

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

Application of
Pennsylvania-American
Water Company - Wastewater

For approval of the PA
Public Utility code of the
transfer, by sale, of
substantially all of the
assets, properties and rights
related to the wastewater
collection and conveyance
system owned by Borough of
Brentwood and the rights to
begin to offer or furnish
wastewater service to the
public in the Borough of
Brentwood, Allegheny County,
Pennsylvania, pursuant to
Sections 1102 and 1329 of
the PA Public Utility code

Call-In Telephonic Public
Input Hearing

Docket No.:
A-2021-3024058

Pages 329 - 457

Judge's Chambers
Piatt Place
301 5th Avenue
Suite 220
Pittsburgh, PA

Tuesday, November 14, 2023
Commencing at 9:07 a.m.

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Hearing Date: November 14, 2023

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Original Stipulation

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Hearing Date: November 14, 2023

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Ashley E. Everette with

Attached Exhibits AEE-1

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa C.S. §§ 1102(a) :
and 1329, for approval of (1) the transfer, by sale, to :
Pennsylvania-American Water Company, of : Docket No. A-2021-3024058 *et al.*
substantially all of the assets, properties and rights :
related to the wastewater collection and conveyance :
system owned by Borough of Brentwood, (2) the rights :
of Pennsylvania-American Water Company to begin to :
offer or furnish wastewater service to the public in the :
Borough of Brentwood in Allegheny County, :
Pennsylvania :

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

Date: March 31, 2023

PAWC Statement No. 3-REV

**DIRECT TESTIMONY OF
ASHLEY E. EVERETTE**

Introduction

Q. What is your name and address?

A. My name is Ashley E. Everette, and my business address is 852 Wesley Drive, Mechanicsburg, Pennsylvania 17055.

Q. By whom are you employed and in what capacity?

A. I am employed by American Water Works Service Company (the "Service Company") as the Senior Director of Rates and Regulatory. I work in the Mechanicsburg office of Pennsylvania-American Water Company ("PAWC" or "the Company").

Q. Please state your educational background and professional experience.

A. I hold a Bachelor's degree in Economics and a Master's degree in Business Administration, both from the University of Illinois. I have been employed by the Service Company since September 2019, first as the Director of Rates and Regulatory for Pennsylvania, and now in my current role as Senior Director of Rates and Regulatory with regulatory responsibility for Pennsylvania and West Virginia. In these positions, I am responsible for preparing and presenting rate applications as well as certain aspects of the financial, budgeting and regulatory functions of the Company.

Prior to my employment at the Service Company, I was employed by the Pennsylvania Office of Consumer Advocate ("OCA") as a Regulatory Analyst from September 2012 to September 2019.

1 **Q. Have you previously submitted testimony before the Pennsylvania Public Utility**
2 **Commission (the “Commission” or “PUC”)?**

3 **A.** Yes. I have testified on behalf of PAWC in several cases before the Commission.¹ Prior
4 to my employment by the Service Company, I testified on behalf of the OCA in
5 approximately 35 proceedings.
6

7 **Q. What is the purpose of your testimony in this proceeding?**

8 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
9 wastewater collection system (“System”) currently owned by the Brentwood Borough
10 (“Brentwood”), which PAWC has agreed to purchase (the “Transaction”). Second, my
11 testimony addresses: (a) the identification of ratemaking rate base as required in 66 Pa.
12 C.S § 1329 for PAWC’s acquisition of the System; (b) an overview of the rate provisions
13 contained in the Asset Purchase Agreement (“APA”) for PAWC’s acquisition of the
14 System; (c) the customer notices associated with the Transaction; (d) a description of
15 PAWC’s low-income programs; (e) an estimate of the range of transaction and closing
16 costs incurred by PAWC; (f) a statement regarding PAWC’s intentions with respect to
17 accrual of certain post-acquisition improvement costs and deferral of related depreciation;
18 and, (g) the authentication of certain Application appendices.

¹ Additionally, I submitted testimony to the West Virginia Public Service Commission on behalf of West Virginia American Water in 2021.

PAWC'S Financial Fitness

Q. Please discuss PAWC's financial fitness.

A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of \$5.9 billion and annual revenues of \$769 million for 2021. For 2021, PAWC had operating income of approximately \$342 million and net income of approximately \$229 million. These operating results produced cash flows from operations of approximately \$438 million. Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PAWC is well-positioned from a financial, managerial and technical perspective to ensure that high quality wastewater service meeting all federal and state requirements is provided to Brentwood's customers and maintained for PAWC's existing customers.

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

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

1 **Line of Credit**

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

6
7 **Long Term Debt Financing**

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

14
15 **Equity Investments**

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

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

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

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

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

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

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

12 **Fair Market Value Ratemaking Rate Base**

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

14 **A. The negotiated purchase price for the acquired assets is \$19,364,443 and the average of the**
15 **appraisals of the buyer’s Utility Valuation Expert (“UVE”) and the seller’s UVE is**
16 **\$21,827,775. Accordingly, the negotiated purchase price of \$19,364,443 is the fair market**
17 **value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase**
18 **price and the average of the UVEs’ appraisals). The fair market value as determined by**
19 **the Section 1329 process, in addition to the transaction and closing costs described below,**
20 **becomes part of PAWC’s rate base for ratemaking purposes. Note, however, that PAWC**
21 **reserves its right in future proceedings to make rate base claims related to the acquisition**
22 **as may otherwise be permitted under the Pennsylvania Public Utility Code (“Code”).**

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

2 **A.** As shown on **Appendix A-15**, the Company seeks approval to record the \$19,364,443 net
3 value of the assets on its books. The Company requests to record the acquisition on a net
4 basis consistent with the Commission’s recent decision in *Application of Pennsylvania-*
5 *American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code,*
6 *66 Pa. C.S. § 1102(a), for Approval of the Transfer, by Sale, to Pennsylvania-American*
7 *Water Company, of Substantially All of the Assets, Properties and Rights Related to the*
8 *Wastewater Collection and Treatment System Owned by the York City Sewer Authority and*
9 *Operated by the City of York, Docket Nos. A-2021-3024681 et al.* (Final Order entered
10 April 14, 2022) ¶ 3(h).

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

17 **Asset Purchase Agreement Rate Provisions**

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

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

² “The ratemaking rate base of the selling utility shall be the lesser of the purchase price negotiated by the acquiring public utility or entity and selling utility or the fair market value of the selling utility.” 66 Pa. C.S. § 1329(c).

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

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

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

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

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

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

1 Brentwood currently does not bill five Borough properties for wastewater service.
2 PAWC will bill all wastewater customers upon acquisition.
3

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

7 **A. PAWC will be obligated to pay the full amount of the treatment charges to ALCOSAN.**
8 Any shortfall between what PAWC bills its customers related to ALCOSAN charges and
9 what it collects from customers may be a component of uncollectible expense in future rate
10 cases.
11

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

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

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

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

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

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

20 At this time, it is unknown when Closing will occur or when PAWC will file its
21 next base rate case. PAWC is not asking the Commission in this Application proceeding
22 to maintain rates for a period of time beyond the next base rate case. If PAWC’s next base
23 rate case would become effective within two years of Closing, PAWC will maintain
24 Brentwood’s base rates, subject to Commission approval. Consequently, the APA does
25 not include a rate stabilization plan.

³ See *Application of Aqua Pennsylvania Wastewater, Inc. Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority*, Docket No. A-2016-2580061 (Opinion and Order entered Jun. 29, 2017), pp. 41-42. Internal footnote omitted.

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

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

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

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

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

A. Yes. 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.

CUSTOMER NOTICE

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

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

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

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

⁴ *Application of Pennsylvania-American Water Company Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Water System Assets of the Steelton Borough Authority*, Docket No. A-2019-3006880 (Opinion and Order entered Oct. 3, 2019) (“*Steelton Order*”).

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

7 The Joint Petitioners also agreed to the Rate Impact Calculations for these notices.
8 Those calculations are discussed in more detail below.
9

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

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

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

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

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

Brentwood Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at Brentwood's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$73.96	\$82.10	11.0%
Commercial	22,561 gal/month	\$436.10	\$484.07	11.0%
Industrial	528,207 gal/month	\$10,210.24	\$11,333.37	11.0%

The 11.0% increase shown in the chart above is calculated as 100% of the revenue deficiency after the Act 11 allocation to water customers,⁵ divided by the Year One revenues of the System.⁶ The current average monthly bill is calculated using Brentwood's wastewater rates that will be in effect at Closing (inclusive of ALCOSAN charges) and the average usage for each customer class as reflected in the filing of PAWC's most recent base rate case (Docket No. R-2022-3031672).

The potential average monthly bill after acquisition is calculated by increasing the current average monthly bill amounts by the 11.0% increase. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1 (Revised)** for the calculation of the customer notice.

Q. Please summarize the rate impact calculation in the notice to PAWC wastewater customers.

⁵ The allocation of a portion of the wastewater revenue requirement to water customers pursuant to Act 11 of 2012 (66 Pa. C.S. § 1311(c)) is referred to in this testimony as the "Act 11 allocation." For calculating the notice in this case, the Settlement requires PAWC to use the Act 11 allocation from wastewater to water from PAWC's prior base rate case. In PAWC's last base rate case, 33% of the wastewater revenue requirement for 2023 was allocated to water customers under Act 11. See Docket No. R-2022-3031673, Summary Proof of Revenues. The Settlement was approved by Order entered December 8, 2022 ("2022 Rate Case").

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

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

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,212 gal/month	\$106.65	\$106.97	0.3%
Commercial	22,561 gal/month	\$509.46	\$510.99	0.3%
Industrial	528,207 gal/month	\$11,143.19	\$11,176.62	0.3%

4
5 The 0.3% increase shown in the chart above is calculated by dividing 100% of the
6 revenue deficiency after the Act 11 allocation to water customers by total wastewater
7 revenues. The “total wastewater revenues” include PAWC’s wastewater revenues from
8 existing customers excluding other operating revenues as well as the Year One revenues
9 from the System. This methodology was used to comply with the Settlement at Docket
10 No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1 (Revised)** for
11 the calculation of the customer notice.

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

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

divided by PAWC's current water revenues of \$781 million,⁷ the result is less than 0.00%.

However, in keeping with the Steelton settlement, PAWC is providing the information below.

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

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

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

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

⁷ Refer to Exhibit AEE-1.

3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-1 (Revised)** for the calculation of the customer notice.

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

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

LOW-INCOME PROGRAMS

Q. Please summarize PAWC's tariffed low income discounts.

A. PAWC's low-income tariff rider provides low-income customers with discounts to fixed and volumetric charges. PAWC's low-income discount includes three tiers of discount, with the discount level dependent on the customer's percentage of Federal Poverty Level ("FPL"). The tariff discounts are summarized below.⁸

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

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

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

1 **A.** Yes. Because PAWC is already the water provider in Brentwood, any customers enrolled
2 in the low-income discount for their water service will be automatically enrolled in the
3 discount for the portion of their bill related to wastewater collection system charges at the
4 time of Closing. Customers may also apply for ALCOSAN's low-income grant program
5 to receive a \$42 quarterly credit towards the portion of their bill related to treatment
6 services provided by ALCOSAN.

7 As part of a recent Order in PAWC's Arrearage Management Program ("AMP"),
8 the Commission required that a settlement between PAWC and other parties be modified
9 to include income verification for low-income customers participating in the AMP.⁹
10 PAWC anticipates that this income verification requirement will also apply to the bill
11 discount program, and thus, will also apply to Brentwood customers.

12
13 **Q.** **Please summarize the current cost of PAWC's low-income discount programs to its**
14 **legacy customer base.**

15 **A.** PAWC's low-income discount program provides discounts between 30% and 80% of the
16 water and wastewater bill to customers with an FPL of 150% or less. These discounts have
17 a small impact on customer's bills of approximately \$1.30 per month for residential water
18 customers and approximately \$2.60 per month for residential wastewater customers.¹⁰

19
20 **Q.** **Will the Transaction have a significant impact on PAWC's low-income discount**
21 **program costs?**

⁹ Docket No. P-2021-3028195, Order Entered December 28, 2022.

¹⁰ Cost allocation was not disclosed in the Company's black box rate case settlement in the Company's recent base rate proceeding, Docket No. R-2022-3031673, *et al.* The amounts shown in this paragraph are calculated as the discounted revenue divided by the number of residential customers.

1 A. No. Of the 3,974 customers, approximately 334 will be enrolled in the low-income
2 discount upon Closing. The discounts to these customers will represent approximately 4%
3 of the revenues of the Brentwood System. When compared to PAWC's total wastewater
4 revenue, the discounts to Brentwood customers represents approximately 0.10% of
5 revenue.

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

9 TRANSACTION AND CLOSING COSTS

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

11 A. As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
12 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
13 closing costs, including reasonable attorney fees. In accordance with the *Final*
14 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
15 closing costs are not to be decided in this Application proceeding; instead, PAWC must
16 justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

17 As a practical matter, the exact extent of such costs cannot be known at the time of
18 filing the Application and will not be finally known until after Closing. The costs depend
19 on a number of variables, including whether this Application is settled or fully litigated.
20 PAWC will track such costs and incorporate them into rate base in a future base rate
21 proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is
22 PAWC's estimate of the anticipated range of transaction and closing costs (approximately
23 \$510,000 to \$620,000).

1
2 **Post-Acquisition Improvement Costs**

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

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

14
15 **Q. Does PAWC intend to accrue AFUDC for post-acquisition improvements?**

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

21
22 **Q. Does PAWC intend to defer depreciation on non-DSIC-eligible post-acquisition**
23 **improvements for book and ratemaking purposes?**

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

Authentication of Application Appendices

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

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

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

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

1

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

4 **A. Yes.**

5

6

CONCLUSION

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

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

Borough of Brentwood Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Borough of Brentwood Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,212 gal/month	\$73.96	\$82.10	\$8.14 or 11.0%
Commercial	22,561 gal/month	\$436.10	\$484.07	\$47.97 or 11.0%
Industrial	528,207 gal/month	\$10,210.24	\$11,333.37	\$1,123.13 or 11.0%

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	\$106.97	\$0.32 or 0.3%
Commercial	22,561 gal/month	\$509.46	\$510.99	\$1.53 or 0.3%
Industrial	528,207 gal/month	\$11,143.19	\$11,176.62	\$33.43 or 0.3%

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	\$69.24	\$0.00 or 0.0%
Commercial	22,561 gal/month	\$371.82	\$371.82	\$0.00 or 0.0%
Industrial	528,207 gal/month	\$5,985.08	\$5,985.08	\$0.00 or 0.0%

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

Borough of Brentwood Wastewater

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

Rate Impact 11.0%
\$8.14
Total \$82.10

PAWC - Wastewater

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

Rate Impact 0.3%
\$0.32
Total \$106.97

PAWC - Water

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

Rate Impact 0.0%
\$0.00
Total \$69.24

Commercial		
	Rate per EDU	\$11.87
225.61	1.9330	436.10
		\$436.10

Rate Impact 11.0%
\$47.97
Total \$484.07

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

Rate Impact 0.3%
\$1.53
Total \$510.99

Zone 1 - Commercial		
1"	Service Charge	\$46.60
160.00	1.5613	249.81
65.61	1.1493	75.41
225.61		
		\$371.82

Rate Impact 0.0%
\$0.00
Total \$371.82

Industrial		
	Rate per EDU	\$11.87
5,282.07	1.9330	10,210.24
		\$10,210.24

Rate Impact 11.0%
\$1,123.13
Total \$11,333.37

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

Rate Impact 0.3%
\$33.43
Total \$11,176.62

Zone 1 - Industrial		
2"	Service Charge	\$224.00
160.00	1.4200	227.20
5,122.07	1.0804	5,533.88
5,282.07		
		5,985.08

Rate Impact 0.0%
\$0.00
Total \$5,985.08

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

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$	664,000
Act 11 Percentage (R-2022-3031672 Summary Proof of Revenues)	33%	
Amount of increase allocated to water through Act 11		219,120
Amount of increase allocated to wastewater customers	\$	444,880

Increase applied to Borough of Brentwood Wastewater Customers

Revenue Requirement Increase - After Act 11	\$	444,880
Current Borough of Brentwood Wastewater revenues (collection + treatment)		4,031,000
Estimated Increase to wastewater customers		11.0%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:

Revenue Requirement Increase	\$	444,880
Current Borough of Brentwood Wastewater revenues (collection + treatment)		4,031,000
PAWC Wastewater Revenues (R-2022-3031673 Proof of Revenues excl. Other Operating Revenues & Contract Sales)		159,681,891
		163,712,891
Estimated Increase to wastewater customers		0.3%

Amount of increase allocated to water customers:

Revenue Requirement Increase	\$	219,120
PAWC Water Revenues (R-2022-3031672 Proof of Revenues excl. Other Operating Revenues & Contract Sales)		781,722,135
Estimated Increase to Water Customers		0.0%

Pennsylvania American Water Company
R-2022-3031672 Summary Proof of Revenues
Act 11 Allocation

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

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

Revenue Requirement Increase

Rate Base	\$	19,364,443	Appendix A-11
Rate of Return %		7.10%	See Calculations
Rate of Return		1,375,000	
O&M - Collection		373,000	Appendix K
O&M - Treatment		2,216,000	Appendix K
Taxes Other		32,000	Appendix K
Depreciation		322,000	Appendix K
Taxes		377,000	See Calculations
Revenue Requirement		4,695,000	
Borough of Brentwood Wastewater Year-1 - Collection Revenues		1,815,000	Appendix K
Borough of Brentwood Wastewater Year-1 - Treatment Charges		2,216,000	Appendix K
Borough of Brentwood Wastewater Year-1 Revenues - Total		4,031,000	
Revenue Requirement Increase		664,000	

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

Summary

Revenue Requirement

Rate Base	\$	19,364,443
Pretax ROR %		9.05%
Pretax ROR		1,752,000
Plus: O&M Expense		373,000
Taxes Other		32,000
Depreciation		322,000
Total Revenue Requirement		2,479,000

Income Tax Calculation

Revenues	\$	2,479,000
Less: O&M Expense		373,000
Taxes Other		32,000
Depreciation		322,000
Interest		391,000
SIT Taxable Income		1,361,000
State Income Tax Rate		8.49%
State Income Tax		116,000
FIT Taxable Income		1,245,000
Federal Income Tax Rate		21.00%
Federal Income Tax		261,000
Total Income Taxes		377,000

Interest

Rate Base	\$	19,364,443
Weighted Cost of Debt (1.87% + 0.15%)		2.02%
	\$	391,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	42.26%	4.43%	1.87%		1.87%
Wastewater Financing	5.65%	2.57%	0.15%		0.15%
Preferred Stock	0.01%	9.70%	0.00%	1.38326	0.00%
Common Equity	52.08%	9.75%	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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa C.S. :
§§ 1102(a) and 1329, for approval of (1) the transfer, by :
sale, to Pennsylvania-American Water Company, of : Docket No. A-2021-3024058 *et al.*
substantially all of the assets, properties and rights :
related to the wastewater collection and conveyance :
system owned by Borough of Brentwood, (2) the rights :
of Pennsylvania-American Water Company to begin to :
offer or furnish wastewater service to the public in the :
Borough of Brentwood in Allegheny County, :
Pennsylvania :

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

Date: October 31, 2023

PAWC Statement No. 3-R

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

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

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

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am employed by the Service Company¹ as the Senior Director of Rates and Regulatory.
7 I work in the Mechanicsburg office of PAWC.

8
9 **Q. HAVE YOU SUBMITTED ANY OTHER TESTIMONY IN THIS PROCEEDING?**

10 **A.** Yes. I submitted Direct Testimony, PAWC Statement No. 3, on March 31, 2023.

11
12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 **A.** I will respond to portions of the Direct Testimony of Bureau of Investigation and
14 Enforcement (“I&E”) witness Joseph Kubas, Office of Consumer Advocate (“OCA”)
15 witness Nicholas DeMarco, and Office of Small Business Advocate (“OSBA”) witness
16 Brian Kalcic. Specifically, my testimony will respond to testimony regarding certain rate
17 provisions of the APA, transaction and closing costs, a separate cost of service study for
18 the System in the Company’s next base rate case, recommendations regarding the customer
19 notice, and the proposed increase to the Company’s monthly wastewater discount.

1 For ease of reference, capitalized terms and abbreviations used here are defined as set forth in my Direct Testimony, PAWC Statement No. 3 (REV).

ASSET PURCHASE AGREEMENT

Q. PLEASE SUMMARIZE THE RATE FREEZE PROVISION OF THE APA AND THE TESTIMONY RESPONDING TO THIS PROVISION.

A. Section 7.03(a) of the APA provides that Brentwood's rates will not be increased until two (2) years following Closing. Witnesses from I&E and OSBA oppose this rate provision. I&E St. No. 1 at 30-31; OSBA St. No. at 5-7.

Q. PLEASE DISCUSS THIS TESTIMONY OPPOSING THE RATE FREEZE.

A. Mr. Kubas refers to the rate freeze as a "false promise" and suggests that customers will not actually experience a rate freeze. I&E St. No. 1 at 23 and 31. Mr. Kalcic states that all of PAWC's rates should be evaluated in each base rate case and should move toward cost of service. OSBA St. No. 1 at 5-6.

Q. PLEASE DISCUSS MR. KUBAS' STATEMENT THAT THE RATE FREEZE IS A "FALSE PROMISE."

A. The Company fully anticipates that Brentwood customers will experience a two-year rate freeze as agreed-to in the APA. While PAWC is not seeking to bind the Commission, the Company anticipates that the Commission will permit the Company to honor rate freezes similar to what the Commission allowed in the Company's 2022 base rate case.

