



OFFICE OF CONSUMER ADVOCATE  
COMMONWEALTH OF PENNSYLVANIA  
1425 STRAWBERRY SQUARE  
HARRISBURG, PENNSYLVANIA 17120

IRWIN A. POPOWSKY  
Consumer Advocate

April 17, 1996

(717) 783-5048

*M. Alford*

Re: Petition of Philadelphia Suburban Water Company  
for Approval to Implement a Tariff Supplement  
Establishing a Distribution System Improvement  
Charge, Docket No.  
P-00961036

*I strongly object to their increases as far in excess of the C.P.I. They are gouging as a monopoly.*

Dear Consumer Colleague:

As you may know, on March 15, 1996, Philadelphia Suburban Water Company (PSWC or Company) filed a petition with the Pennsylvania Public Utility Commission (PUC) requesting permission to implement a new quarterly surcharge to be effective July 1, 1996. The surcharge is projected to increase customer bills by approximately 0.5% as of that date, but would be adjusted quarterly for additional improvements and could increase bills by as much as 5%. The new charge would enable the Company to begin charging for the costs of water main replacements without filing a rate case.

*John Mc Guinness*

The charge would enable the Company to recover certain costs, including depreciation and a return on investment related to main replacements, between its rate cases. The Company proposes to make quarterly filings to show the PUC how much more it has spent on main construction projects since its last filing and how much the surcharge should be changed for the next quarter.

*P.O. Box 121  
Malvern PA 19355*

On April 15, 1996, the Office of Consumer Advocate (OCA) formally intervened in the surcharge proceeding and is currently investigating this proposal by PSWC.

*CA*

Notice to the general public of the Petition was published in the Pennsylvania Bulletin on April 6, 1996, and the OCA will be filing a response to PSWC's filing on or before May 6, 1996. You may also respond to the Company's proposal on your own, if you wish. You may write a letter stating your views to send to Secretary John Alford, P.O. Box 3265, Harrisburg PA 17105-3265. You may also express your opinion orally by calling the number included on your bill insert or post card notice, which is (800) 782-1110. Letters and oral comments should be submitted to the PUC by no later than May 20, 1996.

Thank you for your interest in rate matters in the past. If public input hearings are scheduled on this proposal at some future time, we will send another letter to you to advise of the date, place and time for them.

JLS

Sincerely,

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*Irwin A. Popowsky*

MAY 16 1996

Irwin A. Popowsky  
Consumer Advocate

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Richard A. Flebbe  
802 Ellis Avenue  
Newtown Square, PA 19073

May 1, 1996

Secretary John Alford  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

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RE: Petition Of Philadelphia Suburban Water Company  
For Approval To Implement A Tariff Supplement  
Establishing A Distribution System Improvement  
Charge

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Introduction

The following comments are offered in response to having been duly noticed by Philadelphia Suburban Water Company (PSW) of its March 15, 1996 petition filed with the Pennsylvania Public Utility Commission (PUC) requesting authorization to recover certain capital plant addition costs pursuant to Section 1307(a) of the Public Utility Code. Specifically, PSW seeks authorization to establish and implement a Distribution System Improvement Charge (DSIC).

JAF

As a residential customer of PSW receiving service under the Company's Main Division tariff and consequently required to pay the highest rate for residential service on the PSW system I request Commission consideration of the following comments. Additionally, I request the right to respond to any additional comments or filings made by PSW or others resulting from the March 15, 1996 petition.

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As described below PSW's petition raises numerous questions and concerns as to the just and reasonableness of the proposal. Specifically, PSW's petition seeks to recover through a quarterly rate tracker costs more properly associated with base rate cases.<sup>1</sup>

### Specific Concerns

Should the Commission not summarily reject PSW's petition as inappropriate pursuant to Section 1307(a) of the Public Utility Code then it is requested that the Commission deny PSW's requested July 1, 1996 effective date, Order the tariff sheets as Pro Forma, and set the issue for evidentiary hearing.

The following questions address PSW's petition as filed. Additional issues will more then likely arise as the proposal is subjected to public scrutiny.

- 1) Would the implementation of the proposed DSIC be just and reasonable and in the public interest as required by the Commissions' regulations?
- 2) Would PSW's capital cost rate tracker undo the risk / reward balance used to determine PSW's ROE in the last base rate case?
- 3) Does PSW, in fact, need such a surcharge in order to satisfy capital plant replacement beyond the base amount already in rates?
- 4) Assuming approval, could PSW efficiently spend the incremental dollars or would the need to undertake prudent management of capital expenditures be undermined?
- 5) Would the surcharge result in nothing more than a permanent 5% rate increase?
- 6) Would authorization for the DSIC unreasonably delay rate equalization among the various divisions of PSW?

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<sup>1</sup> Capital investment requirements of a water utility as it addresses the quality standards mandated by the Safe Drinking Water Act (SDWA).

7) Would the existence of a rate tracker encourage potential acquisitions to further neglect their distribution facilities resulting in greater expenditures of capital in order to bring such future systems into compliance with the SDWA?

