



MOVING WATER FORWARD

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Chair

JT Hand
The York Water Company
130 East Market Street
York, PA 17401
Phone: 717-845-3601
jth@yorkwater.com

Vice Chair

Steve Tambini
Pennsylvania American Water
800 West Hershey Park Drive
Hershey, PA 17033
Phone: 717-531-3370
steve.tambini@panwater.com

Secretary

Louise Knight
Superior Water Company
1885 Swamp Pike
Suite 109
Box 525
Gilbertsville, PA 19525
Phone: (610) 222-4171
lknight@superiorwaterco.com

Treasurer

Kathy Miller
The York Water Company
130 East Market Street
York, PA 17401
Phone: 717-845-3601
kathym@yorkwater.com

Past Chair

David Lewis
Columbia Water Company
220 Locust Street
P.O. Box 350
Columbia, PA 17512-0350
Phone: 717-684-2188
dlewis@pa.net

Governmental Relations

Erik A. Ross
Gmerek Government Relations, Inc.
212 Locust Street
Suite 300
Harrisburg, PA 17101
Cell: 717-574-3963
eross@ggrgov.com

Counsel

Michael D. Klein
Cozen O' Connor
305 N. Front Street, Suite 400
Harrisburg, PA 17101
Phone: 717-703-5903
Cell: 717-439-2564
mklein@cozen.com

April 4, 2013

Rosemary Chiavetta
Secretary
Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: Advance Notice of Proposed Rulemaking for Revision of the
Commission's Regulations on Water Conservation Measures at
Pa. Code § 65.20

Dear Secretary Chiavetta:

The National Association of Water Companies, Pennsylvania Chapter
(Chapter) respectfully submits the following comments regarding the above
mentioned proposed rulemaking:

Background

On January 27, 2012, the Commission's Tentative Opinion and Order
requiring all Class A water utilities (over \$1,000,000 in annual revenues) to
implement the International Water Association (IWA)/American Water Works
Association (AWWA) Water Audit methodology became final. All Class A
water utilities are now required to file the annual Water Audit summaries with
the Secretary of the Commission no later than April 30 of each year. The
remaining question going forward for the Commission and the water industry
is whether the Commission should revise its existing regulations regarding
unaccounted-for-water at 52 Pa. Code § 65.20, or, whether it is necessary for
the Commission to adopt new regulations regarding the Water Audit
methodology.

Section 65.20 of the Code states, in pertinent part:

§ 65.20. Water conservation measures – statement of policy.

*In rate proceedings of water utilities, the Commission intends to examine
specific factors regarding the action or failure to act to encourage cost-
effective conservation by their customers. Specifically, the Commission will
review utilities' efforts to meet the criteria in this section when determining
just and reasonable rates and may consider those efforts in other proceedings
instituted by the Commission.*

Subsection (4) of this section, which specifically addresses unaccounted-for-

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water, states:

Levels of unaccounted-for-water should be kept within reasonable amounts. Levels above 20% have been considered by the Commission to be excessive.

Specifically, the Commission seeks comments on appropriate revisions to this regulation. In particular, comments are invited on whether it is necessary for the Commission, in light of our adoption of the Water Audit methodology, to adopt new regulations to further advance this methodology. If the comments advocate either revised regulations, or merely a policy statement, we expect the comments to also include proposed language for our consideration and subsequent review by the Independent Regulatory Review Commission.

Additionally, the Commission, as was requested in the 2012 Order, invites comments from the regulated community (particularly the participants in the pilot project and the other Class A water utilities that will be filing their first annual Water Audit by April 30, 2013) and other interested parties on the experienced benefits and costs of the Water Audit methodology.

The benefits experienced by the Chapter's member companies during the pilot project included:

1. It provided a straight-forward, consistent, and repeatable methodology to track water losses.
2. It provides an approximate "cost" for these water losses which gives a water utility a comparative idea of how much money these losses are costing. The utility can then use this information to help allocate resources.

