

Philadelphia Water Department Rate Board Hearing  
April 6, 2016

CITY OF PHILADELPHIA  
PHILADELPHIA WATER DEPARTMENT PRESENTATION  
RATE BOARD HEARING  
WEDNESDAY, APRIL 6, 2016  
10:00 A.M. - 1:45 P.M.  
MINUTES OF FORMAL MEETING

- - -

LOCATION: 1515 Arch Street, 18th Floor  
Philadelphia, Pennsylvania

REPORTED BY: SUSAN A. HURREY, RPR

- - -

HELD BEFORE:

NANCY BROCKWAY - HEARING OFFICER

BERNARD BRUNWASSER - CHAIR

SONNY POPOWSKY - BOARD MEMBER

- - -

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(215) 504-4622

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1           - - -  
2           P R O C E E D I N G S  
3           - - -  
4           MS. BROCKWAY: This is a  
5 continuation of the hearing before the  
6 Philadelphia Board of Sewer and Storm Water  
7 Rate Board in the matter of the proposed  
8 increase of water and wastewater rates for  
9 fiscal years 2017 and 2018 of the Department.  
10 We have a little bit of housekeeping to start,  
11 Mr. Ballenger.  
12           MR. BALLENGER: Yes. Thank you,  
13 Madam Hearing Officer. I just wanted to note  
14 one typographic error to our errata sheet,  
15 embarrassing as that is. And that is in the  
16 errata listed at page 19, line 15 of our errata  
17 sheet. It states the words quote, water  
18 customer revenues by 0.5 percent,  
19 parenthetical, assumption-6, close  
20 parenthetical, and sewer customer, quote,  
21 should be, quote, water customer revenues by --  
22 and here's the typo, it should be 0.50 percent,  
23 instead of 0.05 percent.  
24           MS. BROCKWAY: I'm sorry.

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1           MR. BALLENGER: The decimal point  
2 is one position over to the left from where it  
3 should be. The decimal point should be 0.50.  
4           MS. BROCKWAY: That's what I have  
5 got on my list, so I'm confused. Hold on a  
6 second. Oh, that one. I thought you were  
7 talking about the first one.  
8           MR. BALLENGER: No. My apologies.  
9 I was on page 19. Line 15 should state water  
10 customer revenues by 0.5 percent in the last  
11 quoted passage in that errata. That's the  
12 typographic error we made.  
13           MS. BROCKWAY: Somebody will  
14 explain to me at some point why 0.50 is  
15 different from 0.50.  
16           MR. BALLENGER: The problem is it  
17 says 0.05 and it should be 0.50. The five and  
18 the zero are juxtaposed.  
19           MS. BROCKWAY: The two numbers  
20 should be identical?  
21           MR. BALLENGER: Correct. Thank  
22 you.  
23           MS. BROCKWAY: Thank you. Mr.  
24 Dasent, I understand you have witnesses to

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1           present and they will go through your outline  
2 of the rebuttal?  
3           MR. DASENT: Yes. But before that,  
4 a little housekeeping. We handed out earlier  
5 an errata sheet for a rebuttal outline and it  
6 indicates, I think it's self-explanatory,  
7 section five, one word changes -- prospectively  
8 changes to retroactively and it deals with some  
9 of the bond requirements.  
10           MS. BROCKWAY: This is 5B1?  
11           MR. DASENT: Yes. And I strike  
12 prospectively and insert retroactively. It was  
13 a typo.  
14           MS. BROCKWAY: So it reads  
15 prospective analysis when rates are being set,  
16 tested retroactively.  
17           MR. DASENT: Yes. And Ms. Allen  
18 will explain. Also, as part of rebuttal  
19 outline, we have a table that Black & Veatch  
20 prepared that was attached to it, table one. I  
21 have copies in the room just to make sure that  
22 everyone who perhaps didn't bring it would be  
23 supplied with a table. If you indulge me, I  
24 will hand that to the Board.

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1           MS. BROCKWAY: Go off the record.  
2 (Discussion held off the record.)  
3           MS. BROCKWAY: We'll go back on the  
4 record. Mr. Dasent.  
5           MR. DASENT: Thank you, Your Honor.  
6 We're ready to present our rebuttal case and we  
7 have identified the panel before off the  
8 record, but they are Melissa LaBuda, the Black  
9 & Veatch witnesses, Dave Jagt, Prabha Kumar,  
10 Ann Bui, Kathy Clupper of Public Financial  
11 Management, Valarie Allen from Ballard Spahr  
12 and I think I have captured everyone.  
13           I will direct the questions to the  
14 responding witness, but it's a panel, so  
15 hopefully that will give you the answers that  
16 you need as we go.  
17           My first question is directed to  
18 Ms. LaBuda and it's section one of our outline.  
19 Mr. Morgan's contentions that the rate model is  
20 flawed are mistaken is our heading.  
21           Now, Ms. LaBuda, Mr. Morgan's  
22 central thesis is that the rate model is  
23 flawed. He specifically states in his  
24 testimony that the Department's financial

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1 forecasts have historically overstated the  
2 utilities revenue requirements and that is  
3 likely to continue. Do you agree?  
4 MS. LABUDA: No, I do not. The  
5 Department has reviewed our historical  
6 forecast. We've made the appropriate  
7 adjustments for this proceeding. While the  
8 previous forecasts appear to have been  
9 conservative, they have benefitted ratepayers  
10 by allowing us to go to fiscal year '16 with a  
11 zero percent rate increase and to mitigate the  
12 rate increases for '17 and '18 all for the  
13 benefit of ratepayers.  
14 MR. DASENT: My second question  
15 directed to both Ms. LaBuda and Ms. Bui. Mr.  
16 Morgan claims that operating conditions in its  
17 fiscal 2018 are so far out in the future to be  
18 speculative. Do you agree?  
19 MS. LABUDA: No. The projections  
20 for fiscal year '18 are based on  
21 well-considered estimates, consistent with  
22 current industry standards set forth in the  
23 AWWA manual, which is also referenced in the  
24 report ordinance.

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1 MS. BUI: I would concur with Ms.  
2 LaBuda's statement there. As you know, it is  
3 really the obligation of the utility, the  
4 municipal utility in particular, to take a look  
5 at long-range financial planning. And in order  
6 to do that, we look at those -- the Department  
7 does -- the five-year forecast. That also  
8 allows us to mitigate any potential ratepayer  
9 impacts that might result due to large capital  
10 programs.  
11 MR. DASENT: My third question to  
12 Ms. LaBuda, based upon Mr. Morgan's assessment  
13 of the rate model, he questions whether a rate  
14 increase is necessary at all because he sees no  
15 revenue shortfall. Do you agree?  
16 MS. LABUDA: No. The Department  
17 has done everything we could to avoid a rate  
18 increase, but the rate increase is unavoidable.  
19 We have got some reasons. We have got the need  
20 to replace aging infrastructure. We must meet  
21 regulatory mandates. We lost a major contract  
22 with Bucks County Water, is the equivalent to  
23 seven to eight million revenue annually. We  
24 have growth in fixed cost such as pensions,

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1 healthcare and labor negotiations. The  
2 deductions that Mr. Morgan is making puts the  
3 Department at risk of not meeting its financial  
4 obligations.  
5 MS. BROCKWAY: Thank you. May I  
6 interrupt for just a second? I'm trying to  
7 follow the outline and this doesn't track  
8 exactly the outline. Is that to be expected?  
9 We shouldn't worry whether it tracks the  
10 outline?  
11 MR. DASENT: It's not going to  
12 track it precisely, but it was going to give a  
13 heads up basically that these are the subjects  
14 we would like to discuss. We will discuss most  
15 everything that we have identified in the  
16 outline. We try not to be redundant because  
17 some issues were covered yesterday.  
18 MS. BROCKWAY: I'm making a  
19 different point, which is, for example, I  
20 couldn't find the reference in the outline that  
21 Ms. LaBuda just responded to or dealt with.  
22 MR. DASENT: Well, we were dealing  
23 in this particular section of the outline with  
24 the fact that the rate model is flawed, and

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1 rebutting that contention that was raised by  
2 Mr. Morgan. We say it's mistaken. We say  
3 several ways which we believe it's mistaken.  
4 MS. BROCKWAY: I understand that.  
5 So in other words, it's not me that I don't see  
6 here on the piece of paper, we do have a  
7 revenue shortfall, he's wrong that we don't.  
8 That just flows out of these other --  
9 MR. DASENT: Yes, it does.  
10 MS. BROCKWAY: Okay. Sorry to  
11 interrupt. Thank you.  
12 MR. DASENT: Based upon Mr.  
13 Morgan's various criticisms of the rate model  
14 and past projections, do you agree that the  
15 rate model is flawed?  
16 MR. BALLENGER: Can I just object?  
17 I'm not sure what you mean by various  
18 criticisms. I prefer to respond to the  
19 specific points in his testimony that you  
20 direct to us where you're responding.  
21 MR. DASENT: Sure. The additional  
22 costs, the spend factors, the escalation  
23 factors, and the other recommendations that Mr.  
24 Morgan makes to eliminate the revenue

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<p style="text-align: right;">Page 10</p> <p>1 requirement as a part of his criticisms of the 2 rate model. Do you agree that the rate model 3 is flawed? 4 MS. KUMAR: No. The financial plan 5 model has a high degree of modelling integrity 6 with respect to four key aspects. It meets all 7 of the general bond ordinance and insurance 8 covenants. It's mathematically accurate. It 9 uses all available reliable data. And it uses 10 reasonable and defensible projections, and it 11 provides transparent analysis of all the 12 mathematical analysis in the model. 13 MR. DASENT: Thank you. Moving to 14 section two of our outline. I'm addressing 15 this to Black &amp; Veatch and Ms. LaBuda. Mr. 16 Morgan states the Department is not at the 17 brink of financial distress at page ten of his 18 testimony. Based upon your review of his 19 recommendations, do you agree? 20 MS. LABUDA: No, I don't. As I 21 have stated earlier, the Department has made 22 significant efforts over the last four years to 23 control spending. However, in fiscal year '16, 24 we didn't have a rate increase where we're now</p>	<p style="text-align: right;">Page 12</p> <p>1 projecting lower expenses based on the 2 revisions to the escalation factors, the actual 3 budget factors, and the proposed elimination of 4 the additional expenses to meet the additional 5 needs of the system, we're running the risk of 6 understating the O&amp;M expenses as well. So the 7 combined risk of understating revenues and 8 overstating -- or overstating revenues, 9 understating revenue requirements, we're at 10 risk of not meeting the bond covenant 11 requirements. 12 MR. DASENT: Is there anything more 13 to add to that? 14 MS. LABUDA: Yes. In fact, one of 15 the challenges we face with the proposed LKM-1 16 that was circulated yesterday is that, once 17 again, shows a covenant default based on the 18 Public Advocate's recommendations. 19 MS. BROCKWAY: Can you direct us to 20 where that is? 21 MS. LABUDA: Sure. I believe this 22 was handed out yesterday. It was in the errata 23 sheeted. I'm looking at the combined 24 operations revised schedule LKM-1. And I'm</p>
<p style="text-align: right;">Page 11</p> <p>1 utilizing a withdraw from the rate 2 stabilization trend to bridge our gap between 3 revenues and obligations. We're also utilizing 4 the rate stabilization fund in '17 and '18 to 5 continue to bridge the gap between obligations 6 and revenues. 7 MR. DASENT: Mr. Jagt, is there -- 8 MS. BROCKWAY: Excuse me. Let's go 9 off the record. 10 (Discussion held off the record.) 11 MS. BROCKWAY: Go back on. 12 MR. DASENT: Mr. Morgan states at 13 page ten of his testimony that the Department 14 is not at the brink of financial distress. As 15 a supplement to Ms. LaBuda's answer, do you 16 have anything more to add, Mr. Jagt? 17 MR. JAGT: We just want to point 18 out the proposed changes, as proposed by the 19 Public Advocate, have run the risk of 20 underperforming the projection of revenues with 21 the cuts in the volumes -- or the increases in 22 the volumes they are proposing, we run the risk 23 at coming in at lower volumes and the utility 24 under recover in revenue. And also, by</p>	<p style="text-align: right;">Page 13</p> <p>1 looking at line -- I believe it's 26 and -- 2 MS. BROCKWAY: Excuse me. Just for 3 people's reference, this is the second page in. 4 Okay. All right. 5 MS. LABUDA: That's okay. I'm 6 looking at the second page in, line 26. I'm 7 looking under the Public Advocate column for 8 fiscal year '18. And I see senior coverage of 9 1.19 percent, which is lower than the required 10 amount in the general bond ordinance. 11 MS. BROCKWAY: Thank you. 12 MR. DASENT: Now, again, referring 13 to schedules LKM-1 through 3 and the narrative 14 testimony that Mr. Morgan proffers. Are there 15 any inconsistencies, other than already 16 mentioned, between his recommendations and the 17 schedules? 18 MR. JAGT: Well, first off, we want 19 to point out -- refer back to the original 20 submission of the schedule LKM-1, 2 and 3. As 21 originally filed, the schedules included the 22 additional revenues as requested by the 23 Department and the amount per Public Advocate 24 column. And as such, they overstated the</p>

4 (Pages 10 to 13)

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1 transfer from the revenue fund on line 34 in  
2 each of their presentations, which subsequently  
3 overstated the projection of fund balances as  
4 they originally proposed. Since the original  
5 filing, they went ahead and revised that to  
6 reflect the proper adjustments. But the  
7 original submission was mathematically  
8 incorrect.  
9 MS. BROCKWAY: Again, when you say  
10 fund, can you be very specific? Because I'm  
11 still trying to get my head around all the  
12 different types of funds there are.  
13 MR. JAGT: Sure. The residual fund  
14 balance that was projected in the original  
15 submittal. So in what -- the original  
16 submittal, line -- the line 34 was overstated  
17 and as well as the total on line 40, which is  
18 the projected residual fund balance.  
19 MR. DASENT: Based upon the  
20 corrections or errata, have all these  
21 inconsistencies been eliminated, Mr. Jagt?  
22 MR. JAGT: No. There are the  
23 consistencies between the policy objections  
24 that he makes and his testimony and what he

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1 presents in the exhibit. For example, if you  
2 look at Mr. Morgan's testimony. With regards  
3 to bond coverage, on page 43 of his testimony,  
4 Mr. Morgan suggests or states that he  
5 recommends that coverage utilized for the rate  
6 proceeding shall remain at 1.20. However, in  
7 his example in the schedules he provides, in  
8 the columns for the Public Advocate or the  
9 amount per Public Advocate for fiscal year '17,  
10 on line 26, he presents 1.31 coverage. And  
11 then again in fiscal year 2018, he presents  
12 1.19. Both of which are inconsistent with what  
13 he presents or suggests. And in fact, in  
14 fiscal year 2018, it's below the minimum  
15 required for the utility, which would be 1.20  
16 and represents a technical default.  
17 MS. BROCKWAY: Can you give us a  
18 line number on page 43?  
19 MR. JAGT: Sure.  
20 MR. BALLENGER: Line three.  
21 MS. BROCKWAY: Line three. Thank  
22 you.  
23 MR. JAGT: I'm going to need the  
24 line reference for the next one and I have to

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1 look that up.  
2 MS. BROCKWAY: Maybe we'll rely on  
3 Ballenger.  
4 MR. JAGT: The second fact is on  
5 the cash fund to capital. On page 47 of Mr.  
6 Morgan's testimony, which --  
7 MS. KUMAR: Line nine.  
8 MR. JAGT: Line nine. Thank you.  
9 Mr. Morgan indicates that he does not agree  
10 with the Department's proposal to fund 20  
11 percent of the capital. So cash funding of  
12 capital projects. However, the amounts as he  
13 presents in his exhibit or schedule one  
14 continue to reflect the Department's request,  
15 which maintains the 20 percent. And that would  
16 be presented on line 37 of schedule LKM-1. And  
17 the fact that he leaves the presentation of the  
18 proposed transfers at the Department's  
19 suggested levels just indicating -- he's  
20 reflecting the -- that we achieve the 20  
21 percent as proposed.  
22 MS. BROCKWAY: Line 37, I'm looking  
23 at transfer to construction fund. That's the  
24 line you're talking about?

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1 MR. JAGT: Yes, ma'am.  
2 MR. DASENT: Turning your attention  
3 -- have you finished your answer?  
4 MR. JAGT: No. There's one other  
5 point. Just that the recommendation states  
6 that there were no revenue increases. But to  
7 the contrary, the analysis presented by Mr.  
8 Morgan in the cash flow table, as originally  
9 submitted, included the BMD proposed increases.  
10 And based on the inclusion, the end result was  
11 that presented an end-of-year revenue fund  
12 balance over the amount that we projected.  
13 MR. DASENT: Does that complete  
14 your response?  
15 MR. JAGT: Yes.  
16 MR. DASENT: Turning your attention  
17 to table one that we handed out earlier today.  
18 And it was appended to the rebuttal outline,  
19 Mr. Jagt. Table one prepared by Black &  
20 Veatch. It was handed out earlier. Mr. Morgan  
21 eliminates PWD claims for additional costs. Do  
22 you see, with your attention turned to table  
23 one, that the analysis is premised upon a  
24 proper application of the model? Basically I'm

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1 asking to walk you through the exhibit.  
2 MR. JAGT: Okay. On the exhibit --  
3 sorry, I don't have the --  
4 MR. DASENT: Looking at page one,  
5 item one. Could you just sort of walk us  
6 through the exhibit and what it means?  
7 MR. JAGT: All right. This walks  
8 through basically how Mr. Morgan's original  
9 draft of the testimony was based on the cash  
10 flow analysis within the Black -- or the  
11 revised model, which they had provided to us  
12 after their revisions.  
13 MS. BROCKWAY: Excuse me. The  
14 revised model? Your revised model or theirs?  
15 MR. JAGT: It's their revised  
16 model, yes, ma'am. So in the original filed  
17 exhibit, they submitted line one. The  
18 projected revenue was pulled straight out of  
19 the model and reflect the proposed decreases in  
20 the revenue and also the adjustment for the --  
21 removing the billing safety factor.  
22 MS. BROCKWAY: Can you -- I'm going  
23 to have to take all of this later and  
24 summarize. It would be really helpful if -- so

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1 it will all be one place in the transcript, you  
2 could mention the numbers.  
3 MR. JAGT: Sure.  
4 MS. KUMAR: Just to give an  
5 overview in what you're seeing in table one,  
6 table one is from the model provided by Mr.  
7 Morgan. And what you are seeing on the left  
8 side, which is called LKM cash flow table, C-1  
9 is the table in their model of how the data  
10 analysis in table C-1. And then on the right  
11 side what you see is the schedule that they  
12 presented called LKM-1. And this table, as a  
13 whole, points to the inconsistencies between  
14 these two that are inherent in the original  
15 model that they had provided.  
16 MR. JAGT: Okay.  
17 MR. DASENT: So line one mentioning  
18 the numbers, Mr. Jagt?  
19 MR. JAGT: Correct. So line one,  
20 as reviewed, were straight from table one of  
21 the revised cash flow model. He pulled the  
22 exact projection of revenue as reflected, the  
23 adjustment to the usage for the reduced  
24 decrease and the elimination of the billing

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1 safety factor.  
2 Line two -- while -- line two,  
3 which was the -- which was from the increased  
4 revenues from proposed adjustments, from the  
5 Black & Veatch model in the cash flow, he left  
6 the cash flow -- the requested revenue  
7 increases. So we had still, in the analysis,  
8 additional revenues of 35 million in fiscal  
9 year 2017 and 72 million in fiscal year 2018.  
10 However, in the presentation table, it was  
11 presented that there were no revenue increases  
12 requested.  
13 MR. DASENT: Just so we're clear,  
14 the presentation table or the LKM-1?  
15 MR. JAGT: The schedule LKM-1.  
16 MR. DASENT: That were appended to  
17 the original testimony?  
18 MR. JAGT: That's correct. That  
19 was lines nine and ten presented no increase.  
20 However, in the supporting documentation or  
21 analysis, it did include the additional  
22 revenues.  
23 MR. DASENT: Why is this important,  
24 Mr. Jagt?

