

CAPTION SHEET

MANAGEMENT SYSTEM

- 1. REPORT DATE: 00/00/00
- 2. BUREAU: LAW
- 3. SECTION(S):
- 5. APPROVED BY: DIRECTOR:
SUPERVISOR:
- 6. PERSON IN CHARGE:
- 8. DOCKET NO: P-00961036
- 4. PUBLIC MEETING DATE: 00/00/00
- 7. DATE FILED: 03/20/96
- 9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: PHILADELPHIA SUBURBAN WATER CO.

COMP/APP COUNTY:

UTILITY CODE: 212370

ALLEGATION OR SUBJECT

PETITION OF PHILADELPHIA SUBURBAN WATER COMPANY FOR APPROVAL TO IMPLEMENT A TARIFF SUPPLEMENT ESTABLISHING A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE.

DOCUMENT
FOLDER

DOCKETED
MAR 28 1996

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INFO. CONTROL DIV.

March 20, 1996

BY HAND DELIVERY

John G. Alford, Secretary
Pennsylvania Public Utility Commission
New Filing Section, Room B-20
North Office Building
Commonwealth & North Streets
Harrisburg, PA 17120

P. 00961036

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

Dear Secretary Alford:

Enclosed please find an original and seven (7) copies of the Petition of Philadelphia Suburban Water Company For Approval To Implement A Tariff Supplement Establishing A Distribution System Improvement Charge ("Petition"), together with supporting data as specified in 52 Pa. Code § 53.52. As noted in the Petition, PSWC requests approval to file the proposed tariff supplement, submitted as Exhibit A to the Petition, to become effective as of July 1, 1996.

As evidenced by the attached certificate of service, copies of the Petition and supporting data have been served upon the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate.

An additional copy of this letter, the Petition and supporting data are enclosed, which we request that you date stamp as evidence of filing.

Sincerely,

Thomas P. Gadsden

Thomas P. Gadsden
Counsel for Philadelphia Suburban
Water Company

DOCUMENT
FOLDER

TPG:jod
Enclosure

cc: Per Certificate of Service

Philadelphia Washington New York Los Angeles Miami Harrisburg Princeton London Brussels Frankfurt Tokyo

48

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: PETITION OF PHILADELPHIA SUBURBAN :
WATER COMPANY FOR APPROVAL TO :
IMPLEMENT A TARIFF SUPPLEMENT :
ESTABLISHING A DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

Docket No. P-00969036

CERTIFICATE OF SERVICE

I hereby certify that I have, this 20th day of March, 1996, served a true and correct copy of the aforementioned document upon the persons and in the manner indicated below:

BY HAND DELIVERY

Dianne E. Dusman, Esquire
Assistant Consumer Advocate
Office of Consumer Advocate
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Thomas P. Gadsden
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Anthony C. DeCusatis
Counsel for Philadelphia
Suburban Water Company

DATED: March 20, 1996

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

96 MAR 20 PM 1:08

RE: PETITION OF PHILADELPHIA SUBURBAN :
WATER COMPANY FOR APPROVAL TO :
IMPLEMENT A TARIFF SUPPLEMENT :
ESTABLISHING A DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

PA. P. U. C.
INFO. CONTROL DIV.
Docket No. _____

~~R-00963597~~
P-961036

PETITION

Pursuant to Section 1307(a) of the Public Utility Code, 66 Pa.C.S. § 1307(a) and the regulations of the Pennsylvania Public Utility Commission (the "Commission") at 52 Pa. Code § 5.41, Philadelphia Suburban Water Company ("PSWC" or the "Company") hereby requests approval to implement the tariff supplement attached hereto as Exhibit A to be effective for service rendered on and after July 1, 1996. Approval of the proposed tariff supplement is proper and in the public interest for the reasons set forth fully below.

I. INTRODUCTION AND OVERVIEW

1. PSWC requests the Commission's approval to establish a Distribution System Improvement Charge ("DSIC"), pursuant to Section 1307(a) of the Public Utility Code, to recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing infrastructure rehabilitation projects completed and placed in service between base rate cases. The DSIC is designed to provide the Company with the resources it needs to accelerate its investment in new utility plant to replace aging water distribution infrastructure, facilitating

compliance with evolving regulatory requirements imposed by the Safe Drinking Water Act ("SDWA") and the implementation of solutions to regional water supply problems. Such an undertaking is vitally important if PSWC is to protect the health and safety of its customers.

In addition, the Company believes that the DSIC may enable it to break out of the cycle, imposed on it by its capital investment needs, of filing for base rate relief every 15 months.

<u>Docket No.</u>	<u>Filing Date</u>
R-870840	October, 1987
R-891270	April, 1989
R-901667	March, 1990
R-911892	January, 1991
R-922476	November, 1992
R-932868	December, 1993
R-953343	April, 1995

Any reduction in rate case filing frequency would generate cost savings which would inure to the benefit of customers and the Commission.

Innovative alternatives to traditional base rate filings are essential if the Company is to meet the engineering, environmental and financial challenges of infrastructure replacement and rehabilitation. The magnitude of this problem is formidable. To illustrate, the Company has 3,180 miles of mains, and is currently rehabilitating approximately 15 miles of main each year. At this pace, it would require approximately 212 years to make all of the needed improvements to existing facilities. Significantly, based on the depreciation study

submitted in its last rate proceeding, the Company's total investment in mains has an average remaining life of approximately 66 years. In view of these statistics, it is imperative that the Company find a way to substantially increase its rate of infrastructure rehabilitation. Otherwise, water quality and reliability could be jeopardized and future generations saddled with an enormous liability for deferred improvements. In this regard, it must be kept in mind that water service, more than any other utility service, is critical to maintaining public health as water is a necessity of life and vital for public fire protection purposes. Consequently, any degradation of quality or flows would present unique public health and safety concerns. The DSIC is designed to address these potential problems by giving the Company the resources it needs to make improvements in a timely and orderly fashion.

2. The Company proposes that the DSIC become effective for service rendered on and after July 1, 1996. The initial charge will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between January 1, 1996^{1/} and May 31, 1996. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant

^{1/} The Company's currently-effective base rates were established in a rate proceeding at Docket No. R-953343 on the basis of data for a future test year ending December 31, 1995.

additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update.

3. The DSIC will be expressed as a percentage and will be applied to the total amount billed to each customer under the Company's otherwise applicable rates and charges, excluding amounts billed for public fire protection service and under the State Tax Adjustment Surcharge ("STAS"). In Exhibit B to this Petition, the Company has set forth a preliminary calculation of the initial charge reflecting projected additions of DSIC-eligible plant additions through May 31, 1996.^{2/} The cost elements (depreciation and pre-tax return) included in the calculation of the DSIC are explained in detail in Section VI., infra. Based on the calculations in Exhibit B, the DSIC that would become effective, with Commission approval, as of July 1, 1996, would be 0.45%. This would add approximately \$0.36 to the quarterly bill for an average residential customer of the Company.

4. The DSIC will be capped at 5% of the amount billed to customers under otherwise applicable rates and charges, exclusive of amounts recovered under the STAS. If the cap were reached, no further increases in the DSIC would be sought or permitted.

^{2/} If the DSIC is approved, this calculation will be updated with actual data as of May 31, 1996 in a filing to be made no less than 10 days prior to the proposed implementation date.

5. The DSIC will be subject to an annual reconciliation, whereby the revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between such revenues and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e). In addition, the application of the DSIC shall be subject to continuous review and to audit by the Commission at such intervals as the Commission shall determine.

6. The DSIC will be reset to zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions would be reflected in the quarterly updates of the charge.

7. Inasmuch as the DSIC incorporates an equity return component, the DSIC will also be reset to zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings Report shows that the Company will earn a rate of return that would exceed the rate of return used to calculate its fixed costs under the DSIC.

II. THE NEED FOR THE DSIC

8. For many years, it was assumed that the water utility business was a relatively risk-free endeavor, particularly in comparison with other fixed utilities. Sources of supply were abundant, water quality concerns were few and capital

requirements were minimal and largely attributable to requests for new service. Unfortunately, that is no longer the case. Moreover, the ratesetting practices and procedures that were put in place during that historic period of relative stability have simply not kept pace with the rapidly changing nature of the water utility industry.

9. Due to a variety of federal and state legislative and regulatory initiatives, PSWC, along with other major water companies, has been required to make a very significant investment in new utility plant in recent years. Such projects have included the filtration of surface water supplies in compliance with the SDWA, the replacement of aging water distribution system infrastructure, the implementation of meter replacement programs and the active participation in the development of solutions to regional water supply problems. As a result of these undertakings, the Company's average utility plant investment per customer, as depicted in Exhibit C, has essentially doubled in the past ten years alone.

10. Notwithstanding the Company's initiatives to address these concerns, PSWC does not expect its capital attraction needs to abate. Indeed, capital expenditures are projected to approach \$30 million in 1996 alone, an amount representing 7.9% of PSWC's total rate base which took 100 years to accumulate. Moreover, this figure does not take into account the potential ramifications of Act 27, which authorizes the Commission to

require "capable public utilities" to acquire small troubled water systems under certain specified conditions (see 66 Pa.C.S. § 529).^{3/} As noted in Paragraph No. 1, supra, and as more fully discussed in Section III, infra, the Company faces a large and growing challenge to rehabilitate its distribution infrastructure before that property reaches the end of its service life and begins to present the type of public health and safety risks that must be avoided. Simply stated, the integrity of the Company's distribution system and its future viability may be jeopardized if it is not given the necessary regulatory flexibility to deal with this problem.

11. As mentioned previously, current expenditure levels only provide for the rehabilitation of approximately 15 miles of distribution main per year. In contrast, the Company's Engineering Department has estimated that 150 miles of cement mains require rehabilitation now and that another 590 miles of unlined cast iron mains will need to be replaced or lined in the next 20 years. Based on current costs, this would require \$440 million of capital spending, an amount which far exceeds PSWC's total investment in utility plant during its first 100 years.

^{3/} The Company is working actively with the Commission's Troubled Water Utility Task Force. PSWC has also voluntarily acquired, or is in the process of acquiring, several small systems which were experiencing operating difficulties, including Cherry Water Company, the Schuylkill Township portion of the Phoenixville system and Franklin Water Company.