However, our member companies have also expressed the following concerns:

1. **Report systems separately or combined?** – The pilot forced utilities to calculate "unaccounted-for-water" for each system separately instead of rolling them into a single system. Depending on the age, size, and condition of the system, particularly systems that have been acquired, some utilities may struggle with the 20% threshold. Therefore, the Chapter recommends that, for reporting purposes, that the calculation for "unaccounted-for-water" be combined. As a result, regulators won't be spending excessive time and resources reviewing a system that may be well below 1% of revenue for the entire company. This also provides the utility with some flexibility when acquiring a new, but perhaps troubled, water system that could be significantly above 20% water loss.
2. **Subsection (4).** – The American Water Works Association's Manual of Water Supply Practices M36, 3rd Edition, presents guidelines for Use of the Level Infrastructure Leakage Index (ILI) in Table 5-2 on page 112. Target ILI ranges are provided that take into account Water Resources, Operational and Financial Considerations. Therefore, ILI values could be selected for combined or even separate water systems that are fair across the board. This methodology would allow the PUC to customize goals that reflect the uniqueness of each water system(s).

3. **Subsection (4) Levels of unaccounted-for-water should be kept within reasonable amounts. Levels above 20% have been considered by the Commission to be excessive.** – Based on using ILI goals in lieu of “unaccounted-for-water”, this sentence could be deleted entirely.
4. **Subsection (4) Levels of unaccounted-for-water should be kept within reasonable amounts. Levels above 20% have been considered by the Commission to be excessive.** If the Commission prefers to retain a percentage goal, we would contest the simple substitution of the terms “non-revenue water” or “water losses” for “unaccounted-for-water”. This objection is based on the terms not being equivalent. Unaccounted-for-water allows for the reduction of unavoidable leakage on mains, company services and customer services whereas non-revenue water does not. The result is the percentages are not interchangeable. Additional studies would be needed to justify an acceptable correction factor for each system based on its distribution network size, diameter and pressure.
5. **Revenue penalties.** – The methodology results in an annual “Apparent” and “Real” loss cost. These costs may be substantial and although it’s not mentioned in the proposed rulemaking, we are concerned that interested parties may try to link these costs to revenues (i.e., insisting on annual reductions in these costs or attempt to reduce a utility’s revenue requests by these amounts). However, these “costs” are generally spread throughout the distribution system and could be prohibitively expensive to “reduce.” There may also be unusual annual variations in these numbers depending on customer demands, weather, fire demands, flushing projects, etc. This is particularly the case regarding the distribution system infrastructure after a utility makes an acquisition of a troubled water system. The Chapter would oppose any linkage of costs to revenues.
6. **Annual Filing Process.** – During the pilot, utilities had to submit both an electronic and hard copy (CD with worksheet). The Chapter would recommend that filings be submitted electronically.

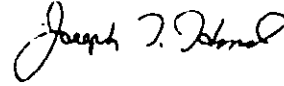
Finally, the Commission invites comments as to whether the Water Audit methodology should be extended to the other jurisdictional water utilities.

The Chapter believes that the methodology should be extended to the other jurisdictional water utilities. The procedure is straight-forward, simple, and the software is free. If all water providers utilized this methodology, it would be beneficial to the system owners, regulators, potential acquirers, and customers. We would also recommend that all water systems regulated by the Department of Environmental Protection (DEP) use this methodology. Finally, if all water utilities use this methodology, the Chapter also recommends that the Commission work with the river basin commissions and request that they also incorporate it into their own reporting requirements so that a water utility is not maintaining up to three “unaccounted-for-water” methodologies (PUC, DEP, river basins).

The Chapter thanks you for allowing us to comment on this advance notice of proposed rulemaking order. If you should have any questions or need further information, please do not hesitate to contact me or our lobbyist Erik Ross.

Rosemary Chiavetta
April 4, 2013
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Very truly yours,



JT Hand
Chairman

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The National Association of Water Companies (NAWC) www.nawc.org/ represents all aspects of the private water service industry including ownership of regulated drinking water and wastewater utilities and the many forms of public-private partnerships and management contract arrangements. The Pennsylvania Chapter consists of 10 member companies that provide safe and adequate drinking water service to approximately 3.1 million Pennsylvanians in 485 communities over 39 counties. In addition, four of our member companies provide wastewater service to over 155,000 Pennsylvanians in 25 communities over 8 counties.

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