8) Would the customers in the Main Division be required to unduly subsidize the resulting capital investment in the West Whiteland, Malvern and Media as well as any further system acquisition such as Phoenixville?

### Discussion

PSW has over the last several years acquired several water utilities in various levels of disrepair.<sup>2</sup> Other recent acquisitions, West Whiteland, Malvern and Media have required the investment in new capital facilities in order to bring these systems into compliance with minimum quality standards. The current proposal appears to be structured in order to fund additional investment in these and other future systems and allocated an unduly large share of the costs to the Main Division customers.

Recognizing that while there is a need for rational economic capital replacement programs by water utilities the tone and some of the comments made by the Company in its petition make one question the validity of the proposal. PSW has, in the past, pointed out that its system was in compliance with the SDWA.<sup>3</sup> In the 1994 Annual Report the Company went on to identified the benefits of what is described as its excellent planning and commitment to water quality.

“[I]n 1994, a significant portion of its \$27 million capital expenditure was spent to rehabilitate and replace water mains.”

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<sup>2</sup> The worst example which comes to mind is the Phoenixville system.

<sup>3</sup> In 1994 “[t]he Upper Merion Filtration Plant was formally dedicated during a ceremony at which the Company received proclamations from both the Pennsylvania House of Representatives and the Montgomery County Board of Commissioners for its commitment to quality drinking water. With the Upper Merion plant completed, the Company now meets the current requirements of the Safe Drink Water Act and meets or exceeds all other current Federal and State regulations.” ( 1994 Annual Report Philadelphia Suburban Corp., page 3)

In further comments describing its rehabilitation program the Company states that

"[I]n the older parts of the system, Philadelphia Suburban continued its aggressive main cleaning and lining program. This innovative technique allows the Company to restore water mains to near-original condition for about half the cost of replacing mains. In 1994, the Company cleaned and lined 34,000 feet of mains."<sup>4</sup>

If such an aggressive capital program was not sufficient to satisfy the capital replacement requirements of the Company why was the issue not a main element in the 1995 base rate case? Specific comments such as "[U]nless steps are taken now to provide the necessary resources for greater infrastructure investment, water quality, reliability and customer service in general will suffer and potentially degrade to unacceptable levels." cause concern.<sup>5</sup> Given the tone and desperate nature of the language it is difficult to determine if PSW is merely losing control or just attempting to scare or threatened the Commission into accepting its tracker proposal.

Regardless of PSW's motive it is clear that the Commission during its decision process should assume that the tracker would reach the proposed 5 percent cap. The initial surcharge should be considered nothing more than a teaser which would grow into the proposed cap in short order. At the maximum cap value a typical residential customer receiving service under the Main Division tariff would pay in real dollars a surcharge 16 percent higher than a customer in the Malvern Division, 52 percent higher than a customer in the Uwehlan Division and a whopping 72 percent higher than a similarly situated customer receiving service under the West Whiteland Division tariff. Consequently, the proposed tracker would further aggravate an already inequitable rate design.

Clearly there is a general public interest on the part of the Commonwealth to ensure that all residents have access to clean potable water. However, the

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<sup>4</sup> 1994 Annual Report.

<sup>5</sup> March 1996 petition, page 15, item 24 (emphases original).

customers of water systems being acquired realize an immediate and direct benefit from the acquisitions through increased quality, long term reliability and most of all a cost savings by not having to pay for the capital improvements required to bring their system into compliance with the SDWA. What the Commonwealth must ensure is that an unjust cost burden is not imposed on one group of customers simply to keep costs down for another similarly situated group of customers. Therefore, the question of rehabilitation costs and should they be subsidize by the Main Division customers is material to the instant proceeding.

Recommendation

Should the Commission not summarily reject PSW's petition as inappropriate pursuant to Section 1307(a) of the Public Utility Code the Commission should set the issue for evidentiary hearing.

Sincerely

*Richard A. Flebbe*

Richard A. Flebbe

May 14, 1996

Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA. 17105-3265

Re.: Philadelphia Suburban Water Company

*P-00961036*

The Philadelphia Suburban Water Company (PSW) has filed a request with the PUC to allow PSW to begin recovering the cost of replacing old water mains etc. as incurred. The PSW anticipates that this will result in a modest rate hike.

Please permit me to recommend that you deny the request.


For the businesses I am familiar with the cost of making capital improvements gets depreciated over the expected life of the improvement. To do the same for the replacement of water mains etc. is only fair since the people having the benefit of the improvement will pay for it as they collectively "use up" the improvement over the years.

Charging current customers for improvements "as incurred" would be unfair as these customers (a) may not be customers (users of the improvement) over the entire length of the life of the improvement, and (b) would, in effect, be financing at zero interest the capital improvements of PSW.

A separate question arises, since PSW may have had to borrow money in the past to finance the capital improvements, is there any reference in their filings about the interest charges that will be saved by immediately charging customers for the improvements?

Thank you for reviewing my suggestions.

Sincerely yours,

  
Robert J. Kühne, Ph.D.  
Five Harford Lane  
Radnor, PA. 19087

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