

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water Company :  
under Section 1102(a) of the Pennsylvania Public Utility Code, :  
66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of :  
substantially all of The Municipal Authority of the City of :  
McKeesport's assets, properties and rights related to its :  
wastewater collection and treatment system to Pennsylvania- : Docket No. A-2017-\_\_\_\_\_  
American Water Company, and (2) the rights of Pennsylvania- :  
American Water Company to begin to offer or furnish :  
wastewater service to the public in the City of McKeesport, the :  
City of Duquesne, Port Vue Borough, the Borough of :  
Dravosburg, and a portion of West Mifflin Borough, Allegheny :  
County, Pennsylvania and to three bulk service interconnection :  
points located in Liberty Borough, White Oak Borough, and :  
North Versailles Borough, Allegheny County, Pennsylvania. :

In re: Application of Pennsylvania-American Water Company :  
under Section 1329 of the Pennsylvania Public Utility Code, 66 :  
Pa. C.S. § 1329, for approval of the use for ratemaking purposes : Docket No. A-2017-\_\_\_\_\_  
of the lesser of the fair market value or the negotiated purchase :  
price of The Municipal Authority of the City of McKeesport's :  
assets related to its wastewater collection and treatment system. :

Petition of Pennsylvania-American Water Company, related to :  
its acquisition of The Municipal Authority of the City of :  
McKeesport wastewater collection and treatment system, for :  
approval under Section 1329 of the Pennsylvania Public Utility :  
Code, 66 Pa. C.S. § 1329, to (i) collect a distribution system : Docket No. P-2017-\_\_\_\_\_  
improvement charge, (ii) for book and ratemaking purposes, :  
accrue Allowance for Funds Used During Construction for post- :  
acquisition improvements not recovered through the distribution :  
system improvement charge, and (iii) for book and ratemaking :  
purposes, defer depreciation related to post-acquisition :  
improvements not recovered through the distribution system :  
improvement charge. :

In re: Filing by Pennsylvania-American Water Company under : Docket Nos. U-2017-\_\_\_\_\_,  
Section 507 of the Pennsylvania Public Utility Code, 66 Pa. C.S. : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
§ 507, of (i) the Asset Purchase Agreement Between : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
Pennsylvania-American Water Company, the City of : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
McKeesport and The Municipal Authority of the City of : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
McKeesport and (ii) 18 agreements with municipal corporations : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
to be assumed by Pennsylvania-American Water Company upon : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
closing of its acquisition of substantially all of The Municipal : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
Authority of the City of McKeesport's assets related to its : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_,  
wastewater collection and treatment system. : U-2017-\_\_\_\_\_, U-2017-\_\_\_\_\_

**TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:**

1. Pennsylvania-American Water Company (“PAWC” or “Applicant”) hereby respectfully requests that the Pennsylvania Public Utility Commission (“Commission”) issue such Certificates of Public Convenience as necessary to evidence its approval under Section 1102(a) of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1102(a), of: (a) the transfer, by sale, of substantially all of The Municipal Authority of the City of McKeesport’s (“MACM”) assets, properties and rights related to MACM’s wastewater collection and treatment system (the “System”) to PAWC; and, (b) PAWC’s right to begin to offer, render, furnish and supply wastewater service in the areas served by MACM in the City of McKeesport (“City”) (the City and MACM, together, “McKeesport”), the City of Duquesne, Port Vue Borough, and the Borough of Dravosburg, and a portion of West Mifflin Borough, Allegheny County, Pennsylvania and to three bulk service interconnection points located in Liberty Borough, White Oak Borough, and North Versailles Borough, Allegheny County, Pennsylvania (including approval to make effective upon closing the *pro forma* tariff supplement attached hereto as **Appendix A-13**).

2. PAWC also respectfully requests that the Commission approve, pursuant to Code Section 1329, 66 Pa. C.S. § 1329: (a) the use for ratemaking purposes of the lesser of the fair market value or the negotiated purchase price of the MACM assets related to the System;<sup>1</sup> (b) collection of a distribution system improvement charge (“DSIC”) related to the System prior to the first base rate case in which the System plant-in-service is incorporated into rate base; (c) the accrual of Allowance for Funds Used During Construction (“AFUDC”) for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes; and, (d) the deferral of depreciation related to post-acquisition improvements not recovered through the

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<sup>1</sup> PAWC reserves its right in future proceedings to make rate base claims related to the acquisition as may otherwise be permitted under the Code.

