
House Consumer Affairs
Committee Public Hearing

House Bill 1294 (Godshall – R)

Kathy L. Pape,

President and CEO, Pennsylvania American Water
Past-Chair, National Association of Water Companies,
Pennsylvania Chapter

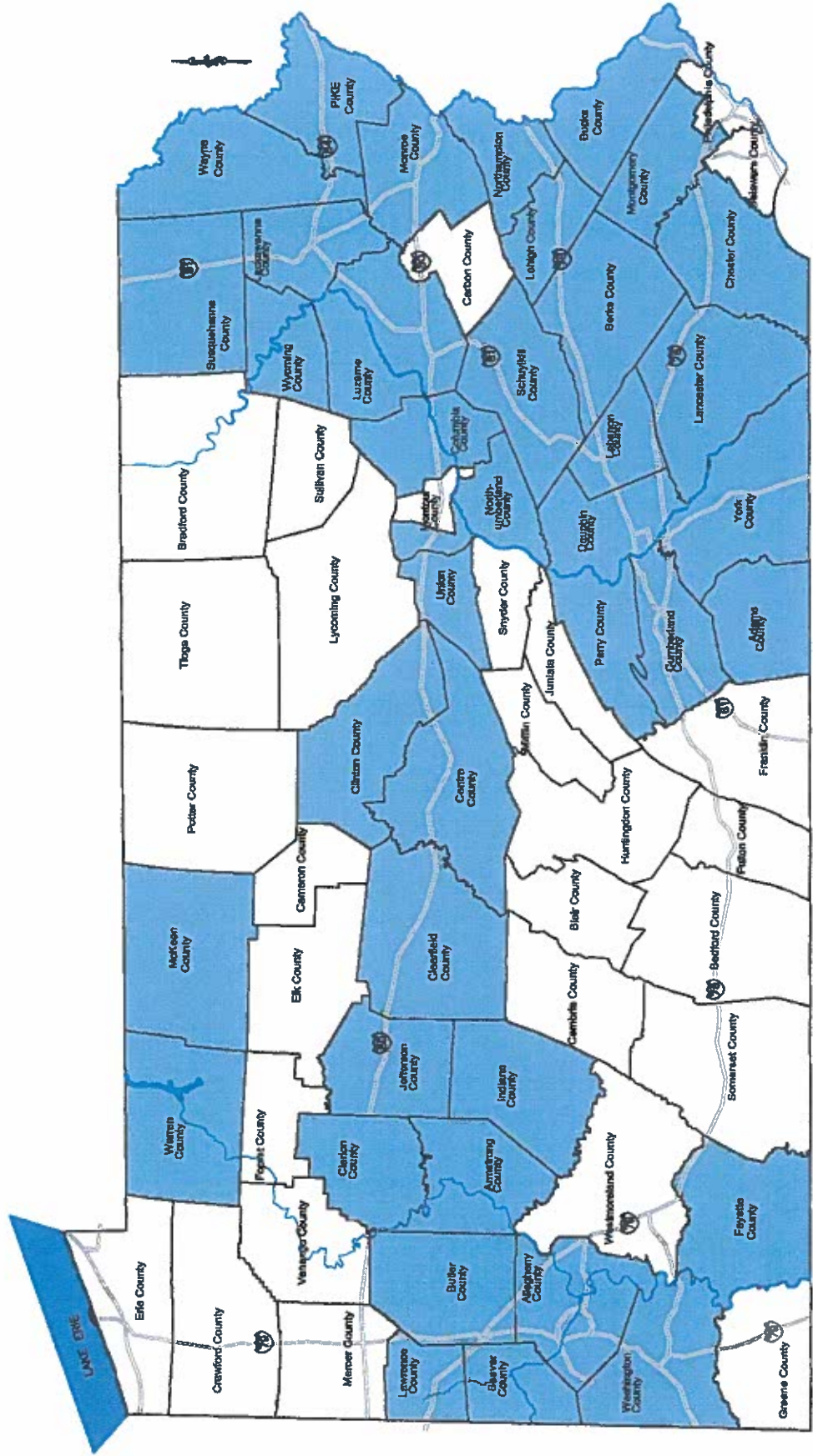
April 28, 2011

National Association of Water Companies (NAWC) Pennsylvania Chapter

NAWC represents the private water and wastewater service industries

- Pennsylvania chapter consists of 10 member companies
- Providing water service to approximately 3.1 million people in 485 communities
- Providing wastewater service to approximately 155,000 people
- Mission: To promote the value of the private sector as the provider of quality, sustainable water services and innovative solutions

Where we serve



■ Counties served by NAWC members.

