thank-you.	US	https://www.resources4basacustomers.org/
2023-03-08T04:08:27.591+00:00	Barbara	Vorel				Why r u increasing rates by $2.50(a month I must assume) since u r selling. U did not explain that in your letter. So, why??? Letter reads "low for years". Explain why please. Raising rates now seems suspicious. Is the current board benefiting from this raise? Why not let the new owners raise rates within reason when they take over? Give the people the real reason, not because the board did not make incremental raises throughout the years???	US	https://www.resources4basacustomers.org/
2023-03-20T19:48:21.506+00:00	Mark	McClymonds				Please provide details on how I can calculate my sewer bill once PAW takes over. I understand the change from flat fee to user rate based on water usage. Please provide the calculation. Thank you.	US	https://www.resources4basacustomers.org/

VERIFICATION

I, Duane McKee, the Execute Director of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Duane E McKee

Duane McKee

Dated: June 7, 2023

Appendix J

PAWC Response to OCA-III-14

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Assets of Butler Area Sewer Authority (“BASA”)

Docket No. A-2022-3037047

PAWC Responses to Set III Interrogatories

Propounded by Office of Consumer Advocate

OCA-III-14 Were any written records kept for the September open houses referred to in City of Butler Statement 1, page 6? If so, please provide them.

Response: *See,* **OCA-III-14, Attachment 1** for all written comments.

Responsible Witness: **Duane McKee, Executive Director**
Butler Area Sewer Authority

Date: **June 9, 2023**

we should not sell our sewer service to a monopoly led by foreign investors. They get the water resource for no cost to them.

basa

Name: ALBERT BUZAK

Phone: 724 234 5070

Email Address:

Address: 316 N. MONROE St

Comment: Currently Penn Water requested to the P.U.C for 1.1 billon dollar increase. Raising water rates.
The money to purchase BASA would be another increase.
Penn American Water Co. is owned by a German Company this sale will give a monopoly to a foreign co.
Also the PA Constitution guarantees natural resources to all citizens of PA. Water is a must for life →

Gave interview to Radio

basa

Name: Michael Braunstein

Phone: 440-610-4264

Email Address: mrstein20@gmail.com

Address: 103 Arlington Ave Butler Pa 16001

Comment:

How old are the sewer pipes on My end of the Street.

I am for the Sale -

American Water has always bee good To us as our source of water -

basa

Name: John Kramer

Phone: 412 292 9590

Email Address: Jakramer4@earthlink.net

Address: 605 E Pearl st.

Comment:

We do not approve. Just because Butler will pay off a Debt only to stick property owners with a higher Bill!

basa

Name: Don Pringle via Kurt Phone:

Email Address: Address:

Comment:

Will Twp/City notify everyone when PUC hearings are — far down the road? YES

Morning Session - City

basa

Name: Gary Schniedecki Phone: 234-283-[illegible]

Email Address: gasman101@hotmail.com Address: 193 Morningside Dr 16002

Comment:

Please do not treat this income as a windfall. Spend it judiciously and earmark a major percentage of it in a irrevocable trust to be used for rainy day situations.

August 30, 2022

Paul F. Sybert, Chairman
Duane E. McKee, Executive Director
BASA
100 Litman Road
Butler, PA 16001

Dear Mr. Sybert and Mr. McKee:

Butler Memorial Hospital and entities of Butler Health System incur sewage costs of approximately $400,000/year. I am concerned that through the proposed sale of BASA to PA American Water, our costs would inevitably increase significantly. From PAWC itself, "After the acquisition, rates would likely increase…until they reach the statewide rate."

Butler Health System has suffered serious financial stress from the ongoing COVID-19 pandemic and the inflationary market in which we find ourselves. BHS cannot simply increase its prices in response. The vast majority of payments for healthcare services are government-controlled and are not negotiable. Every increase in costs is detrimental to our finances.

In addition, the loss of local control that our community would lose through the sale of BASA to PA American Water, which is of great concern, it seems quite clear that our organization would suffer yet another financial blow.

I completely understand the pressure that you are under as a Board and the desire for cash infusion into local municipalities. However, please seriously consider the ramifications to local businesses and employers, with Butler Health System being the largest.

Thank you for your consideration. Please do not hesitate to contact me.

Sincerely,

Ken DeFurio

Ken DeFurio
President & CEO

7-16-22

Dear B.A.S.A.

I'm 76 years old and live alone in my home. I am on Social Security and at the end of my Budget now. How can you increase the sewer rates again?

Andrew Dalga
106 Ifft Lane
Butler, Pa. 16001
724-285-3968

BASA – PA American Water Company Public Forum

Thursday 9/29/2022 @ 10:00AM

I'd like to thank everyone for the opportunity to meet and discuss the potential sale of BASA to PAWC.

Having worked in the pipeline rehabilitation industry for over 30 years, I understand the need to fix, repair, replace, and rehabilitate an aging collection system and WWTP. Whether the repairs are made short term or long term, they need to be done.

I'm not opposed to the sale of the sewer authority; however, I do have concerns about how quickly sewer fees could change and the impact they would have on the rate payers.

I live in Center Twp., and I've calculated a possible rate change from flat fee to a usage fee based on water consumption. I would be paying at least 2.54 times the amount I currently pay. That's a big jump! It would be beneficial to the rate payers if the rate increases could be implemented slowly, say over a 5-year period, so that the rate payers could slowly work into the new usage fees. Adjust the wastewater tariff, each year, and provide the projections so that a rate payer can begin budgeting from the beginning and know what the future years will additionally cost.

One other item I have concern about is that PAWC will have a monopoly on the local area. When water rates goes up so will sewer rates.

As for the proceeds from the sale, it would be nice to see all the communities that contribute flow to the system, receive a fair share percentage based on number of rate payers per community. Those that have paid, now get something back, and then figure out how that money can be applied as a credit to each rate payer, possibly over a period to help offset the changing rate fee structure. So, the money doesn't go back to each community, but is escrowed and used by PAWC, over a period of time to offset rate fees.

There needs to be a fair and equitable plan, over a period of time, to move the rate payers from the current flat rate to the proposed, usage rate. It's my opinion that those associated with BASA decision making are and should be responsible for protecting the interests for the BASA rate payers if the sale of the BASA system ultimately takes place.

Thank you very much.

Mark C. McClymonds

206 Willow Run Dr.

Butler, PA 16001

724-282-6995

Board of Supervisors:
Ronald Flatt, Chairman
Philip Wulff, Vice Chairman
Edward Latuska, Supervisor
Robert Sloan, Supervisor
Alan Smallwood, Supervisor

Anthony Amendolea, Secretary/Treasurer
Michael Gallagher, Solicitor
David Heath, Engineer
John Nath, Building Code Official
Randall Brown, Zoning Officer

December 16, 2021

DEC 20 2021

BASA Members of the Board
100 Littman Road
Butler, PA 16001-3256

RE: Proposed Sale of BASA to PAWC

Dear Board Members:

The undersigned is the Chairman of the Board of Supervisors of Center Township. Although my term expires in January of 2022, and I did not seek reelection for a fourth term, I am writing this letter at the request and direction of my fellow Supervisors to voice their (and my) concerns about the proposed sale of BASA to Pennsylvania American Water Company.

First and foremost, is that Center Township has not, and presumably will not, be given a "chair at the table" as negotiations take place. Past practice by the City of Butler and Butler Township has borne this out. Despite the numerous customers who utilize and fund BASA, Center Township has been viewed in the past as the "orphan child" of the BASA arrangement, lacking representation.

If the sale is to be among the last actions of the BASA Board, then it is imperative that the Board take the necessary action to break free of the past and allow Center Township to be involved with the process which will substantially impact its residents , including capital improvements, growth and expansion. Indeed, the February 20, 1974 Agreement mandates such input.

The Township of Center does not intend to usurp or block the sale; it does not have the voting power to do so. But what it does seek, is to help ensure that PAWC (or any other purchaser for that matter), looks to the future of our communities so that the sale contemplates more than just paying a block of cash for a stream of revenue; that the agreement contractually addresses upkeep, modernization and growth, far beyond today.

It is my hope, and the hope of all of my fellow Board Members, that you will open up a "place at the table" for Center Township. I trust that the BASA Board will promptly respond to this letter written on behalf of the Center Township Board of Supervisors.

Very truly yours,

Ronald E. Flatt

Ronald E. Flatt, Chairman

C:\Center Township\Letters\2021\basa sale.doc

150 Henricks Road, Butler, PA 16001-8472 (724) 282-7805 Fax: (724) 282-6550 E-Mail: centwp@aol.com
www.centertownship.net

00006042021411131110090000114009

BUTLER AREA SEWER AUTHORITY

Don't Sell!

100 LITMAN ROAD, BUTLER, PA 16001-3256

Why everything in secret?

CT should have a voice! Turk 1821

PRESORTED
FIRST CLASS MAIL
U.S. POSTAGE PAID
BUTLER, PA
PERMIT NO. 140

PAYMENTS MUST BE RECEIVED BY DUE DATE TO AVOID PENALTY

RETURN TOP STUB WITH PAYMENT - DO NOT STAPLE

TEMP-RETURN SERVICE REQUESTED

APRIL, MAY, JUNE 2022

RATE INC. $5/MO. EFFECTIVE 7/1 UNITS 1.0

☐ CHECK BOX AND LIST NEW ADDRESS ON BACK

FOR [redacted]

ACCT# [redacted] BILL# 11311100 BILL YEAR 2021

ACCOUNT NAME [redacted]

BILL DATE 07/06/2022

DUE DATE 08/09/2022

PAST DUE	CURRENT	TOTAL DUE	AFTER DUE DATE
.00	114.00	114.00	125.40

VERIFICATION

I, Duane McKee, the Execute Director of the Butler Area Sewer Authority, hereby verify that the statements of fact made in the foregoing document are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Duane McKee

Dated: June 7, 2023

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

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: July 12, 2023

Signature: Morgan N. DeAngelo
Morgan N. DeAngelo

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

Surrebuttal Testimony
of
Morgan N. DeAngelo

on Behalf of
the Pennsylvania Office of Consumer Advocate

July 21, 2023

Table of Contents

<u>Introduction</u>

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

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

Q. Have you previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on July 12, 2023, in OCA Statement 1.

Q. What is the purpose of your surrebuttal testimony?

A. In my surrebuttal testimony, I will comment on the rebuttal testimony submitted by Pennsylvania-American Water Company (PAWC or Company) witnesses Scott D. Fogelsanger (PAWC Statement 1-R), Daniel J. Hufton (PAWC Statement 2-R), Ashley E. Everette (PAWC Statement 3-R) and Butler Area Sewer Authority (BASA) witness Paul F. Sybert (BASA Statement 2-R), which respond to issues discussed in my direct testimony. I will also address comments provided by customers of BASA and PAWC at the public input hearings on July 18-19, 2023.

Q. Did any of the rebuttal testimony you reviewed cause you to change your positions and recommendations as stated in your direct testimony?

A. No, with one exception. I updated my recommendation regarding free service in response to a Commission Order that was entered after I submitted my direct testimony. To the extent I do not address a particular statement or position raised in the rebuttal testimonies filed in this case, it does not constitute my agreement with the same.

Summary of Direct Testimony

Q. Please summarize your direct testimony.

A. In my direct testimony, I provided an analysis of whether the proposed acquisition of the BASA's wastewater system assets, if approved by the Pennsylvania Public Utility Commission (Commission), would provide substantial public benefits. I do not believe this transaction would provide such benefits, and neither PAWC nor BASA have demonstrated affirmative public benefits that would outweigh the known harms.

Response to PAWC Rebuttal Testimony

PAWC Statement 1-R, Scott D. Fogelsanger

Q. On page 10 of his direct testimony, Mr. Fogelsanger argued that a system need not be a small or "troubled" system for Section 1329 to be used in the acquisition. Please respond.

A. Mr. Fogelsanger misconstrued my testimony in regard to the system not being small or troubled. This transaction will not meaningfully change the quality of service received by the acquired customers. Therefore, the mere fact of a transfer from BASA to PAWC is not an affirmative benefit to be considered in the weighing of the harms and benefits in this case. It is effectively the maintenance of the status quo.

Q. Please summarize and respond to Mr. Fogelsanger's argument that rate increases due to public utility ownership are offset by the benefit of increasing tax revenues.

A. Mr. Fogelsanger makes a broad statement that "ratepayers and other citizens will benefit from greater tax revenues to federal, state and local governments, which (it is hoped) will mitigate future tax increases and fund projects and programs that promote the public good". (PAWC Statement 1-R, p. 10, ln. 20-23). The problem with this view is that it uses a speculative and unquantifiable benefit for some portion of the BASA service territory, but this must be weighed against the known, quantifiable and very large rate increases that will occur for at least all of the BASA customers and, more likely, all PAWC customers. The facts before the Commission are how much utility rates will increase. That is a guarantee. PAWC calculates that BASA bills would increase by approximately 94.4% if their rates are set to recover the full amount of the revenue deficiency. (PAWC Exhibit AEE-1). If some of the revenue deficiency is recovered from existing PAWC wastewater and/or water customers, their rates will increase. There is no guarantee that ratepayers and other citizens will benefit from mitigation of future tax increases and funding of projects and programs that promote that public good. Furthermore, it is not apparent how a PAWC wastewater customer in a different service territory would benefit from "hoped for" lesser future tax increases in the BASA service territory.

Q. On page 11 of his direct testimony, Mr. Fogelsanger suggested that BASA is providing poor service as a result of keeping rates low and therefore not being able to invest in reasonable and prudent maintenance and upkeep. Please respond.

A. In response to OCA-IV-2, BASA provided Attachment 1, BASA 2019 CAP Plan, Pump Station Sanitary Sewer Overflows, First Quarter 2023 Progress Report. In summary, the report shows the corrective actions completed, the corrective actions in progress and the corrective actions to be taken. Two corrective actions are in progress, one with a deadline of August 30, 2023 and the second with a deadline of December 31, 2024. As stated in my direct testimony, while the BASA system may have previous compliance issues, there is no evidence to support BASA is not complying with the Corrective Action Plan (CAP) deadlines set forth by the Department of Environmental Protection (DEP) and it appears that BASA is currently providing adequate, efficient, safe and reasonable service to customers. Additionally, BASA witness Sybert, stated "The Authority has not mismanaged the System" (BASA Statement 2-R, p. 5, ln. 1). There is no evidence presented that quantifies how much BASA would need to increase rates to fund any necessary capital improvements if the acquisition did not happen. As discussed in my direct testimony, there is evidence showing that it costs more for PAWC to make the same capital investment than a municipally-owned utility due to Pennsylvania sales taxes and state and federal income taxes, return on investment and use of equity financing.

Q. Mr. Fogelsanger stated, "If the Transaction is approved, the Commission will oversee the rates charged to the System customers to ensure they are just and reasonable". (PAWC Statement 1-R, p. 11-12, ln. 23, 1). Please respond.

A. If the transaction is approved, Mr. Fogelsanger is correct that the Commission will oversee the rates charged to BASA customers in future rate cases. However, the Commission has no ability to adjust the ratemaking rate base after it is set in this proceeding. Section 1329 provides that it will be included in the buyer's revenue requirement. The only question is how the revenue requirement will be allocated among customers. Thus, if approved at the purchase price, there *will be* a revenue deficiency of $17,895,000 million that must be paid to cover the ratemaking rate base established in this case.

Q. On page 13 of his rebuttal testimony, Mr. Fogelsanger reiterated examples of economies of scale that he provided in his direct testimony. Please respond.

A. Even with the claimed economies of scale, PAWC calculates an approximate 94.4% increase for BASA customers, while existing PAWC wastewater customers are at risk of a potential 7.0% increase and existing PAWC water customers are at risk for a potential 0.8% increase. This includes customers that have already had large increases due to their systems being acquired in a Section 1329 case. There were a handful of customers from other systems that came forward to testify at the public input hearings in regard to their concerns of increasing rates, which I will discuss below. There is no evidence to support Mr. Fogelsanger's claims that economies of scale will help lessen future rate increases. Rather, the evidence is that the pending and future Section 1329 acquisitions will continue to increase revenue deficiencies that put upward pressure on rates.

Q. On page 14 of his rebuttal testimony, Mr. Fogelsanger reiterated examples of claimed benefits of the Transaction. Please respond.

A. The benefits Mr. Fogelsanger identifies, if realized, will benefit Butler City and Township, but not customers. For example, one of the claimed benefits is that the balance of the sale proceeds will be paid to the City of Butler and the Township of Butler, to be used for public purposes, benefiting all citizens of the BASA area. (PAWC Statement 1-R, p. 14, ln. 17-19). The financial windfall to the City and the Township is one consideration in determining whether this transaction provides an affirmative benefit. Another consideration is the harm to the customers who will pay for that windfall. On the whole, there is no substantial affirmative benefit to the public.

Q. On page 15 of his rebuttal testimony, Mr. Fogelsanger addressed examples of claimed benefits that Mr. Hufton described in his direct testimony. Please respond.

A. To name a few, the examples of benefits claimed by Mr. Hufton include PAWC's service interruption history, cyber and physical security, employee safety, customer education, etc. I am not suggesting that PAWC is not fit and does not comply with regulatory requirements. PAWC is a fit, certificated public utility. There is no evidence about BASA having problems with service interruptions, cyber or physical security, response to emergencies or utility imposters. There are benefits to Commission jurisdiction including the protections of the Public Utility Code regarding dispute resolution terminations. The issue is whether those protections outweigh the harms of the proposed transaction and here, they do not, for the reasons that I've discussed here and in my direct testimony at OCA Statement 1.

PAWC Statement 2-R, Daniel J. Hufton

Q. In his rebuttal testimony, Mr. Hufton argued that you are underestimating the magnitude of the asset renewal challenge that lies ahead of BASA, given their current level of investment into the System (PAWC Statement 2-R, p. 3, ln. 12-13). Please respond.

A. As stated in my direct testimony and above, it would cost BASA less to make the same investment. Rates under BASA ownership would increase to support the increased investment, but there is no showing that it would cost BASA as much to make the same improvements, nor would the BASA rates increase in the future to subsidize the revenue deficiencies generated by PAWC's other (pending and future) Section 1329 acquisitions.

Q. On pages 4-5 of his rebuttal testimony, Mr. Hufton indicated I do not consider the environmental impacts of sanitary sewer overflows (SSO). Please respond.

A. I agree that necessary improvements should be made in the BASA system to prevent SSOs. However, the OCA disagrees that only PAWC can make those improvements. As stated in my direct testimony, there is no information that indicates BASA is not able to hire additional employees or pursue other options for operation and maintenance of its system. Furthermore, the OCA disagrees that the improvements can only be made if the system is purchased for $139,700,029 more than its depreciated original cost.

Q. Please summarize Mr. Hufton's rebuttal testimony in regard to customer service calls.

A. Mr. Hufton argued that service from PAWC offers an advantage because "customers can reach a live person 24/7/365 at PAWC to help them out in the event of an emergency situation, as opposed to BASA where they have to leave a voicemail message and wait an undefined period for a return call". (PAWC Statement 2-R, p. 7, ln. 11-14).

Q. Do you have any comments?

A. Yes. Mr. Hufton acknowledges that BASA has a process for responding to emergency calls. Based on my review of information provided in the filing, testimony and discovery, I am not aware of any complaints regarding BASA's current process.

Q. On pages 7-8 of his rebuttal testimony, Mr. Hufton argued you didn't recognize advantages over current payment options. Please respond.

A. I did note the claimed advantages on page 20 of my direct testimony, OCA Statement 1, and factored them into my consideration. However, these and the other minor benefits Mr. Hufton discussed in his direct and rebuttal testimonies do not outweigh the rate impact. Had PAWC and BASA negotiated a purchase price that had a more moderate impact on rates, the result might be different. At this price point, the difference in customer service and bill payment options are not enough to provide substantial affirmative benefits. It is simply not relevant whether people have a variety of options to pay their bills if they cannot afford to pay them at all because of the rate increase needed to support the BASA system under PAWC ownership.

Q. On page 8 of his rebuttal testimony, Mr. Hufton accepted your recommendation that if the transaction is approved, PAWC should provide the same information regarding its low-income program in bills sent to BASA customers within 90 days of closing. Please respond.

A. I appreciate that PAWC accepts my recommendation. Enrollment in the low-income program will benefit some BASA customers. If approved, this will be useful for low-income households. As I stated in my direct testimony, PAWC's bill discount program is limited to customers at or below 150% of the Federal Poverty Income Guidelines (FPIG). Therefore, the bill discount is not likely to offset the projected rate increase.

WASTEWATER SERVICE ASSISTANCE

MONTHLY WASTEWATER DISCOUNT			
	TIER 1	TIER 2	TIER 3
Discount on total wastewater charges	80% discount	50% discount	30% discount
Savings per month for the average residential customer using 3,212 gallons*	$88.18 per month	$65.09 per month	$42.00 per month

[1]

[1] https://www.amwater.com/paaw/customer-service-billing/customer-assistance-programs/

Also, the bill discount program does not help customers who are above 150% of FPIG, which is why I also recommend that PAWC provide a contribution to its hardship fund, grants from which are available to more customers.

PAWC Statement 3-R, Ashley E. Everette

Q. In her rebuttal testimony, Ms. Everette argued your claim made in your direct testimony that if PAWC files a base rate case with new rates effective before the end of this one-year rate freeze, the entire revenue deficiency associated with the BASA acquisition would be paid by existing wastewater customers and, possibly, by existing PAWC water customers. Please respond.

A. It is not clear from Ms. Everette's testimony whether PAWC is committing that it "will" calculate its proof of revenues as if the increase to BASA revenues were not delayed or if PAWC only "anticipates" that it will do so. Thus, unless that is a condition of approval of the transaction then, consistent with my direct testimony, the entire revenue deficiency associated with the BASA acquisition would be paid by existing wastewater customers and, possibly, by existing PAWC water customers.

Q. On page 4 of her rebuttal testimony, Ms. Everette argued that the rate freeze is not a rate stabilization plan, and that the APA does not include a rate stabilization plan. Please respond.

A. The OCA disagrees with this analysis because the plain language of Section 1329 states otherwise. PAWC has not included a proposed tariff in this Application filing that contains a rate freeze. It has included an APA that contractually obligates PAWC to freeze rates for at least one year after closing at $45.50 per EDU. (PAWC Statement 1, p. 10, ln. 10-11). If PAWC files a base rate case with new rates effective before the end of the one-year rate freeze, the rate freeze provision has the potential to hold rates constant after its next base rate case. OCA counsel will address the legal arguments in its briefs.

Q. Ms. Everette indicated that you "have concern" with PAWC's DSIC proposal, although your recommendation appears to be consistent with the APA and her testimony. Please comment.

A. My particular concern was the timing for when the DSIC would be applied. PAWC's commitment to apply the DSIC to BASA customers in the first quarterly DSIC filing made after the acquisition addresses my concern. (PAWC Statement 3-R, p. 5, ln. 5-6).

Q. In her rebuttal testimony, Ms. Everette discusses your objection to PAWC's proposal to provide free service to the VA Hospital indefinitely. Please respond.

A. Since submitting my direct testimony, the Commission entered an Order in Docket No. A-2022-3034143. Counsel for OCA will address the legal arguments regarding the impact of that Order. I observe that that Commission emphasized the temporary character of rates and also referenced prior Section 1329 cases, like Cheltenham, where rates were moved toward cost of service in the buyer's first base rate case including the Cheltenham system assets. To the extent that the VA Medical Center does not cover its cost of service, other PAWC ratepayers are at risk to subsidize the cost of serving the VA Medical Center in base rates. I recommend that, if approved, the Commission should condition approval of the application on the requirement that free service is temporary until rates are set in the next base rate case. To provide due process and ensure the opportunity to set cost-based rates for the VA Medical Center in that proceeding, PAWC should be required to give the VA Medical Center notice in the base rate case that its rates will increase to the level proposed for other customers in its class.

Q. On page 8 of her rebuttal testimony, Ms. Everette says that PAWC "typically" provides certain support about transaction and closing costs when it requests recovery in a base rate case and wants the OCA to ask discovery in that case rather than be required to provide more information with its filing. Please respond.

A. Saying that PAWC "typically" provides certain data to support its claim is not the same as a commitment to do so. As discussed in my direct testimony, Section 1329 does not allow transaction and closing costs incurred by the selling utility to be included in the acquiring utility's ratemaking rate base and PAWC should not be permitted to claim any transaction and closing costs incurred by BASA. I continue to recommend that PAWC be required to separately identify outside legal fees used in transaction/closing in its next base rate case to help ensure that improper costs are not included in PAWC's claim.

Q. On pages 10-11 of her rebuttal testimony, Ms. Everette disagrees with your recommendation that PAWC's customer notice should include the projected capital investment in its calculation of the annual revenue deficiency. Please respond.

A. My rationale for recommending that PAWC include the cost of post-acquisition improvements is to make the noticed rate impact more realistic. PAWC has committed to invest $75 million in the BASA system during the first five years of ownership. Ms. Everette argues that the Company is not seeking approval, in this proceeding, of the cost of future, post-acquisition investments. This is true but misses the point. Consumers and the public do not care about the sort of technicalities that Ms. Everette relies on in making this point. They care about straight answers to how much this transaction will cost them. That is the purpose of the notice requirement. Consumers deserve to know what commitments PAWC is making to raise their rates. Here, PAWC is asking the

Commission, in this proceeding, to approve a contract that contains PAWC's commitment to invest $75 million in the system and a detailed breakdown of the specific projects, ratemaking accounts, and identification whether the costs may be DSIC-eligible. Application, App. A-24-a, Section 7.11. ("Required Capital Investment") and Schedule 7.11 ("Capital Projects"). The calculation of rate impact is not a request for pre-approval of rates, it is based on projections. The projected capital investment should be included. As discussed in my direct testimony, for BASA customers, PAWC calculates the projected rate impact to be 98.7% when its Year 1 capital investment obligation is included, compared to 94.4% when it is not. It is not reasonable for PAWC, on the one hand, to say that the planned $75 million investment is a benefit of the transaction[2] but, on the other hand, not include that investment when it calculates the rate impact.

Q. Ms. Everette also objects to your recommendation that the customer notice include a "range of usage" for the bill impacts, indicating the Company uses a methodology that was agreed-to-by multiple parties, including the OCA. (PAWC Statement 3-R, p. 10, ln. 19-20). Please respond.

A. Yes, the OCA previously agreed to the form and calculation that PAWC used for the BASA customer notice, in the Steelton acquisition. PAWC has filed 9 Section 1329 cases since then. We have heard from customers in those cases (and at the public input hearings in this case), who use less and more than the "average" gallons per month. Based on that gained knowledge, we are recommending an improvement to make the notices more

[2] PAWC lists the $75 million as a benefit repeatedly, for example, in PAWC Statement 1 at 8, ln. 15-19 and BASA Statement 2R at 5, ln. 8-12.

realistic and accurate. Again, the purpose of the notice requirement is to present accurate information to consumers that paints a realistic picture of the known and quantifiable rate impacts. PAWC should welcome this transparency.

Q. On pages 12-13 of her testimony, Ms. Everette disagreed with your recommendation that PAWC should be required to make an annual contribution of $500,000 to the hardship fund for five years following closing. She indicated the Company currently voluntarily contributes $750,000 annually to its hardship fund and the Commission should not require a charitable donation as a condition for approval of an acquisition. Please respond.

A The OCA recommended a $500,000 contribution in this case due to the magnitude of the revenue deficiency and rate impact the proposed transaction would cause. OCA counsel will address the legal arguments regarding the contribution in its briefs.

Response to BASA Rebuttal Testimony

BASA Statement 2-R, Paul F. Sybert

Q. Does Mr. Sybert address BASA's ability to upgrade and maintain the system in response to your testimony that harms of this transaction outweigh the harms?

A. Yes. On page 9 on his rebuttal testimony, Mr. Sybert stated "BASA lacks the necessary skillset, expertise, and project experience to complete the large scale, complex projects that are needed to bring the wastewater system into compliance". (BASA Statement 2-R, p. 9, ln. 9-11).

Q. Please respond.

A. In response to OCA-IV-2, BASA provided Attachment 1, BASA 2019 CAP Plan, Pump Station Sanitary Sewer Overflows, First Quarter 2023 Progress Report. In summary, the report shows the corrective actions completed, the corrective actions in progress and the corrective actions to be taken. Two corrective actions are in progress, one with a deadline of August 30, 2023 and the second with a deadline of December 31, 2024. As stated in my direct testimony and above, there is no evidence to support BASA is not complying with the CAP deadlines set forth by the DEP or that the current service being provided by BASA is not reasonable, safe or adequate. I also reiterate that there is no information that indicates BASA is not able to hire additional employees or pursue other options for operation and maintenance of its system.

Q. Please respond to Mr. Sybert's rebuttal testimony in regard to the potential rate increase.

A. On page 9 of his rebuttal testimony, Mr. Sybert stated "Under the Authority's continued ownership, the Authority anticipated an abrupt, significant rate increase to our customers to help fund the projects without any viable low-income assistance programs available. Thus, regardless of ownership, it is clear that rate increases for our customers are inevitable due to the capital improvements needed to improve BASA's aging wastewater system". (BASA Statement 2-R, p. 9, ln. 11-15). With the proposed transaction, BASA bills are anticipated to increase by approximately 94.4%. (Exhibit AEE-1). Neither PAWC nor BASA have provided calculations showing what the rate impact would be if the sale did not happen. Based on available information, additional investment by BASA would require rate increases but not as much as rates would increase under PAWC ownership to recover the revenue deficiency for the associated capital investment under the terms of the proposed transaction.

Q. In the above response, you quoted Mr. Sybert saying, "the Authority anticipated an abrupt, significant rate increase to our customers to help fund the projects without any viable low-income assistance program available". Do you have any additional comments?

A. Yes. While PAWC may have a low-income program, not all of its eligible wastewater customers are enrolled in its low-income programs. As such, it is not reasonable to expect that all eligible BASA low-income customers will be enrolled. Meanwhile, with rates projected to drastically increase, PAWC's low-income discount, discussed above, does not come close to offsetting that rate increase.

Q. Does BASA have a low-income program?

A. No. It is not apparent why BASA could not establish a low-income program. Regardless, having a low-income program does not make up for a potential 94.4% increase in rates.

Q. On pages 9-10 of his direct testimony, Mr. Sybert argued that BASA not being "small" nor "troubled" is not a basis to deny the transaction. Please respond.

A. As stated above in my response to Mr. Fogelsanger's testimony, Mr. Sybert misconstrued my testimony in regard to the system not being small or troubled. The point is that the transaction will not meaningfully change the quality of service received by the acquired customers. Therefore, in this proceeding, this is not a benefit to be considered in the weighing of the harms and benefits.

<u>Concerns Expressed at Public Input Hearings</u>

Q. Did you listen to the Public Input Hearings on July 18-19, 2023?

A. Yes, I did. Nearly 25 individuals in total, from the public, testified at both public input hearings, many of whom were concerned the sale of the system would not provide substantial benefits. While there were a handful of people who testified in support of the sale, a significant number of customers discussed harms that would occur should PAWC acquire BASA's system. A summary of some of the testimonies against the sale is discussed below. At the time this testimony was prepared, the OCA had not received the transcripts and therefore I am not able to cite to it.

Q. Please further address some of the concerns brought forth by current BASA wastewater customers.

A. Current BASA customers came forward expressing concerns about the sale of the sewer system. John Ellison testified the sale should be turned down, that senior citizens and low-income customers are going to take a hit. He claimed when he first joined the system, bills used to be $6 a quarter and now they are going to be $12 a day. He questioned how they could come up with $231 million when the system is only appraised at $90 million. Mr. Ellison has been a customer for 55 years and the increase is too much.

Tom Hurley is a customer of both PAWC and BASA. He testified to not allow the increase PAWC is requesting. It wasn't until the public input hearing that he realized how much of the state was experiencing this.

Dennis Crouse is a resident and a business owner in the BASA service area. He testified as a homeowner with a large garden and swimming pool, he cannot complain about the sewer or water rates under BASA. He expressed his concern about sewer rates skyrocketing at his laundromat business with a usage-based system.

Willie Adams is a customer of both BASA and PAWC. He is opposed to the sale as it will lead to unreasonably high prices for ratepayers. He testified he doesn't have any complaints with BASA's service and that BASA is capable of doing needed updates and could apply for grants to do so. He also testified that local ratepayers would benefit from maintained local control.

Donna Schafer-Pringle is a customer of BASA and PAWC. She testified she is concerned about the proposed increase indicated this is just the start of it because PAWC can continually ask the PUC for increases. She stated only two townships stand to profit from the sale and the others are being left out of profits, but stand to suffer from the harms.

Donald Pringle testified he has been a BASA customer since he was a young child, remembering when the sewer system came through to Butler Township and it was mandatory to tap in. He asked if the sale is good for the public and if it is legal. He said the sale will hurt the elderly, families, cause inflation and have no benefit to any subscribers, but especially, Summit and Center Township residents. The monopoly does not create a fair competitive nature for a for-profit entity. He believes that public officials who support the sale are putting an undue burden on their communities forever. There is no going back if the sale goes through.

Q. Did any current PAWC customers, who were not BASA sewer customers, express concern at the Public Input Hearings on July 18-19, 2023?

A. Numerous PAWC customers from outside the BASA system came forward at the hearings. Many of these customers were acquired through PAWC's acquisition of Exeter Township under Section 1329.

Kathleen Schwartz testified that since the acquisition, her bills have gone up astronomically, nearly 170%. She indicated PAWC's billing cycles are 28 days, and some are 30 days making it hard to budget. She is concerned if the sale goes through there is going to be an additional 7% increase. Her bill is more than her gas and electric bill combined and will probably have to move out of the township because she is not eligible for a discount, and she cannot afford the water bills and it is not sustainable.

Brandon Elinich testified that his bill used to be $80 per month and most recently was $175. He is an over the road truck driver and only his wife is at home. He understands things have to increase over time, but the rates will wreck communities which is what is currently happening to Exeter Township. People in his neighborhood cannot afford a $300 bill and the acquisition should be rejected.

Sherry Vazquez is a customer of PAWC who lives alone and is on a budget. She's been in her home for 30 years and her bills were never over $100. Now her bills are up to $375. She questioned how anyone is expected to pay that bill. She also testified the billing cycle is inconsistent and she cannot afford to live that way.

Michel Knoll is a resident of Exeter Township and has lived at the same address for 25 years. He testified to help his neighbors and the residents of Exeter Township find solutions for extremely high-water rates and to express the seriousness of this impending sale and the long term impacts it will have.

Nicole Zancoeur has been an Exeter Township resident since 2014 and when she first moved her bill was around $90 per month. Since PAWC took over she said her bill is around $300 per month. She is calling to urge residents of Butler and the ALJ to consider and avoid allowing this sale to PAWC.

Kendra Robinson wanted to testify so other people could have notice about how prices may increase. She knows people who have left Exeter Township because they could no longer afford the water bill, and if it goes up more they might have to do the same thing. She testified that the bills are a financial hardship.

Q. Did anyone testify who was not a BASA or PAWC customer?

A. Yes. There were customers that are part of PAWC's pending Towamencin acquisition. These customers are concerned with the impact of the BASA sale and are against it.

Martin Cohen testified that there is a magnitude of hardship that is put on consumers to sustain life. He argued that new acquisitions are paid by current customers and hopes there is data for the cost of burden on new and existing customers. This sale will cost 3x the annual rate and it should be denied.

Tina Gallagher is from Towamencin and is concerned about higher costs due to acquisitions. The township supervisor has stated Towamencin Township is not financially distressed, but she believes the residents may become financially distressed due to the proposed sale to PAWC.

Vanessa Gaynor is a resident of Towamencin and aware of the acquisition of Towamencin as well. She is worried they will also be paying for the BASA acquisition if both acquisitions go through. She feels like this is not in the public interest and urges the ALJ to deny the acquisition.