12. Apart from the sheer magnitude of the future capital investment facing PSWC, it must be kept in mind that the projects involved will not produce any additional sales. For example, responsible water utilities typically replace, on average, 5% of their existing meters each and every year. Similarly, the replacement or cleaning and lining of an aging distribution main does not increase a water utility's available water supply -- it simply enables the utility to provide a safer, more reliable and more environmentally acceptable product.

13. When a utility is engaged in a large capital program consisting of many smaller revenue neutral projects (i.e. non-revenue producing and non-expense reducing), each completed project places a strain on earnings until the utility next seeks and is granted rate relief. Not only must PSWC absorb the cost of funds used to finance the project until it is reflected in rates, but it is precluded from ever recovering a return of and a return on its full investment because the facility will be partially depreciated by the time it is included in rate base. As shown by the data in Exhibit D, revenue neutral infrastructure replacement projects, while relatively small on an individual basis, are a large and increasing component of the Company's total construction budget.

14. If sales to existing customers grew at a rate sufficient to offset the Company's mounting capital costs, the lag in recognition of new plant additions would obviously pose a

far less serious problem. Unfortunately, that has not been the experience of PSWC or of most water utilities in Pennsylvania. To the contrary, due to an aging population, new plumbing codes, conservation and other factors, average residential customer usage has actually declined in some areas. In fact, PSWC's average residential customer consumption, after peaking at 87,000 gallons per year in 1971, now approximates only 71,000 gallons per year, a drop of over 18%. At the same time, PSWC has worked extremely hard to keep its expenses in check. Indeed, as indicated by the data depicted in Exhibit E, the Company's total per customer operating expenses, excluding depreciation, have actually fallen in real dollar terms (i.e., net of inflation) over the past ten years.

15. In light of the mounting challenges described above, it is critically important that PSWC maintain access to the capital markets on reasonable terms. While this task would be formidable under normal circumstances, it has been made all the more difficult by Standard and Poor's ("S&P") tightening of the ratings benchmarks for water utilities. Those revisions, which, amongst other things, increased coverage requirements and decreased acceptable debt leverage levels, underscore the investment community's growing concern over the risks facing the water utility industry today. Particularly insightful in this regard are the following excerpts from the June 15, 1992 edition of Creditweek in which S&P published the new benchmarks:

S&P has revised its public financial benchmarks for investor-owned water utilities. The more stringent standards . . . were implemented as a result of S&P's conclusion that credit risk has escalated in the water utility industry in recent years due to significant challenges related to developing future water supplies and assuring the quality of existing supplies

* * *

Poor internal cash generation along with modest demand growth of under 1% will require state utility regulators to play an even more significant role in the future financial well-being of the industry. Traditional ratemaking policy has not provided sufficient credit support during the construction cycle of the electric industry over the past 15 years. To avoid a repeat in the water industry, regulators must be aware of the increased challenges the industry faces. With large rate-base additions, along with increasing nonrevenue-producing assets to meet future and current water needs and mandated water quality standards, regulators will need to implement innovative regulatory policy to allow for reasonable financial measures. (Emphasis added)

16. The adoption of the DSIC represents the type of "innovative regulatory policy" that is needed if PSWC is to have a meaningful opportunity to recover its capital costs on revenue neutral infrastructure replacement projects and thereby remain in a position to attract needed capital at the lowest possible cost for its construction requirements.

III. THE KINDS OF PLANT ADDITIONS THAT WILL BE ELIGIBLE FOR THE DSIC

17. Under the Company's proposal, the property additions eligible for the DSIC will be limited to revenue neutral

infrastructure projects, consisting principally of replacement investments in so-called "mass property" accounts -- Accounts 322 (Mains), 323 (Services), 324 (Meters) and 325 (Hydrants). More specifically, DSIC-eligible property will consist of the following:

- services, meters and hydrants installed as replacements for existing customers;^{4/}
- mains and valves installed as replacements for existing facilities that have worn out, are in deteriorated condition or are otherwise at the end of their service lives;
- mains installed to eliminate dead ends;
- main cleaning and relining and projects; and
- unreimbursed capital projects to relocate Company facilities due to highway relocations.

18. As discussed in Section II, supra, the DSIC-eligible property additions are individually small but represent a very substantial investment in aggregate. By way of comparison, the Company's annual investment in this kind of property could equal, or exceed, the cost of a large water treatment plant.^{5/} Moreover, the construction of DSIC-eligible property creates uniquely difficult attrition problems.

^{4/} Meter replacements to be included in the DSIC will be limited to "in-kind" change-outs, and will not encompass that portion of replacements that is technology-driven.

^{5/} For example, when PSWC installed treatment facilities at its Upper Merion Reservoir in 1995, it cost the Company approximately \$11.0 million.

19. When the Company constructs one or a few large projects, such as water treatment plants, there are several factors that help to mitigate the effects of attrition. First, although the projects take a long time to complete and require large expenditures, AFUDC can be accrued on the Company's investment, so that earnings are not affected by capital costs incurred during construction. Second, because these projects have long lead times and known completion dates, the Company has some flexibility in timing a base rate case to synchronize rate recognition with the projected in-service dates of the projects. In this way, the period between the cessation of AFUDC accruals and the recovery of the projects' capital costs in base rates can be minimized.

20. In contrast, similar attrition-mitigating factors are not available for DSIC-eligible property for two principal reasons. First, because hundreds of such projects are completed throughout the year, it is impossible to synchronize rate recognition with placement in service. Consequently, even for a water utility that files for rate relief on an annual basis, there is, on average, a six to seven month gap when its investment in revenue neutral, replacement plant is earning neither AFUDC nor a cash return.

Secondly, PSWC, like many water utilities, does not even accrue AFUDC on projects that are expected to take less than two months to complete or fail to meet a certain dollar threshold.

Unfortunately, most jobs involving DSIC-eligible property fall into this category. Moreover, even if the Company accrued AFUDC on these projects, it would do little to offset the major cause of attrition, which occurs after the projects are placed in service.

21. Without the DSIC, the cost recovery and attrition problems created by infrastructure replacement projects will only get worse given the magnitude of the future investment those projects will demand. As shown by the data in Exhibit D, these types of projects are an increasing proportion of the Company's total capital spending. This increasing level of expenditures is fully justified given the daunting size of the task facing the Company.

22. The Company's current rate of infrastructure rehabilitation must be accelerated to avoid a serious shortfall between the end of the service lives of existing property and the replacement or rehabilitation of that property. However, to achieve a meaningful acceleration in the rate of performing this work, it is imperative that the Company have the resources to increase its investment above current levels. Traditional base rate filings, even on an annual basis, cannot keep pace with the increase in investment this program demands. As set forth in Exhibit F, revenue neutral plant additions quickly erode PSWC's pre-tax income. For example, at present spending levels, two years of infrastructure rehabilitation projects reduce pre-tax

income by 11.41% (pp. 1-2). If PSWC were to increase its investment in such projects by only 50%, the cumulative effect in year two would climb to 17.12% (pp. 3-4). These figures clearly demonstrate why, absent a mechanism like the DSIC, the Company will have no choice but to continue to seek base rate relief on a regular basis as public health and safety concerns require substantial investments.

23. Viewed from a different perspective, the growth in rate base confronting PSWC is not dissimilar, at least in percentage terms, to that experienced by the electric utility industry in the 1980s with the completion of nuclear generating plant construction. However, as Dr. Ahmed Kaloko demonstrated in his 1994 report entitled The Financial Challenge Of Water Utilities, water companies face significant obstacles to sustaining such a high rate of investment:

- Pennsylvania water utilities have significantly higher fixed cost ratios than in-state electric companies (58.5% vs. 28.0%).
- Water utilities' achieved rates of return on equity are materially lower than those of electric utilities.
- Internally generated funds, cash flow from depreciation and the ratio of capital expenditures to total revenues are all significantly less favorable for water utilities than electric utilities.^{5/}

^{5/} Relevant tables extracted from Dr. Kaloko's study have been appended to this Petition as Exhibit G.

24. What are the likely consequences if the Company cannot increase its rate of infrastructure rehabilitation? In the Company's view, there will be significant adverse consequences for itself, its customers and, ultimately, for the environmental and economic well-being of the Commonwealth as a whole. Unless 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.

25. Infrastructure rehabilitation cannot be deferred indefinitely, but, instead, should be accelerated. If it is not, a day of reckoning will come, as it already has come for some large municipally-owned systems that tried to keep rates low, in the short term, by deferring maintenance, replacement and rehabilitation of essential facilities. The result has been the need for those systems to make enormous investments over short time horizons without the flexibility to manage either the construction or the financing of these improvements in an orderly fashion. And, at the same time customers are being hit with significantly higher rates to finance these improvements, they are experiencing the leading edge of the serious service problems that are the inevitable result of neglecting the need for consistent, timely rehabilitation of their water systems. Customers are understandably displeased when demands for higher rates are accompanied by poor service.

To avoid these kinds of disasters for Pennsylvania's investor-owned utilities, the Commission, in cooperation with the water utility industry and other stakeholders, must take a forward-looking approach and resist the pressure for short-term rate minimization at the cost of long-term rate stability and high quality water service. This can best be accomplished by reappraising traditional cost recovery mechanisms in light of current funding requirements and aggressively seeking out innovative approaches to provide water utilities with the tools they need to deal with the task of infrastructure rehabilitation.

