

Testimony of Kimberly Joyce, Aqua Pennsylvania  
Before the Pennsylvania House Consumer Affairs Committee  
April 28, 2011, 9:00 a.m.  
Harrisburg, PA

Good morning Chairman Godshall, Chairman Preston and the members of the Committee. My name is Kimberly Joyce and I am the Manager of Regulatory Affairs and Rate Counsel for Aqua America. Thank you for the opportunity to present testimony regarding House Bill 1294.

Aqua Pennsylvania is a subsidiary of the suburban Philadelphia based Aqua America, the second largest publicly traded water utility serving more than three million people in 13 states across the country. Aqua Pennsylvania serves over 410,000 water customers in 30 counties in the Commonwealth. Aqua Pennsylvania's wastewater subsidiary, Little Washington Wastewater, serves 8,500 customers.

**Water and Wastewater Ratebase Consolidation**

I would first like to discuss an important aspect of House Bill 1294 which addresses a change to Section 1311 of Title 66 of the Public Utility Code. This change would allow utilities that provide both water and wastewater to combine their revenue requirement for ratemaking purposes in a rate case proceeding filed before the Pennsylvania Public Utility Commission ("Commission").

From a historical perspective, Section 1311 of Title 66 was enacted to preclude a utility that owned and operated very different and unrelated types of utility service from consolidating and combining their operations for ratemaking

purposes. It is our belief that when Section 1311 was originally drafted, it did not contemplate the similarities and interconnected relationship of water and wastewater providers.

Water and wastewater are intrinsically connected. From an environmental standpoint, the water that runs through the rivers, streams and aquifers in the Commonwealth is treated for consumption by water utilities and then returned back into the ecosystem by wastewater utilities. In the case of Aqua, and other utilities in Pennsylvania, this service is provided by both our water and wastewater operating companies. At its essence, it is the same service – the treatment of water.

There are distinct advantages to having this type of treatment and expertise under the umbrella of one company. The expertise in treating water and then returning it back into the environment requires a similar understanding of the ecosystem and involves interaction with same state and federal environmental protection agencies and health departments as well as coordination with the same local governments. Many of our operators are trained in both the water and wastewater fields. It also involves many of the same Commission rules and policies. For example, both water and wastewater fall under the Commission's policy statement for the acquisition of troubled systems. Wastewater volumetric charges are often directly tied to water consumption used in the household. Additionally, many Aqua Pennsylvania customers receive their water and wastewater charges on the same bill each month.

Water and wastewater utilities have talked about the ability to combine revenue requirements for rate making purposes for several years. You might be asking what does that mean and why does it matter?

First, what does it mean? When Aqua Pennsylvania files a rate case, it tallies its costs of providing service to its customers. This includes the expenses associated with operating the utility and the cost of the infrastructure upgrades that have been made since the last rate case to ensure safe and reliable service. This is referred to as the cost of service or the full revenue requirement for the Company. The proposed legislation would allow a water utility to include in its revenue requirement the additional costs and revenue requirement of its wastewater systems for ratemaking purposes. This avoids having to prepare separate rate case filing which entails additional legal costs as the cases are processed at the Commission.

Next, why does it matter? Pennsylvania has long been a proponent of single tariff pricing for the water and wastewater industry. This concept, just like in the electric, gas, and telecommunications industry, allows a utility to spread the risk and cost of necessary infrastructure improvements over a larger customer base and at the same time, gradually move customer rates towards a common uniform rate. Allowing companies the ability to propose a consolidated revenue requirement for water and wastewater to the Commission and further utilize the concept of single tariff pricing will set the stage for a number of positive benefits including:

- Continued compliance with environmental regulations by facilitating infrastructure investment in the Commonwealth
- Flexibility in capital spending and planning
- The ability to spread infrastructure improvement costs over a larger base
- Gradual rate increases
- Capacity for companies to address troubled systems
- Fewer individual rate cases

If enacted, the Commission would oversee how the revenue requirement would be divided between water and wastewater customers. In ratemaking terms, this is called the rate design phase. It is an allocation of the costs and a decision about which customers and classes pay for the total cost of the utility for providing service. Similar to the Commission's adoption of single tariff pricing, the same concept would apply to the incorporation of a wastewater component. The Commission would have greater flexibility in allocating costs and setting up rates for the water and wastewater customers of a particular company. This flexibility could be used to more gradually address particular systems where significant infrastructure investment needs to be made and allow continued affordable rates.

