

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17120

**Appalachian Utilities Inc. and
Pennsylvania American Water Company**

**Public Meeting held September 11, 2025
3046068-OSA
Docket No. A-2024-3046068 et al.**

STATEMENT OF VICE CHAIR KIMBERLY BARROW

This matter concerns the Joint Application filed pursuant to Section 1102 (a) of the Public Utility Code (Code), 66 Pa. C.S. § 1102 (a), for Pennsylvania American Water Company (PAWC or Company) to acquire by sale and merger all of the assets of Appalachian Utilities, Inc. (Appalachian) in the Borough of Avis, and Townships of Pine Creek and Dunstable, Clinton County. Appalachian also seeks authorization to transfer 40% of the stock of its sole owner, Mr. Frank R. Sargent, to a long-term employee, contingent upon approval of the Joint Application (Stock Transfer Application).

Before the Commission for consideration and disposition are the Exceptions of PAWC and Appalachian, filed on March 12, 2025. The Exceptions were filed in response to the Recommended Decision of Administrative Law Judge (ALJ) Conrad A. Johnson, which denied the Joint Application and the Stock Transfer Application.¹

According to the Joint Applicants, there is a need to sell the system because the current owner of Appalachian, Mr. Sargent, wishes to retire and exit the public utility business after 30 years, Appalachian is faced with numerous technical, system and regulatory challenges, and that Appalachian is under severe financial pressure and has very limited options to access capital to make the necessary improvement so that it can continue to legally operate.²

It is important to highlight some facts in the instant transaction:

- As of February 2024, Appalachian provided water service to approximately 1,456 customers (1,353 residential, 83 commercial, 3 industrial, 7 public, 9 fire hydrant and 1 “other”).
- Appalachian has a limited workforce (a total of 3 employees).
- Appalachian’s non-revenue water is close to 20%, which is close to the 20% industry standard considered to be excessive.³
- Appalachian has not increased its rates since 2016 and has been operating at a deficit the past two years (Appalachian had a negative net income of \$90,185 in 2023 and \$31,711 in 2024).
- The operational issues (monitoring and reporting) of Appalachian resulted in several notices of violation issued by the Pennsylvania Department of

¹ R.D. at 2, 19, 32.

² Appalachian St. 1 at 3.

³ PAWC M.B. at 20.

Environmental Protection (DEP) in the last four years.⁴ However, Appalachian does not currently have any known DEP violations or Corrective Action Plans.⁵

- Appalachian recently received a notice of non-compliance from the Commission regarding its Lead Service Line Replacement Program at Docket No. L-2020-3019521.⁶
- The total purchase price for Appalachian’s water system is significantly higher (\$3,500,000 or 250%) than the depreciated original cost of the system minus customer contributions for the year ended December 31, 2023.
- The Office of Consumer Advocate and the Office of Small Business Advocate calculated the depreciated original cost of the Appalachian water system as \$1,396,252 less customer contributions as of December 31, 2023.⁷
- PAWC anticipates making capital investments to the Appalachian water system of approximately \$6,262,500 during the first five years of ownership.⁸
- PAWC avers that if the transaction is approved, somewhere between \$1,396,252 and \$3,500,000 will be placed in rate base. This means customers face the risk of the total purchase price of \$3,500,000 rather than the depreciated value of the system of \$1,396,252, being placed in rate base or PAWC faces the risk of being allowed to only place the depreciated value of the systems in rate base and have its shareholders fund the difference.

It is clear from the record that PAWC is paying a significantly higher amount (more than twice the cost) for the water system than its depreciated original cost. I understand that because this is not a Section 1329 proceeding, the rate base that PAWC may potentially claim in a future base rate case proceeding is not fully known at this time. Further, PAWC has not requested Section 1327 treatment of the transaction in this proceeding.

Classifying the rate impact of the purchase price of the water system as completely speculative, PAWC argued that it should not be considered a “known harm” of the transaction and should be given little weight when weighing the benefits against the detriments of the transaction.⁹

For PAWC to say that the Commission should not give much weight, or in other words, largely ignore, the cost and rate impact of the deal, be it \$2 million or \$4 million, is to ask the Commission to minimize facts that are part of this record. “Simply, by approving the sale and then putting off the consideration of the impact on rates to a later rate base proceeding, the Commission cannot do the balancing test required by Section 1102 of the Code to weigh all the factors for and against the transaction, including the impact on rates, to determine if there is a substantial public benefit. It is in **this proceeding** that the Commission is charged with deciding whether the impact on rates . . . was outweighed by the other positive factors that the acquisition served a substantial public benefit.”¹⁰

⁴ Appalachian St. 1-R at 6.

⁵ OCA St. 1 at 9; Exh. MND-1.

⁶ Appalachian Exc. at 8.

⁷ OCA St. 1R at 5; OSBA St. 1 at 7.

⁸ PAWC M.B. at 19.

⁹ PAWC M.B. at 13-31.

¹⁰ Id. at 1067 (emphasis added).

Here, the rate impact will be between \$1.39 million and \$3.5 million, those facts are uncontroverted. If the entire \$3.5 million is claimed, which would be a 250% premium over depreciated original cost, the beneficial capital investments that PAWC projects will result in a \$458,000 annual revenue deficiency for the system.¹¹ “Because *City of York* requires the impact on rates to be considered, the Commission must address that impact when deciding whether there is substantial public benefit. Contrary to its contention that impact on rates can only be addressed in a rate base case, the impact on rates can be addressed without all the cost-of-service studies, rate base valuations or rate-of-return calculations. All that *City of York* requires is that the impact be addressed “in a general fashion.””¹²

I believe that this Joint Application should be granted for many, but not all, of the reasons provided by the Joint Applicants that are listed above. However, in carrying out the balancing test required by Section 1102 of the Code, I believe that approval of this transaction should be conditioned on limiting the rate base claim for the acquisition to a figure much closer to the depreciated original cost of the facilities. This would appropriately balance benefits and harms.

Acquisition of Appalachian strengthens PAWC’s finances simply by the addition of customer accounts, whether PAWC pays net book value or overpays by 250%. However, overpaying for the system is unnecessary and harms both Appalachian’s and PAWC’s customers. PAWC’s shareholders are held harmless from overpayment because that cost is ultimately assessed to customers. Any overpayment should be absorbed by PAWC’s shareholders as they will benefit either way.

September 11, 2025



Kimberly Barrow, Vice Chair

¹¹ OCA M.B. at 11-16.

¹² *McCloskey v. Pa. PUC*, 195 A.3d at 1066