

Good morning. I am Bill Ferguson, a resident of New Garden Township. Our sewer system was the first acquisition under Act 12. The sale was very low key. However, when Aqua filed what would become our first rate increase, we started paying attention. As a result two neighbors and I formed Keep Water Affordable – or KWA. Two of us are speaking today, the third is also present in the audience in support of our testimony today.

My first sewer bill following Aqua’s rate increase (shown below) was up 90%. The only thing that changed was ownership. The toilet certainly did not flush any better. So how can such an increase be justified?

Aqua Pennsylvania Wastewater		Toll Free: 877.987.2782	Questions about your sewer service? Contact us before the due date.	
762 W. Lancaster Avenue Bryn Mawr, PA 19010-3489		Fax: 866.790.8292 AquaAmerica.com	Bill Date September 19, 2022	Total Amount Due \$ 413.33
			Current Charges Due Date October 11, 2022	

Meter Data	Billing Period	Days	Usage	Units
	08/16/22	91	12,000	Gallons
	05/17/22			
Average Daily Usage = 131 Gallons	Total Days:	91	Total Usage:	12,000 Gallons

Billing Detail	
Amount Owed from Last Bill	\$ 234.27
Total Payments Received	234.27
Remaining Balance	0.00
Current Wastewater Charges	277.21
Base User Charge	1.24
Base User Charge	134.88
Amount Due	\$ 413.33

=
 Sept 2022
 1,000 gallons
 Less usage
 \$179.06 HIGHER cost
 (i)

Mascara Center (see mascara.cda for other information)

In that regard, I would like to discuss four aspects of Act 12:

How it is money driven.

What drives the rate increases.

Substantial Public Benefit.

Were our HUGE rate increases in 2022 due to past negligence?

Act 12 is all about money – big money, involving three parties

Big Water

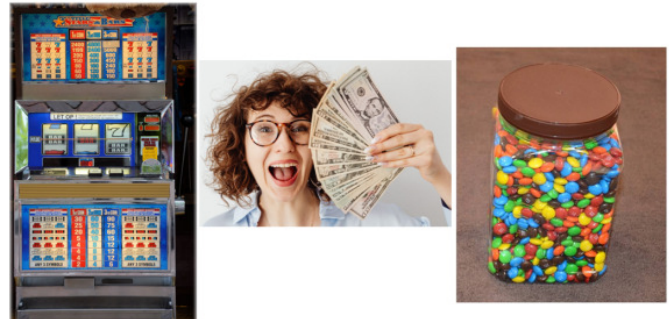
The Big Water Companies – focused on profit growth, which is fine, that is what corporations do. Our issue is with their methods used to acquire the municipal utilities needed to realize that growth.



Local Government

Municipal Governments - too often infatuated by the seductive siren song of a huge “candy Jar” of “free money”. It is like winning the lottery. BUT, that money is in no way “free”.

The failure of local government to properly serve their citizens is probably our biggest concern.



Not Representing Ratepayers

Ratepayers

Ratepayers - They are paying for Big Water’s profits and the local government’s “Candy Jar” windfall. Often, they are victims.



They Need Relief

Act 12 – enables two major negative impacts.

#1 - The acquisition of healthy systems.