## **Alternative Ratemaking Mechanisms**

Moving on to Section 1329 of House Bill 1294, Aqua Pennsylvania is supportive of granting the Commission the ability for more flexibility to approve alternative ratemaking mechanisms. Aqua Pennsylvania is proud to share its experience and discuss the benefits associated with the alternative ratemaking mechanism known by many as the Distribution System Improvement Charge (“DSIC”). The Commonwealth has been a leader in proactively addressing aging water infrastructure since 1996 through its enactment of this mechanism. Over the past five years, Aqua Pennsylvania has replaced an average of more than 100 miles of DSIC eligible pipe per year which has improved water quality and reliability and fewer service interruptions for schools, hospitals, and businesses. See Exhibit A for miles of main replaced since 1995.

The DSIC is an example of an alternative ratemaking mechanism that has benefitted customers today and well into the future with improved service reliability, water quality, increased water pressure, fewer main breaks, and fewer service interruptions. Aqua Pennsylvania’s tariff allows it to replace and upgrade certain non-growth related infrastructure including distribution pipe, meters, fire hydrants, and valves. The concept of the Pennsylvania DSIC has now been mimicked in eight other states.

It is important to remember the size and magnitude of the water infrastructure backbone that was put in place many years ago. Aqua’s water system includes 5,100 miles of distribution pipe. It is also important to remember

what type of infrastructure has been and continues to be replaced via the DSIC mechanism. This includes: 1) cement stovepipe which was installed starting in the 1890's through the 1920's; 2) cast iron pipe installed between 1936 and 1948 (Aqua has about 250 miles of this "wartime" pipe in service in its system); and 3) pipe installed prior to 1926 (Aqua has over 800 miles of pipe throughout its system of this vintage).

### **Benefits of Alternative Ratemaking Mechanisms**

Since 1996 with the enactment of the DSIC, Aqua has replaced approximately 750 miles of pipe. This replaced infrastructure has direct benefits to customers.

Most notably is the decrease in water quality customer complaints. Since this alternative ratemaking mechanism was enacted, our data shows that discolored water quality calls have consistently declined over the past fifteen years. The replacement of aged pipe is making a difference. Just this past winter, Aqua Pennsylvania experienced 481 main breaks in December, January, and February. As you may recall, this past winter was particularly harsh. Out of those 481 main breaks, only one was on new DSIC implemented ductile iron pipe. The one main break that did occur on newer pipe was in fact, caused by a stray electrical current. The other 480 main breaks occurred on older, DSIC eligible pipe.

Another recent example of the benefits of the mechanism is the ability for water companies to proactively address struggling and antiquated water systems in

the Commonwealth. The water and wastewater industry in Pennsylvania and across the country is highly fragmented with many small, family run operations. These smaller operations often do not have access to the capital to fund infrastructure investments or the expertise needed to properly maintain a system and are often neglected for a number of years.

Attached to my testimony is a picture of distribution pipe that was found and replaced in Aqua Pennsylvania's Honesdale system. Aqua Pennsylvania acquired the Honesdale system in September 2008. It was identified as a troubled system prior to Aqua's ownership. As you can imagine, customers in this system experienced pressure issues and water quality concerns of color and sediment in the water.

In 2010, Aqua replaced 26,000 feet of old water main in Honesdale at a cost of \$3.8 million. \$3.2 million of the distribution pipe upgrade was replaced through the DSIC mechanism. The old pipe was replaced with new 8-inch ductile iron pipe and will improve fire flow, quality and service reliability for customers. An additional \$3 million will be spent to replace approximately 18,600 feet of old water main in 2011. This work, which will lead to better water quality for Commonwealth residents, was facilitated through the unique alternative ratemaking mechanism of the DSIC.