PAWC filed a base rate case in 2022 while several recently-acquired systems were under rate freezes. PAWC included these systems in its 2022 rate case and reflected revenue increases to each of the systems, but with a delayed effective date in order to honor commitments on the timing of rate increases. Because PAWC reflected the proposed rates

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 in the proof of revenues without adjustment for the delayed effective date, these rate freezes
2 had no impact on other PAWC customers. PAWC anticipates that if it files a base rate case
3 that will be effective prior to the end of the rate freeze, PAWC would utilize the same
4 treatment for the Brentwood System.

5
6 **Q. PLEASE DISCUSS MR. KALCIC'S TESTIMONY THAT RATES SHOULD BE**
7 **EVALUATED AND MOVED TOWARD COST OF SERVICE IN EACH RATE**
8 **CASE.**

9 **A.** The Company intends to include Brentwood in its next base rate case, even if that case is
10 filed to become effective prior to the end of the rate freeze. As discussed above, the
11 Company would request that the rate increase for Brentwood customers be delayed until
12 the end of the rate freeze period. In the settlement of the Company's 2022 rate case, the
13 Company agreed to "calculate the proof of revenue at the full cost of service, as if all
14 customers in the Rate Freeze Systems were paying new rates without any delay to the
15 effective date." Furthermore, the Company agreed that this settlement term did not "limit
16 parties' ability to make recommendations in any future PAWC base rate case to bring
17 customers in the Rate Freeze Systems to an appropriate cost of service as though they have
18 paid the tariffed rates without any delay."²

19
20 **Q. PLEASE SUMMARIZE THE OCA AND OSBA TESTIMONY ON THEIR**
21 **RECOMMENDATIONS IF THE COMMISSION APPROVES THE RATE**
22 **FREEZE PROVISION OF THE APA.**

² Docket No. R-2022-3031672, Joint Petition for Settlement of Rate Investigation, pages 7-8.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 **A.** On page 11 of OCA St. 1, Ms. Alexander recommends that “The costs associated with the
2 offered two-year freeze in tariffed rates for Brentwood’s customers should not be shifted
3 to other PAWC customers.” On page 7 of OSBA St. No. 1, Mr. Kalcic makes a similar
4 recommendation.

5
6 **Q. DOES THE COMPANY ACCEPT THESE RECOMMENDATIONS BY THE OCA**
7 **AND OSBA?**

8 **A.** Yes. If PAWC files a base rate case that will be effective prior to the later of the second
9 anniversary of Closing, PAWC will propose an increase for Brentwood customers that will
10 become effective on the second anniversary of Closing and will calculate its proof of
11 revenues as if the increase to Brentwood revenues were not delayed.

12
13 **Q. OCA WITNESS DEMARCO CLAIMS THAT THE RATE FREEZE DESCRIBED**
14 **ABOVE IS A RATE STABILIZATION PLAN. OCA ST. 1, PAGES 16-17. HOW**
15 **DO YOU RESPOND?**

16 **A.** As explained in my Direct Testimony, PAWC St. No. 3 (Revised) pages 8-9, the rate freeze
17 is not a rate stabilization plan. While the APA contractually restricts PAWC from
18 proposing an increase in base rates until the second anniversary of Closing, I am advised
19 by counsel that nothing in the APA purports to restrict the Commission’s authority to set
20 rates that it considers to be “just and reasonable” in the context of a base rate proceeding
21 or otherwise. PAWC is not asking the Commission in this Application proceeding to
22 maintain rates for a period of time beyond the next base rate case. If PAWC’s next base
23 rate case would become effective prior to the end of the rate freeze period, PAWC will

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

maintain Brentwood's base rates until the end of the rate freeze, subject to Commission approval. Consequently, the APA does not include a rate stabilization plan.

Q. PLEASE SUMMARIZE THE OCA TESTIMONY REGARDING THE APPLICATION OF THE DSIC TO BRENTWOOD CUSTOMERS.

A. Mr. DeMarco recommends on page 21 of his testimony that Brentwood assets be excluded from the DSIC until the DSIC applies to customers in Brentwood. Furthermore, Mr. DeMarco recommends that PAWC file a revised LTIP to include Brentwood within ninety (90) days of Closing.

PAWC accepts the OCA's recommendation that Brentwood assets should not be included in the DSIC until the DSIC applies to Brentwood customers. However, PAWC does not agree with the recommendation that an LTIP modification be required within ninety (90) days of Closing. There are many factors to consider regarding the timing of an LTIP modification, and a single acquisition should not automatically require an LTIP modification. This is particularly true for an acquisition the size of Brentwood, which represents less than 2% of PAWC's total wastewater rate base and only approximately 4% of PAWC's wastewater customer base.³

ALCOSAN CHARGES AND RATE IMPACTS

Q. ON PAGE 2 OF OCA ST. 1, MR. DEMARCO DISCUSSES THE PROPOSED FLOW-THROUGH OF ALCOSAN CHARGES. PLEASE DISCUSS HIS RECOMMENDATION.

³ Based on PAWC's wastewater rate base at December 31, 2023, as projected at Docket No. R-2022-3031672 and actual PAWC customers as of September 30, 2023.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 **A.** Mr. DeMarco states that ALCOSAN rates should not be passed on to PUC-regulated
2 customers “without oversight.” Mr. DeMarco also mentions the costs should be “reviewed
3 by the PUC in a rate case.” As an initial matter, the Company disagrees with Mr.
4 DeMarco’s classification of ALCOSAN’s charges as a passthrough by PAWC. PAWC
5 would essentially be acting as a billing agent for ALCOSAN under the provisions of the Z
6 Agreement. Under PAWC’s proposal, charges collected on behalf of ALCOSAN will be
7 recorded to a “collection for others” liability account and will not be revenue to PAWC.

8 In addition, Mr. DeMarco does not explain what the Commission is supposed to
9 review with respect to the ALCOSAN charges. PAWC does not have information as to
10 how ALCOSAN established its charges or the ability to change the ALCOSAN charges.
11 Again, PAWC is simply acting as a billing agent for ALCOSAN under the Z Agreement.
12 Even if Commission review were appropriate, Mr. DeMarco fails to explain what the
13 Commission is supposed to do following this review. The Commission lacks jurisdiction
14 over ALCOSAN.

15 As clarification, after Closing, PAWC would be obligated to pay ALCOSAN for
16 sewer treatment at the rates determined by ALCOSAN. As a municipal authority,
17 ALCOSAN is not regulated by the Commission. PAWC is merely requesting that these
18 charges, which are applicable to all systems served by ALCOSAN, continue to be reflected
19 on customer bills after PAWC ownership as they are under Brentwood ownership.

20 Collecting the ALCOSAN charges on Brentwood customer bills ensures that the
21 cost causers pay the appropriate costs. It also better aligns price signals by timely reflecting
22 ALCOSAN charges on customer bills. As Mr. DeMarco notes, the ALCOSAN charges are
23 a significant expense, representing more than 50% of current bills for Brentwood

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

customers. OCA St. 1, page 19. Accordingly, if the Commission were to accept OCA's recommendation to not allow PAWC to timely collect the ALCOSAN charges by continuing to reflect them on customer bills, regulatory accounting treatment may be necessary to allow PAWC to recover increases to this cost between rate cases.

Q. DOES ANY OTHER SYSTEM UNDER COMMISSION JURISDICTION ACT AS A BILLING AGENT FOR ALCOSAN CHARGES DIRECTLY ON CUSTOMER BILLS?

A. Yes. The Pittsburgh Water and Sewer Authority ("PWSA"), which was brought under Commission jurisdiction in 2018 pursuant to Chapter 32 of the Pennsylvania Public Utility Code, has a similar billing methodology to what PAWC is proposing here. Specifically, PWSA's tariff provides as follows regarding charges for treatment:⁴

- a. In addition to the Minimum Charge and the Conveyance Charge, customers will be required to pay rates for Wastewater/Sewage treatment to Premises.
- b. The rates for Wastewater/Sewage treatment to Premises within the Authority's service area are established by ALCOSAN, and are paid by the Authority to ALCOSAN. Information on ALCOSAN's rates is available on its website.
- c. Wastewater/Sewage treatment charges may be reflected on Authority bills/invoices as ALCOSAN charges, basic service and sewage treatment.

Q. DO YOU HAVE ANY OTHER COMMENTS ON THE OCA'S TESTIMONY REGARDING ALCOSAN CHARGES?

A. Yes. On pages 9-10 of OCA St. 1, Ms. Alexander claims that the reasonableness of continuing to collect ALCOSAN charges from the Brentwood customers is a "concern," stating as follows:

⁴ The Pittsburgh Water and Sewer Authority Tariff Wastewater - Pa. P.U.C. No. 1, Original Page 10. Refer to **PAWC Exhibit AEE-2** for a copy of this tariff page.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

Furthermore, it is likely that future rate increases imposed on Brentwood's customers will reflect system wide base rate costs and investments that will be included in PAWC's tariffed rates that apply to Brentwood's sewer customer bills and that these customers will also have to pay directly for their treatment costs to ALCOSAN on a separate line item. This raises the concern about whether it is reasonable to impose treatment costs associated with PAWC's service territory in Pennsylvania on Brentwood's sewer customers since they are, pursuant to this proposal, obligated to pay their treatment costs directly to ALCOSAN.

It appears that Ms. Alexander may be suggesting that costs included in Brentwood's rates would also be recovered as part of the separate line item for ALCOSAN charges. This is not the case. Any costs paid by PAWC would not be included in the ALCOSAN charges, and vice versa. Similarly, because PAWC will only provide collection service and not treatment service to Brentwood's customers, no costs of providing treatment will be included in PAWC's collection rates.

LOW-INCOME DISCOUNT

Q. PLEASE DISCUSS MR. DEMARCO'S TESTIMONY REGARDING PAWC'S LOW-INCOME DISCOUNT.

A. On page 24 of his Direct Testimony, Mr. DeMarco recommended as follows:

As it is unclear if Brentwood customers will still be eligible for ALCOSAN's quarterly low-income credit, I recommend the following: PAWC increase their monthly wastewater discount by \$15 dollars a month at all levels.

My revised Direct Testimony in this proceeding, filed May 31, 2023, addressed ALCOSAN's low-income discount:

Because PAWC is already the water provider in Brentwood, any customers enrolled in the low-income discount for their water service will be automatically enrolled in the discount for the portion of their bill related to wastewater collection system charges at the time of Closing. Customers may also apply for ALCOSAN's low-income grant program to receive a \$42 quarterly credit towards the portion of their bill related to treatment services provided by ALCOSAN.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 Thus, the additional discount that Mr. DeMarco recommends is not necessary.

2
3 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH MR. DEMARCO'S**
4 **PROPOSAL?**

5 **A.** Yes. Mr. DeMarco states that he recommends the Company increase the “monthly
6 wastewater discount by \$15 dollars a month at all levels.” It is unclear whether Mr.
7 DeMarco is suggesting an expansion of the low-income discount for all PAWC wastewater
8 customers, or whether his proposal is limited to Brentwood customers. Furthermore,
9 because Mr. DeMarco appears to recommend this discount despite being unsure whether
10 customers also qualify for the ALCOSAN discount, it appears customers could “double
11 up” with a treatment service discount from both PAWC and ALCOSAN. Finally, if PAWC
12 were to extend a discount to the treatment charges, it is unclear why a flat \$15 per month
13 would be more appropriate than PAWC’s existing tiered discount. For these reasons, I
14 recommend the Commission not accept this recommendation.

15
16 **TRANSACTION AND CLOSING COSTS**

17 **Q. ON PAGE 5 OF OCA ST. 1, MR. DEMARCO RECOMMENDS THAT, WHEN**
18 **PAWC CLAIMS TRANSACTION AND CLOSING COSTS IN ITS NEXT BASE**
19 **RATE CASE, IT SHOULD SEPARATELY IDENTIFY OUTSIDE LEGAL FEES.**
20 **PLEASE RESPOND TO THIS RECOMMENDATION.**

21 **A.** PAWC does not object to this recommendation and will separately identify estimated legal
22 costs included in its claim for transaction and closing costs.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 **Q. BOTH OCA WITNESS DEMARCO AND I&E WITNESS KUBAS RECOMMEND**
2 **THE COMPANY NOT BE PERMITTED TO RECOVER THE \$70,000 OF LEGAL**
3 **AND ENGINEERING FEES FOR WHICH PAWC WILL REIMBURSE**
4 **BRENTWOOD, PURSUANT TO THE APA. OCA ST. 1 AT 5 AND I&E ST. NO. 1**
5 **AT 21. HOW DO YOU RESPOND?**

6 **A.** PAWC is obligated by the Asset Purchase Agreement to pay these costs. PAWC
7 anticipates that this cost will be included in a claim for recovery of PAWC's transaction
8 and closing costs in the first base rate case which includes Brentwood. PAWC will
9 separately identify this cost in its Exhibit No. 3-C, similar to how PAWC showed similar
10 costs for its Valley acquisition in the 2022 base rate case.⁵ Any ratemaking determination
11 about the recoverability of this cost should be made in the context of a base rate case.

COST OF SERVICE STUDY

14 **Q. PLEASE SUMMARIZE THE ADVOCATES' TESTIMONY RECOMMENDING**
15 **THAT THE COMPANY BE REQUIRED TO PROVIDE A SEPARATE COST OF**
16 **SERVICE STUDY ("COSS") FOR BRENTWOOD IN THE COMPANY'S NEXT**
17 **BASE RATE CASE.**

18 **A.** On page 22 of OCA St. 1, Mr. DeMarco recommends that PAWC provide in its next base
19 rate case a separate cost of service study ("COSS") for the System.⁶ On pages 19-20 of
20 I&E St. No. 1, Mr. Kubas makes a similar recommendation.

⁶ While PAWC does not object to filing a separate COSS for Brentwood in the first case that includes Brentwood, I note that Mr. DeMarco's recommendation includes a reference to Aqua's water systems: "The costs... should be separately evaluated in PAWC's next general rate case, from Aqua's previously owned water utility systems." OCA St. 1 at 22. I believe his reference to Aqua's water systems was intended to refer to PAWC's wastewater systems.

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On pages 16-18 of his Direct Testimony, Mr. Kubas further recommends that this separate cost of service study be required for all future base rate cases that include Brentwood, and that these cost of service studies separately identify plant serving what Mr. Kubas refers to as “non-customers.”

Q. HOW DO YOU RESPOND TO THE RECOMMENDATION THAT PAWC INCLUDE A SEPARATE COSS FOR BRENTWOOD IN ITS NEXT BASE RATE CASE?

A. The Company will provide in the next base rate case a separate COSS for the System in a similar manner to the separate COSSs provided in the Company’s last base rate case for certain recently-acquired systems.

Q. HOW DO YOU RESPOND TO THE RECOMMENDATION THAT PAWC PROVIDE A SEPARATE COSS FOR BRENTWOOD IN EVERY CASE GOING FORWARD, AND THAT THE STUDY SEPARATELY IDENTIFY THE PLANT DESCRIBED BY MR. KUBAS?

A. The Company disagrees with this recommendation. As discussed by my colleague Mr. Hufton, all assets that PAWC is acquiring are used and useful in providing service to Brentwood customers. It would be inappropriate to undermine the valuation process set forth in Section 1329 by requiring a portion of the cost of the assets that serve Brentwood customers be excluded from rate base and made non-recoverable to the Company.

As discussed in Mr. Hufton’s testimony, all assets of the Brentwood System are fully used and useful. The trunklines are used and useful because they are part of the

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 comprehensive system set up by ALCOSAN via the uniform Z Agreements. The numerous
2 existing intermunicipal agreements between the municipalities in the bulk service treatment
3 area of ALCOSAN create a mutually beneficial regional interceptor system through the use
4 of trunk lines for the conveyance of sewage between municipalities. The Z Agreements for
5 all municipalities are substantively the same and require the establishment of a regional
6 interceptor system through the use of municipal trunk lines for the transport of bulk flow
7 to the ALCOSAN treatment facility. In his Direct Testimony, Douglas Jackson, P.E., of
8 ALCOSAN describes how that agency serves as the sole provider of wastewater treatment
9 services to 83 municipalities in the Commonwealth – including Brentwood. He also states
10 that those rights and obligations depend on the preservation and uniformity of the Z
11 Agreement and the Other Z Agreements. ALCOSAN St. 1 p. 4.

12 While a COSS may theoretically be able to assign a portion of the cost of
13 wastewater collection to upstream municipalities, this would provide an incomplete
14 picture. If the cost would have existed even in the absence of agreements with upstream
15 and downstream municipalities, the cost is necessary to provide service to Brentwood
16 customers and therefore is recoverable.

17 As noted above, the Company agrees to provide a separate COSS in the first base
18 rate case in which Brentwood is included. It is premature at this point to determine that a
19 separate COSS will be appropriate in all future rate cases. A recommendation of a separate
20 COSS can be made by parties in future rate cases, similar to the recommendation made by
21 I&E in PAWC's 2022 base rate case, relating to the cost of service for combined sewer
22 systems. See Docket No. R-2022-3031672, I&E St. No. 3, page 26.

CUSTOMER NOTICE

Q. ON PAGES 9-10 OF OCA ST. 2, OCA WITNESS ALEXANDER DISCUSSES THE IMPACT OF POST-ACQUISITION CAPITAL ON PAWC’S NOTICES. PLEASE DISCUSS THIS TESTIMONY.

A. Ms. Alexander notes that the rate impact of future PAWC investment in the Brentwood system was not included in the customer notice. Mr. DeMarco makes a similar comment, recommending on page 24 of his testimony that PAWC be required to include capital investment in the calculation stating that “This is consistent with how Aqua Pennsylvania calculates rate impact for purposes of its Section 1329 customer notices.”

Q. PLEASE DISCUSS THE OCA’S TESTIMONY REGARDING INCLUSION OF POST-ACQUISITION CAPITAL IN THE CUSTOMER NOTICE.

A. First, I would note that it is not reasonable to require PAWC’s notice to conform to the methodology utilized by Aqua. The reasons for Aqua’s treatment of this issue are unknown to PAWC and are not binding on PAWC. The Company uses a methodology that was agreed-to by multiple parties, including the OCA, and was approved by the Commission in 2019.⁷

Furthermore, when the Notice of Proposed Rate Base Addition is sent to the Company’s current and future customers, PAWC is noticing customers for the estimated revenue requirement upon acquisition utilizing the proposed ratemaking rate base. In this proceeding, the Company is seeking approval of the ratemaking rate base, in accordance

⁷ *Application of Pennsylvania-American Water Company Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Water System Assets of the Steelton Borough Authority*, Docket No. A-2019-3006880 (Opinion and Order entered Oct. 3, 2019) (“Steelton Order”).

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1 with Section 1329. The Company is not seeking pre-approval of the cost of future, post-
2 acquisition investments. The customer notice reflects what the Company is requesting,
3 which is the revenue requirement associated with the proposed rate base.
4

5 **Q. ARE YOU FAMILIAR WITH THE COURT ORDER THAT RESULTED IN A**
6 **NOTICE REQUIREMENT FOR SECTION 1329 ACQUISITIONS?**

7 **A.** Yes. I reviewed the Commonwealth Court Order in *McCloskey v. Pa. Pub. Util. Comm'n*,
8 195 A.3d 1055 (Pa. Cmwlth. 2018) *alloc. denied*, 207 A.3d 290 (Pa. 2019), which
9 determined that notice is required for Section 1329 acquisitions. This Order, which I will
10 refer to as the *New Garden Order*, is dated October 11, 2018.

11 The *New Garden Order* states that “whether individualized notice is required
12 depends on whether the outcome of the proceeding binds the Commission to increase
13 rates.” The Order further states that “Because a rate base determination is fundamental to
14 a determination of rates, under *Barasch*, individualized notice has to be given to all
15 ratepayers of the proposed sale as well as an opportunity for them to participate in the
16 Section 1329 proceeding.” In other words, notice of the sale is required due to the rate base
17 determination that the Commission will make in this proceeding, because rates will be set
18 in the future on that approved rate base.
19

20 **Q. PLEASE SUMMARIZE THE RATE BASE FOR WHICH PAWC IS REQUESTING**
21 **APPROVAL AND WHAT NOTICE WAS PROVIDED.**

22 **A.** The Company is requesting approval of the \$19,364,443 purchase price as the ratemaking
23 rate base. The Company provided notice of the sale, including notice of the purchase price

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1 it is requesting for approval. PAWC is not requesting a rate base determination at this time
2 for its projected future capital investments, nor is the Company requesting pre-approval of
3 those investments.

4 As discussed above, my understanding is that the *New Garden Order* required
5 notice due to the rate base determination that the Commission will make in the Section
6 1329 proceeding and because rates will be set in the future on that approved rate base. The
7 Company is not asking for preapproval of future, post-acquisition capital investment.
8 Therefore, it is not noticing customers for those amounts at this time.
9

10 **Q. IN FUTURE BASE RATE CASE FILINGS, WILL THE COMPANY NOTICE**
11 **CUSTOMERS FOR RATE IMPACTS BASED ON POST-ACQUISITION**
12 **CAPITAL INVESTMENT?**

13 **A.** Yes. The Company follows the Commission's regulations for providing notice when
14 proposing a rate change.
15

16 **Q. ON PAGE 25 OF OCA ST. 1, MR. DEMARCO RECOMMENDED ADDING A**
17 **"RANGE" OF IMPACTS FOR CUSTOMERS USING 50% MORE, AND 100%**
18 **MORE, THAN THE TYPICAL USAGE. HOW DO YOU RESPOND?**

19 **A.** First, the notice sent by the Company complies with the *Steelton Order*. In the settlement
20 of the Steelton proceeding, PAWC, OCA and other parties agreed to the following
21 language regarding future notice:

22 "in future Section 1329 wastewater system acquisition proceedings, PAWC will
23 send a notice substantially in the form attached hereto as **Appendix E.**"
24

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

1 The form of the notice attached as Appendix E included one usage level for each customer
2 class: residential, commercial and industrial. PAWC's notice complies with the *Steelton*
3 *Order*.

