WATER, SEWER AND STORM WATER RATE
TECHNICAL HEARING
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Monday, May 14, 2018
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TECHNICAL HEARING, taken at 1515 Arch Street, 18th Floor, Philadelphia, Pennsylvania 19102, commencing at 10:05 a.m. on the above date before Donna O'Connor, Professional Reporter and Notary Public.

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PROCEEDINGS

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MS. BROCKWAY: Good morning, everybody. My name is Nancy Brockway. We're here for the continuation of the rate case for the proposal of Philadelphia Water Department for fiscal years 2019 through 2021. And we have on the bench myself, Nancy Brockway, hearing officer. We have the chair of the Board, Sonny Popowsky, and Board member Tony Ewing.

We have not been taking appearances, but I understand that there's an additional attorney who would like to be introduced.

MR. BALLENGER: Thank you, Madam Hearing Officer. This is Robert Ballenger for the Public Advocate. And Ms. Joline Price was with me last week, and she is traveling this week. So I would like to allow my co-counsel to enter his appearance on the record.

MR. BERTOCCI: Philip Bertocci for the Public Advocate.

MS. BROCKWAY: Thank you.

MS. BROCKWAY: Before the hearing we had a discussion about the schedule for the next couple of days. I could try to reconstruct it or Mr. Dasent or Mr. Ballenger could set it out for us.

MR. DASENT: Yes. As far as today's schedule is concerned, we were going to start with Black & Veatch's panel to speak about the various issues mentioned in their rebuttal testimony and it dealt with revenue projections, revenue requirement and projection, rate model and the overall proposal for the rate case.

It will overlap also with some subject matters. Rob may want to address with argument or testimony. But that's the morning and as far as it goes. And Rob indicated he had cross-examination that may extend through today and maybe even into tomorrow.

Tomorrow we have the second panel that will be available. We will call them, your Honor. And that would include PWD, specifically Erica Williams, Valerie Allen, Kathy Clupper from PFM, Peter Nissen from Acacia Financial, Ms. LaBuda from the department and Steve Furtek from the department. But that will be the second panel. And we may have to defer some questions to them if the subject matter, for example Smith and Garp comes up in the morning. When they're in the room that will be the best time to address that issue, but they will be in the room.

MS. BROCKWAY: I do have a couple of questions about Smith and Garp, but it has to do program design.

MR. DASENT: And I think tomorrow will be a great time to talk about that when Erin and Kate testify.

MS. BROCKWAY: Okay. Then on Wednesday I understand that there has been a stipulation to stand on the pretrial written materials on the cost of service allegation and rate design; is that correct?

MR. DASENT: But we both waive cross-examination on that matter, and it's mutual on that subject matter. And as a consequence, unless the Board has a question, we'll probably have a gap in the schedule. Unless Mr. Morgan's cross, redirect goes a little longer.

MS. BROCKWAY: Mr. Delaney, is that satisfactory to you?

MR. DELANEY: Yes. It's fine.

MS. BROCKWAY: And then on Thursday we were -- we have two environmental groups, right?

MR. DASANT: Well, Penn Environment, and Stephanie Green is the witness, and she will be prepared on Thursday. And can shoot an email to make sure she knows it's not Friday, it's Thursday. And she indicated earlier she would be flexible. Land Bank also theoretically would present testimony on Thursday, although the department does not have questions of them, and I'm not sure that the Public Advocate does either. So it would be unless, again, if the Board has a question on Land Bank issues.

MS. BROCKWAY: I've had a number of emails from Mr. Skiendzielewski, who is a pro se participant, and he has asked for an opportunity to give an opening statement and a closing statement and to cross-examine. It's not entirely clear yet who he wants to cross-examine, although as to the attorney he wants to cross-examine so far is nameless. I had told him that's not what's done. I basically told him, no, he couldn't do an opening or closing statement and no, he couldn't cross-examine an attorney who is representing the City. But since then it has been brought to my attention that we have a lot of time on Thursday. And for that reason, I'm inclined to write back to him and say that he may come on Thursday, and he may make an opening statement and he may cross-examine, I think in this case, Commissioner McCarty would be the best person, because she's been involved in these lateral issues. And he may make a closing statement. We can't take all day with it, but -- is that satisfactory to others if we spend some time doing that?

MR. DASENT: As long as he understands no one else can make an opening statement.

MS. BROCKWAY: Oh, I told him this.

MR. DASENT: Because I thought he was interested in our custom and the norm. And if no one else made one, it might help him. But if he wants to make an opening statement and it's short, I don't think we have a problem.

MS. BROCKWAY: You should have confidence that I have been working closely with Mr. Skiendzielewski on subjects of processes.

MR. BALLENGER: We would, of course, have no objection with your ruling on that, Madam Hearing Officer. If you would like him to come and have an opportunity on the record, we would voice no concern about that.

MS. BROCKWAY: He would like to come, and I'm happy to accommodate it if it doesn't disrupt the ordinary business of the technical hearings.

Any other preliminary matters? All right.

MS. DASENT: We will have an errata sheet to introduce during the course of the morning. And we want to mark for identification and authenticate by stipulation the various statements of the Water Department, including the direct and rebuttal testimony so that that's out of the way. We've marked every other statement, except the panel that we will present today.

MS. BROCKWAY: Yes. Please go ahead.

MR. DASENT: With your permission, we would like to mark for identification PWD statement number two. This is the testimony of Melissa LaBuda. PWD statement number three Stephen J. Furtek. PWD statement number four, Donna Swartz. PWD six of Erin Williams, who will be present in the room tomorrow. PWD rebuttal statement, one of Black & Veatch, Erin Williams and David Katz. That's marked. PWD statement number two of Valerie Allen, Ballard Spahr, Felton Financial Management, Acacia Financial, Melissa LaBuda and Stephen Furtek. And I think there's one final one on that date -- gave rebuttal testimony of Black & Veatch Management Consulting, PWD rebuttal statement, number three.

As we have proceeded in the beginning of the case, your Honor, we would like to authenticate those statements subject to one errata sheet, which we're going to hand out for Black & Veatch.

MS. BROCKWAY: I'm not familiar enough with Pennsylvania trial practice to know what it means to authenticate. Is there any objection to authenticating those documents?

MR. BALLENGER: No, Madam Hearing Officer.

MS. BROCKWAY: They are so

authenticated.

MR. DASENT: I mentioned and I may have misspoken when I said PWD statement number two. That's her direct testimony of Melissa LaBuda. But in addition to that we have rebuttal statements one, two and three, which I'm hopeful I stated correctly for the court reporter. With that -- and let me hand up an errata sheet for the rebuttal testimony statement number five.

MS. BROCKWAY: We're off of the record.

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(Whereupon, a discussion was held off the record.)

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MR. DASENT: This errata relates to some of the testimony you'll hear today concerning collection factors. And when we get to that point in the record, the witnesses certainly can explain all of its significance. But the way I look at it is the rate model uses a correct number, and it's 96.54. And the narrative and the testimony misstated that number as 97.3, and it should be 96.54. And when we get to that point in the record Ms. Kumar and the other witnesses can explain at length any significance.

MS. BROCKWAY: I'm likely to want to have a tutorial on collection factors. We had one on Friday, but what is still unclear to me is what the relationship should be between historic collection factors that have melded into collection factors and projected collection factors. And also whether or not the ones from TAP and the ones from revenue are the same.

Actually, I'm answering my own question in my head, but I want to get clear on the relationship between TAP collection factors for the TAP revenue requirement and collection factors for the revenue requirements generally.

MR. DASENT: And Black & Veatch can speak to that.

MR. BALLENGER: And I believe Mr. Colton has spoken to that, and his testimony stands on the basis of his opinion.

MS. BROCKWAY yes. Thank you.

MR. DASENT: With that as sort of preliminary housekeeping and the authentication by stipulation of the various statements I've marked for identification and the errata sheet, the witnesses are available for cross-examination examination.

MR. BALLENGER: Before we go into cross-examination, I wonder, Madam Hearing Officer, if it would be appropriate to go ahead and authenticate Mr. Morgan's testimony as well as identify one errata on the record today for which we do not have an errata sheet. And then also given our discussion of potential waiver of cross, I wonder if we can reach a similar stipulation as to the authentication of Mr. Mierzwa's statement, which was Public Advocate statement number two, which again was served on all parties on April 20th and placed on the record in this proceeding.

So starting with Public Advocate statement number one, this identifies the direct testimony of Lafayette King Morgan, Jr. Again, served on April 20th, 2018 on all of the parties and hearing officer and entered on the record in case. And I would submit that for inclusion on the record and by stipulation to its authenticity, if that's okay with Mr. Dasent.

MR. DASENT: No objection.

MS. BROCKWAY: Any objection

from any other -- no.

MR. BALLENGER: And we do have one errata. It's just a typo.

MS. BROCKWAY: Is that in Mr. Morgan's testimony?

MR. BALLENGER: Yes, in Mr. Morgan's testimony. So the typographical error appears on page 12 in lines one through three.

MS. BROCKWAY: Let us get to page 12. All right.

MR. BALLENGER: Okay. And the sentence states, The chart shows that over the six-year period, 2012 through 2017, revenues have been overstated by a total of 68.576 million and expense overstated by a total of 73.336 million. And on line two, it should, in fact, say that revenues have been understated by a total of 68.576 million.

MS. BROCKWAY: Again, I'm not sure what the practice is elsewhere, but it seems to me that since there is a transcript of this session, that the correction has been made on the record. I don't see a need to file an additional piece of paper.

MR. DASENT: Agreed.

MR. BALLENGER: Thank you, Madam Hearing Officer. And then also just to circle back to Mr. Mierzwa's testimony, which was also served on April 20, 2018 to all of the participants in this proceeding, as well as the hearing officer was marked as Public Advocate statement number two. I would like to go ahead and move that onto the record and stipulate to its authenticity, if there's no objection.

MS. BROCKWAY: I think that was already done.

MR. BALLENGER: Okay. I wasn't sure if there is a specific opportunity for any objection.

MR. DASENT: No objection.

MR. BALLENGER: Thank you.

MS. BROCKWAY: Retroactively.

MR. BALLENGER: Thank you.

MS. BROCKWAY: All right. If there is nothing else, I think it's time to cross-examine the panel, Mr. Ballenger.

MR. BALLENGER: I had hoped that someone from the Water Department with some historical experience and views regarding the fire hydrant system would be available. I didn't know if perhaps anyone was here. Perhaps Mr. Furtek might be able to answer a couple of basic questions about it, or hold those until Ms. McCarty is available.

MR. DASENT: Hold it for Ms. McCarty.

MR. BALLENGER: Okay. So for this panel, I want to focus first on the City's proposal to shift fire protection costs from the tax base to the rate base and just ask the panel to confirm that that's an -- before we start with the panel, just continuing what we did last week. I would like to ask that one member of the panel be the person to answer the questions. And if they feel as though they cannot answer them and need someone else on the panel to please let me know before we just start handing the microphone around, because it gets a little confusing on the record.

MS. BROCKWAY: I'm not sure that today that will be a good way of going.

MR. BALLENGER: Okay.

MS. BROCKWAY: Because I think there's different expertise. And think the person on the panel with the most expertise should answer, unless you don't really need the whole panel and you just want one person.

MR. DASENT: No. Prabha can direct traffic. She's very good in

terms of which witness is best
prepared.

MS. BROCKWAY: Off of the record.

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(Whereupon, a discussion was held off the record.)

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CROSS-EXAMINATION

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BY MR. BALLENGER:

Q. So getting back to the shift of fire protection costs, Ms. Kumar, hopefully you can confirm for me that that's a new proposal in this rate case? That's never something that the city has considered in the past?

MS. KUMAR: From my understanding, but Mr. Jagt can confirm.

Q. The proposal to recover fire protection costs through customer rates and charges is a new proposal in this case; is that correct?

MR. JAGT: Through retail

rates and charges. That's correct.

MR. BALLENGER: Through retail rates and charges. Thank you for the clarification.

BY MR. BALLENGER:

Q. So for decades the practice has been to recover those costs through general tax revenues; isn't that correct?

MR. JAGT: Well, the way we showed it in the -- excuse me. The way it was reflected in the cost of service analysis is that it shows up as a service charge through the City, which the City paid for.

Q. Okay. The City paid for those costs, however it paid for them.

MR. JAGT: Correct.

Q. So I don't know if you have a copy of the M1 Manual handy, but I wanted to just refer to some of the language in the M1 Manual, and specifically I'm going to start on page 161 of the most recent version. This would be I believe the 2017 version, the 7th edition. About midway down the page there it states that --

MR. DASENT: Hold on one second. We have to find it.

MR. BALLENGER: I'm sorry.

MS. BROCKWAY: Page again?

MR. BALLENGER: Page 161.

MR. MERRITT: Rob, you said page 161?

MR. BALLENGER: Yeah, page 161, under the heading Public versus Private Fire Protection.

MR. DASENT: Any particular line?

MR. BALLENGER: I'm actually going to start on the second sentence of the first paragraph under Public versus Private Fire Protection. Are you there?

MR. DASENT: Yes.

BY MR. BALLENGER:

Q. And the language I'm looking at states, "Public fire protection service is provided to all customers on a community-wide basis through fire hydrants located throughout the water system." Do you agree that that's the case in Philadelphia?

MR. JAGT: For public fire protection.

Q. It goes on to state in the next sentence, "Usually the fire hydrants are owned by the utility located on public rights of way and available for use primarily by fire departments or other authorized parties for the purpose of extinguishing fires."

Do you agree that's also the case in Philadelphia?

MR. JAGT: Subject to check with the department.

Q. Okay. It also states, "Hydrants may be used for system purposes, such as flushing or testing." And I would assume that that's also correct in Philadelphia.

MR. JAGT: Again, subject to check.

Q. Okay. And turning back to page 158 of the M1 Manual. If you turn back in the middle of the page that begins "Previous editions of this manual." Do you see that paragraph?

MR. JAGT: Yes, correct.

Q. The second sentence states, "The cost associated with public fire protection has typically been charged to a municipal government where it's recovered through the (inaudible) or property tax system and perhaps other tax sources, e.g. sale tax." Do you see that sentence there?

MR. JAGT: Yes.

Q. "While the approach" -- "While that approach is still a common and generally accepted practice, limitations on property taxes have caused municipalities to seek different cost recovery methods that do not burden the general fund." Am I reading that correctly?

(Mr. Jagt nods head.)

Q. If you wouldn't mind confirming for the record.

MR. JAGT: That's correct.

Q. And the next sentence is actually one that I want to talk about a little bit more. It states, "An alternative and contemporary approach develops fire protection costs that can be passed on directly to customers through charges based on the respective demands for fire and flow by user class or to individual retail customers." Do you see that sentence as well?

MR. JAGT: That is correct.

Q. Okay. When the AWWA M1 Manual refers to something as a "contemporary approach," am I correct in assuming that it's referring to the time period in which this version of AWWA M1 A. Manual was published?

MS. BUI: No. Specifically speaking to that chapter, since I was actually part of the review --

Q. You can use the microphone.

MS. BUI: You can't hear me?

Q. I can hear you, but I want to make sure that everyone can hear you.

MS. BROCKWAY: Off of the record.

* * *

(Whereupon, a discussion was held off the record.)

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MS. BUI: So as I was

saying, in this particular addition
that chapter had minor reviews. And,
in fact, the upcoming edition of M1,
which will be released in about three
and a half years or, those words, type
of words, are going to be stricken,
because it is somewhat confusing.
BY MR. BALLENGER:
Q. Okay. So --
MS. BROCKWAY: It's being --
MS. BUI: Contemporaneous.
BY MR. BALLENGER:
Q. So it uses some words, "alternative"
and "contemporary," and I was asking about
contemporary.
MS. BUI: Contemporary,
correct.
Q. So, Ms. Bui --
MS. BUI: Yes.
Q. -- at approximately what point in time
would you say that "contemporary approach"
became widely acceptable for purposes of the M1
manual?
MS. BUI: For the purposes

of the M1 Manual, that particular text has not been revised since the 2004 edition. I believe it's been quite a while.

Q. So when it refers to "contemporary" it's maybe referring to approximately 2000, 2004?

MS. BUI: Correct, roughly.

MR. BALLENGER: Okay. I would like to introduce an exhibit at this point, please.

MS. BROCKWAY: We need two here.

MR. BALLENGER: I confess, Madam Hearing Officer, in preparing for today I was not sure exactly where we were in the exhibit number list. My recollection was at the end of Friday we tried to introduce Exhibit Six, and that was left undesignated but was put on the record. And we were going to revisit that exhibit at some point today. So I would be happy to accept your guidance as to what number we should use.

MS. BROCKWAY: We've been back on the record since Mr. Ballenger started talking. You're referring to the answers to PA Exhibit Roman ten dash one through five?

MR. BALLENGER: No.

MS. BROCKWAY: That is what I recall as what was going to be marked.

MR. BALLENGER: That was entered on the record. It was an exhibit.

MS. BROCKWAY: My apologies. That was hearing Exhibit-5.

MR. BALLENGER: Correct. The one that I was referring to that I think was left undesignated was an exhibit with a memorandum with the subject line that counsel reviewed their agenda, and we put that forward as Exhibit-6. And I think it was perhaps put on the record, but not designated.

MR. DASENT: It was withdrawn on Friday, and we were going to refer to it --

MR. BALLENGER: Okay. So it's not. That's fine. Because we have it here, and I know it was distributed on Friday. When we get to it, we'll give that one the appropriate designation.

MS. BROCKWAY: May I note, on the cover it says, "Not cross Colton. More for revenue witnesses. Take up next week."

MR. BALLENGER: Okay. So we'll pick up today Six for purposes of the exhibit that was just distributed.

MS. BROCKWAY: So I'm striking my manual reference to Exhibit-6 for that document that I just referred -- that we've been referring to. And if it gets admitted, it will get another number.

And meanwhile six is going to go to that.

MR. BALLENGER: Thank you. So what I have is a hearing exhibit that I would like to designate as hearing Exhibit-6 on behalf of the Public Advocate. And it should be dated at the bottom May 14, 2018.

MS. BROCKWAY: Could you describe it for the record.

MR. BALLENGER: Sure. The first page of this exhibit consists of some pages taken from Philadelphia ordinances. And the first page has two pages of the ordinances which are number 256 and 257. And it continues to have a couple pages on the ordinances.

MS. BROCKWAY: Those were page numbers?

MR. BALLENGER: Yes. They are page numbers from the bound versions of the Philadelphia ordinances. But unfortunately, and I apologize, this hearing exhibit itself is not numbered. About five pages in there's an article from a local news publication that's titled, "Think you can't park there? Take a closer look at that Philly fire hydrant."

That article is dated August 24, 2017, and that consists of approximately seven pages. And I would just like to, if I may, start with the ordinance itself.

And if I can ask the witnesses to please turn to the page that is numbered 263. This page provides the approval date of the ordinance. And do you see there that it states that the ordinance was approved the 18th day of April A.D. 1957?

MR. DASENT: Before witness responds, what ordinance are you talking about? It seems that the record needs to know.

MR. BALLENGER: Sure. I'm

sorry. This is titled, An ordinance to amend chapters 13-100 and 13-200 of the Philadelphia code pertaining to water rates and sewer rates by prescribing standards upon which the Water Department regulates rates and the charges for supplying water and sewage disposal services.

MS. BROCKWAY: And that language appears in the exhibit on page 257 of the copied text.

MR. BALLENGER: Thank you. And so I would just ask the witness to confirm that on page 263 this ordinance indicates that it was approved on the 18th day of April A.D. 1957.

MS. BROCKWAY: We're off of the record.

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(Whereupon, a discussion was held off the record.)

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BY MR. BALLENGER:

Q. So in this ordinance I would like you to take a look at the language starting on page 258 under the heading Chapter 13-100 Water Rates, under the subheading for section 13-101 Standards. Do you see that the language there is put in brackets?

MS. KUMAR: Yes.

Q. And would you accept that that indicated -- that was language that existed prior to the passage of this ordinance as being removed through the passage of this ordinance?

MS. BROCKWAY: You don't have to answer that type of question. Why don't you just say it. And if Mr. Dasent has an objection -- because they're not testifying as lawyers, as legislative text writers.

MR. BALLENGER: Okay. Fair enough.

Q. My understanding is that the bracket language is old, and the italicized language is newly introduced language. I would like to draw your attention, please, to the bracket language. It shows that at the time in 1957 when this ordinance was passed the last -- the second to the last sentence indicates that rates were determined in -- the quote says, "Less the cost of supplying water to city facilities and fire systems." Do you see that language?

MS. KUMAR: Mr. Ballenger, could you explain which exact line you're referring to.

Q. Sure.

MS. KUMAR: So I know line numbers. I just want to make sure.

Q. Yes. In the bracket language there is a sentence that begins "Such." It says, "Such rates shall yield not more than --" Do you see that sentence?

MS. KUMAR: Yes.

Q. And then that sentence concludes with the language "less the cost of supplying water to City facilities and fire systems," does it not?

MS. KUMAR: Yes.

Q. Okay. And then if we look at new language of the ordinance that was introduced in 1957 on the next page, on page 259 in paragraph

2b. Do you also see that that language continues and is repeated in that paragraph where it states, "the rates and charges." And then at the end of the sentence it says, "Less the cost of supplying water to City facilities and fire systems." Isn't that correct?

MS. KUMAR: Correct.

Q. Okay. All right. And are you aware that the Philadelphia code includes that language today? It continues to include that language, "less the cost of supplying water to City facilities and fire systems"?

MS. KUMAR: We can opine on that. We have a document in front of us.

Q. Okay. But you would agree that based on this language that the standard for whether or not rates and charges should include the cost of supplying water to city facilities and fire systems has not changed since sometime prior to 1957?

MS. BROCKWAY: I don't think she can tell that from the document, but I think that counsel can stipulate.

MR. BALLENGER: Okay.

MS. BROCKWAY: Would counsel stipulate?

MR. DASENT: Truthfully, I don't know what changes happened along the way. I have not researched the point. But certainly as of 1957 the language says what it does.

MS. BROCKWAY: I would also say, it seems to me that as of 2018 I recall that exact phrase in the now operative ordinance.

MR. BALLENGER: We do have a copy of the ordinance in a another exhibit for later today. We can take notice of that at that point in time. And I think that's sufficient. I think my only other questions on fire -- public fire protection charges would be probably better directed to the Water Department.

MR. BALLENGER: I'm sorry, I didn't realize Ms. McCarty was with us. Can we take out those questions before we move on?

MR. DASENT: It seems like it would be a little more organized if we did the panel first.

MS. BROCKWAY: Let's go off of the record.

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(Whereupon, a discussion was held off the record.)

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MR. DASENT: My concerns concerning use of an article as a part of cross-examination when I hear the question, and I'm sure we give great weight to Philly.com News. They're a credible organization. But it doesn't mean that everything factually stated in the article is true.

But Ms. McCarty may be able to straighten out any discrepancies. But she would need to read the article first. And I'd ask that that opportunity be provided and that we proceed with Black and Veatch.

MS. BROCKWAY: We should do it that way. She needs an opportunity to read the article. So we'll continue with Black & Veatch cross.

