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|  | **PENNSYLVANIA**  **PUBLIC UTILITY COMMISSION**  **Harrisburg, PA 17105-3265** | |  |
|  | | Public Meeting held June 11, 2015 | |
| Commissioners Present: | |  | |
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| Gladys M. Brown, Chairman  John F. Coleman, Jr., Vice Chairman  James H. Cawley  Pamela A. Witmer  Robert F. Powelson | | | |

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| Application of the Pennsylvania-American Water Company (PAWC) for approval of (1) the transfer, by sale, of the water works property and rights of the Abbey Woods Homeowners Association to PAWC, and (2) the right of PAWC to furnish water service to the public in an additional portion of Jackson Township, Butler County, Pennsylvania | A-2015-2470483 |

**ORDER**

**BY THE COMMISSION:**

By the application (Application) filed on March 4, 2015, the Pennsylvania-American Water Company (PAWC), utility code 212285, seeks a certificate of public convenience pursuant to Section 1102(a)(1)(i) and (3) of the Public Utility Code, 66 Pa. C.S. § 1102(a)(1)(i), and (3), evidencing Commission approval of: 1) the acquisition by PAWC of substantially all of the water system assets of the Abbey Woods Homeowners Association, and 2) the right of PAWC to begin to offer or furnish water service to the public in an additional portion of Jackson Township, Butler County, Pennsylvania.

1. **BACKGROUND AND AFFECTED ENTITIES**

Proofs of publication and service to appropriate entities were submitted by PAWC. In addition, notice of this Application was published in The Pennsylvania Bulletin, 45 Pa.B. 1480, Saturday, March 21, 2015. The protest period ended April 6, 2015. No protests were filed and no hearings were held.

PAWC is a public utility corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania and is engaged in the business of supplying and distributing water. Water service is furnished to the public in a service territory encompassing more than 404 communities across the Commonwealth with a combined population of over 2,000,000. As of December 31, 2014, PAWC furnished water service to 649,327 customers. The Application provided a description of PAWC’s certificated service territories, along with a detailed history that outlined all the mergers, acquisitions and consolidations which have created PAWC as it exists today.

Abbey Woods Development is a residential subdivision in Jackson Township, Butler County containing 55 building lots. The Abbey Woods subdivision plan was approved by Jackson Township on May 24, 1995. There are currently 36 single family homes and 18 townhomes constructed within Abbey Woods Development. Each dwelling within the Abbey Woods Development and the real property beneath the residential buildings are privately owned. There is one undeveloped single family lot still remaining within the Abbey Woods Development.

The Abbey Woods Homeowners Association (Abbey Woods HOA) owns both the water and wastewater systems that serve the residents within the Abbey Woods Development. The mailing address for the Abbey Woods HOA is c/o Acri Commercial Realty, 290 Perry Highway, Pittsburgh, PA 15229. The Abbey Woods HOA’s water system was originally constructed by Abbey Woods Development, Inc. and the T.D. Kelly Company and was later transferred to the Abbey Woods HOA for no consideration. PAWC stated that information regarding contributions-in-aid of construction (CIAC) toward the Abbey Woods HOA water system was unavailable at the time of the Application’s filing and the CIAC issue will be addressed when PAWC undertakes an original cost study.

1. **LOCATION OF FACILITIES TO BE ACQUIRED**

PAWC proposes to purchase the Abbey Woods HOA’s water distribution system that currently serves 54 residential dwellings within the Abbey Woods Development. A map depicting the proposed water service territory and a description of the proposed territory’s boundaries are contained in the Application marked as Exhibit J. The Abbey Woods Development is located along the south side of Zehner School Road southwest of the existing PAWC certificated service territory in Jackson Township. The proposed water service territory area expansion encompasses approximately 84 acres and will connect to PAWC’s existing certificated service territory.

1. **DESCRIPTION OF FACILITIES** **TO BE ACQUIRED**

According to the Pennsylvania Department of Environmental Protection (DEP), the Abbey Woods HOA’s water system, Public Water Supply Identification (PWS ID) No. 5100144, includes four groundwater wells, a water treatment building with sodium hypochlorite disinfection equipment, five 8,000 gallon concrete water storage tanks, a booster pump system with a hydro-pneumatic tank, and a completely looped-water distribution system with mains, gate valves, blow-off valves, 54 services, 54 meters and six fire hydrants.

