

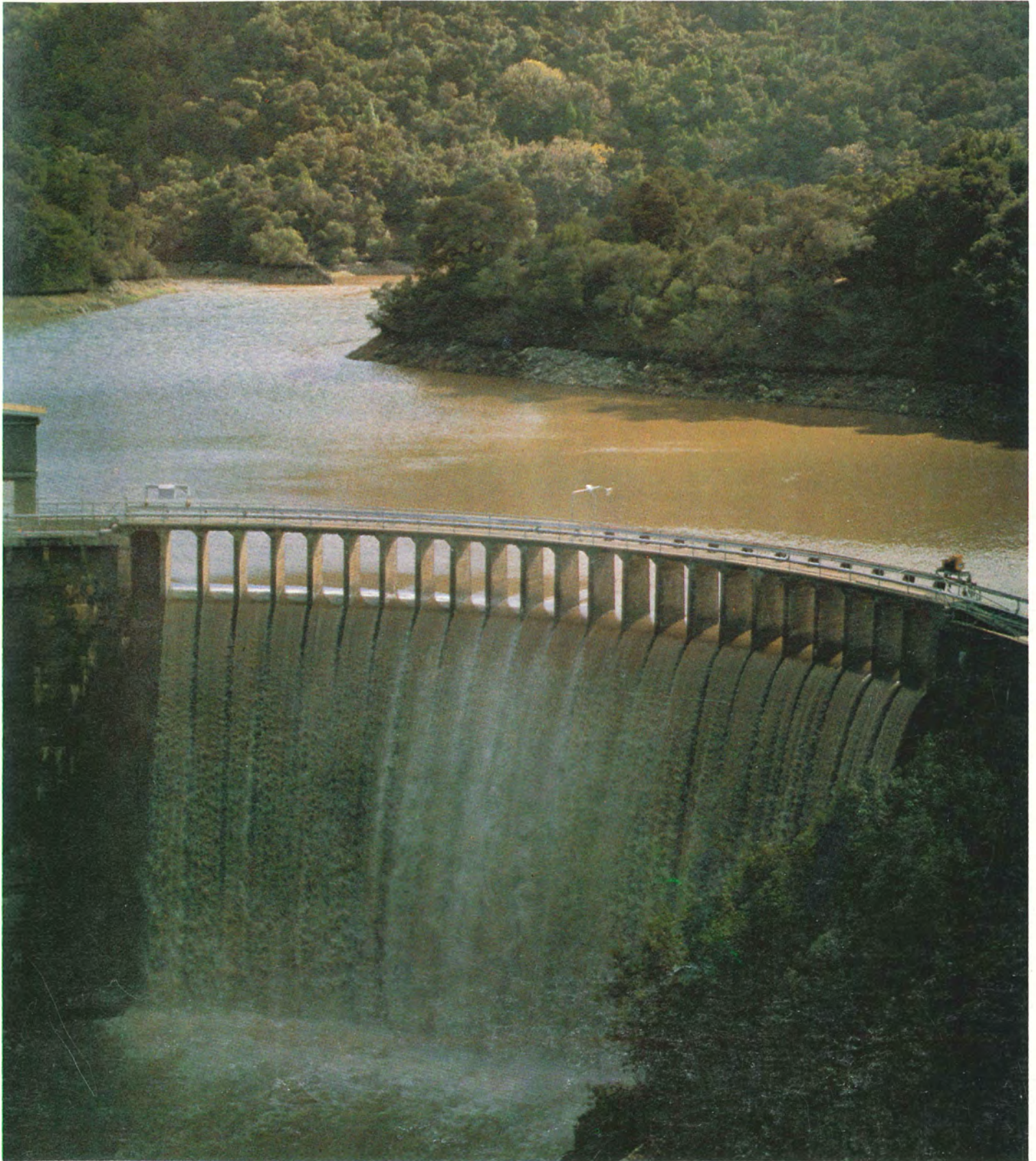
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WATER



Voice of the National Association of Water Companies

WINTER 1983
Volume 24, Number 4





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San Clemente Dam, owned and operated by the Monterey District of California American Water Company. Located in the mountains above the Monterey Peninsula it impounds water from the Carmel River.

PRESIDENT'S REPORT

by John van C. Parker



As we become immersed in our work and preoccupied with solutions of day-to-day problems, it is easy to forget our overall objectives. It is, therefore, appropriate to periodically reflect on where we have been, where we are, and most importantly, where we would like to go. Such reflections are especially appropriate when one assumes the presidency of an organization.

The Bylaws of NAWC state that NAWC "represents the investor-owned segment of the nation's public water supply industry" but are silent on a specific mission for NAWC. A public relations brochure of the Association does state that NAWC "works to promote Federal and State legislation, regulation, and tax policies that benefit its member companies and industry as a whole." It goes on to say that "it also formulates and communicates industry's plans, policies, and programs to foster the effective management of investor-owned water companies."

To the extent that NAWC "represents the investor-owned segment of the nation's public water supply industry," I assume that its objectives should be consistent with those of the companies it represents. That, presumably, is to efficiently provide safe and reliable water service in adequate quantities at a price fair to both its customers and those who have invested their savings in the enterprise. Consistent with that assumption and the message of the P/R brochure, my objective for my year in office is to continue the efforts of my predecessors, all of whom have served the Association so well. That, of course, is a nebulous statement which merits clarification. For any organization at any point in time there are specific problems and issues which merit special attention. This year I feel that our emphasis should be in the following four areas:

1. Gain acceptable amendments to the Safe Drinking Water Act.
2. Enlarge our chapter system, especially to include the State of California.
3. Increase our membership.
4. Continue to improve the image of our industry and the visibility of NAWC.

Safe Drinking Water Act

Those of you who attended our Conference at Boca Raton were brought up to date on the Safe Drinking Water Act by an outstanding panel moderated by Bob Morris and consisting of Mike Zihal, Paul Arneson, our legal and legislative counsel in Washington, and Victor Kimm of the EPA. The apparent leanings of the Administration and Congress are not consistent with our desires and with what we feel is the most practical and economical course for our customers. Mike, Bob, and Paul have been working valiantly on this project over the past year and have agreed to continue their efforts for at least another year. If and when you are called upon to help, be it letters to Legislators or another form of participation, I strongly encourage your cooperation.

Chapters

As has been said before, the strength of NAWC lies in its widespread support emanating from its committees and chapters. In my opinion, our committees have functioned extremely well, and I am confident that they will continue to do so. The same goes for those chapters that are already formed. There are, however, several key states that have not yet formed chapters of NAWC, most notably California, and, I hope those of you who are from those areas will be willing to work with us to have chapters formed.

Membership

The member companies of NAWC currently represent approximately 85% of the revenues derived by the investor-owned water utility industry. Such representation merits attention when spokesmen for our organization appear before legislative, administrative, and regulatory officials. Nevertheless, it doesn't ring quite so true when we state that NAWC's membership includes 242 of the estimated 4,400 investor-owned water utilities which NARUC indicates it regulates. Obviously, the 4,158 utilities not holding memberships are predominantly very small companies. Immediately following the Boca Conference, your Executive Committee focused on that fact and resolved to make every effort to both increase the number of members and continue our policy of offering whatever assistance we can afford to small water utilities with limited resources.

Industry Image

We were fortunate at the Boca Conference to have many regulators including the President, First Vice-President, and Second Vice-President of NARUC and the Chairman, his designated successor, and the designated Vice-Chairman of the Water Committee of NARUC. I gleaned from their remarks and the comments of others that, for the size of our industry and the companies within it, our visibility and image is outstanding. Nevertheless, by any standard our industry is small both within all of U.S. industry and even within just the utility industry. For that reason, we must continue our efforts to speak and be heard and conduct our affairs in a highly professional manner.

I am counting on your continued support of NAWC.

Conference Wrap-Up

The final count indicated that 710 people attended this year's Annual Conference in Boca Raton, which is enough to top last year.

Highlights of the conference included the Keynote Address by Senator George Mitchell (D-Maine) whose remarks on issues of concern at the federal level were timely and informative.

Chairman John Parker incorporated his theme, "Better Understanding Through Communication", into each session. All aspects of communication of interest to investor-owned water utilities were addressed in the six workshops and six seminars. When two members of the four member panel cancelled the day before the Tuesday morning panel discussion, the ingenuity and resourcefulness of water company executives produced Walt Money, who did a great job representing communications with the consumer, and Paul Arneson, our legislative council, who effectively

covered communications on the federal level.

Last minute changes were also required on Wednesday morning when the wrap-up speaker was unable to attend the conference. In a brilliant maneuver, the scheduled speakers were shifted to allow for a panel on the Safe Drinking Water Act. Victor Kim of EPA, Bob Morris, Paul Arneson and Mike Zihal came up with a most informative presentation on the current status of the SDWA and what NAWC has been doing to insure the interests of investor-owned water companies are protected.

James Boren, President of the International Association of Professional Bureaucrats, offered an entertaining wrap-up speech. He described the manner in which bureaucrats operate by stating the motto of his association: "When in charge, ponder; When in trouble, delegate; When in doubt, mumble."

His famous "Order of the Bird" and a variety of unique certificates were awarded to a selected group who were cited for their ability to profundify simplicity, fuzzify goals and globate issues.

The conference concluded with the Annual Meeting and the traditional presentation of the President's plaque to Mike Zihal who has been an active, aggressive President during 1983. Mike, in turn, presented John Parker, the incoming President, with the gavel and silver tray of office. Articles concerning the various awards appear in another section of this issue.

Everyone agreed that it was an outstanding meeting. John Parker offered a great program in a beautiful setting and his team of Consumers Water Company employees worked enthusiastically behind the scenes to produce a memorable 87th Annual Conference.



Bill Lynch of AWWA brings greetings from his organization



Panel on "Better Communication for Understanding". L to R: Walt Money, James Cawley, Henry Patterson, Brendon Byrne and Paul Arneson



Senator George Mitchell



Larry Wallace, President of NARUC, addresses opening session



N. Donald Edwards speaking on "The Dynamics of Successful Communication"



Edward Selig discusses the "Legal Protection of Groundwater Resources"



John D. Russell addressed the "Changing Trends in Water Rates"



Safe Drinking Water panel: L to R: Mike Zihal, J. James Barr (introducing the panel), Bob Morris, Victor Kimm and Paul Arneson



James Boren presents one of his special awards to Commissioner George Barbour



Mike Zihal, John Parker and Jim LaFrankie assure Dr. Boren they will not fuzzify NAWC communications

Lively Lunches



1982-83 Board of Directors Meeting and Lunch



California Chapter Lunch



Florida Chapter Lunch



Illinois-Missouri Chapter Lunch

Seminars and Workshops



Commissioners and staff discuss a regulator's perspective on the Water Utility Industry. L to R: David Irvine, George Barbour, Andrew Barrett, Andrew Niven (Moderator), Paul Gioia, and Junie Bradshaw.



Seminar on Current Financing Trends. L to R: Peter K. Deeks, Kenneth Hollister, Michael Minter and Roger Taylor.



Computer Fundamentals Seminar. L to R: Akiva Pipe (moderator), Henry Phelan, Henry Coleman, Elizabeth Cosgrove and Robin Thurlow.



Government Relations Seminar. L to R: George Steffes, Wilkes Coleman (moderator), Stephen Freind and Brendon Byrne.



Seminar on "Current Developments in Employee Relations". L to R: Norman Neilsen, James Matthews and James Robins.



Seminar on "Methods for Accelerating the Rate Making Process". L to R: Michael Mehr, Robert Mulligan, O. Fred Laurino (moderator) and William Harrold.



Workshop on "Attrition Allowances and Future Test Years". L to R: Martin Abramson, Robert Thiele, Dillard Edgemon (moderator) and James Salser.



Workshop on "Current Developments in Tax Matters". L to R: Christopher Washburn, James McDole, Horace Breece and Armand Epstein.



Seminar on "A High Tech Approach to Meter Reading". L to R: Fred Eckardt, Anthony Zarillo, Ed Cash (moderator), Donald Schlenger and David Gestler.

Honorary Member Award 1983



Edward R. Healy, President of Northern Illinois Water Corporation was named this year's Honorary Member at the Annual Conference in Boca Raton.

This award is presented each year to an individual whose knowledge and accomplishments in the field of water supply and/or water utility management entitles him to special recognition by the membership of the Association.

A Committee composed of Earl Graham, Tony Garnier and Michael Zihal recommended and received approval for this year's award. In announcing the selection, Earl Graham stated:

"In 1948 a Marine 1st Lt. decided rather than continue in his patriotic endeavors he would venture into a field of purity itself—the water industry. From then until now his voice has been heard and presence well known. A man of principle and stubborn pride. A man who could get a job done. One of the few. A man from the "sucker" state and a graduate of its university who has spent his entire career in the industry in that state but reached out into national prominence as chairman of his AWWA section, AWWA Director, Honorary Member of AWWA and President of this Association.

From the inception of NAWC as a national organization some 17 years ago, he has been a strong and dedicated supporter and has rendered invaluable service in leadership roles. It is almost impossible to list his many contributions to the Association, but certainly one of the most important was in 1975 when, no sooner had he taken office, than IRS

came out with its infamous ruling 75-557, a ruling which clearly indicated that contributions-in-aid-of-construction would be considered taxable income to the recipients and quite likely advances for construction would also be considered under this. Under his leadership our Association went to Congress and, when they enacted the Tax Revenue Act of 1976, it specifically removed advances and contributions-in-aid-of-construction from the jeopardy of taxable income. In commenting on his years as President, he said, 'from that experience was born the National Association of Water Companies Political Action Committee and a new assurance of our ability to accomplish the seemingly impossible. I believe our Association became a truly national association as a result of this experience'. Certainly this tremendous legislative accomplishment could not have been accomplished without the dedicated leadership that he gave during 1975 and 1976.