IV. BENEFITS OF THE PROPOSED DSIC

26. There are numerous reasons why approval of the proposed DSIC would advance the public interest. The major benefits are summarized below.

a. Enhanced Service Quality. Establishment of the DSIC would enable the Company to address, in an orderly and comprehensive manner, the problems presented by an aging distribution system. This work will have a direct effect upon water quality and service reliability and, consequently, is vitally important to protecting public health and safety. In addition to physical debilitation, in many instances distribution facilities must also be upgraded to provide adequate fire flows. If the work that should be undertaken today is deferred because of financial or other constraints, those problems will only get worse and, ultimately, could jeopardize the Company's ability to

provide high quality water service. This, in turn, could have an adverse effect on the Commonwealth's efforts to promote economic development.

b. Accelerated Pace Of Service Improvements. To a very large extent, the kinds of projects eligible for DSIC cost recovery are likely to effect a direct and immediate improvement in the service provided to customers through increased pressures and flows, increased reliability and/or fewer perturbations in water quality. Approving a mechanism for prompt and reasonable cost recovery for these kinds of projects will give the Company the operating flexibility to properly plan for and to accelerate the pace at which these projects are undertaken and completed.

c. Potential Avoidance of Increased Risk And Higher Capital Costs. When Standard and Poor's tightened the ratings benchmarks for water utilities in the Spring of 1992, it specifically cited the industry's mounting dependence on "nonrevenue-producing assets to meet future and current water needs and mandated water quality standards" and urged regulators to implement "innovative regulatory policy to allow for reasonable financial protection measures" (see discussion supra). Adoption of the DSIC would send a very positive signal and, over time, could avoid increased perceptions of risk and higher capital costs which might otherwise result as the investment community becomes more aware of the need for water utilities to replace large segments of their distribution systems.

d. Potential Decrease In The Frequency Of Rate Filings. As the Commission is well aware, the placement in service of new plant additions is one of the major factors driving the need for water utilities to seek increases in revenues. With the approval of the DSIC, PSWC would be in a better position to absorb increases in other categories of costs for a longer period, particularly during times of relatively low inflation. Customers would obviously benefit from the reduction in rate case frequency and the resulting reduction in associated administrative costs, including the costs of consultants, legal fees and, potentially, the costs of regulatory assessments. In addition, the DSIC would provide for more gradual rate increases and would minimize the potential for "rate shock" that could occur from reflecting large amounts of infrastructure investment in rate base only as part of periodic base rate filings. The avoidance of rate shock is particularly important for low income customers and elderly customers living on a fixed income.

e. Long-Term Viability Of The Water System. As previously explained, the deferral of infrastructure rehabilitation raises water quality and reliability concerns. If this work is deferred too long, the Company will lose the ability to perform infrastructure rehabilitation in an orderly, gradual manner. At that point, it simply may not be possible to finance all of the work that needs to be done to maintain reasonable service to customers, and the viability of the system would be put in jeopardy. This analysis is not mere hyperbole, as the

Commission is aware from the experience of some municipally-owned and investor-owned water utilities in Pennsylvania. By acting now, PSWC can avoid these problems and, at the same time, stabilize the costs of leakage and repair associated with aging distribution systems.

V. THE AUTOMATIC ADJUSTMENT CLAUSE PROVISIONS OF SECTION 1307 MAY LAWFULLY BE EMPLOYED TO RECOVER THE FIXED COSTS OF DSIC-ELIGIBLE PROPERTY

27. Under Section 1307(a) of the Public Utility Code (66 Pa. C.S. § 1307(a)), a public utility, subject to certain limited exceptions, ". . . may establish a sliding scale of rates or such other method for the automatic adjustment of the rates of the public utility as shall provide a just and reasonable return on the rate base of such public utility, to be determined upon such equitable or reasonable basis as shall provide such fair return." As discussed infra, the Commission has utilized the discretion provided it under Section 1307(a) to authorize the use of adjustment clauses, similar to the proposed DSIC, to recover a variety of costs.

28. In proposing the DSIC, the Company is mindful of the fact that, in another proceeding, certain parties sought to restrict the use of Section 1307 adjustment clauses to the recovery of fuel expenses and taxes. Investigation Into Demand Side Management By Electric Utilities: UNIFORM COST RECOVERY MECHANISM, 127 PUR4th 516, 522 (1991) (hereafter, the "1991 DSM

Order"). In that case, the Commission held that Section 1307(a) is not so restrictive and that it may lawfully be used to recover a variety of costs, including a return on and of utility investments in demand side management measures and improvements designed to upgrade coal-fired generating units.^{7/} 127 PUR4th at 525. See also Investigation Into Demand Side Management By Electric Utilities: UNIFORM COST RECOVERY MECHANISM, Docket No. I-900005 (December 13, 1993) (Order, p. 39). The Commission's interpretation of Section 1307(a) was affirmed by the Commonwealth Court in Pennsylvania Industrial Energy Coalition v. Pa. P.U.C., 653 A.2d 1336, 1349 (1995), which held as follows:

Although we agree that Section 1307 should have limited application and the PUC should not use it to disassemble the traditional rate-making process, the General Assembly did not limit the allowance of automatic adjustment to only fuel costs and taxes which are generally beyond the control of the utility. Instead, the General Assembly specifically allowed the recovery of fuel costs and also allowed the PUC or the utilities to initiate the automatic adjustment of costs within specific procedures.^{8/}

^{7/} The Commission's regulations authorizing the use of a Section 1307(a) clause to recover the costs of upgrading coal-fired generating units are set forth at 52 Pa. Code § 57.124 and provide for relief virtually indistinguishable from that requested here.

^{8/} The Commission rejected similar efforts to restrict the use of a Section 1307(a) adjustment clause in Re West Penn Power Co., 76 Pa. P.U.C. 183 (1992) ("West Penn"). In that case, West Penn Power Company sought approval to establish an annual surcharge under Section 1307(a) to recover a return on and of its construction work in progress ("CWIP")

29. In addition to demand side management costs and coal-fired generating unit upgrade costs, the Commission has authorized the use of Section 1307(a) adjustment clauses to recover a wide array of expenses, depreciation and capital costs, including:

- "Take-or-pay" liability of natural gas local distribution companies ("LDCs"). 52 Pa. Code § 69.181.
- "Gas supply realignment costs" and "stranded costs" resulting from FERC Order 636. 52 Pa. Code § 69.341(b).^{2/}
- Principal and interest due on PennVest obligations. 52 Pa. Code § 69.363.^{10/}

expenditures to comply with Phase I of the Clean Air Act Amendments of 1990 ("CAAA"). The Administrative Law Judge recommended that the Commission deny West Penn's request on the grounds that Section 1307 "does not authorize a surcharge for the purpose of a return on rate base." The Commission did not agree with the Judge's interpretation of Section 1307(a): "[W]ith respect to the application of Section 1307(a) to justify a surcharge, we are not swayed one way or the other that it should or should not apply." 76 Pa. P.U.C. at 203.

^{2/} In that regulation, the Commission also noted that "costs related to new facilities to implement restructuring brought about by FERC Order 636 may be natural gas costs subject to recovery through gas cost rate procedures." 52 Pa. Code § 69.341(b)(4).

^{10/} The Commission's Policy Statement on recovery of PennVest loan obligations was issued after the Commonwealth Court's decision in Masthope Rapids Property Owners Council v. Pa. P.U.C., 135 Pa. Cmwlth. 437, 581 A.2d 994 (1990), which rejected a water utility's attempt to use Section 1307(a) as an after-the-fact justification for a rate increase to cover principal and interest due on a PennVest loan. See 135 Pa. Cmwlth at 443, 581 A.2d at 997-998. In West Penn, the Commission distinguished the Masthope decision and concluded that it could not be viewed as foreclosing the use of Section 1307(a) for the recovery of PennVest principal and interest.

30. In view of the foregoing, PSWC respectfully submits that the Commission has the lawful discretion to provide for the recovery of DSIC-eligible costs through a Section 1307(a) clause and should exercise that discretion in this case by approving the Company's request. As noted previously, the costs in question are related to specific categories of plant additions that are vitally important to the Company's ability to protect the health and safety of its customers. Moreover, the need for these plant additions is well established and, in fact, the Commission has encouraged increased levels of investment in these types of infrastructure rehabilitation projects. See Pa. P.U.C. v. Pennsylvania Gas and Water Co., Docket No. R-00922482 (June 23, 1993) (granting a rate increase for the primary purpose of funding distribution system improvements). Additionally, base rate filings -- even if made on an annual basis -- are not adequate to provide timely cost recovery for infrastructure rehabilitation investment at the ever increasing levels necessary to address this serious and mounting problem.

31. Simply stated, the only way that unacceptable deferrals of necessary infrastructure rehabilitation can be avoided is to provide an alternative to traditional base rate filings that recognizes the Company's need to sustain increased levels of investment. The DSIC is the best available mechanism to deal with this problem.

VI. THE ELEMENTS AND OPERATION OF THE DSIC

32. As explained in Section I, supra, the DSIC will recover the fixed costs of DSIC-eligible plant additions placed in service between base rate cases in accordance with the following formula:

$$\frac{(\text{Eligible Capital Additions} \times \text{Return On Capital}) + D + e}{\text{Applicable Revenue}}$$

where "D" equals the quarterly depreciation applicable to the eligible capital additions and "e" represents the annual reconciliation factor for over- or undercollections, as described more fully below. The Company has proposed that the DSIC become effective for service rendered on and after July 1, 1996.

33. The initial DSIC will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between January 1, 1996 and May 31, 1996. Thereafter, the charge will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each surcharge update. Thus, changes in the DSIC will occur as follows:

<u>Effective Date Of Change</u>	<u>Date To Which DSIC-Eligible Plant Additions Reflected</u>
July 1	May 31
October 1	August 31
January 1	November 30
April 1	February 28/29

34. Supporting data for each quarterly update will be filed with the Commission and served upon the Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") at least 10 days prior to the effective date of the update.

35. The fixed costs of DSIC-eligible plant additions will consist of depreciation and pre-tax return. The depreciation expense will be calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each retirement unit of such DSIC-eligible property is recorded. The pre-tax return will be calculated using the applicable statutory state and federal income tax rates, the Company's actual capital structure and the Company's actual cost rates for long-term debt and preferred stock as of the last day of the three-month period ending one month prior to the effective date of the surcharge. The cost of equity will be the equity return rate approved in the Company's last fully-litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the surcharge.

If more than two years shall have elapsed between the entry of such a final order and the effective date of a DSIC update, then the equity return rate used in the calculation will be the equity return rate approved by the Commission in a final order entered at the conclusion of the most recent fully litigated

proceeding for an investor-owned water utility having annual revenues in excess of \$10.0 million. In any event, if the overall after-tax rate of return calculated in the foregoing manner exceeds the overall after-tax rate of return approved in the Company's last fully-litigated base rate case, the latter will be used to calculate the pre-tax return component of the fixed costs to be recovered on DSIC-eligible property.

