

**Pennsylvania Public Utility Commission
Additional Guidelines for Utility Valuation Experts
2024 Final Supplemental Implementation Order**

General

1. 66 Pa.C.S. § 1329(a) requires the use of the current biennial edition of the Uniform Standards for Professional Appraisal Practice (USPAP) to develop cost, market, and income valuations of the Selling Utility. Valuations developed from outdated or expired editions of the USPAP do not constitute competent evidence and will not be accepted by the Commission as satisfying the Application Checklist.
2. By Order, the Commission recognizes the use of the Jurisdictional Exception Rule of the USPAP. Materials submitted in support of a request for Section 1329 fair market valuation pursuant to the USPAP must conform to applicable Pennsylvania law even if in conflict with USPAP. For purposes of Section 1329, Pennsylvania law includes the Pennsylvania Constitution, statutes, regulations, court precedent, and administrative rules and orders issued by administrative agencies.
3. UVEs, along with Seller and Buyer, must establish that a UVE:
 - a. is a Commission registered UVE
 - b. has no conflict of interest pursuant to the USPAP
 - c. fee is limited to 2.5% of fair market value
 - d. incorporated the licensed engineer's assessment of the tangible assets of the Selling Utility into the UVE appraisal as required by Section 1329(a)(4)
 - e. has verified that valuation methods used (cost, income and market) comply with the current edition of the USPAP
4. UVE materials submitted in support of a request for Section 1329 fair market valuation must:
 - a. Weigh each valuation result evenly: one-third for cost, one-third for market, and one-third for income, calculated as follows: $\text{Valuation Result} = (\text{Cost Approach Result} + \text{Income Approach Result} + \text{Market Approach Result}) / 3$. The Valuation Result is rounded to the nearest dollar.
 - b. If the UVE deviates from the default weights, the UVE must show good cause and explain the basis of the individual weight given to the cost, market, and income approach.
 - c. Use the Commission's quarterly earnings report for capital structure, cost of debt, cost of equity and weighted average cost of capital. The quarterly earnings report used must be contemporaneous with the production of the valuation.

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5. Both the Seller and Buyer UVE will support their respective appraisals with data and written direct testimony at the time a request for Section 1329 valuation is filed with the Commission. The Commission will not accept untimely direct testimony, or untimely testimony in the nature of direct, regarding a UVE appraisal.

Jurisdictional Exceptions

As a general matter, going concern, overhead, and erosion of cash flow or return add-ons shall not be included in appraisals under the cost, income, or market approaches.

Cost Approach

1. Cost approach may measure value by:
 - a. determining investment required to replace or reproduce future service capability
 - b. developing total cost less accrued depreciation for Selling Utility assets
 - c. determining the original cost of the system
2. Cost approach materials shall:
 - a. explain choice of reproduction cost vs. replacement cost
 - i. If the reproduction cost methodology is used, valuation of the collection mains will not be treated differently or as special circumstance, unless reasonably justified.
 - b. not adjust the cost of land by the ENR index
 - c. exclude overhead costs, future capital improvements, and going concern value
 - d. use consistent rate of inflation for all classes of assets, unless reasonably justified
 - e. include the original cost of the system and the original cost less depreciation, even if original cost was not the chosen measure of value

Income Approach

1. Income approach may measure value by:
 - a. Capitalization of earnings or cash flow
 - b. Discounted cash flow (DCF) method
2. Income approach materials shall exclude:

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- a. Going concern value
 - b. Future capital improvements
 - c. Erosion of cash flow or erosion on return
 - d. Rate base/rate of return methodology
3. Calculations done under the income approach will clearly describe the basis for discount rate(s) in the report rather than only in the exhibits. The following information should be provided about the discount rate(s) used:
- a. the capital structure used in the analysis with an explanation as to why the capital structure was selected
 - i. If Company's actual capital structure was not used, explain why.
 - b. the cost of equity used in the analysis, and the basis for the cost of equity
 - c. the cost of debt used in the analysis
 1. If the Company's actual cost of debt was not used, explain why not.
4. If a capitalization rate is used, the calculation of the capitalization rate and the basis for the growth rate will be disclosed and fully explained.

Market Approach

1. Market approach shall use the current customer count of the Selling Utility
2. Market approach shall exclude:
 - a. Future capital improvements
 - b. Any type of adjustment or adder in the nature of goodwill
3. Speculative growth adjustments will not be used. U.S. Census Data and relevant and applicable regional planning commission reports may be used as a basis to determine growth in a subject area.
4. The proxy group used for calculating market value should not be limited to only companies which engage in Pennsylvania fair market value acquisitions.
5. Net book financials multiplier shall not be used.
6. Comparable sales used to establish the valuation should not be limited to those that the UVE previously appraised.
7. Comparable sales used to establish the valuation should use the current customers.

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8. Comparable sales used to establish the valuation should not include the value of future capital improvement projects.