

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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2 PROCEEDINGS

3 * * *

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

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

19 MR. BALLENGER: Thank you,
20 Madam Hearing Officer. This is Robert
21 Ballenger for the Public Advocate.
22 And Ms. Joline Price was with me last
23 week, and she is traveling this week.
24 So I would like to allow my co-counsel

1 to enter his appearance on the record.

2 MR. BERTOCCI: Philip
3 Bertocci for the Public Advocate.

4 MS. BROCKWAY: Thank you.

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

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

20 It will overlap also with
21 some subject matters. Rob may want to
22 address with argument or testimony.
23 But that's the morning and as far as
24 it goes. And Rob indicated he had

1 cross-examination that may extend
2 through today and maybe even into
3 tomorrow.

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

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

23 MR. DASENT: And I think
24 tomorrow will be a great time to talk

1 about that when Erin and Kate testify.

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

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

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

18 MR. DELANEY: Yes. It's
19 fine.

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

23 MR. DASANT: Well, Penn
24 Environment, and Stephanie Green is

1 the witness, and she will be prepared
2 on Thursday. And can shoot an email
3 to make sure she knows it's not
4 Friday, it's Thursday. And she
5 indicated earlier she would be
6 flexible. Land Bank also
7 theoretically would present testimony
8 on Thursday, although the department
9 does not have questions of them, and
10 I'm not sure that the Public Advocate
11 does either. So it would be unless,
12 again, if the Board has a question on
13 Land Bank issues.

14 MS. BROCKWAY: I've had a
15 number of emails from
16 Mr. Skiendzielewski, who is a pro se
17 participant, and he has asked for an
18 opportunity to give an opening
19 statement and a closing statement and
20 to cross-examine. It's not entirely
21 clear yet who he wants to
22 cross-examine, although as to the
23 attorney he wants to cross-examine so
24 far is nameless. I had told him

1 that's not what's done. I basically
2 told him, no, he couldn't do an
3 opening or closing statement and no,
4 he couldn't cross-examine an attorney
5 who is representing the City. But
6 since then it has been brought to my
7 attention that we have a lot of time
8 on Thursday. And for that reason, I'm
9 inclined to write back to him and say
10 that he may come on Thursday, and he
11 may make an opening statement and he
12 may cross-examine, I think in this
13 case, Commissioner McCarty would be
14 the best person, because she's been
15 involved in these lateral issues. And
16 he may make a closing statement. We
17 can't take all day with it, but -- is
18 that satisfactory to others if we
19 spend some time doing that?

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

23 MS. BROCKWAY: Oh, I told him
24 this.

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

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

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

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

23 Any other preliminary
24 matters? All right.

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

12 MS. BROCKWAY: Yes. Please
13 go ahead.

14 MR. DASENT: With your
15 permission, we would like to mark for
16 identification PWD statement number
17 two. This is the testimony of Melissa
18 LaBuda. PWD statement number three
19 Stephen J. Furtek. PWD statement
20 number four, Donna Swartz. PWD six of
21 Erin Williams, who will be present in
22 the room tomorrow. PWD rebuttal
23 statement, one of Black & Veatch, Erin
24 Williams and David Katz. That's

1 marked. PWD statement number two of
2 Valerie Allen, Ballard Spahr, Felton
3 Financial Management, Acacia
4 Financial, Melissa LaBuda and Stephen
5 Furtek. And I think there's one final
6 one on that date -- gave rebuttal
7 testimony of Black & Veatch Management
8 Consulting, PWD rebuttal statement,
9 number three.

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

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

22 MR. BALLENGER: No, Madam
23 Hearing Officer.

24 MS. BROCKWAY: They are so

1 authenticated.

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

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

15 * * *

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

18 * * *

19 MR. DASENT: This errata
20 relates to some of the testimony
21 you'll hear today concerning
22 collection factors. And when we get
23 to that point in the record, the
24 witnesses certainly can explain all of

1 its significance. But the way I look
2 at it is the rate model uses a correct
3 number, and it's 96.54. And the
4 narrative and the testimony misstated
5 that number as 97.3, and it should be
6 96.54. And when we get to that point
7 in the record Ms. Kumar and the other
8 witnesses can explain at length any
9 significance.

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

21 Actually, I'm answering my
22 own question in my head, but I want to
23 get clear on the relationship between
24 TAP collection factors for the TAP

1 revenue requirement and collection
2 factors for the revenue requirements
3 generally.

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

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

10 MS. BROCKWAY yes. Thank
11 you.

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

19 MR. BALLENGER: Before we go
20 into cross-examination, I wonder,
21 Madam Hearing Officer, if it would be
22 appropriate to go ahead and
23 authenticate Mr. Morgan's testimony as
24 well as identify one errata on the

1 record today for which we do not have
2 an errata sheet. And then also given
3 our discussion of potential waiver of
4 cross, I wonder if we can reach a
5 similar stipulation as to the
6 authentication of Mr. Mierzwa's
7 statement, which was Public Advocate
8 statement number two, which again was
9 served on all parties on April 20th
10 and placed on the record in this
11 proceeding.

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

23 MR. DASENT: No objection.

24 MS. BROCKWAY: Any objection

1 from any other -- no.

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

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

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

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

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

22 MS. BROCKWAY: Again, I'm
23 not sure what the practice is
24 elsewhere, but it seems to me that

1 since there is a transcript of this
2 session, that the correction has been
3 made on the record. I don't see a
4 need to file an additional piece of
5 paper.

