WATER

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SPRING 1995

The Magazine of the National Association of Water Companies

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OFFICERS

STAFF

About the Cover: The gazebo at Pennsylvania Gas and Water Co.'s Accessible Fishing Pier on Lake Scranton. (see article, page 41)

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WATER–Published four times each year by the National Association of Water Companies, Suite 1212, 1725 K Street, N.W., Washington, DC 20006. NAWC is a nonprofit trade association dedicated to serving the needs of the investor-owned state-regulated, public water supply industry. WATER is circulated to all Active and Associate Members of the Association, members and staff of public utility commissions, federal and state officials concerned with our industry and will be sent to qualified persons upon written request. Requests and changes of address should be sent to NAWC, Suite 1212, 1725 K Street, N.W., Washington, DC 20006 (202) 833-8383.

The President's Message

by Jack E. McGregor

On March 29, 1995, it was announced at a press conference in Washington that the NAWC has agreed to participate in "The Partnership for Safe Water." This innovative, voluntary program encourages water utilities using surface water supplies to take steps designed to optimize filtration processes and to increase the removal of microbial pathogens. These strategic actions are designed to improve the quality and safety of surface water supplies around the country, help advance treatment objectives and, most importantly, improve customers' confidence and satisfaction in their drinking water.

The U.S. EPA and Administrator Carol Browner, who made the formal announcement, should be commended for their leadership in this effort. More than 260 utilities, representing a total population in excess of 80 million, have made initial commitments to participate in what is truly a trailblazing effort to further safeguard the nation's drinking water supply. As part of the program, the participating water utilities will assess their operating, maintenance and management to make current treatment processes as protective as they can be against microbial contamination, including Giardia and cryptosporidium.

Beyond the obvious benefits to the public that should result from the partnership, there are other important considerations for our industry. At a time when certain public interest groups are attempting to discredit the public water supply industry, it is more important than ever to become involved in efforts such as this partnership, on both a national and local level. As a genuine public-private initiative, the Partnership for Safe Water demonstrates a willingness on our part to do the right thing and work with the chief enforcement agency to achieve optimum results in protecting drinking water supplies.

This decidedly assertive attempt at voluntary self-assessment, self-regulation and compliance in advance of regulations, will help to ensure public confidence in our efforts to improve water treatment. By joining the partnership, you might well improve your company's overall operations and be in a better position to inform your customers and the general public about your efforts.

Most importantly, you will be helping to influence the course of future drinking water regulations. The partnership can be an effective tool in this regard, particularly in tandem with a strong government relations program at the federal, state and local levels.

As I mentioned in my last column, government relations is not a spectator sport, and we need to do a better job educating and informing our Congressional representatives on issues affecting the industry. I cannot emphasize enough how critical it is that we communicate regularly with our federal legislators, especially with the Safe Drinking Water Act up for reauthorization. Special interest groups are presenting their opposing viewpoints with a well-orchestrated lobbying and media relations campaign that is impugning the integrity and operations abilities of our industry.

I urge all of our members to demonstrate their commitment to water quality by taking part in the Partnership for Safe Water. By doing so, you will be furthering the best interests of your industry, your company and the customers you serve, a win-win-win situation if ever there was one.

NAWC Celebrates Centennial

The National Association of Water Companies celebrated its centennial with a One Hundredth Anniversary Dinner, held at the Great Hall of the Library of Congress in Washington, DC, on February 28, 1995. NAWC members, members of Congress, Commissioners and Commission staff attended the event, held in one of the most impressive structures in Washington. The Dinner was held during a week that also featured NAWC's Annual Government Relations Fly-In, as well as meetings of NAWC's Executive Committee, Board of Directors, Nominating Committee and Small Companies Committee.

At the Dinner, awards were given to Congressman Bill Archer, the Chairman of the House Ways and Means Committee; Congressman Tom Bliley, the Chairman of the House Commerce Committee; former Congressman Bob Michel, and Commissioner Bob Anderson, the President of the National Association of Regulatory Utility Commissioners. Additionally, a member of Congressman Robert Matsui's staff accepted an award intended for the Congressman, and Kathleen A. McGinty, Chair of the Council on Environmental Quality, accepted an award on behalf of the Administration.

Guests at the dinner, which was well-attended by current and past NAWC officers, as well as Honorary Members, were addressed by the Librarian of the Library of Congress. Following a sumptuous dinner, there was a musical presentation by the Stereo Strings, who played well-known songs relating to water. Prior to their departure, guests were given the opportunity for a behind-the-scenes tour of the Great Hall. A commemorative poster featuring 100 years of the industry in photographs was given to guests as they left. NAWC has additional copies of the poster. To obtain one, call NAWC at 202/833-8383.

NAWC's Government Relations Fly-In, held during the week of February 27 through March 3, involved more than 50 members of NAWC, who participated in more than 150 appointments with Senators and Representatives. NAWC members addressed the key issues of legislation to repeal the tax on Contributions In Aid of Construction and reauthorization of the Safe Drinking Water Act. Participants noted that the Fly-In presented them with an opportunity to educate legislators—many of whom are new to Congress—on the important issues of the day. More than one participant was overheard saying that the current Congress seemed more sensitive to the business-related problems of our industry than past Congresses.

NAWC will continue to celebrate its centennial through the Annual Conference next Fall.

(l to r) NAWC Chairman of the Board Jim Barr (American Water Works Service Co.) and Honorary Member Bob Gerber (United Water Resources)

(l to r) NAWC President Jack McGregor (Bridgeport Hydraulic Co.) and Commissioner Keith Bissell (Tennessee Public Service Commission)

(l to r) Jim Barr and Honorary Members Tony Garnier (Suburban Water Co.) and Ralph Lindberg (California Water Service Co.)

(l to r) Jack McGregor and Commissioner William M. Nugent (Maine Public Utilities Commission)

(l to r) Jack McGregor, Jim Gallagher (Southern California Water Co.) and Commissioner P. Gregory Conlon (California Public Utilities Commission)

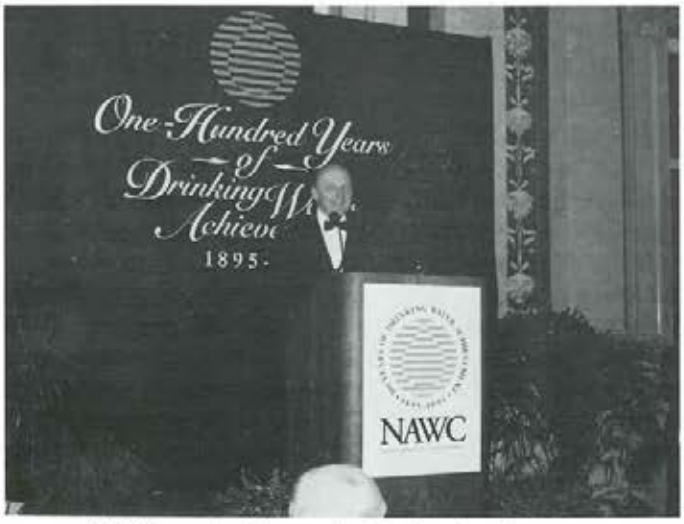
(l to r) NAWC Deputy Executive Director Sharon Gascon, Carol Allen (Pennsylvania Public Utility Commission) and Commissioner Lisa Crutchfield (Pennsylvania Public Utility Commission)

(I to r) NAWC Executive Director Jim Groff, NARUC President Bob Anderson (Montana Public Service Commission) and former Commissioner David S. Williams (Illinois Commerce Commission)

(I to r) Jack McGregor and Commissioner F. S. Jack Alexander (Kansas Corporation Commission)

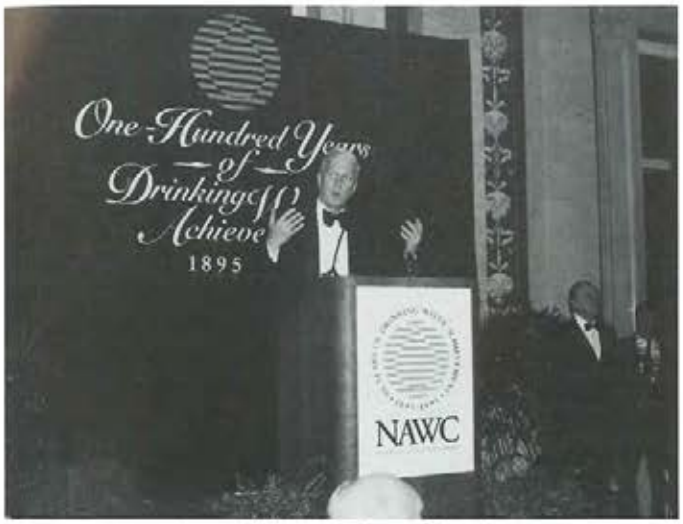
(I to r) Jack McGregor, Evelyn Corban and Commissioner Frederick Corban (Indiana Utility Regulatory Commission)

NAWC President Jack McGregor addressing attendees.



NAWC Executive Director Jim Groff welcoming guests.

NAWC Chairman of the Board Jim Barr, offering a toast to 100 Years of Drinking Water Achievement.

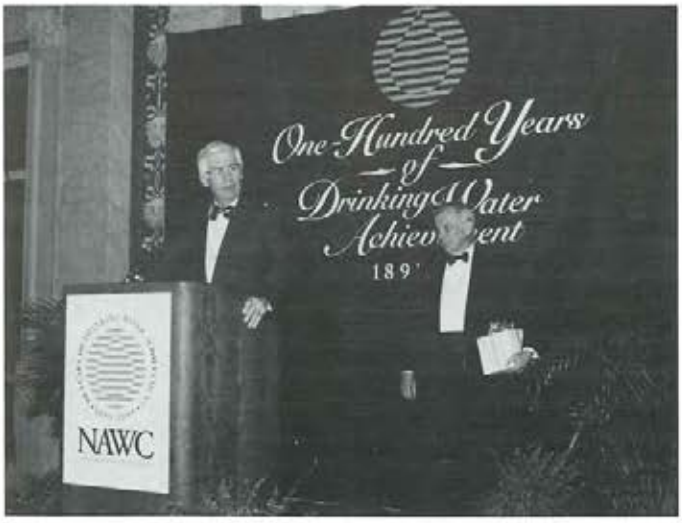


James Billington, Librarian for the Library of Congress, greeting participants.

Former Congressman Bob Michel, one of the evening's honorees.

Kathleen McGinty, Chair of the Council on Environmental Quality, accepted an award on behalf of the White House.

NARUC President Bob Anderson greeted attendees on behalf of NARUC.



Congressman Jim Slattery, another one of the evening's honorees.

Congressman Bill Archer, an honoree, addressing the audience.

NAWC History: 1921–1946

by T. Ward Welsh

This is the second part of NAWC's history, prepared in conjunction with NAWC's Centennial. The next half-century of NAWC's history will be presented in the next two issues of WATER.

The 1920s were heady years in America. The World War was over. The economy was gaining momentum. Movies, jazz and ragtime were all the rage. About one in three American families owned automobiles. Telephones and radios were changing society–in a sense, shrinking the nation. The first baseball game was broadcast from the Polo Grounds in New York in 1921, beginning the age of sports as a national pastime. Athletes like Babe Ruth, Jack Dempsey and Red Grange became heroes coast-to-coast.

As the Pennsylvania Water Works Association (PWWA) marked its 25th anniversary in 1920, William C. Hawley, of the Pennsylvania Water Company, the group's historian, observed that one of the greatest contrasts between "the old days" and the present was that now "when we appear before a legislative body it can not only hear the evidence, but it can make its own investigations by its own agents." Apparently legislative committees in Pennsylvania were getting staffs.

Focus on Depreciation, Financing

The PWWA, meeting in Atlantic City in 1921, focused on nuts and bolts matters: methods of depreciation and of financing main extensions. (Construction, put off during the war years, was moving again.) Pittsburgh lawyer Joseph Beck, who often briefed the conferences on court cases that impacted water suppliers, delivered a paper on "Value, Cost, the Law and Justice" that was lavishly praised. In it he argued that the then-current system of regulating–by the Public Service Commission with right of appeal to the courts–was the best for all concerned. While not perfect, Beck said, it generally benefited water utilities. The fact that many municipal leaders in Pennsylvania were calling for the dissolution of the PSC, calling it a tool of the utilities, would seem to support Beck's assessment.

George Davison, also of Pittsburgh, took exception to some of Beck's remarks. He said the Pennsylvania PSC had been stingy in setting rates and in valuing companies. Its members, Davison said, had scant experience in utility matters and came to the commission with an anti-utility bias. The average household in the commonwealth spent less than $15 a year for water, he noted, less than it spent on "cigars, sodas, movies and chewing gum."

The following year, 1922, Jesse Purdy of Connellsville, chairman of the executive committee, told the conference that the Association was "stronger than ever" and was financially sound, even though it hadn't raised its dues in 26 years. The biggest problems facing members that year, Purdy said, were a severe drought, which had left reservoirs low, and a shortage of coal, the result of a miner's strike. In fact, the governor had set up a committee to allocate coal to utilities.

One piece of good news at the meeting was that relations between companies and municipalities seemed to be improving. There had been very little litigation that year, partly because the PSC was encouraging one-on-one meetings to settle utility-community disputes. Someone commented that the PSC was a fine one to be giving advice: the World War was won in less time than it took the PSC to make some decisions, he said.

Employee Training Noted

Many companies reported they had begun training employees in human relations "to create friendlier feelings by customers."

Speakers at the meeting took no note of clouds on the horizon abroad that year: Benito Mussolini had formed a fascist government in Italy. The states in Russia established the Union of Soviet Socialist Republics, and Adolph Hitler's storm

troopers were terrorizing political opponents in Germany.

By 1923, the Flapper Era was in full swing. With Prohibition in force, speakeasies were proliferating. The Ku Klux Klan, which was menacing blacks and destroying property in the South, moved into the Midwest. A Klan rally in Kokomo, Indiana, drew 200,000; marshal law had been declared in Oklahoma to protect citizens.

1923: The Bluefield Decision

The PWWA noted at its October meeting that the year had been one of "general prosperity and comparative peace" for its members. PSC decisions had given satisfaction to the public and lessened antagonism toward utilities, Jesse Purdy noted in his final report as executive committee chairman. William Hawley, in his 14th and final address as president of the Association, said the only blotch in the economic picture was the cost of labor and materials, which hadn't declined after the war. But, he added, "we seem to be getting rates to meet these."

Hawley noted the increasing emphasis on public relations at the meetings—and within member companies—now that service, not rights, was the organization's main focus. (PR discussions took up about 25 percent of the 1923 meeting.) He also praised the state's new Sanitary Water Board, which had been established to enforce stream pollution laws. W. R. Voorhis, a vice president of American Water Works and Electric Company, told the group about its subsidiaries' success in offering their preferred stock in their service areas. He said investments ranged from $50,000 to $5 down and $5 a month by locals attracted by the stocks' safety of principle and reasonable return.

The U.S. Supreme Court in 1923 ruled in the case of the Bluefield (West Virginia) Water Works & Improvement Company vs. the Public Service Commission of West Virginia. The court, finding for the plaintiff, asserted that a public utility is entitled to a return on its investment that is "equal to that generally being made . . . in other business undertakings which are attended by corresponding risks and uncertainties." The return, the court added, should be adequate to maintain and support the utility's credit and enable it to raise money necessary for the proper discharge of its public duties. The case set a precedent that would be cited in virtually every utility rate case from that time on.

The postwar boom was really gaining momentum by 1924, when a 36-year-old Lancaster County, Pennsylvania, entrepreneur, John H. Ware, Jr., sold for $1 million an electric generating and distribution system he had built, then agreed to stay on to manage it in return for stock in the acquiring company. The properties were sold again two years later, netting Ware another fortune and positioning him for his entry into the water business.

Attendance Increases

That year, the Association meeting was marked by a significant increase in the number of registrants (192) and the number of non-operators in attendance. The list included representatives of meter, pipe and valve companies, consulting engineers, municipal and state officials and regulators. William Hawley, now chairman of the executive committee, reviewed the performance of the PSC, now 10 years old, and concluded that it had lessened conflict, gained public acceptance and generally benefited association members. He also applauded the state Supreme Court's reversal of a decision that had held that water companies that wanted to stop mining companies from polluting streams had better purchase them because property runoff was a property right. The court found polluting an "enjoinable nuisance." Hawley called the court's decision the most important in his lifetime.

The meeting also discussed the circumstances under which a company would be bound to extend its mains to serve outlying households. Members cited a New Jersey PSC rule which required a developer to deposit with the water company the cost of extension less 3½ times the anticipated revenue at its completion. Some thought it was an approach the Pennsylvania PSC should look at.

A member from South Pittsburgh reported on the first few months' operation of an innovative water softening plant there which was serving 180,000 people. He said the plant was using less than 60% of the amount of chemicals required by the conventional lime and soda ash treatment for softening

In 1924, the Association adopted a six-point code of ethics, which called on member utilities to:

1. Safeguard the public health
2. Employ the most progressive technology
3. Be fair to employees, granting promotions only on the basis of merit
4. Demand fair and ethical dealing with customers
5. Be open and above board in all purchasing and contracting arrangements
6. Support the communities they serve.

Printed copies of the code were made available for 5 cents the following year and members were urged to distribute it to all their employees.

The group that assembled in Atlantic City for the Association's 30th meeting, in 1925, was about 10 percent smaller than the previous year's. That might have been because it was a quiet year, described by the new president, W. B. McCaleb, of Philadelphia, as "the most peaceful since 1895." McCaleb noted that water companies in Pennsylvania were building vigorously—including several dams. Several member companies had issued new securities for the first time in years and the market, he said, reflected the stable character of the business. Mergers also were occurring at a brisk pace, thanks to a 1923 law that made them easier.

(continued on next page)

Broader Membership Rejected

McCaleb also broached an idea that fell flat: opening Association membership to municipal water departments and their officers.

Leonard Metcalf, of Metcalf and Eddy, the Boston consulting engineers, prepared a paper that year on the impact of population growth and rate increases on water consumption. Metcalf was taken ill just before the meeting, however, so a partner, Frank A. Marston, read his report. Metcalf found that consumption increased one-tenth the rate of population growth, so an 80% growth in population brought an 8% consumption growth. As to rates, he found:

Increase in rates	Drop in consumption
20%	13%
60%	29%
100%	40%

While the minutes of the meeting don't show it, there almost certainly was discussion that year of the acquisition of the Springfield Consolidated Water Company, outside Philadelphia, by Clarence Geist, and its being renamed the Philadelphia Suburban Water Company (PSC). Geist moved a vice president and financial officer of his Indianapolis Water Company, Harold S. Schutt, east to run PSW. When Schutt arrived, one employee recalled later (for a company history), "everything began to move": acquisitions, construction, hiring . . . everything. Schutt would become PSW's president in the 1940s.

The following year, 1926, was marked by an auspicious departure and an equally significant arrival. Jesse H. Purdy, who rose from washing railroad cars in Connellsville, Pennsylvania, to become a community leader, a principal–with the Kuhn brothers–in the construction of the town's water system, a senior vice president of American Water Works & Electric Company and a founding member of the PWWA, died. He had served as both president and chairman of the executive committee of the Association and was probably its most influential member in its early years. He was eulogized at the meeting as a man of exceptional intelligence and integrity and "an inspiration to his colleagues."

Murdock Joins Association

Among those mourning the Association's loss at the conference was a new attendee, a lawyer and vice president of Citizens Water Company, in Washington, Pennsylvania, a Community Water Service subsidiary. His name was John H. Murdock, Jr. In a year he would join the executive committee; two years later he would ascend to the presidency, a position he would hold for 37 years, during which he transformed the Association into a regional, then a national, organization. Another death mourned at the meeting was that of Boston engineer Leonard Metcalf, only 56, who had missed the previous meeting because of illness. He had been an associate member of the Association for 20 years.