Kofi Osei is a resident of Towamencin and testified all Section 1329s should be denied including this one. He stated that if we assume PAWC does all $75 million in planned improvements to the BASA system, PAWC ratepayers are still left with millions per year in harms.

Conclusion

Q. Please summarize your surrebuttal testimony.

A. For the reasons discussed in my surrebuttal testimony, in addition to my direct testimony, I do not believe sufficient affirmative public benefits as a result of the proposed transaction have been demonstrated. The Commission should consider these specific facts when considering the issues raised by the OCA and other parties in this proceeding.

Q. Did PAWC agree to any of your recommendations?

A. Yes. My understanding is that PAWC agreed to recommendation numbers 1 (cost of service study), 11 (CAP enrollment) and 12 (Welcome Letter), listed below. Also, it appears that PAWC has no objection to recommendation number 6 (DSIC timing). My recommendation number 7 (regarding IPP fees) is consistent with PAWC's request. Based on my review, I do not believe that PAWC made any objection in rebuttal testimony to my recommendation number 10 (AFUDC and Deferred Depreciation).

Q. Did you make any changes to your recommendations?

A. Yes. I made a revision to recommendation number 8 (VA Hospital), listed below.

Q. Please summarize your recommendations including any changes you made in this surrebuttal.

A. My conclusion remains that the Commission should deny this application as it does not provide an overall affirmative public benefit. The known quantifiable harms dwarf any alleged benefits of the transaction for the reasons outlined in my direct testimony and in this testimony. However, if the Commission determines to approve the application, it should do so at the adjusted ratemaking rate base discussed by OCA witness Ralph Smith and with the following recommended conditions because they are reasonable and appropriate:

1. Cost of Service Study. At the time of its next base rate case, PAWC will submit a cost-of-service study that removes all costs and revenues associated with the operation of the BASA system and will also provide a separate cost of service study for the BASA system. PAWC appears to agree to this condition.

2. Rate freeze.

   (1) existing ratepayers should not be required to fund any rate freeze. If PAWC proposes to freeze BASA rates beyond the effective date of new rates in PAWC's first base rate case that includes the BASA system Assets, PAWC should be required to calculate its compliance proof of revenue using the new rate otherwise applicable to PAWC customers at the conclusion of its base rate case, not BASA's frozen rate.

   (2) In the first PAWC base rate case that includes the BASA system, when PAWC provides customer notice, it should provide notice to customers in the BASA system that their rates may increase. I am advised by OCA counsel that notice is necessary so the Commission can exercise its discretion to set rates in that proceeding for customers in the BASA system that are in excess of the limitations in the BASA asset purchase agreement. I recommend the notice be based on rates that reflect the lesser of (a) full cost of service for the BASA system, based on the cost of service study for the BASA system and (b) PAWC's proposed Rate Zone 1 rates. This will help to mitigate the potential level of subsidy by PAWC's other water and wastewater customers. The average current rate for PAWC Rate Zone 1 wastewater customers is \$106.65, monthly, while BASA's rates at Closing will be \$45.50, monthly.

3. Rate Stabilization Plan. PAWC should provide the information that the Commission requires for a rate stabilization plan.

4. Customer Notice. In future 1329 filings, PAWC should include the projected capital investment in its calculation of the annual revenue deficiency, and that PAWC should provide notice to customers of this total rate impact.

5. Customer Notice. PAWC's notices should also include rate impacts at more than just average usage. Therefore, I recommend PAWC should provide in its notices a range of impacts to include calculations of bills at 25% less than average usage and at 25% more than average usage, in addition to the average usage.

6. LTIIP and DSIC: (1) PAWC should not include investments in the BASA system in its DSIC until the DSIC is applied to customers in the BASA system. (2) No later than the next quarterly DSIC filing after Closing, PAWC should file a compliance tariff supplement to apply the DSIC to BASA customers. PAWC appears to agree to this condition.

7. IPP Fees. I recommend that rates PAWC proposed in its original filing and supplemental testimony should be adopted.

8. VA Hospital Rates. I recommend that the Commission should condition approval of the application on the requirement that free service is temporary until rates are set in the next base rate case. To provide due process and ensure the opportunity to set cost-based rates for the VA Medical Center in that proceeding, PAWC should be required to give the VA Medical Center notice in the base rate case that its rates will increase to the level proposed for other customers in its class.

9. Transaction/closing costs. PAWC should not be permitted to claim transaction or closing costs incurred by BASA. Outside legal fees used in transaction/closing should be separately identified in the next Base Rate Case.

10. Claims for Allowance for Funds Used During Construction and Deferred Depreciation. I recommend no preapproval in this proceeding, should be addressed in PAWC's first base rate case that includes the BASA system.

11. CAP enrollment. PAWC should be required to work with local CBOs with offices local to the areas served by the BASA system for purposes of providing information and enrolling customers in PAWC's customer assistance programs. PAWC appears to agree to this condition.

12. Welcome Letter. Should include the payment options (including low income programs, eligibility requirements, PAWC contact info), free places to pay, and in-person bill payment locations reasonably proximate to the areas served by the BASA system. Should also provide information about the local CBOs that it will work with. PAWC appears to agree to this condition.

13. Hardship Fund. PAWC should be required to make an annual contribution of $500,000 to the hardship fund for five years following closing. These contributions should not be recovered in rates and all unspent funds at the end of the program year should be rolled over and added to the budget for the hardship grant program in the following year(s). This will provide a concrete and actual benefit to PAWC's existing and acquired customers that will provide a small offset to the rate increases that will result from approval of this acquisition.

Q. Does this conclude your surrebuttal testimony at this time?

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

VERIFICATION

I, Morgan N. DeAngelo, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 1SR, 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: July 21, 2023
*349437

Signature: Morgan N DeAngelo
Morgan N. DeAngelo

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

OCA Statement 2

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047, *et al.*

DIRECT TESTIMONY

OF

RALPH C. SMITH

REGARDING ADJUSTED VALUATION STUDY RESULTS

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 12, 2023

DIRECT TESTIMONY OF RALPH C. SMITH
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I. INTRODUCTION

Q. Please state your name, position, and business address.

A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Please describe Larkin & Associates.

A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous telephone, water and sewer, gas, and electric matters.

Background and Qualifications

Q. Please summarize your educational background.

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the C.P.A. examination in my first sitting in 1979, received my CPA license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. I am also a Certified Financial Planner™ professional and a Certified Rate of Return Analyst ("CRRA"). Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association. I have been a member of the Society of Utility and Regulatory Financial Analysts ("SURFA"). I have also been a member of the American Bar Association ("ABA"), and the ABA sections on Public Utility Law and Taxation.

Q. Please summarize your professional experience.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation, where the majority of my time for the past 40 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions and where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington D.C., West Virginia, and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. Have you previously testified before the Pennsylvania Public Utility Commission?

A. Yes. I have testified before the Pennsylvania Public Utility Commission ("PA PUC" or "Commission") previously on a number of occasions.

Q. Have you previously submitted testimony before the Commission in utility merger and acquisition cases?

A. Yes. I presented testimony on behalf of the Pennsylvania Office of Consumer Advocate ("OCA") in Docket No. A-122250F5000 involving a proposal for Approval of the Transfer of All Stock and Rights of The Peoples Natural Gas Company d/b/a Dominion Peoples to Equitable Resources. I filed testimony on behalf of the Pennsylvania OCA in Docket No. A-2008-2063737, involving a proposal to transfer all of the issued and outstanding shares of capital stock of The Peoples Natural Gas Company to SteelRiver Infrastructure Fund North America LP ("SRIFNA"). I filed testimony on behalf of the Pennsylvania OCA in Docket No. A-2010-2210326, involving a proposal to transfer all of the issued and outstanding shares of capital stock of T.W. Phillips Gas and Oil Co., currently owned by TWP Inc., to LDC Holdings II LLC, an indirect subsidiary of SRIFNA, and to Approve the Resulting Change in Control of T.W. Phillips Gas and Oil Co.

As additional illustrative examples, I filed testimony and participated in the following Pennsylvania acquisition/merger proceedings on behalf of the OCA:

- LDC Holdings Inc. proposed purchase of T.W. Phillips Gas and Oil Co., Pennsylvania PUC Docket No. A-2010-2210326;
- Babcock & Brown Infrastructure Fund North America LP proposed acquisition of Peoples Natural Gas Company, Pennsylvania PUC Docket No. A-2008-2063737; and
- Equitable Resources, Inc. proposed acquisition of Dominion Peoples, Pennsylvania PUC Docket No. A-122250F5000.

I also filed testimony on behalf of the OCA in the Aqua-Peoples acquisition/merger case, Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063. I also filed direct and surrebuttal testimony on behalf of the OCA in the NextEra-Manwalamink water and sewer utility ownership transfer and request for approval of Certificates of Public Convenience matters, Docket Nos. A-2022-3035298 (Water), A-2022-3035299 (WW), A-2022-3035490 (Water), and A-2022-3035492 (WW).

Q. Have you filed testimony in other jurisdictions concerning utility acquisition and merger cases?

A. Yes, as illustrative examples my prior testimony has included evaluations of proposed mergers, such as Docket No. T-01051B-99-0497 before the Arizona Corporation Commission on behalf of the Utilities Division Staff concerning the merger of the parent corporations of Qwest Communications Corporation, LCI International Telecom Corp., USLD Communications, Inc., Phoenix Network, Inc. and US WEST Communications, Inc. As other illustrative examples, I filed testimony on behalf of the West Virginia Consumer Advocate Division ("CAD") in Case No. 08-1761-G-PC, concerning a proposal to transfer all of the issued and outstanding shares of capital stock of Hope Gas, Inc. d/b/a Dominion Hope to SRIFNA and in Case No. 10-0713-E-PC, concerning a proposal for a merger between a subsidiary of FirstEnergy and Allegheny Energy, Inc. and the "change of control" of Monongahela Power Company, Potomac Edison Company and Trans-Allegheny Interstate Line Company.

I filed testimony on behalf of the Connecticut Office of Consumer Counsel in Docket No. 15-03-45 before the Connecticut Public Utilities Regulatory Authority ("PURA") in the Joint Application Of Iberdrola, S.A., et al, and UIL Holdings Corporation for Approval of a Change of Control.

I filed testimony on behalf of the District of Columbia District Government in Formal Case No. 1119 before the District of Columbia Public Service Commission concerning the Matter of the Merger of Exelon Corporation, Pepco

Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC and New Special Purpose Entity, LLC.

I filed testimony on behalf of the Steering Committee of Cities Served by Oncor, the Texas Office of Public Counsel, and the Texas Industrial Energy Consumers before the Public Utility Commission of Texas in Docket 46238 concerning a proposed acquisition by NextEra Energy, Inc. of Oncor Electric Delivery Company LLC.

I also participated/testified in the following acquisition/merger proceedings:

- Iberdrola, S.A., et al proposed purchase of UIL Holdings Corporation, Massachusetts Department of Utilities, Docket No. 15-26;
- Proposed merger of Fortis, Inc. and UNS Energy Corporation, Arizona Corporation Commission Docket Nos. E-04230A-14-0011, E-01933A-14-0011;

Q. Have you also participated in Pennsylvania water and wastewater utility rate cases in which acquired utility systems were addressed?

A. Yes. On behalf of the OCA I also filed testimony and participated in a number of Pennsylvania water and/or wastewater utility rate cases in which acquired systems were addressed. Those Pennsylvania rate cases involving water and wastewater systems that were acquired by PAWC predated Section 1329.

Q. Have you filed testimony and/or participated in utility rate cases in which the fair value of utility assets was analyzed?

A. Yes, in several Arizona utility rate cases, where fair value was being used to established the utility's required operating income and revenue requirement, I reviewed and addressed the utility's fair value and reconstruction cost new depreciated (RCND) analyses for public utility assets. The Arizona state constitution includes a requirement that the Arizona Corporation Commission consider fair value in establishing utility rates. I have worked on many Arizona rate cases in which original cost, reconstruction cost new depreciated (RCND) and fair value rate base presented by utilities were reviewed and adjusted. The RCND studies used by Arizona utilities in their rate cases have some similarities to the replacement cost analysis used in the Section 1329 appraisal studies, in that Handy Whitman and other cost indices are applied to historical plant costs to derive reconstruction/replacement values. The fair value rate base used in Arizona rate cases is different than the fair market value concept used in Pennsylvania Section 1329 cases where the average of two independent appraisals is compared with the purchase price of utility assets to determine the amount to be used for rate base for the acquired system.

Q. Have you participated on project teams that were involved with the valuation of water or sewer utility assets for potential purchase or acquisition?

A. Yes. As an illustrative example, in 1997-1998, on a project for the Village of University Park, IL, a Larkin & Associates team I led worked with the engineering firm, Crawford, Murphy & Tilly, Inc., to perform a water and sewer valuation study for University Park. Various reports were jointly produced for University Park for that project.

Q. Have you prepared an attachment summarizing your educational background and regulatory experience?

A. Yes. Attachment A provides details concerning my experience and qualifications.

__Purpose of Testimony__

Q. On whose behalf are you appearing?

A. Larkin & Associates, PLLC, was retained by the Pennsylvania Office of Consumer Advocate ("OCA") to review the proposed acquisition by Pennsylvania-American Water Company ("PAWC" or "Company" or "Applicant") of the wastewater utility assets of the Butler Area Sewer Authority ("Butler," or "BASA"). Accordingly, I am appearing on behalf of the OCA.

Q. What is the purpose of the testimony you are presenting?

A. My testimony addresses the valuation studies conducted on behalf of BASA Borough (seller) and PAWC (buyer) pursuant to Section 1329 of the Public Utility Code. My investigation of the seller's and buyer's valuations has focused on the income, cost and market approaches utilized within these valuation studies.

Q. What information did you review in conducting your analysis?

A. In conducting my analysis, I reviewed the Applicant's filed testimony and exhibits and their responses to discovery propounded by the OCA and others. I also reviewed the details underlying the seller's and buyer's proposed valuations.

Exhibits Filed with Testimony

Q. Have you prepared any attachments to be filed with your testimony?

A. Yes. Exhibits RCS-1 through RCS-5 were prepared by me or under my supervision and are attached to my testimony.

Q. Please briefly explain what is included in each of those exhibits.

A. Exhibit RCS-1, page 1, contains a summary of the buyer's and seller's appraisals and the OCA adjusted results. Exhibit RCS-1, page 2, presents a Summary of the OCA's Adjusted Fair Market Value, and applies an equal weighting to the adjusted WAD Consultants valuation results.

Exhibit RCS-2 presents the OCA adjustments to the WAD Cost Approach.

Exhibit RCS-3 presents OCA adjustments to the WAD Market Approach.

Exhibit RCS-4 presents OCA adjustments to WAD Income Approach.

Exhibit RCS-5 presents OCA adjustments to Gannett Flemming Income Approach.

Summary of Testimony and Conclusions

Q. Please summarize your testimony and conclusions.

A. The adjusted valuation results shown on Exhibit RCS-1, page 1, result in an average adjusted value of $222.5 million, which is approximately $9.0 million below the purchased price of $231.5 million. Exhibit RCS-1, page 2, also presents the adjusted valuation results, but applies an equal weighting to both the seller's and buyer's valuations.[1] The results of applying equal weightings to the adjusted results for both the seller's and buyer's valuations result in an adjusted market value of $222.9 million which is approximately $8.55 below the purchase price, as shown on Exhibit RCS-2, page 2. If the Commission finds that this acquisition provides an affirmative public benefit, either of these lower amounts should be used for the determination of the rate base for acquired sewer system.

__Section 1329 Requirements__

Q. What changes did 66 Pa. C.S. § 1329 make to the Public Utility Code?

A. Section 1329, among other things, provides that when a water or wastewater municipal utility is acquired by a regulated water or wastewater public utility, the utility may value the acquired utility's assets using fair market value. Section 1329 details the procedure utilities must follow in order to use Section 1329 for utility valuation.

Q. Please explain your understanding of the Section 1329 requirements.

A. 66 Pa. C.S. §1329(a)(2) requires that two utility valuation experts shall perform two separate appraisals of the selling utility for the purpose of establishing its fair market value. The average of the appraisals determines the "fair market value." The lower of the purchase price and the fair market value becomes the amount to be used as the ratemaking rate base in the acquiring utility's next rate case.

[1] The seller's UVE, Gannett Fleming, used an equal weighting (33.33% or one-third) for the results of the three valuation methods. However, as discussed in more detail in Section VI of my Direct Testimony, the buyer's (PAWC's) UVE, Mr. Weinert applied disproportional weightings of 50%, 40% and 10% to his Cost Approach, Income Approach, and Market Approach results, respectively.

Section 1329(a)(3) requires that each utility valuation expert shall determine fair market value in compliance with the Uniform Standards of Professional Appraisal Practice, employing the cost, market, and income approaches. Section 1329(a)(2) requires that two appraisals should be averaged to determine the fair market value.

II. APPLICANT'S PROPOSED TRANSACTION

Q. How has the Applicant attempted to present the proposed transaction?

A. The Applicant presented the proposed transaction as having public benefits and a contracted purchase price for the utility assets being acquired that is below the fair market value of such assets. OCA witness Morgan DeAngelo addresses these issues in OCA Statement No. 1.

Q. Please describe the general nature of PAWC's application.

A. PAWC's Application, filed on February 14, 2023, proposes that the ratemaking rate base for the acquired system, pursuant to Section 1329(c)(2) of the Public Utility Code, is $231,500,000.

Q. Please describe the BASA wastewater utility system.

A. The BASA system is comprised of a regional wastewater collection network and a centralized treatment facility. The collection network is a sanitary-only system. There are no combined sewers in the System. The wastewater treatment plant is located in Butler Township. The plant has a design and permitted average daily flow capacity of 10.0 million gallons per day ("MGD"), a rated maximum flow capacity of 28.0 MGD, and a permitted average annual organic loading capacity of 12,750 lbs. of 5-day biochemical oxygen demand ("BOD5") per day. The plant process includes screening and grit removal, primary sedimentation, fixed-film biological treatment (trickling filters), extended-aeration activated sludge biological treatment, secondary sedimentation, tertiary clarification, and chlorine disinfection. Residual biosolids are disposed off-site by a contractor for disposal at a municipal solid waste landfill. Treated wastewater is discharged into Connoquenessing Creek under authorization set forth in National Pollutant Discharge Elimination System ("NPDES") Permit No. PA0026697. The NPDES permit was effective September 1, 2018 and expires on August 31, 2023. Under the proposed Transaction, PAWC will acquire and operate the System and assume responsibilities for operation and maintenance as the holder of the NPDES Permit.

Q. Does the Application provide the terms of the Proposed Transaction?

A. Yes, the Asset Purchase Agreement ("APA") dated October 11, 2022 was included with the Application. The APA states that the purchase price is Two Hundred, Thirty One Million, Five Hundred Thousand Dollars ($231,500,000). The Application indicates that the purchase price is based on arm's length negotiations. PAWC and BASA are not affiliated with each other.

III. ANALYSIS OF THE VALUATION RESULTS FOR THE PROPOSED TRANSACTION

Q. Please describe your approach to evaluating the proposed transaction, focusing on your review of the valuation studies that were submitted with the Application.

A. I present recommended adjustments to certain parts of the appraisals performed by the utility valuation experts (UVEs): Jerome Weinert of WAD Consultants ("WAD") on behalf of PAWC and Harold Walker of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") on behalf of BASA. My testimony contains an analysis of the Cost Approach, Market Approach and Income Approach of each appraisal. I am recommending certain adjustments to the valuations of the BASA wastewater utility system that PAWC is proposing to acquire. I have attached OCA Exhibits RCS-1 through RCS-5 to my testimony to support various calculations in this testimony.

Q. Please summarize the rate base valuation claim the Company is making in this case.

A. PAWC agreed to pay $231.5 million for the BASA wastewater system. Appendix A-11 to the Application presents the following statement of the ratemaking purchase price amount being claimed:

> As noted in Appendix A-6, the negotiated purchase price for the acquired assets is $231,500,000 and the average of the appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is $239,271,522. The buyer's UVE gave an appraisal of $246,114,043. The seller's UVE gave an appraisal of $232,429,000. Accordingly, the negotiated purchase price of $231,500,000 is the value for ratemaking purposes under Section 1329 (i.e. the lower of the

negotiated purchase price and the average of the UVEs' appraisals). The negotiated purchase price as determined by the Section 1329 process, in addition to the transaction and Closing costs described in Appendix A-10, becomes part of the rate base for ratemaking purposes. Note, however, that PAWC reserves its right in future proceedings to make rate base claims related to the acquisition as may otherwise be permitted under the Pennsylvania Public Utility Code.

Appendix A-5.1 of the Application presents the Fair Market Value Appraisal conducted by WAD Consultants, which shows a valuation as of October 11, 2022 of $246.178 million. Appendix A-5.2 of the Application presents the Fair Market Value Appraisal conducted by Gannett Fleming, which shows a valuation as of January 19, 2023 of $232.429 million.

IV. REVIEW OF PAWC'S (BUYER'S) VALUATION (WAD CONSULTANTS)

Q. What valuation has been submitted on behalf of the buyer, PAWC?

A. The buyer, PAWC, has presented the Direct Testimony of Jerome C. Weinert, P.E., Principal and Director for Weinert Appraisal and Depreciation Services, LLC ("WAD Consultants" or "WAD") for its claimed valuation of the wastewater assets. PAWC's valuation is summarized on Mr. Weinert's testimony (PAWC Statement 4) at page 3 as follows:

Appraisal Approach	Value Indicator	Weight	Wtd Value Indicator
Cost	$ 240,895,239	50%	120,447,620
Income	$ 259,277,679	40%	103,711,072
Market	$ 220,195,730	10%	22,019,573
Appraisal Conclusion			$ 246,178,265

<u>Review and Adjustments to Cost Approach</u>

Q. What is the Cost Approach?

A. The Cost Approach is defined by The American Society of Appraisers as follows:[2]

> A procedure to estimate the current costs to reproduce or create a property with another of comparable use and marketability.

Q. Please discuss the engineer's assessment of tangible assets that was provided in this case.

A. The engineer's assessment in this case was performed by Herbert, Rowland, & Grubic, Inc. ("HRG"). The results were presented in Appendix A-7.1 to the Application. HRG determined that the BASA system had an original cost of $144.574 million and also identified a Reproduction Cost New ("RCN") amount for the BASA sewer system as $525.871 million. Mr. Weinert's Direct Testimony at page 8 summarizes that and also contains a column for conversion of the RCN amounts to Replacement Cost New ("Cost of Replacement" or "COR") amounts, which purports to multiply each line item by a factor of 1.0, but results in a COR total amount of $529.924 million that is slightly higher than the RCN amount of $525.871 million.

Q. What original cost and accrued depreciation was used in the WAD valuation?

A. Mr. Weinert used the Replacement Cost New amounts, which totaled $529.923 million and depreciation rates shown on pages 11 and 12 of his Direct Testimony to

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[2] "Approaches to Value." American Society of Appraisers accessed March 5, 2020, http://www.appraisers.org/Disciplines/Personal-Property/pp-appraiser-resources/approaches-to-value.

arrive at a "Preliminary Cost Approach (COR) less Normal Depreciation" result of $240.895 million, as summarized on page 11 of his Direct Testimony.

Q. What value for the Cost Approach was determined in the WAD valuation?

A. A value of $240.895 million was determined in the WAD valuation for the Cost approach.

Q. Are you recommending any adjustments to the WAD Cost Approach amount?

A. Yes. As shown on Exhibit RCS-2, Mr. Weinert used a 75-year life for Collection Sewers - Force - Mains – CIP, Account 360.10 and an 80-year life for Collection Sewers - Gravity – Mains, Account 361.10 and for Collection Sewers - Gravity – Manholes, Account 361.20. I recommend that these accounts utilize a 60-year service life.

Q. Did Mr. Weinert propose similar overly long lives for those accounts in other §1329 acquisition cases?

A. Yes. As one example, in Docket No. A-2021-3026132, involving an acquisition of the East Whiteland Township sewer system by Aqua Pennsylvania Wastewater, Inc., a table appears at page 54 of the Commission's Opinion and Order dated July 29, 2022 which contains the following summary of Mr. Weinert's and OCA's recommended lives for those accounts[3]:

[3] Mr. Weinert was with AUS Consultants for that case.

Proposed Iowa Curve Adjustments to AUS Consultants:

Account	Description	AUS Iowa Curve	OCA Iowa Curve
360.21	COLLECTION SEWERS - FORCE - MAINS	75-R3	60-R3
361.21	COLLECTION SEWERS - GRAVITY - MAINS	80-R2.5	60-R2.5
361.23	COLLECTION SEWERS - GRAVITY - MANHOLES	80-R2.5	60-R2.5

Pages 60-61 of that Order adopted the OCA's recommended 60 year useful lives for those accounts, stating in part as follows:

> AUS recommends a 75-year service life for Account No. 360.21 (Collection Sewers - Force Mains) and an 80-year service life for Account No. 361.21 (Collection Sewers - Gravity Mains). The 80-year service life for gravity sewer mains was found excessive for the sewer gravity mains in Lower Makefield. In that case, a longer 80-year service life as recommended for lined vitreous concrete pipe (VCP) was not appropriate as the system was mostly unlined VCP and only a small portion of the system was lined. In Lower Makefield a value of 65-years was recommended. Lower Makefield at 44-45. …
>
> ‘’
>
> We find that the 80-year service lives proposed by AUS for Accounts 361.21 and 361.23 are not reasonable. We also find that the 75-year service life for Force Mains is too high here. While AUS maintains that both the force mains and gravity mains in the EWT System are plastic, which it contends justifies the 75-year service life, the mains are approximately 50% plastic. We note that Gannett Fleming used a 65-year life for gravity mains. Application Exh. Q, Exh. 7 at 3. We are persuaded that the OCA's recommended 60-year service life is reasonable for these three accounts. The OCA's adjustments led to a Cost Approach valuation of $53.1 million for the EWT System, which is approximately $6.7 million less than the AUS proposed Cost Approach valuation of $59.8 million. OCA M.B. at 32 (citing OCA St. 1 at 21; OCA Exhs. DJG-12, DJG-13).

Q. Are you recommending an adjustment for the service lives applied to those accounts?

A. Yes. Consistent with the above Commission Order, a as shown on Exhibit RCS-2, I have applied a 60 year useful life for those accounts. This results in a reduction to Mr. Weinert's Cost Approach valuation of $24.24 million.

<u>Review and Adjustments to Market Approach</u>

Q. What is the Market Approach?

A. The Market Approach (called the Sales Comparison Approach by The American Society of Appraisers) is defined by The American Society of Appraisers as follows:[4]

> A procedure to conclude an opinion of value for a property by comparing it with similar properties that have been sold or are for sale in the relevant marketplace by making adjustments to prices based on marketplace conditions and the properties' characteristics of value.

Q. What valuation does Mr. Weinert propose for his Market Approach?

A. He proposes a valuation of $220.196 million. Mr. Weinert's Market Approach calculation is summarized on OCA Exhibit RCS-3, in column A.

Q. Are you recommending adjustments to the WAD Market Approach result?

A. Yes. As shown on Exhibit RCS-3, pages 2 and 3, respectively, I have calculated adjustments to the Original Cost Less Depreciation (OCLD) and Cost of

[4] "Approaches to Value." American Society of Appraisers accessed March 5, 2020, http://www.appraisers.org/Disciplines/Personal-Property/pp-appraiser-resources/approaches-to-value.

Replacement Less Depreciation (CORLD) components. Transactions that have not yet been completed, have been excluded on pages 2 and 3 of Exhibit RCS-3. Also, as shown on Exhibit RCS-3, line 14, of page 2 and 3, the adjusted OCLD and CORLD amounts have been used. On Exhibit RCS-3, pages 2 and 3, a simple average rather than a weighted average has been used in both the WAD and OCA results.

Q. Please summarize the results of your recommended adjustments to the WAD Market Approach results.

A. As shown on Exhibit RCS-3, page 2, line 15, the adjusted OCLD result is $1,022,505 lower than the amount proposed by Mr. Weinert. As shown on Exhibit RCS-3, page 3, line 15, the adjusted CORLD result is $11,266,809 lower than the amount proposed by Mr. Weinert. Those adjustments are carried forward to Exhibit RCS-3, page 1, on lines 1 and 2, respectively. The impact on the mean value and the conclusion value amounts are shown on Exhibit RCS-3, page 1, on lines 7 and 9, respectively, and result in an adjusted Market Approach result of $218.147 million, which is $2.048 million lower than the $220.196 million amount proposed by Mr. Weinert.

Review and Adjustments to Income Approach

Q. What is the Income Approach?

A. The income approach involves capitalizing and discounting a future income stream to a present value. The theory behind the income approach is that the value of the business is the future economic benefit that ownership will provide.

Q. In applying the Income Approach is it necessary to recognize how the income of a cost-based rate-regulated public utility is determined, and how that is different from companies operating in competitive markets?

A. Yes. Unlike unregulated businesses, public utilities' revenues, income streams, and cash flows are a direct function of the capital investments required to operate the utility. This is commonly referred to as the rate base/rate of return method of ratemaking. A utility's allowable revenue requirement is equal to its cash operating expenses plus depreciation plus a return on its net investment (rate base) plus income taxes on the return. Therefore, the resulting annual net cash flow is equal to depreciation plus the after-tax return on the net investment. As such, the higher the assumed level of investment, the higher the periodic cash flows and the higher the ultimate valuation.

Q. Please discuss the concept of terminal value when applying the Income Approach to a rate-regulated public utility.

A. The income approach models utilized by both the buyer and seller employ a discounted cash flow model wherein annual cash flows are projected based upon forecasted levels of revenues, cash O&M expenses, income taxes, capital expenditures and changes in working capital. These annual cash flows are modeled for a set number of years into the future and then a terminal value is added to the previous discounted annual cash flows as a measure of the expected cash flows in perpetuity. The fundamental flaw in both of these analysts' models is their calculation of the terminal values for BASA's wastewater operations.

In calculating the terminal value, both of these analysts utilized what is known as a "capitalization rate" to project future cash flows in perpetuity. In simple terms, each of these analysts calculated a terminal value (in nominal terms) by applying the projected cash flow in the last year of the model to a capitalization rate. Specifically, the last model year's annual cash flow is multiplied by 1 divided by the calculated capitalization rate. Mathematically, this approach escalates annual cash flows at a constant annual growth rate (percent) in perpetuity. It essentially assumes that net cash flows would grow at a constant annual growth rate to infinity. A capitalization rate is defined as a firm's total cost of capital (k) minus its expected future annual constant rate of growth (g).

Q. Why is it inappropriate to apply a capitalization rate concept to estimate the terminal value of a regulated public utility?

A. While the use of capitalization rates may be appropriate for an unregulated/non-utility business enterprise, this approach is not realistic or appropriate for determining the terminal value of public utilities. Moreover, there are concerns about the accuracy of attempting to make projections that far out into the future. The theory underlying the use of capitalization rates is that a firm's net cash flow will grow at a constant rate in perpetuity without significant reinvestment greater than historical depreciation. However, such is not the case for regulated utilities. A regulated utility's net cash flow is a direct function of its plant in service. A utility's net cash flow can, and will, only grow with increases to its plant investment and rate base. For a rate regulated utility, it is important to understand that for discounted cash flow valuation purposes, capital expenditures (that give rise to plant additions) are treated as a negative cash outflow during the year in which the expenditure is made. The utility recoups these additional investments over time through future depreciation rates. Spending on plant additions is a use of cash and depreciation expense is a source of cash.

Q. Do you agree with the way the terminal value has been addressed in the Income Approach by Mr. Weinert?

A No.

Q. Is your recommended adjustment to the Income Approach that was proposed by Mr. Weinert based on a different approach to the terminal value?

A. No, it is based on modifying the annual percentage increases in utility revenue that have been projected for years 6 through 18.

Q. What amounts of annual revenues does Mr. Weinert use in his Income Approach?

A. The annual revenues for years 1 through 19 that Mr. Weinert used in his Income Approach are summarized below, along with the calculated percentage increases and cumulative increases:

Period	Age	WAD Projected Annual Utility Revenues	Calculated Annual Percent Increase	Calculated Cumulative Increase	Increase Over Year One
(A)	(B)	(C)	(D)	(E)	(F)
1	0.5	$ 12,752,000			
2	1.5	$ 21,040,800	65%	65%	65%
3	2.5	$ 21,040,800	0%	65%	65%
4	3.5	$ 31,561,200	50%	98%	148%
5	4.5	$ 31,561,200	0%	98%	148%
6	5.5	$ 41,029,560	30%	127%	222%
7	6.5	$ 41,029,560	0%	127%	222%
8	7.5	$ 49,235,472	20%	152%	286%
9	8.5	$ 49,235,472	0%	152%	286%
10	9.5	$ 54,159,019	10%	167%	325%

Period	Age	WAD Projected Annual Utility Revenues	Calculated Annual Percent Increase	Calculated Cumulative Increase	Increase Over Year One
(A)	(B)	(C)	(D)	(E)	(F)
11	10.5	$ 54,159,019	0%	167%	325%
12	11.5	$ 57,408,560	6%	177%	350%
13	12.5	$ 57,408,560	0%	177%	350%
14	13.5	$ 60,853,074	6%	188%	377%
15	14.5	$ 60,853,074	0%	188%	377%
16	15.5	$ 64,504,258	6%	199%	406%
17	16.5	$ 64,504,258	0%	199%	406%
18	17.5	$ 68,374,513	6%	211%	436%
19	18.5	$ 68,374,513	0%	211%	436%
		$ 55,622,513	Annual Revenues Year 19 less Year 1		
		436%	Percent Increase Over Year 1		

The utility revenue increase projections reflect a more than tripling of annual revenue by year ten and a more than quadrupling of annual revenue by year 16. By years 18 and 19, Mr. Weinert projects that annual revenue for this acquired sewer utility will be $68.375 million, which is $55.623 million or 436% higher than the year one annual revenue amount of $12.752 million.

Q. How does the WAD projection of annual utility revenue for years 18 and 19 compare with the Gannett Fleming projection of annual utility operating revenue for year 20?

A. The WAD projection of annual utility revenue for years 18 and 19 is $68,374,513 and the Gannett Fleming projection of annual utility revenue for year 20 is $27,541,410. As summarized in the following table, the WAD projection of utility revenue thus exceeds the Gannett Fleming estimate by $40,833,103 or 148%.

Q. What annual amounts of utility revenue and what annual and cumulative percentage changes were reflected in the Gannett Fleming Income Approach?

A. Gannett Fleming projections of annual utility revenue start with $13,014,394 in Year 1 (2024) and continue through Year 20 (2043) in the amount of $27,541,410. The annual amounts and changes are summarized in the following table:

Year Number	Calendar Year	Gannet Fleming Projected Annual Operating Revenue	Dollar Change	Annual Percent Change	Cumulative Percent Change from Year 1
Year 1	2024	$ 13,014,394			
Year 2	2025	$ 19,213,164	$ 6,198,770	47.6%	47.6%
Year 3	2026	$ 18,694,659	$ (518,505)	-2.7%	43.6%
Year 4	2027	$ 18,872,484	$ 177,825	1.0%	45.0%
Year 5	2028	$ 21,827,731	$ 2,955,247	15.7%	67.7%
Year 6	2029	$ 21,901,610	$ 73,879	0.3%	68.3%
Year 7	2030	$ 21,975,742	$ 74,132	0.3%	68.9%
Year 8	2031	$ 24,245,302	$ 2,269,560	10.3%	86.3%
Year 9	2032	$ 24,327,402	$ 82,100	0.3%	86.9%
Year 10	2033	$ 24,409,781	$ 82,379	0.3%	87.6%
Year 11	2034	$ 24,980,321	$ 570,540	2.3%	91.9%
Year 12	2035	$ 25,064,920	$ 84,599	0.3%	92.6%

Year Number	Calendar Year	Gannet Fleming Projected Annual Operating Revenue	Dollar Change	Annual Percent Change	Cumulative Percent Change from Year 1
Year 13	2036	$ 25,149,806	$ 84,886	0.3%	93.2%
Year 14	2037	$ 25,737,714	$ 587,908	2.3%	97.8%
Year 15	2038	$ 25,824,888	$ 87,174	0.3%	98.4%
Year 16	2039	$ 26,299,568	$ 474,680	1.8%	102.1%
Year 17	2040	$ 26,388,652	$ 89,084	0.3%	102.8%
Year 18	2041	$ 26,900,114	$ 511,462	1.9%	106.7%
Year 19	2042	$ 26,991,240	$ 91,126	0.3%	107.4%
Year 20	2043	$ 27,541,410	$ 550,170	2.0%	111.6%
		$ 14,527,016	Annual Revenues Year 20 less Year 1		
		111.6%	Percent Increase Over Year 1		

The Gannett Fleming annual utility revenue estimates reach a level of $27,541,410 in Year 20 which is $14,527,016, or 111.6%, more than the annual revenue in Year 1 of $13,014,394.