DSIC for book and ratemaking purposes . Attached here to as **Appendix A** is the Commission’s current “66 Pa. C.S. § 1329 Application Filing Checklist -Water/Wastewater (Revised March 17, 2017)” (“Section 1329 Checklist”) as prepared by the Commission’s Bureau of Technical Utility Services pursuant to the Commission’s *Final Implementation Order for Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 (Order entered Oct. 27, 2016) (“*Final Implementation Order*”). For the ease of reference and review, the sub-appendices to **Appendix A** (such as **Appendix A-1**, **Appendix A-2**, etc.) correspond directly with the filing requirements listed the Commission’s Section 1329 Checklist. Certain appendices contain proprietary information and are, accordingly, labeled as **CONFIDENTIAL** and filed with the Commission’s Secretary under seal.

3. PAWC further requests, pursuant to Code Section 507, 66 Pa. C.S. § 507, the issuance of Certificates of Filing or approvals for the following agreements between PAWC and a municipal corporation:<sup>2</sup>

a. Asset Purchase Agreement By and Among the City of McKeesport, The Municipal Authority of the City of McKeesport, as Seller, and Pennsylvania-American Water Company, as Buyer, Dated as of September 9, 2016, as amended by First Amendment to the Asset Purchase Agreement, Dated as of May 15, 2017, along with related City of McKeesport General Obligation Note, Series of 2016, No. R-1, related Intercept Agreement, Dated November 30, 2016, and related Second Deposit Note, which is yet to be executed (attached hereto as **Appendix A-**

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<sup>2</sup> Note that the following agreement was eliminated from Schedule 4.15 of the APA (listing of contracts to be assumed by PAWC upon Transaction closing) by the First Amendment to the APA, dated May 15, 2017: Sale and Purchase Agreement for the Port Vue Borough Sanitary Sewer System between Port Vue Borough and The Municipal Authority of the City of McKeesport, Dated as of April 29, 2016. The agreement was included by the parties in Schedule 4.15 of the APA by mutual mistake. Any remaining obligations under the agreement will be retained by MACM.

24)(CONFIDENTIAL)(collectively, the “APA”);

b. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Liberty Borough Dated as of July 28, 2010 (attached hereto as **Appendix B-1**);

c. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Liberty Borough Dated as of July 28, 2008 (attached hereto as **Appendix B-2**);

d. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Lincoln Borough Dated as of September 15, 2009 (attached hereto as **Appendix B-3**);

e. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Lincoln Borough Dated as of September 15, 2009 (attached hereto as **Appendix B-4**);

f. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Elizabeth Township Dated as of October 14, 2008 (attached hereto as **Appendix B-5**);

g. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Elizabeth Township Dated as of October 14, 2008 (attached hereto as **Appendix B-6**);

h. Service Agreement By and Among The Municipal Authority of the City of McKeesport and The Municipal Authority of Westmoreland County for White Oak Borough Dated as of August 2009 (attached hereto as **Appendix B-7**);

i. Corrective Action Agreement By and Among The Municipal Authority of

the City of McKeesport and The Municipal Authority of Westmoreland County for White Oak Borough Dated as of August 2009 (attached hereto as **Appendix B-8**);

j. Service Agreement By and Among The Municipal Authority of the City of McKeesport, North Versailles Township, and The North Versailles Township Sanitary Authority Dated as of October 1, 2008 (attached hereto as **Appendix B-9**);

k. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport, North Versailles Township, and The North Versailles Township Sanitary Authority Dated as of August 21, 2008 (attached hereto as **Appendix B-10**);

l. Service Agreement By and Among The Municipal Authority of the City of McKeesport and East McKeesport Borough Dated as of September 11, 2008 (attached hereto as **Appendix B-11**);

m. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and East McKeesport Borough Dated as of August 2008 (attached hereto as **Appendix B-12**);

n. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Versailles Borough Dated as of October 22, 2008 (attached hereto as **Appendix B-13**);

o. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Versailles Borough Dated as of October 22, 2008 (attached hereto as **Appendix B-14**);

p. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Glassport Borough Dated as of August 19, 2008 (attached hereto as **Appendix B-15**);

q. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Glassport Borough Dated as of August 19, 2008 (attached hereto as **Appendix B-16**);

r. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Port Vue Borough Dated as of December 2008 (attached hereto as **Appendix B-17**); and,

s. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Port Vue Borough Dated as of August 2008 (attached hereto as **Appendix B-18**).

