



House Committee on Consumer Protection, Technology, and Utilities

Public Hearing - Act 12 Legislation

December 12, 2023

Testimony of

Marc Lucca

President, Aqua Pennsylvania

Good morning, Chairman Matzie, Chairman Marshall, and members of the House Committee on Consumer Protection, Technology and Utilities. My name is Marc Lucca, President of Aqua Pennsylvania (“Aqua”) and I’m honored to share with you the benefits of Act 12 of 2016 (“Act 12”), also known as fair market value. Based on our experience, we have thoughts on how the process could be improved to better serve all the impacted constituencies. Specifically, I’m speaking of sellers (government-owned water and wastewater utilities) and their customers, as well as buyers, like Aqua, and our customers. I want to be clear Mr. Chairman, we hear you and other concerned parties – while this law does a lot of good, it needs some improvement.

Aqua was founded more than 135-years ago in Delaware County and today remains one of the largest PUC-regulated water and wastewater utilities in Pennsylvania. We proudly serve drinking water and provide wastewater services to more than half million customers (1.5 million residents) in 32 counties. Our mission, protecting and providing Earth’s most essential resource, is more than a slogan; it is a way of life. It is a commitment made every day, by nearly 600 Aqua employees working throughout the Commonwealth.

We are here today to talk about one of the tools that the Legislature provided to government-owned water and wastewater service providers who desire to exit water and wastewater service. Act 12, passed in 2016 has incentivized a number of these government-owned providers to consider a sale and some of them have moved forward with that decision, while others have decided not to. Aqua has acquired many water and wastewater systems over time, but we are not successful in every transaction and do not bid on every opportunity. In fact, since 2016 Aqua competed against and was outbid by other investor-owned utilities and even government entities. Water and wastewater systems come in all different conditions, and the reasons for the sales vary. In the end, the decision to sell relies on extensive amounts of information shared about the transaction and can only be executed by a majority vote of the governing board. This is a voluntary decision made by municipalities. In my experience working with municipalities and authorities, these decisions have been made after discussion, debate, and education, and done in a transparent and open process. In the seven years since Act 12’s passage, the industry has learned a great deal about the mechanics of using the Act. I believe that overall, Act 12 has been successfully utilized, but think lessons learned can inform how we move forward. I recognize that there are numerous bills now introduced in both the House and Senate recommending certain changes to the Act, including the four recently introduced by Chairman Matzie. Aqua stands ready to ensure Act 12 is utilized to the benefit of all stakeholders and we are committed to working to ensure it is implemented in the public interest.

Act 12 Proposed Bills

In the seven years since Act 12 was adopted, Aqua has learned much and sees benefits and opportunities for improvements. We’ve heard concerns around the impact of purchase price on customer rates, transparency of the sale process, and ensuring that terms of contracts are met. To be clear, we stand ready to work to address those issues.

We have heard in some instances that residents are not aware of the sale. I will attempt to describe the experience Aqua has in working with sellers and the amount of time, transparency and education that goes into these partnerships to address public notification and timing for approval of transactions. I believe that municipal officials understand and support the notion that the sale of a water and

wastewater system needs to be properly publicized, discussions held openly at public meetings and encourage community participation which is often covered by local media.

The process a municipality goes through to sell its water and wastewater systems are long, transparent, and complex. They are hardly completed fast. Selling municipalities often take years before even deciding to sell. Once that decision is made, there is often a request for bid process that involves the purchase price, contract terms, and public engagement. Our acquisition of the Municipal Authority of the Borough of Shenandoah ("Shenandoah") took almost 4-years from the borough's selection of Aqua to completion. Our acquisition of the Beaver Falls Sewer Authority will take about 3-years from the final vote to sell to the time when the PUC is expected to respond to our completed application. Limerick Township's sewer system sale took around 2-years to complete. The sale of the Cheltenham Township sewer system took more than 3-years from the township's decision to sell its collection system. I personally attended no less than three well-attended public meetings including a workshop we hosted in which residents and Township commissioners were available to interact with Aqua employees.

As stated, the current process from final vote to closing can easily take more than twelve months as many parties are engaged through public meetings with the selling entity's leadership, staff, and neighboring communities. Once a selling entity decides to sell, which can be years before it is sold, there is little incentive and possibly little funds for it to do anything more than basic system operations. That may mean that for several years prior to selling, there will be little work performed. It is likely that systems will deteriorate, and operating conditions allowed to diminish, creating a worse situation than may have already existed. Therefore, any additional delay of the PUC application process only exacerbates this situation. It is also very important to underscore the impact that these transactions have on the employees of the selling entity. Aqua commits to hiring the seller's employees. These water and wastewater operators have important jobs and the longer a transaction is delayed, the more stress is taken on by these employees. Consider what it is like for an individual to know his/her place of employment was being sold, but it is on hold for two or more years. During a recent and ongoing acquisition, Aqua management including a representative from human resources, met four times with the employees to discuss the process job duties and benefits, and to answer their questions.