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1 MR. JAGT: It shows the fact that  
2 the projected cash flow overstated the revenues  
3 in the revenue fund, which subsequently  
4 overstated resulting interest earning  
5 projections and overstating fund balances.  
6 MS. KUMAR: Based on which the  
7 recommendations that are in the testimony.  
8 MR. DASENT: Please continue down  
9 the chart. We're at line three.  
10 MR. JAGT: So as a result,  
11 increased other revenues, which reflected the  
12 interest earnings during the -- in the revenue  
13 fund and other operating funds of the utility,  
14 the results in the model are presented as line  
15 three. We have 23.4 million in fiscal year  
16 2017 and 7.2 million in fiscal year 2018.  
17 However, as originally presented in the model  
18 -- well, he inaccurately stated in LKM-1, the  
19 exclusion of revenue increases. It should have  
20 been reduced and reduced the interest earnings.  
21 MR. DASENT: So the additional  
22 revenues would have created interest earnings?  
23 MR. JAGT: Yes. Since the analysis  
24 included the additional revenues, the fund

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<p>1 balances were higher, and as such, the interest 2 earnings reflected in the analysis were 3 overstated. 4 MR. DASENT: Line four. 5 MR. JAGT: All right. Line four. 6 As he went through the exercise and eliminated 7 or made the proposed revisions to the O&amp;M, to 8 remove the additional O&amp;M and reduce the rate 9 case cost by normalizing, he actually reduced 10 that FY '17 expenditures by half of the rate 11 case expenses. And then also applied the 12 adjusted escalation factors, the spend factors 13 as he proposed, and adjusted liquidated 14 encumbrances. So the results in the model as 15 projected -- or actually from in the cash flow 16 statement in the model are the same as he 17 presented in the schedule testimony on line 24. 18 There's no issues on this line item. 19 MR. DASENT: Dropping down. Line 20 five. 21 MR. JAGT: All right. Here, as we 22 pointed out earlier, is one of the examples of 23 that he didn't continue to demonstrate the 24 policies, like for debt service coverage. On</p>	<p>1 the existing rate that they increase. 2 Basically they increased the revenues in line 3 one. They decreased the cost in line four. 4 And when you do all of that, which means then 5 you have to look at all of the other 6 parameters, the parameters of senior debt 7 coverage and all of that and depending on what 8 they need, the transfer from the rate 9 stabilization fund should be adjusted. 10 MS. BROCKWAY: I understand that. 11 So in line five, let's say fiscal 2017, the 19 12 million, if -- my understanding, this is what 13 the Department's -- the Black &amp; Veatch model 14 had and you're saying it should be different. 15 Which direction should it be different? 16 MS. KUMAR: Good question. The 17 19.3 should have been lower and the 39 million 18 should have been higher. 19 MR. DASENT: Dropping down to line 20 six. Mr. Jagt, just walk us through the table. 21 MR. JAGT: Sure. As Prabha Kumar 22 already identified, with the previous 23 adjustments on the lines above, the net effect 24 of the net revenues of the system were</p>
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<p>1 line five in the Black &amp; Veatch model, 2 representing that he retained the proposed 3 transfers from the rate stabilization fund from 4 the Black -- the original Black &amp; Veatch 5 analysis, and then carried those transfers over 6 into his presentation on line 25 of schedule 7 LKM-1 of the same amount. 8 MS. KUMAR: This is important, 9 because when you're adjusting the revenue on 10 the existing rates, when all the revenue 11 requirements and all the O&amp;M costs and line 12 item four are getting adjusted, then in a cash 13 flow analysis, the transfer from -- transfer 14 from the rate stabilization fund or money 15 putting into the rate stabilization fund should 16 be adjusted. But here, while they adjusted all 17 the others, this 19.3 million and the 39 18 million are what was proposed by the Department 19 through the Black &amp; Veatch model and that has 20 been adjusted. So that's why this line is 21 important. 22 MS. BROCKWAY: Adjusted in what 23 direction? 24 MS. KUMAR: Based on the revenue on</p>	<p>1 presented in the rate model analysis from table 2 C-1 of the revised cash flow. On line 21, the 3 result was 308 million 11,000, and in 2018 the 4 result would be 336 million 532,000. What is 5 presented in the testimony, original filed 6 testimony, as 272 million 827,000 and 264 7 million 387,000. So it was -- even though in 8 the presentation it's corrected to remove the 9 additional revenues -- 10 MS. BROCKWAY: Which presentation? 11 MR. JAGT: In LKM-1, it was revised 12 to appropriately reflect the elimination of the 13 additional revenues due to the proposed 14 increases. This just demonstrates that the net 15 revenues, as projected in the model and the 16 basis of the presentation included the 17 additional revenues and as such, like we 18 already mentioned, ended up overstating the 19 interest earnings. 20 MS. KUMAR: So here again, line 21 item six points out the internal inconsistency 22 in the model where in one table the revenue 23 increases were included. The Black &amp; Veatch 24 proposal increases were included. But in the</p>

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<p>1 schedule LKM-1 that was attached to the 2 testimony, those revenues were excluded. And 3 so you can see in line six, the impact of 4 including the revenue in one place and 5 excluding the revenues in the other place. 6 MR. DASENT: Dropping down to the 7 bottom of the table -- 8 MR. JAGT: Line seven and eight, 9 there are no inconsistencies between the two 10 models. So we can -- 11 MS. KUMAR: As proposed by Black &amp; 12 Veatch. 13 MR. DASENT: On line nine, is there 14 any comment? 15 MR. JAGT: Again, because of the 16 results of above the lines -- the lines above, 17 per the projection of the -- the beginning 18 residual fund balance, as presented in the 19 model, due to the cumulative effect of 20 increased revenues and decrease in the 21 expenditures, and the fact that originally we 22 had left the additional revenues in, the 23 beginning fund balances presented were 24 inaccurately carried over between the models.</p>	<p>1 were not included in his schedule LKM-1. 2 MS. CLUPPER: Basically what you're 3 saying is if you look at LKM-1 on line 30, the 4 residual fund, what you're saying is that the 5 beginning balance is 42 million. Mr. Morgan's 6 testimony, Black &amp; Veatch is 15 million. So 7 what you're saying, Dave, is that they're 8 overstating the beginning balance in '17 by 26 9 million dollars. 10 MR. JAGT: Correct. 11 MS. CLUPPER: If you make that line 12 30 of the residual fund beginning balance 15 13 million, similar to the Black &amp; Veatch, if you 14 don't carry over that additional 26 million and 15 you walk that all the way through -- 16 MS. KUMAR: Actually, that's not 17 true. What we are trying to point out here is 18 that there are two tables within the LKM model, 19 which is called a revised model. There are two 20 tables. One table is called table C-1, which 21 is on the left side, and another table called 22 LKM-1 on the right side. These two tables 23 should be identical. Because LKM-1 is nothing 24 but a summary of table C-1. Therefore, the</p>
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<p>1 MS. BROCKWAY: Presented by whom? 2 MR. JAGT: In the original LKM-1 3 analysis. 4 MR. DASENT: By Mr. Morgan. 5 MR. JAGT: By Mr. Morgan. 6 MR. DASENT: We're trying to 7 illustrate -- 8 MS. BROCKWAY: That's all right. 9 He can do it. So let me just try to clarify 10 this. It would be so helpful if you specified 11 with exhausting detail which parties, which 12 document you're talking about. So I'm looking 13 at line nine of this exhibit and fiscal 2017 is 14 42 million and 2018 is 90 million. The same 15 numbers on the right side. Can you explain, 16 again, why that's a problem? 17 MR. JAGT: Okay. So he used the 18 same numbers between the two presentations. So 19 he pulled from the model analysis the exact 20 values. 21 MS. BROCKWAY: Which model? 22 MR. JAGT: So from the revised 23 Black &amp; Veatch model with his proposed edits, 24 but including the additional revenues which</p>	<p>1 numbers should align between LKM-1 and table 2 C-1, because table C-1 is really the driver. 3 However, the fundamental mistake between C-1 4 and LKM-1 is that table C-1 include the Black &amp; 5 Veatch proposed revenue increases which it 6 should have never included. If that was the 7 intent, they should have never included those 8 revenue increases. But because those revenue 9 increases were left there, all the calculations 10 were dependent upon them being left there. And 11 therefore, in line item nine, what it did was, 12 because the revenue increases were left in 13 table C-1, in line nine it overstated the 14 beginning balance, especially if you look at 15 column 2018. Now, in LKM-1 on the right side, 16 the revenue increases, they removed it. And if 17 they remove the revenue increases which we 18 talked about in the first page, then these 19 numbers will not be 90 million 393. 20 MS. BROCKWAY: I'm sorry. I don't 21 see someplace where those numbers got lower. 22 So explain again where you're saying that the 23 numbers -- 24 MS. KUMAR: We can explain that</p>

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1 using the new errata sheet that they have now  
2 given. Just pointing this from the original  
3 data that was provided on the errata sheet that  
4 was provided. So, for example, if you hold  
5 this side by side in the errata sheet that we  
6 have. So in LKM-1, because of the revenues  
7 being left, they are presenting 90.3 million as  
8 the residual fund balance in line item nine in  
9 this page that we all looked at, in table one.  
10 But now if you look at the errata sheet, that  
11 number has now dropped to 15 million 83.  
12 MS. BROCKWAY: What line number?  
13 MS. KUMAR: The line number is 31.  
14 Beginning of year, residual fund balance, line  
15 31.  
16 MS. BROCKWAY: Thank you.  
17 MR. JAGT: For consistency, we'll  
18 refer to table C-1 as the model, the results  
19 within the model as revised. And then LKM-1,  
20 we'll refer to the original -- the results as  
21 presented.  
22 MS. BROCKWAY: Again, that confuses  
23 me. Because we have several different models  
24 being talked about. We have Black & Veatch

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1 original and revised. We have Mr. Morgan's  
2 running of the model with his assumptions. So  
3 I need you to be very clear about when you say  
4 model, which one are you talking about?  
5 MS. KUMAR: There is no Black &  
6 Veatch revised. This is really Mr. Morgan's  
7 original model, and that model is basically  
8 nothing but taking the Black & Veatch model,  
9 making all the changes. That is why we call it  
10 the LKM revised model. So they took the Black  
11 & Veatch model, made adjustments to it, revised  
12 it. The crux of the matter is that when you're  
13 taking a model and making some changes, all  
14 those calculations have to be mathematically  
15 accurate. And what this is demonstrating is  
16 that while they made adjustments to numbers,  
17 the mathematical cash flow analysis was not  
18 performed accurately. That is the bottom line  
19 that we are trying to establish through this  
20 discussion and that's what table one is trying  
21 to establish.  
22 MR. DASENT: You mentioned also the  
23 errata sheet that was supplied by Mr. Morgan  
24 indicating there were certain inconsistencies

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1 you wanted to correct for, included in his  
2 schedules. Does that solve all the problems in  
3 terms of the inconsistencies in his  
4 presentation?  
5 MR. JAGT: No. As we already  
6 reviewed earlier, the fact that he continues to  
7 still reflect the fact that coverage as  
8 presented is not the coverage as he suggested  
9 in the model or in his testimony. And that the  
10 transfers for construction fund are also  
11 overstated. He suggests reducing it, but still  
12 continues to present the 20 percent transfers  
13 that the City proposes.  
14 MR. DASENT: Let's move to section  
15 three.  
16 MS. BROCKWAY: Before we do --  
17 actually, let me do this right now. We have  
18 not marked any of these pieces of paper coming  
19 in and I think it would be helpful. So what I  
20 would like to do is start with the -- the first  
21 piece of paper that we got was the Exhibit-1  
22 from -- we had Exhibit-1 marked from Public  
23 Advocate. We have Exhibit-2 marked from Public  
24 Advocate. We can go off the record.

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1 (Discussion held off the record.)  
2 MS. BROCKWAY: I'm looking now at  
3 the errata sheet for the direct testimony of  
4 Lafayette Morgan, Jr. And my understanding is  
5 that the next exhibit number would be three.  
6 Is that correct? I see heads nodding. So that  
7 will be Exhibit-3. Say that again.  
8 MR. BALLENGER: The first two are  
9 marked Public Advocate hearing Exhibit-1 and 2.  
10 So for consistency, I would suggest Public  
11 Advocate hearing Exhibit-3.  
12 MS. BROCKWAY: Okay. So we're  
13 going to distinguish between Public Advocate  
14 exhibits and other people's exhibits.  
15 MR. BALLENGER: Correct.  
16 MS. BROCKWAY: All right. Let's  
17 then go to the errata sheet that was presented  
18 this morning from the Public Advocate and we'll  
19 make that Public Advocate Exhibit-4.  
20 MS. LABUDA: The Department.  
21 MR. BALLENGER: The Department's  
22 errata.  
23 MR. DASENT: The Department's  
24 errata this morning would be our Exhibit-1,

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1 just to distinguish between the filing of this.  
2 MS. BROCKWAY: You're jumping  
3 ahead, Mr. Dasant. Let's go off the record.  
4 (Discussion held off the record.)  
5 MS. BROCKWAY: So the next document  
6 that we have is an errata sheet -- actually,  
7 let's start with the rebuttal itself.  
8 Philadelphia Water Department rebuttal  
9 testimony outline. And this will be PWD  
10 exhibit --  
11 MR. DASENT: One.  
12 MR. DASENT: Hearing Exhibit-1.  
13 MS. BROCKWAY: Okay. So let's keep  
14 the errata next to it. So that will be PWD  
15 hearing Exhibit-2. I would like to separately  
16 mark the page that appears in the outline but  
17 which we have been discussing called Public  
18 Advocate LKM cash flow table C-1 versus  
19 schedule LKM-1. And I would like to mark that  
20 as PWD hearing Exhibit-3. Are we up to three?  
21 MR. DASENT: Yes.  
22 MS. BROCKWAY: Thank you very much.  
23 MR. DASENT: We're missing one  
24 attachment though to the rebuttal outline, and

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1 that was the summary of data responses and the  
2 responses we provided. If you will mark that,  
3 certainly it will be comprehensive and  
4 including everything.  
5 MS. BROCKWAY: Okay. I don't have  
6 a piece of paper with that but --  
7 MR. POPOWSKY: It's attached to the  
8 rebuttal outline?  
9 MR. DASENT: Yes. It's the second  
10 table.  
11 MS. BROCKWAY: We'll go off the  
12 record.  
13 (Discussion held off the record.)  
14 MS. BROCKWAY: Thank you very much.  
15 MR. DASENT: Moving to section  
16 three of our outline. Assuming the  
17 implementation of Mr. Morgan's recommendations,  
18 what is the impact of eliminating all  
19 additional O&M costs, Ms. LaBuda?  
20 MS. LABUDA: Mr. Morgan's  
21 recommendations remove nondiscretionary items  
22 from the Department's expenses, and that is  
23 problematic as we have a legal agreement with  
24 the general fund that binds us to reimburse to

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1 the SugarHouse Casino. We have legal  
2 agreements with DEP and EPA requiring us to  
3 meet our consent order and agreement. We have  
4 maintenance at our facilities which we must  
5 complete. We have to add additional chemicals  
6 for certain treatment processes in order to  
7 meet our requirements and certain regulatory  
8 mandates. So holistically, he puts the  
9 Department in a situation of not meeting its  
10 financial obligations, but also not meeting its  
11 required legal arrangements.  
12 MS. BROCKWAY: And we're talking  
13 here PWD hearing Exhibit-1?  
14 MR. DASENT: Yes.  
15 MS. BROCKWAY: Okay. Did I mark on  
16 the record all the other exhibits?  
17 MR. DASENT: Yes, I believe you  
18 did.  
19 MS. BROCKWAY: Okay. Thanks.  
20 MR. DASENT: Mr. Jagt, Mr. Morgan  
21 also adjusts spend factors and escalation  
22 factors. Do you agree with those adjustments?  
23 MR. JAGT: Well, no. As we  
24 reviewed yesterday, we do not agree with the

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1 adjustments to the spend factors. The  
2 adjusting actual budget factors, as proposed,  
3 run the risk of estimating O&M costs that is  
4 that the Water Department expects to occur.  
5 Second, we do not agree with the adjustments  
6 done to the escalation factors, except the one  
7 for the electric cost. As agreed yesterday,  
8 there will be no escalation of the FY 2018  
9 electric cost. Adjusting the escalation  
10 factors on all the other O&M costs as proposed  
11 by the Public Advocate, risk underestimating  
12 the revenue requirements of the Department.  
13 MR. DASENT: Thank you. Mr. Morgan  
14 also makes revenue adjustments, Mr. Jagt, usage  
15 factor, billing factor adjustments. Do you  
16 agree with those adjustments?  
17 MR. JAGT: No. Again, reviewed  
18 yesterday, we do not agree with the adjustments  
19 done to the projection of the average volume  
20 per account. As discussed yesterday, the  
21 short-term usage per account shows significant  
22 year-to-year variability. And given such  
23 variability, we believe it's prudent to project  
24 revenues over the longer five-year average,

