

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American :
Water Company under Sections 1102(a) and :
1329 of the Pennsylvania Public Utility Code, :
66 Pa C.S. § § 1102(a) and 1329, for approval :
of (1) the transfer, by sale, to Pennsylvania- :
American Water Company, of substantially :
all of the assets, properties and rights related :
to the wastewater treatment plant and :
collection system owned and operated by the : Docket Nos. A-2023-3038717, *et al.*
Elizabeth Borough Municipal Authority, :
(2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish :
wastewater service to the public in the :
Borough of Elizabeth, and portions of the :
Borough of Lincoln, and the Townships of :
Elizabeth and Forward, in Allegheny County, :
Pennsylvania :

**DIRECT TESTIMONY OF
STACEY D. GRESS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: September 27, 2024

PAWC Statement No. 3

**DIRECT TESTIMONY OF
STACEY D. GRESS**

Introduction

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Q. What is your name and address?

A. My name is Stacey D. Gress, and my business address is 1 Water Street, Camden, New Jersey 08102.

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 Director of Rates and Regulatory for Pennsylvania-American Water Company (“PAWC” or “the Company”). The Service Company is a wholly owned subsidiary of American Water Works Company, Inc. (“American Water”) that provides services to PAWC and its affiliates.

Q. Please summarize your educational background and professional experience.

A. I received a Master of Business Administration Degree, with a specialization in Finance, from Drexel University in 2007. I also hold a Bachelor of Arts Degree in Economics from Rutgers University, as well as an Associate in Science Degree for Business Administration from Camden County College. My employment with the Service Company and its affiliates began in February 2011. I began working with American Water Enterprises, LLC (“AWE”) as a Senior Financial Analyst supporting AWE’s market-based businesses, providing detailed financial analysis, and reporting the consolidated results for all AWE business units. In 2014, I assumed the position of a supervising Senior Financial Analyst in AWE’s Contract Services business unit, and, in 2016, I was promoted to Finance

1 Manager in the same department, overseeing financial reporting and coordinating the
2 budgets for systems at approximately forty locations that AWE operated under service
3 contracts. In 2017, I was selected as the first candidate to participate in a rotational program
4 with the AWWSC Regulatory Services department and provide support for a general rate
5 case and other regulatory filings. In this role, I was able to gain hands-on experience of all
6 aspects of the ratemaking process, including preparation of multiple exhibits in support of
7 the revenue requirement, as well as assistance with the review and analysis of both
8 company and intervenor testimony. Following the conclusion of the rotational program,
9 I became the Finance Manager for New Jersey-American Water and New York-American
10 Water. In October of 2018, I was promoted to Senior Manager Regulatory Services and in
11 May 2021 I was promoted to my current position of Director of Rates and Regulatory for
12 Pennsylvania-American Water. Prior to my employment with AWWSC, I served in
13 multiple finance and budget analyst roles in the healthcare industry at the Independence
14 Blue Cross family of companies.

15
16 **Q. Have you previously submitted testimony before the Pennsylvania Public Utility**
17 **Commission (the “Commission” or “PUC”)?**

18 **A.** Yes. I prepared and provided testimony in PAWC’s base rate cases at Docket Nos. R-
19 2020-3019369, R-2022-3031672, and R-2023-3043189. In addition, I have testified before
20 the West Virginia Public Service Commission on behalf of another American Water
21 subsidiary, West Virginia-American Water.

22
23 **Q. What is the purpose of your testimony in this proceeding?**

1 wastewater service meeting all federal and state requirements is provided to the System's
2 customers and maintained for PAWC's existing customers.

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

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

11
12 **Line of Credit**

13 PAWC presently has liquidity through a \$495 million line of credit through American
14 Water Capital Corp. ("AWCC"), a wholly owned subsidiary of American Water Works
15 Company, Inc. ("American Water"). PAWC's strong credit ratings allow PAWC to obtain
16 additional capacity on this line of credit.