36. The DSIC to be applied to customers' bills will be expressed as a percentage or its decimal equivalent. To calculate the charge on a quarterly basis, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's revenue from sales of water, exclusive of revenues from public fire protection service and the STAS, as projected for the prospective quarterly application period. The charge will be applied to the total amount billed to each customer, exclusive of amounts billed for public fire protection service and the STAS. Public fire protection service will not be subject to the DSIC, because the Company's existing rates for this service cannot be increased by reason of Section 1328 of the Code (66 Pa. C.S. § 1328).

37. The DSIC will be capped at 5% of the amount billed to customers under otherwise applicable rates and charges, exclusive of revenues derived from public fire protection service and the STAS.

38. The application of the DSIC shall be subject to continuous review and to audit by the Commission at such intervals as the Commission shall determine. The DSIC will also be subject to annual reconciliation based on a reconciliation period consisting of the 12 months ending March 31 of each year. Of course, the first reconciliation after the implementation of the DSIC will be for the shorter period from July 1, 1996 to March 31, 1997. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one year period commencing on July 1. Overcollections will be refunded with interest.

39. The DSIC will be reset to zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions would be reflected in the quarterly updates of the surcharge.

40. Inasmuch as the DSIC incorporates an equity return component, the DSIC would also be reset to zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings Report show that the Company will earn a rate of return that would exceed the rate of return used to calculate its fixed costs under the DSIC.

41. Notice of the filing of this Petition, in the form set forth in Exhibit H, will be provided to all customers by bill insert or separate postcard such that notices to all customers will have been mailed within 40 days of the date this Petition is filed.

VII. CONCLUSION

For the reasons set forth above, the Commission is requested to enter an order granting its approval for PSWC to implement the tariff supplement, attached hereto as Exhibit A, establishing a Distribution System Improvement Charge to be effective for service rendered on and after July 1, 1996.

Respectfully submitted,

Thomas P. Gadsden

Thomas P. Gadsden
Anthony C. DeCusatis
Morgan, Lewis & Bockius LLP
2000 One Logan Square
Philadelphia, PA 19103
(215) 963-5234

Counsel for Philadelphia
Suburban Water Company

OF COUNSEL:

MORGAN, LEWIS & BOCKIUS LLP
2000 One Logan Square
Philadelphia, PA 19103
(215) 963-5234

DATED: March 20, 1996

EXHIBIT A

**TARIFF SUPPLEMENT ESTABLISHING
SECTION 1307 DISTRIBUTION SYSTEM
IMPROVEMENT CHARGE ("DSIC")**

PHILADELPHIA SUBURBAN WATER COMPANY

RATES AND RULES
GOVERNING THE DISTRIBUTION
OF
WATER
IN PORTIONS OF
MONTGOMERY, CHESTER, BUCKS
AND DELAWARE COUNTIES

(Detailed Description - Page 3)

ISSUED: March 20, 1996
by
NICHOLAS DeBENEDICTIS, Chairman
762 Lancaster Avenue
Bryn Mawr, Pennsylvania

EFFECTIVE: July 1, 1996
In accordance with Section
1307(a) of the Pennsylvania
Public Utility Commission's
Public Utility Code.

N O T I C E

THIS TARIFF ESTABLISHES A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE FOR
ALL METERED AND UNMETERED CUSTOMERS EXCEPT FOR PUBLIC FIRE HYDRANT
CUSTOMERS.

SEE PAGE 1A

Philadelphia Suburban Water Company

WATER-PA. P.U.C. NO. 15
TWENTY FIFTH REVISED PAGE NO. 1A
~~CANCELLING TWENTY FOURTH REVISED PAGE NO. 1A~~

LIST OF CHANGES MADE BY THIS TARIFF

Addition

This tariff establishes a Distribution System Improvement Charge (DSIC) on pages 10 (Sixth Revised) and pages 10A, 10B and 10C (Original) of the Company's tariff. The reasons for the DSIC are enunciated in the Company's petition to the Commission which accompanies this tariff. The rules for identifying appropriate capital projects and components of the charge, calculating the charge, safeguarding and reconciling the charge are also listed on pages 10, 10A, 10B and 10C of this tariff.

I N D E X

	<u>Page</u>
RATES AND RULES	1 Supplement No. 29
LIST OF CHANGES MADE BY THIS TARIFF	1A Twenty Fifth Revised
INDEX	2 Twenty Fifth Revised
DESCRIPTION OF TERRITORY SERVED	3 Eleventh Revised
DESCRIPTION OF TERRITORY SERVED	3A Original
SCHEDULE OF RATES:	
Meter Service-PSW Main Division	4 Seventh Revised
Rates for Water Consumed-PSW Main Division	4 Seventh Revised
Rates for Water Consumed-PSW Main Division	4A Seventh Revised
Fire Service-PSW Main Division	4B Seventh Revised
Residential Multiple Meter Sets-PSW Main Division	4C Second Revised
Meter Service-Uwchlan Division	5 Seventh Revised
Rates for Water Consumed-Uwchlan Division	5 Seventh Revised
Rates for Water Consumed-Uwchlan Division	5A Seventh Revised
Fire Service-Uwchlan Division	5B Seventh Revised
Residential Multiple Meter Sets-Uwchlan Division	5C Fourth Revised
Meter Service-W. Whiteland Division	6 Ninth Revised
Rates for Water Consumed-W. Whiteland Division	6 Ninth Revised
Fire Service-W. Whiteland Division	6A Second Revised
Residential Multiple Meter Sets-W. Whiteland Div	6B Second Revised
Meter Service - Malvern Division	7 Third Revised
Rates for Water Consumed - Malvern Division	7 Third Revised
Rates for Water Consumed - Malvern Division	7A Second Revised
Fire Service - Malvern Division	7B Second Revised
Residential Multiple Meter Sets - Malvern Division	7C First Revised
Unmetered Service - Castle Rock Division	8 Second Revised
Meter Service- Schuylkill Division	8A Third Revised
Rates for Water Consumed- Schuylkill Division	8A Third Revised
Fire Service- Schuylkill Division	8B Original
Meter Service - La Reserve Division	8C Original
Rates for Water Consumed - La Reserve Division	8C Original
Fire Service - La Reserve Division	8D Original
Meter Service - Media Division	9 First Revised
Rates for Water Consumed - Media Division	9 Original
Fire Service - Media Division	9A Original
Unmetered Residential & Building Water - Media Division	9A Original
State Tax Surcharge Applicable to All Rates	10 Sixth Revised
Distribution System Improvement Charge	10 Sixth Revised
Distribution System Improvement Charge	10A Original
Distribution System Improvement Charge	10B Original
Temporary Negative Surcharge	10C Original
RULES AND REGULATIONS	
Introduction	11 Fourth Revised
Classes of General Metered Service	12 Sixth Revised
Definitions	13 Fifth Revised
Application of Service	15 Second Revised
Deposits	16 Second Revised
Bills and Payments	17 Fourth Revised
Service Connections	19 Fourth Revised
Meters	22 Second Revised
Meter Location	23 Fourth Revised
Building Construction Service	25 Fourth Revised
Metered Fire Service	26 Sixth Revised
Unmetered Fire Service	28 Second Revised
Responsibility for Service	30 Fourth Revised
System Inspection and Integrity	30 Fourth Revised
Cross-Connection Control	31 Fourth Revised
Termination of Service	32 Fourth Revised
Water Conservation and Drought Emergency	33 Second Revised
Main Extensions	35 Third Revised
Main Extension Deposit Agreement	37 Third Revised
Main Extensions and Services by Builder	46 Original

R I D E R

STATE TAX SURCHARGE APPLICABLE TO ALL RATES

In addition to the net charges provided for in this Tariff, a surcharge of 0.00% will apply to all service rendered on and after October 27, 1995.

The above surcharge will be recomputed, using the same elements prescribed by the Commission:

(a)
Whenever any of the tax rates used in the calculation of the surcharge are changed;

(b)
Whenever the utility makes effective increased or decreased rates; and

(c)
On March 31, 1971, and each year thereafter.

The above recalculation will be submitted to the Commission within 10 days after the occurrence of the event or date which occasioned such recomputation; and if the recomputed surcharge is less than the one in effect, the utility will, and if the recomputed surcharge is more than the one in effect, the utility may, submit with such recomputation a tariff or supplement to reflect such recomputed surcharge, the effective date of which shall be 10 days after filing.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

(C)

I. General Description

Purpose: To recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing distribution system improvement projects completed and placed in service between base rate cases and to provide the Company the resources to accelerate the replacement of its aging water distribution infrastructure, comply with evolving regulatory requirements imposed by the Safe Drinking Water Act and develop and implement solutions to regional water supply problems.

Effective: The DSIC will become effective for service rendered on and after July 1, 1996.

Calculation: The initial charge will be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rate base and will have been placed in service between January 1, 1996 and May 31, 1996. Thereafter, the charge will be updated on a quarterly basis to reflect eligible plant additions placed in

(C) Indicates Change

Issued: March 20, 1996

-10-

EFFECTIVE: July 1, 1996

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

(C)

service during the three month periods ending one month prior to the effective date of each charge update. Thus, changes in the charge rate will occur as follows:

<u>Effective Date Of Change</u>	<u>Date To Which DSIC-Eligible Plant Additions Reflected</u>
July 1	May 31
October 1	August 31
January 1	November 30
April 1	February 28/29

The fixed costs of DSIC-eligible plant additions will consist of depreciation and pre-tax return. The depreciation expense will be calculated by applying to the original cost of DSIC-eligible property the annual accrual rates employed in the Company's last base rate case for the plant accounts in which each capital addition is recorded. The pre-tax return will be calculated using the applicable statutory state and federal income tax rates, the Company's actual capital structure and the Company's actual cost rates for long-term debt and preferred stock as of the last day of the three month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the charge. If more than two years shall have elapsed between the entry of such a final order and the effective date of the charge, then the return rate used in the calculation will be the equity return rate approved by the Commission in a final order entered at the conclusion of the most recent fully litigated proceeding for an investor-owned water utility having annual revenues in excess of \$10 million. In any event, if the overall after-tax rate of return calculated in the foregoing manner exceeds the overall after-tax rate of return approved in the Company's last fully-litigated base rate case, the latter will be used to calculate the pre-tax return component of the fixed costs to be recovered on DSIC-eligible property.