The Application states that PAWC will acquire only the Abbey Woods HOA’s water distribution system and any and all rights-of-way associated with the water distribution system. According to PAWC, the Abbey Woods HOA’s water distribution system generally consists of 6,600 feet of 8 inch diameter ductile iron pipe and 800 feet of 2 inch diameter PVC pipe.

1. **PURCHASE AGREEMENT**

On March 3, 2015, PAWC entered into an asset purchase agreement (Agreement) with the Abbey Woods HOA by which PAWC agreed to purchase the water distribution system assets of the Abbey Woods HOA for the consideration of one hundred thousand dollars ($100,000.00). A copy of the Agreement is attached to the Application and is marked as Exhibit D. The negotiations were conducted at arm’s length and PAWC and the Abbey Woods HOA are not affiliated with each other. The Agreement provides that PAWC will purchase the water distribution system as defined in Paragraph 1.1 of the Agreement.

Such assets include all physical plant, property, equipment, and facilities comprising the existing water distribution system owned and operated by the Abbey Woods HOA for providing water service to the public in Jackson Township, Butler County, Pennsylvania. The assets include all water mains, services, meters, hydrants, valves, fittings, materials, supplies, construction in progress, and other tangible personal property related to the water distribution system.

Excluded assets are discussed in the Agreement’s Paragraph 1.2 and described in the Agreement’s Schedule 1.2. The excluded assets include all cash, account receivables, land, four wells, pumps, treatment building, equipment, and five concrete storage tanks.

1. **ADDITIONAL CAPITAL REQUIREMENTS**

PAWC stated that it will spend $75,875 on the construction of an interconnection between PAWC’s existing water system and the Abbey Woods HOA’s water distribution system. The improvement cost to interconnect PAWC water system with that of the Abbey Woods HOA includes $24,619 for material and supplies, $15,950 for the installation of approximately 1,100 feet of 12 inch ductile iron pipe, $11,340 for 315 cubic yards of premium backfill, $2,136 for two fire hydrants, $2,000 for temporary paving, $12,030 for permanent paving, $6,300 for restoration, and $1,500 for thrust restraint. PAWC anticipates the construction of the water system interconnection will take about two weeks and will be completed around the time of the closing date. PAWC will physically disconnect the existing treatment system from the distribution system at the time of the interconnection. Additionally, PAWC stated that it will spend $56,782 on replacement of the Abbey Woods HOA water distribution system’s existing 2 inch diameter PVC pipe, located along the south side of Zehner School Road, with 12 inch diameter ductile iron pipe.

The following are the tentative journal entries that PAWC provided to record the transfer into its accounts:

Debit Credit

Utility Plant $125,000

Accumulated Depreciation $25,000

Short Term Debt $100,000

PAWC stated that it will undertake an original cost study to determine the original cost and accumulated depreciation of Abbey Woods HOA water utility plant in service. Once the original cost study is complete and the property’s depreciated original cost and book value are established, PAWC will amend the pro forma balance sheet giving effect to the transfer, accordingly.

PAWC stated that no investment securities owned by the Abbey Woods HOA will be transferred in this proposed transaction. PAWC will initially finance the transfer by short-term bank debt which, at the appropriate time will be replaced through the issuance of long-term debt.

1. **PROPOSED RATES**

PAWC stated that prior to closing, the Abbey Woods HOA shall adopt rates for water service equal to PAWC’s then in effect Rate Zone 1 rates for all customers. For water service, the Abbey Woods HOA currently charges each customer an association fee of $10.00 per month plus $0.667/100 gallons for the first 9,000 gallons. However, there is a minimum charge of $70/month (9,000 gallons for $60.03 + $10.00/month association fee $70/month). Total consumption between 9,100 to 12,000 gallons is currently charged at a rate of $3.80/100 gallons and any additional usage over 12,000 gallons is currently charged at a rate of $4.50/100 gallons. Therefore, a typical Abbey Woods HOA customer who uses 5,500 gallons of water per month currently pays $70 per month.