Things were changing at the big water companies in northern New Jersey in 1926, too. Robert DeForest, president of Hackensack Water Company for over 40 years, stepped aside at age 79. In an unexpected–and somewhat controversial–move, DeForest selected the company's consulting engineer, Nicholas S. Hill, as his successor. DeForest had to coax Hill to give up a lucrative practice, then placate senior insiders, one of whom was assumed to be his heir apparent. But he pulled it off and Hill led the company for 10 years. A few miles to the south, Elizabethtown Water Company formed the Union Construction and Holding Company to build and operate a much-needed regional treatment plant at the confluence of the Raritan and Millstone Rivers. The plan was complicated by the untimely threat by the City of Elizabeth to take over E'town's system in the city. That eventually happened just as the plant was completed five years later. It cut the company's city sales in half.

The York Water Company was pioneering in reforestation at this time. It proudly showed conservationists hundreds of acres of pines it had planted around its man-made reservoir, Lake Williams. President Calvin Coolidge called it the best evergreen reforestation in the world.

Indianapolis Water Wins Appeal

About this time, the U.S. Supreme Court ruled on an important and controversial case involving the Indianapolis Water Company. The decision upheld the company against the Indiana PSC and set out rules and principles to be applied in valuing utilities for rate making purposes. It was the death knell of the then common practice of basing value on prices over the previous 10 years. Executive Committee Chairman William Hawley cited the decision in his report to the 1927 conference. He also noted that member companies were gaining recognition as solid investments and were attracting new investors and supporters.

Association President H. D. Brown spoke only briefly that year, noting that he was in a peculiar position of no longer being a member in good standing because he had left the industry. He said the executive committee hadn't decided whether he should serve out his term or "be shot." He said they probably would keep him on because "outsiders always know more than insiders about how to run an organization."

Farley Gannett, president of the Harrisburg engineering firm that was to become Gannett-Fleming, presented a long report on the ownership of Pennsylvania's water suppliers that documented the trend toward consolidation. Gannett noted that "Wall Street" had about a $100 million interest in member utilities, mostly through six holding companies. He identified them, by the size of their Pennsylvania holdings, as:

1. Federal Water Service Company, whose eight subsidiaries in the state were worth $36 million and served 600,000 people.
2. American Water Works & Electric Company, whose seven Pennsylvania companies were worth $20 million and served 30 communities. (Gannett said AWW&E's successes had led to the other consolidations in the state.)
3. Community Water Service Company, whose 13 subsidiaries were worth $15 million and served 20 communities.
4. North American Water Works Corporation, a new company with 11 properties in the state worth $6 million and serving 19 communities.
5. Consumers Water Company, of Maine, which had recently bought two companies in western Pennsylvania, which served about a dozen towns.
6. Philadelphia Suburban Water Company, the $20 million Geist property that was buying up neighboring utilities west of Philadelphia.

W. C. Hawley

The 1927 meeting also addressed the Commonwealth's earnest–but largely futile–efforts to control stream pollution. A national environmental report had recently described the condition of the state's rivers as "scandalous," and claimed that only 5% of them were fit for domestic use.

This was about the time, incidentally, that 25-year-old Charles Lindbergh flew nonstop from New York to Paris, winning a $25,000 prize, and a place in history–and in the hearts of Americans. Al Jolson made the first "talking picture," "The Jazz Singer." His record, "Sonny Boy," sold 12 million copies in a month. More important for the world, a Britisher, Dr. Alexander Fleming, discovered penicillin, which was to bring more progress in preventing and curing infectious diseases than any other advance before or since.

In 1928, attendance at the annual meeting was down by about 25%, to 130. President John Reading noted that 15 members had dropped out when their companies were acquired or merged. A committee that was studying the implications of charging a fixed customer service fee found that it was clearly a rational and businesslike thing to do. But it advised against the practice because of the hostility such charges caused and the difficulty of collecting them.

A court case involving a toilet leak and an unpaid water bill triggered a discussion of a water closet called the Philadelphia Hopper. Executive Committee Chairman Hawley recalled that this particular toilet had been in use at one time in hotels in Atlantic City, the meeting site. Then the city installed water meters, Hawley said, and hotel owners found that they were losing thousands of gallons of water daily through the hoppers, so they "got rid of them." He added that he was embarrassed that companies went to court over toilet leaks.

In 1928, American States Public Service Company of Delaware began acquiring water and other utility properties around Los Angeles. Within a year it had put together 34 companies at a cost of $5.8 million and merged them as U.S. Water Service Company. In the '30's the group was renamed Southern California Water Company.

Headquarters Moves East

The Pennsylvania Water Works Association moved its headquarters in 1929 from Pittsburgh 200 miles east to Harrisburg to be within walking distance of the offices of the PSC, the legislature and the state Health Department. It rented space in the Telegraph Building, built by a by-then-defunct newspaper. Its next move, beyond anyone's vision at that time, would be to Washington, D.C.

John Murdock, Jr., took over as president that year and delivered the first of some 37 annual conference-opening remarks. He said one would have thought that in 34 years the Association would have addressed all the problems of Pennsylvania's investor-owned water companies. But new issues kept surfacing, he said, citing some 20 bills introduced in the legislature that year that could have been harmful or prejudicial to water suppliers. Fortunately, thanks partly, he said, to the hard work of the Association, none had passed.

This was the year American Water Works & Electric Company bought the Alexandria (Virginia) Water Company. And nearby, in West Virginia, powdered activated carbon was being introduced for the first time in treatment plants to adsorb bodies causing disagreeable tastes and odors.

Minutes Silent on Market Crash

Coincidentally, the 1929 meeting was convened on Tuesday, October 30, just two days after the stock market crash that marked the end of the post-war prosperity and the beginning of America's worst depression. But not a word about the crisis appears in the meeting minutes, which were frequently sprinkled with trivial comments and asides. Stock losses across the U.S. would reach $50 billion in the next two years. Unemployment would soar. Many companies–including water utilities would cut employee pay to reduce layoffs. The day before the crash, General Water Works & Electric Company acquired the San Jose Water Works for $5.1 million. (General would buy California's largest supplier, Cal Water Service, 10 years later.)

At the Association's 35th meeting, in 1930, President Murdock, with a directness that was to mark his tenure, deplored the fact that only 12 members had attended the formal business session. He told his colleagues that their organization was losing its vitality, that debate and spontaneous discussion were flagging at the meeting, that they were "resting on their oars." He said it might be time for "a change for the sake of change" and suggested that they break up the meeting at the next conference into separate sessions for accountants, engineers and lawyers, managers and plant operators. The idea was applauded–and adopted.

William Hawley, chairman of the executive committee, read a paper on advances in water treatment written by one Abel Wolman, chief engineer of the Maryland Department of Health and editor of AWWA's technical journal. And Isaac Walker, a Philadelphia consulting engineer, reported on a trip to Russia and an inspection of Moscow's water system. He was impressed by the modern plants he saw, powered by huge diesel and electric motors. But what garnered the most attention–and questions–were his observations on Russian life: widespread literacy, liberal divorce laws and the surprising number of women doing jobs–including responsible ones–that only men did in the U.S.

The 1930 meeting heard a paper on regulation by F. Herbert Snow, chief engineer for the Pennsylvania PSC, who, in a few years would become the secretary of the Association. Also at the meeting for the first time was a quiet young Cornell-trained engineer, Lawrence T. "Bill" Reinicker, of the National Water Works Company, in Reading. He would one day be president of American Water Works.

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30's Mood Is Grim

As if the Depression wasn't enough of a problem in the '30s, Pennsylvania suffered a serious multi-year drought. Customers who couldn't get water some days couldn't pay for it when they did. Millions were jobless. It was clear many companies needed to develop new sources and new storage and distribution facilities. But, given the economy and the scarcity of capital, no one was building anything. It was to address the shortage of capital that the five-year-old St. Louis County Water Company sold out in 1930 to Commonwealth Utilities, of Philadelphia, a subsidiary of Geist's United Gas Improvement Company.

The dark mood in the U.S.–and in the Association–lasted for several years. Murdock told the 1932 conference that they had not seen any "sunlight" in three years. What with the extended drought and the crippled economy, credit conditions were the worst he'd ever seen, he said, and small companies had to "juggle and manipulate their books" just to stay afloat. He kidded that everything had collapsed "the year I was elected" and said if the Association had any sense it would make someone else president.

That was the year some of the most abusive–and most leveraged–utility holding companies, like Samuel Insull's $4 billion Middle West Utilities, collapsed, costing investors millions and undermining confidence in all utilities. Murdock decried the abusers' "indefensible practices" and the toll they were taking on responsible utilities. Industrial revenues were falling; uncollectible accounts, mounting; rates, frozen. "It's going to take diplomacy and kindness to avoid disaster this winter," Murdock told his colleagues.

The conference discussed loans being made available through the Reconstruction Finance Corporation, an ambitious government effort to assist troubled farms and businesses. Applications had just become available in Pennsylvania and members were briefed on how to apply.

About this time, Julian Kean, president of the Elizabethtown Water Company for 18 years, passed away. He was succeeded by a nephew, John Kean, addressed as "Captain" because of his World War I service. He would serve through the 1940s.

Founding Secretary Dies

In 1933, the Association mourned the death of Francis S. Purviance, a founding member and PWWA secretary since day one. It was Purviance who ran the office, recorded and published the minutes of meetings, tracked, annotated and distributed all relevant legislation and rate decisions and generally kept the organization going. To the Association's relief, Dr. Herbert Snow, the PSC's chief engineer, who had addressed the conference the previous year, agreed to come aboard to succeed Purviance. He would serve until his death in 1942. Other eulogies that year remembered Morris Knowles, of the Consolidated Water Company in Pittsburgh, and John Ladoux, of the Lehigh Water Company in Easton, both long-time members of the Executive Committee.

The Association was instrumental in 1933 in defeating a proposed $8 million state tax on water company assets that would have cost members $200,000 a year. Murdock estimated the lobbying campaign cost $6,000.

Franklin Roosevelt took office that year, having convinced voters that he could bring the government's resources to bear to get the nation back on the road to prosperity. He would soon be assisted by world events: Adolph Hitler, appointed chancellor in Germany, seized dictatorial powers and stepped up his reign of terror. Germany and Japan withdrew from the League of Nations. U.S. industry, producing at half its 1929 level, must have sensed there would be new demand for arms. One bright note for some: Prohibition ended.

Wary of Roosevelt

Most Pennsylvania Water Works Association members were wary of Roosevelt. There was increased political talk of the need to curb the concentration of wealth and prevent the accumulation of economic power in the hands of a few. But businessmen also knew that the economy would be paralyzed until the ordinary working man regained some purchasing power and some supported Roosevelt's programs toward that end.

One person who was moving boldly in those dark years was John H. Ware, Jr., the electrical entrepreneur. He gained control of three Philadelphia-area water companies and set his sights on larger fish. He was listed in the early 1930s as a member of the Association's executive committee, but never was recorded in the minutes as a conference attendee. In New Jersey, Elizabeth lawyer Frank Bergen, the founder of Middlesex and its president for 35 years, died at age 82. His company paid healthy dividends right through the Depression.

J. H. Purdy

John Murdock warned his colleagues in 1934 that times were changing, that there was a great deal of public resentment of private property, profits and, especially, monopolies. "Where is the line to be drawn at which a profit is antisocial?," he asked. Murdock urged that the PWWA support a movement to bring municipal water suppliers under the control of the PSC. Such a move would improve the image of private suppliers, he said.

The Association's budget was stretched that year so it moved into a smaller office in Harrisburg to save $190 a month. The budget provided $5,200 for salaries, $475 for the annual conference, and $729 to reimburse Dr. Snow for a Ford he had bought for work. Murdock said he would take on more of the Association's correspondence and opened an office in western Pennsylvania to do so. He urged the purchase of a mimeograph machine to save the secretaries' time. It could be used to produce the Association's new monthly newsletter.

Members reported for the first time on pension and life insurance programs for employees.

The Public Utilities Holding Company Act was passed in 1935 and, as a result, the Securities and Exchange Commission directed many diversified utilities, like Federal Water & Gas, American Water

Works & Electric, General Water Works & Electric and Commonwealth Utilities, to concentrate on one service and divest themselves of any others. Utility executives, including H. Hobart Porter, president of AWW&E, went to Washington to testify against it. Most of the divestitures occurred in the 1940s after considerable maneuvering and negotiating.

1936 Floods Cause Havoc

Problems caused by the March floods, the worst ever recorded in Pennsylvania, dominated the discussion at the annual meeting in 1936. Homes were under water in 350 communities. Every water plant south of Pittsburgh was shut down. Countless wells were contaminated. More than 5,000 miners were out of work and unable to pay their bills. This, on top of the ongoing pall of the Depression.

After a long discussion on the advisability of shutting off service to idled workers with delinquent bills, conference attendees were unanimous: it would be bad policy. But they resolved to keep records of "free service" for the PSC.

The New Deal was moving in high gear now. The Social Security Act had passed. Unemployment insurance was introduced. Business was beginning to chafe, but FDR was elected by a landslide. Murdock said that year that he resented the way Americans were being categorized as either New Dealers, those who believed the free enterprise system had failed, or Stand Patters, who "resist all change" and defend business in every instance. He said he was neither. A staunch Republican, Murdock believed businessmen had to open their eyes and respond to social change by improving employee benefits, curbing layoffs and being more socially conscious in their policies.

This was the year American Water Works & Electric, with 44 water properties, bought Community Water Service, with 43, most of them in Pennsylvania. Porter stepped down as president of AWW&E the following year but stayed on as chairman of the board until 1946 when he was fatally injured in an elevator accident.

Wives' Tea is a Hit

An innovation at the 1936 annual conference was the first organized activity for spouses: a ladies' tea. It was a hit. Members' wives felt more welcome . . . and more attended in the years ahead.

The Association attracted 100 members to a mid-summer meeting at Hershey in 1937 to discuss proposed legislation that would limit the workweek to 44 hours (passed and later ruled unconstitutional), regulate steam withdrawals and toughen pollution laws. Murdock and Pittsburgh attorney Joseph Beck spent many days in Harrisburg that year testifying and lobbying. At the October meeting, William C. Hawley stepped down as chairman of the Executive Committee after 12 years. He also had been the Association president for 12 years. E. R. Hannum, of Windber, succeeded him as chairman. Murdock, taking a lead from other trade associations, appointed nine working committees in addition to the executive committee to work in special areas like finance, legal affairs and consumer relations.

Murdock described the environment that year as "a world gone mad." War raged in Spain and Asia. "I hope we can just keep our poise and . . . keep our businesses sound," he said despite rising interest rates and labor costs and falling stock prices. The Association estimated there were 600 private or investor-owned water suppliers in Pennsylvania and about 200 municipal systems.

The industry lost a colorful personality in 1938 with the death of Clarence Geist, president of the Indianapolis and Philadelphia Suburban Water Companies and the United Gas Improvement Company. A Geist protégé, Harold Schutt, said to be just as tough and testy as his boss, succeeded him as head of the three companies. Almost immediately, Schutt took on the city of Indianapolis, which moved to buy that company. He refused to sell and the Geist estate continued to control IWC until the 1950s. Another budding tycoon, John H. Ware, company rich and cash poor, sold six of his Pennsylvania water companies to pay off debts. The terms provided for long-term contracts for a Ware subsidiary to manage the properties.

War Clouds a Concern

The Association's Economic Trends Committee reported that year that business activity was picking up as demand grew abroad for U.S. commodities. There was still uneasiness about the prospects for American involvement in the war in Europe. Members feared involvement would hurt utilities because it would affect the availability–and cost–of labor and supplies. James A. Garfield, an Ohio utility lawyer and the son of the 20th president, addressed the conference. He attacked the new Tennessee Valley Authority, which he saw as a government subterfuge to force the region's power companies to reduce their rates. He warned his audience to watch out for such government intrusion under Roosevelt.

The meetings also heard that year how well field yields were being improved by more efficient screens, a new screen-cleaning technique employing dry ice, and an innovative strategy: recharging aquifers from streams.

The United States began to get on a serious war footing in 1939. FDR declared a limited emergency–calling for increased arms production–but emphasized the nation's neutrality. (Polls showed that 67% of Americans opposed involvement in the war after Germany invaded Czechoslovakia and Italy moved into Albania.)

Murdock told the conference that year that while all were concerned about the hostilities, Association members had their businesses to run and should concentrate on that. Turning to the PSC, Murdock urged support for its requests for more budget and staff, then said the Commission was doing Pennsylvanians a disservice by not regulating so as to reward efficiency. All utilities, good and bad, are treated the same, he said, providing no incentive to cut costs. In fact, Murdock said, companies that cut their costs were "rewarded" with rate reductions. He said it wasn't just a Pennsylvania problem, that commissions in Massachusetts, New York, Ohio and California operated the same way.

Fix Rates, Not Profits, PSC Told

"In no other business does efficient operation go unrewarded," Murdock told his colleagues. "And no system that fails to reward efficiency can be expected to survive. My advice to the commission is to concentrate on fixing fair rates, not on regulating profits."

Lorenzo "Bunny" Semple, a senior vice president of American Water Works & Electric Co., spoke to the conference that year on "The Kind of Boss I Like." He

(continued on next page)

equated the CEO of a company to the captain of a ship and said his style created either a "happy ship" or a "madhouse." He urged CEOs to keep their workers informed, avoid paternalism, capriciousness and, especially, nepotism, and to employ constructive criticism, not blame, to motivate people.

Federal Water Service sold California Water Service Company to General Water Works in 1939. Cal Water would become an independent company, listed on the New York Stock Exchange, in 1945.

Two months after the 1939 meeting William C. Hawley died. He had been either president or chairman of the executive committee of the Association for 24 years. In a eulogy published in the Association's newsletter, Murdock said Hawley, an engineer and AWW&E executive, was a man who believed one's education never ended and was always seeking information and insights. "He was at his best at our meetings," Murdock said. One of the projects Hawley had worked on, the acquisition of the Greenwich (Connecticut) Water and Gas Company, was completed a couple of months after the death.

Company Exhibits Introduced

The Association's 45th meeting featured an exhibit room where six companies set up displays illustrating some aspect of their operations: a training program, an ad campaign, a record-keeping technique, etc. The war was a real presence at that meeting. The Nazis had entered Paris and were bombing London. Churchill had taken the helm in England. The U.S. Congress passed the Selective Service Act, setting the draft in motion. And Major General Edwin Martin, the adjutant general of Pennsylvania, addressed the annual meeting on the implications of a war for the state's water suppliers. He got off to a great start by announcing that he, personally, didn't think that government, at any level, should be in the water business.

The session also included a panel discussion on depreciation and an appraisal of the Municipal Authorities Act, which John Ware had supported to advance his plan to sell properties. Some members thought it was at odds with the objectives of the Association. A new attendee that year was John J. Barr, a young financial lieutenant of Ware's who represented the Freeland Water Company. He would one day head both American Water Works Company and the National Association of Water Companies.

During the summer of 1941, Roosevelt and Churchill met to coordinate the Allied war effort. The lend-lease program was implemented, largely to assist Russia, which was fending off a German invasion. U.S. military recruiters were finding that thousands of young men failed the induction physical because of dental cavities. That experience eventually led to the widespread practice of fluoridating public water supplies.

Murdock's address to the conference that year was a call to arms. He said a "shooting war" was inevitable (this was six weeks before Pearl Harbor) and that the defense establishment would have first call on manpower and materials. But, he noted that thousands of unemployed were being called back to work . . . and were paying their utility bills again. "But we must guard against inflation," Murdock said, "for war doesn't produce wealth, it destroys it."

"The difficulties we face are real and serious," Murdock concluded, "but they should bring out the best in all of us."

CEO Won't Serve Neighbor

The meeting wasn't all that grim. Turning to regulatory decisions that year, attendees heard about a small company whose president, the owner, had discontinued service to his neighbor "because his driveway was unsightly." He told the Commission he didn't intend to serve anyone who didn't take pride in his property. The Commission fined him $50, ordered him to restore his neighbor's service and told him if it happened again, he'd be in real trouble.

A more serious bright note was a report on the new Federal Housing Program that was expected to finance 35,000 new low-income homes in Pennsylvania and create new accounts for PWWA member companies. The Housing Authority and the utilities were working together to implement the program, Murdock said, and there might be something to be said for establishing special rates for these accounts.