The charge will be expressed as a percentage or its decimal equivalent and will be applied to the total amount billed to each customer under the Company's otherwise applicable rates and charges, excluding amounts billed for public fire protection service and the state tax adjustment surcharge (STAS). To calculate the charge on a quarterly basis, the quarterly fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's revenue from sales of water, exclusive of revenues from public fire protection service and the STAS, as projected for the prospective quarterly application period.

(C) Indicates Change

Issued: March 20, 1996

-10A-

EFFECTIVE: July 1, 1996

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

(C)

II. Computation

Level of Precision: Four decimal places (i.e. 0.0215 or 2.15%).

Formula: $DSIC = \frac{(\text{Eligible Rate Base} \times ROR) + \text{Depreciation} + e}{\text{Applicable Sales}}$

where e = the amount calculated under the annual reconciliation feature, as described in Section III below.

Supporting Data: Supporting data for each quarterly update will be filed with the Commission and served upon the Office of Trial Staff, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

III. Safeguards

Cap: The charge will be capped at 5% of the amount billed to customers under otherwise applicable rates and charges excluding the State Tax Adjustment Surcharge.

Audits/Annual Reconciliation: The application of the DSIC shall be subject to continuous review and to audit by the Commission at such intervals as the Commission shall determine. It will also be subject to an annual reconciliation based on a reconciliation period consisting of the twelve months ending March 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one year period commencing on July 1.

If DSIC revenues exceed DSIC-eligible costs, such overcollections will be refunded with interest. Interest on the overcollections will be calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P. S. sec.101, et seq.) and will be refunded in the same manner as an overcollection.

New Base Rates: The charge will be reset at zero as of the effective date of new base rates that provide for prospective recovery of the annual costs that had theretofore been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions will be reflected in the quarterly updates of the charge.

PUC Earnings Report: The charge will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings Report show that the Company will earn a rate of return that would exceed the rate of return used to calculate its fixed costs under the DSIC.

(C) Indicates Change

Issued: March 20, 1996

-10B-

EFFECTIVE: July 1, 1996

Philadelphia Suburban Water Company

Supplement No. 29
to
WATER-PA.P.U.C.NO. 15
ORIGINAL PAGE NO. 10C

TEMPORARY NEGATIVE SURCHARGE

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EXHIBIT B

**PRELIMINARY CALCULATION OF CHARGE
REFLECTING PROJECTED DSIC-ELIGIBLE PLANT
ADDITIONS THROUGH MAY 31, 1996**

PHILADELPHIA SUBURBAN WATER COMPANY

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") CALCULATION

ACCT	Description	TOTAL TO MAY, 1996	Depr Rate	A. D. @ 5/31/96	Qrtly Dep
322000	Main Cleaning & Relining	408,349	2.12%	0	2,164
322000	Major Main Replacements	1,176,369	1.20%	444	3,529
322000	Minor Changes in Mains	292,528	1.20%	723	878
322000	Minor Main Replacements	308,552	1.20%	685	926
322000	Tie in Dead End Mains	378,172	1.20%	923	1,135
322000	Unreimbursed Imprvmts due to highway relocations	72,756	1.20%	44	218
322000	Valve Replacement Program	150,685	2.06%	674	776
323000	Repl Services	209,002	1.81%	514	946
323000	Repl Services due to Main Cleaning & Repl.	104,214	1.81%	242	472
324000	Replacement Meters	522,400	5.94%	4,776	7,758
325000	Replacement Fire Hydrants	114,096	1.74%	229	496
	TOTAL ADDITIONS	3,737,123		9,254	19,297

PHILADELPHIA SUBURBAN WATER COMPANY

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") CALCULATION

	DSIC EFFECTIVE
	<u>7/1/96</u>
Applicable Additions	3,737,123
Less Accumulated Depreciation @ May 31, 1996	(9,254)
Net Rate Base Includable in DSIC Calculation	<u>3,727,869</u>
Annual Revenue Requirement Rate	13.53%
Quarterly Revenue Requirement Rate	3.38%
Quarterly Capital Cost Recovery	<u>126,098</u>
Quarterly Depreciation Expense	<u>19,297</u>
Total Quarterly DSIC Revenue Requirement	<u>145,395</u>
Applicable Base Rate Revenue	32,144,000
DSIC RATE	<u>0.45%</u>

WEIGHTED COST OF CAPITAL AT 5/31/96:

	Proforma Per Books	Capital Structure	Cost Rate	Weighted Avg. Cost Rate	Tax Multiplier	Rev Req
Debt	178,375,080	50.15%	8.00%	4.010%		4.01%
Preferred	5,643,000	1.59%	8.93%	0.140%	1.7092118	0.24%
Equity	171,641,306	48.26%	11.25%	5.430%	1.7092118	9.28%
	<u>355,659,386</u>	<u>100.0%</u>		<u>9.580%</u>		<u>13.53%</u>

Note: Equity rate of 11.25% from Pennsylvania American Water Company rate case at Docket No. R-00943231.