Q. How does that compare with the WAD estimated annual utility revenue projections that were used in the WAD Income Approach?

A. In contrast, the WAD estimated annual utility revenues used in the WAD Income Approach reach a level of $68,374,513 in Years 18-19 which is $55,622,513, or 436%, more than the WAD estimated annual revenue in Year 1 of $12,752,000.

Q. What do you conclude from the review of utility operating income projections that were used in the WAD Income Approach?

A. The utility revenue increase projections that were used in the WAD Income Approach appear to be grossly excessive and unreliable and should therefore not be used. The annual revenue amounts in Mr. Weinert's Income Approach appear to be grossly excessive, unsustainable, and inconsistent with efforts by the U.S. Federal Reserve to reduce inflation to levels closer to 2% annually, and also are grossly inconsistent and overstated in comparison with the corresponding amounts of annual utility revenue that were used in the Gannett Fleming Income Approach.

Q. Please explain how you have adjusted for the annual percentage increases in revenue compared to what was used by Mr. Weinert of WAD in his Income Approach.

A. In order to address the apparently excessive annual revenue growth that was used by Mr. Weinert, I have prepared two alternative calculations. The calculations are shown on Exhibit RCS-4, pages 1 and 2, respectively.

Q. Please explain the first calculation.

A. For the first calculation, which is shown on Exhibit RCS-4, page 1, I reflected the 65% and 50% increases that Mr. Weinert used for years 2 and 4. However, for years 6 through 18 in which Mr. Weinert projected that PAWC would have rate increases for the acquired BASA sewer utility occurring every two years, I have adjusted the annual utility revenue increase amounts to reflect half of the percentage increases that were used. In this first calculation, the following annual utility revenues and revenue increases were used:

Period	Age	Weinert Projected Annual Utility Revenues	Adjusted Projected Annual Utility Revenues	Applied Annual Percent Increase	Adjustment to WAD Projected Annual Revenue	Adjusted Cumulative Increase	Adjusted Increase Over Year One
(A)	(B)	(C)	(D)	(E)	(F) = D-E	(G)	(H)
1	0.5	$ 12,752,000	$ 12,752,000				
2	1.5	$ 21,040,800	$ 21,040,800	65%		65%	65%
3	2.5	$ 21,040,800	$ 21,040,800			65%	65%
4	3.5	$ 31,561,200	$ 31,561,200	50%		98%	148%
5	4.5	$ 31,561,200	$ 31,561,200			98%	148%
6	5.5	$ 41,029,560	$ 36,295,380	15%		112%	185%
7	6.5	$ 41,029,560	$ 36,295,380			112%	185%
8	7.5	$ 49,235,472	$ 39,924,918	10%	$ (9,310,554)	123%	213%
9	8.5	$ 49,235,472	$ 39,924,918		$ (9,310,554)	123%	213%
10	9.5	$ 54,159,019	$ 41,921,164	5%	$ (12,237,855)	130%	229%
11	10.5	$ 54,159,019	$ 41,921,164		$ (12,237,855)	130%	325%

Period	Age	Weinert Projected Annual Utility Revenues	Adjusted Projected Annual Utility Revenues	Calculated Annual Percent Increase	Adjustment to WAD Projected Annual Revenue	Calculated Cumulative Increase	Increase Over Year One
(A)	(B)		(C)	(D)		(E)	(F)
12	11.5	$ 57,408,560	$ 43,178,799	3%	$ (14,229,761)	133%	350%
13	12.5	$ 57,408,560	$ 43,178,799		$ (14,229,761)	133%	350%
14	13.5	$ 60,853,074	$ 44,474,163	3%	$ (16,378,911)	137%	377%
15	14.5	$ 60,853,074	$ 44,474,163		$ (16,378,911)	137%	377%
16	15.5	$ 64,504,258	$ 45,808,388	3%	$ (18,695,870)	142%	406%
17	16.5	$ 64,504,258	$ 45,808,388		$ (18,695,870)	142%	406%
18	17.5	$ 68,374,513	$ 47,182,639	3%	$ (21,191,874)	146%	436%
19	18.5	$ 68,374,513	$ 47,182,639		$ (21,191,874)	146%	436%
Cumulative Adjustment to Projected Revenue, Years 1 through 19:					$ (184,089,651)		
		$ 55,622,513	$ 34,430,639	Annual Revenues Year 19 less Year 1			
		436%	270%	Percent Increase Over Year 1			

As shown on Exhibit RCS-4, page 1, these adjustments to revenues produce revenues in Years 18 and 19 of $47,182,639, which are about 270% higher than the Year 1 revenues of $12.752 million.

Q. What adjustment does that produce to the Income Approach?

A. As shown on Schedule RCS-4, page 1, the Income Approach value proposed by Mr. Weinert is reduced by $51.7 million. This adjustment amount has been carried forward to Schedule RCS-1, line 2.

Q. Please explain why the annual revenue increases for those years should be limited in the manner in which you have reflected.

A. As noted above, additional increases in projected utility revenue for years 6 through 18 appear to be excessive, unsustainable, and inconsistent with efforts by the U.S. Federal Reserve to reduce inflation. Moreover, it has not been demonstrated that PAWC would have rate increases every second year for years 6 through 18. In contrast with the WAD approach to forecasting annual revenue increases in every second year, the Gannett Fleming Income Approach estimated that rate increases would occur in three year cycles. Moreover, the Gannett Fleming approach reflected that the percentage increases after the first three projected rate increases would moderate considerably to be around 2.3% increases or less per increase. After a few years of PAWC ownership of the BASA sewer utility the operation would be expected to be stabilized and subsequent rate increases after the first two or three rate increases under PAWC ownership should be relatively limited. The Gannett Fleming Income Approach appears to have reflected this in its annual estimates of utility revenue, but the WAD approach does not.

Q. Please explain the second calculation.

A. For the second calculation, which is shown on Exhibit RCS-4, page 2, I reflected annual revenue increases occurring every three years (similar to the Gannett Fleming Income Approach) and closer in amount to the revenue increases that were estimated in the Gannett Fleming Income Approach to occur in those three-year increase cycles.[5]

Q. What adjustment does that produce to the Income Approach?

A. As shown on Exhibit RCS-4, page 2, the Income Approach value proposed by Mr. Weinert reduced by $139.58 million. The adjusted Income Approach value is $119.7 million.

[5] Note that the Gannett Fleming Income Approach shifted to approximately 2% increases projected to occur every two years for years 16, 18 and 20 (respectively calendar years 2039, 2041 and 2043).

Q. What amount have you used on Exhibit RCS-1 for the adjusted WAD Income Approach?

A. On Exhibit RCS-1, page 1, in column D, I used the adjustment to the Income Approach amount from Exhibit RCS-4, page 1 and 2, of $51.7 million.

V. REVIEW OF (BASA) SELLER'S VALUATION (GANNETT FLEMING)

Q. What valuation has been submitted on behalf of the seller?

A. The seller, BASA, has presented testimony and a valuation study sponsored by Harold Walker, Manager-Financial Studies at Gannett Fleming that claims a fair market value of $232.429 million based on the following:

	Gannett Fleming Individual Results	Weight	Weighted Result
Cost Approach	$ 254,729,592	33.3300%	$ 84,901,373
Income Approach	$ 264,469,512	33.3300%	$ 88,147,688
Market Approach	$ 178,105,462	33.3400%	$ 59,380,361
Total			$ 232,429,422
Conclusion			$ 232,429,000

<u>Review and Adjustments to Income Approach</u>

Q. What value has Mr. Walker used for his Income Approach?

A. Mr. Walker used a value of $264.47 million for his Income Approach. His Income Approach result was the highest of his three valuation results, and was notably substantially higher than his Market Approach result of $178.1 million.

Q. Are you recommending an adjustment to Mr. Walker's Income Approach?

A. Yes. Mr. Walker used a discount rate for the municipal ownership portion of his Income Approach of 3.77%. The lower the discount rate, the higher the resulting valuation. Rather than use the 3.77%, which is understated because it has been reduced for a 0.2% speculative growth estimate. At page 37 of 506 of Appendix A-5.2, Mr. Walker states that: "For the Wastewater System, the appropriate discount rate is the current municipal revenue bond yield on January 19, 2023, of 3.97%." He states further on pages 37-38 of 506 that: "For a MUNI, the appropriate discount rate is the current municipal revenue bond, 3.97%, because debt is the only major source of capital available to finance an acquisition. At page 41 or 506 of Appendix A-5.2, Mr. Walker indicates that he reduced his capitalization rates by 0.2% for growth. The assumption of 0.2% growth has been removed as being speculative and unsupported. I have used a capitalization and discount rate of 3.97% for the municipal ownership-based Income Approach calculations, as shown on Exhibit RCS-5, page 2.

Q. Does the assumption of future growth also appear to impact the results of the Investor Owned Utility (IOU) under the Gannett Fleming Income Approach?

A. Yes. As stated on page 42 of 506 of Appendix A-5.2, "Collectively, the DCF method based on the IOU ownership scenario **and a 0.2% growth assumption** indicates a value of $112.6 million for the Wastewater System."

Q. Does removing the impact of the growth assumption also impact the result of the Gannett Fleming Income Approach for the IOU ownership scenario?

A. It seems that removing the impact of the growth assumption should also impact the result of the Gannett Fleming Income Approach for the IOU ownership scenario. Due to difficulties in matching up the Gannett Fleming Excel file for Exhibit 16 with what was filed in the Application as the Gannett Fleming for Exhibit 16, the impact of removing the growth assumption from the Gannett Fleming IOU scenario in the Income Approach has not yet been quantified.

Q. What adjusted Gannett Fleming Income Approach result have you calculated?

A. As shown on Exhibit RCS-5, page 1, after adjusting the discount rate for the municipal ownership approach to remove the speculative growth assumption, my adjusted valuation under the Income Approach is under the Muni ownership scenario is $7.716 million in total and an impact of $3.858 million on the Muni ownership median result. When averaged in with the as yet unadjusted IOU ownership scenarios, my adjusted valuation under the Income Approach is $262.54 million. That is $1.959 million lower than the Income Approach result proposed by Mr. Walker.

VI. EQUAL WEIGHTING OF VALUATION RESULTS

Q. Did both UVEs propose an equal weighting of their valuation results?

A. No. BASA witness Walker proposed an equal weighting of his valuation results. But PAWC witness Weinert proposed a disproportionate weighting, giving his two highest valuation results a 40% (Income Approach) and 50% (Cost Approach) weighting, respectively, and his lowest result (Market Approach) only a 10% weighting. In his other valuation studies, Mr. Weinert has proposed similar weightings. His testimony at page 4-5 states that his weightings are based on his opinion.

Q. Are you presenting calculations that apply an equal weighting to each of the three valuation results?

A. Yes. Exhibit RCS-1, page 2, shows the adjusted results, with an equal weighting to each of the three valuation results. Applying equal weightings to the adjusted WAD valuation results would increase the overall weighted average result by about $466,000, as shown on Exhibit RCS-1, page 2, line 16.

Applying equal weighting to the WAD unadjusted results would decrease the weighted average result by approximately $6.079 million, i.e., from the WAD weighted results of $246.178 million to an equally weighted result of approximately $240.099 million, as summarized below:

WAD Valuation Approach	WAD Unadjusted Valuation Results With Unequal Weighting		WAD Unadjusted Valuation Results With Equal Weighting		Difference	
Cost Approach	$	120,447,620	$	80,290,383.16	$	(40,157,236)
Income Approach	$	103,711,072	$	86,417,250.41	$	(17,293,821)
Market Approach	$	22,019,573	$	73,391,236.64	$	51,371,664
Total	$	246,178,265	$	240,098,871	$	(6,079,394)
Conclusion	$	246,178,265	$	240,098,871	$	6,079,394

As noted above, the Gannett Fleming valuation results already reflect an equal weighting, so applying an equal weighting does not impact the adjusted result.

VII. CONCLUSIONS AND RECOMMENDATIONS

Q. Please summarize your conclusions regarding the valuation of the BASA sewer utility that is proposed to be acquired by PAWC.

A. If the Commission approves the acquisition, the Commission should adopt the OCA's proposed adjustments to the appraisals. If the Commission approves the acquisition, the OCA recommends a ratemaking rate base of $222.479 million based on the lower amount of the purchase price versus the adjusted appraised value, as shown on Exhibit RCS-1, page 1.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Appendix A

QUALIFICATIONS OF RALPH C. SMITH

Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a Certified Rate of Return Analyst, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, Barbados, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed were the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)
80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)

U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)
R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA &76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA & 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001 & ER-85647001	New England Power Company (FERC)
850782-EI & 850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU & 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
U-87-47	Anchorage Water and Wastewater Utility (Alaska PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities
T E-1032-88-102	Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628	Duquesne Light Company, et al, plaintiffs, against Gulf+ Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)

6531	Hawaiian Electric Company (Hawaii PUCs)
R-901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)
R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102 & U-1551-89-103	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and TC-91-040B	Intrastate Access Charge Methodology, Pool and Rates Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS & 911-67-WS	General Development Utilities - Port Malabar and West Coast Divisions (Florida PSC)
U-91-091	Anchorage Telephone Utility (Alaska PUC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314 & M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 & U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 & U-1032-93-193	Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/ E-1032-93-169	Sale of Assets CC&N from Contel of the West, Inc. to Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)

94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed Staff Investigation	Citizens Utility Company - Arizona Telephone Operations (Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)
GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power &Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed Staff Investigation	Delaware - Estimate Impact of Universal Services Issues (Delaware PSC)
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60, U-98-65, U-98-67	Investigation of 1998 Intrastate Access charge filings (Alaska PUC)
(U-99-66, U-99-65, U-99-56, U-99-52)	Investigation of 1999 Intrastate Access Charge filing (Alaska PUC)
Phase II of 97-SCCC-149-GIT	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed Assistance	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed Project	Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)

E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)
Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No. 98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No. 99-01-016, Phase I	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)

97-12-020	
Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413	
426, 427, 430, 421/	
CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-84	ACS of Fairbanks dba Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-82	ACS of Anchorage dba Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-86	ACS of Alaska dba Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
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E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
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05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No.	
03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363,	
Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM,	
Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-	

1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022, U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
U-04-81	Protest by Aurora Gas, LLC against Beluga Pipe Line Company (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)
03-93-EL-ATA, 06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
U-06-134	Chugach Electric Association, Inc. (Regulatory Commission of Alaska)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No. 07-186	Chesapeake Utilities Corporation (Delaware PSC)
Docket No. UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0083	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)
Docket No. UE-090704	Puget Sound Energy, Inc. (Washington UTC)
09-0878-G-42T	Mountaineer Gas Company (West Virginia PSC)
2009-UA-0014	Mississippi Power Company (Mississippi PSC)
Docket No. 09-0319	Illinois-American Water Company (Illinois CC)
Docket No. 09-414	Delmarva Power & Light Company (Delaware PSC)
R-2009-2132019	Aqua Pennsylvania, Inc. (Pennsylvania PUC)

Docket Nos. U-09-069, U-09-070	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Docket Nos. U-04-023, U-04-024	Anchorage Water and Wastewater Utility - Remand (Regulatory Commission of Alaska)
W-01303A-09-0343 & SW-01303A-09-0343	Arizona-American Water Company (Arizona CC)
09-872-EL-FAC & 09-873-EL-FAC	Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company - Audit I (Ohio PUC)
2010-00036	Kentucky-American Water Company (Kentucky PSC)
E-04100A-09-0496	Southwest Transmission Cooperative, IHnc. (Arizona CC)
E-01773A-09-0472	Arizona Electric Power Cooperative, Inc. (Arizona CC)
R-2010-2166208, R-2010-2166210, R-2010-2166212, & R-2010-2166214	Pennsylvania-American Water Company (Pennsylvania PUC)
PSC Docket No. 09-0602	Central Illinois Light Company D/B/A AmerenCILCO; Central Illinois Public Service Company D/B/A AmerenCIPS; Illinois Power Company D/B/A AmerenIP (Illinois CC)
10-0713-E-PC	Allegheny Power and FirstEnergy Corp. (West Virginia PSC)
Docket No. 31958	Georgia Power Company (Georgia PSC)
Docket No. 10-0467	Commonwealth Edison Company (Illinois CC)
PSC Docket No. 10-237	Delmarva Power & Light Company (Delaware PSC)
U-10-51	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
10-0699-E-42T	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
10-0920-W-42T	West Virginia-American Water Company (West Virginia PSC)
A.10-07-007	California-American Water Company (California PUC)
A-2010-2210326	TWP Acquisition (Pennsylvania PUC)
09-1012-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 1 (Ohio PUC)
10-268-EL FAC et al.	Financial Audit of the FAC of the Columbus Southern Power Company and the Ohio Power Company – Audit II (Ohio PUC)
Docket No. 2010-0080	Hawaiian Electric Company, Inc. (Hawaii PUC)
G-01551A-10-0458	Southwest Gas Corporation (Arizona CC)
10-KCPE-415-RTS	Kansas City Power & Light Company – Remand (Kansas CC)
PUE-2011-00037	Virginia Appalachian Power Company (Commonwealth of Virginia SCC)
R-2011-2232243	Pennsylvania-American Water (Pennsylvania PUC)
U-11-100	Power Purchase Agreement between Chugach Association, Inc. and Fire Island Wind, LLC (Regulatory Commission of Alaska)
A.10-12-005	San Diego Gas & Electric Company (California PUC)
PSC Docket No. 11-207	Artesian Water Company, Inc. (Delaware PSC)
Cause No. 44022	Indiana-American Water Company, Inc. (Indiana Utility Regulatory Commission)
PSC Docket No. 10-247	Management Audit of Tidewater Utilities, Inc. Affiliate Transactions (Delaware Public Service Commission)
G-04204A-11-0158	UNS Gas, Inc. (Arizona Corporation Commission)
E-01345A-11-0224	Arizona Public Service Company (Arizona CC)
UE-111048 & UE-111049	Puget Sound Energy, Inc. (Washington Utilities and Transportation Commission)
Docket No. 11-0721	Commonwealth Edison Company (Illinois CC)
11AL-947E	Public Service Company of Colorado (Colorado PSC)
U-11-77 & U-11-78	Golden Heart Utilities, Inc. and College Utilities Corporation (The Regulatory Commission of Alaska)

Docket No. 11-0767	Illinois-American Water Company (Illinois CC)
PSC Docket No. 11-397	Tidewater Utilities, Inc. (Delaware PSC)
Cause No. 44075	Indiana Michigan Power Company (Indiana Utility Regulatory Commission)
Docket No. 12-0001	Ameren Illinois Company (Illinois CC)
11-5730-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 2 (Ohio PUC)
PSC Docket No. 11-528	Delmarva Power & Light Company (Delaware PSC)
11-281-EL-FAC et al.	Financial Audit of the FAC of the Columbus Southern Power Company and the Ohio Power Company – Audit III (Ohio PUC)
Cause No. 43114-IGCC-4S1	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Docket No. 12-0293	Ameren Illinois Company (Illinois CC)
Docket No. 12-0321	Commonwealth Edison Company (Illinois CC)
12-02019 & 12-04005	Southwest Gas Corporation (Public Utilities Commission of Nevada)
Docket No. 2012-218-E	South Carolina Electric & Gas (South Carolina PSC)
Docket No. E-72, Sub 479	Dominion North Carolina Power (North Carolina Utilities Commission)
12-0511 & 12-0512	North Shore Gas Company and The Peoples Gas Light and Coke Company (Illinois CC)
E-01933A-12-0291	Tucson Electric Power Company (Arizona CC)
Case No. 9311	Potomac Electric Power Company (Maryland PSC)
Cause No. 43114-IGCC-10	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
Docket No. 36498	Georgia Power Company (Georgia PSC)
Case No. 9316	Columbia Gas of Maryland, Inc. (Maryland PSC)
Docket No. 13-0192	Ameren Illinois Company (Illinois CC)
12-1649-W-42T	West Virginia-American Water Company (West Virginia PSC)
E-04204A-12-0504	UNS Electric, Inc. (Arizona CC)
PUE-2013-00020	Virginia and Electric Power Company (Virginia SCC)
R-2013-2355276	Pennsylvania-American Water Company (Pennsylvania PUC)
Formal Case No. 1103	Potomac Electric Power Company (District of Columbia PSC)
U-13-007	Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
12-2881-EL-FAC	Financial, Management, and Performance Audit of the FAC for Dayton Power and Light – Audit 3 (Ohio PUC)
Docket No. 36989	Georgia Power Company (Georgia PSC)
Cause No. 43114-IGCC-11	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
UM 1633	Investigation into Treatment of Pension Costs in Utility Rates (Oregon PUC)
13-1892-EL FAC	Financial Audit of the FAC and AER of the Ohio Power Company – Audit I (Ohio PUC)
E-04230A-14-0011 & E-01933A-14-0011	Reorganization of UNS Energy Corporation with Fortis, Inc. (Arizona CC)
14-255-EL RDR	Regulatory Compliance Audit of the 2013 DIR of Ohio Power Company (Ohio PUC)
U-14-001	Chugach Electric Association, Inc. (The Regulatory Commission of Alaska)
U-14-002	Alaska Power Company (The Regulatory Commission of Alaska)
PUE-2014-00026	Virginia Appalachian Power Company (Commonwealth of Virginia SCC)
14-0117-EL-FAC	Financial, Management, and Performance Audit of the FAC and Purchased Power Rider for Dayton Power and Light – Audit 1 (Ohio PUC)
14-0702-E-42T	Monongahela Power Company and The Potomac Edison Company (West Virginia PSC)
Formal Case No. 1119	Merger of Exelon Corporation, Pepco Holdings, Inc., Potomac Electric Power Company, Exelon Energy Delivery Company, LLC, and New Special Purpose Entity, LLC (District of Columbia PSC)
R-2014-2428742	West Penn Power Company (Pennsylvania PUC)
R-2014-2428743	Pennsylvania Electric Company (Pennsylvania PUC)
R-2014-2428744	Pennsylvania Power Company (Pennsylvania PUC)
R-2014-2428745	Metropolitan Edison Company (Pennsylvania PUC)

Cause No. 43114-IGCC-12/13	Duke Energy Indiana, Inc. (Indiana Utility Regulatory Commission)
14-1152-E-42T	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
WS-01303A-14-0010	EPCOR Water Arizona, Inc. (Arizona CC)
2014-000396	Kentucky Power Company (Kentucky PSC)
15-03-45	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Connecticut PURA)
A.14-11-003	San Diego Gas & Electric Company (California PUC)
U-14-111	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
2015-UN-049	Atmos Energy Corporation (Mississippi PSC)
15-0003-G-42T	Mountaineer Gas Company (West Virginia PSC)
PUE-2015-00027	Virginia Electric and Power Company (Commonwealth of Virginia SCC)
Docket No. 2015-0022	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., Maui Electric Company Limited, and NextEra Energy, Inc. (Hawaii PUC)
15-0676-W-42T	West Virginia-American Water Company (West Virginia PSC)
15-07-38	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Connecticut PURA)
15-26	Iberdrola, S.A. Et Al, and UIL Holdings Corporation merger (Massachusetts DPU)
15-042-EL-FAC	Management/Performance and Financial Audit of the FAC and Purchased Power Rider for Dayton Power and Light (Ohio PUC)
U-15-016	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
2015-UN-0080	Mississippi Power Company (Mississippi PSC)
Docket No. 15-00042	B&W Pipeline, LLC (Tennessee Regulatory Authority)
WR-2015-0301/SR-2015-0302	Missouri American Water Company (Missouri PSC)
U-15-089, U-15-091, & U-15-092	Golden Heart Utilities, Inc. and College Utilities Corporation (The Regulatory Commission of Alaska)
Docket No. 16-00001	Kingsport Power Company d/b/a AEP Appalachian Power (Tennessee Regulatory Authority)
PUE-2015-00097	Virginia-American Water Company (Commonwealth of Virginia SCC)
15-1854-EL-RDR	Management/Performance and Financial Audit of the Alternative Energy Recovery Rider of Duke Energy Ohio, Inc. (Ohio PUC)
P-15-014	PTE Pipeline LLC (Regulatory Commission of Alaska)
P-15-020	Swanson River Oil Pipeline, LLC (Regulatory Commission of Alaska)
U-15-127 through U-15-138	Doyon Utilities, LLC (Regulatory Commission of Alaska)
Docket No. 40161	Georgia Power Company – Integrated Resource Plan (Georgia PSC)
Formal Case No. 1137	Washington Gas Light Company (District of Columbia PSC)
160021-EI, et al.	Florida Power Company (Florida PSC)
R-2016-2537349	Metropolitan Edison Company (Pennsylvania PUC)
R-2016-2537352	Pennsylvania Electric Company (Pennsylvania PUC)
R-2016-2537355	Pennsylvania Power Company (Pennsylvania PUC)
R-2016-2537359	West Penn Power Company (Pennsylvania PUC)
16-0717-G-390P	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
15-1256-G-390P (Reopening)/16-0922-G-390P	Mountaineer Gas Company (West Virginia PSC)
16-0550-W-P	West Virginia-American Water Company (West Virginia PSC)
CEPR-AP-2015-0001	Puerto Rico Electric Power Authority (Puerto Rico Energy Commission)
E-01345A-16-0036	Arizona Public Service Company (Arizona CC)
Docket No. 4618	Providence Water Supply Board (Rhode Island PUC)

Docket No. 46238	Joint Report and Application of Oncor Electric Delivery Company LLC and NextEra Energy Inc. (Texas State Office of Administrative Hearings; Texas PUC)
U-16-066	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Case No. 2016-00370	Kentucky Utilities Company (Kentucky PSC)
Case No. 2016-00371	Louisville Gas and Electric Company (Kentucky PSC)
P-2015-2508942	Metropolitan Edison Company (Pennsylvania PUC)
P-2015-2508936	Pennsylvania Electric Company (Pennsylvania PUC)
P-2015-2508931	Pennsylvania Power Company (Pennsylvania PUC)
P-2015-2508948	West Penn Power Company (Pennsylvania PUC)
E-04204A-15-0142	UNS Electric, Inc. (Arizona CC)
E-01933A-15-0322	Tucson Electric Power Company (Arizona CC)
UE-170033 & UG-170034	Puget Sound Energy, Inc. (Washington UTC)
Case No. U-18239	Consumers Energy Company (Michigan PSC)
Case No. U-18248	DTE Electric Company (Michigan PSC)
Case No. 9449	Merger of AltaGas Ltd. and WGL Holdings (Maryland PSC)
Formal Case No. 1142	Merger of AltaGas Ltd. and WGL Holdings (District of Columbia PSC)
Case No. 2017-00179	Kentucky Power Company (Kentucky PSC)
Docket No. 29849	Georgia Power Plant Vogtle Units 3 and 4, VCM 17 (Georgia PSC)
Docket No. 2017-AD-112	Mississippi Power Company (Mississippi PSC)
Docket No. D2017.9.79	Montana-Dakota Utilities Co. (Montana PSC)
SW-01428A-17-0058 et al	Liberty Utilities (Litchfield Park Water & Sewer) Corp. (Arizona CC)
U-18-021 & U-18-033	Chugach Electric Association, Inc. (Regulatory Commission of Alaska)
Docket No. 4800	Suez Water Rhode Island Inc. (Rhode Island PUC)
General Order No. 236.1	In the Matter of the Effects on Utilities of the 2017 Tax Cuts and Jobs Act (West Virginia PSC)
20180047-EI	Duke Energy Florida, LLC. (Florida PSC)
20180046-EI	Florida Power & Light Company (Florida PSC)
20180048-EI	Florida Public Utilities Company – Electric (Florida PSC)
20180052-GU	Florida Public Utilities Company – Indiantown (Florida PSC)
20180054-GU	Florida Division of Chesapeake Utilities Corporation (Florida PSC)
20180051-GU	Florida Public Utilities Company – Gas Division (Florida PSC)
20180053-GU	Florida Public Utilities Company - Fort Meade (Florida PSC)
Cause No. 45032 S4	Indiana American Water Company, Inc. Phase 2 (Indiana Utility Regulatory Commission)
Docket No. D2018.1.6	Montana-Dakota Utilities Co. (Montana PSC)
Docket No. D2018.4.24	NorthWestern Energy (Montana PSC)
Docket No. D2018.4.22	Montana-Dakota Utilities Co. (Montana PSC)
18-0573-W-42T & 18-0576-S-42T	West Virginia-American Water Company (West Virginia PSC)
18-0646-E-42T & 18-0645 E-D	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
18-0049-GA-ALT, 18-0298-GA-AIR, & 18-0299-GA-ALT	Vectren Energy Delivery of Ohio, Inc. (Ohio PUC)
R-2018-3003558, R-2018-3003561	Aqua Pennsylvania, Inc. and Aqua Pennsylvania Wastewater, Inc. (Pennsylvania PUC)
Cause No. 45142	Indiana-American Water Company, Inc. (Indiana Utility Regulatory Commission)
U-18-043	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
T-03214-17-0305	Citizens Telecommunications Company of The White Mountains, Inc. d/b/a Frontier Communications of The White Mountains (Arizona CC)
Docket No. D2018.9.60	Montana-Dakota Utilities Co. (Montana PSC)

Docket No. 4890	Narragansett Bay Commission (Rhode Island PUC)
PUR-2018-00131	Columbia Gas of Virginia (Virginia SCC)
EL18-152-000	Louisiana PSC v. System Energy Resources, Inc. and Entergy Services, Inc. (FERC)
PUR-2018-00175	Virginia-American Water Company (Virginia SCC)
A-2018-3006061, A-2018-3006062 and A-2018-3006063	Aqua America, Inc., Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., Peoples Natural Gas Company LLC, Peoples Gas Company LLC (Pennsylvania PUC)
Docket No. D2018.2.12	NorthWestern Energy (Montana PSC)
Docket No. 42310	Georgia Power Company – Integrated Resource Plan (Georgia PSC)
U-18-102	Municipality of Anchorage d/b/a Municipal Light & Power Department (Regulatory Commission of Alaska)
PUC Docket No. 49494	AEP Texas, Inc. (Texas PUC)
Application 18-12-009	Pacific Gas and Electric Company (California PUC)
19-0316-G-42T	Mountaineer Gas Company (West Virginia PSC)
U-19-020	Chugach Electric Association, Inc. and Municipality of Anchorage d/b/a Municipal Light & Power Department (Regulatory Commission of Alaska)
19-0051-EL-RDR	Management/Performance and Financial Audit of the Alternative Energy Recovery Rider of Duke Energy Ohio, Inc. (Ohio PUC)
A-2018-3006061, A-2018-3006062, and A-2018-3006063	Joint Application of Aqua America, Inc., Aqua Pennsylvania, Inc. Aqua Pennsylvania Wastewater, Inc., Peoples Natural Gas Company LLC, and Peoples Gas Company LLC (Pennsylvania PUC)
ER-18-1182-001	System Energy Resources, Inc. (FERC)
E-01933A-19-0028	Tuscon Electric Power Company (Arizona CC)
G-01551A-19-0055	Southwest Gas Corporation (Arizona CC)
2018-UN-205	Entergy Mississippi, LLC (Mississippi PSC)
W-03039A-17-0295, W-03039A-19-0092, and WS-01303A-19-0092	Brooke Water, LLC and EPCOR Water Arizona (Arizona CC)
Docket No. 4975	Block Island Utility District d/b/a Block Island Power Company (Rhode Island PUC)
A-2019-3014248	Pennsylvania-American Water Company and Wastewater System Assets of Kane Borough (Pennsylvania PUC)
Docket No. 4994	Providence Water Supply Board (Rhode Island PUC)
19-0791-GA-ALT	Plant in Service and Capital Spending Prudence Audit of Duke Energy Ohio (Ohio PUC)
U-19-070/U-19-071/ U-19-087/U-19-088	Golden Heart Utilities, Inc. and College Utilities Corporation (Regulatory Commission of Alaska)
Docket No. 42516	Georgia Power Company (Georgia PSC)
20200070-EI	Gulf Power Company (Florida PSC)
20200071-EI	Florida Power & Light Company (Florida PSC)
20200092-EI	Florida Power & Light Company and Gulf Power Company (Florida PSC)
20-GREC-01	Fitchburg Gas and Electric Light Company d/b/a Unitil (Massachusetts DPU)
20-GREC-03	Boston Gas Company and Colonial Gas Company d/b/a National Grid (Massachusetts DPU)
20-GREC-04	Liberty Utilities (New England Natural Gas Company) Corp d/b/a Liberty Utilities (Massachusetts DPU)
PUR-2020-00015	Appalachian Power Company (Virginia SCC)
20-0414-G-390P	Hope Gas, Inc. dba Dominion Energy West Virginia (West Virginia PSC)
Cause No. 45032-S16	Hamilton Southeastern Utilities, Inc. (Indiana URC)

2019.1.101	NorthWestern Energy (Montana PSC)
A-2019-3015173	Aqua Pennsylvania Wastewater Inc. and Wastewater System Assets of the Delaware County Regional Water Quality Control Authority (Pennsylvania PUC)
R-2020-3019369 and R-2020-3019371	Pennsylvania American Water Company (Pennsylvania PUC)
2020.06.076	Montana-Dakota Utilities Co. (Montana PSC)
P-20-005	Cook Inlet Pipeline LLC (Regulatory Commission of Alaska)
2020.05.055	Montana-Dakota Utilities Co. (Montana PSC)
2020.05.066	NorthWestern Energy (Montana PSC)
PUR-2020-00169	Virginia Electric and Power Company (Virginia SCC)
20-0746-G-42T	Hope Gas, Inc., d/b/a Dominion Energy West Virginia (West Virginia PSC)
20-553-EL-RDR	Management/Performance and Financial Audit of the Alternative Energy Rider of the Dayton Power and Light Company (Ohio PUC)
E-01345A-19-0236	Arizona Public Service Company (Arizona CC)
U-20-012	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
Docket No. 20-01-31	The Southern New England Telephone Company d/b/a Frontier Communications of Connecticut (SNET) (Connecticut PURA)
P-2020-3021191	Peoples Natural Gas Company LLC (Pennsylvania PUC)
A-2021-3026523, A-2021-3026515, and A-2021-3026522	Joint Application of Veolia Environnement S.A., Veolia North America, Inc., SUEZ S.A., SUEZ Water Pennsylvania Inc. and SUEZ Water Bethel Inc. (Pennsylvania PUC)
A-2021-3026794 and A-2021-3026796	Joint Application of Peoples Natural Gas Company LLC and Peoples Gas Company (Pennsylvania PUC)
A-2021-3026774 and A-2021-3026775	Joint Application of Aqua Pennsylvania Inc., and Aqua Pennsylvania Wastewater Inc. (Pennsylvania PUC)
A-2021-3024267	Aqua Pennsylvania Wastewater Inc. (Pennsylvania PUC)
R-2021-3027385 and R-2021-3027386	Aqua Pennsylvania, Inc, and Aqua Pennsylvania Wastewater, Inc. (Pennsylvania PUC)
21-0595-WW-AIR	Aqua Ohio, Inc. (Ohio PUC)
21-0596-ST-AIR	Aqua Ohio Wastewater, Inc. (Ohio PUC)
21-0369-W-42T	West Virginia-American Water Company (West Virginia PSC)
U-21-058	Cook Inlet Natural Gas Storage Alaska, LLC (Regulatory Commission of Alaska)
E-01345A-21-0056	Fuel and Purchased Power Audit of Arizona Public Service Company (Arizona CC)
SW-20445A-20-0214 et al	Global Water Resources, Inc. (Arizona CC)
PUR-2021-00058	Virginia Electric and Power Company (Virginia SCC)
U-21-070/U-21-071	Golden Heart Utilities, Inc. and College Utilities Corporation (Regulatory Commission of Alaska)
U-22-001	Railbelt Reliability Council for Certification of an Electric Reliability Organization (Regulatory Commission of Alaska)
Docket No. 44160	Georgia Power Company Integrated Resource Plan (Georgia PSC)
22-620-GA-RDR	Plant in Service and Capital Spending Prudence Audit of Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio (Ohio PUC)
PUR-2021-00255	Virginia-American Water Company (Virginia SCC)
RP19-3-003	El Paso Natural Gas Company, LLC (FERC)
22-0304-E-P	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
R-2022-3031672 and	