The aforementioned agreements are referred to collectively herein as the “Section 507 Agreements.”

4. The name and address of the Applicant is:

Pennsylvania-American Water Company  
800 West Hershey Park Drive  
Hershey, PA 17033

5. The names and addresses of PAWC’s attorneys are:

David P. Zambito Esquire  
George A. Bibikos, Esquire  
Cozen O’Connor  
17 North Second Street, Suite 1410  
Harrisburg, PA 17101  
(717) 703-5892  
dzambito@cozen.com  
gbibikos@cozen.com

Susan Simms Marsh, Esquire  
Pennsylvania-American Water Company  
800 West Hershey Park Drive  
Hershey, PA 17033  
(717) 533-5000  
susan.marsh@amwater.com

6. PAWC is a regulated public utility corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, and is engaged in the business of collecting, treating, storing, supplying, distributing and selling water to the public, and collecting, treating, transporting and disposing of wastewater for the public. Water and wastewater service is furnished by PAWC to the public in a service territory encompassing more than 400 communities across the Commonwealth with a combined population of over 2,300,000. A description of PAWC's existing certificated water and wastewater service territory is found in **Appendix C**, along with a detailed corporate history, outlining all of the mergers, acquisitions and consolidations which have created Pennsylvania-American as it exists on the date of this Application.

7. MACM is a municipal authority organized and existing under the laws of the Commonwealth of Pennsylvania, with headquarters situated in the City. MACM owns and operates the System, providing wastewater service to the public in the City, the City of Duquesne ("Duquesne"), Port Vue Borough ("Port Vue"), the Borough of Dravosburg ("Dravosburg"), and a portion of West Mifflin Borough ("West Mifflin") (the City, Duquesne, Port Vue, Dravosburg, and the portion of West Mifflin, together, the "Service Area"), in Allegheny County, Pennsylvania.

8. MACM furnishes wastewater service to approximately 12,780 residential and non-residential, including commercial, apartment, industrial, and municipal, customers (but excluding consumers who are served by a different entity through the use of MACM's bulk wastewater service).

9. PAWC currently furnishes wastewater service to approximately 55,000 residential, commercial, industrial, municipal and bulk customers in Pennsylvania.

10. The completion of the below-defined Transaction will confer benefits upon the long-term financial health of the City. As more fully-detailed in the Direct Testimony of Mayor Michael Cherepko (PAWC St. No. 6), the City has suffered financially over the past several decades and must monetize assets, including those of MACM, in order to address its challenges. The City currently struggles with blight, socio-economic barriers of poverty, single-parent households, and a lack of employment opportunities. Consummation of the Transaction will help set the City on the path of financial recovery while ensuring that its residents receive safe, adequate, and reliable wastewater service at just and reasonable rates.

**A. TRANSFER, BY SALE, OF ALL OF MACM'S ASSETS, PROPERTIES AND RIGHTS RELATED TO THE SYSTEM TO PAWC (OTHER THAN THE EXCLUDED ASSETS)**

Summary of the Transaction

11. On September 9, 2016, McKeesport entered into the APA, along with detailed schedules, with PAWC to sell all of MACM's assets, properties and rights of the System (other than the Excluded Assets, as defined by the APA) (the "Transaction").<sup>3</sup>

12. The Transaction will be completed in accordance with the APA.

13. Among other things, the APA: (i) requires PAWC and McKeesport to complete the Transaction after receipt of all governmental approvals (including from this Commission) and the satisfaction of all conditions precedent; (ii) requires PAWC to assume certain contracts; (iii) obligates PAWC or an affiliate of PAWC to offer employment to eligible MACM employees, after closing of the Transaction; (iv) initially adopts MACM's existing rates (see *pro forma* tariff supplement attached hereto as **Appendix A-13**; and, (v) sets forth a reasonable plan

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<sup>3</sup> The APA was amended by the First Amendment to the Asset Purchase Agreement, Dated as of May 15, 2017.