An FBI agent spoke to the group about precautions against sabotage: floodlights, security fences, employee background checks, etc. Companies hired security

John H. Murdoch

guards to watch plants and reservoirs; many bought war damage insurance on plants and dams. In December that year, the day after the attack on Pearl Harbor, the governor and the chairman of the PSC asked Murdock to convene a meeting of the largest water suppliers to review their anti-sabotage preparedness. The state was divided into 15 water supply districts and a mutual aid plan devised to minimize any supply interruptions in the event of an incident.

The 1942 meeting of the Association was scheduled for October in Atlantic City but was moved to Harrisburg after the Army and Air Force took over the shore hotels and coastal defense and training purposes. The session focused mainly on the exigencies of the war: an increased demand for water, increased stream pollution and limited materials and manpower to cope. Murdock outlined the new Water Production board priorities. Members exchanged stories about their new roles as air raid wardens and auxiliary policemen, about their "victory gardens," and shortages of sugar, gasoline and tires. There was widespread confidence that now that the moral indignation of the U.S. had been aroused, it would be over pretty quickly—perhaps in a year—for Germany and Japan.

Secretary Succumbs

Dr. F. Herbert Snow, secretary of the Association for 19 years, missed the meeting because of illness and Lillian E. Wolfe, assistant secretary and treasurer, filled in for him. Snow died a week after the 1942 meeting and was succeeded temporarily by

Baton Rouge Water Co. (center) with Louisiana State Capitol Building in background (October 6, 1936).

E. R. Hannum, of Windber, who, in turn, yielded the chairmanship of the executive committee to 70-year-old Carleton E. Davis, vice president of Philadelphia Suburban. Davis was an almost legendary figure in the business. An engineering graduate of MIT, he had helped develop New York City's upstate reservoir system, worked for the Panama Canal Commission, headed the Philadelphia Water Department, been lured to Indianapolis in the '20s by Geist to run the company there, then moved east in the 30s to be the senior operating executive at Philly Suburban.

This also was the year John Ware had bought the Northeastern Water Company, which Samuel Insull had divested in the early '30s. The 37 water companies and two electric companies brought Ware's holdings to 56 companies worth about $26 million. All the big northeastern companies were working feverishly to meet new war production demand and Elizabethtown was beefing up its service to Camp Kilmer, a training camp that had become the Army's main east coast debarkation center. Bridgeport Hydraulic Company completed its 11.9 billion gallon Saugatuck Reservoir just in time to meet war production demand. The 870-acre lake doubled BHC's surface supply. In Indiana, Indianapolis Water Company had just completed its 2000-acre, $2.5 million Geist Reservoir, the company's first.

The summer meeting of the American Water Works Association in 1943 heard three papers on the subject of fluoridation of water supplies. One, by Abel Wolman, urged more research on its safety. The Pennsylvania association met in Harrisburg again that year because the Atlantic City hotels were still being used by the military.

In 1944, the United States Supreme Court ruled in a case that would be second only to "Bluefield" in its importance to utility operators: the Federal Power Commission vs. Hope Natural Gas Company. The "Hope" decision expanded on the principles set forth in "Bluefield." It stated that utilities can be given "enough revenue not only for operating expenses, but also for the capital costs of the business (including) service on its debt and dividends on its stock."

'44 and '45 Meetings Canceled

The 1944 and '45 meetings were canceled because of wartime restrictions on travel, but when the Japanese surrendered in August of '45, the executive committee hastily put together an October meeting in Harrisburg. Murdock was battling laryngitis so he asked Association vice president W. F. O. Rosenmiller, of York Water, to chair the meeting. Gen. Edwin Martin, who as state adjutant general had addressed the 1940 meeting, was the luncheon speaker. This year, however, he was introduced as Pennsylvania's governor.

Also at the meeting were 11 PSC commissioners and staff and nine other senior state officials, an indication of the organization's growing clout and improved relationships with government. Remarks focused on the need to upgrade facilities after a six-year wartime hiatus and on the high cost of materials and labor, which had members concerned. The Pennsylvania PSC had been reorganized after a nasty investigation of ineptitude, malfeasance and misconduct. There was optimism that the "new" commission would speed up rate decisions, which took years on some cases. This, they hoped, would facilitate financing. But time would tell. On the horizon was the biggest building boom the world would know.

In an almost unnoticed event that year, the city of Newburg, New York, began fluoridating its water under the supervision of the state Department of Health. Nearby Kingston, whose water had no traces of fluoride, would be the control in the experiment.

Next: The post-war boom, fluoridation, the Cold War, proliferation of regulation . . . and environmentalism.

NAWC CONFERENCE AT THE CRESCENT CITY

Carriage in front of St. Louis Cathedral.
© Ron Calamia

New Orleans, Louisiana, is the site of NAWC's 1995 Annual Conference, held October 29 through November 2, 1995, at the Inter-Continental Hotel. Embracing a wide range of cultures and interests, New Orleans–also known as the Crescent City–is one of the most exciting cities in the United States. There truly is something for everyone in New Orleans, a destination that is consistently rated as a favorite by conference-goers from around the world. NAWC aims to provide Conference attendees with the opportunities to get as large a dose of New Orleans culture as they desire.

Situated at the mouth of the Mississippi River, much of New Orleans is below sea level, guarded by levees, pumps and canals. The river is an active one, filled with merchant vessels, steam boats catering to sightseers and, the latest addition, casino boats. If you prefer the peacefulness of a swamp to the activity of the river, though, you need not travel far from the hustle and bustle of downtown New Orleans to visit swamplands, where the only hustle and bustle is caused by alligators sneaking up on unsuspecting waterfowl. Cajun guides take visitors out in the swamps and marshes, providing insight into the story of the Cajun people and drawing your attention to the inhabitants of the swamp–alligators, nutria, snakes, egrets, herons and more–and the subtleties that the casual observer may otherwise miss.

The Sound of the City

Visitors to New Orleans are immediately introduced to the rhythms of the city. Music is synonymous with New Orleans, and, again, with a little bit of effort, something for everyone can be found. Mardi Gras-style parades are punctuated by brass bands blaring Dixieland Jazz. All styles of jazz can be heard at the clubs and lounges

of New Orleans, which can boast of such favorite sons as pianist Harry Connick, Jr., and clarinetist Pete Fountain. Bourbon Street clubs provide country line dancing and karaoke, and everything in between. Clubs such as Dan Ackroyd's House of Blues have their roots in the music of such blues heroes as Robert Johnson and Muddy Waters, with an eye to contemporary variations provided by current artists. Zydeco musicians play their accordions like nothing you have seen on Lawrence Welk, and are accompanied by a good old fashioned washboard, scraped by a spoon.

Hotbed of Creativity

New Orleans is also home to more than its share of artists. Royal Street, in the French Quarter and a quick cab ride from the Inter-Continental, is home to twenty art galleries, featuring everything from antique classics to original paintings by world-renowned artists. Magazine Street, uptown, is also replete with antique stores. The atmosphere of the city clearly brings out one's creative juices. William Faulkner wrote his first novel, *Soldier's Pay*, while living in the French Quarter, next to St. Louis Cathedral. The house is currently a book shop, specializing in Faulkner and other classic literature. Tennessee Williams' home was New Orleans when he wrote *A Streetcar Named Desire*. And among the current crop of literati that calls New Orleans home is popular novelist Ann Rice *(The Vampire Chronicles)*.

Cooking Capital

It is rare that a discussion of New Orleans doesn't eventually turn to food. New Orleans relies on its access to fresh seafood, its unique blend of cultural backgrounds, its willingness to embrace the unconventional and, some say, even its topography (die-hard New Orleanians maintain that it is impossible to cook a proper red beans and rice at any altitude different than their own) to make the city one of the culinary capitals of the world. Restaurants like Brennan's, Commander's Palace and Arnaud's, to name just a few, are internationally famous. Chefs such as Paul Prudhomme of K-Paul's Louisiana Kitchen are among the most well-known chefs in the world. Days begin with steaming mugs of cafe au lait and beignets, a New Orleans cousin of the doughnut. Lunch is a good time to down an oyster po' boy sandwich, another New Orleans specialty. Dinner time is a busy—and fragrant—time in the French Quarter, as visitors often follow their noses to a mouthwatering meal. And you'll probably want to squeeze in a champagne brunch at some point during your stay, just to be sure that you don't miss anything.

The Hotel Inter-Continental provides a host of dining options, if you feel like staying on property. The Veranda is the hotel's signature restaurant, open for breakfast, lunch and dinner. Breakfast and luncheon buffets are offered during the week, and a champagne brunch is served on Sundays. Light food service is available from the Lobby Lounge, where there is also musical entertainment. Pete's Pub is open for lunch and evening cocktails. The Sweet Car is open Monday through Friday, and offers a variety of light breakfast items, soups, salads, sandwiches, fabulous deserts and non-alcoholic beverages. And if the idea of in-room dining is appealing to you, fear not, as room service is available 24 hours a day, seven days a week.

Assorted Highlights

If shopping is what you're interested in, well, you guessed it—New Orleans has that, too. New Orleans overall, and the French Quarter in particular, include all kinds of little shops containing treasures that you may not have known even existed. Everything from antique munitions, to cooking supplies, to designer furniture, to the supernatural (from the Historic Voodoo Museum shop) can be found in the French Quarter. Jackson Brewery, located on the river, is in the middle of the

New Orleans jazz trio. © Susie Leavines

French Quarter, and features 75 shops and restaurants. The Riverwalk includes 140 places to spend your money, with a nice balance of retailers, traditional and unique.

New Orleans is also home to one of the finest aquariums in the country. The Aquarium of the Americas, located where Canal Street hits the Mississippi River, recreates the aquatic environs found in the Western Hemisphere—Caribbean Reef Environment, Amazon Rainforest Habitat, Mississippi River and Delta Habitat. The Aquarium is home to more than 7,500 specimens of marine life, representing 420 species.

If you've got an appreciation for live oak trees, you won't want to miss City Park. Ancient live oaks provide a lush canopy for this urban park, the fifth largest in the country, where, in earlier times, duels were fought. The park is home to the New Orleans Botanical Gardens, with its Art Deco fountains and native Louisiana flora. If you're traveling with children, they'll enjoy the Carousel Gardens, an amusement park known for its antique wooden carousel and miniature train.

The Farmer's Market, once used by Choctaw Indians as a trading post, is open 24 hours a day, and is the country's oldest public produce market. It features the best of local and imported fruits, vegetables, seafood and spices. If you're there early, don't be surprised to run into the chef that prepared your dinner the night before. The Farmer's Market is located by the French Quarter Market Place, which itself is also home to a vast flea market, open seven days a week.

Outside of the city, history and architecture buffs will appreciate a visit to historic homes and plantations. Popular sites include Houmas House Plantation, built in 1840. Nestled in a bend of the river, the plantation is still a frequent stop for steamboats cruising their way up-river as in by-gone days when Houmas House was the prime producer of sugar cane in America. Up-river from Houmas House, Nottoway Plantation, built in 1865 by a sugar cane planter, covers 53,000 square feet making it the largest antebellum home in the South. Saved from destruction during the War Between the States by a Northern soldier, and restored in 1980, it is one of the finest restorations in the area. Its massive ballroom, one of 64 rooms in the house, runs the length of Nottoway and is known as the white ballroom. The structure is adorned with crystal chandeliers, two white marble hand-carved mantels, Corinthian columns and intricate and lacy plaster freize-work.

Another "must-see" in the famous Garden District of New Orleans. Amidst lush foliage, mansions, with leaded glass doors, balconies and stately columns, are often surrounded by picturesque iron fences. Surrounding these prestigious residences, are gardens with magnolias, oak trees, azaleas and camellias, fragrant sweet olive and jasmine. A stroll through this residential area will give you glimpses of the homes of prominent New Orleanians, many of whom have reigned as kings and queens of Mardi Gras. Within the Garden District, visitors will see Lafayette Cemetery, with the unique above-ground burial vaults. Many of the early settlers, victims of the dreaded yellow fever epidemic, are buried there.

Rest assured that a city that is so intent on enjoying the finer things in life has its share of golf courses and tennis courts. The NAWC Golf Tournament will be held on Sunday morning at the Bayou Barriere, owned by current PGA Senior Touring Pro Jim Colbert. An NAWC tennis tournament will also be held.

Registration Materials

The activities provided by our host city are supplemental to a full-slate of professional sessions and seminars, linked to NAWC's Centennial theme, "100 Years of Excellence." So be sure to block October 29 through November 2 on your calendar,

Cafe au lait and beignets.
© Ron Calamia

and keep on the lookout for registration materials, which will be distributed in July. In the meantime, count down the days until you can join us to "Pass a good time," as the Cajun people would say.

Cajun man with crawfish.
© Ron Calamia

Regionalization, *continued from page 23*

these ventures. Clarence Cannon Wholesale Water Commission, as successful as it is, took nine years to develop, and that was the result of a community leader willing to push hard for its success. You can readily see how much more time it might take to get several communities together and cooperate to form a large regional water district, whereas a private company would need only to sell its program to individual city councils and water district boards.

The Department of Economic Development, of which the PSC is a part, did a study in the various regions of the state this past year regarding rural water systems. Joe Lopez of that department did the study and wrote the *Final Report of the Rural Water Systems Project.* [3] It describes problems and the need for regionalization, and contains some very useful information that can be used to promote regionalization or consolidation of water systems.

One thing that should be mentioned is the interconnection of small water systems where it is practicable. This is another form of consolidation in that systems that are physically connected can help each other meet the needs of their customers. A likely place for this to be a possibility is found in the Ozark region of the state where high quality ground water is abundantly available. Wells can be drilled at reasonable distances apart which allow distribution systems to be interconnected, thus allowing multiple sources of supply. Interconnection of small systems to large systems for emergency use is also practical in some cases such as subdivisions in proximity to a larger city. Pressure reducers and backflow prevention may be needed in such situations.

To summarize, there is a great need for regionalization of water supplies in parts of the state. In other parts of the state, there is a need for consolidation of management and operation. In areas of the state where small private investor-owned water systems are concentrated, there is a need for a consolidation of ownership. The State has a group of regional planning Commissions. The people in those agencies, being familiar with problems in their area, could be very helpful in establishing regional water systems. They would also know where management and operation consolidation is needed. The Staff of the Water and Sewer Department of the PSC will know where consolidation of ownership or management of investor-owned water systems is needed.

Perhaps it will require new legislation to accomplish this. Communities need to cooperate, and the State needs to take some action to promote regionalization, otherwise there will continue to be many nonviable water systems, and in some areas poor quality water available to some customers and high quality expensive water available to others. Proper planning can benefit the entire area. In order to benefit the taxpaying citizens, public funding of water systems by the state should be determined based on regionalization of consolidation as discussed where it is needed and is practical.

Footnotes

[1] U.S. Environmental Protection Agency, Memorandum to Drinking and Ground Water Protection Branch Chiefs, Regions 1-10, from James R. Elder, Director, Office of Ground Water and Drinking Water.

[2] Small Systems—Uniting to Become Stronger by Elizabeth Grove, CCWWC, and Harry Morrow, JMM Operational Services, Inc.

[3] Department of Economic Development, Final Report of the Rural Water Systems Projects, February, 1995.

Testimony of the National Association of Water Companies before the Subcommittee on Government Management Information and Technology Concerning Privatization Impediments and Codification of Executive Order 12803

presented by
Donald L. Correll
Chairman and Chief Executive Officer
United Water Resources

March 14, 1995

Good morning Mr. Chairman and members of the Subcommittee. My name is Don Correll. I am Chairman and Chief Executive Officer of United Water Resources, an investor-owned water utility holding company which provides water service to two million Americans in 14 states.

I am also a member of the Board of Directors of the National Association of Water Companies (NAWC) and Chairman of its Government Relations Committee. The National Association of Water Companies is the trade association representing the nation's investor-owned water utilities. We recently celebrated our 100th Anniversary as an organization, with many of our members having been in business for even longer periods. Our 380 members in 41 states provide safe, reliable drinking water to over 22 million Americans every day.

By contrast, approximately 80% of the population in the United States receives its water service from various governmental agencies and authorities. For wastewater services, the percentage of governmental ownership is greater than 95%. Many of these municipal water and wastewater systems have aging infrastructure and are now facing the daunting task of comply-

ing with the mandates of both the Safe Drinking Water Act and the Clean Water Act. All of these factors are placing enormous strains on the funding and technical capabilities of many systems. EPA's 1992 needs survey estimates that the Clean Water Act will cost federal, state and local governments $137 **billion** over the next 20 years. This was $57 billion more than the 1990 estimate. Further, an estimated $49 billion will be required to meet the requirements of the Safe Drinking Water Act through the year 2000. To address these growing financial responsibilities, government systems across the country are exploring various privatization alternatives, often with NAWC companies. However, while exploring privatization, localities regularly encounter legislative and administrative obstacles. My company and the other members of the NAWC have the experience and resources to professionally operate first class water and wastewater facilities. The private sector has proven that it is capable of providing safe, reliable drinking water to the public in an efficient manner.

For these reasons, on behalf of all the members of the NAWC, I applaud this subcommittee's efforts to investigate the issues affecting privatization and am pleased to be able to offer this testimony.

The NAWC members have encountered many privatization impediments, some of which have existed for many years. Understandably, resolutions of these problems may fall under the jurisdiction of many different committees. However, I will briefly describe the significant issues for your information and elaborate on those which may be within the purview of this subcommittee.

Summary of Issues

POTW—Publicly Owned Treatment Works. The regulatory requirements for municipally-owned treatment facilities are less stringent than those for industrial dischargers. Due to how facilities are defined, this has resulted in confusion when a private company assumes ownership of a municipal facility or POTW. This confusion has existed since enactment of the Clean Water Act **in 1972**. The NAWC supports a uniform definition of a POTW based on purpose rather than ownership within the Clean Water Act Reauthorization to facilitate private sector investment in wastewater treatment facilities.

CIAC—Contributions in Aid of Construction. Investor-owned water utilities are taxed on capital contributions from developers for system expansion. This tax creates competitive advantages for government systems and indirectly discourages privatization efforts.

The NAWC has sought relief of this provision **since 1986** and supports H.R. 957 sponsored by Congresswoman Nancy Johnson which would repeal (and pay for) this tax.

Rev. Proc. 93-19. This IRS ruling severely limits the abilities of governmental bodies to contract with private operators for water and wastewater management services. It limits the term of the management contract to periods of three years if tax-exempt debt of the government entity is outstanding. This time limit precludes significant investment by private contractors to attain operating efficiencies or to make system improvements. The NAWC is currently both working with the Administration to address this concern and pursuing a possible legislative remedy. Congressional attention to timely resolution of this matter would expedite privatization activities.

USC Section 1926 (b) This section of the U.S. code was written in 1961 to give protection to rural water associations in repaying Farmers Home Administration Loans. It has since been broadly interpreted to provide complete protection against competition regardless of whether the integrity of the loan is in any way jeopardized. Though this was not the legislative intent of the provision, it has proved to be a significant impediment to privatization efforts in rural areas. The NAWC supports not only the repeal of this provision but opposes any attempts to extend it into other areas.

Executive Order 12803

This Order issued by President Bush in **1992** was designed to facilitate the sale of government facilities that had received funding through federal grants.

Many municipal drinking water systems and most wastewater systems were financed during the last several decades in whole or in part with federal grant money. Grant repayment conditions are imposed by the Office of Management and Budget (OMB) if the facility is sold or leased. The presumption by OMB is that the asset's use would change with private ownership. However, unlike housing and other general purpose structures, water and wastewater facilities are almost never converted to some alternate use.

Executive Order 12803 requires the local government to repay the undepreciated portion of the grant. The local government, however, is allowed to recover its costs before any funds are used for grant payback. The Executive Order also places restrictions on the use of proceeds received by the city as a result of the sale or lease. The Executive Order directs federal agencies to adopt rules to carry out its requirements. To date, implementation has been very disappointing and clearly has not achieved the order's intent of streamlining privatization efforts.