4 Second, I would note that the customer notice methodology produces an estimated
5 bill impact that is expressed in terms of a percentage increase. This percentage increase is
6 applicable to all customer classes and usage amounts; therefore, a customer with any level
7 of usage could estimate their impact using the estimated percentage increase that is shown
8 on the customer notice.

9 Third, the impact of adding additional usage levels as OCA requests is that the
10 Company would be required to show nine different bill impacts for the three customer
11 classes. This large number of scenarios is likely to cause confusion for customers. The
12 Company currently shows the average usage amount for residential, commercial and
13 industrial customers, consistent with the Commission's regulations regarding customer
14 notice which require only one average usage amount to be shown in the notice for each
15 customer class. 52 Pa. Code § 53.45(b).

16
17 **Q. ON PAGES 7-8 OF OCA ST. 1, MR. DEMARCO PROVIDES CHARTS OF BILL**
18 **IMPACTS AT VARIOUS USAGE LEVELS THAT HE SAYS "ARE ESTIMATED**
19 **TO GO INTO EFFECT." PLEASE DISCUSS THESE CHARTS.**

20 **A.** Mr. DeMarco describes these charts as providing bill impacts of the revenue deficiency of
21 the ratemaking rate base and estimated future capital improvement. Mr. DeMarco uses the
22 bill amounts provided by PAWC for 3,212 gallons and he additionally provides bill
23 amounts at 4,818 gallons and 6,424 gallons. The bills calculated by Mr. DeMarco are

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

incorrect; for example, he indicates that a bill for 4,818 gallons would be \$110.94 at Brentwood's current rates. As shown in **PAWC Exhibit AEE-1**, the total service charge at current rates is \$11.87 per month and the usage charge is \$1.933 per 100 gallons. Thus, a bill for 4,818 gallons would be approximately \$105.00.⁸ Similarly, the monthly bill for 6,424 gallons would be approximately \$136.05 rather than \$147.92 as indicated by Mr. DeMarco.⁹

Q. ON PAGE 11 OF OCA ST. 2, MS. ALEXANDER EXPRESSES CONCERN ABOUT NOTICE TO BRENTWOOD CUSTOMERS OF ALCOSAN RATE INCREASES. HOW DO YOU RESPOND?

A. PAWC's proposed treatment of ALCOSAN charges is the same as the current treatment of ALCOSAN charges by Brentwood; i.e. ALCOSAN charges are reflected on customer bills at the rates set by ALCOSAN. As discussed above, the rates are set by ALCOSAN and ALCOSAN is not under Commission jurisdiction. PAWC proposes to simply continue the same treatment of reflecting ALCOSAN charges on customer bills.

Q. HOW WILL PAWC NOTIFY CUSTOMERS WHEN ALCOSAN'S RATES CHANGE?

A. PAWC will notify Brentwood customers of changes to the ALCOSAN charges reflected on their bills through a message on the customer's bill. This notification will be similar to the notice that PAWC provides customers of DSIC rate changes.

⁸ \$1.933 x 4,818 gallons / 100 gallons = \$93.13; \$93.13 + \$11.87 = \$105.00.

⁹ \$1.933 x 6,424 gallons / 100 gallons = \$93.13; \$93.13 + \$11.87 = \$136.05.

REBUTTAL TESTIMONY OF ASHLEY E. EVERETTE

MISCELLANEOUS

Q. DO YOU HAVE ANY OTHER COMMENTS ON THE ADVOCATES' TESTIMONY?

A. Yes. On pages 4-5 of OCA St. 2, Ms. Alexander states that "Brentwood issues bills and disconnection notices that include a non-basic charge for refuse collection, a practice that would be prohibited under Commission's regulations." As clarification, PAWC does not bill for refuse collection and will not bill Brentwood customers for such service.

Additionally, while Mr. DeMarco compares the cost of capital of PAWC and Brentwood on page 13 of OCA St. 1, I would note that Mr. DeMarco does not address the fact that PAWC has access to substantially greater amounts of capital because it can access equity markets that are unavailable to Brentwood.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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

PAWC Exhibit AEE-2

The Pittsburgh Water
and Sewer Authority

Tariff Wastewater - Pa. P.U.C. No. 1
Original Page No. 10

3. Treatment Rate:

- a. In addition to the Minimum Charge and the Conveyance Charge, customers will be required to pay rates for Wastewater/Sewage treatment to Premises.
- b. The rates for Wastewater/Sewage treatment to Premises within the Authority's service area are established by ALCOSAN, and are paid by the Authority to ALCOSAN. Information on ALCOSAN's rates is available on its website.
- c. Wastewater/Sewage treatment charges may be reflected on Authority bills/invoices as ALCOSAN charges, basic service and sewage treatment.

**I&E Statement No. 1
Witness: Joseph Kubas**

**Application of Pennsylvania American Water Company Pursuant to Sections 1102(a),
and 1329 of the Public Utility Code for its Acquisition of the Water System Assets of
Borough of Brentwood**

Docket No. A-2021-3024058

Direct Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:

**Public Benefit Concerns
Rate Base Determination
Closing Costs
Cost of Service Study
Miscellaneous Revenue**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Joseph Kubas. My business address is 400 North Street, Harrisburg,
4 Pennsylvania 17120.

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

7 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in
8 the Bureau of Investigation and Enforcement (“I&E”) as a Rate Case Review
9 Specialist - Annuitant. Prior to my retirement, I was employed as the Fixed Utility
10 Valuation Engineer Supervisor.

11
12 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

13 A. Appendix A, which is attached to my testimony, describes my educational
14 background and professional experience.

15
16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN THIS PROCEEDING.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. The I&E analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires balancing the interests of the
20 ratepayers, the company, and the regulated community.

21
22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 A. The purpose of my direct testimony is to address issues relating to the Application

1 (“Application” or “Transaction”) of Pennsylvania American Water Company
2 (“PAWC” or “Company”) for approval of its acquisition of the wastewater system
3 assets of the Borough of Brentwood (“Brentwood”).
4

5 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

6 A. Yes. I&E Exhibit No. 1 accompanies this direct testimony.
7

8 **Q. WHAT IS PAWC REQUESTING IN THIS APPLICATION?**

9 A. Under 66 Pa. C.S. § 1102 (“Section 1102”), PAWC is requesting approval to acquire
10 the Borough of Brentwood’s wastewater collection system and for the right to begin
11 providing wastewater service in the areas currently served by Brentwood. Under 66
12 Pa. C.S § 1329 (“Section 1329”), PAWC is seeking to utilize the purchase price of
13 \$19,364,443 for the ratemaking rate base of the Brentwood plant. In addition to the
14 purchase price, PAWC will pay the Borough up to \$70,000 as reimbursement for
15 engineering and legal fees incurred related to the Transaction, upon receipt of
16 invoices evidencing the amount of transaction-related fees incurred prior to Closing
17 (PAWC St. No. 1, p. 12 and PAWC St. 3-REV, pp 5-6).
18

19 **Q. WHY DOES PAWC NEED APPROVAL OF THE ACQUISITION UNDER**
20 **SECTION 1102?**

21 A. Section 1102 requires the Commission to issue a Certificate of Public Convenience
22 prior to the Company acquiring the wastewater assets of Brentwood and providing
23 wastewater service in Brentwood’s service territory. The Commission will only grant

1 a Certificate of Public Convenience if it determines that such a certificate is
2 "necessary or proper for the service, accommodation, convenience or safety of the
3 public" (66 Pa. C.S. § 1103(a)). Further, "the Commission, in granting such
4 certificate, may impose such conditions as it may deem to be just and reasonable" (66
5 Pa. C.S. § 1103(a)).
6

7 **Q. WHAT DOES 66 Pa. C.S. § 1329 ALLOW?**

8 A. Section 1329 allows investor-owned water and wastewater utilities to use the fair
9 market valuation in the acquisition of water and wastewater systems that are owned
10 by a municipal corporation or authority. Using the Section 1329 framework enables
11 the investor-owned utility to establish the ratemaking rate base of the acquired
12 property in the same proceeding that it seeks to acquire the property.
13

14 **Q. WHAT DOES THE FAIR MARKET VALUE APPROACH REQUIRE?**

15 A. The fair market valuation approach dictates that once the buyer and the seller agree to
16 its use, they must engage the services of a licensed engineer to conduct an assessment
17 of the tangible assets of the seller. The licensed engineer assessment is then presented
18 to two utility valuation experts ("UVE"), one to represent the buyer and one to
19 represent the seller, to conduct independent analyses based on the Uniform Standards
20 of Professional Appraisal Practice, employing the cost, market, and income
21 approaches. The results of the UVEs' analyses are then incorporated into the
22 application submitted to the Commission for approval under Section 1102 of the

Code.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 distribution system improvement charge to be deferred for book and ratemaking purposes.

Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR DIRECT TESTIMONY?

A. My direct testimony will address issues concerning the lack of affirmative public benefits, plant not used to serve customers, reimbursement of legal fees, the two-year rate freeze, and the necessity of requiring PAWC to undertake a separate Cost of Service Study for the Brentwood system in all future base rate cases.

Q. WHAT IS I&E'S OVERALL RECOMMENDATION REGARDING THE ACQUISITION?

A. The Application should be denied due to the lack of affirmative public benefits and due to the complexities related to establishing a rate base valuation as discussed below.

DESCRIPTION OF THE SYSTEM

Q. PLEASE DESCRIBE THE BRENTWOOD SYSTEM.

A. Brentwood currently provides wastewater service to approximately 3,980 customers in the Borough of Brentwood (PAWC St. No. 1, p. 16). Brentwood does not own a

¹ http://www.puc.pa.gov/filing_resources/issues_laws_regulations/section1329_applications.aspx

1 wastewater treatment plant. Instead, Brentwood sends wastewater to the Allegheny
2 County Sanitary Authority (“ALCOSAN”) for treatment (PAWC St. No. 2, p. 7).

3
4 **Q WHY IS BRENTWOOD SELLING ITS SYSTEM?**

5 A. Brentwood states that selling the wastewater system will enable it to be in a better
6 position to avoid tax increases, and the Borough also believes that PAWC would do a
7 more efficient and effective job of managing the system. Mr. Zboyovsky also
8 describes the looming financial burden the ALCOSAN consent decree could have on
9 the Borough as a reason to sell the system and specifically addresses the age of the
10 system (Zboyovksy pp. 5-9). In conclusion, Mr. Zboyovsky describes the benefits of
11 customers receiving one bill, customer’s access to low-income programs, and better
12 customer service from PAWC (Zboyovksy pp. 14-16).

13
14 **AFFIRMATIVE PUBLIC BENEFIT**

15 **Q. DOES THE COMMISSION MAKE A DETERMINATION OF A PUBLIC**
16 **BENEFIT BEFORE APPROVING AN APPLICATION?**

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

22 A certificate of public convenience shall be granted by order of
23 the commission, only if the commission shall find or determine
24 that the granting of such certificate is necessary or proper for the

1 service, accommodation, convenience, or safety of the public.
2 The commission, in granting such certificate, may impose such
3 conditions as it may deem to be just and reasonable.²
4

5 I have been advised by counsel that the Pennsylvania Courts and the Commission
6 have construed this as requiring that a proposed acquisition of, or merger with, a
7 public utility “will affirmatively promote the service accommodation, convenience,
8 or safety of the public in some substantial way.”³ Also, the Courts have explained:

9 [T]he Commission must perform “the balancing test required by
10 Section 1102 of the Code to weigh all the factors for and against
11 the transaction, *including the impact on rates*, to determine if
12 there is a substantial public benefit.”⁴
13

14 **Q. WHAT AFFIRMATIVE PUBLIC BENEFITS DOES PAWC CLAIM IN THIS**
15 **APPLICATION?**

16 A. PAWC claims that it is a large established public utility with the managerial,
17 technical, and financial fitness to operate the system. It details several claimed
18 benefits associated with this in its Statements No. 1 and No. 2, as follows:

- 19 • The Brentwood system is within the water service territory of PAWC;
- 20 • The Application satisfies the goals of regionalization;
- 21 • PAWC is large enough to finance capital improvements necessary to meet
22 state and federal requirements;

² 4 66 Pa. C.S. § 1103(a).

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

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

- The customers will be better protected as PAWC customers due to Commission regulatory provisions;
- The customers will benefit from access to PAWC's customer service systems; and
- PAWC is better equipped to handle emergencies and regulatory requirements.

Q. PLEASE ADDRESS THE GENERAL CLAIM CONCERNING THE EXPERTISE OF PAWC.

A. While I do not dispute the fact that PAWC has the expertise to provide wastewater service, I do not believe that the long-term costs of providing that expertise to Brentwood is in the public interest. There is no evidence that Brentwood does not or could not obtain the same expertise on its own at possibly a lower cost. In fact, Appendix A-20-e indicates that Brentwood is currently working on satisfying a consent decree concerning inflow and infiltration and according to Appendix A-22-a, Brentwood is in compliance with ALCOSAN's 537 plan.

Q. PLEASE ADDRESS THE CLAIM THAT THE PROVISION OF WATER SERVICE TO BRENTWOOD CUSTOMERS IS A BENEFIT.

A. While PAWC also provides water service to Brentwood customers, switching the wastewater service from Brentwood to PAWC for the sake of having one entity provide both services does not implicitly yield a public benefit. In fact, in conjunction with the potential for higher wastewater rates described below, this

1 common entity scenario could result in a single bill that makes the service more
2 unaffordable, which could lead to increased levels of terminations.

3
4 **Q. PLEASE ADDRESS THE CLAIMS CONCERNING REGIONALIZATION AND**
5 **PAWC’S ABILITY TO MEET STATE AND FEDERAL REGULATIONS.**

6 A. While I agree that anytime a system is acquired, regionalization and consolidation
7 occur, I believe the cost and impact on rates should also be considered in determining
8 whether this result itself is a public benefit. There is no evidence that the Brentwood
9 system is struggling or that the public would be harmed if it remained a stand-alone
10 system. As for meeting state and federal regulations, there is no evidence that
11 Brentwood is not currently meeting or could not meet future regulatory requirements.
12 If Brentwood is in need of additional revenue, it can quickly increase rates and,
13 therefore, easily obtain sufficient money to meet environmental requirements without
14 the regulatory delay associated with regulated utility filings.

15
16 **Q. PLEASE ADDRESS THE CLAIMS THAT BRENTWOOD CUSTOMERS ARE**
17 **BETTER OFF UNDER THE JURISDICTION OF THE COMMISSION AND**
18 **CAN BENEFIT FROM PAWC’S CUSTOMER SERVICE AND ABILITY TO**
19 **HANDLE EMERGENCIES.**

20 A. While I agree that when a system is acquired by a Commission regulated utility, the
21 customers receive the protections associated with the Commission’s jurisdiction;
22 however, I have seen no evidence that Brentwood is providing unreliable or sub-
23 standard service under its current operating structure that implies that regulatory

1 authority is necessary. Similarly, while I agree Brentwood customers will have
2 access to PAWC's 24-hour customer service, the customers of Brentwood can
3 currently report problems through various methods 24 hours per day (PAWC St. No.
4 2, p. 28). There is no indication that Brentwood has a systemic inability to handle
5 emergencies. In summary, I believe that Brentwood provides adequate customer
6 service without the rate impact that will occur through acquisition by an investor-
7 owned utility.

8
9 **Q. HAVE THERE BEEN ANY RECENT DECISIONS THAT SUPPORT YOUR**
10 **POSITION THAT PAWC'S BASIC CAPABILITIES DO NOT SATISFY THE**
11 **AFFIRMATIVE PUBLIC BENEFIT CRITERIA?**

12 A. Yes. In the Application of Aqua Pennsylvania to acquire the wastewater system
13 assets of East Whiteland Township at Docket No. A-2021-3026132, the Office of
14 Consumer Advocate appealed the Commission's approval of the sale to the
15 Commonwealth Court at Docket No. 910 C.D. 2022. The Commonwealth Court
16 found that technical and financial fitness was inadequate to establish an affirmative
17 public benefit and reversed the Commission's decision. I am advised by counsel that
18 this Commonwealth Court finding is under appeal.

19 More recently in the application of PAWC to acquire the wastewater system
20 assets of the Butler Area Sewer Authority at Docket No. A-2022-3037047, the
21 recommended decision issued by Administrative Law Judge Guhl on September 14,
22 2023, rejected a settlement proposal in that proceeding, finding that the transaction

1 does not provide substantial affirmative public benefits. A Commission Order has
2 not yet been issued in this proceeding.

3
4 **Q. DID PAWC MAKE THE SAME OR SIMILAR PUBLIC BENEFIT CLAIMS IN**
5 **THIS CASE THAT WERE REJECTED IN THE ABOVE MENTIONED**
6 **CASES?**

7 A. Yes.

8
9 **SERVICE TO “NON-CUSTOMERS” AND DOWNSTREAM FLOWS**

10 **Q. WHO ARE THE “NON-CUSTOMERS” YOU WISH TO ADDRESS?**

11 A. The “non-customers” are the adjoining systems that transmit upstream wastewater to
12 the ALCOSAN treatment plant via the Brentwood conveyance system. The systems
13 utilizing the Brentwood conveyance system are Whitehall Borough and the City of
14 Pittsburgh via the Pittsburgh Water and Sewer Authority (PWSA) (PAWC St. No. 2,
15 p. 6).

16
17 **Q. DOES BRENTWOOD UTILIZE OTHER SYSTEMS TO TRANSMIT ITS**
18 **FLOW AND THE FLOW OF THESE “NON-CUSTOMERS”?**

19 A. Yes. Brentwood discharges its flow and the flow of “non-customers” into the sewer
20 systems of Baldwin Borough, Whitehall Borough, and the City of Pittsburgh. All of
21 the combined flow is eventually conveyed to and treated by the ALCOSAN treatment
22 plant (PAWC St. No. 2, p. 6).

1 **Q. ARE THERE ANY WRITTEN AGREEMENTS COVERING THE TERMS OF**
2 **THE ARRANGEMENTS, OR IS ANY PARTY COMPENSATED FOR**
3 **TRANSMITTING WASTEWATER?**

4 A. No. There are no intermunicipal agreements governing the terms of discharge of
5 sewage between these various municipalities. Brentwood does not charge the
6 upstream municipalities of Whitehall Borough or PWSA for flows into Brentwood's
7 system, nor do the downstream municipalities of Baldwin Borough, Whitehall
8 Borough, or PWSA charge Brentwood for Brentwood's sewage flows into the
9 downstream systems. There are, however, cost-sharing arrangements for capital
10 improvement projects (PAWC St. No. 2, p. 6).

11
12 **PLANT IN SERVICE AND "NON-CUSTOMERS"**

13 **Q. WHAT IS THE LONG-HELD STANDARD FOR PUBLIC UTILITIES**
14 **CONCERNING PLANT IN SERVICE AND CUSTOMERS?**

15 A. Utilities are only granted the opportunity to recover the return dollars, taxes, and
16 depreciation expense on plant that is "used and useful" in the provision of service to
17 customers.

18
19 **Q. ARE YOU AWARE OF PLANT IN THE BRENTWOOD SYSTEM THAT**
20 **WILL NOT BE USED AND USEFUL IN THE PROVISION OF PUBLIC**
21 **UTILITY SERVICE TO BRENTWOOD CUSTOMERS?**

22 A. Yes. As described above, Brentwood currently transmits wastewater through its
23 system free of charge. Therefore, the \$19,354,443 purchase price includes plant that

1 is being used to transfer upstream wastewater free of charge. This plant is not used
2 and useful in providing service to Brentwood customers.

3
4 **Q. WHY DOES PAWC BELIEVE THAT IT IS REASONABLE TO PURCHASE**
5 **PLANT FOR CUSTOMERS OUTSIDE THE BRENTWOOD SYSTEM FOR**
6 **WHICH IT CANNOT ESTABLISH A RATE TO RECOVER THE COST OF**
7 **THIS PLANT?**

8 A. In response to a question from the Commission's Bureau of Technical Utility Service
9 (TUS), PAWC claims that these upstream customers are not customers of PAWC.
10 These parties, or so called "non-customers," receive free service from Brentwood
11 through an agreement known as the "ALCOSAN Z agreement" that has been in effect
12 since 1949 which governs the provision of this free service by multiple
13 municipalities. To support this notion, PAWC also states that it will not be a
14 customer of the downstream municipalities that are used to transfer any Brentwood
15 system wastewater to ALCOSAN (I&E Ex. No. 1, Sch. 1).

16
17 **Q. DID YOU ASK PAWC IF THE PURCHASE PRICE INCLUDED THE VALUE**
18 **OF THE PLANT THAT WILL BE USED TO PROVIDE SERVICE TO "NON-**
19 **CUSTOMERS?"**

20 A. Yes. The Company's response to I&E-I-1 indicates that the purchase price includes
21 the value of the plant used to serve "non-customers" (I&E Ex. No. 2, Sch. 2).

1 **Q. DID YOU ALSO ASK PAWC WHY IT IS REASONABLE TO INCLUDE**
2 **PLANT THAT IS NOT USED AND USEFUL IN THE PROVISION OF**
3 **SERVICE TO BRENTWOOD CUSTOMERS IN RATE BASE?**

4 A. Yes. The Company's response to I&E-I-1 reiterates its response to TUS-1 but goes
5 on to state that it is reasonable because the plant will be shared by Brentwood
6 customers and "non-customers" (I&E Ex. No. 1, Sch. 2).

7
8 **Q. DID YOU ALSO ASK PAWC TO SEPARATELY IDENTIFY THE PLANT**
9 **THAT WILL BE USED TO PROVIDE SERVICE TO "NON-CUSTOMERS"?**

10 A. Yes. In the Company's response to I&E Set 1, number 1, the Company states that it
11 has not performed such an analysis because of the mutual benefits of this plant and
12 doing such a study would be a lengthy undertaking (I&E Ex. No. 1, Sch. 2).

