



PENNSYLVANIA
AMERICAN WATER

PUBLIC-PRIVATE PARTNERSHIPS

BEFORE THE

PA HOUSE GOP POLICY COMMITTEE

PRESENTED BY:

CHUCK JOHNSTON

**SENIOR MANAGER – BUSINESS DEVELOPMENT
PENNSYLVANIA AMERICAN WATER**

APRIL 6, 2010

SLIDE 1 – COVER SLIDE

GOOD MORNING. I'M CHUCK JOHNSTON, SENIOR MANAGER OF BUSINESS DEVELOPMENT AT PENNSYLVANIA AMERICAN WATER. THANK YOU FOR PROVIDING US THE OPPORTUNITY TO PRESENT BEFORE THIS COMMITTEE. THIS PRESENTATION WILL FOCUS ON WAYS THAT WATER AND WASTEWATER PUBLIC-PRIVATE PARTNERSHIPS, OR P3S, CAN BE FACILITATED, ENHANCED AND ENCOURAGED FOR THE BETTERMENT OF THE CITIZENS OF THE COMMONWEALTH.

AS YOU ARE KEENLY AWARE, WE ARE IN THE THROWS OF AN ECONOMIC DOWNTURN, PRESSURING BUSINESSES, FAMILIES AND LAWMAKERS TO DO MORE WITH LESS. PUBLIC-PRIVATE PARTNERSHIPS CAN BE A SOLUTION FOR FINANCIALLY-STRAPPED MUNICIPALITIES OR AUTHORITIES LOOKING TO DO MORE WITH LESS.

SLIDE 2 – SETTING THE STAGE

THE USEPA ESTIMATES THAT UPWARDS OF \$1 TRILLION IS NEEDED FOR UPGRADING U.S. WATER AND WASTEWATER UTILITIES. TO MEET THIS NEED, WE WILL HAVE TO UTILIZE PRIVATE SECTOR KNOW HOW AND FINANCIAL CAPABILITIES.

AS OUR AGING WATER AND WASTEWATER INFRASTRUCTURE GETS OLDER AND OLDER, IT CONTINUES TO DETERIORATE AND APPROACH THE END OF ITS

USEFUL LIFE. AT THE SAME TIME, THIS AGING INFRASTRUCTURE MUST CONTINUE TO MEET THE GROWING DEMANDS PLACED UPON IT BY INCREASINGLY STRINGENT STATE AND FEDERAL REGULATIONS. WE ARE AT A CROSS ROADS, AND NOW IS THE TIME TO TAKE ACTION. MAKING THE NEEDED INFRASTRUCTURE IMPROVEMENTS SO THAT OUR COMMONWEALTH'S WATER AND WASTEWATER SYSTEMS ARE COMPLIANT IS CRITICAL FOR PUBLIC HEALTH, FIRE SAFETY AND ECONOMIC DEVELOPMENT. IN ADDITION TO QUALITY WATER SERVICE, A COMMUNITY'S WATER AND WASTEWATER SYSTEM MUST HAVE AVAILABLE CAPACITY TO ATTRACT NEW BUSINESS AND INDUSTRY AND CREATE JOBS FOR THE CITIZENS OF PENNSYLVANIA.

KEEPING UP WITH WATER AND WASTEWATER INFRASTRUCTURE REPLACEMENT, MEETING STATE AND FEDERAL REGULATIONS AND ACCOMMODATING ECONOMIC DEVELOPMENT COSTS MONEY— MONEY THAT NON-VIABLE PUBLIC SYSTEMS MAY NOT HAVE ACCESS TO AND HAVE LITTLE CHOICE BUT TO ALLOW THEIR SYSTEMS TO FURTHER DETERIORATE TO THE POINT WHERE WATER QUALITY AND QUANTITY ISSUES IMPACT THE CUSTOMERS' QUALITY OF LIFE. IN MANY CASES, THE PRIVATE SECTOR HAS STEPPED IN TO FILL THIS VOID AND BRING THESE TROUBLED SYSTEMS WITH POOR WATER QUALITY AND FAILING SYSTEMS BACK INTO COMPLIANCE. MANY OF THESE SUCCESS STORIES ARE THE DIRECT RESULT OF P3S THAT ARE A COLLABORATIVE EFFORT BETWEEN GOVERNMENT AND BUSINESS FOR FINANCING, PERMITTING, CONSTRUCTING, OPERATING, MAINTAINING AND RENEWING A COMMUNITY'S WATER AND WASETWATER SYSTEMS.