Pennsylvania American Water

- Subsidiary of American Water Works Co. Inc.
- Roots date back to early 1800s, Incorporated in 1904
- Largest regulated water and wastewater service provider in PA
- Serving approximately 2.2 million people in 36 counties
- More than 1,000 employees
- Customer base:
 - 637,000 water customers
 - 92% residential
 - 7% commercial
 - 1% industrial/other
 - 17,600 wastewater customers

Pennsylvania's Aging Infrastructure

- PA water and wastewater infrastructure earn D+ grade
- PA water and wastewater systems need \$36.5 billion for capital repairs and upgrades over next 20 years
- PA also needs \$77.1 billion for O&M and debt service over next 20 years

Sources:

American Society of Civil Engineers 2010 Report Card for PA's Infrastructure
Governor's Sustainable Water Infrastructure Task Force Report, October 2008



Harrisburg Main Break Disrupts Capitol Complex



Sustainable Water Infrastructure

- Many PA water systems rely on pipe dating back 50, 75 and 100 years
- Main replacement rate system-wide was estimated to exceed 900 years
- Pennsylvania American Water and other investor-owned water utilities were filing rate cases approximately every 12 months to recover main replacement costs
- Increasing workload on Public Utility Commission to address ongoing rate case filings
- In 1996, Pennsylvania American Water and the PUC developed concept of Distribution System Improvement Charge (DSIC)
- DSIC established as Act 156 of 1996 by General Assembly

DSIC – Act 156 of 1996

66 Pa. C.S. §1307(g) describes the DSIC:

- Recovery of costs related to distribution system improvement projects designed to enhance water quality, fire protection reliability and long-term system viability
- Water utilities may file tariffs establishing a sliding scale of rates or other method for the automatic adjustment of the rates of the water utility as shall provide for recovery of the fixed costs (depreciation and pretax return) of certain distribution system improvement projects, as approved by the Commission, that are completed and placed in service between base rate proceedings. The Commission, by regulation or order, shall prescribe the specific procedures to be followed in establishing the sliding scale or other automatic adjustment method.

Revenue-Neutral Projects Allowed in DSIC

Implemented in 1997, DSIC enables companies to recover certain revenue-neutral infrastructure improvement costs between base rate cases through surcharge on customers' bills

- Main/Valve replacement
- Main cleaning and relining
- Fire hydrant replacement
- Service line replacement
- Main extensions to eliminate dead-ends
- Solutions to regionalization projects
- Meter change-outs
- Fixed costs - depreciation and pretax return for projects completed and placed into service between base rate cases

DSIC Customer Protections

- **DSIC unavailable if last allowed rate of return is exceeded**
- **Surcharge limited to maximum 5 percent or 7.5 percent of total bill**
- **Annual reconciliation audit**
 - **Over-collections refunded with interest**
 - **Under-collections billed into future rates without interest recovery**
- **PUC audits DSIC filings on periodic basis**
- **Surcharge reset to zero at time of new base rates**
- **Customers receive notice of all changes**
- **All charges reflect used and useful plant**
- **Charges reflect additions placed in service during prior three-month period before DSIC effective date**

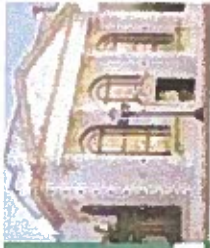
Benefits of DSIC

- Phase-in cost recovery/gradualism
- Proactive versus reactive main replacement
- Reduces total capital costs if proactive main replacement
- New main installation eliminates dead-ends (facilitates looping projects)
- Reduce unaccounted for water
- Replace fire hydrants and larger pipe for fire flows
- Provide economic reliability in the community
- Reduce rate case expense
- Promote acquisition of small and non-viable water systems
- Allow for proactive planning
- Customer protections (Rate case process)
- Positive impact on capital attraction