6 MR. DASENT: Agreed.

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

19 MS. BROCKWAY: I think that
20 was already done.

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

24 MR. DASENT: No objection.

1 MR. BALLENGER: Thank you.

2 MS. BROCKWAY:

3 Retroactively.

4 MR. BALLENGER: Thank you.

5 MS. BROCKWAY: All right.

6 If there is nothing else, I think it's
7 time to cross-examine the panel,
8 Mr. Ballenger.

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

19 MR. DASENT: Hold it for Ms.
20 McCarty.

21 MR. BALLENGER: Okay. So
22 for this panel, I want to focus first
23 on the City's proposal to shift fire
24 protection costs from the tax base to

1 the rate base and just ask the panel
2 to confirm that that's an -- before we
3 start with the panel, just continuing
4 what we did last week. I would like
5 to ask that one member of the panel be
6 the person to answer the questions.
7 And if they feel as though they cannot
8 answer them and need someone else on
9 the panel to please let me know before
10 we just start handing the microphone
11 around, because it gets a little
12 confusing on the record.

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

16 MR. BALLENGER: Okay.

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

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

1 terms of which witness is best
2 prepared.

3 MS. BROCKWAY: Off of the
4 record.

5 * * *

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

8 * * *

9 CROSS-EXAMINATION

10 * * *

11 BY MR. BALLENGER:

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

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

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

24 MR. JAGT: Through retail

1 rates and charges. That's correct.

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

5 BY MR. BALLENGER:

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

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

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

17 MR. JAGT: Correct.

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

1 that --

2 MR. DASENT: Hold on one

3 second. We have to find it.

4 MR. BALLENGER: I'm sorry.

5 MS. BROCKWAY: Page again?

6 MR. BALLENGER: Page 161.

7 MR. MERRITT: Rob, you said
8 page 161?

9 MR. BALLENGER: Yeah, page
10 161, under the heading Public versus
11 Private Fire Protection.

12 MR. DASENT: Any particular
13 line?

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

19 MR. DASENT: Yes.

20 BY MR. BALLENGER:

21 Q. And the language I'm looking at
22 states, "Public fire protection service is
23 provided to all customers on a community-wide
24 basis through fire hydrants located throughout

1 the water system." Do you agree that that's the
2 case in Philadelphia?

3 MR. JAGT: For public fire
4 protection.

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

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

13 MR. JAGT: Subject to check
14 with the department.

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

19 MR. JAGT: Again, subject to
20 check.

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

1 MR. JAGT: Yes, correct.

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

9 MR. JAGT: Yes.

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

16 (Mr. Jagt nods head.)

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

19 MR. JAGT: That's correct.

20 Q. And the next sentence is actually one
21 that I want to talk about a little bit more. It
22 states, "An alternative and contemporary
23 approach develops fire protection costs that can
24 be passed on directly to customers through

1 charges based on the respective demands for fire
2 and flow by user class or to individual retail
3 customers." Do you see that sentence as well?

4 MR. JAGT: That is correct.

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

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

13 Q. You can use the microphone.

14 MS. BUI: You can't hear
15 me?

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

18 MS. BROCKWAY: Off of the
19 record.

20 * * *

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

23 * * *

24 MS. BUI: So as I was

1 saying, in this particular addition
2 that chapter had minor reviews. And,
3 in fact, the upcoming edition of M1,
4 which will be released in about three
5 and a half years or, those words, type
6 of words, are going to be stricken,
7 because it is somewhat confusing.

8 BY MR. BALLENGER:

9 Q. Okay. So --

10 MS. BROCKWAY: It's being --

11 MS. BUI: Contemporaneous.

12 BY MR. BALLENGER:

13 Q. So it uses some words, "alternative"
14 and "contemporary," and I was asking about
15 contemporary.

16 MS. BUI: Contemporary,
17 correct.

18 Q. So, Ms. Bui --

19 MS. BUI: Yes.

20 Q. -- at approximately what point in time
21 would you say that "contemporary approach"
22 became widely acceptable for purposes of the M1
23 manual?

24 MS. BUI: For the purposes

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

5 Q. So when it refers to "contemporary"
6 it's maybe referring to approximately 2000,
7 2004?

8 MS. BUI: Correct, roughly.

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

12 MS. BROCKWAY: We need two
13 here.

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

1 number we should use.

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

7 MR. BALLENGER: No.

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

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

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

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

1 designated.

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

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

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

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

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

1 And meanwhile six is going to go to
2 that.

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

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

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

19 MS. BROCKWAY: Those were
20 page numbers?

21 MR. BALLENGER: Yes. They
22 are page numbers from the bound
23 versions of the Philadelphia
24 ordinances. But unfortunately, and I

1 apologize, this hearing exhibit itself
2 is not numbered. About five pages in
3 there's an article from a local news
4 publication that's titled, "Think you
5 can't park there? Take a closer look
6 at that Philly fire hydrant."

7 That article is dated August
8 24, 2017, and that consists of
9 approximately seven pages. And I
10 would just like to, if I may, start
11 with the ordinance itself.

12 And if I can ask the
13 witnesses to please turn to the page
14 that is numbered 263. This page
15 provides the approval date of the
16 ordinance. And do you see there that
17 it states that the ordinance was
18 approved the 18th day of April A.D.
19 1957?

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

24 MR. BALLENGER: Sure. I'm

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

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

12 MR. BALLENGER: Thank you.
13 And so I would just ask the witness to
14 confirm that on page 263 this
15 ordinance indicates that it was
16 approved on the 18th day of April A.D.
17 1957.

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

20 * * *

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

23 * * *

24 BY MR. BALLENGER:

1 Q. So in this ordinance I would like you
2 to take a look at the language starting on page
3 258 under the heading Chapter 13-100 Water
4 Rates, under the subheading for section 13-101
5 Standards. Do you see that the language there
6 is put in brackets?

7 MS. KUMAR: Yes.

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

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

18 MR. BALLENGER: Okay. Fair
19 enough.

20 Q. My understanding is that the bracket
21 language is old, and the italicized language is
22 newly introduced language. I would like to draw
23 your attention, please, to the bracket
24 language. It shows that at the time in 1957

1 when this ordinance was passed the last -- the
2 second to the last sentence indicates that rates
3 were determined in -- the quote says, "Less the
4 cost of supplying water to city facilities and
5 fire systems." Do you see that language?