for the implementation of rates that will be fair to both MACM's current customers and PAWC's current customers.<sup>4</sup>

#### Applicable Legal Standards

14. Under Code Section 1103, the Joint Applicants must demonstrate that PAWC is legally, technically, and financially fit. *Seaboard Tank Lines v. Pa. Pub. Util. Comm'n*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Pub. Util. Comm'n*, 138 A.2d 240, 243 (Pa. Super. 1958). As a currently certificated public utility, PAWC's fitness is presumed by law to be continuing. *See e.g., South Hills Movers, Inc. v. Pa. Pub. Util. Comm'n*, 601 A.2d 1308, 1310 (Pa. Cmwlth. 1992).

15. The Commission may issue a certificate of public convenience upon a finding that "the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public." 66 Pa. C.S. § 1103(a). PAWC will "affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way." *City of York v. Pa. Pub. Util. Comm'n*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972). The "substantial public interest" standard is satisfied by a simple preponderance of the evidence of benefits. *Popowsky v. Pa. Pub. Util. Comm'n*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007).

16. Code Section 1329 establishes a voluntary process whereby the acquiring public utility and the selling municipal authority may choose to have the fair market value of the assets established through independent appraisals conducted by a utility valuation experts ("UVEs"). For ratemaking purposes, the valuation will be the lesser of the fair market value or the negotiated purchase price. 66 Pa. C.S. § 1329

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<sup>4</sup> The rate commitments set forth in the APA do not technically fall within the definition of a "rate stabilization plan" as defined by 66 Pa. C.S. § 1329 because PAWC has not made any commitments to control rates beyond PAWC's first post-closing base rate case. Nevertheless, PAWC has submitted direct testimony in support of the rate commitments contained in the APA. *See* Direct Testimony of Rod Neviraskas, PAWC St. No. 4.

17. Section 1329 also allows, as a matter of law, the acquiring public utility (i) to collect a DSIC for the Service Area prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base, (ii) to accrue AFUDC for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes and (iii) to defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. In order to obtain this ratemaking treatment, the acquiring public utility must produce certain documents and information as required by the Commission in the context of a future base rate proceeding. 66 Pa. C.S. § 1329; *see Final Implementation Order*.

18. Code Section 507, 66 Pa. C.S. § 507, requires that contracts between a public utility and a municipal corporation, except for contracts to furnish service at regular tariffed rates, be filed with the Commission at least 30 days before the effective date of the contract. The Commission acknowledges the contract by issuing a certificate of filing unless it decides to institute proceedings to determine whether there are any issues with the reasonableness, legality, or any other matter affecting the validity of the contract. Should the Commission initiate proceedings, the contract or agreement is not effective until the Commission grants its approval. 66 Pa. C.S. § 507.

#### Background Financial Information

19. Attached hereto is the unaudited internal balance sheet of the MACM as of December 31, 2016 (**Appendix D**), and PAWC's audited balance sheet as of December 31, 2016 (**Appendix E**).

20. Attached hereto is the unaudited income statement of the MACM for the 12 months ended December 31, 2016 (**Appendix F**), and PAWC's audited income statement for the

12 months ended December 31, 2016 (**Appendix G**).

21. All the annual reports, tariffs, certificates of public convenience, applications, securities certificates and similar documents filed with this Commission by PAWC and its predecessors are made a part hereof by reference.

Terms and Impact of the Transaction

22. As noted above, this Application seeks, among other things, approval of the transfer to PAWC of all of the assets, properties and rights of the System (other than the Excluded Assets, as defined by the APA). The terms and conditions of the Transaction are contained in the APA (**Appendix A-24**) (**CONFIDENTIAL**).

23. PAWC and MACM are not affiliated with each other.

24. The Transaction is, and was negotiated, at arm's length.

25. Attached hereto as **Appendix H** is a *pro forma* balance sheet of PAWC as of December 31, 2016, giving effect to the transfer.

26. Attached hereto as **Appendix I** is a *pro forma* consolidated income statement of PAWC and MACM for the 12 months as of December 31, 2016.

27. Attached hereto as **Appendix J** is a certified copy of the resolutions adopted by the Board of Directors of PAWC authorizing the execution of the APA and the consummation of the proposed transfer.