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<p style="text-align: right;">Page 38</p> <p>1 which is the zero point -- or the 1.5 percent. 2 And as an example of this, to illustrate the 3 impact of it, it's important to note that the 4 1.5 percent decline, as we proposed in the 5 model, reflects a 0.6 decrease in the overall 6 system projected volume. That projected -- 7 that type of reduction, 0.6 on a system basis, 8 is consistent to what other utilities are 9 seeing nationwide. However, if we use the .05 10 percent as reflected in the Public Advocate's 11 proposed projection, the system-wide reduction 12 reflects a 0.005 percent reduction in system 13 volume, which is quite far below the industry 14 average that we're seeing. 15 MR. DASENT: Thank you. Mr. Morgan 16 also states there's no basis for increased 17 issuance costs. Do you agree with that, Ms. 18 LaBuda? 19 MS. LABUDA: I do not. The 20 municipal market since the financial crisis has 21 faced higher regulatory mandates under the 22 Dodd-Frank Wall Street Reform Act and the 23 Consumer Protection Act. In both of these 24 mandates, we saw an increase requirement in</p>	<p style="text-align: right;">Page 40</p> <p>1 Department has reviewed its historical 2 projections and aligned its projections for 3 this proceeding with the City's five-year plan, 4 which is the State-approved plan. 5 MR. DASENT: Thank you. Mr. Morgan 6 is also critical of debt service coverage 7 analysis and peer data used by PWD in the rate 8 filing. This is at page 42. 9 Are his criticisms substantiated, 10 Ms. Clupper? 11 MS. CLUPPER: No, they are not. 12 First the Board is required, as I mentioned 13 before, to consider peer data in their 14 deliberations. Peer data is available from the 15 rating agencies. There's a lot of 16 documentation -- there are quantitative 17 organizations. They do quantitative work to 18 come up with their medians. Mr. Morgan made 19 the point that because the information is not 20 available that it shouldn't be used. It is 21 available. He also made the point that some of 22 the coverages higher than -- the higher median 23 coverages were driven by legal covenants. 24 They're typically not. Most covenants are</p>
<p style="text-align: right;">Page 39</p> <p>1 disclosure. So not only does the City have 2 disclosure council, we also have our own 3 disclosure. Adding to that is a higher 4 regulatory environment where we see the SEC, 5 the Securities and Exchange Commission, paying 6 much more attention to the municipal market and 7 requiring us to amend our disclosures to more 8 stringent standards. So all indications point 9 to rising costs of issuance, not declining. 10 Kathy. 11 MS. CLUPPER: I agree. I think the 12 other thing to remember is that the cost of 13 issue is amortized over the life of the bond 14 issue, so it's not a significant -- it's not a 15 significant expense on an annual basis because 16 it's amortized over the life of the bond issue. 17 MR. DASENT: Moving to section four 18 of our outline. Mr. Morgan assumes there has 19 been no change since the last proceeding in the 20 source of information PWD used to determine 21 projected pension expenses and obligations. Is 22 he correct, Ms. LaBuda? 23 MS. LABUDA: He is not. As I 24 repeated both yesterday and today, the</p>	<p style="text-align: right;">Page 41</p> <p>1 between 1.1 times and 1.2 times. That 2 information is available. You have to do some 3 digging going through different official 4 statements and looking through the legal 5 descriptions, but the medians that he cited, 6 the 1.8 times of median coverage are more 7 policy driven than legal driven. So it is 8 appropriate to review peer data and the 9 underlying information is available. 10 MR. DASENT: Thank you. Now, Mr. 11 Morgan ignores, in his analysis and 12 recommendations, Rate Stabilization Fund 13 utilization. Certainly in the schedules. Is 14 that the best outcome for customers, Ms. 15 LaBuda? 16 MS. LABUDA: It is not. The Rate 17 Stabilization Fund has provided the bridge for 18 the zero percent increase in '16. It's also 19 mitigated the rate increase in '17 and '18. 20 MR. BALLENGER: Can you speak up. 21 MS. LABUDA: Sure. Ignoring the 22 use of the Rate Stabilization Fund is 23 problematic, because we are using the Rate 24 Stabilization Fund in fiscal year '16 due to</p>

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<p style="text-align: right;">Page 42</p> <p>1 zero percent rate increase and we're using it 2 in '17 and '18 to mitigate the level of 3 increases. So not looking at it properly is 4 problematic for customers. 5 MR. DASENT: Now, Mr. Morgan also 6 ignores the intended purpose of the Rate 7 Stabilization Fund. It doesn't actually speak 8 to it -- 9 MS. BROCKWAY: Excuse me. I don't 10 think it would be proper for you to say he 11 ignores it, because that's a statement about 12 his state of mind. You might say he doesn't 13 use it or something. 14 MR. DASENT: Mr. Morgan's 15 statements concerning the Rate Stabilization 16 Fund and his testimony do not address the legal 17 parameters or constraints associated with the 18 Rate Stabilization Fund. Could you comment on 19 that? Do you agree with his approach, Ms. 20 Allen? 21 MS. ALLEN: I think it's important 22 to understand why the Rate Stabilization Fund 23 was established. 24 MS. BROCKWAY: You're going to have</p>	<p style="text-align: right;">Page 44</p> <p>1 to be repaid when the purposes for which, you 2 know, that money existed in that originating 3 fund, restabilization fund, is needed again and 4 it's going to be needed by fiscal year-end. 5 MS. BROCKWAY: It's going to be 6 needed what? 7 MS. ALLEN: By fiscal year-end, if 8 not sooner. But certainly by fiscal year-end. 9 MR. DASENT: And also, Mr. Morgan's 10 schedule LKM-1, as revised, indicates debt 11 service coverage of 1.19x in fiscal '18. If 12 that is the case, would it be a covenant 13 default? 14 MS. ALLEN: Yes. There are rate 15 and insurance covenants that the City has 16 agreed to, and as to bondholders in terms of 17 the rate covenant, they're called in the 18 general ordinance. And then in its insurance 19 agreements with the bond insurer. I think we 20 have talked about these covenants before. But 21 with respect to the 1.19 coverage, the City has 22 covenanted that it will generate net revenues. 23 And net revenues are actual revenues collected 24 within a fiscal year, less expenses. Plus, in</p>
<p style="text-align: right;">Page 43</p> <p>1 to speak up. 2 MS. ALLEN: I think it's important 3 to understand why the Rate Stabilization Fund 4 was established and the purposes for which 5 primarily it's used. It was established to 6 create, you know, an operating reserve in order 7 to mitigate the need for a city to raise rates, 8 you know, in a precipitous way and to -- in 9 order to do rate smoothing for the benefit of 10 ratepayers. 11 MR. DASENT: Are there any limits 12 to its use? 13 MS. ALLEN: Yes. The ordinance -- 14 there's not a lot about it in the ordinance 15 because you can't do very much with it. You 16 can -- moneys that are in the Rate 17 Stabilization Fund are really available for two 18 purposes. One, primarily, is to -- at fiscal 19 year-end, to make a transfer to the revenue 20 fund to the extent that that money is needed to 21 meet the revenue requirements in that fiscal 22 year. Secondly, you can make a temporary loan 23 from the Rate Stabilization Fund to the revenue 24 fund or to the construction fund. But that has</p>	<p style="text-align: right;">Page 45</p> <p>1 connection with the rate covenant, any transfer 2 that comes from the Rate Stabilization Fund, 3 that amount has to be at least 1.2 times its 4 debt service requirements for that fiscal year. 5 So anything less than 1.2 would be a covenant 6 default. 7 MR. DASENT: How is compliance 8 determined? 9 MS. ALLEN: Well, there are a few 10 ways. We're looking at it -- the City or the 11 Water Department -- sorry, in the ordinance 12 it's called the City, so -- I know yesterday we 13 were trying to be very exact with our language. 14 The City has many requirements. Some of them 15 are prospective as well as retrospective in the 16 ordinance. Obviously the easiest way to test 17 it retrospectively is at fiscal year-end when 18 they know exactly how much net revenue was 19 generated in that year and they compare it to 20 the debt service requirements paid in that year 21 and they can see whether they met coverage. 22 However, the ordinance requires not just there 23 be retrospective testing. It requires at least 24 once a year, and more often if there's a</p>

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1 material change in circumstances under which  
2 they're operating. It requires the City to  
3 review rates and charges to ensure that the  
4 City is going to be able to comply with its  
5 covenants going forward.  
6 Additionally, when the City is in  
7 the process of enacting an ordinance for the  
8 issuance of new debt, before it's enacted, the  
9 City has to be able to demonstrate through a  
10 feasibility report and engineering report both  
11 the ordinance and the First Class City Revenue  
12 Bond Act, which I don't know if that's been  
13 introduced into evidence. I can do that.  
14 MR. DASENT: No, but we can refer  
15 to it.  
16 MS. ALLEN: Requires that the City  
17 be able to demonstrate that there will be net  
18 revenue sufficient to cover debt service for  
19 the debt service proposed to be incurred under  
20 such an ordinance.  
21 MR. DASENT: Just to get a little  
22 more specific. What happens in the event of a  
23 covenant default?  
24 MS. ALLEN: Well, a couple things.

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1 Under the ordinance, the fiscal agent that's  
2 been appointed, in respect to the water bonds,  
3 is required to notify bondholders within 30  
4 days that there's been a covenant default.  
5 Even more -- even faster though, the City,  
6 through its -- let me back up. The City, in  
7 connection with every bond issuance, has  
8 entered into a continuing disclosure agreement.  
9 When it comes into the market, it has an  
10 initial disclosure, its official statement that  
11 talks about that bond issue and talks about the  
12 City and its credit, its ability to repay the  
13 sources available for repayment. And the  
14 covenant, it's made to bondholders. It also  
15 includes, you know, the City's financial -- a  
16 description of operations and financial  
17 position at that time. And then it also  
18 includes a copy of that engineering report that  
19 has demonstrated that the City reasonably  
20 believes that they'll be able to produce net  
21 revenues in the future sufficient to repay that  
22 debt service and all its debt service  
23 obligations. So that disclosure is made at the  
24 time bonds are sold.

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1 But at the same time, the City  
2 enters into a continuing disclosure agreement  
3 for the benefit of bondholders that it will  
4 continue to update that information annually.  
5 And to the extent that there is a material  
6 event that occurs at any time during the year,  
7 it will disclose to the market that that has  
8 occurred within ten days of its occurrence. A  
9 covenant default is a material event that it  
10 would have to disclose to the market within ten  
11 days of its occurrence.  
12 MR. DASENT: Are there any remedies  
13 available to bondholders in the event of a  
14 covenant default?  
15 MS. ALLEN: Yes. If there's a  
16 covenant default once they have notice of it,  
17 25 percent -- has to be at least 25 percent of  
18 the bondholders can request appointment of a  
19 trustee and direct a trustee to sue the City to  
20 require it to impose and collect rates and  
21 charges.  
22 MR. DASENT: Thank you, Ms. Allen.  
23 Now, turning to our chief executive officer,  
24 what are some of the consequences of Mr.

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1 Morgan's recommendations that you see as the  
2 utility CEO commissioner?  
3 MS. MCCARTY: Can you hear me or do  
4 I need to move up?  
5 MS. BROCKWAY: Why don't you --  
6 MS. MCCARTY: I'll come up.  
7 MS. BROCKWAY: -- come up.  
8 MS. MCCARTY: So not seeing the  
9 rate increase gives me a lot of stress, more  
10 than losing my voice actually. One of the  
11 things is the assistance to our customers. Our  
12 program is very important. If there's a water  
13 main break and a person's property is flooded,  
14 that provides -- gets the property whole again  
15 by getting -- replacing their house heater,  
16 particularly in the winter, as well as their  
17 hot water heater, which folks like to take warm  
18 showers no matter what time of year. And  
19 that's something that is fairly unpredictable.  
20 And though we do our best to maintain our  
21 infrastructure, we don't necessarily have as  
22 much control over it as we would like. And  
23 it's very important, as part of customer  
24 service, to have our customers made whole as

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1 quickly as possible and at least be able to  
2 live in their properties.  
3 The other part of that of course is  
4 the claims process, it's the indemnity fund.  
5 We did discuss that yesterday. But that's to  
6 recover the losses from damages related to  
7 water main breaks, sewer cave-ins, things like  
8 that. And again, we want to make sure our  
9 customers are made whole. I should note that  
10 most of the damages are related to the  
11 residential population and the hot water  
12 heaters and the house heaters for residential  
13 properties. Commercial properties, that would  
14 be -- typically is handled through the claims  
15 process. They typically have, as commercial  
16 owners, industrial, more wherewithal to their  
17 business's back end order. Wherewithal to get  
18 that business back in order.  
19 Also, I'm very concerned about the  
20 need to shut down capital. We lived through  
21 that back in 2004. I was deputy back then.  
22 Was not a pleasant time. And it took us a long  
23 time to recover from not doing capital jobs.  
24 Do not want to mislead you, we did have at

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1 least one emergency project during that period  
2 that we did have to use capital funds. But we  
3 did not bid any new jobs for over six months.  
4 And that really was a huge setback. Not  
5 spending capital drives up your operating cost  
6 because now we're trying to keep things  
7 operating and maintained. We have regulatory  
8 obligations day in and day out. We need to  
9 meet the Safe Drinking Water Act, the Clean  
10 Water Act, and all the other regulations that  
11 we need to comply. So the compliance is huge.  
12 One of the things is, without a  
13 rate increase there's no cushion. Time and  
14 again things come up over the fiscal year, even  
15 where we have been fortunate to have the funds  
16 to be able to address it. There was an  
17 occurrence when we needed more activated carbon  
18 at our drinking water plants. That chemical is  
19 very expensive. And while we work very hard to  
20 get good rates for our chemicals, had we not  
21 had the ability, we were in jeopardy of  
22 violating our disinfection by-products  
23 regulation. So -- or limit. So without that  
24 cushion, without a rate increase, we would not

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1 have been able to comply.  
2 Also note -- and we discussed  
3 yesterday, the lead. The issue with lead in  
4 service lines. That issue has come up since we  
5 filed for rates. And the Department, again, is  
6 having to address issues with lead service  
7 lines. Now, we have been adding zinc  
8 orthophosphate for years now and complying with  
9 lead and copper rules. So there's not  
10 necessarily a need for more chemicals there,  
11 but now we are being asked to do more. And,  
12 again, it's since the rate filing. Residential  
13 properties, we will be offering them to be able  
14 to replace their lead lines through our help  
15 loan program. We're also looking at, through  
16 capital, replacing the supply. So the pipe  
17 between the curb stop, the footway and the  
18 meter. That's not currently done. But it's  
19 obvious that we need to do that. It makes  
20 matters worse, basically, for our customers.  
21 And again, that's the residential population.  
22 That's the bulk of our customers. So I'm very  
23 troubled if we don't see a rate increase.  
24 MR. DASENT: Thank you, Ms.

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1 McCarty. Now that we're about to start a new  
2 fiscal year, 2017, is it really speculative,  
3 Ms. LaBuda, to look into the next year to  
4 figure out what we're going to do as a utility?  
5 MS. LABUDA: It is not speculative.  
6 In fact, the AWWA manual cites best practices  
7 of looking to five-year planning period. The  
8 City completes a five-year plan that is  
9 approved by the state, and in fact, we will  
10 start our internal review of fiscal '18 budget  
11 in just a few months. It's not speculative at  
12 all. It's part of best our planning efforts to  
13 have a forward look on budgets and rates.  
14 MR. DASENT: Thank you. That's all  
15 we have on rebuttal. We tried to keep it  
16 concise, but I think, you know, we covered the  
17 major areas that are addressed in our outline.  
18 MS. BROCKWAY: Go off the record.  
19 (Discussion held off the record.)  
20 MS. BROCKWAY: We're going to break  
21 until 11:20. We're off the record.  
22 (A break was taken.)  
23 MS. BROCKWAY: We have cross of the  
24 panel by Mr. Ballenger.

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1 MR. BALLENGER: Yes. Thank you,  
2 Madam Hearing Officer. I'm trying to get  
3 organized, but I think unfortunately we may  
4 skip around a little bit. I'd just like to  
5 start with a basic question. The Panel  
6 referred to the revised Black & Veatch model on  
7 a number of occasions. Is that on the record  
8 in this proceeding?  
9 MR. DASENT: There's not --  
10 MR. BALLENGER: I'm asking the  
11 witness panel, please. Is the revised Black &  
12 Veatch --  
13 MR. DASENT: It's a legal question,  
14 what's on the record or not.  
15 MR. BALLENGER: Has it been  
16 proffered as an exhibit in this case?  
17 MR. DASENT: I don't believe it  
18 has. And, in fact, we have -- we've, through  
19 discovery, obtained the revised version of the  
20 model that Mr. Morgan sponsors. But it has not  
21 been entered as an exhibit.  
22 MR. BALLENGER: Do you have a  
23 citation to a discovery request asking for that  
24 revised model?

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1 MR. DASENT: We requested it and  
2 received it, and I think it was an oral request  
3 and it was properly honored and we appreciate  
4 that.  
5 MR. BALLENGER: As an  
6 accommodation, that's correct. In other words,  
7 when you refer to the revised Black & Veatch  
8 model, you're referring to Mr. Morgan's  
9 modifications to a number of assumptions in the  
10 Black & Veatch model which we provided you by  
11 electronic mail on or around March 30 --  
12 MR. DASENT: Yes.  
13 MR. BALLENGER: -- is that correct?  
14 MR. DASENT: That's correct. And  
15 just so the record is clear on this, if we  
16 could, with Your Honor's indulgence, make a  
17 transcript request for that model, we would  
18 very much think it would be helpful to have a  
19 record.  
20 MR. BALLENGER: I believe that  
21 would be a problem in the confidentiality  
22 agreement that we have entered into that  
23 pertains to that entire model.  
24 MR. DASENT: We would ask for

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1 confidential treatment of the revised version  
2 of the model which all the parties to the  
3 agreement have requested, and we can see the  
4 various adjustments that Mr. Morgan has made,  
5 subject to the confidentiality.  
6 MS. BROCKWAY: Question. Do we  
7 have in the record the Black & Veatch version?  
8 MR. DASENT: It's not in the public  
9 record because the confidentiality agreement  
10 allowed us to see it in confidence without  
11 inclusion of the record.  
12 MS. BROCKWAY: It has not been  
13 marked as an exhibit? It's not been included  
14 or it is in the record as a confidential  
15 record?  
16 MR. DASENT: It's not in the  
17 record, because once it's in the public record  
18 it wouldn't be confidential anymore.  
19 MS. BROCKWAY: Go off the record.  
20 (Discussion held off the record.)  
21 MS. BROCKWAY: Mr. Ballenger, can  
22 you help us understand why the model itself has  
23 to be on the record? Why we couldn't proceed  
24 with your identifying issues in the model?

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1 MR. BALLENGER: There is no -- I do  
2 not believe there is any problem proceeding  
3 without having the model on the record. That's  
4 why I believe the transcript request should not  
5 be made to have the model put on the record.  
6 MR. DASENT: We would request the  
7 work papers. That would be a compromise. As  
8 opposed to the model itself. Black & Veatch  
9 has its work papers in the record. Mr. Morgan  
10 will have his, and then the Board can see that  
11 there is a separate revised interpretation that  
12 Mr. Morgan has presented separate from the  
13 Black & Veatch presentation.  
14 MR. BALLENGER: Mr. Morgan's work  
15 papers were attached to his testimony and then  
16 revised in errata. They're in the record,  
17 LKM-1 through three. Those are the sum total  
18 of his work papers.  
19 MR. DASENT: Work papers is a  
20 little more complicated than that. And Ms.  
21 Kumar is explaining to me that it includes  
22 every page in terms of the presentation. And  
23 if they exist, just print them and provide them  
24 for the Board. It will be in the record, and I

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1 think it will help us in the decision  
2 administratively and any other decision that  
3 might follow.  
4 MS. BROCKWAY: My tendency has been  
5 to let stuff in, unless it's a real burden,  
6 even if it may or may not -- does Mr. Morgan  
7 have work papers that we're discussing that he  
8 could submit?  
9 MR. BALLENGER: My understanding  
10 from Mr. Morgan is that he can print the model  
11 and supply it for the record.  
12 MS. BROCKWAY: Why don't you do  
13 this, please. If you would print it, and then  
14 if Mr. Ballenger and Mr. Dasent would confer to  
15 make sure that what has been printed is not  
16 confidential or is comparable to the work  
17 papers that Ms. Kumar has been mentioning. I  
18 think if -- I would say with respect to the  
19 work papers, we were not asked for confidential  
20 treatment. So if somebody could back calculate  
21 or reengineer the model from them.  
22 Unfortunately that's already there, so I'm not  
23 going to give confidential treatment to these  
24 work papers. But you guys confer to make sure

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1 that you all have the same understanding of  
2 what these documents are.  
3 MR. DASENT: That's fair.  
4 MR. BALLENGER: Fine.  
5 MS. BROCKWAY: Okay. So we will  
6 not have a transcript request -- well, no, we  
7 do. We have a transcript request for the work  
8 papers.  
9 MR. DASENT: Number five.  
10 MS. BROCKWAY: Yeah. So that that  
11 will be transcript number five. These are the  
12 work papers from Mr. Morgan's running of the  
13 Black & Veatch model with his assumptions?  
14 MR. DASENT: That's correct.  
15 MR. BALLENGER: And pursuant to the  
16 electronic exchange of information, we would  
17 just propose creating a PDF of the work papers  
18 from the model and submitting them to Mr.  
19 Dasent to check and make sure there are no  
20 problems with confidentiality. It would be  
21 voluminous actual printing and Mr. --  
22 MS. BROCKWAY: Oh, you're talking  
23 about making a CD. Is that all right?  
24 MR. DASENT: Yes.