MR. BALLENGER: Okay. Thank you

BY MR. BALLENGER:

Q. I would like to just understand and perhaps start with a basic understanding of the impact of the proposed changes in rates and charges and just speak a little bit about what a customer may anticipate if the rate request is approved as filed. So I'm not taking into account any of the stipulations.

Under the current rates and charges a residential customer who uses five ccfs of water per month would be billed $66.50; is that correct?

MS. BROCKWAY: Could you specify on the record whether we're talking just water or --

MR. BALLENGER: This is a combined bill for a typical

residential customer using five ccfs
of water per month.
MS. KUMAR: Could you just give us a second to get our documents?
MR. BALLENGER: Sure.
MS. KUMAR: Thank you.
MR. JAGT: Can you repeat the question?
MR. BALLENGER: Absolutely, happy to. Under the current rates that are now in effect, a residential customer using five ccfs of water per month would be billed $66.50; is that correct?
MR. JAGT: Correct. For 5/8 inch meter?
MR. BALLENGER: Yes.
MR. JAGT: On a monthly basis.
MR. BALLENGER: Yes. For purposes of my questions, they're only a couple. If we could just assume 5/8 inch residential, I think it would

make things easier.

MS. BROCKWAY: People can find that information in the summary fact sheet, which is attached to Ms. LaBuda's testimony, PWD Exhibit-2.

BY MR. BALLENGER:

Q. Now, if that customer's usage doubles under the current rates, and that residential customer uses ten ccfs of water per month, I would be incorrect in doubling the monthly bill to determine how much that customer would pay? I wouldn't take $66.50 and multiply it by two, would I, Mr. Jagt?

MR. JAGT: No, that's not the correct way.

Q. And, in fact, because a portion of the bill, which is currently $28.73 per month, represents the customer charge, the service charge and the storm water charge; is that correct?

MR. JAGT: Subject to check for the service amount. But, yes, there is a service charge component that would not double if the consumption is increased.

Q. And the storm water would not double either?

MR. JAGT: That is correct.

Q. Okay. Would you agree, perhaps subject to check, that a current customer using ten ccfs would receive a bill that is $104.28, give or take a dollar or two?

MR. DASENT: It would help if you explained how you calculated that.

MR. BALLENGER: Sure. I think we can -- I'm not sure it's helpful to do that in real time.

MS. BROCKWAY: It would help me.

MR. BALLENGER: Okay. The way I could calculate that would be take $66.50 and subtract $28.73, which gives us $37.77. Which I then divide by five to get $7.55 per ccf of consumption.

MR. DASENT: I'm trying to

follow you. $66.50 minus -- what was
that amount?
MR. BALLENGER: $28.73.
MR. DASENT: And what is the
source of that number?
MR. BALLENGER: That is the
combined service and storm water
charge. And actually if you look at
the bill impact sheet, that is the
amount that's shown for zero ccfs of
consumption.
MR. DASENT: And then
that represents --
MR. BALLENGER: The result
represents the amount of the biometric
charges for five ccfs of consumption
in one month.
MS. BROCKWAY: Let's stop
here for a minute, but we're still on
the record. All I have in front of me
is the summary fact sheet. Can you
help me find the document that you're
referring to?
MR. BALLENGER: I'm just

referring to math. Unfortunately using the -- using the summary document, I believe, has the zero ccf for consumption per month.

MS. BROCKWAY: I don't see it.

MR. BALLENGER: It was in --

MS. BROCKWAY: This is just a summary fact sheet, that I'm holding. So I don't have in front of me the other summary.

MR. BALLENGER: There is a --

MS. BROCKWAY: Go off of the record.

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(Whereupon, a discussion was held off the record.)

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MS. BROCKWAY: Can you identify the page for the record again, Mr. Ballenger.

MR. BALLENGER: Sure. I'm looking at table C4 of schedule BV-E1, which is included in TW Exhibit 9A.

MS. BROCKWAY: Okay. I'm at table M2. Which direction should I go?

MR. BALLENGER: Up.

MS. KUMAR: If you go to the -- right at the end of her testimony. If you just go to the front, yeah. Just where the narrative ends and then...

MS. BROCKWAY: Off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

MS. KUMAR: It's Table C-4 of schedule BV-B1. And the title should say, Combined utility compared to typical bills for residential customers under existing and proposed rates.

BY MR. BALLENGER:

Q. Okay. And just to be clear, this is

the source of some of my numbers here. So it shows that customer that uses zero mcfs per month or zero ccfs per month regardless would be charged $28.73 in that month; is that correct?

MS. KUMAR: Under existing rates.

Q. Under existing rates, absolutely. Thank you.

MS. BROCKWAY: That was going to be my question. Because you read -- in your mathematics you used existing fixed charges, not the proposed fixed charges.

MR. BALLENGER: That's correct.

BY MR. BALLENGER:

Q. And so we talked about what a customer using five ccfs per month would be billed. And on this table I don't see the answer to the question of what a customer using one mcf of water per month would be billed. But I am able to calculate the difference between using .7 mcf and .8 mcf, and that difference appears to be $7.55. Is that correct?

MS. KUMAR: That is correct.

Q. Okay. And so if I assume that a customer using ten ccfs or one mcf would pay $15.10 more per month for the customer using .8 mcfs. Would I be in the right ballpark?

MR. BROCKWAY: Are you talking existing or proposal?

MR. BALLENGER: Existing rates. We're just under existing rates at this point.

MS. KUMAR: Subject to check, yes. We'll have to run the numbers, but it would be the same tier, the tier block.

BY MR. BALLENGER:

Q. Okay. And if I add that $15.10 to the $89.16 bill under curb rates for a customer using .8 mcfs per month, I would conclude that that customer would pay $104.26 per month under existing rates, if they use 10 ccfs; is that correct?

MS. KUMAR: Subject to check.

MR. BALLENGER: Subject to check. Thank you. That's perfect.

MS. BROCKWAY: Mr. Ballenger, I'm sorry to ask you. But can you repeat those numbers that were just agreed to.

MR. BALLENGER: Yes, I can, Madam Hearing Officer. A customer using .8 mcfs in this table, would pay $89.16 per month. If that customer used .2 more mcfs for a total of one mcf an additional $15.10 would be added to the bill for a total of 104.26. And that is all subject to check.

MS. KUMAR: That's correct.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. All right. At the end of the rate period if the rates are approved as filed, a customer using .5 mcfs per month would be charged $73.79, if I'm reading this paper correctly; is that correct?

MS. KUMAR: When you said

the end of the rate period, we assume
that you're referring to fiscal year
2021?
Q. Yes. After September, the month of
September of fiscal year 2021.
MS. KUMAR: That is
correct.
Q. Okay. And there again -- I can
calculate what the customer would be billed if
they used ten ccfs of water. And I could do
that by determining the difference between .7
and.8 mcfs. Which if I do that calculation, I
take $88.42 minus $90.21, and I come up with
$8.21 per ccf. Is that correct?
MS. KUMAR: Subject to
check, correct.
Q. Okay. And so if I then double that to
reflect two ccfs, instead of one ccf, I would
have a total of $16.42 of additional charges,
which I could then add to the .8 mcf bill of
$98.42. And my result would be $114.84. Is
that correct, subject to check?
MS. KUMAR: Subject to check,
$114.00 plus.

Q. Okay. Thank you. Now, why don't we turn to your rebuttal. I would like to start on page two. I'm going to start at line 12.

MS. BROCKWAY: We're talking rebuttal statement?

MR. BALLENGER: This is rebuttal statement number one.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. On page 12 of the rebuttal statement, you say PWD sets rates on a cash basis using fully projected future test years. You go on, on line 13, to say, "As such fiscal year 2021 represents a fully projected test year. This fiscal year 2021 period is not 'purely speculative.'" Do you see that language?

Do you see where I am in the rebuttal statement?

MS. BROCKWAY: What page are you on?

MR. BALLENGER: I'm on page two.

MS. KUMAR: Yes. And if necessary, I will turn it over to view

at the proper time.
BY MR. BALLENGER:
Q. Okay. Thank you. Do you agree that -- your testimony here references fiscal year 2021. Do you also agree that fiscal years 2019 and fiscal year 2020 of your request are fully projected test years?
MS. KUMAR: That is correct.
Q. Okay. And further down on this page, lines 17 through 19, you state, "The Pennsylvania Public Utility Commission" -- then in parentheticals you have "Pennsylvania PUC," closed parenthetical, Allows for multi-year rate requests." Do you see that language?
MS. KUMAR: That is correct.
Q. Okay. And what are you referring to when you say, The Pennsylvania Public Utility Commission allows for multi-year rate requests? Are you referring to any particular cases that you're aware of?
MS. KUMAR: Not specifically

one particular case, but a general statement that they can make multi-year requests.

Q. Are you by any chance referring to any such Pennsylvania Utility code for that proposition?

MS. KUMAR: Not any specific section of the code.

MR. BALLENGER: Okay. I would like to go ahead and introduce another exhibit at this time. And this is a lengthy exhibit, which I have taken the time to number the pages.

MS. BROCKWAY: Off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

MR. BALLENGER: Thank you. So what was just distributed I would like to mark as hearing Exhibit-7 on behalf of the Public Advocate and move for its inclusion on the record.

MS. BROCKWAY: Any objection?

MR. DASENT: No objection.

MS. BROCKWAY: It is included.

BY MR. BALLENGER:

Q. And this exhibit consists of a cover page and 57 numbered pages, for ease of navigation. I would just like to start at the beginning here and show what's -- or discuss what's shown here.

On page one of 57 I've included section 315 of the Public Utility code and this -- this is a provision of the Public Utility code that governs the ability of the utility to utilize a future test year or a fully projected future test year in section E of section 315 of the Public Utility code. I'm turning to page two. What we have is an advance notice of proposed rule making order. And you'll see that this is dated as the public meeting held on December 21st, 2017. Do you see that -- do you see where I am, Ms. Kumar? We're on page two of

57.

MS. KUMAR: Could you repeat that, please.

Q. What I'm saying is that this is an advance notice of proposed rule making order, and it was issued at a public meeting held on December 21, 2017, as shown on page two. Do you see that?

MS. KUMAR: Yes.

Q. Okay. So just in examining the first sentence under the heading it says, "By the commission. This advance notice of proposed rule making identifies proposed procedures and following requirements for use a fully projected test year by eligible utilities and base rate cases." Do you see where I am there?

MS. KUMAR: Yes.

Q. And do you see the end of the paragraph it also states in the same paragraph on page two, "The commission has jurisdiction to employ the concept of a fully projected test year, as authorized by Act 11 of 2012, which amended section 315 of the Public Utility code"?

MS. KUMAR: Yes.

Q. Okay. And the preceding page was, in fact, section three of the Public Utility code; is that correct? Page one of this exhibit.

MS. KUMAR: Correct.

Q. Okay. So on page three of the exhibit, if you'll just look at the next page under the heading "Background."

MS. BROCKWAY: Before we go further, can you give us the current status of this nopr?

MR. BALLENGER: Yes, Madam Hearing Officer. This is the most recent item on the docket, I believe.

MS. BROCKWAY: So the commission has not even propagated regulations?

MR. BALLENGER: That's correct.

MS. BROCKWAY: Thank you.

MR. BALLENGER: To the best of my knowledge at this moment.

BY MR. BALLENGER:

Q. So I'm on the next page. I'm on page

three of 57.

MS. KUMAR: Yes.

Q. Okay. And the middle of that first paragraph there's a sentence that states, "A new Exhibit E is contemplated for applicability to utilities to use a FPFTY," which stands for fully projected future test year. Do you see that?

MS. KUMAR: Right.

Q. So let's just turn to page six. I'm sorry. Yes, page six of this exhibit. And there is a paragraph on that page that begins with the word "thus." Do you see where I am?

MS. KUMAR: Yes.

BY MR. BALLENGER:

Q. Okay. And in the middle of that paragraph there's a sentence that begins "By statute." Do you see where I am there?

MS. KUMAR: Yes.

Q. Okay. That sentence states, By statute, "fully projected future test year" is defined as the 12 month period beginning with the first month that the new rates will be placed in effect after the application -- sorry, after application of the full suspension period permitted under section 1308 (d) relating to voluntary changes in rates." Do you see that sentence?

MS. KUMAR: Yes.

Q. And if we can just turn to page 15 of the exhibit -- if you look first at page 14 of the exhibit, you'll see in the middle of the page it identifies the language that follows as the language of Exhibit-E. Do you see that?

MS. KUMAR: Yes.

Q. Okay. And then on page 15 there are some definitions that are, I think, helpful. You'll see the definition of the term: "Fully projected future test year." Do you see that?

MS. BROCKWAY: What page?

MR. BALLENGER: Page 15 of hearing Exhibit-7.

MS. BROCKWAY: So --

MR. BALLENGER: The number I'm referring to is in the bottom right-hand corner. It's 15 of 57.

MS. BROCKWAY: This is the text of the proposed Exhibit-E that was circulated for comment?

MR. BALLENGER: Yes, Madam Hearing Officer.

BY MR. BALLENGER:

Q. And it provides certain definitions on page 15. Do you see a definition of a fully projected future test year?

MS. KUMAR: Yes.

Q. Okay. And below that you also see a definition of future test year; do you not?

MS. KUMAR: Yes.

BY MR. BALLENGER:

Q. Okay. And below that, of course, is the definition of historic test year as well. Do you see that?

MS. KUMAR: Yes.

Q. Okay. And without reading this text on the record, you would agree that each of these definitions only refers to one 12-month period; is that correct?

MS. KUMAR: Correct.

Q. Okay. And, Ms. Kumar, I recognize you're not a lawyer. Isn't that correct?

MS. KUMAR: Yes. I'm not an

attorney.

Q. Okay. Did you rely on the advice of counsel for the purposes of this section of your testimony regarding the use of multi-year rates at the PUC?

MS. KUMAR: No.

Q. Okay. Are you familiar with any case in which the PUC has approved a multi-year rate request?

MS. BROCKWAY: We have others on the team who want to answer, so let's let them answer.

MS. BUI: So, Mr. Ballenger, I'm sorry. Could you repeat that question?

MR. BALLENGER: Yes.

Q. Are you aware of any PUC rate decision that approved a multi-year rate request?

MS. BUI: Off of the top of my head -- well, subject to check, no.

Q. Okay. Just to be sure, I would like to ask for a transcript request, that you please identify any decision by the PUC approving a multi-year rate request within the last decade.

MS. BROCKWAY: I've got that as number ten, request ten -- I'm corrected. It's 11.

MR. BALLENGER: Yes, it is 11. Thank you.

BY MR. BALLENGER:

Q. Okay. Are we ready to continue? So I would like to turn to page five of your rebuttal statement. And here, I believe, in response to Q and A six you're stating your opinion that it is acceptable as a practice and standard rate making principles to use a multi-year rate process. Is that your testimony?

MS. BUI: Yes, it is.

Q. Okay. And requesting this case from the department is for three successive annual rate increases; isn't that correct?

MS. BUI: Yes.

Q. And the most recent past case that we were here, in 2016, the department's proposal was for two successive rate increases, was it not?

MS. BUI: Subject to check.

I can't recall off of the top of my head.

Q. And you recognize that Mr. Morgan's recommendation is to limit the rate to two years in this case?

MS. BUI: I'm aware.

Q. Further down on page five you state that -- I'm at line 15. You state adoption of only a two-year rate plan will severely limit PWD's ability to evaluate alternative rate structure options ahead of the next rate proceeding. Do you see that language?

MS. BUI: Yes.

Q. Okay. Do you happen to recall if the department made any statements in the last proceeding about an evaluating alternative rate structure option?

MS. BUI: I specifically do not recall that right now. But that has to be subject to check.

Q. Okay. So you don't recall, I believe, discussing the cost of a study to determine individual rates for different customer classes?

MS. BUI: Vaguely.
Q. Vaguely. Okay. The transcripts are out there on the report's website. I do recall a conversation that occurred, but I wanted to see if you recalled it.
MS. BROCKWAY: Just a second. Let's go off of the record.
* * *
(Whereupon, a discussion was held off the record.)
* * *
MS. BROCKWAY: I was asking whether anyone else on the panel recalled the discussion about cost of service studies that Mr. Ballenger is referencing from the 2016 case.
MS. KUMAR: We recall that it was discussed for an evaluation, but with time available it has not been evaluated yet.
MR. BALLENGER: Okay. Thank you.
BY MR. BALLENGER:
Q. I'd like to take a look at one portion

of your direct testimony statement, 9(a), if you have that handy. And I'm going to start at page 34.

MS. BROCKWAY: Give us quite a bit of time.

MR. BALLENGER: Certainly.

MS. KUMAR: Okay.

BY MR. BALLENGER:

Q. So on page 34, lines three through eight you state, "The water funds approved in fiscal year 2018 budget is used as the beginning base budget for the projections, for the operation and maintenance (O&M) expenses for fiscal year 2019 through fiscal year 2023." Do you see that language?

MS. KUMAR: Yes.

Q. It goes on to say, "First the fiscal year 2018 approved O&M budget is adjusted to reflect the actual to budget spending factors," correct? Is that what it states?

MS. KUMAR: That is correct.

Q. Thank you. Finally it says, These adjusted fiscal year 2018 O&M expenditures serve

as the basis for projecting O&M expenses for
fiscal 2019 through fiscal year 2023; is that
right?

MS. KUMAR: Correct.

Q. Okay. So in summarizing your
statement is it fair to say that the cost of
service that Black & Veatch developed is based
first on applying escalation factors to the
fiscal 2018 budget as adjusted based on spending
factors?

MS. KUMAR: I'm going to let
my colleague respond to that.

MR. JAGT: Correct, as noted
or shown in the work papers. There
are a few adjustments projected to O&M
expenses.

Q. Okay. And the City's fiscal year 2019
budget, that was released in March 2018. Does
that sound correct?

MR. JAGT: Subject to check,
yes.

Q. And budget proceedings are ongoing,
are they not? So that budget has not been
approved?

MR. JAGT: Correct.
Q. Okay. So when developing the budget for any particular fiscal year, does the City use the approach described here in your testimony of applying spending factors and then escalation factors?
MS. KUMAR: The department has a budgeting process. And this is specifically for multi-rate and financial plans. The department has its own specific budgeting process. If there's more detail on the actual budgeting process, I think it would be appropriate to direct them to the department.
Q. Okay. So just to be clear. This is the practice that is used in the rate model. But if there is a different practice used by the City that's -- for purposes of budgeting, that's something I should talk to the Water Department about?
MS. KUMAR: You specifically asked how the department developed the 2019 budget. It will be appropriate

to ask the department how they developed the 2019 budget.

MS. BROCKWAY: Again, I apologize for interrupting. But I was going to ask about this, because I am confused.

Let's start with page 34 at the top in answer 32. The text is describing the water funds approved fiscal 2018 budget. And I had missed it if in this colloquy we have identified which budget that is.

MS. KUMAR: Madam Hearing Officer, when we did the financial analysis, we started the financial analysis in early 2017. So at that time we had the 2018 approved budget. And since we started this in early 2017 we used the 2018 approved budget as the basis for projecting the O&M expenditures for 2019 through the 2023 financial planning period.

MS. BROCKWAY: Yes. I'm not being clear in my question. My

understanding is that there is a
five-year plan for the City -- that
there are at least three places, in my
recollection, that the term "budget"
has been used and could be what's
referred to here.

One of them is what has been approved internally by management of the department for their management purpose. One of them is what is included in the five-year plan and another might be different, is what's included in the budget that the mayor presents to the council. And I'm trying -- might be more. I'm trying to figure out which one of those is this, that we're talking about.

MR. JAGT: We used a final approved budget as a department.

MS. BROCKWAY: Approved by whom?

MR. JAGT: By City Council.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. So -- I'll wait a minute.

MR. JAGT: Just to clarify, when we use a budget, it's the budget for the City. We use the water funds budget as well as costs assigned to the water funds from other departments, which are identified in the budget.

MS. BROCKWAY: And vice versa the cost that the Water Department can collect from the departments?

MR. JAGT: Correct.

BY MR. BALLENGER:

Q. Thank you, Mr. Jagt. Because the fiscal year 2019 City budget is still in process, as we discussed, am I correct that that budget is not used in developing the cost of service in your model for fiscal 2019?

MR. JAGT: 2019 budget was not available when we started the analysis or even at the time when we completed the final cost of service.

MR. BALLENGER: Okay.

MS. BROCKWAY: I take that answer to be "yes," but -- I'm sorry, I'm jumping ahead.

MR. BALLENGER: I agree. I take that to be yes, too. Thank you.

BY MR. BALLENGER:

Q. So as we discussed, then, the cost of service model is based upon applying various escalation factors to be adjusted in the fiscal 2018 budget, right?

MR. JAGT: Correct.

Q. And it doesn't take into account any subsequent budgets during the rate period that may be approved by City Council; is that correct?

MR. JAGT: Can you restate your question?

Q. So the rate model does not take into account any changes due to subsequent budgets during the rate period that may be approved by council?

MR. JAGT: There are -- as I pointed out before, there are some O&M adjustments that are made, that have

been identified or anticipated to come
and -- or how it should be reflected
in this 2019 budget, but that's --
Q. Proposed 2019 budget?
MR. JAGT: Correct.
Q. Okay. So if I return to your rebuttal
statement -- I'm on page two, line 22. I plan
to get to page three today.
Are you with me on line 22 of page
two?
MS. KUMAR: Yes.
Q. Okay. The statement there reads, "The
majority of PWD's costs are known within reason
as the vast majority of operation and
maintenance (O&M) in an infrastructure
management where related capital gains are
already identified." Do you see that
statement?
MS. KUMAR: Yes.
Q. And as we've discussed the way your
model works, O&M expenses are first adjusted and
then projected?
MS. KUMAR: Correct.
Q. So is it fair to say that what you

mean there is that you've projected those
expenses using the methodology you described in
your direct testimony?
MS. KUMAR: That's why we
use the word "within reason."
Q. Okay. And you're not suggesting that
you've done some kind of separate evaluation
outside of your projection model to identify
future costs?
MS. KUMAR: Just for
clarification I want to explain this,
and my colleague may chime in on this
particular one. This is not a process
that happens in a vacuum. We are
using the 2018 budget to project for
2023. At the same time the department
is working on its 2019 budgeting
process. So if the department is
aware of any major changes or what we
call adjustments, that they are aware
of they're going into the 2019
process, they do communicate with us.
And so based on that, we then --
that's the adjustments we are

referencing. And we did the 2018 budget and for whatever we are aware of based on the department's input, then we make adjustments. And then, again, the adjustments (inaudible). It's a one time adjustment or it's a reoccurring adjustment, and we consider that. And then after the process then the escalation factors are applied to appropriate cost categories.

Q. And then approximately how many O&M adjustments are included in this budget?

MS. KUMAR: All of the adjustments that we have included in the financial plan analysis is actually discussed in the assumption document. If you give me a second, we will refer you to the document.

MS. BROCKWAY: Going off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

MS. KUMAR: The document is titled Revenue and Revenue Requirement Assumptions, Schedule BV-E5:WP-1. .

MS. BROCKWAY: Give us a minute to find this. Did you say B5 or E?

MS. KUMAR: It is schedule BV-E5:WP-1.

MS. BROCKWAY: Go off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

MS. BROCKWAY: Thank you for helping us find that material in this record.

