



Water Commissioner's Rate Determination City of Philadelphia Fiscal Years 2013-2015

Since 1952, the City Charter has vested in the Water Commissioner the authority to determine rates and charges. While this responsibility may seem uniquely broad, the process for setting rates is, in fact, significantly checked by a comprehensive filing and hearing process during which all rate payers and other vested parties have the opportunity to participate and provide perspective and meaningful input into the final rate determination. Although I have only had the privilege of serving as Commissioner since 2011, I have the utmost respect for public participation and input and I have carefully reviewed the record generated throughout the more than nine month rate process.



In my review of the rate request proposed by the Department I have fully considered the testimony provided by each and every participant in the process. I have been particularly affected by the comments made by the many citizens who dedicated their time to attend one of the six public hearings that were held throughout the city. I am sincerely appreciative to every citizen who participated in a public hearing for sharing valuable information and perspective during this process. It is clear that no financial analysis or rate study can capture the experiences that each and every one of you so eloquently described.

My responsibility as Commissioner is to ensure that adequate revenues are generated such that the Department can fulfill its singular mission of protecting the health and safety of more than 1.7 million citizens and customers by providing the highest quality drinking water and effectively managing wastewater and stormwater. Since rates were last adjusted in FY2009, the Department has operated in a very challenging economic climate. Despite the four years of economic recession, the cost for operating and maintaining the extensive infrastructure of mains, pump stations, water treatment plants and sanitary sewer treatment facilities, as well as meeting higher water-quality standards mandated by the federal and state governments continue to escalate. To address these constant financial challenges we continue as part of our daily operation to aggressively review and identify any and all opportunities to reduce our costs while never sacrificing the overall quality and reliability of our services.

Among the many initiatives the Department is currently undertaking to reduce the costs to operate the utility are the construction of an electric-generating solar panel at the Southwest Water Pollution Control Plant and a biogas cogeneration facility at the Northeast Water Pollution Control Plant. The energy generated by these two projects alone will provide significant savings while reducing our impact on the environment.

This year the U.S. Environmental Protection Agency also approved the Department's Long Term Control Plan Update, known as the Green City, Clean Waters Plan, for bringing the City into compliance with the Clean Water Act. The Plan, which will adopt green solutions for managing stormwater, is the first of its type in the nation. While managing our stormwater in an environmentally beneficial manner, the Green City Plan will boost the economic vitality of the City by providing good paying local jobs and enhancements to our streets, recreation facilities, parks and neighborhoods. Equally importantly, this green approach— as opposed to the traditional gray infrastructure approach adopted by many of our peer cities— will provide enormous long-term savings to our rate payers.

The goal of a well-managed water utility, however, should not be evaluated solely on a four year rate plan or some other artificial time frame. Rather, smart long-term financial planning must guide how the Department operates. Ensuring that the Department remains a viable and financially healthy utility has been, and will continue to be, the hallmark of my administration. A long-term outlook makes sense from many standpoints not the least of which is producing real and meaningful cost savings to our customers and maintaining the affordability of Department services. In this context it has become clear to me that the Department must endeavor to improve its credit rating by increasing coverage minimums and reserves. By reducing our borrowing costs we will be able to directly reduce the cost to provide the quality water, sewer, stormwater services that our customers deserve and demand while significantly increasing the rate and number of infrastructure replacement and improvement projects.

Based on the multiple factors that must be considered when issuing a decision on rate structures, I have concluded that the Joint Petition for Settlement of Phase I of the Rate Proceeding reached by the Department, the Public Advocate (representing the residential class customers), Citizens for Pennsylvania's Future and the Philadelphia Large Users Group; and, affirmed by the Hearing Officer, Michael A. Bowman, Esquire, in his October 14, 2012, Recommended Decision, should be adopted and confirmed in the Philadelphia Water Department Regulations. I agree with the Hearing Officer that the \$140,019,000 in total additional service revenues raised during the period 2013 (beginning January 2012) through 2015 is a reasonable and thoughtful compromise that provides rate relief to the residential and other customer classes while remaining sufficient to support the operations of the Department and to achieve the many important and necessary initiatives that must be undertaken over the next several years. I can also report that after the rates have been fully implemented the Department will remain one of the most competitively priced utilities throughout the region.

I am very grateful for to the Hearing Officer, Michael A. Bowman, Esquire, for his efficient management of the hearings and thoughtful Recommended Decision. I would also like to thank the Public Advocate for its capable representation of the residential customers. The Public Advocate's many years of dedicated service have helped ensure a fair and meaningful rate review and hearing process. Additionally, I appreciate the efforts of counsel representing Citizens for Pennsylvania's Future, the Philadelphia Large Users Group, the Direct Dischargers Group and Exelon.

Thank you to the citizens of Philadelphia for your continued support.

Sincerely,

Howard M. Neukrug, P.E., BCEE
Water Commissioner