The NAWC supports legislation to codify an improved version of Executive Order 12803. Under the plan as envisioned:

1) A city would not be obligated to repay federal grants provided the grant-funded facility continues to be used for its original purpose. Long-lived investments in water and wastewater facilities that continue to be used as such should not require repayment.
2) Local governments could use the proceeds it received as a result of the transfer without the restrictions found in Executive Order 12803.

The water service business is perhaps the most basic of enterprises. That is why it is often taken for granted. But continued economic growth or other larger high-profile privatization ventures likely presented before this subcommittee will be academic discussions if aging government infrastructure concerns remain unresolved. Examples of increased water supply and operating problems, including here in Washington, D.C., have been reported in the media with increasing frequency in recent years. Support for private sector participation in this basic service is vital.

Mr. Chairman, on behalf of the NAWC, we stand ready to assist this subcommittee in its endeavors to promote privatization activities, and I am grateful for this opportunity to testify before you today.

Regionalization/Consolidation of Water Systems in Missouri

by Bill L. Sankpill and James A. Merciel, Missouri Public Service Commission

presented at the Missouri Section and Kansas Section AWWA Joint Conference, April 5, 1995, Kansas City, Missouri

Regionalization and consolidation of water systems is not a new idea. It has been going on for a long time. However, today, with the advent of the demands of the Safe Drinking Water Act (SDWA) as amended in 1986, combined with the fact that many water systems are 80 to 100 years old, a great number of water utilities are operating with inadequate systems. Water systems which may have been well designed and "state of the art" when they were new may now be inadequate to meet water quality and demand requirements. Water utilities with such systems may need to rehabilitate or even replace source of supply facilities as well as distribution mains, valves and hydrants. This is basic water system infrastructure replacement, and the issue has nationwide attention.

In northeast, north-central, northwest and west-central parts of Missouri, ground water is very scarce or not available at all. The sources of supply for most of these areas are either shallow wells or small surface reservoirs. It is going to become very expensive to treat water from these supplies to meet new drinking water standards. Thus, the need exists for the development of regional water supplies. Available sources of water include the Missouri and Mississippi Rivers, the alluvium along these rivers, U.S. Army Corps of Engineers reservoirs, or other relatively large impoundments. In these areas, a reliable, good-quality and adequate source of water, which can be treated at a reasonable cost, is available to supply water to service areas the size of several counties.

What are the pros and cons of such a regional water supply? The pros are as follows:

1. Will provide a reliable, adequate, quality source of water supply;
2. Will make a public water system available to more people, and encourage long-range planning;
3. The fixed costs of operations are spread over a large customer base;
4. The larger regional suppliers can afford to hire a higher level of expertise and maintain a larger work force;
5. Additional capacity provides another incentive for economic development;
6. Local officials are not burdened with meeting State and Federal standards applicable to source of supply;
7. Allows capital to be freed up in the small systems, which can then be used to improve distribution system infrastructure;
8. Frees up bonding capacity of small municipalities, which can then be used for other infrastructure needs such as streets, storm sewers, etc.;
9. Provides an avenue for the state to assist local communities to cooperate for funding eligibility, encouraging long term areawide planning;
10. Provides common goals for communities;
11. Requires less oversight of compliance review monitoring; and
12. Provides a good avenue for private-public partnerships.

The cons include:

1. Some local control is lost;
2. Small systems must meet requirements of the regional system such as pressure and hydraulic requirements;
3. Rates will be increased, though not as high as for improvement of individual systems;
4. Will require additional meetings and coordination activities to plan and implement regional systems; and,
5. The "fear of change"—from the point of view of customers, and from utility officials and employees.

A significant "fear of change" aspect of regionalization is impact on local jobs. The operator of a water plant eliminated by regionalization may experience a negative impact. A similar impact could be experienced by a utility manager or public works director. However, there are two points that need to be addressed. One is consideration of the positive impact regionalization can have on the entire community. Elimination of one or more jobs in the community unfortunately is something that must simply be weighed with all other considerations and not made an emotional issue. Still, it may be an emotional issue to some citizens and local officials need to keep this point in mind when making their decisions. But the second point is that changes resulting from regionalization would not always negatively impact local jobs. For example, the local operator may well have the opportunity to work in a new, well-designed facility instead of struggling with the old plant. Or, perhaps, the utility or community would decide to retain its people to work on other pressing matters such as distribution or other municipal services, especially if additional funds become available as described earlier. It may be human nature to fear change in our lives, whether it pertains to our jobs or our utility rates, but we must keep an open mind and objectively evaluate the possibilities in order to serve our communities and ourselves in the best manner.

Viability, a popular buzzword in the small water supply field, is a good reason for regionalization of water systems, since many small systems are not viable as stand-alone operations. Some small private utilities, for example, are not viable without being operated along with a real estate or development business; some small municipalities could not operate a water utility without also providing additional city services. Regionalization of the source of supply can relieve a great deal of the burden on nonviable utilities. Besides regionalization of supply, consolidation of utilities provides the same viability advantage. Consolidation can either be limited to management and/or operation of sev-

eral small water systems, or in the case of private investor owned water systems, it can be a consolidation of ownership.

It is difficult to talk about regionalization without also talking about privatization, which could mean a transfer of ownership of a publicly-owned utility, or merely utilizing a contractor for day-to-day operation and/or management. Privatization of public-owned utilities is a topic of discussion all by itself. We will save that for another time except to say privatization could go together with regionalization, and also to talk about private-public partnerships. One might ask how private-public partnerships will be promoted by regional water systems. The answer is privately-owned or investor-owned utilities are certainly in a position to plan and implement regional water systems.

If there is a need to develop a regional plan, large privately-owned water companies have the expertise and the financial resources to do this planning. With some incentive, we believe some of these companies would be willing to do these kinds of studies. Of course, they must have an opportunity to recover the cost sometime in the future. Most county governments and small cities do not have the funds or the expertise, at least not without outside funding and hiring of consultants. The State may have to take the lead in encouraging these regional studies.

Large water companies also have the funds and financial backing to construct regional treatment plants and transmission mains. Most of them are involved with regionalization today by being wholesale suppliers. They are likely to be willing to do this provided they can earn a reasonable return on their investment and have the cooperation of communities or other smaller private water companies to be served. Of course large public-owned water utilities can and do supply water wholesale as well if, again, they can recover money invested in plant and have the cooperation of communities and small companies served.

Another way private-public partnership works is the private companies can provide operations and/or management for public owned regional water systems. Another real advantage of utilizing management and operation by a large privately-owned water company is that these companies generally have national contacts to purchase pipe, meters, valves, etc. This can be a real economic incentive to a community.

State and Federal financing could be limited to communities that are willing to be a part of a regional plan where it is deemed necessary. There is indication the Federal government is already promoting this. As an example of the Federal Government's activity in this regard, a memo was sent to the Drinking Water and Ground Water Protection Branch Chiefs, Regions 1-10 of the EPA [1] from James R. Elder, who was then Director, Office of Groundwater and Drinking Water. It was received at the Missouri Public Service Commission on July 29, 1994. The memo basically promotes the concepts of regionalization and consolidation, as well as looking at the viability of any system to be funded. State planning agencies may want to think seriously about how they might fund some of the transmission main that might not be feasible with private or other public funding because of the capital cost.

Clarence Cannon Wholesale Water Commission is an excellent example of a way to develop a regional water supply system and how a private company can operate the system. Elizabeth Grove, General Manager of the Clarence Cannon Wholesale Water Commission, wrote a paper about the development of that regional system [2] and presented it at the AWWA National Conference in New York last year. Operating at the Mark Twain Lake in northeast Missouri, Clarence Cannon Wholesale Water Commission is an entity comprised of thirteen member-customers at present, all of whom are small municipalities or rural water districts. It has a 4.5 MGD plant and about 155 miles of transmission main supplying water in seven counties. That regional utility was well organized. It will satisfy a large portion of the water supply needs in northeast Missouri. The contract operator is JMM Operational Services, Inc., from Denver.

There are two private companies in Missouri each of which own and operate a water treatment facility and supply water only as a wholesale supplier. One has two water districts and the other has two cities as customers. There are numerous additional examples of municipalities, water districts, water companies, and contract operators, large and small, working together to provide good water service to their customers. Private-public partnerships do indeed work.

We started by talking about the regions of the state where regional water systems are most needed. However, there are several areas in the state where there are small systems, either privately-owned or municipally-owned, that could benefit by regional management and operation or consolidated management and operation. We believe the same pros and cons apply to these situations. There are several large private companies that have expressed a desire to either consolidate the ownership of several small companies or provide the management and operation under contract. The management and operation of small municipally-owned systems is a real possibility as well. Here again, we believe some encouragement by the state will result in more consolidation, which will in turn result in better water quality, reduce lost water, and improve service to the customers. Several smaller utility/operations firms have already accomplished consolidation work. Consolidation is not always a smooth road. Taking the action required to improve run-down facilities, implementing more aggressive operations, the resulting rate increases, and sometimes even circumstantial events cause hard feelings and personality clashes to emerge. Customer service may suffer if the operator, owner, or manager is not careful to keep the proper perspective under such circumstances. Still, our experience shows water service is much improved, even if more expensive.

Consolidation of operations in most areas, from a practical standpoint, may inherently need to be a public/private partnership because a municipality may not be legally in a position to contract with another city or public utility to manage and operate the water system. Possibly a large regional water district could be developed for the purpose of providing this type of service. However, we believe it could usually be done quicker and more easily by a private company, and public-owned utilities need to consider the possibility. As mentioned earlier about the pros and cons of regionalization, it takes a lot of cooperation and meetings to plan

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The Financial Challenge of Water Utilities

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INTRODUCTION

The Pennsylvania Public Utility Commission (PUC) recognizes the economic and financial impacts that the Safe Drinking Water Act of 1974 and subsequent amendments have on its jurisdictional water utilities.

Current and future requirements of the Safe Drinking Water Act (SDWA) present a major challenge to Pennsylvania water systems and regulators. In response, the Commission has undertaken a broad and proactive initiative to identify the specific economic and financial issues concerning water utility regulation and to provide solutions or opportunities for change.

From an economic and financial point of view, water utilities are vastly different from the electric and natural gas industries. These differences are even more pronounced when the economic impact of the SDWA is taken into account. Throughout this report the differences between the water industry and the energy utilities will be highlighted.

The electric and natural gas industries face critical issues in the 1990s, but water utilities face far more serious problems. Unlike the energy utilities that have available millions of dollars of internally generated funds for financing large capital investments, water utilities are small and economically disadvantaged by comparison. Water utilities are relatively more capital intensive than the electric and gas counterparts. Having inadequate levels of internally generated funds, water utilities are forced to finance most of their huge capital debts in the marketplace.

In Pennsylvania there are 2,800 community water systems. The Commission regulates 258 or 9.2% of these systems, which include private water utilities and portions of 80 municipals. Most of the jurisdictional water systems are small; about 236 or 91.5% of all jurisdictional water systems serve populations of less than 10,000.

To address the specific problems and opportunities of small water companies, the Commission mobilized its bureaus: the Bureau of Conservation, Economics and Energy Planning; Office of Special Assistants; the Bureau of Consumer Services; Law Bureau; Safety and Compliance; Office of Trial Staff; Commissioners Offices, and Bureau of Public Liaison. This group developed a cooperative partnership with the Pennsylvania Department of Environmental Resources (DER), the Pennsylvania Infrastructure Investment Agency (PENNVEST), the Office of Consumer Advocate, the State Legislature and water companies. This year, the Commission released for public comment a draft Comprehensive Plan for Water Industry Regulation, an action-oriented guide for achieving dramatic regulatory and ratemaking changes. Continued research has revealed that many of the same economic and financial problems faced by the small water utilities also apply to the larger revenue-producing water utilities.

This study of the financial challenges facing water utilities begins with a profile of Pennsylvania water companies, identifies their capital needs for the next twenty years, addresses their financial condition and the major regulatory issues impacting water utilities' economic status. The paper concludes by offering prospects for future planning.

PROFILE OF THE PENNSYLVANIA WATER INDUSTRY

The U.S. Environmental Protection Agency and DER identify the size of community water systems by population served. For example, a small system is one

that serves a population of less than 2,500. The Pennsylvania Public Utility Commission determines the size of a water company by a class system based on total annual operating revenues, e.g. a small water utility is a Short Form (SF) utility with a total operating revenue of less than $5,000. Table 1 presents a summary of water utilities regulated by the Commission by number of customers and total operating revenues.

It is important to state that, while we do not necessarily disagree with the EPA or DER's definition of a small water system, the Commission takes into consideration the net plant investment in addition to the number of customers served and total operating revenues.

In Pennsylvania, there is a total of 2,800 water systems; only 258 or 9.2% of these are regulated water systems. Many of the nonregulated water utilities are managed by special purpose districts, authorities or nonprofit water companies.

Fifty three or 20.5% of the total jurisdictional water utilities in Pennsylvania operate within municipal authorities. Not counting municipalities, there are approximately 186 or 72.1% of the total regulated water utilities that have annual revenues of less than $750,000. Only 15 or 5.8% of all regulated water utilities are the larger, Class A companies. The largest Class A water utilities serve approximately one fifth of the state population (based on an estimate of 2.6 persons per customers served), so most regulated water utilities are small operations. In fact, in every respect, all of Pennsylvania's water companies are quite small for utility operations. For comparison, consider that the largest water holding company in Pennsylvania has gross assets of $655 million.

Table 2 compares aggregate net plant investment with gross revenues for the water, gas and electric utilities in Pennsylvania for 1993.

Table 2 shows that water utilities' total annual revenues are $395 million—a small statistic, considering it is about 19% of the total net plant investment of $2 billion. The gas utilities' revenues are one billion dollars or approximately 16% of their net plant investment. Table 2 also displays

TABLE 1
Classification of Water Systems by Customers & Revenues

CLASS	CUSTOMERS	REVENUES
Class A	894,750	Over $750,000
Class B (New)	62,905	$100,000–$750,000
Class C	14,782	$5,000–$50,000
Short Form (B)	620	Under $5,000

Note: Municipalities are not included in Table 1 data.

TABLE 2
Pennsylvania Utility Net Plant Investment vs Revenues (1993)

INDUSTRY	NET PLANT	REVENUES
Electric	$22 billion	$11 billion
Natural Gas	$3 billion	$2 billion
Water	$2 billion[1]	$395 million
Total	$27 billion	$13 billion

Source: Pennsylvania Public Utility Commission 1993 data
Notes: (1) Best estimate data (rounded off) based on Class A, B and C companies' reported figures. Municipalities not included.

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electric utility revenues. The electric utility revenues are $11 billion or 50% of their total net plant investment. The electric utilities revenues are nearly 28 times the revenues of water utilities.

Table 3 presents a percentage breakdown of fixed cost ratios for the water, natural gas and electric utilities in Pennsylvania. Fixed cost ratios provide a strong measure of economic efficiency. Fixed cost ratios show how many revenue dollars support fixed costs required to deliver one unit of product, i.e., a gallon of water, one mcf of gas or one kwh of electricity.

Table 3 shows that water utilities spend more dollars to deliver one gallon of water than the gas or electric companies spend to produce one thousand cubic feet of gas or one kilowatt hour of electricity.

CAPITAL NEEDS FOR 1990-2010

There is significant need for capital investment by water utilities in order to bring about full compliance with the SDWA, and water utility standards and enforcement are getting more complicated and expensive each year. Sources of supply are under greater scrutiny, and filtration and open reservoir cover requirements are only two examples of capital needs which apply to surface sources only. There are approximately 83 maximum contaminant levels or MCLs that water utilities must monitor and test for, and the numbers of MCLs will grow over time. Water utilities have to comply with DER's and include engineering specifications for the construction of treatment facilities.

In a related action affecting water utilities' capital needs, the Rural Development Administration (RDA) has recently issued a national policy stating that loan and grant funding only be made available to viable water systems. RDA calls upon the State Farmers Home Administration to coordinate viability assessments and funding decisions with State officials to determine that the system "has the financial, technical, and managerial capability necessary to consistently comply with the SDWA or Clean Water Act and pertinent State requirements."[1]

Additionally, the water utility infrastructure in Pennsylvania is deteriorating–not necessarily a product of age, but, nevertheless, costs of replacing transmission and distribution lines are growing daily. One study indicates that between 70% and 80% of total infrastructure expenses will go into water distribution systems at an estimated cost (1980s) of $110 million.[2]

The current aggregate cost of SDWA compliance in Pennsylvania, including replacement of infrastructure, is $1.8 billion. As stated previously, water utilities are small, with a total net plant investment in 1993 of $2 billion as compared to $22 billion for the electric utility industry. Water utility operation and maintenance expenses for the next ten years is estimated at $519 million; their 1993 combined annual revenues were only $395 million.

In contrast to the water utilities' capital needs, it has been estimated that the aggregate cost of the electric industry's compliance with the federal Clean Air Act Amendments of 1990 is $2 billion. The 1993 total annual net plant and revenue for the seven major Pennsylvania electric utilities was approximately $22 billion and $11 billion, respectively. The projected O&M expense for the electric industry is estimated at $250 million. This data shows that water utilities face a tremendous financial challenge in the 1990s and beyond.

The Pennsylvania Public Utility Commission has greatly assisted the water industry, but more needs to be done. Regulators need to keep in mind that water utilities compete with the electric and gas utilities for capital. When it comes to borrowing money, the financial industry prefers to lend money to the most profitable industry. Currently, the electric and gas industries are perceived to be more profitable. It is, therefore, important for regulators to view water utilities the way Wall Street views them.

THE FINANCIAL CONDITION OF PENNSYLVANIA WATER UTILITIES

There are six important factors that should be examined when reviewing the financial status of water utilities:

1. Internally Generated Funds
2. Cash Flow From Depreciation Rates
3. Ratio of Dividend Payout to Net Income
4. Capital Expenditures and Relationship to Revenues and Depreciation
5. Pre-Tax Interest Coverage
6. Realized Return on Common Equity (ROE)

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

Internally Generated Funds

Internally generated funds are defined as retained earnings, depreciation, deferred income taxes and other sources such as operating cash flow. Records show that for 1989 through 1992, water utilities have generated less cash internally than the electric utilities. Table 4 provides the aggregate financial data for the major Pennsylvania electric, gas, and water companies for 1989 to 1993.

Without regulatory changes, water utilities will continue to experience difficulty in generating cash from internal sources. For the next ten years, water utilities will continue to rely on external financing in order to meet the requirements of the SDWA. With the exception of West Penn Power, electric utilities in Pennsylvania are able to meet the requirements of the federal Clean Air Act Amendments (CAAA) with internally generated funds.

Cash Flow From Depreciation Rates

Another important distinguishing financial factor for comparing Pennsylvania water utilities and energy utilities is the ability to generate cash through depreciation rates. A comparative analysis of major utilities' annual depreciation rates for 1993 shows that water utilities again fall short of the regulatory treatment of the electric companies. In 1993 the rate of depreciation for water utilities was 2.46%, compared to 84.90% for electricity. A significant generator of cash flow for the electric utilities, depreciation rates for water utilities have been a disincentive to investors. Depreciation terms have spanned longer periods for water utilities. Table 5 presents aggregated financial data concerning the depreciation dollars received by the major water and energy companies in Pennsylvania.

TABLE 4
Internally Generated Funds for Electric, Gas and Water Industries
(In cash and cash equivalents: $ Thousands)

	1989	1990	1991	1992	1993
Electric	$171,770	$93,946	$143,166	$90,878	$69,389
Gas	89,400	205,500	260,200	206,900	196,400
Water	75,621	65,586	92,145	83,446	81,402
Total	$336,791	$365,032	$495,511	$381,224	$347,191

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

TABLE 5
Cash Flow from Depreciation Rates for Electric, Gas and Water Industries
($ Thousands)

	1989	1990	1991	1992	1993
Electric	$634,537	$910,106	$997,654	$978,173	$1,041,462
Gas	80,996	85,483	110,256	116,794	105,030
Water	18,075[1]	24,501	27,716	31,121	35,857
Total	$733,608	$1,020,090	$1,135,626	$1,126,088	$1,182,349

Source: Pa. Public Utility Commission; water data includes Class A and B utilities only.
Note: [1]National Association of Water Companies' records.