In addition, as part of the PUC approval process, a robust process is in place to ensure customers can participate in the proceeding. The acquiring utility is required to notice its customers and requires the selling utility to notice them of the impending acquisition and the potential impact of that acquisition to its water or wastewater bill. Every Aqua customer across Pennsylvania is mailed a notice. The selling entity also mails a notice to its customers. Samples of these notices are attached. This would be in addition to public notices and meeting notices by the selling entity. Along with the potential estimated rate impact, these notices contain information about the bid, requested ratemaking rate base, rate impact, and an explanation of the process through which customers can participate in the proceeding. By way of comparison, these notice requirements exceed requirements of a municipal authority to notify its customers of a rate increase. While they are required to provide public notice of board meetings, the Municipal Authorities Act does not require specific public notice be given about its intention to increase rates. Despite these notifications, if current notice provisions of Act 12 are insufficient, we will work to ensure proper notification is achieved.

Turning next to purchase price, we acknowledge that all or some of the purchase price becomes rate making rate base and ultimately has an impact on customer rates. Sellers are told in writing prior to

rendering their final decision what they can expect to happen, following PUC approval, to their customer's rates, based on the purchase price they choose. We need to do everything we can to ensure that the tool in Act 12 meant to allow a sale to occur creates a rate that is ultimately affordable for water and wastewater customers in the Commonwealth. Based on our experience since inception of Act 12, we believe it is very important that sellers understand how a purchase price becomes ratemaking rate base and impacts customer rates.

In addition to transparency concerns, we've heard a lot about Act 12's actual impact on rates. To be clear, in some cases, purchase prices have grown to levels that are placing upward pressure on rates. Aqua believes that Chairman Matzie's proposed cap of depreciated original cost applied to some types of systems is a concept with merit and is worth exploring and further discussion. The intent, which appears to be to limit the impact on customer rates, is a good one.

Chairman Matzie's proposal to recover ratemaking rate base over three base rate cases also appears to limit the impact on customer rates. Aqua believes that while the intent of this proposal to limit rates is a good one, as drafted, it will negatively impact the ability of PUC regulated utilities to bid and purchase municipal water and wastewater systems. We believe a cap would have a similar impact by limiting the purchase price and thus rates.

Additionally, the Act 11 subsidy used for wastewater acquisitions, on water customers is another area for consideration. While a temporary subsidy at a reasonable, PUC-approved level is prudent public policy, regulators should consider providing guidance to utilities on a limit to that subsidy.

Finally, there has been legislation proposed in the Senate to ensure commitments made by acquiring utilities are kept. Residents and elected officials should be comfortable making the decision to partner with PUC-regulated utilities like Aqua PA and we stand ready to ensure that goal is met.

Condition of our Nation's Water & Wastewater Systems

Before providing some examples of municipalities and authorities that have voluntarily made the decision to sell to Aqua, I would like to provide some background on the condition of water and wastewater systems and what we are experiencing. "Water is an essential and primary need of every American, yet most Americans take water for granted. Local water suppliers are dealing with aging, obsolete infrastructure, a challenged and shrinking workforce, and compliance with regulations of increased scope."¹ The American Society of Civil Engineer's 2021 Report Card for America's Infrastructure gave Pennsylvania's Drinking Water infrastructure a grade of a "D" and its wastewater infrastructure a grade of a "D-." "Most of Pennsylvania's public drinking water systems are struggling to fund projects to meet their replacement goals as well as new regulations. Over the next 10 years, Pennsylvania's public water systems are projected to have a \$10.2 billion funding gap, a number only very slightly offset with recent federal actions to provide infrastructure funding. Aging wastewater management systems discharge sewage into Pennsylvania's surface water each year. The average age of most sewer systems is approaching 75 years with many pipes over 100 years old. 26% of the state is served by on-lot systems with nearly one-quarter failure rate. Two-thirds of the state's Sewage Facility Plans are over 20 years old. The Commonwealth has a funding gap of \$8.4 billion over the next 10 years to repair existing systems,

¹ The President's National Infrastructure Advisory Council, Preparing United States Critical Infrastructure for Today's Evolving Water Crises, August 2023, pp 22 – 23.