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

9 Q. Sure.

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

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

16 MS. KUMAR: Yes.

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

21 MS. KUMAR: Yes.

22 Q. Okay. And then if we look at new
23 language of the ordinance that was introduced in
24 1957 on the next page, on page 259 in paragraph

1 2b. Do you also see that that language
2 continues and is repeated in that paragraph
3 where it states, "the rates and charges." And
4 then at the end of the sentence it says, "Less
5 the cost of supplying water to City facilities
6 and fire systems." Isn't that correct?

7 MS. KUMAR: Correct.

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

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

16 Q. Okay. But you would agree that based
17 on this language that the standard for whether
18 or not rates and charges should include the cost
19 of supplying water to city facilities and fire
20 systems has not changed since sometime prior to
21 1957?

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

1 stipulate.

2 MR. BALLENGER: Okay.

3 MS. BROCKWAY: Would counsel
4 stipulate?

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

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

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

23 MR. BALLENGER: I'm sorry, I
24 didn't realize Ms. McCarty was with

1 us. Can we take out those questions
2 before we move on?

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

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

8 * * *

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

11 * * *

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

20 But Ms. McCarty may be able
21 to straighten out any discrepancies.
22 But she would need to read the article
23 first. And I'd ask that that
24 opportunity be provided and that we

1 proceed with Black and Veatch.

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

6 MR. BALLENGER: Okay. Thank
7 you

8 BY MR. BALLENGER:

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

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

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

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

1 residential customer using five ccfs
2 of water per month.

3 MS. KUMAR: Could you just
4 give us a second to get our
5 documents?

6 MR. BALLENGER: Sure.

7 MS. KUMAR: Thank you.

8 MR. JAGT: Can you repeat
9 the question?

10 MR. BALLENGER: Absolutely,
11 happy to. Under the current rates
12 that are now in effect, a residential
13 customer using five ccfs of water per
14 month would be billed \$66.50; is that
15 correct?

16 MR. JAGT: Correct. For 5/8
17 inch meter?

18 MR. BALLENGER: Yes.

19 MR. JAGT: On a monthly
20 basis.

21 MR. BALLENGER: Yes. For
22 purposes of my questions, they're only
23 a couple. If we could just assume 5/8
24 inch residential, I think it would

1 make things easier.

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

7 BY MR. BALLENGER:

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

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

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

22 MR. JAGT: Subject to check
23 for the service amount. But, yes,
24 there is a service charge component

1 that would not double if the
2 consumption is increased.

3 Q. And the storm water would not double
4 either?

5 MR. JAGT: That is correct.

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

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

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

16 MS. BROCKWAY: It would help
17 me.

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

24 MR. DASENT: I'm trying to

1 follow you. \$66.50 minus -- what was
2 that amount?

3 MR. BALLENGER: \$28.73.

4 MR. DASENT: And what is the
5 source of that number?

6 MR. BALLENGER: That is the
7 combined service and storm water
8 charge. And actually if you look at
9 the bill impact sheet, that is the
10 amount that's shown for zero ccfs of
11 consumption.

12 MR. DASENT: And then
13 that represents --

14 MR. BALLENGER: The result
15 represents the amount of the biometric
16 charges for five ccfs of consumption
17 in one month.

18 MS. BROCKWAY: Let's stop
19 here for a minute, but we're still on
20 the record. All I have in front of me
21 is the summary fact sheet. Can you
22 help me find the document that you're
23 referring to?

24 MR. BALLENGER: I'm just

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

5 MS. BROCKWAY: I don't see
6 it.

7 MR. BALLENGER: It was in --

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

12 MR. BALLENGER: There is
13 a --

14 MS. BROCKWAY: Go off of the
15 record.

16 * * *

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

19 * * *

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

23 MR. BALLENGER: Sure. I'm
24 looking at table C4 of schedule BV-E1,

1 which is included in TW Exhibit 9A.

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

5 MR. BALLENGER: Up.

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

11 MS. BROCKWAY: Off of the
12 record.

13 * * *

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

16 * * *

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

23 BY MR. BALLENGER:

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

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

5 MS. KUMAR: Under existing
6 rates.

7 Q. Under existing rates, absolutely.
8 Thank you.

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

14 MR. BALLENGER: That's
15 correct.

16 BY MR. BALLENGER:

17 Q. And so we talked about what a customer
18 using five ccfs per month would be billed. And
19 on this table I don't see the answer to the
20 question of what a customer using one mcf of
21 water per month would be billed. But I am able
22 to calculate the difference between using .7 mcf
23 and .8 mcf, and that difference appears to be
24 \$7.55. Is that correct?

1 MS. KUMAR: That is
2 correct.

3 Q. Okay. And so if I assume that a
4 customer using ten ccfs or one mcf would pay
5 \$15.10 more per month for the customer using .8
6 mcfs. Would I be in the right ballpark?

7 MR. BROCKWAY: Are you
8 talking existing or proposal?

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

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

16 BY MR. BALLENGER:

17 Q. Okay. And if I add that \$15.10 to the
18 \$89.16 bill under curb rates for a customer
19 using .8 mcfs per month, I would conclude that
20 that customer would pay \$104.26 per month under
21 existing rates, if they use 10 ccfs; is that
22 correct?

23 MS. KUMAR: Subject to
24 check.

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

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

7 MR. BALLENGER: Yes, I can,
8 Madam Hearing Officer. A customer
9 using .8 mcfs in this table, would pay
10 \$89.16 per month. If that customer
11 used .2 more mcfs for a total of one
12 mcf an additional \$15.10 would be
13 added to the bill for a total of
14 104.26. And that is all subject to
15 check.

16 MS. KUMAR: That's correct.

17 MS. BROCKWAY: Thank you.

18 BY MR. BALLENGER:

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

24 MS. KUMAR: When you said

1 the end of the rate period, we assume
2 that you're referring to fiscal year
3 2021?