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TABLE 6
Ratio of Dividend Payout to Net Income for Electric, Gas and Water Industries (%)

	1989	1990	1991	1992	1993
Electric	78.50%	93.40%	70.40%	75.90%	80.00%
Gas	69.60%	129.70%	79.30%	80.00%	75.80%
Water	68.28%	107.92%	76.72%	76.28%	72.72%
Average	72.13%	110.34%	75.47%	77.39%	76.17%

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

TABLE 7
Capital Expenditures[1] for Electric, Gas and Water Industries ($ Millions)

	1989	1990	1991	1992	1993
Electric	$26,048	$31,244	$26,700	$31,503	$32,589
Gas	3,045	3,248	3,477	3,549	3,836
Water	N/A	1,050	1,501	1,609	1,780
Total	N/A	$35,542	$31,678	$36,661	$38,205

Source: Pa. Public Utility Commission; water data includes Class A and B utilities only.
Notes: [1]Does not include leased capital expenditures.
N/A Not Available

Dividend Payout Ratios

The ability of a company to pay out high dividends is very important to stockholders. During the 1970s and 1980s, when the electric industry was involved in the construction of generating units, many utilities experienced difficulty paying out dividends to stockholders. State Public Utility Commissions were under pressure to approve frequent and significant rate requests to assist utilities in payments of dividends. In the 1990s, we see the water industry asking for frequent and significant rate increases to pay for construction projects required by the SDWA and to improve infrastructure.

A comparative analysis of dividend payout to net income for 1989 to 1993 was conducted for the energy and water utilities. Table 6 presents aggregate financial data on the dividend payout ratios as a percent for the major electric, gas and water industries in Pennsylvania.

On the basis of dividend payout ratios, water utility stockholders are getting as high a return as the stockholders of local distribution companies (LDCs) and electric utilities. This analysis raises a very fundamental concern: Why are investors less likely to lend capital to water utilities? Our response to this is that water utilities are perceived to be more risky than other fixed utilities because of the SDWA and their low rate of depreciation.

It is important to restate that water utilities are constantly competing for capital

with the natural gas and electric utilities. The dividend payout ratios apparently are not the reason why investors are keeping at "arms length" from the water utilities.

Capital Expenditures

As discussed earlier in this study, water utilities are small when compared to the electric utilities. The total net plant investment is $2 billion for water utilities and $22 billion for electric utilities; yet, water utilities are spending a substantial amount of capital relative to their small size.

Table 7 gives the aggregated financial data on capital expenditures for the major electric, gas and water companies.

Table 7 shows that in 1990, capital expenditures for water companies were about $1.1 billion. In 1991, capital expenditure increased 42.9% to about $1.5 billion, then increased annually by 7.2% and 10.6% in 1992 and 1993, respectively.

By comparison, the electric and gas utilities had higher capital expenditures than water utilities over the same period of time. However, an examination of data for revenues and ratios of capital expenditures to revenue illuminates a more accurate picture of the financial condition of the utilities. Table 8 presents aggregate financial data for annual operating revenues for 1989–1992 for the major electric, gas and water utilities.

In Table 8, revenues for 1990 through 1993 for the electric companies consistently exceed water utility revenues by at least twenty-nine times. Gas company revenues exceed water revenues consistently over the same period by at least six times. Table 9 provides the ratio of capital expenditures to revenues for the major electric, gas and water companies.

In Table 9, we see that for 1990 through 1993, water utilities have been spending three to four times their annual operating revenues on capital expenditures. Compared to the electric and gas industries, water utilities have consistently spent increasing amounts on capital expenditures, whereas gas and electric utilities' capital costs rise and fall. The level of percentages in Table 9 highlights how dependent water utilities are on external funds for constructing capital projects mandated by regulators. The data also emphasizes the intense competitive pressure on all the major utilities to attract outside investors.

As we are concerned about availability of internal sources of funding for major

TABLE 8
Annual Operating Revenues for Electric, Gas and Water Utilities ($ Millions)

	1989	1990	1991	1992	1993
Electric	$9,279	$9,670	$10,511	$10,719	$10,661
Gas	2,233	2,098	2,725	2,850	2,389
Water	N/A	305	360	363	388
Total	N/A	$12,073	$13,596	$13,932	$13,438

Source: Pa. Public Utility Commission; water data includes Class A and B utilities only.

TABLE 9
Ratio of Capital Expenditures to Revenues for Electric, Gas and Water Utilities (%)

	1989	1990	1991	1992	1993
Electric	281%	323%	254%	294%	306%
Gas	136%	155%	128%	125%	161%
Water	N/A	344%	417%	433%	459%

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Challenge, *continued*

capital projects for utilities, we examined the actual aggregate data for depreciation and determined the ratio of depreciation to capital expenses for the major electric, gas and water companies for 1989 to 1993. In Table 10, the data reaffirms that between 1990 and 1993, water utilities have consistently had less internal dollars available for capital projects than their regulated counterparts. As a consequence, water utilities are captives of the external financial marketplace for locating capital investment dollars.

Pre-Tax Interest Coverage

To fully understand the financial status of water utilities, it is important to know that long-term debt will be the major source of capital needed to meet the requirements of the SDWA. **If an industry is going to rely on long-term debt, it is important for that industry to have good credit ratings.** A primary measure of long-term bond performance is pre-tax interest coverage. Pre-tax interest coverage is an important issue of regulators because it has a major effect on customer rates for many years into the future.

An examination of the pre-tax interest

TABLE 10
Ratio of Depreciation to Capital Expenses for Electric, Natural Gas and Water Utilities (%)

	1989	1990	1991	1992	1993
Electric	2.44%	2.91%	3.74%	3.10%	3.19%
Gas	2.66%	2.63%	3.17%	3.29%	2.73%
Water	N/A	2.33%	1.85%	1.93%	2.01%

TABLE 11
Pre-Tax Interest Coverage for Electric, Natural Gas and Water Utilities

	1989	1990	1991	1992	1993
Electric	2.8	2.2	2.8	2.9	3.3
Gas	N/A	N/A	N/A	N/A	N/A
Water	2.3	2.2	2.2	2.0	2.4

Source: Industry records; all water data from National Association of Water Companies' records.
Note: N/A Not Available.

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.

coverage for Pennsylvania utilities shows that the water utilities lag behind the electric utilities. Records for the past five years show that water utilities have consistently had lower coverages, with the exception of 1990 when water and electric company pre-tax interest rates tied at 2.2 percent. In 1993, the pre-tax interest coverages for electric and water were 3.3% and 2.4%, respectively. Although rates rose in 1993 over 1992 rates for both utilities, the comparative difference in rates still show that water utilities will continue to find it difficult to attract new investors. Currently, investors are indifferent as to whether they should invest in water or energy industries because their pre-tax interest coverages are close. Table 11 provides actual aggregated financial data for pre-tax interest coverage for the major electric and water utilities for the period 1989 through 1993.

Realized Return On Common Equity (ROE)

An examination of realized return on common equity (ROE) from 1989 through 1993 shows that the electric utilities earned higher annual returns than the gas and water utilities for four out of five years (see Table 12 below). In that five-year period, the electric utilities' ROE ranged between 9.0% and 13.2%; natural gas utilities earned between 7.1% and 11.5%. During the same period, water utilities earned between 9.6% and 12.2%, exceeding natural gas utilities' return in 1989, 1990 and 1991. Nevertheless, water utilities are at a disadvantage when competing for capital with the other utilities as noted in previous discussions. Investors are interested in companies that can provide them with the highest returns on their investments.

Historical data shows that those water utilities that have invested significantly in plant and facilities have generally underperformed water utilities that have spent little or no money on improvements to their systems. The irony is that all water utilities will face the difficult requirements of the SDWA and, if not this year, will find costly replacement and repair of transmission and distribution systems necessary in the following years.

THE SDWA AND REGULATORY ISSUES

In the last ten years, two very significant and interrelated events have occurred which had serious effects on the way water utilities provide service to their customers. The first of these events was the passage of the federal Safe Drinking Water Act of 1974. The second of these events occurred on June 19, 1986, when President Reagan signed into law Amendments to the Safe Drinking Water Act of 1974. These amendments made significant changes to the way public water suppliers treat and deliver water to consumers. The following is a chronological summary of the main provisions and new rules concerning the Safe Drinking Water Act as amended:

- In 1986, the EPA was given permission to establish 83 new drinking water standards within three years.
- Since water utilities are not able to demonstrate historically that certain chemicals are already monitored or regulated, Congress added a special provision in 1986 which requires water utilities to monitor unregulated contaminants. Monitoring of unregulated maximum contaminant levels (MCLs) will begin at the end of 1995.
- In 1987, eight new drinking water standards were established. These standards regulate volatile organic chemicals (VOCs).
- In June 1988, 40 new drinking water standards were established by EPA.
- In June 1989, 30 new drinking water standards were established by EPA. A minimum of 25 new MCLs are to be established every three years.
- On July 1, 1992, EPA established standards for 37 inorganic and synthetic organic chemicals. Formal monitoring of these chemicals began on January 1, 1993.
- EPA established secondary MCLs for aluminum and silver.
- On July 17, 1992, EPA prepared rules for 23 VOCs, pesticides and organic chemicals and monitoring requirements for these were implemented January 1, 1993.
- In 1994, the EPA proposed regulation of disinfection by-products. EPA is in the early stages of this work.
- CURRENT HIGH PRIORITY ISSUES: 1) Surface Water Filtration Criteria: 2) Lead Ban and Copper Rule; 3) Radon Rule; 4) Disinfection By-Products, and 5) Groundwater Protection.

The second significant event that occurred in the last ten years was the passage of the Pennsylvania Safe Drinking Water Act in 1986, which gave the Pennsylvania Department of Environmental Resources (DER) primacy for the 1986 federal State Drinking Water Act (Amended). The term "primacy" means that DER has the responsibility and legal obligations to implement and enforce all provisions of the federal SDWA.

Pennsylvania DER has implemented several programs specific to the State Safe Drinking Water Act. For example, permits are reviewed each time a public water supplier wants to build a water system or to make changes to an existing water supply source. DER has established many design standards that public water suppliers must meet in order to upgrade a plant. DER also requires public water suppliers to put in place emergency response plans, operation and maintenance plans and, in some cases, cross connection control plans. In addition to this, DER requires public water suppliers to update their distribution system maps every year. These maps must be sent to DER along with an annual water supply report. The objective of the report is to provide facts and data on operating conditions for the preceding year.

DER has very stringent regulations for implementing the SDWA. For example, public water suppliers are required to notify DER within one hour if the supplier fails to meet the limits of their regulations. Public water suppliers are to report to DER if spills or contaminations occur in any public system.

The economic impact of the SDWA is greatly effecting the financial condition of all Pennsylvania water utilities. In addition to the regulatory problems, water utilities are suffering disparate financial investment opportunity, as compared to the electric and natural gas utilities. Other problems of water utilities include economies of scale, low rates, lack of appropriate water technologies, lack of well-trained operators, droughts and other environmental impacts on adequate water supply. Regulators should expect frequent and significant rate requests from water utilities because their rate base and operating costs are growing faster than consumption over the next 15 years.

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PROSPECTS OF THE INDUSTRY

Where is the water industry going to get the capital to meet the requirements of the SDWA and DER? Will the industry be able to generate adequate interest by investors in order to attract new capital for meeting mandated requirements?

In review of our previous discussions of the financial challenges of water utilities as compared to the electric industry, Table 12 below summarizes the differences between the water and electric utilities in Pennsylvania.

Proposed Solutions to Water Utility Financial Problems

The proposed solutions to the financial problems of Pennsylvania water utilities apply to both regulatory oversight and ratemaking treatment. Following are the Commission's recommended solutions for addressing the economic and financial problems of its jurisdictional water companies:

- Encourage and foster the development of regional ties.
- Infuse capital into water utilities.
- Incorporate quality of service standards within the ratemaking process.
- Plan for and review the professional management of companies.
- Consider all sources of supply in rate cases, especially the possibility of a utility interconnection to a larger supply and/or another utility.
- Increase funding available through PENNVest loans.
- Reorganization.
- Simplify rate filings for the smallest companies.
- Develop alternative financing.
- Participate and conduct educational sessions.
- Require DER to testify in rate cases.
- Eliminate unnecessary information, eg. duplication of forms, irrelevant information in case proceedings, etc.
- Work toward increasing gross revenue limitations.
- Increase utilities' access to "Options" filings.
- Limit hearings to one round.

In order to address the financial challenges of water utilities due to the direct impacts of the SDWA, the following recommendations are proposed:

- Separate SDWA costs from other costs in rate cases.
- Establish a joint Task Force to include the Commission staff and staff at the State Department of Environmental Resources; the two regulatory bodies should plan and exercise an Info-Share process with all routine and special regulations.
- The Commission should develop a special surcharge for construction projects that are directly attributable to the SDWA.
- Consider shorter depreciation period for water utility investments in plant.

[1]Memorandum from James R. Elder, U.S. EPA Director of Office of Ground Water and Drinking Water to Regional Branch Chiefs, July 18, 1994.

[2]"Water Distribution System Performance Assessment," Presentation to Pa. PUC given August 1, 1994, by Dr. Arun Deb, Vice President, Roy Weston, Inc. Paper to be published by American Water Works Association.

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

Thank You, NAWC!

by Michael Baker

Thank you, NAWC! Though my thank you is tempered with a bit of remorse for no longer being able to be included in the ranks of its membership because of the recent sale of my company, I feel obliged to express my appreciation because my departure can be directly related to the association doing its job.

For someone to understand the value of my membership in NAWC, a brief description of my company is necessary. Lake View Park Water Works was built in the early 40's utilizing a surface water supply and constructed with water mains purchased used from the 1939 World's Fair. The original development was for about sixty homes, which grew to the current base of one hundred over the next ten years. In 1976, I purchased the system which coincided with the rapid deterioration of the pumping and distribution system. All I need to say about the next ten years is that they were very frustrating and unprofitable.

In 1986, with the urging of Don Glass, the NAWC New York Small Company Chairman, I broke from custom and spent a few extra dollars to join NAWC. It was the best decision I ever made for the company because, as it turned out, the jolting effect of the Safe Drinking Water Act was about to demand that Lake View Park Water Works become a much more sophisticated organization. Today we can reflect on our work and be proud to claim we did become a better company that had enough sophistication to see that our future was best served by trying to get out of the water business and claim some financial rewards for our effort.

Membership alone in NAWC was not a panacea in itself because we had to become involved in the organization to gain the benefits. Our first exposure to other members was in response to Don's invitation to come to a joint meeting sponsored by the New York Public Service Commission on coping with the SDWA. This meeting resulted in many other meetings which finally produced an important paper, and—more importantly—introduced me to the fruits of active NAWC membership.

Networking seems to be an often overused word, but my involvement with NAWC resulted in valuable associations that educated and matured me in the water industry. My first meetings lead to other projects that were spearheaded by Don Glass' replacement, David Ash. I became David's unofficial "Small Company Assistant" and became a committed member of NAWC which required many extra hours but allowed me to travel to Washington and Albany on many occasions.

From my numerous trips to PSC offices in Albany and New York, I met many people and built relationships with PSC staff and other NAWC members. This exposure built both knowledge and confidence in my management skills. In the end the realization that a small company like mine could survive and be healthy directly resulted from my association with NAWC. The added bonus was that I could control our destiny and sell my company for a fair price.

There is some irony in that the last NAWC/PSC project I worked on was a study of the viability of the small water company in the current regulatory environment. One conclusion was that some companies (perhaps like mine) are not viable and would be better off if they were taken over by a town or larger company. In the end my company was viable because I sold it for a fair price. Selling your business is a good demonstration of viability but, for me, if it were not for NAWC, the outcome could have been a lot different.

Again, thanks NAWC, you're a fine organization, one that any size company would benefit from. Though I am departing, perhaps my success will encourage another "little company" to join and reap the benefits I leave behind.

Executive Director's Report

by James B. Groff

Let me recall the ways—we've served our membership *lately*!

There is little question that since my last article in this esteemed magazine, a significant amount of my time, and that of staff, was devoted to the first event commemorating the 100th anniversary of your Association. Complicating the effort to insure that the evening of February 28 would be a success, was the Association's annual "Fly-In" and meetings of the NARUC and the NAWC's Nominating Committee, Executive Committee and Board of Directors, all of which demanded a certain amount of preparation.

Regardless, by all accounts, all events, to the great relief of yours truly, were widely acclaimed successes. In all, over 200 attended the black-tie optional reception and dinner, including 24 Members of Congress, 47 Commissioners and 67 of our members, as well as spouses and other guests. Forty of the Association's member companies sent 52 of their finest on over 160 appointments with Senators and members of the House of Representatives to not only improve their representatives' general knowledge of the investor-owned industry, but to also make them aware of a few of the industry's specific concerns.

The NAWC's Third Vice President, Floyd Wicks, in his capacity as the Chair of the Association's Committee on Chapters, hosted a breakfast for Chairpersons and members of the Executive Committee on the morning of February 28. All agreed that the quality of the exchange of information suggested that such meetings should occur on a regular basis. First Vice President Dungan strongly concurs and is setting aside time for additional dialogue of this nature to take place during the Association's Annual Conference in New Orleans, October 29 to November 2, 1995.

During a somewhat abbreviated Executive Committee meeting, President Jack McGregor led the deliberations on a host of subjects, not the least of which focused

on the Nominating Committee's suggested candidates for General Vice President and the Member-at-Large vacancy on the Board of Directors. As well as becoming apprised of the current status of such items as the Association's finances, membership, regulatory relations efforts and government affairs initiatives, the Executive Committee approved pursuit of language that would provide exclusion from tort claims for utilities that comply with federal and state water quality regulations.

At Jim Morris' invitation, Rep. David McIntosh (R-IN), Chairman, House Subcommittee on National Growth, Natural Resources and Regulatory Affairs, addressed the Board of Directors during their luncheon meeting the following day, and discussed his plans for his committee and some of the initiatives of the 104th Congress, touching upon the Republican's "Contract for America." During its business meeting, the Board heard representatives from the U.S. Chamber and Morgan, Lewis and Bockius speak on such issues as unfunded mandates, regulatory reform, product liability and privatization. Subsequently, they heard Tom Curtis of the National Governors' Association present an overview of the SDWA reauthorization efforts to date and Diane VanDe Hei and Tom Schaeffer of the Association of Metropolitan Water Agencies, discuss the "Partnership for Safe Water" proposal. Concern regarding the latter prompted the establishment of an Ad-Hoc committee, chaired by Past President Rich Tompkins, to investigate potential utility liability associated with such a partnership.

As is apparent, activities such as those described above don't just happen. There is a great deal of staff and member time devoted to arranging for facilities, preparing reference material, obtaining and coordinating speakers, etc., etc. In this regard, there are many to be congratulated, for it was their hard work and commitment that ensured the success of each of the above events. In this regard, I want to publicly acknowledge the contributions of each member of the staff to the success of the aforementioned and thank them for all that they accomplished.

The success of the Centennial reception and dinner was in part due to the setting in which it was held, the historic and exquisite Library of Congress, which is particularly beautiful at night. For the use of this facility, the Association is deeply indebted to Wilkes Coleman, who prevailed upon the former Minority Leader in the House of Representatives, Congressman Bob Michel, to sponsor our commemoration. We not only appreciate the Congressman's sponsorship, we also thank him for taking time from a very busy schedule to join us and speak to those in attendance. In addition, we are deeply indebted to the Librarian of the Library of Congress, Dr. James Billington, and his superb staff, who granted us use of the building and guided our work, and to the firm of Hayes, Domenici and Nunn, who so ably assisted all of our efforts.

While another event of the magnitude and nature of the Centennial reception and dinner is hopefully another one hundred years away, the impressive attendance by Members of Congress, NARUC's leadership and Commissioners from around the country, attests to the growing recognition of the Association and its members. Certainly, we all share in the responsibility to ensure that this very positive trend continues into the future.