Always alert to the importance of appropriate relations with the state utility commissioners, he finally persuaded a reluctant Executive Committee that our companies in the NARUC Great Lakes Conference should annually sponsor a reception during that Conference at the Greenbriar. That reception has become not only an important part of our regulatory relations program but is hailed by Commissioners and other industry people alike as one of the finest events held each year."

As an added gesture the Association presented Ed's wife, Hazel, with a lovely bouquet of flowers.

SOUTH FLORIDA STUDENT RECEIVES J.J. BARR SCHOLARSHIP

John Ross Rice, a business administration student at the University of South Florida, was the winner of the 1983 J.J. Barr Scholarship.

Mr. Ross was selected from candidates submitted by three Florida Universities. The Committee included Edward Healy, Chairman; Raymond Pillow, Henry Patterson II and John W.L. White.

A check for \$1,000 was presented to Mr. Ross at the Annual Meeting of the NAWC Conference in Boca Raton.

The J.J. Barr Scholarship Award is presented annually by the National Association of Water Companies to honor J.J. Barr, now retired, who was formerly the President and Chief Executive Officer of the American Water Works Company.

Mr. Barr was active for many years in the Eastern Water Company Conference and through his efforts this organization expanded and became the National Association of Water Companies. He served as Chairman of the Board of the Association during the early formative years thereby assuring the leadership so essential during that period.

The award is made to a junior, senior or graduate student. Its purpose is to make the student aware of the potential of a rewarding career in the investor-owned water utility business and to recognize achievement in scholarship, leadership potential, initiative and promise. In addition to the check each recipient is also presented with a certificate.



J.J. Barr congratulates scholarship winner John Rice.

Management Innovation Awards

This year's Management Innovation Competition produced twelve entries and the Committee, which was composed of Robert Gerber, Dale Luther, Ralph Lindberg and J. James Barr, announced the winners at the Boca Raton Conference.

The winner in the large company category was Peoria Water Company, Peoria, Illinois, for their entry "The Evolution of Safety at Peoria Water Company", submitted by T. Wilkes Coleman.

In the small company category, the award went to Seacoast Utilities, Inc., Palm Beach Gardens, Florida, for their entry "The Seacoast Utilities Customer Handbook". Andrea Pauley, Mana-



Beverly Pope of Seacoast Utilities receives the Small Company Award.

ger of the Customer Relations Department submitted the entry.

The special category award went to the Western Pennsylvania Water Company, Indiana District, Indiana, Pennsylvania, for their entry describing their successful plan to coordinate the dedication of their treatment plant with the community-wide celebration organized to honor hometown actor Jimmy Stewart. Carson Greene, Manager of Customer Relations submitted the entry.

All twelve entries are listed on page 9. Copies of all, except (1) which is a slide show and (8) which is a video tape, are available from the NAWC office by submitting the form at the bottom of the page.

A NAWC Tradition



John Parker receives the Silver Tray of Office from Michael Zihal.

Michael Zihal accepts President's Plaque from John Parker.





Carson Greene accepts Special Category award that went to Western Pennsylvania Water Co., Indiana Division.



Wilkes Coleman receives award for Peoria Water Company.

No. Company and Author	Title and Description
1 Monmouth Consolidated Water Co. Mary Ann Waclawick	"Monmouth's Search for New Supplies" (a slide show)
2 Ohio Water Service Co. Virginia Lange	"Interviewing Guide for Management Personnel to Utilize When Selecting New Employees"
3 Seacoast Utilities, Inc. Andrea Pauley	"Customer Handbook"
4 Seacoast Utilities, Inc. June Purrington	"Developer Procedures"
5 Peoria Water Company T. Wilkes Coleman	"The Evolution of Safety at Peoria Water Company"
6 Alton Water Company W.F. Schlosser	"Better Water Week"
7 Ohio Water Service Company Bruce W. Lewis	"The Use of the Personal Computer as a Management Tool"
8 Western Pennsylvania Water Co. Carson Greene	Their plan to coordinate the dedication of their treatment plant with the community-wide celebration organized to honor hometown actor Jimmy Stewart (video tape).
9 Seacoast Utilities, Inc. Andrea Pauley	"Drop Savers Program"
10 Seacoast Utilities, Inc. June Purrington	"Miscellaneous Main Extension Procedures"
11 Park Water Company Daniel M. Conway	"Use of the Microcomputer in the preparation of revenue requirement studies for rate case presentation"
12 College Utilities Corporation Cindy Guckert	"Service Hookup Information Booklet"

Copies of these papers on Management Innovation are available by mailing this coupon to Marilyn Miller, National Association of Water Companies, 1725 K Street, NW, Suite 1212, Washington, D.C. 20006. Please order the papers you would like, but not indiscriminately due to the cost of reproduction.

Please send me copies of Management Innovation Entries Nos. _____, _____, _____

Name _____

Company _____

Address _____

Scenes from Boca





WASHINGTON REPORT

by C. Robert Morris



Washington Update

Both the House of Representatives and the Senate have targeted November 18 as their adjournment date for 1983. The one hang-up had been the lack of a vote in the Senate to increase the debt ceiling so that the government might continue to run after December 1, 1983. This condition was satisfied by the Senate late in the evening of November 16. Except for a few housekeeping items remaining to be completed, it now appears that the Congress is in a position to adjourn on November 18 and indications are that they will return on January 23, 1984.

The Congress is further ahead on appropriations bills than it has ever been in recent history. Nine of the thirteen appropriations have been approved by both Houses and signed by the President. The other agencies and departments continue to be funded by a continuing resolution. Assuming the Congress does adjourn on November 18, there will be no further activity on amendments to the Safe Drinking Water Act or on the water resources legislation.

Amendments to the Safe Drinking Water Act (H.R. 3200)

Mark-up sessions on H.R. 3200 have still not been held. In our last communication on this matter, we indicated that mark-up was delayed because the Administration, through EPA and the Office of Management and Budget, had not yet come to an administrative position. On October 17, 1983, EPA Administrator William Ruckelshaus addressed a letter to Henry A. Waxman (D-California), the Chairman of the House Subcommittee on Health and the Environment, transmitting the Administration's position. Those of you attending the Annual Conference in Boca Raton

were able to hear Victor Kimm, Deputy Administrator for the Office of Drinking Water at EPA, further elaborate on the positions taken by EPA on each section of H.R. 3200. You also heard Michael Zihal indicate that the industry had some basic problems with some of the positions taken and that we would attempt to resolve these differences through further communications with the Agency.

Due to the change in personnel on the Majority Staff handling safe drinking water matters, there has been some delay in any revisions to the language of H.R. 3200. You will recall that Congressman Dennis Eckart (D-Ohio) indicated he would be willing to discuss changes in the language and we are attempting to do this through contact with both Majority and Minority staff. Now that Congress plans on adjourning on November 18, it would appear that there will not be a mark-up session this year and additional time will be available for concluding discussions on any proposed revisions.

Water Resources Legislation

The two major pieces of legislation dealing with water resources, namely H.R. 3678 in the House of Representatives and S.1739 in the Senate, have been reported out of their respective committees. At this time, the committee reports have not been completed and, therefore, neither one of them will go to the respective floors of their chambers until the reports are finished. Obviously, this will not happen this year and, therefore, it would appear to be an early item on the agendas in 1984.

The bill in the House is the most comprehensive and innovative water resources bill ever reported by the Committee. It addresses a wide range

of water resources problems facing the nation. It also includes significant policy changes in the areas of cost-sharing, project financing and environmental protection. This is the bill that establishes a loan program for the repair, rehabilitation and improvement of water supply systems which we have previously reported to you. The Senate bill is not quite as comprehensive as the House bill, but an amendment was offered by Senator Daniel P. Moynihan (D-New York) creating the Water Supply Loan Program which is very similar to the one in the House bill but there are some minor differences which, if enacted, will eventually have to be worked out in a conference committee. This will happen after votes are taken in both houses of the Congress.

National Revised Primary Drinking Water Regulations

In the Wednesday, October 5, 1983, *Federal Register*, the Environmental Protection Agency issued an Advanced Notice of Proposed Rulemaking for National Revised Primary Drinking Water Regulations. This notice calls for the convening of technical workshops in four locations around the country and a public meeting to be held on December 13, 1983. Written comments can be submitted by January 3, 1984. This matter has been referred to the Water Technology and Advisory Committee, chaired by George Haskew, for review and development of a statement on behalf of NAWC. George has created an Ad-Hoc Committee within his group to accomplish the preparation of a statement on behalf of NAWC. This group met in Washington on December 6, 1983, in preparation for the December 13 public hearing.

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DIRECTOR'S REPORT

by C. Robert Morris



A New Look

I am sure that you have noticed the new cover and title for the NAWC quarterly publication. I am particularly excited about the new look of this publication as I think it more closely focuses on our organization. We are indebted to the Public Information Committee, chaired by Jerry Loiselle, for coming up with this new title and cover design. I hope all of you are as pleased with this improvement as I am. In addition, we have gone to full color on the cover which I think further enhances the attractiveness of this official NAWC publication.

Annual Conference

Elsewhere in this issue of "Water" you will find the article on the Conference wrap-up as well as the numerous pictorial events which took place. I thought that Chairman John Parker put together a very excellent program and I heard nothing but very good comments on its content from participants. I would be remiss if I did not take this opportunity to express the appreciation of the entire Association for the efforts that John Parker and all of his Consumers Water Company people put into making this a very successful Annual Conference. All of the people were most cooperative and helpful in seeing that everyone had a most enjoyable time. I would also like to thank Norm Neilson from Hackensack Water Company and Ken Roed from California Water Service Company for their contributions. They were a big help at this Conference which prepares them very well for the future conferences in which they will be involved.

Changing of the Guard

NAWC has over the years been blessed with some very capable and industrious people serving as its President. Certainly, this year's President

doesn't have to take a back seat to any of his predecessors. Mike Zihal served diligently throughout the year, making numerous trips to Washington as well as to other remote corners of the United States. Those of you who attended the Annual Conference were advised of the extensive amount of time that Mike devoted to affairs of our Association. Our new President, John Parker, has picked up where Mike left off and I think you will see from his President's Report that he, likewise, has some very ambitious programs and it behooves all of us to cooperate with John to make his term of office very successful.

John took the opportunity at the Annual Conference to announce the appointments of the committee chairmen for the next year. You will see these names listed elsewhere in this issue of "Water". Our committees have done an outstanding job during the course of the year and their accomplishments are too numerous to mention in this brief report, but I think the results are very obvious. Each of our committees also held outstanding workshops and seminars at the Annual Conference which further contributed to its success.

Our chapters have also been very active during the course of the year and I was delighted to see the number of chapter luncheons held at the Annual Conference. As previously reported, we did organize one new chapter in Delaware during 1983 and we still have high hopes for expanding our chapters in other states with a major emphasis on California.

By-Laws Changes

One of the significant events that happened at the annual meeting in Boca Raton, Florida were two changes in our By-laws. One change eliminated the grandfathering of the number of directors that existed in

each state in 1972. The result of this change is that each state will have the number of directors allocated based on the number of customers of the member companies within that state. The other very significant change was in the method of electing the members of the Board of Directors. This change results in the Secretary of the Association appointing a Nominating Committee in each state who will then caucus the member companies within that state to nominate and elect the number of Directors for which they are eligible. This information will then be furnished to the Association's Nominating Committee which will report it in accordance with the existing By-laws. The old procedure was quite cumbersome and generally resulted in some last minute oversights or additions and I think this will give everyone an opportunity to participate in the election process.

Changes in Dues Schedule

Our Small Companies Committee, chaired by Tom Keyes with Larry Stewart as the Executive Committee Liaison, reviewed the dues schedule of the Association and felt that if there could be some change in the level of dues for the smaller companies we might be able to attract more of them into our membership. We, likewise, wanted to give some recognition to the numerous smaller companies in California who are not currently members of our organization, with the thought that we might be able to attract them. There were various proposals made for a change in the dues schedule and one was formally adopted and approved by the Executive Committee. This was presented to the Board of Directors at their meeting on Monday in Boca Raton and it was approved. There was also a change in the dues for Associate Members, increasing them from \$75 to \$100. Now that this

To Director's page 14

Government Relations Committee

The Government Relations Committee is still very active and held a meeting on December 15 in Washington, D.C. for the purpose of reviewing the status of legislation affecting the investor owned water industry, including the most recent developments on H.R. 3200 and the water resources legislation as well as receiving a report on the Advanced Notice of Proposed Rulemaking for National Revised Primary Drinking Water Regulations. They also reviewed a water resources policy statement which had been developed by an Ad-Hoc Committee of the Government Relations Committee.

As is the custom with this Committee, they meet quarterly, the first three meetings being held in Washington, D.C. Committee members might want to make a note of the dates for scheduled meetings in 1984. They are: February 28, 1984, May 8, 1984 and July 24, 1984. Communications will be sent to the members prior to each meeting.

From Director's page 13

revised dues schedule is in effect for small companies, I think it behooves everyone to attempt to attract new members to our organization so that we might be able to truly represent as much of the industry as possible.

Washington Office

By the time this issue of "Water" reaches you I will have completed almost one year as Executive Director of NAWC. As I expressed in Boca Raton, I would like to again recite my appreciation for the opportunity you have provided me to serve this organization and the water utility industry. Since coming to Washington I have found that each year brings new challenges and I look forward eagerly to continued service to NAWC and the investor owned water utility industry. Certainly none of this could be possible without the very fine people who make up the staff here in Washington. I would like to publicly thank Fred Allen, Marilyn Miller, Jim Norris, Janice Hussey and Peggy Farrow for all of their contributions and devotion to the affairs of the Association during this past year.

REGULATORY RELATIONS REPORT

by Frederick N. Allen



Top Regulators at NAWC Conference

NARUC President Larry Wallace, Chairman of the Indiana Public Service Commission headed a list of commission and staff personnel from fifteen states that attended NAWC's 87th Annual Conference in October at Boca Raton, Florida. Wallace spoke at Monday's opening general session before a packed house at the Conference Center.

