

**BEFORE THE PHILADELPHIA WATER, SEWER AND STORM WATER
RATE BOARD**

In the Matter of a Proposed Rate Increase in :
Water, Sewer and Storm Water Rates : **FY 2019-2021 Rates**

**Public Advocate's Interrogatories & Requests for Production of Documents
Set IV**

- PA-IV-1. Referring to PWD Statement No. 2, page 4, lines 10 and 11, The Company states that it has reduced debt and other costs where it is possible to do so. Please identify the specific debt and other costs that PWD has reduced.
- PA-IV-2. Referring to PWD Statement No. 2, page 4, lines 20 and 21, please identify the “unavoidable increases in workforce costs” and the related amount experienced by PWD.
- PA-IV-3. Referring to PWD Statement No. 2, page 4, lines 20 and 21, please identify the costs related to the specific “long-term control plan projects, permits and regulations” experienced by PWD.
- PA-IV-4. Referring to PWD Statement No. 2, page 5, lines 15 through 23, please explain the net effect on PWD that result from the change in the use of capital funds to purchase certain types of vehicles. Wouldn't the operating costs increase by the same amount as the capital costs, resulting in no net change to PWD? Please fully explain your response.
- PA-IV-5. Please provide the average monthly consumption for general service customer consumption in PWD's service territory for 2013 through 2017.
- PA-IV-6. Referring to PWD Statement No. 2, page 7, lines 14 through 19, there is no mention of PWD's efforts to reduce operational costs. Is it fair to say that PWD did not implement any programs or initiatives specifically designed to reduce operational costs?

- a. If there were such programs, please identify each initiative, the targeted savings and the actual savings achieved.
- b. If there were no such programs, please explain why.

PA-IV-7. Please explain how the annual savings resulting from the refinanced debt discussed on lines 6 through 13 of PWD Statement No.2, page 8 have been reflected in the cost of service.

PA-IV-8. Referring to PWD Statement No. 2, page 16, lines 9 through 24,

- a. Please provide the supporting document for the statement that “Fitch stated that difficulty in achieving timely and sufficient rate recovery would likely prompt negative rating action”.
- b. Please provide the supporting document for the statement that “Moody’s Investor Service identified a relatively untested rate board as a credit challenge, and listed failure to increase rates commensurate with coverage requirements, material reductions in debt service requirements, and notable deterioration in cash and liquidity as factors that could lead to a downgrade”.
- c. Please provide the supporting document for the statement that “Standard & Poor’s Rating Service viewed the sizeable capital improvement plan combined with the high debt-to-capitalization ratio as credit weaknesses and stated that it could lower its rating or revise the outlook to negative if financial metrics deteriorate or if a significant amount of additional capital spending is added to the capital improvement plan”.

PA-IV-9. Referring to PWD Statement No. 2, page 17, lines 16 and 17, please provide the supporting document for the claim that PWD has relatively low coverage ratios compared to its peers.

- PA-IV-10. Referring to PWD Statement No. 2, page 18, lines 10 and 11 please provide the supporting documentation for the claim that rating agency reports have emphasized the need for PWD to improve its coverage.
- PA-IV-11. PWD Statement No. 2, page 21, lines 12 and 15, states: “[i]f the Department’s revenues exceed projections, the Department should use the excess revenues to grow coverage beyond the stated minimums to improve the cash funding and the Board’s decision should enable the Department to grow coverage if this occurs”. Would PWD be willing to forgo a scheduled rate increase in that year?
- PA-IV-12. Regarding Schedule ML-2, Financial Plan, FY2017 Preliminary Expense Summary, please explain in detail the following variances between projected and actual expense:
- a. Electricity and Gas: -22.7%;
 - b. Chemicals: -18.2%;
 - c. Indemnities: +21.8%; and
 - d. General Fund Reimbursement: +41.6%.
- PA-IV-13. Regarding PWD Statement No. 9A, page 9A-35, annual escalation factors for labor costs:
- PA-IV-14. Please provide a table detailing the annual escalation factors for labor costs by fiscal year;
- PA-IV-15. Please provide the source pages (not a reference) from the City’s Five Year Financial and Strategic Plan for FY 2018 through FY 2022 (Five-Year Plan), which detail the annual escalation factors for labor.

- PA-IV-16. Regarding PWD Statement No. 9A, page 9A-35, please provide the projection (not a reference) of Pensions, Pension Obligation, and Benefits based on the City's Five-Year Plan.
- PA-IV-17. Regarding PWD Statement No. 9A, page 9A-35, please provide detail of the additional staffing during the study period as anticipated by the Water Department.
- PA-IV-18. Regarding PWD Statement No. 9A, page 9A-35, please provide a detailed schedule (not a reference) showing pension, pension obligation, and benefits, which are directly related to personal services expenses, which were estimated based upon current levels of such expenses and the growth rate reflected in the City's 5-Year Plan.
- PA-IV-19. Regarding PWD Statement No. 9A, page 9A-36, please explain in detail why an annual escalation factor of two and a half percent (2.5%) for FY 2019 and three percent (3.0%) for FY 2020 through 2023 are used to project personnel budget costs.
- PA-IV-20. Regarding PWD Statement No. 9A, page 9A-36, Per City policy, please provide a schedule detailing a calculation (shifting) of \$12.5 Million from capital to operating expenditures reflecting, that effective FY 2017, fringes for personnel associated with the capital program can no longer be funded via capital financing.
- PA-IV-21. Regarding PWD Statement No. 9A, page 9A-36, Power Costs:
- a. Please provide details of the estimates provided by the City Energy Office, which resulted in no escalation applied for FY 2019 and FY 2020; and
 - b. Please provide detailed workpapers supporting the assumption by Black & Veatch for an annual escalation of three percent (3%) for FY 2021 through FY 2023.
- PA-IV-22. Regarding PWD Statement No. 9A, page 9A-36, Chemical Costs:

- a. Please provide detailed workpapers supporting an increase by 6.8% in FY2019 and 3.7% in FY 2020, based on the Water Department's expectations for these costs; and
- b. Please provide detailed workpapers supporting the annual escalation of one percent (1%) used to project costs for FY 2021 through FY 2023.