17
18 **Long Term Debt Financing**

19 PAWC carries a corporate credit rating of "A3" from Moody's Investors Services and an
20 "A" rating from Standard and Poor's Rating Services. PAWC obtains long-term debt
21 financing through AWCC at favorable interest rates and payment terms. When applicable,
22 PAWC also uses low-cost financing through the Pennsylvania Infrastructure Investment

1 Authority (“PENNVEST”) and the Pennsylvania Economic Development Financing
2 Authority (“PEDFA”).

3 **Equity Investments**

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

6
7 **Q. Please explain how PAWC intends to fund the Transaction.**

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

10
11 **Q. What impact, if any, do you anticipate that the acquisition of the System will have on
12 PAWC’s corporate credit ratings?**

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

15
16 **Q. Do you anticipate the Transaction harming PAWC’s financial status in any manner?**

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

1 FAIR MARKET VALUE RATEMAKING RATE BASE

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

3 **A.** As discussed in the testimony of my colleague Marcus Kohl, the Company completed a
4 Reasonableness Review Ratio (“RRR”) analysis to determine its requested ratemaking rate
5 base. The RRR calculation multiplies the depreciated original cost (“DOC”) of a system
6 by the RRR determined by the Commission, which is currently 1.68. The average DOC of
7 the system based on the appraisals of the buyer’s Utility Valuation Expert (“UVE”) and
8 the seller’s UVE is \$16,649,511. The RRR multiplied by the DOC is \$27,971,178.
9 PAWC’s negotiated purchase price for the acquired assets is \$28,000,000, which is
10 approximately \$29,000 higher than the RRR analysis recommends. Accordingly, PAWC
11 is only seeking to include \$27,971,178 in its ratemaking rate case.

12 Note, however, that PAWC reserves its right in future proceedings to make rate
13 base claims related to the acquisition as may otherwise be permitted under the Pennsylvania
14 Public Utility Code (“Code”).

15
16 **Q. Please summarize how the Company proposes to record the Transaction.**

17 **A.** As shown on **Appendix A-15-f**, the Company seeks approval to record the \$27,971,178
18 net value of the assets on its books. The Company requests to record the acquisition on a
19 net basis consistent with generally accepted accounting principles, which advise that
20 property, plant and equipment acquired in a business combination intended to be held and
21 used should be recognized and measured at fair value, and that the accumulated
22 depreciation of the acquiree is not carried forward in a business combination (*i.e.*, net

1 presentation).¹ Permitting PAWC to use this accounting treatment for the assets would be
2 consistent with the Commission’s decision in *Application of Pennsylvania-American*
3 *Water Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa.*
4 *C.S. § 1102(a), for Approval of the Transfer, by Sale, to Pennsylvania-American Water*
5 *Company, of Substantially All of the Assets, Properties and Rights Related to the*
6 *Wastewater Collection and Treatment System Owned by the York City Sewer Authority and*
7 *Operated by the City of York, Docket Nos. A-2021-3024681 et al.* (Final Order entered
8 April 14, 2022) ¶ 3(h) and *Application of Pennsylvania-American Water Company ,*
9 *pursuant to 66 Pa. C.S. §§ 1102 and 1329 for Approval of the Acquisition of the Butler*
10 *Area Sewer Authority, Docket No. A-2022-3037047* (Order entered November 16, 2023)
11 ¶ 14.

12 Section 1329(c) provides that the “ratemaking rate base” is to be incorporated into
13 PAWC’s rate base. As discussed above, the Company requests the Commission approve
14 \$27,971,178 as the ratemaking rate base for the System.² Since Section 1329 does not
15 address the proper accounting treatment of the rate base or approval of a depreciation
16 reserve in determining the ratemaking rate base, the Company believes that recording
17 \$27,971,178, on a net basis, is appropriate and consistent with Section 1329.

18 **ASSET PURCHASE AGREEMENT RATE PROVISIONS**

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

¹ ASC 805-20 *Business Combinations – Identifiable Assets and Liabilities, and any Noncontrolling Interest* and ASC 820-10-30 *Fair Value Measurement – Initial Measurement.*

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). As discussed in PAWC Statement No. 1, PAWC is seeking to place \$27,971,178 into rate base, which is PAWC’s purchase price reduced by \$28,822, based on the RRR analysis.