upgrade existing systems to meet regulatory requirements, control Combined Sewer Overflows (CSOs), address illicit Sanitary Sewer Overflows, and construct new or expand existing systems to meet increasing demand. Available funding over that time is estimated to be \$900 million, only about one-tenth of the required annual investment.²

The above information reflects findings of two independent organizations. These conditions exist due to lack of investment that spanned decades by the owners of these systems. These conditions persisted because owners saw no escape from the untenable situation due to their own inaction or those of prior boards of directors. My point is these conditions lasted long before Act 12 became law. Act 12 helped change the landscape for such systems and many communities by providing an option to exit from either the water or wastewater business; however, I will limit my comments to systems acquired by Aqua and the experience we have had with Act 12.

In addition to required capital improvements, operating and maintaining a water and wastewater system is a full-time profession requiring skilled individuals dedicated to a single purpose. Operating a utility is not and cannot be a part time job. Issues facing water and wastewater utilities are increasing each day. In addition to new and more stringent regulations, the industry is also experiencing an increased threat from hostile actors. Consider one example which occurred on November 25, 2023, when the Municipal Water Authority of Aliquippa, located in western Pennsylvania, reported that an Iranian-backed hacktivist group successfully compromised one of its booster stations. The authority reported no damage to its drinking water; however, it is likely that this and other threat actors with similar motivations related to the Israel-Hamas conflict will continue to opportunistically target select operating systems. Professionally operated systems like Aqua PA have the cyber infrastructure in place to better position our operations to withstand such cyberattacks.

There remain substantial amounts of lead service lines posing significant risk to public health, particularly for underserved communities. Emerging contaminants such as perfluoroalkyl and polyfluoroalkyl substances (PFAS) pose growing public health threat. Water and wastewater utilities must remain focused on investing in equipment and assets, and hiring and retaining skilled workers who are focused on water and wastewater service. The ability to provide safe and reliable drinking water requires licensed professionals, skilled in chemistry, biology, computer systems, safety and security, and the changing and tightening of regulations makes it nearly impossible for public works crews to maintain streets in the morning and operate water and wastewater assets in the afternoon.

Increasing Regulations Effecting the Water & Wastewater Industry

Selling a water and wastewater system is one way to maintain or, in some cases, regain and sustain compliance with the myriad of regulations from PA Department of Environmental Protection (“PADEP”), US Environmental Protection Agency (“USEPA”), Occupational Safety & Health Administration (“OSHA”) and others. Consider three regulations that have markedly changed our industry. The 1996 Safe Drinking Water Act revisions were the result of significant health issue resulting from cryptosporidium entering streams that were source to drinking water plants and required additional filter operations. The 2009 Groundwater Rule established more demanding disinfection conditions before delivering water to

² Pennsylvania State Council of the American Society of Civil Engineer, 2022 Report Card for America’s Infrastructure, 2022.

customers. The 2017 Disinfection Residuals Rule mandated increased chlorine residual in drinking water to prevent water borne disease such as legionella.

More recently, the industry has seen regulations on: (1) customer owned lead service lines, (2) lead & copper rule (3) PFAS in drinking water which we at Aqua have been focused on since 2016, (4) manganese, which is naturally occurring, in drinking water sources which for decades had been a secondary standard requiring no action , but now requires an immediate customer notice of “Do Not Consume” until treatment can be installed, (5) health impacts from toxic algae blooms, (6) focus on nutrient limits in treated wastewater disposal and others. One example of possible future regulatory changes is the possible hazardous waste designation for PFAS in drinking water treatment sludge. My point is that regulations are changing at a faster pace and outpacing some utility owners’ ability to understand, fund and comply.

It is also important to consider the safety of our water and wastewater employees throughout the Commonwealth. In Pennsylvania OSHA oversees Aqua and other regulated utilities but does not cover local and government workers; that oversight is provided by Department of Labor & Industry (L&I). While basic regulatory safety oversight exists in Pennsylvania for government workers through L&I, federal OSHA’s oversight requires broader compliance to more specific safety standards and addresses the hazards that are not specifically listed in the OSHA Standards. For example, OSHA requires compliance with 14 Elements of a Process Safety Management Program in places where 1,500 pounds or more of chlorine gas is stored. Program elements include employee participation, process safety management training, contractor training, mechanical integrity, and others. OSHA’s comprehensive safety program seeks to prevent exposure to employees, nearby residents, and the environment from an uncontrolled chlorine gas leak.