4 Q. Yes. After September, the month of
5 September of fiscal year 2021.

6 MS. KUMAR: That is
7 correct.

8 Q. Okay. And there again -- I can
9 calculate what the customer would be billed if
10 they used ten ccfs of water. And I could do
11 that by determining the difference between .7
12 and .8 mcfs. Which if I do that calculation, I
13 take \$88.42 minus \$90.21, and I come up with
14 \$8.21 per ccf. Is that correct?

15 MS. KUMAR: Subject to
16 check, correct.

17 Q. Okay. And so if I then double that to
18 reflect two ccfs, instead of one ccf, I would
19 have a total of \$16.42 of additional charges,
20 which I could then add to the .8 mcf bill of
21 \$98.42. And my result would be \$114.84. Is
22 that correct, subject to check?

23 MS. KUMAR: Subject to check,
24 \$114.00 plus.

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

4 MS. BROCKWAY: We're talking
5 rebuttal statement?

6 MR. BALLENGER: This is
7 rebuttal statement number one.

8 MS. BROCKWAY: Thank you.

9 BY MR. BALLENGER:

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

17 Do you see where I am in the rebuttal
18 statement?

19 MS. BROCKWAY: What page are
20 you on?

21 MR. BALLENGER: I'm on page
22 two.

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

1 at the proper time.

2 BY MR. BALLENGER:

3 Q. Okay. Thank you. Do you agree
4 that -- your testimony here references fiscal
5 year 2021. Do you also agree that fiscal years
6 2019 and fiscal year 2020 of your request are
7 fully projected test years?

8 MS. KUMAR: That is
9 correct.

10 Q. Okay. And further down on this page,
11 lines 17 through 19, you state, "The
12 Pennsylvania Public Utility Commission" -- then
13 in parentheses you have "Pennsylvania
14 PUC," closed parenthetical, Allows for
15 multi-year rate requests." Do you see that
16 language?

17 MS. KUMAR: That is
18 correct.

19 Q. Okay. And what are you referring to
20 when you say, The Pennsylvania Public Utility
21 Commission allows for multi-year rate requests?
22 Are you referring to any particular cases that
23 you're aware of?

24 MS. KUMAR: Not specifically

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

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

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

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

15 MS. BROCKWAY: Off of the
16 record.

17 * * *

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

20 * * *

21 MR. BALLENGER: Thank you.
22 So what was just distributed I would
23 like to mark as hearing Exhibit-7 on
24 behalf of the Public Advocate and move

1 for its inclusion on the record.

2 MS. BROCKWAY: Any

3 objection?

4 MR. DASENT: No objection.

5 MS. BROCKWAY: It is

6 included.

7 BY MR. BALLENGER:

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

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

1 57.

2 MS. KUMAR: Could you repeat
3 that, please.

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

9 MS. KUMAR: Yes.

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

17 MS. KUMAR: Yes.

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

1 MS. KUMAR: Yes.

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

5 MS. KUMAR: Correct.

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

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

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

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

18 MR. BALLENGER: That's
19 correct.

20 MS. BROCKWAY: Thank you.

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

23 BY MR. BALLENGER:

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

1 three of 57.

2 MS. KUMAR: Yes.

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

9 MS. KUMAR: Right.

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

14 MS. KUMAR: Yes.

15 BY MR. BALLENGER:

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

19 MS. KUMAR: Yes.

20 Q. Okay. That sentence states, By
21 statute, "fully projected future test year" is
22 defined as the 12 month period beginning with
23 the first month that the new rates will be
24 placed in effect after the application -- sorry,

1 after application of the full suspension period
2 permitted under section 1308 (d) relating to
3 voluntary changes in rates." Do you see that
4 sentence?

5 MS. KUMAR: Yes.

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

11 MS. KUMAR: Yes.

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

16 MS. BROCKWAY: What page?

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

19 MS. BROCKWAY: So --

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

23 MS. BROCKWAY: This is the
24 text of the proposed Exhibit-E that

1 was circulated for comment?

2 MR. BALLENGER: Yes, Madam
3 Hearing Officer.

4 BY MR. BALLENGER:

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

8 MS. KUMAR: Yes.

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

11 MS. KUMAR: Yes.

12 BY MR. BALLENGER:

13 Q. Okay. And below that, of course, is
14 the definition of historic test year as well.

15 Do you see that?

16 MS. KUMAR: Yes.

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

21 MS. KUMAR: Correct.

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

24 MS. KUMAR: Yes. I'm not an

1 attorney.

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

6 MS. KUMAR: No.

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

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

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

16 MR. BALLENGER: Yes.

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

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

22 Q. Okay. Just to be sure, I would like
23 to ask for a transcript request, that you please
24 identify any decision by the PUC approving a

1 multi-year rate request within the last decade.

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

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

7 BY MR. BALLENGER:

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

15 MS. BUI: Yes, it is.

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

19 MS. BUI: Yes.

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

24 MS. BUI: Subject to check.

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

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

6 MS. BUI: I'm aware.

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

13 MS. BUI: Yes.

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

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

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

1 MS. BUI: Vaguely.

2 Q. Vaguely. Okay. The transcripts are
3 out there on the report's website. I do recall
4 a conversation that occurred, but I wanted to
5 see if you recalled it.

6 MS. BROCKWAY: Just a
7 second. Let's go off of the record.

8 * * *

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

11 * * *

12 MS. BROCKWAY: I was asking
13 whether anyone else on the panel
14 recalled the discussion about cost of
15 service studies that Mr. Ballenger is
16 referencing from the 2016 case.

17 MS. KUMAR: We recall that
18 it was discussed for an evaluation,
19 but with time available it has not
20 been evaluated yet.

21 MR. BALLENGER: Okay. Thank
22 you.

23 BY MR. BALLENGER:

24 Q. I'd like to take a look at one portion

1 of your direct testimony statement, 9(a), if you
2 have that handy. And I'm going to start at page
3 34.