Regulatory Relations Report

by Sharon L. Gascon

Late February brought not only strong winds to the Washington area, but also a swirl of activity for the Association. February 28 marked the evening NAWC held its anniversary celebration at the Library of Congress in Washington, DC. The event was specifically timed to coincide with the NARUC Winter Meetings and offered the maximum opportunity for regulators from across the country to participate in NAWC's celebration of 100 years of achievement. NAWC was honored by the attendance of nearly 100 public utility regulators, including NARUC's President, Bob Anderson, who accepted an award on behalf of the organization.

NAWC's President, Jack McGregor, presented the award to NARUC for their accomplishments in public service stating, "For over 107 years the National Association of Regulatory Utility Commissioners has untiringly served consumer interest by seeking to improve the quality and effectiveness of public regulation in America. Quite fittingly their motto is 'Dedicated to Public Service.' The Association, and particularly the NARUC Committee and Staff Committee on Water, has played an important role in issues that have a significant impact on the industry and the ratepayers it serves."

NARUC WINTER MEETING HIGHLIGHTS

With assistance from the National Regulatory Research Institute, NARUC regulators are meeting in April to address the questions of what qualities commissioners should have in the year 2000. Specific recommendations will follow and may include guidelines that address experience and other qualifications that should be taken into consideration prior to PUC appointment.

Several months ago, Jim Gallagher, of Southern California Water Co., addressed the subject of financing approval procedures with the NARUC Staff Committee on Water and the Finance and Technology's Subgroup on Finance. As a result, the Finance subgroup undertook a "Survey of Commissioner Practices Regarding Approval of Utility Financing."

(continued on next page)

Regulatory Relations, *continued*

The survey found that no problem existed in the majority of states responding with approvals normally processed in 30 days or less. Some state specific problems were found to exist, however. Commissions responding indicated that when there is a potential problem they are willing to work with the company to resolve it.

A copy of the survey can be obtained by contacting NAWC at 202/833-8383.

NARUC's Staff Committee on Water is presently preparing a White Paper discussing Single Tariff Pricing. John Williams with the Florida Public Service Commission, is the lead preparer. The paper should be available in July.

NARUC's Public Information Committee working with the U.S. Environmental Protection Agency, has published a brochure for ratepayers titled "Safe Drinking Water–Health/Safety Requirements and Resulting Costs." The brochure will be distributed to commissioners across the country to respond to ratepayers' questions regarding the SDWA and increasing cost of water service. For a copy of the brochure, contact NAWC.

During the winter meetings of NARUC, the organization reaffirmed its commitment to the repeal of the tax on Contributions in Aid of Construction and approved by resolution, the text of which can be found following this article.

HIGHLIGHTS FROM COMMISSIONS AROUND THE COUNTRY

• Study on Utility Executive Compensation Completed

The New York State Public Service Commission announced that it has received a consultant's study of executive compensation at the 12 largest stockholder-owned utilities in New York State. The *Report on Executive Compensation* supports the Commission's position that such compensation programs should be based on incentives designed to improve both executive and company performance in serving ratepayers.

While the Commission took no action with regard to the study, it indicated that information from the study may be used in individual utility rate cases to address executive compensation packages.

The purpose of the study was not to evaluate executive performances or to decide if particular compensation packages are reasonable. The study, which began in 1993, was designed to obtain data and gain an understanding of the utilities' methodologies in setting executive compensation programs of the chief executive officer and the next four most highly compensated officers from 1990 through 1993 at the 12 utilities.

The report cautions that just because an executive's or officer's package falls within a utility industry range of "average" or "median" compensation levels does not mean that it is justified. In fact, the study concludes that the basis for assessing the reasonableness of total compensation must go beyond simple comparative analysis and should include a host of other factors, including:

- an examination of the link between executive pay and company performance in serving customers and other stakeholders;
- consideration of the different sources of compensation paid or earned (e.g., base salary, annual incentive, long term incentive, stock-based compensation, supplemental benefits and perquisites, and other compensation); and
- any other special circumstances influencing total compensation.

The consultant determined that its review of actual compensation levels should serve as a starting point for further analysis, but is insufficient, by itself, to either permit a thorough understanding of the reasons for the levels or to constitute a complete evaluation of executive compensation practices. The consultant's study reveals that there is a wide variation among the New York State utilities in the proportion of fixed and variable aspects of compensation and in the year-to-year changes in variable elements as a percent of a compensation package.

The report, over 200 pages long, contains individual analyses of each of the 12 utilities' compensation programs, cites their strengths and makes recommendations for improvement. In general, the consultant found that utility Board of Directors' Compensation Committees are not as familiar, in all instances, with the specific approaches used to determine all elements of compensation as would be ideally desirable. Further, there are only a few, although an increasing number, of instances where a Compensation Committee is directly involved in the development of a company's executive compensation programs.

With regard to incentive plans, the consultant found that they can be improved by more directly linking an appropriate degree of risk to reward, so that the plan becomes more of an effort to motivate specific actions and less of a guarantee. The goal should be to increase payouts that are more a function of credible executive actions than fortuitous circumstances. The consultant determined that incentive plans should demonstrate a clear linkage with the strategic goals and objectives of the company in serving all stakeholders.

The study focused on the compensation packages at The Brooklyn Union Gas Company, Central Hudson & Electric Corporation, Citizens Utilities Company, Consolidated Edison of New York, Inc., Long Island Lighting Company, National Fuel Gas Distribution Corporation, New York State Electric and Gas Corporation, New York Telephone Company (NYNEX), Niagara Mohawk Power Corporation, Orange and Rockland, Inc., Rochester Gas and Electric Corporation, and Rochester Telephone Corporation.

A copy of *Report: Executive Compensation Study of New York State Utilities* can be obtained from: Files Offices, New York State Public Service Commission, 3 Empire State Plaza, Albany, New York, 12223.

• Water Rate Surcharge

The Arizona Corporation Commission and the Arizona State Legislature have disagreed on how to address problems encountered by water utilities with mounting operating costs. The commission has objected to a proposed law that would require commissions to approve a water rate surcharge for any costs outside the control of water utilities such as electric power or gas costs, as well as purchased water and tax assessments. Commission Chairman Jennings felt that an automatic cost recovery proposal would tilt the playing field significantly in favor of water companies over their customers. In addition, he felt it might require additional regulations to make sure that rates would go down if surcharge costs should fall. Commissioner Jennings also expressed his feeling that the bill was an unlawful intru-

sion on the ratemaking powers of the commission granted in the state constitution.

• Wisconsin PSC Accepts Jurisdiction Over Complaint Against Milwaukee Metropolitan Sewerage

The Wisconsin Public Service Commission determined that it would accept jurisdiction over the latest complaint filed against the Milwaukee Metropolitan Sewerage District (MMSD) by a number of surrounding communities. The complaint filed by the cities of Brookfield, Mequon, New Berlin, Butler, Menoninee Falls and Elm Grove (the Communities) claims that MMSD misrepresented the manner in which the costs are to be recovered from the Communities for the construction of MMSD's $2.2 billion Waste Water Pollution Abatement Project (WWPAP). The Communities also raised a number of concerns regarding accounting and interest imputation.

The complaint represents the latest battle in what has been a long running and costly war between the MMSD and its neighboring communities. A preliminary prehearing conference will be scheduled to clairfy and consolidate the unresolved issues. At the prehearing conference, the PSC will try to determine whether some issues can be decided on briefs without a hearing. The burden of investigation and presentation of evidence rests solely with the parties in the case.

• Consumer Group Evaluates PUC

Toward Utility Rate Normalization (TURN), a California consumer group, recently issued its *Fourth Annual Consumer Report Card* on the California commission. TURN gave the PUC an overall average rating of "D-" for 1994. Subjects that were graded ranged from specific regulatory decisions to general regulatory trends. Of the ten subjects, TURN graded four failures and five "D's" with the commission receiving one "A." The "A" was given for the PUC initiative to assert California's right to continue to regulate cellular telephone rates and decide how to apportion the cost of providing video dial tone. An "F" was given for the PUC's attempt to deny ratepayers one-half of GTE/Contel merger related benefits. In addition, approval of a basic telephone service rate increase as a condition for allowing competition in the state wide toll market, earned the commission a "D." TURN believes that the two cases signal a dangerous precedent for the California commission's pending electric industry restructuring.

• Environmental Externalities

The Illinois Commerce Commission has reaffirmed earlier findings that the state's least cost planning laws require consideration of the adverse external environmental cost of providing utility service. However, the commission rejected a proposal to require, through the adoption of new rules, monetization of the externalities using a method based on projected costs of complying with future environmental regulation. The commission said that it could not impose regulations that even suggested acquiescence in the reliability of tentative government regulations as a basis for forecasting in the least cost plan process. In addition, the commission noted that state law did not require monetization of the values or consideration of futuristic environmental laws and regulations.

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

Resolution Regarding Contributions in Aid of Construction for Water and Sewer Utilities

WHEREAS, Contributions in Aid of Construction (CIAC) finance substantial amounts of the capital costs for water and sewer utilities; and

WHEREAS, State regulatory commissions do not allow CIAC to be included in the investment base upon which the utility is allowed the opportunity to earn a return; and

WHEREAS, Regulatory commissions authorize the collection of CIAC to reduce the utility's investment which serves to reduce monthly rates to customers; and

WHEREAS, A utility has not been allowed to depreciate CIAC property on its tax return; and

WHEREAS, The Tax Reform Act of 1986 treats CIAC funds as income to the utilities; and

WHEREAS, Water and sewer utilities are severely impacted by the increased taxation due to the large amounts of CIAC funds they receive; and

WHEREAS, The result of the Tax Reform Act of 1986 was to unfairly increase the cost of providing water and sewer utility service to the public; and

WHEREAS, On July 24, 1991, the Executive Committee of the National Association of Regulatory Utility Commissioners (NARUC) adopted a "Resolution Regarding Contributions in Aid of Construction for Regulated Public Utilities" at its Summer Meeting in San Francisco, California, encouraging and supporting an amendment to the Tax Reform Act of 1986 which would exempt contributions in aid of construction from income taxes utilities; and

WHEREAS, No action has yet been taken by Congress to amend the Tax Reform Act of 1986 to exempt CIAC from income taxes; and

WHEREAS, H.R. 957 and S. 448 have been introduced in the 104th Congress to exempt from taxation under the Internal Revenue Code of 1986 contributions in aid of construction made to regulated water and sewer utilities; now, therefore, be it

RESOLVED, That the Executive Committee of the National Association of Regulatory Commissioners (NARUC), convened at its 1995 Winter Committee Meetings in Washington, DC, supports the exemption of CIAC funds received by regulated water and sewer utility companies from income tax liability; and be it further

RESOLVED, That the NARUC Executive Committee encourages and supports an amendment to the Internal Revenue Code of 1986 which would exempt contributions in aid of construction from income tax for regulated water and sewer utilities.

Sponsored by the Committee on Water
Adopted March 1, 1995

Recent Regulatory Decisions

by Stephen B. Genzer and Mark L. Mucci
LeBouef, Lamb, Greene & MacRae, L.L.P.

The Pennsylvania Department of Environmental Resources (DER) has issued amendments to its rules concerning the issuance of permits for the construction of public water systems. As part of these regulations, the DER will require community associations and developer-owned systems (which are not under the jurisdiction of the Pennsylvania Public Service Commission), to provide a demonstration of system viability prior to the issuance of a permit for construction. (Pennsylvania Bulletin, Vol. 24, No. 52 at 6407 [December 1994]). The intent of these regulations is to manage the proliferation of small water systems, in response to the large number of non-viable small water systems currently existing in Pennsylvania. Under the new regulations, systems which are not subject to PSC jurisdiction will still be subject to requirements similar to those which must be demonstrated by an applicant for a certificate of public convenience issued by the PSC.

Under Section 109.503(3), all applicants for construction permits for new community water systems must provide a business plan to the DER. That business plan must contain a facilities plan, identifying the scope of the water service to be provided, providing "an assessment of current and reasonably foreseeable compliance requirements," describing alternatives considered and the rationale for the approach selected for water service, and providing an engineering description of the facilities to be constructed. The applicant must also provide a management plan which includes details of "the commitments that are needed to provide for effective management and operation of the system," and finally the applicant must provide a financial plan including balance sheets and income statements for a projected five-year period.

The provisions in the new rules are the result of a study originated by the DER's Small Water System Viability Committee, which operated in the late 1980s and early 1990s.

OHIO COMMISSION APPROVES WATER SUPPLY CONTRACT WITH MODIFICATIONS

In a decision on a water purchase agreement between Ohio-American Water Company (Ohio-American) and Ohio Water Service Company (OWS), the Ohio Public Utilities Commission (PUC) conditioned its approval on a modification of the terms of the agreement so that the rates paid would be based on costs attributable to the customer, OWS. *In the Matter of the Joint Application of Ohio-American Water Company and Ohio Water Service Company for Approval of a Contract*, Case No. 94-1535-WW-AEC (December 29, 1994). The applicants, Ohio-American and OWS, had submitted the agreement to the PUC for approval. The agreement provides for the sale and purchase of water for a 20 year period, with the option to terminate at the end of any 5 year period, with continued payment of an annual stand-by charge. Ohio-American took the position that the agreement would benefit all its customers by providing water for a substantial customer which would assist Ohio-American in spreading the cost of its service over greater sales of water. OWS, as the purchaser, took the position that the agreement would benefit its customers by providing a stable source of supply at reasonable rates.

Under the proposed Agreement, the rate paid by OWS would increase by the same percentage as any overall percentage increases granted to Ohio-American in base rate proceedings. The PUC Staff took the position that the terms of the agreement were reasonable, except with regards to future rates. The Staff took the position that the future rates should be based on costs specifically attributable to the customer and recommended that the cost of service study performed in future Ohio-American rate applications set forth the costs associated with servicing OWS, and that such costs be considered in setting the usage rate for OWS. The PUC adopted the Staff's recommendation, and approved the agreement with the modification proposed by its Staff.

CALIFORNIA COMMISSION ISSUES RULING IN PRIVATIZATION PROCEEDING

The California Public Utilities Commission currently has before it a matter involving the proposed privatization of a water district in Orange County, Califor-

nia. California-American Water Company (Cal-Am) filed a request for a certificate of public convenience and necessity (Certificate) to operate facilities to be acquired from the Santa Margarita water district (District). Cal-Am proposed that, if it took over those facilities, it would establish interim rates for a three year period, in order to produce the same revenue now produced by water rates, property assessments and taxes paid by Santa Margarita customers. After three years, Cal-Am would file a rate proceeding to set new rates for those customers. In a determination dealing with motions to dismiss, the PUC determined that it could entertain the application, and held the proceeding in abeyance pending a determination on whether the public water District should be dissolved. In its determination, the PUC outlined its views concerning its ability to set rates covering such a privatization. *In the Matter of the Application of California-American Water Company for a Certificate of Public Convenience and Necessity*, Decision No. 95-01-014, Application No. 94-06-019 (January 5, 1995).

The District currently provides water service to 28,000 connections, with an additional 40-50,000 connections planned at full build-out of planned developments located within the District. An application to dissolve the District and turn its operation over to Cal-Am is currently pending before the Local Agency Formation Commission of Orange County. Cal-Am filed its application for a Certification concurrently with the PUC, although a decision on the dissolution of the District has not yet been rendered. In filing for the Certificate, Cal-Am proposed interim rates, with rates set pursuant to standard ratemaking principles to be set at the end of an initial 3 year period, when costs and revenues would be known definitely. Cal-Am proposed that the rates set would be such as to develop an equivalent amount of revenue as currently received by the District from not only water and sewer charges, but also from property taxes, bond issue assessments, service connection fees and landowner charges levied within the District.

In order to set rates equal to revenues currently received by the District, Cal-Am asked for authority to collect special fees which the California PUC had not previously authorized, including a standby charge for future water and sewer services, assessed on the owner's unimproved property, as well as a connection fee equal to the fee now charged by the District.

The PUC stated that Cal-Am's application did not contain sufficient facts for the issuance of a Certificate, but the PUC refused to dismiss Cal-Am's petition for a Certificate. Instead, the PUC determined to hold the application in abeyance until such time as a determination was made on the application to dissolve the District. In the event that such a determination was made, Cal-Am is to amend its submission and provide additional required information.

Although the PUC was ruling to hold the matter in abeyance, the PUC did provide its preliminary assessment of Cal-Am's proposal to charge a standby fee on undeveloped property, equal to the fees now charged by the District. The PUC noted that it had not previously authorized private utilities to charge standby charges for future water and sewer services. Opponents of such a charge argued that the PUC did not have the authority to allow a private utility to assess a charge which was effectively in the form of a tax, similar to the type of charge which the District assessed. The PUC replied to such arguments, stating that it has sufficient statutory authority to approve such a charge. It noted that the California Public Utilities Code authorizes the PUC to "consider, and . . . authorize, a water corporation to assess a fee for future water service, or a reservation charge for future water service, for persons or entities occupying or owning property within the service territory of the water corporation." The PUC dismissed arguments that this provision was only intended to address the problems of small water companies, and held that the plain language of the statute is not limited in its application.

The PUC noted that a final determination on the proposed privatization of the District was imminent, and therefore Cal-Am would not be required to refile its application, but instead could amend its application. The PUC stated that, while it could not rule on the standby charge at that time, it did have authority to approve such a charge as part of the privatization under California law. In a future article, further details of the progress of the privatization, and the PUC's resolution of issues arising under this privatization, will be followed.

CALIFORNIA COMMISSION RULES ON PRUDENCE OF UTILITY'S ACTIONS TO SAFEGUARD ITS WATER SUPPLY

The Southern California Water Company (SCWC) provides water to the City of Barstow, California in San Bernadino County through its Barstow district, from a supply consisting of subsurface flow and percolating ground water drawn from the Mojave River basin. In the last few years, SCWC has joined with the City of Barstow in litigation concerning the allocation of water by the Mojave Water Agency (Agency). SCWC is concerned that increasing water usage upstream will impair the ability of SCWC to protect its ability to continue provision of water service to its Barstow area customers. In a proceeding filed with the California Public Utilities Commission (PUC), SCWC sought recovery of its litigation costs associated with the dispute over supply with the Agency. The PUC had originally approved a sharing arrangement of such costs, and SCWC filed for a rehearing. The PUC issued an order modifying its determination, but granted a rehearing of that determination in order to obtain comment on three issues: "Are the litigation expenses reasonable?"; "Was the litigation timely?," and "Were there any options other than litigation?" After considering the comments on those issues, the PUC has determined that SCWC may recover its anticipated litigation expenses, up to $150,000 annually. *In the Matter of the Application of the Southern California Water Company for an Order Authorizing it to Increase Rates for Water Service in its Barstow District*, Decision No. 94-12-005, Application No. 91-02-101 (December 7, 1994).

The PUC noted that SCWC had joined with the City of Barstow in the allocation litigation, using the law firm originally engaged by Barstow for the proceeding. Barstow had selected experienced counsel and expert witnesses, with extensive and appropriate backgrounds in the area of water rights allocation. As for the prudence of SCWC's timing in beginning litigation, the PUC noted that the issue of water rights allocation in California can depend on the current usage by a claim-

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Recent Regulatory Decisions, *continued*

ant. Over the last 20 years, usage by SCWC's customers had increased, and while in the past SCWC had more than enough water to meet its then existing needs, the combination of the lower usage by SCWC's customers, and the as-yet not increased usage of upstream users, would have disadvantaged SCWC in a dispute on allocation. SCWC's expert explained it as follows: "The more water they took and the worse the basin got in terms of overdraft, the better off they were going to fare in an ultimate adjudication, if that should come to pass." The PUC concluded that SCWC was prudent in the timing of its challenge on allocation.

Finally, the PUC concluded the SCWC had appropriately explored options, including a proposed $50 million pipeline, additional wells at Barstow, and limits on growth. The PUC concluded that none of these were either realistic or achievable options, given the costs of the improvements, and the low possibility that development limits would be approved. As a result, SCWC's pursuit of the water allocation litigation was considered appropriate. The PUC determined that SCWC should be permitted to recover its estimated litigation costs of $150,000 annually.