28. Attached hereto as **Appendix K** is a copy of the resolutions adopted by MACM's Board of Directors authorizing the execution of the APA.<sup>5</sup>

29. Attached hereto as **Appendix L** is a copy of the City's resolutions authorizing the

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<sup>5</sup> A *pro forma* of the MACM resolution authorizing the execution of the First Amendment to the APA is included with this filing. A copy of the executed resolution will be filed with the Commission following ratification at MACM's next Board of Directors meeting.

execution of the APA.<sup>6</sup>

Transaction's Effect on Service and Rates and Other Affirmative Benefits

30. The Transaction will have no detrimental effect on the service provided to PAWC's existing customers or the wastewater customers transferred to PAWC by MACM.

31. The Transaction will have a beneficial effect on the wastewater customers of the MACM in that they will receive the benefit of PAWC's experience in managing and operating water and wastewater systems, which will result in efficiencies impacting rates in a beneficial way, and improvements in the service to the customers to be transferred. PAWC's existing water and wastewater customers will benefit because the Transaction will expand the customer base over which existing costs are recovered, thereby stabilizing or reducing per-customer costs over the long-term.

32. The Transaction is in the public interest, will provide affirmative public benefits of a substantial nature, and satisfies the applicable standard of Code Section 1103, 66 Pa. C.S. § 1103, for, among other, the following reasons:

a. PAWC has the managerial, technical and financial capabilities and fitness to safely and adequately operate the System in compliance with the Code, the Pennsylvania Clean Streams Law (35 P.S. §§ 691.1-691.801) and other requisite regulatory requirements, and to make improvements as needed, on a short- and long-term basis;

b. The acquisition will further the Commission's goal of regionalization. *See* 52 Pa. Code § 69.721(a). MACM's System will become part of a larger organization that is

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<sup>6</sup> A *pro forma* of the City resolution authorizing the execution of the First Amendment to the APA is included with this filing. A copy of the executed resolution will be filed with the Commission following ratification at the City's next council meeting.

more viable from a costs and rates standpoint and is committed to providing improved service in the future;

c. The transferred wastewater customers will be served by a large, financially-sound company that has the capability to finance necessary capital additions. Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PAWC is well-positioned to ensure that high quality wastewater service meeting federal and state requirements is provided to MACM's customers and maintained for PAWC's existing customers;

d. The transferred wastewater customers will benefit from enhanced customer service in a number of areas, such as, but not limited to, additional bill payment options, extended customer service and call center hours, customer information and education programs, and PAWC's customer assistance program;

e. The geographic proximity of the System and PAWC's existing water and wastewater certificated service territory creates opportunities for functional and operational consolidation, and associated efficiencies and cost savings. The System will be operated and managed in conjunction with PAWC's existing "Southwest [Pennsylvania] Operations."

f. The Transaction will offer expanded opportunities to MACM's employees for career advancement and professional growth as part of PAWC's staff. Additionally, PAWC's commitment to employ MACM's eligible employees, who have dedicated their working careers to providing wastewater service to MACM's customers, will assure continued quality service to customers and operations of the System post-closing. These expanded opportunities and continuity of operations measures are substantial public benefits associated with the Transaction.

33. The Transaction will have no immediate effect on the rates for service to be charged to PAWC's existing customers. With regard to the wastewater customers to be transferred by MACM, PAWC will -- as shown in the *pro forma* tariff submitted with this Application as **Appendix A-13** -- adopt MACM's customer and wastewater consumption charges existing at the time of closing of the Transaction.<sup>7</sup> MACM's current rates and PAWC's proposed rates are shown on **Appendix A-18-a**. Additionally, immediately following closing of the Transaction, the customers in the Service Area will be subject to PAWC's prevailing wastewater tariff on file with, and as approved by, the Commission with respect to all rates other than the customer charge (known under PAWC's current tariff as "monthly service charge") and consumption charge, including but not limited to capacity reservation fees, tapping fees and the like, as well as non-rate related terms and conditions of service, including but not limited to, billing frequency, termination procedures, and the like. PAWC respectfully requests approval from the Commission to make effective upon closing of the Transaction its existing rules and regulations regarding conditions of service as revised with the proposed changes shown on the *pro forma* tariff supplement attached hereto as **Appendix A-13**.