R-2022-3031673	Pennsylvania-American Water Company (Pennsylvania PUC)
22-0294-G-PC	Hope Gas, Inc., dba Dominion Energy West Virginia and Hope Gas Holdings (West Virginia PSC)
G-01551A-21-0368	Southwest Gas Corporation (Arizona CC)
2022-06-064	NorthWestern Energy (Montana PSC)
U-21-088, U-21-089, U-22-006, U-2-007, U-22-008, U-22-009	Sand Point Generating, LLC, North Slope Generating, LLC, TDX Manley Generating, LLC, TDX North Slope Generating, LLC, Sand Point Generating, LLC, TDX ADAK Generating, LLC. (Regulatory Commission of Alaska)
20220067-GU	Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company – Fort Meade, and Florida Public Utilities Company – Indiantown Division (Florida PSC)
PUR-2020-00015	Appalachian Power Company – Remand (Virginia SCC)
U-22-029	Golden Valley Electric Association, Inc. (Regulatory Commission of Alaska)
22-0393-E-ENEC	Appalachian Power Company and Wheeling Power Company (West Virginia PSC)
E-01773A-21-0298	Arizona Electric Power Cooperative, Inc. (Arizona CC)
Docket No. 44280	Georgia Power Company (Georgia PSC)
A-2019-3015173	Aqua Pennsylvania Wastewater Inc. and Wastewater System Assets of the Delaware County Regional Water Quality Control Authority - Remand (Pennsylvania PUC)
2022.07.078	NorthWestern Energy (Montana PSC)
2022-UN-86/2022-UN-087	Great River Utility Operating Company, LLC (Mississippi PSC)
E-01933A-22-0107	Tucson Electric Power Company (Arizona CC)
A-2022-3035298, A-2022-3035299, A-2022-3035490, A-2022-3035492	Manwalamink Water Company, Manwalamink Sewer Company, NextEra Water Pennsylvania, LLC (Pennsylvania PUC)
PUR-2022-00052	Virginia Natural Gas, Inc. (Virginia SCC)
U-22-078	Alaska Electric Light & Power Company (Regulatory Commission of Alaska)
U-22-081	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
22-47-WW	Narragansett Bay Commission (Rhode Island PUC)
E-01345A-22-0144	Arizona Public Service Company (Arizona CC)

Line No.	Valuation Method	Appraisers' Results			Results with OCA Adjustments				
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	
		WAD Consultants Individual Results	Weight	Weighted Result	OCA Adjustment	WAD Consultants Individual Results	Weight	Weighted Result	Exhibit Reference
1	Cost Approach	$ 240,895,239	50.0000%	$ 120,447,620	(24,240,053)	$ 216,655,186	50.0000%	$ 108,327,593	RCS-2
2	Income Approach	$ 259,277,679	40.0000%	$ 103,711,072	(51,702,515)	$ 207,575,164	40.0000%	$ 83,030,066	RCS-4
3	Market Approach	$ 220,195,730	10.0000%	$ 22,019,573	(2,048,219)	$ 218,147,511	10.0000%	$ 21,814,751	RCS-3
4	Total			$ 246,178,265				$ 213,172,411	
5	Conclusion			$ 246,178,265				$ 213,172,411	
		Gannett Fleming Individual Results	Weight	Weighted Result	OCA Adjustment	Gannett Fleming Individual Results	Weight	Weighted Result	
6	Cost Approach	$ 254,729,592	33.3300%	$ 84,901,373		$ 254,729,592	33.3300%	$ 84,901,373	
7	Income Approach	$ 264,469,512	33.3300%	$ 88,147,688	(1,929,020)	$ 262,540,492	33.3300%	$ 87,504,746	RCS-5
8	Market Approach	$ 178,105,462	33.3400%	$ 59,380,361		$ 178,105,462	33.3400%	$ 59,380,361	
9	Total			$ 232,429,422				$ 231,786,480	
10	Conclusion			$ 232,429,000				$ 231,786,000	
	Summary of Results			Appraiser Results				OCA Adjusted Results	
11	WAD Consultants			$ 246,178,265				$ 213,172,411	
12	Gannett Fleming			$ 232,429,000				$ 231,786,000	
13	Average			$ 239,303,633				$ 222,479,205	
14	Purchase Price			$ 231,500,000				$ 231,500,000	
									Adjustment
15	**Lesser of Purchase Price and Fair Market Value**			**$ 231,500,000**				**$ 222,479,205**	**$ (9,020,795)**

Notes and Source
Lines 1-5, cols. A through C: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report
Lines 6-10, cols. A through C: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal at January 19, 2023, Exhibit 22

Line No.	Valuation Method	Appraisers' Results (A)	(B)	(C)	Results with OCA Adjustments (D)	(E)		(F)	(G)	(H)
		WAD Consultants Individual Results	Weight	Weighted Result	OCA Adjustment	WAD Consultants Individual Results	Exhibit Reference	Adjust to Equal Weight	Weighted Result	Impact of Equal Weighting
1	Cost Approach	$ 240,895,239	50.0000%	$ 120,447,620	(24,240,053)	$ 216,655,186	RCS-2	33.3300%	$ 72,211,173	
2	Income Approach	$ 259,277,679	40.0000%	$ 103,711,072	(51,702,515)	$ 207,575,164	RCS-4	33.3300%	$ 69,184,802	
3	Market Approach	$ 220,195,730	10.0000%	$ 22,019,573	(2,048,219)	$ 218,147,511	RCS-3	33.3300%	$ 72,708,565	
4	Total			$ 246,178,265					$ 214,104,542	
										Weighting Adj
5	Conclusion			$ 246,178,265					$ 214,104,542	$ 932,131
		Gannett Fleming Individual Results	Weight	Weighted Result	OCA Adjustment	Gannett Fleming Individual Results		Weight	Weighted Result	
6	Cost Approach	$ 254,729,592	33.3300%	$ 84,901,373		$ 254,729,592		33.3300%	$ 84,901,373	
7	Income Approach	$ 264,469,512	33.3300%	$ 88,147,688	(1,929,020)	$ 262,540,492	RCS-5	33.3300%	$ 87,504,746	
8	Market Approach	$ 178,105,462	33.3400%	$ 59,380,361		$ 178,105,462		33.3400%	$ 59,380,361	
9	Total			$ 232,429,422					$ 231,786,480	
10	Conclusion			$ 232,429,000					$ 231,786,000	
	Summary of Results			Appraiser Results					OCA Adjusted Results	
11	WAD Consultants			$ 246,178,265					$ 214,104,542	
12	Gannett Fleming			$ 232,429,000					$ 231,786,000	
13	Average			$ 239,303,633					$ 222,945,271	
14	Purchase Price			$ 231,500,000					$ 231,500,000	
										Adjustment
15	**Lesser of Purchase Price and Fair Market Value**			**$ 231,500,000**					**$ 222,945,271**	**$ (8,554,729)**
16	**Difference Resulting from Equal Weighting of Adjusted WAD Valuation Results (line 15, this page, less line 15, page 1)**								**$ 466,066**	**$ 466,066**

Notes and Source
Lines 1-5, cols. A through C: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report
Lines 6-10, cols. A through C: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal at January 19, 2023, Exhibit 22
Col.D: OCA Adjustments - see the referenced Exhibits

			Per WAD Consultants		Per OCA		
Line No.	Description	Account No.	Iowa Curve	Replacement Cost New Less Depreciation (RCNLD)	Iowa Curve	Replacement Cost New Less Depreciation (RCNLD)	Adjustment
			(A)	(B)	(C)	(D)	(E) = (D) - (B)
1	Collection Sewers - Force - Mains - CIP	360.10	75-R3.0	$ 8,730,174	60-R3.0	$ 7,316,282	$ (1,413,892)
2	Collection Sewers - Gravity - Mains	361.10	80-R2.5	$ 71,152,734	60-R2.5	$ 51,296,410	$ (19,856,324)
3	Collection Sewers - Gravity - Manholes	361.20	80-R2.5	$ 12,072,354	60-R2.5	$ 9,102,517	$ (2,969,837)
4	Other	Various	Various	$ 148,939,977	Various	$ 148,939,977	$ -
5	Total			$ 240,895,239		$ 216,655,186	$ (24,240,053)

Notes and Source:
Cols. A&B: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 32
Cols. C&D: Recalculated using Appendix-A-4.2-WAD-EXCEL-Spreadsheets, see Larkin workpaper ("BASA Sewer Final OCLD and RCNLD" tab, cell AF1148)

For informational purposes, see Larkin Workpaper ("BASA Sewer Final OCLD and RCNLD" tab, cell BF1148):

	Per WAD Consultants	Per OCA	Difference
OCLD Value	$ 90,190,859	$ 85,533,698	$ (4,657,161)

Line No.	Description	Per WAD Consultants	Per OCA	Adjustment
		(A)	(B)	(C) = (B) - (A)
	Indicators			
1	OCLD	$ 162,091,011	$ 161,068,506	$ (1,022,505)
2	CORLD	$ 205,628,176	$ 194,361,367	$ (11,266,809)
3	Customers	$ 238,398,093	$ 238,398,093	$ -
	Cash Flows			
4	EBITDA Periods 1-5	$ 285,929,876	$ 285,929,876	$ -
5	EBITDA Periods 1-13	$ 264,979,858	$ 264,979,858	$ -
6	Value Line	$ 164,147,363	$ 164,147,363	$ -
7	Mean	$ 220,195,730	$ 218,147,511	$ (2,048,219)
8	Median	$ 222,013,135	$ 216,379,730	$ (5,633,404)
9	Conclusion	$ 220,195,730	$ 218,147,511	$ (2,048,219)

Notes and Source:

Col. A and Col. B, Lines 3-6: Appendix-A-4.2-WAD-EXCEL-Spreadsheets, "Market Approach Summary New For" tab
Col. B, Line 1: See OCA Exhibit RCS-3, page 2
Col. B: Line 2: See OCA Exhibit RCS-3, page 3

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to WAD Consultants Market Approach

OCA Exhibit RCS-3
Docket No. A-2022-3037047

Adjustment to OCLD Indicator

			Per WAD Consultants				Per OCA	
Line No.	PPOCLD	Type of System and Attributes	Purchase Price (PP)	Proportion of Purchase Price to Total	Depreciated Original Cost (OCLD) (AUS Consultants Determination	Purchase Price to (PP/OCLD)	Purchase Price to CORLD	Adjustment
			(A)	(B)	(C)	(D) = (A) / (C)	(E)	(F) = (E) - (D)
1	New Garden Twp. SA	Wastewater Collection and Paid for and Owned Treatment	$ 29,500,000	3%	$ 18,567,728	1.5888	1.5888	
2	East Bradford Township	Wastewater Collection and paid for treatment Capacity	$ 5,000,000	0%	$ 5,383,591	0.9287	0.9287	
3	East Whiteland Township	Wastewater Collection and Purchased Treatment Capacity	$ 54,930,000	5%	$ 33,403,972	1.6444	1.6444	
4	Lower Makefield	Wastewater Collection and Purchased Treatment Capacity	$ 53,000,000	5%	$ 20,644,920	2.5672	2.5672	
5	Willistown Township	Wastewater Collection and Treatment	$ 17,500,000	2%	$ 13,524,101	1.294		
6	Delaware County Regional Water Quality Authority (DELCORA)	Wastewater Collection and Treatment	$ 276,500,000	24%	$ 191,774,486	1.4418		
7	Kane	Wastewater Collection and Treatment	$ 17,560,000	2%	$ 12,070,455	1.4548	1.4548	
8	City of McKeesport	Wastewater Collection and Treatment	$ 159,000,000	14%	$ 80,085,602	1.9854	1.9854	
9	Exeter	Wastewater Collection and Treatment	$ 93,500,000	8%	$ 40,057,634	2.3341	2.3341	
10	City of York	Wastewater Collection and Treatment	$ 235,000,000	20%	$ 97,106,105	2.42	2.42	
11	Royersford	Wastewater Collection and Treatment	$ 13,000,000	1%	$ 5,173,559	2.5128	2.5128	
12	Limerick Township	Wastewater Collection and Treatment System	$ 64,373,378	6%	$ 46,153,867	1.3948	1.3948	
13	Mean					1.7972	1.8831	
14	Butler Area Sewer Authority (BASA)	OCLD				$ 90,190,859	$ 85,533,698	
15	Market Value Indication					$ 162,091,011	$ 161,068,506	$ (1,022,505)

Notes and Source:
Lines 1-13: Appendix-A-4.2-WAD-EXCEL-Spreadsheets, "Market Approach Sale New Format" and "Market Approach Summary New For" tabs
Line 14: See OCA Exhibit RCS-2

Adjustment to CORLD Indicator

			Per WAD Consultants				Per OCA	
Line No.	Property Acquired	Type of System and Attributes	Purchase Price (PP)	Proportion of Purchase Price to Total	Replacement Cost New less Depreciation (CORLD)	Purchase Price to CORLD	Purchase Price to CORLD	Adjustment
			(A)	(B)	(C)	(D) = (A) / (C)	(E)	(F) = (E) - (D)
1	New Garden Twp. SA	Wastewater Collection and Paid for and Owned Treatment	$ 29,500,000	3%	$ 30,615,410	0.9636	0.9636	
2	East Bradford Township	Wastewater Collection and paid for treatment Capacity	$ 5,000,000	0%	$ 9,236,581	0.5413	0.5413	
3	East Whiteland Township	Wastewater Collection and Purchased Treatment Capacity	$ 54,930,000	5%	$ 58,078,339	0.9458	0.9458	
4	Lower Makefield	Wastewater Collection and Purchased Treatment Capacity	$ 53,000,000	5%	$ 51,414,555	1.0308	1.0308	
5	Willistown Township	Wastewater Collection and Treatment	$ 17,500,000	2%	$ 30,113,231	0.5811		
6	Kane	Wastewater Collection and Treatment	$ 17,560,000	2%	$ 29,015,055	0.6052	0.6052	
7	Delaware County Regional Water Quality Authority (DELCORA)	Wastewater Collection and Treatment	$ 276,500,000	24%	$ 399,664,111	0.6918		
8	Limerick Township	Wastewater Collection and Treatment	$ 64,373,378	6%	$ 73,068,377	0.881	0.881	
9	Exeter	Wastewater Collection and Treatment	$ 93,500,000	8%	$ 99,589,819	0.9389	0.9389	
10	Royersford	Wastewater Collection and Treatment	$ 13,000,000	1%	$ 13,376,109	0.9719	0.9719	
11	City of McKeesport	Wastewater Collection and Treatment	$ 159,000,000	14%	$ 156,524,909	1.0158	1.0158	
12	City of York	Wastewater Collection and Treatment	$ 235,000,000	20%	$ 218,366,227	1.0762	1.0762	
13	Mean					0.8536	0.8971	
14	Butler Area Sewer Authority (BASA) CORLD					$ 240,895,239	$ 216,655,186	
15	Market Value Indication					$ 205,628,176	$ 194,361,367	$ (11,266,809)

Notes and Source:
Lines 1-13: Appendix-A-4.2-WAD-EXCEL-Spreadsheets, "Market Approach Sale New Format" and "Market Approach Summary New For" tabs
Line 14: See OCA Exhibit RCS-2

Discount Rate:	7.84%
Capitalization Rate:	4.76%

Line No.	Period	Age	Revenue Increase Percent	Adjusted Revenues	O&M Expenses	Tax Depreciation	Cash Flow from Operations	Taxable Income before State & Federal Taxes	State and Federal Taxes @ 28.89%	Capital Expenditures	Change in Working Capital	Net Cash Flows	Period Present Worth Factor (PW)	PW of Cashflow	Accumulated PW of Cashflows
	(A)	(B)	(C.1)	(C)	(D)	(E)	(F) = (C) - (D)	(G) = (F) - (E)	(H) = (G) x 28.89%	(I)	(J)	(K) = (C) - (D) - (H) - (I) - (J)	(L) = 1 / (1 + 7.84%) ^ (B)	(M) = (K) x (L)	(N) = Sum (M)
1	1	0.5		12,752,000	12,830,907	9,178,847	(78,907)	(9,257,754)	(2,674,565)	10,830,864	-	(8,235,206)	0.963	(7,930,503)	(7,930,503)
2	2	1.5	65%	21,040,800	12,764,804	9,582,429	8,275,996	(1,306,433)	(377,428)	11,075,651	339,841	(2,762,068)	0.893	(2,466,526)	(10,397,029)
3	3	2.5		21,040,800	12,742,504	10,004,884	8,298,296	(1,706,588)	(493,033)	11,322,571	-	(2,531,242)	0.828	(2,095,868)	(12,492,898)
4	4	3.5	50%	31,561,200	12,780,373	10,447,070	18,780,827	8,333,757	2,407,622	11,575,526	431,336	4,366,343	0.768	3,353,352	(9,139,546)
5	5	4.5		31,561,200	12,869,473	10,909,720	18,691,727	7,782,007	2,248,222	11,834,672	-	4,608,833	0.712	3,281,489	(5,858,057)
6	6	5.5	15%	36,295,380	12,935,902	11,393,593	23,359,478	11,965,885	3,456,944	12,100,168	388,203	7,414,163	0.660	4,893,348	(964,709)
7	7	6.5		36,295,380	13,047,580	9,982,089	23,247,800	13,265,711	3,832,464	5,660,003	-	13,755,333	0.612	8,418,264	7,453,555
8	8	7.5	10%	39,924,918	12,914,338	10,161,694	27,010,580	16,848,886	4,867,643	5,702,453	336,443	16,104,041	0.568	9,147,095	16,600,650
9	9	8.5		39,924,918	12,853,388	10,344,325	27,071,530	16,727,205	4,832,489	5,745,220	-	16,493,821	0.526	8,675,750	25,276,399
10	10	9.5	5%	41,921,164	12,879,562	10,530,018	29,041,602	18,511,585	5,347,997	5,788,309	201,865	17,703,431	0.488	8,639,274	33,915,674
11	11	10.5		41,921,164	12,874,551	10,718,808	29,046,613	18,327,804	5,294,903	5,831,721	-	17,919,989	0.453	8,117,755	42,033,429
12	12	11.5	3%	43,178,799	12,934,011	10,910,732	30,244,788	19,334,055	5,585,609	5,875,459	133,231	18,650,489	0.420	7,833,205	49,866,634
13	13	12.5		43,178,799	12,977,199	11,022,671	30,201,600	19,178,929	5,540,793	5,919,527	-	18,741,280	0.389	7,290,358	57,156,992
14	14	13.5	3%	44,474,163	13,117,643	11,219,639	31,356,520	20,136,882	5,817,545	5,963,923	141,225	19,433,827	0.361	7,015,612	64,172,603
15	15	14.5		44,474,163	13,185,707	11,419,827	31,288,456	19,868,629	5,740,047	6,008,651	-	19,539,758	0.335	6,545,819	70,718,422
16	16	15.5	3%	45,808,388	13,323,552	11,576,158	32,484,835	20,908,678	6,040,517	6,053,717	149,698	20,240,903	0.310	6,274,680	76,993,102
17	17	16.5		45,808,388	13,401,365	11,782,049	32,407,023	20,624,973	5,958,555	6,099,119	-	20,349,349	0.288	5,860,612	82,853,715
18	18	17.5	3%	47,182,639	13,554,963	11,991,261	33,627,676	21,636,415	6,250,760	6,144,863	158,681	21,073,372	0.267	5,626,590	88,480,305
19	19	18.5		47,182,639	13,776,850	12,203,830	33,405,789	21,201,959	6,125,246	6,190,950	-	21,089,593	0.247	5,209,129	93,689,434
20	Year 20 and Beyond													113,885,730	
21	Total Valuation														207,575,164
22	Total Valuation per WAD Consultants														259,277,679
23	Difference														(51,702,515)

Notes and Source:

Lines 1-19: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 10

Col. K, Line 20: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 10:

Net Plant in 20th Year (Per WAD)	200,273,788
ADIT in 20th Year (Per WAD)	(10,143,833)
Nominal Value of BASA's Net Investment	190,129,955

Col. L, Line 20: 1/(1+7.84%)^19.5

Line 21: Col. N, Line 19 + Col. M, Line 20

Adjusted Value, page 1	$	207,575,164
Adjusted Value, page 2	$	119,697,225
Average	$	163,636,194

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to WAD Consultants Income Approach

OCA Exhibit RCS-4
Docket No. A-2022-3037047

Discount Rate:	7.84%
Capitalization Rate:	4.76%

Line No.	Period	Age	Revenue Increase Percent	Adjusted Revenues	O&M Expenses	Tax Depreciation	Cash Flow from Operations	Taxable Income before State & Federal Taxes	State and Federal Taxes @ 28.89%	Capital Expenditures	Change in Working Capital	Net Cash Flows	Period Present Worth Factor (PW)	PW of Cashflow	Accumulated PW of Cashflows
	(A)	(B)	(C.1)	(C)	(D)	(E)	(F) = (C) - (D)	(G) = (F) - (E)	(H) = (G) x 28.89%	(I)	(J)	(K) = (C) - (D) - (H) - (I) - (J)	(L) = 1 / (1 + 7.84%) ^ (B)	(M) = (K) x (L)	(N) = Sum (M)
1	1	0.5		12,752,000	12,830,907	9,178,847	(78,907)	(9,257,754)	(2,674,565)	10,830,864	-	(8,235,206)	0.963	(7,930,503)	(7,930,503)
2	2	1.5	48%	18,872,960	12,764,804	9,582,429	6,108,156	(3,474,273)	(1,003,717)	11,075,651	339,841	(4,303,619)	0.893	(3,843,131)	(11,773,634)
3	3	2.5		18,872,960	12,742,504	10,004,884	6,130,456	(3,874,428)	(1,119,322)	11,322,571	-	(4,072,793)	0.828	(3,372,273)	(15,145,907)
4	4	3.5		18,872,960	12,780,373	10,447,070	6,092,587	(4,354,483)	(1,258,010)	11,575,526	431,336	(4,656,265)	0.768	(3,576,011)	(18,721,918)
5	5	4.5	16%	21,892,634	12,869,473	10,909,720	9,023,161	(1,886,560)	(545,027)	11,834,672	-	(2,266,484)	0.712	(1,613,737)	(20,335,655)
6	6	5.5		21,892,634	12,935,902	11,393,593	8,956,732	(2,436,861)	(704,009)	12,100,168	388,203	(2,827,630)	0.660	(1,866,236)	(22,201,891)
7	7	6.5		21,892,634	13,047,580	9,982,089	8,845,054	(1,137,035)	(328,489)	5,660,003	-	3,513,540	0.612	2,150,286	(20,051,605)
8	8	7.5	10%	24,081,897	12,914,338	10,161,694	11,167,559	1,005,865	290,594	5,702,453	336,443	4,838,069	0.568	2,748,023	(17,303,582)
9	9	8.5		24,081,897	12,853,388	10,344,325	11,228,508	884,184	255,441	5,745,220	-	5,227,847	0.526	2,749,848	(14,553,734)
10	10	9.5		24,081,897	12,879,562	10,530,018	11,202,335	672,318	194,233	5,788,309	201,865	5,017,928	0.488	2,448,749	(12,104,985)
11	11	10.5	2%	24,644,773	12,874,551	10,718,808	11,770,222	1,051,414	303,753	5,831,721	-	5,634,748	0.453	2,552,541	(9,552,444)
12	12	11.5		24,644,773	12,934,011	10,910,732	11,710,762	800,030	231,129	5,875,459	133,231	5,470,943	0.420	2,297,796	(7,254,648)
13	13	12.5		24,644,773	12,977,199	11,022,671	11,667,574	644,903	186,313	5,919,527	-	5,561,734	0.389	2,163,515	(5,091,134)
14	14	13.5	2%	25,220,875	13,117,643	11,219,639	12,103,233	883,594	255,270	5,963,923	141,225	5,742,815	0.361	2,073,156	(3,017,977)
15	15	14.5		25,220,875	13,185,707	11,419,827	12,035,168	615,341	177,772	6,008,651	-	5,848,745	0.335	1,959,330	(1,058,648)
16	16	15.5	2%	25,725,293	13,323,552	11,576,158	12,401,741	825,583	238,511	6,053,717	149,698	5,959,815	0.310	1,847,543	788,895
17	17	16.5		25,725,293	13,401,365	11,782,049	12,323,928	541,878	156,549	6,099,119	-	6,068,260	0.288	1,747,659	2,536,554
18	18	17.5	2%	26,239,799	13,554,963	11,991,261	12,684,835	693,574	200,374	6,144,863	158,681	6,180,917	0.267	1,650,305	4,186,859
19	19	18.5	2%	26,774,652	13,776,850	12,203,830	12,997,801	793,972	229,378	6,190,950	-	6,577,473	0.247	1,624,636	5,811,495
20	Year 20 and Beyond													113,885,730	
21	Total Valuation														119,697,225
22	Total Valuation per WAD Consultants														259,277,679
23	Difference														(139,580,454)

Notes and Source:
Lines 1-19: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 10

Col. K, Line 20: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 10:

Net Plant in 20th Year (Per WAD)	200,273,788
ADIT in 20th Year (Per WAD)	(10,143,833)
Nominal Value of BASA's Net Investment	190,129,955

Col. L, Line 20: 1/(1+7.84%)^19.5
Line 21: Col. N, Line 19 + Col. M, Line 20

Revenues in Year 18&19	26,774,652
Revenues in Year 1	12,752,000
Difference: Dollar	14,022,652
Percent	110%

Line No.	Description	Per Gannett Fleming (A)	OCA Adjusted (B)	OCA Adjustment (C) = (B) - (A)
	Part I: Gannett Flemming Income Approach			
	Municpal Ownership			
1	DCF With Capitalization of Terminal Value Model @ 3.77% / 3.97%	$ 266,688,578	$ 258,972,497	$ (7,716,081)
2	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 3.77% / 3.97%	$ 279,684,623	$ 279,684,623	
3	Median	$ 273,186,600	$ 269,328,560	$ (3,858,040)
	IOU Ownership			
4	DCF With Capitalization of Terminal Value Model @ 7.65% / 7.85%	$ 236,176,862	$ 236,176,862	$ -
5	DCF With Capitalization of Terminal Value Model @ 9.55% / 9.75%	$ 177,441,507	$ 177,441,507	$ -
6	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 7.85%	$ 359,018,321	$ 359,018,321	$ -
7	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 9.75%	$ 275,327,987	$ 275,327,987	$ -
8	Median	$ 255,752,425	$ 255,752,425	$ -
9	Total Income Approach Valuation (Median of Lines 3 and 8)	$ 264,469,512	$ 262,540,492	$ (1,929,020)

Notes and Source:
Col. A: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 17
Col. B: Exhibit RCS-5, page 2
Col.B, lines 4-7: Does not currently reflect an adjustment to remove 0.2% growth assumption which may be needed.

Line No.	Description				Actual		Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
							Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	OPERATING REVENUES														
1	Charges for services	0	0	10,373,400	10,692,751	10,890,555	12,160,150	12,219,714	12,975,319	18,596,309	18,774,134	18,895,114	21,803,260	21,877,392	21,951,775
2	Other operating revenue	0	0	203,150	144,273	260,786	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	0	0	0	0	696,330	6,139,495	0	0	2,834,267	0	0	2,195,177
5	**Total Operating Revenues**	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	19,213,164	18,694,659	18,872,484	21,827,731	21,901,610	21,975,742	24,245,302
	OPERATING EXPENSES														
6	Operating & Maintenance Expenses	0	0	6,478,400	6,140,125	6,250,851	6,193,970	6,348,819	6,507,540	6,670,228	6,836,984	7,007,909	7,183,106	7,362,684	7,546,751
7	Remove Economies of Scale														
8	LESS: EOS - Wages & Benefits	0	0	0	0	0	(599,880)	(614,877)	(630,249)	(646,005)	(662,155)	(678,709)	(695,677)	(713,069)	(730,896)
9	LESS: EOS - Professional Services	0	0	0	0	0	(114,560)	(117,424)	(120,360)	(123,369)	(126,453)	(129,614)	(132,854)	(136,176)	(139,580)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	**Operating Expenses Before Depreciation**	0	0	6,478,400	6,140,125	6,250,851	5,479,530	5,616,518	5,756,931	5,900,854	6,048,376	6,199,585	6,354,575	6,513,439	6,676,275
14	Depreciation	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
15	**Total Operating Expenses**	0	0	10,173,578	9,825,974	9,936,700	9,213,462	10,008,673	10,283,658	10,633,559	11,037,683	11,368,162	11,597,635	11,832,057	12,071,539
16	**Operating Income**	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
17	Revenues	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	19,213,164	18,694,659	18,872,484	21,827,731	21,901,610	21,975,742	24,245,302
18	EBITDA	0	0	4,098,150	4,696,899	4,900,490	6,778,970	7,397,876	13,456,233	12,793,805	12,824,108	15,628,146	15,547,035	15,462,303	17,569,027
19	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
20	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
21	(-) Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22	Debt Free Net Income	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
23	(+) Depreciation & Amortization	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
24	(-) Capital Expenditures	0	0	296,183	958,729	1,675,045	1,468,260	7,525,000	11,475,000	17,625,000	17,200,000	5,035,326	5,107,889	5,181,499	5,256,169
25	(-) Changes in Working Capital	0	0	(5,288)	(5,419)	(5,576)	(6,129)	(6,507)	(9,607)	(9,347)	(9,436)	(10,914)	(10,951)	(10,988)	(12,123)
26	Debt Free Net Cash Flow	$0	$0	$3,807,255	$3,743,589	$3,231,021	$5,316,839	($120,617)	$1,990,839	($4,821,848)	($4,366,456)	$10,603,734	$10,450,097	$10,291,792	$12,324,980
								1	2	3	4	5	6	7	8
27	Present Value Factor: 3.97%							0.9807	0.9433	0.9073	0.8726	0.8393	0.8072	0.7764	0.7468
28	Present Value Debt Free Net Cash Flow							($118,289)	$1,877,959	($4,374,863)	($3,810,169)	$8,899,714	$8,435,318	$7,990,547	$9,204,295

DCF With Capitalization of Terminal Value Model @ 3.97%

	Terminal Value
Projected Debt Free Net Cash Flow (10)	$12,335,592
Divided by Capitalization Factor (9)	3.97%
20th Year Terminal Value	310,720,196
20th Year Present Value Factor (12)	0.4681
Present Value of Terminal Value	145,448,124
Present Value Debt Free Net Cash Flow for 20 Years	113,524,373
Indicated Value	$258,972,497

DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 3.97%

		Multiples (13)	Terminal Value
Projected EBIT	$12,156,672	30.2	$367,131,483
Projected EBITDA	18,562,562	18.8	348,976,167
Weighted (1/3 EBIT 2/3 EBITDA) Terminal Value			354,967,421
20th Year Present Value Factor (12)			0.4681
Present Value of Terminal Value			166,160,250
Present Value Debt Free Net Cash Flow for 20 Years			113,524,373
Indicated Value			$279,684,623

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 15

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to Gannett Fleming MUNI Income Approach

OCA Exhibit RCS-5
Docket No. A-2022-3037047

Line No.	Description	Estimated Year 9 2032	Estimated Year 10 2033	Estimated Year 11 2034	Estimated Year 12 2035	Estimated Year 13 2036	Estimated Year 14 2037	Estimated Year 15 2038	Estimated Year 16 2039	Estimated Year 17 2040	Estimated Year 18 2041	Estimated Year 19 2042	Estimated Year 20 2043
	OPERATING REVENUES												
1	Charges for services	24,229,052	24,311,431	24,394,089	24,966,570	25,051,456	25,136,631	25,726,538	25,814,008	26,290,302	26,379,689	26,892,890	26,984,326
2	Other operating revenue	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	487,882	0	0	502,733	0	387,210	0	422,075	0	458,734
5	**Total Operating Revenues**	24,327,402	24,409,781	24,980,321	25,064,920	25,149,806	25,737,714	25,824,888	26,299,568	26,388,652	26,900,114	26,991,240	27,541,410
	OPERATING EXPENSES												
6	Operating & Maintenance Expenses	7,735,420	7,928,805	8,127,025	8,330,201	8,538,456	8,751,917	8,970,715	9,194,983	9,424,858	9,660,479	9,901,991	10,149,541
7	Remove Economies of Scale												
8	LESS: EOS - Wages & Benefits	(749,168)	(767,897)	(787,095)	(806,772)	(826,941)	(847,615)	(868,805)	(890,525)	(912,788)	(935,608)	(958,998)	(982,973)
9	LESS: EOS - Professional Services	(143,070)	(146,646)	(150,313)	(154,070)	(157,922)	(161,870)	(165,917)	(170,065)	(174,317)	(178,675)	(183,141)	(187,720)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	0	0	0	0	0	0	0	0	0	0	0	0
13	**Operating Expenses Before Depreciation**	6,843,182	7,014,262	7,189,618	7,369,359	7,553,593	7,742,432	7,935,993	8,134,393	8,337,753	8,546,197	8,759,852	8,978,848
14	Depreciation	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
15	**Total Operating Expenses**	12,316,196	12,566,147	12,821,511	13,082,412	13,348,977	13,621,332	13,899,613	14,183,955	14,474,494	14,771,374	15,074,740	15,384,738
16	**Operating Income**	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
17	Revenues	24,327,402	24,409,781	24,980,321	25,064,920	25,149,806	25,737,714	25,824,888	26,299,568	26,388,652	26,900,114	26,991,240	27,541,410
18	EBITDA	17,484,220	17,395,519	17,790,703	17,695,561	17,596,213	17,995,282	17,888,895	18,165,175	18,050,899	18,353,917	18,231,388	18,562,562
19	EBIT	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
20	EBIT	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
21	(-) Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0
22	Debt Free Net Income	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
23	(+) Depreciation & Amortization	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
24	(-) Capital Expenditures	5,331,915	5,408,752	5,486,697	5,565,766	5,645,973	5,727,337	5,809,873	5,893,598	5,978,530	6,064,686	6,152,084	6,240,741
25	(-) Changes in Working Capital	(12,164)	(12,205)	(12,490)	(12,532)	(12,575)	(12,869)	(12,912)	(13,150)	(13,194)	(13,450)	(13,496)	(13,771)
26	Debt Free Net Cash Flow	$12,164,469	$11,998,972	$12,316,496	$12,142,328	$11,962,815	$12,280,813	$12,091,934	$12,284,727	$12,085,563	$12,302,681	$12,092,800	$12,335,592
		9	10	11	12	13	14	15	16	17	18	19	20
27	Present Value Factor: 3.97%	0.7183	0.6908	0.6645	0.6391	0.6147	0.5912	0.5686	0.5469	0.5260	0.5060	0.4866	0.4681
28	Present Value Debt Free Net Cash Flow	$8,737,738	$8,288,890	$8,184,312	$7,760,162	$7,353,543	$7,260,417	$6,875,474	$6,718,517	$6,357,006	$6,225,157	$5,884,356	$5,774,291

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Rep

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

VERIFICATION

I, Ralph C. Smith, hereby state that the facts set forth in my Direct Testimony, OCA Statement 2, 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: July 12, 2023
*349009

Signature: Ralph C. Smith
Ralph C. Smith

Consultant Address: Larkin & Associates, PLLC
15728 Farmington Road
Livonia, MI 48154

OCA Statement 2 SR

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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland and Summit, in Butler County, Pennsylvania	:	Docket Nos. A-2022-3037047, *et al.*

SURREBUTTAL TESTIMONY

OF

RALPH C. SMITH

REGARDING ADJUSTED VALUATION STUDY RESULTS

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 21, 2023

SURREBUTTAL TESTIMONY OF RALPH C. SMITH
TABLE OF CONTENTS

Page

EXHIBITS:

RCS-1, Revised Valuation Results

RCS-5, Updated Adjustment to Gannett Fleming Income Approach to Incorporate Removal of Growth Factor from IOU Scenario

RCS-6, Summary of Revenue and Income Tax Adjustments to WAD Consultants Income Approach

I. INTRODUCTION

Q. Please state your name, position, and business address.

A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Are you the same Ralph C. Smith who previously submitted testimony in this proceeding?