13
14 **Q. WHAT DO YOU RECOMMEND REGARDING "NON-CUSTOMERS"?**

15 A. I recommend that the Commission affirm the Company's position that they are not
16 customers. In addition, the plant, or the portion of the plant used to serve "non-
17 customers" should be removed from the requested rate base of \$19,643,443.

18
19 **Q. WERE YOU ABLE TO QUANTIFY THE AMOUNT OF PLANT AND**
20 **CORRESPONDING RATE BASE THAT SHOULD BE REMOVED?**

21 A. No. The Company failed to provide any analysis that would indicate a reasonable
22 amount of plant that is being used by "non-customers." Therefore, I recommend that
23 PAWC should be directed to undertake a study that separates and does not include

1 plant to service “non-customers” in future cost of service studies before granting
2 approval of this Application in order to establish an appropriate rate base for rate
3 making purposes in this case.
4

5 **Q. WHY DO YOU RECOMMEND THAT A PORTION OF THE PLANT USED**
6 **TO SERVE “NON-CUSTOMERS” BE REMOVED?**

7 A. This recommendation accepts the Company’s contention that upstream customers are
8 not customers and does not upset the ALCOSAN Z agreement. However, as
9 described above, only plant used and useful in the provision of utility service to
10 customers can be included in rate base. Since PAWC describes the upstream
11 municipalities as “non-customers,” the corresponding plant to serve “non-customers”
12 free of charge should be excluded from rate base. There simply is not any provision
13 or category in rate base for “plant used to serve non-customers.” Including plant that
14 is constructed and sized to serve “non-customers” in the Brentwood rate base will
15 result in costs that will be unfairly borne by Brentwood customers. Furthermore, any
16 contributions received for acquired plant from the designated non-customers, either
17 currently recorded on the Brentwood plant records or received in the future, should be
18 designated as contributions in aid of construction and deleted from rate base.
19

20 **Q. WOULD THIS REMOVAL REQUIRE PAWC TO ABSORB THE COSTS**
21 **ASSOCIATED WITH PLANT DESIGNED TO SERVE “NON-**
22 **CUSTOMERS”?**

23 A. Yes. Acquired Brentwood customers should not be required to pay for any plant

1 either sized or built for the purpose of conveying the wastewater of adjoining
2 municipalities at no charge.

3
4 **Q. DOES THE FACT THAT THE ALCOSAN Z AGREEMENT HAS BEEN IN**
5 **PLACE FOR OVER 70 YEARS MATTER?**

6 A. No. First, any prior unwritten agreement between Brentwood and another party is
7 subject to review in this Application proceeding. While it may be acceptable for
8 municipalities to do favors for each other free of charge, that same courtesy can't be
9 provided by an investor-owned, Commission regulated utility. Just because
10 Brentwood agreed to provide free service to a customer for any number of years does
11 not mean this must continue after being purchased by PAWC.

12
13 **Q. DOES IT MATTER THAT OTHER MUNICIPALITIES DOWNSTREAM OF**
14 **BRENTWOOD DO NOT CHARGE BRENTWOOD FOR TRANSPORTING**
15 **WASTEWATER?**

16 A. No. First, I agree that while this current arrangement may be favorable to Brentwood
17 and potentially PAWC, PAWC could be required to cover expenses and make
18 investments in plant outside its service territory related to plant upgrades in these
19 downstream municipalities which may not be reviewable by the Commission or
20 recovered from customers. Second, there is no guarantee that once these
21 municipalities realize they can charge an investor-owned utility like PAWC in the
22 future, they may do so to the detriment of PAWC and its customers.

1 **Q. IS IT POSSIBLE TO DEFER THIS ISSUE UNTIL THE NEXT PAWC BASE**
2 **RATE CASE?**

3 A. No. The Company is requesting the Commission approve the \$19,643,443 purchase
4 price as the rate base in this case. Therefore, it is not possible to defer the
5 determination of the plant used to serve “non-customers” until the first proceeding
6 after acquisition.

7
8 **CONDITIONAL REQUIREMENTS**

9 **COST OF SERVICE STUDY**

10 **Q. WHAT IS YOUR COST OF SERVICE STUDY (COSS)**
11 **RECOMMENDATION?**

12 A. If the Commission approves the Application, I recommend that PAWC provide a
13 separate COSS for the Brentwood system in all future rate cases that separately
14 identifies the plant in service, the test year plant additions and retirements, and all
15 taxes, expenses, and revenue separately for the Brentwood system.

16
17 **Q. SHOULD THE FUTURE COST OF SERVICE STUDIES IDENTIFY AND**
18 **REMOVE THE PLANT AND EXPENSES ASSIGNED OR ALLOCATED TO**
19 **THE “NON-CUSTOMERS” DESCRIBED ABOVE?**

20 A. Yes. Since it is likely PAWC will make improvements to the plant being used to
21 serve “non-customers”, it is important to separately identify this plant. Therefore, the
22 Commission should direct PAWC to separately identify, assign or allocate the plant
23 used to serve “non-customers” and any expenses associated with “non-customer”

1 plant. All plant and expenses related to “non-customers” should be clearly excluded
2 from any revenue requirement claims in a base rate case.

3
4 **Q. WHY DO YOU RECOMMEND FUTURE COST OF SERVICE STUDIES**
5 **IDENTIFY AND REMOVE THE PLANT AND EXPENSES ASSIGNED OR**
6 **ALLOCATED TO THE “NON- CUSTOMERS”?**

7 A. As described above and in accordance with standard ratemaking criteria, only plant
8 used in the provision of service to customers can be included in rate base. Similarly,
9 only expenses incurred to serve customers can be recovered from customers. Since
10 this plant and related expenses will be used to provide service to “non-customers,”
11 they must be removed from future revenue requirement claims.

12
13 **Q. WHY IS KNOWING THE COST TO SERVE THE BRENTWOOD SYSTEM**
14 **IMPORTANT?**

15 A. In general, the primary goal of a COSS is to determine a utility’s revenue requirement
16 to provide service to its different customer classes. In this case, a COSS for the
17 Brentwood wastewater system is beneficial because it:

- 18 • Determines the cost to operate the Brentwood wastewater system separately;
- 19 • Calculates the costs of the utility’s different services;
- 20 • Separates the costs between the utility’s different customer classes and service
21 areas;

- Shows the removal of plant, expenses, return dollars, and taxes related to plant being used to serve “non-customers,”; and
- Determines how costs should be recovered from the utility’s different customer classes and service areas.

Moreover, a COSS 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 Brentwood customers to other water customers, a methodology PAWC has utilized in past base rate cases. Therefore, without the COSS that includes segregated wastewater costs, the appropriate ratemaking recommendations for those costs cannot be proposed or implemented. Additionally, and specifically for the present case, a separate COSS will help to determine the proper allocation of any potential revenue shortfall among PAWC’s existing customers.

Q. WHY DO YOU RECOMMEND THAT THE COMPANY FILE A SEPARATE BRENTWOOD COSS IN ALL FUTURE CASES?

A. The Brentwood system is unique when compared to other acquired systems in that wastewater flows to the ALCOSAN treatment plant and customers pay a separate rate for the ALCOSAN services. Because this service is a separate rate, this system could not be fairly combined with other wastewater rate zones wherein the treatment costs are built into base rates.

Furthermore, because this system is designed to convey the wastewater of “non-customers,” and I have recommended that all plant costs and expenses

1 associated with providing this free service be excluded from any future revenue
2 requirement claims, this system must remain in its own rate zone with its own COSS
3 to ensure that these “non-customer” costs are correctly excluded from Brentwood
4 customer rates.

5
6 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE IMPORTANCE**
7 **OF REQUIRING COST OF SERVICE STUDIES FOR ACQUIRED**
8 **SYSTEMS?**

9 A. Yes. The topic of a separate COSS for Section 1329 acquisitions was first broached
10 in Aqua’s acquisition of New Garden at Docket No. A-2016-2580061, which was the
11 first proceeding before the Commission to employ the fair market valuation under
12 Section 1329. In that case, the Commission required Aqua to prepare a COSS for use
13 in its next base rate case to separate the costs, capital, and operating expenses of
14 providing water service to the newly acquired New Garden customers. The
15 Commission’s Order approving Aqua’s acquisition of the New Garden system, states
16 the following at pages 69-70:

17 Specifically, Aqua shall develop and file a cost-of-service study
18 in its next rate case pursuant to our regulations that separates
19 costs, capital, and operating expenses of providing Water service
20 to the New Garden customers as a stand-alone rate group.
21 Moreover, Aqua is directed to address the pros and cons of
22 designing New Garden rates as a separate rate group. As a result,
23 all parties and the Commission will be informed of the overall
24 rate impact on Aqua customers and, alternatively, the result of
25 establishing New Garden as a separate rate zone.

26 Additionally, as far as I am aware, the provision of separate COSS’ has been
27 approved by the Commission in all Section 1329 proceedings to date. Specifically,

1 the three most recent Section 1329 proceedings culminated in settlement agreements
2 that were approved by the Commission and which adopted COSS' of acquired
3 systems as a condition of settlement. These three proceedings were PAWC's
4 acquisition of the Royersford Borough system,⁵ PAWC's acquisition of the water
5 assets of Borough of Kane Authority,⁶ and Aqua's acquisition of the water system
6 assets of Lower Makefield Township.⁷

7
8 **Q. HAS PAWC PREVIOUSLY PROVIDED SEPARATE COST OF SERVICE**
9 **STUDIES FOR SYSTEMS ACQUIRED THROUGH SECTION 1329**
10 **APPLICATIONS IN A BASE RATE CASE?**

11 A. Yes. In its most recent base rate case at Docket Nos. R-2022-3031672 and R-2022-
12 3031673, the Company included several separate COSS' for wastewater systems it
13 acquired through Section 1329 applications.

14
15 **TRANSACTION/CLOSING COSTS AND LEGAL FEES**

16 **Q. IS THERE A PROVISION IN THE ASSET PURCHASE AGREEMENT**
17 **CONCERNING BRENTWOOD'S ENGINEERING AND LEGAL FEES**

18 A. Yes. The following provision is described in 3.01(d) of the Asset Purchase

⁵ Application of PAWC under Sections 507, 1102, and 1329 of the Public Utility Code for Approval of its Acquisition of Water system assets of Royersford Borough at Docket No. A-2020-3019634, p. 35 (Order entered May 7, 2021).

⁶ Application of PAWC under Sections 507, 1102, and 1329 of the Public Utility Code for Approval of its Acquisition of water treatment and distribution system assets of Borough of Kane Authority at Docket No. A-2020-3021460, p. 3 (Order entered June 18, 2020).

⁷ Application of Aqua under Sections 507, 1102, and 1329 of the Public Utility Code for Approval of its Acquisition of Water system assets of Lower Makefield Township at Docket No. A-2021-3024267, p. 23 (Order entered January 13, 2022).

1 Agreement:

2 In addition to the Purchase Price, Buyer shall pay Seller up to
3 Seventy Thousand Dollars (\$70,000) as reimbursement for
4 engineering and legal fees incurred related to this transaction to one
5 or more accounts that Seller designates and provides to Buyer at
6 least three (3) Business Days before the Closing Date. Seller shall
7 provide Buyer with invoices evidencing the amount of transaction-
8 related fees incurred at least five (5) Business Days before the
9 Closing Date.
10

11 **Q. IS IT APPROPRIATE FOR PAWC TO PAY UP TO \$70,000 IN**
12 **BRENTWOOD'S ENGINEERING AND LEGAL FEES?**

13 A. I am advised by counsel that this provision appears to be outside the scope of Section
14 1329, which only permits the acquiring public utility's transaction and closing costs
15 to be included in rate base and/or recovered from ratepayers, not the seller's costs.
16 Therefore, I recommend that the Commission order that these costs be excluded in the
17 ratemaking rate base or not otherwise be passed on to ratepayers. However, as I am
18 not offering a legal opinion in this case, I will defer to counsel to address this matter
19 through briefing.
20

21 **POTENTIAL FUTURE RATE IMPACT**

22 **Q. DOES THE APPLICATION INCLUDE ANY PROVISIONS REGARDING**
23 **FUTURE RATE INCREASES?**

24 A. Yes. Section 7.03 of the Asset Purchase Agreement states:

25 The Base Rate shall not be increased until after the second
26 anniversary of the Closing Date.

1 **Q. IS THE RATE MORATORIUM A REASONABLE PROVISION TO**
2 **INCLUDE IN THE AGREEMENT?**

3 A. No. Including any form of rate moratorium, particularly one that lasts two years after
4 the closing of the Transaction, is not reasonable. Therefore, this provision should not
5 be approved by the Commission.

6
7 **Q. WHY IS INCLUDING A RATE MORATORIUM AS A PROVISION OF THE**
8 **APPLICATION NOT REASONABLE?**

9 A. Including a rate moratorium in the Application is not reasonable for four reasons.
10 First, both Brentwood and PAWC indicated their understanding that the Commission
11 is the entity that makes the final determination on whether and to what extent rates
12 will increase. Second, the two-year rate increase moratorium is not consistent with
13 PAWC's current schedule of filing base rate increases. Third, the age of the system,
14 projected plant additions and the use of the FPFTY in rate cases will put upward
15 pressure on the Brentwood revenue requirement and corresponding rates that will
16 cause the rates to further diverge from the cost to serve Brentwood customers.
17 Finally, it is likely that Brentwood customers will be required to cover some of the
18 revenue requirement from other current and future wastewater systems, which will
19 also put upward pressure on the Brentwood revenue requirement and corresponding
20 rates.

1 **Q. WHY IS IT IMPORTANT THAT PAWC AND BRENTWOOD**
2 **ACKNOWLEDGED THAT THE COMMISSION HAS FINAL SAY**
3 **REGARDING POTENTIAL RATE INCREASES?**

4 A. I am unaware of any system acquired through the 1329 process that the Commission
5 has not assigned some form of rate increase in the subsequent base rate cases,
6 regardless of any rate delay or moratorium provisions in the purchase agreement.
7 Therefore, the statements by the buyer and seller each noting that the Commission
8 makes the final determination on any rate increase shows that both parties
9 acknowledge that the rate moratorium provision amounts to an unrealistic hollow
10 promise in order to make the pending acquisition more palatable to current
11 Brentwood customers. This is particularly true in this case with respect to the length
12 of the proposed moratorium in connection with PAWC's current base rate case trend.

13
14 **Q. WHEN DID PAWC LAST INCREASE BASE RATES AND HOW OFTEN DO**
15 **THEY TYPICALLY INCREASE BASE RATES?**

16 A. The last PAWC base rate increase at Dockets R-2022-3031672 and R-2022-3031673
17 became effective January 28, 2023. Before that the most recent increase in base rates
18 at Dockets R-2020-3019369 and R-2022-3019371 became effective March 8, 2021.
19 This shows that recently PAWC filed base rate cases that became effective just over
20 23 months apart.

21
22 **Q. WHEN IS THIS APPLICATION EXPECTED TO BE APPROVED BY THE**
23 **COMMISSION AND WHEN WILL THE CLOSING TAKE PLACE?**

24 A. It is my understanding that this Application is to be approved by January 2024 with

1 closing in February 2024.

2
3 **Q. IF PAWC CLOSES ON THE PURCHASE OF THE BRENTWOOD SYSTEM**
4 **IN FEBRUARY 2024, AND IF THIS RATE FREEZE IS APPROVED WHEN**
5 **WILL THE RATE FREEZE EXPIRE?**

6 A. If the closing date is February 2024, the rate freeze will expire February 2026.

7
8 **Q. BASED UPON THE 23 MONTH FILING CYCLE DESCRIBED ABOVE,**
9 **WHEN WILL PAWC FILE A BASE RATE CASE?**

10 A. Based upon the 23-month filing cycle described above, and its latest base rate case
11 was filed in April 2022, it is reasonable to assume that the next base rate case will
12 occur in approximately March 2024 to become effective December 2024.

13
14 **Q. IF PAWC FILES A BASE RATE CASE AROUND MARCH 2024 WITH AN**
15 **EFFECTIVE DATE OF DECEMBER 2024, WILL THE CUSTOMERS OF**
16 **BRENTWOOD BE INCLUDED IN ANY RATE INCREASE IF THIS**
17 **PROVISION IS APPROVED?**

18 A. No. The rates paid by Brentwood customers would not increase because as of
19 December 2024, they will still be frozen.

20
21 **Q. WHAT IS THE EARLIEST THAT THE ACQUIRED CUSTOMERS COULD**
22 **EXPERIENCE A RATE INCREASE?**

23 A. It is possible that the acquired Brentwood customers would not see their rates increase

1 until 2027, assuming PAWC files another base rate case in early 2026.

2
3 **Q. DID PAWC SEND A NOTICE TO BRENTWOOD CUSTOMERS**
4 **REGARDING THE POTENTIAL INCREASE TO RATES AS A RESULT OF**
5 **THE ACQUISITION?**

6 A. Yes. Amended Appendix A-18-d of the Application includes a copy of the customer
7 notice sent to existing Brentwood customers that indicated a potential 11.0% increase
8 to their rates at the time of PAWC's next base rate increase.

9
10 **Q. HOW DID PAWC DETERMINE THE NOTICED 11.0% INCREASE?**

11 A. According to PAWC, the 11.0% increase was calculated assuming that 100% of the
12 revenue deficiency was allocated to water customers as allowed by Act 11 of 2012
13 (PAWC St. No. 3, p. 11 - Revised).

14
15 **Q. WHAT IS THE ESTIMATED INCREASE TO BRENTWOOD**
16 **WASTEWATER CUSTOMERS PRIOR TO THE ACT 11 ALLOCATION?**

17 A. The estimated increase to Brentwood wastewater customers prior to the Act 11
18 allocation would be approximately 16.5%. The 16.5% was determined by dividing
19 the estimated Brentwood wastewater Year-1 increase by the current revenue received
20 by Brentwood ($\$664,000 / \$4,031,000 = 16.5\%$) (PAWC Ex. AEE-1, p. 4 - Revised).

21
22 **Q. DO YOU BELIEVE THE ESTIMATED 16.5% INCREASE IS**
23 **UNDERSTATED?**

24 A. Yes. While the 16.5% increase is based upon the purchase price, it includes no post-

1 acquisition plant additions. However, if PAWC files a base rate case in 2024, with a
2 Fully Projected Future Test Year ending in 2025, the requested revenue requirement
3 for the Brentwood system will be based upon an additional two years of Brentwood
4 plant additions, the years ending 2024 and 2025. These potential plant increases
5 would drive up the Brentwood system revenue requirement and increase the currently
6 estimated 16.5% increase. This timeline of plant addition is currently how systems
7 are added through the 1329 process and claims are made in the subsequent base rate
8 cases. These additional years and plant additions will increase the revenue
9 requirement of the Brentwood system and potentially increase the subsidy that PAWC
10 will request be provided from PAWC water customers.

11
12 **Q. ARE YOU RECOMMENDING PAWC CHANGE ITS CUSTOMER NOTICE?**

13 A. No. As noted on pages 11-12 of PAWC Statement No. 3, the customer notices were
14 prepared in accordance with the terms agreed to by the parties, including I&E, in the
15 settlement of the Steelton Borough Authority acquisition and approved by the
16 Commission in the subsequent Order.⁸ However, I believe it is important to point out
17 that the revenue requirement in the first base rate case could justify a larger increase
18 than what customers have been noticed for and that information should be included
19 on the record in this proceeding.

⁸ Application of Pennsylvania-American Water Company Pursuant to Sections 1102 and 1329 of the Public Code for Approval of its Acquisition of the Water System Assets of the Steelton Borough Authority, Docket No. A-2019-3006880 (Opinion and Order entered October 3, 2019).

1 **Q. HOW MUCH DOES PAWC PLAN TO INVEST IN THE BRENTWOOD**
2 **SYSTEM OVER THE NEXT FIVE YEARS?**

3 A. PAWC states that it plans to invest \$8,055,000 in the wastewater system over the next
4 five years (2024-2028) (PAWC St. No. 2, Ex. DJH-2). Considering the \$19,643,443
5 rate base claimed in this filing, the \$8,055,000 equates to a proportionally large
6 increase in the rate base of approximately 41% ($\$8,055,000 / \$19,643,443$).

7
8 **Q. WILL THE AGE OF THE SYSTEM AND PAWC'S PLAN TO INVEST OVER**
9 **\$8 MILLION IN THE NEXT FIVE YEARS CAUSE THE REVENUE**
10 **REQUIREMENT TO INCREASE MORE THAN DESCRIBED ABOVE?**

11 A. Yes. Since the approximately \$8 million is not reflected in the 16.5% increase
12 described above, the revenue requirement for Brentwood and the rates paid by
13 Brentwood customers will need to increase to recover the return, taxes, and
14 depreciation expense related to these plant additions.

15
16 **Q. WHAT OTHER FACTOR COULD CAUSE THE REVENUE REQUIREMENT**
17 **TO INCREASE MORE THAN DESCRIBED ABOVE?**

18 A. After the purchase of Brentwood, the customers will be part of the PAWC wastewater
19 system. This inclusion allows the cost to upgrade and maintain existing systems, or
20 newly acquired systems to be spread over the other customers including Brentwood
21 customers even if the rates in the Brentwood system recover the cost of providing
22 service in the Brentwood system. These potential costs and corresponding revenue
23 shortfalls are not reflected in the 16.5% increase described above. Therefore, the

1 revenue requirement for Brentwood and the rates paid by Brentwood customers will
2 most likely increase as PAWC acquires more systems and makes upgrades to existing
3 systems.