EXHIBIT C

**GROWTH IN UTILITY PLANT
INVESTMENT PER CUSTOMER
1925-1995**

PSWC - UTILITY PLANT INVESTMENT PER CUSTOMER

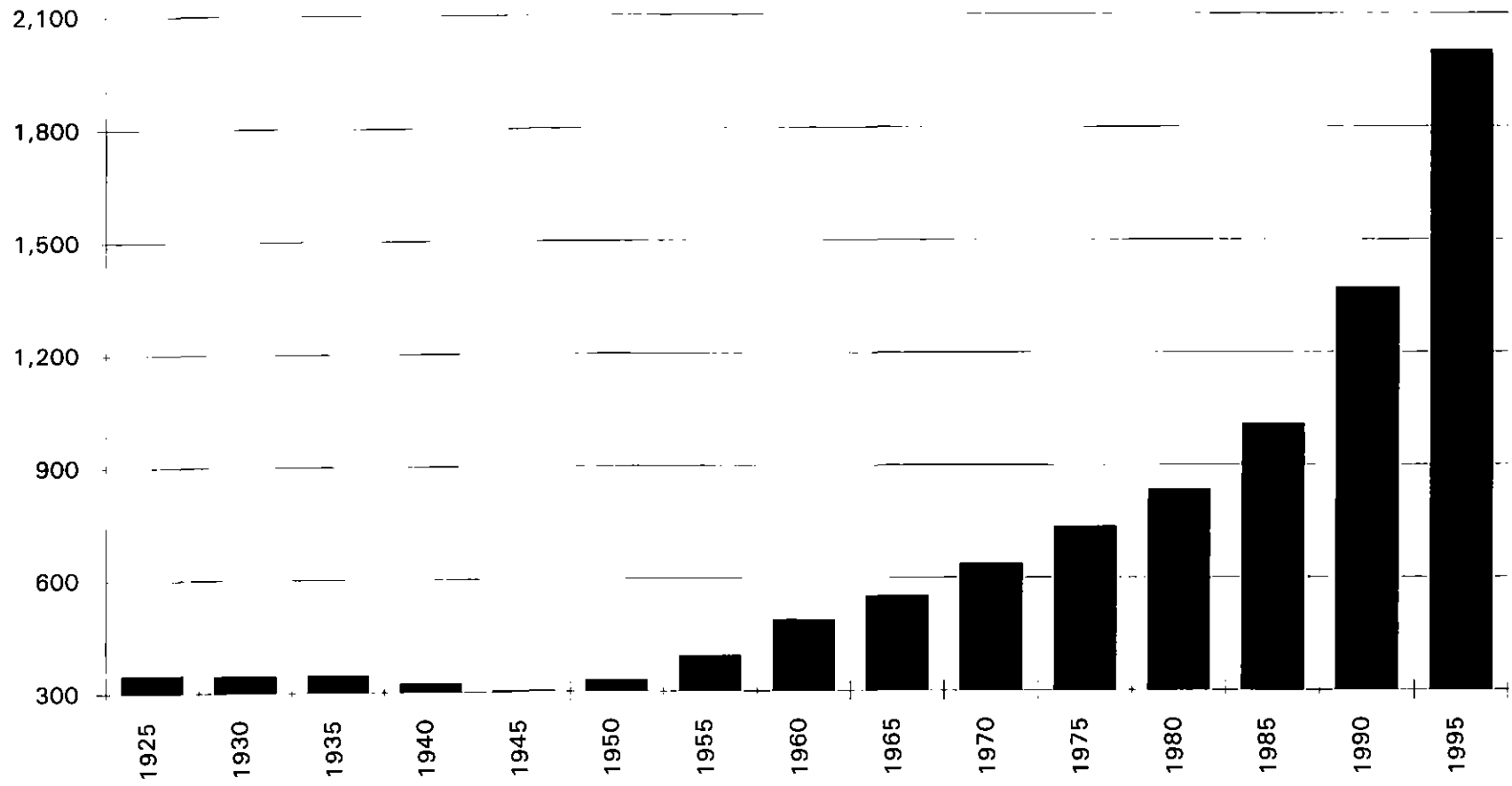


EXHIBIT D

**REVENUE NEUTRAL INFRASTRUCTURE
REPLACEMENT PROJECTS AS A PERCENTAGE
OF TOTAL CAPITAL EXPENDITURES
1992-1995**

PSWC -- PERCENT OF CAPITAL SPENDING IN DSIC CATAGORIES

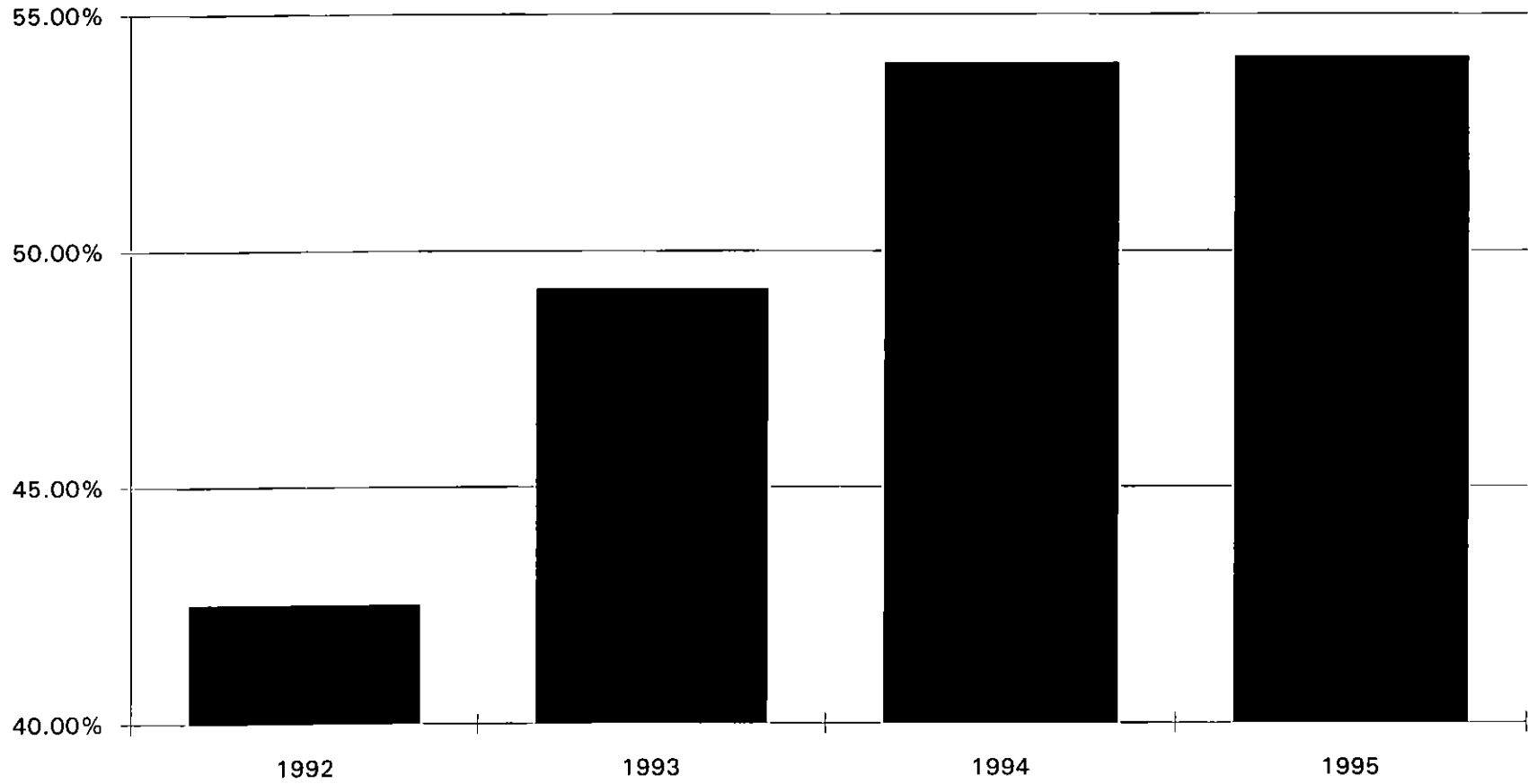


EXHIBIT E

**GROWTH IN PER CUSTOMER OPERATING
EXPENSES VERSUS GROWTH IN THE
CONSUMER PRICE INDEX
1986-1995**

PSWC -- OPERATING EXPENSES PER CUSTOMER VS. CPI

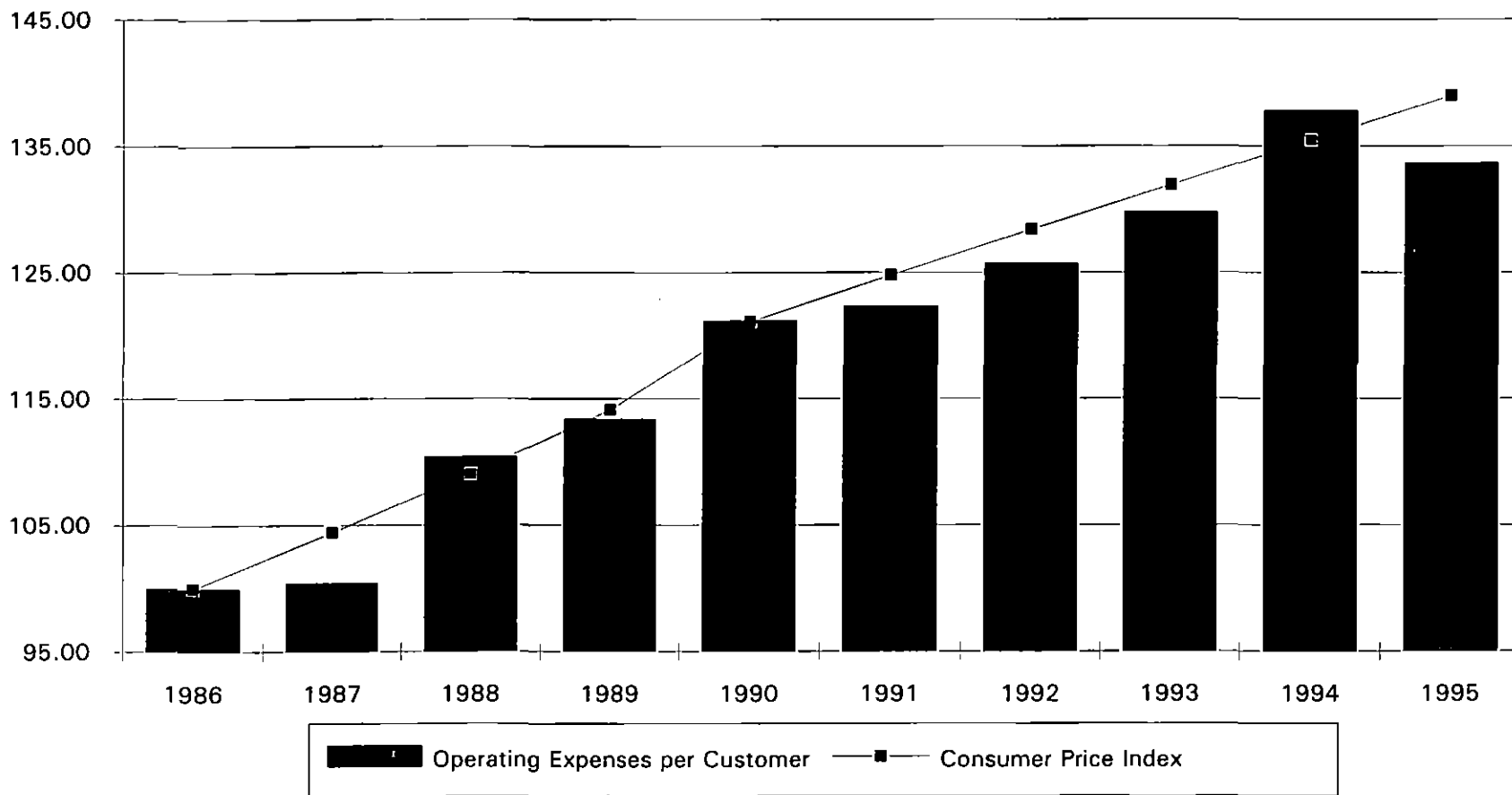


EXHIBIT F

**ATTRITION IMPACT ON PRE-TAX INCOME
OF REVENUE NEUTRAL INFRASTRUCTURE
REPLACEMENT PROJECTS**

PSWC -- ATTRITION EXAMPLE

	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Total
<u>YEAR 1 -- INFRASTRUCTURE REHABILITATION PROJECTS ONLY -- PRESENT SPENDING LEVELS</u>													
Cap Spending	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Cumulative	1,250	2,500	3,750	5,000	6,250	7,500	8,750	10,000	11,250	12,500	13,750	15,000	
Pre Tax Cost of Capital + Depreciation	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%
Monthly carrying cost	16	32	49	65	81	97	113	129	146	162	178	194	1,262

1995 pre tax income	31,466	
Year 1 impact	1,262	4.01%
Year 2 impact	3,591	11.41%

PSWC -- ATTRITION EXAMPLE

	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Total
YEAR 2 -- INFRASTRUCTURE REHABILITATION PROJECTS ONLY -- PRESENT SPENDING LEVELS													
Cap Spending	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Cumulative	16,250	17,500	18,750	20,000	21,250	22,500	23,750	25,000	26,250	27,500	28,750	30,000	
Pre Tax Cost of Capital + Depreciation	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	
Monthly carrying cost	210	226	243	259	275	291	307	324	340	356	372	388	3,591

PSWC -- ATTRITION EXAMPLE

	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Total
<u>YEAR 1 -- INFRASTRUCTURE REHABILITATION PROJECTS ONLY -- ACCELERATED SPENDING LEVELS</u>													
Cap Spending	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	22,500
Cumulative	1,875	3,750	5,625	7,500	9,375	11,250	13,125	15,000	16,875	18,750	20,625	22,500	
Pre Tax Cost of Capital + Depreciation	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	
Monthly carrying cost	24	49	73	97	121	146	170	194	218	243	267	291	1,893

1995 pre tax income	31,466	
Year 1 impact	1,893	6.02%
Year 2 impact	5,387	17.12%

PSWC -- ATTRITION EXAMPLE

	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Jul-97	Aug-97	Sep-97	Oct-97	Nov-97	Dec-97	Total
<u>YEAR 2 -- INFRASTRUCTURE REHABILITATION PROJECTS ONLY -- ACCELERATED SPENDING LEVELS</u>													
Cap Spending	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	22,500
Cumulative	24,375	26,250	28,125	30,000	31,875	33,750	35,625	37,500	39,375	41,250	43,125	45,000	
Pre Tax Cost of Capital + Depreciation	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	15.53%	
Monthly carrying cost	315	340	364	388	413	437	461	485	510	534	558	582	5,387

EXHIBIT G

EXCERPTS FROM THE FINANCIAL CHALLENGE
OF WATER UTILITIES BY AHMED KALOKO

DR. KALOKO

"THE FINANCIAL CHALLENGE OF WATER UTILITIES"

[NAWC WATER MAGAZINE -- SPRING 1995]

TABLE 3 Percentage Breakdown of Fixed Cost Ratios for Pennsylvania Utilities	
INDUSTRY	PERCENTAGE
Electric	28.0%
Natural Gas	13.4%
Water	58.5%

Source: Industry records

TABLE 12 Realized Return on Common Equity for Electric, Natural Gas and Water Utilities (%)					
	1989	1990	1991	1992	1993
Electric	13.20%	9.00%	12.30%	11.60%	12.70%
Gas	11.20%	7.10%	9.40%	11.50%	10.80%
Water	12.20%	9.62%	10.14%	9.78%	10.05%

Source: Industry records; all water data from National Association of Water Companies' records.