In addition to the technical challenges of managing water and wastewater systems and complications by increasing regulations, it is my experience that some municipalities are having difficulty hiring and retaining qualified employees and board members. In one case, a retired employee had to be recalled to cover for the general manager who was out of work for an extended period. In another case, the Greenville Water Authority board members reported one reason to sell is it cannot find volunteers interested in serving on the board. In October 2009 the board adopted Resolution No. 5-09 which reduced its complement by from seven members to five³.

I believe Act 12 provides options for struggling municipalities and I see many benefits that Aqua has brought to these systems once our team started running and operating them.

Act 12 Acquisitions

Next, I’d like to talk about the transactions that municipalities have chosen Aqua to partner under Act 12. Aqua has successfully acquired systems utilizing Act 12. However, there are examples in which we bid and the seller ultimately chose not to sell their assets or Aqua was outbid by municipal utilities and other investor-owned utilities.

I’ll begin in 2019 with Aqua’s partnership with Cheltenham Township’s wastewater system. Cheltenham Township had multiple public hearings that I personally attended and responded to their questions. The

³ Greenville Water Authority Regular Meeting of the Board of Directors Minutes (2009) Greenville Water Authority. Available at: www.gmwa.info

collection system was in a state of disrepair and causing significant problems for Philadelphia Water Department (“PWD”) as wastewater from Abington and Jenkintown flows through Cheltenham to the PWD wastewater treatment plant. The collection system experienced significant sanitary sewer (raw sewage) overflows (SSOs) that contaminated Tookany Creek where residents visit, and children play. The township failed over many years to correct the problem resulting in the relationship between the township and PADEP to deteriorate. Since utilizing Act 12, Aqua went into action – working with PADEP, PWD, the township, investing more than \$3.3 million to improve system reliability through a fix and repair program, main (pipe) flushing which prevents SSOs, plus “recreating” a hydraulic computer model that has identified long-term alternatives. Aqua and PWD have made significant progress toward a regional solution which, in my opinion, exemplifies a public/private partnership. There is still much work to do, but I am hopeful the regional solution will work.

In July 2023, we completed our acquisition of Shenandoah. For background, this sale process took multiple years to complete. The system had significant unaccounted for water. That is, 60 % of the water was leaking from the system meaning that for every 10 gallons taken from the lakes in this area, only 4 gallons is known to reach the customer. And there were very real concerns about system fire hydrant operability in the event of a fire. Within a few weeks of our acquisition, we identified that 23% of the 195 hydrants were inoperable which we promptly bagged as shown in photo number 1 below. Imagine what would have happened if a fire company attempted to use one of these hydrants during a fire emergency.



Photo 1. Inoperable fire hydrant bagged by Aqua until replaced. Shensentinel newspaper, August 10, 2023.

In addition, some hydrants have been observed to freeze in wintertime. Photo number 2⁴ below shows a firefighter struggling during a fire to open a frozen hydrant. Another problem identified is that some hydrants are installed on a 4” diameter pipe which would almost certainly render insufficient flows for

⁴ “Turkey Run – House Fire - 3/7/23,” YouTube video, 3:17 minutes, June 22, 2023.

firefighting; 6" or greater would be more typical. Aqua is proactively working to correct these problems. These are all long-time, systemic problems that we are now engaged in addressing.



Photo 2 Firefighter stands on wrench to attempt to force open a fire hydrant for use during a fire.

As I alluded to earlier, Aqua has purchased systems in various conditions, sizes, and age. Each system has some differences and challenges. Consider for example an East Whiteland (Chester County) sewer pipe shown in Photo number 3.



Photo 3. Camera view inside an active sewer pipe in East Whiteland, Chester County shows pipeline break which allows raw sewage to enter the environment.

Aqua's team discovered this pipe after acquiring the system. The pipe separation shown sometimes occurs due to aging. This pipe conveys raw sewage from homes and businesses. Here, the separation discovered by Aqua operators is causing raw sewage to escape the pipe and enter the environment. Under certain circumstances, the opposite may occur which would allow groundwater and rainwater to enter the pipe and the wastewater treatment plant where it can cause exceedances and raw sewage to enter receiving streams, creeks and lakes.

In 2020, Aqua purchased the wastewater assets of New Garden Township. This transaction benefited customers in this community and the surrounding environment. It is true that customer rates were

lower prior to the sale, but that rate reflected the lack of investment that led to the poor condition of the assets. First, I want to specifically address rates for this particular community. Due to the length of time before closing, New Garden Township which billed on a quarterly basis did implement a rate increase, that based on timing, appeared for the first time in Aqua's monthly bill after closing. Aqua did not raise rates during the acquisition process nor did it do so prior to its PUC-approved rate case. In addition, prior to selling, the customer's base wastewater charge included a quarterly allowance of 5,000 gallons of wastewater which basically acted as cap for some customers. The PUC did not adopt a similar quarterly allowance resulting in higher rates than anticipated in Aqua's last rate request.