1 A. Section 6.10 of the APA contains provisions related to rates. PAWC has committed to
2 adopt, upon closing of the Transaction (“Closing”), the Authority’s monthly base rates.
3 These rates are shown on Schedule 6.10 to the APA.

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

11 Section 6.10 provides that PAWC shall not charge a Distribution System
12 Improvement Charge (“DSIC”) to former Authority customers prior to the first revision of
13 PAWC’s Long Term Infrastructure Improvement Plan that occurs after Closing or the
14 effective date of PAWC’s next PUC-approved base rate increase, whichever is sooner.

15
16 **Q. Please provide an overview of PAWC Exhibit SDG-2.**

17 A. PAWC will implement the Authority’s EDU allocations, consistent with the Section 1329
18 requirement to take on existing rates. PAWC’s current active tariff provides that for
19 customers acquired by the Company through a purchase or acquisition, information on the
20 equivalent dwelling units is available at the Company’s website. The EDU allocation for

³ Application of Pennsylvania-American Water Company , pursuant to 66 Pa. C.S. §§ 1102 and 1329 for Approval of the Acquisition of the Butler Area Sewer Authority, Docket No. A-2022-3037047 (Order entered November 16, 2023) ¶ 14, page 20, Section D.20, acknowledges that IPP fees are miscellaneous fees that may be applied to acquired customers, rather than existing rates that must be adopted by the acquiring utility pursuant to Section 1329(d)(v).

1 the Authority that will be posted to PAWC's website is attached to my testimony as **PAWC**
2 **Exhibit SDG-2.**

3
4 **Q. What impact, if any, will there be on the rates of the Authority's customers as a result**
5 **of the acquisition of the System?**

6 **A.** There will be no immediate impact on the rates of the Authority's customers because
7 PAWC has committed to adopt, upon Closing, the Authority's rates in effect at the time of
8 Closing. PAWC expects to propose to move the Authority's rates toward consolidated
9 rates in future base rate cases. Subject to Commission approval, PAWC anticipates
10 allocating a portion of its wastewater revenue requirement to the combined water and
11 wastewater customer base, as permitted by 66 Pa. C.S. § 1311(c).

12
13 **Q. What impact, if any, will there be on the rates of PAWC's current water and**
14 **wastewater customers as a result of the acquisition of the System?**

15 **A.** There will be no immediate impact on the rates of PAWC's current water and wastewater
16 customers. PAWC expects to include the Authority's wastewater system in PAWC's
17 future base rate filings. Any impacts on the rates of PAWC's existing water and wastewater
18 customers would occur only after a Commission decision in a base rate proceeding. A non-
19 binding estimate of possible rate impacts for existing water and wastewater customers is
20 shown in **Appendix A-18-d** and discussed in the Customer Notice section below. The
21 Authority's customers, as part of PAWC's overall customer base, will become part of
22 PAWC's overall cost allocation. Nothing contained in the APA would bind the
23 Commission or other interested parties in future ratemaking proceedings.

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

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

9

10 **CUSTOMER NOTICE AND POTENTIAL RATE IMPACT**

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

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

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

19 **A.** These notices were prepared in accordance with the *2024 Final Supplemental*
20 *Implementation Order (“2024 FSIO”).*⁴ This Order prescribes the form and calculation
21 of the notices for future Section 1329 acquisition proceedings. As required by the Order,
22 the notices included in **Appendix A-18-d** are calculated to show the impact as if the entire

⁴ *Valuation of Acquired Municipal Water and Wastewater Systems – Act 12 of 2016 Implementation*, Docket No. M-2016-2543193 (Opinion and Order entered July 2, 2024) (“2024 FSIO”).

1 revenue requirement deficiency were allocated to System customers, existing PAWC water
2 customers, and existing PAWC wastewater customers. The rate impacts resulting from
3 these calculations are discussed in more detail below.

4
5 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**
6 **the Authority’s customers.**

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

Authority Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at the Authority’s Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,201 gal/month	\$60.61	\$124.13	104.8%
Commercial	22,094 gal/month	\$211.75	\$433.66	104.8%

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11
12 The 104.8% increase shown in the chart above is calculated as 100% of the revenue
13 deficiency, divided by the Year One revenues of the System. The current average monthly
14 bill is calculated using the Authority’s wastewater rates and the average usage for each
15 customer class as reflected in the filing of PAWC’s most recently approved base rate case
16 (Docket No. R-2023-3043189).