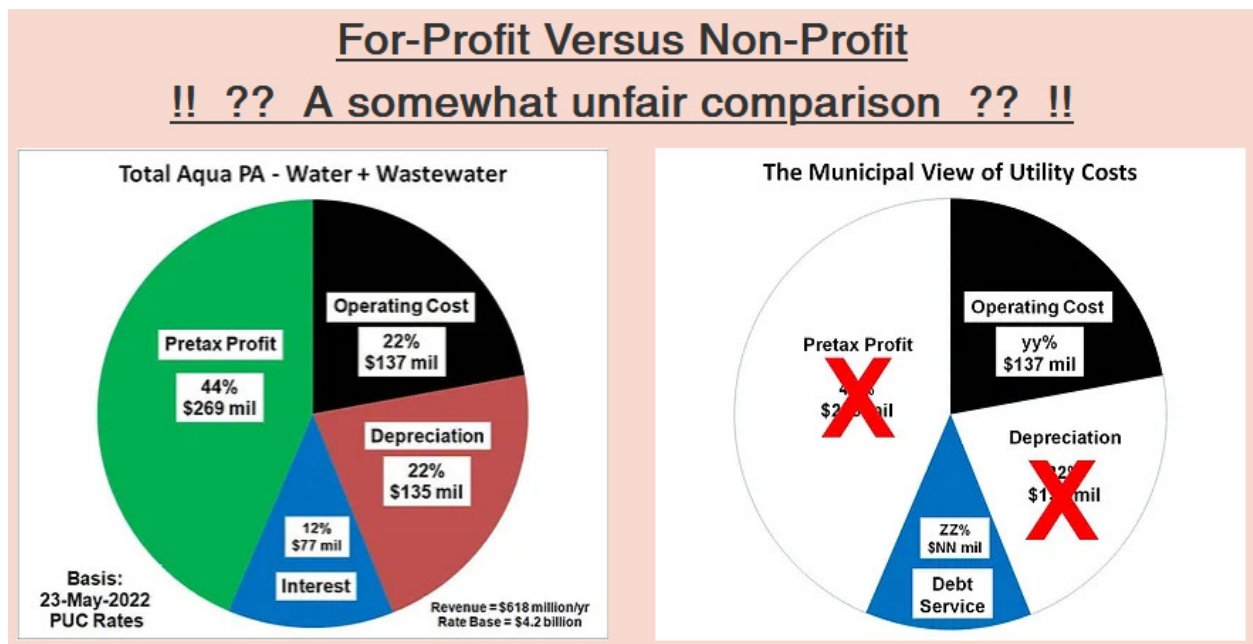
#2 - Doubling or tripling the price paid for them. If you were shopping for a car and found one you liked with a sticker price of \$40K. Would you offer the dealer \$80K or \$100K for that car? I doubt it.

But that is what is happening under Act 12. Both parties at the negotiating table want the highest price possible.

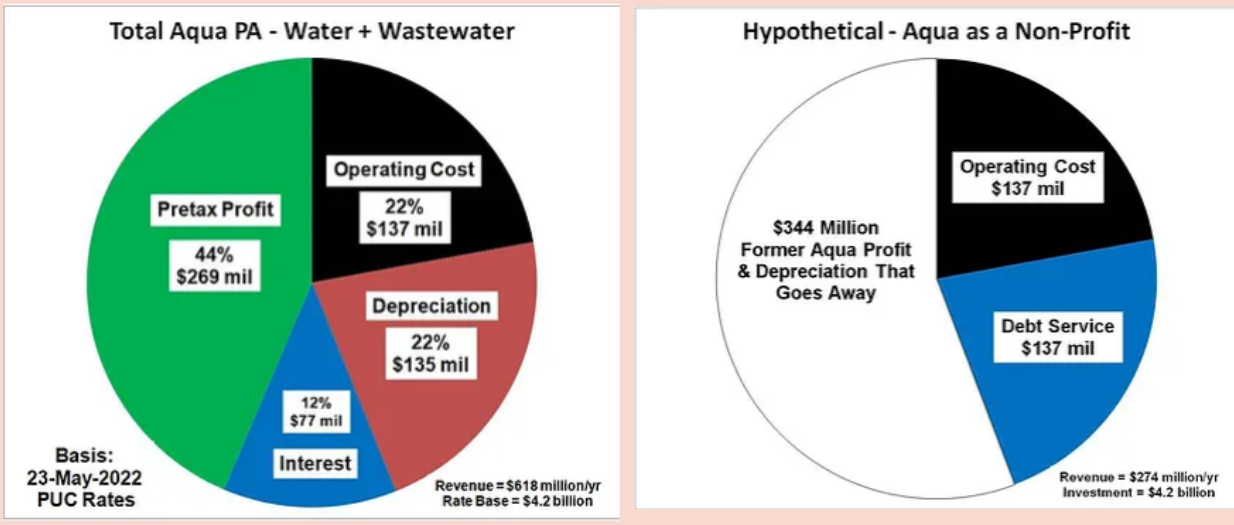
Why would Big Water want to pay higher prices? Simple, the more they pay, the higher their profits – as long as the purchase price goes into their rate base. They cannot lose. It is one sweet deal.