Appearing on a seminar moderated by the Chairman of the NARUC Water Committee, Commissioner Andrew Niven of Rhode Island, were several of the country's top regulators, including First Vice President Junie Bradshaw of the Virginia Corporation Commission, Dave Irvine of Utah, George Barbour of New Jersey (who becomes Second Vice President at NARUC's Detroit Convention in November), Paul Gioia, Chairman of the New York Public Service Commission and Illinois Commissioner Andrew Barrett.

Appearing on a Tuesday general session, involving communications, was Pennsylvania Commissioner James H. Cawley and former New Jersey Governor and former Chairman of the New Jersey Commission, Brendan Byrne. Commission staff personnel participated in a variety of workshops during the week long conference.

Bradshaw Heads NARUC



Commissioner Junie L. Bradshaw of Virginia was elected President of the National Association of Regulatory Utility Commissioners at their 95th Annual Convention and Regulatory Symposium held in Detroit, Michigan, November 14-17, 1983. Bradshaw has served eleven years as a member of the Virginia

Commission and has been active nationally throughout his tenure. Born in Irwin, North Carolina in 1930, he attended William and Mary College and received his law degree from the University of Richmond Law School. A veteran of the Navy and the Korean War, he was engaged in a private law practice before going to the Commission in April of 1972.

Moving into the First Vice President's slot at Detroit was Commissioner Susan M. Knowles, a member of the Alaska Public Utilities Commission since 1975, and the new Second Vice President is Commissioner George H. Barbour of the New Jersey Board of Public Utilities.

Barrett Heads NARUC Water Committee

Commissioner Andrew Barrett of Illinois has been named by NARUC President Larry Wallace to be Chairman of the NARUC Committee on Water succeeding Rhode Island Commissioner Andrew Niven who left regulation October 30 to take a position with a West Coast utility. Named Vice Chairman of the Committee was Commissioner James L. Cawley of Pennsylvania.

NARUC Water Committee Asks Study of Consulting Services for Small Utilities

The NARUC Committee on Water has requested a study relative to the providing of consulting services to small water utilities by service company subsidiaries of the larger utilities according to an announcement by the National Regulatory Research Institute (NRRI), the research arm of the nation's utility commissioners. Dr. Vivian Witkind Davis said that the study would be "an assessment of the extent to which the establishment of separate

service organizations by large water utilities for hire by small and medium-sized water companies to handle rate case applications for the latter is cost-effective compared to alternative approaches".

The study will also determine "whether the creation of such stand-alone subsidiaries might be a form of diversification involving a danger of cost subsidization between regulated and non-regulated activities."

In a conference at Columbus, Ohio, in October, NAWC's Director of Regulatory Relations, Frederick N. Allen, was asked to supply them with names of key individuals in NAWC who could be helpful as they pursue the study during the forthcoming winter.

NRRI's first study on water companies was published this past spring.

LeBuhn Heads Regulatory Law Committee

William J. LeBuhn, Vice President and Corporate Counsel of General Waterworks Service and Management Company has been appointed the new Chairman of the NAWC Regulatory Law Committee succeeding Fred Laurino of Hackensack. LeBuhn is also Chairman of the Water Committee of the Public Utilities Section of the American Bar Association. In a recent report to the Council of the Public Utilities Section, Mr. LeBuhn covered

matters involving rate base in cases involving Florida and Delaware courts, a copy of which follows.

" A. Rate Base. In *Re Wilmington Suburban Water Corp.* and *State v. Florida Public Service Commission (Jacksonville Suburban Utilities Corp.)*, appellate courts in Delaware and Florida, respectively have ruled that rate base must include the add-back of accumulated depreciation on contributions in aid of construction (CIAC) and customer advances (CA). The Superior Court of Delaware ruled that the Public Service Commission had illegally circumvented the statutorily-required add-back to rate base of accumulated depreciation on contributed property by assigning a zero cost of capital thereto in calculating the rate of return for Wilmington Suburban Water Corporation. Because the legislature has defined the elements of the rate base to include the add-back and has mandated that the rate of return be calculated on such rate base, the Commission cannot alter the definition of rate base by adhering nominally to the statute by including add-back in determining rate base, only to disregard it in determining the utility's capital structure and cost of capital, the Court held.

The Delaware Commission allows utilities to take depreciation on CIAC

as an operating expense. The Commission contended in its brief that this fact justified its treatment to add-back at a zero-cost rate. This contention, however, is irrelevant, by reason of the unambiguous statutory provisions and was not even addressed by the Court.

In Florida by contrast the Commission had ceased allowing depreciation on CIAC as an operating expense as a result of the decision in *State v. Hawkins (Holiday Lakes)*. In *Holiday Lakes* the Florida Supreme Court disallowed the add-back because it viewed inclusion of add-back as resulting in a windfall to the utility, which already received depreciation on contributions as an operating expense. Relying on a 1981 decision raising the same issue, the District Court of Appeals found Jacksonville Suburban's situation readily distinguished from *Holiday Lakes* and affirmed the Commission's inclusion of add-back.

It should be noted that Florida's statutory scheme is more general than Delaware's and that after *Holiday Lakes* the Florida Commission changed its approach to add-back by converting past add-back to retained earnings and converting depreciation on contributed property to an earnings allowance. The results are equitably the same in both jurisdictions."

1983-84 Committee Chairmen

John van C. Parker announced the following Committee Chairmen at the Annual Conference in Boca Raton:

J.J. Barr Scholarship
Committee on Chapters
Customer Service
Accounting
Finance
Management Information
System
Rates and Revenues
Taxation
Audit
Employee Relations
Government Relations
Public Information
Regulatory Law
Regulatory Relations
Small Companies
Water Technology and
Advisory

Raymond E. Pillow
John M. Knight, Jr.
Edward F. Cash
James R. Maurer
John Kerr, Jr.

Akiva F. Pipe
Dillard L. Edgemon
James E. McDole
Si Stock, Jr.
Robert P. Kenney
William C. Stewart
Gerard E. Loiselle, Jr.
William J. LeBuhn
Michael Zihal
Thomas G. Keyes

George M. Haskew, Jr.

Must Water Rate Increases Exceed Inflation Rate?

The following articles by Messrs. Lee, Linam and Thornburg were delivered at the Annual Conference of the Mid-America Regulatory Commissioners in June, 1983, at the Marriott Hotel in Des Moines. We appreciate the opportunity to publish them in this issue of the magazine.

by Ramon G. Lee
American Water Works Service Co., Inc.

Expenditures required to comply with Environmental and Safety Legislative mandates can be great. These costs are only indirectly seen in the general inflation rate yet they bear directly on water utility rates. Depending on the timing and the type of response required for compliance water rates can be dramatically impacted.

Principal Federal Legislation which has impacted, and will continue to impact, the water utility industry includes the Safe Drinking Water Act, and Clean Water Act, the Dam Safety Act, and the Occupational Safety and Health Act. Other environmental legislation which can indirectly affect water utility costs include the Resource Conservation and Recovery Act, the Clean Air Act, and the "Superfund" law which requires cleanup of existing hazardous waste sites. While most of this legislation was passed in the 1970's the implementation of these laws by regulatory agencies results in a continuum of new requirements. This is demonstrated in the most recent agenda of Federal Regulations which is published twice per year. EPA's agenda alone listed 294 new or revised regulations under consideration.

I would like to spend sometime briefly discussing the impact of each of these legislative areas.

Safe Drinking Water Act (SDWA)

This is the legislation which over time will have the greatest impact on the water utility industry. The SDWA requires 1) water quality monitoring, 2) compliance where water quality standards are not met, and 3) routine reporting to regulatory health agencies and the public if standards are not met.

Monitoring: The extensive monitoring required by the SDWA often requires the hiring of new personnel with a high degree of expertise; the purchase or leasing of new analytical

equipment such as atomic adsorption spectrophotometers and gas chromatographs; and in some cases the construction of new or expanded laboratory facilities.

Within the American Water Works System, which is made up of approximately 100 systems, water quality personnel have increased from 34 to 78 over the past 10 years. This increased staff includes plant chemists, water quality supervisors and Regional Laboratory personnel.

While, because of our size, it is more cost-effective to conduct our analytical work in-house it was necessary to staff and equip two Regional laboratories to serve our System companies. During 1983, 4,200 samples will be chemically analyzed for compliance purposes at our Regional Laboratories.

... the SDWA has increased the operating expenses in many systems by affecting labor costs, analytical service fees, and treatment chemical costs.

Compliance: the SDWA in some cases brings new water quality requirements. Many systems required new filtration plants where none previously existed to meet the turbidity standard. In one case the development of a new well source was a less expensive alternative than the provision of filtration facilities. The trihalomethanes standard which is just going into effect for most systems (those serving more than 10,000 persons) has required operating changes primarily in the application of chlorine. Alternate pretreatment chemicals such as Potassium Permanganate or Chlorine Dioxide have been required in lieu of less expensive, but THM forming, chlorine. This also requires the installation of chemical handling and

feeding facilities. New ground-water standards will undoubtedly require treatment facilities at some supplies.

Reporting: There are administrative costs in complying with the reporting requirements of the SDWA. Generally, all results of water quality analysis must be reported within a specified time frame. This requires meticulous tabulation and monthly reporting of routine results. If problems are encountered and standards are exceeded then detailed public notification must be made in newspaper notices, radio, and television announcements, and written notification sent with the bills.

In summary the SDWA has increased the operating expenses in many systems by affecting labor costs, analytical service fees, and treatment chemical costs. The cost will continue to rise as new water quality standards are imposed. Capital costs for compliance have totaled \$4.4 million over the last 5 years which represents 1.5 percent of the total construction costs Systemwide. The impact is obviously greater when the costs are evaluated at those specific systems where improvements were necessary for compliance purposes.

Clean Water Act

The Federal Clean Water Act requires the permitting of all wastewater discharges. States vary in their interpretation of the treatment requirements but if the plant is on a relatively clean stream most states will not allow direct discharge of backwash water or clarifier sludge. The method of disposal includes lagoons with eventual hauling of the concentrated sludge for ultimate disposal, disposal to the sanitary sewer requiring substantial payment to the local sewer authority, or more expensive dewatering methods where these alternatives are simply not available.

Over the past 5 years American System Companies have spent \$9 million for construction to comply with the Clean Water Act. Operating costs are also raised due to labor requirements and fees for sludge hauling. In the case of West Virginia Water Company-Kanawha Valley District the sewer charges for 1983 to dispose of

Over the past 5 years American System Companies have spent \$9 million for construction to comply with the Clean Water Act.

sludge and backwash water will be \$500,000. Decisions are still pending in many systems on the exact method of disposal which will ultimately be required.

Other Environmental Legislation

Other Environmental Legislation has had an indirect impact on the cost of operation. The Clean Air Act requires emission controls for automobile exhaust, chemical storage and gasoline motors on pumps. Additionally, requirements that power generators use more expensive low sulphur coal and oil also result in increased operating costs due to the greater expense of electrical power.

Other Environmental Legislation has had an indirect impact on the cost of operation.

The Superfund legislation requires the cleanup of existing hazardous waste sites. This program is funded in part through a tax on chemicals sold by chemical producers. Water treatment chemicals such as chlorine, ammonia, potassium hydroxide and sodium hydroxide are taxed in this manner. Another example of the indirect impact of Superfund occurred when one of our systems was ordered by the State Health Department to extend service to an area which had individual wells contaminated by a hazardous waste site. The cost of the main extension (\$250,000) was far above the revenue to be gained from 37 new customers.

EPA's ban on PCBs under the Resource Conservation and Recovery Act requires the routine inspection of all transformers containing PCBs. This re-

quires only minimal labor but is just an example of the impact that regulatory actions can have.

Dam Safety Act

The Dam Safety Act administered by the Army Corps. of Engineers has had a significant impact on many of our systems which have impounded water supply reservoirs. Since 1972 American System companies have spent \$10 million in dam improvements required by inspectors from the Corp. of Engineers. Another \$8 to \$10 million will be required in the next 5 years. In some cases dams have been breached where the cost of improvement was too great, requiring the development of new groundwater sources. One West Virginia Company with 5800 customers is currently spending \$2 million dollars to make dam spillway improvements.

OSHA

Although most companies had a safety code prior to the passage of the Occupational Safety and Health Act, there has been an increase in the administrative costs of safety programs. New personnel are necessary to assure compliance with new regulations. OSHA is most often enforced through surprise inspections by State officials.

One plant which was felt to have a good safety program based on inspections by our own personnel was inspected by State OSHA. Twenty violations were found and subsequently corrected. The violations ranged from shelves without ledges being used to store chemicals, to a chlorine treatment room with only one exit.

A current emphasis of OSHA regulation deals with hearing conservation. The regulations require baseline audiograms for employees, noise monitoring programs and the installation of engineering controls such as acoustical panels or enclosures where required. Hearing tests will be required every year from now on.

Summary

The impact of these mandated actions are usually not incurred at one time. However for demonstrative purposes I have tabulated the impact on a water company with 12,000 customers. As shown in the accompanying table the increase in operating costs if incurred in a single year would be 37 percent. These costs have little to do with the general inflation rate and represent special costs incurred by the water company as a result of mandated Environmental and Safety legislation.

**MANDATED LEGISLATIVE COSTS
10,000 Customer Water Company**

	Capital	Operating
SDWA		
Monitoring (Chemical)		\$ 18,900
THM Compliance	\$35,000	18,000
Well Replacement	\$200,000	
Reservoir Cover	\$300,000	
Administrative		20,000
CWA		
Sludge Handling	\$2,000,000	\$80,000
Dam Safety		
Dam improvements	\$430,000	
Annual inspection		1,000
OSHA		
Administrative		2,000
Hearing conservation		800
Plant safety improvements	\$3,000	
TOTALS	\$2,968,000	\$140,700
Annual Revenue Required to Cover Capital Costs		\$742,000
Increased Annual Operating Costs		\$140,700
Total Increased Annual Revenue Required		\$882,700
Per Customer Increased Revenue Required		\$73.55
Percent Increased based on \$200.00 per customer annual water bill		37%

by Glen W. Thornburg
American Water Works Service Company, Inc.

