



House Consumer Affairs Committee  
House Bill 2075  
Presented by John Cox  
Director, Rates and Regulations

May 23, 2018

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Thank you Chairmen Godshall and Caltagirone, committee members and staff for allowing us to provide testimony today. My name is John Cox and I am the Director of Rates and Regulations for Pennsylvania American Water. I am here to add our support to HB 2075 and to share with you why the approval of HB 2075 will address the need for the proactive replacement of customer-owned lead water services lines and the replacement or rehabilitation of damaged sewer laterals.

Specifically my testimony will address three areas of HB 2075 that pertain to Pennsylvania American Water's proposed voluntary program of replacement of customer-owned lead water service lines. As drafted, HB 2075:

1. Recognizes that the replacement costs of customer- owned lead water service lines are part of the public utility's distribution system. The replacement of lead customer owned water service lines is similar to the restoration of other customer property incurred when company owned mains or services are either replaced or rehabilitated. Valid restoration costs include items such as repairing disturbed pavement, cutting and replacing pavement, pavement base, sidewalks, curbing, lawn restoration, etc. and are an integral part of restoring areas to a safe or prior condition. The lead customer owned service line will be restored (replaced with new material) for safety reasons - to mitigate the potential increased risk of lead contamination following physical disturbances related to infrastructure work in the area. Restoration expenditures are a normal part of the public utility's distribution system. Likewise, the replacement of the customer owned water service line should be treated in a similar manner and recorded as an additional cost of the overall project.
2. Insures consistency in the treatment of the utilities investments by permitting full recovery of the public utility's carrying costs of its investment

(return on and of). Pennsylvania American will have to borrow the necessary funds, estimated at \$60 million over 10 years, to replace customer-owned service lines. This funding is not cost-free; investors or bondholders will require a return or interest on the funds provided to Pennsylvania American. This return is the same as required for other Pennsylvania American's infrastructure replacement projects and is not unlike state funded low interest loans or programs. For instance, if Pennsylvania American is able to obtain low cost funding from a state funded program such as PennVEST there is an associated interest cost of the funding that is assessed. HB 2075 provides for that return and enables Pennsylvania American to obtain the funds needed for replacement of customer owned service lines in addition to continuing the ongoing infrastructure replacement programs of the company.

3. Supports the voluntary, proactive efforts of the water and wastewater industry to replace water and wastewater laterals that threaten the health and environment of Pennsylvania's citizenry by removing existing disincentives and barriers. By allowing Pennsylvania American to treat the cost of the replacement of customer-owned lead service lines as utility plant the Company will be able to proactively address the issue of customer owned lead service lines at a low cost to our customers. Pennsylvania American estimates it has approximately 18,000 customer-side lead service lines. The cost to replace a customer service line is approximately \$3,500 resulting in an investment of \$60 million over ten years for the replacement program. Pennsylvania American currently has 658,000 water customers, serving over 2 million Pennsylvania residents. The cost of the program in the first year is only \$1 per year or a little less than a dime a month for each customer. By the end of the program, 10 years from now, the cost is only \$10 - \$11 dollars per year – or a little less than a dollar per month per customer.

In summary, enactment of HB 2075 will enable Pennsylvania American to implement its voluntary program to replace customer owned lead service lines,

providing a direct and long-lasting impact on its ability to comply with the primary drinking water standards of the EPA and DEP. By treating the costs of lead service line replacements similar to other restoration costs and recording these costs as utility plant, HB 2075 will empower Pennsylvania to proactively address future adverse effects on public health.