This system faced significant challenges. For example, the wastewater lagoons were nearing overflow, that if occurred could release partially treated sewage into neighboring fields and streets. Since owning the system Aqua invested almost \$4 million in improvements that addressed compliance, safety and equipment that was in an imminent threat of failure including such basic additions as portable generators at pump stations. Without backup power raw sewage may spill into surrounding neighborhoods, streets and even homes during a power failure. Prior to Aqua's involvement, the township had a "truck and haul" operation in which "treated" wastewater was hauled from one of its wastewater treatment plants to another because of disposal capacity issues. In addition, the capacity issues included underperforming spray irrigation fields that were operating at only about 62% capacity. As a result, there is a need to haul wastewater at an additional expense. Aqua's experienced team spent the first 10-months following the acquisition placing into operation an existing plastic pipeline that would end the truck hauling. This pipeline was installed years earlier by the authority for this purpose but had never been used. Our expertise was on display as we located and repaired the pipeline and prepared it for service. The current operation reduces costs and savings will be identified in our next rate case.

In closing, I would like to thank this committee for receiving my testimony today which shares our experience from the perspective of a water and wastewater utility provider with Act 12. In summary, our nation's infrastructure is failing because of lack of investment. We are leaving the next generation a significant problem they need to address simply because we did not. The condition of these systems occurred long before Act 12 so I simply do not agree with the sentiment that removing it will correct these problems. However, after seven years of experience with Act 12 we have learned much, and I believe there is opportunity from those lessons to improve the process. Aqua stands committed to making sure Act 12 is utilized to the benefit of all stakeholders and ready to ensure Act 12 is implemented in the public interest and results in affordable rates.

-END OF COMMENTS-

ATTACHMENTS

Limerick Supervisors clarify issues on sale of sewer system

We are writing to clarify issues noted within the Sept. 9 article concerning the sale of the Limerick Township sewer system to Aqua Pennsylvania. In particular, the article fails to fully detail long-term benefits of the sale which will enable the township to maintain low real estate tax rates for many years, while still addressing the rising cost of core services which include police, fire, emergency medical, roads and public works. These core municipal services come at a cost to the community, but are essential in maintaining the health, safety and welfare of a growing community such as Limerick.

The sale of the sewer system did not happen overnight and was the result of a study to deter

mine long-term services required of every township department. Most significant was the future cost of the police and volunteer fire departments, which are at the forefront of public safety services provided to the community. Included were projections which set forth a potential \$20 million capital improvement plan required for the sewer system over the next 15-plus years to address an aging collection and treatment system. In addition, increasing state environmental regulations under Pennsylvania Department of Environmental Protection (DEP) were projected to further burden operational costs associated with the sewer system.

The study was not limited to these departments and with Limerick be

ing a diverse and growing community; requests for additional recreational fields, parks, trails and open space have also been asked of the township for many years, as well. The board is cognizant of the burden that is placed on the taxpayers, and has worked diligently for well over a decade to maintain below average real estate tax rates while answering the increasing demand for services. The passage of PA Act 12 by the State Legislature in 2016 provided an opportunity to enhance this strategy and step away from the growing burden of operating the sewer utility system, and focus on core township services.

The basic intent of Act 12 is to encourage the sale of standalone municipal utility systems to larger

operators such as Aqua, who can provide a higher level of expertise at a greater economy of scale. Utility operators, such as Aqua, also come under the control of the state Public Utility Commission (PUC) who has oversight of rates. With growing environmental issues of municipal sewer systems, Pennsylvania DEP also benefits with consolidation of the thousands of fragmented municipal sewer systems under larger operators who can ensure higher level of environmental control.

After careful consideration of all issues, the Limerick board approved the sale by way of a public bid. Aqua was the highest bidder and the board agreed to complete the transaction and utilize the sale proceeds to cover

the long-term needs of the township and protect real estate tax rates. It is important to note, if the sewer sale did not take place, the combined Limerick real estate taxes and sewer rates were expected to be higher in years 2020 and beyond what Aqua is projecting for just sewer rates when the current three-year rate freeze expires. The public must be reminded that any future rate increases desired by Aqua must be approved by the PUC and that rate payers have a voice in that process.