The water works industry is the oldest public utility in the country. It was first established in Boston in 1652, only 32 years after the pilgrims landed. I'm told it provided a supply for domestic service and fire protection to the residents of Boston's Conduit Street. Growth of the industry was slow because of the abundance of water and its ready availability to all population centers. In fact, two hundred years after the first system in Boston, there were only 83 identifiable public water supply systems in the then 31 states. About this stage of our history, however, the population began to grow rapidly and became preoccupied with industrialization. Streams began to become less dependable, and public health dictated an industry effort toward purification of the product. Filtration was introduced in 1870, and by 1900 the industry had grown to 2,600 systems. Typhoid fever epidemics and firefighting water requirements of the early 1900's put development of the industry in high gear. With chemical disinfection effected in 1908, our industry began its record growth period.

From our beginning, we've been labor intensive. The early impoundment of water required piping for distribution to customers who were perfectly willing to allow someone else to supply them with a product progressively more difficult to obtain individually. Vast numbers of workers were employed to dig ditches to depths below the frost line and install heavy cast iron pipe manually. Simultaneous to pipeline activities were major construction projects such as the installation of steam pumps and boiler equipment, reservoirs, intakes, etc., all requiring heavy concentrations of labor. As the water industry grew to over 20,000 operations around the country, some of the few technological advances to favor the industry were in evidence. Coal-fired steam equipment gave way to electric motors. Manual labor was supplanted by mechanized

equipment such as trenchers and backhoes. Instrumentation replaced manual operators of pumps, filters, etc. As time passed, utilities operated well and effectively with employee numbers in some cases only a fraction of those recorded earlier. The modern water works industry experienced the influence of several wars on their employee levels but found a degree of stability in the fifties, sixties, and early seventies. Through 1973, it would seem we were maintaining an operational level that was quite adequate for the times. With the advent of the energy crisis and the economic problems that followed, the employment level began to be reduced accordingly.

During the time period of 1973-1982, all three categories of water companies experienced a drastic reduction in the number of employees.

This report will reflect the employment levels in three different classes of water companies as compiled by the National Association of Water Companies and recorded in their *Financial Summary for Investor-Owned Water Utility* publications over the past ten years. The National Association of Water Companies divides investor-owned water companies into classifications by revenues. This report will focus on class A-3 companies with revenues between \$1-million and \$5-million annually, class A-2 companies with revenues between \$5-million and \$10-million annually, and class A-1 companies with annual revenues of more than \$10 million. These revenues appear to be quite low; however, water companies historically have been more provincial in their service areas, thus small by comparison to other utilities.

During the time period of 1973-1982, all three categories of water companies experienced a drastic reduction in the

number of employees. The class A-3 companies dropped from an average of 56 employees in 1973 to an average of 33 in 1981. Class A-2 companies were reduced from an average of 168 employees in 1973 to 81 in 1981. Class A-1 companies hit the all-time average low in 1979 at 266 employees, down from a high average of 347 in 1973. The reduction was a steady one for all three types of companies. Only weather conditions dictated the minor variances recorded. These reductions *did not* take place as a result of technological advances: rather, as a result of the industry's reluctant acceptance of the performance of less programmed maintenance.

The reduction in employee levels has decreased the percentage of our total operation and maintenance expenses. In 1973, labor expenses represented 52% of our operation and maintenance expense—in 1982, 47.2%. Although there has been a reduction, we continue to be highly labor intensive. I would reemphasize the point here that the reduction from 52% to 47% is not a result of any technological advances that will permit us to continue to operate at that level. Rather, as a hesitant economic recovery begins to pick up steam, water utilities will reach again the 1973 levels of employment and beyond.

Remembering the employee levels experienced from 1973 through 1982, let's review the wage impacts for that same period of time. The increase in the average labor cost per water utility employee has nearly doubled from \$10,600 in 1973 to \$20,900 in 1982. The 1977 annual wages were \$14,500; this figure will be used later for constant dollar comparison. (The *Statistical Abstract of The United States* was used to augment available wage information.)

Now, I would like to compare the increase in the consumer price index from 1977 to 1982 with the increase in wage rates and total compensation in the water works industry for the same

period. Total compensation includes pension and group insurance expenses. During this period, the CPI increased 48.8%. In the same period of time, wage rates have increased by 37.8%. Based on the percentage difference, water utility personnel have lost 11% in wages to inflation over the past five years. That would equate, based on the average 1977 wage of \$14,500, to a \$1,600 loss to inflation in a five-year period. In terms of total compensation, a 44.2% increase was recorded from 1977-1982. This compared to the Consumer Price Index increase for the same period of 48.8% shows a 4.6% loss to inflation for total compensation. Based on the average salary of \$14,500 in 1977, a \$670 total compensation loss to inflation has been experienced in the industry. This indicates an erosion of purchasing power over the past five years has been experienced, and it would be naive to assume that with the advent of relative stability in our economy, attempts will be made by all bargaining units to recapture the loss to inflation in future bargaining agreements.

The underlying question this presentation is designed to answer is, "Must water rate increases exceed the rate of inflation?" There are a number

of labor influences on future rate increases. Let's review the two we've already noted and several we have not.

We have begun to rebuild our employee ranks, but we're doing so with a different type of individual.

First of all, to again reach the 1973 employee totals, it will be necessary to increase 1982 employee levels by over 20% at significantly higher wage rates: Secondly, the loss of purchasing power to inflation in recent years will result in concerted catch-up pressures: Thirdly, personnel upgrade and training requirements. We have begun to rebuild our employee ranks, but we're doing so with a different type of individual. The new employee is better educated and demands higher compensation, skill level training, and betterment potential. I recognize ours is not a high tech industry, but we have indeed entered an era of specialization. The Fourth labor influence is group insurance and pension cost. These costs represent an additional 30% or more of labor wage rates. They'll continue to significantly influence expenses. Fifth is social securi-

ty escalation, unemployment insurance expense increases, and government expense shifting such as private company assumption of medicare in employees over 65 years of age, etc.—these items all will continue to contribute to increasing labor expenses.

In order to avoid the inclusion of investor-owned water companies in the popular "infrastructure decline" philosophy, future water rate increases must exceed the rate of inflation, certainly to the extent that labor

In order to avoid the inclusion of investor-owned water companies in the popular "infrastructure decline" philosophy, future water rate increases must exceed the rate of inflation, . . .

influences the operation and maintenance expense and resultant revenue requirements. Only a major reduction in staffing levels brought about by other technological advances or by customer demand for a lower level of acceptable service could dictate otherwise. We've come a long way since Conduit street, and we in the industry don't plan to go back.

by William C. Linam
General Waterworks Management and Service Company

Every few years we seem to either coin a new word or popularize an existing word. The current word is *Infrastructure* (the popular term for the nation's public works—roads, bridges, utilities, canals, dams, treatment plants). It is almost impossible to pick up an American Waterworks Association publication, an American Society of Civil Engineers publication, or other similar publications without reading something about our decaying infrastructure.

Before the 98th Congress convened, Washington observers were betting that the infrastructure issues—financing and employment would

capture much of the 98th Congress' interest. Anticipating the focus of the 98th Congress, the AWWA Water Utility Council set up a task force to examine the association's response to infrastructure issues.

Quoting from comments by H.C. Heldenfels, President of the Associated General Contractors of America, in regard to the 5 cent road tax, "While we are preparing to inject some life into our deteriorating transportation systems, other vital, yet less visible, parts of our *infrastructure* are withering with little sign of aid. Perhaps the most important of these is our water supply and distribution systems."

The Associated General Contractors of America issued a report titled "Our Fractured Framework, Why America Must Rebuild" detailing \$909.9 billion in total infrastructure needs and pegged water supply and distribution needs at \$110 billion for large urban centers alone over the next 20 years. Frost and Sullivan, Inc. the New York based business research firm projects capital spending by the 9,800 water utilities that serve 1,000 or more people to more than double to \$7 billion by 1990. "The cost of water is definitely going to rise in the near future for a number of reasons."

Many of the stories about infrastructure are simply scare tactics designed to retain and obtain government subsidies. Many of the so-called

"The cost of water is definitely going to rise in the near future for a number of reasons."

needs projected for infrastructure are no more than wish lists for everything under the sun people think they might want to build. The accuracy of the large dollar projections can be questioned.

The purpose here is not to make projections of needs and cost on an industry wide basis. The purpose for the quotations and references is to point out that problems do exist. However, we are more interested as water works operators and you as regulators in specific companies rather than generalities. One generality that we can make is that much of our water supply infrastructure was constructed prior to 1940. Much of this plant is in need of renovation and/or replacement due to being the victim of age or obsolescence.

The significance of the fact that much of the water supply infrastructure was installed prior to 1940 is the inflation since that period. If we recall some of our basic macroeconomics we find that although there were some swings, prices were near the same in 1940 as they were in the late 1800's. Since 1940 we have a period of extremely high inflation. If we look at the Handy-Witman Index or the Consumer Price Index (Figure 1) we find that most categories of construction increased by well over 1000%.

Most units of utility property have a long service life. In reviewing our continuous property records we find that most of the utility plant needing replacement due to age or obsolescence was installed prior to or shortly after 1940. Replacement of this plant means that water rates will not only be affected by today's inflation rate but by the accumulated inflation rate since the plant was originally placed in service.

In an attempt to quantify the effect this accumulated inflation will have on future utility rates a short range study

Figure 1



of two small water companies was conducted. One of these companies is located in the eastern part of the United States with a lot of old capital investments, part of which was before the turn of the century. The other company is located in the mid-west with newer capital investment, approximately 65% within the last two years.

The significance of the fact that much of the water supply infrastructure was installed prior to 1940 is the inflation since that period.

To simplify the study an assumption was made that inflation would be 0 for the next 10 years. Other assumptions were made that no debt would mature, keeping debt cost constant, 0 growth, and no change in consumption patterns. Basically the parameters were set so that the only change would be the replacement of existing plant that was deteriorated or obsolete.

By viewing the plant in service and reviewing the age it was possible to project the utility plant that would have to be replaced over the 10 year

period of the study. By assuming no growth, no expansion, and no change in operations the only capital additions were due to the fact that existing plant installed 30, 40, 50 or more years ago had reached the end of its useful life. The assumption was made that the property was replaced in kind, not upgraded and under the conditions that existed when the plant was originally constructed (a conservative approach).

The effects of these assumptions on the rate base of the two companies in question are shown on Figure 2. The rate base of the company with the old capital investment (Old Water Company) can increase by 98% in the next 10 years due to replacement of plant effected by the accumulated inflationary spiral of the last 40 years. The rate base of the company with much newer capital investment (New Water Company) can decrease by 5% due to less plant being replaced and a much higher depreciation rate.

Keeping rate of return and all other factors constant the effect of the increased rate base on overall rates is shown by Figure 3. Due to the inflation spiral alone the rates of the Old Water Company could increase by 41%. Due to the age of the New Water Company the rates do not increase in

the 10 year period due to past inflation. However, by increasing the time frame of the study even the New Water Company could be effected by past inflation.

Since this part of the presentation "Must Water Rate Increases Exceed The Rate Of Inflation" is dealing with capital intensity only, an attempt was made to isolate the effects of capital. With the proper mix of utility plant and with much of the utility plant installed in the last couple of years, it is possible that the rates of some isolated companies will not exceed the inflation rate for a short period of time. In general, rate increases of most companies exceed the rate of inflation in the near future and in the long run rate increases for all companies must exceed the present rate of inflation. As can be shown by this short study this is due to past inflation that will increase the rate base when existing property is replaced.

Figure 2

RATE BASE COMPARISON

	Old Water Co. 1981	New Water Co. 1981	Old Water Co. 1991	New Water Co. 1991
Original Cost Less Depreciation	\$3,312,088	\$7,185,000	\$5,761,316	\$6,799,000
Advances and Contributions	(512,088)	(239,000)	(512,088)	(239,000)
Materials and Supplies	35,000	35,000	35,000	35,000
Cash Working Capital	75,000	108,000	75,000	108,000
Rate Base	\$2,910,000	\$7,089,000	\$5,359,288	\$6,703,000
Number of Customers	5435	5752	5435	5752
Rate Base/Customer	\$535.42	\$1,232.44	\$986.07	\$1,165.33

Figure 3

REVENUE COMPARISON

	Old Water Co. 1981	New Water Co. 1981	Old Water Co. 1991	New Water Co. 1991
Operating Revenue	\$1,219,930	\$2,332,500	\$1,719,307	\$2,327,500
Operating and Maintenance Expense	586,000	649,000	586,000	700,000*
Depreciation	46,000	241,000	80,000	258,000
Taxes Other Than Income	35,000	80,000	35,000	80,000
Operating Income Before Income Tax	\$ 552,930	\$1,362,500	\$1,018,307	\$1,289,500
Income Tax	187,725	471,500	345,724	447,000
Operating Income	\$ 365,205	\$ 891,000	\$ 672,583	\$ 842,500
Residential Customers	5036	5028	5036	5028
Revenue/Residential Customer	\$184.00	\$221.00	\$259.47	\$220.53
% Change In Revenue	+41%	-0.2%		

*O&M Expenses increased at 0 inflation because 1981 did not include O&M Expenses on New Plant.

TAX ADVISOR



DEFERRED TAXES ON DEPRECIATION MAY NOT BE PROVIDED AT THE HISTORICAL AVERAGE EFFECTIVE TAX RATE

by James E. McDole, Partner Deloitte Haskins & Sells

In a private letter ruling, the IRS has ruled that normalization of depreciation at an effective tax rate based upon average adjusted historical consolidated data, in lieu of the statutory tax rate, is not a permissible method for determining deferred tax expense. Such a method would result in a violation of the Accelerated Cost Recovery System (ACRS) normalization requirements (DOC 8338071).