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

6 MR. BALLENGER: Certainly.

7 MS. KUMAR: Okay.

8 BY MR. BALLENGER:

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

16 MS. KUMAR: Yes.

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

21 MS. KUMAR: That is
22 correct.

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

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

4 MS. KUMAR: Correct.

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

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

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

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

20 MR. JAGT: Subject to check,
21 yes.

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

1 MR. JAGT: Correct.

2 Q. Okay. So when developing the budget
3 for any particular fiscal year, does the City
4 use the approach described here in your
5 testimony of applying spending factors and then
6 escalation factors?

7 MS. KUMAR: The department
8 has a budgeting process. And this is
9 specifically for multi-rate and
10 financial plans. The department has
11 its own specific budgeting process.
12 If there's more detail on the actual
13 budgeting process, I think it would be
14 appropriate to direct them to the
15 department.

16 Q. Okay. So just to be clear. This is
17 the practice that is used in the rate model.
18 But if there is a different practice used by the
19 City that's -- for purposes of budgeting, that's
20 something I should talk to the Water Department
21 about?

22 MS. KUMAR: You specifically
23 asked how the department developed the
24 2019 budget. It will be appropriate

1 to ask the department how they
2 developed the 2019 budget.

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

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

13 MS. KUMAR: Madam Hearing
14 Officer, when we did the financial
15 analysis, we started the financial
16 analysis in early 2017. So at that
17 time we had the 2018 approved budget.
18 And since we started this in early
19 2017 we used the 2018 approved budget
20 as the basis for projecting the O&M
21 expenditures for 2019 through the 2023
22 financial planning period.

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

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

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

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

20 MS. BROCKWAY: Approved by
21 whom?

22 MR. JAGT: By City Council.

23 MS. BROCKWAY: Thank you.

24 BY MR. BALLENGER:

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

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

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

13 MR. JAGT: Correct.

14 BY MR. BALLENGER:

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

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

24 MR. BALLENGER: Okay.

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

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

6 BY MR. BALLENGER:

7 Q. So as we discussed, then, the cost of
8 service model is based upon applying various
9 escalation factors to be adjusted in the fiscal
10 2018 budget, right?

11 MR. JAGT: Correct.

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

16 MR. JAGT: Can you restate
17 your question?

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

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

1 been identified or anticipated to come
2 and -- or how it should be reflected
3 in this 2019 budget, but that's --

4 Q. Proposed 2019 budget?

5 MR. JAGT: Correct.

6 Q. Okay. So if I return to your rebuttal
7 statement -- I'm on page two, line 22. I plan
8 to get to page three today.

9 Are you with me on line 22 of page
10 two?

11 MS. KUMAR: Yes.

12 Q. Okay. The statement there reads, "The
13 majority of PWD's costs are known within reason
14 as the vast majority of operation and
15 maintenance (O&M) in an infrastructure
16 management where related capital gains are
17 already identified." Do you see that
18 statement?

19 MS. KUMAR: Yes.

20 Q. And as we've discussed the way your
21 model works, O&M expenses are first adjusted and
22 then projected?

23 MS. KUMAR: Correct.

24 Q. So is it fair to say that what you

1 mean there is that you've projected those
2 expenses using the methodology you described in
3 your direct testimony?

4 MS. KUMAR: That's why we
5 use the word "within reason."

6 Q. Okay. And you're not suggesting that
7 you've done some kind of separate evaluation
8 outside of your projection model to identify
9 future costs?

10 MS. KUMAR: Just for
11 clarification I want to explain this,
12 and my colleague may chime in on this
13 particular one. This is not a process
14 that happens in a vacuum. We are
15 using the 2018 budget to project for
16 2023. At the same time the department
17 is working on its 2019 budgeting
18 process. So if the department is
19 aware of any major changes or what we
20 call adjustments, that they are aware
21 of they're going into the 2019
22 process, they do communicate with us.
23 And so based on that, we then --
24 that's the adjustments we are

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

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

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

20 MS. BROCKWAY: Going off of
21 the record.

22 * * *

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

1 * * *

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

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

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

10 MS. BROCKWAY: Go off of the
11 record.

12 * * *

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

15 * * *

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

19 BY MR. BALLENGER:

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

1 MS. KUMAR: That's correct.

2 The adjustments listed there.

3 Q. And there are five of them; is that
4 correct?

5 MS. KUMAR: Correct.

6 Q. So aside from those five adjustments,
7 all of the other operating and maintenance
8 expenses are projected using the methodology
9 described in your testimony?

10 MR. JAGT: Correct.

11 Q. Okay. And you stated earlier that
12 you -- you work on this model at the same time
13 the department is processing fiscal 2019 or
14 putting together its fiscal 2019 budget; is that
15 correct?

16 MS. KUMAR: Yes, depending
17 on timing.

18 Q. Depending on the timing. Okay?

19 MS. BROCKWAY: Can you wait
20 a second?

21 MR. BALLENGER: Sure.

22 MS. BROCKWAY: Would you
23 repeat that last answer or --

24 MR. BALLENGER: I can repeat

1 the question. I'll make it slightly
2 different.

3 BY MR. BALLENGER:

4 Q. I believe you stated, Ms. Kumar, that
5 you work on the rate model and your projections
6 and take into account the department's fiscal
7 2019 budgeting process at that time?

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

15 Q. So if the department doesn't identify
16 any additional adjustments for inclusion of the
17 model, then you utilize the same general
18 practice you describe on page -- I think it was
19 32 of your direct testimony -- 34 of your direct
20 testimony to project operating payments, expense
21 for the rate period?

22 MS. KUMAR: Yes. Other than
23 the adjustments that I explicitly
24 stated, we will use a process

1 identified in our direct testimony.