The success of the sewer sale is ultimately dependent on how the funds are utilized and protected for future generations of Limerick residents. Toward this endeavor, the board stands committed to proper use

and investment of the sale proceeds in which interest returns are maximized and used to offset ongoing costs of services and thereby, reducing the burden on township real estate tax rates. With the increasing real estate tax burden imposed by the school district and county, the Limerick Board of Supervisors is confident that this investment strategy will provide stability of township real estate taxes, and enable an offset to any sewer increase that is projected under the new ownership of Aqua.

—Limerick Township Board of Supervisors
*D. Elaine DeWan,
 Patrick M. Moroney,
 Thomas J. Neafsey Jr.,
 Kara Shuler,
 Kenneth Sparring Jr.*

Attachment no. 2: Limerick Township Board members letter posted in the local newspaper about the sewer sale to Aqua Pennsylvania. September 17, 2018.



NOTICE OF PROPOSED ACQUISITION AND RATE BASE ADDITION

Docket No. A-2022-3034143

Dear Customer:

On December 9, 2022, the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of Aqua Pennsylvania, Inc. (Aqua) for approval to acquire the Borough of Shenandoah / Municipal Authority of the Borough of Shenandoah (Shenandoah) water system assets. Shenandoah serves approximately 2,900 customers in Schuylkill County, Pennsylvania. Aqua's application also requests that the PUC authorize a purchase price and addition of \$12 million to Aqua's rate base pursuant to 66 Pa. C.S. § 1329. A utility's rate base is the value of property it uses to provide service to its customers and is one of several components used by the PUC to establish a utility's customer rates.

Aqua periodically makes applications to the PUC for newly acquired systems which requires Aqua to send these types of notices. This notice is specific to the Shenandoah acquisition.

This acquisition will not immediately, but may in the future, affect water bills of Aqua customers, including the new Shenandoah water customers. Aqua is not requesting a rate increase as part of the acquisition. Your rates will not change at the time we close this transaction and can only change with when approved by the PUC following an Aqua rate case that includes the Shenandoah system. Aqua estimates that the rates of the average customer could increase at that time, based on our preliminary analysis. The amount of the increase will be determined by the PUC in Aqua's next base rate case and will be dependent on how the PUC chooses to apportion the increase among Aqua's acquired and existing customers. The tables below present non-binding, estimated incremental rate effects of the proposed rate base addition on Aqua's existing water customers:

Aqua Water Customers

| Rate Class | Average Usage | Estimated Monthly Increase | Estimated Percentage Increase |
|-------------|-------------------|----------------------------|-------------------------------|
| Residential | 4,000 gal/month | \$0.08 | 0.10% |
| Commercial | 33,380 gal/month | \$0.44 | 0.10% |
| Industrial | 200,150 gal/month | \$2.14 | 0.10% |
| Public | 33,380 gal/month | \$0.44 | 0.10% |

The amounts stated above could change and will depend on how the PUC chooses to apportion any increase among the types of service, rate zones, and classes of customers as well as the actual amount of water used.

PUC ROLE

The state agency which approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$12 million in additional rate base. After examining the evidence, the PUC may approve, modify or deny the acquisition and may approve or modify the \$12 million addition to rate base. The PUC will issue a decision on the application on or around July 13, 2023.

ACTIONS YOU CAN TAKE

You can support or challenge Aqua's request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to Aqua's acquisition of Shenandoah's water system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Attending or presenting testimony at a PUC Public Input Hearing. You can attend or be a witness at a PUC public input hearing. The PUC holds public input hearings if it opens an investigation into Aqua's transaction and there is enough interest in the case. At these hearings, you can present your views in person to the PUC judge and to company representatives. Testimony under oath becomes part of the application case record. The PUC holds these hearings in the service area of the company. For more information, call the PUC at 1.800.692.7380.
- 3) Filing a protest or a petition to intervene. If you want to be a party to the case, you must file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before February 27, 2023. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on Aqua's counsel at Saul Ewing Arnstein & Lehr, LLP, Attn: Courtney L. Schultz, 1500 Market Street, Center Square West, 38th Floor, Philadelphia, PA 19102.

The documents filed as part of this application are available for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, on the PUC's website at www.puc.pa.gov and at Aqua's offices at 762 West Lancaster Avenue, Bryn Mawr, PA 19010. The PUC docket number is A-2022-3034143.

