



McNees Wallace & Nurick LLC
attorneys at law

CHARIS MINCAVAGE
DIRECT DIAL: (717) 237-5437
DIRECT FAX: (717) 260-1725
E-MAIL ADDRESS: CMINCAVAGE@MWN.COM

December 22, 2008

VIA E-MAIL AND FEDERAL EXPRESS

Hearing Officer Harris T. Bock, Esq.
Dispute Resolution Institute
660 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103

RE: In the Matter of the Philadelphia Water Department's Proposed Increase in Rates for Water and Wastewater Utility Services – Phase II; FY 2009-2012

Dear Hearing Officer Bock:

Please find enclosed two (2) copies of the Philadelphia Large Users Group ("PLUG") Direct Testimony of Michael Ferman, PLUG Statement No. 1, in the above-referenced proceeding.

As indicated on the attached Certificate of Service, all the parties to this proceeding have been served. Please date stamp the extra copy of this transmittal letter and kindly return it for our filing purposes in the enclosed self-addressed stamped envelope. Thank you.

Very truly yours,

MCNEES WALLACE & NURICK LLC

By 

James P. Dougherty
Charis Mincavage
Shelby A. Linton-Keddie

Counsel to Philadelphia Large Users Group

Enclosure
CM/lhi

c: Joseph S. Clare, III, Deputy Commissioner, City of Philadelphia Water Department (via E-mail Only)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below.

VIA E-MAIL AND FIRST CLASS MAIL

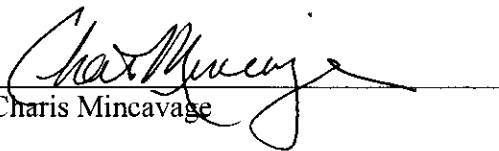
Daniel Delaney, Esq.
Kirkpatrick & Lockhart Preston Gates
Ellis, LLP
17 N. Second Street, 18th Floor
Harrisburg, PA 17101
dan.delaney@klgates.com

Philip A. Bertocci, Esq.
Thu B. Tran, Esq.
Community Legal Services
1424 Chestnut Street
Philadelphia, PA 19102
PBertocci@clsphila.org
TTran@clsphila.org

Andre C. Dasent, Esq.
1650 Market Street, 36th Floor
Philadelphia, PA 19103
andre.c.dasent@gmail.com

Brian Glass, Esq.
Citizens for Pennsylvania's Future (PennFuture)
1518 Walnut Street, Suite 1100
Philadelphia, PA 19102
glass@pennfuture.org

Philip L. Hinerman, Esq.
Jill A. Guldin, Esq.
Fox Rothschild LLP
2000 Market Street, 10th Floor
Philadelphia, PA 19103
phinerman@foxrothschild.com
jguldin@foxrothschild.com


Charis Mincavage

Dated this 22nd day of December, 2008, in Harrisburg, Pennsylvania.

**BEFORE THE
PHILADELPHIA WATER COMMISSION**

In the Matter of the Philadelphia Water :
Department's Proposed Rate Increase : **FY 2009-2012**
in Water and Wastewater Rates - :
Phase II :

**DIRECT TESTIMONY
OF
MICHAEL FERMAN**

**DIRECT TESTIMONY OF MICHAEL FERMAN
OF NEWMAN & COMPANY, INC.**

**AS A MEMBER OF
THE PHILADELPHIA LARGE USERS GROUP**

DECEMBER 22, 2008

**BEFORE THE
PHILADELPHIA WATER COMMISSION**

In the Matter of the Philadelphia Water :
Department's Proposed Rate Increase : **FY 2009-2012**
in Water and Wastewater Rates - :
Phase II :

**DIRECT TESTIMONY OF MICHAEL FERMAN
OF NEWMAN & COMPANY, INC.
AS A MEMBER OF
THE PHILADELPHIA LARGE USERS GROUP**

1 **Q. Please state your full name and business address.**

2 A. My name is Michael Ferman. My business address is 6101 Tacony Street,
3 Philadelphia, PA 19135.

4

5 **Q. By whom are you employed?**

6 A. I am employed by Newman & Company, Inc. ("Newman").

7

8 **Q. How long have you worked at Newman?**

9 A. I have been with Newman for twenty-one years.

10

11 **Q. What is your current position with Newman?**

12 A. I am Vice President of Operations. My duties as Vice President involve general
13 management of all paper mill operations, including procurement of all utilities,
14 process control and machinery.