4
5 **Q. IS IT POSSIBLE TO DETERMINE IF THE PROJECTED INCREASE IN**
6 **THIS APPLICATION IS REASONABLE?**

7 A. Yes, this can be done by comparing projected revenue increases estimated in recent
8 applications with the actual respective increase proposed in the latest PAWC
9 wastewater base rate case at R-2022-303173. Based upon this comparison, it can be
10 seen that the projected revenue increase in each case was less than the increase
11 calculated for the respective system (I&E Ex. No. 1, Sch. 3). This comparison shows
12 that PAWC has a history of under projecting rate increases to customers in the
13 application proceedings.

14
15 **Q. WHAT IS THE BASIS FOR I&E EXHIBIT NO. 1, SCHEDULE 3?**

16 A. This schedule is based upon PAWC St. No. 1-R, revised 3-A, p. 1 provided in the last
17 PAWC base rate case at Dockets R-2022-3031672 and R-2022-3031673 as I&E Ex.
18 No. 1, Sch. 3. For comparison, this summary sheet includes the revenue increase
19 each system was projected to receive in the next base rate case in each Application.
20 The projected increase in each Application before any allocation to PAWC's water
21 customers is shown on line 2, the allocation to PAWC water customers is shown on
22 line 5, and the projected increase to each system after the allocation to PAWC water
23 customers is shown on line 6.

1 **Q. IN RETROSPECT, DID PAWC DO A REASONABLE JOB OF PROJECTING**
2 **THE INCREASES IN THE ROYERSFORD, UPPER POTTS GROVE OR**
3 **YORK WASTEWATER SYSTEMS?**

4 A. No. In the Royersford Application, at Docket A-2020-3019634, PAWC projected an
5 increase of \$1,102,000; however, in the first base rate case, PAWC showed an actual
6 increase of \$2,061,092 (I&E Ex. 1, Sch. 3, column B and Sch. 4, pp. 1-3)⁹. Similarly,
7 in the Upper Pottsgrove Application, at Docket A-2020-3021460, PAWC projected an
8 increase of \$1,002,000. In the first base rate case, PAWC showed an actual increase
9 of \$1,471,196 (I&E Ex. 1, Sch. 3, column C and Sch. 4, pp. 4-6). Finally, in the York
10 Wastewater Application, at Docket A-2021-3024681, PAWC projected an increase of
11 \$17,557,000. In the first base rate case even before the York system was acquired,
12 the actual increase was \$23,248,247 (I&E Ex. 1, Sch. 3, column D and Sch. 4, pp. 7-
13 9). Based upon these comparisons, it can be seen that the projected revenue increase
14 in each case was less than the increase in the first base rate case for the respective
15 systems (I&E Ex. No. 1, Sch. 3, rows 2 and 9). This comparison shows that PAWC
16 has a history of under projecting the revenue shortfall in the first base rate case after
17 these systems were acquired.

18
19 **Q. WHAT DO LINES 15 THROUGH 21 OF I&E EXHIBIT NO. 1, SCHEDULE 3**
20 **SHOW?**

21 A. I&E Ex. No. 3, Sch. 3 show the present rate revenue for these systems, the additional

⁹ Note that in the Royersford Application, PAWC reflected the incorrect docket number of A-2020-3014248 on the schedules, which are reflected on I&E Ex. 1, Sch. 4, pp. 1-2.

1 revenue agreed to in settlement, the allocation of the revenue shortfall to PAWC
2 water customers (I&E Ex. No. 1, Sch. 3, lines 15-19). The increase agreed to in
3 settlement is shown on I&E Ex. No. 1, Sch. 3, line 20. Comparing the planned Act 11
4 allocation of \$9,746,340 on line 6 with the settlement Act 11 allocation of
5 \$14,337,777 on line 20 shows how far PAWC under projected the revenue shortfall
6 that will be recovered from water customers when these Applications were filed.
7

8 **Q. DOES THIS COMPARISON FURTHER SUPPORT YOUR BELIEF THAT**
9 **FUTURE RATE INCREASES ARE UNDERSTATED?**

10 A. Yes. While it's not possible to accurately predict future revenue increases and rates,
11 this comparison shows that in the most recent PAWC wastewater base rate case, the
12 projected revenue requirement of the most recent three systems acquired were all
13 understated in their respective Applications. Therefore, this comparison further
14 supports my belief that the projected rate increase in this Application is also
15 understated.
16

17 **Q. PLEASE SUMMARIZE THE RATIONALE FOR RECOMMENDING THAT**
18 **THE TWO-YEAR RATE INCREASE MORATORIUM NOT BE APPROVED**
19 **BY THE COMMISSION?**

20 A. As I discussed above, the two-year rate moratorium is only enforceable inasmuch as it
21 must be proposed by PAWC in its next base rate filing; the rates, however, will
22 ultimately be set by the Commission regardless of this proposal. Additionally, if
23 PAWC files a base rate increase within the two-year moratorium PAWC will seek to

1 recover the entire Brentwood system revenue shortfall from water customers.
2 Therefore, the only meaningful result of keeping the rate freeze in the Application is
3 to keep the Brentwood system's revenue requirement artificially low through the first
4 one or two rate cases by shifting it to existing PAWC water and/or wastewater
5 customers. This is not in the public interest as it misleads customers with skewed
6 information about the real costs and impacts of the transaction, leaving Brentwood
7 customers to face a potentially extreme rate increase after the expiration of the
8 moratorium. It is also disingenuous to mislead customers by making them believe
9 that their rates would be frozen for an assured period of time. That false promise
10 could cause customers to look more favorably on the proposed acquisition, at least in
11 the short term. Overall, any rate freeze is not in the public interest and, as such, the
12 two-year rate moratorium should not be approved by the Commission.
13

14 **OVERALL RECOMMENDATIONS**

15 **Q. WHAT IS I&E'S OVERALL RECOMMENDATION?**

16 A. As I explained above, I&E's overall recommendation is that the Commission reject
17 PAWC's Application for the following reasons:

- 18 • The Application does not provide sufficient affirmative public benefit for the
19 reasons stated above.
- 20 • PAWC failed to identify and remove the plant from rate base used to serve the so
21 called "non-customers" to establish a rate base in this proceeding. Therefore,
22 this Application cannot be approved because the purchase price \$19,363,443

1 includes plant that will not be “used and useful” in the provision of service to
2 customers.

3 If the Commission does not grant I&E’s primary recommendation and approves the
4 Application, I&E recommends that it be approved with the following conditions:

- 5 • PAWC must be required to identify and remove the plant from rate base used to
6 serve the so called “non-customers” to establish a rate base in this proceeding.
7 This will result in a lower rate base than the \$19,363,443 requested by the
8 Company.
- 9 • PAWC should provide a separate cost of service study for the Brentwood system
10 in all future rate cases that identifies and removes the current and future plant,
11 and corresponding expenses used to serve the so called “non-customers” that is
12 included in the Brentwood plant, return dollars, taxes and expenses.
- 13 • PAWC should not be permitted to pay any of the Brentwood legal and
14 engineering costs, and not be permitted to recover these costs in the future.
- 15 • The two-year rate freeze should not be approved,
- 16 • The Commission should affirm that future base rate increases in the Brentwood
17 system are likely to be higher than projected by PAWC.

18
19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes. However, I reserve the right to supplement or revise my recommendations if
21 additional information is received that would alter my position in this direct testimony.

Joseph Kubas

Professional Experience and Educational Background

- Education:** Bachelor of Science in Civil Engineering Technology, 1985
University of Pittsburgh at Johnstown, Johnstown, PA.
- Continuing Education:** Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, 33 Credit hours of accounting at the Howard County Community College and the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.
- Professional:** Engineer In Training, 1985
- Exams:** Uniform Certified Public Accounting Exam, 1993
- Rate School:** Cost of Service - Rate Structure & Rate Design instructor at Commission's Rate School - September 2010, 2012, 2014, 2016 and 2022
- Title:** **RATE CASE REVIEW SPECIALIST - ANNUITANT**
July 2023 – Present
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
- Duties:** Provide consultation and assist the Bureau of I&E in the areas of Engineering, Revenue and Rate Structure for all fixed utility types. This includes measure of value claims, rate structure and rates, revenue annualizations, depreciation claims, fuel purchasing practices and economic analyses. The types of dockets reviewed by the Bureau of I&E included applications, formal complaints, investigations, applications, petitions and rate investigations. The review includes analyzing all pertinent supporting information such as cost of service studies, bill frequency analyses, proofs of revenue schedules, depreciation studies, water quality test results and formal complaints.
- Title:** **FIXED UTILITY VALUATION ENGINEER SUPERVISOR**
December 2011 – June 2023
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
- Duties:** Duties included the areas of Engineering, Revenue and Rate Structure for all fixed utility types. During the course of formal and informal investigations personnel under my direction were responsible for reviewing and presenting recommendations regarding tariff rate schedules, tariff rules and regulations, measures of value claims, revenue annualizations, depreciation claims, fuel purchasing practices and economic analyses. The types of dockets reviewed by the Bureau of I&E included: applications, formal complaints, investigations, petitions, and rate investigations. The Engineering Section was also responsible for reviewing all pertinent supporting information such as cost of service studies, bill frequency analyses, proofs of revenue, depreciation studies, water quality test results and formal complaints. Duties also included reviewing default service petitions by electric distribution companies and Act 129 Filings by the seven major electric Utilities, including energy efficiency and conservation plans and Smart Meter Plans.

Title: **RATE CASE REVIEW SPECIALIST**
December 2009 - December 2011
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement and Office of Trial Staff

Duties: These duties included the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of establishing the I&E position in formal and informal proceedings before the Commission. Provide assistance and input to I&E employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Title: **FIXED UTILITY VALUATION ENGINEER III**
December 1999 - December 2009
Pennsylvania Public Utility Commission
Office of Trial Staff

Duties: These duties included the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of establishing the OTS position in formal and informal proceedings before the Commission. Provide assistance and input to OTS employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

- Title:** **FIXED UTILITY VALUATION ENGINEER II**
April 1996 - December 1999
Pennsylvania Public Utility Commission
Office of Trial Staff and Bureau of Fixed Utility Services
- Duties:** Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trail Staff (OTS) and Bureau of Fixed Utility Services.
- Title:** **FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II**
May 1993 - March 1996
Pennsylvania Public Utility Commission
Office of Trial Staff
Telecommunications and Water Division
- Duties:** Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).
- Title:** **CIVIL ENGINEER**
May 1985 - January 1991
Clark Finefrock & Sackett Inc.
7135 Minstrel Way
Columbia, MD 21045
- Duties:** Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

Testimony Before the Pennsylvania Public Utility Commission

- | | | |
|-----|--|------------------|
| 1. | National Utilities Inc. (Water) | R-00953416 |
| 2. | Consumer Pennsylvania Water Company - Roaring Creek Division | R-00973869 |
| 3. | Philadelphia Suburban Water Company | R-00973952 |
| 4. | Bell Atlantic - Pennsylvania Inc. | P-00971307 |
| 5. | City of Bethlehem- Bureau of Water | R-00984375 |
| 6. | Pennsylvania Telephone Association - Chapter 30 Plan | P-00981425 |
| 7. | GTE North Inc. Telephone Chapter 30 Plan | P-00981449 |
| 8. | Pennsylvania American Water Co. | R-00994638 |
| 9. | Philadelphia Suburban Water Co. | R-00994868 |
| 10. | PG Energy (Gas) | R-00005119 |
| 11. | Pennsylvania American Water - Coatesville Acquisition | A-212285-F0071 |
| 12. | T. W Phillips Gas and Oil Company | R-00005459 |
| 13. | Verizon North - Chapter 30 Plan | P-00001854 |
| 14. | Philadelphia Gas Works | R-00006042 |
| 15. | PFG Gas Inc. & Penn Fuels Gas Co. | R-00013679 |
| 16. | Pennsylvania American Water Co. | R-00016339 |
| 17. | Philadelphia Suburban Water Co. | R-00016750 |
| 18. | Philadelphia Gas Works | R-00017034 |
| 19. | PFG Gas Inc. & Penn Fuels Gas Co | R-00027389 |
| 20. | Verizon - Pennsylvania, Inc. | P-00021973 |
| 21. | Verizon - Pennsylvania, Inc. | P-00937105-F0002 |
| 22. | Pennsylvania American Water Co. | R-00027982 |
| 23. | Dominion Peoples 1307(f) | R-00038170 |

24.	Verizon PA / Verizon North	C-20027195
25.	National Fuel Gas Distribution, Inc.	R-00038168
26.	Aqua Pennsylvania Inc.	R-00038805
27.	Dominion Peoples 1307 (f)	R-00049153
28.	PPL Electric Utilities	R-00049255
29.	National Fuel Gas Distribution, Inc.	R-00049656
30.	City of Lancaster - Sewer	R-00049862
31.	Dominion Peoples 1307(f)	R-00050267
32.	Verizon PA / Verizon North	C-20027195
33.	PPL Gas Utilities Inc. 1307(f)	R-00050540
34.	United Telephone	A-313200-F0007
35.	Aqua Pa	R-00051030
36.	T.W. Phillips 1307(f)	R-00051134
37.	City of Dubois	R-00050671
38.	T.W. Phillips	R-00051178
39.	The Peoples Natural Gas Co. 1307(f)	R-00061301
40.	Meted/Penelec	R-00061366 and R-00061367
41.	The York Water Company	R-00061322
42.	PPL Gas Utilities Corporation	R-00061398
43.	National Fuel Gas Distribution, Inc.	R-00061493
44.	Pennsylvania American Water Co.	P-00062241
45.	Philadelphia Gas Works	R-00061931
46.	PPL Electric	R-00072155
47.	Pennsylvania-American Water Co.	R-00072229
48.	Valley Energy	R-00072349
49.	City of Bethlehem	R-00072492
50.	Aqua Pennsylvania, Inc.	R-00072711
51.	T.W. Phillips 1307(f)	R-2008-2013026
52.	Columbia Gas	R-2008-2011621
53.	The Peoples Natural Gas Co. 1307(f)	R-2008-2022206
54.	PECO Energy	P-2008-2032333
55.	NRG Energy Center Harrisburg	R-2008-2028395
56.	PAWC - Coatesville Wastewater	R-2008-2032689
57.	York Water	R-2008-2023067
58.	Pike County Power and Light (Gas)	R-2008-2046520
59.	Columbia Water	R-2008-2045157
60.	T. W. Phillips Gas (1307-f)	R-2008-2075250
61.	The Peoples Natural Gas Co. (1307-f)	R-2009-2088069
62.	UGI Utilities Inc. (1307-f)	R-2009-2105911
63.	PAWC Water	R-2009-2097323
64.	UGI Utilities Inc.	R-2009-2105911
65.	Penn Estates Water	R-2009-2117532
66.	Penn Estates Sewer	R-2009-2117740
67.	AT&T Communications	C-2009-2098380
68.	Aqua Pennsylvania Inc.	R-2009-2132019
69.	T.W. Phillips Gas (1307-f)	R-2009-2145441
70.	PGW Gas	R-2009-2139884
71.	City of Bethlehem - Remand	R-00072492
72.	Dominion Peoples (1307-f)	R-2010-2155608
73.	PECO Energy - Gas Division	R-2010-2161592
74.	UGI Penn National Gas	R-2010-2172928
75.	PAWC Coatesville Operations	R-2010-2166212
76.	PAWC Northeast Operations	R-2010-2166214

77.	Duquesne Light	R-2010-2179522
78.	Peoples Natural Gas Company	R-2010-2201702
79.	T.W. Phillips - Steel River Application	A-2010-2210326
80.	Peoples Natural Gas 1307(f)	R-2011-2228694
81.	UGI Penn Natural Gas 1307(f)	R-2011-2238943
82.	Pennsylvania American Water	R-2011-2232243
83.	Aqua Pennsylvania, Inc.	R-2011-2267958
84.	Borough of Quakertown	R-2011-2251181
85.	Peoples Natural Gas Company	R-2012-2285985
86.	Columbia Gas of Pennsylvania	R-2012-2321748
87.	UGI Utilities Inc.	R-2015-2518438
88.	Aqua Wastewater	A-2017-2605434
89.	Pennsylvania American Water	R-2017-2595853
90.	UGI Electric	R-2017-2640058
91.	PECO Electric	R-2018-3000164
92.	York Water Company	R-2018-3000019
93.	Penn Power	P-2019-3012628
94.	Aqua-PA -New Garden Twp	A-2019-2580061
95.	UGI Gas	R-2019-3015162
96.	Pittsburgh Water and Sewer Auth.	P-2020-3019019
97.	PAWC Wastewater	R-2020-3019371
98.	Aqua PA Wastewater	R-2021-3027386
99.	PECO Electric	R-2021-3024601
100.	Borough of Ambler	R-2022-3031704

I&E Exhibit No. 1
Witness: Joseph Kubas

**Application of Pennsylvania American Water Company Pursuant to Sections 1102(a),
and 1329 of the Public Utility Code for its Acquisition of the Water System Assets of
Borough of Brentwood**

Docket No. A-2021-3024058

**Exhibits to Accompany
the
Direct Testimony
of
Joseph Kubas
Bureau of Investigation and Enforcement**

Concerning:

**Public Benefit Concerns
Rate Base Determination
Closing Costs
Cost of Service Study
Miscellaneous Revenue**



Elizabeth Rose Triscari
 Director, Corporate Counsel
 852 Wesley Drive | Mechanicsburg, PA 17055
 Phone: 717-550-1574 | Fax: 717-550-1255
elizabeth.triscari@amwater.com

I&E Exhibit No. 1
 Schedule 1
 Page 1 of 4

May 2, 2023

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
 Pennsylvania Public Utility Commission
 Commonwealth Keystone Building
 400 North Street
 Harrisburg, PA 17105-3265

In re: In re: Application of Pennsylvania-American Water Company under Section 1102(a) and 1329 of the Pennsylvania Public Utility Code, 66 Pa C.S. §§ 1102(a) and 1329, for approval of (1) the transfer, by sale, to Pennsylvania-American Water Company, of substantially all of the assets, properties and rights related to the wastewater collection and conveyance system owned by Borough of Brentwood, (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in the Borough of Brentwood in Allegheny County, Pennsylvania

Docket No: A-2021-3024058

Dear Secretary Chiavetta:

Enclosed for filing are the Responses of Pennsylvania-American Water Company ("PAWC") to the 66 Pa. C.S. Section 1329 Application Completeness Review of Pennsylvania-American Water Company – Wastewater Division Acquisition of the Borough of Brentwood's Assets at Docket No. A-2021-3024058 Missing Application Information, dated April 18, 2023.

Copies are being served upon the statutory advocates in accordance with the attached Certificate of Service and in accordance with the Commission's *Final Supplemental Implementation Order* entered February 28, 2019 at Docket No. M-2016-2543193.

PAWC respectfully requests that the Secretarial Letter conditionally accepting the Application for filing provide a due date for protests and notices of intervention, which is required on the form of notice approved by the Commission in *Application of Pennsylvania-American Water Company*

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division Acquisition of
Brentwood Borough Wastewater System Assets at Docket No. A-2021-3024058

I&E Exhibit No. 1
Schedule 1
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1. Checklist Item Nos. 12 and 25 – In the Application’s Appendix A-14-a – PAWC Statement No. 2, Page 6, Mr. Hufton indicated that the Borough of Brentwood (Brentwood) receives sewage from Whitehall Borough and the City of Pittsburgh (together, the Upstream Municipalities). Also, Mr. Hufton specified that there are no intermunicipal agreements governing the terms of the discharge of sewage between Brentwood and the Upstream Municipalities and that Brentwood does not charge Upstream Municipalities. However, Pennsylvania-American Water Company – Wastewater Division’s (PAWC-WD’s) pro forma tariff supplement included in the Application’s Appendix A-12 does not include a \$0 rate for Upstream Municipalities, and PAWC-WD’s response for Checklist Item No. 25 included in the Application’s Appendix A-25 does not include copies of executed or pro forma agreements between PAWC-WD and each Upstream Municipality governing the terms of PAWC-WD’s receipt of sewage from each Upstream Municipality. Please either amend the Application’s Appendix A-12 to include rates for Upstream Municipalities that are equal to Brentwood’s existing rates at the time of acquisition or amend the Application’s Appendix A-25 to include copies of executed or pro forma agreements between PAWC-WD and each Upstream Municipality governing the terms of the PAWC-WD’s receipt of sewage from each Upstream Municipality

Response:

PAWC cannot set a tariffed rate for Upstream Municipalities because those municipalities are not customers of PAWC (just as PAWC is not a customer of Downstream Municipalities). All municipalities in the Allegheny County Sanitary Authority (“ALCOSAN”) bulk treatment service area are subject to what are essentially uniform Z Agreements that have been executed between ALCOSAN and the municipalities and have been in effect since 1949. For a more-detailed description of the Z Agreements, see the Direct Testimony of Daniel J. Hufton, P.E., PAWC Statement No. 2 pp. 8-9, the Direct Testimony of Michael J. Salvo, PAWC Statement No. 1 pp. 9-10, and the Cooperation and Allocation of Responsibilities Agreement between Brentwood and PAWC, **Appendix A-25.3**, which includes as Exhibit A the Brentwood/ALCOSAN Z Agreement.

The Z Agreements for all municipalities are substantively the same and require the establishment of a regional interceptor system through the use of municipal trunk lines for the transport of bulk flow to the ALCOSAN treatment facility. The establishment of the ALCOSAN regional interceptor system is described in the preamble, pp. 1-5 of the Z Agreement.