BOROUGH OF SHENANDOAH

15 West Washington Street Shenandoah, PA 17976

Phone (570)462-1918 Fax (570)462-2772

Email - shenboro@ptd.net

shenandoahpa.org

“Shenandoah Borough is an Equal Opportunity Employer and Provider”

Dear Customer of Municipal Authority of the Borough of Shenandoah (“MABS”):

At its public meeting on November 25, 2020, the Borough Council of the Borough of Shenandoah (the “Borough”) voted to sell the Borough’s water treatment and distribution system (the “System”) to Aqua Pennsylvania, Inc. (“Aqua”) for a purchase price of \$12,000,000. The primary goals of the sale were to ensure that (i) much needed improvements to the water system are undertaken by Aqua, to the largest extent possible, (ii) your rates are kept as low as possible, and (iii) all current MABS employees are offered employment with Aqua. All information relating to the sale was discussed at public meetings convened by the Borough on October 19, 2020 and October 26, 2020.

The Borough began this process in 2017 after Council was advised by the Pennsylvania Economy League (“PEL”) that (1) the Borough faced a looming financial crisis because its water authority did not possess adequate funds to operate and undertake necessary future upgrades required to provide its customers with vital and necessary water services in compliance with applicable laws and regulations, and (2) this situation has jeopardized the Borough’s water infrastructure and created financial risks to the System’s customers and the Borough’s taxpayers. MABS had been unable to pay its financial obligations and was forced to modify its loan terms on multiple occasions to avoid a payment default.

In order to fund necessary capital improvements, which the Borough has estimated at more than \$25 million, the Borough received an analysis that MABS would have to increase its rates by 10% per year for each of the next several years and then 5% per year for each year thereafter over the next two decades to fund necessary System improvements. The Borough decided that the risk associated with operating the System without sufficient revenues to pay for necessary upgrades is too great for the System’s customers or its taxpayers to absorb. Aqua’s financial resources and professional expertise, however, enable it to provide needed long-term investment in the System, restore the System to a state of good repair and reliability, and remain in compliance with environmental and regulatory requirements. If the sale is completed, the cost of some of those necessary capital improvements are expected to be spread over Aqua’s more than 450,000 water customers.

Proceeds of the sale of the System will be used to pay off all of MABS’ existing debt, fund accrued pension liabilities owed to the MABS’ employees, and fund other accrued post-employment benefits of the MABS’ employees. Additionally, the residents of the Borough will enjoy the benefits of capital investment by the Borough using excess proceeds of the sale.

Currently, an average bill for a metered single-family dwelling of the Borough’s water system is \$49.64 per month or, \$148.91 per quarter (assuming a monthly water consumption of 2,790 gallons). An

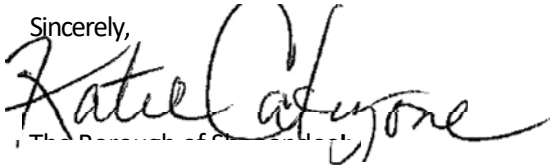


average bill using 4,000 gallons per month under the Borough's current rates would be \$58.82. If MABS were to retain and properly invest in the System, those rates are expected to increase to an amount higher than those charged by Aqua. Increases in Aqua's future rates will be based on its cost to provide service to its customers. Aqua is regulated by the Pennsylvania Public Utility Commission ("PUC"), which examines any proposed rate change to ensure Aqua's rates are just and reasonable.

Enclosed is the notice that the PUC requires to be sent to Borough customers containing an estimate of potential future rate increases. Aqua is required to provide you with a non-binding estimate of potential future rate increases assuming that it seeks to include 100% of its acquisition price of the System in its next rate case and does not have any of the costs allocated to its other customers outside of Shenandoah. Aqua has also provided an estimate of potential future rate increase which assumes some costs are shared among all of Aqua's customers. Actual rates will be set by the PUC and must, under state law, be "just and reasonable," taking gradualism into consideration. As such, future increases may be different than those set forth in the notice. As part of the agreement of sale, however, Aqua will adopt the Borough's water treatment and distribution rates in effect on the date the System is acquired, and Aqua has agreed to hold those rates until the PUC approves Aqua next rate increase, which is expected to be in 2025.

The two paragraphs above the tables in the enclosed notice describe how Aqua applies for rate changes with the PUC; the area below the tables in the enclosed notice describes how customers can participate in the acquisition application process.

Sincerely,



Kate L. Malone

**NOTICE OF PROPOSED ACQUISITION AND RATE BASE
ADDITION** Docket No. A-2022-3034143

Dear Customer:

On December 9, 2022, the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of Aqua Pennsylvania, Inc. (Aqua) for approval to acquire the Borough of Shenandoah / Municipal Authority of the Borough of Shenandoah (Shenandoah) water system assets. Shenandoah serves approximately 2,900 customers in Schuylkill County, Pennsylvania. Aqua’s application also requests that the PUC authorize an addition of up to \$12 million to Aqua’s rate base pursuant to 66 Pa. C.S. § 1329. A utility’s rate base is the value of property used by the utility to provide service to its customers and is one of several components used to establish a utility’s customer rates.