BY MR. BALLENGER:

Q. And so Ms. Kumar, picking up on -- this referenced schedule BV-E5:WP-1. Should I be looking at page seven to determine those additional adjustments for projected operating expenses?

MS. KUMAR: That's correct.
The adjustments listed there.
Q. And there are five of them; is that correct?
MS. KUMAR: Correct.
Q. So aside from those five adjustments, all of the other operating and maintenance expenses are projected using the methodology described in your testimony?
MR. JAGT: Correct.
Q. Okay. And you stated earlier that you -- you work on this model at the same time the department is processing fiscal 2019 or putting together its fiscal 2019 budget; is that correct?
MS. KUMAR: Yes, depending on timing.
Q. Depending on the timing. Okay?
MS. BROCKWAY: Can you wait a second?
MR. BALLENGER: Sure.
MS. BROCKWAY: Would you repeat that last answer or --
MR. BALLENGER: I can repeat

the question. I'll make it slightly different.

BY MR. BALLENGER:

Q. I believe you stated, Ms. Kumar, that you work on the rate model and your projections and take into account the department's fiscal 2019 budgeting process at that time?

MS. KUMAR: Depending on when we do our projections for the O&M expenditures and the timing of when the department is projecting their -- developing their 2019 budget, yes. If it's running parallel, then we will consult the department.

Q. So if the department doesn't identify any additional adjustments for inclusion of the model, then you utilize the same general practice you describe on page -- I think it was 32 of your direct testimony -- 34 of your direct testimony to project operating payments, expense for the rate period?

MS. KUMAR: Yes. Other than the adjustments that I explicitly stated, we will use a process identified in our direct testimony.

Q. Okay. And just to make sure it's clear, you couldn't take into account any adjustments for the fiscal 2020 or fiscal 2021 budgets, other than those that were identified in the fiscal 2019 budgeting process; isn't that correct?

MS. KUMAR: If the department is aware that there are certain adjustments 2020 and that's what they anticipate and envision, then, yes, communicate that to us. We will consider that in our own expenditure projections.

Q. Okay.

MS. BROCKWAY: Off of the record again.

* * *

(Whereupon, a discussion was held off the record.)

* * *

BY MR. BALLENGER:

Q. Okay. And Mr. Dasent will be pleased. I would like to turn to page seven of your rebuttal. And on line eight you state, "As noted in the AWWA M1 Manual, a municipally owned utility that defines its own policies and/or best financial performance targets when developing revenue requirement projections for the test year periods." Do you see that statement?

MS. BUI: Yes, I do.

Q. Thank you. Okay. And this language refers to municipally owned utility. Should I read that to refer to PWD in this statement?

MS. BUI: Well, it does refer to it. Yes.

Q. But just to be clear, it's not your contention that the Board has to accept PWD's policy and financial performance targets, is it?

MS. BUI: That's up to the Board. I don't know.

MS. BROCKWAY: I couldn't hear that answer. I'm sure the reporter couldn't hear.

MS. BUI: Okay. I was going to say that's -- as to what the

Board's policies are and what's
required, I'm not totally familiar
with that. But no, that's not what
I'm saying.
BY MR. BALLENGER:
Q. So the Board could reject the department's policies and financial targets in this proceeding?
MS. BUI: That is within its purview, yes.
Q. And it could calculate future revenue requirements in some other fashion, as long as there is a record to support that development, correct?
MS. BUI: Yes.
Q. On page eight, lines one, two, three. Actually, one to four, you state in this context, "Section 13-101 of the City code fully contemplates that rates will be established for a prospective period (reasonable number of years) and can include an allowance for unforeseen expenditures." Do you see that language?
MS. BUI: I see that

language, yes.

Q. And in the exhibit -- this will be the most recent exhibit, which we marked as Exhibit-7. If I could direct you to page 22 of 57. You'll see here I've included a printout of chapter 13-100 of the Philadelphia code.

MS. BUI: Yes.

Q. Can you identify where in this language in the Philadelphia code you find that the code fully contemplates that rates will be established for a prospective period?

MS BUI: That particular statement within the rebuttal was provided by counsel. It was done by counsel, so...

Q. Okay.

MS. BUI: I would have to read all of this.

Q. Sure. Okay. Well, I may be able to help you. On section four on page 23 there is a heading that says "Standards for Rates and Charges." And if you go down to section 4(b) at the end of that paragraph is the following sentence, "Such rates and charges may provide for sufficient revenue to stabilize them over a reasonable number of years."

That appears to me to be the language that one would used to support the testimony. Would you agree with that?

MS. BUI: I --

MS. BROCKWAY: I think she can answer would she agree with that to a nonlawyer, that sounds like it would cover that. But I don't think that she can agree that that's the language or that that's the way to interpret it. She's not a lawyer.

MR. DASENT: Thank you.

MS. BROCKWAY: Does it generally sound like something that would allow future rates?

MS. BUI: Yes. In answer to the Hearing Officer's restatement.

BY MR. BALLENGER:

Q. Okay. And -- I was going to try not to shuffle papers today, but unfortunately I have to. I apologize.

So earlier we discussed hearing

Exhibit-6 of the Public Advocate, and I would just like to turn back to that briefly. And this is the ordinance that was introduced in 1957. The page that's numbered 259 in that ordinance --

MS. BROCKWAY: Excuse me. You're going much too fast.

MR. BALLENGER: I'm sorry.

MS. BROCKWAY: Please let us first find the document on the table, I've got at least ten piles, and I'm not really sure which one is Exhibit-6. But Chair Popowsky is, so I'm ready to go.

BY MR. BALLENGER:

Q. Okay. I just wanted to direct your attention to the paragraph on page 259 under the heading Standards for Rates and Charges. In paragraph B under that heading at the end of the paragraph it also states, "Such rates and charges may provide for sufficient revenue to stabilize them over a reasonable number of years." Do you see that language?

MS. BUI: I do see that.

Q. And that's the same language that we talked about that's currently in the Philadelphia code, correct?

MS. BUI: Yes.

Q. Okay. And I just wanted to then turn back to hearing Exhibit-7, which is the big exhibit. Like I said, I apologize for flipping pages with you here today.

MS. BROCKWAY: Let's go off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

BY MR. BALLENGER:

Q. So I would like to turn to page 26 of hearing Exhibit-7 on behalf of the Public Advocate. And this is a document that was provided in response to discovery. I believe this was in Advanced -- Public Advocate Advance Discovery Set Number.

MS. KUMAR: Are you talking about future water demand?

MR. BALLENGER: Yes. It's

titled Future Water Demand City of
Philadelphia.
MS. BROCKWAY: Please start
with the name of the document and then
point us to the page.
BY MR. BALLENGER:
Q. So on page 26 of 57, this document,
Future Water Demand - City of Philadelphia, you
see there's a date of November 1969. Do you
agree?
MS. BUI: Yes.
Q. And then on the following page, page
27 of the exhibit, under the heading Rate
Schedule, there's a discussion that begins right
in the middle of the page. And it states in the
last paragraph, second sentence, Experience
indicates that the department must raise its
rate about every four years in order to keep
abreast of inflation. Do you see where I am?
MS. BUI: Yes.
Q. So this raise allows the department to
operate with a surplus during the first two
years of the four-year period. While the last
two the department experiences deficit

spending. Do you see that?

MS. BUI: I do.

Q. Now, we're not condoning that approach in this case.

MR. BUI: We are not.

Q. And the Water Department and Black & Veatch are not also. But would you agree with me that this language envisions a single rate increase every four years?

MR. DASENT: Objection. This is completely irrelevant to this proceeding. And this document -- I've never met Mr. Baxter, but I have been around a very long time. And I don't see what relevance this has to anything. The price of water, the charges that we've made, we moved from quarterly to monthly. We've done a lot of changes this document was envisioned. And whatever underwent had nothing to do or no bearing with rate file.

MS. KUMAR: I agree, can you move on?

MR. BALLENGER: Well, if I may respond to the objection just momentarily. The testimony is the section 13-101 of the Philadelphia code supported the use of the multi-year rate setting period and revision that I believe the department is relying on. It's been in effect since 1957. This document postdates that 1957 ordinance.

MS. BROCKWAY: I see it postdates, but it was done by a Water Department completely under different leadership than is now and long enough ago that those costs and expenses probably don't even represent the full panoply of the types of costs and types of expenses. And I also think it's going to be in the record. You can brief it. Where are you going with this?

MR. BALLENGER: Going to my next question on examination. The only point that I was trying to make is that the same line which the department appears to be using to justify three successive years of increase was utilized by a prior commissioner to support a single rate increase.

MS. BROCKWAY: Okay. That's enough on that topic.

MR. BALLENGER: That was the point of that.

BY MR. BALLENGER:

Q. Ms. Bui, can you point to any indication in the Philadelphia code that the ordinance supports the use of three wholly projected years in any way differently than it would support the use of two wholly projected test years?

MS. BUI: I do not. I'm not familiar enough with the code to be able to do that.

Q. Okay. So I'm reading the section of your testimony as having been proffered on the advice of counsel?

MS. BUI: Correct.

MS. BROCKWAY: Which section are we at again?

MR. BALLENGER: We're still on page eight, beginning line one --

THE COURT: Thank you.

MR. BALLENGER: -- and carry through to line six.

BY MR. BALLENGER:

Q. I would like to talk a little bit about -- I'm going to turn the page on your rebuttal statement to page number ten under he heading Revenue Requirement Projection. And I don't know who will be responding, if it's Ms. Bui or Ms. Kumar.

MS. BUI: Ms. Kumar would be facilitating.

BY MR. BALLENGER:

Q. Okay. Ms. Kumar, I'm on page ten starting at line 13. And your statement reads, "Compliance with debt covenants and reserve policies are also important considerations, but are not the sole focus of the budget as Mr. Morgan erroneously claims."

Do you see that language?

MS. KUMAR: Yes.
Q. Do you have Mr. Morgan's testimony in front of you?
MS. KUMAR: Give me a second.
Q. Sure.
MS. KUMAR: Yes.
Q. Can you turn to page 11, please.
MS. KUMAR: Yes.
Q. Okay. And starting at line one, do you see that Mr. Morgan states in general a primary financial objective for PWD is to meet that service coverage ratios stated in the bond indentures? Do you see that statement?
MS. KUMAR: Yes.
Q. Can you direct me to anywhere in Mr. Morgan's testimony where he states that this is the single objective of PWD budgets? Meaning that service coverage ratios.
MS. KUMAR: If you would give me a second. I'll turn to another page. I need a few seconds.
Q. Okay. Sure.
MS. KUMAR: If you turn to

page 35.

Q. Okay.

MS. KUMAR: In line numbers 13, 15 and 15 Mr. Morgan states, I recommend that the Board should not approve higher rates and changes solely for the purpose of targeting debt service coverage in excess of the legally mandated coverage level of a 1.20 tax. That implies that the department is trying to set rates and charges solely for the purposes of targeting debt service coverage. And that's the reason we stated here that that's not the sole purpose for which the department is trying set rates and charges.

Q. But you would understand that coverage is only one of the factors to be taken into account in determining appropriate rates and charges, correct?

MS. KUMAR: That's what we're saying, the coverage -- debt service coverage is one of the factors, but

that's not the sole reason for which
higher rates and charges are being
requested.
Q. And when Mr. Morgan says that the Board should not approve higher rates and charges solely to achieve a higher coverage ratio, you're stating that he implies that that's the sole focus of this rate case?
MS. BROCKWAY: I think she's answered that, and I think people's implications about what other people had in mind are not particularly relevant.
BY MR. BALLENGER:
Q. Well, I think in addition in your rebuttal statement you talk about this being the sole focus of the budget. Would you agree with me that on page 35 Mr. Morgan is talking about the rate request and not the budget?
MS. KUMAR: The particular statement talks about rates and charges.
Q. Okay. So on page 11 of your rebuttal statement, I'd like to talk a little bit about

amortization. And on line 14 of your statement you say, "Amortizating on time only expenses for rate recovery is a frequent practice applicable to PUC regulations, utilities." You go on to say, However, within municipal rate making it's not usual for utilities to amortize one time only expenses. Generally because any tiny difference between paying for an actual expense and recovering for that expense may lead to a revenue shortfall. Do you see where I am in your rebuttal?

MS. KUMAR: Yes.

Q. So do you expect to have a revenue shortfall if the Board decided you should amortize rate cases, expense and TAP implementation expenses?

MS. KUMAR: Yes. Could you repeat the question, please?

Q. Does the department expect to have revenue shortfall if the Board requires the department to amortize rate case expense and TAP implementation expense?

MS. KUMAR: It could happen.

Q. In the first year of the rate period,

which would be fiscal 2019, which would be the
only year where there would be any impact --
well, that would be the first year of any impact
from the amortization. You're saying there
would be a shortfall, because of Mr. Morgan's
proposed amortization?

MS. KUMAR: Again, you're doing a financial plan for multiple years, 2019 through 2023. So just taking a cost such as the department expects to incur in one fiscal year and just amortizing that expenditure into multiple years -- we are saying that if that were to occur, and it could lead to a revenue shortfall. Because if the cost is going to be incurred in fiscal 2019, then the department has to make its payments for hose services in fiscal 2019, but those costs are arbitrarily amortized, all expenditures are amortized into the following year, then the department could face a revenue shortfall.

MS. BROCKWAY: When you're defining revenue shortfall, do the witness and the questioner both agree on whether or not the rate stabilization fund can be applied to avoid that?

MS. KUMAR: Again, depends on the financial situation at that point in time. It could be applied, but this was a specific question. This was in response to Mr. Morgan's recommendation that certain costs, which are an expenditure can be amortized to a budget for (inaudible). An example, sole example, that was given for that particular cost was a rate case expenditure. And the department knows what the rate case expenditure is. The rate case expenditures that they expect to incur in fiscal 2019 are something that they have to pay. Because they also know who they're going to get services from for that rate case expenditure. So they expect to incur the expenditure and pay for the expenditure in 2019.

So our position is you take that cost and you're saying to amortize over two years. That doesn't align with when they expect to incur the expenditure and how they're going to pay for the expenditure.

MS. BROCKWAY: I take your answer to mean that when we're considering this question, amortization, we should ignore the rate stabilization fund as a means of avoiding a shortfall no matter what's occurred.

MS. KUMAR: Right. The system that (inaudible) all of the expenditures that we project for 2019. And then to just take one expenditure, not all of those expenditures and then say this expenditure should be amortized over two years, that, we feel, is not reasonable, because there is a reason why that expenditure was budgeted for in the first place in that year. Because the department knows it will incur the expenditure. So we feel there's is no legitimate reason to amortize that.

MS. BROCKWAY: And Mr. Ballenger, when you were asking the question and referring to shortfall, were you using the same assumption with respect to the rate stabilization fund?

MR. BALLENGER: No. My assumption was that there were going to have to be layoffs if they amortized rate case expenses.

MS. BROCKWAY: In other words, they would use the rate stabilization fund, but that would not be sufficient?

MR. BALLENGER: I thought they were projecting an actual shortfall. You know, a covenant breech or some other default.

BY MR. BALLENGER:

Q. But you're not -- I think it's clear that's not what you're talking about. You're talking about just not having to spend down reserves to cover that portion?

MS. KUMAR: We are talking about if we understate revenue requirements and therefore we don't set rates and charges correctly and those revenue requirements happen in that year, the department could have a shortfall.

Q. And you agree that we're talking about the rate case expense that Mr. Morgan has identified the adjustment or schedule LK M2 of his direct testimony?

MS. KUMAR: Correct.

Q. And he shows that it's a downward adjustment of one million four hundred and 13 dollars and 80 cents. That's what he shows. I'm not asking you to verify the number. I'm just asking you whether that's what he shows there.

MS. KUMAR: Yes, this is 913. The page is not numbered, but it is 913 of LKM-2. It shows at line 13. It's a rate case with a reduction of 1.4 million in 2019 and a reduction of 1.4 million in 2020.

Q. Okay. And generally speaking if a nonrecurring cost is amortized based on the period between rate cases, as recommended by Mr. Morgan, wouldn't you agree that that nonrecurring cost would be recovered over the rate period? Would you agree with that?

MS. KUMAR: Could you repeat the question, please?

Q. Sure. If a nonrecurring cost is amortized over two years, as recommended by Mr. Morgan, isn't it true that PWD would recover that cost over two years? The cost has simply been spread across two years and would be recovered, correct?

MS. KUMAR: The question really is what nonrecurring cost we're talking about, because all nonrecurring costs are not equal.

Q. Okay. Just focusing on one nonrecurring cost. The rate case expense for fiscal 2019. If that expense is amortized across two years, would you agree that that expense would be recovered across those two years?

MS. KUMAR: Correct.

Q. And would you also agree that if that -- that not amortizing that cost results in the department recovering that cost twice if it is recovered both in fiscal 2019 and in physical 2020?

MS. KUMAR: No. This leads to an implicit assumption that that cost somehow, first of all, is nonrecurring. When we talk about rate case cost, the costs that are budgeted and projected for 2019 are the costs that are expected to be incurred in 2019. And then if there is a cost that is projected for 2020, that 2020 is the cost that we expect to incur for 2020.

Now, is it exactly for rate

case? It may not be exactly for rate
case. It is for services that the
same team of people that -- an example
of a rate case is the same people are
-- same group of consultants are
going to be providing services,
because they have already been
selected for multiple years to provide
services. Then the department knows
-- the department already plans for
whatever they're doing 2019 for --
because it will be the rate case. And
then after the rate cases the
department still has financial
services that the department will be
seeking from those entities. And so
in that sense it does not have a
nonrecurring cost. It is a cost that
is expected to incur 2019, 2020,
2021. And accordingly those costs are
projected in the rate -- in the
financial plan.

Q. So would you be able to tell me how
much rate case expense is projected for 2020?

MS. KUMAR: Again, it's not -- we are projecting off of the 18 numbers. And the rationale for projecting is that there are services the department will seek in 2019, 2020 and 2021 from -- from that entity. So that cost doesn't go away. So it's not like that cost is a nonrecurring cost. A nomenclature may not be exactly the case, but services are -- that they're going to occur in 2020, 2021.

Q. So it would not be rate case expenses, but it would be some other unidentified service that's not --

MS. KUMAR: It's financial services. Again, from historical experience, one year it is a rate case. The next year the same thing, the financial analysis for bond, fees and study. So it's a related service.

Q. But have you identified those costs for fiscal 2020 at this time, what those costs would be?

MS. KUMAR: The costs are identified on the basis of projection, based off of the 2018 figures.

Q. I guess that's where I'm having a little bit of misunderstanding. Because these costs were identified as rate cases. So that's how they were identified. So I'm trying to figure out how will they be identified in 2020.

MS. KUMAR: In 2020, again it's rate case and related services. If you look at the RVP of this year, it's called rate design and related services. So it could be a related service. And an example of a related service would be the financial plan update for bond issuance. So it's a related service. It wouldn't be called exactly a rate case. And so therefore it is projected off of 2018.

MS. BROCKWAY: Do we have the RFP in the record? I don't think --

MR. DASENT: I don't believe it is in the record.

MS. BROCKWAY: I don't think we need to have it formally in the record. But my understanding is that Philadelphia maintains City RFPs online, and so I will take notice of the RFP that we're discussing.

MR. BALLENGER: Okay.

MS. BROCKWAY: Are you about done, or can we pause?

MR. BALLENGER: Yes. But, I mean, I have more on nonoccuring expenses, but we can certainly come back to that.

MS. BROCKWAY: All right. We'll take our lunch break until 1:00.

* * *

(Whereupon, a short break was held.)

* * *

MS. BROCKWAY: We're about ready to go on the record, and we will go on the record.

BY MR. BALLENGER:

Q. Okay. I'm going to continue with rebuttal statement number one. And I would like to turn to page 13, line one in your rebuttal statement. It says, "Moreover, TAP implication costs are not complete and delaying full cost recovery for this important program may impact its success."

Here, again, we're talking about the amortization of one expense item; isn't that correct?

MS. KUMAR: Correct.

Q. Okay. And is it your testimony that the TAP implementation effort would be understaffed if this line item was amortized?

MS. KUMAR: It's again the costs -- it's why the department incurs the costs. Maybe the department can explain this more. Why does the department incur cost. The costs has to be paid that year by the department, because it uses services from outside entities. And the department cannot, you know, basically tell them, "We'll pay you next year."

They have to pay for the incurred (inaudible) to the department.

MS. BROCKWAY: This is getting duplicative. And we did bring Melissa LaBuda up for the purpose of shining some new light on it. So why don't we turn to her for an answer to the question?

MR. BALLENGER: I'm a little -- I was going to address that. This is someone who is not a sponsor to rebuttal testimony. I mean, I was examining the witness from this rebuttal testimony at this point.

MS. BROCKWAY: Do you expect to get the same answer for every question you're about to ask?

MR. BALLENGER: More or less. Okay. You understand this is -- we were examining the witnesses from the rebuttal statement, one, about these conclusions and specifically about whether amortization of the TAP implementation costs somehow cause the department to stop implementation of TAP, what appears what the statement was.

MS. BROCKWAY: Right. And I don't know that Ms. Kumar is in a position to talk about what operationally the department will do. And so I prefer that we get that information from a witness who might have it.

MR. DASENT: Thank you. Is there a question?

MS. LABUDA: Mr. Ballenger, would you please restate the question, please.

BY MR. BALLENGER:

Q. You're familiar with your colleague's rebuttal testimony, statement number one rebuttal, rebuttal statement number one.

What, in fact, would happen to TAP implementations if the cost of this one line item were amortized over two years as opposed to being funded fully in the first year and successive years?

MS. BROCKWAY: For rate making purposes?

Q. For rate making purposes.

MS. LABUDA: The TAP implementation cost.

MS. BROCKWAY: We can't hear.

MS. LABUDA: TAP implementation costs in the current fiscal year will eclipse the numbers before us today. And those costs are greater and are expected to continue throughout the life of the program. Specifically the requirement to have electronic applications and scanning of applications. Those services alone are three million dollars.

Q. Can you tell me, where did the requirement to have electronic applications come from?

MS. LABUDA: I don't have the document before me, so I would have to get back to you with where exactly it's stated. I can guess, but

I don't think that's prudent.

MR. BALLENGER: I'll just ask for a transcript request. Identifying the course of requirement that it have electronic applications for TAP.

MS. BROCKWAY: I'm up to 12.

MR. BALLENGER: That is correct.

MS. LABUDA: So as I was stating, those costs will eclipse the numbers before us today in a single fiscal year.

Q. And are you talking about TAP implementation costs? So this program would be reimplemented in successive years.

MS. LABUDA: Hopefully the program will not be reimplemented in successive years. I think we've had a successful launch. We're continuing to work on the program. And as part of designing the program and following all of the ordinance requirements closely we have identified additional

requirements and costs, which weren't
contemplated (inaudible). Those costs
well eclipse the numbers you have
before you today on line 15 in LK M2.

Q. And TAP is up and running at this
point in time, correct?

MS. LABUDA: Correct.

Q. It's processing applications?

MS. LABUDA: Correct.

Q. Okay. I'm going to turn to some
discussion of the M1. This is probably better
for maybe -- I don't know. Brian is holding the
mic. I'll get Brian in on this one. Without
page number reference, the M1 also does discuss
identifying nonrecurring expenses, does it not?