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1 MS. BROCKWAY: Fine.  
2 MS. BROCKWAY: That will not be put  
3 into the record, unless somebody comes later  
4 and says better put this into the record.  
5 MR. DASENT: Thank you.  
6 MS. BROCKWAY: And then we'll talk  
7 about whether or not the record needs -- thank  
8 you very much.  
9 MR. BALLENGER: Okay. So having  
10 reviewed off of the record the revised -- what  
11 you called the revised Black & Veatch model,  
12 which were Mr. Morgan's modification to Black &  
13 Veatch's model, am I correct that you  
14 discovered an error in how he dealt with the  
15 rate increase amounts that were embedded in the  
16 model? Is that correct?  
17 MS. KUMAR: That is correct. The  
18 analysis in one table, table C-1, the revenue  
19 increases were included and then in LKM-1,  
20 which is another table in the same LKM model,  
21 that increases were left out.  
22 MR. BALLENGER: And as I understand  
23 it, that -- I'll call it a data entry model, is  
24 -- or data entry error, is really the source of

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1 the majority of the issues you have identified  
2 in table one, which I think we marked for the  
3 record as a separate hearing exhibit, PWD  
4 hearing Exhibit-3, is that correct?  
5 MS. KUMAR: Between table C-1 and  
6 LKM-1, that is correct. But there are other  
7 inconsistencies in the cash flow itself. So  
8 between these two tables, that statement is  
9 correct. But there are other inconsistencies  
10 even after the errata sheet was provided  
11 yesterday.  
12 MR. BALLENGER: We'll discuss  
13 those. But just to be clear, the -- you have  
14 talked about a number of issues surrounding the  
15 fact that Mr. Morgan did not remove the rate  
16 increase amount from the original model in  
17 calculating his spreadsheet. Was that  
18 corrected, that particular error? Was that  
19 corrected in the errata that was submitted on  
20 the record yesterday?  
21 MS. KUMAR: It was corrected.  
22 MR. BALLENGER: It was corrected.  
23 And so to the extent you have identified  
24 numerical inconsistencies with fund balances,

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1 for example, those have now been corrected in  
2 this record by way of an errata which we all  
3 got yesterday.  
4 MS. KUMAR: Line 34 -- specifically  
5 line 34, which states the NW revenue fund  
6 balance, that has been corrected.  
7 MR. BALLENGER: What about line 40?  
8 MS. KUMAR: That has been corrected  
9 as well.  
10 MR. BALLENGER: What about --  
11 continue on. What about line 32, has that been  
12 corrected?  
13 MS. KUMAR: Just a second.  
14 (Pause.)  
15 MS. KUMAR: That has been  
16 corrected.  
17 MS. BROCKWAY: It has been?  
18 MS. KUMAR: It has been.  
19 MR. BALLENGER: Just  
20 mathematically, are there any other line items  
21 on the revised schedule LKM-1 which are  
22 mathematically incorrect?  
23 MS. KUMAR: Mathematically there  
24 are no inaccuracies in LKM-1.

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1 MR. BALLENGER: Thank you. Let's  
2 talk about Rate Stabilization Fund a little  
3 bit. In both versions of LKM-1, the original  
4 and the revised, has Mr. Morgan made any change  
5 to the amounts shown on line 19, transfer to  
6 and from Rate Stabilization Fund?  
7 MS. KUMAR: He has not.  
8 MR. BALLENGER: And you would agree  
9 that in terms of -- back up a little bit.  
10 Isn't it true that the Department uses Rate  
11 Stabilization Fund to manage to its desired  
12 coverage levels?  
13 MS. KUMAR: The Rate Stabilization  
14 is used as part of the cash flow to achieve the  
15 desired senior debt coverage.  
16 MR. BALLENGER: And so under --  
17 when I'm looking at LKM-1 as revised, fiscal  
18 year 2017, amount per Public Advocate. And you  
19 have drawn our attention to line 26 where Mr.  
20 Morgan displays a coverage of 1.31.  
21 Having received Mr. Morgan's  
22 revised model, are you aware of whether that  
23 coverage level was generated automatically by  
24 the model or was that typed in by Mr. Morgan?

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1 MR. JAGT: The coverage calculates  
2 and presents automatically. It's subject to  
3 the adjustments within the model for revenue  
4 increases and transfers from the Rate  
5 Stabilization Fund.  
6 MS. KUMAR: And revenue  
7 requirements.  
8 MR. BALLENGER: Just looking at the  
9 total senior debt service amount shown there of  
10 207.7 million. Would you agree that one basis  
11 point of debt service coverage is approximately  
12 2.1 million mathematically?  
13 MS. KUMAR: Subject to check, yes.  
14 MR. BALLENGER: Subject to check.  
15 Would you not also agree to obtain the required  
16 -- the legally required 1.2 times coverage in  
17 fiscal '17 utilizing Mr. Morgan's numbers here,  
18 that no amount be necessary to transfer from  
19 the Rate Stabilization Fund into the revenue  
20 fund for coverage purposes? The 19.3 million  
21 could be reduced to zero and the Department  
22 would still meet its 1.2 times coverage  
23 mathematically? 19.3 million is shown as a  
24 transfer from Rate Stabilization --

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1 MS. BROCKWAY: What line, please?  
2 MR. BALLENGER: Line 19.  
3 MS. BROCKWAY: Thank you.  
4 MR. BALLENGER: That could be  
5 reduced to zero and the Department would still  
6 meet its coverage requirements.  
7 MS. LABUDA: The Department  
8 holistically disagrees with Mr. Morgan's  
9 assessment that we can remove all of the  
10 adjustments which are nondiscriminatory from  
11 the model. That is part of this discussion.  
12 So --  
13 MR. BALLENGER: It's unresponsive  
14 to the question. I'm asking simply, can the  
15 19.3 be reduced to zero and the model still  
16 calculate total senior debt service coverage on  
17 line 26 in excess of 1.2?  
18 MS. KUMAR: Subject to mathematical  
19 check, from a mathematical standpoint, yes. If  
20 the goal is to get to the 1.2 total senior debt  
21 service coverage in line 26, then the rate  
22 stabilization transfer will change from 19  
23 million 300.  
24 MR. BALLENGER: And it could be

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1 zero?  
2 MS. KUMAR: Subject to check, it  
3 could be, but we have to do the math and check  
4 it.  
5 MR. BALLENGER: I would like to ask  
6 a transfer request and report back whether  
7 utilizing these numbers in reflecting the zero  
8 dollar transfer from the Rate Stabilization  
9 Fund to the revenue fund, whether the model  
10 would in fact show 1.2 times or greater  
11 coverage on line 26.  
12 MS. BROCKWAY: This is the model  
13 with all the other changes that Mr. Morgan has  
14 --  
15 MR. BALLENGER: No other changes.  
16 Simply reducing the Rate Stabilization Fund  
17 transfer to zero.  
18 MS. BROCKWAY: This is the revised  
19 Mr. Morgan model?  
20 MR. BALLENGER: Correct.  
21 MR. DASENT: We would object to  
22 this. If this is a mathematical adjustment, as  
23 they purport it to be, they could make that  
24 calculation and present it as their testimony,

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1 as opposed to our sponsoring somehow a  
2 calculation that has nothing to do with the  
3 policy positions the Department has taken, and  
4 math is math. If he can do it, he would submit  
5 it for the record as his exhibit.  
6 MS. BROCKWAY: Actually, from a  
7 point of view of making decisions, it's not  
8 clear to me that it isn't already decided. It  
9 seems pretty obvious. So do you think you need  
10 more on the record as proof?  
11 MR. BALLENGER: No. I think we can  
12 take constructive notice of math, the fact that  
13 it does, in fact, show what Mr. Morgan has  
14 testified to.  
15 MS. BROCKWAY: Yes. And I would --  
16 on this point, I would say math is math. And I  
17 appreciate the position of Black & Veatch not  
18 to quibble about mathematics. That makes  
19 things much easier. If you want to put a  
20 mathematical -- not an algorithm, but if you  
21 want to show mathematically how certain  
22 equations then translate to others and produce  
23 a certain result in your summaries, please feel  
24 free. I don't think they should be opposed

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1 just because you didn't do it on the record.  
2 Might be opposed for some other reason.  
3 MR. DASENT: Speaking of opposed  
4 for some other reason. Based upon our records,  
5 we will indicate in our position paper our  
6 policy position which would dictate not the  
7 math would govern, but the policy behind the  
8 calculation. It's very important, in fact  
9 pivotal to the decision of the Rate  
10 Stabilization Fund or any other entry in our  
11 flow of funds.  
12 MS. BROCKWAY: Yes, I think that  
13 your witnesses have testified to that this  
14 morning.  
15 MR. BALLENGER: Thank you. Okay.  
16 Assuming that no transfer from the Rate  
17 Stabilization Fund remained to the revenue fund  
18 in fiscal year 2017, would line 44, the end of  
19 your balance, be increased by the amount shown  
20 on line 19, 19.3 million.  
21 MS. KUMAR: Just for clarification,  
22 what are you proposing on line 19?  
23 MR. BALLENGER: So if 19 is zero,  
24 the 19.3 million would not have been

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1 transferred from the Rate Stabilization Fund,  
2 and wouldn't the year-end balance on line 44 of  
3 the Rate Stabilization Fund be increased by  
4 19.3 million?  
5 MS. KUMAR: Mathematically, yes.  
6 MR. BALLENGER: And then again, on  
7 line 42 under fiscal year 2018, amount per  
8 Public Advocate, where it purports the  
9 beginning of your balance in the Rate  
10 Stabilization Fund, that would also be  
11 increased by 19.3 million, would it not?  
12 MS. KUMAR: Mathematically, yes.  
13 MR. BALLENGER: So I think we have  
14 established that for purposes of fiscal year  
15 2017, the coverage amount of 1.31 times total  
16 senior debt service, that was generated  
17 automatically by the Black & Veatch model, is  
18 that correct?  
19 MS. KUMAR: The 1.31 gets  
20 calculated in the model subject to the fact  
21 that it is 19.3 million in line 19.  
22 MR. BALLENGER: Is the same true  
23 for the coverage for fiscal 2018, a 1.19 times  
24 coverage?

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1 MS. KUMAR: The 1.19 coverage gets  
2 calculated based on the fact that revenue --  
3 revenues were increased in line -- the total  
4 revenue in line 14, the operating expenses  
5 adjustments that were done by Mr. Morgan,  
6 leaving the 39 million Rate Stabilization Fund  
7 transfer that Black & Veatch proposed, not  
8 Black & Veatch model, based on all of those and  
9 then the debt service, all of these line items  
10 above it, all of that mathematically translate  
11 to the 1.19.  
12 MR. BALLENGER: Okay. And for  
13 fiscal year 2018, you showed total senior debt  
14 service, and this is from the original model,  
15 as -- I'm sorry, it is slightly revised, but  
16 it's roughly 22.3 -- I'm sorry, 223 million  
17 dollars on line 25. Is that correct?  
18 MS. KUMAR: If you're referring to  
19 the total senior debt service on line 45, yes,  
20 in the Black & Veatch model it is 223 million  
21 661 for fiscal year 2018.  
22 MR. BALLENGER: Mathematically, in  
23 order to calculate what one basis point of  
24 coverage is, one would simply move the decimal

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1 over. So that would -- one basis point would  
2 equate to, correct my math, but 2.23 million in  
3 coverage, is that correct?  
4 MS. KUMAR: If you're asking about  
5 taking the 223 million dollar 61 and adjusting  
6 it --  
7 MR. BALLENGER: How much would one  
8 need to reflect a one basis point increase in  
9 total senior debt service coverage on line 26?  
10 MS. KUMAR: We can calculate and  
11 let you know that.  
12 MR. BALLENGER: For purposes of  
13 cross-examination, would you not agree that to  
14 the extent it was necessary to transfer more  
15 money from the Rate Stabilization Fund to meet  
16 legally-required coverage in fiscal year 2018,  
17 there would be sufficient funds under Mr.  
18 Morgan's model to do so?  
19 MS. LABUDA: It depends on if you  
20 have eliminated nondiscretionary expenses. So  
21 I think it depends. If we layer in the  
22 nondiscretionary such as legal binding  
23 agreements with the general fund, I don't  
24 believe that that would be the mathematical

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1 result.  
2 MS. BROCKWAY: Let's make clear  
3 that for now we're talking about Mr. Morgan's  
4 revised exhibit, and we take very well the  
5 point that Ms. LaBuda has just made and Mr.  
6 Dasent has made, that this does not reflect  
7 other issues that the Department must pay  
8 attention to. So we're just pretending for the  
9 moment that that's not a problem. So I want to  
10 go back though to the 1.19 issue and the 223  
11 million issue.  
12 To first order, could you move the  
13 decimal point in the 22.3 million and figure  
14 out how much would be needed to go from 1.19 to  
15 1.2? I'm seeing heads nodding, but  
16 conversations --  
17 MS. KUMAR: We need to understand  
18 what is being requested. So do we want to know  
19 what 223 million 661 would be if the coverage  
20 is supposed to be 1.2?  
21 MS. BROCKWAY: That's a way of  
22 putting it. But more it's a question of what  
23 is the difference between the -- how much would  
24 you get in coverage for 2.23 million more

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1 available for coverage? Would you get a basis  
2 point?  
3 MS. KUMAR: So you're saying what  
4 would that 1.26 be if we add or if you take off  
5 one basis point?  
6 MS. BROCKWAY: No. I think Ms.  
7 Clupper understands my question.  
8 MS. CLUPPER: I think the point is  
9 you would transfer more to the Rate  
10 Stabilization Fund to comply with the 1.2  
11 coverage.  
12 MR. BALLENGER: 2.23 million.  
13 MS. CLUPPER: That's all math,  
14 right? It's just math.  
15 MR. BALLENGER: So to get to 1.2,  
16 you would need to take 2.23 million from the  
17 Rate Stabilization Fund. And under Mr.  
18 Morgan's presentation here, are there adequate  
19 funds in the Rate Stabilization Fund to  
20 transfer 2.23 million to the revenue fund for  
21 that purpose?  
22 MS. KUMAR: There is not.  
23 MR. BALLENGER: I'm sorry?  
24 MS. KUMAR: There is not.

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1 MR. BALLENGER: There are not  
2 adequate funds available in the Rate  
3 Stabilization Fund under Mr. Morgan's  
4 presentation to move 2.23 million?  
5 MS. KUMAR: Again, this question is  
6 difficult to answer -- this question really  
7 impinges on policy. So the adequacy of whether  
8 a Rate Stabilization Fund has adequate money at  
9 the end of the year, fiscal year '18, is driven  
10 by what policies we are trying to meet. So the  
11 policy -- the policy is to meet -- the goal is  
12 to meet 110 million dollars in the Rate  
13 Stabilization Fund. As you can see in column  
14 fiscal year '18, line 44, it shows a 111  
15 million dollars, which is what was the goal for  
16 fiscal year '18. So --  
17 MR. BALLENGER: As we just  
18 discussed, if no transfers were made on the  
19 Rate Stabilization Fund to the revenue funds,  
20 that number would be approximately 19.3 million  
21 dollars higher?  
22 MS. KUMAR: Which fiscal year are  
23 you asking?  
24 MR. BALLENGER: From fiscal '17, we

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1 discussed the fact that no transfer from the  
2 Rate Stabilization Fund to the revenue fund  
3 would be required to meet the legally-required  
4 senior debt service coverage. Do you recall  
5 that discussion?  
6 MS. KUMAR: Mathematically the 19.3  
7 million is not done in '17, and therefore, the  
8 '17 year-end in line 44 goes up, and that then  
9 gets translated into fiscal year '18 as a  
10 beginning balance, then yes.  
11 MR. BALLENGER: Yes.  
12 MS. KUMAR: But this is all  
13 mathematical, not policy driven.  
14 MR. BALLENGER: That's correct.  
15 And I think we have talked a lot about math.  
16 We spent a lot of time focusing on your  
17 response to these numbers. So now it's our  
18 turn to talk about that response.  
19 MS. BROCKWAY: Before we go  
20 further. At one point you said something could  
21 be supplied. Do we need a transcript request  
22 or are we -- have we covered what we need to  
23 cover? One of them was on the question of the  
24 1.19, 1.2. We covered that.

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1 MR. BALLENGER: I think we covered  
2 that. I think we also covered the fact that,  
3 again, if we determine that we're going to  
4 target 1.2 times coverage, that no transfer is  
5 necessary from the Rate Stabilization Fund --  
6 MS. BROCKWAY: You know, you're  
7 fading out.  
8 MR. BALLENGER: Sorry. I think we  
9 have also determined that mathematically  
10 there's no requirement in fiscal '17 to  
11 transfer 19.3 million under Mr. Morgan's  
12 presentations when revised --  
13 MS. BROCKWAY: No. Yes, Mr.  
14 Ballenger, we're going over and over and over  
15 the same ground. Let's go up.  
16 MR. BALLENGER: I don't think  
17 there's anything to supply there.  
18 MS. BROCKWAY: Okay. Great.  
19 MR. BALLENGER: Mr. Jagt, you  
20 talked about running the risk of  
21 underperforming. And I'd like to turn back to  
22 Public Advocate hearing Exhibit-1, if I may.  
23 I'm going to find the page as soon as possible.  
24 MS. BROCKWAY: Go off the record.