This acquisition will not immediately, but may in the future, affect water bills of Aqua customers, including the new Shenandoah water customers. **Aqua is not requesting a rate increase as part of the PUC acquisition approval process.** Your rates will not change as a result of this transaction until the conclusion of an Aqua rate case where Aqua includes the Shenandoah system and requests and receives PUC approval to increase its rates. **At this time, Aqua projects its next base rate case will be effective in 2025.** At that time, based on a preliminary analysis of the potential rate impacts, Aqua estimates that the rates of the average customer could increase. The amount of the increase will be determined in Aqua’s next base rate case and will be dependent on how the PUC chooses to apportion the increase among Aqua’s acquired and existing customers. The tables below present a non-binding, estimated incremental rate effect of the proposed rate base addition on Shenandoah’s water customers, which include estimates with and without cost sharing. Aqua has sought cost sharing in later rate filings for acquired systems and therefore we are providing both scenarios in this notice:

Shenandoah Customers rates assuming costs are shared among other Aqua customers

| Rate Class | Average Usage | Estimated Monthly Increase | Estimated Percentage Increase |
|-------------|-------------------|----------------------------|-------------------------------|
| Residential | 2,790 gal/month | \$6.91 | 15.90% |
| Commercial | 6,180 gal/month | \$12.49 | 15.90% |
| Industrial | 318,750 gal/month | \$167.05 | 15.90% |
| Public | 55,700 gal/month | \$35.16 | 15.90% |

Shenandoah Customers rates assuming no costs are shared with other Aqua customers

| Rate Class | Average Usage | Estimated Monthly Increase | Estimated Percentage Increase |
|-------------|-------------------|----------------------------|-------------------------------|
| Residential | 2,790 gal/month | \$19.50 | 44.87% |
| Commercial | 6,180 gal/month | \$35.25 | 44.87% |
| Industrial | 318,750 gal/month | \$471.52 | 44.87% |
| Public | 55,700 gal/month | \$99.24 | 44.87% |



The amounts stated above could change and will depend on how the PUC chooses to apportion any increase among the types of service, rate zones, and classes of customers.

PUC ROLE

The state agency which approves acquisitions and rates for regulated public utilities is the PUC. The PUC will review and investigate the proposed acquisition and requested \$12 million in additional rate base. After examining the evidence, the PUC may approve, modify or deny the acquisition and may approve or modify the \$12 million addition to rate base. The PUC will issue a decision on the application on or around July 13, 2023

ACTIONS YOU CAN TAKE

You can support or challenge Aqua's request by:

- 1) Sending a letter to the PUC. You can tell the PUC why you support or object to Aqua's acquisition of Shenandoah's water system in your letter. This information can be helpful when the PUC investigates the application. Send your letter to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.
- 2) Attending or presenting testimony at a PUC Public Input Hearing. You can attend or be a witness at a PUC public input hearing. The PUC holds public input hearings if it opens an investigation into Aqua's transaction and there is enough interest in the case. At these hearings, you can present your views in person to the PUC judge and to company representatives. Testimony under oath becomes part of the application case record. The PUC holds these hearings in the service area of the company. For more information, call the PUC at 1.800.692.7380.
- 3) Filing a protest or a petition to intervene. If you want to be a party to the case, you must file a protest or a petition to intervene. You then have an opportunity to take part in all the hearings about the proposed acquisition. You can receive copies of all materials distributed by the other parties. Protests and petitions to intervene must be filed in accordance with 52 Pa. Code (relating to public utilities) on or before February 27, 2023. Filings must be made with the Secretary of the Pennsylvania Public Utility Commission at P.O. Box 3265, Harrisburg, PA 17105-3265, with a copy served on Aqua's counsel at Saul Ewing Arnstein & Lehr, LLP, Attn: Courtney L. Schultz, 1500 Market Street, Center Square West, 38th Floor, Philadelphia, PA 19102.

The documents filed as part of this application are available for inspection and copying at the Office of the Secretary of the PUC between 8 a.m. and 4:30 p.m., Monday through Friday, on the PUC's website at www.puc.pa.gov and at Aqua's offices at 762 West Lancaster Avenue, Bryn Mawr, PA 19010. The PUC docket number is A-2022-3034143.