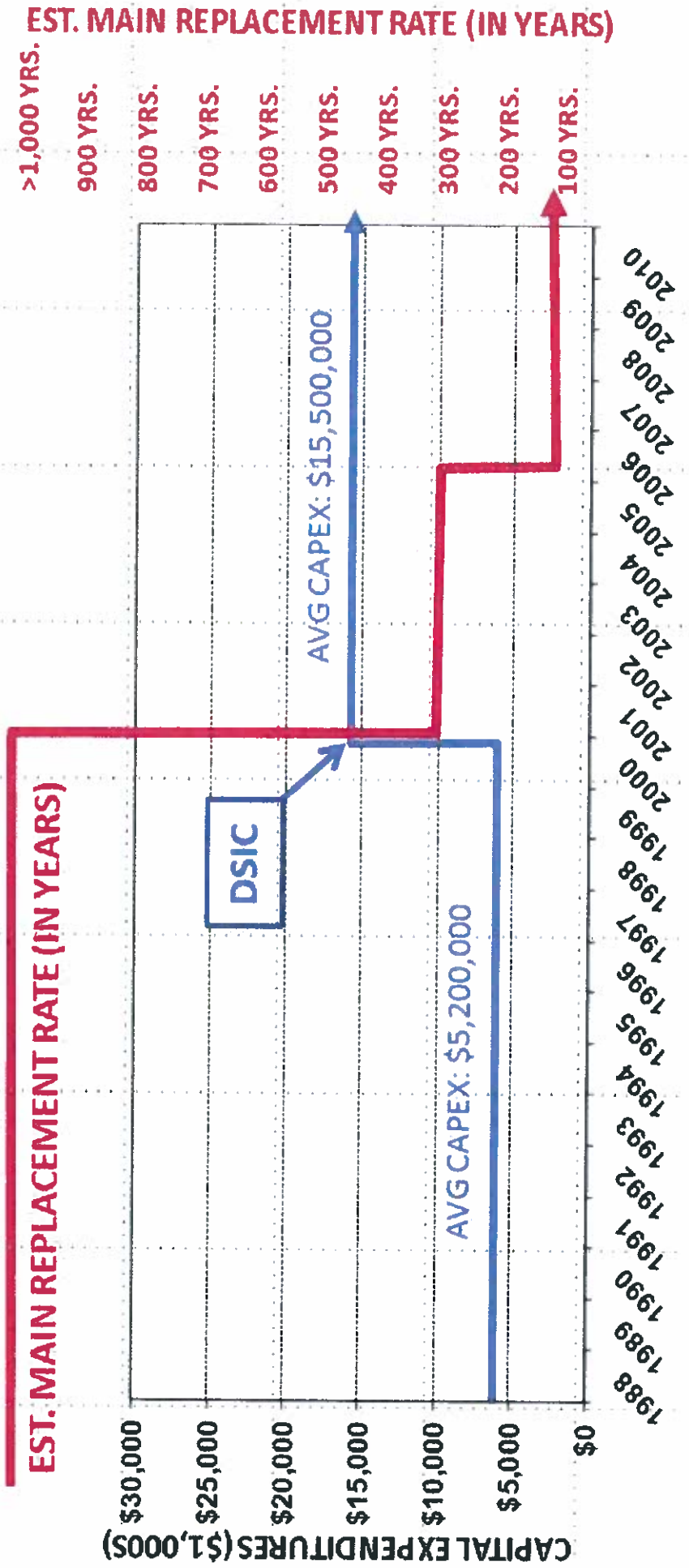
Why DSIC Was Necessary

- Previous Focus: Build infrastructure to serve customers
- Today's Focus: Rebuild infrastructure nearing end of useful life
- Accounting rules do not permit recovery of carrying costs on pipe/meter/services/hydrant installation between rate cases
- Regulatory tool to address aging infrastructure and unaccounted-for water
- DSIC surcharge allows water companies to fund more infrastructure upgrades than would typically be possible ... and at reasonable rate for customers
- Example: After York Water Company implemented its DSIC, the timeframe for distribution system replacement went from 990 years to 130 years, closely matching pipes' actual service lives