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1 (Discussion held off the record.)  
2 MS. BROCKWAY: We're back on the  
3 record.  
4 MR. BALLENGER: Thank you. So I'm  
5 on page 14 of Public Advocate hearing  
6 Exhibit-1. And I'd like to ask you, Mr. Jagt,  
7 on line 11 under the column -- the four columns  
8 for 2012, 2013, 2014 and 2015, those report  
9 amounts under the heading of difference. What  
10 do those amounts consist of? Are those amounts  
11 revenues in excess of the Department's  
12 projections?  
13 MR. JAGT: That's correct.  
14 MR. BALLENGER: In any of those  
15 four years, did the Department underperform on  
16 its revenues?  
17 MR. JAGT: Fortunately, no.  
18 MS. BROCKWAY: Say again?  
19 MR. JAGT: No.  
20 MR. BALLENGER: Okay. I'd like to  
21 now direct your attention to line 21. And  
22 again, under those same four column headings  
23 for total operating expense, am I correct,  
24 again, that in each of those cases, the

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1 Department did not underperform its  
2 projections?  
3 MR. JAGT: With the projection  
4 basis we were using back in the FY 13 analysis  
5 or the -- the analysis we used for the 2013  
6 rate case, that's correct.  
7 MR. BALLENGER: Okay. Thank you.  
8 MS. LABUDA: And as we mentioned,  
9 the Department has materially changed its  
10 projection methodology, relying on the  
11 five-year plan in the areas of pension, health  
12 care and fringes. So we do not anticipate, nor  
13 expect, that performance, especially given the  
14 cited pension fund underperformance last year,  
15 to continue in the future.  
16 MR. BALLENGER: Let me ask about  
17 the five-year plan a little bit. What do you  
18 say when -- you say that you have aligned with  
19 the five-year plan. You used the word align.  
20 I'm not sure what you mean.  
21 MS. LABUDA: So the City provided  
22 to the Department and the Department provided  
23 to B&V specific amounts related to the minimum  
24 municipal obligation for the Department's

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1 required contribution to the pension fund based  
2 on results on fiscal year '15. It also  
3 provided our proportionate share of pension  
4 obligation block. Both those percentages  
5 reflect a prior fiscal year. So not only does  
6 it capture the pension performance for fiscal  
7 year '15, nor does it capture that we have  
8 hired more employees than were on the record as  
9 of the close of books. So there's two  
10 adjustments to those pension projections we're  
11 anticipating. One, an adjustment to capture  
12 the investment performance of fiscal year '15,  
13 and two, a second incremental adjustment higher  
14 allocating our greater share of the pension  
15 fund unfunded liability due to the fact that we  
16 now have more employees than we did when the  
17 last calculation was done.  
18 MR. BALLENGER: Okay.  
19 MS. LABUDA: So that is --  
20 MR. BALLENGER: You have a line --  
21 MS. LABUDA: That is an alignment.  
22 We have utilized those projections. If you  
23 don't like the word alignment, we have utilized  
24 the City's projection for MMO pension

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1 obligation.  
2 MR. BALLENGER: And those are  
3 projections in your fiscal '17 budget, is that  
4 correct?  
5 MS. LABUDA: Yes.  
6 MR. BALLENGER: Okay. And were  
7 those projections used in your fiscal '16  
8 budget?  
9 MS. LABUDA: The Water Department's  
10 fiscal '16 budget, yes. But they were not used  
11 in B&V's projections of fiscal year '16 when  
12 they completed the analysis on the prior rate  
13 case. Because, in fact, if you look at B&V's  
14 projections of fiscal year '16 to date they  
15 have in fact captured those new pension costs  
16 as of last fiscal year and you're showing a  
17 36.9 million dollar -- I'm going to fact check  
18 that -- but we're showing a pretty significant  
19 withdraw of the RSF based on some recent  
20 projection changes.  
21 MR. BALLENGER: You're showing a  
22 withdraw, by that you mean you're anticipating  
23 a withdraw?  
24 MS. LABUDA: Anticipating. We're

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1 mathematically demonstrating a withdraw from  
2 the RSF to meet all of our obligations.  
3 MR. BALLENGER: That math is based  
4 on the assumption that you will make that  
5 withdraw, is that correct?  
6 MS. LABUDA: I don't understand the  
7 question.  
8 MR. BALLENGER: Have you made that  
9 withdraw?  
10 MS. LABUDA: At the end of the year  
11 we will make an assessment and establish what  
12 the withdraw is.  
13 MR. BALLENGER: It may or may not  
14 be that number.  
15 MS. LABUDA: It may or may not be  
16 that number.  
17 MR. BALLENGER: The same would be  
18 true in fiscal '17 and fiscal '18?  
19 MS. LABUDA: Correct.  
20 MR. BALLENGER: So the numbers  
21 shown in the model -- and, again, we refer to  
22 Mr. Morgan's LKM-1, which includes the same  
23 withdraw amounts on line 19 as are included in  
24 the Black & Veatch model, 19.3 million, 39

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1 million, either of those amounts could change  
2 in the future?  
3 MS. LABUDA: I expect them to be  
4 higher. And Mr. Morgan's model does not  
5 include the required additional expenses the  
6 Department faces. So my sense -- and my sense  
7 doesn't mean much because it's -- I don't have  
8 the numbers yet, but in October I will have the  
9 new pension numbers and they will be higher.  
10 MR. BALLENGER: But you don't have  
11 them yet.  
12 MS. LABUDA: I do not.  
13 MR. BALLENGER: I'd like to revisit  
14 just for one or two questions, I think. The  
15 usage reduction for the 5/8" meter class, the  
16 growth rate that we have talked about. I just  
17 want to be clear. Maybe I misheard. But the  
18 loss of Bucks County Water as a wholesale  
19 customer, does that in any way affect a 5/8"  
20 meter growth rate?  
21 MS. LABUDA: No.  
22 MR. BALLENGER: And Mr. Jagt, you  
23 stated that the growth rate that the Department  
24 is projecting is consistent with other

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1 utilities, is that correct?  
2 MR. JAGT: Correct.  
3 MR. BALLENGER: Is there any --  
4 MS. KUMAR: Correction. The  
5 decline in usage seen system wide at 0.6  
6 percent, based on the Black & Veatch model, is  
7 congruent with what we are seeing in the  
8 industry.  
9 MR. BALLENGER: Is there anything  
10 on the record as to what you are seeing for  
11 other utilities and their decline in volume?  
12 MS. KUMAR: Specifically suggesting  
13 industry statistical data in the testimony,  
14 it's not there in the testimony.  
15 MR. BALLENGER: And when you say  
16 that's consistent with other utilities, are you  
17 saying that that's consistent with other  
18 utility projections?  
19 MS. KUMAR: We are saying that's  
20 the kind of decline we're seeing in the  
21 industry. We're not picking any specific one  
22 utility or looking at how that one utility is  
23 affected. We're saying this is a trend. A  
24 decline in consumption system wide is something

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1 that we are seeing in the industry.  
2 MR. BALLENGER: Are you aware of  
3 any other utilities making a projection for  
4 fiscal year 2017 and 2018 of the decline of 0.6  
5 percent system wide?  
6 MS. KUMAR: If you're asking about  
7 the specific 0.6 percent?  
8 MR. BALLENGER: Yes.  
9 MS. KUMAR: No, not the exact six  
10 percent. But if you're asking in other  
11 utilities where projections are done for '17, a  
12 decline in consumption is seen, it depends on  
13 the circumstance of that utility. In some  
14 utilities it will go down and some utilities  
15 there's significant growth, it will go up.  
16 MR. BALLENGER: So if you refer to  
17 an industry average, that would be an average  
18 of decreases on the one hand and increases on  
19 the other?  
20 MS. KUMAR: The national decline is  
21 the average of the increases and decreases.  
22 MS. BROCKWAY: Does the national  
23 average include areas that have been  
24 experiencing drought?

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1 MS. KUMAR: Again, you're not  
2 citing the specific number as the national  
3 average. I just want to be clear on the  
4 record.  
5 MS. BROCKWAY: No. No. You have  
6 been quite clear. We don't need to talk about  
7 that again.  
8 MS. KUMAR: Yes. When we talk  
9 nationally, there are differences from region  
10 to region. And so, it's all kinds. It's all  
11 over the country. But the general trend that  
12 we are seeing in the nation is a decline in  
13 consumption and you may want to add something  
14 to it.  
15 MS. BROCKWAY: Would it also  
16 include areas where there is a booming  
17 population?  
18 MS. BUI: It includes everything.  
19 But the national trend, even if you look at  
20 just East Coast, for example, or the  
21 drought-impacted states, is that there is a  
22 decline in consumption on a per capita basis,  
23 on a per account basis, and that has been a  
24 trend that has been published in newspapers, as

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1 well as scientific journals, for example, the  
2 journal of AWWA. And it has been a trend that  
3 has been discussed for a number of years for a  
4 variety of reasons, you know, whether it's a  
5 population migration out of -- into the  
6 suburbs, or whatever the case may be. You  
7 know, energy efficient type devices. But that  
8 is a national trend. Of course on the west  
9 where we have no water, it is a much higher  
10 decline.  
11 MS. BROCKWAY: And over what period  
12 of time are you looking at these national  
13 averages?  
14 MS. BUI: Black & Veatch, I myself  
15 --  
16 MS. BROCKWAY: Excuse me. I mean  
17 the 0.6 percent, does that reflect a certain  
18 year? Does it reflect a certain number of  
19 years? Does it reflect a projection as Mr.  
20 Ballenger was asking?  
21 MS. BUI: It's not a projection.  
22 It's based upon actuals that the people are  
23 reporting, utilities are reporting as seen.  
24 That is not a projection.

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1 MS. BROCKWAY: It's not based on  
2 one year though, it's based on --  
3 MS. BUI: No. It's several years  
4 looking at it, the decline.  
5 MS. BROCKWAY: Thank you.  
6 MS. BUI: You're welcome.  
7 MR. BALLENGER: So you spent a  
8 little bit of time on bondholder remedies, and  
9 I believe, Ms. Allen, you have provided us some  
10 information on that. Just so I'm clear, as  
11 long as the legally-required debt service  
12 coverage standards are met, none of those scary  
13 things will happen, correct?  
14 MS. ALLEN: As long as coverage is  
15 met, as long as when -- as long as the -- as  
16 long as the City, when it is reevaluating  
17 future coverage, when it is going to issue  
18 bonds, looking at whether net revenues are  
19 going to be able to be -- yes, as long as  
20 coverage is met when they test it, as long as  
21 the City is meeting its covenant to reevaluate  
22 rates and charges to ensure that it will be  
23 able to -- that it will enable itself to  
24 continue to comply, if those obligations are

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1 met, yes, there's no covenant default.  
2 MR. BALLENGER: We spent some time  
3 on the 1.2 coverage test in Mr. Morgan's  
4 schedule. We didn't spend any time on the  
5 point nine coverage test. I'm assuming that's  
6 because you would agree that that coverage test  
7 is satisfied using Mr. Morgan's numbers here?  
8 MS. ALLEN: That question wasn't  
9 posed to me.  
10 MS. BROCKWAY: Say again?  
11 MS. ALLEN: That question wasn't  
12 posed to me. The test is that if the City  
13 generates in a fiscal year net revenues, that's  
14 cash in the door, and it does not include any  
15 transfer from the Rate Stabilization Fund, and  
16 that amount collected in a fiscal year is at  
17 least 90 percent of its debt service  
18 requirements in that fiscal year, then the test  
19 is met.  
20 MR. BALLENGER: And that test is  
21 met in Mr. Morgan's projections here, is that  
22 correct?  
23 MS. ALLEN: Point me to the --  
24 MR. BALLENGER: It would be line 29

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1 of LKM-1, which shows for fiscal year 2017  
2 coverage of 1.18 and for fiscal year 2018 1.08.  
3 MS. LABUDA: I'm not sure --  
4 MS. ALLEN: There's a transfer --  
5 that calculation wasn't made here.  
6 MR. BALLENGER: Are we able to  
7 determine based on the net revenues being --  
8 well, I think we can, again, take notice of  
9 math, that the point nine percent is satisfied.  
10 You didn't raise it, so I'll assume that you  
11 acknowledge that coverage test is met.  
12 MS. ALLEN: That question wasn't  
13 asked to me. I'm not acknowledging anything.  
14 MR. BALLENGER: No one on rebuttal  
15 raised it. You talked about --  
16 MS. BROCKWAY: This is all argument  
17 that can go into summations.  
18 MR. BALLENGER: That's fine. A  
19 couple more questions here. If I may just  
20 confer with my witness for one moment, please.  
21 (Pause.)  
22 MR. BALLENGER: I'm sorry. I'm  
23 ready.  
24 MS. BROCKWAY: Please go ahead.

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1 MR. BALLENGER: So we've spent a  
2 little time already talking about the City's  
3 five-year plan. To the knowledge of the  
4 witnesses, has the City's five-year plan ever  
5 been cited as an industry best practice for  
6 rate making?  
7 MS. CLUPPER: I can speak to that  
8 as financial advisor for the City. Five-year  
9 plan is an absolutely a positive. The whole  
10 process of having an independent authority  
11 review the City budget, the process of having  
12 to submit the five-year plan, the process of  
13 having quarterly managing reports published  
14 publicly is all cited as a credit positive.  
15 All rating agencies look at an issuer's  
16 policies and ability to plan long range out to  
17 five years. So there's no question.  
18 MR. BALLENGER: That's helpful.  
19 But I was asking whether it's ever been cited  
20 as an industry best practice for utility rate  
21 making, not for ratings, for utility rate  
22 making.  
23 MS. CLUPPER: It is a best  
24 practice.

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1 MR. BALLENGER: For establishing  
2 utility rates?  
3 MS. CLUPPER: Are you asking the  
4 question, has the rating agency specifically --  
5 MR. BALLENGER: I'm not asking  
6 about the rating agencies at all. I'm talking  
7 about industry rate-making practices and  
8 whether or not the City's five-year plan has  
9 ever been cited as an industry best practice  
10 for establishing rates and charges.  
11 MS. BUI: AWWA is one manual which  
12 is like the bible.  
13 MS. BROCKWAY: Louder.  
14 MS. BUI: AWWA's M1 manual, which  
15 is the bible within rate-making world and  
16 provides all the guidelines of things, does  
17 cite five-year planning -- financial plans as  
18 being the best management practice. Does it  
19 call out specific utilities practices? No.  
20 Because I sit as one of the editors on that  
21 manual and we try not to do that. In addition,  
22 if you look at other AWWA published books, for  
23 example the Financial Management for Water  
24 Utilities, it also cites that as a best

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1 management practice for the financial world to  
2 use for rate making.  
3 MR. BALLENGER: And I think we  
4 would like to ask a transcript request that the  
5 manual be placed on the record.  
6 MS. BUI: The entire manual?  
7 MS. BROCKWAY: Go off the record.  
8 (Discussion held off the record.)  
9 MS. BROCKWAY: Back on the record.  
10 MR. BALLENGER: And the City's  
11 five-year plan, that's -- just circling back a  
12 little. That has to do with a lot of different  
13 departments in the City, correct, not just the  
14 Water Department?  
15 MS. BUI: Correct.  
16 MR. BALLENGER: So the City's  
17 five-year plan comprises a lot of factors which  
18 -- or includes within it a lot of calculations,  
19 I assume, and estimates for the future that  
20 have nothing to do with the Water Department?  
21 MS. BUI: I can't speak to that.  
22 MS. LABUDA: What's interesting is  
23 that you're raising a unique point, is that  
24 we're one tax I.D. with the City of

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1 Philadelphia. We're the City of Philadelphia.  
2 We're a department of the City, and so when you  
3 talk about the cost of our lease, it's a  
4 City-wide approach. So the lease assumption  
5 using the five-year plan directly correlates  
6 with our lease cost. When you speak about  
7 fleet management costs, we have one fleet  
8 management department. So the cost for fleet  
9 management directly correlate to our costs,  
10 except that where we may have higher expenses  
11 related to the number of vehicles we have.  
12 When you cite to the cost of procurement, we  
13 use City-wide procurement roles so the cost of  
14 City-wide procurement directly relate. We have  
15 one pension system. We're all paying into  
16 pension system so the cost of pensions, health  
17 care, other fringes and salaries, all directly  
18 correlate to the City of Philadelphia. I am  
19 sure I am missing a few areas where, you know,  
20 debt services based on the Water Department's  
21 credit rating versus the City's general  
22 obligation bond rating. So that would be an  
23 area where our costs might differ.  
24 MR. BALLENGER: And does the

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<p style="text-align: right;">Page 94</p> <p>1 five-year plan -- well, strike that. 2 MR. DASENT: Did you finish your 3 response? 4 MS. LABUDA: I believe I'm missing 5 a few areas that also correlate, but I just 6 don't have the plan within reach, so I 7 apologize for the areas that I missed. 8 MR. BALLENGER: Quite all right. 9 It's a helpful overview. 10 What is the consequence to the 11 Department of the projections in the five-year 12 plan being slightly inaccurate or even grossly 13 inaccurate? Is the Department placed in breach 14 of any covenants if the five-year plan is 15 inaccurate? 16 MS. LABUDA: The key is that the 17 Department must maintain its Rate Stabilization 18 Fund balance to make sure it has its minimum 19 balance to ensure that it has ample capacity to 20 cover unforeseen expenses. And those 21 unforeseen expenses can relate to higher cost 22 in pension, salaries, fringes, or the fact that 23 we need more chemicals to ensure we're meeting 24 water quality standards. So the key to our</p>	<p style="text-align: right;">Page 96</p> <p>1 summary produced by rating agencies. That's 2 not entirely correct, but I'll get to that in a 3 minute. The summaries are essentially general 4 medians of various factors. They do not 5 provide any details of entities that are 6 included and derive in the medians. Summaries 7 don't -- the information -- the information -- 8 the summary is a median. The information is 9 available. You can see what's in the median. 10 He's making the point that it's inappropriate 11 to establish policy based on summary data. 12 He further makes the point that it 13 is possible, for whatever reason, that most of 14 the utilities that make up the median have bond 15 covenants that require those utilities to 16 maintain higher debt service coverage. The 17 point that I'm making is that critical 18 information is unknown with regards to the 19 published summary, and it would be 20 inappropriate to authorize policies based on 21 such lack of information. My rebuttal, my 22 comment is that that information is available. 23 It takes some digging and it takes some 24 subscription to certain, you know, rating</p>
<p style="text-align: right;">Page 95</p> <p>1 financial civility is maintaining the minimum 2 balance. 3 MR. BALLENGER: I want to ask one 4 question. Ms. Clupper, when I heard you 5 talking about Mr. Morgan's testimony concerning 6 the hearing date, I thought I heard you -- 7 perhaps you were paraphrasing Mr. Morgan say 8 that he said the information is not available? 9 Do you recall what you said? 10 MS. CLUPPER: So you're asking me 11 to comment on that comment? 12 MR. BALLENGER: I heard you say it 13 so I wrote down the words quoting you as saying 14 information is not available and Mr. Morgan 15 said information is not available. I don't see 16 that in his testimony. 17 MS. CLUPPER: So his -- and I 18 apologize if I misspoke, but just to be clear, 19 the question that he -- that he responded to 20 was do you agree with the Department's proposed 21 change in the debt service coverage. He 22 discusses the Department's proposal to increase 23 debt service coverage to 1.2 to 1.35 times, 24 supposedly supported by a comparative sector</p>	<p style="text-align: right;">Page 97</p> <p>1 agencies. The rating agencies are -- I mean, 2 they're not small organizations. They're huge 3 organizations that have a lot of database, 4 they're qualitatively driven and they don't 5 publish medians lightly. There are information 6 that's underneath those summaries. So I don't 7 think that it's accurate to say that critical 8 information is unknown. I also don't think 9 it's accurate to make the -- to assume that the 10 median, for instance, of Boodie (ph.) of 1.81 11 is legally driven. It's not typical. Most 12 legal covenants are the 1.1, 1.2 times range, 13 in my experience anyway. And that information 14 is also available. You can go and look at the 15 official statements through the MO, which is a 16 portal site that MSRB provides to investors. 17 MS. BROCKWAY: Can you -- what was 18 the acronym? 19 MS. CLUPPER: EMMA. Just type MA 20 and it will pop right up. And then you can 21 search for whatever official statement you want 22 and you can look and see what the legal 23 coverages are. But the bigger point of the -- 24 the policy is not just based on sector summary.</p>