DR. KALOKO

"THE FINANCIAL CHALLENGE OF WATER UTILITIES"

[NAWC WATER MAGAZINE -- SPRING 1995]

TABLE 12 Summary Comparison of PA Water and Electric Utility Financial Status		
Item	Water	Electric
Internally Generated Funds	Inadequate	Adequate
Cash Flow from Depreciation Rates	Small	Large
Ratio of Dividend—Payout to Net Income	Adequate	Adequate
Ratio of Capital Expenditures to Revenues	Very Large	Large
Ratio of Depreciation to Capital Expenditures	Small	Large
Pre-tax Interest Coverage	Adequate	Adequate
Realized Return on Common Equity	Adequate	Adequate

EXHIBIT H

**NOTICE OF THE FILING OF PETITION FOR APPROVAL
TO IMPLEMENT TARIFF SUPPLEMENT ESTABLISHING
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

PHILADELPHIA SUBURBAN WATER COMPANY

Dear Customer,

At Philadelphia Suburban Water Company (PSW), we replace miles of older water mains and hundreds of valves, fire hydrants and similar items each year. The cost of replacing these items (millions of dollars per year) is part of the rates we charge for service.

In the past, we took all such replacement costs and made them part of our rate increase requests before the Pennsylvania Public Utility Commission (PUC). Now, however, we have filed a request with the PUC to allow us to begin recovering the cost of replacing old water mains, fire hydrants, and similar items as incurred. If the PUC approves our request, we will place a small charge on your water bill beginning July 1, 1996. If the Company's entire request is approved, your bill would increase by one half of one percent, or 36 cents per quarter on a typical \$72 bill. The charge on your water bill could be adjusted every three months as more replacements are made.

Reducing the current delay between making replacements and starting the cost recovery will allow us to begin replacing more of our aging system. This will lead to better water pressure, better water quality, and greater fire flows in the areas improved. As the program grows, it should also allow PSW to level the cost of water losses and leak repairs.

To find out more, call PSW toll-free at 800-711-4PSW.

If you wish to give your comments on this request to the PUC, please do so no later than May 20, 1996, by:

- (1) calling toll-free 800-782-1110 or
- (2) writing to the PUC, PO Box 3265, Harrisburg, PA 17105-3265

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION.

RECEIVED

96 MAR 20 PM 1:09

RE: PETITION OF PHILADELPHIA SUBURBAN :
WATER COMPANY FOR APPROVAL TO :
IMPLEMENT A TARIFF SUPPLEMENT :
ESTABLISHING A DISTRIBUTION :
SYSTEM IMPROVEMENT CHARGE :

Docket No. _____

PA. P. U. C.
INFO. CONTROL DIV.

~~#-00963597~~

P-961036

RESPONSES TO FILING REQUIREMENTS

§ 53.52. APPLICABILITY; PUBLIC UTILITIES OTHER THAN
CANAL, TURNPIKE, TUNNEL, BRIDGE AND WHARF COMPANIES

(a) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:

(1) The specific reasons for each change.

Refer to the Petition of Philadelphia Suburban Water Company For Approval To Implement A Tariff Supplement Establishing A Distribution System Improvement Charge (the "PSWC Petition").

(2) The total number of customers served by the utility.

At December 31, 1995, Philadelphia Suburban Water Company ("PSWC" or the "Company") provided water service to 264,938 customers.

(3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

The proposed Distribution System Improvement Charge ("DSIC") will apply to all customers except those accounts receiving public fire protection service. Accordingly, as of December 31, 1995, the DSIC would apply to 264,861 customers, consisting of customers in all of the classifications, excluding public fire protection service, shown below:

Residential	248,500
Commercial	11,725
Industrial	848
Public	775
Sales for Resale	7
Private Fire Protection	3,006
Public Fire Protection	<u>77</u>
Total	264,938

(4) The effect of the change on the utility's customers.

Refer to the PSWC Petition, Paragraph Nos. 2 - 4 (pp. 3-4) and Exhibit B.

(5) The direct or indirect effect of the proposed change on the utility's revenue and expenses.

Refer to the PSWC Petition, Paragraph Nos. 3 and 4 (p. 4) and Exhibit B.

(6) The effect of the change on the service rendered by the utility.

Refer to the PSWC Petition, Paragraph Nos. 1 and 22-26 (pp. 2-3 and 13-19).

(7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308 (relating to voluntary changes in rates).

Refer to the PSWC Petition.

(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308.

The PSWC Petition contains a description of the factors considered by the Company in designing the proposed DSIC, including the results of studies conducted by others (see Paragraph No. 23).

- (9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

No customer polls were conducted.

- (10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

Notice of the filing of the PSWC Petition is being provided to all customers (see Exhibit H of the PSWC Petition).

- (11) FCC, FERC or Commission orders or rulings applicable to the filing.

Refer to Section V. of the PSWC Petition.

- (b) Whenever a public utility other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revisions or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the tariff, revision or supplement, statements showing all of the following:

- (1) The specific reasons for each increase or decrease.

Refer to the PSWC Petition, which provides a detailed explanation of the reasons why the Company is requesting approval to implement the DSIC.

- (2) The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing. Water and sewer utilities with annual revenues under \$100,000 and municipal corporations subject to Commission jurisdiction may provide operating income statements for a 12-month period, the end of which may not be more than 180 days prior to the filing.

An operating income statement for the twelve months ending December 31, 1995 is attached as Exhibit A.

- (3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

Refer to the response to § 53.52(a)(3).

- (4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.

Based upon the calculation of the initial DSIC set forth in Exhibit B to the PSWC Petition, the total increase projected on an annual basis, by customer classification, is shown below:

Residential	\$ 362,107
Commercial	114,854
Industrial	25,379
Public	7,682
Sales for Resale	1,041
Private Fire Protection	19,138
Public Fire Protection	<u>0</u>
	<u>\$ 530,201</u>

As explained in Paragraph No. 3 of the PSWC Petition, based on the calculations in Exhibit B to the Petition, the DSIC would increase an average residential customer's quarterly bill by 36 cents.

- (5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

No customers will receive a decrease.

- (6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

Not applicable.

- (c) If a public utility files a tariff, revision or supplement which it is calculated will increase the bills of a customer or a group of customers by an amount, when projected to an annual basis, exceeding 3.0% of the operating revenues of the utility -- subsection (b)(4) divided by the operating revenues of the utility for a 12-month period as defined in subsection (b)(2) -- or which it is calculated will increase the bills of 5.0% or more of the number of customers served by the utility -- subsection (b)(3) divided by subsection (a)(2) -- it shall submit to the Commission with the tariff, revision or supplement, in addition to the statements

required by subsections (a) and (b), all of the following information:

- (1) A statement showing the utility's calculation of the rate of return earned in the 12-month period referred to in subsection (b)(2), and the anticipated rate of return to be earned when the tariff, revision or supplement becomes effective. The rate base used in this calculation shall be supported by summaries of original cost.

Refer to the data supplied in Exhibits A and B. A detailed calculation of the Company's rate of return will be supplied as part of its Annual Report for 1995 to be filed with the Commission on or before April 30, 1996. Upon filing, the Company's Annual Report will be incorporated herein by reference.

- (2) A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)(2).

A balance sheet as of December 31, 1995 is attached as Exhibit B.

- (3) A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).

A summary of the original cost of utility plant in service at December 31, 1995 is provided in Exhibit C.

- (4) A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).

Refer to the data supplied in Exhibit C.

- (5) A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the date of the balance sheet required by paragraph (2).

Refer to the income statement supplied as Exhibit A. A statement of operating expenses by detailed account for the twelve months ended December 31, 1995 will be supplied in the Company's Annual Report for 1995,

which, upon filing, will be incorporated herein by reference.

- (6) A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision or supplement. As used in this paragraph, a major change is one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1)-(5).

None.