What drives the gargantuan rate increases after an acquisition

The following two sets of charts show why privatization drives large rate increases.



IF Aqua Was A Non-Profit - IF IF IF



The left hand chart on both sets shows how Aqua's revenue is used. This is directly out of their rate filings. The key feature is that 44 cents of every dollar we pay goes to Aqua's profits. (For PA American, profits are about 41 cents – essentially the same.). Now, on the upper set, compare that to the chart on the right. That chart reproduces Aqua's revenue distribution, crossing out the elements that do not apply to a non-profit. The comparison is pretty stark. It is obvious that when Big Water acquires a municipal utility those customers have to be hit with a major rate increase to cover the missing profit and costs.

But, as noted, those top charts are not a totally fair comparison. Any system the size of Aqua's has substantial capital costs not reflected by "Debt Service" on the municipal chart. So, the second set of charts are a much more apples to apples comparison. The chart on the right is our estimate of a hypothetical Aqua as a non-profit. It includes a generous allowance for capital expenditures. It still shows that the hypothetical non-profit would have to collect less than half the revenue Aqua does.

This should make it fairly obvious that when Big Water acquires a non-profit municipal system, rates have to about double to pay for Big Water's additional profits and costs. It is baked into the fundamental economic differences between the two systems.

If you want to see the assumptions behind the above charts go to the following link:
<https://www.keepwateraffordable.org/for-vs-non-profit>

Substantial public benefit

The PUC is obligated to deny approval unless the buyer demonstrates “substantial public benefit”. In the case of New Garden the benefit was:

Regionalization and economies of scale.

New Garden gets the experience of Aqua’s wastewater professionals.

No negative impact on existing Aqua customers.

Pardon my sarcasm, but isn’t that absolutely awesome justification for doubling our sewer cost. But the PUC has approved many acquisitions on similar rationalizations.

In the East Whiteland case the PUC makes a statement about substantial benefit that we find revealing: (PUC Opinion and Order 8-July-2022)

“This does not require us to determine whether the benefits substantially outweigh the harms”

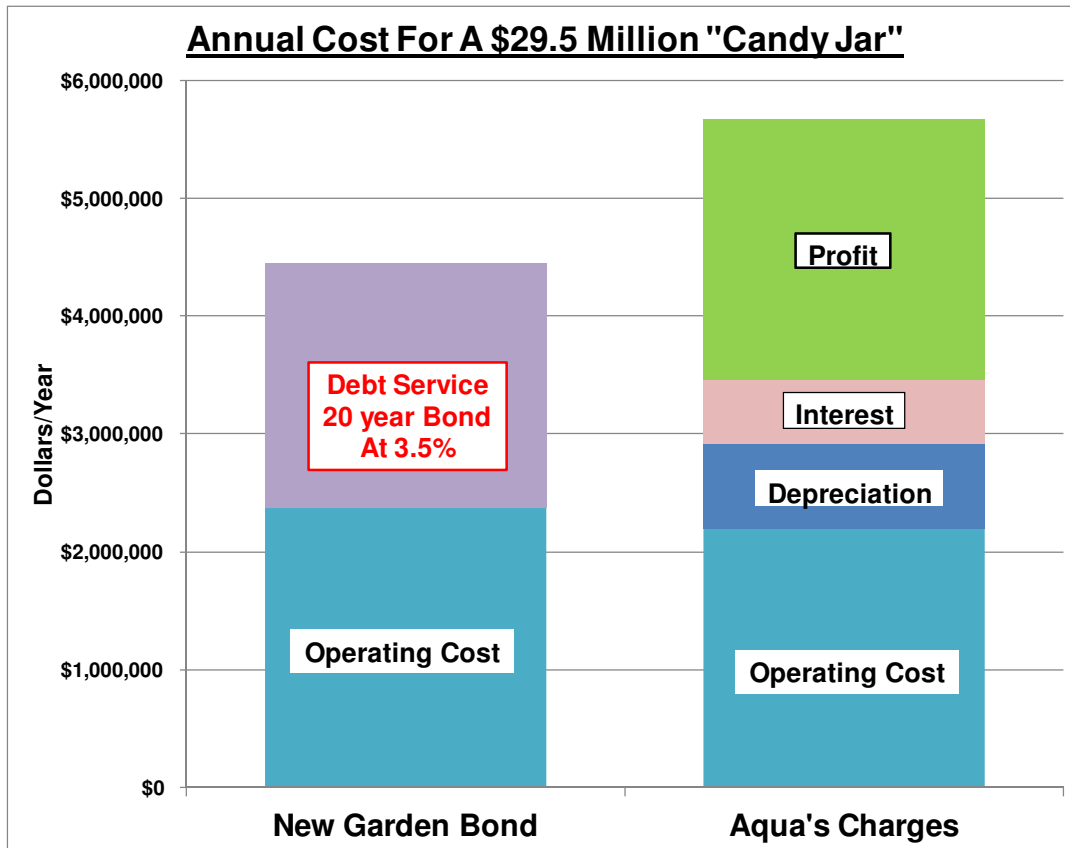
With that approach, “Substantial Public Benefit” can be whatever the PUC wants it to be.