PA-IV-23. Regarding PWD Statement No. 9A, page 9A-36, SMIP/GARP Costs, please provide detailed support for the assumption that the Water Department expects to provide an annual grant amount of \$25.0 million during FY 2019 through FY 2023 towards the Stormwater Management Incentive Program (SMIP) and Greened Acres Retrofit Program (GARP).

PA-IV-24. Regarding PWD Statement No. 9A, page 9A-37, Indemnities, please provide detailed support for the statement that, per discussions with the Water Department, no escalation in indemnities is expected during FY 2019 and FY 2023, and hence the annual expenditure is projected to remain at \$5.6 Million.

PA-IV-25. Regarding PWD Statement No. 9A, page 9A-38, capital improvement program:

- a. Please provide detailed support for the annual inflation allowance of two and one-half percent (2.5%) that has been applied to the CIP costs beginning with FY 2019, with the exception of Engineering and Administration which already reflects inflation.
- b. Please provide detailed copies of Black & Veatch's review of industry cost indices including the ENR Construction Cost Index and the Handy-Whitman Construction Cost Index upon which the inflation allowance is based.

PA-IV-26. Regarding PWD Statement No. 9A, page 9A-38, please provide a detailed calculation of the cash flow adjustment indicated in Line 9 of Table W-3 and Line 10 of Table WW-3 which represents the unspent encumbrances that do not become a cash expenditure until a subsequent year.

- PA-IV-27. Regarding PWD Statement No. 9A, page 9A-38, please provide a detailed calculation supporting the statement that, in addition to funding capital construction costs, the bond issuance proceeds are also used to fund required deposits into the Debt Reserve Fund and pay the costs of bond issuance. The annual Debt Reserve Fund balance must equal the maximum future annual debt service estimated for the outstanding and proposed bonds.
- PA-IV-28. Regarding PWD Statement No. 9A, Table W-4, Projected Flow of Funds- Capital Improvement Fund, please provide detailed calculation supporting:
- a. Line 8, Capital Account Deposit;
 - b. Line 10, Transfer from Residual Fund; and
 - c. Line 11, Interest Income on Construction Fund.
- PA-IV-29. Regarding PWD Statement No. 9A, page 9A-39 and Table W 5, Projected Debt Service, please provide detailed support for the utilization of an annual interest rate of 5.50 percent for FY2019; 5.75 percent for FY 2020; and 6.25 percent for each of the bond issues proposed during FY 2021 through FY 2023.
- PA-IV-30. Regarding PWD Statement No. 9A, page 9A-40 and Table W 5, Projected Debt Service Line 11, please provide detailed support for the applicable revenue bond debt service on PennVest Loans allocable to the water and wastewater utilities.
- PA-IV-31. Regarding PWD Statement No. 9A, pages 9A-40 through 41, please provide detailed workpapers supporting the Interest Earnings Payment (see Table C-1, Deposit for Transfer to City General Fund, line 32).

- PA-IV-32. Regarding PWD Statement No. 9A, page 9A-42, please provide support for that statement that the rate of capital spending during FY 2010 through FY 2016 is 1.62 times that of the capital spending during FY2004 through FY 2009.
- PA-IV-33. Regarding PWD Statement No. 9A, Table C-1, Projected Revenue and Revenue Requirements, please provide a similar table for fiscal years FY2003-2006.
- PA-IV-34. Regarding PWD Statement No. 9A, Table C-2, Combined Utility: Projected Rate Stabilization Fund and Covenants Metrics Performance, please provide a similar table for fiscal years FY2003-2006.
- PA-IV-35. Regarding the reply to PA-ADV-11, please state which of the organizations represent PWD.
- PA-IV-36. Regarding the reply to PA-ADV-14, “Bringdown”, please explain in detail the following variances between the Board Decision and Actuals for FY2016:
- a. Division of Technology-Purchase of Services: -\$3,209,000
 - b. Water-Personal Services: -\$4,803,000
 - c. Water Purchase of Services: -\$6,684,000
 - d. Water-Materials Supplies & Equipment: -\$2,540,000
- PA-IV-37. Regarding the reply to PA-ADV-14, “Bringdown”, please explain in detail the following variances between the Board Decision and Actuals for FY2017:
- a. Division of Technology-Purchase of Services: -\$1,022,000
 - b. Water-Personal Services: -\$5,167,000
 - c. Water Purchase of Services: -\$2,089,000

- d. Water-Materials Supplies & Equipment: -\$3,617,000
- e. Finance: Personal Services-Fringe Benefits: +\$8,843,000

PA-IV-38. Regarding the reply to PA-ADV-17, please explain in detail the following variances for capital program expenditures between the Rate Case Projection and Capital Project Expenses:

- a. FY2016: -\$63,857,199
- b. FY2017: -\$42,249,953

PA-IV-39. With reference to PWD Statement No.3, page 2, please provide a workpaper similar to the chart on line 16 through 22 with actual data for 2013 through 2017.

PA-IV-40. PWD Statement No.3, page 6, lines 3 and 4 states that 438 miles of mains have been replaced. Is there specific amount of mains being targeted? If so, how many miles are there remaining to be replaced, and over what report does PWD intend to replace these mains.