MS. BROCKWAY: The M1 being
the AWWA manual.

MS. BUI: Yes, it does.

Q. And is there any discussion in the M1
that specifically says that municipally owned
utilities you should not amortize expenses?

MS. BUI: Subject to check,
I do not believe so.

Q. Okay. And in your rebuttal testimony

when you talk about the known immeasurable standard and you reference that that's typically used in PUC proceedings generally for investor owned and regulated utilities, I believe you referenced the AWWA M1 manual in that discussion as the basis for your approach; is that correct?

MS. BUI: Yes. The quotation is there. It's a rebuttal statement.

Q. Okay. And can you also direct me to anywhere in the M1 where it says that using a known and measurable standard for rate making purposes is harmful?

MS. BUI: Can you give me the page number, so we can all be on that?

Q. Possible. Give me a minute. Yes. I think we're on page 7. Line 7 refers to the known and measurable standard that we were discussing?

MS. BROCKWAY: I'm sorry. Is this from the rebuttal?

MR. BALLENGER: The rebuttal

testimony, yes.

MS. BROCKWAY: Sorry.

BY MR. BALLENGER:

Q. Midway down the page. I conducted from this testimony that basically you were providing the opinion that known and measurable was not something that the AWWA M1 manual supported for municipal utilities; is that correct?

MS. BUI: What I was saying here is that municipal utilities do not have to use known and measurable as a basis for their projections.

Q. Okay. The M1 manual does not state anywhere that I could locate that --

MS. BUI: It does not state --

Q. It does not state anywhere that I could locate that municipal utilities should not use the known and measurable standard.

MS. BUI: To the best of my knowledge, it does not explicitly say that.

Q. Okay. And so on line 13 and 14 I

think we touched upon this. You say government owned utilities are free to set their own policies regarding test year periods. But, again, I think as we talked about earlier, you would agree with me that the Board has the jurisdiction to decide what policies regarding test year periods should be.

MS. BUI: I don't know all of the board's rules and regulations governing it, but if it's within its purview.

Q. And if the Board decided that expenses would have to satisfy the known and measurable standard, that would be an acceptable policy for the Board to adopt, would it not?

MS. BUI: I can't tell you what the Board would not do or do.

Q. But the policy -- if the Board were to decide what expenses had to be known and measurable, that would be an acceptable policy for the Board to say?

MR. DASENT: Objection. Let me at least observe, your Honor, that it's a fully projected test year. So known and measurable was a standard that has eroded over time, in this context at least. Because everything wasn't fully projected in the years past when we set the standards for rate (inaudible). So with fully projected test years it's about reasonable projections. And in that sense known and measured may have a place.

MS. BROCKWAY: This actually sounds to me like something that should be briefed.

MR. DASENT: Yes. I hear myself saying it now that way also.

MS. BROCKWAY: I think it's fair to continue to probe exactly how these numbers were arrived at and how they differ, if you want, to Mr. Morgan's. But what the legal standard is, I think should be briefed.

BY MR. BALLENGER:

Q. Okay. There is another part of the M1 that I just wanted to refer to here. If I can find it. Give me one second.

Okay. So it's actually page -- sorry. At the very beginning of M1, Chapter Roman numeral 1.1, overview cost based water utility rate making. I'm on page three.

MS. BROCKWAY: What? Before --

MR. BALLENGER: This is the AWWA M1 Manual.

MS. BROCKWAY: What I want to know --

MR. BALLENGER: Yes.

MS. BROCKWAY: -- is what you said after "overview of."

MR. BALLENGER: Okay. Sorry. Overview of cost based water utility rate making.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. And the first sentence reads, "Establishing cost based rates, fees and charges is an important component in a well managed and operated water utility." Do you

agree with that statement?
MS. BUI: Yes.
Q. Okay. And would you also agree then that fairness and equity is one of the cornerstones of cost based rates?
MS. BUI: Yes.
Q. Okay. And would you also agree that a measure of whether revenues under existing rates are adequate is to determine whether those rates produce revenues that are sufficient to meet the utility's cash requirement?
MS BUI: To meet the utility's --
Q. Cash requirement.
MS. BUI: It depends upon whether or not the utility is using a cash basis or not for determining its revenue requirements.
Q. I would just refer you to page 51 of the M1 Manual. It provides there -- it states, "For government owned utilities the initial measure of whether revenues under existing rates are adequate is made to determine whether such revenues are sufficient to meet the utility's

cash requirements over the study period."

MS. BUI: Okay. I'm going to defer this over to Dave Jagt. He's going to have some additional discussion on that.

MR. BALLENGER: Okay.

MR. JAGT: I want to point out that it's cash requirements, and it includes meeting the policies and financial metrics of the utility.

BY MR. BALLENGER:

Q. Okay.

MR. JAGT: You know, we also have the (inaudible) indenture requirement.

Q. Okay. That's helpful. Thank you, Dave. I would like to go back to the Exhibit-7, hearing Exhibit-7 on behalf of the Public Advocate. And I would like to --

MS. BROCKWAY: Wait.

BY MR. BALLENGER:

Q. I would like to start on page 28 of the exhibit.

MS. BROCKWAY: Okay. Page

28 of Exhibit-7.

BY MR. BALLENGER:

Q. And I'm starting at page 28. It's a presentation titled Rate Setting Considerations that was given to the Philadelphia Water, Sewer and Storm Water Rate Board by Amawalk Consulting Group in February of 2018.

And Mr. Marcus, who I believe prepared this exhibit, is with us here today. I'm sorry. He prepared this presentation. He did not prepare this exhibit. Please understand the distinction there.

And my understanding is that this was discussed at the board's February meeting. And I believe there were representatives of Black & Veatch, as well as the Water Department there at that time. So I believe everyone has seen this presentation at this point. Is that correct?

MR. DASENT: Please note our objection to this line of questioning. I was trying to wait for the first question on the subject. But before we go down that road, we didn't prepare this exhibit. These documents are not ours. Mr. Marcus is in the room, or was. So I'm not quite sure where this gets us, but I'm listening for the first question and poised to object. We didn't prepare this document.

MS. BROCKWAY: I think that you didn't prepare the document is not a basis for an objection. I didn't quite hear what you said. Have you heard the first question?

MR. DASENT: I'll wait for the first question, but I wanted to alert that Board to the face that this is a problem. They're asking about --

MS. BROCKWAY: Please wait. I have been throughout my career as a hearing officer very tough on don't tell me you're going to have a problem until you have one.

MR. BALLENGER: Thank you. And I just -- the reason why I think this is an important part of --

MS. BROCKWAY: Let's not

have the argument. Let's have the question.

BY MR. BALLENGER:

Q. Can you turn to page 32 of the exhibit. And here you'll see a slide that is numbered slide four, and it states revenue requirements at the top. Do you see that?

MS. KUMAR: Yes.

Q. And the general question that appears to be posed in this presentation and this slide is how much money needs to raised from retail rates in each year. Do you agree that's the fundamental question when determining requirements?

MS. KUMAR: Yes. If you're setting retail rates and charges -- if the question in front of us is rates and charges for retail, then the basis would be retail revenue requirements.

Q. Okay. In this presentation there is basically a formula that was provided as to how to determine revenue requirements. And it basically, as I understand it, takes your O&M expenses, existing debt service and future debt service. You add cash finance, finance capital, take into account any additions or subtractions for revenues -- I'm sorry, from Reserves. Additions or subtractions from Reserves and take into account any adjustments necessary for the rate covenant for contingencies. And then you subtract all revenues from sources other than rates. Do you agree with that calculation as a general proposition?

MR. DASENT: It's not a calculation. It may be an equation of sorts.

MR. BALLENGER: I'm sorry, an equation.

MS. KUMAR: Is this the exact equation (inaudible) Philadelphia Water Department? It's difficult to answer, because it seems to be a general statement of an equation.

MS. BROCKWAY: Of what? General statement of --

MR. DASENT: An equation.

MS. KUMAR: General

representation of how revenue
requirements should be determined.

MS. BROCKWAY: I think the
word earlier was equation.

MR. DASENT: Yes.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. Just as you said, as a general statement of how revenue requirements should be determined. Do you agree this is an appropriate equation?

MS. KUMAR: Again, to use
the word "equation." And if you're
asking whether this is an appropriate
equation for Philadelphia Water
Department, then we have to look at
Philadelphia Water Department's
requirements, specifically. And
that's what we do in financial
analysis.

But if you're asking is this
a representation of generally how
revenue requirements are determined,
probably yes. Again, but it has to be

applied to specific circumstances of
the utility that we're looking at.

Q. Okay. I'm ready to go ahead and turn to page 41 of this same exhibit. This is hearing Exhibit-7 of the Public Advocacy. And I believe you're familiar with this page. This is a one-page schedule, BV-E1, that was provided with PWD'S statement 9(a). And this is C-1, which provides projected revenue and revenue requirements for this proceeding. Is that correct?

MR. JAGT: Correct.

Q. Okay. And in just looking across here, just to understand what's being proposed in this case. On line four for fiscal 19 this shows that you're requesting a 1.6 percent increase to attain additional service revenue of nine million two hundred and four thousand. Is that correct?

MR. JAGT: Correct. The revenue adjustment or additional revenue is required in 2019.

Q. Okay. And then that percent increase remains effective in the subsequent years, and that's what we see going across line four in 2020 and 2021, correct?

MR. JAGT: Correct.

Q. And as we go down to line five I believe I see here, and I apologize for the quality of this if anyone is having difficulty with it. It appears you're requesting a 4.5 percent increase in fiscal 2020. And that would result in additional service revenue of 26 million one hundred and 33 thousand dollars in 2020. Is that correct?

MR. JAGT: Correct.

Q. There again that increase would remain effective in subsequent years. And that's what we see as we move across on line five to the right?

MR. JAGT: Correct.

Q. Okay. And finally line six you're -- this shows you requested an additional 4.5 percent increase in additional service revenue in fiscal 2021 to produce 27 million one hundred and seven thousand dollars in those additional revenues in 2021, correct?

MR. JAGT: Correct.

Q. Okay. And, again, those revenues continue in effect in subsequent years, right?

MR. JAGT: Correct.

MS. BROCKWAY: They don't seem to continue at the same number.

MR. BALLENGER: And I clarify that with a simple question.

BY MR. BALLENGER:

Q. Is the reason why the numbers increase fairly dramatically --

MS. BROCKWAY: I don't mean fairly dramatically. What I'm referring to is the fact that --

BY MR. BALLENGER:

Q. It is effective for ten months in the first year; is that correct? Each increase is effective for ten months in the first year?

MR. JAGT: Correct.

Q. And then I can put 12 months in the second year?

MR. JAGT: That's correct. That also reflects the decrease, because we have projected a decrease in the -- the consumption over the

planning period. So you get a
slightly less amount every year.
MS. BROCKWAY: Also, I'm
looking at lines five through eight.
These are under the column "Months
Effective." All of those say ten.
MR. JAGT: That's correct.
BY MR. BALLENGER:
Q. So they are effective for ten months
of the fiscal year in which the rate increase
goes into effect; is that correct?
MR. JAGT: That's correct.
Q. And then in subsequent years they're
effective for all 12 months. Is that also
correct?
MR. JAGT: Correct.
MS. BROCKWAY: Give me a
minute to think about what that means.
MR. BALLENGER: Sure.
MS. BROCKWAY: I need a
picture, Ms. Bui. The ten is for the
first time that that particular
increase is put into effect.
MS. JAGT: Yes, ma'am. The

department has proposed rates
effective September 1st.
MS. BROCKWAY: Got it.
Thank you.
MR. BALLENGER: Thank you.
BY MR. BALLENGER:
Q. Earlier we talked a little bit about schedule BV-E5 WP-1, which is the Water Department financial plan. This was also included in statement 9A. And I just had some general questions here, so it may not be necessary to follow along. But I will give everyone a minute to get that in front of them.
MS. BROCKWAY: Yes, if you could give us a minute.
BY MR. BALLENGER:
Q. So looking at this schedule, BV-E5 WP-1. Does this schedule provide the assumptions utilized to derive the revenue requirement in the proposed reading?
MS. KUMAR: Yes. It's broadly described key assumptions that were used in both the revenue projections and the revenue

requirement projections. Both
operating on capital expenses related
in this financial plan.

Q. Does this document explain how the revenue requirements were calculated in this proceeding?

MS. KUMAR: Could you please explain what you mean by your question, how it was calculated?

Q. Sure. So just keeping in mind the revenue requirements general equation. There were certain figures that would go into determining what the revenue requirements are. And I was looking at this and trying to find where those figures are in this financial plan to determine the revenue requirements.

MS. KUMAR: The revenue requirements calculation is not just one simple equation that can be just stated in one line or two. It involves a series of projections and calculations and step-by-step analysis. And all of that is presented in the work papers that were

submitted along with the testimony.
And Mr. Jagt can refer you to the work papers.

Q. Okay. But just to be clear, I couldn't look at this document and say, Here are all of the expenses and contingency payments and debt service amounts and perform a calculation to derive what you show as your revenue requirements on the basis of what's in this finance plan; isn't that correct?

MS. KUMAR: This document that's attached indicates revenue and revenue requirement assumptions. This document's purpose is to describe the key assumptions that went into the preparation of the revenue requirements of the revenue projection. This is not a description of each calculation.

Q. Okay. Thank you. So I think what you were referring to before when you talked about the calculations that would help me understand the revenue requirements, were you referring to PWD Exhibit-6, which would be Black & Veatch's

calculations supporting BV-E1, BV-E2 and BV-E3?
Is that correct, Mr. Jagt?
MR. DASENT: Are you referring to work papers?
MR. BALLENGER: Yes.
MR. JAGT: Yes. The work papers would represent the details and the revenue requirements by year.
BY MR. BALLENGER:
Q. So that would be PWD Exhibit-6, correct?
MR. JAGT: Correct.
Q. Is that from the Black & Veatch computer model?
MR. JAGT: Yes.
Q. Okay. Is it possible to look at Exhibit-6 and determine how you calculate your revenue requirements in this case?
MS. KUMAR: Again, there is a series of steps involved. It is not a simple equation. And as it is explained in the testimony, there are different calculations that have to go into the buildup of what we call the

total revenue requirements, whether it's expenditure, debt service. So there are different steps and different calculations. Yes, all of those are listed in the work papers. So if your question is, can somebody just look at the work papers and quickly figure out how the revenue requirements are determined? Yeah, you have to go through all the work papers to look at how they all add up. And then also, in the testimony itself there are excerpts. And those walk you through how they (inaudible) expenditures. The C-I-P lists -- they're listing their services. All of that is in the exhibit to the testimony itself. And they are buildup to the revenue requirements. And you could trace them to the total revenue requirements entered in C-1.

Q. And that's produced in the Black & Veatch model, correct?

MS. KUMAR: From the summary

table -- these work papers are in Exhibit-6. The summary tables are all attached to the direct testimony statement. I think it will be statement 9A.

Q. Okay. So if I were to go to the Black & Veatch model and change the gross rates that are used to determine water service revenues, would there be a corresponding change in the table C-1 to reflect that change in revenues?

MS. KUMAR: Correct. Again, it depends on what you're changing and where it is changing it. It will have an impact.

Q. Just so you understand, the Board is being presented with an overview. And I want to discuss how your revenue requirements were developed in this case, because the Board has been given some information. And I think that's only fair.

MS. BROCKWAY: The Board did not present --

MR. BALLENGER: I didn't say the Board presented. I said, the

Board has been presented with.

BY MR. BALLENGER:

Q. So if we look at table C-1 on page 41 of hearing Exhibit-6 on behalf of the Public Advocate --

MS. KUMAR: Sorry. Which one are you referring to?

Q. I'm referring to your -- your testimony to your original table C-1, which I've duplicated in hearing Exhibit-7.

MS. KUMAR: Yes. For the record, I'll go to table C-1, the direct testimony. It's just easier to see the figures, please.

Q. Okay. Sure.

MS. KUMAR: Thank you.

Q. So if I were to go into your model and change the assumptions for expense items, like payroll and pension, then the amounts on line 16, total operating expenses, those would adjust to reflect those changed assumptions, would they not?

MR. JAGT: Correct.

Q. And is it also true that if I change

the assumptions for other operating revenues shown on line 11 or other operating funds' interest income, which is shown on line 13, then lines 11 and 13 would change for all of the rate period? If I change the underlying assumptions for those line items, what is produced in table C-1 would also change?

MR. JAGT: If you revise the assumptions for all tests to projected years, yes.

Q. Okay. And now on lines four through eight, which we talked about before. This is where you show the revenue increase for each of the years, fiscal 2019 through 2023. But just to be clear, you're only requesting increases for fiscal 2019, 2020 and 2021, correct?

MR. JAGT: Correct. However, in order to evaluate the proposed revenue increases that you're proposing for the Board to consider, you need to look at a longer term projection to make sure you're putting the utility in a reasonable position for the entire projection year.

Q. We're going to talk about that a little later. Hopefully, we'll get to that. But I would like you to turn the page in the exhibit to page 42. And if I could just have a moment to explain what we're going to do for the next short while.

MS. KUMAR: Are you referring to hearing Exhibit-7?

MR. BALLENGER: Yes, Ms. Kumar. I'm referring to page 42 of 57 on hearing Exhibit-7.

BY MR. BALLENGER:

Q. And on page 42 what I've done is, I've printed out from the model a portion of -- one portion of the model that deals with one set of assumptions here. And this is the set of assumptions regarding the capital account deposit. What I've done is, I've made a change to that assumption. And, Mr. Jagt, can you identify what that change is?

MR. DASENT: Why don't you tell us.

MR. BALLENGER: Okay.

BY MR. BALLENGER:

Q. On the line that says capital account deposit percentage for years 2019, 2020 and 2021, do you see that I've kind of put in a one percent in each of those three years?

MR. JAGT: Correct

Q. And in your model in each of those three years am I correct that it includes 1.5 percent?

MR. JAGT: Correct.

MS. BROCKWAY: What are those three years again?

MR. BALLENGER: Fiscal 2019, fiscal 2020 and fiscal 2021.

Q. So then having made that one change, I was able to produce a new table C-1 that's shown on page 43. And I would like to talk about the impact of that change as it shows up in table C-1.

And, Mr. Jagt, can you take a look at line 27, please. And can you also confirm that the amount of the capital deposit that I show for fiscal 2019, 2020 and fiscal 2021 is calculated based on one percent of net, plan property and equipment.

MS. BROCKWAY: We'll go off of the record.

* * *

(Whereupon, a discussion was held off the record.)

* * *

MR. JAGT: Right, subject to check.

MS. BROCKWAY: Off of the record.

* * *

(Whereupon, a discussion was held off of the record.)

* * *

BY MR. BALLENGER:

Q. So, Mr. Jagt, subject to check, can you confirm that line 27 or table C-1 on page 43 of Exhibit-7 reflects a one percent capital account deposit for fiscal years 2019, 2020 and 2021?

MR. JAGT: Subject to check.

Q. Okay. And if you were to compare this table to your original C-1, which I know Ms. Kumar has from your testimony, would you also see that none of the figures in line one through 25 have changed?

MS. KUMAR: Give us a few seconds, please.

MR. BALLENGER: Sure.

MS. BROCKWAY: Which lines?

MR. BALLENGER: Lines one through 25.

MS. KUMAR: So if you don't mind, can we go step by step here, line one through 18. There will be no changes.

Q. Okay.

MS. KUMAR: Revenue minus operating expenditures, less net revenue. So that will not change. Just because the assumption that went into line 27 changed.

Q. Right. Okay. So your additional service revenues did not change after the capital account deposit was decreased by about 12 million dollars in each share of the rate fee; is that correct?

MS. BROCKWAY: What was not changed?

MR. BALLENGER: The revenue requirements did not change as a (inaudible) reduction of 12 million

dollars in capital account deposit
that occurred each year.
MR. DASENT: I have to
object. The premises of the question
is wrong. She didn't say revenue
requirements. Said revenues in the
top part of the table. That's
different.
BY MR. BALLENGER:
Q. None of the projections of revenue
shown in the top half of the table changed, did
they?
MS. KUMAR: None of the
projections on the top of the table
will change, because it's not an
automatic change. It is something
that the rate specialist has to look
at to change it.
Q. That's where we're going. Thank you.
MS. KUMAR: If your question
is, will it automatically change, it
will not automatically change. It's
depending on what you are changing.
Q. But if you look at line 36 of the

table, C-1, that's shown on page 43 of Exhibit-7, you see that the additional revenues that resulted -- not additional revenues. Strike that.

You'll see that the end of year balance in the residual fund increased by the amount of approximately 12 million per year in each year of the rate increase, correct?

MS. KUMAR: Could you please repeat your question. Which line?

Q. I'm on line 36 in fiscal 2019 when compared to your original table C-1, the end of year balance increased by approximately 12 million dollars; isn't that correct?

MR. DASENT: 2019.

MR. BALLENGER: 2019.

MS. KUMAR: Yes, that's correct.

Q. And in each year after that during the rate period November 2020 and 2021 it continues to increase, correct? On line 36 it continues to increase by an amount of approximately 12 million from 2019 through 2020 and then 2020 through 2021; isn't that correct?

MS. KUMAR: 2020 and 2021,
yes, it increases relative to what we
have in our table C-1.

Q. Right. And the reason why is because, as I'm sure you can tell, I didn't make any adjustments to line 33 to transfer anything out of the residual funds. The transfers coming out of the residual funds were the same as they were in your original table, C-1; isn't that correct?

MS. KUMAR: Again, if you're
referring to line 33, line 33 is a
transfer to the construction fund.
And from what we can see from this
table, C-1, that you're referring to
in your exhibit. And this -- yes,
that transfer to the construction
fund, you have retained it to be the
same as what we have in your table
C-1.

Q. Okay. So I would like to do this a couple more times, but with a couple of different assumptions, just to make sure it's clear how the model works.

So on the next page, page 44, I printed out another portion of the rate model. And this deals with additional SMIP and GARP expense. Again, I've made one change in the model. Just so you understand, I did not continue for purposes of the discussion the change that we just discussed. So I've only made one change in the model. So we talked Capital account deposit, but we're starting fresh. So I took your model and I made one change. And on page 44 what you see there is for SMIP and GARP expense, I've included zero for 2019, 2020 and 2021.

In your original model it's correct, isn't it, that you included a ten million dollar adjustment each year, fiscal 2019, 2020, 2021; isn't that correct?

MR. JAGT: That's correct.

BY MR. BALLENGER:

Q. If we turn to page 45, I was able to produce another table C-1. And this table C-1 --

MS. KUMAR: Give us just a second, please.

MR. BALLENGER: Sure.

BY MR. BALLENGER:

Q. Okay. So here again on table C-1, which is shown on page 45 of the Hearing Exhibit-7, I'd just like to note that there is a small change in the total revenue figure. And it appears to me that the only change that was made to the total revenues was operating fund interest income; is that correct?

MS. BROCKWAY: What line?

MR. BALLENGER: Line 13.

MS. BROCKWAY: I'm sorry to have interrupted you.

BY MR. BALLENGER:

Q. So there is a very small increase in operating interest income, correct?

MS. KUMAR: Correct.