A. Yes. I filed direct testimony in this proceeding on June 12, 2023.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony responds to the rebuttal testimony of PAWC witness Jerome Weinert of WAD Consultants and BASA witness Harold Walker, III, of Gannett Fleming concerning valuation results. Witness Morgan DeAngelo is also submitting surrebuttal testimony on behalf of the OCA concerning other issues pertaining to the proposed transaction.

Q. Have you prepared any exhibits to be submitted with your surrebuttal testimony?

A. Yes.

Q. How is your surrebuttal testimony organized?

A. I first respond to Applicant Rebuttal witness comments concerning my qualifications and the scope of work. I then respond to PAWC's witness Weinert concerning the valuation results. I address recommended adjustments to the WAD

Consultant's Cost Approach, Income Approach and Market Approach. I also address the weighting of the WAD Consultants valuation results. I then respond to BASA witness Walker regarding adjustments to Gannett Fleming Income Approach. Finally, I summarize my recommendations for the adjusted valuation results.

II. RESPONSE TO APPLICANT REBUTTAL TESTIMONY

Q. To what Applicant Rebuttal Testimony are you responding in your Surrebuttal Testimony?

A. In my Surrebuttal Testimony, I respond to the following Applicant Rebuttal Testimony witnesses:

- PAWC witness Jerome Weinert
- BASA witness Harold Walker, III

First, I respond to statements in the Applicant's rebuttal testimony about my qualifications and the scope of work. I then respond to Rebuttal on the specific adjustments that are being recommended to the valuation results.

III. RESPONSE TO APPLICANT REBUTTAL WITNESSES ON QUALIFICATIONS AND SCOPE OF WORK

Q. Applicant witness Walker states at page 2 of his Rebuttal Testimony that your recommendations "are a direct violation of Section 1329 of the Public Utility Code." Is that accurate?

A. No. The Commission in addressing utility applications under Section 1239 of the Public Utility Code has provided for interested parties such as the OCA to file testimony and for hearings. Moreover, in a number of the previous cases before the Commission involving utility acquisitions under Section 1329, the Commission has required adjustments to the valuations submitted by witnesses hired by the Applicants. I am advised by counsel that the testimony I have submitted in the current case, as well as testimony that has previously been submitted by the OCA in other Section 1329 cases, is fully consistent with the procedures and practices that have been established by the Commission for addressing Section 1329 applications.

Q. In previous Section 1329 cases, has the Commission given consideration to recommended adjustments to the valuation results that were submitted by witnesses appearing on behalf of Applicants?

A. Yes. In the Cheltenham proceeding, the Commission stated as follows:

> Therefore, we agree with the OCA and the ALJ that the statutory appraisal process is not simply a formulaic mathematical exercise, nor is the Commission acting as some type of USPAP-compliance board. We agree that review of the appraisals provided by Aqua and Cheltenham UVEs shows that there are judgments made in each type of analysis as well as in how much weight is to be given to each approach. We also agree that it would be inconsistent with the requirements of the Code and prior Commission orders to permit Aqua to simply present a rate base number, show that the appraisers chose numbers to fill in all the blanks in the formulas and based solely upon the judgments of the UVEs, and to not permit any review or challenges of those inputs, methods or judgments.

Application of Aqua Pennsylvania Wastewater, Inc., Docket No. A-2019-3008491, Order at 40 (Nov. 5, 2019) (Cheltenham).

Q. At page 2 of his Rebuttal Testimony, Applicant witness Mr. Walker states that you did not perform an appraisal. Please respond.

A. My firm, Larkin & Associates, was not hired by the OCA to "perform an appraisal"; rather, we were retained to review the results of the appraisals that were submitted in this case on behalf of the Applicants, and to recommend appropriate adjustments where such adjustments were believed to be necessary.

Q. Is that approach in accordance with how the Commission has addressed acquisitions of utility systems in Pennsylvania in other Section 1329 cases?

A. Yes.

Q. At page 2 of his Rebuttal Testimony, Mr. Walker claims that you have never performed a fair market value appraisal of other wastewater utility assets, and at page 3, he states that you have never valued utility property. Is that accurate?

A. No. In the 1996-1997 time frame, Larkin & Associates and the engineering firm of Crawford, Murphy & Tilly, Inc. were retained by the Village of University Park, Illinois, to perform a valuation study of the water and sewer utility assets serving the Village. Confidential draft reports containing the valuation were submitted to the Village. Around that same time frame, working for counsel representing two cities in Illinois, Danville and Kankakee, less formalized valuation studies were conducted of the investor-owned utility assets serving residents of those cities and/or which were located within each of those cities for consideration in a potential eminent domain proceeding that to my knowledge were ultimately not pursued.

Q. At pages 2-3 of his Rebuttal Testimony, Mr. Walker claims that those cases are not listed in your qualifications. Is that accurate?

A. No. The Village of University Park water and sewer utility system valuation study is listed in my qualifications appendix on page 7 of 17, near the bottom of that page. The City of Danville, Illinois water utility system valuation is also listed on that same page. Both are listed there as "non-docketed projects." The water utility system valuation project that was done in a similar time frame for counsel representing the City of Kankakee, Illinois, is not specifically listed in my qualifications appendix; however, based on my recollection, that valuation study was conducted after a 1995 Kankakee Water District rate case, which is listed in my qualifications appendix on page 6 of 17, at the bottom of that page, based on concerns that the city had at that time about water utility rate increases that were occurring under the investor-owned utility and lack of control by the city of certain water system improvement projects that the city had constructed, or paid to have constructed, and had contributed to the investor-owned water utility, which were being accounted for as Contributions in Aid to Construction (CIAC).

Q. Have you been required to address utility fair value rate base in numerous cases before the Arizona Corporation Commission?

A. Yes. The Arizona state constitution requires that the Arizona Corporation Commission make a determination of a utility's fair value rate base. I have been a witness for the Arizona Commission Staff and/or for intervenors in numerous utility rate cases before the Arizona Corporation Commission in which the adjusted fair value rate base for the utility was presented in my testimony and exhibits and attachments thereto. Adjusted utility fair value rate base was addressed in my testimony before the Arizona Corporation Commission in each of those cases in which I have been the primary revenue requirement witness on behalf of the Arizona Corporation Commission Utilities Division Staff, or on behalf of an intervenor party. Those cases are listed in my qualifications attached to my Direct Testimony.

Q. Does PAWC witness Weinert make similar claims in his Rebuttal Testimony attempting to question your qualifications as an expert in utility fair value rate base determinations and/or your qualifications to make recommended adjustments to appraisals of utility plant that were submitted by the Applicants?

A. Yes. At pages 1-3, Mr. Weinert states that he finds it difficult to understand how I could be qualified to recommend adjustments to the appraisal he submitted.

Q. Has your testimony on behalf of the OCA in previous Section 1329 cases before the Commission been accepted into evidence?

A. Yes.

Q. Have some of the adjustments that were recommended by you, or other witnesses submitting testimony on behalf of the OCA in Section 1329 proceedings to valuations that were presented by Applicant sponsored witnesses been accepted by the Commission?

A Yes. Adjustments to valuations submitted by Applicants, including adjustments to valuation studies that were sponsored by Mr. Weinert in previous Section 1329 cases, have been required by the Commission, including adjustments to the unreasonably long depreciation lives that Mr. Weinert has used.

Q. Just because a valuation study has been submitted by witnesses for the Applicants, does that mean that the Commission must accept those valuations as-submitted, without adjustments?

A. No. Section 1329 requires valuations to be submitted on behalf of the Buyer and Seller. However, I am advised by counsel that the Commission retains the authority to review all evidence submitted by parties in Section 1329 cases and that the Commission can require adjustments to the Applicant-submitted valuations if the Commission determines that such adjustments are needed. A review of previous Section 1329 cases that have been decided by the Commission supports this view.

IV. RESPONSE TO PAWC WITNESS WEINERT ON VALUATION RESULTS

Q. What areas of the WAD Consultants valuation in this case are being disputed?

A. Adjustments have been recommended to the WAD Consultants valuation results under each of the three valuation approaches, the Cost Approach, the Income Approach and the Market Approach.

<u>WAD Consultants Cost Approach</u>

Q. What is the dispute concerning the WAD Consultants Cost Approach?

A. The dispute involves the WAD Consultants Cost Approach using estimated depreciable lives for three key accounts that are too long.

Q. At pages 4-9, Mr. Weinert states that he utilized depreciation studies from PAWC and other utilities' rate cases as his basis for recommending a 75-year useful life for collection sewers, force mains, and 80-year lives for collection sewers gravity mains and manholes. What is the concern about Mr. Weinert's reliance upon those utility rate case depreciation studies?

A. The concern is that BASA and not an investor-owned utility, such as PAWC or Aqua, has owned and maintained the wastewater utility property that PAWC is attempting to acquire in this transaction. The 80 and 75-year lives that Mr. Weinert has recommended for these accounts are based on depreciation studies submitted by investor-owned utilities in their rate cases, not on a detailed depreciation study of the BASA wastewater utility system assets. Mr. Weinert notes that a number of the utility rate case depreciation studies that he is relying upon were prepared by Gannett Fleming. However, the witness from Gannett Fleming in the current Section 1329 case, Mr. Walker, has also recommended notably shorter lives than Mr. Weinert has for each of those three accounts.[1]

[1] Mr. Walker's Cost Approach valuation used 70-R2.5 for account 360.10, Force Mains; 65-R2.5 for account 361.10, Gravity Mains; and 60-R3 for account 361.12, Manholes. Each of those is notably shorter than the lives Mr. Weinert used in his Cost Approach for those accounts.

Q. Has Mr. Weinert's use of longer depreciable lives for those three accounts served to increase his Cost Approach results?

A. Yes. In the Cost Approach the calculated amount of accumulated depreciation is an offset to the amount of escalated utility plant. As a general matter, using longer depreciation lives increases the Cost Approach results due to calculating a lower amount of accumulated depreciation. Conversely, using shorter depreciation lives reduces the Cost Approach results due to calculating more accumulated depreciation.

Q. Do you stand by your recommendation that the depreciation lives proposed by Mr. Weinert for those three accounts are too long for valuation purposes and require adjustment?

A Yes. The Commission has recognized in other Section 1329 cases that the depreciation lives for similar accounts in Mr. Weinert's cost approach are too long, and require adjustment, which has decreased his recommended Cost Approach valuations. As noted above, I am not the only witness who is recommending shorter depreciation lives than Mr. Weinert has proposed for those three accounts. The witness from Gannett Fleming, Mr. Walker, has also recommended notably shorter lives than Mr. Weinert has for those three accounts.

Q. Has the Commission used 60-year depreciable lives for similar wastewater utility plant accounts in other recent Section 1329 cases in which Mr. Weinert had submitted a valuation study that attempted to use longer lives?

A. Yes. In Docket No. A-2021-3026132, involving an acquisition of the East Whiteland Township sewer system by Aqua Pennsylvania Wastewater, Inc., a table appears at page 54 of the Commission's Opinion and Order dated July 29, 2022 which contains the following summary of Mr. Weinert's and OCA's recommended lives for those accounts[2]:

Proposed Iowa Curve Adjustments to AUS Consultants:

Account	Description	AUS Iowa Curve	OCA Iowa Curve
360.21	COLLECTION SEWERS - FORCE - MAINS	75-R3	60-R3
361.21	COLLECTION SEWERS - GRAVITY - MAINS	80-R2.5	60-R2.5
361.23	COLLECTION SEWERS - GRAVITY - MANHOLES	80-R2.5	60-R2.5

Pages 60-61 of that Order adopted the OCA's recommended 60-year useful lives for those accounts, stating in part as follows:

> AUS recommends a 75-year service life for Account No. 360.21 (Collection Sewers - Force Mains) and an 80-year service life for Account No. 361.21 (Collection Sewers - Gravity Mains). The 80-year service life for gravity sewer mains was found excessive for the sewer gravity mains in Lower Makefield. In that case, a longer 80-year service life as recommended for lined vitreous concrete pipe (VCP) was not appropriate as the system was mostly unlined VCP and only a small portion of the system was lined. In Lower Makefield a value of 65-years was recommended. Lower Makefield at 44-45.
>
> …
>
> We find that the 80-year service lives proposed by AUS for Accounts 361.21 and 361.23 are not reasonable. We also find that the 75-year service life for Force Mains is too high here. While AUS maintains that both the force mains and gravity mains in the EWT System are plastic, which it contends justifies the 75-year service life, the mains are approximately 50% plastic. We note that Gannett Fleming used a 65-year life for gravity mains. Application Exh. Q, Exh. 7 at 3. We are persuaded that the OCA's recommended 60-year service life is reasonable for these three accounts.

[2] Mr. Weinert was with AUS Consultants for that case.

Mr. Weinert was with AUS when he sponsored the above-cited valuation study.

Q. Please summarize what depreciation lives you recommend for accounts 360.21, 361.21 and 361.23.

A. I recommend a use of 60-year depreciable lives for each of those three accounts, as explained in my Direct Testimony and above. Adjustments to Mr. Weinert's proposed much-longer lives for similar accounts have been required in other Section 1329 valuations, and should similarly be required for the valuation under the Cost Approach of BASA in the current proceeding.

WAD Consultants Income Approach

Q. What is the dispute concerning the WAD Consultants Income Approach?

A. The dispute concerning the WAD Consultants Income Approach involves the improbable projection of annual revenue increases that was used by Mr. Weinert in his proposed valuation. As set forth in my Direct Testimony, as a witness for PAWC, the Buyer, in the current proceeding, Mr. Weinert projected the following amounts of annual revenue for the BASA wastewater utility system:

Period	Age	WAD Projected Annual Utility Revenues	Calculated Annual Percent Increase	Calculated Cumulative Increase	Increase Over Year One
(A)	(B)	(C)	(D)	(E)	(F)
1	0.5	$ 12,752,000			
2	1.5	$ 21,040,800	65%	65%	65%
3	2.5	$ 21,040,800	0%	65%	65%
4	3.5	$ 31,561,200	50%	98%	148%
5	4.5	$ 31,561,200	0%	98%	148%
6	5.5	$ 41,029,560	30%	127%	222%
7	6.5	$ 41,029,560	0%	127%	222%
8	7.5	$ 49,235,472	20%	152%	286%
9	8.5	$ 49,235,472	0%	152%	286%
10	9.5	$ 54,159,019	10%	167%	325%

Period	Age	WAD Projected Annual Utility Revenues	Calculated Annual Percent Increase	Calculated Cumulative Increase	Increase Over Year One
(A)	(B)	(C)	(D)	(E)	(F)
11	10.5	$ 54,159,019	0%	167%	325%
12	11.5	$ 57,408,560	6%	177%	350%
13	12.5	$ 57,408,560	0%	177%	350%
14	13.5	$ 60,853,074	6%	188%	377%
15	14.5	$ 60,853,074	0%	188%	377%
16	15.5	$ 64,504,258	6%	199%	406%
17	16.5	$ 64,504,258	0%	199%	406%
18	17.5	$ 68,374,513	6%	211%	436%
19	18.5	$ 68,374,513	0%	211%	436%
		$ 55,622,513	Annual Revenues Year 19 less Year 1		
		436%	Percent Increase Over Year 1		

The utility revenue increase projections reflect a more than tripling of annual revenue by year ten and a more than quadrupling of annual revenue by year 16. By years 18 and 19, Mr. Weinert projects that annual revenue for this acquired sewer utility will be $68.375 million, which is $55.623 million or 436% higher than the year one annual revenue amount of $12.752 million. This projection of annual revenue increases that was used by Mr. Weinert represents an improbable scenario for ratepayers of the BASA system. Moreover, it appears to be unreliable and therefore should not be used, without adjustment, in determining the Income Approach valuation.

Q. At page 17 of his Rebuttal Testimony, Mr. Weinert claims that there is a "mismatch between revenue growth and expense growth" in your adjusted Income Approach. How did you adjust expenses in the Income Approach to correspond with the adjustments to revenue growth?

A. The income tax expense that is directly impacted by the adjustments to the excessive revenue growth that had been incorporated in Mr. Weinert's Income Approach has been adjusted, as demonstrated on Exhibit RCS-6 submitted with my Surrebuttal Testimony. The adjustment to the excessive revenue in each year has had a corresponding adjustment to income taxes in each year. Moreover, the corresponding adjustments to income taxes in each year were calculated consistently with how Mr. Weinert computed income taxes in each year in his Income Approach. Contrary to Mr. Weinert's assertion that there has been a mismatch between revenue growth and expense growth, the income tax expenses which are directly impacted by the amount of revenue in each year have been recalculated to specifically match the adjustment to revenue in each year in which the projected annual revenue amounts used by Mr. Weinert were adjusted.

Q. What is the result of your recommended adjustments to Revenue and Income Taxes in the WAD Consultants' Income Approach?

A. As shown on Exhibit RCS-4 submitted with my Direct Testimony, the adjustments to revenues and the corresponding adjustments to income taxes, result in a $51.7 million reduction to the Income Approach valuation from WAD Consultants. As noted above, additional details on how the income taxes have been adjusted to correspond with the revenue adjustments in each year has been presented on Exhibit RCS-6, submitted with my Surrebuttal Testimony.

WAD Consultants Market Approach

Q. Does Mr. Weinert's Rebuttal Testimony specifically respond to your recommended adjustments to the WAD Consultants' Market Approach valuation result?

A. Yes. At page 12 of his Rebuttal Testimony, Mr. Weinert agrees that the elimination of two transactions that he had included (Willistown Township and DELCORA) that have not been completed is reasonable.

On page 12 he also stated that he generally relied on a weighted average of market results, rather than a simple average. The Commission has required the use of a simple average and I have used a simple average. My recalculation of Mr. Weinert's Market Results also confirmed that he used a simple average. The use of a simple average, therefore, does not appear to be a contested issue.

At pages 12-13, Mr. Weinert claims that the Market Approach results for the OCLD and CORLD should be higher by $5.329 million and $7.171 million, respectively.

He states at page 14 of his Rebuttal Testimony that with those adjustments to the OCLD and CORLD indicators, the revised Market Approach result would be $220.231 million, which is similar to the WAD Consultants original proposed result of $220.196 million. He provides calculations of the adjustments on Exhibit PAWC-JCW-3 attached to his Rebuttal Testimony.

Q. Does the use of Mr. Weinert's recalculated Market Approach result of $220.231 million appear to be consistent with the use of the 60-year depreciable lives for the three collection sewer accounts (360.21, 360.21 and 361.23) that you have recommended for the WAD Consultants Cost Approach, which were discussed above?

A. Yes.

Q. Please summarize your updated recommendation concerning the WAD Consultants' Market Approach result.

A. As shown on Exhibit RCS-1, Revised, submitted with my Surrebuttal Testimony, on page 1, line 3, in column E, and on Exhibit RCS-1, Revised, page 2, line 3, column E, I have accepted the revised Market Approach result of $220.231 million that is discussed on pages 12-13 of Mr. Weinert's Rebuttal Testimony and shown on Exhibit PAWC-JCW-3 that was submitted with Mr. Weinert's Rebuttal Testimony. As shown on Exhibit RCS-1, pages 1 and 2, line 3, in column E, the adjusted Market Approach result of $220.231 million, is $35,123 higher (as shown in column D) than the $220.196 million amount originally proposed by Mr. Weinert (which is shown in column A).

Weighting of WAD Consultants Valuation Results

Q. At pages 17-20 of his Rebuttal Testimony, Mr. Weinert addresses the weighting of the valuation results. Can you please clarify the purpose of presenting equal weighted results on page 2 of Exhibit RCS-1 that was submitted with your Direct Testimony and on page 2 of Exhibit RCS-1 Revised, that is submitted with your Surrebuttal Testimony?

A. Yes. I presented the valuation results using an equal weighting for informational purposes. That information using equal weightings of the adjusted valuation results has been presented on page 2 of Exhibit RCS-1, submitted with my Direct Testimony, and on page 2 of Exhibit RCS-1 Revised, submitted with my Surrebuttal Testimony. Exhibit RCS-1 Revised, page 2, shows the impact that using equal weightings would have on the Applicant-submitted WAD Consultants valuation results. As I noted in my Direct Testimony in this case, the Gannett Fleming valuations in the current case and in other §1329 acquisition cases appear to have consistently applied an equal weighting approach to the valuation results, whereas the valuations submitted by Mr. Weinert, when he was with AUS and now as WAD Consultants, have typically used a 50/40/10 weighting. As I pointed out in my Direct Testimony, Mr. Weinert stated that he based his disproportionate Cost/Income/Market approach weightings on his opinion. I have shown the impact that using equal weightings would have on the Applicant-submitted WAD valuation results and on my adjusted WAD valuation results in this case. If the Commission uses the unequal weightings, it should do so by applying the unequal weightings to the OCA's adjusted WAD valuation results.

V. RESPONSE TO BASA WITNESS WALKER REGARDING GANNETT FLEMING INCOME APPROACH

Q. What is the dispute with the Gannett Fleming Income Approach in this case?

A. The dispute with the Gannett Fleming Income Approach in this case is focused on the assumption for growth that was applied by Mr. Walker. Mr. Walker assumed a 0.2% growth factor, which I have removed.

Q. What is an EDU?

A. An Equivalent Dwelling Unit (EDU) is a measurement of demand on water or sewer utility's facilities equivalent to a typical single-family dwelling. For water service, one EDU equals the amount of water used by one single-family, residential dwelling unit.

Q. How many EDUs has BASA reported for 2022?

A. BASA reports 23,211 Total EDUs in 2022.[3]

Q. What growth in EDUs has BASA projected?

A. BASA has projected adding 227 new EDUs in each year, 2023 through 2025.[4]

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[3] See, e.g., Appendix A-5.2 Exhibit 2.
[4] Id.

Q. If BASA has 23,211 EDUs in 2022 and adds 227 new EDUs per year, what growth rate in EDUs would that indicate?

A. BASA has reported 23,211 EDUs in 2022 and if BASA adds 227 new EDUs per year, that would indicate an EDU-based growth rate of 0.009779846 (227 / 23,211) or approximately 0.1%.

Q. How does a 0.1% EDU-based growth rate compare with the growth rate that was applied by Mr. Walker in his Income Approach?

A. In contrast with a 0.1% EDU-based growth rate, the growth rate assumed by Mr. Walker of 0.2% is double that.

Q. Should a growth rate based on BASA's projection of new EDUs be used in this case?

A. No. Basing the growth rate on BASA's projection of new EDUs appears highly questionable given the historic population declines from 2010 to 2020 and the further System Total population declines that have been estimated to occur from 2020 through 2025, as I discuss below.

Q. Has Mr. Walker demonstrated that growth has been occurring and/or should be expected to occur for this utility or in the Butler, PA area?

A. No. The population of Butler City, PA has been declining and is projected to continue to decline. From 2010 to 2020, the population declined from 13,757 to 13,502, a percentage change of -1.9%.[5] From 2010 to 2020, the population of Butler

[5] See, e.g., Appendix A-5.2, Exhibit 3, page 1 of 3, Table E 3.2.

Township, PA also declined from 17,248 to 17,230 a percentage change of -0.1%.[6] Population declines from 2010 to 2020 are also shown for Oakland Township, Penn Township and Summit Township.[7] Moreover, for the BASA System Total, the population declined from 53,105 in 2010 to 52,326 in 2020, a percentage change of -1.5%.[8] The BASA System Total population is projected to further decline from 51,093 to 50,517 from 2020 to 2025, a percentage change of -1.1%.[9] An assumption of growth is thus contradicted by the population decline. Projections beyond 2025 are speculative. Given the history of the above-noted historical population declines, including System Total population declines, and the projected further System Total population declines from 2020 to 2025, a zero assumption for growth is probably conservative.

Q. Have you reflected an assumption of further population and EDU declines for the BASA System?

A No. Rather than reflecting a continuing decline in System Total population and declines rather than growth, I have conservatively applied an assumption of zero growth.

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[6] Id.
[7] Id.
[8] Id.
[9] See, e.g., Appendix A-5.2, Exhibit 3, page 2 of 3.

Q. What growth assumption have you applied to the Gannett Fleming Income Approach?

A. I have removed the 0.2% annual growth assumption that Mr. Walker used in his Income Approach. The removal of that 0.2% annual growth assumption effectively reflects zero growth in BASA System EDUs and customer counts for the Income Approach.

Q. What is your recommended adjustment to the Gannett Fleming Income Approach result, and how has that been updated since your filing of Direct Testimony in this matter?

A. In my Direct Testimony, due to the timing of the receipt of certain information, I had only reflected the removal of the growth assumption from Mr. Walker's MUNI results. As shown on Exhibit RCS-5 Revised, which is submitted with my Surrebuttal Testimony, removal of that growth assumption affects both the MUNI and IOU results. The Gannett Fleming Income Approach result is reduced by $2.401 million.

VI. CONCLUSIONS AND RECOMMENDATIONS

Q. Please summarize your conclusions regarding the valuation of the BASA sewer utility that is proposed to be acquired by PAWC.

A. As shown on Exhibit RCS-1 Revised, page 1, I recommend an adjusted valuation result of $222.505 million, which is $8.995 million below the purchase price of $231.5 million.

As shown on Exhibit RCS-1 Revised, page 2, if an equal weighting were applied to the adjusted WAD Consultants valuation results (rather than the 50/40/10 disproportionate weighting recommended by Mr. Weinert) the adjusted valuation result would be $222.213 million, which is $8.286 million below the purchased price of $231.5 million. This would result in an increase of approximately $709,000 to the combined adjusted valuation amount, as shown on Exhibit RCS-1, Revised, page 2, line 16, in comparison with the adjusted results shown on Exhibit RCS-1, Revised, page 1.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

Revised

Line No.	Valuation Method	Appraisers' Results			Results with OCA Adjustments				
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	
		WAD Consultants Individual Results	Weight	Weighted Result	OCA Adjustment	WAD Consultants Individual Results	Weight	Weighted Result	Exhibit Reference
1	Cost Approach	$ 240,895,239	50.0000%	$ 120,447,620	(24,240,053)	$ 216,655,186	50.0000%	$ 108,327,593	RCS-2
2	Income Approach	$ 259,277,679	40.0000%	$ 103,711,072	(51,702,515)	$ 207,575,164	40.0000%	$ 83,030,066	RCS-4
3	Market Approach	$ 220,195,730	10.0000%	$ 22,019,573	35,121	$ 220,230,850	10.0000%	$ 22,023,085	Note [A]
4	Total			$ 246,178,265				$ 213,380,745	
5	Conclusion			$ 246,178,265				$ 213,380,745	
		Gannett Fleming Individual Results	Weight	Weighted Result	OCA Adjustment	Gannett Fleming Individual Results	Weight	Weighted Result	
6	Cost Approach	$ 254,729,592	33.3300%	$ 84,901,373		$ 254,729,592	33.3300%	$ 84,901,373	
7	Income Approach	$ 264,469,512	33.3300%	$ 88,147,688	(2,400,920)	$ 262,068,592	33.3300%	$ 87,347,462	RCS-5
8	Market Approach	$ 178,105,462	33.3400%	$ 59,380,361		$ 178,105,462	33.3400%	$ 59,380,361	
9	Total			$ 232,429,422				$ 231,629,196	
10	Conclusion			$ 232,429,000				$ 231,629,000	
	Summary of Results			Appraiser Results				OCA Adjusted Results	
11	WAD Consultants			$ 246,178,265				$ 213,380,745	
12	Gannett Fleming			$ 232,429,000				$ 231,629,000	
13	Average			$ 239,303,633				$ 222,504,872	
14	Purchase Price			$ 231,500,000				$ 231,500,000	
									Adjustment
15	**Lesser of Purchase Price and Fair Market Value**			**$ 231,500,000**				**$ 222,504,872**	**$ (8,995,128)**

Notes and Source
Lines 1-5, cols. A through C: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report
Lines 6-10, cols. A through C: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal at January 19, 2023, Exhibit 22
Col.D: OCA Adjustments - see the referenced Exhibits
Note [A]: OCA accepts WAD Consultant's revised version of OCA's Market Approach Adjustment as described in Mr. Weinert's rebuttal testimony on pages 11-14 and shown in Exhibit PAWC JCW-3

Revised

Line No.	Valuation Method	Appraisers' Results (A)	(B)	(C)	Results with OCA Adjustments (D)	(E)		(F)	(G)	(H)
		WAD Consultants Individual Results	Weight	Weighted Result	OCA Adjustment	WAD Consultants Individual Results	Exhibit Reference	Adjust to Equal Weight	Weighted Result	Impact of Equal Weighting
1	Cost Approach	$ 240,895,239	50.0000%	$ 120,447,620	(24,240,053)	$ 216,655,186	RCS-2	33.3300%	$ 72,211,173	
2	Income Approach	$ 259,277,679	40.0000%	$ 103,711,072	(51,702,515)	$ 207,575,164	RCS-4	33.3300%	$ 69,184,802	
3	Market Approach	$ 220,195,730	10.0000%	$ 22,019,573	35,121	$ 220,230,850	Note [A]	33.3300%	$ 73,402,942	
4	Total			$ 246,178,265					$ 214,798,919	
										Weighting Adj
5	Conclusion			$ 246,178,265					$ 214,798,919	$ 1,418,174
		Gannett Fleming Individual Results	Weight	Weighted Result	OCA Adjustment	Gannett Fleming Individual Results		Weight	Weighted Result	
6	Cost Approach	$ 254,729,592	33.3300%	$ 84,901,373		$ 254,729,592		33.3300%	$ 84,901,373	
7	Income Approach	$ 264,469,512	33.3300%	$ 88,147,688	(2,400,920)	$ 262,068,592	RCS-5	33.3300%	$ 87,347,462	
8	Market Approach	$ 178,105,462	33.3400%	$ 59,380,361		$ 178,105,462		33.3400%	$ 59,380,361	
9	Total			$ 232,429,422					$ 231,629,196	
10	Conclusion			$ 232,429,000					$ 231,629,000	
		Summary of Results		Appraiser Results					OCA Adjusted Results	
11		WAD Consultants		$ 246,178,265					$ 214,798,919	
12		Gannett Fleming		$ 232,429,000					$ 231,629,000	
13		Average		$ 239,303,633					$ 223,213,960	
14		Purchase Price		$ 231,500,000					$ 231,500,000	
										Adjustment
15	**Lesser of Purchase Price and Fair Market Value**			**$ 231,500,000**					**$ 223,213,960**	**$ (8,286,040)**
16	**Difference Resulting from Equal Weighting of Adjusted WAD Valuation Results (line 15, this page, less line 15, page 1)**								**$ 709,087**	**$ 709,087**

Notes and Source
Lines 1-5, cols. A through C: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report
Lines 6-10, cols. A through C: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal at January 19, 2023, Exhibit 22
Col.D: OCA Adjustments - see the referenced Exhibits
Note [A]: OCA accepts WAD Consultant's revised version of OCA's Market Approach Adjustment as described in Mr. Weinert's rebuttal testimony on pages 11-14 and shown in Exhibit PAWC JCW-3

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to Gannett Fleming Income Approach

OCA Exhibit RCS-5
Docket No. A-2022-3037047

Revised

Line No.	Description	Per Gannett Fleming (A)	OCA Adjusted (B)	OCA Adjustment (C) = (B) - (A)
	Part I: Gannett Flemming Income Approach			
	Municpal Ownership			
1	DCF With Capitalization of Terminal Value Model @ 3.77% / 3.97%	$ 266,688,578	$ 258,972,497	$ (7,716,081)
2	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 3.77% / 3.97%	$ 279,684,623	$ 279,684,623	
3	Median	$ 273,186,600	$ 269,328,560	$ (3,858,040)
	IOU Ownership			
4	DCF With Capitalization of Terminal Value Model @ 7.65% / 7.85%	$ 236,176,862	$ 234,289,261	$ (1,887,601)
5	DCF With Capitalization of Terminal Value Model @ 9.55% / 9.75%	$ 177,441,507	$ 176,575,351	$ (866,156)
6	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 7.85%	$ 359,018,321	$ 359,018,321	$ -
7	DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 9.75%	$ 275,327,987	$ 275,327,987	$ -
8	Median	$ 255,752,425	$ 254,808,624	$ (943,801)
9	Total Income Approach Valuation (Median of Lines 3 and 8)	$ 264,469,512	$ 262,068,592	$ (2,400,920)

Notes and Source:
Col. A: Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 17
Col. B, lines 1-2: Exhibit RCS-5, pages 2-3
Col.B, lines 4-5: Exhibit RCS-5. pages 4-5

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to Gannett Fleming MUNI Income Approach

OCA Exhibit RCS-5
Docket No. A-2022-3037047

							Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Line No.	Description			Actual			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	OPERATING REVENUES														
1	Charges for services	0	0	10,373,400	10,692,751	10,890,555	12,160,150	12,219,714	12,975,319	18,596,309	18,774,134	18,895,114	21,803,260	21,877,392	21,951,775
2	Other operating revenue	0	0	203,150	144,273	260,786	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	0	0	0	0	696,330	6,139,495	0	0	2,834,267	0	0	2,195,177
5	**Total Operating Revenues**	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	19,213,164	18,694,659	18,872,484	21,827,731	21,901,610	21,975,742	24,245,302
	OPERATING EXPENSES														
6	Operating & Maintenance Expenses	0	0	6,478,400	6,140,125	6,250,851	6,193,970	6,348,819	6,507,540	6,670,228	6,836,984	7,007,909	7,183,106	7,362,684	7,546,751
7	Remove Economies of Scale														
8	LESS: EOS - Wages & Benefits	0	0	0	0	0	(599,880)	(614,877)	(630,249)	(646,005)	(662,155)	(678,709)	(695,677)	(713,069)	(730,896)
9	LESS: EOS - Professional Services	0	0	0	0	0	(114,560)	(117,424)	(120,360)	(123,369)	(126,453)	(129,614)	(132,854)	(136,176)	(139,580)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	**Operating Expenses Before Depreciation**	0	0	6,478,400	6,140,125	6,250,851	5,479,530	5,616,518	5,756,931	5,900,854	6,048,376	6,199,585	6,354,575	6,513,439	6,676,275
14	Depreciation	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
15	**Total Operating Expenses**	0	0	10,173,578	9,825,974	9,936,700	9,213,462	10,008,673	10,283,658	10,633,559	11,037,683	11,368,162	11,597,635	11,832,057	12,071,539
16	**Operating Income**	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
17	Revenues	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	19,213,164	18,694,659	18,872,484	21,827,731	21,901,610	21,975,742	24,245,302
18	EBITDA	0	0	4,098,150	4,696,899	4,900,490	6,778,970	7,397,876	13,456,233	12,793,805	12,824,108	15,628,146	15,547,035	15,462,303	17,569,027
19	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
20	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
21	(-) Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22	Debt Free Net Income	0	0	402,972	1,011,050	1,214,641	3,045,038	3,005,721	8,929,506	8,061,100	7,834,801	10,459,569	10,303,975	10,143,685	12,173,763
23	(+) Depreciation & Amortization	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
24	(-) Capital Expenditures	0	0	296,183	958,729	1,675,045	1,468,260	7,525,000	11,475,000	17,625,000	17,200,000	5,035,326	5,107,889	5,181,499	5,256,169
25	(-) Changes in Working Capital	0	0	(5,288)	(5,419)	(5,576)	(6,129)	(6,507)	(9,607)	(9,347)	(9,436)	(10,914)	(10,951)	(10,988)	(12,123)
26	Debt Free Net Cash Flow	$0	$0	$3,807,255	$3,743,589	$3,231,021	$5,316,839	($120,617)	$1,990,839	($4,821,848)	($4,366,456)	$10,603,734	$10,450,097	$10,291,792	$12,324,980
								1	2	3	4	5	6	7	8
27	Present Value Factor: 3.97%							0.9807	0.9433	0.9073	0.8726	0.8393	0.8072	0.7764	0.7468
28	Present Value Debt Free Net Cash Flow							($118,289)	$1,877,959	($4,374,863)	($3,810,169)	$8,899,714	$8,435,318	$7,990,547	$9,204,295