AS PART OF THE AMERICAN WATER SYSTEM, WE HAVE SEEN THIS P3 MODEL WORK WELL IN MANY OF THE STATES WHERE AMERICAN WATER HAS OPERATIONS AND IN STATES THAT HAVE ENABLING LEGISLATION. I WOULD LIKE TO DISCUSS WITH YOU SOME OF THE P3 MODELS THAT AMERICAN WATER HAS SUCCESSFULLY IMPLIMENTED, WHY THEY WORK AND WHAT CAN WE DO IN PENNSYLVANIA TO PROMOTE P3S.

I WILL GET TO THAT MOMENTARILY, BUT ALLOW ME TO GIVE YOU A BRIEF OVERVIEW OF PENNSYLVANIA AMERICAN WATER AND AMERICAN WATER SO YOU CAN UNDERSTAND OUR PERSPECTIVE AND EXPERIENCES WITH P3S.

SLIDE 3 – PENNSYLVANIA AMERICAN MAP

PENNSYLVANIA AMERICAN WATER, WHICH IS HEADQUARTERED IN HERSHEY, HAS BEEN PROVIDING WATER SERVICE TO CITIZENS ACROSS THE COMMONWEALTH FOR MORE THAN A CENTURY. OUR 1,000-PLUS DEDICATED EMPLOYEES WORK AROUND THE CLOCK TO SERVE APPROXIMATELY 2.2 MILLION PEOPLE IN 390 MUNICIPALITIES IN 36 COUNTIES ACROSS THE STATE, OR APPROXIMATELY 1/6 OF THE STATE'S POPULATION. PENNSYLVANIA AMERICAN WATER OWNS ITS WATER AND WASTEWATER UTILITY ASSETS AND IS THEREFORE, REGULATED BY THE PENNSYLVANIA PUBLIC UTILITY COMMISSION.

SLIDE 4 – PENNSYLVANIA AMERICAN WATER FACTS AT A GLANCE

PENNSYLVANIA AMERICAN WATER IS A WHOLLY-OWNED SUBSIDIARY OF AMERICAN WATER, WHICH OPERATES IN 35 STATES AND CANADA.

SLIDE 5 – INTRO TO AMERICAN WATER

THE LARGEST INVESTOR-OWNED WATER COMPANY IN THE U.S., AMERICAN WATER HAS ALWAYS BEEN VIEWED AS A MARKET LEADER IN THE INDUSTRY. AMERICAN WATER OPERATES BOTH REGULATED AND NON REGULATED BUSINESSES. REGULATED, IN THIS CONTEXT, MEANS THAT A PUBLIC UTILITY COMMISSION REGULATES RATES AND SERVICE AND NON – REGULATED MEANS NO PUBLIC UTILITY COMMISSION OVERSIGHT.

ON THE REGULATED SIDE, PENNSYLVANIA AMERICAN HAS COMPLETED OVER 60 ACQUISITIONS SINCE 1995. FAVORABLE REGULATION AND/OR LAWS, LOAN PROGRAMS OR OTHER INCENTIVES AT THE STATE LEVEL ASSISTED IN THESE EFFORTS.

SLIDE 6 – POCONO REGIONALIZATION

PENNSYLVANIA AMERICAN WATER'S POCONO REGIONALIZATION UTILIZED A FORMER REGIONALIZATION GRANT PROGRAM THAT IS NO LONGER AVAILABLE. THE GRANT PROGRAM, WHICH WAS ADMINISTERED AND FUNDED BY THE STATE, PROVIDED FINANCIAL ASSISTANCE FOR INITIATIVES THAT BENEFITTED THE CITIZENS OF THE COMMONWEALTH THROUGH REGIONALIZATION EFFORTS.

