

# **Newtown Artesian Water Company**

*Incorporated July 3, 1888*

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March 24, 2017

Mr. John Clista  
Audit Manager  
Bureau of Audits  
Pa. Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

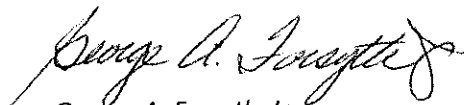
Re: Focused Management and Operations Audit  
Docket No. D-2016-2559577

Dear Mr. Clista:

Enclosed are Newtown Artesian Water Company's responses to the PUC recommendations from the Focused Management and Operations Audit.

If you have any questions or concerns, please feel free to call or email.

Sincerely,



George A. Forsyth, Jr.  
General Manager

Encl.

GAF/nf

## CORPORATE GOVERNANCE

### SECTION III

#### RECOMMENDATION

1. Document the Company's operating policies and procedures and provide access to appropriate employees.

#### RESPONSE:

#### ACCEPTED

We are in the early stages of transitioning over to a new Customer Service/Financial program. When transition is complete a new Standard Operating Procedure Manual will be completed. SOP'S are currently being created for all procedures performed by staff.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr., Daniel Angove and Nancy I. Faist will be responsible for creating new SOP Manuel.

Proposed date of Implementation: April, 2018

## CORPORATE GOVERNANCE

### SECTION III

#### RECOMMENDATION

2. Board of Director fees are high compared to similar sized utilities.

#### RESPONSE;

#### NOT IN AGREEMENT

In 2004, the Pennsylvania Public Utility Commission's Bureau of Audits ("PUCBA") recommended that Newtown Artesian Water Company ("NAWC" or "Company") undertake annual benchmark analyses to attempt to identify ways to reduce expenses. In accordance with that recommendation, NAWC retained Gannett Fleming to prepare annual benchmarking analyses. The annual Gannett Fleming benchmarking analyses have included a report of whether or not the Officers' and Directors' fees were reasonable in comparison to other similarly sized water companies. The Gannett Fleming benchmarking analyses were made available to PUCBA during the Audit at NAWC's facilities. These independently conducted annual benchmarking analyses of NAWC prove NAWC's total remuneration and fees are very reasonable when compared to the various Audit Groups employed by the PUCBA. That being said, the Company believes also that operating and financial benchmarks are useful tools, but are not to be solely relied upon in making managerial decisions. When utilizing benchmarks it must be recognized that no comparison group or individual utility will have the exact operating and financial composition as the company being studied. Therefore, the individual company's characteristics and NAWC's operating requirements should be considered when viewing the results of a benchmark analysis to a comparison group.

The aforementioned annual benchmarking analyses highlight the fact that the PUCBA Audit Group used varying groups of companies, when comparing NAWC's salaries, director fees and administrative and general expenses, which compare electric utilities with water utilities. The annual benchmarking analyses note electric utilities and water utilities file different types of PUC annual reports reflecting:

- 1) Different Accounting Accounts;
- 2) Different Reporting Schedules; and
- 3) Different Account Details Reporting Requirements.

For example, the electric utilities included in the O&M Audits include Citizens' Electric Company and Wellsboro Electric Company. Both companies are owned by C&T Enterprises, Inc., an unregulated holding company. C&T is a jointly-owned subsidiary of Claverack Rural Electric Cooperative and Tri-County Rural Electric Cooperative, which are both member-owned electric cooperatives incorporated under the laws of Pennsylvania. C&T provides Citizens and Wellsboro management and support services to its affiliated companies in the areas of information technology, finance, human resources, payroll, communications and media relations and operates an after-hours call centers.

Therefore, a specific expense line item may not be comparable between different types of

utilities. Moreover, making a direct comparison of a specific line item, even between the same types of utilities, may not be equivalent. For example, two companies may provide different levels of salaries, bonuses, benefits and pensions yet provide the identical amount of total employment remuneration ("Total Employment Remuneration"). Accordingly, comparing individual line items for salaries, bonuses, benefits or pensions may produce a different result than comparing total employment remuneration. Clearly, in this example, the comparison of Total Employment Remuneration is more applicable than individual line item comparisons.

NAWC's annual benchmarking analyses prove NAWC is more efficient at providing water than the other companies of PUCBA's Audit Group as shown by the ratio of Gallons per Employee and Customer per Employee. NAWC also has an extraordinary low percentage of unaccounted-for-water. Comparing the percentage of unaccounted-for-water for NAWC's and PUCBA's Audit Group show NAWC's has the lowest percentage of unaccounted-for-water when compared to PUCBA's Audit Group. For example, Columbia Water's unaccounted-for-water percentage is 117% higher than NAWC's rate and York Water's percentage of unaccounted-for-water is 176% higher than NAWC's percentage. Further, comparing the average water rates for NAWC's and PUCBA's Audit Group show NAWC's has the lowest water rates when compared to PUCBA's Audit Group. For example, Columbia Water's rates are 19% higher than NAWC's water rates and York Water's rates are 24% higher than NAWC's water rates.

