

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17120**

**Application of Aqua Pennsylvania
Wastewater, Inc. Pursuant to
Sections 1102, 1329 and 507 of the
Public Utility Code for Approval of
its Acquisition of the Wastewater
System Assets of Cheltenham
Township and Contracts between
Aqua Pennsylvania Wastewater, Inc.
and Cheltenham Township**

**Public Meeting October 24, 2019
3008491-OSA
Docket No. A-2019-3008491**

MOTION OF COMMISSIONER JOHN F. COLEMAN, JR.

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the Application for the acquisition of the wastewater system assets of Cheltenham Township (Cheltenham) by Aqua Pennsylvania Wastewater, Inc. (Aqua) and to approve the ratemaking rate base as determined by 66 Pa C.S. §§ 1102 and 1329. Additionally, Aqua seeks approval, pursuant to Section 507 of the Code, for nine contracts between it and Cheltenham necessary to effectuate the transaction. As part of the filing requirements, Aqua and Cheltenham engaged Utility Valuation Experts to perform fair market value analyses of the system in accordance with the Uniform Standards of Professional Appraisal Practice. The two valuations resulted in an average fair market value of \$51,726,000 which is higher than the purchase price of \$50,250,000 and so the ratemaking rate base was proposed to be set at the purchase price.

Administrative Law Judge Angela T. Jones issued a Recommended Decision (RD) on August 14, 2019, recommending approval of the Application, subject to certain conditions. The ALJ recommended accepting the valuation performed by Harold Walker III of Gannet Fleming Valuation and Rate Consultants, LLC (Gannet), but recommended adjusting the valuation of Jerome C. Weinert of AUS Consultants, Inc. (AUS). ALJ Jones accepted adjustments to AUS' valuation as recommended by the Office of Consumer Advocate (OCA) concerning the service lives for mains, laterals, and manholes; a correction to the in-service date of a CCTV truck; and the inclusion of all Section 1329 acquisitions in the proxy group of the market approach and the use of a simple average. The result of the adjustments recommended by the ALJ results in a ratemaking base value of \$44,558,259.

AUS' appraisal used a 90-year service life for mains, laterals, and manholes. The OCA adjusted the service life from 90 years to 75 years and argued that AUS has typically assigned gravity collection systems a service life between 65 and 75 years. The OCA also stated that in previous appraisals, AUS indicated a 75-year service life for vitrified clay pipe which is also installed in the Cheltenham system. In addition, the OCA compared the AUS recommendation of 90 years to Gannet's service lives of 75-years for mains, 65-years for manholes, and 60-years for laterals. The ALJ agreed with the OCA's adjustment which results in decreases of \$12,319,324 to the cost approach, \$13,863,877 to the income approach, and \$11,845,305 to the market approach based on 75-year service lives.

The ALJ also noted that AUS recorded a CCTV video truck asset as being installed in 2018 while the engineer's asset inventory recorded the truck as purchased in 2016. This correction to the in-service date resulted in an adjustment of \$56,028 to the cost approach.

The final adjustment accepted by the ALJ was to the market approach. To determine a value for the market approach, AUS created a proxy group of acquisitions that the Commission has approved and have closed. AUS' proxy group excluded the acquisitions of East Bradford¹ and Mahoning² Townships claiming they were outliers because they had a low ratio of purchase price to reproduction cost new less accumulated depreciation. The OCA argued that the two acquisitions are similar to Cheltenham since they include wastewater systems that are conveyance systems and do not include treatment plants and therefore merit inclusion in the proxy group. AUS' market approach also used a weighted average that gave more weight to larger systems. The ALJ agreed with the OCA's adjustments to include the East Bradford and Mahoning Township acquisitions and to use a simple average resulting in an adjustment to AUS' market approach of \$1,261,505.

The ALJ also concluded that Aqua met its burden to show that it was fit to acquire Cheltenham and serve its customers. The ALJ also recommended approval of the nine contracts entered into between Aqua and Cheltenham, finding that Aqua had met its burden to show that they are reasonable, legal and valid.