PENNSYLVANIA AMERICAN WATER, IN CONJUNCTION WITH MOUNT POCONO BOROUGH AND COOLBAUGH TOWNSHIP, STUDIED THE FRAGMENTED NATURE OF WATER SERVICE IN THESE TWO MUNICIPALITIES AND THE POTENTIAL BENEFITS GAINED THROUGH CENTRALIZING THESE SERVICES. THE

REGIONALIZATION GRANT, WITH \$25,000 FUNDING FROM THE STATE, LAID THE FOUNDATION FOR CONSOLIDATION OF SEVERAL NON-COMPLIANT, DISFUNCTIONAL SYSTEMS IN THE AREA. THIS EFFORT DEMONSTRATED HOW PUBLIC-PRIVATE PARTNERSHIPS, COUPLED WITH THE FORWARD-THINKING REGIONALIZATION GRANT PROGRAM IF REINSTATED, WOULD ALLOW FOR FURTHER CONSOLIDATION OF FRAGMENTED AND TROUBLED UTILITY SYSTEMS. AND, IN THE END, IT CAN BE ACCOMPLISHED AT A LOWER COST TO CUSTOMERS AND CONSTITUENTS BECAUSE LARGER SYSTEMS CAN TAKE ADVANTAGE OF GREATER ECONOMIES OF SCALE AND SPREAD THE COSTS OF NEEDED INVESTMENTS TO BRING THESE SYSTEMS INTO COMPLIANCE OVER A LARGER CUSTOMER BASE.

COINCIDENT WITH CLOSING ON THE FIRST SYSTEM IN THE POCONO REGIONALIZATION, PENNSYLVANIA AMERICAN WATER RECEIVED A \$9 MILLION LOW-INTEREST LOAN TO UPGRADE THE SYSTEM. THIS WAS UNIQUE IN THAT IT WAS THE FIRST LOAN ISSUED TO AN INVESTOR OWNED UTILITY THROUGH REAUTHORIZATION OF THE SAFE DRINKING WATER ACT. AT ONE TIME, INVESTOR OWNED UTILITIES WERE NOT PROVIDED ACCESS TO NEW FEDERAL MONEY THAT WAS ALLOCATED TO AND ADMINISTERED BY THE STATE. CONTINUING TO ALLOW INVESTOR OWNED UTILITIES ACCESS TO THESE TYPES OF LOW-INTEREST LOANS AND GRANT FUNDS IS CRITICAL TO INCENTIVIZING REGIONALIZATION AND KEEPING RATES LOW FOR CUSTOMERS AND CONSTITUENTS.

SLIDE 7 – CLARION CASE STUDY

IN CLARION COUNTY, WE RECENTLY COMPLETED A \$25 MILLION REGIONAL PROJECT INVOLVING THE ACQUISITION AND INTERCONNECTION OF SEVERAL SMALL AND TROUBLED SYSTEMS, CONSTRUCTION OF A NEW SURFACE WATER TREATMENT PLANT AND A NEW STORAGE TANK. IN ORDER TO COMPLETE THE NEEDED UPGRADES TO THE AGING DISTRIBUTION SYSTEM, THE COMPANY UTILIZED THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE OR “DSIC”.

SLIDE 8 – EFFECTIVE RATEMAKING POLICIES

THE DSIC, USED FOR REPLACEMENT OF PIPE, VALVES, HYDRANTS AND OTHER FACILITIES IN THE DISTRIBUTION SYSTEM ON THE DRINKING WATER SIDE, IS AN INNOVATIVE WIN-WIN RATE-MAKING PRACTICE THAT WAS FIRST IMPLEMENTED IN PENNSYLVANIA IN THE MID-1990S AND HAS BEEN ADOPTED BY SEVERAL OTHER STATES ACROSS THE NATION SINCE THAT TIME. THE DSIC MINIMIZES REGULATORY LAG AND CLOSES THE GAP BETWEEN THE TIMES A UTILITY INVESTS IN ITS SYSTEM AND WHEN THOSE INVESTMENTS ARE RECOGNIZED IN RATES. THE DSIC RECOGNIZES THE FULL COST OF SERVICE AND ACCELERATES THE REPLACEMENT OF INFRASTRUCTURE. AS THE INDUSTRY CHANGES, SO TOO WILL RATE-MAKING PRACTICES. PENNSYLVANIA HAS ALWAYS BEEN IN THE LEAD AND SHOULD REMAIN THERE.