Q. But, otherwise, all of the figures here that you used to derive total revenues are unchanged; isn't that correct? Now, I'm on line 15.

MS. KUMAR: Can you give us a second, please?

MR. BALLENGER: Sure.

MS. KUMAR: Yes, that is correct.
Q. Okay. But if you look at line 16 there is, of course, an impact on the total operating expense; isn't that correct?
MS. KUMAR: Correct.
Q. And that's a reduction of ten million dollars in total operating expenses for each of the three years in the rate period, correct?
MS. KUMAR: That is correct.
Q. And as we go further down the page, line 23 you'll note that the total senior debt service coverage in fiscal 2019, 2020 and 2021 have all changed, have they not?
MS. KUMAR: Could you refer to the line again.
Q. Line 23, the total of senior debt service coverage shown on page 45 of Exhibit-7 is different from what was in your original model?
MS. KUMAR: Correct.
Q. And that's just the result of a mathematical calculation of coverage, correct?

MS. KUMAR: As a result of
you just reducing the operating
expenditure by ten million dollars
each year without -- again, subject to
check, and assuming that you haven't
changed anything else.

Q. Okay. So -- so the coverage calculation is impacted by the change consumption regarding expense? It's increased. I'm showing an increase in coverage by reducing an expense item?

MS. KUMAR: Results reflect
the change -- reflects the impact of
the change that you made to -- by
reducing SMIP and GARP by ten million
dollars in 2019, 2020 and 2021.

Q. And just -- you're right. Just to state the obvious. If your revenue assumptions were to increase as well, that would affect your coverage calculation, correct?

MS. KUMAR: Repeat your
question.

Q. Sure. If your revenue assumptions were to be increased, that would also affect your coverage calculation?

MS. KUMAR: If you increase the assumptions that lead to the increase of revenue without changing the assumption that you originally had for revenue requirements, then the service coverage numbers will look different.

Q. All right. Just one more so that we're clear. And this one goes the other way. So if we turn the page to 47 of Hearing Exhibit-7. So here, again, I started over with the model and entered one adjustment. And instead of reducing the SMIP and GARP expenditure to zero, I increased it by an additional five million to 15 million dollars in 2019, 2020 and 2021. Do you see that?

MS. KUMAR: Could you confirm. Are you referring to page 46 or 47?

Q. 46 of Exhibit-7.

MS. KUMAR: Yes.

Q. So it's not a numbered line, but you see where I've changed the numbers to 15 million for three years of the rate period?

MS. KUMAR: Correct.

Q. And so then again if we turn to page 47, again, I was able to produce a number table for C-1. And if you look at line 13, operating fund interest income, I believe you'll see that a similar adjustment has been made due to an increase in expense during the rate period fiscal 2019, fiscal 2020 and 2021; is that correct?

MS. KUMAR: Again, can you confirm that line 13 of your table C-1 was different than line 13 of our table C-1?

Q. And that's the result of an increased expense in the rate period, correct?

MS. KUMAR: If that's the only change you made and you made no other changes, then you would have to assume that would reflect that.

MS. BROCKWAY: Where is that change?

MR. BALLENGER: It's in line 13.

So, for example, fiscal year 2019, the original model shows $364,000 in operating funds interest, income. And on page 47 of the exhibit in fiscal 2019 it shows $355,000 in operating fund, interest and income for fiscal 2019.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. And so here again if we look at line 16, total operating expenses, would you agree with me that the additional five million dollars that I put into the model has shown up here in fiscal year 2019, 2020, 2021 as an increase in operating expenses?

MS. KUMAR: Right.

Q. And to follow down to debt service coverage. By changing the assumption of operating expense I've also -- also depicted a lower level of coverage than what was included in your original rate model; is that correct?

MS. KUMAR: Show in line 23, yes.

Q. And then just going down to line 36.

This is the end of your balance in the residual fund.

Here is the results of my changes, the end of your balance in the residual fund decreasing steadily over the three years in the rate period, wouldn't you agree?

MS. KUMAR: What line?

Q. Line 36.

MS. KUMAR: Line 36. Again to a negative.

MS. BROCKWAY: Can you restate the year.

MS. KUMAR: In line 36 of Mr. Ballenger's Exhibit-C in line 36, starting in years 2019, 2020, 2021, the end of balance in line 36 begins to go down relative to what we -- of model Exhibit C-1. And in 2021, 2022, 2023 actually goes negative.

BY MR. BALLENGER:

Q. And, Ms. Kumar, earlier you talked about -- the reasons why I think, when I make a change in operating expense, there is no corresponding change in your model's calculation of revenue is because the user has to go into the model and make some changes;; is that correct?

MS. KUMAR: Correct. When an expenditure such as an operating expenditure is changed, then the user has to go and determine the revenue adjustments again. Because the revenue adjustments are not just made for one reason. Any time a revenue requirement is changed the revenue adjustments have to be looked at to make sure all of the other financial targets and metrics that need to be achieved need to be achieved.

So it has to be looked at. That's the reason the user has to make the adjustments. When I say make adjustments, the user looks at the data and the flow of the numbers and has to determine the level of revenue adjustment.

Q. And just to be clear, did you say the user has to make an adjustment, or the user has to use judgment? I wasn't quite sure.

MS. KUMAR: I corrected myself. I said it's not a judgment. The user has to determine the level of adjustments that need to go in for the revenues if an expenditure is changed.

Q. Okay. And so in this case for fiscal 2019 where you are proposing a 1.6 percent increase, that increase was determined by the user manipulating the model; is that correct?

MS. KUMAR: It's determined by -- yes, by the person who is doing the analysis. The model doesn't determine -- it doesn't automatically.

Q. Okay. And so am I correct then that there is no calculation of revenue requirements that would show that nine million two hundred and four thousand dollars is the necessary increase for fiscal 2019? You couldn't provide me a calculation or an equation like what Mr. Marcus's presentation shows that leads to that conclusion; isn't that correct?

MS. KUMAR: Could you repeat the question, please?

Q. Certainly. Am I correct that there is no equation that you could point to that would show me that nine million two hundred and four thousand dollars is the necessary increase in rates for fiscal year 2019?

MS. KUMAR: In looking at an equation, specifically just an equation I cannot. I mean, yes, we can write an equation. Table C-1 shows the revenue is needed. And what the impact of the revenue adjustment has all of the things -- table C-1 is essentially a reflection of what the revenue requirements are and how many the revenue adjustments are that need to be there to align with all of the revenue requirements and overall cash flow.

MR. JAGT: It would show a revenue requirement, and it does show a revenue requirement. It's showing based on assumptions that are inputted in the model, which is that you are using the reserves and fund balances to meet that revenue requirement instead of raising additional revenues or adjusting additional revenues.

So if you leave additional revenue where it is and make adjustments through revenue requirements, like decrease it, it's going to show that you are increasing reserves and fund balances. Which is clearly a part of Mr. Marcus's formula. As he says, additions and subtractions to reserves, which should include fund balances. And that's what the model is doing. It is showing what the assumption of the user is and presenting that calculation.

In fact, if you go to the subsequent tables, the revenue requirement or model, the cost of service tables do show what the revenue requirements are and support the additional revenue requirements, under each scenario, whether you are

using reserves or adding reserves.
Q. I just want to focus a little bit on the user aspects of this, because it seems to me that -- that from my familiarity with the model, that it really depends on, sort of, your inputs in what's called the dashboard. Is that fair? That the product of C-1 also depends on the assumptions that are put in what's called the dashboard of the model?
MS. KUMAR: That is correct.
Q. And that dashboard is not part of the PWD Exhibit-6; is that correct?
MS. BROCKWAY: And what is the dashboard? I've seen that term.
MR. BALLENGER: Proprietary and confidential.
MS. BROCKWAY: I'm not asking for that. I'm asking --
MR. BALLENGER: It is a tablet, a model that perhaps Mr. Jagt can talk about.
MS. BROCKWAY: It's not unique to Black & Veatch, the idea of the dashboard?

MS. KUMAR: The dashboard is
part of the model that the Public
Advocate received as part of this
submission.
Q. I just want to be clear, because we talked about Exhibit-6 being a rate model. I want to be clear that the dashboard is not part of Exhibit-6; is that correct?
MS. KUMAR: It was not that
it was not printed by the dashboard.
It is very much part of the model that
was delivered.
MR. JAGT: Inputs on the
dashboard are (inaudible) it's very
much integrally part of the model.
Inputs that are provided on that
machine feed into and go into the cash
flow on the -- in the work paper
folder.
Q. Okay. And so in using the dashboard someone can mainly choose the percentage of the rate increase to be reflected in each year during the rate periods; is that right?
MS. KUMAR: Depending on

what you're doing with revenue
requirements and depending on what
methods you have to achieve, the user
has to determine the level of revenue
adjustment, that has to go in for each
of these years.

Q. And similarly, the user would also be able to determine how much of a deposit from or deposit to the rate stabilization fund would be projected in any one year from the dashboard, correct?

A. The user determines the level of the trial or profits to the (inaudible).

Q. So the user of the model determines the mix, if you will, of revenues coming from the rate increase versus, say, a spending of an expenditure from reserves; is that correct?

MS. KUMAR: The user looks at all of the interdependencies between revenue line items and the revenue requirements and transfers to the funds and balances that need to be achieved. These are -- all of these are interdependencies. So the user has to look at all these interdependencies, determine issues or revenue adjustments and the withdraws and all of the deposits in the model, yes.

MR. JAGT: We'd also like to point out that there isn't a user that enters data. However, it's reviewed within Black & Veatch's team. And then it's reviewed with PWD's. So it's not a single user that's making the determination. But it's analyzed and the results are the proposed option of the revenue requirements and use of reserves are reviewed with the client to develope a proposed plan.

Q. And we talked a little bit about the impact on the residual fund from my examples, which were a demonstration. These examples were not meant to in any way to change our testimony and position in this case. But it's also correct, isn't it, that the user would determine using the dashboard how much would be transferred out of the residual fund to the construction fund in any year in the rate period, correct?

MR. JAGT: Correct.

Q. And so if the Board approves an adjustment to an expense item, am I correct that the model doesn't calculate any change to the rate increase that would -- that would result from that change? Am I correct about that?

MS. KUMAR: Could you repeat that question.

Q. Let's say the Board approves a downward adjustment of five million dollars and an expense item. The model will not calculate how the rate request should be altered as a result of that, that adjustment; isn't that correct?

MS. KUMAR: If the Board approves a particular expenditure adjustment, then it is true that model will not automatically determine revenue adjustment.

Q. So someone has to go into the model and figure out how to -- how to appropriately reflect that adjustment?

MS. KUMAR: Correct.
Someone familiar with rate making and
the flow of funds and all of these
expenditures, yes. A person familiar
with it has to do that.

Q. And, again, the reason why I think
this is important is because the Board's been
presented an equation. And it seems as though
from that equation you could simply change one
of the items that go into the equation and
result in a change in revenue requirement? But
that's not how the model works; is that correct?

MS. KUMAR: Again, for
clarification purposes, the equation
that you're referring to does not
specifically (inaudible) rate making
equations. It talks in general about
revenue requirements. And as I stated
before, if you're talking with PWD and
PWD's revenues and revenue
requirements, then all of the factors
that go -- specifically PWD have to be
looked into. Again, to reiterate,

this is not an equation. This is a multistep calculation that would have to be considered with inputs and outputs coming at different points in time, as far as the calculation process.

Q. Thank you for walking me through that. I know it was hard to follow and to go back and forth, but thank you for walking through that with me.

So I wanted to turn to page 27 of your rebuttal statement. And Mr. Jagt kind of t-ed this up a little bit. I would like to direct you to lines 17 -- 17 through 19. And here you indicate that, as shown in table C-1, projected revenue adjustments needed are already at 6.8 percent for fiscal years 2022 and 2023. I would like to just confirm that's what we were talking about from before Mr. Jagt. You were pointing out that on your original table C-1, a 6.8 percent increase shown on lines seven and eight. Am I looking at the right place on your table C-1?

MR. JAGT: That is correct.

Q. Okay. And so I would like to take a look at page 48 of Hearing Exhibit-7. And this page is titled Table 11 Projected Revenue and Revenue Requirements. That's the predecessor table to C-1; isn't that correct?

MR. JAGT: Similar format, correct.

Q. A similar format. And this is what was filed with the Water Department's request for a rate increase for fiscal years 2013 and 2016; is that correct?

MR. JAGAT: Based on assumptions and financial policies and subject to change. But it does reflect assumptions and financial policies at that point in time.

Q. Okay. And on page -- on this page I would like to look at line number -- I believe it's line number 11. So on line number 11 --

MS. BROCKWAY: Before we go further, you mentioned two rate cases, decisions, 2012 and 2016.

MR. BALLENGER: I'm sorry, I said the 2012 rate proceeding set the rates for 2013. It was proposing to set the rates for fiscal year 2013 through fiscal year 2016. So it was a four-year rate proceeding.

MS. BROCKWAY: I see at the bottom that this was prepared on February 1, 2012.

MR. BALLENGER: Yes.

MS. BROCKWAY: Thank you.

BY MR. BALLENGER:

Q. And I just wanted to look at line 11 of this table. And specifically I want to look at the figure that's included here for fiscal year 2017. Am I correct that what this shows is that at the time the rate increase was proposed the Water Department was projecting needing seven hundred and 31 million dollars and two hundred and 52 thousand -- seven hundred and 31 million, two hundred and 52 thousand dollars? The total water and waste water revenue for fiscal 2017. Is that correct?

MR. DASENT: Just note my objection. Your Honor, we're now taking projections from two rate cases

ago and sort of examining them as if
they had validity today as opposed to
they were a forecast many, many years
back. And we're suggesting that is
irrelevant to this case.
MS. BROCKWAY: I don't
agree. I think it's relevant.
Perhaps not to produce a particular
forecast number, but I think the
question is, is the experience of
actuals versus forecasting -- I think
that's what Mr. Ballenger was going
to. And I think that experience is
relevant.
MR. DASENT: Please also
note that another layer to this
objection, that assumes all things --
all else being equal. Nothing else
has changed. No new assumptions.
MS. BROCKWAY: Absolutely
understood.
MR. BALLENGER: And I do
want to make sure -- you know, focus
on the first year outside of the rate

period.

MR. BALLENGER:

Q. So I'm going to try and find some symmetry here by asking that we turn to make it to page 49 of 57 Hearing Exhibit-7 of the Public Advocate. And this is table C-1 from the last rate proceeding. And, again, if we -- first of all, the last rate proceeding was -- it was conducted in 2016, and it sought additional rates and charges in 2017 and 2018. So I would like to start on line 11. Line 11 in fiscal 2017, am I correct, that what this shows is the department was targeting or was requesting an increase in rates to achieve six hundred and seventy-five million three hundred and 76 thousand dollars in total water and waste water service revenue?

MR. JAGT: Correct.

Q. And that's a difference of nearly 56 million dollars from what was shown on page 48, line 11 for fiscal 2017?

MS. KUMAR: Yes, approximately -- the question is from the -- what was projected in 2012 or

2017. Is that different and higher than what was projected in 2016 or 2015, because this is dated December 2015.

Q. Which is fiscal 2016, correct?

MS. KUMAR: And what was projected in fiscal 2015 or 2017. Yes, the numbers are different. The time frame is completely different.

Q. Just to be clear, December 23, 2015 was the date shown on the bottom of page 49. And that is fiscal 2016, correct?

MS. KUMAR: Correct.

Q. Thank you.

MR. JAGT: Also, I'd like to point out that the 2012 rate proceeding included the 2016 revenue increase, which as you can see, we didn't have --

Q. Did not occur, correct. But at the time this was filed that was your projection, right? Table 11 shown on page 48 that was what was included in the department's files?

MS. KUMAR: Correct.

Q. Okay. So staying on page 49 and looking at line 11, again. In fiscal year 2019, which was outside of the rate period in the last case, it appears to me that what you are projecting here is a need for seven hundred and 36 thousand five hundred and 93 dollars in total water and waste water service revenue for fiscal 2019; is that correct? I'm sorry, seven hundred and 36 million 500 hundred and 93 thousand in fiscal 2019. Is that correct?

MS. KUMAR: Correct.

Q. And then if we just take a look at your file, C-1 in this case, which I have at page 41 of Hearing Exhibit-7. And I understand that you have it in front of you as well. If I look at your total water and waste water service revenue projected for fiscal 2019 that would be on line ten.

I'm correct, am I not, that you're now projecting seven hundred and 12 million, seven hundred and 67 thousand dollars in necessary water and waste water service revenue; is that correct?

MS. KUMAR: Based on

different assumptions, based on
different levels of revenue increases
in years prior to that, yes.

Q. Am I also correct that that's a difference of over 24 million in your fiscal 2019 projections between the last two rate cases?

MS. KUMAR: Repeat the question, again please.

Q. The difference between your estimate in 2016 and that rate proceeding for your fiscal 2019 revenue requirement and what you're now projecting as your revenue requirement for fiscal 2019 is over 24 million dollars; isn't that correct?

MS. KUMAR: Yes. Again, this one that you're referring to, the seven hundred and 36 million was before the Rate Board decision. This financial plan does not reflect even the final decision of the Rate Board from the 2016 rate case.

Q. But this was -- that's true. But this is what was filed with your rate proceeding, what we've --

MS. KUMAR: Correct. But not the one finalized by the Rate Board.

Q. And in the same vein, any changes the Rate Board approves in this proceeding are not reflected on page 41 in current table C-1 that was submitted in your file, correct?

MS. KUMAR: Correct. This is just a filing.

Q. Yes. I'm going to file into filings, so that we're looking at the same thing.

I'm just going to change topics. I'm wondering if we might just take a five-minute minute recess.

MS. BROCKWAY: Let's take until 2:30.

MR. BALLENGER: Thank you.

* * *

(Whereupon, a short break was held.)

* * *

MS. BROCKWAY: Back on the record.

BY MR. BALLENGER:

Q. Thank you. On page 27 of the PWD rebuttal statement number one, lines four through six of this testimony discuss the -- Mr. Morgan's recommendations regarding the rate stability fund. And here again the statements that this proposal is neither a financial best practice nor the intended purpose of the rate stabilization fund. And I just wanted to circle back to what we talked about before that. You would agree, would you not, that the Board has the authority and jurisdiction to determine questions like that, like the financial best practice for purposes of rate model?

MS. KUMAR: The Board determines those things, and they will define that. We can't opine on whether the Board could do something or not do something.

Q. In the last -- in the 2016 rate proceeding that set rates and charges for fiscal years 2017 and 2018, do you remember what PWD projected its end of the year rate stabilization fund balance would be as of the end of fiscal

2018?

MS. KUMAR: You're referring to Exhibit-6 that you just -- Exhibit-7 that you provided? Are you referring to that?

Q. We can refer to page 49 of Hearing Exhibit-7, line 41. And at the time of filing this request the department projected its end of the year balance for fiscal 2018 as a hundred and eleven million and six thousand dollars; isn't that correct?

MS. KUMAR: Yes. Based on this document, yes.

Q. And do you happen to recall as a result of the Board's decision what the modified table C-1 -- what the modified projection was for the end of year stabilization balance for fiscal 2018?

MS. KUMAR: Transcript request we could make. We don't have it right now in front of us.

Q. I think we have it. Let's turn to page -- maybe we don't have it. Let's do a transcript request for that. Actually, I think it's unnecessary. The Board's determination to a 2016 case includes the table. And subject to my own recollection, I believe the number was unchanged. It is possible that the end of the year stabilization rate is a hundred 11 million?

MS. KUMAR: Again, we really have to get the document to confirm before the Board's decision.

MS. BROCKWAY: If my recommendation, assuming that fact in evidence and it's wrong, then I'll correct it.

MS. BROCKWAY: So there's no transcript request?

MR. BALLENGER: Correct.

BY MR. BALLENGER:

Q. Okay. And what is the current projected balance in the rate stabilization fund at the end of fiscal year 2018?

MS. KUMAR: Are you referring to the question on existing Table Exhibit C-1?

Q. Sure. If you would like to use that

as the source?

MS. BROCKWAY: Which C-1?

MR. DASENT: In the rate fund.

MS. BROCKWAY: In the rate fun. Thank you.

MS. KUMAR: Repeat the question.

BY MR. BALLENGER:

Q. What is the projected fiscal year end balance in the rate stabilization fund for 2018?

MS. KUMAR: Hundred 88 million, nine hundred 98.

Q. I would like to ask you to turn page 49 of PWD's table for 9A?

MS. BROCKWAY: Hold on.

MR. BALLENGER: It's direct testimony of Black & Veatch.

MS. KUMAR: Can you give me the page number, please?

Q. Yes. It's page 49. Is everyone there? I just started at the top of page 49, line 2. It says rate stabilization balance is projected to decrease from 201.9 million at the end of the fiscal year 2018 to 156.39 million at the end of fiscal year 2021. That's it.

MS. BROCKWAY: Which part? Do you mean the ending balance for fiscal 2018?

Q. Yes, Madam Hearing Officer. The projected is an million, end of year fiscal 2018 balance and the rate stabilization is in error; is that correct?

MR. JAGT: That's correct. 201 million -- 201.19 million. The end of year, fiscal year 2017.

MS. BROCKWAY: Say it again.

MR. JAGT: It's the fiscal year.

MS. BROCKWAY: What is the "it"?

MR. JAGT: 201.19 is fiscal year 2017 balance and the rate stabilization.

MR. BALLENGER: Thank you. And in the last rate proceeding, subject to check, the Board's approval incorporated certain projected balances for the rate stabilization fund.

And when we asked you again in this case to provide us a breakdown of an actual versus projected results, and that was provided in Public Advocate advance discovery under number 14. I've included the response at page 50 of Hearing Exhibit-7.

BY MR. BALLENGER:

Q. And I want to just focus on line -- what's shown here as being on B&V line number 12. It's titled Transfer From/(To) Rate Stabilization Fund. And "To" is in parenthesis, which I assume is to designate that would be a negative number. Thank you.

MR. BALLENGER: Did the court reporter hear Mr. Jagt say "right"?

THE COURT REPORTER: No, I did not.

MR. BALLENGER: I couldn't hear either.

MR. JAGT: Correct.

MS. BROCKWAY: And that's line 12 are we looking at?

MR. BALLENGER: Yes. We're looking at line 12. Looking at the column for 2016 and the initial filing, it shows that you projected a transfer of $36,900 from the rate stabilization fund. Am I reading that correctly?

MR. JAGT: Correct.

Q. Okay. And then at the Rate Board decision, which you've shown here for fiscal 2016, is also a transfer of 36,900,000 from the rate stabilization fund. Isn't that correct?

MR. JAGT: Correct.

Q. And just to be clear, because I -- the Rate Board didn't actually make a decision on 2016 rates and charge, as we've talked about. There was no rate increase for the fiscal year 2016. Isn't that correct?

MR. JAGT: Correct.

Q. So this is -- I know it's just meant to compare the numbers, but I just want it to be clear.

MR. JAGT: We provided the response in format the number requested.

Q. And if we go over a couple of columns to actual results, it shows that for 2016 the actual transfer from the rate stabilization fund was $1,629,000. Isn't that correct?

MR. JAGT: Correct.