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<p style="text-align: right;">Page 98</p> <p>1 The policy -- you know, we spent a lot of time 2 working with the Department over years looking 3 at summaries so it's an important part of the 4 deliberation. But the reason why coverage 5 needs to be increased again is to generate 6 resources all to the bottom line so there's 7 money available to make the system stronger, 8 and that's the reason why the policy is 9 important. It's supported by ratio medians 10 because you look at other utilities, best 11 practices that are considered healthy by 12 investors and rating agencies. That's all 13 important to do. But the bottom line is, the 14 reason why you want the coverage is to go back 15 into the system. It doesn't go to investors or 16 other private people like an investor-owned 17 utility. It's a municipally-owned utility. 18 The money goes back into the system to address 19 critical infrastructure needs that are going to 20 face the Department for years and the City and 21 the ratepayers. 22 MR. BALLENGER: And in this 23 statement that you're talking about, about Mr. 24 Morgan's statement, that it may be</p>	<p style="text-align: right;">Page 100</p> <p>1 expenses. If operating expenses are met, then 2 you pay debt services. Debt services are 3 provided for, then you top off the debt service 4 reserve and you go down and through the 5 prioritization that is in the general 6 ordinance. But there's not a specific -- 7 anything more specific than that. To the 8 extent that the other purposes have been 9 provided for, it can go to -- it goes -- it can 10 go all the way through -- 11 MR. BALLENGER: I think in 12 discovery we asked a question about that, and 13 Ms. LaBuda directed us to this page of the 14 official statement, page nine that depicts that 15 flow of funds. So once transferred into the 16 revenue fund, basically the amounts could go to 17 operating expenses, they could also go to 18 capital expenditures, is that correct? 19 MR. JAGT: I want to clarify one 20 thing. The initial question, as you stated -- 21 which transfer are you referring to? 22 MR. BALLENGER: I'm not referring 23 to any specific transfer. I'm referring to the 24 Department's transfer of money from the Rate</p>
<p style="text-align: right;">Page 99</p> <p>1 inappropriate to use that median. Am I correct 2 that you did cite in your testimony to the 3 agency ratings summary at the median? 4 MS. CLUPPER: Yes, I did. We 5 included the summaries. We did include 6 summaries, yes. 7 MR. BALLENGER: I have another 8 question. I just wanted to talk a little bit 9 about the use of the Rate Stabilization Fund, 10 if I can. And I think, Ms. Allen, you talked 11 about Rate Stabilization Funds being available 12 for two purposes. And the first purpose you 13 mentioned was to transfer into the revenue 14 fund? And once transferred into the revenue 15 fund, is there any restriction on the use of 16 those funds for any purpose? 17 MS. ALLEN: No. Once moneys are in 18 the revenue fund, then it goes through the 19 waterfall and it -- 20 MS. BROCKWAY: Say again? 21 MS. ALLEN: Once moneys are in the 22 revenue fund, there is a prioritization in the 23 general ordinance about how revenues are used. 24 And once each step is -- first operating</p>	<p style="text-align: right;">Page 101</p> <p>1 Stabilization Fund to the revenue fund. 2 MR. JAGT: Okay. Thank you. 3 MR. BALLENGER: So the moneys 4 transferred from the Rate Stabilization Fund to 5 the revenue fund could be used to pay operating 6 expenses, they could be used to make -- 7 MS. ALLEN: That transfer happens 8 at the end of the year. So whatever the 9 revenue requirements are necessary for the 10 Water Department at the end of the year, that's 11 -- it settles the fiscal year. 12 MR. BALLENGER: They could be used, 13 for example, as part of a capital account 14 deposit? 15 MS. CLUPPER: I think the timing is 16 critical to understand that it happens at the 17 end of the year. So stuff already happened. 18 You have already extended your operating to 19 plug a hole. I think that's a very critical 20 point to remember in this waterfall discussion. 21 So you couldn't use it that year because that 22 year has already passed to. 23 MS. LABUDA: And that's an 24 important point which I tried to discuss</p>

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<p style="text-align: right;">Page 102</p> <p>1 yesterday with one of the questions that came 2 my way on what happens when -- can you make 3 retroactive adjustments and reduce an 4 operating-level expense. And the answer is, we 5 pay expenses as they come throughout the fiscal 6 year and we receive invoices, we pay for 7 chemicals, we pay for electricity, we pay for 8 ongoing expenses throughout the year month by 9 month by month. And then we get to year-end 10 and we figure out if we have overspent or if 11 revenues were sufficient, and then a transfer 12 is made in October. And how that money flows 13 will depend on what expenses we had through the 14 year. 15 MR. BALLENGER: Okay. I understand 16 your position. I think we'll probably address 17 that in a brief. 18 MS. BROCKWAY: Are you trying to 19 ask whether they can intentionally under budget 20 a capital account so that -- 21 MR. BALLENGER: No, Madam Hearing 22 Officer. 23 MS. LABUDA: In our general bond 24 ordinance, there's a requirement that we must,</p>	<p style="text-align: right;">Page 104</p> <p>1 MR. HELBING: Neither do I. 2 MS. BROCKWAY: Any other questions 3 from anybody else? 4 MR. DASENT: On redirect, we'll 5 have a brief redirect. 6 MS. BROCKWAY: Are you ready to go 7 now? 8 MR. DASENT: If you give me just a 9 moment. 10 MR. POPOWSKY: I have a question, 11 if you don't mind. I have been struggling with 12 this back and forth on the interest -- the 13 coverage ratios versus the Rate Stabilization 14 Fund. So what I noticed on -- this is an 15 exhibit that was handed out yesterday, the 16 Public Advocate exhibit -- hearing Exhibit-1, 17 page 14 which you talked about today, which is 18 the bringdown from the last case. I think it 19 was prepared by Black &amp; Veatch. On page 14, if 20 you look at the first few lines, there's a lot 21 -- several lines. There's a lot of differences 22 between the rate case projection versus the 23 actual results. But when you get to the 24 coverage ratios, particularly the senior debt</p>
<p style="text-align: right;">Page 103</p> <p>1 not choose to, we must set aside one percent of 2 net property plans and equipment towards our 3 capital trust. Most people would better 4 understand it as renewal and replacement. We 5 must do that as part of our obligations. There 6 is a required one percent transfer for renewal 7 and replacement. 8 MR. BALLENGER: Right. And that's 9 part of the definition of the capital account 10 deposit amount, is that correct? Is that 11 right? The one percent, it's in the ordinance? 12 MS. ALLEN: Yes. 13 MR. BALLENGER: By definition, that 14 also includes -- it includes -- as I said, we 15 can address this in the briefs, but it states 16 or such greater amount as shall be annually 17 certified to the City. So it is not limited to 18 one percent, is all I'm saying. But we can 19 address it in the brief. 20 I think I am done and would pass 21 cross-examination to Mr. Delaney or Mr. 22 Helbing, if either of them have any questions. 23 MR. DELANEY: I don't have any 24 questions to ask. I'll pass.</p>	<p style="text-align: right;">Page 105</p> <p>1 coverage ratio, lo and behold, the actual is 2 identical to the projection. So my assumption 3 is that you're actually solving for that 4 number. That's a plug number. 5 MS. LABUDA: It is. And it's based 6 on legal counsel's advice that we had to -- 7 while the Department did experience 8 outperformance, we were advised legally that we 9 had to meet the exact coverage metrics that 10 were portrayed in the settlement. So the 11 additional funds went to the RSF. 12 MR. POPOWSKY: So when you were 13 concerned that the numbers were going to go to 14 1.9, that's not really a concern. The real 15 concern is how much are you going to have to 16 take from the Rate Stabilization Fund to keep 17 it at the 1.2, is that correct, or whatever you 18 choose? 19 MS. LABUDA: Actually, I was more 20 concerned that the position of the Public 21 Advocate grossly understated our expenses. 22 MR. POPOWSKY: I understand that. 23 MS. LABUDA: We would be in severe 24 jeopardy of managing the utility --</p>

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1 MR. BALLENGER: I would object to  
2 the statement that grossly understate or  
3 overstated anything.  
4 MS. BROCKWAY: I'll overrule the  
5 objection and let's just let the Board member  
6 have --  
7 MR. POPOWSKY: I'm just trying to  
8 determine -- so to me, the issue is not whether  
9 you're going to go to 1.2, 1.9. How much do  
10 you to keep in the Rate Stabilization Fund?  
11 MS. LABUDA: I mean, there's  
12 multiple factors. The first factor is that we  
13 can't have coverage -- manage to have something  
14 less than 1.2. And we don't set rates to cover  
15 a hundred percent of budget. So how much is  
16 the minimum amount we can functionally have in  
17 the RSF. And then there's the fact that we're  
18 severely leveraged. You don't want to continue  
19 1.2 times coverage and rely on the Rate  
20 Stabilization Fund. You want to start to  
21 de-leverage the utility or Department, or by  
22 incrementally increasing, as we did during the  
23 prior settlement, that coverage amount.  
24 MR. POPOWSKY: But you're going to

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1 start off on the number based on how much you  
2 put in from the Rate Stabilization Fund. Is  
3 there a minimum? I can't recall. I apologize.  
4 Is there a minimum you must keep in the Rate  
5 Stabilization Fund or is there a target or --  
6 MS. LABUDA: Legally, the general  
7 bond ordinance requires 45 million in RSF. Do  
8 I have that number correct? The Rate  
9 Stabilization Fund must have 45 million in it?  
10 MS. ALLEN: Subject to check.  
11 MS. LABUDA: There's some minimum  
12 amount in the Rate Stabilization Fund under the  
13 general bond ordinance. Then there's the  
14 philosophical question is if you aren't setting  
15 rates to cover a hundred percent of your  
16 budget, how do you balance your budget if your  
17 Rate Stabilization Fund is something less than  
18 that minimum ten percent of your original  
19 budget. Then there is the third part of this  
20 equation, which is how much does the Department  
21 need on an ongoing basis in the RSF, since we  
22 have no other account that can flow to revenue  
23 to meet ongoing operations in an emergency.  
24 And in the financial plan, I said that's 110

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1 million in fiscal year '18. And we would use  
2 the RSF in '16, '17, and '18 to get to the 110  
3 million, provided assumptions that we provided  
4 are accepted and also are within the range of  
5 what we experience.  
6 MR. POPOWSKY: Okay. Thank you.  
7 MR. BALLENGER: Hearing Officer, if  
8 I may ask one more question.  
9 MS. BROCKWAY: Uh-huh.  
10 MR. BALLENGER: Ms. LaBuda, you  
11 stated that the Public Advocate's position is  
12 to grossly underestimate your expenses. Could  
13 you please direct me to where in Mr. Morgan's  
14 testimony he states that our position is to,  
15 quote, grossly underestimate expenses?  
16 MS. LABUDA: Mr. Morgan states that  
17 he wants to remove all adjustments because  
18 they're not reasonable. So by --  
19 MS. BROCKWAY: I'm going to  
20 interrupt. This is argument obviously and I  
21 think we're, you know, making too much of a  
22 semantic difference. I think we can understand  
23 it on the Board. I do have a question -- do  
24 you have other questions?

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1 MR. BALLENGER: No.  
2 MS. BROCKWAY: You can put that  
3 into your summary.  
4 MR. BALLENGER: Not at this time.  
5 Thank you.  
6 MS. BROCKWAY: But, you know, we  
7 don't need to have a lot of time on the record  
8 about something which is pretty clear.  
9 I wanted to ask about the five-year  
10 plan requirement. Did that come about  
11 initially as part of the PICA bonds?  
12 MS. LABUDA: Yes.  
13 MS. BROCKWAY: Will that  
14 requirement sunset when those bonds are paid  
15 off?  
16 MS. ALLEN: Yes.  
17 MS. BROCKWAY: How long will that  
18 be?  
19 MS. CLUPPER: We have to check.  
20 MS. BROCKWAY: So several years.  
21 And has the Department considered what it would  
22 do if it no longer has that covenant  
23 obligation?  
24 MS. LABUDA: I'm sorry, if the City

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1 no longer produced a five-year plan? There's  
2 no indication that the City, based on  
3 discussions to date, has any intention of not  
4 doing a five-year plan. We would need to  
5 continue to have discussions with the City's  
6 finance director on just obtaining projections  
7 on a five-year basis if the official plan were  
8 not to be produced in 2023 or 2024, whatever  
9 the correct year is. But there's no indication  
10 that that's going to happen.  
11 MS. BROCKWAY: Thank you. Did you  
12 have more?  
13 MR. BALLENGER: No.  
14 MS. BROCKWAY: Does anybody else  
15 have any questions?  
16 MR. DASENT: We have redirect  
17 briefly after a brief break.  
18 MS. BROCKWAY: All right. Let's  
19 see. We'll go off the record.  
20 (A break was taken.)  
21 MS. BROCKWAY: During the break, I  
22 had discussions with Mr. Dasant and Mr.  
23 Ballenger about the question of responses to  
24 the various stages that have come in. So the

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1 last stage we have is the rebuttal accompanied  
2 with cross-examination. It seems to me, and I  
3 think at least these parties agree, that it is  
4 -- that we have time, given how quickly things  
5 are going, to give Mr. Ballenger the  
6 opportunity to put on some surrebuttal  
7 tomorrow. I understand that you would like to  
8 do that only after cross on the direct?  
9 MR. BALLENGER: I think it depends  
10 on how cross goes, but we may be able to avoid  
11 surrebuttal and just handle anything on direct.  
12 But I can't anticipate -- I can't forecast.  
13 MR. DASENT: That's what I  
14 anticipated, but I think our flexibility  
15 indicates we will let tomorrow start with a  
16 very short cross of Mr. Morgan of those areas  
17 we haven't already discussed. And we have  
18 stormwater management witnesses and other  
19 things to do.  
20 MS. BROCKWAY: Okay. And just to  
21 this step off. If there is surrebuttal, and if  
22 you want to rejoin to it, you can, but it will  
23 be limited to the surrebuttal, not to anything  
24 else.

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1 MR. DASENT: Fair enough.  
2 MS. BROCKWAY: And tell me again,  
3 who are the stormwater witnesses?  
4 MR. DASENT: We have Erin Williams  
5 tomorrow, David Katz, and of course in the  
6 future it's David Russell for Penn Future.  
7 MS. BROCKWAY: Okay. Thank you. I  
8 think we should keep plowing through. So we  
9 were ready for redirect.  
10 MR. DASENT: Yes. Just very brief  
11 redirect. I'll direct the question to Ms.  
12 Clupper.  
13 Assuming Mr. Morgan's adjustments  
14 are okay mathematically, just sort of the focus  
15 of much of the discussion today. What's the  
16 big picture?  
17 MS. CLUPPER: When I look at this  
18 kind of bottom line, so I always look at the  
19 bottom line year-end fund balance after, you  
20 know, the balance completed. As the Water  
21 Department's municipal advisor, I'm extremely  
22 concerned that we're creating and focusing on a  
23 situation where that we're managing exactly to  
24 a required coverage and we're using the

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1 resources. I think it's important to remember,  
2 historically the water commissioner sets the  
3 rates. And so there was an internal process  
4 that CLS was involved with and the rating  
5 agencies, and the investor community gave the  
6 City a break because they knew at the end of  
7 the day the water commissioner would raise  
8 rates in an amount that would maintain 1.2  
9 times the coverage. There was this sort of  
10 understanding that that was going to happen.  
11 And they also understood that the Water  
12 Department consistently outperformed.  
13 In fact, you know in the Standard &  
14 Poor's recent write-up, they specifically  
15 mentioned that the financial performance meets  
16 and exceeds current projections. I mean, it's  
17 sort of a Philadelphia thing that they say the  
18 sky is falling and they outperform, and that's  
19 a good thing as far as investors are concerned  
20 and as far as the credit agency. So I think  
21 that that -- so I think that's generally a  
22 credit positive. But now that there's an  
23 independent rate-making board, all three rating  
24 agencies have specifically mentioned in their

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1 write-ups the concern it could be, you know,  
2 positive, but they are concerned that that sort  
3 of, you know, reality that the commissioner set  
4 the rate doesn't exist. And they are looking  
5 very carefully at what happens here. They're  
6 expecting the Water Department's coverage  
7 trends have been on the -- you know, slowly  
8 going from 1.2 higher, and they understand that  
9 the policy of the Department is to increase the  
10 coverage. They understand the policy of the  
11 Department is to increase PAYGO -- use the  
12 capital, the internally-generated funds. They  
13 understand that and they're giving them, you  
14 know, kudos in all their write-ups.  
15 So there is a focus, they don't  
16 want to say a concern because they're not going  
17 to do a judgement, but they are looking at this  
18 Board, the process and they're, you know,  
19 expecting and hoping to continue the positive  
20 trend. So when I see this bottom line, you  
21 know, number, it causes me concern, because I'm  
22 concerned that we're kind of going backwards  
23 and not continuing with the trend that will  
24 ensure some positive sustainability of a

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1 system. You know, the Department has almost a  
2 two-billion-dollar capital project and it's  
3 okay to look at things in two years, but the  
4 Department can't. It's got a huge CIP program,  
5 as most utilities do. Very, you know, asset  
6 intensive and, you know, you have to -- they're  
7 looking for this trajectory. And so that's why  
8 I'm concerned when I see this, you know,  
9 mathematically-corrected bottom line, it still  
10 causes me concern.  
11 MS. BROCKWAY: When you say bottom  
12 line, is that a line on one of these exhibits  
13 or is that a general term?  
14 MS. CLUPPER: I actually looked at  
15 the bottom line of the year-end balance -- not  
16 to get back into the model, but I have to say  
17 this. So if you look at LKM-1, setting aside  
18 all the other conversation about -- that went  
19 on, what I do is I look at the residual fund  
20 because that's the fund now, that's the bottom  
21 line for the Department, that's line 30. And I  
22 see that the beginning balance of the Black &  
23 Veatch is 15 million and the beginning balance  
24 for Mr. Morgan's is 42 million. And I think

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1 well, that doesn't make sense. You have to  
2 start with the same beginning balance. So I  
3 adjust the beginning balance in 2017 at 15  
4 million and if you kind of do the math, at the  
5 end of 18 the fund balance, which is the  
6 year-end residual fund balance, is a negative  
7 two million dollars. That just means that  
8 we're -- you know, there's no juice there,  
9 there's no coverage. So, yeah, that causes me  
10 a concern.  
11 MR. DASENT: Is utility planning  
12 month to month or year to year?  
13 MS. CLUPPER: No, I think the  
14 utility plans far out. Their rate increase is  
15 only two years. They have to plan out, you  
16 know, five years and even, you know, longer. I  
17 mean, the capital plan passed by the City is  
18 six years. But I'm certain that Black & Veatch  
19 and engineering projections go out 20 years, 25  
20 years because projects take years to complete.  
21 I mean, it would be irresponsible not to have a  
22 long-range plan on the capital side of the  
23 utility.  
24 MR. DASENT: Based upon your