WHILE THE DSIC RECOGNIZES REPLACEMENT OF DRINKING WATER DISTRIBUTION SYSTEM INFRASTRUCTURE, THERE IS NO SUCH MECHANISM ON THE WASTEWATER SIDE, BUT IT IS GREATLY NEEDED TO ACCELERATE UPGRADES TO THESE AGING AND SOMETIME FAILING SYSTEMS.

PENNSYLVANIA AMERICAN WATER REQUESTED TO IMPLEMENT A CSIC FOR WASTEWATER COLLECTION SYSTEM IMPROVEMENTS, AND WHILE THE PA PUBLIC UTILITY COMMISSION APPROVED IT, THE DECISION WAS APPEALED AND OVERTURNED BY THE SUPREME COURT. WE NEED YOUR HELP. THE STATE LEGISLATURE HAD THE FORESIGHT TO ADOPT LEGISLATION THAT ALLOWED DSIC. NOW WE ASK FOR YOUR SUPPORT TO BE THE LEADER IN IMPLEMENTING THE SAME INNOVATIVE RATE-MAKING MECHANISM ON THE WASTEWATER SIDE TO ACCELERATE MUCH-NEEDED INVESTMENT IN WASTEWATER COLLECTION SYSTEMS ACROSS THE COMMONWEALTH.

SLIDE 9 – P3 STAIR STEP

ON THE NON-REGULATED SIDE OF THE BUSINESS, WE HAVE MANY WAYS TO DELIVER P3S AS SHOWN ON THE STAIR STEP MODEL. SEVERAL OF THESE ALTERNATIVES HAVE NO STATUTORY PROHIBITIONS IN PENNSYLVANIA SUCH AS OPERATIONS ASSISTANCE AND CONTRACT OPERATION AND MAINTENANCE. AS WE MOVE FURTHER UP THE STAIR STEPS, THE TRANSACTIONS ARE MORE COMPLEX. WITH THESE MORE COMPLEX TRANSACTIONS, THERE ARE CHALLENGES IN IMPLEMENTING THEM RELATED TO THE PENNSYLVANIA MUNICIPAL PLANNING CODE.

SLIDE 10 – DESIGN – BUILD – OPERATE - OVERVIEW

THE DESIGN - BUILD - OPERATE, OR “DBO”, PROJECT DELIVERY METHOD IS GAINING POPULARITY ACROSS THE NATION AND IS NOW ONE OF THE MOST PREVALENT P3 FOR LARGE WATER AND WASTEWATER TREATMENT PLANT

PROJECTS. THIS METHOD IS UTILIZED BY MUNICIPAL SYSTEMS THAT ARE PLANNING TO DESIGN AND BUILD A NEW WATER OR WASTEWATER PLANT. IN A DBO, THE MUNICIPALITY CONTRACTS UP FRONT FOR THE DESIGN, CONSTRUCTION AND LONG-TERM OPERATIONS OF THE PROJECT. THE DBO DELIVERY METHOD HAS SEVERAL ADVANTAGES.

SLIDE 11 – DESIGN – BUILD – OPERATE - ACCOUNTABILITY

FIRST, THE DBO PROVIDES A SINGLE POINT OF CONTACT FOR DESIGN, CONSTRUCTION AND OPERATIONS. THIS SPEEDS UP THE CONSTRUCTION TIME, LOWERS LIFECYCLE COSTS WITH THE INFUSION OF CONSTRUCTION AND OPERATIONS KNOWLEDGE AT THE START OF THE PROJECT, AND ENCOURAGES TECHNOLOGICAL INNOVATION. IN ADDITION, BECAUSE THESE ARE AWARDED THROUGH A COMPETITIVE BIDDING PROSCESS, IT KEEPS COSTS DOWN.

SLIDE 12 – DESIGN – BUILD – OPERATE – TIME SAVED

SPEED OF PROJECT DELIVERY IS INCREASED, BECAUSE COSTS ARE ESTABLISHED EARLIER IN THE PROCESS VS. TRADITIONAL DESIGN, BID AND BUILD. MUNICIPALITIES SPECIFY OUTPUT PARAMETERS DESIRED AND COMPETING PARTIES PROPOSE HOW TO MEET THESE REQUIREMENTS.