DCF With Capitalization of Terminal Value Model @ 3.97%	Terminal Value
Projected Debt Free Net Cash Flow	$12,335,592
Divided by Capitalization Factor (	3.97%
20th Year Terminal Value	310,720,196
20th Year Present Value Factor (1	0.4681
Present Value of Terminal Value	145,448,124
Present Value Debt Free Net Cash Flow for 20 Years	113,524,373
Indicated Value	$258,972,497

DCF With EBIT & EBITDA Terminal Value Model - Discount Rate of 3.97%		Multiples (13)	Terminal Value
Projected EBIT	$12,156,672	30.2	$367,131,483
Projected EBITDA	18,562,562	18.8	348,976,167
Weighted (1/3 EBIT 2/3 EBITDA) Terminal Value			354,967,421
20th Year Present Value Factor (12)			0.4681
Present Value of Terminal Value			166,160,250
Present Value Debt Free Net Cash Flow for 20 Years			113,524,373
Indicated Value			$279,684,623

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 15

Line No.	Description	Estimated Year 9 2032	Estimated Year 10 2033	Estimated Year 11 2034	Estimated Year 12 2035	Estimated Year 13 2036	Estimated Year 14 2037	Estimated Year 15 2038	Estimated Year 16 2039	Estimated Year 17 2040	Estimated Year 18 2041	Estimated Year 19 2042	Estimated Year 20 2043
	OPERATING REVENUES												
1	Charges for services	24,229,052	24,311,431	24,394,089	24,966,570	25,051,456	25,136,631	25,726,538	25,814,008	26,290,302	26,379,689	26,892,890	26,984,326
2	Other operating revenue	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	487,882	0	0	502,733	0	387,210	0	422,075	0	458,734
5	**Total Operating Revenues**	24,327,402	24,409,781	24,980,321	25,064,920	25,149,806	25,737,714	25,824,888	26,299,568	26,388,652	26,900,114	26,991,240	27,541,410
	OPERATING EXPENSES												
6	Operating & Maintenance Expenses	7,735,420	7,928,805	8,127,025	8,330,201	8,538,456	8,751,917	8,970,715	9,194,983	9,424,858	9,660,479	9,901,991	10,149,541
7	Remove Economies of Scale												
8	LESS: EOS - Wages & Benefits	(749,168)	(767,897)	(787,095)	(806,772)	(826,941)	(847,615)	(868,805)	(890,525)	(912,788)	(935,608)	(958,998)	(982,973)
9	LESS: EOS - Professional Services	(143,070)	(146,646)	(150,313)	(154,070)	(157,922)	(161,870)	(165,917)	(170,065)	(174,317)	(178,675)	(183,141)	(187,720)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	0	0	0	0	0	0	0	0	0	0	0	0
13	**Operating Expenses Before Depreciation**	6,843,182	7,014,262	7,189,618	7,369,359	7,553,593	7,742,432	7,935,993	8,134,393	8,337,753	8,546,197	8,759,852	8,978,848
14	Depreciation	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
15	**Total Operating Expenses**	12,316,196	12,566,147	12,821,511	13,082,412	13,348,977	13,621,332	13,899,613	14,183,955	14,474,494	14,771,374	15,074,740	15,384,738
16	**Operating Income**	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
17	Revenues	24,327,402	24,409,781	24,980,321	25,064,920	25,149,806	25,737,714	25,824,888	26,299,568	26,388,652	26,900,114	26,991,240	27,541,410
18	EBITDA	17,484,220	17,395,519	17,790,703	17,695,561	17,596,213	17,995,282	17,888,895	18,165,175	18,050,899	18,353,917	18,231,388	18,562,562
19	EBIT	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
20	EBIT	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
21	(-) Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0
22	Debt Free Net Income	12,011,206	11,843,634	12,158,810	11,982,508	11,800,829	12,116,382	11,925,275	12,115,613	11,914,158	12,128,740	11,916,500	12,156,672
23	(+) Depreciation & Amortization	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
24	(-) Capital Expenditures	5,331,915	5,408,752	5,486,697	5,565,766	5,645,973	5,727,337	5,809,873	5,893,598	5,978,530	6,064,686	6,152,084	6,240,741
25	(-) Changes in Working Capital	(12,164)	(12,205)	(12,490)	(12,532)	(12,575)	(12,869)	(12,912)	(13,150)	(13,194)	(13,450)	(13,496)	(13,771)
26	Debt Free Net Cash Flow	$12,164,469	$11,998,972	$12,316,496	$12,142,328	$11,962,815	$12,280,813	$12,091,934	$12,284,727	$12,085,563	$12,302,681	$12,092,800	$12,335,592
		9	10	11	12	13	14	15	16	17	18	19	20
27	Present Value Factor: 3.97%	0.7183	0.6908	0.6645	0.6391	0.6147	0.5912	0.5686	0.5469	0.5260	0.5060	0.4866	0.4681
28	Present Value Debt Free Net Cash Flow	$8,737,738	$8,288,890	$8,184,312	$7,760,162	$7,353,543	$7,260,417	$6,875,474	$6,718,517	$6,357,006	$6,225,157	$5,884,356	$5,774,291

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exh

Added

Line No.	Description						Actual	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
				Actual			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	OPERATING REVENUES														
1	Charges for services	0	0	10,373,400	10,692,751	10,890,555	12,160,150	12,219,714	12,975,319	27,274,586	27,535,396	27,712,833	41,710,585	41,852,401	41,994,699
2	Other operating revenue	0	0	203,150	144,273	260,786	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	0	0	0	0	696,330	14,734,787	0	0	13,856,417	0	0	3,779,523
5	**Total Operating Revenues**	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	27,808,456	27,372,936	27,633,746	41,667,600	41,808,935	41,950,751	45,872,572
	OPERATING EXPENSES														
6	Operating & Maintenance Expenses	0	0	6,478,400	6,140,125	6,250,851	6,193,970	6,348,819	6,507,540	6,670,228	6,836,984	7,007,909	7,183,106	7,362,684	7,546,751
7	Remove Economies of Scale														
8	LESS: EOS - Wages & Benefits	0	0	0	0	0	(599,880)	(614,877)	(630,249)	(646,005)	(662,155)	(678,709)	(695,677)	(713,069)	(730,896)
9	LESS: EOS - Professional Services	0	0	0	0	0	(114,560)	(117,424)	(120,360)	(123,369)	(126,453)	(129,614)	(132,854)	(136,176)	(139,580)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	0	0	0	0	0	0	424,507	433,294	527,422	543,405	562,375	642,037	642,648	643,258
13	**Operating Expenses Before Depreciation**	0	0	6,478,400	6,140,125	6,250,851	5,479,530	6,041,025	6,190,225	6,428,276	6,591,781	6,761,960	6,996,612	7,156,087	7,319,533
14	Depreciation	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
15	**Total Operating Expenses**	0	0	10,173,578	9,825,974	9,936,700	9,213,462	10,433,180	10,716,952	11,160,981	11,581,088	11,930,537	12,239,672	12,474,705	12,714,797
16	**Operating Income**	0	0	402,972	1,011,050	1,214,641	3,045,038	2,581,214	17,091,504	16,211,955	16,052,658	29,737,063	29,569,263	29,476,046	33,157,775
17	Revenues	0	0	10,576,550	10,837,024	11,151,341	12,258,500	13,014,394	27,808,456	27,372,936	27,633,746	41,667,600	41,808,935	41,950,751	45,872,572
18	EBITDA	0	0	4,098,150	4,696,899	4,900,490	6,778,970	6,973,369	21,618,231	20,944,660	21,041,965	34,905,640	34,812,323	34,794,664	38,553,039
19	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	2,581,214	17,091,504	16,211,955	16,052,658	29,737,063	29,569,263	29,476,046	33,157,775
20	EBIT	0	0	402,972	1,011,050	1,214,641	3,045,038	2,581,214	17,091,504	16,211,955	16,052,658	29,737,063	29,569,263	29,476,046	33,157,775
21	(-) Income Taxes	0	0	0	0	0	879,712	745,713	4,937,735	4,683,634	4,637,613	8,591,038	8,542,560	8,515,630	9,579,281
22	Debt Free Net Income	0	0	402,972	1,011,050	1,214,641	2,165,326	1,835,501	12,153,769	11,528,321	11,415,045	21,146,025	21,026,703	20,960,416	23,578,494
23	(+) Depreciation & Amortization	0	0	3,695,178	3,685,849	3,685,849	3,733,932	4,392,154	4,526,727	4,732,705	4,989,307	5,168,577	5,243,060	5,318,617	5,395,264
24	(-) Capital Expenditures	0	0	296,183	958,729	1,675,045	1,468,260	7,525,000	11,475,000	17,625,000	17,200,000	5,035,326	5,107,889	5,181,499	5,256,169
25	(-) Changes in Working Capital	0	0	(5,288)	(5,419)	(5,576)	(6,129)	(6,507)	(13,904)	(13,686)	(13,817)	(20,834)	(20,904)	(20,975)	(22,936)
26	Debt Free Net Cash Flow	$0	$0	$3,807,255	$3,743,589	$3,231,021	$4,437,127	($1,290,837)	$5,219,400	($1,350,288)	($781,831)	$21,300,110	$21,182,779	$21,118,510	$23,740,525
								1	2	3	4	5	6	7	8
27	Present Value Factor: 7.85%							0.9629	0.8928	0.8278	0.7676	0.7117	0.6599	0.6119	0.5673
28	Present Value Debt Free Net Cash Flow							($1,242,947)	$4,659,880	($1,117,768)	($600,133)	$15,159,288	$13,978,516	$12,922,416	$13,468,000
								1	2	3	4	5	6	7	8
29	Present Value Factor: 9.75%							0.9545	0.8697	0.7925	0.7221	0.6579	0.5995	0.5462	0.4977
30	Present Value Debt Free Net Cash Flow							($1,232,104)	$4,539,312	($1,070,103)	($564,560)	$14,013,342	$12,699,076	$11,534,930	$11,815,659

DCF With Capitalization of Terminal Value Model @ 7.85%	Terminal Value
Projected Debt Free Net Cash Flow	$24,739,235
Divided by Capitalization Factor (8	7.85%
20th Year Terminal Value	315,149,489
20th Year Present Value Factor (11	0.2291
Present Value of Terminal Value	72,200,748
Present Value Debt Free Net Cash Flow for 20 Years	162,088,513
Indicated Value	$234,289,261

DCF With Capitalization of Terminal Value Model @ 9.75%	Terminal Value
Projected Debt Free Net Cash Flow	$24,739,235
Divided by Capitalization Factor (9	9.75%
20th Year Terminal Value	253,735,742
20th Year Present Value Factor (12	0.1630
Present Value of Terminal Value	41,358,926
Present Value Debt Free Net Cash Flow for 20 Years	135,216,425
Indicated Value	$176,575,351

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 16

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to Gannett Fleming IOU Income Approach

OCA Exhibit RCS-5
Docket No. A-2022-3037047

Added

Line No.	Description	Estimated Year 9 2032	Estimated Year 10 2033	Estimated Year 11 2034	Estimated Year 12 2035	Estimated Year 13 2036	Estimated Year 14 2037	Estimated Year 15 2038	Estimated Year 16 2039	Estimated Year 17 2040	Estimated Year 18 2041	Estimated Year 19 2042	Estimated Year 20 2043
	OPERATING REVENUES												
1	Charges for services	45,929,855	46,086,016	46,242,709	47,791,932	47,954,424	48,117,469	48,763,880	48,929,677	49,096,038	49,755,594	49,924,763	50,094,507
2	Other operating revenue	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350	98,350
3	Tap Fees	0	0	0	0	0	0	0	0	0	0	0	0
4	Other (Rate Increase)	0	0	1,387,281	0	0	481,175	0	0	490,960	0	0	400,756
5	**Total Operating Revenues**	46,028,205	46,184,366	47,728,340	47,890,282	48,052,774	48,696,994	48,862,230	49,028,027	49,685,348	49,853,944	50,023,113	50,593,613
	OPERATING EXPENSES												
6	Operating & Maintenance Expenses	7,735,420	7,928,805	8,127,025	8,330,201	8,538,456	8,751,917	8,970,715	9,194,983	9,424,858	9,660,479	9,901,991	10,149,541
7	Remove Economies of Scale												
8	LESS: EOS - Wages & Benefits	(749,168)	(767,897)	(787,095)	(806,772)	(826,941)	(847,615)	(868,805)	(890,525)	(912,788)	(935,608)	(958,998)	(982,973)
9	LESS: EOS - Professional Services	(143,070)	(146,646)	(150,313)	(154,070)	(157,922)	(161,870)	(165,917)	(170,065)	(174,317)	(178,675)	(183,141)	(187,720)
10	LESS: EOS - Eliminated Expenses	0	0	0	0	0	0	0	0	0	0	0	0
11	ADD: Additional O&M	0	0	0	0	0	0	0	0	0	0	0	0
12	ADD: PURTA & Reg Assessment	665,374	666,057	666,741	675,318	676,029	676,739	680,188	680,908	681,628	685,142	685,872	686,601
13	**Operating Expenses Before Depreciation**	7,508,556	7,680,319	7,856,359	8,044,677	8,229,622	8,419,171	8,616,181	8,815,301	9,019,381	9,231,339	9,445,724	9,665,449
14	Depreciation	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
15	**Total Operating Expenses**	12,981,570	13,232,204	13,488,252	13,757,730	14,025,006	14,298,071	14,579,801	14,864,863	15,156,122	15,456,516	15,760,612	16,071,339
16	**Operating Income**	33,046,635	32,952,162	34,240,088	34,132,552	34,027,768	34,398,923	34,282,429	34,163,164	34,529,226	34,397,428	34,262,501	34,522,274
17	Revenues	46,028,205	46,184,366	47,728,340	47,890,282	48,052,774	48,696,994	48,862,230	49,028,027	49,685,348	49,853,944	50,023,113	50,593,613
18	EBITDA	38,519,649	38,504,047	39,871,981	39,845,605	39,823,152	40,277,823	40,246,049	40,212,726	40,665,967	40,622,605	40,577,389	40,928,164
19	EBIT	33,046,635	32,952,162	34,240,088	34,132,552	34,027,768	34,398,923	34,282,429	34,163,164	34,529,226	34,397,428	34,262,501	34,522,274
20	EBIT	33,046,635	32,952,162	34,240,088	34,132,552	34,027,768	34,398,923	34,282,429	34,163,164	34,529,226	34,397,428	34,262,501	34,522,274
21	(-) Income Taxes	9,547,173	9,519,880	9,891,961	9,860,894	9,830,622	9,937,849	9,904,194	9,869,738	9,975,493	9,937,417	9,898,437	9,973,485
22	Debt Free Net Income	23,499,462	23,432,282	24,348,127	24,271,658	24,197,146	24,461,074	24,378,235	24,293,426	24,553,733	24,460,011	24,364,064	24,548,789
23	(+) Depreciation & Amortization	5,473,014	5,551,885	5,631,893	5,713,053	5,795,384	5,878,900	5,963,620	6,049,562	6,136,741	6,225,178	6,314,888	6,405,890
24	(-) Capital Expenditures	5,331,915	5,408,752	5,486,697	5,565,766	5,645,973	5,727,337	5,809,873	5,893,598	5,978,530	6,064,686	6,152,084	6,240,741
25	(-) Changes in Working Capital	(23,014)	(23,092)	(23,864)	(23,945)	(24,026)	(24,348)	(24,431)	(24,514)	(24,843)	(24,927)	(25,012)	(25,297)
26	Debt Free Net Cash Flow	$23,663,575	$23,598,508	$24,517,187	$24,442,890	$24,370,584	$24,636,985	$24,556,413	$24,473,904	$24,736,787	$24,645,429	$24,551,880	$24,739,235
		9	10	11	12	13	14	15	16	17	18	19	20
27	Present Value Factor: 7.85%	0.5261	0.4878	0.4523	0.4193	0.3888	0.3605	0.3343	0.3099	0.2874	0.2665	0.2471	0.2291
28	Present Value Debt Free Net Cash Flow	$12,449,407	$11,511,352	$11,089,124	$10,248,904	$9,475,283	$8,881,633	$8,209,209	$7,584,463	$7,109,353	$6,568,007	$6,066,770	$5,667,759
		9	10	11	12	13	14	15	16	17	18	19	20
29	Present Value Factor: 9.75%	0.4535	0.4132	0.3765	0.3430	0.3126	0.2848	0.2595	0.2364	0.2154	0.1963	0.1789	0.1630
30	Present Value Debt Free Net Cash Flow	$10,731,431	$9,750,903	$9,230,721	$8,383,911	$7,618,244	$7,016,613	$6,372,389	$5,785,631	$5,328,304	$4,837,898	$4,392,331	$4,032,495

Notes and Source:
Appendix A-5.2 Gannett Fleming Fair Market Value Appraisal Report, Exhibit 16

Pennsylvania-American Water Company
Acquisition of Butler Area Sewer Authority
OCA Adjustments to WAD Consultants Income Approach - Income Tax Adjustment Workpaper

Added

Line No.	Period	Age	Projected Annual Per WAD Consultants	Adjusted Revenues per OCA	Difference	Income Tax Rate	Income Tax Adjustment	Income Tax per WAD Consultants	Income Tax per OCA	Income Tax Adjustment
	(A)	(B)	(C)	(D)	(E) = (D) - (C)	(F)	(G) = (E) x (F)	(H)	(I)	(J) = (I) - (H)
1	1	0.5	12,752,000	12,752,000	-	28.89%	-	(2,674,565)	(2,674,565)	-
2	2	1.5	21,040,800	21,040,800	-	28.89%	-	(377,428)	(377,428)	-
3	3	2.5	21,040,800	21,040,800	-	28.89%	-	(493,033)	(493,033)	-
4	4	3.5	31,561,200	31,561,200	-	28.89%	-	2,407,622	2,407,622	-
5	5	4.5	31,561,200	31,561,200	-	28.89%	-	2,248,222	2,248,222	-
6	6	5.5	41,029,560	36,295,380	(4,734,180)	28.89%	(1,367,705)	4,824,649	3,456,944	(1,367,705)
7	7	6.5	41,029,560	36,295,380	(4,734,180)	28.89%	(1,367,705)	5,200,169	3,832,464	(1,367,705)
8	8	7.5	49,235,472	39,924,918	(9,310,554)	28.89%	(2,689,819)	7,557,462	4,867,643	(2,689,819)
9	9	8.5	49,235,472	39,924,918	(9,310,554)	28.89%	(2,689,819)	7,522,308	4,832,489	(2,689,819)
10	10	9.5	54,159,019	41,921,164	(12,237,855)	28.89%	(3,535,516)	8,883,513	5,347,997	(3,535,516)
11	11	10.5	54,159,019	41,921,164	(12,237,855)	28.89%	(3,535,516)	8,830,419	5,294,903	(3,535,516)
12	12	11.5	57,408,560	43,178,799	(14,229,761)	28.89%	(4,110,978)	9,696,587	5,585,609	(4,110,978)
13	13	12.5	57,408,560	43,178,799	(14,229,761)	28.89%	(4,110,978)	9,651,771	5,540,793	(4,110,978)
14	14	13.5	60,853,074	44,474,163	(16,378,911)	28.89%	(4,731,867)	10,549,413	5,817,545	(4,731,868)
15	15	14.5	60,853,074	44,474,163	(16,378,911)	28.89%	(4,731,867)	10,471,914	5,740,047	(4,731,867)
16	16	15.5	64,504,258	45,808,388	(18,695,870)	28.89%	(5,401,237)	11,441,754	6,040,517	(5,401,237)
17	17	16.5	64,504,258	45,808,388	(18,695,870)	28.89%	(5,401,237)	11,359,792	5,958,555	(5,401,237)
18	18	17.5	68,374,513	47,182,639	(21,191,874)	28.89%	(6,122,332)	12,373,093	6,250,760	(6,122,333)
19	19	18.5	68,374,513	47,182,639	(21,191,874)	28.89%	(6,122,332)	12,247,578	6,125,246	(6,122,332)

Notes and Source:
Cols. C and H: Appendix A-5.1 WAD Consultants Fair Market Value Appraisal Report, page 10
Cols. D and I: Exhibit RCS-4, page 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company under Sections 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	: : : : : : :	Docket No. A-2022-3037047

VERIFICATION

I, Ralph C. Smith, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 2SR, 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: July 21, 2023
*349435

Signature: Ralph C Smith
Ralph C. Smith

Consultant Address: Larkin & Associates, PLLC
15728 Farmington Road
Livonia, MI 48154

I&E Statement No. 1
Witness: Ethan H. Cline

Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Collection and Treatment System Assets of the Butler Area Sewer Authority

Docket No. A-2022-3037047

Direct Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Future Rate Increases
Cost of Service Study

TABLE OF CONTENTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, Pennsylvania 17120.

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

A. I am employed by the Pennsylvania Public Utility Commission ("Commission") in the Bureau of Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.

Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?

A. Appendix A, which is attached to my testimony, describes my educational background and professional experience.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of the ratepayers, the company, and the regulated community.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to address the future rate implication of the Butler Area Sewer Authority ("BASA") agreement with the Veterans Administration Hospital Reservation in Butler ("VA Hospital") of Pennsylvania American Water Company ("PAWC" or "Company") to undertake a Cost of Service Study for the BASA wastewater collection and treatment system ("System") in its next base rate case. I am also addressing missing or unidentified easements and other property rights of BASA.

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. My direct testimony contains an exhibit, I&E Exhibit No. 1, which supports my testimony.

Q. WHAT IS PAWC REQUESTING IN THIS PROCEEDING?

A. PAWC has filed an application for approval of its acquisition of substantially all of BASA's assets, properties and rights related to its wastewater collection and treatment system, related wastewater service rights, fair market valuation ratemaking treatment, accrual and deferral of certain post-acquisition improvement costs, and certain contracts with municipal corporations ("Application"). Specifically, PAWC is requesting, under 66 Pa. C.S. § 1102 ("Section 1102"), approval to acquire the BASA's wastewater collection and treatment system and for the right to begin providing wastewater service in the areas currently served by BASA. Additionally, under 66 Pa. C.S § 1329 (“Section 1329”), PAWC is seeking to utilize the fair market value of the System for the ratemaking rate base. Also under 66 Pa. C.S. § 1329, PAWC is seeking confirmation of its right to collect a distribution system improvement charge (“DSIC”) for the new service and for the accrual of Allowance for Funds Used During Construction (“AFUDC”) for post-acquisition improvements not recovered through its DSIC for book and ratemaking purposes. PAWC is also seeking the deferral of depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. Finally, PAWC is seeking approval for the Asset Purchase Agreement (“APA”) and certain municipal agreements to be assumed by PAWC as a result of the Transaction. (PAWC St. No. 1, pp. 3-4)

Q. WHY DOES PAWC NEED APPROVAL OF THE ACQUISITION UNDER SECTION 1102?

A. Section 1102 requires the Commission to issue a Certificate of Public Convenience prior to the Company acquiring the wastewater assets of BASA and providing wastewater service in BASA’s service territory. The Commission will only grant a Certificate of Public Convenience if it determines that such a certificate is "necessary or proper for the service, accommodation, convenience or safety of the public.” (66 Pa. C.S. § 1103(a)). Further, “the Commission, in granting such certificate, may impose such conditions as it may deem to be just and reasonable." (66 Pa. C.S. § 1103(a)).

Q. WHAT DOES SECTION 1329 ALLOW?

A. Section 1329 allows investor-owned water and wastewater utilities to use the fair market valuation in the acquisition of water and wastewater systems that are owned by a municipal corporation or authority. Using the Section 1329 framework enables the investor-owned utility to establish the ratemaking rate base of the acquired property in the same proceeding that it seeks to acquire the property.

Q. WHAT DOES THE FAIR MARKET VALUE APPROACH REQUIRE?

A. The fair market valuation approach dictates that once the buyer and the seller agree to its use, they must engage the services of a licensed engineer to conduct an assessment of the tangible assets of the seller. The licensed engineer assessment is then presented to two utility valuation experts ("UVE"), one to represent the buyer and one to represent the seller, to conduct independent analyses based on the Uniform Standards of Professional Appraisal Practice, employing the cost, market and income approaches. The results of the UVEs' analyses are then incorporated into the Section 1102 of the Code application submitted to the Commission for approval.[1] For ratemaking purposes, the valuation will be the lesser of the fair market value or the negotiated purchase price. Finally, Section 1329 allows the acquiring public utility's post-acquisition improvement costs not recovered through a DSIC to be deferred for book and ratemaking purposes.

<u>POTENTIAL FUTURE RATE IMPACT</u>

Q. DOES THE APPLICATION INCLUDE ANY PROVISIONS REGARDING FUTURE RATE INCREASES?

A. Yes. As described by PAWC witness Everette on page 7 of PAWC Statement No. 3, Section 7.04 of the Asset Purchase Agreement provides that PAWC will not propose to increase BASA's base rates until the later to occur of (i) the first anniversary of Closing, or (ii) January 1, 2025.

Q. DO YOU OPPOSE THE PROPOSED RATE FREEZE AGREEMENT?

A. I do not oppose PAWC's proposed rate freeze agreement under one condition; that, if the rate freeze extends beyond the effective date of new rates in PAWC's next base rate case, the Company agrees to calculate the proof of revenue at the full cost of service, as if all customers of BASA were paying new rates without any delay of the effective date as part of its next base rate case.

[1] http://www.puc.pa.gov/filing_resources/issues_laws_regulations/section1329_applications.aspx.

Q. WHY IS IT IMPORTANT THAT PAWC CALCULATE THE PROOF OF REVENUE AT THE FULL COST OF SERVICE AS IF ALL CUSTOMERS WERE PAYING NEW RATES WITHOUT DELAY?

A. It is important that PAWC calculate the proof of revenue at the full cost of service because that prevents existing PAWC customers from being forced to recover any revenue lost from delaying a BASA rate increase.

<u>**POTENTIAL FREE SERVICE**</u>

Q. DOES BASA CURRENTLY PROVIDE FREE SERVICE TO ANY OF ITS CUSTOMERS?

A. Yes. Citing Section 4.21 of the APA on page 8 of PAWC Statement No. 3, PAWC witness Everette indicated that BASA currently has an agreement to provide free service to the VA Hospital. Ms. Everette further stated that PAWC is taking assignment of the agreement.

Q. DOES PAWC INTEND TO INCREASE RATES FOR THE VA HOSPITAL AS PART OF THE PRESENT PROCEEDING?

A. No. On page 8 of PAWC Statement No. 3, Ms. Everette stated that "[c]onsistent with this agreement and the Section 1329 requirement that PAWC adopt existing rates, the pro forma tariff supplement attached as Appendix A-12 to the Application provides for $0 rates for the VA Hospital."

Q. ARE YOU OPPOSING THE COMPANY'S TREATMENT OF THE VA HOSPITAL FREE SERVICE AS PART OF THE CURRENT PROCEEDING?

A. No. I believe that a more reasonable venue for addressing the VA Hospital rates will be the first base rate case in which the BASA system is included. This will allow for a more accurate allocation of costs through a cost of service study and a fair determination of rates for the VA Hospital. At this time I wish to put PAWC, the VA Hospital, and any other interested parties on notice that I&E will address, and likely oppose, the free service for the VA Hospital in the first base rate case in which BASA is included.

<u>COST OF SERVICE STUDY</u>

Q. PLEASE DESCRIBE THE BASA WASTEWATER SYSTEM.

A. BASA provides wastewater service to approximately 14,792 customers in the City of Butler, and portions of the Township of Butler, Center Township, the Borough of East Butler, Summit Township, Oakland Township, and Connequenessing Township (BASA St. No 1, pp. 3-4). The System consists of 224 miles of interceptor sewers, eight (8) miles of force mains, twenty-three (23) pump stations, seven (7) flow equalization tanks, the wastewater treatment plant on Litman Road, and nearly 6,500 manholes (BASA St. No. 1, p. 3).

Q. WHY IS KNOWING THE COST TO SERVE THE BASA WASTEWATER SYSTEM IMPORTANT?

A. In general, the primary goal of a Cost of Service Study is to determine a utility's revenue requirement to provide service to its different customer classes. In this case, a Cost of Service Study for the BASA System is beneficial because it:

- Determines the cost to operate the BASA wastewater System separately;
- Calculates the costs of the utility's different services;
- Separates the costs between the utility's different customer classes and service areas;
- Attributes costs to the utility's different customer classes and service areas; and
- Determines how costs will be recovered from the utility's different customer classes and service areas.

Moreover, a Cost of Service Study can establish the existence and extent of subsidization (inter and intra-class) and assist in determining the appropriate amount of revenue requirement to be shifted from wastewater customers to water customers, which PAWC has utilized in past base rate cases. Therefore, without the Cost of Service Study that includes segregated wastewater costs, the appropriate ratemaking recommendations for those costs cannot be proposed or implemented.

Q. HAS PAWC PREVIOUSLY PROVIDED SEPARATE COST OF SERVICE STUDIES FOR SYSTEMS ACQUIRED THROUGH SECTION 1329 APPLICATIONS IN A BASE RATE CASE?

A. Yes. In its most recent base rate case at Docket Nos. R-2022-3031672 and R-2022-3031673, the Company included several separate cost of service studies for water and wastewater systems it acquired through Section 1329 applications.

Q. WHAT DO YOU RECOMMEND PAWC PROVIDE IN THE NEXT BASE RATE CASE?

A. I recommend that PAWC include a separate cost of service study for the wastewater system of BASA using the same methodology it used for other systems acquired through Section 1329 proceedings in the base rate case at Docket Nos. R-2022-3031672 and R-2022-3031673 for the reasons stated above. I also recommend that the VA Hospital be included as a separate rate class in the cost of service study for BASA so that costs can be properly allocated and a reasonable rate can be determined at that time.

EASEMENTS AND OTHER PROPERTY RIGHTS

Q. AS A PART OF PAWC'S APPLICATION, DID PAWC INDICATE THAT IT IDENTIFIED AND CONFIRMED ALL REAL ESTATE, INCLUDING LEASES, EASEMENT RIGHTS, AND ACCESS TO PUBLIC RIGHTS-OF-WAY THAT MUST BE TRANSFERRED TO PAWC TO FACILITATE PAWC'S OPERATION OF BASA'S WASTEWATER SYSTEM?

A. No. In response to I&E-I-22,[2] provided April 4, 2023, PAWC states that steps are currently being taken to identify any missing real estate, obtain any missing easements prior to closing, and that it is anticipated that the identification process will be completed "within the next several months."

Q. DO PAWC OR BASA HAVE ANY TIMELINE OR UPDATES FOR THE COMPLETION OF TITLE SEARCH BY THE ABSTRACTOR?

A. Not specifically. Similar to the claim cited above, in response to I&E-I-23,[3] provided April 4, 2023, PAWC states that the abstractor, Back Roads Energy, Inc. began initial title search work in December 2022, and it is anticipated that the final abstractor's report will be completed in two to three months. Additionally, it is anticipated that BASA will transfer all missing easements, leases, and rights-of-way necessary and essential for the operation of the wastewater system to PAWC at the time of closing.

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[2] I&E Exhibit No. 1, Schedule 1.
[3] I&E Exhibit No. 1, Schedule 2.

Q. ARE YOU AWARE IF THE ABSTRACTOR'S REPORT HAS BEEN COMPLETED?

A. At the time of this testimony, I am not aware that the Back Roads Energy, Inc. abstractor's report has been completed.

Q. WHAT IS YOUR CONCERN ABOUT MISSING/UNIDENTIFIED EASEMENTS AND PUBLIC RIGHTS-OF-WAY AS DISCUSSED ABOVE?

A. In the absence of the abstractor/title company's final title search report that will identify the missing easements and other property rights, the UVEs' presumptive valuation of BASA's wastewater system being conveyed with all easements and other property rights necessary to operate the system is potentially flawed or inaccurate. This is true because unless BASA conveys all necessary easements and access to public rights-of-way to PAWC at closing, the UVEs' appraisals, which assume that all necessary property rights will be transferred to PAWC, may be rendered factually inaccurate and, thus, invalid.

Q. DO YOU HAVE ANY RECOMMENDATION FOR EASEMENTS AND OTHER PROPERTY RIGHTS?

A. Yes.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission condition the approval of PAWC's Application that the closing of the acquisition transaction not be permitted to occur unless and until BASA provides proof to the satisfaction of PAWC that it has: (1) identified all missing easements including public rights-of-way and other property rights; (2) taken any and all necessary actions to obtain the missing easements and other property rights so that they may be conveyed to PAWC at closing; and (3) borne all costs and expenses for obtaining and conveying the missing easements and other property rights so that PAWC's ratepayers are not burdened with those costs.

Additionally, I recommend that the Commission condition the approval of PAWC's Application that for circumstances beyond BASA's control where it is unable to transfer all missing easements including public rights-of-way and other property rights before or at the closing of the transaction, PAWC and BASA may at their discretion close the transaction without the transfer of missing easements and other property rights, provided that an escrow account be established of an appropriate dollar amount from the purchase price to be used to obtain any post-closing transfers of the easements and other real property rights.

It should be noted that although I am not commenting on or confirming the sufficiency of the fund, I acknowledge that PAWC has agreed to the establishment of an Easement Escrow Fund in which $2,000, funded by BASA, will be placed into the fund for each missing easement at the time of closing.[4]

[4] PAWC Statement No. 1, p. 12, ln. 18 through p. 13, ln. 2.

Q. EXPLAIN HOW $2,000 WAS DETERMINED AS THE APPROPRIATE AMOUNT TO BE FUNDED IN AN EASEMENT ESCROW FUND FOR EACH MISSING EASEMENT.

A. In response to I&E-IV-1, a specific quantification or justification was not offered. The response indicated simply that the amount was negotiated at arm's length between PAWC and BASA as part of the APA.[5]

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. Adopting the above condition is necessary to ensure the UVEs' assumption that all necessary easements and land rights would be conveyed to PAWC at closing is accurate. I note that Section 6.05 (Easements) of the APA provides a process for identification and conveyance of property easements and other property rights. However, in Section 6.06 (Unscheduled Property) of the APA, PAWC and BASA have acknowledged that BASA may own interests in or have the legal right to use or occupy the real property that is necessary or essential to the operation of the wastewater system and that is not specifically identified in Schedule 4.09 (Owned Real Property and Easements) of the APA. Therefore, it is essential that the Commission adopt the condition I recommend herein to ensure that ratepayers are protected from the uncertainty about the transfer of missing or unidentified easements and other property rights and the costs of acquiring missing easements

[5] I&E Exhibit No. 1, Schedule 3.

and other property rights necessary for PAWC's operation of BASA's wastewater system.