Background

The taxpayer is a public utility engaged in the business of furnishing gas through a local distribution system. Prior to the Economic Recovery Tax Act of 1981 (ERTA) (i.e., for pre-1981 years), the utility did not

normalize the tax benefits of accelerated depreciation but rather flowed the benefits through to the ratepayer. With the enactment of ERTA, normalization was mandated for all post-1980 property additions on which the benefits of ACRS were to be claimed.

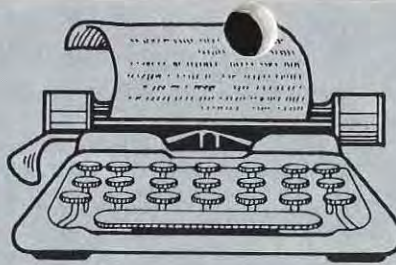
The transitional rule enacted by ERTA provided that ACRS would be allowed on post-1980 property additions only if a normalization method of accounting was followed. A first rate order using a normalization method of accounting had to be obtained on or before January 1, 1983, if prior to 1981 the utility was not using a normalization method of accounting.

The utility in this case filed the required rate schedules with the State Public Utility Commission requesting increased revenue requirements resulting from the normalization of depreciation at the statutory tax rate of 46 percent. The Commission re-determined the deferred tax expense by using the utility's effective tax rate based upon an average of adjusted historical data. This effective tax rate was, therefore, lower than the statutory tax rate used by the utility. The utility protested the reduction and the Commission then decided to conditionally allow the additional revenues that would provide for the deferral at the 46 percent tax rate subject to a ruling by IRS.

IRS Ruling

The IRS reasoned that the deferral of taxes resulting from the use of different methods of depreciation for income taxes and ratemaking purposes is solely a function of the difference in depreciation and the statutory tax rate in effect for the year. Therefore, normalization of depreciation at a historical average effective tax rate, in lieu of the statutory tax rate, is not a permissible method for determining deferred tax expense for ratemaking purposes and does not represent a normalization method of accounting.

PR POINTERS



Public Relations Can Work for You Day-In and Day-Out

by Gloria Jean Penza
 Director of Information
 Long Island Water Corporation
 Member of the Public Information Committee

What we do, and how it is perceived by others, creates public opinion. And today's public opinion may become tomorrow's legislation. And tomorrow's legislation may have a direct effect on what we do and how we do it. Did you notice the proverbial vicious circle in that premise?

But, the key phrase is "public opinion." And, in order to create a favorable public opinion, which is what we want if one day it may tell us how to operate, we must gain and maintain the support and goodwill of others. We must persuade our various publics so that we will have their understanding, their sympathy, their backing, their cooperation.

How do you create public opinion? Public opinion is formed automatically by the way you conduct your business. It can either be favorable or unfavorable. You don't need a public relations staff or counsel, you don't need your name in the paper, you don't need to have an open house. The way a company's employees—and those employees include everyone from a billing clerk to the chairman of the board—carry out the day-to-day work operations communicates a message to others, and that message forms public opinion.

If you are involved in public relations, you know and understand this. If you are an administrator, however, you may have a tendency to pigeon-hole public relations and only call on it when management needs counsel to get out of a tight situation (which public relations could have prevented in the first place); or when the presi-

dent has to make a speech; or when your company is required to make a public statement; or when annual report time comes around.

Some of you may not realize you do

this. To find out if you fall into this category, take the following short quiz. Indicate at the right whether or not you think the item is a public relations function.

	Is PR	Is Not PR
1. A customer appears on your doorstep with a quart of black water and demands your lab test it for impurities	<input type="checkbox"/>	<input type="checkbox"/>
2. A newspaper reporter calls for information on your rate case	<input type="checkbox"/>	<input type="checkbox"/>
3. A salesperson from a meter company turns up for an appointment and you're still in a meeting with your boss	<input type="checkbox"/>	<input type="checkbox"/>
4. A company sets up a program for problem drinkers among employees	<input type="checkbox"/>	<input type="checkbox"/>
5. An order to flush a hydrant to remove an accumulation of iron is issued by the distribution department	<input type="checkbox"/>	<input type="checkbox"/>
6. The janitor cleans the lobby with a waxing machine	<input type="checkbox"/>	<input type="checkbox"/>
7. An employee requests permission to post a notice on the bulletin board advertising his/her car for sale	<input type="checkbox"/>	<input type="checkbox"/>
8. The president of your company is invited to speak before the fire department	<input type="checkbox"/>	<input type="checkbox"/>
9. Office employees are giving in to the trend and wearing designer jeans to work	<input type="checkbox"/>	<input type="checkbox"/>
10. One of your managers joins the Rotary	<input type="checkbox"/>	<input type="checkbox"/>
11. The president has lunch with the Mayor	<input type="checkbox"/>	<input type="checkbox"/>
12. A company vehicle cuts off another driver	<input type="checkbox"/>	<input type="checkbox"/>
13. At the next monthly staff meeting, your topic is supervisors' taking too much time off	<input type="checkbox"/>	<input type="checkbox"/>
14. A company asks for verification of one of your former employees	<input type="checkbox"/>	<input type="checkbox"/>

If all your checkmarks are in the first column, you're aware of the importance of public relations as management policy. A wise company makes public relations a function not just of a department, or outside consultants, but of top management so that every business operation and decision is considered from the standpoint of its public impact.

You may be thinking that some of this is true, but that infusing public relations philosophy into every major and minor operation is stretching the premise a bit too far. For example, you say, how can a janitor waxing the floor be part of the public relations function.

If the janitor is doing the waxing between 8:00 a.m. and 5:00 p.m., Monday through Friday, it's a sure bet that customers and visitors are going to see him. The first impression the janitor will evoke is that the lobby is clean because visitors are personally witnessing someone cleaning. If the lobby is neat and attractive, people will perceive your office as a nice place to do business. If the janitor is uniformed personnel, and he looks crisp, clean and neat, that's another positive image. The surroundings also will have a positive effect on employees who want to work in an attractive, pleasing office environment. So, the janitor waxing the floor is an image and creates public opinion (favorable).

On the other hand, imagine the impression if the janitor is moving like a snail, has a faded and rumpled uniform on, and a cigarette dangling from his lips. This, too, is an image (what an image!!) and creates public opinion (unfavorable). You'd better have him working after 5:00 p.m. or on weekends!

Janitors are not supervised by the public relations department. Most likely, they will be under the direction of the office manager, personnel or general services departments. Unless the supervisors in these departments are public relations-minded, management has to alert them to the effect their part of the company's operations will have on the company's image. That's part of the public relations function.

Whether you work for or run a company that has a full communications department staffed by professionals, or are a one-person operation, your public relations objectives is the same.

Examine every big and little task you do every day with an eye to how it will appear to others. Then adjust your procedures to reflect the best image. Favorable public opinion will be the result. With the application of some common sense and a sincere desire to project a positive image, it can be done.

Review the list again, and this time try to envision the impression your company would make in handling the situation. If you come up with any "unfavorable" ones, determine why and make the adjustments necessary to change the outcome to "favorable."

In the overview, there are a multitude of ways you can enhance your image and create favorable impressions day-in and day-out. They are not the result of a brochure or a news release or a speech. They come from a management commitment to do it.

Apparently, this commitment is all pervasive at the Dale Carnegie Institute. Recently Marvin, a representative from that company, related an experience he had with his boss. The boss chastised Marvin for projecting a negative public image when he dined out. Marvin hosted a luncheon for some of his staff. His meal was unsatisfactory so he complained about it and sent it back. The tip he gave was just under 15%.

This incident got back to Marvin's boss along with the American Express credit slip.

"Marvin," his boss said, "wherever in the world you are dining, if the meal is unacceptable, don't complain about it. Put it aside, order something

Ideas To Share?

Have you written a speech, brochure, feature article, payroll insert?

Have you developed a new employee orientation kit, an institutional advertising program, an exhibit or display?

Have you held a photo contest, open house, press conference?

Have you done any communications project which you could share with NAWC members?

The Public Information Committee is planning to add a special section to its quarterly column through which you can offer samples and information on your project to those interested.

Send a brief description of the project with the name and address where members can request the information, and we will run it in the section.

This can be a convenient resource opportunity for all members so don't wait. Send your item in today! Send it to:

NAWC Public Information
Committee
733 Sunrise Highway
Lynbrook, New York 11563

else and pay for both." His boss continued, "Marvin, Dale Carnegie employees never undertip. They give between 15% and 17% at all times."

Can you go overboard in applying public relations techniques to everything? Apparently, some experts think not.

NEW OPERATIONS CENTER FOR PHILA. SUBURBAN



Philadelphia Suburban Water Company officials break ground to begin construction of a new Operations Center at the northwest corner of Sproul and Beatty Roads in Springfield Township, Delaware County. Taking part in the ceremonies (left to right) are Earl Graham, Water Company president; Robert Luksa, executive vice president; Fred Eckardt, vice president-operations, and Donald Hain, president, Hughes-Foulkrod

Construction Company of Plymouth Meeting.

The 19,000 square foot building and surrounding areas will contain offices and house maintenance and construction forces. In addition, there will be an auto and truck maintenance garage, a central storage area and parking for vehicles. Completion date is set for June, 1984.

CUSTOMER SERVICE REPORT



by Patty McGowan
Seacoast Utilities, Inc.

If the meter-reading team at Seacoast Utilities, Inc., in Palm Beach Gardens, Florida were astronauts, they would be made of the "RIGHT STUFF".

But the four-member team really doesn't fit the image of the "all-American male". They are all-American females.

"Other utility companies have always been surprised to find out that our meter readers and their supervisor are women!" explained Andrea Pauley, Customer Relations Manager of Seacoast. "We began hiring women meter readers in 1975 and by 1978, it worked out that all of them were women."

"Of course we are always asked how effective they are. I am able to respond proudly and truthfully that each of our meter readers can read from 400 to 600 meters a day and as many as 800, depending on meter accessibility and location," explained Nancy Swann, Meter Reading Supervisor.

Of the three meter readers and their supervisor, one is a grandmother, one is a new mother who left to have her baby and then returned, one began working at Seacoast part-time four years ago while she was in high school and is now full time, and one has children in their twenties.

"Our meter readers must read two kinds of meters," explained Ms. Swann. "The water meter registers are digital and the gas meter registers are dials."

Seacoast Utilities services 17,500 water and sewer customers and 2,400 gas customers, making it the largest investor-owned water/sewer utility in Florida. Meters are read on a monthly basis and readings have been estimated on only two occasions since 1978; once in 1979 during Hurricane David and once in 1981 when unseasonably heavy rains occurred.

Despite the fact that this crackerjack meter-reading team is composed solely of highly trained and qualified

women, three of them are under 5 feet tall and weigh less than 100 pounds. Nonetheless, they must face annoyances and dangers that would put the burliest of constitutions on edge.

"We have to deal with snakes, rodents and insects who have made the meter box their homes," said one meter reader.

Sometimes there are overgrown shrubs, sand and other obstructions that must be dealt with before reading a meter. When it rains, a bilge pump is standard issue. Seacoast's meters are located in utility easements near the road or next to the customer's



Meter Reader Kelly Bailey (youngest by age—longest seniority) pumps water out of meter box to get accurate reading.



Seacoast's meter reading crew standing (L to R) Billie Lyons, Nancy Swann (supervisor), Murlene Jones, Kelly Bailey.

premises, usually at ground level.

Often the meter readers have to use machetes to get through bushes and overgrowth, crawl under cars, or brave large dogs to get to the meter, yet their accuracy and speed are unparalleled.

"Even though meter reading is a part of the Customer Billing Department, our meter readers are also cross-trained to help other work areas," explained their manager, Bonnie Evans. "One of our meter readers is trained in data entry, another can work the switchboard, a third is cross-trained as a parts runner, and another has worked in emergency dispatch and as a field service representative."

"We are also training one meter reader as a Customer Relations Rep back up. Assisting in other work areas eliminates boredom and repetition, and gives the meter readers motivation. One of our former meter readers is now a computer operator, and since she is familiar with our service area, she can catch mistakes more readily," said Ms. Evans.

"Of course we are proud of our crew, and other utilities can benefit by hiring women meter readers. For instance, in companies where the meter is located inside the house, housewives might feel safer letting a woman into their homes rather than a man," explained Ms. Swann.

Seacoast Customers also appreciate the Seacoast meter-reading team: On a recent occasion, one of the meter readers assisted a young child and his brother who was injured. She brought the injured child to his home, notified his mother, treated his wounds and later checked on his progress. The mother wrote to Nolan Reed, President of Seacoast, commending the woman.

"We hired these women because they were the best qualified to do the job," said their supervisor. "We didn't hire them to prove that an all-woman crew could be successful. It just worked out that way!"

Pipeline

TO SMALL COMPANIES



Dr. Vivian Davis

STATE COMMISSIONS USE NON-TRADITIONAL TECHNIQUES TO IMPROVE REGULATION OF SMALL WATER

Editor's Note: This is the third in a series of articles, written by Vivian Witkind Davis of NRRI, on The National Regulatory Research Institute (NRRI) Study of the Problems of Regulation of Small Water Utilities

According to a recent survey by the National Regulatory Research Institute (NRRI), staff experts at many state public utility commissions feel that traditional solutions do not go far enough to meet the special needs of small water utilities as regulated public utilities. Non-traditional solutions have been adopted by a number of commissions. These solutions include restrictions on certification of new water utilities, deregulation of rate case applications, the provision of training for utility managers, regionalization, changing the type of ownership, and the use of guidelines or "safe harbors" within which utilities may set rates without prior commission approval. This is the third of three articles on the survey by the NRRI, the research arm of the National Association of Regulatory Utility Commissions (NARUC). The first reviewed as a whole the NRRI report *Commission Regulation of Small Water Utilities: Some Issues and Solutions*.¹ The second discussed traditional solutions to the problems of regulating small water utilities, including stipulated proceedings, simplified or shortened forms, and simplified procedures.