SLIDE 13 – AMERICAN WATER DBO PROJECTS

AMERICAN WATER IS THE LEADING USER OF THE DBO MODEL WITH 20 DBO PROJECTS SINCE 2006 TOTALLING \$328 MILLION ON CONSTRUCTION COSTS.

SLIDE 14 – LAKE PLEASANT DBO

TWO PROJECTS THAT I'D LIKE TO HIGHLIGHT ARE THE LAKE PLEASANT WATER TREATMENT PLANT, WHICH IS THE LARGEST DBO COMPLETED TO DATE, WITH THE INITIAL CONSTRUCTION FOR 80 MILLION GALLON A DAY (MGD) CAPACITY, EXPANDABLE TO 320 MGD.

SLIDE 15 – FILLMORE DBO

ANOTHER DBO PROJECT IS THE FILLMORE CALIFORNIA WASTEWATER TREATMENT PLANT. THIS PROJECT INCLUDED REPLACEMENT OF AN ANTIQUATED CONVENTIONAL WASTEWATER TREATMENT PLANT WITH A NEW MEMBRANE BIOREACTOR OR “MBR” PLANT. MBR TECHNOLOGY IS WHAT MANY PENNSYLVANIA COMMUNITIES ARE PROPOSING TO UTILIZE FOR MEETING THE NEW CHESAPEAKE BAY DISCHARGE REQUIREMENTS FOR WASTEWATER TREATMENT PLANTS. THE OPERATIONS AND MAINTENANCE CONTRACT ON THE TAIL END OF THE PROJECT RUNS FOR 20 YEARS WHICH IS TYPICAL FOR DBO PROJECTS.

SLIDE 16 – WATER REUSE - SOLAIRE

WE ALSO COMPETE IN THE WATER REUSE SEGMENT WHICH IS SHOWING GREAT INTEREST AS WATER IS BECOMING A MORE SCARCE RESOURCE. WE HAVE PROJECTS INVOLVING REUSE IN THE SOLAIRE APARTMENT COMPLEX IN NEW YORK CITY AND AT GILLETTE STADIUM IN MASSACHUSETTS.

SLIDE 17 – MEETING INDUSTRY CHALLENGES

WHAT WOULD ALLOW DBOS TO BE SUCCESSFUL IN PENNSYLVANIA? IT IS OUR UNDERSTANDING THAT THERE IS ENABLING LEGISLATION AT THE COUNTY LEVEL ALLOWING ALTERNATIVE PROJECT DELIVERY SUCH AS DBOS. THIS LEGISLATION SHOULD BE EXAMINED AND APPLIED AT ALL LEVELS OF GOVERNMENT. THIS WOULD ALLOW ALTERNATIVE PROJECT DELIVERY FOR WATER AND WASTEWATER PROJECTS WHICH ARE MOSTLY CARRIED OUT AT THE MUNICIPAL LEVEL AND BY AUTHORITIES THAT ARE CREATED BY BOROUGHES, TOWNSHIPS AND CITIES.

BOTTOM LINE: PUBLIC-PRIVATE PARTNERSHIPS BENEFIT THE MUNICIPALITIES, PRIVATE INDUSTRY AND MOST IMPORTANTLY THE CONSTITUENTS. AND, WE UNDERSTAND THAT ONE SIZE DOES NOT FIT EVERY MUNICIPALITY'S NEEDS. WE WORK CLOSELY WITH EACH MUNICIPALITY TO IDENTIFY THE BEST SOLUTION FOR THAT COMMUNITY. AS MEMBERS OF OUR LEGISLATURE, YOU TOO PLAY A KEY ROLE BY IMPLEMENTING SUPPORTING LEGISLATION THAT ALLOWS FOR SUCCESSFUL P3S, SUCH AS THE REGIONALIZATION GRANTS, ACCELERATES MUCH NEEDED IMPROVEMENTS IN OUR ESSENTIAL INFRASTRUCTURE, SUCH AS A CSIC, AND OPEN THE DOORS FOR ALTERNATIVE PARTNERSHIPS.

THANK YOU.

SLIDE 18 – QUESTIONS