Under PAWC’s Zone 1 Rates, a typical Abbey Woods HOA customer who uses 5,500 gallons of water per month will pay $71.18. This monthly payment is comprised of a $15.00 customer charge for a 5/8 inch meter plus a consumption charge of $56.18 (5,500 gallons x $1.0214/100 gallons). In supplemental information, PAWC provided an estimate of its annual revenue for 54 residential customers and 6 fire hydrants to be approximately $47,578. PAWC estimated its annual expenses will be $2,839 producing an estimated operating income of approximately $44,739.

1. **OPERATIONS UNDER PAWC**

PAWC’s target date to begin providing service to the homes currently served by the Abbey Woods HOA’s water system is June 2015. PAWC’s New Castle/Ellwood District staff will operate and manage the Abbey Woods water distribution system from the New Castle Operations Center located at 2736 Ellwood Road, New Castle, PA, which is approximately 20 miles from the Abbey Woods Development.

According to DEP, PAWC has no outstanding compliance or operational issues. Also, PAWC is current with its annual and quarterly earnings and the security planning and readiness report filing requirements. Further, there are no outstanding fines or assessments due to the Commission.

1. **CONCLUSION**

In its Application, PAWC states the transfer will have a beneficial effect on the customers of Abbey Woods in that they will receive the benefit of PAWC’s experience in managing and operating water systems which will result in efficiencies and improvements in the service to the customer. PAWC also has the managerial, technical and financial capabilities to safely and adequately operate the Abbey Woods HOA’s water system in compliance with the Public Utility Code, the Safe Drinking Water Act, Clean Streams Law and other regulatory requirements, and to make improvements as needed, on a short and long term basis.

Based upon the facts that PAWC will expand its service territory to customers in compliance with Commission regulations and that PAWC will be meeting the needs of new customers without any detriment to its existing customers, the Commission finds that granting PAWC’s application for the acquisition is necessary or proper for the service, accommodation, convenience, or safety of the public; **THEREFORE,**

**IT IS ORDERED:**

1. That the application of the Pennsylvania-American Water Company at Docket A‑2015-2470483 is hereby approved.

2. That a Certificate of Public Convenience be issued pursuant to Section 1102(a)(1)(i) and (3) of the Public Utility Code, 66 Pa. C.S. § 1102(a)(1)(i) and (3), evidencing Commission approval of the acquisition by the Pennsylvania-American Water Company of the water distribution system assets of the Abbey Woods Homeowners Association in Jackson Township, Butler County, as described in the Application.

3. That Pennsylvania-American Water Company shall notify the Commission within 10 days of the closing with the Abbey Woods Homeowners Association.

4. That upon notice of closing, a Certificate of Public Convenience be issued pursuant to Section 1102(a)(1)(i) and (3) of the Public Utility Code, 66 Pa. C.S. §1102(a)(1)(i) and (3), evidencing Commission approval for the Pennsylvania-American Water Company to begin to offer, render, furnish and supply water service to the public in an additional portion of Jackson Township, Butler County.

5. That upon completion of its original cost study of the water distribution system assets acquired from the Abbey Woods Homeowners Association, Pennsylvania-American Water Company will file copies with the Secretary’s Bureau and the Bureau of Technical Utility Services for review in the Pennsylvania-American Water Company's next general rate increase.

6. That since the Pennsylvania-American Water Company was uncertain of any contributions-in-aid of construction toward the Abbey Woods Homeowners Association’s water distribution system, this transaction should be reviewed in the Pennsylvania-American Water Company’s next general rate increase to determine whether all claims within the original cost study of the water distribution system assets are reasonable.

7. That nothing herein shall be construed to exempt Pennsylvania-American Water Company from obtaining all necessary permits, licenses, and approvals from other federal, state, and local government agencies having jurisdiction.

8. That a copy of this Order be served upon The Pennsylvania-American Water Company, the Abbey Woods Homeowners Association, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Department of Revenue, the Bureau of Corporate Taxes, the Department of Environmental Protection – Northwest Regional Office and its Central Office Bureau of Regulatory Counsel.

 **BY THE COMMISSION,**

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: June 11, 2015

ORDER ENTERED: June 11, 2015