17
18 **Q. If this Transaction is not approved, would the Authority’s customers experience a**
19 **rate increase?**

20 **A.** Yes, as further discussed in the direct testimony of the Authority’s witness Timothy
21 Guffey, if this Transaction does not close, the Authority would incur environmental

1 compliance costs of approximately \$16 million. This cost expenditure would require the
 2 Authority to increase its monthly bill for an average residential customer utilizing 3,000
 3 gallons to approximately \$95.80. By contrast, PAWC’s current average month combined
 4 sewer system bill for residential customers utilizing 3,000 gallons is \$98.35.

5
 6 **Q. Please summarize the rate impact calculation in the notice to PAWC wastewater**
 7 **customers.**

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

10

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2023 Rates	Average Monthly Bill at PAWC Zone 1 2023 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,201 gal/month	\$109.55	\$110.76	1.1%
Commercial	22,094 gal/month	\$522.46	\$528.21	1.1%
Industrial	685,947 gal/month	\$15,117.93	\$15,284.23	1.1%

11
 12 The 1.1% increase shown in the chart above is calculated by dividing 100% of the
 13 revenue deficiency, by PAWC’s applicable wastewater revenues from PAWC’s most
 14 recent base rate case.

15
 16 **Q. Please summarize the calculation of the potential rate impact shown in the notice to**
 17 **PAWC water customers.**

18 **A.** As shown in **Appendix A-18-d**, the notice to PAWC’s existing water customers shows the
 19 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 2023 Rates	Average Monthly Bill at PAWC Zone 1 2023 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,201 gal/month	\$78.89	\$79.05	0.2%
Commercial	22,094 gal/month	\$419.34	\$420.18	0.2%
Industrial	685,947 gal/month	\$8,863.12	\$8,880.85	0.2%

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The 0.2% increase shown in the chart above represents the potential impact on PAWC water customers if the revenue deficiency were entirely allocated 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 August 7, 2024 and the average usage for each customer class as reflected in the filing of PAWC’s most recent base rate case (Docket No. R-2023-3043189). The average monthly bill for PAWC Zone 1 customers after acquisition is calculated by increasing the average monthly bill amounts by the 0.2% increase, which was calculated as explained above. Please refer to **PAWC Exhibit SDG-1** for the calculation of the customer notice.

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 four tiers of discount,

1 with the discount level dependent on the customer’s percentage of Federal Poverty Level
2 (“FPL”). The tariff discounts are summarized below.⁵

	Tier 1 (0-50% FPL)	Tier 2 (51-100% FPL)	Tier 3 (101-150% FPL)	Tier 4 (151-200% FPL)
Water Service Charge Discount	90%	75%	60%	30%
Water Usage Charge Discount	80%	65%	40%	20%
Wastewater Total Bill Discount	85%	73%	55%	37%

3

4 **Q. Will Authority customers be eligible for these discounts upon acquisition?**

5 **A.** Yes. Because PAWC is already the water provider for some Authority customers, any
6 customers enrolled in the low income discount for their water service will be automatically
7 enrolled in the discount for wastewater service at the time of Closing. For those Authority
8 customers who are not currently a PAWC water customer, they will have the option of
9 enrolling into the bill discount program for their wastewater bill if they meet the eligibility
10 requirements.

11 In addition, the Company is in the process of launching its Arrearage Management
12 Program (“AMP”), which will provide monthly forgiveness credits applied to customers’
13 account arrearages when customers make full and timely payments under the bill discount
14 program. Finally, customers with a household income of 250% of the FPL and below are
15 eligible for annual wastewater grants of up to \$500 under PAWC’s H2O Help to Others
16 program.