The non-traditional solutions stem from a recognition that the fundamental problem of small water utilities—namely that they are often not economically viable—does not begin at the door of the commission. Problems

¹Available from the NRRI, 2130 Neil Avenue, Columbus, Ohio, for \$13.75.

experienced in a rate case are more a result of the structural weaknesses of small utilities than inherent flaws in the rate case process. The stages by

Problems experienced in a rate case are more a result of the structural weaknesses of small utilities than inherent flaws in the rate case process.

which a small water utility gets into rate case trouble may be looked at as intervention points at which a commission may act to prevent or ameliorate difficulties.

Intervention to Reduce the Demand for the Creation of Small Water Utilities

The first step on the road to regulatory problems is settlement of an area that is not served by an existing water utility. Strict rules for certification of a new utility and consolidation of existing water utility service areas can be used by a public utility commission at this stage to prevent demand for a new, small water company that lacks the monetary and management resources to succeed. The most direct application of commission authority to prevent the start-up of a poorly conceived small water utility would be to withhold approval of a certificate of convenience and necessity. The California commission in 1979 began a policy of denying new certificates for privately owned water companies considered unlikely to be economically viable.

Certificates of convenience and necessity are the "stick" that commissions can use to keep inefficient utilities from being established. The

"carrot" is allowing a company to extend existing service to a larger geographical area. Making an existing water utility service area larger by incorporating "new" development into its authorized service territory will increase its ability to take advantage of economies of scale, which should benefit its existing and new customers. Illinois and Florida are examples of states with an active policy of promoting regional water systems. Developers are urged to join municipal water systems whenever possible, or to secure an extension of service from existing companies, or to have "satellite operations" established by existing companies.

Intervention to Enhance Initial Viability

The second step towards difficulties with the regulatory process is the establishment of water utilities that are under-capitalized and too small to support a solid management structure. Interventions at this stage by a commission can and have focused on promoting an ownership type that minimizes the need for further state oversight, improving the utility's initial financial base, and education of utility owners and operators.

If the customers themselves own and manage a small water utility, the potential for monopolistic abuse should be eliminated. The beneficiaries of water service become the decision-makers, setting rates among themselves. If there are problems, they are likely to affect those in charge as well as everybody else. If a housing development has within it people with adequate mechanical skill, they can operate the water system themselves. Certification of operators may

end the commission's interest in assuring a safely maintained water supply. The commissions in Illinois and Florida actively encourage cooperative ownership arrangements.

Whatever the ownership type, the small and very small water utilities tend to have financial problems due to their lack of initial capital. Subsidization of a water system's construction, maintenance, or expansion through capital loans or grants can help to assure the financial viability and quality of service necessary for the system. Two states have attempted capital subsidization of water utilities. Recent legislation to establish a "water bank" in West Virginia failed to pass. The state of Pennsylvania, however, has established a substantial fund to aid water supply systems. Voters in Pennsylvania in 1981 approved \$300 million in general obligation bonds for loans for water improvements, including \$220 million for "community water systems."

A third area where commissions can help small water utilities, besides promoting responsive ownership structure or supplying financial support, is education and training. At a minimum, a commission can supply written guidance to a developer to help him plan service. New Mexico, for example, has developed guidelines that tell developers what the requirements are for running a water utility.

West Virginia, New York, Pennsylvania, and New Jersey have used training seminars for owners and operators of water utilities. These educational efforts improve the level of understanding of the role of regulation in a more systematic way than learning through the experience of a rate case. They encourage correct balancing of revenues and costs, including depreciation. Problems from lack of adequate capital replacement may be avoided, and the quality of service and record keeping improved.

Finally, in looking at what can be done to get water utilities properly started, one straight-forward technique should be mentioned—simply setting rates correctly from the beginning. Often the rates for new, small, investor-owned water utilities are artificially low when service is begun. It could be necessary for a commission to approve rates higher than those a utility requests if it suspects that artificially low rates are requested for

promotional purposes and that inadequate attention has been paid to determining the future cost of maintenance and repair activities. In the long run, consumers, as well as the company, are best served by rates that reflect true total costs, assuming appropriate financial controls over the additional utility revenues are instituted.

. . . in looking at what can be done to get water utilities properly started, one straight-forward technique should be mentioned—simply setting rates correctly from the beginning.

Intervention to Improve the Operation of Small Water Utilities

For small water companies already in operation, a state commission can still reach out beyond the rate case process with devices to improve the utility's capacity to serve the public. Regionalization, training for owners and operators, and annual reporting requirements can mitigate some of the problems associated with the utilities' small size.

Where promotion of sufficiently large water companies or interconnection with systems was not possible at the outset, it still can be encouraged for existing ones. Economically advantageous hook-ups might not have been achieved when the companies began service, or population movement may have occurred that now makes formerly unsatisfactory interconnections cost-effective. A commission should be alert to the potential for regionalization of existing systems.

A commission should be alert to the potential for regionalization of existing systems.

Where physical interconnection remains inappropriate, it still may be possible to pool some resources. Economies of scale can be gained through regional management firms, central ownership of geographically dispersed companies, or centralized assistance through either a government or private organization. A central management services firm can

provide functions such as billing, accounting, metering, and purchasing to physically separate water systems. In West Virginia, for example, public service districts occasionally contract with a company for management functions. Utilities pay a service fee, but save the costs of hiring someone themselves. The technique should save money and may improve service quality.

Not only regional management, but regional ownership has been encouraged in West Virginia. The West Virginia Water Company recently took over a financially troubled rural water company with the provision that they would be allowed to charge the same rates as in the main district of the water company. "Single tariff pricing" is another innovation in West Virginia policy which allows capital costs to be spread over the whole corporation and service area. The immediate beneficiaries are sparsely populated areas. Over the long run the major metropolitan area served by the company will benefit by having a larger number of people to pay for expensive capital improvements. The traditional regulatory task of determining a fair "single tariff" would be an important part of such a regional solution, with due care taken to avoid overcharging some areas at the expense of others.

The Florida commission, too, has worked with a large company that operates between 30 and 40 small systems in a six-county area to combine the systems for ratemaking. As in the West Virginia case, each small system has its own rates. The commission's goal was to develop uniform rates, reducing the record keeping required and the expense of rate cases for individual water systems.

Other forms of centralized assistance have been provided in Connecticut and Maine. In Connecticut, experts with accounting experience specializing in the needs of small water utilities have been identified and their use encouraged. In Maine, a counseling service for small water utilities was funded briefly through the federal government.

Regional or central services to small water utilities can improve operations. An alternative is to develop internal capabilities through education and training, as discussed above.

Finally, to improve the operations of

small water utilities, the commissions are using a standard regulatory tool, but in a non-traditional manner. The annual report on utility company financial status is more than a source of basic information about the company. Filling it out properly is an education in regulation for the company and

Regional or central services to small water utilities can improve operations.

gives the commission an ongoing, routine means of oversight. A sound annual reporting system forms the basis for many of the simplifications in rate application requirements discussed in the second article in this series.

Intervention in the Rate Case Process

The fourth step in the process by which small water utilities experience difficulties with regulation is application for a rate change. The commissions can intervene to change the circumstances under which water utilities can apply for rate changes by routinizing the timing of rate cases, deregulating, or providing "safe harbors" or automatic adjustments.

Unlike the large electric, gas, and telephone utilities, which have been known to "pancake" their rate case applications or to file on at least an annual basis, many commission staff feel that small water utilities err in the opposite direction and file too infrequently and with irregular timing. Some commission staffers interviewed by the NRRI said the companies often put off filing justifiable rate increase requests. Consequently, when they do apply for an increase, it is very large. The ratepayers, having grown accustomed to low and stable rates over the period of years for which no rate relief was requested, feel the abrupt change unjustified and act accordingly. Commission staff urge frequent filings only if a corresponding increase in the cost of service has occurred. They feel that due to inadequate financial records and financial management skills, a small water utility would frequently not realize it was in trouble until it was too late.

One means of simplifying proced-

ures that apparently has been used in Ohio for small gas utilities is rate case consolidation. Consolidating water utility rate cases would allow a commission simultaneously to analyze, review, and decide several cases. Commission staff would be able to use the time devoted to similar rate cases more efficiently, and commissioners could decide similar cases in the same review. Commission workload would thus be reduced.

Deregulation of all or some water utilities is another option for the public utility commissions. In some states, water utilities are not regulated by the commissions. In others, only those that meet certain conditions, often minimum size, are regulated.

Deregulation of all or some water utilities is another option for the public utility commissions.

Public utility commissions in Georgia and Minnesota do not regulate water utilities. Thirteen states have minimum limits for the number of customers a water utility must serve in order to be regulated. Iowa has the highest cut-off: only those utilities with more than 2,000 customers are subject to commission authority under a 1981 law. A staffer at the Iowa commission said that in 1981 there were only 17 regulated, investor-owned water companies in the state, but their use of commission resources was comparatively high. He said the state departments of health and environmental quality were now responsible for the safe operation of the small water utilities. He was unaware of any complaints about the companies' rates since the new law went into effect. A commission may wish to reduce its responsibilities for regulation of some or all water utilities, but not be convinced that it should eliminate water regulation entirely from its domain. An alternative solution is to lessen the amount of direct commission intervention. A "safe harbors" approach calls regulation into play only under certain conditions. As long as the utility's rates or other characteristics stay in a "safe harbor" it may operate free of commission intervention.

Customer objections to rate increases trigger a formal commission hearing in several states. Two states

(Texas and Virginia) set specific levels on the proportion of complaints that would bring a utility up against the boundary of its "safe harbor." New York sets a limit in annual revenues or revenue increases before a public hearing is required by law. Public hearings may still be held if consumer reaction is significant, or if service inadequacies exist. In all these cases, the commission maintains oversight of company activities and rate increases.

The Florida commission has developed a "safe harbor" approach that relies on the rate-of-return. Water and sewer companies may use the rate-of-return on equity currently authorized by the commission. The commission establishes the allowed range of return once a year based on evidence presented in a public hearing.

Eleven commissions use automatic adjustments, another form of "safe harbor," for water utilities. Increases in the price of purchased water are most frequently allowed to be automatically passed through to customers, according to the NRRI survey. Adjustments for chemicals, fuel, and taxes are also allowed in some automatic clauses. In commissions that were using adjustment clauses, all but two staff experts said the adjustments had saved time and money for the commission and the utilities.

Conclusion

The 1982 NRRI survey of the commissions revealed widespread concern for the problems of regulating small water utilities and a multiplicity of efforts to deal with them. Staffers at 60 percent of the commissions that regulate water utilities said their commissions were becoming increasingly concerned with water utility regulation; staffers at 71 percent said the number of water utility rate cases before their commissions was increasing. At 84 percent of the commissions, at least one technique aimed at reducing the burden of regulation of small water utilities is in use. The scope of their efforts ranges from use of stipulated proceedings in rate cases, a relatively minor departure from regulatory practices undertaken in 22 states, to Iowa's deregulation of all water utilities serving fewer than 2,000 customers.

Company Profile

A Brief History of Consumers Water Company

by Brian R. Mullany
Secretary, Consumers Water Company

Original Foundation

On February 25, 1926, Consumers Water Company was founded by combining the interests and expertise of four individuals: Harold C. Payson, William B. Skelton, Vernon F. West, and Philip Burgess.

Mr. Payson was a principal in H.M. Payson Co., a Portland, Maine, investment company started by his grandfather. The Payson Company was known internationally as "the water bond house" for its active participation in the development of the water industry from Maine to California. The Company partially owned some water utilities which were sold to Consumers shortly after its founding. Incidentally, Mr. Payson's father and two uncles, all former partners of H.M. Payson Co., had previously been directors and owned a substantial block of Indianapolis Water Company stock.

William Skelton was an attorney in Lewiston, Maine, who spent his professional career in the service of public utilities. He served as President and then Chairman of the Board of Central Maine Power Company, the largest electric utility in Maine. Prior to that he had served on the Maine Public Utilities Commission when it was first formed.

Vernon West, the first President of Consumers, came from a family with a long history in the water business. George F. West and Son Co., operated water companies in the Maine communities of Biddeford, Saco, York, and Freeport, as well as in Leadville, Colorado, and Springfield, Missouri. Most of these companies were consolidated into or operated by Consumers at some time.

The fourth founder of Consumers was Philip Burgess of Ohio whose engineering consulting firm, Burgess and Niple, is active in the waterworks industry to this day.

Consumers consisted initially of Penobscot County Water Company (Me.), Beaver Valley Water Company (Pa.), Kankakee Water Company (Ill.),

and Shenango Valley Water Company (Pa.). The latter two remain part of the Company and formed the nucleus to which other companies have been added from time to time.

Always a Holding Company

Since its incorporation Consumers Water Company has always been structured as a holding company. Consumers owns and manages its subsidiaries which at the start were exclusively regulated water utilities but, as time progressed, included non-regulated entities as well. The parent company is not subject to regulation. In 1931, a privately-owned Portland firm, Dartmouth Real Estate Company, was experiencing financial difficulties, a problem certainly not unique for that period. As Dartmouth's tenants were unable to pay their rents, Dartmouth was unable to meet its mortgage obligations. To relieve the situation, Consumers began purchasing both common stock of Dartmouth and a portion of its outstanding debt to local banks. By the end of World War II, Consumers owned 50% of Dartmouth's common stock. Now it owns 100% of the real estate investment and development enterprise which has been renamed The Dartmouth Company.

A common denominator underlies water utilities and real estate; both tend to have long-lived assets which appreciate in value while providing current income to the owners. The



Installing a river crossing at Sayre, Pennsylvania, by means of a temporary earth fill.

periodic gains from the sale of Dartmouth Company properties, and of water utilities purchased by municipalities, have been quite significant for Consumers.