We believe the standard should be quantitative and a NET BENEFIT. You should not just count the good stuff and ignore the bad. There are two clear quantitative pieces that stand out:

The large sum of money received by the local government – a definite benefit, but a one time windfall.

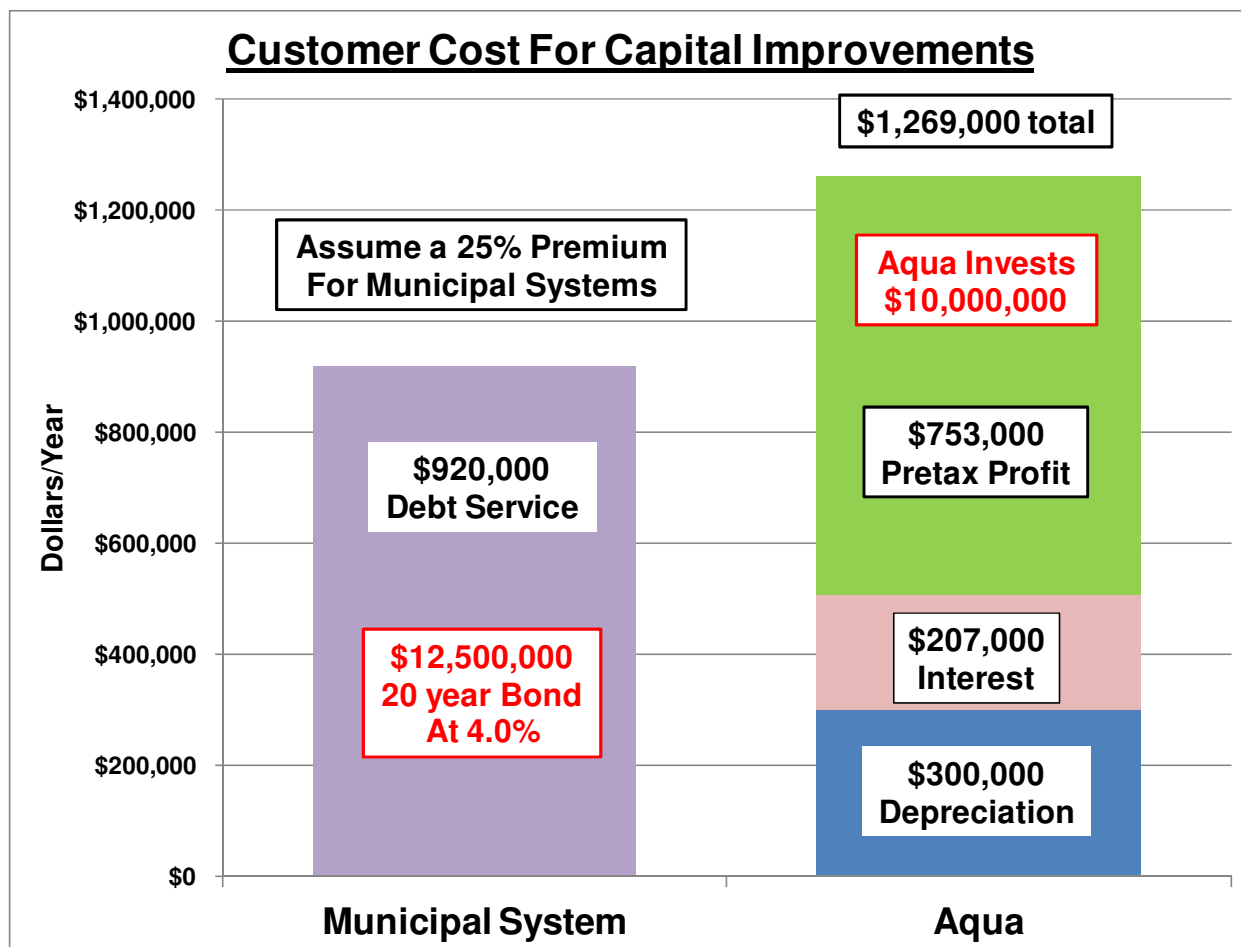
The ongoing cost increases paid by ratepayers – a substantial public harm.