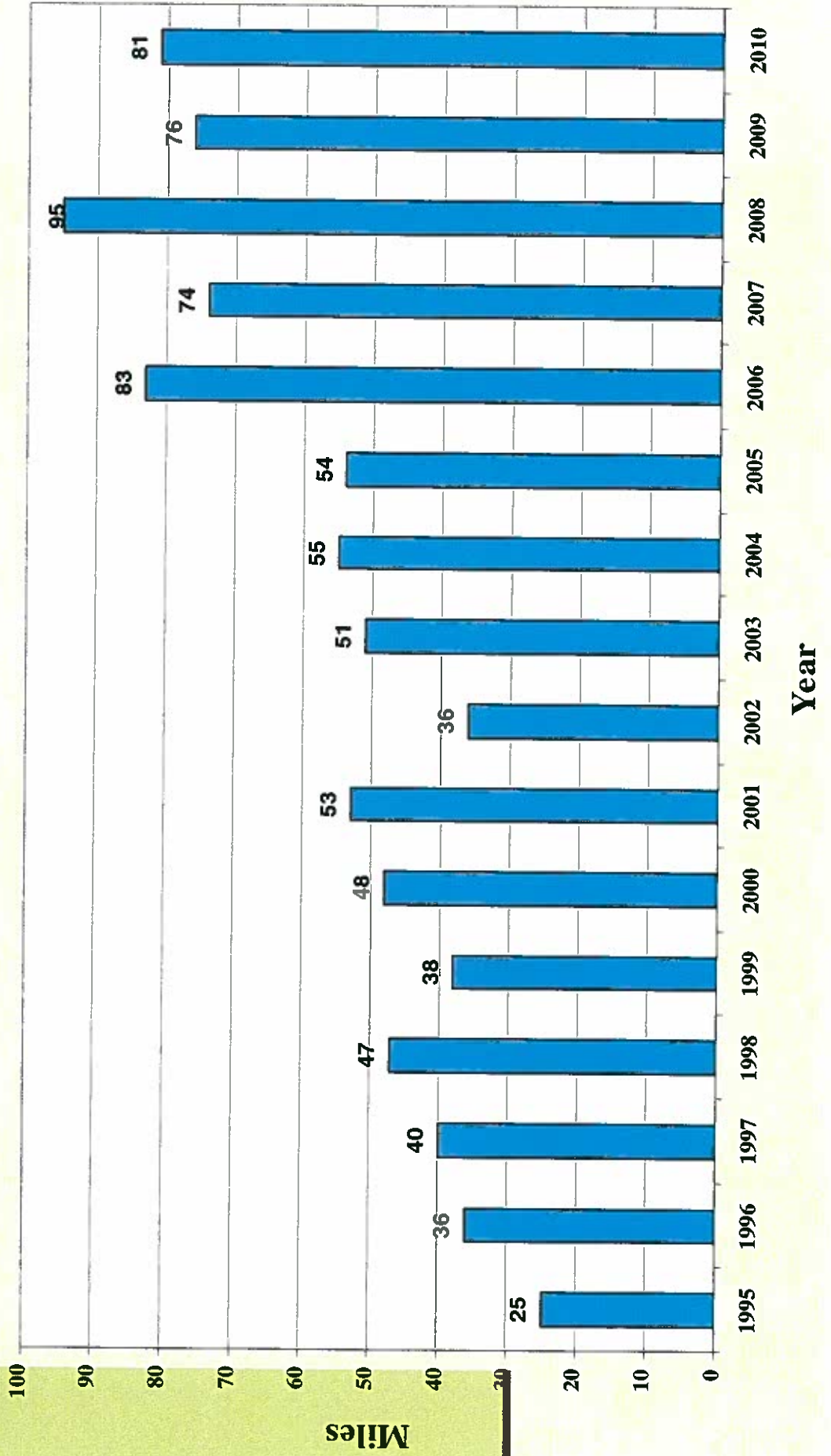
York Water Company



Construction Expenditures (\$ Millions)



Pennsylvania American Water Miles of Pipe Replaced Through DSIC - \$818 Million Invested