Getting back to Consumers' development, by 1930 Consumers had added Williamsport Water Company (Pa.), Delaware Water Company (Del.), York Shore Water Company (Me.), and Plattsmouth Water Company (Neb.). In 1930, the Company also acquired Springfield City Water Company (Mo.), Hudson Water Company (NH), Freeport Water Company (Me.), Winterport Water Company (Me.), and Roanoke Water Works Company (Va.). There then followed a twenty-nine year hiatus during which the properties were assimilated and a few sold.

Four Presidents

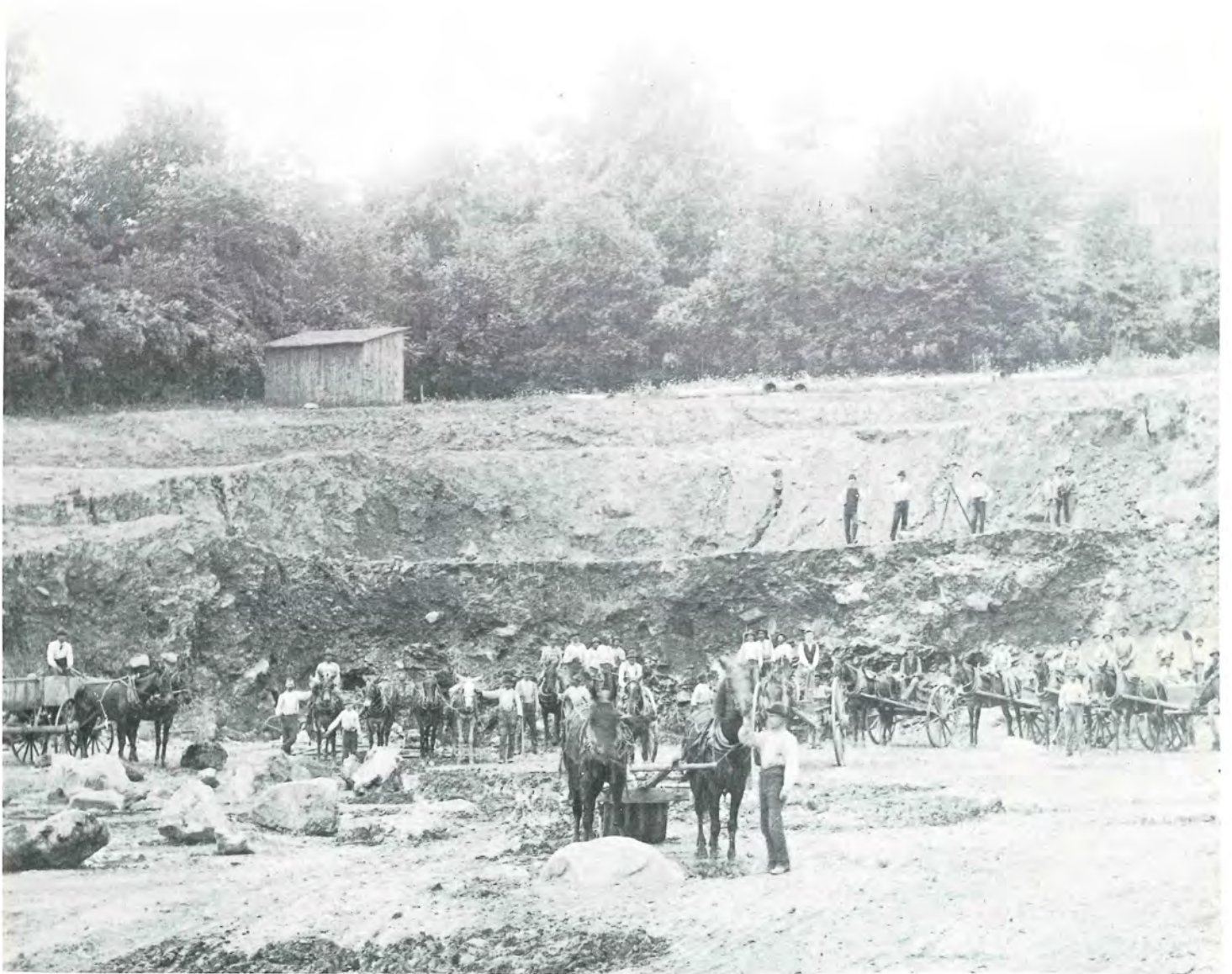
Vernon West served as President of the Company from its founding until 1951. He also sat on the board of Directors from 1926 until 1963. Thus, he was a key figure in Consumers' growth for almost two-thirds of its fifty-seven year history. Mr. West was succeeded by Harold Payson who was President from 1951 until 1957. Harold Payson was succeeded by Fletcher W. Means who served until 1966.

As Fletcher Means assumed the reigns, the relative quiescence of the previous twenty-seven years ended abruptly. In 1957, Consumers' largest property, Springfield City Water Company, was sold for a gain of more than \$5 million. The effect of this sale was to more than double both the book value and market value of the Company's stock. The book value rose from about \$6.50 per share to nearly \$15.00 per share. This infusion of equity capital was timely and laid the groundwork for a second phase of expansion which lasted from 1959 until 1973. That expansion was carried out under two Presidents, Mr. Means and John W.L. White who succeeded him in 1966.

To History page 30



Two sections of wooden pipe found in a Wiscasset, Maine, street.



Excavating a reservoir for Ohio Water Service Company.

From History page 28

The Second Growth Phase

Between 1959 and 1973 Consumers acquired many properties and merged them with each other or, in some instances, with properties already held. Camden and Rockland Water Company (Me.) was acquired in 1959 and remains the largest property owned in the Company's home state of Maine.

The Company's fastest growing subsidiary, Garden State Water Company (NJ), was formed in 1969 from three previously acquired properties, Blackwood Water Company, Hamilton Square Water Company and Peoples Water Company of Phillips-

burg. The Blackwood Division, especially, has been growing at a relatively rapid pace.

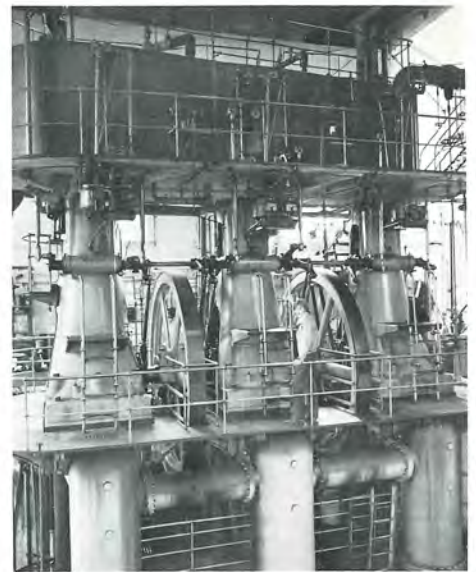
In the meantime, Maine Water Company was being formed by merging the Company's seven small Maine companies. Those systems served the towns of Newport, Wilton, Wiscasset, Damariscotta, Newcastle, Oakland, Kezar Falls, and Freeport. That combination was consummated in 1973.

At about the same time two recently acquired Pennsylvania companies were also merged to form Pennsylvania Water Company. One served the Town of Sayre on the upper Susquehanna River, and the other served the western suburbs of Erie.

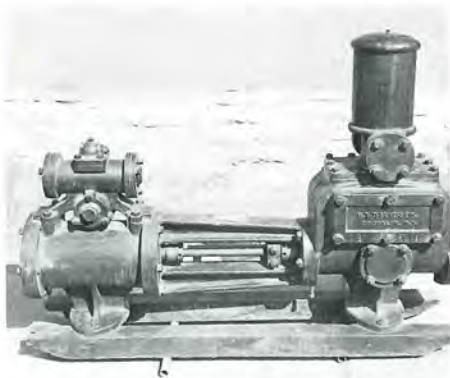
The final acquisition of this fourteen year period was by far the most significant. In 1973, Consumers gained 100% ownership of Ohio Water Service Company through an exchange of stock. The acquisition nearly doubled the size of the Company. Consolidated net plant increased from \$38 million to \$72 million, annual production went from 13 billion gallons to 30 billion, and customers served increased from 68,000 to 124,000. The number of shareholders more than doubled from 1,468 to over 3,000. (It is now estimated that Consumers has over 5,000 beneficial shareholders.)



The newest pickup for Ohio Water Service Company.



This triple expansion steam pump at Phillipsburg, New Jersey, was maintained in standby status until this year when it was run for the last time to the delight of over 150 "steam buffs."



An 1881 double-acting steam pump used for many years at Sayre, Pennsylvania.



Water Treatment Plant on the banks of the Kankakee River (Ill.)

Consolidation

The period from 1973 to 1983 was again a time of consolidation and relatively slower growth. Nevertheless, during that ten-year period, the number of customers increased from 124 thousand to 148 thousand, almost 20%. In addition, the Company strengthened its balance sheet by the first and only public sale of common stock. Following the initial issuance of stock to the four founders in 1926, many other people became shareholders either through the exchange of stock for the acquisition of properties or by purchasing stock from existing shareholders. In the second growth stage, not all companies were acquired for stock and thus arose the eventual need to raise additional equity capital. One hundred twenty-five thousand new shares were sold through an underwriting for \$2,650,000 in 1977.

Further Diversification

Early this year, Consumers entered what appears to be a new phase of its life. In 1982 as a part of its strategic planning, the Company elected to diversify beyond the scope of The Dartmouth Company. The first step was the purchase this March of Burlington Homes of New England, Inc., a producer of custom-built, high-quality manufactured homes, and Schiavi Homes, Inc., a dominant company in the retailing of manufactured homes. Burlington sells through distributors in New England and North-eastern New York York State, and Schiavi concentrates on the Maine and New Hampshire market.

The combination of these two businesses with the development expertise of The Dartmouth Company provides Consumers with an opportunity to vertically integrate the housing business. With these companies, Consumers can provide affordable homes for the growing segment of the housing market which is unable to afford the burgeoning costs of conventionally-built homes.

The Future

At this time, under the leadership of John W.L. White, Chairman, and John van C. Parker, President, Consumers is poised to take part in the economic recovery. The Company is currently 70% in the water business and 30% in

the real estate/housing business. Additionally, a letter of intent has been signed with Malcolm Pirnie, Inc., an engineering consulting firm, to form a joint venture which will provide water and wastewater engineering and operational services to both municipal and investor-owned utilities.

In the meantime, Consumers is not ignoring the utility side of its business. This year Southern New Hampshire Water Company (formerly Hudson) has acquired franchise rights to serve

parts of Londonderry and Amherst, New Hampshire. Both these towns and the primary service area in Hudson and Litchfield are in one of the fastest growing sections of the United States. Company officials are also negotiating with representatives of other water utilities in several of the seven states of the Consumers system.

While the water utility business is still the backbone of Consumers, Consumers Water Company is, in the words of John White, "Not Just Another Utility."

At the end of 1982, Consumers Water Company was providing water and sewer services to 147,874 customers located in 78 communities in 7 states. The date of acquisition and numbers of customers for each company is given below.

State	Company	Acquisition Date	Customers
Illinois	Kankakee Water Company	1926	20,737 (a)
Ohio	Ohio Water Service Company		
	Marysville Division	1973	2,954
	Washington Court House Division	1973	5,516
	Massillon Division	1973	19,705
	Lake Erie West Division	1973	18,787
	Lake Erie East Division	1973	7,305
	Mahoning Valley Division (Indus)	1973	29
	Struthers Division	1973	11,680
	Masury Water Company (b)	1926	1,665
Pennsylvania	Shenango Valley Water Company	1926	15,333
	Pennsylvania Water Company		
	Erie Suburban Division	1969	3,202
	Sayre Division	1968	4,134
New York	Wanakah Water Company	1965	3,485
New Jersey	Garden State Water Company		
	Phillipsburg Division	1968	7,206
	Hamilton Square Division	1965	6,084
	Blackwood Division	1964	6,627
New Hampshire	Hudson Water Company	1930	3,123
Maine	Maine Water Company		
	Damariscotta Division	1964	520
	Freeport Division	1926	612
	Kezar Falls Division	1971	378
	Oakland Division	1968	788
	Wiscasset Division	1964	336
	Camden and Rockland Water Company	1959	6,753

(a) Includes 4,403 sewer customers

(b) A subsidiary of Shenango Valley Water Company

CORPORATE CHANGES



**LaFRANKIE
SUCCEEDS GUBANICH**

The Board of Directors of the American Water Works Company, Inc., at its meeting October 20, selected James V. LaFrankie to succeed John A. Gubanich as President of American Water Works Company, Inc. Mr. Gubanich, President since 1976, will retire on February 1, 1984, his normal retirement date.

Mr. LaFrankie, a Director and Executive Vice President of the Company, is also President of the American Water Works Service Company, Inc. A native of Elizabeth, Pennsylvania, he has been with the American System since 1948.

LaFrankie was born and raised in Elizabeth, Pennsylvania, a steel mill town on the Monogahela River south of Pittsburgh. He enlisted in the Marine Corps after high school and served three years, the last 15 months in North China following World War II.

LaFrankie was employed by a small American Water Works subsidiary in Elizabeth in 1948 and worked there two years while attending the University of Pittsburgh. In 1950 he was recalled from inactive reserve status for a second tour of duty with the Marines during the Korean War.

He returned to the American Water

Works System in 1952 and traveled throughout the eastern states as a construction project supervisor. This took him to Virginia in 1954, where he became Manager of the Alexandria Water Company. He attended night school at Georgetown University and in 1964 received his bachelor's degree in Business Management.

LaFrankie moved back to Pittsburgh in 1970 as Manager of the Central Division of the American Water Works System. Three years later he transferred to Philadelphia as Regional Vice President of the American Water Works Service Company, the management services arm of the American Water Works Company. In December, 1973, he was elected President of the Service Company.

LaFrankie was elected Vice President of the parent company and named to its Board of Directors in 1975.

Mr. LaFrankie served as Chairman of The Pennsylvania Section of American Water Works Association during 1976-77.

Since 1978, he has been Chairman of the Board of Directors of the National Association of Water Companies.