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1 listening today to various questions and our  
2 presentation, are we capturing sort of the  
3 long-term view or are we sort of stuck in the  
4 weeds?  
5 MS. CLUPPER: I think this is a  
6 very short -- no, it's not long term.  
7 MS. BROCKWAY: You're referring to  
8 LKM-1?  
9 MR. DASENT: Yes.  
10 MS. CLUPPER: Yes.  
11 MS. BROCKWAY: Which has come in as  
12 part of your Exhibit-3.  
13 MS. CLUPPER: Yes. Two-year  
14 picture.  
15 MR. DASENT: Do you have anything  
16 else?  
17 MS. LABUDA: I think the other  
18 point that Kathy and I experienced when we were  
19 recently with the rating agencies is that  
20 they're watching our coverage. They're looking  
21 for incremental improvements to continue,  
22 they're watching our balances and the Rate  
23 Stabilization Fund. We're using those balances  
24 for projecting to use those balances. So the

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<p style="text-align: right;">Page 118</p> <p>1 combination and the big-picture risk to the 2 Department is that if rates aren't adequate to 3 meet our obligations and we continue to rely on 4 the RSF, you're putting the Department in 5 jeopardy of rating triggers. And ultimately 6 what it comes down to is that any type of 7 downgrade in ratings results in higher costs. 8 And that is the big-picture concern when we 9 take a narrow focus and aren't thinking 10 long-range planning or five years out and 11 incrementally de-leveraging the Department. 12 MR. DASENT: Thank you. That's all 13 we have. 14 MS. BROCKWAY: Cross? 15 MR. BALLENGER: No, not from me. 16 MS. BROCKWAY: Any other party 17 cross? I have a question. Early on in this 18 proceeding, there was a kerfuffle about costs 19 for advanced metering infrastructure. And the 20 particular dispute had to do with discovery 21 having to do with the business case and other 22 information about why would the Department want 23 to do this, what are the benefits, costs, so 24 forth. That was resolved by taking out of this</p>	<p style="text-align: right;">Page 120</p> <p>1 Exhibit-5, I'm on page number eight -- I 2 apologize. So on page one, it reads that the 3 implementation of AMI is anticipated to provide 4 the following conditional revenue in fiscal 5 year '19. And I'm just citing what's on the 6 record, which is point four million in fiscal 7 year '19, 1.25 million in fiscal year '20, and 8 2.1 million in fiscal year '21. If you give me 9 a moment, I'll go through and cite the page if 10 there's any other assumptions on the expense 11 side. 12 MS. BROCKWAY: You're saying that 13 that is a net benefit at this time to the 14 Department from putting in AMI? 15 MS. LABUDA: The financial plan 16 contemplates that benefit. But I also want to 17 point out that beyond fiscal year '18, it also 18 contemplates -- and this is on page eight of 19 PWD Exhibit-5, B&amp;V page number eight, I'm 20 looking at class 100 and 200, fiscal year '19 21 to 2021 projected cost savings of the result of 22 the anticipate implementation AMI range from 23 point two million to 1.9 million from 2019 to 24 2021.</p>
<p style="text-align: right;">Page 119</p> <p>1 two-year period AMI-related costs. You have 2 said several times -- this is to the 3 Department. You have said several times in 4 your testimony that you need to go out longer, 5 that you need to go out five years. 6 Is there -- in your projections, do 7 you still have any AMI in the third through the 8 fifth years? 9 MR. DASENT: It's in the planning 10 period. But the witnesses need to speak to 11 that. 12 MS. BROCKWAY: Yes. 13 MR. JAGT: As filed, it's in the 14 planning period that we have reflected in our 15 filing. 16 MR. DASENT: Beyond the rate 17 period? 18 MR. JAGT: Right. Correct. 19 MS. BROCKWAY: Do you know how much 20 would be in the plan if you were to remove the 21 AMI? I understand there are some offsetting 22 adjustments that you might want to make. 23 MS. LABUDA: May I read the -- so 24 in the assumptions document, which was PWD</p>	<p style="text-align: right;">Page 121</p> <p>1 MS. BROCKWAY: Perhaps using this 2 as an example. What is the importance to the 3 Board of the years beyond the two-year period? 4 MS. LABUDA: So from my perspective 5 as a financial person, I worry that any delays 6 in implementation or various implementation -- 7 I'll look to our CEO, any delays could change 8 the net benefit of the potential program to our 9 bottom line. So the risk of course is that the 10 savings don't materialize. 11 MS. BROCKWAY: And if somebody said 12 au contraire, not only will there be no 13 savings, you will have a net loss, would that 14 be a fair discussion to have? 15 MR. DASENT: For the rate period? 16 MS. BROCKWAY: Well, we seem not to 17 be having it now, but what I'm worried about is 18 that we have a record which is at least 19 qualitatively based on a period beyond this 20 rate period and makes some assumptions about 21 the health of the Department. And part of that 22 is based on the AMI, which might -- those 23 assumptions about the impact of AMI might be, 24 as they have been in the electric industry,</p>

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1 subject to a great deal of dispute. And so I'm  
2 trying to figure out how the Board can, without  
3 getting into what the Board thinks about AMI  
4 and your savings, the Board can contemplate the  
5 period of time after the rate period. What do  
6 we do with your statement that you're worried  
7 about losing the net benefits and so forth if  
8 we don't get into the question of are there net  
9 benefits?  
10 MS. LABUDA: And Prabha Kumar  
11 corrected me that I wasn't summing up all the  
12 parts in the assumptions document and during  
13 the planning period the net benefit. So it's  
14 zero.  
15 MS. KUMAR: May I answer?  
16 MS. LABUDA: Yes, please.  
17 MS. KUMAR: So after the AMI  
18 implementation and the savings coming from the  
19 AMI predicated upon timing. So there was a  
20 timing that was assumed for the AMI  
21 implementation.  
22 MS. BROCKWAY: There was a timing  
23 what?  
24 MS. KUMAR: There was a timing of

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1 implementation that was assumed, which was the  
2 '18 times -- that the project will be completed  
3 by '19 and the net savings start coming in  
4 starting '20. So if the project is not done at  
5 all, when the project cost happens during this  
6 time frame, the 19/20 time frame that we're  
7 talking about, the savings are -- continue as  
8 annual savings beyond that period. So if your  
9 question is is there a potential loss by not  
10 doing this at all in a certain time frame, in  
11 the very long-term, yes, there could be,  
12 because the savings are going to continue to  
13 accrue on a year-by-year basis.  
14 MS. BROCKWAY: I understand that  
15 and I understand that's the position of the  
16 Department. But because of my experience in  
17 the electric industry where AMI has been very  
18 fiercely debated and there are multiple points  
19 of view, it raises to me the question of how  
20 does AMI work in the water situation and can  
21 the Board rely on these projections of savings.  
22 And what would be great would be if somebody  
23 could explain to me why we don't even need to  
24 care about that. But I'm having trouble

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1 getting there.  
2 MR. DASENT: The proposal is not  
3 ripe, that's why we have not stipulated to  
4 remove the operating expenses from the rate  
5 period. In the planning period, it will come  
6 into focus because it has to go to city  
7 council. It has to be fully vetted, and within  
8 those parameters we will know and you will know  
9 because we will share that information with  
10 you. As of right now, it's not ripe for any  
11 determination.  
12 MS. BROCKWAY: But does that mean  
13 that the Department has pushed back its plan to  
14 start AMI implementation?  
15 MR. DASENT: Ms. LaBuda will have  
16 to speak to that or our CEO.  
17 MS. BROCKWAY: That kind of process  
18 was already built into the original  
19 assumptions?  
20 MS. MCCARTY: Well, I think it's  
21 important to remember that the current contract  
22 ends in 2019 if we take the two one-year option  
23 to renew for the meter reading. So during --  
24 you know, outside this rate case. But we're

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1 going to have to figure something out. So are  
2 we planning? Of course we are, because we have  
3 to. We don't just look at tomorrow, we have to  
4 look out. I'm not saying you're disputing  
5 that. But we have to figure something out.  
6 What it is, we don't know right now. And as  
7 Andre pointed out, we need to go to city  
8 council if we're going to go with the long-term  
9 control plan. I think there's too many  
10 variables right now to say whether we will or  
11 will not go to AMI. We would do our due  
12 diligence and does it make sense. And I would  
13 suggest that I think there are differences in  
14 the water industry versus the electric industry  
15 in that regard. Things that AMI can bring you  
16 is, you know, if a customer is -- their toilet  
17 is running, they can be alerted within, you  
18 know, whatever that time frame might be, three  
19 days, 24 hours, and reduce that additional  
20 consumption and then potentially adjustments in  
21 their bill, disputes in their bill and things  
22 like that and high bills and creating  
23 delinquencies. But that is one of the many  
24 factors that we would evaluate in looking at

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1 AMI. Does that answer your question?  
2 MS. BROCKWAY: Yeah, it goes very  
3 far towards it. I want to clarify a little bit  
4 the timing issue. When you first filed your  
5 advanced notice and your notice, AMI was there  
6 and there was some funds for these next two  
7 years and they have been by agreement taken  
8 out. Does that mean that you are changing in  
9 any way the planning activities that you would  
10 have done had those \$400,000 still been in the  
11 budget? In other words, are you going ahead  
12 with the planning and is that not related? Can  
13 that be separated and is it not tied to this  
14 \$400,000?  
15 MS. MCCARTY: We needed those funds  
16 -- we're basically playing that -- you know,  
17 what we need those funds for, which is not to  
18 say we're not still continuing to look at AMI.  
19 But those funds were allocated for activities  
20 that we are not currently doing. Does that  
21 make sense?  
22 MS. BROCKWAY: Yes. So there is --  
23 the impact of this is whether you would have  
24 done it anyway. So some delay from the

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1 original assumption about what your path would  
2 be? I think that's all I need to know. Any  
3 questions?  
4 MR. BALLENGER: No. I just -- if I  
5 could just make one statement. I think that's  
6 an important clarification because I think, you  
7 know, this -- unlike the costs for --  
8 MS. BROCKWAY: Actually, we don't  
9 need you to make a statement.  
10 MR. BALLENGER: Okay.  
11 MS. BROCKWAY: The Board wants to  
12 hear it.  
13 MR. BALLENGER: The kerfuffle that  
14 you referenced arose out of a discovery  
15 dispute. What I was getting around to was that  
16 we would view the record as being sort of  
17 inadequate at this point, which is why I'm  
18 encouraged to hear that there has to be some  
19 more discussion and development for this issue  
20 to go to the Board in this case. In our view,  
21 we would think we would need a chance to do  
22 more discovery and maybe this issue would have  
23 to be taken up in a later decision if the Board  
24 wanted to make a decision on it. I was going

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1 to contrast that with the electric expense,  
2 which I think we have had an opportunity to  
3 have discussions about and is an adjustment  
4 that's been agreed to after having built a  
5 record and had discussions.  
6 MS. BROCKWAY: Yes. And I wasn't  
7 contemplating that we would reopen that issue  
8 here. I was trying to understand, given that  
9 that issue is in flux, to what extent do the  
10 third through the fifth years, to the extent  
11 they are affected by it, that issue, matter or  
12 can we basically set that aside completely and  
13 think about the third toward the fifth years as  
14 if as if it hadn't and didn't need to be  
15 decided.  
16 MR. DASENT: I thought that's just  
17 basically what the commissioner informed us.  
18 MR. POPOWSKY: I'm sorry, I did  
19 have one other question. I apologize. You  
20 referenced the residual fund. I apologize and  
21 I haven't been able to get all these funds  
22 clarified. But the residual of what?  
23 MS. CLUPPER: The residual fund, in  
24 my mind anyway, is like the ultimate fund

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1 balance. So in the waterfall, we have things  
2 -- everything starts up here and it falls to  
3 the residual fund. In my mind, if I'm thinking  
4 about how much money do they have kind of left  
5 over, whatever, it's the residual fund. That's  
6 how I view it.  
7 MS. ALLEN: If there's any excess  
8 revenue at the end -- revenue comes into the  
9 revenue fund and they meet all the revenue  
10 departments. At the end of fiscal year, if  
11 there's anything that's excess, there's a last  
12 bucket.  
13 MR. POPOWSKY: And that's after the  
14 Rate Stabilization Fund as well?  
15 MS. ALLEN: Yes.  
16 MS. BROCKWAY: Actually, may I  
17 follow up on that. My understanding is that  
18 the testimony is that the 110 million dollars  
19 is a target. A couple of questions. To the  
20 extent you haven't had a chance already to  
21 explain why that particular target is  
22 important, I would be very interested. And as  
23 part of answering that, I don't know what  
24 number to pick but somewhere between 45 million

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<p style="text-align: right;">Page 130</p> <p>1 and 110 million. Would another number be 2 tolerable or is this the number it has to be? 3 MS. LABUDA: So in PWD Exhibit-2, 4 we have a document called the Philadelphia 5 Water Department Financial Fund. It's a 6 PowerPoint summary of the financial goals and 7 objectives the Department has set. Many of 8 them mirror the goals and objectives of what 9 was set in the prior proceeding, such as 20 10 percent pay-as-you-go capital and maintaining 11 the Rate Stabilization Fund at a hundred 12 million, plus some sort of inflationary 13 assumption. And it is my distinct opinion that 14 110 million by fiscal year '18 is the minimum 15 amount the Department needs to ensure that we 16 have adequate funding to cover the differential 17 between budgets and what rates cover. It's 18 also an amount that we'll need in order to 19 manage to our day's cash-on-hand metric. 20 As I cited earlier, one of my 21 concerns with spending down the RSF and not 22 improving coverage is the rating agency 23 implications. So if coverage continues to not 24 -- if we don't have the ability to improve</p>	<p style="text-align: right;">Page 132</p> <p>1 90 million and say this is going to be our 2 target for the next four or five years, would 3 that have the same impact on the rating 4 agencies as well. We're going to draw down the 5 fund now because we don't want to raise rates? 6 MS. LABUDA: Well, there's two 7 problems. We already went through a year 8 without a rate increase and so we have 9 nondiscretionary expenses we're facing. And 10 any type of shift lower than rates, as we have 11 requested, puts pressure on all years on the 12 outgoing plan, right? Because you still have 13 those expenses. They're not going away. And 14 you're just putting pressure on outgoing year's 15 rates if we don't have sufficient revenues. 16 And I would challenge you that I won't change 17 the plan below 110 million because I feel very 18 strongly that we will be in a very bad spot 19 financially with anything less than 110 million 20 by fiscal year '18 because budgets are going to 21 grow, they're not going to shrink. 22 And also from the rating agency 23 perspective, I don't think I want to be in a 24 position where I'm recommending the Department</p>
<p style="text-align: right;">Page 131</p> <p>1 coverage incrementally and we're spending down 2 Rate Stabilization Fund, we're going to be in a 3 position where we're going to have cash defined 4 as days cash on hand in the rating agency's 5 view, which is much lower than our peers, and 6 that is a rating challenge for the Department. 7 So we needed to balance the original budget 8 because we don't set rates to cover a hundred 9 percent of budget. We need it to maintain 10 adequate fund balance. Fund balance is 11 important for emergencies. And we also need it 12 to ensure that we don't see rating agency 13 declines. 14 But I would point to PWD Exhibit-2, 15 the PowerPoint, that steps through more of the 16 Department's goals and objectives from a 17 financial planning perspective, which are also 18 prepared, of course, in the cost-of-service 19 analysis. 20 MS. BROCKWAY: So you say the 110 21 is the minimum of -- 22 MS. LABUDA: Yes. 23 MS. BROCKWAY: And if the 24 Department were to choose something like 100 or</p>	<p style="text-align: right;">Page 133</p> <p>1 to face negative outlooks and potential 2 downgrades from a rating agency perspective. 3 Most of our peers keep 280 to 350 days cash on 4 hand. I would say subject to fact check, 5 because I don't have the peer medians right in 6 front of my hand, but that's what I'm 7 recalling. So we're going to take our 113 -- 8 our 110 million is going to drive us to 9 something much lower than that. 10 MS. BROCKWAY: Lower than 280? 11 MS. LABUDA: Absolutely, yeah. 12 What we're going to end up with is about 175 13 cash on hand if we end up with 110 million in 14 fiscal year '18. And, again, this is all in 15 the financial plan. 16 MS. CLUPPER: Just to add. The 17 rating agencies aren't going to look at one 18 fund. They're going to look at debt service 19 coverage. They're going to look at residual 20 fund. They're going to look at total cash on 21 hand. But because the residual fund is 22 targeted so low, the liquidity really resides 23 in the Rate Stabilization Fund. 24 MS. BROCKWAY: I was trying to</p>

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1 stumble towards a scenario in which we take the  
2 worry of the rating agencies that this Board is  
3 going to slash rates or keep rates so low that  
4 your revenues are in great danger. So that's a  
5 risk. I was trying to think of how much of the  
6 110 is essential to that issue. In other  
7 words, if the Board were to say well, we think  
8 this is a -- we think it's very important that  
9 the Department have a comfortable RSF, but we  
10 think that a hundred million is going to be  
11 enough. And even as that flows through to, I  
12 don't know, 160 days, I don't know what it  
13 would mean, this would be a communication from  
14 the Board to the rating agency saying yeah, you  
15 were worried that we were going to cut, we're  
16 going to cut a little, but we're certainly not  
17 going to cut drastically and we don't tend to  
18 cut further as we go along.  
19 MS. CLUPPER: So they're going to  
20 look at the action of this Board. They're  
21 going to look at the action, and so if you make  
22 a statement, frankly the board may not be the  
23 next board that does the rate increase, right?  
24 So if you lower the target of the Rate

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1 Stabilization Fund, that means you're using it  
2 to bolster operations. And when you use the  
3 Rate Stabilization Fund to bolster operations,  
4 you're creating a structural deficit that at  
5 one point will catch up with you. So if you're  
6 using money to help operating and you need that  
7 to maintain the coverage, what that means is  
8 that here's the end of the rate period, and  
9 then the next year, as Missy said, those  
10 expenses don't go away and now you have created  
11 a structural deficit. That's what they're  
12 looking at. They're looking at okay, we have a  
13 situation where they use the Rate Stabilization  
14 Fund and they say they're not going to do it  
15 anymore but could be a different Board, and now  
16 we have this structural deficit so it will be a  
17 credit negative.  
18 MS. BROCKWAY: I will admit that I  
19 don't understand this fully, and I think it's  
20 something that could be briefed because I am --  
21 I'm falling off the logic train when you get to  
22 using the RSF for operating. It seems to me  
23 that that wouldn't be the case. It would be  
24 say no, you don't need 110, you only need a

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1 hundred or whatever, which is a different  
2 calculation.  
3 MS. CLUPPER: Yeah. Yeah. You  
4 would make -- you're making that statement  
5 because you intend to not raise your rates and  
6 so --  
7 MS. BROCKWAY: Well, by the 10  
8 million dollars, yes.  
9 MS. CLUPPER: So that's the next  
10 logic, well, you're not going to raise rates  
11 and the question is why. I mean, ideally the  
12 Rate Stabilization Fund never gets touched. If  
13 I have my way, it would 110 million and you  
14 would have coverage that was enough that you  
15 would never need the Rate Stabilization Fund to  
16 maintain 1.2 because you have coverage of 1.3  
17 and 1.4 and that money would fall to the  
18 Residual Fund, be taken into the construction  
19 fund, and the Rate Stabilization Fund would sit  
20 there as a rainy day fund, you know, for  
21 emergencies that, you know, you need to  
22 maintain that, you know, because something  
23 happened and you need that money to maintain  
24 coverage. Or there's an economic disaster in

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1 the City and there really is rate concerns and  
2 you need to use that to stabilize rate  
3 increases. So that would be the ideal.  
4 So I think, you know, the rating  
5 agencies are not going to make a credit  
6 decision on a hundred or 110. They're going to  
7 look at the bigger picture. They're going to  
8 look at trends and they're going to ask the  
9 question, what happens next and they'll do  
10 their own kind of, you know, projection and  
11 they'll see that if you have used it and you  
12 haven't raised rates, there will be a deficit  
13 in your operating.  
14 MS. BROCKWAY: I think under my  
15 assumption for this hypothetical, the rate  
16 increase to the extent of ten million dollars  
17 would not be awarded and that would continue  
18 through the future, at ten million dollars  
19 presumably, unless you have inflation -- unless  
20 the 110 should be going up as we go further.  
21 MS. CLUPPER: Let me just sort of  
22 -- if you're saying that a Board would say to  
23 the Department, your Rate Stabilization Fund  
24 has to be maintained at a hundred million and

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1 then the next sentence is well, we're going to  
2 raise the rates so you don't need to use it, so  
3 it's always going to be at --

4 MS. BROCKWAY: No. No. It would  
5 not be that. We're going to make sure that  
6 rates are enough that it will always be at a  
7 hundred, at least.