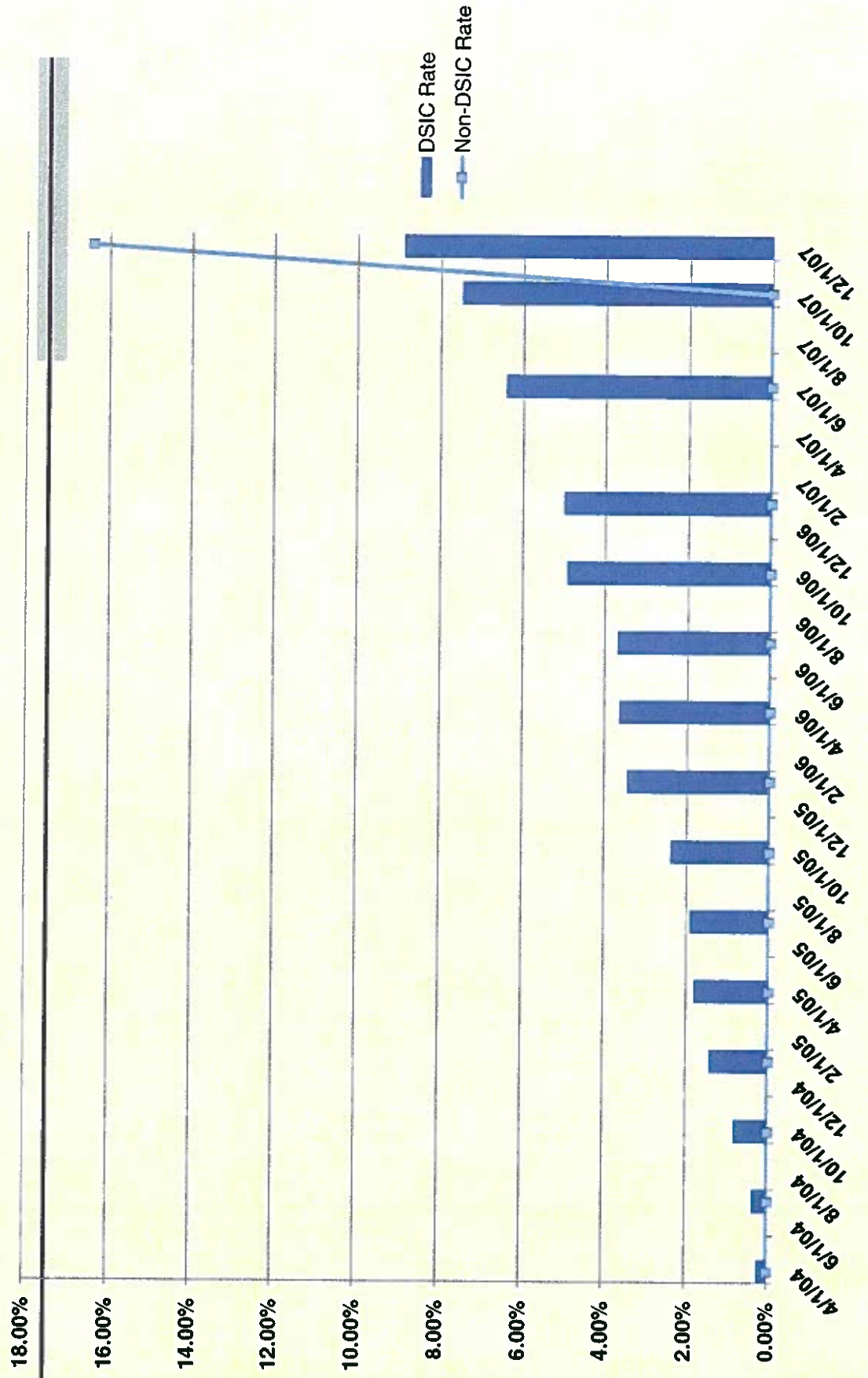


DSIC in Action

Pennsylvania American Water Capital for DSIC		
	DSIC Investment (in millions)	Miles of Main Replaced
2007	\$77.4	74.4
2008	\$125.9	94.8
2009	\$99.3	76.4
2010	\$111.5	81.0
Total	\$414.1	326.6

- Goal: To replace 1 percent of pipe annually to achieve total distribution system replacement over 100 years (Current annual average .90 percent)
- Target aging, small diameter water main, higher frequency of breaks
- Benefits of DSIC main replacement:
 - Improve service reliability (e.g. reduces main breaks)
 - Increase fire flows
 - Enhance water pressure and quality

DSIC RATE GRADUALISM



Actual DSIC Cost on Monthly Water Bill

(Typical Residential User 4,200 Gals/Month)

	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11
DSIC Rate	0%	0%	0%	0%	.40%	.40%	.40%	.96%	.96%	.96%	1.85%	1.85%	1.85%	3.11%	3.11%	3.11%
DSIC Cost	\$.00	\$.00	\$.00	\$.00	\$.16	\$.16	\$.19	\$.41	\$.40	\$.41	\$.81	\$.84	\$.87	\$ 1.36	\$ 1.43	\$ 1.51

Collection System Improvement Charge (CSIC)

Concept of CSIC legislation supported by PUC

- House Bill 141 (Preston-D) amends Title 66 (Public Utilities), further providing for sliding scale of rates and adjustments
- Legislation provides statutory authority for the PUC to reinstate CSIC for wastewater utilities (Modeled after DSIC)
- Utilities need flexibility to accelerate replacement of deteriorating wastewater infrastructure
- Avoids rate shock for customers
- Replace state's aging collection systems
- Create jobs and economic development opportunities
- Reduce environmental and public health risks due to the overflow of untreated sewage into streams

House Bill 1294 (Godshall-R)

- Clarifies authority of PUC to allow more timely recovery of infrastructure investments
- Clarifies authority of the PUC to authorize fully projected test years, if warranted
- Allows utilities that provide water and wastewater service to consolidate water and wastewater revenue requirement

NAWC Strongly Supports CSIC and HB 1294

- Water and wastewater industry is extremely capital intensive (more so than other utility industries) and our infrastructure needs are well known
- Without proper financial mechanisms like DSIC and CSIC, companies cannot adequately meet infrastructure replacement needs, in addition to the high cost of treatment plant upgrades to ensure regulatory compliance



Thank You