Finally, the PA PUC addressed the issue of compensation of directors and concluded it was "within the managerial discretion of a public utility" to determine an appropriate level.

On review of this issue, we generally agree with the ALJ's recommended disposition. We note that the BCL authorizes corporations like Columbia to compensate officers who are also directors. The BCL, at 15 Pa. C.S. § 1730, authorizes a corporation's board of directors to fix the compensation of directors. In addition, a director of a corporation may be a salaried officer of the corporation.

The Commission, as a creation of the General Assembly, has only the powers and authority granted to it by the General Assembly. The General Assembly did not grant the Commission the authority to act as a super board of directors for a public utility. Determining the employment practices and compensation of its directors, officers and employees is within the managerial discretion of a public utility.

It is not within the Commission's authority to interfere with the management of a public utility unless an abuse of its managerial discretion or arbitrary action has been shown. *Metropolitan Edison Co. v. Pa. PUC*, supra. If there has been an abuse of managerial discretion and the public interest has been adversely affected, the Commission may intervene. In this case, we cannot conclude that Columbia abused its managerial discretion or took arbitrary action in paying directors' fees to compensated corporate officers. *Pa. P.U.C. v. The Columbia Water Company*, Docket No. R-2008-2045157, Opinion and Order entered June 10, 2009 at 40-41.

NAWC's salary and wages; director fees; and officers fees are reasonable as proven by the annual benchmarking analyses. As stated previously, we believe the totality of the benchmark analyses is useful; not the result of a specific benchmark ratio. NAWC's benchmarks are generally within the upper limits, or best ranking found for the PUCBA's Audit Group. This is the reason why NAWC is able to provide a similar product, water, at the lowest rates when compared to the other companies in the PUCBA's Audit Group.

Accordingly, Newtown Artesian Water Company disagrees with the Audit Report. The Company does not believe its directors' fees are too high nor does it plan to maintain the same level of directors' fees mentioned in the 2010 Management Audit.

No implementation needed.

## CORPORATE GOVERNANCE

### SECTION III

#### RECOMMENDATION

3. Ensure the external accounting firm rotates its engagement partner and/or audit team every five years.

#### RESPONSE:

#### ACCEPTED

Bee, Bergvall & Company is an independent certified public accounting firm with respect to the Company and conforms to the standards of the accounting profession as contained in the Code of Professional Conduct and Pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Pennsylvania Board of Public Accountancy. The Company's quality control manual provides for the rotation of the partner having responsibility for the job and the partner reviewing the job every five years. In 2014, the engagement partner was rotated and this person is responsible for supervising the engagement.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Nancy I. Faist

Proposed date of Implementation: On-going

## FINANCIAL MANAGEMENT

### SECTION IV

#### RECOMMENDATION

1. Reduce billing lag to more appropriate levels as efficiencies are gained from full implementation of AMR.

#### RESPONSE:

#### ACCEPTED

NAWCO is in the process of replacing all meters to AMR'S. Once transition is complete we will be able to reduce billing lag significantly.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr., Daniel Angove and Nancy I. Faist will be responsible for implementing transition.

Proposed date of Implementation: On-going

## FINANCIAL MANAGEMENT

### SECTION IV

#### RECOMMENDATION

2. Address all outstanding and future management letter recommendations in a timely manner.

#### RESPONSE:

#### ACCEPTED

Management will address all recommendations in a more efficient manner. With the new computer system (Muni-Link) certain recommendations may be resolved.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr., Daniel Angove and Nancy I. Faist

Proposed date of Implementation: September, 2017



## **WATER OPERATIONS**

### **SECTION V.**

#### **RECOMMENDATION**

- 1. Strive to test all commercial and industrial backflow devices annually.**

#### **RESPONSE:**

#### **ACCEPTED**

**Nawco is currently changing computer software, from AMS to Muni-link. Inclusive in Muni-link is a backflow program. The intention is to have this up and running by year end. Also, we have contacted "PA Water Specialties Company" about possibly handling this for us.**

**Company Representative Responsible for Implementing:**

**Daniel Angove**

**Proposed date of Implementation: June 30, 2018**

## **WATER OPERATIONS**

### **SECTION V.**

#### **RECOMMENDATION**

- 2. Test new residential meters in accordance with regulations.**

#### **RESPONSE:**

#### **ACCEPTED**

**We are currently testing 10% of all new meters before installation to meet the recommendations.**

**Company Representative Responsible for Implementing:**

**George A. Forsyth, Jr. and Daniel Angove**

**Proposed date of Implementation: Ongoing**

## **WATER OPERATIONS**

### **SECTION V.**

#### **RECOMMENDATION**

- 3. Establish a critical valve list and strive to exercise critical valves on an annual basis.**