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

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

3 **A.** PAWC’s low-income discount program provides discounts between 30% and 90% of the
4 water and wastewater bill to customers with an FPL of 200% or less. These discounts have
5 a small impact on customer’s bills of approximately \$2.41 per month for residential water
6 customers and approximately \$4.03 per month for residential wastewater customers.⁶

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8 **TRANSACTION AND CLOSING COSTS**

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

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

16 As a practical matter, the exact extent of such costs cannot be known at the time of
17 filing the Application and will not be finally known until after Closing. The costs depend
18 on a number of variables, including whether this Application is settled or fully litigated.
19 PAWC will track such costs and incorporate them into rate base in a future base rate
20 proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is
21 PAWC’s estimate of the anticipated transaction and closing costs (approximately \$1.1
22 million).

⁶ The amounts shown in this paragraph are calculated as the discounted revenue divided by the number of residential customers at Docket No. R-2023-3043189.

POST-ACQUISITION IMPROVEMENT COSTS

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

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

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

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

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

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

5 **COST OF SERVICE STUDY IN FUTURE BASE RATE CASE**

6 **Q. Please provide an overview of the separate cost of service study (“COSS”) directive**
7 **from the Order approving the Company’s last base rate case at Docket No. R-2023-**
8 **3043189.**

9 A. Page 217 of the Commission Order approving the Company’s last base rate case included
10 a directive requiring PAWC to prepare separate COSSs for new Section 1329 acquisitions
11 in the first base rate proceeding where those systems are included in PAWC’s revenue
12 requirement. In addition, footnote 94 indicated that the grouping for the COSS should
13 include only non-CSS wastewater Section 1329 systems and that the CSS wastewater
14 systems acquired under 1329 should be included in the separate COSS for CSS wastewater
15 systems.

16
17 **Q. Please explain how the Company will reflect the COSS and revenue requirement for**
18 **the Authority in a base rate case.**

19 A. In the first base rate case in which the Authority is included, the Company will complete a
20 separate COSS for the Authority’s system, and reflect a revenue requirement separate from
21 the existing CSS wastewater customers. In subsequent base rate filings, the Authority will
22 be grouped into the COSS and revenue requirement for all CSS wastewater systems.

1 AUTHENTICATION OF APPLICATION APPENDICES

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

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

5
6 **Q. Please identify which application appendices were prepared by you or under your
7 supervision and control?**

8 **A.** **Appendix A-10** is the Company's estimate of the anticipated range of transaction and
9 closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the
10 Application. In addition, based on financial statements provided by the Authority and on
11 PAWC's audited financial statements, the following appendices were prepared: **Appendix**
12 **C** (audited balance sheet of the Authority as of December 31, 2023), **Appendix D** (audited
13 balance sheet of PAWC as of December 31, 2023), **Appendix E** (audited income statement
14 of the Authority for the 12 months ended December 31, 2023), **Appendix F** (audited
15 income statement of PAWC for the 12 months ended December 31, 2023), **Appendix G**
16 (*pro forma* balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma*
17 consolidated income statement of PAWC and the Authority for 12 months) and
18 **Appendix K** (estimated annual revenues and expenses).

19
20 **Q. Are Appendices A-10 and A-12, Appendices C through H, and Appendix K true and
21 correct to the best of your knowledge, information, and belief?**

22 **A.** Yes.

CONCLUSION

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Q. Does this conclude your direct testimony?

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

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Elizabeth Borough Municipal Authority
Docket No. A-2023-3038717

Elizabeth Borough Municipal Authority Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Elizabeth Borough Municipal Authority Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,201 gal/month	\$60.61	\$124.13	\$63.52 or 104.8%
Commercial	22,094 gal/month	\$211.75	\$433.66	\$221.91 or 104.8%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,201 gal/month	\$109.55	\$110.76	\$1.21 or 1.1%
Commercial	22,094 gal/month	\$522.46	\$528.21	\$5.75 or 1.1%
Industrial	685,947 gal/month	\$15,117.93	\$15,284.23	\$166.30 or 1.1%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Rates	Average Monthly Bill at PAWC Zone 1 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,201 gal/month	\$78.89	\$79.05	\$0.16 or 0.2%
Commercial	22,094 gal/month	\$419.34	\$420.18	\$0.84 or 0.2%
Industrial	685,947 gal/month	\$8,863.12	\$8,880.85	\$17.73 or 0.2%