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

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

15 Q. Okay.

16 MS. BROCKWAY: Off of the
17 record again.

18 * * *

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

21 * * *

22 BY MR. BALLENGER:

23 Q. Okay. And Mr. Dasent will be
24 pleased. I would like to turn to page seven of

1 your rebuttal. And on line eight you state, "As
2 noted in the AWWA M1 Manual, a municipally owned
3 utility that defines its own policies and/or
4 best financial performance targets when
5 developing revenue requirement projections for
6 the test year periods." Do you see that
7 statement?

8 MS. BUI: Yes, I do.

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

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

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

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

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

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

1 Board's policies are and what's
2 required, I'm not totally familiar
3 with that. But no, that's not what
4 I'm saying.

5 BY MR. BALLENGER:

6 Q. So the Board could reject the
7 department's policies and financial targets in
8 this proceeding?

9 MS. BUI: That is within its
10 purview, yes.

11 Q. And it could calculate future revenue
12 requirements in some other fashion, as long as
13 there is a record to support that development,
14 correct?

15 MS. BUI: Yes.

16 Q. On page eight, lines one, two, three.
17 Actually, one to four, you state in this
18 context, "Section 13-101 of the City code fully
19 contemplates that rates will be established for
20 a prospective period (reasonable number of
21 years) and can include an allowance for
22 unforeseen expenditures." Do you see that
23 language?

24 MS. BUI: I see that

1 language, yes.

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

7 MS. BUI: Yes.

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

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

16 Q. Okay.

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

19 Q. Sure. Okay. Well, I may be able to
20 help you. On section four on page 23 there is a
21 heading that says "Standards for Rates and
22 Charges." And if you go down to section 4(b) at
23 the end of that paragraph is the following
24 sentence, "Such rates and charges may provide

1 for sufficient revenue to stabilize them over a
2 reasonable number of years."

3 That appears to me to be the language
4 that one would use to support the testimony.
5 Would you agree with that?

6 MS. BUI: I --

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

14 MR. DASENT: Thank you.

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

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

20 BY MR. BALLENGER:

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

24 So earlier we discussed hearing

1 Exhibit-6 of the Public Advocate, and I would
2 just like to turn back to that briefly. And
3 this is the ordinance that was introduced in
4 1957. The page that's numbered 259 in that
5 ordinance --

6 MS. BROCKWAY: Excuse me.

7 You're going much too fast.

8 MR. BALLENGER: I'm sorry.

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

15 BY MR. BALLENGER:

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

24 MS. BUI: I do see that.

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

4 MS. BUI: Yes.

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

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

11 * * *

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

14 * * *

15 BY MR. BALLENGER:

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

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

24 MR. BALLENGER: Yes. It's

1 titled Future Water Demand City of
2 Philadelphia.

3 MS. BROCKWAY: Please start
4 with the name of the document and then
5 point us to the page.

6 BY MR. BALLENGER:

7 Q. So on page 26 of 57, this document,
8 Future Water Demand - City of Philadelphia, you
9 see there's a date of November 1969. Do you
10 agree?

11 MS. BUI: Yes.

12 Q. And then on the following page, page
13 27 of the exhibit, under the heading Rate
14 Schedule, there's a discussion that begins right
15 in the middle of the page. And it states in the
16 last paragraph, second sentence, Experience
17 indicates that the department must raise its
18 rate about every four years in order to keep
19 abreast of inflation. Do you see where I am?

20 MS. BUI: Yes.

21 Q. So this raise allows the department to
22 operate with a surplus during the first two
23 years of the four-year period. While the last
24 two the department experiences deficit

1 spending. Do you see that?

2 MS. BUI: I do.

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

5 MR. BUI: We are not.

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

10 MR. DASENT: Objection.

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

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

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

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

22 MR. BALLENGER: Going to my
23 next question on examination. The
24 only point that I was trying to make

1 is that the same line which the
2 department appears to be using to
3 justify three successive years of
4 increase was utilized by a prior
5 commissioner to support a single rate
6 increase.

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

9 MR. BALLENGER: That was
10 the point of that.

11 BY MR. BALLENGER:

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

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

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

24 MS. BUI: Correct.

1 MS. BROCKWAY: Which section
2 are we at again?

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

5 THE COURT: Thank you.

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

8 BY MR. BALLENGER:

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

15 MS. BUI: Ms. Kumar would be
16 facilitating.

17 BY MR. BALLENGER:

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

24 Do you see that language?

1 MS. KUMAR: Yes.

2 Q. Do you have Mr. Morgan's testimony in
3 front of you?

4 MS. KUMAR: Give me a
5 second.

6 Q. Sure.

7 MS. KUMAR: Yes.

8 Q. Can you turn to page 11, please.

9 MS. KUMAR: Yes.

10 Q. Okay. And starting at line one, do
11 you see that Mr. Morgan states in general a
12 primary financial objective for PWD is to meet
13 that service coverage ratios stated in the bond
14 indentures? Do you see that statement?

15 MS. KUMAR: Yes.

16 Q. Can you direct me to anywhere in
17 Mr. Morgan's testimony where he states that this
18 is the single objective of PWD budgets? Meaning
19 that service coverage ratios.

20 MS. KUMAR: If you would
21 give me a second. I'll turn to
22 another page. I need a few seconds.

23 Q. Okay. Sure.

24 MS. KUMAR: If you turn to

1 page 35.

2 Q. Okay.

3 MS. KUMAR: In line numbers
4 13, 15 and 15 Mr. Morgan states, I
5 recommend that the Board should not
6 approve higher rates and changes
7 solely for the purpose of targeting
8 debt service coverage in excess of the
9 legally mandated coverage level of a
10 1.20 tax. That implies that the
11 department is trying to set rates and
12 charges solely for the purposes of
13 targeting debt service coverage. And
14 that's the reason we stated here that
15 that's not the sole purpose for which
16 the department is trying set rates and
17 charges.

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

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

1 that's not the sole reason for which
2 higher rates and charges are being
3 requested.