34. McKeesport embarked on the sale and monetization of MACM's assets to provide its wastewater customers with the best prospect for stable rates in the face of capital and operating expenditures required to be made to maintain MACM's system and comply with environmental requirements. After an extensive request for proposal process, PAWC emerged as

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<sup>7</sup> MACM currently charges customers located in Port Vue Borough on a quarterly basis. PAWC will continue to bill such customers on a quarterly basis until the frequency is changed in a future base rate proceeding or through another appropriate filing with the Commission. Nevertheless, the *pro forma* tariff supplement contained in **Appendix A-13** sets for the both quarterly and monthly rates for Port Vue Borough-area customers. By setting forth both rates, PAWC is anticipating that some customers may voluntarily convert from quarterly to monthly rates. Moreover, MACM has advised PAWC that rates for Port Vue Borough may be modified prior to closing of the Transaction. To the extent that such rates are modified by MACM prior to closing of the Transaction, PAWC reserves the right to implement the new rates as part of its compliance tariff supplement filing.

the successful bidder based on McKeesport's assessment of PAWC's knowledge and expertise in operating water and wastewater service in the Commonwealth at reasonable rates. This is a substantial and material benefit of the Transaction, along with the City's potential ability to mitigate its financial situation as discussed in the Direct Testimony of Mayor Michael Cherepko (PAWC St. No. 6).

**B. THE RIGHTS OF PENNSYLVANIA-AMERICAN TO OFFER OR FURNISH WASTEWATER SERVICE TO THE PUBLIC IN THE CITY OF MCKEESPORT, THE CITY OF DUQUESNE, PORT VUE BOROUGH, THE BOROUGH OF DRAVOSBURG, AND A PORTION OF WEST MIFFLIN BOROUGH, ALLEGHENY COUNTY, PENNSYLVANIA.**

35. MACM currently provides wastewater service to approximately 12,780 customers in the Service Area. MACM also provides bulk wastewater service to eight surrounding communities (the Boroughs of East McKeesport, Liberty, Glassport, Lincoln, Versailles, and White Oak and the Townships of Elizabeth and North Versailles) through six points of interconnection.<sup>8</sup>

36. MACM's Service Area is the same as PAWC's applied-for service territory and is shown on the map in **Appendix A-16** and is further described in that appendix.

37. No corporation, partnership or individual other than MACM is now furnishing or has corporate or franchise rights to furnish service similar to that to be rendered by PAWC in the territory covered by this Application, and no competitive condition will be created. As part of

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<sup>8</sup> Three of these bulk service interconnection points are located in Liberty Borough, White Oak Borough and North Versailles Borough, Allegheny County, Pennsylvania, *i.e.* outside PAWC's otherwise-applied-for service territory. See **Appendix A-16**. Through this application, PAWC is specifically requesting limited Commission approval to provide bulk service at these points of interconnection and continue the bulk service currently being provided to surrounding municipalities by MACM. Consumers served by the surrounding municipalities are not included in the 12,780 customer count for MACM.

this Application, PAWC has requested approval to acquire, by purchase, all of the assets, properties and rights of the System (other than the Excluded Assets, as set forth in the APA). Upon closing of the Transaction, MACM will permanently discontinue all wastewater service to the public.

38. The estimated annual revenues and expenses of PAWC in the Service Area are set forth in **Appendix M**.

### **C. FAIR MARKET VALUATION UNDER CODE SECTION 1329**

39. **Appendix A** and related Section 1329 Checklist appendices satisfy the filing requirements of the Code Section 1329, the *Final Implementation Order*, and the Section 1329 Checklist. The Section 1329 appendices correspond directly with the numbered requirements of the Section 1329 Checklist (e.g., **Appendix A-1** (Requirement No. 1), **Appendix A-2** (Requirement No. 2), etc.).

40. The fair market valuation reports of the seller's and buyer's UVEs are contained in **Appendix A-5**. Buyer's UVE written direct testimony in support of its report is set forth in **Appendix A-14**.<sup>9</sup>

41. PAWC's other written direct testimony in support of this Application can also be found in **Appendix A-14**.

42. As PAWC has strictly followed the requirements of Code Section 1329, the *Final Implementation Order*, and the Section 1329 Checklist, the Application should be deemed perfected within the 10-day review period and PAWC should be permitted to: (a) use for ratemaking purposes of the lesser of the fair market value or the negotiated purchase price of the

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<sup>9</sup> PAWC declines to submit direct testimony in support of the seller's UVE fair market valuation report. PAWC reserves its right to submit rebuttal testimony regarding the seller's UVE report as appropriate.