Q. Okay. And going further over to the right in the difference between the initial filing and the actuals, it indicates that the -- there was a difference of over 35 million dollars; isn't that correct?

MR. JAGT: Correct.

Q. And, again, you've shown here under the Board decision that that was the same number. You just reflect the same number, because of the format that you used, correct?

MR. JAGT: Correct.

Q. And in 2017 the department projected withdrawing 19 million 300 thousand dollar from its rate stabilization fund. That's also on line 12 under column 2017 for initial filing; is that correct?

MR. JAGT: Correct.

Q. Okay. And without going through each step, you would agree that actual result was actually 14 million dollars, seven hundred and 37 thousand dollars difference than what you projected. Isn't that correct?

MS. KUMAR: Correct.

Q. Okay. So you actually only went to four million five hundred and sixty three thousand dollars for the stabilization program, correct?

MS. KUMAR: Correction. You said you've been through a lot. You did.

Q. The department. And I think we talked a little bit or perhaps had exchanged in discovery about the impact of -- the impact on the rate stabilization fund overtime.

Am I correct that because you did not need to withdraw 35 million dollars in 2016, the rate stabilization fund, in fact, 35 million dollars remained in the rate stabilization fund beginning in 2017?

MS. KUMAR: Again, this was a projection done at a point in time.

MS. BROCKWAY: I'm sorry, Ms. Kumar. But I'm looking over and Ms. LaBuda looks as if she might have an answer to that question. Can we defer to her first?

MS. KUMAR: Yes, sure.

MS. LABUDA: Rob -- sorry, Mr. Ballenger, can you please restate the question?

BY MR. BALLENGER:

Q. Yeah, let me try to restate it a little differently. Isn't it true that in any year the balance and the rate stabilization fund is impacted by what happened in preceding years?

MS. LABUDA: That is correct, yes.

Q. So the balance at the beginning of fiscal 17 is higher because the department did not withdraw as much as it projected in fiscal 2016; is that correct?

MS. LABUDA: That is

correct.

Q. And, likewise, in fiscal 2017 the balance at the beginning of the year was higher because the department did not -- strike that. I think I mixed up my years. So, again, in fiscal 2018 the balance at the beginning of the fiscal year was higher, because the department did not withdraw what it projected in fiscal 2016 or fiscal 2017; isn't that correct?

MS. LABUDA: That is correct.

Q. Okay. All right. So -- well, just really quickly. Has anything -- we talked a little earlier about a user making adjustments through the dashboard. Has anything in the manner of the use of the dashboard and projecting withdraws changed from last year to this year? I'm sorry. Last case to this case. I apologize.

MS. BROCKWAY: Could you say what you mean? Are you talking about are there different inputs that require inputting, or are the inputs the same?

MR. BALLENGER: I just wanted to confirm that in the 2016 proceeding the same practice that we talked about, of a user going into the dashboard and determining the amount of projected withdraws from the rate stabilization fund, that the process that was used in the last proceeding is the same as what we discussed for this proceeding.

MS. LABUDA: So I think as best demonstrated by the results of fiscal year 2017 where our expenses were nearly identical to projections, we proved that we refined and enhanced how we projected rates and changes going forward. And that same robust methodology was applied in this proceeding with how we projected expenses. And I think the 2017 results demonstrate our refinement, given how close we were to projections.

Q. I had some questions about that, too.

So let's get to that in a couple of minutes.

MS. BROCKWAY: Are you going to continue? Are you --

MR. BALLENGER: I'm going to continue with a couple other things about the rebuttal before we come back to fiscal 2017, if that's okay.

MS. BROCKWAY: What I was driving at was this question that you posed about the dashboard. And I don't think we had an answer. I think maybe Black & Veatch should take a shot at that one.

MR. BALLENGER: Thank you.

MR. JAGT: There was an adjustment at the approach in the dashboard between the two rate cases. In the prior rate case we looked at each of the utilities separately. So when we got to the dashboard, we input the bond issues, the transfers and the revenue increases for the water or the waste water utilities. And the total would be the combined addition of the two. We had revised that approach through this rate study in that we used the total. We looked at the utility as a whole, a single utility. We entered the adjustments for the revenue required for additional revenues. The transfers and the bond issuances based on the total water and waste water utility. We used the inputs for the water utility, and then the sewer as a calculated net difference.

Q. Thank you.

MS. BROCKWAY: Difference from what?

MR. JAGT: It's the total, the water. Would be the waste water utility.

BY MR. BALLENGER:

Q. Thank you. That's helpful in my limited knowledge of dashboard to hear that. I think turn to page 25 of the rebuttal statement, statement number one. And at the top of this page you have a table showing total revenues over a period of years, 2012 through 2017. And then further down the table you show operating expense over the same period, 2012 through 2017. And I just want to focus on the note that follows the table. And so on lines 13 through 16 you attribute a significant portion of the revenue projection variance to 11 million dollar release from debt to service reserve due to saving through a bond refunding. Is that right?

MR. JAGT: That is correct.

Q. And on the preceding page under the same questions, your table is providing a response to question 22. And you say you disagree with Mr. Morgan's assertion regarding an accuracy of rate model. And on line 21 you state, PWD deposits any historical overperformance which results in surplus revenues into the rate stabilization fund, which is then utilized to offset the system revenue increases?

MR. JAGT: Correct.

Q. And I just want to focus on this refunding. Do I understand your testimony to be the 11 million dollars that was released from the debt reserve contributed to a higher balance in the rate stabilization fund?

MR. JAGT: No.

Q. No. Okay. I didn't think so. Because, in fact, the 11 million dollars was transferred to the revenue fund and then via the residual fund to the construction fund; isn't that right?

MR. JAGT: No.

Q. No. Okay. The 11 million dollars from the bond refunding was transferred to the revenue fund; is that correct?

MS. LABUDA: Yes.

Q. Okay. And flowed through the model to the residual fund. Is that correct?

MS. LABUDA: I can't speak to the model, because I don't run the model. But I can speak to how the money did flow from our financial perspective. So the reserve was absolutely counted as other operating revenue. It flowed to the water fund's flow of funds. It was a net revenue developed for a debt service.

And ultimately the transfer was made to the sinking fund to reduce the purchase price of the escrow related to the respective refunding Bonds.

I do not believe you would see that in the residual fund and in the model. Although, again, I did not run the model, so I can't speak definitively on that subject.

Q. Okay. That's helpful. Thank you. So -- hang on one second.

MR. JAGT: In the model, to answer the question, complete the question, to demonstrate in the model it does reflect -- it's consistent with what Ms. LaBuda says. And you can see on line C-1, line 25, there is a payment transfer to escrow which shows up, and that covers the requirement. So the 11 million comes in and other revenue and then is paid out as part of the debt services paid to the escrow fund, as Ms. LaBuda pointed out. It does not end up in residual.

Q. Thank you. I know I had seen it somewhere. It's helpful to point me back to that.

Okay. So I think on page 25 of the rebuttal, starting at line 18, you referred to the Water Department and the Rate Board making significant efforts to establish reasonable projections. And perhaps this is what Ms. LaBuda was getting to a little bit earlier on about changes and financial controls perhaps.

Am I correct that one of the most significant changes that you discussed in the last rate proceeding was utilizing the City's five-year plan? Is that correct?

MS. LABUDA: That is correct. That was probably the most significant change we made. Though I would have to go back and fully look at the record to confirm that.

Q. And just want to make sure that I understand, because I'm not terribly familiar with the five-year plan. The five-year plan is something that is done annually, isn't it?

MS. LABUDA: Correct. Yes.

Q. So some of the aspects of the five-year plan for fiscal 2020 that are in the current five-year plan could be different in fiscal 2020's five-year plan; is that correct?

MS. LABUDA: It's conceivable, but there is a shift in certain assumptions in the City's five-year plan.

Q. Okay. I wanted to talk a little bit about what you were talking about, Ms. LaBuda, with your statement about the operating expenses in fiscal 2017. In the financial plan, schedule BV-E5 WP-1, on page six there is a statement here. It says, Per City policy effective in fiscal 2017. For personnel associated with the CIP Program can no longer be funded via Capital Financing. Therefore, the fiscal year 2018 pension and benefit costs also reflect an approximate 12.5 million dollar shift in cost per capital to operate.

When I was looking at the breakdown that we referred to earlier, I noticed that a large variance from the Board's decision in your actual results was in the personal service and fringe benefits category of the finance department. And I'm on page 51 of the Hearing Exhibit-7 of the Public Advocate.

MS. BROCKWAY: Just for clarity of the record, earlier you were referring to page six.

MR. BALLENGER: Page 6 of BV-E5:WP-1. And I wanted to ask Ms. LaBuda.

MS. BROCKWAY: Actually, what you quoted from --

MR. DASENT: Assumptions document.

MS. BROCKWAY: You're not talking about the financial plan. You're talking about something different.

MR. BALLENGER: Yes. I'm sorry. Financial Plan Revenue, Revenue Requirement Assumptions, yes.

MS. BROCKWAY: Now I see it.

MR. BALLENGER: I

apologize. I didn't read the full
title.

BY MR. BALLENGER:

Q. So just looking at the actual result of fiscal 2017 in which you provide a finance plan assumption, can you tell me how much of the fringe benefits were shifted from the CIT program to -- from capital to operating in fiscal year 2017?

MS. LABUDA: I would have to get back to you on that. It's a very, very small amount. I believe it was less than two million dollars. If I may come back to you with a transcript request.

Q. Okay. We can take the transcript request 13, at this point, to please provide the amount of fringe benefits expense shifted from capital to operating in fiscal year 2017.

I think I would like to turn to collection factors. And I would like to start on page nine of the rebuttal statement. PWD's rebuttal statement number one. You there?

MS. KUMAR: Yes.

Q. You stated here that you don't agree with Mr. Morgan's three-year recommended approach. I would like to -- well, while we're on this subject, also take a look at page 54 of Exhibit-7. We'll return to that.

In the last rate proceeding do you happen to recall what methodology -- never mind. I did include it. Sorry. I turned to the wrong page.

Page 54 of Hearing Exhibit-7. This is from the last rate proceeding. This is also a section of the financial plan revenue and revenue requirement assumptions. And in the middle of the page on page 54 what is shown here are the collection factors used in the last rate proceeding. Do you see that?

MS. KUMAR: Yes.

Q. Okay. And from looking at this can you confirm that you -- that the department proposed a three-year average in its last case?

MS. KUMAR: Can we just take a minute, please, to take a look at the whole document?

MR. BALLENGER: Sure.

MS. KUMAR: Yes.

Q.   Okay. And on page nine of your rebuttal statement you provided a table that provides five years of data. This is for non-storm water holding buildings. You provided four years of data for the bill year for plus one. And you provided three years of data for billing year plus two and beyond. Do you see that?

MS. KUMAR: Correct.

Q.   And am I correct that what you've proposed is the average of five years of current billing your data, the average of four years of billing your data, plus one, and the average of three years of billing your data, plus two?

MS. KUMAR: Correct.

Q.   So you haven't used a consistent five-year average. It's a five-year average, a four-year average?

MR. JAGT: We've used a consistent approach and all of the available data.

Q.   Okay. And as I look at this, would you agree with me that the collection factor in the billing year appears to increase, with one exception? It appears to increase between 2012 and 2016 very steadily?

MS. KUMAR: Correct.

Q. And correspondingly the collection data for the billing year plus one and billing year plus two and beyond actually decreases over that period of time?

MR. JAGT: Correct.

Q. Okay. And so looking at what you did in the last rate proceeding, it appeared that you used the three-year average, the most recent three-year average for each of these collection buckets, for lack of a better term, for each of these tiers of collections. Is that correct? So you used the most recent data for the billing year, in the last -- the most recent three years of data for the billing?

MS. KUMAR: Correct. During the last rate hearing we had limited data at that time, because that was the first time that that was engaged to provide the information at that time. That was the first time they were engaged to provide that information. So we had several information, which we used. And in this rate case, we now, because of the passage of time, we have more, more information. And so we've used quality available information. That's Mr. (inaudible) to get our Board representative information on the collection factor.

MS. BROCKWAY: I'm not finding where in either of these documents it talks about the 2016 rate case. Can you help me out there?

MR. BALLENGER: Hearing Exhibit-7 of Public Advocate, page 54. At the top left of the page you'll see the header. It says Philadelphia Water Department fiscal year 2017 to 2018 rate proceedings.

MS. BROCKWAY: So this is from the filing?

MR. BALLENGER: Yes. This is included in the filing of the last rate proceeding.

BY MR. BALLENGER:

Q. Ms. Kumar, do you happen to recall anything more than the adjustments to this collection, methodology that was used in the last rate proceeding?

MS. KUMAR: Could you repeat the question, please.

Q. Did the Board accept this collection factor methodology in the last rate proceeding, the three-year average that's shown in the filing?

MS. KUMAR: My recollection is that -- subject to check. I want to make sure my recollection is accurate. The results that we had used in the analysis. Not the methodology, but specific results that we derived and used projections. My understanding is that collection factors that we had developed and used was part of the final.

Q. Okay. Just like to turn to page 56 of Hearing Exhibit-7.

MS. KUMAR: What page number?

Q. Page 56. It's the next page. And what you'll see here are four small tables. And I just want to focus on the two tables in the left-hand column where the heading is "non-storm water only." Do you see that?

MS. KUMAR: Yes.

Q. Okay. And what I've done here is I reproduced the numbers from page nine of your rebuttal testimony. Can you confirm that?

MS. KUMAR: If you could give us a second.

Q. Sure.

MS. BROCKWAY: While she's doing that I'm struggling with the fact that the numbers on the filing from the 2016 rate case -- I'm just looking at year one -- appears to be different from numbers for the same years in rebuttal testimony.

I don't know whether you were going to go there, but that's something I need to understand better.

MR. BALLENGER: Okay. We might get there.

BY MR. BALLENGER:

Q. I confess I had an average and a total row to the table. But aside from that are the numbers that I showed for fiscal year 2020 through 2016. And that table is the same as what's shown on page 9 of your rebuttal statement.

MS. KUMAR: Yes.

Q. Okay. And I think you introduced an errata at the beginning of the day total that reflected that the total collection rate used in your model is 96.54 percent. Is that correct?

MS. KUMAR: Correct.

Q. Okay. And that's also what I showed her as the total.

MS. KUMAR: Yes, correct.

Q. And so I assume, you know, we're not going to sort of reopen discussions extensively on where we are on the TAP rider. At the very least you would agree that that would be the collection factor that you would recommend using for purposes of the TAP riders?

MS. KUMAR: The 96.54 on the errata statement actually.

Q. Sorry, I didn't get that far. Thank you. On the table below the table we were just talking about, what I've done is I began to utilize the same numbers that are provided in your rebuttal statement on the page nine. And they're the same numbers that appear in the table above. Aside from what's in the average and total column. Can you confirm that as well?

MS. KUMAR: Can you state that again, please?

Q. Yes. I'm sorry. I think I messed that up. Do you see that the collection data that I have shown for the years 2012 through 2016, in the bottom table it's the same as the collection data that's shown in the top table?

MS. KUMAR: Yes.

Q. Okay. And when I take the most recent three year average from each of the columns, I am able to calculate a higher total collection rate. And what I show there is 27.12 percent.

Would you accept that, subject to check?

MS. KUMAR: Yes.

Q. And so using the same three-year average methodology that you used in your last rate increase, that would result in a .58 increase in the collection factor, right?

MS. KUMAR: Subject to check, yes.

Q. Okay. And I won't ask you to crunch the numbers on -- how that would impact the rate increase. But just as a general proposition you would agree that you would have higher revenues under both current rates and any proposed rates as a result of a higher collection factor?

MS. KUMAR: We do want to state that there is a difference in approach this time that we used. It's not just using the same numbers and the same -- this time, because we have additional data, we've been able to have three complete factors. So for 2012 billings, 2013 billings and 2014 we had three complete patterns of full payments that came in from those billings.

In addition to that because we also have the more recent 2015 and 2016 billings. So we not only use three complete billing patterns, which we did not have last time. So we have that data this time, plus the two additional years.

We used comprehensive data that was available. It is not just trying to use the same approach and trying to figure out which one will give a more better -- give a higher prediction number. That would mean that there was no rationale behind what we were doing. There was a specific rationale as to why this time we used the data. Again, because the first time we had three complete payment patterns from (inaudible) that it was able to provide. In addition to that, we had the billing from 2015 and 2016. We collectively used all of the data, because that is a much more representative collection factor.

Also when we did this, the 96.54 percent -- again, applying to 2017 and beyond it also -- our projection was very, very close to what we actually experienced in terms of our actual revenue in 2017.

So it's important to recognize why sometimes a change to approach is needed. It's not always just set in stone. Even when better data or more data is available, that we don't ignore it. We have to use it. That's part of the rethinking practice. And better data and good data and more data available we use it. And that's why the rationale for why we change the approach.

MS. BROCKWAY: Does it show here on any of the -- that Mr. Ballenger just talked about? What you were saying about the 2017 projection being closer, or is there someplace else I should look for that?

MS. KUMAR: It's not in our rebuttal.

MS. BROCKWAY: So you weren't referring to either of the two pages that Mr. Ballenger was pointing us to? You wouldn't --

MS. BROCKWAY: Of course, you wouldn't, because neither one of them has the 2017 on them.

My apologies for interrupting you again. I tried to make sure that, as much as possible, what's in the record on a certain topic is clear. But sometimes I just make it worse.

I think it's to you, Mr. Ballenger.

BY MR. BALLENGER:

Q. All right. So I would like to -- I would like to talk about the exhibit that we distributed on Friday. And it was not numbered at that time. And I have more, if anyone doesn't have it.

So I would like to mark this as Hearing Exhibit-8, Public Advocate, dated May 14, 2018, to be included on the record today.

And I want to understand a little bit better -- we talked just briefly on Friday about write-offs. And I wanted to see if I could understand the department's write-off practices a little better. And this is a memorandum in Hearing Exhibit-8 that's dated August 12th, 2011. It is to the accounting review's panel and from Mark DeHarvey, utility accounting manager of our water revenue bureau. I note that the water commissioner -- the then water commissioner and then deputy water commission of finance are both copied on this memorandum.

And what I wanted to focus on was that this memorandum on the first page, statement, it submits a total of seven million, three hundred and 39 thousand five hundred fifty-seven dollars and 39 cents of delinquent none-collectible water fund accounts for exclusively from the water fund financial statements. And I think -- maybe it was probably answered a little bit on Friday. I may be misremembering. Am I right that if an uncollectible account receivable is written off that that would, in fact, be the collection rate for the year of the write-off?

MS. KUMAR: I'm going to object (inaudible) respond to this particular document, because you introduced it as an exhibit and then we can --

MR. BALLENGER: Okay. Thank you.

MS. LABUDA: So Mr. Ballenger, to address what exactly this document represents. This is a document, obviously as we stated, from 2011, which predates my tenure with the City, but factually what it is is simply an acknowledgment for the certified annual financial report. There were some amounts that are deemed uncollectible for our financial statement reporting purposes only. The liens are not released, and the amounts are not taken out of billings. This is simply for capital purposes for GAP government accepted accounting principle statements. And with that, I'll turn it over to --

Q. Well, maybe before you go -- because I also wanted to follow up on the 15-year write-off. So my understanding is that unpaid amounts after 15 years are also written off under water revenue bureau practices. Is that correct?

MS. LABUDA: I believe that is correct, yes. That's under city practices.

MS. BROCKWAY: What do you mean when you say "also"?

MR. BALLENGER: I was equating this with the same treatment that those amounts are --

MS. LABUDA: They're two different mechanisms. The piece of paper that you handed out as your Exhibit-8 is simply a piece of paper that is for the certified annual financial report. It does not release

the lien. It's very different than
incremental release of a lien at the
end of 15 years.
BY MR. BALLENGER:
Q. So are these memorandums still
prepared today? Not today, today, but
currently? Do you receive these memorandums?
MS. LABUDA: These are
memorandums that are prepared by the
city once a year, yes.
Q. Okay. And do these write-offs in any
way affect the collection factors?
MS. LABUDA: They do not.
I'll turn it over.
MS. KUMAR: No, they do
not. Because these (inaudible) this
paper are not really written off,
because they continue to show up in
billing. They continue to show up in
billings and the billing data that we
as financial consultants get. There
is a (inaudible) of billings. And
then the collections are reported
again, that's billings, because it

continues to be billed to the customers as an outstanding balance. So that does not affect the connection factor that we calculate based on the payment pattern that we discussed and you can continue to discuss.

Q. Okay. So now I guess I have the same question that I think the hearing officer was getting at. Why would the connection factor for a prior year change between 2016 and the current rate cases? Why would the connection factor for -- I can understand how it would change for the out years.

MS. BROCKWAY: You're not on Exhibit-8 anymore, are you?

MR. BALLENGER: Let me just take a look here. If I look and compare --

MS. BROCKWAY: What exhibit?

MR. BALLENGER: Hearing Exhibit-7, page 54, with the rebuttal statement on page nine.

BY MR. BALLENGER:

Q. And I looked at, for example, non-storm water only billing for 2013 billing year collections. It's reported as 84.80 percent. And when I looked at what was provided in the last rate case shown on page 54 of Hearing Exhibit-7, the current year collection rate is reported as 83.29 percent. And I'm just -- I'm kind of guessing that maybe the write-offs were part of the equation. What causes those numbers to change between proceedings in that year had concluded prior to both of these cases?

MS. KUMAR: Well, the actual response is we provided financial consultants, because they are close to the data. Our understanding is that the data itself changes depending on when they get even those historical years. Depending on when you run the data that for a historical year there may be some changes, depending on what happened to the data itself. So again, financial consultants can give you much more appropriate response to that question.

MS. JENNIFER: Yes, I can explain. As Prabha explained, every year we get a new copy of the billing database, and we run the same reports on it, tweaked as necessary for changes in the billing data but for every year part of what we consider billings, sort of a denominator of the collection factor excludes any bills that were subsequently reversed. And it accounts for any adjustments that have been applied to older bills. The document that you produced I do not believe reflects adjustments that are accounted for in that way.

MS. BROCKWAY: So you're talking about --

MS. JENNIFER: I'm sorry. This new exhibit number eight. So each year the billings from a prior year might have changed a bit when we rerun the numbers.

BY MR. BALLENGER:

Q. So the write-offs are one thing for financial reporting. And what you're talking about are bill adjustments that actually affect the enumerator or dominator in the collection factor?

MS. JENNIFER: Yes.

MS. BROCKWAY: We're talking now about Hearing Exhibit-7, page 54 of the chart there?

MS. JENNIFER: Yes. I'm explaining why these numbers for past years are a little bit different than those same years in the more recent payment patterns report.

BY MR. BALLENGER:

Q. So, I guess, I'm looking at the difference between the numbers reported on page 54 of Hearing Exhibit-7 and what's reported page nine of the rebuttal statement. I'm just saying that fiscal year 2013. And what -- it appears to me that's greater than -- there's a greater than 1.5 percent adjustment to the collection rate in fiscal 13. Is that correct? It just seems like a very significant change in the collection rate for a single year?

MS. JENNIFER: Well, I won't speak to significance, but it is because the data changed.

Q. Okay.

MS. JENNIFER: Between the time those numbers were run and these were.