OVERALL RECOMMENDATION

Q. WHAT IS YOUR OVERALL RECOMMENDATION?

A. I recommend that if the Commission approves PAWC's Application, that it does so contingent upon the conditions identified and discussed above.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. However, I reserve the right to supplement my testimony or to revise recommendations if additional issues or facts arise during this proceeding.

ETHAN H. CLINE

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

03/2009 - Present
Bureau of Investigation and Enforcement, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

06/2008 – 09/2008
Akens Engineering, Inc. - Shiremanstown, Pennsylvania

Civil Engineer – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

10/2007 – 05/2008
J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

Design Technician – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007
CABE Associates, Inc. - Dover, Delaware

Civil Engineer – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

EDUCATION:

Pennsylvania State University, State College, Pennsylvania
Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL
- Attended Society of Depreciation Professionals Annual Conference and Training

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings:

1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
2. Pennsylvania Utility Company – Water Division, Docket No. R-2009-2103937
3. Pennsylvania Utility Company – Sewer Division, Docket No. R-2009-2103980
4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
7. Citizens' Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
8. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103
9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
12. Pentex Pipeline Company, Docket No. A-2011-2230314
13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
17. City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
22. City of Dubois – Bureau of Water, Docket No. R-2013-2350509
23. The Columbia Water Company, Docket No. R-2013-2360798
24. Pennsylvania American Water Company, Docket No. R-2013-2355276
25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
31. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2014-2420276
32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
33. Emporium Water Company, Docket No. R-2014-2402324
34. Borough of Hanover – Hanover Municipal Water, Docket No. R-2014-2428304
35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656
36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
37. Peoples Natural Gas Company – Equitable Division 1307(f), Docket No. R-2015-2465181
38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934

40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937
41. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2015-2480950
42. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438
43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209
44. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2016-2543309
45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
46. City of Dubois – Company, Docket No. R-2016-2554150
47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
50. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2017-2602638
51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
52. Pennsylvania American Water Company, Docket No. R-2017-2595853
53. Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
54. UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058
55. Peoples Natural Gas Company, LLC – Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
58. Duquesne Light Company, Docket No. R-2018-3000124
59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
61. The York Water Company, Docket No. R-2018-3000006
62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063
65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636
67. People Natural Gas Company, LLC, Docket No. R-2018-3006818
68. Application of Pennsylvania American Water Company Acquisition of the Steelton Borough Authority, Docket No. A-2019-3006880
69. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the Township of Cheltenham, Docket No. A-2019-3006880
70. Philadelphia Gas Works, Docket No. R-2019-3009016
71. Wellsboro Electric Company, Docket No. R-2019-3008208
72. Valley Energy, Inc., Docket No. R-2019-3008209

73. Citizens' Electric Company of Lewisburg, Pa, Docket Non. R-2019-3008212
74. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the East Norriton Township, Docket No. A-2019-3009052
75. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2020-3017850
76. Peoples Gas Company, LLC 1307(f), Docket No. R-2020-3017846
77. Philadelphia Gas Works, Docket No. R-2020-3017206
78. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 et al.
79. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835
80. Pennsylvania American Water Company, Docket Nos. R-2020-3019369 and R-2020-3019371
81. PECO Energy Company – Gas Division, Docket No. R-2020-3019829
82. PGW 1307(f), Docket No. R-2021-3023970
83. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2021-3023965
84. Peoples Gas Company, LLC 1307(f), Docket No. R-2021-3023967
85. UGI Utilities, Inc. – Electric Division, Docket No. R-2021-3023618
86. Columbia Gas of Pennsylvania, Inc., Docket No. R-2021-3024926
87. Duquesne Light Company, Docket No. R-2021-3024750
88. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2021-3025652
89. Pittsburgh Water and Sewer Authority, Docket Nos. R-2021-3024773 et al.
90. Application of Aqua America Wastewater, Inc. et al., Acquisition of the Wastewater System Assets of Lower Makefield Township, Docket No. A-2021-3024267
91. Aqua Pennsylvania Water, Inc. and Aqua Pennsylvania Wastewater, Inc., Docket Nos. R-2021-3027385 and R-2021-3027386
92. Application of Pennsylvania-American Water Company for Acquisition of the Wastewater Collection and Treatment System Assets of the York City Sewer Authority, Docket No. A-2021-3024681
93. City of Lancaster – Bureau of Water, Docket No. R-2021-3026682
94. Application of Aqua America Wastewater, Inc. et al., Acquisition of the Wastewater System Assets of East Whiteland Township, Docket No. A-2021-30246132
95. UGI Utilities, Inc. – Gas Division, Docket No. R-2021-3030218
96. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2022-3030661
97. Columbia Gas of Pennsylvania, Inc., Docket No. R-2022-3031211
98. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2022-3032242
99. Pennsylvania American Water Company, Docket Nos. R-2022-3031672 and R-2022-3031673
100. The York Water Company, Docket Nos. R-2022-3031340 and R-2022-3032806
101. Columbia Gas of Pennsylvania, Inc., Docket No. R-2022-3032167
102. National Fuel Gas Distribution Corporation, Docket No. R-2022-3035730
103. UGI Utilities, Inc. – Electric Division, Docket No. R-2022-3037368

COMMONWEALTH OF PENNSYLVANIA

July 12, 2023

Administrative Law Judge Marta Guhl
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
801 Market Street, Suite 4063
Philadelphia, PA 19107

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania / Docket No. A-2022-3037047

Dear Judge Guhl:

Enclosed please find the Direct Testimony of Kevin C. Higgins, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures
cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Kevin Higgins
Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania	:	**Docket No. A-2022-3037047**

OSBA STATEMENT NO. 1

Direct Testimony of Kevin C. Higgins

on behalf of

Pennsylvania Office of Small Business Advocate

Topics:

Proposed Acquisition Price
Rate Base Impact
Revenue Requirement Impact

Date Served: July 12, 2023

Date Submitted for the Record: ____________________________

DIRECT TESTIMONY OF KEVIN C. HIGGINS

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, Salt Lake City, Utah, 84111.

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

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. My testimony is being sponsored by the Pennsylvania Office of Small Business Advocate ("OSBA").

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND QUALIFICATIONS.

A. My academic background is in economics, and I have completed all coursework and field examinations toward the Ph.D. in Economics at the University of Utah. In addition, I have served on the adjunct faculties of both the University of Utah and Westminster College, where I taught undergraduate and graduate courses in economics. I joined Energy Strategies in 1995, where I assist private and public sector clients in the areas of energy-related economic and policy analysis, including evaluation of electric and gas utility rate matters.

Prior to joining Energy Strategies, I held policy positions in state and local government. From 1983 to 1990, I was an economist, then assistant director, for the Utah Energy Office, where I helped develop and implement state energy policy. From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I was responsible for development and implementation of a broad spectrum of public policy at the local government level. My qualifications are attached in the Appendix to this testimony.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. In 2006, I testified in a proceeding concerning the rate transition plans filed by Metropolitan Edison Company and Pennsylvania Electric Company, Docket Nos. P-00062213 et al. In 2022, I filed testimony on behalf of the Pennsylvania OSBA on revenue requirement issues in the Leatherstocking Gas Company LCC general rate case, Docket No. P. R2022-3032764. And earlier this year, I testified in National Fuel Gas Distribution Corporation's 2022 General Base Rate Increase Filing," Docket No. R2022-3035730.

Q. HAVE YOU TESTIFIED BEFORE UTILITY REGULATORY COMMISSIONS IN OTHER STATES?

A. Yes. I have testified in approximately 280 proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Alaska, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Texas, Utah, Virginia, Washington, West Virginia, and Wyoming. I have also filed affidavits in proceedings before the Federal Energy Regulatory Commission and prepared expert reports in state and federal court proceedings involving utility matters.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My testimony addresses whether the acquisition by Pennsylvania-American Water Company ("PAWC") of the Butler Area Sewer Authority ("BASA") under the terms proposed in the Application is in the public interest. The absence of comment on my part regarding a particular issue does not signify support for (or opposition to) the filing with respect to that issue.

Q. WHAT CONCLUSIONS AND RECOMMENDATIONS DO YOU OFFER IN YOUR TESTIMONY?

A. In my opinion, the acquisition by PAWC of BASA under the terms proposed in the Application should not be approved by the Commission because the rate impacts on BASA customers likely to result from the acquisition are unreasonable and therefore not in the public interest.

GENERAL TERMS OF THE ACQUISITION PROPOSAL

Q. PLEASE DESCRIBE THE GENERAL TERMS OF THE ACQUISITION PROPOSAL.

A. PAWC is seeking approval of the purchase of all the assets of wastewater collection, treatment, and discharge system of BASA including the right to begin service in the areas currently served by BASA. The proposed purchase price of

PAWC's acquisition of BASA's assets is $231,500,000, which PAWC proposes to include in rate base.[1]

Upon acquisition, PAWC proposes to increase the flat monthly base rate for BASA customers from $43.00 to $45.50 per equivalent dwelling unit (EDU) and freeze that rate until the later of the first anniversary of closing or January 1, 2025.[2] In the first rate case post-closing, PAWC states that it will request approval to convert customers from flat to metered rates.[3] PAWC also proposes to begin collecting a distribution service improvement charge from customers in the acquired system prior to the first base rate case in which the system's plant-in-service is incorporated into rates, subject to inclusion in PAWC's long-term infrastructure improvement plan for wastewater.[4]

The initial rate adjustments proposed by PAWC do not come close to covering the projected cost of the proposed transaction on BASA customer rates, which PAWC estimates to be 94.4%.[5]

<u>RESPONSE TO THE ACQUISITION PROPOSAL</u>

Q. DO YOU BELIEVE THE ACQUISITION UNDER THE PROPOSED TERMS IN THE APPLICATION IS IN THE PUBLIC INTEREST?

A. No. As I noted above, PAWC estimates that the potential impact of the proposed transaction on BASA wastewater customer rates is an increase of 94.4%. This

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[1] PAWC Statement No. 1 at 12.
[2] BASA Statement No. 1 at 10.
[3] *Id*., at 7.
[4] PAWC Statement No. 3 at 11-12.
[5] PAWC Statement No. 3 at 13-14.

dramatic increase is driven in large part by the acquisition price of $231.5 million, which PAWC requests be incorporated into rate base.[6] PAWC calculates that the revenue requirement increase to support the transaction is $17,895,000, which is more than double the current BASA wastewater revenues of $12,698,000. However, PAWC proposes to shift 33% of the resulting revenue requirement increase to water customers, resulting in a net increase to BASA wastewater rates of $11,989,650.[7]

Thus, BASA customer rates would nearly double simply as a consequence of the transaction, before considering the cost of any new investment that is needed and would occur on the BASA system. The future rate impacts resulting from such new investment by PAWC will be incremental to the initial transaction cost. In my opinion, imposing such a large rate increase on BASA customers solely to accommodate the transaction, without any commensurate benefit to BASA customers, is not in the public interest.

Q. HOW DOES THE PROPOSED ACQUISITION PRICE COMPARE TO THE ORIGINAL COST OF THE ASSETS?

A. The original cost of the assets is approximately $143.8 million, whereas the original cost less accumulated depreciation ("net book value") is approximately $93.4 million.[8] Thus, the acquisition price exceeds the original cost of the assets by $87.7 million and it exceeds original cost less depreciation by $138.1 million.

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[6] *Id*. at 6.
[7] PAWC Exhibit AEE-1.
[8] App. A-5.2 at 31-32.

Q. IS THE PURCHASE PRICE SUPPORTED BY PROFESSIONAL APPRAISALS?

A. Yes. PAWC's Utility Valuation Expert ("UVE") appraisal conducted by Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) indicates a fair market value of $232,429,422,[9] whereas the BASA UVE appraisal conducted by Weinert Appraisal and Depreciation Services, LLC (Weinert) indicates a fair market value of $246,178,265.[10] The purchase price of $231.5 million is slightly less than the smaller of these two values.

Q. ARE YOU CHALLENGING THE MERITS OF THE APPRAISALS?

A. No, I am not challenging the merits of the appraisals as prepared by the UVEs per se. However, irrespective of the appraisal results, I question whether it is reasonable to approve a transaction that by itself would cause BASA wastewater rates to increase by 94.4%. My understanding is that Section 1329(c)(2) provides that the ratemaking rate base of the selling utility shall be the *lesser* of the purchase price negotiated by the acquiring public utility and selling utility or the fair market value of the selling utility. Thus, a lower negotiated acquisition price would result in a smaller increase in BASA rate base and thus a smaller rate impact on BASA customers, all things being equal.

The parties to the transaction were not obligated to set the acquisition price just below the appraisal value. They could have negotiated instead a price that is closer to the net book value of the BASA system, which would cause a smaller rate impact on BASA customers; however, the parties chose not to do so.

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[9] *Id.* at 12.
[10] Appendix A-5.1 at 1.

Q. DO YOU BELIEVE THAT THE NEGOTIATED PRICE TO THIS TRANSACTION REPRESENTS A GENUINE COMPROMISE THAT THE COMMISSION CAN RELY UPON IN ESTABLISHING RATE BASE AND GOING-FORWARD RATES FOR BASA CUSTOMERS THAT ARE IN THE PUBLIC INTEREST?

A. No. Normally, in a pricing negotiation, the economic incentives for each party to the transaction are opposite one another: the seller is incentivized to attain the highest price possible, whereas the buyer has an incentive to attain the lowest price possible. A price resulting from negotiations between sophisticated and informed parties conducted under such conditions may be presumed to represent a fair and genuine compromise.

However, perversely, the parties to this transaction appear to have similar, if not identical, incentives, which is to attain as *high* a "negotiated" price as possible, so long as the full acquisition price is approved for inclusion in rate base. In my opinion, a negotiated price arranged between parties that each have an incentive for the price to be as high as possible does not represent a fair and genuine compromise in a normal economic sense. Rather, the result of such an arrangement can be expected to be biased towards the upper end of plausible prices. Consequently, I believe it is necessary for the Commission to determine whether the rate impacts resulting from the negotiated acquisition price in this case are just and reasonable.

Q. PLEASE EXPAND UPON WHY YOU BELIEVE BOTH PARTIES TO THIS TRANSACTION ARE BOTH INCENTIVIZED TO ATTAIN AS HIGH AN ACQUISITION PRICE AS POSSIBLE.

A. In the case of the seller, BASA, the incentive to obtain as high a price as possible is the normal economic incentive for a selling party, although one would expect that to be tempered somewhat by a concern for the impacts on its customers. The perverse incentive to attain a high acquisition price occurs with the buyer in this case, PAWC, which would be rewarded with an increase in rate base equal to the acquisition price, so long as it does not exceed the fair market value of the assets as established by the appraisals. Since the basic building block for a public utility to earn profits is the size of its rate base, PAWC is incentivized to attain as high an acquisition price as possible within this constraint. Indeed, that is exactly what is occurring in this case, as the negotiated price of $231.5 million is fully 99.6% of the lesser of the appraised values.

Hypothetically, if the acquisition premium offered by PAWC in excess of net book value were not presumed to be includable in rate base, then PAWC would be motivated to negotiate an acquisition price that was as close to the net book value of the assets as possible. In such a situation, PAWC would bear the risk that it would not fully recover the costs of its acquisition price. However, in being able to include the acquisition premium in rate base, as proposed in this case, the risk that PAWC might be "overpaying" for the asset is shifted away from PAWC shareholders and onto BASA customers. The delinking of the risk of overpricing the asset away from the agent negotiating the price (PAWC) and onto another party (BASA customers) implicates the moral hazard problem in economics, which occurs when the party to an agreement does not have to suffer the potential consequences of a risk. Simply put, the absence of the normal economic incentive for the buyer to negotiate as low a price as possible for the asset means that the Commission cannot rely upon the "negotiated price" as a guide to ensuring just and reasonable rates in this case.

Q. DO THE RESULTS OF THE APPRAISALS PROVIDE ASSURANCE THAT THE ACQUISITION PRICE WILL PRODUCE REASONABLE RATE IMPACTS?

A. Not necessarily. By construction, the appraisals give significant weight to both the replacement cost (new, less depreciation) as well as the income that could be earned from the asset.[11] However, just and reasonable utility rates are generally not based on the replacement cost (new) of a utility's assets, less depreciation, but rather on original cost less depreciation. Thus, as a threshold matter, the replacement cost approach to determining the fair market value of the selling utility's assets sidesteps the question as to whether the resulting value will produce just and reasonable rates if included in rate base.

A similar problem occurs with the income approach. The income approach values the assets based on the earnings that could be achieved if the assets were owned by an investor-owned utility. The analysis incorporates a set of assumed future revenue requirements, which in this case, are assumed to be significantly greater than BASA's current revenue requirements. For example, the

[11] The cost, market, and income approaches to valuation are required in accordance with Section 1329(a)(3).

Weinert income analysis assumes a 65% increase in BASA rates in Year 1 and a subsequent 50% increase in Year 3, with additional material increases every other year thereafter.[12] Similarly, the Gannett Fleming analysis assumes a 114% increase in BASA rates in 2025 under investor-owned utility ownership.[13] Thus, the income-based valuation is derived in large part by assuming a series of large rate increases to support the acquired asset. In so doing, the income approach to valuing the assets also sidesteps the question as to whether the rate increases are reasonable in the first instance. Rather, the analysis assumes substantial rate increases will occur and then values the asset accordingly. Whether the assumed rate increases are reasonable is a different matter.

Irrespective of the appraisals, the Commission must ultimately contend with the fundamental question of whether it is in the public interest for BASA customer wastewater rates to increase 94.4% solely as a result of the proposed transaction. I believe the answer is no.

Q. DOES THE APPLICATION INDICATE WHETHER PAWC INTENDS TO MAKE SUBSTANTIAL NEW INVESTMENTS IN THE BASA SYSTEM AFTER THE ACQUISITION?

A. Yes. According to the Application, PAWC has developed a five-year capital plan totaling $75.8 million that includes 2019 corrective action projects, as well as numerous other projects that will replace the BASA's aging infrastructure, replace targeted areas of the collection system components known to have unacceptably high inflow/infiltration and/or sanitary system overflows, make process

[12] Appendix A-5.1 at 75.
[13] Appendix A-5.2 at 160.

improvements that will yield environmental, safety and security benefits to customers and employees, and improve the efficiency of operations.[14]

Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THESE INVESTMENT PLANS IN THE CONTEXT OF THIS CASE?

A. Yes. PAWC's stated commitment to make these investments suggests that it is prepared to be a good steward of the BASA system. However, the costs of these projects will be incremental to the cost of the transaction. From a ratemaking standpoint, BASA customers would be better served if future rate increases were devoted primarily to the needed infrastructure improvements to the BASA system rather than paying for the acquisition premium in excess of net book value proposed in this case.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?

A. In my opinion, the acquisition by PAWC of BASA under the terms proposed in the Application should not be approved by the Commission because the rate impacts on BASA customers likely to result from the acquisition are unreasonable and therefore not in the public interest. An acquisition price closer to the original cost of the BASA system would have been more reasonable. Such a price would allow BASA to recoup its investment cost, compensate PAWC fairly for the acquired assets, and cause future rate increases paid by BASA customers to be used more for needed system improvements rather than to recover the acquisition premium in excess of net book value.

[14] PAWC Statement No. 2 at 16.

Q. ARE YOU RECOMMENDING AN ALTERNATIVE RATE BASE TREATMENT?

A. No, not at this time. I believe the parties to this proposed transaction have a responsibility to present terms to the Commission that are just and reasonable. In my opinion, they have not done so, as evidenced by the rate impacts resulting from the proposed acquisition price and associated rate base. While it may be in the long-term interests of BASA customers to be served by an entity such as PAWC, which appears willing to make needed investments in the wastewater system, the rate impacts resulting from the transaction as proposed are not reasonable.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company – Wastewater Section 1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1329, for the Acquisition if Butler Area Sewer Authority's Wastewater System Assets	: : :	**Docket No. A-2022-3037047**

VERIFICATION

I, Kevin C. Higgins, hereby state that the facts set forth in my Direct Testimony labelled OSBA Statement No. 1 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 19 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: July 11, 2023

Kevin C. Higgins

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania	:	**Docket No. A-2022-3037047**

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: July 12, 2023

/s/ Steven C. Gray

____

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COMMONWEALTH OF PENNSYLVANIA

July 21, 2023

Administrative Law Judge Marta Guhl
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
801 Market Street, Suite 4063
Philadelphia, PA 19107

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania / Docket No. A-2022-3037047

Dear Judge Guhl:

Enclosed please find the Surrebuttal Testimony of Kevin C. Higgins, labeled OSBA Statement No. 2, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Kevin Higgins
Parties of Record

Office of Small Business Advocate
Forum Place 555 Walnut Street, 1st Floor | Harrisburg, PA 17101 717.783.2525 | Fax 717.783.2831 | www.osba.pa.gov

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania	:	**Docket No. A-2022-3037047**

OSBA STATEMENT NO. 2

Surrebuttal Testimony of Kevin C. Higgins

on behalf of the

Pennsylvania Office of Small Business Advocate

July 21, 2023

Topics:

Proposed Acquisition Price

Rate Base Impact

Revenue Requirement Impact

Date Served: July 21, 2023

Date Submitted for the Record: ____________________________

SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, Salt Lake City, Utah, 84111.

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

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO PREFILED TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE PENNSYLVANIA OFFICE OF SMALL BUSINESS ADVOCATE ("OSBA")?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony responds to portions of the rebuttal testimony of Pennsylvania-American Water Company ("PAWC") witnesses Mr. Scott D. Fogelsanger Ms. Ashley E. Everette.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AT THIS JUNCTURE OF THE PROCEEDING.

A. As I stated in my direct testimony, the acquisition by PAWC of Butler Area Sewer Authority ("BASA") under the terms proposed in the Application should not be approved by the Commission because the rate impacts on BASA customers likely to result from the acquisition are unreasonable and therefore not in the public interest.

RESPONSE TO MR. FOGELSANGER

Q. MR. FOGELSANGER CONTENDS THAT IN RECOMMENDING THAT THE COMMISSION REJECT THE PROPOSED TRANSACTION, YOU DO NOT GIVE PROPER CONSIDERATION TO THE BENEFITS OF THE ACQUISITION.[1] HOW DO YOU RESPOND TO THIS ARGUMENT?

A. I acknowledged in my direct testimony that PAWC has developed a five-year capital plan totaling $75.8 million that includes 2019 corrective action projects, as well as numerous other projects that will replace the BASA's aging infrastructure, replace targeted areas of the collection system components known to have unacceptably high inflow/infiltration and/or sanitary system overflows, make process improvements that will yield environmental, safety and security benefits to customers and employees, and improve the efficiency of operations. I recognize that it is a potential benefit for BASA customers to be served by a utility that is prepared to undertake these investments and adopt these practices. But I also point out that the cost of recovering the needed new investments will come *on top of* the rate impacts attributable to the acquisition as proposed. The potential benefit from new investment at an additional cost to customers is not a

[1] PAWC Statement No. 1-R at 4-5.

direct benefit of the projected 94.4% rate increase attributable to the transaction itself. The 94.4% projected rate increase is more akin to an expensive cover charge just to "get in the door." The new investment that is apparently needed will cost extra. While it may be reasonable for BASA customers to pay some premium in exchange for a change in utility ownership if the new owner is more prepared to undertake much needed investments, the question before the Commission is whether it is reasonable for the potential premium to be as high as 94.4%. I do not believe it is.

Q. HOW DO YOU RESPOND TO MR. FOGELSANGER'S CONTENTION THAT YOUR RECOMMENDATION IS INCONSISTENT WITH THE REQUIREMENTS OF SECTION 1329?

A. Like Mr. Fogelsanger, I am not an attorney, but I am advised by counsel that Section 1301 requires that the Commission must find that rates are just and reasonable. And while a significant rate change would not occur immediately upon approval of the transaction, the associated increase in rate base attributable to the transaction set1s the stage for dramatic rate increases for BASA customers in the not-too-distant future. I recommend that the Commission take the potential rate increase on BASA customers into account in determining whether it is in the public interest to approve the proposed transaction under the terms proposed by the applicants.

RESPONSE TO MS. EVERETTE

Q. MS. EVERETTE STATES THAT YOU INCORRECTLY CHARACTERIZE PAWC'S ACQUISITION NOTICES, WHICH DISCLOSE THE POTENTIAL RATE IMPACT OF 94.4%, AS "PROPOSALS" BY PAWC.[2] HOW DO YOU RESPOND?

A. I do not use the words "proposal" or "proposals" to characterize the potential 94.4% rate impact, but rather refer to it as the "projected cost of the proposed transaction," as well as PAWC's estimate of "the potential impact of the proposed transaction on BASA wastewater customer rates." These are accurate descriptions. My testimony also notes that PAWC does not intend to request recovery of the full cost of the transaction right away. I also understand that no subsequent rate increases will occur without Commission approval. But I understand as well that adding $138.1 million to rate base in excess of the current net book value of the BASA system, which is what PAWC is proposing in this case, will ultimately have a profound impact on BASA rates. While PAWC could seek to phase in the impact of such an increase to rate base, the Application makes no commitment to do so after the later of the first anniversary of closing or January 1, 2025. Therefore, I consider the 94.4% rate impact calculated by PAWC to be a credible estimate of the potential rate increase to BASA customers resulting from the transaction in the relatively near term, before taking into account any additional rate increases associated with the $75.8 million of planned investment during the first five years of PAWC ownership.

[2] PAWC Statement No. 3-R at 11-12.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Company – Wastewater Section 1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1329, for the Acquisition if Butler Area Sewer Authority's Wastewater System Assets	: : :	**Docket No. A-2022-3037047**

VERIFICATION

I, Kevin C. Higgins, hereby state that the facts set forth in my Surrebuttal Testimony labelled OSBA Statement No. 2 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 19 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: July 20, 2023

Kevin C. Higgins

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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, 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 by the Butler Area Sewer Authority, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the City of Butler, and portions of the Borough of East Butler, and portions of the Townships of Butler, Center, Connoquenessing, Oakland, and Summit, in Butler County, Pennsylvania	:	**Docket No. A-2022-3037047**

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: July 21, 2023

/s/ Steven C. Gray

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Senior Supervising
Assistant Small Business Advocate
Attorney I.D. No. 77538

PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PENNSYLVANIA-AMERICAN WATER CO. UNDER SECTION 1102(a) AND 1329 OF THE PENNSYLVANIA PUBLIC UTILITY CODE TO ACQUIRE THE WASTEWATER COLLECTION AND TREATMENT SYSTEM OWNED BY THE BUTLER AREA SEWER AUTHOIRTY AND TO FURNISH WASTEWATER SERVICE TO THE PUBLIC IN BUTLER COUNTY, PENNSYLVANIA

DOCKET NO. A-2022-3037047

DIRECT TESTIMONY OF DONALD PRINGLE

Filed on Behalf of Protestant:

CENTER TOWNSHIP,
BUTLER COUNTY, PENNSYLVANIA

Counsel of Record for these Parties:

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

DIRECT TESTIMONY OF DONALD PRINGLE

PROCEEDINGS OF JULY 6, 2023

DONALD PRINGLE, called as a witness, testified as follows:

EXAMINATION

BY MR. GALLAGHER:

Q. Don, can I get you to spell your full name, please?

A. Sure. My full name is Donald Edward Pringle.

Q. And your address?

A. 118 Covington Drive, Butler, Pennsylvania.

Q. Is that in Center Township?

A. Center Township, yes, it is.

Q. In Butler County?

A. Butler County, yes, sir.

Q. What is your position with Center Township?

A. I am a Center Township Supervisor.
Q. And how long have you been a Center Township Supervisor?
A. Since January of 2022.
Q. And how long have you been a Center Township resident?
A. Since 2001.
Q. Are you a customer of the Butler Area Sewer Authority?
A. I am.

Q. And have you been a customer since you started living in Center Township in 2001?
A. And before.
Q. And as a resident and as a supervisor, do you have concerns about the sale of the Butler Area Sewer Authority to PA American Water Company?
A. I do.
Q. And tell me about why you're concerned about the potential doubling of rates to customers after the first year after the first year of the purchase.
A. I am a businessowner, and I have advanced degrees in business administration. And I know that the Sewer Authority is being sold to a for-profit entity to

Pennsylvania American Water Company, which is owned by a parent company, American Water.

American Water is traded on the New York Stock Exchange. Because it's traded on the New York Stock Exchange, because it's a for-profit entity, I think we lose the management capabilities of a non-profit taking over by a for-profit.

At that point, the profit entity is responsible to the shareholders of that business to be able to turn a profit; hence, for-profit.

My concern is that as time goes on, the petitioning of the PUC for a rate increase every year

will exponentially increase the rates of the subscribers and to the support businesses that support those subscribers.

Let me explain: There's restaurants. There's motels. There's stores. There's businesses that support our community that now are going to have the issue of if their water and sewer will double and exponentially go up through the years, it's going to be ever-increasingly hard to keep employees in the Butler area and the Center Township area with this sell-out.

If we would continue to hold this as a non-profit entity, the Municipal Authority, we can remove that profit part of the sale, so to speak.

Lastly, the amount of money that is spent in aggregate on the upfront of 315 million dollars will have to be covered somewhere along the way, and I believe that the residents that I represent in Center Township will be paying the price for this sale. That is where my position is.

Q. And it's your understanding that Butler City and Butler Township are supposed to receive somewhere in the neighborhood of 230 million dollars for the sale of the Pennsylvania -- or BASA to Pennsylvania American Water?

A. That's correct.

Q. Is Center Township due to receive any of those funds?

A. No, sir.

Q. Do you believe that is in the best interest of Center Township taxpayers and ratepayers?

A. No, sir.

Q. Can you explain why?

A. Yes. First of all, I believe that Butler Township and Butler City are receiving those funds for mismanagement of a nonprofit is a reward for a job not well done.

Second of all is they are going to receive for their -- the governmental entities and Center Township residents are going to have to pay the price and have paid the price to this Municipal Authority since we entered into the authority.

Q. And are you aware of the filing by the Office of Small Business Advocates, which indicates that ratepayers in residential areas could face up to a 94-percent increase within the first year?

A. Oh, yes, I received that. And I believed that that was just the beginning, and they had to disclose that to the public, and I believe that it's going to go beyond that and then some.

Q. And do you believe that a rate increase of 94 percent is in the best interest of the general public in repairs?

A. No, sir.

Q. The other piece of the transaction is is that PAWC has allegedly pledged to spend 75 million dollars to perform capital improvements in the system, are you familiar with that pledge?

A. I am.

Q. Would it be fair to say that based upon calculations that the Township has performed, that BASA could cover those 75 million dollar senior capital improvements with a 20 dollar rate charge to the current customer?
A. Of all the numbers that were developed by us and our team, that seems to be the number that could handle throughout a municipal bond offering and it would be less of a burden to the elderly and to the businesses within our community based on the EBU.
Q. And you mentioned this before, but the sale of BASA would result in a non-profit entity becoming a for-profit entity.
Is it your understanding that the real property owned by the sewer authority, would that become taxable?
A. Yes.
Q. And do you believe that that is, indeed, the interest of the ratepayers to pay interest on that property?
A. No, sir.
Q. Can you explain that?
A. Yes. Just because the property becomes taxable now is going to nationally increase your rates to

subscribers, businesses, residents; you know, I'll support businesses along the way. It's going to be, again -- and I restate, this is going to cause an inflationary issue to all the subscribers of Butler Area Sewer Authority and absolutely increase Center Township's.

Q. And are you aware of the 1974 Water Pollution Control Agreement that was entered into by Center Township and the other municipal entities?

A. I've heard of it. I have not read it.

Q. Is it your understanding that Center Township was to be consulted with before any sale of the sewer authority were to occur?

A. Yes. I've read the summaries on it; but, again, I have not read the complete agreement.

Q. Sure. Did any consultation with Center Township occur before the purchase agreement was entered into?

A. As far as I know, no, and unless something occurred before me sitting on the board. But as far as I know, from all of my other Supervisors, there has been no collaboration with Center Township at all.

MR. GALLAGHER: I'm going to pause here. Go off the record for a second.

BY MR. GALLAGHER:
Q. Is it your understanding that certain customers on the back -- strike that. Let me start back over again.
Is it your understanding that most customers of BASA pay a flat rate and are not charged based upon water meter usage as of current?
A. Yes.
Q. Is that how you currently pay for your service?
A. Yes.
Q. Is it your understanding that some larger industrial and commercial customers at BASA pay based upon a metered flow because they have larger outputs to the BASA system?
A. Yes.
Q. Based upon what has been filed with PUC, is it your understanding that no tariff was proposed for the current metered customers?
A. That's my understanding.
Q. And is it your belief, then, that they would refer to becoming flat-fee customers, which would result in an overall revenue reduction to the system?

A. Yes.

Q. What is your concern with that?

A. My concern is is the normal residents of our district and the entire Butler Area Sewer Authority District would have to incur the excess cost of these commercial, industrial and government entities that get a better deal, which will cause a rate increase to cover that.

Q. Sure. And, in fact, it's proposed in the agreement that the VA would pay nothing for -- excuse me, for the wastewater that they export from their site; is that correct?

A. That's my understanding.

Q. And that would fall to the ratepayers of the entire system, including yourself and those residents?

A. That is correct.

Q. Do you believe that to be in the best interest of the ratepayers?

A. No, sir.

Q. And just to note for the record, does Center Township receive any wastewater treatment from BASA?

A. As far as I know, no.

Q. Don, is it your opinion, then, that a sale of the Butler Area Sewer Authority to Pennsylvania American Water Company is not in the best interest of public?

A. Not only is it not in the best interest of the Center Township residents, but it's not in the best interest of all subscribers of Butler Area Sewer Authority.

Q. And you are opposed to the request to grant a certificate of public convenience to Pennsylvania American Water Company to operate this system as proposed within the application submitted to the PUC?

A. I am.

VERIFICATION

I, Donald E. Pringle, of the Center Township Board of Supervisors hereby state that the facts above set forth 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).

Date: 7/7/23

Donald E. Pringle

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 12th day of July, 2023 served a true copy of the foregoing Direct Testimony of Donald Pringle upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 12, 2023

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Respectfully submitted,

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

REBUTTAL TESTIMONY OF DONALD PRINGLE
DATED JULY 13, 2023

BY MR. GALLAGHER:

Q. Okay. Donald, can you please state your full name for the record?

A. Donald Pringle.

Q. And your address?

A. 118 Covington Drive, Butler, Pennsylvania, 16001.

Q. And what is your position with Center Township?

A. I am a Supervisor.

Q. How long have you been a Supervisor for?

A. Since January of 2022.

Q. Okay. And are you familiar with Pennsylvania American Water Company's application to purchase the Butler Area Sewer Authority which is currently pending before the Pennsylvania Utilities Commission?

A. I am.
Q. Okay. And as a part of that application, have you reviewed the testimony presented by Mayor Bob Dandoy and Commissioner David Zarnick on behalf of Butler City and Butler Township?
A. I have.
Q. Okay. Do you have issue with the testimony that they have presented?
A. I do.
Q. Okay. And we are going to talk specifically about a couple of those things here.
As a part of Mayor Dandoy's testimony, he stated that the City plans to use the proceeds for various projects within the City of Butler. What issues do you have with that?
A. I believe the money that they will be receiving will have to be paid back and my constituents will be paying that money back in surcharges or increased bills.
Q. Okay. And are you aware that Mayor Dandoy's testimony stated that the City plans to use part of the proceeds to fulfill the minimum municipal obligation to their retirement accounts?
A. Yes.

Q. Go ahead.
A. Can I continue?
Q. Yeah.
A. Okay. Yes, and I believe that that was lack of planning on their governmental entity and their trying to make it up through a funding of the system; and the funding of the system now, in essence, our constituents will be paying for the lack of planning and retirement of the community we aren't even in.