He and his wife Nancy live in Moorestown, New Jersey. They have seven children.

WELSH ELECTED A VICE PRESIDENT

T. Ward Welsh, Director of Community Relations for the American Water Works Service Company, has been elected a Vice President of the company.

Welsh joined the company in 1978 after five years as an account executive with the Aitkin-Kynett Co., in Philadelphia, and a number of years in editorial posts with *The Inquirer*, the *Courier-Post* and the *Burlington County Times*.

The company is the management services arm of the American Water Works Company, Inc., the nation's largest operator of investor-owned water companies. American subsidiaries provide water service to some 500 communities in 20 states.

JOHNSTONE NAMED SENIOR VP

George W. Johnstone, Vice President for Rates and Revenue of the American Water Works Service Company, has been named Senior Vice President.

The company is the management and technical services arm of the American Water Works Company, the nation's largest holder of investor-owned water utilities and the parent of the New Jersey Water Company.

Johnstone joined the American System in 1966 as an engineer and was appointed director of rates and revenue in 1977. He was elected a vice president in 1980. He has spoken nationally on various aspects of utility rate design and rate regulation.

AMERICAN ANNOUNCES RETIREMENT

K.A. (Ken) Glenz, Vice President—Operations, American Water Works Service Co., Inc.—General Office, is retiring after more than forty-seven years of service. Allowing for vacation, he will be leaving his position on or about September 1, 1983. He plans to stay in the area and reside at 1036 Society Hill, Cherry Hill, New Jersey 08003.

We extend to Ken our best wishes for a long and enjoyable retirement.

ETCETERA

NAWC Annual Golf and Tennis Tournaments

It was on, it was off! Golfers and tennis players waited anxiously throughout Sunday morning at the Boca Conference as Golf Chairmen Ed Healy and Chalire Woods, and Tennis Chairman Walt Money, held almost hourly meetings with the golf and tennis pro. The lunches proceeded as scheduled and it was not until lunch was well underway that it was decided that the intermittent rain during the morning made it necessary to postpone both tournaments until Wednesday afternoon.

Winners in tennis were Ann Parker and Fred Rosenmiller. Runners up were Rhoda Cobb and Walt Money.

Golf winners were:



John Parker watches as the tennis players assemble.



Bill and Polly Warner patiently waiting to start golf tournament.

	Men	Women
Low Gross:	Larry Stewart	Mary O'Day
Low Net:	Earl Graham Chester Ring, III Ralph Lindberg Charles Froman John Russell Joe Pope Homer Hyde	Polly Warner Marge Enoch Mary Lindberg
Closest to Pin:	Dick Sullivan Wilkes Coleman	Nancy LaFrankie Barbara Bartlett
Longest Drive:	Michael Zihal Walter Brady	Patti Ross Mary Woods

CONSUMERS SELECT HOLMES AS NEW VP

John Parker, President of Consumers Water Company, announced today the selection of William D. Holmes to become Executive Vice President for Water Utilities. The position will be created sometime in the first half of 1984 as part of the realignment of responsibilities associated with Consumers' expansion into the manufactured housing business earlier this year. Mr. Holmes is currently President of Kankakee Water Company, an Illinois corporation and one of Consumers' larger utility subsidiaries. Mr. Holmes will be moving to Portland, Maine, when he assumes his new responsibility as officer in charge of all water utility operations.

Mr. Holmes has been affiliated with Consumers Water Company since 1956 and President of Kankakee Water Company since 1965. Among his many activities, Mr. Holmes is a director of Kankakee Federal Savings and Loan Association and a director of the National Association of Water Companies. He currently resides with his wife, Patricia, and has three adult children.

SMITH RECEIVES APPOINTMENT



Gerald C. Smith, Chairman of the Pennsylvania Chapter, NAWC, has been appointed to a four year term as a member of the Pennsylvania State Board for Certification of Sewage Treatment and Waterworks Operators.

Gov. Dick Thornburgh made the appointment of Smith who is president of Keystone, Western Pennsylvania and Riverton Consolidated Water companies.

As part of the six-member panel, Smith will help pass on applications for certification; conduct statewide certification examinations; revoke, suspend or reinstate certificates; create or repeal rules and regulations on certification; and hear appeals regarding certification.

PHILADELPHIA SUBURBAN ACQUIRES MILLER HYDRAULIC ENGINEERING

John W. Boyer, Jr., chairman and chief executive officer of Philadelphia Suburban Corporation, announced today his company's acquisition of Miller Engineering, a nationally-recognized hydraulic engineering firm located in King of Prussia, Pa.

Miller Engineering is known primarily for its development and use of mathematical models of water distribution systems.

"Our acquisition of Miller Engineering reflects our corporate strategy for growth," said Boyer.

"We intend to become the leading force in the troubled water service industry by offering managerial, operational and technical assistance. We know Miller Engineering will aid us in that goal," he said.

Miller's clients include: Philadelphia Suburban Water Company; Hackensack (N.J.) Water Company; Bucks County (Pa.) Water and Sewer Authority; Jamaica (N.Y.) Water Supply Company and the City of Virginia Beach (Va.)

Customer Service Seminar

The Philadelphia City Line Marriott was the site of the very successful third annual Customer Service Seminar held September 21-23. With increased attendance of 110, representing 49 companies, the Seminar continued the fine reputation of previous programs.

Under the excellent leadership of Ed Cash, Chairman, and assisted by the entire Customer Service Committee, the seminar focused on areas of mutual interest to those involved in customer service and community relations.

Participants in the seminar enjoyed an opportunity to meet new friends and renew acquaintances during the opening reception hour. NAWC President Mike Zihal, who opened the program, welcomed all participants and emphasized the importance of good customer service. He stressed that, to most customers, customer service personnel are the first line—the first person who represents the water utility to the public, thus creating the public opinion of the company.

Commissioner James H. Cawley of the Pennsylvania PUC spoke on working with the Commission and the implications of customer complaints to the Commissions on the rate change process. Commissioner Cawley, recently appointed Vice Chairman of the NARUC Water Committee, commented on the growing recognition of the water utility industry and made recommendations on ways customer service personnel and commission personnel could work together.

Stress management, discussed by Paul E. Mayer of Bridgeport Hydraulic Company, gave particular attention to "burn-out" in the customer service department. Mr. Mayer offered keys to recognizing early signs of potential personnel problems and noted successful solutions used by his company and in the industry as a whole.

Each session was followed by an open forum lead by Fred Eckardt Philadelphia Suburban Water Company. Jean Eason, Dallas Water Company and Chris Jarrett, West Virginia-American Water Company moderated. During open forums participants exchanged ideas and

methods for problem resolution. Considered "nuts and bolts" sessions, they not only gave everyone an opportunity to hear about various customer service activities but also acquainted participants with others they could contact after they returned home.

Presentations were given by Stephen Powers, Utility Management Services, on the hand held meter reading devices and the pros and cons of budget billing by William Pfeiffer, Spring Valley Water Company. Discussions of the experiences of several companies in each area followed the presentations.

The Customer Service Committee presented a report, "The Collection Picture", prepared by Pennsylvania Gas & Water Company, from questionnaires received from eighty-four companies. This comparison report proved to be an excellent tool in customer service administration.

The importance of good communication, listening and information retention was presented by William A. Yaremchuk, Ph.D. Through lively demonstrations, he proved the need for acquiring skills in communication and listening. After offering "how to"

suggestions for improved communication in the workplace, Dr. Yaremchuk then led a discussion on developing good communication methods and habits.

Concluding with a panel discussion on improving customer relations, an animated discussion by participants led to ways individual departments have found creative solutions to a variety of individual problems.

After two intensive days of discussion, lectures and exchanges of ideas, each participant left with a renewed awareness of the significance of good customer service, and with ways to improve their department. As in previous years, attendees plan to continue the exchange of ideas long after the seminar is over.

Plans have been made to hold the fourth annual Customer Service Seminar in Washington, D.C. in mid-September of 1984.

Mark your calendar for the fourth annual Customer Service Seminar, September 19-21, 1984 in Washington, D.C.



Representatives of 49 companies at fourth annual Customer Service Seminar review materials on Philadelphia Suburban Water Company's proposed hand-held meter reading device presented by Utility Management Services.



Commissioner James H. Cawley of the Pennsylvania Public Utilities Commission (left) and Customer Service Committee Chairman Ed Cash at the opening reception.



William A. Yaremchuk, Ph.D. presents a program on communication and listening techniques at the Friday morning session of the seminar.



Paul E. Mayer of Bridgeport Hydraulic Company presents program on stress management.

NATIONAL ASSOCIATION OF WATER COMPANIES' POLICY ON WATER CONSERVATION

WHEREAS, potable water is our nation's most important natural resource, critical to every man's physical and economic well-being, and . . .

WHEREAS, the United States in general is blessed with sufficient rainfall and ground and surface water storage to meet the nation's needs, and . . .

WHEREAS, water is a renewable resource, constantly being replenished through the process of evaporation and precipitation, and . . .

WHEREAS, chronic water shortages plague some regions or communities at certain times because local rainfall, collection systems, and treatment, storage and distribution facilities are not adequate to meet local water demand, and . . .

WHEREAS, most "consumed" water must be treated at considerable capital and energy cost to protect our water supplies . . .

THEREFORE, BE IT RESOLVED that in the interest of conservation the National Association of Water Companies endorses:

- Continued development and augmentation of supplies to meet the needs of the communities that its member companies serve.
- Protection of existing and potential surface and groundwater sources from contamination as a means of ensuring adequate future supplies by identifying and posting those sources, by fighting the indiscriminate dumping of harmful wastes and by opposing the overdrafting of ground sources.
- Aggressive detection and repair of distribution system leaks to maximize the supply of water available for constructive use.
- Consumer information and education activities to encourage the efficient use of water, particularly by large agricultural, industrial, commercial and institutional users.
- Billing of customers, excepting only those rare instances where it is clearly uneconomical to do so, on the basis of metered use as a means of ensuring equitable charges, of providing customers with a way to judge the value of the service they receive, and of encouraging efficient use of the product.
- Consistent establishment and imposition of rates that meet the full cost of providing reliable water service today and of providing for the capital required to ensure the continuation of that service in the future.
- Development of techniques, devices and regulations that promote the objective of increasingly efficient use of water.

STATEMENT IN SUPPORT OF THE NATIONAL ASSOCIATION OF WATER COMPANIES' POLICY ON WATER CONSERVATION

General

Water is among our nation's most important natural resources. Surely, none is more vital to the sustenance of life or to the physical and economic well-being of mankind.

Overall, the U.S. is blessed with generous rainfall and ample surface and groundwater supplies to meet society's needs. In contrast to many natural resources, water is a renewable resource, constantly being replenished through the process of evaporation and precipitation known as the hydrologic cycle.

However, in spite of its general abundance and its renewability, water is not equally plentiful across the nation. Rainfall, geological conditions important to the collection of water, and usage patterns vary from one part of the country to the next, ranging from the rain-rich Northeast to the semi-arid Southwest. In some parts of the country, chronic shortages exist today, and more wide-spread problems have been predicted for the future.

Environmental Factors

In the view of the National Association of Water Companies, beyond the uneven distribution of supply, pollution of existing and potential new supply sources, and water waste are at the core of concerns for future water supply adequacy.

Protection of existing and potential new surface and groundwater sources from pollution is among the more significant activities in which water suppliers, in concert with public and private organizations with mutual interests, regularly engage as a means of ensuring the adequacy of future supply. Pressure from our technological society must not be allowed to degrade our nation's water supply. Continual overdrafting, which can draw down groundwater supplies to the point of being dysfunctional, also should be avoided.

Reduction of all types of water waste provides water suppliers with one of the best opportunities for bringing demands into line with available supplies. As one aspect of waste reduction, the detection and correction of distribution system leaks is, and must continue to be, a high-priority activity among water suppliers, because it contributes importantly to increasing supply availability for constructive purposes.

The Association also advocates continual improvement by water users in the efficiency of their use of water, particularly large agricultural, industrial, commercial and institutional users.

Cost/Price Factors

The wise use of water by all types of consumers has a great impact on other resources. Reduced water consumption lowers waste water treatment and disposal costs, conserves energy for pumping and heating water, and saves the dollars that would be spent for excessive water use.

The water industry is highly capital-intensive and must maintain adequate plant and facilities to meet fluctuating demands. Many of the costs associated with water supply are fixed, and will not go down as consumption is reduced. Therefore, the Association takes public note of the fact that curtailed use of water will not necessarily bring about lower consumer costs, but is more likely to create higher costs per unit of consumption.

The billing of customers on the basis of the amount of water used, as measured by water meters, generally is an important factor not only in ensuring the equity of the charges, but of providing customers with a means of evaluating the value of the service received. The direct relationship between usage and charges also can be important in encouraging customers to eliminate water waste and make efficient use of the product. Except in cases where it is clearly uneconomical to do so, the Association recommends that water service customers be billed on the basis of metered usage.

Geographic Variations

The water supply situation varies greatly from one utility to another. This is true even within state boundaries, where one utility may have access to relatively unlimited supplies that cannot readily be made available to other nearby utilities. It is even more pronounced in those cases where some states have inadequate supplies and must depend upon sources in other states for basic water needs.

For these reasons, it is impossible to lay down inflexible rules setting forth appropriate conservation measures equally applicable to each region or individual water utility.

It is the position of the Association that each water company—as it carries out its obligation to develop and augment supplies to meet the needs of its customers—should consider the need for, and possible benefits of, broad-based water use reduction efforts as part of its long-range planning function, and that such consideration should include evaluation of the effects of conservation on capital requirements, return to stockholders and service costs to customers.

Of these and the other considerations that will be analysed in determining whether or not water use reduction should be sought, and to what extent, none should weigh more heavily than the effect such action would have on the reliability of water supply.



WATER

Published by the
National Association of Water Companies
Suite 1212, 1725 K Street, N.W.
Washington, D.C. 20006

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