MASSACHUSETTS COMMISSION RULES ON DISPOSITION OF GAIN ON SALE OF LAND

As part of a rate proceeding filed by the Barnstable Water Company, the Massachusetts Department of Public Utilities (DPU) was asked to consider the issue of the treatment of the gain on the transfer of land by Barnstable. *Re: Barnstable Water Company*, DPU 93-223-B (October 28, 1994). In 1990, Barnstable had transferred land to a related company, which land was appraised at $835,000, but which had an acquisition cost from 1940 of $6,951. After recording a deferred tax liability, the gain on the transfer amounted to $524,049. Since the land was exchanged for common stock of the related company, Barnstable did not realize any gain in cash for the transfer. Barnstable stated that, if the land was sold in the future, or if the stock of the related company was transferred by Barnstable, Barnstable would at that point realize a gain for tax purposes. Other parties to the proceeding argued that the amount of the apparent gain on the transfer, $524,049, should be removed from Barnstable's rate base to reflect the gain on the transfer of the land. The proposal was made that when the land was actually sold to any third parties and the cash proceeds were available, Barnstable could flow the gain back to the ratepayers consistent with past DPU precedent, and the amount removed from rate base then restored.

In ruling on this matter, the DPU noted Barnstable's argument that a recent decision by the California PUC, providing shareholders the right to the gain on the sale of appreciated land (the Suburban Water Systems case), was not applicable as precedent. In Suburban, the land was transferred under the threat of condemnation, and the utility use of the land was continued without change. The DPC noted that the land which Barnstable had transferred to the related company had been considered part of Barnstable's utility plant, ratepayers have been paying both the return and property taxes on the land as plant-in-service, and now the land was no longer available to provide utility service. An adjustment was therefore necessary to provide Barnstable's customers with the appreciation on the assets that they had supported in rates. The DPU did provide that the reduction in Barnstable's cost of service, by amount equal to the net gain of $524,049 on the transfer, would be returned to customers through an amortization of the DPS's settlement intervention staff.

Thanks to Walton Hill of United Water Resources, Louise Knight of Malatesta, Hawke & McKeon, S.B. Givens of Indiana-American Water Company, and Frank J. Miller of Huber, Lawrence & Abell, for submitting items of interest.

WELCOME TO . . .

Our Newest Members Companies

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Altamonte Springs, FL

Elk River Utilities, Inc.
Charlotte, NC

Foxfire Utility Co.
Branson, MO

Green Ridge Utilities, Inc.
Upper Marlboro, MD

Northern Hills Water & Sewer Co.
Joliet, IL

Painted Apron Water Co.
Ellenville, NY

Peeble Creek Utilities, Inc.
Altamonte Springs, FL

Rosebrook Water Co.
Meredith, NJ

Seaview Water Co.
Longport, NJ

Silvis Heights Water
Silvis, IL

Water Utility of Greater Tonopah, Inc.
Phoenix, AZ

Yermo Water Co.
Las Vegas, NV

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Michael Baker
Lakeview Park Water Co.
Mahopac, NY

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Deloitte & Touche LLP
San Diego, CA

Greg Paula
AIC Conferences
New York, NY

Satish K. Sachdev
Klein & Hoffman, Inc.
Chicago, IL

Educating Youth About Nature's Precious Resource

written by Donna M. Adballa
submitted by Joseph F. Butcher
Pennsylvania Gas and Water Co.

Ready for fishing, the Accessible Fishing Pier and its gazebo sits surrounded by the treelined shore of Lake Scranton.

Every day, with the turn of a wrist, water splashes into our showerstalls, baths and basins. As a matter of fact, it is just taken for granted that clean drinking water will flow into our homes and businesses. Rarely does one stop to think about this process. However, at Pennsylvania Gas and Water Company, through several community efforts, we are raising people's consciousness about water—nature's precious resource. In particular, we are targeting a very special group of water users - youngsters. Through two distinct programs, PG&W is educating our future customers about water.

Water Education Program

PG&W's first community effort is an educational program geared toward school-aged children where they learn about a wide variety of water issues such as the water supply, purification and conservation. Early each Spring, PG&W invites schools throughout its service territory to tour any of our six water treatment plants. These six plants are part of PG&W's family of newly constructed water treatment facilities. In October 1993, PG&W marked a significant accom-

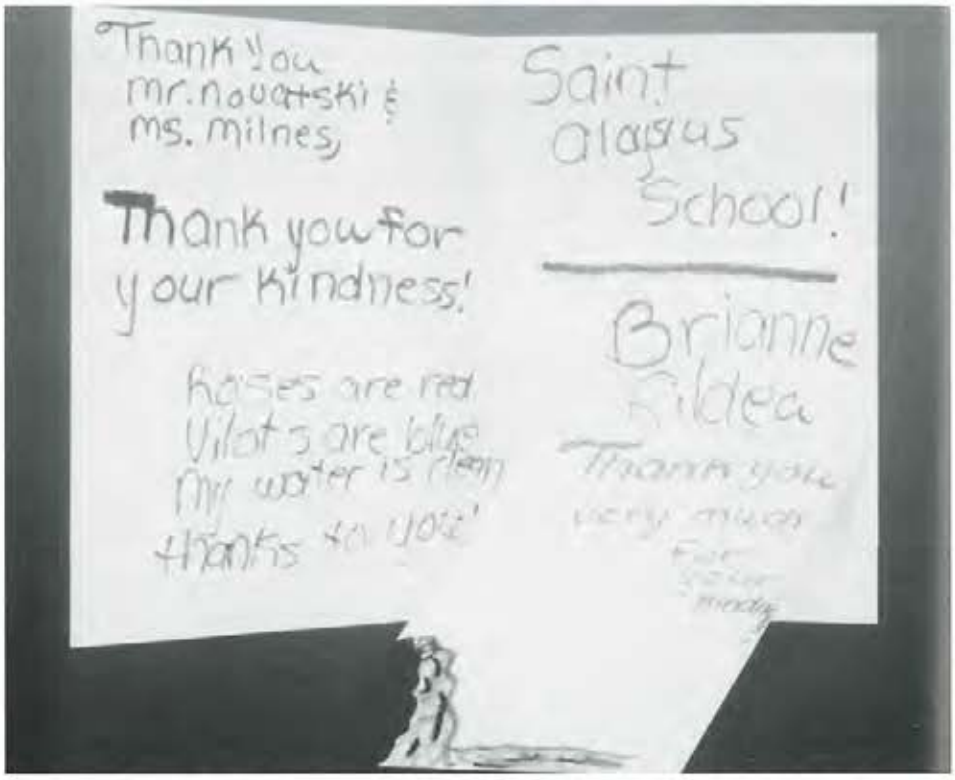
(continued on next page)

Educating Youth, *continued*

plishment in our water operations. Upon completion of our eighth and final plant, we reached our goal to provide each and every customer with filtered water. Furthermore, these plants were designed to assure high quality drinking water for generations to come. Thus, we believe it is important to educate the public about water issues, from the source to the tap. From a community relations standpoint, the company believes an understanding and appreciation for water benefits all of our consumers, old and young alike.

With the coordination of PG&W's Customer Services and Water Resources Divisions, students from grades 5 through 12 are invited to tour our plants. Arrangements begin with open invitations sent to all the area schools. Commenting on the program, Harry Dowling, Vice President of Customer Service and Human Resources, states, "Our Water Education Program has been very well received in the community. Our tours are viewed as excellent field trips and exciting learning experiences. The Program which started in 1990, has grown significantly every year."

Statistics prove Dowling's point. In the Spring of 1994 alone, the Program reached nearly 4,000 students. For the very youngest of students, those in kindergarten through fourth grade, an in-school presentation is given by representatives from PG&W. One of the company's resident experts is Dr. Joseph Calabro, Manager of Water Quality, who has an excellent rapport with his listeners. According to Dr. Calabro, "Children so young take such an interest since water is very real and understandable to them - it is something they touch and see every day. The children never fail to impress me with their attentiveness and questions."



A creative version of "Roses are red, violets are blue" is just one of the many thank you notes received from students in response to PG&W's Water Education Tour Program.

Commission Paul Mahon of the Pennsylvania Fish and Boat Commission assists participants from Allied Services in the ribbon-cutting ceremonies at the Lake Scranton Accessible Fishing Pier for People with Disabilities.

At the treatment plant, the one and one-half hour tour begins with an introduction video about PG&W's water operations and highlights of the treatment plant. The group then moves into the master control area where graphic layouts indicate the path that water takes from the reservoir through the plant and to homes. While walking the students through the plant, the tour guide explains what is happening to the water at each stage of the purification process. These stages include flocculation, clarification, and filtration. Outside the plant, students see large sedimentation basins containing the particles which were removed during the filtering process. Also outside are the large water storage tanks which hold clean, filtered water before flowing through the distribution system into customers' homes and businesses. The tour concludes in the plant's laboratory where students see first-

Presenting a tour to a group of students from Wilkes-Barre Academy is PG&W's Allen Novatski, Water Treatment Plant Supervisor.

hand water quality testing and analysis demonstrations.

What do students conclude about our Water Education Program? From the questions asked throughout the tours, company representatives believe the response to the tours is very positive. Other indicators of the success of the program are the numerous thank you notes the company receives from the students and the growing number of inquiries from teachers about the Program.

Fishing Pier

Continuing with the subject of educating youth is another PG&W community program which enables children and others of all ages to appreciate the great outdoors of Mother Nature. PG&W's beautiful Lake Scranton reservoir, home to a three and a half mile shoreline pathway for joggers and walkers, now also boasts a fishing pier specifically designed for the severely disabled.

Through the determination of Paul Mahon, a Commissioner with the Pennsylvania Fish and Boat Commission, a dream became a reality when ribbon-cutting ceremonies were held July 21, 1994. According to David Kaufman, Vice President of Water Resources, "Paul, a physically challenged individual himself, approached PG&W with the idea of building a recreational facility for the severely disabled. Because these individuals have limited recreational opportunities, PG&W agreed with Paul that an accessible pier would enable them to enjoy fishing."

An old boathouse located on the shoreline of Lake Scranton served as the perfect foundation for the pier. Through the cooperative effort of Allied Services of Northeastern Pennsylvania, an organization with expertise in rehabilitative services; the Pennsylvania Fish and Board Commission; PG&W; and fifty organizations and individuals within the community who contributed time, energy, and material, the fishing pier at Lake Scranton became a reality. The fishing pier, with its railings and direct access from the pathway, picnic area and gazebo, offers individuals with wheelchairs a place to enjoy nature. It is surely regarded as a special place for special people. Following the opening of the fishing pier, the project and its participants have received numerous awards. Allied Services presented the company with a Corporate Achievement Award for "inspiring the ideals of National Rehabilitation Week" and the local Chamber of Commerce presented a consolidated award to PG&W, Allied Services, and the Pennsylvania Fish and Boat Commission. In addition, the Pennsylvania Environmental Council awarded PG&W its 1994 Northeastern Pennsylvania Environmental Partnership Award for achieving excellence in environmental protection and conservation. PG&W, like past recipients of the award, had to demonstrate the quality of involving and working successfully with others in pursuit of the accomplishment.

"PG&W is fortunate to have the natural resources to provide a facility for the community such as the fishing pier," adds Kaufman. Continuing, he comments, "PG&W's educational tours give students an understanding and appreciation for water. PG&W stresses that it is important for future generations to have the same quality of resources that are available today."

Quorum Call

by Louis Jenny

NAWC's Annual Congressional Fly-In was held the last week of February, 1995. The Fly-In provides members of the NAWC with the opportunity to meet with their elected representatives in both the House and Senate and discuss issues of concern to the investor-owned water industry.

The Fly-In was a huge success. Fifty-two NAWC members attended over 160 appointments on Capitol Hill. NAWC members and lawmakers discussed legislation to repeal the tax on Contributions in Aid of Construction (CIAC) and the reauthorization of the Safe Drinking Water Act (both of which I will discuss in greater length later). Based on these meetings there can be no doubt that the visibility of the industry was raised with veteran lawmakers and with the many new Members of Congress. Further, co-sponsorship of the new CIAC tax repeal bills is on the increase.

Veterans of Fly-Ins past undoubtedly found a very different Congress. Participants found many new members of Congress and new Republican majorities, and were also surprised to find out how busy the Congress was.

Typically, the Halls of Congress are fairly quiet in February. However, this year due to the "Contract with America" and the new Congressional Leadership, NAWC members had to compete with

extensive congressional activity when trying to keep their appointments. Throughout the days of the Fly-In there were continual votes in both chambers, plus votes were taking place in Committees and Subcommittees at all times of the day and evening. In the Senate an historic vote on the Balanced Budget Amendment took place. All of this activity only added to the excitement of being in Washington, and underlined the importance of taking the time to meet and stay in contact with elected officials.

We saw that week that Congress regularly deals with questions that have enormous, permanent, sometimes global implications. Unless we are there on a regular basis presenting our concerns, it is very easy to get lost in the fray. Therefore, I encourage you to come to town next year during the Fly-In, or sometime this year to meet with your Congressman, if you have not done so already.

CIAC

In February, two new bills which would repeal the tax on Contributions in Aid of Construction (CIAC) were introduced in both the House and the Senate. Furthermore, there are new sponsors for the bills which reflect the new Republican majorities. Congresswoman Nancy Johnson (R-CT) introduced H.R. 957 in the House of Representatives on February 15, and the next day Senator Charles Grassley (R-IA) introduced S. 448 in the Senate. Both of our champions are senior majority members of the respective House and Senate tax writing committees. This greatly increases our chances of attaching the CIAC tax repeal language to a larger tax bill as an amendment. Both Congresswoman Johnson and Senator Grassley will be "at the table" when these tax bills are being written, and throughout the legislative process. They will be in prime position to shepherd our bill through this maze.

In years past, one of our largest problems with CIAC passage has been that there has not been the appropriate larger tax "vehicle" (or tax bill moving through the legislative process) to which we could attach our bill. It is fairly certain that this year there will be an appropriate tax bill moving through the committees, therefore we must be prepared to attach CIAC tax repeal as an amendment.

Much of the preparation has been done,

and at this point we need to increase the number of co-sponsors on these bills. Co-sponsorship is merely when a Representative or Senator puts his or her name on the bill, signalling their support of it. Broad bipartisan co-sponsorship demonstrates support for the bills in their respective bodies, thereby increasing our leverage in ultimately passing the bills.

Therefore, please contact your Senators and Representatives and ask that they co-sponsor these bills. If you need addresses, draft letters, information on the bills, or have any questions, please do not hesitate to contact me at the NAWC. Preparations for tax legislation moving through Congress is going on now, and we need to demonstrate our support for the CIAC bills as soon as possible.

* * *

The reauthorization of the Safe Drinking Water Act (SDWA) is progressing at a surprisingly slow pace, largely due to many other exciting bills and initiatives moving through the process and absorbing Congress's attention.

It had been expected that since SDWA reauthorization bills were passed in both bodies last year, work on reauthorization would start early in the session. That has not been the case. We still expect reauthorization of the SDWA during this Congress, however. The NAWC, along with a Coalition of elected officials, state administrators, the National Association of Regulatory Utility Commissioners (NARUC), and associations representing water utilities, have and will continue to work for an SDWA which assures Americans of a safe, reliable, and efficiently run drinking water supply.

Instead, Congress has been engrossed with initiatives and ideas radically revamping the regulatory process, product liability law, the relationship between the state and federal governments, the tax code, privatization issues, how Congress runs itself, and others. Most of this has not yet been passed into law, so where most of this will end up is uncertain. But, this has been an exciting time. Often an entire session of Congress goes by without as much activity as we have seen in just the first 100 days of this session. If you would like any of the specifics on these initiatives, again please contact me.

1995 Fly-In

(l to r) Rich Roth (Sans Jose Water Co.); Senator Max Baucus (D-MT) and Dick Balocco (San Jose Water Co.).

(l to r) Stan Ferraro (California Water Service Co.); Congressmen Tom Lantos (D-CA), and Jim Good (California Water Service Co.).

Karla Olson Teasley (Southern States Utilities, Inc.) and Congressman Charles Canady (R-FL).

(I to r) Randell Vogel (Southern California Water Co.); Congressman Steve Horn (R-CA); Jim Gallagher (Southern California Water Co.), and Joe Young (Southern California Water Co.).

(I to r) Congressman Lane Evans and Duane Cole (Northern Illinois Water Co.).

(I to r) Dennis Sullivan (Middlsex Water Co.); David Monie (Logan Wells Water Co.); Wendy Davis (1994 New Jersey NAWC Scholarship winner and EPA intern); Congressman Bob Franks (R-NJ), and Henry Patterson, III (Elizabethtown Water Co.).

Rich Roth (San Jose Water Co.); Senator Max Baucus (D-MT), and Dick Balocco (San Jose Water Co.).

Gary Prettyman (American Water Works Service Co.); Henry Patterson, III (Elizabethtown Water Co.); Congressman Robert Menendez (D-NJ); Dennis Sullivan (Middlesex Water Co.) and David Monie (Logan Wells Water Co.).

Joe Simunovich (United Water Resources); Dennis Sullivan (Middlesex Water Co.); Gary Prettyman (American Water Works Service Co.); Bill Bradley (D-NJ); Henry Patterson, III (Elizabethtown Water Co.) and Don Correll (United Water Resources).

Briefing For Congressional Staff Members

On January 30, approximately 50 House and Senate staff members gathered to learn about the investor-owned water industry and NAWC's legislative issues to reform SDWA and to repeal the tax on CIAC.

Congressional Staffers at the briefing.

Don Correll, providing some background on the industry.

Karla Olson Teasley, explaining NAWC's stake in the SDWA.

Jim Good, providing background on CIAC.

Federal Agency Notes

by Mark Planning

EPA's Office of Groundwater and Drinking Water recently identified a number of challenges and deficiencies in the drinking water program. Documents prepared by Agency staff for a December 1994 presentation to the Office of Water described a number of problems facing the program.

- Program priorities and resource commitments are being driven by court deadlines rather than risk reduction considerations or the critical needs of stakeholders.
- Program demands have outstripped available resources.
- There is widespread and strong opposition to major portions of the program.
- There are a number of questions about the validity of the scientific, analytical, data and implementation aspects underlying specific regulations and the program. Currently, there is inadequate time and resources for EPA to do more than piecemeal responses to address these concerns.
- Recently, there has been significant media and public questions on the adequacy of protection provided by EPA's Drinking Water program and its cost-effectiveness.
- The SDWA reauthorization has highlighted congressional concern about program direction. Reauthorization could bring new requirements and significant changes in the nation's drinking water program.
- Stakeholders have expressed a desire for greater involvement in the development of drinking water research, policies and regulations.

The EPA report concludes that dramatic changes are necessary to address these problems and meet fundamental programmatic and public health concerns. Program priorities and investments should be redirected to achieve maximum potential risk reduction and to strengthen the underlying program foundation.

In January 1995, NAWC and other water supply organizations met with EPA to hear about a new initiative to reform the drinking water program. Since that briefing, Agency officials have begun work to develop a more effective, efficient drinking water program.

As part of this effort, EPA started holding public meetings in March 1995 to discuss subjects in eight separate areas: regulatory reassessment, scientific data needs, treatment technology, health assessment, analytical methods, source water protection, small systems capacity building, and focusing and improving implementation. These eight areas fall within three major categories of activities which EPA is highlighting as part of the initiative—regulatory improvement and research realignment, prevention and management innovations, and implementation improvements.

The purpose of the public meetings is to provide EPA with ideas, suggestions and options for proceeding with specific activities that the Agency can undertake within existing resources constraints. The meetings will also serve as the basis for strategic decisions on program directions and resource allocations. In some cases, the two approaches will be combined in a single meeting.

The Agency will convene a senior management group to review the public meeting summaries. That group will assemble the information and develop a program action plan consistent with available resources. The plan will be submitted to the National Drinking Water Advisory Council for comment. Final decisions on priorities will be made by Assistant Administrator Robert Perciasepe.