An Applicant must also show, by a preponderance of the evidence, that the acquisition is in the public interest as it will result in affirmative public benefits. The ALJ accepted that Cheltenham will become part of a larger system and will realize certain operating efficiencies as a result of consolidation. The ALJ accepted that Aqua will be acquiring the system at a rate cost per customer of \$4,920, which is less than Aqua's current rate base per customer of \$7,650. The ALJ recommended approval of a stipulation entered into by Aqua and our Bureau of Investigation and Enforcement (I&E). This stipulation requires Aqua to undertake an assessment of its infrastructure, a leak assessment, and a study of its infiltration and inflow issues, and share those results with I&E and OCA. Aqua also agreed to certain cost containment measures and will file a cost of service study in the next rate case.

The record relied on by the ALJ demonstrated that Cheltenham Township wastewater system has had chronic high inflow and infiltration and sanitary sewer overflows for the past 19 years. It has had several Corrective Action Plans with the Pennsylvania Department of Environmental Protection (DEP), the most recent of which was approved on April 17, 2017. In order to address the high inflow and infiltration and sanitary sewer overflows, Aqua has committed to adopting the Cheltenham Corrective Action Plan approved by the DEP. Aqua also plans to address ongoing compliance issues by evaluating historical flow monitoring information and by developing plans that can efficiently achieve the most impact in the shortest amount of time. Aqua has estimated that it will take 10 years to bring the system into compliance. The ALJ therefore concluded that, based on these and other findings made in the RD, the transaction was in the public interest and resulted in affirmative public benefits.

¹ *Application of Aqua Pennsylvania Wastewater, Inc. for Approval of its Acquisition of the Wastewater System Assets of East Bradford Township*, Docket No. A-2018-3001582 (Order entered September 20, 2018).

² *Application of Suez Water Pennsylvania for Approval of its Acquisition of the Wastewater System Assets of Mahoning Township*, Docket No. A-2018-3003519 (Order entered December 20, 2018) and *Application of Suez Water Pennsylvania for Approval of its Acquisition of the Water System Assets of Mahoning Township*, Docket No. A-2018-3003517 (Order entered December 20, 2018).

Aqua, Cheltenham, the OCA, Mr. Robert Curtius, and Swift and Choi Development, LLC filed Exceptions to the RD, primarily on the valuation of the Cheltenham system and the process of review.

In its first Exception, the OCA stated that it agreed with the ALJ's adjustment to the AUS cost approach but noted that the RD incorrectly stated the adjustment was \$12,319,324 instead of the \$12,339,645 calculated by the OCA. Aqua, in its Reply Exceptions, disagreed with the adjustment but agreed that there appeared to be an inadvertent typographical error and that the correct amount for the adjustment is \$12,339,645. I agree with OCA's Exception on this issue.

I agree with the ALJ that an adjustment is needed to AUS' income approach as a result of the change in service lives but the value for this adjustment should be \$13,506,815 and not the \$13,863,877 stated in the Recommended Decision. I do not agree with setting the results of the income approach equal to the replacement cost new less accumulated depreciation method. This correction reflects the adoption of AUS' discounted cash flow method.

I do not agree with the Parties' other Exceptions and propose that we adopt the RD, as modified by OCA Exception 1. This would result in an adjusted AUS valuation of \$37,390,517, and a Gannett Valuation of \$51,726,000. The average of the valuations is \$44,558,258 which is lower than the purchase price of \$50,250,000 and therefore is the ratemaking rate base value. I also agree with the ALJ that the Replacement Cost New Less Depreciation Method can be used in the Cost Approach.

In conclusion, I agree that this acquisition has been shown to support the Commission goals of consolidation in the water and wastewater industry that, through the regionalization of water and wastewater systems, will allow the water and wastewater industry to achieve greater economies of scale. Aqua has proven that it is technically, legally, financially fit to acquire this system, and has demonstrated through its various commitments that this acquisition has an affirmative public benefit.

THEREFORE, I MOVE THAT:

1. The Recommended Decision of Administrative Law Judge Angela T. Jones be adopted, as modified by OCA Exception 1.
2. The Office of Special Assistants prepare an Opinion and Order consistent with this Motion.

Date: October 24, 2019


JOHN F. COLEMAN, JR.
COMMISSIONER