This poses a bit of a quandary – how do you compare a one time windfall with cost increases that go on forever? Actually, there is a very good way. That is to ask the question: How else could that windfall be obtained? The answer to that question is to determine the debt service for a municipal bond for the amount of the sale. We believe you will find that debt service will always be significantly less than what ratepayers will have to fork over. The following chart illustrates this for New Garden”



New Garden could have realized the same \$29.5 million windfall at \$1.2 million/yr lower cost to ratepayers. that is a measure of the public harm done by the sale. So, although a local government may “win the lottery”, net-net the state of Pennsylvania will be poorer for it. The windfall is not a net public benefit.

There is a similar situation when comparing the cost for capital improvements. The standard Big Water claim is that their capital costs are 25% lower – and that is justification for selling the system. But when analyzing the cost impact on the ratepayer, the answer is always that it is cheaper for the municipality to do the upgrades. This is illustrated by the following chart on the next page. For a \$10 million project, ratepayers save about \$350,000/yr when done by a municipality – even though the capital investment is \$2.5 million higher. The difference is largely driven by the profits Big Water will collect on the new investment.



Do acquired systems “deserve” big increases?

A common slur on municipal systems is that they under charge and under invest. Therefore, when acquired, big “Catch Up” increases are needed. The ALJ’ Recommended Decision in Aqua’s 2021 rate case sheds some light on this. Quoting from Aqua’s 2021 rate case: (the ALJ’s 18-Feb-2022 Recommended Decision Docket R 2021-3027386 pdf pages 96-97)

“Aqua has stated that the primary driver for the proposed revenue increase for both water and wastewater is infrastructure investment. However, it is important to understand that for the Acquired Systems, both the buyer, Aqua, and the selling municipalities should know that at the time of acquisition customers were likely paying rates that were well below the cost of service, either because rates had not been increased or facility improvements had been deferred. It should therefore not come to anyone’s surprise that in order to meet the increased costs associated with system improvements, rates will have to be increased, in some cases substantially.”

Paraphrasing the above statement: *Acquired systems deserve big rate increases because they have under paid and under invested in the past.*

But, the increases under consideration had nothing to do with past failures. They were all about paying for Aqua's profits and higher costs on their inflated acquisition prices. If there really has been under investment, that will be reflected by even higher rates in the future.

We are concerned about misleading claims like this being used to justify both acquisitions and their subsequent rate increases. It creates an unwarranted bias against municipal systems.

In closing, we have been asked if there was any privatization deal we could support. The answer, actually, is yes. Provided it is the right thing done the right way.

The right thing would be a benefit to the customers of the system.

The right way is to fully explain the deal to ratepayers, let them make the decision – and then all parties abide with the result.

The Act 12 deals to date benefit Big Water, local politicians and ripoff the ratepayer – it is neither the right thing nor the right way.

Thank you for the opportunity to express these views. I hope it can lead to meaningful reform in the near future. What has happened to us should not be happening to others.