MACM assets related to the System; (b) collect a DSIC related to the Service Area prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base; (c) accrue AFUDC for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes; and, (d) defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes .

**D. FILING OF CONTRACTS PURSUANT TO CODE SECTION 507**

43. The APA, because it is between PAWC and municipal corporations, is required to be filed with the Commission under Code Section 507, 66 Pa. C.S. § 507. Likewise, as part of the Transaction, multiple contracts between MACM and certain municipal corporations will be assumed by PAWC upon closing of the Transaction. The Section 507 Agreements (including the APA) are attached hereto as **Appendices A-24 and B-1 through B-18**. The agreements are reasonable and otherwise lawful. Assumption of the agreements by PAWC is necessary for PAWC to abide by the existing contractual arrangements of MACM and in order for PAWC to provide safe, adequate, and reasonable service to the Service Area customers at just and reasonable rates. Assumption of the agreements will also allow PAWC to provide the same bulk services to the surrounding municipalities that MACM historically has provided. The surrounding municipalities are dependent upon such bulk services for the convenience of their consumers. Accordingly, the Commission should issue Certificates of Filing or otherwise approve the Section 507 Agreements under 66 Pa. C.S. § 507.

**E. APPROVAL OF *PRO FORMA* TARIFF SUPPLEMENT TO INCORPORATE INDUSTRIAL PRETREATMENT PROGRAM FOR MCKEESPORT AREA CUSTOMERS**

44. The *pro forma* tariff supplement attached hereto as **Appendix A-13** would, if approved by the Commission, incorporate, by reference, an Industrial Pretreatment Program (“IPP-M”) into PAWC’s tariff for customers in the Service Area. Under the terms of the tariff supplement, the IPP-M must be reviewed and consented to by the Pennsylvania Department of Environmental Protection. The IPP-M mandates the pretreatment of certain types of industrial waste and sets forth the conditions under which PAWC will accept industrial wastewater into the System for further treatment. Fees for treatment services are set forth in the IPP-M. The IPP-M is necessary in order to preserve the integrity of the System, extend the life of the System’s treatment facilities, and place the costs of treatment on the appropriate cost-causers. The IPP-M is modeled upon the tariff supplement previously approved by the Commission for PAWC’s Scranton-area wastewater customers.<sup>10</sup>

**E. NOTICE**

45. As evidenced by the Certificate of Service accompanying this Application, PAWC is serving copies of this filing by certified mail on the Office of Consumer Advocate, the Office of Small Business Advocate, and the Commission’s Bureau of Investigation and Enforcement. Once the Application is reviewed and accepted by Commission Staff, PAWC will serve copies of the Application upon the municipal entities required to be provided with copies by the Commission’s regulations at 52 Pa. Code § 3.501(f) and by the Section 1329 Checklist

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<sup>10</sup> The IPP-M is described in greater detail in the Direct Testimony of David R. Kaufman, PAWC Vice President of Engineering, PAWC Statement No. 3.

and upon the Pennsylvania Department of Environmental Protection (“DEP”) Central Office and Southwest Regional Office. A courtesy copy will also be provided to the Allegheny County Health Department due to its concurrent jurisdiction with DEP over environmental issues. Similarly, notice will be published in local newspapers of general circulation. PAWC respectfully requests that the Commission publish notice of this filing in the Pennsylvania Bulletin as soon as possible, with a reasonable deadline for the filing of protests, interventions, etc. in this proceeding.