4 Q. And when Mr. Morgan says that the
5 Board should not approve higher rates and
6 charges solely to achieve a higher coverage
7 ratio, you're stating that he implies that
8 that's the sole focus of this rate case?

9 MS. BROCKWAY: I think she's
10 answered that, and I think people's
11 implications about what other people
12 had in mind are not particularly
13 relevant.

14 BY MR. BALLENGER:

15 Q. Well, I think in addition in your
16 rebuttal statement you talk about this being the
17 sole focus of the budget. Would you agree with
18 me that on page 35 Mr. Morgan is talking about
19 the rate request and not the budget?

20 MS. KUMAR: The particular
21 statement talks about rates and
22 charges.

23 Q. Okay. So on page 11 of your rebuttal
24 statement, I'd like to talk a little bit about

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

12 MS. KUMAR: Yes.

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

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

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

23 MS. KUMAR: It could happen.

24 Q. In the first year of the rate period,

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

7 MS. KUMAR: Again, you're
8 doing a financial plan for multiple
9 years, 2019 through 2023. So just
10 taking a cost such as the department
11 expects to incur in one fiscal year
12 and just amortizing that expenditure
13 into multiple years -- we are saying
14 that if that were to occur, and it
15 could lead to a revenue shortfall.
16 Because if the cost is going to be
17 incurred in fiscal 2019, then the
18 department has to make its payments
19 for those services in fiscal 2019, but
20 those costs are arbitrarily amortized,
21 all expenditures are amortized into
22 the following year, then the
23 department could face a revenue
24 shortfall.

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

7 MS. KUMAR: Again, depends
8 on the financial situation at that
9 point in time. It could be applied,
10 but this was a specific question.
11 This was in response to Mr. Morgan's
12 recommendation that certain costs,
13 which are an expenditure can be
14 amortized to a budget for
15 (inaudible). An example, sole
16 example, that was given for that
17 particular cost was a rate case
18 expenditure. And the department knows
19 what the rate case expenditure is.
20 The rate case expenditures that they
21 expect to incur in fiscal 2019 are
22 something that they have to pay.
23 Because they also know who they're
24 going to get services from for that

1 rate case expenditure. So they expect
2 to incur the expenditure and pay for
3 the expenditure in 2019.

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

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

17 MS. KUMAR: Right. The
18 system that (inaudible) all of the
19 expenditures that we project for
20 2019. And then to just take one
21 expenditure, not all of those
22 expenditures and then say this
23 expenditure should be amortized over
24 two years, that, we feel, is not

1 reasonable, because there is a reason
2 why that expenditure was budgeted for
3 in the first place in that year.

4 Because the department knows it will
5 incur the expenditure. So we feel
6 there's is no legitimate reason to
7 amortize that.

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

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

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

22 MR. BALLENGER: I thought
23 they were projecting an actual
24 shortfall. You know, a covenant

1 breech or some other default.

2 BY MR. BALLENGER:

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

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

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

18 MS. KUMAR: Correct.

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

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

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

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

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

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

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

7 MS. KUMAR: Correct.

8 Q. And would you also agree that if
9 that -- that not amortizing that cost results in
10 the department recovering that cost twice if it
11 is recovered both in fiscal 2019 and in physical
12 2020?

13 MS. KUMAR: No. This leads
14 to an implicit assumption that that
15 cost somehow, first of all, is
16 nonrecurring. When we talk about rate
17 case cost, the costs that are budgeted
18 and projected for 2019 are the costs
19 that are expected to be incurred in
20 2019. And then if there is a cost
21 that is projected for 2020, that 2020
22 is the cost that we expect to incur
23 for 2020.

24 Now, is it exactly for rate

1 case? It may not be exactly for rate
2 case. It is for services that the
3 same team of people that -- an example
4 of a rate case is the same people are
5 -- same group of consultants are
6 going to be providing services,
7 because they have already been
8 selected for multiple years to provide
9 services. Then the department knows
10 -- the department already plans for
11 whatever they're doing 2019 for --
12 because it will be the rate case. And
13 then after the rate cases the
14 department still has financial
15 services that the department will be
16 seeking from those entities. And so
17 in that sense it does not have a
18 nonrecurring cost. It is a cost that
19 is expected to incur 2019, 2020,
20 2021. And accordingly those costs are
21 projected in the rate -- in the
22 financial plan.

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

1 MS. KUMAR: Again, it's
2 not -- we are projecting off of the 18
3 numbers. And the rationale for
4 projecting is that there are services
5 the department will seek in 2019, 2020
6 and 2021 from -- from that entity. So
7 that cost doesn't go away. So it's
8 not like that cost is a nonrecurring
9 cost. A nomenclature may not be
10 exactly the case, but services are --
11 that they're going to occur in 2020,
12 2021.

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

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

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

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

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

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

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

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

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

7 MR. BALLENGER: Okay.

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

10 MR. BALLENGER: Yes. But, I
11 mean, I have more on nonoccurring
12 expenses, but we can certainly come
13 back to that.

14 MS. BROCKWAY: All right.
15 We'll take our lunch break until
16 1:00.

17 * * *

18 (Whereupon, a short break
19 was held.)

20 * * *

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

24 BY MR. BALLENGER:

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

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

11 MS. KUMAR: Correct.

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

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

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

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

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

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

18 MR. BALLENGER: More or
19 less. Okay. You understand this
20 is -- we were examining the witnesses
21 from the rebuttal statement, one,
22 about these conclusions and
23 specifically about whether
24 amortization of the TAP implementation

1 costs somehow cause the department to
2 stop implementation of TAP, what
3 appears what the statement was.

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

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

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

16 BY MR. BALLENGER:

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

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

1 MS. BROCKWAY: For rate
2 making purposes?

3 Q. For rate making purposes.

4 MS. LABUDA: The TAP
5 implementation cost.

6 MS. BROCKWAY: We can't
7 hear.

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

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

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

1 I don't think that's prudent.

2 MR. BALLENGER: I'll just

3 ask for a transcript request.