15

1 **Q. Where are Newman's facilities located?**

2 A. Newman's headquarters, including its papermill, are located in Northeast
3 Philadelphia.

4
5 **Q. What type of production occurs at Newman's facilities?**

6 A. Newman produces more than 60,000 tons of paperboard annually. Our products are
7 used in a variety of industries, including paper boxes, game boards, puzzles, book
8 covers, and tablets.

9
10 **Q. Does Newman have a long history with Philadelphia?**

11 A. Yes. Newman has been located in Philadelphia for almost ninety years. As other
12 industries have left the Philadelphia area due to rising costs and increased taxes,
13 Newman continues to maintain its mill, which runs twenty-four hours a day, to meet
14 our customers' needs. Currently, Newman employs approximately 125 people. In
15 addition, Newman operates three other companies on-site, which results in total
16 employment of approximately 185 people.

17
18 **Q. Does Newman receive service from the Philadelphia Water Department**
19 **("PWD")?**

20 A. Yes. Newman receives both water and wastewater services from the PWD, and
21 Newman is assessed stormwater charges through PWD.

22

1 **Q. Are you aware of PWD's proposed changes to its stormwater charges?**

2 A. As I understand it, PWD is proposing to modify its current stormwater charges from
3 a pure meter-based rate allocation to one based upon a customer's gross and
4 impervious areas. This transition is proposed to occur over a four-year period.

5

6 **Q. How will PWD's proposed modifications to its stormwater charges affect
7 Newman?**

8 A. Based upon information received from PWD, this proposed modification will more
9 than double Newman's overall stormwater charge costs. As proposed, PWD's
10 stormwater charges will increase from \$70,715 in 2007-2008, to \$148,978 in 2011-
11 2012. Newman's operating budget cannot withstand a 110% increase in stormwater
12 charges.

13

14 **Q. Does PWD's proposal to implement this modification over a four-year period
15 assist Newman in absorbing this cost increase?**

16 A. Although the four-year phase-in provides some assistance, other factors exist that
17 will further exacerbate the impact of the stormwater modification on Newman's
18 overall cost of doing business. Obviously, the dismal state of the national economy
19 affects all industries in terms of increased prices for raw materials. In addition,
20 Newman uses significant amounts of natural gas and electricity in its production
21 operations. While natural gas prices have recently stabilized, they will likely soon
22 become volatile again. In addition, PECO Energy Company ("PECO"), from whom
23 Newman receives electric service, will eliminate its generation rate caps on
24 December 31, 2010. Although we cannot predict the exact effect that this

1 elimination will have on Newman's rates, Newman's electricity rates will most likely
2 increase dramatically. Accordingly, over the next four years, Newman will face
3 significant increased costs with respect to its operations, and PWD's modifications to
4 its stormwater charges will compound these other expected increases. The effects of
5 these concerns are evidenced by the reality that nine competing recycled paperboard
6 mills have closed in the past six months, and it appears several additional closures
7 are imminent. All of these closures were in the Northeastern United States and
8 resulted in the elimination of approximately 1,000 jobs.

9
10 **Q. Does Newman expend any additional costs to address stormwater problems?**

11 A. Yes. Because of Newman's location along the banks of the Delaware River, any
12 stormwater flooding that occurs affects the neighboring riverbanks. Recently,
13 Newman initiated a project that involved rebuilding the area adjacent to the PWD
14 stormwater drain, which had been damaged from stormwater flooding. Overall, the
15 cost of this project exceeded \$25,000, with substantial additional work that must still
16 be completed.

17
18 **Q. Do you have any suggestions with respect to PWD's proposed stormwater
19 modifications?**

20 A. Yes. While I recognize that PWD's objective is to implement stormwater charges
21 that will ensure fairness to all customers, the PWD must be cognizant of the impact
22 that these changes will have on mid-sized industrial and commercial customers such
23 as Newman. While PWD proposes a phase-in to account for the change in costs, this
24 phase-in overlaps with other cost increases that Newman faces, as well as

1 compounds the monies spent by Newman to account for other stormwater-related
2 issues. Therefore, I recommend that PWD extend the transition from a meter-based
3 allocation to one based upon a customer's impervious gross area ratio beyond the
4 four-year period currently proposed specifically for those customers that will be
5 dramatically and detrimentally impacted by this modification.

6

7 **Q. Does this conclude your testimony?**

8 **A. Yes.**