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Elizabeth Borough Municipal Authority
Docket No. A-2023-3038717

Elizabeth Borough Municipal Authority
Wastewater

PAWC - Wastewater

PAWC - Water

Residential		
	Rate per EDU	\$35.00
32.01	0.8000	25.61
		\$60.61

Zone 1 - Residential		
	Service Charge	\$15.00
32.01	2.9539	94.55
		\$109.55

Zone 1 - Residential		
5/8"	Service Charge	\$18.80
32.01	1.8772	60.09
		\$78.89

Rate Impact $\frac{104.8\%}{\$63.52}$

Rate Impact $\frac{1.1\%}{\$1.21}$

Rate Impact $\frac{0.2\%}{\$0.16}$

Total \$124.13

Total \$110.76

Total \$79.05

Commercial		
	Rate per EDU	\$35.00
220.94	0.8000	176.75
		\$211.75

Zone 1 - Commercial		
	Service Charge	\$36.70
220.94	2.1986	485.76
		\$522.46

Zone 1 - Commercial		
1"	Service Charge	\$48.40
160.00	1.8033	288.53
60.94	1.3523	82.41
220.94		
		\$419.34

Rate Impact $\frac{104.8\%}{\$221.91}$

Rate Impact $\frac{1.1\%}{\$5.75}$

Rate Impact $\frac{0.2\%}{\$0.84}$

Total \$433.66

Total \$528.21

Total \$420.18

Industrial		
	Rate per EDU	N/A

Zone 1 - Industrial		
	Service Charge	\$36.70
6,859.47	2.1986	15,081.23
		15,117.93

Zone 1 - Industrial		
2"	Service Charge	\$224.00
160.00	1.6720	267.52
5,840.00	1.2860	7,510.24
859.47	1.0022	861.36
6,000.00		
		8,863.12

Rate Impact $\frac{N/A}{}$

Rate Impact $\frac{1.1\%}{\$166.30}$

Rate Impact $\frac{0.2\%}{\$17.73}$

Total

Total \$15,284.23

Total \$8,880.85

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Elizabeth Borough Municipal Authority
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Estimated Rate Increase

Increase applied to Acquired System Customers	
Revenue Requirement Increase	\$ 1,915,779
Current Elizabeth Borough Municipal Authority Wastewater revenues	1,827,402
Estimated Increase to wastewater customers	104.8%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 1,915,779
PAWC Wastewater Revenues (R-2023-3043189 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	174,906,969
Estimated Increase to wastewater customers	1.1%

Amount of increase allocated to water customers:	
Revenue Requirement Increase	\$ 1,915,779
PAWC Water Revenues (R-2023-3043189 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	890,733,518
Estimated Increase to Water Customers	0.2%

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Revenue Requirement Increase

Rate Base	\$	27,971,178	Appendix A-11
Rate of Return %		7.15%	See Calculations
Rate of Return		<u>2,000,000</u>	
O&M		546,000	Appendix K
Taxes Other		52,788	Appendix K
Depreciation		618,393	Appendix K
Taxes		526,000	See Calculations
Revenue Requirement		3,743,181	
Elizabeth Borough Municipal Authority Wastewater Year-1 Revenues		1,827,402	Appendix K
Revenue Requirement Increase		1,915,779	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Elizabeth Borough Municipal Authority
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Income Tax Calculation

Revenue Requirement	
Rate Base	\$ 27,971,178
Pretax ROR %	9.03%
Pretax ROR	2,526,000
Plus: O&M Expense	546,000
Taxes Other	52,788
Depreciation	618,393
Total Revenue Requirement	3,743,181

Income Tax Calculation	
Revenues	\$ 3,743,181
Less: O&M Expense	546,000
Taxes Other	52,788
Depreciation	618,393
Interest	601,000
SIT Taxable Income	1,925,000
State Income Tax Rate	7.99%
State Income Tax	154,000
FIT Taxable Income	1,771,000
Federal Income Tax Rate	21.00%
Federal Income Tax	372,000
Total Income Taxes	526,000

