BEFORE THE
PHILADELPHIA WATER COMMISSIONER

FY 2009-2012 Philadelphia Water Department :
Water and Wastewater Rate Proceeding :

DIRECT TESTIMONY OF JAMES PALLADINO

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is James Palladino. My business address is 1101 Market Street, Fifth Floor, Philadelphia, Pennsylvania.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Philadelphia Water Department as its Manager of Rates and Revenue Requirements.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Bachelor of Arts degree in economics from LaSalle University. I have also completed two years of graduate study in economics and statistics at the Pennsylvania State University.

Q. PLEASE DESCRIBE YOUR RELEVANT WORK EXPERIENCE?

A. I have been employed by the Philadelphia Water Department in its Rates and Revenue Requirements Unit since 1974. I have been responsible for studies of water and wastewater usage, revenues, billings and cost of service as they relate to rates for the water and wastewater utilities. I also have responsibility for the negotiation and administration of wholesale water and wastewater contracts with the Department's wholesale suburban customers.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide a general overview of the proposed revised changes in water and sewer regulations and to explain the current status of the Department's contracts for wholesale water and wastewater services.

A. Proposed Water and Sewer Regulations

Q. WOULD YOU DESCRIBE THE PROPOSED CHANGES IN WATER AND SEWER REGULATIONS?

A. The Proposed General Service Water and Sewer Regulations set forth the proposed increases in basic water and sewer (wastewater) rates (service and quantity charges). If the proposed regulation is approved and implemented, a typical residential customer's monthly bill will be $53.19, an increase of $3.84 beginning on October 1, 2008 or a 7.8 % increase over current rates. A typical residential customer uses 700 cubic feet of water monthly, on average.

A typical senior citizen eligible for the senior discount will experience an increase of approximately $ 2.12 in water and sewer charges on a monthly basis. Their typical bill will be $33.21. A typical senior citizen account uses 500 cubic feet of water monthly.

Both the proposed General Service Water and Sewer Regulation propose the continuation of the existing policy extending a 25% discount to senior citizens and other groups including religious institutions, charities, hospitals, etc.

With regard to the senior citizen discount, the Department proposes that concurrent with the implementation of new rates, the income eligibility threshold for this discount will be increased. Specifically, the current annual income limit of $ 26,700 is proposed to increase to $ 28,600 to reflect the change in the cost of living since the last rate revision.

Under the proposed rates beginning October 1, 2008, charges for biochemical oxygen demand, "BOD" are proposed to increase to $ 0.292 per pound for wastewater strength exceeding 250 mg/l. Also, charges for suspended solids, "SS" are proposed to increase to $ 0.308 per pound for wastewater strength exceeding 350 mg/l.

B. Wholesale Contracts for Water and Wastewater Service

Q. PLEASE STATE WHAT CONTRACTS FOR WHOLESALE WATER AND WASTEWATER SERVICE HAVE BEEN REVISED SINCE THE LAST RATE CASE?

A. The Lower Moreland Township contract was newly rewritten on April 1, 2007. The new agreement provides for higher rates of flow and stricter charges for exceeding contractual flow limits, as well as a increase in the management fee from 10% to 12%.

The Bucks County Water & Sewer Authority (BCWSA) holds the contract for wastewater service to Bensalem Township. A new amendment is in the final stages of negotiation as is expected to be executed soon. It provides for BCWSA to design, construct and operate in Bensalem Township a holding tank for wastewater during heavy rain events. This tank should provide a measure of confidence that flows from the drainage area of the Poquessing creek are manageable during severe storms.

Q. PLEASE STATE WHAT CONTRACTS FOR WHOLESALE WATER AND WASTEWATER SERVICE ARE CURRENTLY SUBJECT TO NEGOTIATION?

A. The wastewater agreements with the Delaware County Regional Water Quality Control Authority (DELCORA) is in the process of being renegotiated. In the near future new contracts will be negotiated with Cheltenham and Springfield townships.

Q. DO THE DEPARTMENT'S CURRENT CONTRACTS FOR WHOLESALE SERVICE PROVIDE FOR THE RECOVERY OF COST OF SERVICE FROM THE AFFECTED CUSTOMERS?

A. Yes, for example, each wholesale wastewater agreement includes charges for return on investment, depreciation, or, alternatively charges for appropriate shares of capital costs, as well as costs of operation, maintenance, repairs, replacements, etc. Wholesale wastewater agreements also provide for rates related to flows (volume and peak rates of flow) as well as the strengths of wastewater received. Finally, these agreements provide for rates to be changed upon ninety days notice to the wholesale customer. It should be noted that wholesale water contracts have comparable provisions providing for the recovery of full cost of service.