In light of the regional interceptor system established by the Z Agreements, PAWC should not be required to establish a tariffed rate of \$0 for Upstream Municipalities (or ALCOSAN) in this acquisition proceeding. The Z Agreements do not contemplate charges for the use of trunk lines for the ALCOSAN regional interceptor system. PAWC has no authority to collect a tariffed rate from Upstream

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division Acquisition of
Brentwood Borough Wastewater System Assets at Docket No. A-2021-3024058

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Municipalities (or ALCOSAN) under the ALCOSAN comprehensive service arrangement that has been memorialized for more than seven decades in the Z Agreements. The Z Agreements are consistent with regard to the respective rights and obligations of the municipalities and are mutually-beneficial to all involved municipalities receiving bulk service from ALCOSAN.

The use of the Brentwood trunk lines by Upstream Municipalities under the ALCOSAN regional interceptor system would not be “public utility” service by PAWC because any bulk transportation would not be provided for the public for compensation. *See* 66 Pa. C.S. § 102 (defining a wastewater public utility as providing service “for the public for compensation”). Under the practice that has been in place since execution of the Z Agreements, the communities who own and operate trunk lines within their respective boundaries do not charge the other Z Agreement communities charges for conveyance of sewage (although as discussed below in the response to Completeness Review Item No. 6, the communities have entered into intermunicipal agreement providing for cost-sharing of certain improvement and major repair projects on such intermunicipal trunk lines). Hence, there is no compensation that will be exchanged between PAWC and the Upstream Municipalities. As such, inclusion of a \$0 “rate” in PAWC’s *pro forma* tariff supplement would be improper under the Pennsylvania Public Utility Code (“Code”). *See id.* § 102 (defining “rate” as compensation for a public utility service).

Capital projects related to improvements to or major repair/replacement of the trunk lines will be handled via negotiated capital contribution agreements (similar to the existing “Streets Run” agreements described in the response to Completeness Review Item No. 6 regarding Downstream Municipalities) and will be subject to Commission review under Section 507 of the Code to ensure that they are in the public interest. *See id.* § 507 (requiring Commission review of contracts between a public utility and a municipal corporation).

As explained in the direct testimony of PAWC witness Daniel J. Hufton, P.E., PAWC Statement No. 2, pp. 14-15, any required capital investment for maintenance of the trunk lines will be handled via contribution contracts negotiated by PAWC with the involved municipalities and ALCOSAN. Capital investment in the trunk lines has historically been handled by Brentwood in such a manner. For example, see the July 19, 2000 Streets Run Sewer Joint Management Agreement in **Appendix A-25.2**. Such contributions further mitigate the need for a tariffed bulk rate for Upstream Municipalities.

PAWC further contends that a tariff that is silent as to a rate means that a rate cannot be charged, *i.e.*, there is no charge. Here, there is no good reason to include a \$0 rate in the tariff and arguably upset the ALCOSAN regional interceptor arrangement set forth in the Z Agreements when the effect of silence is the same, from a practical perspective, as a \$0 rate.

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division Acquisition of
Brentwood Borough Wastewater System Assets at Docket No. A-2021-3024058

I&E Exhibit No. 1
Schedule 1
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With regard to the suggestion that, rather than amending PAWC's proposed tariff, PAWC-WD should submit executed or *pro forma* agreements with each Upstream Municipality, PAWC disagrees for the reasons explained in response to Completeness Review Item No. 6.

Finally, during its completeness review of a Section 1329 Application, the Bureau of Technical Utility Services ("TUS") does not have authority to make substantive determinations:

The Commission would clarify here that the Bureau of Technical Utility Services does not review the veracity or substantive quality of information that an applicant may submit to fulfill the threshold requirements of the Application Checklist. The Bureau of Technical Utility Services is to evaluate only whether the Application Checklist is complete and responsive to the data requested. It shall not refuse to perfect an application on the basis that the Bureau is dissatisfied with the quality of the items submitted in response, or whether additional information may later be required.

Implementation of Section 1329 of the Public Utility Code, Docket No. M-2016-2543193 (Final Supplemental Implementation Order entered February 28, 2019) p. 9 (quoting with approval the Tentative Supplemental Implementation Order, p. 15). Whether a \$0 rate for Upstream Municipalities is an "existing rate" for the purposes of Section 1329 that must be adopted in PAWC's tariff upon closing of the transaction is a substantive determination that clearly exceeds the authority of TUS in reviewing a Section 1329 application for completeness. This issue is properly decided by the Commission after the development of an evidentiary record and a recommended decision by the presiding officer, not unilaterally by TUS at this early stage of the proceeding and without adequate due process. It is not appropriate for TUS to force PAWC to submit a *pro forma* tariff that is contrary to its stated legal position in order to get conditional acceptance of the application and avoid rejection.

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Brentwood**

I&E Exhibit No. 1
Schedule 2
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Docket No. A-2021-3024058

PAWC Responses to Set I Interrogatories

Propounded by Bureau of Investigation and Enforcement

I&E-I-1

Reference the Company's response to Question 1 submitted to the Commission on May 2, 2023, concerning the claim that the provision of service by the Borough of Brentwood (Brentwood) to Whitehall Borough and the City of Pittsburgh (together, the Upstream Municipalities) do not constitute utility service.

- A. Explain if the \$19,364,443 purchase price includes the purchase of plant the plant referenced above that will not used in the provision of utility service.
- B. If plant was excluded, provide the value of this plant excluded and a breakdown of the plant excluded, and describe how the excluded plant was determined.
- C. If this plant is included, explain why it is reasonable that the requested rate base of \$19,363,443 includes plant that will be not used in the provision of utility service.
- D. Identify the plant and original cost listed on Appendix A-15-a that is used to provide service to the upstream municipalities.

Response:

- A. The plant referenced in PAWC's response to Question 1 submitted to the Commission on May 2, 2023 ("Question 1 Response") are sewer collection lines that are currently owned and operated by Brentwood and will be owned and operated by PAWC after closing of the transaction. All of these sewer collection lines will be used and useful in the provision of public utility wastewater collection service to customers of the Brentwood wastewater collection system ("System").

As explained in detail in the Question 1 Response, the sewer collection lines are also used to collect bulk wastewater from the Upstream Municipalities for ultimate conveyance to the ALCOSAN wastewater treatment plant; just as Brentwood's bulk wastewater is collected and conveyed to the ALCOSAN wastewater treatment plant via the sewer collection lines of downstream municipalities (the "Downstream Municipalities"). Through "Z Agreements" between ALCOSAN and the

Docket No. A-2021-3024058

PAWC Responses to Set I Interrogatories

Propounded by Bureau of Investigation and Enforcement

municipalities (as defined and explained in the Question 1 Response), ALCOSAN has established a regional interceptor system to convey the wastewater of 83 neighboring municipalities to its treatment plant. This regional interceptor system has been in place for nearly seven decades and is mutually-beneficial to the participating municipalities. Because of this mutual benefit, the municipalities have not charged for the collection and conveyance of bulk wastewater from other municipalities.

Question 1 specifically relates to whether PAWC should be required to propose tariffed rates for the bulk collection and conveyance of wastewater of the Upstream Municipalities. However, as explained in the Question 1 Response, no further contracts are necessary because of the Z Agreements and “Streets Agreements,” and no tariffed rates are necessary because service will be provided by PAWC to the Upstream Municipalities without charge – just as the Downstream Municipalities will not charge PAWC for collection and for conveyance to the ALCOSAN treatment plant. Section 102 of the Pennsylvania Public Utility Code (“Code”) defines wastewater “public utility” service as collecting wastewater “for the public *for compensation*.” 66 Pa. C.S. § 102 (emphasis added).

While the collection and conveyance service will be provided by PAWC to Upstream Municipalities, I am advised by counsel that it should not be considered “public utility” service under the Code because there will be no “compensation” for the service. It does not mean, however, that the sewer collection lines are not “used and useful” in the provision of public utility service to System customers.

The sewer collection lines will be “used and useful” in the provision of “public utility” service for two main reasons. First, the lines are directly used for “public utility” wastewater service to Brentwood System customers. System feeder lines and customer service lines connect directly to the sewer collection lines. Second, the sewer collection lines are used for the mutually-beneficial regional interceptor system established by ALCOSAN and the Z Agreements – which benefits System customers by providing a means for the logical and economic transfer and treatment of their wastewater. Without the regional interceptor system, PAWC would not be able to provide service to System customers (absent the construction of a costly new treatment plant). Mutual use of the regional interceptor system is necessary for

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Brentwood**

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PAWC Responses to Set I Interrogatories

Propounded by Bureau of Investigation and Enforcement

ALCOSAN to provide treatment service to the numerous collection systems in the Pittsburgh area.

For these reasons, the sewer collection lines are plant that is “used and useful” in the provision of public utility service to System customers. The value of the sewer collection lines was properly factored into the purchase price and the fair market value appraisals. Acquisition of all the sewer collection lines is necessary and proper for the service, accommodation, and convenience of the public.

- B. Please see PAWC’s response to I&E I-1-A above. The plant, its importance to System customers, and its use in the ALCOSAN regional interceptor systems were all factored into the purchase price.
- C. Please see PAWC’s response to I&E-I-1-A above. All plant was included in the requested fair market value rate base because the plant is used and useful in the provision of public utility service to System customers and is necessary and proper for the service, accommodation, and convenience of the public. For the reasons stated in PAWC’s response to I&E-I-1-A, the plant was fully included in the Engineer’s Assessment upon which the Utility Valuation Experts relied in preparing their appraisals of the System.
- D. This type of analysis has not been performed and due to the many mutually beneficial sewer collection lines would be a lengthy undertaking.

**Responsible Witness: Michael Salvo, Senior Manager – Business Development
Pennsylvania American Water Company**

Date: June 1, 2023

Pennsylvania-American Water Company
A-2022-3034058

Comparison of Royersford, Upper Pottsgrove and York Wastewater System Revenue
Comparison of Rebuttal - Rate Case and Settlement Revenue

	Royersford Wastewater Operations	Upper Pottsgrove Wastewater Operations	York Wastewater Operations	Total 3 Systems Wastewater Operations
(A)	(B)	(C)	(D)	(E)
1 Application Present Rate Revenue	\$852,000	\$1,285,000	\$18,487,000	\$20,624,000
2 Application Projected Increase	\$1,102,000	\$1,002,000	\$17,557,000	\$19,661,000
3 Application Proposed Revenue	\$1,954,000	\$2,287,000	\$36,044,000	\$40,285,000
4 Application Percentage Increase	129.3%	78.0%	95.0%	95.3%
5 Act 11 Reduction	-\$506,920	-\$460,920	-\$8,778,500	-\$9,746,340
6 Planned Increase After Act 11	\$595,080	\$541,080	\$8,778,500	\$9,914,660
7 Planned Percentage Increase	69.8%	42.1%	47.5%	48.1%
<u>R-2022-3031673 Rebuttal</u>				
8 Rate Case Present Rate Revenue	\$820,868	\$1,349,190	\$18,755,982	\$20,926,040
9 Rate Case Additional Revenue	\$2,061,022	\$1,471,196	\$23,248,247	\$26,780,465
10 Rate Case Full Proposed Revenue	\$2,881,890	\$2,820,386	\$42,004,229	\$47,706,505
11 Rate Case Percentage Increase	251.1%	109.0%	124.0%	128.0%
12 Act 11 Reduction	-\$1,490,654	-\$848,492	-\$18,825,000	-\$21,164,146
13 Planned Increase After Act 11	\$570,368	\$622,704	\$4,423,247	\$5,616,319
14 Planned Percentage Increase	69.5%	46.2%	23.6%	26.8%
<u>R-2022-3031673 Settlement</u>				
15 Rate Case Present Rate Revenue	\$820,868	\$1,349,190	\$18,755,982	\$20,926,040
16 Settlement Additional Revenue	\$1,946,621	\$1,347,476	\$19,505,813	\$22,799,910
17 Settlement Proposed Revenue	\$2,767,489	\$2,696,666	\$38,261,795	\$43,725,950
18 Settlement Percentage Increase	237.1%	99.9%	104.0%	109.0%
19 Act 11 Reduction	-\$1,328,921	-\$496,447	-\$12,512,409	-\$14,337,777
20 Settlement Increase After Act 11	\$617,700	\$851,029	\$6,993,404	\$8,462,133
21 Settlement Percentage Increase	75.2%	63.1%	37.3%	40.4%

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) 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 :
Royersford Borough assets, properties and rights related : Docket No. A-2020-3014248, et al
to its wastewater collection and treatment system to :
Pennsylvania-American Water Company, and (2) the :
rights of Pennsylvania-American Water Company to :
begin to offer or furnish wastewater service to the public :
in the Royersford Borough and a portion of Upper :
Providence Township, Montgomery County, :
Pennsylvania :

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: July 14, 2020

PAWC Statement No. 3

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Royersford Borough
Docket No. A-2020-3014248

Revenue Requirement Increase

Rate Base	\$ 13,000,000	Appendix A-11
Rate of Return %	7.12%	See Calculations
Rate of Return	926,000	
O&M	373,000	Appendix K
Taxes Other	31,000	Appendix K
Depreciation	398,000	Appendix K
Taxes	226,000	See Calculations
Revenue Requirement	1,954,000	
Royersford Year-1 Revenues	852,000	Appendix K
Revenue Requirement Increase	1,102,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Royersford Borough
Docket No. A-2020-3014248

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 1,102,000
Act 11 Percentage (R-2017-2595853 Proof of Revenues)	46%
Amount of increase allocated to water through Act 11	506,920
Amount of increase allocated to wastewater customers	\$ 595,080

Full COS - 100% of Increase applied to Royersford Borough Wastewater Customers	
Revenue Requirement Increase - After Act 11	\$ 595,080
Current Borough of Royersford wastewater revenues	852,000
Estimated Increase to wastewater customers	69.8%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 595,080
Current Borough of Royersford wastewater revenues	852,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)	26,162,360
	27,014,360
Estimated Increase to wastewater customers	2.2%

Amount of increase allocated to water customers:	
Revenue Requirement Increase	\$ 506,920
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)	650,769,554
Estimated Increase to Water Customers	0.1%

Pennsylvania American Water Company									
R-2017-2595853 - Proof of Revenues									
Act 11 Allocation									
	Water	Wastewater		Scranton		Combined		Total	
	Operations	Excluding		Wastewater		Wastewater		Company	
		Scranton							
Additional Annual Operating Revenue Before Act 11	\$ 51,581,090	\$ 5,290,300		\$ 4,977,893		\$ 10,268,193		\$ 61,849,283	
ACT 11 Allocation - WW COS Recovered from Water	4,700,000	(2,383,000)	45%	(2,317,000)	47%	(4,700,000)	46%	\$ -	
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	53%	5,568,193	54%	61,849,283	

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water Company :
under Section 1102(a) of the Pennsylvania Public Utility Code, :
66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, :
of substantially all of Upper Pottsgrove's assets, properties and :
rights related to its wastewater collection and conveyance :
system to Pennsylvania-American Water Company, and (2) :
the rights of Pennsylvania-American Water Company to begin :
to offer or furnish wastewater service to the public in Upper :
Pottsgrove Township, Montgomery County and portions of :
Douglass Township, Chester County, Pennsylvania. :

Docket No. A-2020-3021460

**DIRECT TESTIMONY OF
ROD P. NEVIRASUKAS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: November 24, 2020

PAWC Statement No. 3

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Revenue Requirement Increase

Rate Base	\$	13,750,000	Appendix A-11
Rate of Return %		7.12%	See Calculations
Rate of Return		979,000	
O&M		697,000	Appendix K
Taxes Other		34,000	Appendix K
Depreciation		338,000	Appendix K
Taxes		239,000	See Calculations
Revenue Requirement		2,287,000	
Upper Pottsgrove Township Wastewater Year-1 Revenues		1,285,000	Appendix K
Revenue Requirement Increase		1,002,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 1,002,000
Act 11 Percentage (R-2017-2595853 Proof of Revenues)	46%
Amount of increase allocated to water through Act 11	460,920
Amount of increase allocated to wastewater customers	\$ 541,080

Increase applied to Upper Pottsgrove Township Wastewater Customers	
Revenue Requirement Increase - After Act 11	\$ 541,080
Current Upper Pottsgrove Township Wastewater revenues	1,285,000
Estimated Increase to wastewater customers	42.1%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 541,080
Current Upper Pottsgrove Township Wastewater revenues	1,285,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)	26,162,360
	27,447,360
Estimated Increase to wastewater customers	2.0%

Amount of increase allocated to water customers:	
Revenue Requirement Increase	\$ 460,920
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)	650,769,554
Estimated Increase to Water Customers	0.1%

Pennsylvania American Water Company R-2017-2595853 - Proof of Revenues Act 11 Allocation								
	Water Operations	Wastewater Excluding Scranton		Scranton Wastewater		Combined Wastewater		Total Company
Additional Annual Operating Revenue Before Act 11	\$ 51,581,090	\$ 5,290,300		\$ 4,977,893		\$ 10,268,193		\$ 61,849,283
ACT 11 Allocation - WW COS Recovered from Water	4,700,000	(2,383,000)	45%	(2,317,000)	47%	(4,700,000)	46%	\$
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	53%	5,568,193	54%	61,849,283

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval of :
(1) the transfer, by sale, to Pennsylvania-American Water : Docket No. A-2021-3024681 *et al.*
Company, of substantially all of the assets, properties and :
rights related to the wastewater collection and treatment :
system owned by the York City Sewer Authority and :
operated by the City of York, (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish wastewater service to the public in the City of :
York, Pennsylvania, and to three bulk service :
interconnection points located in North York Borough, :
Manchester Township and York Township, York :
County, Pennsylvania, and (3) the rights of Pennsylvania- :
American Water Company to begin to offer or furnish :
Industrial Pretreatment Program to qualifying industrial :
customers in Manchester Township, Spring Garden :
Township and West Manchester Township, York County, :
Pennsylvania :

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

Date: July 1, 2021

PAWC Statement No. 3

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the York
Docket No. A-2021-3024681**

Revenue Requirement Increase

Rate Base	\$	235,000,000	Appendix A-11
Rate of Return %		6.98%	See Calculations
Rate of Return		16,403,000	
O&M		8,075,000	Appendix K
Taxes Other		1,083,000	Appendix K
Depreciation		5,744,000	Appendix K
Taxes		4,739,000	See Calculations
Revenue Requirement		36,044,000	
York Wastewater Year-1 Revenues		18,487,000	Appendix K
Revenue Requirement Increase		17,557,000	

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the York
Docket No. A-2021-3024681**

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 17,557,000
Act 11 Percentage (R-2020-3019369 Revised Proof of Revenues)	50%
Amount of increase allocated to water through Act 11	8,778,500
Amount of increase allocated to wastewater customers	\$ 8,778,500

Increase applied to York Wastewater Customers

Revenue Requirement Increase - After Act 11	\$ 8,778,500
Current York Wastewater revenues	18,487,000
Estimated increase to wastewater customers	47.5%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:

Revenue Requirement Increase	\$ 8,778,500
Current York Wastewater revenues	18,487,000
PAWC Wastewater Revenues (R-2020-3019369 Proof of Revenues excl. Other Operating Revenues)	91,630,546
Estimated increase to wastewater customers	8.0%

Amount of increase allocated to water customers:

Revenue Requirement Increase	\$ 8,778,500
PAWC Water Revenues (R-2020-3019369 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	675,266,314
Estimated increase to Water Customers	1.3%

**Pennsylvania American Water Company
R-2020-3019369 - Revised Proof of Revenues
Act 11 Allocation**

	Water Operations Excluding Steelton	Steelton Water Operations	Wastewater SSS Excluding Sadsbury and Exeter	Sadsbury Wastewater	Exeter Wastewater	Scranton Wastewater	McKeesport Wastewater	Kane Wastewater	Total Wastewater	Total Company
Additional Annual Operating Revenue Before Act 11	\$ 25,133,708	\$ 2,359,719	\$ 6,892,402	\$ 745,997	\$ 6,929,998	\$ 10,401,176	\$ 16,338,292	\$ 1,701,586	\$ 43,009,451	\$ 70,502,878
ACT 11 Allocation - WW COS Recovered from Water	22,714,348	(1,235,909)	(836,759)	(725,899)	(3,306,776)	(2,505,411)	(13,321,577)	(782,017)	(21,478,439)	\$ -
Additional Annual Operating Revenue	47,848,056	1,123,810	6,055,643	20,098	3,623,222	7,895,765	3,016,715	919,569	21,531,012	70,502,878

**I&E Statement No. 1-SR
Witness: Joseph Kubas**

**Application of Pennsylvania American Water Company Pursuant to Sections 1102(a),
and 1329 of the Public Utility Code for its Acquisition of the Water System Assets of
Borough of Brentwood**

Docket No. A-2021-3024058

Surrebuttal Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:

**Public Benefit Concerns
Rate Base Determination
Closing Costs
Cost of Service Study
Proposed Revenue**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Joseph Kubas. My business address is 400 North Street, Harrisburg,
4 Pennsylvania 17120.

5
6 **Q. ARE YOU THE SAME JOSEPH KUBAS THAT PROVIDED DIRECT**
7 **TESTIMONY ON OCTOBER 24, 2023?**

8 A. Yes.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. The purpose of my surrebuttal testimony is to address issues raised in the rebuttal
12 testimony of Michael Salvo (PAWC St. No. 1-R), Daniel J. Hufton, P.E. (PAWC St.
13 No. 2-R), and Ashley Everette (PAWC St. No. 3-R), submitted on behalf of
14 Pennsylvania American Water Company (“PAWC” or “Company”), and George
15 Zboyovsky, submitted on behalf of the Borough of Brentwood (Brentwood),
16 regarding approval of PAWC’s acquisition of the wastewater system assets of
17 Brentwood.