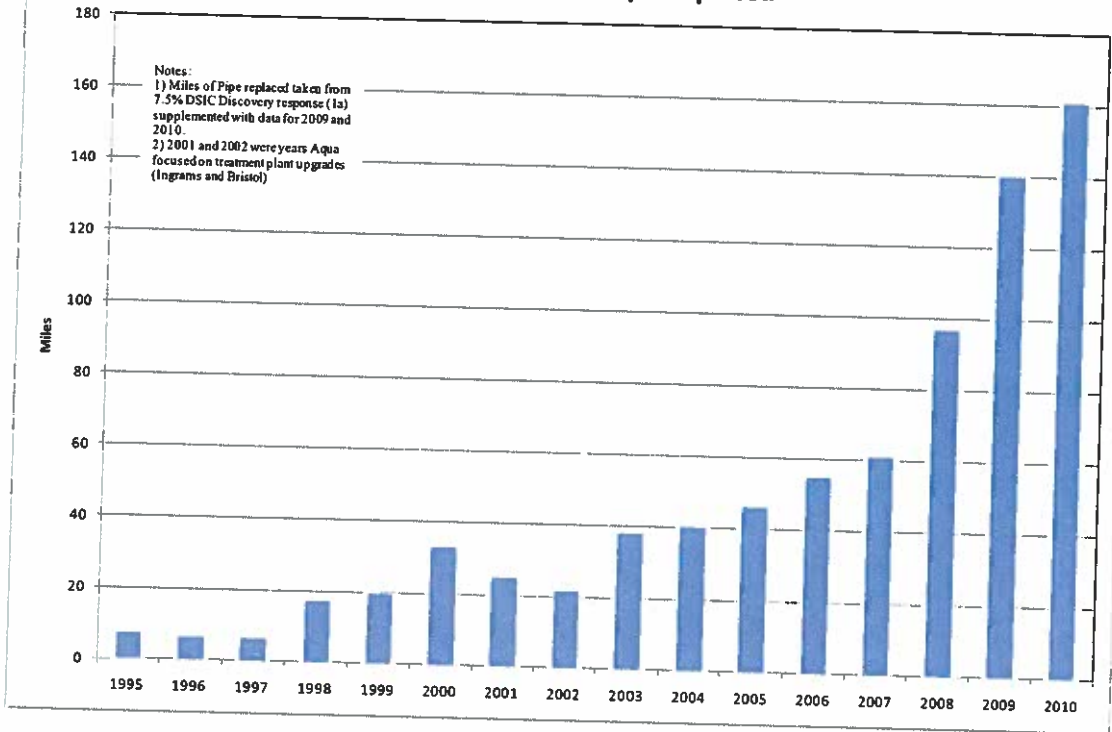
Other benefits that should be considered when contemplating alternative ratemaking mechanisms is economic development and planning. Since 1996, Aqua Pennsylvania has invested \$872 million through the DSIC program. The

ability to accelerate rehabilitation or replacement of infrastructure creates and supports construction and construction-related jobs on a regular basis. A recent study found that approximately 7 direct jobs are created for every \$1 million of new DSIC spending.

In addition to the positive impacts on our customers, the flexibility in planning projects through the DSIC provides a positive economic impact for the Commonwealth. When we ask our operators what the DSIC mechanism has improved for them, they will say that it allows them to proactively coordinate with local townships and municipalities. Projects can be timed and scheduled to coincide with PennDOT and local municipality road projects so that there is minimal impact on residents and businesses and roads are not under construction twice in the same year. In addition, planned DSIC projects allow more competitive bidding which further drives down costs.

In closing, Aqua Pennsylvania appreciates the opportunity to testify today in support of House Bill 1294. We look forward to a continued dialogue on the benefits of the proposed change to Section 1311 and the ability to propose new alternative regulatory mechanisms to the Commission. I would be happy to answer any questions at this time.

### Exhibit A Aqua PA - Miles of Pipe Replaced



## Honesdale Water System Distribution Pipe – Exhibit B