8 MS. KUMAR: Just one other point to  
9 make here. When you are saying that the 110  
10 million, we will have it at a hundred million.  
11 The only way that happens is really, from what  
12 you're suggesting, is to use the level of  
13 revenue increases needed in '17, let's say.

14 It's important to remember when you're making  
15 that change in '17, it has that compounding  
16 effect on each succeeding year. So that  
17 revenue -- that five percent -- say it's  
18 four-and-a-half percent. The next year '18  
19 that we are projecting is off of '17. So when  
20 you cut down half a percent on '17, it's going  
21 to have a compounding effect on '18 and each  
22 year is a compounding effect on each year.

23 MS. BROCKWAY: Why would it not be  
24 in each year a ten million dollar difference

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1 you're doing in the denominator, you're saying  
2 every year you want to reduce ten million. So  
3 the only way -- what we have projected, the  
4 revenue increases that we are trying to project  
5 to mitigate rate impact and the only way that  
6 can happen is in the first year you want to  
7 reduce 10 million, the next year you have to  
8 say I'll reduce it even more, from 10 to 12 and  
9 then 14 and 16. So you constantly have to  
10 change the Rate Stabilization balance. The two  
11 go in tandem.

12 It's not that I'm just -- keep the  
13 10 million reduction every year, but the very  
14 first year you say I'm going to reduce the  
15 revenue increases for the first year, that's  
16 compounding effect every year. Which means at  
17 some point down the road, the level of revenue  
18 increases you need has to start going up more  
19 than what we have been projecting.

20 MS. BROCKWAY: I'm absolutely not  
21 following this because it sounds as if it's --  
22 what's being driven -- what's driving this  
23 calculation of the need for the increase is  
24 some pre-thought percentage difference between

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1 from what the plan was? What is it -- what's  
2 the word?

3 MS. KUMAR: Compound.

4 MS. BROCKWAY: Yeah, why does the  
5 10 million compound?

6 MS. KUMAR: So for example -- all  
7 hypothetical, so please don't quote all these  
8 numbers. So let's say the five million dollars  
9 -- five percent rate increase and that you have  
10 to change it to a 4.8 percent and that's how  
11 you get the 10 million dollar reduction, let's  
12 say. Then the next year that what we are  
13 projecting and we have projected that we need  
14 to build on the five percent that we have  
15 projected. But now you're going to be building  
16 only on the 4.8 percent but you still want the  
17 same 10 million dollar reduction the next year,  
18 which means what we are projecting in the next  
19 year now, you have to increase that. So each  
20 year you have to keep increasing -- because  
21 what is happening is the very first year,  
22 revenue increases, let's say, from five percent  
23 to 4.8 percent. That point two percent is  
24 affecting every succeeding year. But what

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1 this year and next year. I still don't  
2 understand why you just don't take 10 million  
3 dollars off going forward.

4 MS. BUI: Let me see if I can  
5 restate what your intent is. Correct me if my  
6 understanding is incorrect. What you are  
7 proposing is that instead of in year one --  
8 hypothetical, instead of providing a revenue  
9 increase such that it allows us to have  
10 a 110-million-dollar target, you're proposing a  
11 one-time time change so it drops it to a  
12 hundred.

13 MS. BROCKWAY: One-time change?

14 MS. BUI: Well, I mean, instead of  
15 five percent, it would be four and a quarter or  
16 something. Whatever the number is. So at the  
17 end of the waterfall, you have a Rate  
18 Stabilization Fund that's at 100 million  
19 dollars. And you are suggesting that in your  
20 future years, that 100 million dollars would be  
21 maintained.

22 MS. BROCKWAY: Other than we have  
23 had some discussion about the need for  
24 inflation on the fund, but -- assuming no

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1 inflation on the fund.  
2 MS. BUI: Yeah, let's not  
3 complicate. What Prabha is pointing out is  
4 that in order to make sure, okay, that you're  
5 at -- let's forget inflation, that you're at  
6 that 100 million every single year, that would  
7 mean that you needed to have sufficient  
8 revenues coming in the door to meet your  
9 expenses so that you do not have to draw upon  
10 your Rate Stabilization and also make coverage.  
11 MS. BROCKWAY: But why would you  
12 have to draw more than -- why would you have to  
13 have revenues more than ten million dollars  
14 more?  
15 MS. BUI: It would be slightly more  
16 than the ten because you would have to make  
17 sure that you need -- that you're meeting  
18 coverage. The ten million that you have right  
19 now, that you want to decrease, it's probably  
20 not ten because that assumes already that --  
21 your balance to start with, right?  
22 MS. CLUPPER: Because you're using  
23 19 and 30 million already for the draw. So  
24 there's already a structural deficit in the

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1 operating currently. They bake that in. So  
2 there's 19 this year, 30 million the next year.  
3 And if you don't use the Rate Stabilization  
4 Fund, now you could have a 40-million-dollar  
5 structural deficit. Now you can't touch your  
6 Rate Stabilization Fund. So the idea is to get  
7 out of this structural deficit situation so  
8 that the Department charges rates sufficient to  
9 cover operating and the debt. And that when  
10 that debt increases, that's only going to  
11 increase, which is another reason you want to  
12 increase the amount of debt that you're  
13 borrowing, so that in 20 years from now you  
14 don't have a situation where you have to charge  
15 1.2 times coverage -- well, I don't want to do  
16 the math, but it doesn't work.  
17 MS. BUI: I think Kathy's point is  
18 right on. If we do not have a situation where  
19 the Department was in a structural deficit  
20 every year, then what you're proposing could  
21 theoretically work out. But unfortunately we  
22 do have a structural deficit, so there are  
23 drawdowns on the Rate Stabilization Fund.  
24 MS. BROCKWAY: I'm not getting the

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1 math, other than the observation that costs  
2 will go up in the future.  
3 MS. CLUPPER: If you're using 19  
4 million as in the model to -- from the Rate  
5 Stabilization Fund, that means you have -- you  
6 don't have 19 million dollars in your  
7 operating. That's where you're using it. So  
8 that's a structural deficit.  
9 MS. BROCKWAY: I understand and I  
10 understand that structural deficits are bad.  
11 But what I don't understand is why the  
12 structural deficit explodes if you start ten  
13 million dollars lower.  
14 MR. JAGT: You're setting rates in  
15 the one year -- to achieve revenues to reduce  
16 Rate Stabilization by 10 million. So in order  
17 to do that, your revenues don't meet your  
18 revenue requirements by that 10 million  
19 dollars. So the next year it's the same  
20 situation, the rates you set will come up 10  
21 million dollars short. So the only way to  
22 counter that and leave the, you know -- you  
23 know, end up not using it anymore is you would  
24 have to push up the rates to have that 10

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1 million dollars back in.  
2 MS. BROCKWAY: Yeah. And that's  
3 what I was assuming that -- and that's because  
4 costs go up.  
5 MR. JAGT: Yeah. I mean, it's  
6 compounded by the fact. So if you're making  
7 large withdraws from Rate Stabilization already  
8 and you add more to it, that just of -- you  
9 either need big reductions in cost or the  
10 increases in the revenues -- to, like,  
11 neutralize it to stop the draws.  
12 MR. BRUNWASSER: If you had no  
13 inflation though, you know, if you had zero  
14 inflation for the next two years, if that was  
15 the projection, you know, your thing would work  
16 out. Drop --  
17 MR. JAGT: Well, you would still  
18 have --  
19 MS. CLUPPER: Every year you have  
20 200 some million dollars --  
21 MR. BRUNWASSER: Yeah. Yeah.  
22 Yeah. But I'm saying as far as --  
23 MR. JAGT: But even if you had no  
24 inflation because you set up the first year to

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1 under recover 10 million dollars, you would  
2 still have to bump up the rates the next year  
3 and year two to make sure you capture that 10  
4 million, otherwise the Rate Stabilization will  
5 continue to decrease by 10 million dollars a  
6 year.  
7 MS. BROCKWAY: Yeah. And I agree.  
8 I just don't understand -- I think we're  
9 talking at cross purposes. Because -- you may  
10 want to brief this.  
11 MS. BUI: I was going to say, I  
12 think that would be easier.  
13 MS. BROCKWAY: Any questions?  
14 MR. BALLENGER: No.  
15 MS. BROCKWAY: Anymore questions?  
16 Anymore redirect? Thank you very much, Panel.  
17 It's been an education.  
18 MR. DASENT: We have Mr. Palladino,  
19 if you just give us a moment to make the  
20 transition.  
21 MS. BROCKWAY: Yes.  
22 (Pause.)  
23 MS. BROCKWAY: We have the  
24 testimony of James Palladino for the Department

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1 and mercifully, your testimony is fairly short,  
2 and we will try to keep your time in that chair  
3 fairly short today.  
4 Mr. Dasent, do you want to --  
5 MR. DASENT: Yes. We marked for  
6 identification Mr. Palladino's statement five  
7 yesterday and we're proffering him as our  
8 witness today. Obviously we have a panel here,  
9 so if he needs assistance, we are here.  
10 MS. BROCKWAY: All right then.  
11 MR. DASENT: Thank you.  
12 MR. BALLENGER: Good afternoon, Mr.  
13 Palladino.  
14 MR. PALLADINO: Good afternoon.  
15 MR. BALLENGER: I really wanted to  
16 focus on Exhibit JP-2 of your testimony for a  
17 couple minutes. And I have reproduced that in  
18 PA hearing Exhibit-1. But I believe he may  
19 need the exhibit because there's another page  
20 that follows it. I asked Mr. Dasent to loan  
21 you his copy of the exhibit.  
22 So you state on page one of your  
23 testimony that one of your purposes was to  
24 provide a comparison of rates, is that correct?

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1 MR. PALLADINO: Yes, it is.  
2 MR. BALLENGER: Looking at Exhibit  
3 JP-2, I think you have done just that, you have  
4 given us a comparison of rates and charges  
5 between the Department and the number of other  
6 cities?  
7 MR. PALLADINO: Yes.  
8 MR. BALLENGER: And I just want to  
9 make sure I understand, on your chart  
10 Philadelphia, you showed the current average  
11 usage at 7159 per month, but that reflects the  
12 first stepped increase that's being requested  
13 in this case, am I right?  
14 MR. PALLADINO: That's correct.  
15 MR. BALLENGER: And I'm on page 20  
16 of Public Advocate Exhibit-1, which is  
17 reproduced from Mr. Palladino's testimony, but  
18 we'll also look at page 21 in just a moment.  
19 I notice, Mr. Palladino -- and the  
20 reason I notice this is that I grew up in  
21 Louisville, so my eyes were immediately drawn  
22 to the footnotes where you reference a couple  
23 of other utilities, and none -- I just want to  
24 make sure none of those -- you're not using any

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1 of those utilities as comparison utilities for  
2 purposes of your chart?  
3 MS. LABUDA: It's Melissa LaBuda.  
4 May I speak, please? So in this chart, we  
5 inadvertently left the City of Louisville as a  
6 footnote and did not -- I'm sorry, City of St.  
7 Louis and we did not include it.  
8 MS. BROCKWAY: St. Louis or  
9 Louisville?  
10 MR. BALLENGER: Both.  
11 MR. PALLADINO: Both. Both.  
12 MR. BALLENGER: As well as, I  
13 believe, New Orleans and San Antonio, is that  
14 correct?  
15 MS. LABUDA: It's an error on our  
16 part. We didn't update the footnotes. I  
17 apologize.  
18 MR. BALLENGER: Okay. So just --  
19 MS. BROCKWAY: Excuse me. Update  
20 the footnotes. Do you mean update the chart?  
21 MS. LABUDA: No, I think we would  
22 update the footnotes. We would remove the  
23 footnotes if we were to provide an updated  
24 Exhibit JP-2 with references to cities that are

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1 not important portrayed graphically at the top.  
2 MS. BROCKWAY: With reference or  
3 without reference? I'm not following.  
4 MS. LABUDA: Sure. So JP-2 has  
5 footnotes for a few cities that aren't  
6 portrayed in the graph under comparable monthly  
7 water, wastewater and stormwater rates. To  
8 update JP-2 properly, I would remove the  
9 footnotes and not change the list of cities  
10 that are portrayed in the graphic at the top.  
11 MS. BROCKWAY: I don't think you  
12 need to refile it. I think we understand that  
13 the footnotes --  
14 MR. BALLENGER: No, it's okay.  
15 MS. BROCKWAY: Excuse me, the  
16 footnotes are not to be considered part of the  
17 analysis?  
18 MS. LABUDA: Correct.  
19 MR. BALLENGER: Fair enough. Thank  
20 you.  
21 MS. BROCKWAY: So this would be  
22 footnotes two and three which refer to  
23 Louisville and St. Louis?  
24 MR. DASENT: Yes.

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1 MR. BALLENGER: I believe, Madam  
2 Hearing Officer, it would also refer to the  
3 reference in footnote one to New Orleans and  
4 San Antonio.  
5 MS. LABUDA: That is correct.  
6 MS. BROCKWAY: All right. Maybe it  
7 would be easier, Andre, if you would be so kind  
8 as to file a revised JP-2 which takes out Ms.  
9 LaBuda's changes.  
10 MR. DASENT: Will do.  
11 MS. LABUDA: Happy to.  
12 MR. BALLENGER: And I guess based  
13 on the discussion here, you and the Department  
14 collaborated to put together this exhibit, is  
15 that fair?  
16 MR. PALLADINO: That's correct.  
17 MR. BALLENGER: Okay. Just would  
18 like to turn to the next page in the exhibit  
19 and just -- I just wanted to ask a couple of  
20 questions here on this exhibit. This is page  
21 21 of --  
22 MS. BROCKWAY: Mr. Palladino?  
23 MR. BALLENGER: Public Advocate  
24 hearing -- I did front and back here, so it's

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1 this one. Philadelphia compares favorably --  
2 MR. PALLADINO: Yes.  
3 MR. BALLENGER: -- nationally.  
4 That's the title of -- I think that's probably  
5 true in a number of ways. I just -- I notice  
6 that in this presentation, would you agree that  
7 Philadelphia has been placed sort of between  
8 Indianapolis and Baltimore in terms of its  
9 comparators there?  
10 MR. PALLADINO: Yes, sir.  
11 MR. BALLENGER: And that placement  
12 would not then reflect the first year of rate  
13 increase, because if that were factored in, the  
14 rate would be 7159, as opposed to 6743?  
15 MR. DASENT: Subject to check.  
16 MR. BALLENGER: Okay. And looking  
17 at this -- and just sort of comparing back and  
18 forth between your exhibit and the exhibit the  
19 Department has included here, and I believe  
20 this was the presentation to the Board on  
21 February 22nd. Do you also notice that  
22 Portland, Oregon was added to page 21 and was  
23 not included in your comparison?  
24 MS. LABUDA: That is -- may I

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1 answer, Jim? Melissa LaBuda. Yes, that is  
2 correct. Because in the page that's not here  
3 in this packet, we added Portland, Oregon on a  
4 separate breakout which demonstrated  
5 stormwater. So to normalize peers between what  
6 was on the stormwater table and what was on the  
7 broader national comparison, we did, in fact,  
8 add Portland to the table that's on page 21 of  
9 43 of Public Advocate Exhibit-1.  
10 MR. BALLENGER: And then, Ms.  
11 LaBuda or Mr. Palladino, wouldn't it also be  
12 true that you added Norfolk, Virginia and  
13 Detroit to the page -- what I'm showing is page  
14 21? Those are not included in JP-2? They are  
15 included in the presentation that was given to  
16 the Board?  
17 MS. LABUDA: That is correct, for  
18 the same reasons.  
19 MR. BALLENGER: Okay.  
20 MS. LABUDA: For stormwater.  
21 MR. BALLENGER: And just to be  
22 clear, the City of Cleveland appears in neither  
23 of these two presentations, isn't that correct?  
24 MR. PALLADINO: Yes.

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1 MR. BALLENGER: Okay. Thank you.  
2 That's all I have. Short and sweet. That's  
3 actually all I have. If Mr. Delaney or Mr.  
4 Helbing has anything, I appeal to them, and of  
5 course to our Hearing Officer and the Board.  
6 MS. BROCKWAY: Thank you. Do any  
7 other parties have any questions?  
8 MR. DELANEY: I have no questions.  
9 MR. HELBING: No.  
10 MS. BROCKWAY: Any redirect?  
11 MR. DASENT: Nothing more.  
12 MS. BROCKWAY: Nothing more. Thank  
13 you. Thank you very much, Mr. Palladino. You  
14 are excused.  
15 MR. PALLADINO: Thank you.  
16 MS. BROCKWAY: So we're done for  
17 the day. Go off the record.  
18 (Discussion held off the record.)  
19 MS. BROCKWAY: Tomorrow morning we  
20 start with our public hearing at the City  
21 Council chambers at 8:30. We will be out of  
22 there by 10:00 and come back to the Gas  
23 Commission room where we were yesterday and  
24 start as soon as we can all collect. And we'll

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1 start with Mr. Morgan and when we have finished  
2 Mr. Morgan, we will turn to the stormwater  
3 witnesses. Anything else? Seeing none, thank  
4 you very much. We're off the record.  
5 (Hearing adjourned 1:45 p.m.)  
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1 CERTIFICATION  
2  
3 I hereby certify that the  
4 proceedings, evidence and objections noted, are  
5 contained fully and accurately in the notes  
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