18
19 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

20 A. No.

1 **Q. WHAT DID PAWC REQUEST IN THIS APPLICATION?**

2 A. Under 66 Pa. C.S. § 1102 (“Section 1102”), PAWC requested approval to acquire
3 the Borough of Brentwood’s wastewater collection system and for the right to
4 begin providing wastewater service in the areas currently served by Brentwood.
5 Under 66 Pa. C.S § 1329 (“Section 1329”), PAWC is seeking to utilize the
6 purchase price of \$19,364,443 for the ratemaking rate base of the Brentwood
7 plant. In addition to the purchase price, PAWC will pay the Borough up to
8 \$70,000 as reimbursement for engineering and legal fees incurred related to the
9 Transaction, upon receipt of invoices evidencing the amount of transaction-related
10 fees incurred prior to Closing (PAWC St. No. 1, p. 12 and PAWC St. 3-REV, pp
11 5-6).

12
13 **Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR SURREBUTTAL**
14 **TESTIMONY?**

15 A. My surrebuttal testimony will address issues concerning the lack of affirmative
16 public benefits, plant not used to serve customers, reimbursement of legal fees, the
17 two-year rate freeze, and the necessity of requiring PAWC to undertake a separate
18 Cost of Service Study (COSS) for the Brentwood system in all future base rate
19 cases.

1 **Q. WHAT WAS I&E’S OVERALL RECOMMENDATION REGARDING THE**
2 **ACQUISITION?**

3 A. I&E recommended that this Application be denied due to the lack of affirmative
4 public benefits and due to the complexities related to establishing a rate base
5 valuation as discussed below.
6

7 **AFFIRMATIVE PUBLIC BENEFIT**

8 **Q. DID PAWC ORIGINALLY CLAIM THAT THERE WOULD BE AN**
9 **AFFIRMATIVE PUBLIC BENEFIT IF IT ACQUIRED THE BRENTWOOD**
10 **SYSTEM?**

11 A. Yes. For the various reasons described in PAWC Statements 1, 2, and 3, including
12 the expertise of PAWC, lack of Brentwood resources, environmental concerns, the
13 location of existing facilities, and Commission jurisdiction, PAWC opined that the
14 effects of the transaction would be an affirmative public benefit (PAWC St. No. 2.
15 p. 39).
16

17 **Q. HOW DID YOU ADDRESS THE GENERAL CLAIM CONCERNING THE**
18 **EXPERTISE OF PAWC?**

19 A. While I did not dispute the fact that PAWC has the expertise to provide
20 wastewater service, my direct testimony described how the long-term costs of
21 providing that expertise to Brentwood is not in the public interest. My direct
22 testimony describes how there is no evidence that Brentwood does not or could

1 not obtain the same expertise on its own at possibly a lower cost. In fact,
2 Appendix A-20-e indicates that Brentwood is currently working on satisfying a
3 consent decree concerning inflow and infiltration, (I&I) and according to
4 Appendix A-22-a, Brentwood is in compliance with ALCOSAN's 537 plan (I&E
5 St. No. 1, p. 7).

6
7 **Q. DID PAWC ADDRESS YOUR TESTIMONY CONCERNING BRENTWOOD**
8 **HAVING THE SAME EXPERTISE?**

9 A. Yes. PAWC claims that Brentwood has not operated the system in line with
10 industry standards and practices, has done a poor job of operating the system, and
11 has been under environmental non-compliance for 16 of the past 19 years (PAWC
12 St. No. 2-R, pp. 6-8).

13
14 **Q. DO YOU AGREE THAT BRENTWOOD HAS NOT OPERATED THE**
15 **SYSTEM ACCORDING TO INDUSTRY STANDARDS BECAUSE IT HAS**
16 **BEEN UNDER ENVIRONMENTAL NON-COMPLIANCE FOR 16 OF THE**
17 **PAST 19 YEARS?**

18 A. No. I believe that Brentwood, as a municipal operator, has done a reasonable job
19 of operating the system. and Appendix A-20-e indicates that Brentwood is
20 currently working on satisfying a consent decree concerning inflow and
21 infiltration. Further, according to Appendix A-22-a, Brentwood is in compliance
22 with ALCOSAN's 537 plan (I&E St. No. 1, p. 7). Additionally, some compliance

1 issues could be the result of excess I&I comes from the upstream municipalities
2 and not the Brentwood system.

3
4 **Q. DID PAWC ADDRESS YOUR TESTIMONY THAT BRENTWOOD IS ALSO**
5 **CAPABLE OF ADDRESSING ENVIRONMENTAL CONCERNS SUCH AS**
6 **I&I?**

7 A. Yes. PAWC claims that it will be “proactive” rather than “reactive” like
8 Brentwood, citing its work in the Clarion and Scranton systems addressing I&I
9 (PAWC St. No. 2-R, p. 4).

10
11 **Q. PLEASE ADDRESS THIS CLAIM ABOUT I&I.**

12 A. First, I do not doubt PAWC will be proactive in addressing I&I. However, PAWC
13 being proactive in addressing I&I does not mean Brentwood does not and could
14 not do a reasonable job itself addressing I&I. In addition, the Brentwood system
15 provides a unique challenge to reducing I&I because some of the excess flow is
16 potentially coming from the upstream “non-customers,” which PAWC would not
17 be able to reduce no matter its expertise or available capital.

18
19 **Q. PLEASE ADDRESS THE RESPONSE TO THE AVAILABLE EXPERTISE**
20 **POSITION YOU RAISED IN DIRECT TESTIMONY.**

21 A. As described in my direct testimony, Brentwood is currently operating the system
22 and making efforts to comply with the environmental challenges, I believe they

1 currently have the expertise to operate the system (I&E St. No. 1, p 7). While
2 PAWC and Brentwood both disagree with this statement, it is important to note
3 that PAWC never did its own analysis to demonstrate that Brentwood could not
4 obtain the same expertise on its own. Therefore, PAWC's position on obtaining
5 expertise is merely a restatement of Brentwood's testimony because it only relies
6 on the testimony of Brentwood witness Zboyovksy that Brentwood does not have
7 the resources or expertise to operate a wastewater business (PAWC St. No. 1-R, p.
8 16).

9
10 **Q. WHAT DOES BRENTWOOD CLAIM CONCERNING HAVING OR**
11 **OBTAINING THE SAME EXPERTISE?**

12 A. Brentwood states that it has nowhere near the expertise of PAWC, doubts that it
13 can obtain the same expertise, claims that it has no dedicated wastewater
14 personnel, inferring that it does not currently have specific wastewater expertise,
15 and did not try looking for additional expertise (Brentwood Rebuttal, pp. 11-12).

16
17 **Q. DID BRENTWOOD QUANTIFY THE COST OF ADDITIONAL**
18 **EXPERTISE OR SUPPORT ITS OPINION THAT IT IS LIKELY UNABLE**
19 **TO OBTAIN THE NEEDED EXPERTISE?**

20 A. No. Mr. Zboyovsky failed to provide any such details, including proof that there
21 are no experts to hire as wastewater employees or consultants available to
22 Brentwood. He admits Brentwood did not even attempt to find any additional

1 expertise (Brentwood Rebuttal, pp. 11-12). He merely claimed that- my comment
2 that Brentwood could obtain its own expertise and possibly at lower cost is “pure
3 speculation.” I continue to believe that if Brentwood is need of expertise, it could
4 obtain the expertise at possible a lower cost (I&E St. No. 1, p. 7). Mr. Zboyovsky
5 admits in his testimony that he has no actual proof that Brentwood cannot acquire
6 the necessary expertise or funding to operate the wastewater system.

7
8 **Q. WHAT DOES BRENTWOOD CLAIM CONCERNING OBTAINING**
9 **ADDITIONAL FUNDS AND RESOURCES?**

10 A. Brentwood claims that if it could raise the capital to obtain the funds to address
11 environmental issues, it would not have explored selling the system (Brentwood
12 Rebuttal, p. 2).

13
14 **Q. DID YOU ADDRESS OBTAINING ADDITIONAL FUNDS AND**
15 **RESOURCES IN YOU DIRECT TESTIMONY?**

16 A. Yes. I described how Brentwood could quickly increase rates to obtain any
17 additional funds (I&E St. No. 1, p. 8).

18
19 **Q. HOW DID BRENTWOOD ADDRESS YOUR POSITION CONCERNING**
20 **OBTAINING ADDITIONAL FUNDS AND RESOURCES?**

21 A. In spite of my argument only discussing wastewater rates, Brentwood first focused
22 on debt, claiming that it is under the Local Government Debt Act, limiting the debt

1 it can obtain. Brentwood also claims that this is not a favorable time to borrow
2 (Brentwood Rebuttal, pp. 5-6). Later in his testimony, Mr. Zboyovsky describes
3 my rate increase proposal as “gross oversimplification” of the issue (Brentwood
4 Rebuttal, p. 12).

5
6 **Q. DID YOU SPECIFICALLY RECOMMEND MORE DEBT FOR**
7 **BRENTWOOD TO OBTAIN ANY FUTURE FUNDS?**

8 A. No. As described in my direct testimony, I only suggested rate increases as one
9 source of funding for Brentwood (I&E St. No. 1, p. 8).

10
11 **Q. IS YOUR SUGGESTION FOR INCREASED RATES “OVERLY**
12 **SIMPLIFIED” AS SUGGESTED BY MR. ZBOYOVSKY?**

13 A. No. It is well known that municipalities like Brentwood, not under the jurisdiction
14 of the Commission, can increase rates quickly and relatively easily because they
15 are not required to go through the base rate case process that jurisdictional utilities
16 must go through. Mr. Zboyovsky also fails to recognize that municipalities like
17 Brentwood have other sources of funding such as higher fees, taxes, and possibly
18 PennVest loans and grants. These municipalities can also easily create surcharges
19 with no oversight, another funding source. Therefore, I continue to believe that
20 Brentwood could obtain funding and corresponding expertise if it desires to do so.

1 **Q. WHAT ELSE DOES BRENTWOOD CLAIM CONCERNING OBTAINING**
2 **ADDITIONAL FUNDS AND RESOURCES?**

3 A. Mr. Zboyovsky suggests that my testimony fails to protect the customers of
4 Brentwood because as a municipality, it can increase rates at will and if the system
5 were purchased by PAWC, the customers would be protected by the Commission
6 (Brentwood Rebuttal, p. 12). He also states that the Borough has not increased
7 rates since 2019 (Brentwood Rebuttal, p. 9).

8
9 **Q. DOES YOUR TESTIMONY FAIL TO PROTECT THE CUSTOMERS OF**
10 **BRENTWOOD?**

11 A. No. The purpose of my testimony is to protect the public interest including the
12 Brentwood customers. To do this, I have acknowledged that there are certain
13 benefits to customers that flow from being customers of a Commission regulated
14 utility, but in the same regard, there are other benefits that flow from being a
15 customer of a municipal utility. The Commission should not accept Mr.
16 Zboyovsky's attempt to shift the political cost he and the Borough will face when
17 rates increase.

18
19 **Q. DOES MR. ZBOYOVSKY EXPLAIN WHY THE BOROUGH HAS NOT**
20 **INCREASED RATES SINCE 2019?**

21 A. Yes. Mr. Zboyovsky states that the determinative factor in not raising rates since
22 2019 was due to the proposed transaction (Brentwood Rebuttal, p. 9). With the

1 potential to sell the system, regardless of condition, it made sense for Brentwood
2 not to increase rates and avoid the political consequences and results in an even
3 longer period of frozen rates for acquired Brentwood wastewater customers.
4

5 **Q. HOW DID YOU ADDRESS THE CLAIM THAT HAVING THE SAME**
6 **ENTITY PROVIDE WATER AND WASTEWATER SERVICE TO AN**
7 **AREA IS A PUBLIC BENEFIT?**

8 A. My testimony described that while PAWC also provides water service to
9 Brentwood customers, switching the wastewater service from Brentwood to
10 PAWC for the sake of having one entity provide both services is not, in itself, a
11 sufficient public benefit. In fact, in conjunction with the potential for higher
12 wastewater rates described below, this common entity scenario could result in a
13 single bill that makes the service more unaffordable, which could lead to increased
14 levels of terminations (I&E St. No. 1, pp. 7-8).
15

16 **Q. DID PAWC ADDRESS YOUR TESTIMONY CONCERNING COMBINED**
17 **WATER AND WASTEWATER BILLING?**

18 A. Yes. PAWC continues to believe that having a combined water and wastewater
19 bill outweighs the potential for higher wastewater bills. These alleged benefits
20 include one payment, one phone call for either service, the sharing of equipment
21 and resources, and the overall convenience to the public (PAWC St. No. 1-R, pp.
22 13-14).

1 **Q. DO YOU CONTINUE TO BELIEVE THAT HAVING ONE BILL DOES**
2 **NOT OUTWEIGH THE NEGATIVE IMPACT OF HIGHER RATES?**

3 A. Yes. As described in my direct testimony, I continue to believe that the potential
4 for higher wastewater rates, either what PAWC has projected, or more likely the
5 higher projected bill that I believe will occur, outweigh any benefit of having one
6 bill (I&E St. No. 1, pp 7-8 and pp. 21-31).

7
8 **Q. DID YOU ADDRESS THE CLAIMS THAT BRENTWOOD CUSTOMERS**
9 **ARE BETTER OFF UNDER THE JURISDICTION OF THE COMMISSION**
10 **AND CAN BENEFIT FROM PAWC'S CUSTOMER SERVICE AND**
11 **ABILITY TO HANDLE EMERGENCIES?**

12 A. Yes. In my direct testimony, I agreed that when a system acquired by a
13 Commission regulated utility, the customers receive the protections associated
14 with the Commission's jurisdiction; however, I pointed out that I have seen no
15 evidence that Brentwood is providing unreliable or sub-standard service under its
16 current operating structure that implies that regulatory authority is necessary.
17 Similarly, I agreed Brentwood customers will have access to PAWC's 24-hour
18 customer service, but also stated that the customers of Brentwood can currently
19 report problems through various methods 24 hours per day (PAWC St. No. 2, p.
20 28). I concluded that there is no indication that Brentwood has a systemic
21 inability to handle emergencies. In summary, I believe Brentwood provides

adequate customer service without the rate impact that will occur through acquisition by an investor-owned utility (I&E St. No. 1, pp. 8-9).

Q. DID THE COMPANY ADDRESS YOUR TESTIMONY CONCERNING THE JURISDICTION OF THE COMMISSION, CUSTOMER SERVICE, AND EMERGENCIES?

A. Yes. PAWC provided several comments concerning these areas and the overall public benefit of the transaction as described on PAWC St. No. 1-R, pp. 11-15, as follow:

- The Company states that a requirement for regulatory authority is not a test required for approval of an acquisition;
- that I only addressed one detriment, and for that one detriment, the projected rate increase of 11% is modest;
- I did not address all the benefits such as the environmental benefits, economies of scale, and customer service enhancements.

In conclusion, PAWC opines that the overall benefits allegedly outweigh the potential detriments.

Q. DID THE COMPANY PROPERLY CHARACTERIZE YOUR TESTIMONY CONCERNING BRENTWOOD BEING UNDER REGULATORY AUTHORITY?

A. No. The regulatory authority I reference in that sentence is not the “standard” on

1 which I am basing my recommendation, rather it referred to my determination that
2 Brentwood is operating and providing reasonable service without Commission
3 oversight. To be clear, I specifically recommended that the Application be denied
4 because it lacks sufficient affirmative public benefits (I&E St. No. 1, p. 31).

5
6 **Q. IS THE COMPANY CORRECT THAT THE ONLY DETRIMENT**
7 **DESCRIBED WAS THE IMPACT TO BRENTWOOD CUSTOMERS?**

8 A. No. I described how some of the plant being acquired will not be “used and
9 useful” in the provision of utility service to customers. This is a major detriment
10 because Brentwood, and possibly all PAWC customers, would pay rates that
11 include the return dollars, taxes, and expenses on plant to serve “non-customers” if
12 the Commission allows the inclusion of this plant. Furthermore, I provided
13 detailed testimony as to why I believed the 11% increase described by PAWC was
14 understated. This testimony was not disputed by PAWC and therefore should be
15 accepted by the Commission to add weight to the rate increase detriment (I&E St.
16 No. 1, pp. 21-31). Finally, I believe the Commission should consider the revenue
17 shift to water customers as a detriment. This \$219,120 cost to water customers is
18 shown on PAWC Exhibit AEE-1, p. 3 (revised) line 3.

19
20 **Q. PLEASE ADDRESS THE COMPANY’S CLAIM THAT YOU DID NOT**
21 **ADDRESS ALL THE ALLEGED BENEFITS OF THE TRANSACTION.**

22 A. I addressed the environmental benefits and customer service in my direct

1 testimony when I address Brentwood's ability to address current environmental
2 requirements and obtain the expertise if needed (I&E St. No. 1, pp. 7-10). I did
3 not address economies of scale because the Company failed to quantify the
4 economies of scale that will be achieved and, therefore, did not definitively show
5 that any economy of scale benefit exists that outweigh the detriments in this
6 acquisition.

7
8 **Q. AS PART OF THE ALLEGED PUBLIC BENEFITS OF THIS**
9 **APPLICATION, WHAT DOES PAWC STATE CONCERNING**
10 **REGIONALIZATION?**

11 A. PAWC witness Hutton states that the approval of this application will promote
12 regionalization and consolidation of wastewater systems (PAWC St. No. 1-R, pp.
13 10-11).

14
15 **Q. IS PAWC CORRECT CONCERNING REGIONALIZATION?**

16 A. No. Brentwood is currently part of a regionalized wastewater system served by
17 ALCOSAN. PAWC witness Hutton also states that as part of this acquisition,
18 PAWC will simply step in the shoes of Brentwood with regard to ALCOSAN,
19 (PAWC St. No. 2-R. p. 19). This will provide no regionalization benefit.
20 Therefore, based on PAWC witness Hutton's testimony, the acquisition is simply
21 a continuation of the status quo with regard to regionalization of the system.

1 **Q. WHAT IS YOUR OPINION ON THE REGIONALIZATION QUESTION?**

2 A. In my opinion, it should not be considered a regionalization of systems because of
3 the already existing regionalization of the municipalities served by ALCOSAN,
4 the “non-customers” plant issues, and is does not provide the same regionalization
5 benefit that would occur if PAWC were to connect Brentwood with its existing
6 facilities. .

7
8 **Q. WHAT OTHER ISSUES DID MR. ZBOYOVSKY ADDRESS IN HIS**
9 **REBUTTAL TESTIMONY CONCERNING THE PUBLIC BENEFITS OF**
10 **THIS APPLICATION?**

11 A. Mr. Zboyovsky makes several other claims in his rebuttal testimony concerning
12 the Borough of Brentwood:

- 13 • Brentwood is not and can’t provide the same quality of service as PAWC;
- 14 • Brentwood has fewer employees than PAWC and no employees dedicated
15 to wastewater service;
- 16 • money cannot replace the expertise provided by PAWC
- 17 • Brentwood is scrambling to maintain the system on a day-to-day basis
18 because billing needs are difficult;
- 19 • ALCOSAN and the entire region will benefit if the Brentwood system is
20 purchased by PAWC; and
- 21 • PAWC would do a better job of handling emergencies.

1 **Q. WHAT DID MR. ZBOYOVSKY STATE CONCERNING THE CURRENT**
2 **AND FUTURE OPERATIONS OF THE BOROUGH?**

3 A. Mr. Zboyovsky claims that he and the other eight Borough employees are doing a
4 poor job of maintaining and managing the system and that is preposterous to think
5 that PAWC could not do a wonderful job of managing the system (Brentwood
6 Rebuttal p. 1). Mr. Zboyovsky goes on to state that no amount of money available
7 to Brentwood can outweigh the expertise PAWC brings (Brentwood Rebuttal p.
8 7).

9
10 **Q. PLEASE ADDRESS THE FIRST THREE CLAIMS CONCERNING WHAT**
11 **BRENTWOOD IS NOT DOING, CANNOT DO, THE NUMBER OF**
12 **EMPLOYEES, AND THE MONEY AVAILABLE.**

13 A. As described above, I believe Mr. Zboyovsky and the eight existing employees are
14 doing a reasonable job of managing the system despite the fact that no additional
15 revenues have been added since 2019 when the sale process began. Also as
16 described above, it has not been shown that Brentwood could not do the same job
17 at a lower cost. Finally, as described above, there are numerous funding sources
18 to correct any deficiencies the Borough is or will experience. Therefore, these
19 speculative claims by the Borough should be disregarded.

1 **Q. WHAT DID MR. ZBOYOVSKY STATE CONCERNING THE CURRENT**
2 **BILLING SYSTEM?**

3 A. Mr. Zboyovsky claims that Brentwood administrative employees are constantly
4 spending valuable time and resources communicating with customers regarding
5 billing issues without the ability to directly resolve their issues and that if the
6 system is taken over by PAWC, it would do a better job (Brentwood Rebuttal p. 4-
7 5).
8

9 **Q. PLEASE ADDRESS THE CLAIM CONCERNING BILLING**
10 **DIFFICULTIES.**

11 A. As described above, similar to the overall operation of the system, I believe
12 Brentwood is adequately addressing billing needs. I reached this conclusion
13 because it is my understanding that no specific customer billing issues were raised,
14 and no customers spoke at the public input hearing concerning Borough billing
15 issues (PAWC St. No. 1-R, p. 3) Also, similar to the capital funding issue, the
16 Borough manages to bill customers despite the fact that no additional revenues
17 have been added since 2019. Also as described above, it has not been shown that
18 Brentwood could not do the same job at a potentially lower cost and use the same
19 funding sources I described above to upgrade the billing system. Therefore, the
20 claims of the Borough about billing should be disregarded.

1 **Q. WHAT DID MR. ZBOYOVSKY STATE CONCERNING ALCOSAN AND**
2 **THE ALLEGED BENEFIT TO THE OVERALL SYSTEM?**

3 A. Mr. Zboyovsky claims that if the proposed transaction is approved the entire
4 region and ALCOSAN will benefit from a partnership with PAWC (Brentwood
5 Rebuttal, p. 5).