#### **RESPONSE:**

#### **ACCEPTED**

**Nawco currently runs the "vitals" program which tracks all valves that were exercised. From this program Nawco will establish a "critical" list and exercise them annually.**

**Company Representative Responsible for Implementing:**

**George A. Forsyth, Jr. and Daniel Angove**

**Proposed date of Implementation: June 1, 2018**

## **WATER OPERATIONS**

### **SECTION V.**

#### **RECOMMENDATION**

- 4. Strive to use the GIS mapping system for all distribution system activities and ensure accurate records of all assets.**

#### **RESPONSE:**

##### **ACCEPTED**

**On the week of February 20<sup>th</sup>, surveyors gathered coordinates for all Hydrants and Valves in the system. This will allow for Nawco to use the GIS more frequently. Nawco is currently looking for an asset management program that will allow better records, including proactive and reactive work.**

**Company Representative Responsible for Implementing:**

**George A. Forsyth, Jr. and Daniel Angove**

**Proposed date of Implementation: September 30, 2017**

## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

5. Reduce cast iron and asbestos cement mains in a more aggressive time frame.

#### RESPONSE:

#### ACCEPTED

NAWCO is currently preparing out Long Term Infrastructure Improvement Plan (LTIIP) for presentation to the PUC. The plan will show increased investments for the retirement of cast iron and asbestos cement pipe.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Daniel Angove

Proposed date of Implementation: On- going

## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

6. Perform regular pressure surveys of the distribution system.

#### RESPONSE:

#### ACCEPTED

NAWCO will be performing a pressure survey during our Spring hydrant flushing cycle.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Daniel Angove

Proposed date of Implementation: April 28, 2017

## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

7. Perform a service life study all plant assets periodically.

#### RESPONSE:

#### ACCEPTED

NAWCO plans on performing a service life study of plant assets in conjunction with the next rate case filing.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr.

Proposed date of Implementation: Next rate case filing.

## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

8. Develop a comprehensive safety manual that includes all relevant safety procedures.

#### RESPONSE:

#### ACCEPTED

NAWCO will develop a comprehensive safety manual.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Daniel Angove

Proposed date of Implementation: Summer 2018



## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

9. Expedite the removal of all lead services in the distribution system.

#### RESPONSE:

#### ACCEPTED

In accordance with the Long Term Infrastructure Improvement Plan (LTIP) all lead services will be replaced by the end of the 5 year plan.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Daniel Angove

Proposed date of Implementation: On-going – Summer 2021

## WATER OPERATIONS

### SECTION V

#### RECOMMENDATION

10. Conduct a manpower planning study including a process review of prescribed maintenance tasks to assess optimizing internal resources and employing contractors to strategically address workload levels.

#### RESPONSE:

#### ACCEPTED

NAWCO has prepared a manpower study and presented it to the Board of Directors. The Board of Directors have approved the hiring of one additional person for the field staff. The new hire to start before May 1, 2017. In addition they have authorized the purchase of an additional piece of equipment to cut down on manpower requirements for certain jobs.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr. and Daniel Angove

Proposed date of Implementation: May 1, 2017

## **EMERGENCY PREPAREDNESS**

### **SECTION VI.**

#### **RECOMMENDATION**

1. Test emergency preparedness plans, or portions of it, on an annual basis.

#### **RESPONSE:**

#### **ACCEPTED**

**Nawco intends to hold annual table top meetings and test different portions of the emergency response plan. Also discussions will be held at the weekly tailgate meetings and document attendance.**

**Company Representative Responsible for Implementing:**

**George A. Forsyth, Jr. and Daniel Angove**

**Proposed date of Implementation: December 31, 2017**

## EMERGENCY PREPAREDNESS

### SECTION VI

#### RECOMMENDATION

2. Correct minor deficiencies in physical security at all affected facilities.

#### RESPONSE:

#### ACCEPTED

A contractor has inspected all sites and is preparing to make repairs at all sites affected. In addition, we will be installing security camera systems at all remote sites. The main office complex already has a security camera system installed.

Company Representative Responsible for Implementing:

George A. Forsyth, Jr.

Proposed date of Implementation: May 1, 2017

## CUSTOMER SERVICE

### SECTION VII

#### RECOMMENDATION

1. Conduct more frequent targeted customer satisfaction surveys at least every three years.

#### RESPONSE:

#### ACCEPTED

As of January 1, 2017 we have been mailing surveys to every 5<sup>th</sup> customer. This includes service calls for water quality, high usage and our meter replacement program.

Company Representative Responsible for Implementing:

Daniel Angove and Nancy Faist

Proposed date of Implementation: On-going