#### **F. CONCLUSION AND REQUEST FOR RELIEF**

WHEREFORE, Pennsylvania-American Water Company requests that the Pennsylvania Public Utility Commission approve the Application and order that:

(a) such Certificates of Public Convenience be issued as necessary to evidence its approval under 66 Pa. C.S. § 1102(a) of (i) the transfer, by sale, of substantially all of The Municipal Authority of the City of McKeesport’s assets, properties and rights related to its wastewater collection and treatment system to Pennsylvania-American Water Company, and (ii) Pennsylvania-American Water Company’s right to begin to offer, render, furnish and supply wastewater service in the areas served by The Municipal Authority of the City of McKeesport in the City of McKeesport, the City of Duquesne, Port Vue Borough, the Borough of Dravosburg, and a portion of West Mifflin Borough, Allegheny County, Pennsylvania and to three bulk service interconnection points located in Liberty Borough, White Oak Borough, and North Versailles Borough, Allegheny County, Pennsylvania;

(b) the *pro forma* tariff supplement attached hereto as **Appendix A-13**, including all rates, rules and regulations regarding conditions of Pennsylvania-American Water Company’s

wastewater service as revised herein, be permitted to become effective immediately upon closing of the transaction;

(c) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to use for ratemaking purposes the lesser of the fair market value or the negotiated purchase price of the assets purchased pursuant to the transaction;

(d) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to collect a distribution system improvement charge prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base;

(e) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to accrue Allowance for Funds Used During Construction for post-acquisition improvements not recovered through the distribution system improvement charge for book and ratemaking purposes;

(f) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes;

(g) pursuant to 66 Pa. C.S. § 507, Certificates of Filing or approvals be issued for the following agreements between Pennsylvania-American Water Company and a municipal corporation:

i. Asset Purchase Agreement By and Among the City of McKeesport, The Municipal Authority of the City of McKeesport, as Seller, and Pennsylvania-American Water Company, as Buyer, Dated as of September 9, 2016, as amended by First Amendment to the Asset Purchase Agreement, Dated as of May 15, 2017, along with related City of McKeesport General Obligation Note, Series of 2016, No. R-1, related

Intercept Agreement, Dated November 30, 2016, and related Second Deposit Agreement, which is yet to be executed (**CONFIDENTIAL**);

ii. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Liberty Borough Dated as of July 28, 2010);

iii. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Liberty Borough Dated as of July 28, 2008);

iv. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Lincoln Borough Dated as of September 15, 2009;

v. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Lincoln Borough Dated as of September 15, 2009;

vi. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Elizabeth Township Dated as of October 14, 2008;

vii. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Elizabeth Township Dated as of October 14, 2008;

viii. Service Agreement By and Among The Municipal Authority of the City of McKeesport and The Municipal Authority of Westmoreland County for White Oak Borough Dated as of August 2009;

ix. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and The Municipal Authority of Westmoreland County for White Oak Borough Dated as of August 2009;

x. Service Agreement By and Among The Municipal Authority of the City of McKeesport, North Versailles Township, and The North Versailles Township Sanitary Authority Dated as of October 1, 2008;

xi. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport, North Versailles Township, and The North Versailles Township Sanitary Authority Dated as of August 21, 2008;

xii. Service Agreement By and Among The Municipal Authority of the City of McKeesport and East McKeesport Borough Dated as of September 11, 2008;

xiii. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and East McKeesport Borough Dated as of August 2008;

xiv. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Versailles Borough Dated as of October 22, 2008;

xv. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Versailles Borough Dated as of October 22, 2008;

xvi. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Glassport Borough Dated as of August 19, 2008;

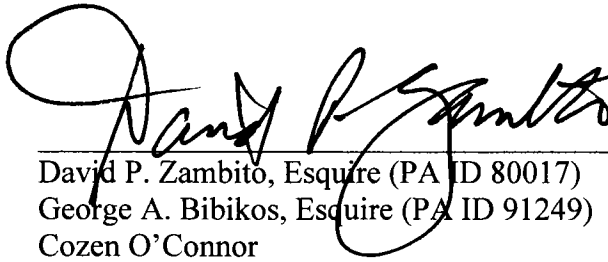
xvii. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Glassport Borough Dated as of August 19, 2008;

xviii. Service Agreement By and Among The Municipal Authority of the City of McKeesport and Port Vue Borough Dated as of December 2008; and

ix. Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and Port Vue Borough Dated as of August 2008; and,

(h) the issuance of any other approvals or certificates appropriate, customary, or necessary under the Code to carry out the Transaction contemplated in this Application in a lawful manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David P. Zambito", is written over a horizontal line. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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*Attorneys for Pennsylvania-American Water Company*

Dated: May 24, 2017