6
7 **Q. PLEASE ADDRESS THE CLAIM CONCERNING ALCOSAN AND THE**
8 **ALLEGED BENEFITS TO THE OVERALL SYSTEM.**

9 A. Mr. Zboyovsky's claim conflicts with Mr. Hutton's testimony that PAWC will
10 maintain the status quo with regard to ALCOSAN. Therefore, maintaining the
11 status quo will provide no benefits to ALCOSAN contrary to the testimony of Mr.
12 Zboyovsky.

13
14 **Q. TURNING TO THE LAST ITEM, WHAT DID MR. ZBOYOVSKY STATE**
15 **CONCERNING THE HANDLING OF EMERGENCIES?**

16 A. Mr. Zboyovsky restates his claim that PAWC will do a better job of handling
17 emergencies (Brentwood Rebuttal, p. 4).

18
19 **Q. PLEASE ADDRESS THE CLAIM CONCERNING EMERGENCIES.**

20 A. I believe Brentwood is doing a reasonable job of managing the system, including
21 handling emergencies. I also address Brentwood's handling of emergencies in
22 I&E St. No. 1, pp. 8-9.

1 **Q. DID YOU BELIEVE THAT EITHER PAWC OR BRENTWOOD**
2 **PROVIDED ANY VALID RATIONALE FOR REJECTING YOUR**
3 **POSITION CONCERNING AFFIRMATIVE PUBLIC BENEFIT?**

4 A. No. I do not believe that either party provided any solid reasons for rejecting my
5 position that the acquisition does not provide any affirmative public benefit.
6 Therefore, my determination that the Application be denied should be approved
7 (I&E St. No. 1, p. 31).

8
9 **SERVICE TO “NON-CUSTOMERS”**

10 **Q. HOW DID YOU DEFINE “NON-CUSTOMERS” IN YOUR DIRECT**
11 **TESTIMONY?**

12 A. In my direct testimony, I defined “non-customers” as the adjoining systems that
13 transmit upstream wastewater to the ALCOSAN treatment plant via the
14 Brentwood conveyance system. The systems utilizing the Brentwood conveyance
15 system are Whitehall Borough and the City of Pittsburgh via the Pittsburgh Water
16 and Sewer Authority (PWSA) (I&E St. No. 1, p. 10).

17
18 **PLANT IN SERVICE AND “NON-CUSTOMERS”**

19 **Q. WHAT DID YOU RECOMMEND CONCERNING THE**
20 **ESTABLISHMENT OF THE RATE BASE FOR BRENTWOOD IN YOUR**
21 **DIRECT TESTIMONY?**

22 A. I recommended that the Commission affirm the Company’s position that the

1 upstream municipalities are not customers and that any plant, or the portion of the
2 plant used to serve “non-customers,” should be removed from the requested rate
3 base of \$19,643,443 (I&E St. No. 1, p. 13).
4

5 **Q. WHY DID YOU MAKE THIS RECOMMENDATION?**

6 A. Utilities are only granted the opportunity to recover the return dollars, taxes, and
7 depreciation expense on plant that is “used and useful” in the provision of service
8 to customers. As described in my direct testimony, Brentwood currently
9 transmits wastewater through its system free of charge, and its system must be
10 sized and maintained to accept that conveyed wastewater. Therefore, the
11 \$19,354,443 purchase price includes plant that is being used to transfer upstream
12 wastewater free of charge. This plant is not used and useful in providing service
13 to Brentwood customers. Therefore, I recommended that the plant not “used and
14 useful” to serve customers be removed from the requested rate base (I&E St. No.
15 1, pp 13-14).
16

17 **Q. WERE YOU ABLE TO QUANTIFY THE AMOUNT OF PLANT AND**
18 **CORRESPONDING RATE BASE THAT SHOULD BE REMOVED?**

19 A. No. The Company failed to provide any analysis that would indicate a reasonable
20 amount of plant that is being used by “non-customers.” Therefore, I.
21 recommended that PAWC be directed to undertake a study that separates and does

1 not include plant to service “non-customers” in the initial rate base claim and in
2 any future COSS if approval of this Application is granted.

3
4 **Q. DID PAWC ADDRESS YOUR RECOMMENDATION TO REMOVE THE**
5 **PLANT IN SERVICE USED TO SERVE THESE “NON-CUSTOMERS”?**

6 A. Yes. According to PAWC St. No. 2-R, pp. 9-11, PAWC disagrees with this
7 recommendation for various reasons. PAWC asserts that the plant used to serve
8 “non-customers” should be included in rate base because:

- 9 • The plant “used” to serve “non-customers” will be providing service, it is
10 therefore “used and useful;”
- 11 • on the advice of counsel, Mr. Hutton believes that use of plant by “non-
12 customers” does not constitute utility service;
- 13 • the uniform Z agreement outweighs the “used and useful” concept of public
14 utility ratemaking because it is a part of a mutual assistance program; and
- 15 • since the plant and future upgrades will be under the jurisdiction of the
16 Commission, the plant to serve “non-customers” should be included in rate
17 base.

18
19 **Q. DID PAWC ATTEMPT TO REPHRASE YOUR TESTIMONY ON THE**
20 **SUBJECT OF “NON-CUSTOMERS”?**

21 A. Yes. On PAWC St. No. 2-R, p. 10 the Company states:

1 On pages 10-16, Mr. Kubas contends that plant in service that
2 is used to convey any wastewater from upstream municipalities
3 is not “used and useful” in the provision of public service and
4 should not be included in rate base.
5

6 **Q. IS THIS AN ACCURATE REPRESENTATION OF YOUR DIRECT**
7 **TESTIMONY?**

8 A. No. A correct representation would have included the words “to serve customers”
9 after the words “public service.”
10

11 **Q. PLEASE ADDRESS THE CLAIM THAT SINCE THE PLANT WILL BE**
12 **USED AND USEFUL TO SERVE “NON-CUSTOMERS,” IT SHOULD BE**
13 **INCLUDED IN RATE BASE.**

14 A. As described in my direct testimony, only plant “used and useful” to serve
15 customers can be included in rate base (I&E St No. 1. p. 13). Based upon his
16 testimony, it is apparent that Mr. Hufton would like the Commission to ignore the
17 most important part of this which is that the plant must serve customers.
18

19 **Q. PLEASE ADDRESS THE CLAIM THAT PLANT USED TO SERVE “NON-**
20 **CUSTOMERS” DOES NOT CONSTITUTE UTILITY SERVICE.**

21 A. I was surprised to see this claim, I believe supports my position. However, since
22 this plant will not be providing utility service to customers, the corresponding
23 plant must not be included in rate base since plant in rate base can only include
24 plant “used and useful” to serve customers. Since the Company claims the

1 upstream municipalities are not customers, the plant to serve them cannot be
2 included in rate base.

3
4 **Q. PLEASE ADDRESS THE CLAIM THAT A UNIFORM ALCOSAN Z**
5 **AGREEMENT OUTWEIGHS THE BASIC RATE MAKING**
6 **REQUIREMENT THAT PLANT MUST BE “USED AND USEFUL TO**
7 **SERVE CUSTOMERS” BECAUSE IT IS PART OF A MUTUAL**
8 **ASSISTANCE AGREEMENT.**

9 A. I am advised by counsel that it does not. As described in my direct testimony,
10 while this agreement may work for municipal systems, it does not allow for the
11 proper ratemaking treatment of plant in service to serve customers and, therefore,
12 is not compatible with traditional ratemaking as currently structured for systems
13 owned and operated by an investor-owned utilities (I&E St. No. 1, p. 15). Finally,
14 the claim that the Z Agreement has been in place since 1949, no municipality
15 charges for this service, and is currently workable, is not relevant.

16
17 **Q. PLEASE ADDRESS THE CLAIM CONCERNING THAT THE PLANT**
18 **AND CORRESPONDING AGREEMENT USED TO SERVE “NON-**
19 **CUSTOMERS” IS UNDER COMMISSION JURISDICTION.**

20 A. This position does not satisfy the basic rate making treatment of plant and would
21 allow PAWC to recover the cost of plant used to serve “non-customers” from
22 customers. As described above and in my direct testimony, this is improper, and

1 plant used to serve “non-customers” should not be recovered in rate base.

2 Furthermore, I am not aware of any “plant in service” owned by a utility under the
3 jurisdiction of the Commission that is not used to serve customers.

4
5 **Q. DID THE COMPANY ALSO ALLEGE SEVERAL “PRACTICAL**
6 **IMPLICATIONS” OF YOUR RECOMMENDATION TO EXCLUDE**
7 **PLANT TO SERVE “NON-CUSTOMERS”?**

8 A. Yes. PAWC believes that my recommendation to separate the cost of plant used
9 to serve “non-customers” would be lengthy and costly and would strongly
10 discourage and effectively bar any of the other 82 municipalities under the
11 ALCOSAN Z Agreement from selling their systems to investor-owned utilities.
12 PAWC also believes that my recommendation conflicts with the Legislative intent
13 of Act 129, which was to allowing municipal systems to sell their system using
14 fair market value, and the Commission should not take this away (PAWC St. No.
15 2-R, p. 12).

16
17 **Q. PLEASE ADDRESS THE COMPANY’S CLAIM THAT YOUR PROPOSAL**
18 **RESULTS IN A LENGTHY COSTLY COST OF SERVICE STUDY.**

19 A. While I agree that this COSS would be more complex, this complexity is
20 necessary. The additional cost is justified for this system because of the amount of
21 non “used and useful” plant in question and the corresponding expense that will be
22 incurred to serve “non-customers.” It should be noted that PAWC did not claim

1 that a COSS could not be done, only that it would be costly and complex.
2 Interestingly this would be a cost paid by ratepayers, not PAWC. Therefore, if
3 PAWC chooses not to provide such a COSS, I continue to recommend that the
4 Commission deny this Application. Furthermore, it is common practice for
5 electric utilities to provide COSSs that remove non-jurisdictional plant, leaving
6 jurisdictional plant and expenses for the Commission to review. Thus, if a
7 jurisdictional water or wastewater utility has both jurisdictional and non-
8 jurisdictional plant, it would only make sense for that utility to provide a similar
9 COSS that separates that plant as well.

10
11 **Q. PLEASE ADDRESS THE COMPANY’S CLAIM CONCERNING FUTURE**
12 **ACQUISITIONS.**

13 A. I believe this claim is mere speculation. As this is the first 1329 acquisition to
14 include such plant, there is no way to tell what the impact, if any, would be on
15 future acquisitions under section 1329.

16
17 **Q. PLEASE ADDRESS THE COMPANY’S CLAIM CONCERNING THE**
18 **LEGISLATIVE INTENT OF ACT 129.**

19 A. I am advised by counsel that Act 129 was not intended to supersede basic
20 ratemaking principles.

1 **Q. DID MR. ZBOYOVSKY ALSO ADDRESS THESE “NON-CUSTOMERS”?**

2 A. Yes. Mr. Zboyovsky restated the Applicants’ position that the various
3 municipalities that utilize ALCOSAN for treatment have worked well together for
4 many years and that this cooperation should continue. He also states that there is
5 no reasonable alternative to these trunk lines and that the shared lines are efficient
6 and avoid unnecessary duplication of facilities. Finally, he states that local
7 treatment plants would decentralize wastewater treatment (Zboyovsky Rebuttal
8 pp. 12-13).

9
10 **Q. DID MR. ZBOYOVSKY ADDRESS ANY OF YOUR REASONS FOR**
11 **REMOVING THE PLANT ASSOCIATED WITH NON-CUSTOMERS**
12 **FROM THE \$19,345,443 RATE BASE?**

13 A. No. Mr. Zboyovsky merely restated the Applicants’ position without addressing
14 my rate-making rationale. I never recommended separate trunk lines, duplicate
15 facilities, or separate treatment facilities as suggested by Mr. Zboyovsky.
16 Therefore, since his rebuttal testimony does not address the rate making issues that
17 I raised in direct testimony, it should be disregarded.

18
19 **Q. DID EITHER PAWC OR BRENTWOOD PROVIDE ANY VALID**
20 **RATIONALE FOR INCLUDING PLANT IN RATE BASE TO SERVE**
21 **THESE “NON-CUSTOMERS”?**

22 A. No. Neither party provided any valid reasons for including plant used to serve

1 “non-customers” in rate base. Therefore, my recommendation to exclude plant not
2 “used and useful” to serve customers should be accepted (I&E St. No. 1, pp. 13-
3 14).

4
5 **CONDITIONAL REQUIREMENTS**

6 **COST OF SERVICE STUDY**

7 **Q. WHAT WAS YOUR COSS RECOMMENDATION?**

8 A. I recommended that if the Commission approves the Application, that PAWC
9 provide a separate COSS for the Brentwood system in all future rate cases that
10 separately identifies the plant in service, the test year plant additions and
11 retirements, and all taxes, expenses, and revenue separately for the Brentwood
12 system (I&E St. No. 1, p. 16).

13
14 **Q. DID YOU ALSO RECOMMEND A SPECIAL PROVISION TO ADDRESS**
15 **PLANT AND EXPENSES ASSIGNED OR ALLOCATED TO THE “NON-**
16 **CUSTOMERS” DESCRIBED ABOVE?**

17 A. Yes. Since it is likely PAWC will make improvements to the plant being used to
18 serve “non-customers,” it is important to separately identify this plant. Therefore,
19 I also recommended that the Commission direct PAWC to separately identify,
20 assign or allocate the plant used to serve “non-customers,” and any expenses
21 associated with “non-customer” plant. All plant and expenses related to “non-

customers” should be clearly excluded from any revenue requirement claims in a base rate case (I&E St. No. 1, p. 16-17).

Q. WHY DID YOU RECOMMEND FUTURE COSS’ IDENTIFY AND REMOVE THE PLANT AND EXPENSES ASSIGNED OR ALLOCATED TO THE “NON- CUSTOMERS”?

A. As described in my direct testimony, and in accordance with standard ratemaking criteria, only plant used in the provision of service to customers can be included in rate base. Similarly, only expenses incurred to serve customers can be recovered from customers. Since this plant and related expenses will be used to provide service to “non-customers,” they must be removed from future revenue requirement claims (I&E St. No. 1, p. 17).

Q. DID THE COMPANY ADDRESS YOUR COSS RECOMMENDATIONS?

A. Yes. The Company agreed to provide a separate COSS in the first case after the system is acquired. However, the Company disagreed that all future COSS be separate for the Brentwood system (PAWC St. No. 3-R, p. 11).

Q. WHY DID THE COMPANY DISAGREE WITH YOUR RECOMMENDATION TO REQUIRE A SEPARATE COSS IN ALL FUTURE CASES?

A. The Company disagrees with my testimony and rationale for a continued separate

COSS because it believes that all of the Brentwood plant will be “used and useful” to serve Brentwood customers (PAWC St. No. 3-R, p. 11).

Q. IS THIS RATIONALE DIFFERENT THAN WHAT MR. HUTTON STATED CONCERNING PLANT TO SERVE “NON-CUSTOMERS”?

A. Yes. Ms. Everette added the words “Brentwood customers” to her testimony while Mr. Hutton merely said the plant will be “used and useful” (PAWC St. No. 2-R p. 10).

Q. IS THIS AN IMPORTANT DIFFERENCE?

A. Yes. According to Mr. Hutton, he simply states that the plant to serve “non-customers” will be used and useful (PAWC St. No. 2-R, p. 11). Ms. Everette believes something completely different, that the plant will be “used and useful” to serve Brentwood customers.

Q. IS MS. EVERETTE CORRECT THAT ALL BRENTWOOD PLANT WILL BE IN PLACE TO SERVE BRENTWOOD CUSTOMERS?

A. No. As described in my direct testimony and herein, the Company admitted that some of the Brentwood plant will be used to serve “non-customers.” Even Mr. Hutton agrees with this fact, although he incorrectly believes it doesn’t matter (PAWC St. No. 2-R, p. 11).

1 **Q. DID PAWC PROVIDE ANY VALID REASON FOR NOT PROVIDING A**
2 **SEPARATE COSS IN ALL FUTURE RATE CASES?**

3 A. No. For the reasons set forth above and in my direct testimony, I continue to
4 recommend that PAWC provide a separate COSS in all future base rate cases for
5 the Brentwood system if the acquisition is approved (I&E St. No. 1, p. 17).
6

7 **TRANSACTION/CLOSING COSTS AND LEGAL FEES**

8 **Q. DID YOU ADDRESS A PROVISION IN THE ASSET PURCHASE**
9 **AGREEMENT CONCERNING BRENTWOOD'S ENGINEERING AND**
10 **LEGAL FEES?**

11 A. Yes. I recommended that PAWC not be permitted to recover engineering and
12 legal fees described in 3.01(d) of the Asset Purchase Agreement (I&E St. No. 1,
13 pp. 20-21).
14

15 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION**
16 **CONCERNING BRENTWOOD'S ENGINEERING AND LEGAL FEES?**

17 A. Yes. PAWC stated that it is obligated by the purchase agreement to pay these fees
18 but will separate the Brentwood costs included in its claim for transaction and
19 closing costs in the next base rate case (PAWC St. No. 3-R, p. 9).

1 **Q. IS THE PROPOSAL CONCERNING BRENTWOOD’S ENGINEERING**
2 **AND LEGAL FEES ACCEPTABLE?**

3 A. Yes, provided it includes all engineering and consulting fees and that any
4 assurance of rate recovery is not implied is clearly understood.
5

6 **PROPOSED RATE FREEZE**

7 **Q. DID YOU ADDRESS THE TWO-YEAR RATE FREEZE PROPOSED FOR**
8 **BRENTWOOD?**

9 A. Yes. I recommended that the two-year rate freeze for Brentwood customers not be
10 approved (I&E St. No. 1, p. 31).
11

12 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION**
13 **CONCERNING THE TWO-YEAR RATE FREEZE?**

14 A. Yes. PAWC stated that it would impute the increase for Brentwood customers in
15 the next base rate case. PAWC claims that this proposal will not harm existing
16 customers (PAWC St. No. 3-R, p. 2-3).
17

18 **Q. IS THE PROPOSAL CONCERNING BRENTWOOD’S RATE FREEZE**
19 **ACCEPTABLE?**

20 A. Yes. Therefore, I will withdraw my recommendation that the Commission reject
21 PAWC’s proposed two-year rate freeze for the Brentwood system. However, I
22 will note that the impact of potentially more than one base rate case increase

1 applying immediately to Brentwood customers upon the expiration of the rate
2 freeze, could result in a substantial burden to Brentwood customers.

3
4 **POTENTIAL FUTURE RATE IMPACT**

5 **Q. DOES YOUR DIRECT TESTIMONY DESCRIBE HOW YOU BELIEVE**
6 **THE ESTIMATED 16.5% INCREASE IS UNDERSTATED?**

7 A. Yes. While the 16.5% increase is based upon the purchase price, it included no
8 post-acquisition plant additions (I&E St. No. 1, pp. 25-26).

9
10 **Q. DID YOU DESCRIBE OTHER FACTORS THAT COULD CAUSE THE**
11 **REVENUE REQUIREMENT TO INCREASE MORE THAN DESCRIBED**
12 **ABOVE?**

13 A. Yes. As described in my direct testimony, the revenue requirement for Brentwood
14 and the rates paid by Brentwood customers will most likely increase as PAWC
15 acquires more systems and makes upgrades to existing systems (I&E St. No. 1, pp.
16 27-28).

17
18 **Q. DID YOU COMPARE THE PROJECTED INCREASES IN PRIOR**
19 **ACQUISITIONS WITH THE ACTUAL FILING INCREASES?**

20 A. Yes, as described in my direct testimony, PAWC has a history of under projecting
21 rate increases to customers in the application proceedings. Therefore, these
22 comparisons further support my belief that the projected rate increase in this

1 Application is also understated (I&E Ex. No. 1, Sch. 3 and I&E St. No. 1, pp 28-
2 30).

3
4 **Q. DID PAWC ADDRESS YOUR REVENUE COMPARISON OR**
5 **TESTIMONY STATING THAT THE PROPOSED RATE INCREASE IS**
6 **LIKELY UNDERSTATED?**

7 A. No. Therefore, I continue to believe that if this acquisition is approved by the
8 Commission, the projected rate increase will likely be more than originally
9 projected by PAWC (I&E Ex. No. 1, Sch. 3 and I&E St. No. 1, pp 28-30).

10
11 **OVERALL RECOMMENDATIONS**

12 **Q. WHAT IS I&E'S OVERALL RECOMMENDATION?**

13 A. As I explained above, I&E's overall recommendation is that the Commission reject
14 PAWC's Application for the following reasons:

- 15 • The Application does not provide sufficient affirmative public benefit for the
16 reasons stated above; and
- 17 • PAWC failed to identify and remove the plant from rate base used to serve
18 "non-customers" to establish a rate base in this proceeding. Therefore, this
19 Application cannot be approved because the purchase price \$19,363,443
20 includes plant that will not be "used and useful" in the provision of service to
21 customers.

1 If the Commission does not grant I&E's primary recommendation and approves the
2 Application, I&E recommends that it be approved with the following conditions:

- 3 • PAWC must be required to identify and remove the plant from rate base used
4 to serve "non-customers" to establish a rate base in this proceeding. This will
5 result in a lower rate base than the \$19,363,443 requested by the Company.
- 6 • PAWC should provide a separate cost of service study for the Brentwood
7 system in all future rate cases that identifies and removes the current and
8 future plant, and corresponding expenses used to serve "non-customers" that
9 is included in the Brentwood plant, return dollars, taxes, and expenses.
- 10 • The Commission should affirm that future base rate increases in the
11 Brentwood system are likely to be higher than projected by PAWC.

12
13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes. However, I reserve the right to supplement or revise my recommendations if
15 additional information is received that would alter my position in this surrebuttal
16 testimony.