**PENNSYLVANIA**

**PUBLIC UTILTY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held October 26, 2017

Commissioners Present:

Gladys M. Brown, Chairman, Statement

Andrew G. Place, Vice Chairman

David W. Sweet

John F. Coleman, Jr.

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 of :

the lesser of the fair market value or the : A-2017-2606103

negotiated purchase price of The Municipal :

Authority of the City of McKeesport's assets :

related to its wastewater collection and treatment :

system and other related transactions :

**ORDER**

BY THE COMMISSION:

We adopt as our action the Recommended Decision of Administrative Law Judges Mark A. Hoyer and Mary D. Long, dated October 11, 2017;

THEREFORE,

IT IS ORDERED:

1. That the Joint Petition for Approval of Settlement of All Issues, filed by Pennsylvania-American Water Company, the City of McKeesport, the Municipal Authority of the City of McKeesport, the Office of Consumer Advocate, and the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement on September 20, 2017 at Docket No. A-2017-2606103, including all terms and conditions thereof, is approved without modification.
2. That the Application filed by Pennsylvania-American Water Company on May 24, 2017 is granted, subject to the following conditions, which are consistent with the Joint Petition for Approval of Settlement of All Issues:

(a) That Pennsylvania-American Water Company file a further amendment to the Asset Purchase Agreement, along with copies of required authorizations from Pennsylvania-American Water Company’s Board of Directors, the City’s Council, and MACM’s Board of Directors, that (a) adjusts the purchase price to $159,000,000 and (b) modifies Paragraph F of the First Amendment to the Asset Purchase Agreement (regarding Pennsylvania-American Water Company’s obligation in the first base rate case following closing of the transaction to propose rates that, if adopted by the Commission, would ensure that McKeesport-system customers benefit from 66 Pa. C.S. § 1311(c) in the same manner as Pennsylvania-American Water Company’s other customers) such that Pennsylvania-American Water Company will seek to utilize 66 Pa.C.S. § 1311(c) for the benefit of McKeesport system customers so long as such use is not inconsistent with Pennsylvania-American Water Company’s obligations under the Commission’s Order.

(b) That, at the time of filing its next base rate case, Pennsylvania-American Water Company shall submit a cost of service study that fully separates the costs of providing the stormwater component of wastewater services in the McKeesport service area.

(c) That, at the time of filing its next base rate case, Pennsylvania-American Water Company shall submit a cost of service study that removes all costs and revenues associated with the operations (both the sanitary component and stormwater component) of the wastewater service of the MACM system and using the same rate design methodology it proposes to be adopted in that case, develop rates in its next base rate case that exclude the impact of the MACM system acquisition.

(d) That the plant in service costs of the Port Vue Borough component of the system shall be identified separately in the required cost of service studies. Pennsylvania-American Water Company shall separately identify the plant-in-service costs at the time that the Port Vue system was purchased, the cost of any Port Vue plant retirements, and the cost of any Port Vue plant investment.

3. That the Secretary’s Bureau shall issue Certificates of Public Convenience under 66 Pa.C.S. §§ 1102(a) and 1103(a) authorizing: (a) the transfer, by sale, of substantially all of MACM’s assets, properties and rights related to its wastewater collection and treatment system to Pennsylvania-American Water Company; and (b) Pennsylvania-American Water Company’s right to begin to offer, render, furnish and supply wastewater service in the areas served by MACM in the City of 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.

4. That within 10 days after the closing of the Transaction, Pennsylvania-American Water Company shall issue a compliance tariff supplement, consistent with the *pro forma* tariff supplement attached to the Joint Petition for Approval of Settlement of All Issues at Appendix A and containing the existing rates of the Municipal Authority of the City of McKeesport at the time of the closing, to be effective on the date of issuance.

5. That pursuant to 66 Pa.C.S. § 1329(c), the Commission approves a rate base addition of $158,000,000 associated with Pennsylvania-American Water Company’s acquisition of the MACM system.

6. That within the first 90 days of Pennsylvania-American Water Company’s ownership of the System, Pennsylvania-American Water Company shall include a bill insert to McKeesport-area customers regarding its low-income programs or alternatively shall include such information in a welcome letter to McKeesport-area customers. The bill insert or welcome letter shall include, at a minimum, a description of the available low-income programs, the eligibility requirements for participation in the programs, and Pennsylvania-American Water Company’s contact information. Pennsylvania-American Water Company also agrees to ongoing, targeted outreach to its McKeesport-area customers regarding its low income program. The Joint Petitioners shall confer in good faith and agree upon such additional outreach prior to closing of the Transaction.

7. That Pennsylvania-American Water Company may collect a distribution system improvement charge related to the MACM system prior to the first base rate case in which the System plant-in-service is incorporated into Pennsylvania-American Water Company’s rate base, subject to the following conditions:

(a) Pennsylvania-American Water Company files an amended wastewater long term infrastructure investment plan incorporating the McKeesport area, which does not re-prioritize other existing commitments in other service areas;

(b) The Commission approves the amended wastewater long term infrastructure investment plan incorporating the McKeesport area, as may be modified in the discretion of the Commission; and

(c) Pennsylvania-American Water Company files a compliance tariff supplement filing incorporating the McKeesport service territory into Pennsylvania-American Water Company’s existing wastewater DSIC tariff provisions.

8. That Pennsylvania-American Water Company may accrue an allowance for funds used during construction for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes.

9. That Pennsylvania-American Water Company may defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes.

10. That Pennsylvania-American Water Company may include, in its next base rate case, a claim for transaction and closing costs related to the acquisition of the MACM system.

11. That the Secretary’s Bureau shall issue Certificates of Filing pursuant to Section 507 for the following agreements between Pennsylvania-American Water Company and a municipal corporation:

(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, and as further amended by the amendment specified in Paragraph 14 of the Settlement;

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

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

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

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

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

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

(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;

(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;

(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;

(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;

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

(m) Corrective Action Agreement By and Among The Municipal Authority of the City of McKeesport and East McKeesport Borough, Dated as of August 2008;

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

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

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

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

12. That the proceeding at Docket No. A-2017-2606103 is terminated and marked closed. October 11, 2017.

BY THE COMMISSION

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: October 26, 2017

ORDER ENTERED: October 26, 2017