Q. ARE THERE PLANS TO REVISE WHOLESALE SERVICE RATES AT THIS TIME?

A. Yes, the Department has notified its wholesale water and wastewater customers of a four stage change in their rates paralleling the four stage increases for retail customers. Rates for wholesale customers were most recently increased on July 1, 2007. New rates to wholesale customers will be in the form of a four stage increase, with the first stage to become effective on July 1, 2008.

Q. ARE CHANGES BEING PROPOSED IN THE DEPARTMENT'S MISCELLANEOUS WATER AND SEWER CHARGES?

A. Yes, changes are being proposed to increase the miscellaneous water and sewer charges which cover such services as replacing missing or damaged meters, connecting to the water system, meter testing, discontinuance of water service, discharge of groundwater, treatment of septage, etc. These charges have not been revised since August 1, 2005. The proposed charges reflect increases in labor costs in the last 3 years, as well as experienced increases in vehicle costs and materials.

These proposed charges reflect the fact that automatic meter reading devices are now in place in the great majority of our accounts.

With respect to the review of Stormwater Plans, the Department is proposing a fee of $500 for the review of conceptual plans. Other plans for Stormwater Management will also be subject to a $500 fee, additionally a fee of $75 per hour shall be paid for each hour of review time expended.

Q. WHAT CHANGES ARE PROPOSED IN THE METHODOLOGY FOR CHARGING CUSTOMERS FOR STORMWATER COSTS?

A. The new regulations propose an alternative method for the Department to more equitably recover the costs associated with stormwater management. Currently stormwater costs have been collected from customers based upon the size of the water meter serving a property, i.e. a meter-based system. New technologies in measuring property size and differentiating pervious and impervious characteristics, along with the recent initiation of a billing system capable of utilizing both the Inpervious Area (IA) and Gross Area (GA) of each property, i.e. a parcel –based system. This has allowed the Department to develop and propose a system of recovering stormwater costs which more closely mirror each customer's responsibility for the costs imposed upon the Department's stormwater system.

The Department's proposed regulations provide for a three year phase-in of the parcel-based system beginning with the second phase of the proposed change in rates. The first year of these proposed revised rates will continue the practice of recovering costs based upon the size of a customer's meter. Year 2 of the proposed rates (beginning July 1, 2009) will allow for the introduction of parcel-based stormwater charges by rendering each customer a bill calculated using one-third of the parcel-based charges and two-thirds of the meter-based charges.

Year 3 of the proposed rates (beginning July 1, 2010) will result in bills being calculated using two-thirds of the parcel-based charges and one-third of meter-based charges. Year 4 stormwater charges (beginning July 1, 2011) will complete the transition to area based charges with billings based entirely on the Gross and Impervious areas of each property.

It is important to note that beginning in Year 2 all Residential properties will be billed the same charge for Stormwater service. That charge will be based upon the characteristics of the typical Philadelphia residence, an average of the total and impervious areas of the city's row, twin and single homes.

Non-Residential properties will also have the parcel-based system phased in over the same time period as residential properties, but the unique gross and impervious areas of each non-residential property will be used in determining the billing for stormwater service. This method of using gross and impervious areas will result in charges to each customer that more accurately reflect the demands each property places on the stormwater system. Larger properties with much paved areas and impervious roofing will be assessed a higher charge (because such properties contribute significantly more stormwater runoff during rain events) than smaller properties with relatively less impervious area.

Property owners who make changes to their properties to lessen the runoff of stormwater will be eligible to apply for a credit to their stormwater billing.

Finally, all customers currently eligible for a discount in their water and wastewater billings, such as Senior Citizens, Churches, Charities, Schools, Hospitals, Universities and PHA properties will continue to receive those discounts on their revised stormwater charges.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

JAMES PALLADINO
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Philadelphia, PA 19107

EDUCATION: B.A. (Economics), LaSalle University (1967);
Ph.D. Program (Economic Statistics), Pennsylvania State University (1967-69)

EXPERIENCE: PHILADELPHIA WATER DEPARTMENT, Manager, Rates and Revenue Requirements

Administrator responsible for studies of water and wastewater usage, revenues, billings and costs as related to the determination of rates. Direct rate filing presentation in formal rate proceedings. Oversee efforts of management consultants in formulation of rate and financial studies for the Water Department. Provide professional evaluation and counsel to Department with regard to the aforesaid studies. Responsible for overall management of contractual relations with suburban wholesale customers, including the negotiation of agreements and administration of rates.

PENNSYLVANIA STATE UNIVERSITY, Middletown, PA Instructor (1969-70)
Academic duties included lecturing in Quantitative Business Analysis for undergraduates

. RIDER UNIVERSITY, Lawrenceville, NJ, Instructor (1970-74)
Academic duties included lecturing in Quantitative Business Analysis for undergraduates

SPRING GARDEN COLLEGE, Philadelphia,PA, Instructor (1976-1977)
Lectured in undergraduate courses in economics and business for the evening division.