Q. And how long -- I mean, is it possible that we could see these numbers change again in the period of time?

MS. JENNIFER: Yes.

Q. And they change annually?

MS. JENNIFER: They change whenever they change.

Q. They change whenever you get the data they change?

MS. JENNIFER: They could, yes.

Q. Okay. I'd just like to --

MS. BROCKWAY: Before you go on, are you going to ask about -- because I had a lot of questions about that too. I noticed it and was confused. This might go back to what you were saying about the reason. Just looking at current year, comparing the data and the rebuttal statement from the data filed in the 2016 case. For each year it appears that -- the filing in the 2018 case was less than the figure now. Is that something, a reflection of what you're saying about the write-offs, or is it something else?

MS. JENNIFER: I did not mean to imply that write-offs are changing these numbers. They are not. They are not treated as a payment, and so they don't increase the collection rate, nor do they decrease the billings.

MS. BROCKWAY: So I missed what you had said then about what made the difference.

MS. JENNIFER: The difference is that every time this calculation is done what we count as billings might change a little bit, because some bills have been subsequently reversed. So we don't count them as billings anymore.

MS. BROCKWAY: Reversed means you no longer expect the customer to pay that.

MS. JENNIFER: No, not exactly. "Reversed" means -- for example, if someone's meter was broken and they got a series of really, really high bills, they never truly owed that money. So those bills would be reversed, and they would be rebilled at the appropriate --

MS. BROCKWAY: We may cross references, but the record will probably show that you said "yes." In other words, I think I was trying to say the same thing.

MS. JENNIFER: Okay.

MS. BROCKWAY: Thank you.

MR. BALLENGER: Just to be up to date I would like to ask for a transcript request. I think I'm up to 14.

MR. DASENT: Proceeding is up to 14. Some of them are yours.

MR. BALLENGER: That's right. I think we are now up to 14. I would just like to -- I would like a copy of the most recent excerpts for two fiscal years accounts reviewed panel memoranda, like what is shown in here in Hearing Exhibit-8.

MR. MERRITT: Can you provide page reference?

MR. BALLENGER: Hearing Exhibit-8 is the only document included in the -- what I'm just referring to as the accounts reviewed panel memoranda. And I would like to get the two most recent fiscal years of that memoranda.

MS. BROCKWAY: We were just told that that's irrelevant to --

MR. BALLENGER: It's irrelevant to the collection rate, according to the witnesses. But it does show write-off information or financial reporting.

MS. BROCKWAY: Which they're saying is different from write-off information for rate case --

MS. BALLENGER: Yes. I understand their position. There are many ways in which the finance statements are different than the rate --

MS. BROCKWAY: Yes.

MR. DASENT: This seems completely irrelevant. I don't like to object, but it doesn't seem to be a reason for doing this.

MS. BROCKWAY: Well, I had that question, too. But it's only four or five pieces of paper, so let's do it. You can have your transcript request 14.

MR. BALLENGER: Thank you. I'm wondering if anyone else has any questions for this panel at this time, because that concluded my cross of this panel. And I was hoping we might have enough time to talk a little fire protection before the day is out.

MS. BROCKWAY: You're going to have questions from the bench.

MR. BALLENGER: Okay.

MR. EWING: I have one question.

BY MR. EWING:

Q. The dashboard that we continually refer to, is the result of that reflected in table C-1 that's provided to us? Is that the math that's in this?

MR. JAGT: Yes.

Q. Is anything more than the results available? Are the formulas available? Is there an illustration of the dashboard itself? Is there anything into the logic, anything further into the logic that we can digest, other than the results as seen here?

MS. KUMAR: The dashboard itself, not the result. The dashboard has input, certain input that goes into the development of that -- of those results. For example, the (inaudible) adjustments that are reflected for fiscal 2021, 2022, 2023, that's actual input of percentages going to the dashboard. Similarly, Mr. Jagt can confirm there are other inputs -- also, for example, the amount of the draw from the re-stabilization fund. And in given years are deposits to the re-stabilization fund in a given year will be in the dashboard.

So the dashboard has essentially input that then has an influence of how that particular table looks. And then the dashboard also has charts and stuff like that that would reflect. You do the input. You can see what the impact is. The dashboard itself does all the calculations right then and there (inaudible). The entire model has been submitted in (inaudible) addition to the model itself in this filing.

BY MR. EWING:

Q. Is that a B&V process, or is that a PWD process? Are you all doing these calculations, or is the department doing these calculations?

MS. KUMAR: The model itself is a Black & Veatch (inaudible) model. But as Mr. Jagt explained before, when we do the financial analysis, we do an (inaudible). When we have the draft results, we review the draft results, all of the line items. They input the "inaudible." The outputs, what are the targets, what are the metrics, what are the consulting outputs, we discuss and review all of that with the Water Department. And then if there are some (inaudible) that need to be done -- because from the time we start until the time we file something, the numbers might change. Because the inputs that the department gives for

certain adjustments or certain
assumptions might change as well. So
until the time we actually finalize
images, which is usually before we
start writing the testimony, we then
run the (inaudible). And then the
final duration actually goes into
testimony and to all exhibits all
reviewed and -- by the department.

BY MR. EWING:

Q. I'm just -- I'm wondering -- thank you. I understand that it's complex. I'm wondering if there is any way for our purposes of review to understand the differences between what are the input variables versus what are the assumptions versus what are the products of the algorithms that go into figuring this out.

MS. KUMAR: One part of what
you're asking, what are the key
assumptions that went into the
analysis? All of those assumptions
are listed in this document that we
just referred to, which is schedule
BV-E5 WP-1. That lists all of the

assumptions that goes into the revenue projections, the requirement projections by category. And so those are all of the key assumptions that go into under the development of the finance plan. It actually calculates through different steps, the model itself. And then the final output, to summarize, this is what you see in that Table 3-1.

MR. EWING: Okay. Thank you.

MR. POPOWSKY: Thank you, and good afternoon. I also have just a couple of questions on your testimony and one follow up on table C-1.

BY MR. POPOWSKY:

Q. It strikes me that on table C-1 that -- it seems to me what you're solving for, and I realize this is not the sole product, but what you're solving for in the years of the rate increases -- actually starting in 2020. You're solving for 1.3 debt service coverage ratio.

Let me just finish. In order to get to that it seems to me you start with revenue at existing rates, then you look at projected expenses at any given projected test year. And then if there is a difference between those, between your existing rates and your projected expenses, you solve to say how much additional revenue do we need in that test year in order to produce a 1.3 debt service. But with a complicating factor that you have two sources to get to 1.3. You can either take the money out of the rate stabilization fund or you can increase rates?

MS. KUMAR: Or both.

Q. Or both. Some combination. So the rate increase in each year is, as far as I've been able to determine over the last two cases, the sum of whatever money you're willing to take out of the rate stabilization fund, plus whatever money you seek to recover from the customers. Is that sort of the way it works?

MS. KUMAR: The additional revenues that we estimate, plus the additional -- the withdraws that we deem are reasonable given all of the

other (inaudible) we have to meet.
Then those two factors together kind of really determine the level of revenue adjustments we need from those service charges. And also where the debt service coverage will be at that point in time when we do that.

Q. Right. I mean, it's not a coincidence that the debt service code is always 1.3, 1.3 and 1.3 in the out years. That's the, sort of, the target that you're shooting for. And you reach that target by a combination of withdraws from the rate stabilization fund and increases in rates?

MS. LABUDA: So I think of coverage as the mechanism that allows us to pay for a portion of our capital projects from cash or internally generated funds. So cover in and of itself is not the solving factor. It's really what it does. It flows money through the waterfall, past operating expenses, and allows funds to go to a capital account. So when we're talking about 1.3 times coverage in fiscal year 2019, we're talking about how much money are you willing to transfer to a larger growing capital program from current revenues. And if you don't transfer 60-odd million a year through the factor of coverage, then you're going to increase the borrowing.

So coverage, from my view, is the mechanism that allows us to pay for our capital through current revenues.

Q. And I'm not suggesting it's an end in itself. I'm just saying as far as I can tell, the way the equation -- the way the model works is, like I said, it can't be a coincidence that it always comes out to 1.3. You must be solving for that number, including the factors that you've mentioned. You're nodding your head. Is that correct?

MS. LABUDA: Yes. I mean, the goal is to try and favor 20 percent of the capital program from

current revenues or internally
generated funds and how do you achieve
that. You then define what is your
coverage --

Q. And then there was a question, I think by Mr. Ballenger, that, well, if the Board were to make an adjustment, it doesn't automatically flow through the model. But if the Board would, let's say, as we did in the last case, were to say that expense A, we think, is only one million. You say it's two million. We could go to this table, C-1, reduce the total operating expense by one million. And you would need one million less in revenue in order to get the same 1.3 coverage?

MS. KUMAR: Correct. All
being equal. So I think the question
whether the model automatically will
do that -- the model will not
automatically do that. The user who
is using the model will have to
recognize now that, yes, there is a
million decrease in the operating
expense, which will flow through the

model. The management of revenue
adjustment is something that you will
have to go and change. That's what we
said has to go change in the
dashboard.
Q. Right. And so theoretically you could
choose to put another million into the rate
stabilization fund or you could reduce the rate
increase loss by a million. That's the judgment
that you --
MS. KUMAR: Correct. That's
the determination we said we would
have to make.
Q. Right. But if the Board said, We
think it should be a lower rate increase, then
you would lower the rate increase?
MS. KUMAR: Correct.
Q. So that's helpful. Thank you. And
just a couple of questions on your rebuttal
testimony, statement one. There is a statement
at the top of page five that I think is
important. It's not really -- i'm not even sure
if it's directed to you or not. But whoever
wrote this said, it's important to note -- I'm

sorry. Top of page five of your rebuttal statement. You say, "It's important to note that a utility can always change a series of rate increases if future analysis shows it is warranted and the utility follows a proper rate change process." Do you see that?

MS. KUMAR: Can you repeat it again?

Q. I'm sorry. The very first sentence at the top of page five of your rebuttal testimony. Do you see that sentence?

MS. KUMAR: Yes.

Q. And I think that's really more of an observation than expert testimony. But when you say "a utility," my sense is what you're saying here is if, for example, two years from now or one year from now if the department believes that it needs additional revenues -- notwithstanding the Board's decision in this case. If the situation changes to where you felt that you needed additional rate increases, I take it that it's the position of the department that you could file for an additional rate increase at that time. Is that what you're saying?

MS. KUMAR: Right. What we're saying is that the department can make the changes to receive those rate increases if they -- in situation one subject to, obviously, the procedures, the rate approval procedures that exist. In this case it's a Rate Board.

Q. And I think it may be a legal issue, which I'm looking at both, the advocate and the -- I think it's a fairly important point, which at least I would like to hear from the counsel whether you both agree that -- and I don't, frankly, see anything in the ordinance otherwise. But what you were saying is, if we reach a decision, we, the Board, make a decision for either a two-year or three-year rate increase, notwithstanding our decision, signature of the department, I believe -- I think what you're saying here is feel free to come in and file for another rate increase, and then we would have 120 days to decide that.

MR. DASENT: That's

correct. There is no bar to our
filing for rate relief that other
conditions dictate, like emergency.
Any other thing that we didn't
anticipate might cause us to come
back. There is no bar barring filing
for additional rate relief.

MR. BALLENGER: I agree, for
the most part. I think, of course,
the Board made a decision that
included a stay-out provision or
something like that. But there may be
some -- something the Water Department
might have to do differently, like
show that it has satisfied the
following -- but I don't think that's
the vision in this case.

And generally speaking, I
tend to agree with Mr. Dasent that
this is a proceeding that's commenced
by petition by the Water Department.
And it's free to petition at some
other later date.

Q. That's helpful to have an agreement on that point. One last point, because I think we're going to be waiving cross-examination, which is fine with me, on the rate design and rate structure witnesses. There is a sentence at the bottom of page five where PWD would like the time to consider an alternative rate structure as part of the next proceeding. I just wanted to pin that down. Maybe Mr. Jagt would be the best answer.

Are we talking about switching to a rate design that's based on customer classes as opposed to simply based on what usage and meter size? Are we talking about cost of service study, rate allocation or a whole new rate design?

MR. JAGT: So it would be a comprehensive study looking at the cost of service and looking at the various options for the rate design within that. So we did look at rate design by customer class and also looking at the rate structure of whether -- you know, what options we should consider, and move away from the declining --

MS. KUMAR: Anything else that the department wants to consider. So what will be alternative (inaudible). The anticipation is that it would be holistic (inaudible).

MR. POPOWSKY: Okay. It might be good to flesh that out at some point, so if the Board wishes to pursue that or asks the department to pursue that, then we know what it is that we're asking for. Thank you. That's all of the questions that I have. Thank you for your patience all day today.

MS. BROCKWAY: I'm probably going to bounce around. Let me start with that last question.

BY MS. BROCKWAY:

Q. This will be in the record for the 2016 rate case. But I remember some discussion around, I think, the large industrial proposal to do something to change the cost allocation. And one of the reasons it was argued not to was

that one really ought to have a complete revised
cost of service analysis and rate design. Do
you recall that?
MR. DASENT: Yes.
Q. We finished that case in July of 2016, and it's now 2018. Has any of that work been done before -- it looks like from rebuttal statement one, page five is that that analysis has not started?
MR. MERRITT: No. And the timeline between rate cases had something to do with that. We couldn't get all of that done and the get the rate filing in on time. So we're hoping in this particular instance we'll have enough time to do that. And we're interested in doing that, and will agree to do that with the Public Advocate support with your blessing so that going forward we will have a full evaluation of the alternatives presented for rate design and a customer class analysis.
Q. I want to make sure that we understand

what it means to "flesh out," the definition. We've said that we're going to take notice of the RFP. Would the RFP detail what tasks must be done?

MR. DASENT: My suspension is that we will not, but Ms. Kumar can correct me. What I was hoping is, we might expand upon what our position would be in terms of the scope of the such analysis. And then your Honor can see our point of view and compare it to whatever other point of view that the Public Advocate might have.

MS. LABUDA: So the RFP does contemplate a (inaudible) for our alternative design. But it does not provide details of our methods. And I think that's what you're looking for. It absolutely contemplates the service. It does not provide any of the details. So we will have to follow up on that.

MR. DASENT: And if we could address that in a brief, that may be one way to get more information in front of you.

MR. BALLENGER: It would be a little hard for us to comment in our brief to the department's proposal announced in its brief, but I can certainly consult in filing our brief about what he thinks that proposal should entail. I can try to do that from our vantage point. But it's a little bit hard to know the proposal to respond to under the mechanism that Mr. Dasent has proposed. But I realize we also are where we are in this case right now.

MR. DASENT: We're both advocates for the same thing, but we still have to articulate the nuts and bolts of it.

MS. BROCKWAY: I don't think Mr. Ballenger is advocating that, but he's acceding.

MR. MERRITT: Mr. Mierzwa, Mr. Ballenger's witness, brings it up in his testimony.

MS. BROCKWAY: So we do have some record on that?

MR. BALLENGER: Mr. Mierzwa doesn't -- what I don't think actually sort of propounds a design for what should be in a rate study.

MS. BROCKWAY: You don't page with little boxes.

MR. BALLENGER: I mean, in general I think he finds some areas to be out of balance and says, This could be balanced for a formal rate study. But I understand that this is a lengthy undertaking. And so I'm just going to recommend in the absence of a rate study the following. Without putting words in his mouth, I think he'd be comfortable with that. I can talk to him about it. But I think it's going to be a little hard for us to be very detailed in the brief on this issue.

BY MS. BROCKWAY:

Q. Does the department have a clear sense
now of the scope of what it wants to have done?
MS. LABUDA: No. We have
not identified possible alternative
structures to have (inaudible). We
need to get through these proceedings,
close the technical hearings, close
the briefs and then sit down in July
and think where the structures are
that make sense to review loss and
prophet to the Board as part of the
next proceeding.
Q. What's going to happen is that if you
get what you have asked for in this case, the
next proceeding won't be for three years?
MS. LABUDA: Correct. And
we would have to start immediately in
July. We need time to evaluate the
rate structure.
Q. When would you put -- if you didn't
have to come before the Board, when would you
put the new rate structure in?
MS. LABUDA: Not until the
next time we file for rates. It

wouldn't be between 2019, 2020, 2021,
It would be for fiscal 22.

Q. That's helpful. So I gather that the parties are going to brief this. I have struggled with how sort of how to pose this question without being snarky. Throughout the testimonies of the department there are places where it says you have to do it this way, this is the best way, this is the only thing you evidence for, yada, yada. On rebuttal statement one, number six -- and I actually didn't understand what it contributed to the rebuttal in the first place. The paragraph starting line ten says, "It's important to recognize the key word 'guidance.'" And it goes on to say, "The manual explicitly recognizes the need to consider the specific circumstances of the system and service provided. Don't follow the manual bindingly."

To me, it suggests more flexibility in rate making practices than other parts of the testimony sounded to me. I don't know if that's a specific enough point to reply to. But if it -- if there is something that you can say about that, that would be helpful to me.

MS. KUMAR: What they're saying is that it's not just a matter of flexibility. It's just really saying that when we (inaudible). There are also examples provided in the guide manual. And there are even some guidance factors provided in the guidance manuals, like the capacity factors. So those are really examples or illustrations. And what we're saying is that those are guidance. They're not stipulations. So when you actually do the analysis, run the overall principles, we use the principles given in those manuals. We still have to very carefully and closely look at the utility for which we are doing the study and all of the circumstances and the requirements of that particular utility and the services it provides and its rate base.

So it is still very much a

guidance manual. Still the principles
are all valid. But can you take a
principle and apply it without using
the circumstance and the data and the
situations of that utility
for which we are using data. We are
saying those have to be very careful
and consider.

Q. I'm going to change gears, I think, so give me a second. In the rebuttal pages 13 to 14 we're talking about SMIP and GARP. And if I understand the point of this part of the testimony correctly, if you reduce the amount of funding to private actors, customers in this case, you have to spend that money on public projects and those are more costly per project. Is that a correct interpretation?

MS. LABUDA: That is correct, yes.

Q. What would change is not just the total amount of money -- excuse me. Not where it's directed but the total amount if you wanted to get the same resulting green space?

MR. MERRITT: So right now

under the SMIP/GARP program, the Green Acres associated with the current (inaudible), we requested a budget and realized it was private property. So if the funding is not provided for the green acre program, SMIP and GARP, then the department, to meet its five-year milestone, has to find that green acre on a public -- within a public space. It costs more to install the green infrastructure on public property than it does on private property.

Q. I understand all of that. I'm trying to understand what do you solve for in using the -- I would imagine, tell me if I'm wrong, that you would solve for the number of Green Acres you need to meet your (inaudible). No matter how you get there you got to get there, the number of Green Acres?

MR. MERRITT: Right.

Q. So it sounds like also the department interprets a Board decision saying -- let's say we agree. You don't need those ten million dollars. You would interpret that as a decision that you could not give funds to private actors. It's probably a legal question.

MR. DASENT: Additional funds, expand the program.

MS. BROCKWAY: Yes. This is getting actually into something which is hard to even define.

MR. DASENT: One interesting point. Erin Williams will be in the room tomorrow. And she really speaks to this issue very specifically. If you can hold that question until tomorrow, then I can get you the appropriate interpretation, rather than from my layman's approach.

MS. BROCKWAY: Okay. I'll pass this on to tomorrow. Let me see if I have anything for today.

BY MS. BROCKWAY:

Q. On the collection factors, I may misunderstand how you're using the three categories of time periods. But I would have thought going forward -- just a moment. Maybe you'll clear up my confusion if you'll go to rebuttal statement one, page nine, the billings data there.

This question it doesn't matter what the numbers are. Could you review, talking about the lines as being the years and the columns as being billing year, billing year plus one, billing year plus two and beyond, as the columns, how you ultimately get to 96.33, whatever it is you got to.

MS. KUMAR: Would you state that again?

Q. What is the math that you would apply to these numbers to get to a proposal?

MS. KUMAR: Would it help if we give you an illustration to explain that today?

Q. Sure. Actually, let me ask the question based on this. Can we mark this as an exhibit? It's PWD --

MR. DASENT: Just call it Exhibit-X for now, if you don't mind.

BY MS. BROCKWAY:

Q. Okay. I want to look at lines that

say punitive collection chapter. And this is the department which ends up with 96.5. Do I understand that the three boxes there which represent billing year, billing year plus one, 9.08 and past two plus as 1.56, do I understand that the 8.50 -- if I took all of the numbers in the column above and divided them by five, that's what I would get?

MS. KUMAR: Correct. The average of all of the billing years.

Q. And similarly -- so in billing year plus one, I would divide by four, because I only had four --

MS. KUMAR: Four, correct. And then in the last you only have three years.

Q. What's confusing me is how you know in any given year -- somehow I have it in my mind that another way of doing it would be let's take payment pattern set three, fiscal 2014, that you would add across. So you would have the billings for that year, billings for -- that were billed a year plus one ago and billings for billing year plus two ago.

MS. KUMAR: So what you're asking is if you literally go across part 12, which we call payment pattern set one, payment pattern set two and payment pattern set three --

Q. Yes.

MS. KUMAR: Similarly for the in-progress pattern 15 and in-progress pattern 16. Then we would have -- similarly to the 96.54 we would have numbers for each of those payment patterns. And you're saying averaging those?

Q. Yes, averaging across rather than averaging columns.

MR. JAGT: One problem is the way in which you apply it. Because the financial plan is based on the billings for over the years. So we're doing a projection of revenues based on the collection of billings over time. So when we developed the projection of the fiscal year 2017 revenues, we reflect that we're going to collect 85.9 percent of the fiscal year 2017 buildings. We project that we're going to collect 9.08 percent of the fiscal year 2016's billings. And 1.56 percent of the FY 2015 billings.

Q. And the sum of those three is the assumed dollar collection in the year in question?

MR. JAGT: Correct.

MS. KUMAR: Correct. And so it's not like we just -- in the model itself it's not like somebody is doing it and putting in 96.5 for us as an input.

Q. I understand it. Please let me -- I get confused easily. And I think I'm going to a different point. I had it. Now I can't remember it.

MR. JAGT: Can I explain one thing? So we have looked at using a single number at times. And what we have found through analysis is that if we try and simplify it down to a single number, that doesn't reflect

the pattern of revenue increase
historically. So if you look back
over the years, the three historical
years that we are applying the factors
to, the revenue increase or the
rate -- increase in rates over that
time has an impact on the amount of
receipts we receive in each year.

Q. I think I'm back to what's confusing
me, which is to -- let's say we are now looking
at fiscal 2016, where you have one category, the
actual billing collections. In that year you
also received monies for earlier bills, correct?