NAWC applauds these efforts and looks forward to working with EPA on activities that provide maximum benefits and risk reduction.

corporate changes

Luksa Elected Vice Chairman of PSW

At its February meeting, the Philadelphia Suburban Water Company (PSW) Board of Directors elected Robert A. Luksa to the position of Vice Chairman. Luksa joined PSW in 1955 and held various positions of graduated responsibility in the company's Operations Division until being appointed President and Chief Operating Officer of PSW in 1986. During his tenure, Luksa developed the company's drought contingency plan and conservation program, and negotiated and prepared several interconnection agreements for the purchase and sale of water with other utilities. One of his key responsibilities was the preparation of the company's long range plan and capital budgets. Much of the company's multi-million dollar building program to meet

the requirements of the Safe Drinking Water Act have been completed under Luksa's direct control.

For many years Luksa has been very active in water industry trade organizations including: NAWC; AWWA (former Pennsylvania Section Chairman and recipient of both Fuller and Baxter Awards); the American Public Works Association; the Pennsylvania Water Works Operators Association (where he served on the Water Quality Committee and chaired the Audit Committee); The Water Resources Association of the Delaware River Basin; The Pennsylvania Municipal Authorities Association; both the Pennsylvania and National Societies of Professional Engineers; the American Society of Civil Engineers, and the Philadelphia Engineers Club.

Luksa is a graduate of Drexel University and holds a BS in Civil Engineering.

New Position for Boyle

Joseph V. Boyle has been named director–project analysis and development for United Water Management & Services, a subsidiary of United Water Resources. He was also named secretary-treasurer of the United Water-Lyonnaise des Eaux Partnership. In his new capacity, Boyle will provide financial expertise, coordination and support to the company's new business development efforts.

"During the last two years we've committed ourselves to expanding our core water service businesses," said Donald L. Correll, chairman and CEO of United Water. "Boyle will play a key role in carrying out our company's strategic growth plan."

Prior to joining United Water, Boyle held key financial positions with GWC Corporation. The companies merged last year in one of the largest transactions in the history of the water industry. United Water is continuing to pursue growth through mergers and acquisitions, public-private partnerships and a variety of operations and maintenance contracts.

"Boyle was a member of the team that developed a successful public-private partnerships proposal with the city of Indianapolis. As a result, one of our affiliated companies operates the city's wastewater treatment plants–the largest contract operations project in the United States. With 22 years of diversified financial management experience, Boyle will be invaluable to United Water as we continue to break new ground in the water service industry," said Correll. In 1994 United Water launched a major public-private partnership with Hoboken, New Jersey. Negotiations for several similar agreements are underway.

Boyle, a certified public accountant, holds a B.S. in accounting from St. Joseph's College and an M.B.A. from the Wharton School of the University of Pennsylvania. He is active in numerous associations, and serves as Chairman of the Tax Committee of the National Association of Water Companies. Boyle is also a member of the Financial Executives Institute and the American and Pennsylvania Institutes of CPAs.

Ron Williams Joins Middlesex

Ronald F. Williams has been named Assistant Vice President of Operations for Middlesex Water Co. Williams will oversee the company's engineering, distribution and metering operations. He is also responsible for the upgrading of the company's distribution system and the expansion of its Carl J. Olsen Water Treatment Plant, two major initiatives the company is planning as it approaches its centennial anniversary in 1997.

Williams was formerly employed by the New Jersey Department of Environmental Protection, Bureau of Potable Water, where he began his career in 1971. He served in various environmental engineering capacities before being named Acting Bureau Chief responsible for the administration of the Federal and State Safe Drinking Water Act. Williams most recently served as President of Garden State Water Co., which he joined in 1980. He held increasing responsible positions with the company and was promoted to Vice President of Operations and named President in 1991.

"Ron Williams has acquired extensive operations and engineering experience throughout his impressive career," said J. Richard Tompkins, President of Middlesex

Water Company. "This varied background coupled with his planning insight make him a welcome addition to our management team."

A graduate of the Newark College in Engineering, Williams holds a B.S. in Mechanical Engineering and is a licensed professional engineer, planner and water treatment operator. His professional affiliations include the New Jersey Section of the American Water Works Association with which he serves as incoming National Director.

Good Elected Vice President

At its monthly meeting on December 21, 1994, the Board of Directors of the California Water Service Co. elected James L. Good III, an officer of the company effective January 1, 1995.

Good was elected Vice President, Director of Corporate Communications and Marketing. Good replaces Kenneth J. Roed, who retired on December 31, after 18 years with the company. From 1991 to 1994, Good served as Director of Congressional Relations for the National Association of Water Companies, where he represented the views of the investor-owned water supply industry before Congress. From 1985 to 1991, Good held various staff positions with United States Senator Harry Reid, most recently as Assistant Legislative Director. Good graduated from Cornell University in 1985 with a B.A. in Government.

New VPs at Artesian

Artesian Resources Corp. and its subsidiary, Artesian Water Co., Inc., have named three new vice presidents. David B. Spacht, Vice President, Treasurer and Chief Financial Officer of Artesian Resources Corp. and Subsidiaries, joined Artesian Water Company as a Utility Plant Accountant in 1980, after graduating from Goldey Beacom College. His newly-added responsibility includes the Information Systems Department. Spacht has served as Treasurer and Chief Financial Officer of Artesian Resources Corp. and subsidiaries since July, 1992. Prior to that time he was Assistant Secretary and Assistant Treasurer.

Joseph A. DiNunzio, Vice President and Secretary of Artesian Resources Corporation and Subsidiaries, joined Artesian in 1989. He has been Secretary of Artesian since July 1992. DiNunzio's added responsibilities include Customer Relations and Administration. Prior to joining Artesian, DiNunzio was employed by Price Waterhouse. DiNunzio graduated from the University of Virginia in 1984.

Bruce P. Krauter, P.E., Vice President and Chief Engineer of Artesian Water Company, Inc., was named Manager of Engineering in 1994. He has been involved with water resource management for almost 24 years. Krauter will oversee all supply operations in addition to engineering. Prior to joining Artesian's engineering staff in 1989, Krauter was employed by the New Castle County Water Resources Agency and the Department of Natural Resources & Environmental Control. Krauter received his Bachelor of Engineering degree in Chemical Engineering from Stephens Institute of Technology and a Master of Science degree in Chemical Engineering from the University of Kentucky.

Donatoni Joins PSW

Anthony Donatoni has joined Philadelphia Suburban Water Company as Senior Manager of Marketing and Corporate Development. Donatoni will assist and expand the company's acquisition efforts as well as develop strategies for its entry into other water-related revenue opportunities such as bottled water, filters, and the sale of administrative and management water services to municipal governments. Donatoni will further expansion efforts already set in motion by the company, which has purchased three municipally-owned and two private water systems in the past two years.

Before joining PSW, Donatoni served as an executive for United States Pollution Control Industries, a subsidiary of the Union Pacific Corporation, which develops and markets hazardous waste disposal services. In 1987, he helped form and was President of Environmental Management Services, a small environmental consulting firm. From 1984 to 1987, he worked for the Pennsylvania Department of Environmental Resources as Director of the Secretary's Office of Policy where he was responsible for long range policy and the development of regulations to carry out the Department's programs. Previously, he spent 12 years with the U.S. Environmental Protection Agency in Philadelphia where he held a variety of technical and managerial positions.

Donatoni earned a BS in Civil and Environmental Engineering from Villanova University and has completed graduate work in water resources management.

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American to Purchase PG&W's Water Ops

American Water Works Co., Inc., announced that its subsidiary, Pennsylvania-American Water Co., has agreed to purchase the regulated water utility operations of Pennsylvania Gas and Water Co. (PG&W), a subsidiary of Pennsylvania Enterprises, Inc. (PEI), for approximately $409 million.

The purchase represents the largest acquisition of its kind in the history of the water utility business and enhances American Water Works' presence in Pennsylvania where Pennsylvania-American currently provides water service to approximately 1.5 million people in 218 communities. PG&W provides drinking water service to about 400,000 people in 62 communities in northeastern Pennsylvania, including the cities of Scranton and Wilkes-Barre.

The acquisition is contingent on, among other things, the approval of the Pennsylvania Public Utility Commission and the stockholders and certain debt holders of both PEI and PG&W.

George W. Johnstone, president and chief executive officer of American Water Works, said, "The purchase of the PG&W water system continues our strategy of growing the company and shareholder value through acquisitions. American Water Works and its 23 water utilities have always taken pride in their ability to provide outstanding water service at competitive rates. Our financial resources, our staff of water supply professionals and our commitment to this single water service mission will be at the disposal of these 62 communities."

New Contracts for CWS

Donald L. Houck, President and CEO of California Water Service Co., announced four new contracts awarded to the company. They include a contract with the City of Visalia for sewer and solid waste billing; King City for sewer billing; West Basin Municipal Water District for operation and maintenance of the recycled water distribution system, and transfer of the Palomar Park County Water System to the company.

Houck said, "The award of these contracts shows that Cal Water is continuing to expand its burgeoning contract operations business. Opportunities in both the municipal utility billing sector and the recycled water sector hold great promise for growth. We intend to aggressively pursue these opportunities wherever they occur."

Details of the four contracts are as follows:

Visalia Billing: Starting January 1, 1995, Cal Water took over the billing of sewer and solid waste charges on behalf of the city. While Visalia will still provide the services, Cal Water's monthly bills will now include a charge for the municipal services. Visalia chose Cal Water because of the company's award winning, state-of-the-art automated billing capabilities. Contracting with Cal Water for the billing services was more cost effective than upgrading their own facilities. Cal Water has owned and operated the water system in Visalia since 1926.

King City Billing: For the reasons cited above, Cal Water will begin sewer billing in King City for industrial customers effective January 1, 1995. Residential customers will begin receiving consolidated water and sewer bills on July 1. Cal Water has been in King City since 1962.

West Basin Recycled Water: Cal Water has been awarded a contract by the West Basin Municipal Water District (located in Southern California) to operate and maintain a portion of the distribution system for recycled water from their El Segundo Treatment Plant. As water supplies in California tighten, the use of recycled water for non-potable uses such as greenbelt irrigation and industrial processes will grow. This brings to three the number of recycled water projects in which Cal Water is involved.

Palomar Park Country Water District #3: San Mateo County, the local homeowners' association and the company have agreed on the terms for transfer of this 200-account County water system located in the unincorporated part of the city of San Carlos to the company in exchange for infrastructure improvements. The County will be seeking approval of this action from the Local Agency Formation Commission. San Carlos, a largely built-out suburb of San Francisco served by the company's Mid-Peninsula District, has experienced little growth in the last decade. Thus, the Palomar Park Water System is a welcome addition.

New Logo for UWR

United Water Resources has introduced a new corporate identity and logo that will be used by the company's water-related subsidiaries, which serve over two million people in 14 states. The company also announced that its 25 utility subsidiaries have adopted the "United Water" name as part of an overall strategy to use a unified corporate naming system.

"United Water's new corporate logo, which portrays a star formed by drops of water coming together, symbolizes our mission to become the premier water services company in the U.S.," said Donald L. Correll, chairman and chief executive officer. "The 'water star' represents the company's commitment to the highest standards of quality, innovation and customer service. The logo also portrays the company's sound financial standing and excellent dividend payment record."

"Our new logo and naming system position United Water to attain greater national visibility as we pursue growth opportunities," added Correll. "This puts the spotlight on the marketing team that we've formed to build shareholder value by expanding our core water and wastewater businesses. We envision the United Water logo becoming a powerful symbol as our team enters promising new markets and integrates future acquisitions and merger partners, or forms public-private partnerships to help municipalities resolve their water supply, water quality and wastewater challenges."

The growing standards of the federal Safe Drinking Water Act and the Clean Water Act are making it increasingly expensive for municipalities to operate their own utilities. "Rather than raise taxes to comply with the new standards, municipalities are forming partnerships with privately owned companies that have both the capital and expertise to meet their needs," said Correll.

He pointed to United Water's recently formed public-private partnership with Hoboken, New Jersey. United Water now operates and manages the city's water distribution system. The city retained ownership of the system and received an up front cash payment of $5.5 million. United Water has promised to make an additional $4 million of capital improvements to the system over a 10 year span.

Correll explained that elected officials find that public-private partnerships are responsible solutions to providing cost effective services and tax stability. Communities benefit from capital infusion, rate stabilization, ownership retention and system improvement.

As part of the new naming strategy, United Water's principal utility subsidiaries, Hackensack Water Co., Spring Valley Water Co. and General Waterworks Corporation have been renamed United Water New Jersey, United Water New York and United Waterworks, respectively.

PSW Main Cleaning and Lining Program

Philadelphia Suburban Water Co. recently kicked off its 1995, $2 million main cleaning and lining program to rehabilitate approximately 33,000 feet of cast iron mains in two of the four counties in southeastern Pennsylvania.

Cleaning and cement-mortar lining mains restores aging pipe to "like new" condition, improves water flow to customers, and reduces the potential for water quality problems by removing iron oxide build-up from the interior of the main.

Prior to actual construction, mains are flushed and customers' outside spigots are checked to make sure they are in working order. During construction, customers get their water from previously-chlorinated, temporary bypass mains through hoses which are connected to their outside spigots. To ensure continued fire protection, temporary fire hydrants are also provided during the construction.

After the mains are lined and allowed to dry for 24 hours, the newly lined mains must be chlorinated and pass stringent quality tests before being placed back into service.

Cleaning and lining mains generally costs about half the amount of installing new mains and is an option that is available when the structural integrity of a main is still intact. In addition to the cost savings, cleaning and lining mains does not require the extensive excavation needed for main replacements and, therefore, poses only minimal inconvenience to customers and vehicular traffic. Only two, four-by-six-foot holes are made for every 500 feet of main to be cleaned.

The cleaning and lining program is part of the company's 1995, $30 million capital program, a substantial portion of which is being spent to rehabilitate the company's distribution system.

PSC Selects Grundy

Philadelphia Suburban Water Corporation has secured liability coverages for the 1995 policy period from The Grundy Agency. The program offered by The Grundy Agency resulted from work between NAWC's Small Companies Committee and The Grundy Agency, to develop a program geared to the needs of NAWC member companies.

Five years of market analysis has resulted in a comprehensive insurance program designed specifically for privately-held, investor-owned water companies. Program benefits have clearly defined the exact insurance needs of utilities and now provide for historically unrecognized perils. Policy gaps in standard coverages are filled by the Grundy program, causing companies like PSC to turn to the plan for extended coverage. Group underwriting success has resulted in highly competitive rates.

The Grundy Agency services the water industry as Managing General Agent for Reliance Insurance Company. The combined effort currently underwrites the most responsive insurance program, available exclusively to NAWC membership.

Watermaster Elects Stone

Watermaster, a local agency in the San Gabriel Valley responsible for the management of the Main San Gabriel Basin, elected Suburban Water Systems Senior Vice President Reg Stone as its new chairman at a board meeting on January 4.

The nine-member Watermaster board was created in 1972 by court order and is charged with adjudicating water rights and establishing Basin operating criteria and management principles aimed at protecting the water quality and supply of the Basin.

Stone has served on Watermaster's board for 9 years and has been actively involved in the board's ongoing efforts to address the issue of groundwater contamination, which has occurred in specific areas of the Basin. He plans to further this effort by working with key public/private agencies and businesses who are also seeking a workable solution to the cleanup of the Basin.

"Only through cooperative partnerships and collaboration can we develop a viable solution to clean up our Basin," Stone said. "Through an approach that emphasizes cooperation, we will be better able to ensure the continued reliability and quality of our water supply."

The Basin, a large underground aquifer holding approximately 8.6 million acre feet of water, covers a 167 square-mile area within the San Gabriel Valley. In 1979, volatile organic compounds (VOC's), industrial solvents used as degreasers, were discovered in the Basin.

Although water currently drawn from the Basin meets all state and federal water quality standards, Watermaster and several other private and public agencies are committed to supporting a plan that would eliminate and prevent the migration of the VOC's.

Stone currently works in operations at Suburban Water Systems, a water utility company based in Covina that serves about 230,000 people in the San Gabriel Valley and Whittier and La Mirada communities. He has been employed at Suburban for 35 years, directing vital operations in water supply, management and distribution.

In addition, he is a prominent water industry professional and is a member of several organizations, including the American Water Works Association, Underground Service Alert, the San Gabriel Valley Water Association and the Central Basin Water Association. Stone is a state-certified water treatment and distribution specialist who holds a bachelor's of science degree in business management from California Coast College.

Artesian Begins Construction

Artesian Water Co., Inc., has announced that construction of a new two-million-gallon per day water treatment facility and wellfield on Old County Road, near Glasgow, Delaware, has begun. Investment in the project is expected to exceed $2.5 million. Representatives of the Artesian and Hydro Group Groundwater Associates, who are responsible for the design and construction of the treatment plant, attended a ground-breaking ceremony Friday, March 17, 1995.

The new treatment facility and wellfield will initially produce a total of two million gallons per day when construction is completed mid-summer, increasing the company's groundwater supply by almost 20%. The station is engineered to be expandable to three million gallons per day of supply production to meet demands of future growth. According to Dian C. Taylor, President and Chief Executive Officer, "Artesian will achieve a 40% increase in our own water supplies over the next five years, reducing our reliance on neighboring utilities dramatically.

"Investment in the new facility will benefit existing customers by increasing pressure in the area and reliability of service by reducing reliance on purchased water. The facility will also benefit homeowners near and around the station who currently rely on residential wells owned and maintained by the homeowners by bringing safe, reliable supply to their doors.

"Artesian's investment in Delaware over the next five years will exceed $26 million for new water facilities and equipment to assure a long-term, safe supply of quality water for our customers."

Dates to Remember 1 ▪ 9 ▪ 9 ▪ 5

NARUC

Southeastern Association of Regulatory Utility Commissioners
Williamsburg, Virginia
June 4–7

54th Western Conference of Public Service Commissioners
Jackson Hole, Wyoming
June 11–14

Mid-American Regulatory Commissioners
Indianapolis, Indiana
June 11–14

New England Conference of Public Utility Commissioners
Mystic, Connecticut
June 11–14

73rd National Conference of Regulatory Utility Commission Engineers
Boise, Idaho
June 12–15

40th Great Lakes Conference of Public Utilities Commissioners
White Sulphur Springs, West Virginia
July 9

NARUC Summer Committee Meetings
San Francisco, California
July 23–27

National Regulatory Symposium on Computer Information Systems
Colorado Springs, Colorado
October 1–3

23rd Annual Eastern Rate School
Clearwater, Florida
October 8–13

NARUC Basics of Regulation and Rate-Making Process Course
Albuquerque, New Mexico
October 22

107th NARUC Annual Convention
New Orleans, Louisiana
November 13–16

NAWC

California Water Association BoD Meeting
San Jose, California
June 8

Florida Chapter Meeting
Orlando, Florida
June 14

Pennsylvania Chapter BoD Meeting
Harrisburg, Pennsylvania
June 21

New Jersey Chapter Annual Meeting
Jamesburg, New Jersey
June 23

Washington Chapter Meeting
Fife, Washington
July 11

Pennsylvania Chapter BoD Meeting
Harrisburg, Pennsylvania
July 19

Pennsylvania Chapter BoD Meeting
Harrisburg, Pennsylvania
August 16

California Water Association BoD Meeting
Sacramento, California
August 17

Florida Chapter Meeting
Orlando, Florida
September 13

California Water Association BoD Meeting
San Jose, California
September 14

New Jersey Chapter Meeting
Jamesburg, New Jersey
September ?

Pennsylvania Chapter Annual Meeting and Dinner
Harrisburg, Pennsylvania
September 25

California Water Association BoD Meeting
San Jose, California
October 12

Washington Chapter Meeting
Fife, Washington
October 17

Pennsylvania Chapter BoD Meeting
Hershey, Pennsylvania
October 18

NAWC Annual Conference
New Orleans, Louisiana
October 29–November 2

Pennsylvania Chapter BoD Meeting
Hershey, Pennsylvania
November 15

California Water Association
54th Annual Meeting
Monterey, California
November 15–19

New England Chapter Meeting
November 17

New Jersey Chapter Meeting
Jamesburg, New Jersey
November 17

Florida Chapter Meeting
Orlando, Florida
December 13

Pennsylvania Chapter BoD Meeting
Hershey, Pennsylvania
December 13

AWWA

AWWA Annual Conference
Anaheim, California
June 18–22

AWWA Distribution System Symposium
Nashville, Tennessee
September 10–13

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