PHILADELPHIA SUBURBAN WATER COMPANY
STATEMENT OF OPERATIONS

TWELVE MONTHS ENDED DECEMBER 31

	1995
Operating Revenue	115,873,066
Operating Revenue Deductions:	
Operating Expenses	50,879,511
Depreciation	11,417,850
Amortization	(178,103)
Other Taxes	7,553,393
Income Taxes	12,830,006
	82,502,657
Total Oper. Rev. Deductions	82,502,657
Income From Operations	33,370,409
Non-Operating Income	(340,851)
Gross Income	33,029,558
Income Deductions:	
Interest on Long Term Debt	14,404,320
Amort. of Debt Discount & Expense	237,176
Other Interest	57,316
	14,698,812
Sub-Total	14,698,812
Allowance For Funds Used During Const.	304,755
	304,755
Total Income Deductions	14,394,057
Net Income	18,635,501
Preferred Dividend Requirement	631,298
Net Income - Common	18,004,203

PHILADELPHIA SUBURBAN WATER COMPANY
BALANCE SHEET

DECEMBER 31

ASSETS	<u>1995</u>
Utility Plant	
Utility Plant in Service	530,476,777
Utility Plant Held for Future Use	1,073,291
Construction Work in Progress	2,645,213
Utility Plant Acquisition Adjustment	(8,146,524)
Utility Plant Acquisitions	<u>1,041,405</u>
Total Utility Plant	<u>527,090,162</u>
Other Physical Property	<u>641,301</u>
Other Investments	<u>1,826,300</u>
Current Assets	
Cash	(2,844,009)
Working Funds	51,600
Accounts Receivable	9,797,422
Unbilled Charges for Metered Sales	12,449,724
Unbilled Charges for Unmetered Sales	0
Materials and Supplies	1,877,712
Other Prepayments	<u>488,331</u>
	<u>21,820,780</u>
Deferred Debits	
Unamortized Debt Discount & Expense	3,013,473
Preliminary Survey Charges	112,963
Retirement Work in Progress	257,543
Regulatory Assets	48,756,652
Other Deferred Debits	<u>1,651,441</u>
Total Deferred Debits	<u>53,792,072</u>
Total Assets	<u><u>605,170,615</u></u>

PHILADELPHIA SUBURBAN WATER COMPANY
BALANCE SHEET

DECEMBER 31

LIABILITIES	1995
Equity and Long-Term Debt	
First Mortgage Bonds	182,150,000
Other Long Term Debt	6,835,080
Revenue Note	0
Total Debt	188,985,080
Less Current Portion of Debt	13,590,243
Total Long-Term Debt	175,394,837
Common Stock	17,400,000
Capital Surplus	45,574,992
Retained Earnings (Page 3)	102,878,984
Total Common Stock Equity	165,853,976
Preferred Stock With Mandatory Redemption Provision	7,143,000
Total Equity and Long-Term Debt	348,391,813
Current Liabilities	
Current Portion of Debt	13,590,243
Loans Payable	280,000
Accounts Payable	6,624,628
Dividends Declared	167,361
Consumers' Deposits	271,534
Taxes Accrued - Other	1,106,979
Taxes Accrued - Fed. & State Income	1,557,449
Interest Accrued	3,560,820
Other Current & Accrued Liabilites	8,605,477
Total Current Liabilities	35,764,491
Deferred Credits	
Customers' Advances for Construction	25,879,905
Other Deferred Credits	9,762,219
Deferred Federal & State Income Tax	71,315,574
	106,957,698
Reserves	
Reserve for Depreciation	90,485,686
Reserve for Uncollectible Accounts	300,000
Other Reserves	76,200
	90,861,886
Contributions In Aid Of Construction	23,194,727
Total Liabilities and Equity	605,170,615

PHILADELPHIA SUBURBAN WATER COMPANY
Plant Balances As Of December 31, 1995

Account #	Account Description	Balance @ 12/31/95
301000	Organization	597,455.67
302000	Franchise	14,393.01
303000	Miscellaneous Intangible Plant	39,716.21
311020	Power & Pumping Land	149,675.78
311030	Purification Land	260,804.54
311040	Trans. & Distrib. Land,Rights Of Way	587,396.27
311050	Distrib. Reservoir & Standpipe Land	842,898.05
311110	Water Rights	152,878.95
311120	Reservoir Land	2,719,136.72
311130	Other Source Of Supply Land	1,234,713.90
311610	Office Land	3,106,594.31
311620	Stores Shop & Garage Land	979,247.65
311630	Miscellaneous Land	855,493.92
312020	Power & Pumping Structures	12,272,785.69
312030	Purification Buildings	20,358,645.02
312050	Distribution Reservoirs & Standpipes	21,906,972.12
312110	Collecting & Impounding Reservoirs	11,052,155.54
312120	Lake,River & Other Intakes	3,892,787.33
312130	Wells & Springs	3,261,854.38
312610	Office Buildings	11,540,614.79
312620	Stores Shop & Garage Buildings	3,445,584.05
312630	Misc. Structures & Improvements	2,920,160.48
314000	Other Power Production Equipment	384,440.54
316000	Electric Pumping Equipment	29,630,608.79
318000	Hydraulic Pumping Equipment	6,802.78
320000	Purification System	40,974,652.32
321000	Laboratory Equipment	1,717,554.01
322000	Mains & Accessories	234,053,571.67
323000	Services	58,294,799.11
324010	Conventional Meters	6,156,728.88
324020	4 Wheel Encoder Meters	4,685,171.36
324030	M.I.U. Units	5,937,358.05
324050	6 Wheel Encoder Meters	18,482,079.05
324070	Other Meters	1,731,476.59
325000	Fire Hydrants	12,628,149.19
328000	Office Furniture & Equipment	2,633,772.17
328010	Data Processing Equipment	4,880,542.35
329010	Transportation Equip.-Autos	842,046.74
329020	Transportation Equipment	183,284.93
330000	Stores Equipment	26,394.81
331000	Shop Equipment	135,331.56
332010	Mechanical Equipment	1,030,204.11
332020	Tools & Work Equipment	2,390,068.29
333000	Communication Equipment	1,248,507.09
334000	Miscellaneous Equipment	231,267.97
	Total	530,476,776.74

Philadelphia Suburban Water Company
Depreciation Reserve Balances As Of December 31, 1995

Account #	Account Description	Balance @ 12/31/95
250030	Transportation Equipment	(428,307.89)
250040	Mechanical Equipment	(451,357.34)
412020	Power & Pumping Structures	(3,249,159.02)
412025	CIAC-Power & Pumping Structures	64,016.00
412030	Purification Buildings	(2,509,933.33)
412050	Distribution Reservoirs & Standpipes	(5,808,593.21)
412055	CIAC-Distribution Reservoirs & Standpipes	995.00
412110	Collecting & Impounding Reservoirs	(1,549,856.54)
412120	Lake,River & Other Intakes	(591,488.33)
412130	Wells & Springs	(1,022,664.66)
412135	CIAC-Wells & Springs	14,641.00
412610	Office Buildings	(2,800,380.25)
412620	Stores Shop & Garage Buildings	(1,020,254.66)
412630	Misc. Structures & Improvements	(603,594.44)
414000	Other Power Production Equipment	(224,763.67)
416000	Electric Pumping Equipment	(7,601,729.56)
416005	CIAC-Electric Pumping Equipment	62,171.00
418000	Hydraulic Pumping Equipment	(5,474.33)
420000	Purification System	(8,945,900.16)
420005	CIAC-Purification System	13,392.00
421000	Laboratory Equipment	(1,039,872.45)
422000	Mains & Accessories	(28,358,923.26)
422003	CAC-Mains & Accessories	2,266,371.00
422005	CIAC-Mains & Accessories	2,401,252.00
423000	Services	(11,466,653.12)
423005	CIAC-Services	248,243.00
424010	Conventional Meters	(5,708,820.46)
424015	CIAC-Conventional Meters	36,980.00
424020	4 Wheel Encoder Meters	(701,532.00)
424030	Meter Interface Units (MIU's)	(1,047,747.10)
424044	Automatic Meter Read	11,762.19
424050	6 Wheel Encoder Meters	(2,061,220.00)
424070	Other Meters	(741,545.93)
425000	Fire Hydrants	(2,428,270.11)
425005	CIAC-Fire Hydrants	288,109.00
428000	Office Furniture & Equipment	(1,823,905.74)
428010	Data Processing Equipment	(1,952,192.00)
429010	Transportation Equip.-Autos	0.00
429020	Transportation Equipment-Mech	(60,418.67)
430000	Stores Equipment	(15,298.37)
431000	Shop Equipment	(52,517.95)
432010	Mechanical Equipment	0.00
432020	Tools & Work Equipment	(725,066.14)
433000	Communication Equipment	(525,627.66)
434000	Miscellaneous Equipment	(149,251.93)
	Total	(90,264,388.09)



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 27, 1996

Gary R. Hoffman, Esquire
Director, Pennsylvania Code & Bulletin
Room 647, Main Capitol Building
Harrisburg, PA 17120

RECEIVED
96 MAR 28 AM 10:38
PA. P. U. C.
INFO. CONTROL DIV.

Re: Notice
Petition of Philadelphia
Suburban Water Company
Docket No. P-00961036

Dear Mr. Hoffman:

Enclosed please find two (2) copies of a notice as captioned above. The Commission requests this notice be published in the Pennsylvania Bulletin.

Very truly yours,

John L. Dial
Executive Director

DOCKETED
MAR 29 1996

KJR

Enclosure

cc: First Deputy Chief Counsel Pankiw
Regulatory Coordinator Leming
Assistant Counsel Povilaitis
Information Control Unit ✓

DOCUMENT
FOLDER

PENNSYLVANIA PUBLIC UTILITY COMMISSION

NOTICE

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

RECEIVED
96 MAR 28 AM 10:38
PA. P. U. C.
INFO. CONTROL DIV.

Philadelphia Suburban Water Company filed a petition at Docket No. P-00961036, requesting that the Pennsylvania Public Utility Commission (Commission) approve the implementation of a tariff supplement which establishes a Distribution System Improvement Charge (DSIC) to be effective for service rendered on or after July 1, 1996. Establishment of the DSIC, pursuant to Section 1307 of the Public Utility Code, 66 Pa. C.S. §1307, would provide for the recovery of the fixed costs (depreciation and pre-tax revenue) of certain non-revenue producing, non-expense reducing infrastructure rehabilitation projects completed and placed in service between the Company's base rate cases. The petition states that the DSIC is in the public interest in that it would provide the company, among other things, with the resources needed to accelerate investment in new utility plant to replace aging water distribution infrastructure, thereby facilitating compliance with the evolving regulatory requirements imposed by the Safe Drinking Water Act. In addition, the DSIC will be capped at 5% of the amount billed to customers under otherwise applicable rates and charges.

Persons desiring to file answers to this petition may do so in accordance with 52 Pa. Code §5.61. All such answers must be filed with the Secretary, Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265 within 30 days of the date of

publication of this notice in the *Pennsylvania Bulletin*. In addition to the requirements of 52 Pa. Code §1.37, one additional copy of the answers should be filed with the Commission's Law Bureau. Copies of the petitions are on file with the Commission and are available for public inspection. The contact person is Assistant Counsel Susan T. Povilaitis, (717) 787-2871.

BY THE COMMISSION,

A handwritten signature in black ink, appearing to read "John G. Alford". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John G. Alford
Secretary