MS. KUMAR: Correct. So in
2016 the department received money for
the bills that they sent out in 2016.
They're beginning to receive money for
the bills that they sent out in 2015.
They're beginning to receive money for
the bills that they sent out in 2014.
But the one that is coming in 2014,
those will only trickle. That's
really the pattern we're referencing
to. So we are saying in billing

year -- if you take any billing year,
we are saying that that based on the
average historical data, the
department should be getting over 85.9
percent from that billing year. But
in that same year, as Mr. Jagt
explained, you would also get 9
percent of the previous year's
billing. And in that same year you
would be getting point 1.56 percent of
the year before. So every year you're
getting that year's, from the year
before and the year before that.
Q.   So let's say for our purposes that you
bill $100, and we're still talking -- we're
trying to figure out what to estimate for fiscal
2017, actually, here on this chart. If you add
these numbers, they're averages of prior years,
but they apply to prior years' revenues. And I
think we just had the statement that your
collection is going to depend among other
things, on the amount of revenues you need to
collect. So I'm having trouble applying the
9.08 to fiscal 2017 and 1.56 to fiscal 2017.

MS. BROCKWAY: Let's assume billings in fiscal 2017 was $100. Okay? So what we're saying is that in fiscal 2017 you would get 85.9 dollars out of that $100 in fiscal 2017.

And then in fiscal 2017, we also take a look at what was actually billed in 2016. In 2016 we may not have billed $100. The department may have billed $80, let's say.

Q. I think the confusion here is because it's all represented in percents. And I wonder if you're changing the denominator to get the percentages. Because the 9.08 is a function of dollars in previous years, not billings for 2017.

MS. KUMAR: Correct. This is really based on -- percentages of 85.9, 9.08 and 1.56 is really determined from actual historical data that is available as to what those percentages look like. What is the pattern? You're just determining the pattern of money coming in. And then we apply the pattern to the actual revenues that we calculated in the model. So whether it is 2017 or 2018 or 2019, we calculated the revenues based on rate schedule and water consumption and a number of meters, all of those things.

So that's for determining the actual billings. Once we determine the billings for each of the years, whether it's 2017 or whether it's 2018, 2019, once we calculated the billings then we have to determine what we are going to collect.

To determine what we are going to collect that's when we use this pattern. So we could apply 85.9 percent to 2017. We would apply 9.28 to 2016 and 1.56 to 2015. So that's what we could do for 2017.

MR. JAGT: There is another way to look at this.

Q. Can you hold on just a second.

MR. JAGT: Sure.

Q. I didn't understand what you just said. I didn't see where those numbers were on the page.

MS. KUMAR: The pattern that we are talking about, 85.9, 9.08 and 1.56, is a line (inaudible) factor. So that's a pattern we determine based on historical data. Now the question is how is the pattern being applied.

So in our model we have -- we pretty much have a projection from 2017 onward. So for 2017's billing, we know we calculated the billing for 2017 based on all of (inaudible). We calculated the 2017 billing. How much do we collect? To determine how much of that 2017 billing (inaudible).

Q. Okay. I think I got what you're doing. And if I understand it, these separate averages based on actual data, which summed to 96.54, you are assuming that that pattern will continue?

MS. KUMAR: Correct.

MR. EWING: Can I ask a

question?

MS. KUMAR: Yes.

MR. EWING: Sorry to interrupt.

BY MR. EWING:

Q. What are the implications of the differences in these two models relative to collection factors? The 96.54 versus the 96.11 percent? Is it simply that in model one more is collected than model two, and that's a preferred outcome?

MS. KUMAR: Yes. To explain, basically what we are showing here is that -- a big part of collection practices is really what Black & Veatch used in this governing projection in the rate filing that we have done.

And what we are presenting in the next one is Mr. Morgan had suggested a different approach in his testimony. And so when you apply what he is recommending and you apply -- you look at the pattern that he is

recommending, what we are seeing is
that the total, cumulative collection
would only be 96.01 percent. Whereas
what we had done would result in a
cumulative collection of 96.54
percent.
If our cumulative collection
is reflecting a 96.5 percent
collection, then mitigates the rate
fees we need, because we are
projecting a little more revenue than
what Mr. Morgan was projecting under
his approach. That's what we are
saying.
Q. Take that a step further, however.
Because in Mr. Morgan's factors he's got about
.9 percent more coming in year one. Less
coming in years two and three. I wonder, how
much does it cost the Water Department to get
back that dollar from a year ago, to get back
that dollar from two years ago, not just the
time value of money, but other operating costs
and alike that might be sunk into chasing those
dollars? Even though the accumulative effect is

less, as you point out, if you get more of it
today is that potentially a mitigating factor
for the implication that you just articulated?

MS. KUMAR: So before we answer the question. When you say you get more of it today, the more of it of today is really a mathematical number. 86.68 came because Mr. Morgan just averaged 2014, 2015 and 2016. That's how the 86.68 came about. See the dotted line? Those are the things that Mr. Morgan used to get his average.

So for us, it is not which number is a preferred option. We are saying that when we have complete data that is available to us, using the more data that we use, you get a more representative collection to project.

Q. So it's a different methodology for
the math, and yours is more correct? You're
stating that yours is more correct?

MS. KUMAR: It's a different way of averaging. And we are saying

we are using more complete data that
is available.

MR. EWING: Okay. I
understand. Thank you.

MR. BALLENGER: If I may
just quickly point out that you
discuss a third sort of alternative
today on the record in the hearing of
averaging three -- the three most
recent -- yes. Thank you.

MR. EWING: Your boxes. I
got it.

MR. BALLENGER: Thank you so
much.

MS. BROCKWAY: I've been
trying to find where expenditures for
advanced meter infrastructure are
located. And the only place I've seen
that discussed in what I've read, I
have been reading all of the work
papers, is the budget that
Mrs. McCarty presented to the city
council, which didn't say a lot about
it, but had -- said we're making

meters better. Should I ask about that with Ms. McCarty tomorrow?

MR. DASENT: That's fine.

BY MS. BROCKWAY:

Q. I think I asked this in 2016 and got a similar answer, that I was going down the wrong path. But we now are in May of fiscal 2018. And I'm wondering if there is any point in using any actuals that we have. We have several months of actuals.

MS. LABUDA: We do have ten months of actuals at this point in time.

Q. Keep your voice up.

MS. LABUDA: I apologize. We do have ten months of actuals, actual data. There is a significant portion of transactions that the City calculates between July and September, and then looks as if they had occurred in June. And a lot of that has to do with the additional costs related to healthcare and pensions.

I think we, as a collective finance group, are not opposed to revisiting fiscal year 2018 as part of any type of subsequent model update that we have to do based on decisions from the Board. And it will not be a full fiscal year. Meaning, I won't know my final pension costs yet, and I won't know my final healthcare.

Q. I'm not sure anybody would want you to make additional adjustments that were not discussed on the record in your final thing. So I think we're probably not talking about updating to actuals unless we have a chance to explore them. Sounds like the same answer as last time?

MS. LABUDA: It does, unfortunately. It is the same answer.

MS. BROCKWAY: Okay. This is on the whole subject of rate case expenses. And I think this is going to be one of those "additional adjustment claim" problems. If you remember in the last rate case, the department was using one category for

certain types of escalations, a bunch
of escalations, and Mr. Morgan was
using something else. And it was hard
for me to sort out what were the
Apples and what were the oranges. And
I'm having that problem. I think I
will have that problem with the rate
case expenses. Either that or I have
no way of knowing whether or not
escalating the forecast for 2018 has
anything to do with the cost that
you're going to have in the future.
Reason being, you told us that there
are different things that are being
done. So -- and since you've also in
rebuttal said, "No, we don't budget to
a number and then try to figure out
what we can do with it. We budget to
what me need to spend," I would be
grateful for more detail on all of the
things that are in the category
that -- if you can answer this, that
Mr. Morgan calls rate case expense.
And I think you've said that you have

additional in your -- in what you call rate case expense.

MR. DASENT: Yes.

MS. BROCKWAY: To be able to sort those out. And I take it from -- and that would be transcript request -- unless you want to do that now. That would be transcript request 15.

MR. DASENT: That works best.

MS. LABUDA: So, of course, I believe we answered a discovery question with the details on line (inaudible) and costs related to the rate case, which contemplated costs associated with outside legal counsel, financial advisor services and financial consulting services. And we would be happy to proffer that table again. But I think the team probably wants to talk about where it's in the model.

BY MS. BROCKWAY:

Q. Yes. Because I understand that you look at a number and escalated it, and I'm still trying to figure out how you know that taking a number and escalate will cover the particular things that have to be done in these years, since I've seen differences from year to year.

MR. JAGT: The rate case expenses show up in two places within the budget and within the model. That would be in PWD finance class 200, which is the services cost. It also would show up in the Rate Board cost center, and again it's class 200. So -- all of the O&M, the direct O&M and other department O&M input sheets within the work papers and the model, you can see those costs by department, class 200 department, and how it's reflected in there.

Q. Am I correct that in order to develop cost -- actually. Let me ask it this way. Mr. Morgan calls it rate case expense. What do you call it?

MS. LABUDA: So Mr. Morgan

refers to the cost as rate case expense. And what I call those costs is costs that provide continued services when we're not in the rate case. So when we're not in the rate case, the financial advisors provide financial advisory services related to debt issuance matters. When we're not in the rate case as part of a dead issuance, we use Black & Veatch to prepare feasibility studies related to debt issuance. So we repurpose those contracts and those dollars to achieve other things we cannot do when we're in the middle of a rate case. We could never do a rate case and a bond deal at the same time, because I do not have the staff to effect that.

So we purpose the dollars and the contract to achieve things in between rate cases that we cannot do during rate cases.

MS. BROCKWAY: Mr. Dasent, shouldn't that be enlarged?

MS. LABUDA: He's suggesting that in addition to work we're doing related to debt issuance and bond authorization and engineering studies additional use of those dollars and proceeding fiscal years would be evaluating alternative rate structures.

MS. BROCKWAY: Still seems to me that those are very different activities and could require very different amounts of consulting time or expenditure. But what I understand you guys to be doing is taking a fiscal 2018 figure that covers those, which would include what we're doing here today, and escalate that, rather than escalate -- rather than look at -- it assumes two things. One, which is that there is a similar amount of money, plus an escalation rate in the next two years. And I'm having trouble with that.

MS. LABUDA: So we factor

down original budgets to reflect
actual spending factors. And there is
some acknowledgment of inflationary
pressures in class 200 in the model.
But we do factor down the original
budget to reflect spending patterns.
MR. JAGT: Actually the
budgets are based on an average over
two years. So the rate case right now
reflects the FY-15 and FY-16, actual
budget experience. So it would
include a year with rate case and a
year without. So by doing that, it
gives -- reflects an average spend
from that budget.
BY MS. BROCKWAY:
Q. When you say "that budget" you mean --
MR. JAGT: We have the class
200, actual budget factors, that are
applied to four, finance, PWD finance,
and the Rate Board class 200 expenses
that factor in the historical for
experience.
Q. And the historical experience is

fiscal 2015 and 16?

MR. JAGT: Correct. Now, the Rate Board, we didn't have two years to have that basis. So I think we were using 100 percent, relative to the amount of the PWD budget. It's not substantial. But to have some historical one year was (inaudible).

MS. KUMAR: In other words, this was not the first time where a rate case happens one year, and then in the following year the other services is happening this historically as well.

MS. BROCKWAY: I think you said that several times, and I get that. And what I'm saying is, I can conceive that these are very different types of services and would require different amounts of consulting. So I'm -- let me just put out to you that I am having trouble with just applying an escalation factor when we know that we're going to have different types of services in the future. You might, if you projected for a full cost study in rate design and then the litigation, you even project higher. So maybe I'm inviting you to raise rates but --

I still want to ask that in transcript 15 to compare Mr. Morgan's rate case expense to yours and how they're developed. Mr. Morgan will get a chance to correct it if you get it wrong. Meaning, the components and what they cover. To me, the components would be certain line items, them then fiscal 15 and 16, from what I understand. And what they cover would be -- what were generally activities in fiscal 2015 and 2016.

BY MS. BROCKWAY:

Q. And I guess I'd put it this way. Why do you think it's the same level? I understand that you're going to need to have services. Why do you think it's going to be the same level in the next -- an escalation of this average in the next three years? And you may have already said

it. That's why I'm asking you to repeat what
you've already said. I don't remember who
answered this question.

But there was a question about the
coverage ratio, I
think -- no, it was not. My note is here saying
that you said you would lower your rate increase
if the Board said so as opposed to raising the
RSF. And what struck me was this gets to this
whole question of how -- two things, how does
the Board operate? What does the Board do, in
fact? Let's say we said, We're going to give
you nine tenths of what you asked for. You
wouldn't have any line items, and let's not talk
about the legality. But presumably you could
devote those revenues as you see fit. What I'm
trying to get at is, to what extent is what the
Board says about any particular item something
that you feel obliged to stick to? Does it
become your budget?

MS. LABUDA: It's a broad
question. Based on the renderings in
the prior proceeding, the decision
from prior proceedings gave us the

ability to manage in a financially prudent manner, and it did not limit us from doing prudent things, such as transferring funds to an escrow, which reduced future borrowing costs. So I think it just depends on how the decision is rendered. And I point to the decision in the proceeding as not permitting us.

Q. That example sounds like something which came up afterwards, and so the Board wouldn't have considered it. If the Board -- I'm not sure what the example was earlier. But it was something to the effect of --

MS. LABUDA: So I'm getting some very good examples. So we had overage in one year of the indemnity fund, and we had to pay those indemnities. As a matter of fact, the general fund gave us a loan, and then we had to pay the general fund back. I'm calling it a loan, but it's probably not the proper term. So there are things that we're going to

have to do outside of the decisions
rendered.

Q. I'm not questioning or challenging. I just trying to understand what the understanding is of the department about the effect of Board decisions. Because it sounded in that answer before, but I don't know if anybody remembers that exchange. But it sounded as if you guys would do what we said, at least with respect to whatever was being talked about then.

MS. KUMAR: Yeah. I think the question was in the context of if just the Board said that the revenue requirement was going down for a particular category of cost. Let's say, for example, SMIP/GARP. I think Mr. -- after answering to the Board the chair was saying that if the particular expenditure the Rate Board says has to go down, and let's say it's SMIP/GARP. Then all else being equal, and we are to meet all of the metric and still coverages of 1.3 that you were referencing to, then how would you do that in that particular context? All being equal and just the cost to bring down by the five million dollars, then it will reduce the level of revenue. Because if you don't reduce the level of adjustments, then we will be actually increasing the amount of money that goes into the restabilization fund.

If the position is that, Hey, we want you to reduce this particular cost, expenditure line item, but however all of the metrics you would still need, then the revenue adjustment work -- the level of revenue increase you're asking will come down. Again, only strictly from a rate making standpoint. Now, if you say five million dollars, the Board is going to take the position that five million dollars has to come out, what the department would do is not something that we can answer. All we were answering in that question was,

all else being equal of the cost item,
the Board saying we have to come down,
what will we do strictly from a
mathematical modeling standpoint? We
said we would adjust the revenue.
That's the answer we gave.

MS BROCKWAY:

Q. Yes. I'm not talking just from a mathematical perspective, which is why we hadn't coordinated earlier. Ms. LaBuda?

MS. LABUDA: So the suggestion is that, Madam Hearing Officer, before anything else you'll want to proffer the same question to your legal counsel and ask for an opinion on it as well.

Q. Yes. My suspicion is that what a lawyer would say about these topics would depend very much on which line item we were talking about, for one thing.

Well, I can get into the larger question of rate stabilization fund. It has seemed to me that a rate stabilization fund was set up and has been used as a way to stabilize rates and revenues and expenses that are out of alignment temporarily until they get back into alignment.

I'm having a hard time seeing what the difference is between that and amortizing. Because the amortization is just a mathematical procedure or developing a revenue requirement. It certainly doesn't mean you can or do amortize. What it does is it has an effect on how much it's taking out of all that's equal, the rate stabilization fund.

MS. KUMAR: The amortization really changes what you actually present as a revenue requirement. The actual revenue requirement for a particular expenditure is -- for this particular example let's say 1.5 million dollars. The department is actually going to spend 1.5 million dollars that year. By simply stating 1.5 million dollars and saying that I'm going to show 750 one year and then 750 in another year, you're understating the revenue requirement for that year. Simply because of an implicit assumption that the 750 that you're pushing to the next year, even though you know you need it that year, is going to come from the re-stabilization.

So even from a modeling standpoint it's really an arbitrary way of presenting a cost, a lower cost, when that is not the really lower cost that year. So if you really want to present it the right way, you have to present the cost, the year the cost is going to happen. And the argument is you have to somehow support the cost from some other source of revenue, such as the re-stabilization fund. That's what the argument should be. It cannot be that, My cost is really 1.5 million dollars, but by the way I'm going to just arbitrarily put 750 this year, 750 next year. That's not the way -- then you could make that arguement of any cost. You can arbitrarily take any cost and say I'm going to just take part of it this year and part of it next year. But that's not at all reflective of how expenditures happen, especially in the Water Department, when we are already doing an actual budget spend in fact.

MS. BROCKWAY: An investor of utilities, obviously, they had the same situation. And I think the question comes up, because you can divide things into capital costs and expenses. And probably you treat expense the way investor owners do, which is you book them in the year in which they're expended and the year in which you get the benefit from them. In capital you spread out over the years that you get the benefit from.

MS. KUMAR: Yes. Typically the capital costs are usually over the life of the asset. That's one of the reasons why the department prudently balances the amount of cash financing and debt financing, because assets have a much longer life. But a rate case is truly an operating expenditure. Anything like the rate case is an operating expenditure, especially who has outside service. The department has to pay for those services in the year they receive those services.

MS BROCKWAY: Give me a little bit of time, please.

BY MS. BROCKWAY:

Q. On rebuttal statement one, page 67. You're saying at line 23 that, as demonstrated by the testimony of Melissa LaBuda in PWD statement two, PWD is far from being an outlier with regard to financial metrics. And then you go on to say, "If Mr. Morgan's assertions were true, PWD's reserves and current credit rating would be well beyond." I take that to mean much higher than peer communities?

MR. JAGT: Correct.

Q. I was going through some of the credit rating agency discussions and also some of the results. And I had a very difficult time just based on -- I think it was in that record response -- not record response. In PWD's response to Water Rate Board discovery questions. I thought that I saw something about -- I think I see everything in here, and then it's not. The rating given by other agencies, by agencies to other utilities, starting at -- well, there's debt service coverage starting at page 20. And there are a number of different criteria for rating. And it may be -- first of all, it appears to me that -- it's not shown here, I don't think. But there is quite a bit of difference in the ratings of these various utilities.

MS. LABUDA: I'm sorry. What was the question again, please?

Q. There's a lot of difference in the ratings of various use peer utilities?

MS. LABUDA: That's correct. And that's why we stayed in the medium for an A-rated utility in our graphics, so that you could see

where other A-rated systems appear
versus the water company, water
system.

Q. So it got me to thinking that the reserves and credit rating would be beyond those of peer communities. It seems to me that there are other variables that could be changed or could be looked at that would explain the credit rating.

In other words, all of these utilities have these -- I saw -- I can't remember whether it was New York or some other utility that had an enormous overhead of debt. And there was another utility that had -- I'm making these up, because I don't remember. But there were various different ways in which different utilities went about their business and did what they did and got paid for what they did. Even for utilities that were in the same relative box. So I was having trouble understanding whether there couldn't be other factors besides the overperformance factor that would drive PWD's ratings. So that statement the bottom of page 6 to 7, it's not necessarily true.

MS. LABUDA: The rating agencies have formulated (inaudible).

MS. BROCKWAY: I'm sorry. You have to speak into the microphone.

MR. NISSEN: My name is Peter Nissen. I'm the managing director for Acacia Financial Group. I'm one of the financial advisors to the Water Department in connection with their financing as well as in connection with this rating hearing.

MS. BROCKWAY: Before we go further, you were not a sponsor of this rebuttal statement one, if I understand correctly.

THE WITNESS: I'm on number two.

MS. LABUDA: The questions that are being asked are really coming back to statement one. So I can do my best to address that. There are utility rating agency score cards now, and that came out of the financial crisis. (Inaudible) and they all have grids. And the grids kind of measure different characteristics. Some of the characteristics, financial strength, management and legal provisions. They're the general categories that the rating agencies rate in a mathematical way to kind of assess the overall rating.

MS. BROCKWAY: All I'm trying to get at is that this one sentence, between line six and seven, is possibly true, but not necessarily true. So if you could look at that sentence.

MR. DASENT: Which document are we looking at?

MS. BROCKWAY: We are still looking at rebuttal one, pages six to seven. The bottom of page six over to seven.

MS. LABUDA: So may I please read this statement into the record?

"Any overperformance is
either to be invested into the utility
leverage to manage future rate
increases and/or maintain necessary
liquidity."

MS. BROCKWAY: Yes -- no.
It's next statement.

MS. LABUDA: As demonstrated
by the testimony of Ms. LaBuda PWD's
(inaudible) outlier with regard to
financial metrics.

BY MS. BROCKWAY:

Q. If Mr. Morgan's statements were true,
PDW's reserves and current rating would be, I
take it, to be much higher than those of peer
communities? It says, "well beyond."

MS. LABUDA: We're referring
to Mr. Morgan's statement that addresses that we
consistently outperform. We did not
consistently outperform in 2017. And
our ratings reflect our financial
performance.

BY MS. BROCKWAY:

Q. Yes. But that's a different statement from this. This is a statement that says, you can't believe Mr. Morgan's testimony if for no other reason your current reserves and current credit rating are not as high as they would have been had they been correct.

I'm probing how much you really think that that's a necessary condition or a necessary conclusion to draw.

MS. LABUDA: I'm not sure if Mr. Morgan's testimony is hinting at a higher rating for the system.

MS. BROCKWAY: Let's go off of the record.

* * *

(Whereupon, a discussion was held off of the record.)

* * *

MS. BROCKWAY: My next question is maybe not appropriate to ask of nonlawyer witnesses, so I won't ask it.

Let me tell you what you might want to consider in your brief. In rebuttal one pages seven to eight you're talking about what the city code allows. And starting on line four of page eight you say that "PWD is allowed to establish rates and charges that include allowances related to unforeseen expenses, reasonable anticipated cost increases and decreases in revenues."

I would like the department, anybody can chime in, to say does the section allow the Board to establish rates and charges that reflect reductions related to unforeseen reduction in revenue, reasonably anticipated cost decreases, reasonably anticipated increases in revenue.

In other words, is this just one way? I'm still confused about the whole question of the relationship between all of the budgets. But I think it's better taken up tomorrow, so I'm going to do that.

We've got to mark Andrea's exhibit.

MR. DASENT: It's Hearing Exhibit PWD-1.

Is there any other business to come before this afternoon?

MR. DASENT: We can pick up tomorrow. We have a bit to do, but I don't think Rob is going to be long-winded tomorrow. That's my prediction.

MR. BALLENGER: I speak with a certain cadence. I may be slower. I may be slower than I sound. I think the only thing that I had open for today was fire protection, but we can revisit that tomorrow. And I do not have a lot of cross on PWD rebuttal statement number two. At least not in comparison to what we had today.

MR. DASENT: Fair enough.

MS. BROCKWAY: Okay. Thank you very much. We'll adjourn until 10:00 tomorrow morning.

(Whereupon, the hearing was adjourned at 5:00 p.m.)

C E R T I F I C A T I O N

I, DONNA O'CONNOR, hereby certify that the foregoing is a true and correct transcript of the proceedings held in this matter, as transcribed from the stenographic notes taken by me on Monday, May 14, 2018.

DONNA O'CONNOR

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