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May 18, 2016

Philadelphia Water, Sewer and Stormwater Rate Board
c/o Ms. Marie McNeill
Philadelphia Water Department
1101 Market Street, Fifth Floor
Philadelphia, PA 19107

RE: Philadelphia Water Department's Response to the Hearing Officer's Initial Reports

Dear Hearing Officer Brockway and Members of the Rate Board:

This correspondence is submitted by the Philadelphia Water Department ("Department" or "PWD") in response to the Hearing Officer's Report captioned "Projected Revenues and Expenses," as revised. The Department's comments are set forth in Attachment A to this letter which is incorporated herein by reference. Thank you for your attention to this matter.

Respectfully submitted,

/s/ Andre C. Dasent

ANDRE C. DASENT, ESQUIRE
Attorney for Philadelphia Water Department

Attachment A

The following comments are submitted by the Department in response to the Hearing Officer's Report, as revised (the "Report").

GLOBAL COMMENTS

The Department believes that in every instance where a summary of arguments is given in the Report, a reasonable summary of all positions should be provided – not just the Advocate's position. *See*, Payroll Spend Factor.[1] Also, as noted in our previous comments, Black and Veatch will re-run the rate model to inform the Board of the impact of various scenarios they may wish to evaluate. Given the intricacies of the rate model, it would be prudent to run the model prior to a final vote on a given scenario to be adopted in the rate decision.

REVENUE GROWTH

The Department submits that the following summary more accurately captures its position as to this issue:

Summary of Arguments - PWD projects an annual system decline in usage. The usage decline is due to the combined effect of (i) projected decrease in the *average usage per account* of 5/8" meters and (ii) a slight increase in the *average usage per account* of the greater than 5/8" meters. Please note that the *average usage per account* for all customer types is based on the three year average and no growth in customer accounts is projected in the study. Further, the shorter period recommended by the Advocate does not give "more weight to the two recent years," rather it fails to reflect the "true system volatility" in usage patterns. See, Report at 11.

LIQUIDATED ENCUMBRANCES

Detailed Arguments (Public Advocate) – The summary of the Advocate's position is not supported in the record and is inconsistent with the detailed discussion of its position in the subsequent sub-section of the Report. The following language should be stricken from the Report for the above reasons:

> Deriving the base by dividing the FY 2017 reduction by 19.28% produces a base of \$65,360,290. Applying 14.28% encumbrance ratio and a 3% escalator for FY 2018 produces alternate reductions of \$9,333,449 and \$9,613,453, respectively. See, Report at 14.

BILLING ADJUSTMENT FACTOR

The Department submits that the following summary more accurately captures its position as to this issue:

Summary of Arguments - The Department applied a billing adjustment factor to the projected billings to mitigate any risks associated with the various assumptions for projected billings, including projected

[1] The summary of argument for Spend Factors is inaccurate in stating that "…the Department's amounts are not supported by the record." See, Report at 18. The FY 2015 actual to budget for Department Class 100 expenses is 99.38%. See, PWD Exhibit 6, Finplan15, Assumptions-22A (page 48 of 819).

billed volume per account, customer usage patterns (billed volume distribution) and collection factors. This billing adjustment for risks is a completely separate issue from the projection growth rate. See, Report at 22.

WRAP

The Department submits that the following summary more accurately captures the parties' respective positions as to this issue:

Summary of Arguments - PWD requested $4.0 million in FY 2017 for WRAP and $1.270 million in FY 2018 for UESF Grants. The PA argues that this program has been funded under current rates for many years, and that PWD does not propose to increase the size of the program. See, Report at 26.

CSO REIMBURSEMENT

The Department submits that the following summary more accurately captures the respective positions of the parties as to this issue:

Summary of Arguments **-** PWD requests a rate increase of $1.8 million in FY 2017 and $3.5 million in FY 2018 to reimburse the City of Philadelphia's General Fund for upfront payments [tax credits] to construct a combined sewer outfall. The Department indicates that these revenue requirements are the result of a contractual obligation and were not included in the projected revenue requirements in the 2012 rate case. The Public Advocate submits that the timing of payments for this obligation is uncertain, rendering them unsupported. The PA also states that there is no basis for the Board to conclude that PWD requires additional service revenues to continue to meet an obligation that was, or should have been, specifically identified in PWD's last rate proceeding, and which PWD has been able to satisfy under existing rates. See, Report at 32.