Q. And because the retirement accounts are being funded by proceeds of the sale of the Butler Area Sewer Authority, would it be fair to say that Center Township residents are paying for Butler City pensions?
A. Correct.
Q. And are you familiar with Commissioner Zarnick's testimony that Butler Township also plans to use part of the proceeds to fulfill their retirement obligations as well?
A. Unfortunately, yes, I am very familiar with that. And I have the same answer to that question, that our residents will be paying for the lack of planning of Butler Township for their retirements. It will be passed on through increased bills and surcharges.

Q. And are you familiar with Commissioner Zarnick's testimony that part of the funds from the proceeds of sale are planned to be used to build a sports complex in Butler Township?

A. I am.

Q. Do you have issue with that?

A. Yes. Again, our residents will be part of the payment of that through the increased rates and surcharges with regards to the money that they would be receiving and using for that project.

Q. Did Center Township vote to authorize contributions to any of the projects listed by Commissioner Zarnick or Mayor Dandoy?

A. No.

Q. Has Center Township ever contributed to any of the projects listed by Commissioner Zarnick or Mayor Dandoy?

A. No, sir.

Q. One of the items brought up within the testimony of PAWC employees is that PAWC employees would be better situated to resolve issues than BASA workers.

Has BASA ever failed to serve members of its system in your community in a timely manner?

A. No. And I have some information with that, any time we worked with BASA as a Center Township organization, they were more than happy to bring their trucks to help us clear drainage and to explore different things to help us and they did it free of charge. They were very amenable to our community.

Q. So would it be fair to say that BASA and Center Township would consider themselves good neighbors?

A. Absolutely.

Q. Okay. One of the items that was also brought up in the PAWC testimony is that there has been issues with some of the pump stations that need upgraded and has caused potential denials of service applications to those pump stations. Are you familiar with any resident of Center Township being denied service by BASA?

A. No.

Q. Any time, to your knowledge, that the Township has requested additional service capacity from BASA, has that ever been rejected?

A. I don't have any knowledge of that.

Q. One of the other items that was brought up in PAWC testimony is that right now, the Butler Area Sewer Authority is subject to the jurisdiction of the United

States Environmental Protection Agency.

Under Pennsylvania American Water Company, since they are a for-profit entity, the only entity involved in their oversight would be the Pennsylvania Department of Environmental Protection.

Do you believe that change to be in the best interest of the residents of the Township?

A. No, not at all.

Q. And can you explain why?

A. First and foremost, the merger of water and sewage under one company becomes a fulfilled complete monopoly. This monopoly means they can come forward and have rate increases at-will based on the PUC approval, which they will come every year and ask for an approval of a rate increase by some excuse.

And our residents will continue to exponentially get higher bills on a monthly basis. Our elderly, our retirement, our families that are trying to make it will be getting increased -- it will become an inflationary deal, that everything will go up in price because of what they are doing because we've released the Municipal Authority which is a non-profit to a for-profit entity that now has a monopoly over the water and sewage over our community.

Q. In fact, the United States Environmental Protection Agency has been involved very closely with the Butler Area Sewer Authority since the Consent Agreement which was signed in the 1970s; is that fair to say?

A. I would say so. I haven't read it but I would say, yes.

Q. Okay.

MR. GALLAGHER: Go off the record for a second.

(An off-the-record discussion was held.)

MR. GALLAGHER: We can go back on the record.

BY MR. GALLAGHER:

Q. Is it your opinion then that the application of Pennsylvania American Water Company to purchase the Butler Area Sewer Authority should be denied?

A. Absolutely, 100 percent.

VERIFICATION

I, Donald E. Pringle, of the Center Township Board of Supervisors hereby state that the facts above set forth 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).

Date: July 17, 2023

Donald E. Pringle

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 18th day of July, 2023 served a true copy of the foregoing Rebuttal Testimony of Donald Pringle upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 18, 2023

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	: : : : : : : :	Docket No. A-2022-3037047

SURREBUTTAL TESTIMONY OF DONALD PRINGLE DATED JULY 20, 2023 TO THE REBUTTAL TESTIMONY OF SCOTT D. FOGELSANGER AND PAUL SYBERT

BY MR. GALLAGHER:

Q. Okay. Would you please state your name and address for the record?

A. My name is Donald Pringle, Hendricks Road, Center Township, Pennsylvania.

Q. And you are a Supervisor for Center Township; is that correct?

A. I am.

Q. And how long have you been serving in that capacity?

A. Since January of 2022.

Q. And have you submitted any other testimony in this proceeding?

A. I have.
Q. And can you tell us what those were?
A. There was direct testimony and rebuttal testimony.
Q. Okay. And today, you are also going to -- you are going to submit what is referred to as surrebuttal testimony; is that correct?
A. That is correct.
Q. And the surrebuttal testimony would be to the testimony of Paul F. Sybert, S-Y-B-E-R-T, Chairman of the Board of the Butler Area Sewer Authority; and also of Scott D. Fogelsanger, F-O-G-E-L-S-A-N-G-E-R, of Pennsylvania American Water Company; is that correct?
A. That's correct.
Q. So, starting with the testimony of Mr. Fogelsanger, he says on page 5 of his rebuttal testimony that you said that Center Township does not receive wastewater service from BASA.
Is that your understanding of what your testimony was?
A. No.
Q. Please explain what your testimony is.
A. I think there is a misprint somewhere along the way, but I said that Center Township does receive wastewater services from BASA.

Q. And when you say, "Center Township," you mean the Center Township Municipal Building?
A. Center Township Municipal Building, yes.
Q. All right. Now, on page 6 of his rebuttal, he mentions that, "Center Township will receive an increased benefit of receiving property taxes from Pennsylvania American, which are under BASA not subject to property tax." Is there a problem with that statement?
A. Oh, yes. We would receive property taxes but that would also increase our subscribers' monthly fee. It would be passed onto the subscribers.
Q. Okay. Now, also on page 6 of his testimony, rebuttal testimony, Mr. Fogelsanger states -- and this is a point that seems to be made many times during these rebuttal testimonies, that the project -- or BASA is mismanaged. Do you believe that BASA is mismanaged?
A. I do not. Should I explain?
Q. Uh-huh (affirmative.)
A. Oh, yeah. We have never had a problem with the Sewer Authority, nor have any of the people in our community had a problem with BASA.
They have been very assisting to us, and they have been able to grant permits and move forward.

I believe it has been run fully and completely and that actually echos the testimony of Mr. Paul Sybert, that he said it was not mismanaged.

Q. And so, we will come back to that.

Now, we will turn to the testimony of Mr. Paul Sybert now that you were speaking about him.

A. Okay.

Q. And if you look on paragraph 2, he seems to be stating that when Center Township filed the protest, that you were looking for the PUC to institute a breach of contract action or some sort of contract action against PAWC; is this correct?

A. No.

Q. Can you explain your answer, please?

A. We just wanted to be part of the negotiations and they never asked us to be a part.

Q. Okay. Now, did Center Township in the protest file a breach of contract claim?

A. No, we did not.

Q. Did Center Township seek damages in the protest action for breach of contract?

A. No.

Q. Did Center Township file a protest action seeking an injunction with the PUC because of the 1974 Water Pollution Control Agreement?

A. No.
Q. Again, you were just showing what?
A. Good faith, we had good faith, that we were waiting for them to ask us to be part of the negotiations.
Q. Now, when you talk about being included in the negotiations, is it your position that was something that was set forth in the 1974 Agreement?
A. Yes.

Q. Okay. And did you, meaning Center Township, contact the City of Butler and Butler Township to ask to be a part of that?
A. Yes.
Q. And did they ever respond to you?
A. No.
Q. Now, you did attend, was it, an open house or a public meeting that was put on by BASA?
A. By Butler Township and BASA, yes. I attended an open house, that they sent a letter out for subscribers.
Q. And when you were at the meeting, were there any discussions with you and them about the possibility of being included in negotiations?
A. No.
Q. Okay. What information were you given at that

open house?

A. I was given no information about the contractual obligations. I was only given information/handouts of what would be given to a subscriber. They included no technicalities of the operational deal at all, nothing.

Q. And as a Supervisor, that was something you would have expected?

A. Yes.

Q. And that door was closed?

A. It was closed.

Q. Now, BASA says -- Mr. Sybert of BASA says that, "BASA made numerous persistent efforts to consult with all customers and municipalities that would be potentially impacted by the proposed transaction." That is on page 4 of his rebuttal testimony.

A. He never contacted us.

Q. When you say "us"...

A. Center Township. But, you know, can I elaborate a little bit more?

Q. Yes.

A. On page 4, that is why I'm a little bit confused. On page 4, he said that, "BASA made numerous persistent efforts to consult with all customers and municipalities that would potentially be impacted by the proposed transaction." He never contacted us.

But on the page before on page 3, his answer to the question on line 13, he said that, "There is no requirement that either municipality should be -- must be consulted before the sale of the system."

He gives conflicting testimony from his own testimony within two paragraphs of each other, that he doesn't have to contact us but then he said he did.

Q. But he didn't?

A. But he never did.

Q. Okay. I'll ask you the question: You have come to understand that the amount required to bring BASA through upgrades up to a good operating standard would be approximately $75,000,000?

A. That is my understanding.

Q. That would certainly have an impact on your bill as a user?

A. Correct.

Q. Okay. And now, what is your understanding as the end result on the bill as a user if it was purchased by PAWC, would your bill be larger or smaller?

A. The amount that they were paying for the Sewer Authority at 231.5 million, plus the 75,000,000 would put it well over $300,000,000. They are not doing it for free. It is going to have to be passed onto the subscriber.

In my opinion, $315,000,000 far surpasses the $75,000,000 municipal costs if we would take it on ourselves.

Q. Which do you think would be better served, the communities of the City of Butler, Butler Township, Summit Township, Center Township and all the other communities that receive BASA water to be purchased by PAWC or to remain with BASA?

A. Oh, definitely to remain with BASA, definitely.

Q. Would you agree that in his rebuttal testimony, Mr. Sybert really doesn't answer or refer to which would cost more, the purchase of PAWC or BASA refinancing?

A. He doesn't address that at all. I believe he sidestepped all of the information to produce his own narrative.

It is plain and simple: Numbers don't lie. Over 300,000,000 versus 75,000,000; and keeping it without a profit component moving forward because it is a non-profit, I think, would be better for all of the subscribers of the Butler area.

Q. Now, on page 8 of Mr. Sybert's rebuttal testimony, he states, "The testimony lays bare the true issue that Center and Summer Townships have: that they are not set to receive any money as part of the proposed transaction."

What is your response to this allegation?

A. I believe it is bad for our subscribers and it is true that neither Summit nor Center Township would be receiving any funds with regards to the sale but that is a secondary problem.

The first problem is I'm elected to support the subscribers of my community, which is Center Township.

And more importantly, being from Butler, this is going to be bad for the economy of Butler because it is going to increase costs for everyone and that is where I'm -- we don't -- I don't even care about the money, you know, for the sale. I want -- it should stay as Butler Area Sewer Authority, a Municipal Authority.

Q. Now, the rebuttal questions asked, you don't see any perceived benefits for Center Township as a result of the sale?

A. If the sale would go through, I think I can relay it this way: if the sale would go through, we don't get any benefit except an increased bill forever.

Q. You understand that BASA is an entity, public entity, that operates in a monopolistic fashion?

A. Yes.

Q. It is created by the Pennsylvania Law as what is

called a "municipal authority"?
A. Yes.
Q. Okay. On the other hand, Pennsylvania American Water is a private monopoly?
A. Yes.
Q. All right. Now, which do you think is better for the wastewater system of where you live and where you serve as Supervisor in Center Township?
A. Well, I have to look at the entire and complete picture. Pennsylvania American Water Company is a for-profit entity owned by American Water, which is traded on the New York Stock Exchange.

Their responsibility is to the shareholders, not to the subscribers. Subscribers are a secondary stakeholder. PAWC controls the water.

Butler Area Sewer Authority is a municipal authority that does not have a profit component in their non-profit status. It is basically owned and operated by the people of Butler.

This can be -- if this is sold out, it is going to be sold from a public entity/non-profit to a for-profit entity controlled by shareholders.

The profit portion of that will be a bad element because it will be a super monopoly. One organization will not only control the water but control the sewage and our customers/our subscribers will have no other place to go.

They can't do water from another supplier. They can't do sewage from another or supplier. They can't do an independent septic system. They have to do -- if they are in the system, they have to do Butler Area Sewer Authority. They control the complete monopoly of both sides.

This, in my opinion, is -- goes against basically Sherman Anti-Trust where this has created a monopoly. In Sherman Anti-Trust, it talks very explicitly about collaborating and coordinating with a monopoly for an unfair advantage.

This creates a complete unfair advantage for the customers and subscribers and general public. I don't believe this is good for the public in general.

Q. Thank you.

* * * * *

VERIFICATION

I, Donald E. Pringle, of the Center Township Board of Supervisors hereby state that the facts above set forth 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).

Date: July 20, 2023

Donald E. Pringle

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of July, 2023 served a true copy of the foregoing Surrebuttal Testimony of Donald Pringle Dated July 20, 2023 to the Rebuttal Testimony of Scott D. Fogelsanger and Paul Sybert upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 21, 2023

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

APPLICATION OF PENNSYLVANIA-AMERICAN WATER CO. UNDER SECTION 1102(a) AND 1329 OF THE PENNSYLVANIA PUBLIC UTILITY CODE TO ACQUIRE THE WASTEWATER COLLECTION AND TREATMENT SYSTEM OWNED BY THE BUTLER AREA SEWER AUTHOIRTY AND TO FURNISH WASTEWATER SERVICE TO THE PUBLIC IN BUTLER COUNTY, PENNSYLVANIA

DOCKET NO. A-2022-3037047

DIRECT TESTIMONY OF WILFRED ADAMS

Filed on Behalf of Protestant:

SUMMIT TOWNSHIP,
BUTLER COUNTY, PENNSYLVANIA

Counsel of Record for these Parties:

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	: : : : : : : :	Docket No. A-2022-3037047

DIRECT TESTIMONY OF WILFRED ADAMS

PROCEEDINGS OF JULY 6, 2023

WILFRED ADAMS, called as a witness, testified as follows:

EXAMINATION

BY MR. GALLAGHER:

Q. Willie, can I get you to state your full name for the record, please?

A. My name is is Willie Adams. My full name is Wilfred J. Adams, Jr.

Q. And your address?

A. My business address is 1234 Freeport Road in Butler, PA 16002.

Q. And what is your position with Summit Township?

A. Right now, I am the Chairman of the Board of

Supervisors of Summit Township.

Q. And how long have you been a Supervisor for Summit Township?

A. I believe this will be my 12th year.

Q. And how long have you been a resident of Summit Township?

A. I've been a resident for, I think, 22, 23 years.

Q. And your business is located within the township as well?

A. Yes. I've been in business there for 45 years.

Q. And are you a ratepayer of the Butler Area Sewer Authority?

A. Yes, at the business address.

Q. Okay. And as it stands right now, you pay a flat fee for service at your business; is that right?

A. That is correct.

Q. And it's your understanding that the Pennsylvania American Water Company has filed with the Pennsylvania Utility Commission a request to purchase the Butler Area Sewer Authority; is that your understanding?

A. Yes, yes.

Q. And is it your belief that the transfer of BASA to PAWC is not in the best interest of the general public?

A. Well, definitely not in the public interest of the Center Township residents.

Q. Sure. And so I want to talk through some of those concerns that you have.

Now, are you familiar with the filing, which was prepared by the Office of the Small Business Advocate, which stated that the rates for ratepayers under the current BASA system could go up by 94 percent after the first year?

A. Yes, I am aware of that.

Q. And do you believe that to be of concern for the ratepayers of Summit Township?

A. I believe it's definitely a concern.

Q. Why is that?

A. Because now rates are not going to be controlled by the local municipal authority.

They're going to be controlled by a for-profit corporation, whose first order of business is going to be to make money. And, like you said, the rates are already projected to increase by 94 percent, and that's on top of the increase that's done by BASA. You know, fourth quarter of last year, and they're projecting another 250 rate increase before closing. So the rates there are already going up.

Q. Okay.

A. We look forward -- and on top of that, yeah, they're going to be going out of sight.

Q. And is it your understanding that as part of the purchase, that Pennsylvania American has allegedly pledged to spend 75 million dollars in proposed capital improvements to the system?

A. Yeah. That's supposedly part of the sale, right?

Q. That's correct.

And is it your understanding based upon calculations that you and your counsel have performed, that a 20-dollar surcharge to the current ratepayers of BASA would be enough to cover a bond issue for 75 million dollars?

A. I definitely believe that, yes.

Q. And just for the record, a 20-dollar surcharge is much less than the 94 percent increase to the current rate?

A. Absolutely. And after the upgrades are made, that surcharge can go away, and we can get back to where we were.

Q. And is it your understanding that the purchase price of the system is 230 million dollars and is to be split between the City of Butler and Butler Township?

A. Well, 231-and-a half million is what I remember. But, yes, 231 million at least to be split by Butler Township and Butler County.

Q. And Summit Township should receive none of these funds; is that correct?

A. That's my understanding that we are to receive nothing.

Q. And do you believe that to be in the interest of the Summit Township residents?

A. Definitely not. I mean, whenever the sewer came through, we had to pay a surcharge for 30 years to pay for that sewer infrastructure. I believe that we pay for it. We ought to be getting something back.

Q. Does Summit Township have any members on the Butler Area Sewer Authority Board?

A. No.

Q. And, in fact, Butler Township and Butler City are the only municipalities with members on the board?

A. Butler City and Butler Township control the board. Yes, that's my understanding.

Q. And as such, the City and the Township could have begun work on any of the necessary improvements at any point in time given their control of the board?

A. Yes. I feel they should have been. They should have been keeping up with that as problems arose.

Q. And do you believe that a sale of Pennsylvania American Water Company to -- sorry -- a sale of the Butler Area Sewer Authority to the Pennsylvania American Water Company would benefit the Township and the City, who have been deficient in keeping up with the system?

A. Yes, I do believe that. They are the ones who are Phase I part of the problem; and, yet, they are going to be the ones who share all of the revenue.

Q. And is it your understanding that Pennsylvania American Water Company is a for-profit entity?

A. Yes, for-profit entity.

Q. And do you have concerns on behalf of the Summit Township residents for a sale to a for-profit entity?

A. I absolutely do.

Q. And what are some of their concerns?

A. Their first order of business is going to be to make money at whatever cost to the ratepayers.

Q. And is it also your understanding that any real property owned by the sewer authority would become taxable because it would be owned by a for-profit entity?

A. Yes. All of the BASA property would become taxable, and, yeah, those taxes that they're going to have to pay on that property is going to have to be added to increase the bills. So there, again, the rates are going to increase even more.

Q. And do you believe that to be in the best interest of the Summit Township residents and ratepayers?

A. Absolutely not.

Q. Are you familiar with the 1974 water pollution control agreement entered into between the various municipalities that BASA serves and with BASA?

A. I am, and I have read that.

Q. And is it your understanding that prior to any sale of BASA, there was to be a discussion with all of the municipalities that are covered by BASA?

A. Yes. We were to be consulted on everything, I believe, and we should have.

Q. Were you or any other member of Summit Township leadership contacted by BASA prior to the sale?

A. No.
Q. Was there any advice requested by BASA prior to the sale?
A. No.
Q. And is it your understanding that certain commercial and industrial customers of the Butler Area Sewer Authority currently pay based on their metered rate because of the amount of flow that they put into the system?
A. Yes. I understand there are certain parts/industrial customers that do have a metered rate, yes.
Q. And is it your understanding that based upon the proposed tariff, that those metered customers, they shift to a flat rate?
A. That metered customers would shift to a flat rate? I thought everybody was going to go to a metered rate?
Q. So go off the record here for a second.
(Discussion off the record)
BY MR. GALLAGHER:
Q. Is it your understanding that some of the larger industrial and commercial customers are currently

metered and pay based upon exported flows to the system?
A. Yes.
Q. And is it your understanding that based upon the current tariff proposed by Pennsylvania American Water Company, that those metered customers may convert to a flat rate?
A. Yes.
Q. And is it your understanding and belief that as a result of that change, excess costs may be passed onto ratepayers of Summit Township?
A. Sure. That's probably passed onto everybody, all the other customers.
Q. And do you believe that's in the best interest of the ratepayers of Summit Township to pass on those costs?
A. Again, absolutely not.
Q. I'm going to jump off the record here for a second, Willie.
(Discussion off the record)
BY MR. GALLAGHER:
Q. Willie, is it your understanding that there was a grant provided back in the 1970s for an upgrade to the BASA systems by the --
A. Yes.
Q. And to the best of your knowledge, what kind of a

grant was it and what benefit did it confer?
A. That was a 75-percent federal grant that BASA could receive if the other municipalities joined in which, you know, we were mandated to join in. They received a 75-percent grant to help pay for the upgrades. The rest of it was paid for the surcharges in each specific area. So other than that, the system would not have been able to come to Summit Township.
But getting a federal grant, if Butler City and Butler Township are able to monetize that, it would be, like, getting a federal grant to spend however they want to.
Q. And do you believe that that is in the best interest of the general public for the City and the Township to be able to spend those general funds?
A. I don't believe so. I don't believe that's in the best interest at all. I don't believe that's what the feds had in mind whenever they gave up those grants.
Q. And is it your understanding that the Sewer Authority has the personnel and equipment necessary to conduct the capital upgrades as contemplated in the PAWC proposal?
A. I believe out of the 60 years' experience in

business, they should have the equipment and the
upgrades to be able to do anything that is required.

Q. And we talked about this earlier, but it's your understanding that BASA could implement a surcharge to cover any bonds necessary to upgrade the system?
A. Yes.
Q. Okay. And the last thing is that there's a potential for BASA -- for Pennsylvania American to install meters on customer properties or to use metering to bill for the system.
What are your concerns about that for the future?
A. Well, I feel that's just another source of revenue for PAWC because I don't believe the lower water usage that people will be seeing any decreases; and because of it, you know, they'll get an increase anyway and they won't benefit from the meter reading at all.
Q. So all-in-all, is it your opinion that the sale of the Butler Area Sewer Authority to Pennsylvania American Water Company is in the best interest of the ratepayers and residents of Summit Township?
A. It is not in the best interest of the ratepayers of Summit Township.
Q. Okay.

VERIFICATION

I, Willie Adams, Chairman of the Summit Township Board of Supervisors hereby state that the facts above set forth 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).

Date: 7/7/2023

Willie Adams, Chairman

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 12th day of July, 2023 served a true copy of the foregoing Direct Testimony of Wilfred Adams upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 12, 2023

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

REBUTTAL TESTIMONY OF WILDRED ADAMS
DATED JULY 13, 2023

BY MR. GALLAGHER:

Q. Good morning, Willie. Could you please state your full name for me?

A. Well, my name is Willie Adams. My full name is Wilfred J. Adams, Jr.

Q. Your address?

A. My business address is 234 Freeport Road.

Q. And are you -- sorry, what is your position with Summit Township?

A. I am a Supervisor of Summit Township. I'm Chairman of the Board.

Q. And how long have you been a Supervisor for?

A. This is my 12th year.

Q. Okay. And you're familiar with the application of Pennsylvania American Water Company to purchase the Butler Area Sewer Authority?

A. Yes.

Q. And as a part of that, have you -- sorry, as a part of that, has Summit Township filed a protest against the sale?

A. Yes.

Q. And have you reviewed the direct testimony of David Zarnick and Mayor Bob Dandoy from Butler Township and Butler City, respectively?

A. Yes, I have.

Q. Do you have issues with part of their testimony that was presented?

A. Yes.

Q. Okay. We are going to go through a couple of those, specifically. But I want to start with a question: part of what was referenced in that testimony is that there has been a prohibition on new sewer connections to certain pump stations on the BASA system. Are you familiar with that potential issue?

A. Yes.

Q. Has that effected, to your knowledge, any resident of Summit Township?

A. Not that I know of, I don't believe it has.
Q. To your knowledge, has any application for additional sewer service by the Butler Area Sewer Authority within Summit Township been denied?
A. Not that I know of.
Q. Okay. Are you familiar with Mayor Dandoy's testimony of the proposed use of the proceeds of the sale of BASA that the City will reap?
A. Yes.

Q. And do you have issues with how those funds are going to be spent?
A. Yes.
Q. Can you please explain what those issues are?
A. Well, he's asking -- it's -- he's benefitting from the sale of BASA. BASA would not be what it is without Summit Township. All those proceeds are going to Butler City and Butler Township. It makes me feel like the residents of Summit Township are paying taxes to Butler City and Butler Township.
Q. And is it your understanding that Mayor Dandoy indicated that they would use part of the proceeds to pay the minimum municipal obligations for their pension accounts?

A. Yes.
Q. So, in essence, Summit Township residents would be paying for Butler City pensions?
A. Yes.
Q. And Commissioner Zarnick had a similar statement that the Township, Butler Township, plans to use the proceeds to fulfill their retirement account obligations.
So, in essence, would Summit Township residents be paying for Butler Township pensions?
A. Yes.

Q. Do you have the same concern with Commissioner Zarnick's statements as to how Butler Township would spend the money?
A. Yes.
Q. Did Summit Township ever vote to authorize contributions to any of the projects listed by Mayor Dandoy or Commissioner Zarnick?
A. No.
Q. Did Summit Township ever contribute to any of those projects listed by Mayor Dandoy or Commissioner Zarnick?
A. No.

Q. One of the issues that was raised in the direct testimony of representatives from Pennsylvania American Water Company is that BASA workers would be better placed by having Pennsylvania American workers in place.

Have you ever had -- or have you or your residents ever had any issues with the workers of BASA?

A. No.

Q. Have you had any reason to question the serviceability of BASA?

A. No.

Q. Right now, the Butler Area Sewer Authority is subject to the jurisdiction of the United States Environmental Protection Agency.

Is it your understanding that Pennsylvania American Water Company, as a private entity, would only be subject to the jurisdiction of the Pennsylvania DEP?

A. Yes.

Q. Do you believe that to be in the best interest of the residents and taxpayers of your Township?

A. No.

Q. Having multiple regulatory agencies provides redundancy for oversight providing more protection to your residents?

A. Absolutely, okay.
Q. And the U.S. EPA has been involved in this project since at least the 1970s whenever the consent agreement was signed.
A. Okay.
Q. Okay, I will ask that question again. Right now, the Butler Area Sewer Authority is subject to the jurisdiction of the United States Environmental Protection Agency.
Under Pennsylvania American Water Company, the only entity involved in their oversight would be the Pennsylvania Department of Environmental Protection.
Do you believe that to be in the best interest to the residents of your Township?
A. No.

Q. Can you explain why?
A. Well, multiple regulatory agencies create redundancies which makes better assurance that things are done properly.
Q. And correct me if I'm wrong, but the United States EPA has been involved in oversight and planning for BASA since the 1970 Consent Agreement which was referenced in your direct testimony?

A. Yes, they have been involved all along, yes.
Q. Okay. One of the items brought up in Mayor Dandoy's testimony was that the Pennsylvania American Water Company has a fund for low income customers to help supplement their bill paying.
Is there any reason that you can think of as to why BASA could not have a similar fund?
A. No reason at all. I believe BASA could do the same thing.
Q. And as a municipal entity, is it your understanding that BASA is required to bid certain projects over a certain dollar amount?
A. Yes.
Q. And they are required to pay prevailing wage over a certain dollar amount?
A. Yes.
Q. Pennsylvania American Water as a for-profit entity, are they subject to those requirements?
A. No.
Q. Do you believe that to be in the best interest for your rate payers?
A. No.
Q. One of the items mentioned in the PAWC direct

testimony is that bills could potentially rise by 94 percent. Is it your opinion that bills could go up even further beyond that?

A. Yes.

Q. Why is that?

A. In time, they are going to constantly go up.

MR. GALLAGHER: We can go back on.

BY MR. GALLAGHER:

Q. Has there ever, to your knowledge, been any issues between Summit Township and the Butler Area Sewer Authority in regards to Butler Area Sewer Authority's capital construction projects?

A. There's never been a problem, no.

Q. And do you believe that BASA is fully capable of carrying on a capital construction project?

A. Yes, BASA has been in business for 60 years. They should be every bit as capable of handling any upgrades needed every bit as well or better as PAWC.

Q. And so, in conclusion, is it your opinion that this application of Pennsylvania American Water Company to purchase the Butler Area Sewer Authority should be denied by the Pennsylvania Utility Commission?

A. I believe it should be denied.

Q. Okay.

VERIFICATION

I, Willie Adams, Chairman of the Summit Township Board of Supervisors hereby state that the facts above set forth 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).

Date: July 17, 2023

Willie Adams

Willie Adams, Chairman

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 18th day of July, 2023 served a true copy of the foregoing Rebuttal Testimony of Wilfred Adams upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 18, 2023

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

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SURREBUTTAL TESTIMONY OF WILFRED ADAMS DATED JULY 20, 2023 TO THE REBUTTAL TESTIMONY OF SCOTT D. FOGELSANGER AND PAUL SYBERT

BY MR. GALLAGHER:

Q. Mr. Adams, would you please state your name and your address as Supervisor to the court reporter?

A. My name is Willie Adams. Do you want the Township address?

Q. Yes, please.

A. 502 Bonniebrook Road, Butler, PA, 16002.

Q. You are the Chairman of the Board for the Summit Township Board of Supervisors?

A. Yes.

Q. How long have you served on the Board of Supervisors?

A. This is my 12th year.

Q. Okay. And you have submitted other testimony in this proceeding; is that correct?
A. Yes.
Q. And what testimony did you --
A. I provided direct testimony and rebuttal testimony.
Q. And you are here today to provide surrebuttal testimony?
A. Yes.
Q. That is surrebuttal testimony to the rebuttal testimony of Paul F. Sybert, the Chairman of the Board of Butler Area Sewer Authority; and rebuttal testimony of Scott D. Fogelsanger of Pennsylvania American Water Company?
A. Yes, that is my understanding.
Q. All right. So, if we could start then with the testimony of Mr. Fogelsanger --
Before we do, there is a correction that you would like to talk about that comes from prior testimony?
A. That's correct.
Q. Would you please inform the Court of the correction?
A. Well, I mentioned about a 75-percent grant that

came from the 1974 Agreement; and it actually did not come from the 1974 Agreement, it came from preliminary objections to a case in the Court of Common Pleas. It is AD 82-231 Book 121, page 391, 1C.

Q. And a copy of the agreement was attached to that pleading?

A. Yes.

Q. As an exhibit?

A. Yes. When I read it, it kind of all jumbled together but I didn't remember specifics. I want to make sure that was correct.

Q. But you still have -- you were still aware of the 1974 Water Pollution Agreement?

A. Oh, yes.

Q. And getting into the questions dealing with that, on page 7 of his rebuttal testimony, Mr. Fogelsanger says that you do not analyze the benefits of the transaction for the effective parties.

What benefits do you see to the effective parties to this transaction?

A. I don't really see any benefits for Summit Township. Summit Township, the BASA sewer lines are among the newest lines in the system.

Again, Butler City, Butler Township, they have the oldest lines in the system. So I see the benefits to the $75,000,000 upgrades being made mainly, again, to the Butler City, Butler Township people.

Q. Now, turning to page 8 of the rebuttal testimony, Mr. Fogelsanger states that, "Mr. Adams states that he opposes the transaction because Butler Township and Butler County will split the proceeds from the acquisition." Do you believe that this statement is misleading?

A. It is misleading. And his direct testimony on page 14, line 17, he says, "The balance of the sale proceeds would be paid to the City of Butler and the Township of Butler to public purposes benefitting all citizens of the BASA area."

But in their direct testimony, they proceed to state how these funds are going to be used and I only see benefits going to Butler City and Butler Township.

Q. All right. Now, turning to page 9 of the testimony, he says that you aver that the system, the BASA system, has been mismanaged?

A. No, the BASA system has -- I don't believe the BASA system has been mismanaged. Actually, they are the ones that state the systems are troubled, specifically the City of Butler's Mayor Dandoy claims BASA is troubled because the system is currently subject to a new correction prohibition of six pump stations.

Chairman Zarnick of Butler Township also asserted the system was financially troubled because BASA cannot handle the cost of the upgrades.

Q. Now, you, as a resident of Summit Township and Supervisor for Summit Township, have you had problems with the BASA system?

A. We never had problems with the service from the BASA system.

Q. It does what it is supposed to do?

A. It does what it is supposed to do.

Q. Now, turning to the testimony of Mr. Sybert -- unless you have something else you wanted to cover --

A. No, we are good.

Q. Mr. Sybert avers that you want the Public Utility Commission to decide a breach of contract action?

A. No, no, that is not the case.

Q. Did you file a breach of contract action looking for damages for breach of contract?

A. No, no, we did not.

Q. Did you file a breach of contract action seeking for an injunction stopping the PUC from proceeding with this matter until a breach of contract action has been taken, has been resolved?

A. No.

Q. Then what was your purpose of filing the 1974 -- or making reference to the 1974 Water Pollution Control Agreement?
A. Well, I believe it was done in bad faith. They did not contact us for any of the negotiations, for any talks of any kind. The only way we knew anything is what we received from our BASA bill.
Q. Did you, yourself, have an opportunity to go to one of the open houses?
A. I did attend one of the open houses, yes.

Q. Can you tell us what happened?
A. I just talked to everyone there, was really not given any specifics to the deal, just that it was being sold for 231 and a half million and basically that was it.
Q. Did anybody make any reference to you about sitting down and providing you with the fine-point details or the mechanical details?
A. No.
Q. Did you ask those sorts of questions?
A. Actually, I did not.
Q. Do you believe the information that you were given was limited in scope?
A. Yes. It made me feel like there were things they

didn't want me to know.

Q. Could you give any examples?

A. Well, we never did learn how they arrived at the 231 and a half million dollar price, and I never did learn how there was going to be any benefit to Summit Township.

Q. So, when Mr. Sybert says that, "Referring to the 1974 Water Control Agreement is a gross misstatement," do you take issue with that?

A. I, sort of, do take issue with that because of the bad faith and not contacting us on any step of the way.

Q. On page 4 of Mr. Sybert's testimony, it says, "BASA made numerous persistent efforts to consult with all customers and municipalities that would be potentially impacted by the proposed transaction."

A. They did not.

Q. Did they make any sort of effort?

A. I don't remember any effort of being invited to any meeting coming through the Township.

Q. And on page 5 of Mr. Sybert's testimony, does Mr. Sybert -- or anywhere in his testimony, does he answer the question of which it would cost more for BASA to undertake a $75,000,000 rehab project and all the financing that goes with that or the sale to PAWC?

A. He never addresses that BASA could do anything. It is like PAWC is the only savior that can do everything.

I feel BASA is perfectly capable of doing all of the upgrades needed and at a potentially lower price because BASA can be eligible for grants.

Q. And on page 8 of his testimony, Mr. Sybert says, "The testimony lays bare the true issue that Center and Summit Townships have: that they are not to receive any money as part of the proposed transaction." Do you have a response to this?

A. I am not looking for the Township to receive money from this. I feel that the BASA rate payers, the Summit Township rate payers would be best served by BASA remaining the Municipal Authority with local control and operating as it has for the last 60 years.

* * * * *

VERIFICATION

I, Willie Adams, Chairman of the Summit Township Board of Supervisors hereby state that the facts above set forth 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).

Date: JULY 20, 2023

Willie Adams

Willie Adams, Chairman

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania-American Water Co. under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority and to furnish wastewater service to the public in Butler County, Pennsylvania	:	Docket No. A-2022-3037047

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of July, 2023 served a true copy of the foregoing Surrebuttal Testimony of Wilfred Adams Dated July 20, 2023 to the Rebuttal Testimony of Scott D. Fogelsanger and Paul Sybert upon the parties listed below in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC MAIL ON JULY 21, 2023

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