Interest	
Rate Base	\$ 27,971,178
Weighted Cost of Debt (2.03% + 0.12%)	2.15%
	\$ 601,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	42.73%	4.76%	2.03%		2.03%
Wastewater Financing	4.40%	2.67%	0.12%		0.12%
Preferred Stock	0.00%	0.00%	0.00%	1.37574	0.00%
Common Equity	52.87%	9.45%	5.00%	1.37574	6.88%
			7.15%		9.03%

Capital Structure, Cost of Debt, and Cost of Equity are based on PAWC's last wastewater base rate case.
Docket No. R-2023-3043189, Order Entered July 22, 2024, page 200.
State Income Tax Rate of 7.99% in effect 1/1/2025

Revenue 'Multiplier

Statutory State Tax Rate	0.0799
Statutory Federal Tax Rate	0.21
1- State Tax Rate	0.9201
Fed Rate Times (1-State Tax Rate)	0.193221
Effective Tax Rate	0.273121
1-Eff Tax Rate	0.726879
Reciprocal	1.37574

Pennsylvania American Water Company
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Operating Revenue Assumptions

Service Charge	Units	Rate	Revenue
Residential	7,548	35.000	264,180
Commercial	816	35.000	28,560
Other Public Authority	36	35.000	1,260
Bulk Municipal	17,880	35.000	625,800
Bulk Municipal - Flat Rate	36	37.750	1,359
			921,159

Usage Charge	Units	Rate	Revenue
Residential	230,192	0.8000	184,154
Commercial	48,030	0.8000	38,424
Other Public Authority	1,122	0.8000	898
Bulk Municipal	853,460	0.8000	682,768
			906,244

Total Revenues			1,827,402
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Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Elizabeth Borough Municipal Authority
Docket No. A-2023-3038717

O&M and General Tax Assumptions

Operating and Maintenance Expenses

Labor and Labor Related	\$223,000
Fuel & Power	45,000
Chemicals	38,000
Waste Disposal	76,000
Management Fees	2,000
Insurance Other Than Group	45,000
Maintenance	71,000
Customer Accounting	18,000
General Office Expense	6,000
Miscellaneous	22,000
Total O&M	\$546,000

General Taxes

Property Tax	\$27,000
Regulatory Assessment	12,834
Payroll Taxes	12,954
Total General Taxes	\$52,788

PENNSYLVANIA-AMERICAN WATER COMPANY

Related to Section A, Rule 26. Equivalent Dwelling Units or EDU

For existing customers in Elizabeth Borough that are connected to the system prior to the Company's acquisition, the number of equivalent dwelling units is determined as follows:

Unit Schedule for Elizabeth Borough Municipal Authority	
Category	Units
Each Residential Premise	1
Multiple Residential Connections Number of units within the building	1

Non-residential buildings: Number of EDUs determined for each billing period by dividing water usage for the billing period by 260 gallons per day.

For new customers in Elizabeth Borough that connect to the system after the Company's acquisition or existing customers who modify their properties in a manner that impacts the EDU calculation, the number of equivalent dwelling units will be subject to the EDU definition described in Rule 26, as calculated by the PaDEP Regulation at 25 Pa Code § 73.17 divided by the typical estimated average daily wastewater flow from a current single-family unit.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**In re: Application of Pennsylvania- :
American Water Company under Sections :
1102(a) and 1329 of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § § 1102(a) :
and 1329, for approval of (1) the transfer, :
by sale, to Pennsylvania-American Water :
Company, of substantially all of the assets, :
properties and rights related to the :
wastewater treatment plant and collection : **Docket Nos. A-2023-3038717, et al.**
system owned and operated by the :
Elizabeth Borough Municipal Authority, :
(2) the rights of Pennsylvania-American :
Water Company to begin to offer or :
furnish wastewater service to the public in :
the Borough of Elizabeth, and portions of :
the Borough of Lincoln, and the Townships :
of Elizabeth and Forward, in Allegheny :
County, Pennsylvania :**

VERIFICATION

I, Stacey D. Gress, hereby state that the facts set forth in PAWC Statement No. 3 and accompanying exhibits, if any, are true and correct to the best of my knowledge, information, and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: September 27, 2024



Stacey D. Gress
Director of Rates and Regulatory
Pennsylvania-American Water Company