4 Identifying the course of requirement

5 that it have electronic applications

6 for TAP.

7 MS. BROCKWAY: I'm up to 12.

8 MR. BALLENGER: That is

9 correct.

10 MS. LABUDA: So as I was

11 stating, those costs will eclipse the

12 numbers before us today in a single

13 fiscal year.

14 Q. And are you talking about TAP

15 implementation costs? So this program would be

16 reimplemented in successive years.

17 MS. LABUDA: Hopefully the

18 program will not be reimplemented in

19 successive years. I think we've had a

20 successful launch. We're continuing

21 to work on the program. And as part

22 of designing the program and following

23 all of the ordinance requirements

24 closely we have identified additional

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

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

7 MS. LABUDA: Correct.

8 Q. It's processing applications?

9 MS. LABUDA: Correct.

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

16 MS. BROCKWAY: The M1 being
17 the AWWA manual.

18 MS. BUI: Yes, it does.

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

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

24 Q. Okay. And in your rebuttal testimony

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

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

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

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

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

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

24 MR. BALLENGER: The rebuttal

1 testimony, yes.

2 MS. BROCKWAY: Sorry.

3 BY MR. BALLENGER:

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

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

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

16 MS. BUI: It does not
17 state --

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

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

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

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

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

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

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

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

22 MR. DASENT: Objection. Let
23 me at least observe, your Honor, that
24 it's a fully projected test year. So

1 known and measurable was a standard
2 that has eroded over time, in this
3 context at least. Because everything
4 wasn't fully projected in the years
5 past when we set the standards for
6 rate (inaudible). So with fully
7 projected test years it's about
8 reasonable projections. And in that
9 sense known and measured may have a
10 place.

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

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

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

23 BY MR. BALLENGER:

24 Q. Okay. There is another part of the M1

1 that I just wanted to refer to here. If I can
2 find it. Give me one second.

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

7 MS. BROCKWAY: What?

8 Before --

9 MR. BALLENGER: This is the
10 AWWA M1 Manual.

11 MS. BROCKWAY: What I want
12 to know --

13 MR. BALLENGER: Yes.

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

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

19 MS. BROCKWAY: Thank you.

20 BY MR. BALLENGER:

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

1 agree with that statement?

2 MS. BUI: Yes.

3 Q. Okay. And would you also agree then
4 that fairness and equity is one of the
5 cornerstones of cost based rates?

6 MS. BUI: Yes.

7 Q. Okay. And would you also agree that a
8 measure of whether revenues under existing rates
9 are adequate is to determine whether those rates
10 produce revenues that are sufficient to meet the
11 utility's cash requirement?

12 MS BUI: To meet the
13 utility's --

14 Q. Cash requirement.

15 MS. BUI: It depends upon
16 whether or not the utility is using a
17 cash basis or not for determining its
18 revenue requirements.

19 Q. I would just refer you to page 51 of
20 the M1 Manual. It provides there -- it states,
21 "For government owned utilities the initial
22 measure of whether revenues under existing rates
23 are adequate is made to determine whether such
24 revenues are sufficient to meet the utility's

1 cash requirements over the study period."

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

6 MR. BALLENGER: Okay.

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

11 BY MR. BALLENGER:

12 Q. Okay.

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

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

20 MS. BROCKWAY: Wait.

21 BY MR. BALLENGER:

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

24 MS. BROCKWAY: Okay. Page

1 28 of Exhibit-7.

2 BY MR. BALLENGER:

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

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

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

19 MR. DASENT: Please note our
20 objection to this line of questioning.
21 I was trying to wait for the first
22 question on the subject. But before
23 we go down that road, we didn't
24 prepare this exhibit. These documents

1 are not ours. Mr. Marcus is in the
2 room, or was. So I'm not quite sure
3 where this gets us, but I'm listening
4 for the first question and poised to
5 object. We didn't prepare this
6 document.

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

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

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

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

24 MS. BROCKWAY: Let's not

1 have the argument. Let's have the
2 question.

3 BY MR. BALLENGER:

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

8 MS. KUMAR: Yes.

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

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

20 Q. Okay. In this presentation there is
21 basically a formula that was provided as to how
22 to determine revenue requirements. And it
23 basically, as I understand it, takes your O&M
24 expenses, existing debt service and future debt

1 service. You add cash finance, finance capital,
2 take into account any additions or subtractions
3 for revenues -- I'm sorry, from Reserves.
4 Additions or subtractions from Reserves and take
5 into account any adjustments necessary for the
6 rate covenant for contingencies. And then you
7 subtract all revenues from sources other than
8 rates. Do you agree with that calculation as a
9 general proposition?

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

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

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

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

23 MR. DASENT: An equation.

24 MS. KUMAR: General

1 representation of how revenue
2 requirements should be determined.

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

5 MR. DASENT: Yes.

6 MS. BROCKWAY: Thank you.

7 BY MR. BALLENGER:

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

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

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

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

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

12 MR. JAGT: Correct.

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

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

23 Q. Okay. And then that percent increase
24 remains effective in the subsequent years, and

1 that's what we see going across line four in
2 2020 and 2021, correct?

3 MR. JAGT: Correct.

4 Q. And as we go down to line five I
5 believe I see here, and I apologize for the
6 quality of this if anyone is having difficulty
7 with it. It appears you're requesting a 4.5
8 percent increase in fiscal 2020. And that would
9 result in additional service revenue of 26
10 million one hundred and 33 thousand dollars in
11 2020. Is that correct?

12 MR. JAGT: Correct.

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

17 MR. JAGT: Correct.

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

24 MR. JAGT: Correct.

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

3 MR. JAGT: Correct.

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

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

8 BY MR. BALLENGER:

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

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

14 BY MR. BALLENGER:

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

18 MR. JAGT: Correct.

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

21 MR. JAGT: That's correct.

22 That also reflects the decrease,
23 because we have projected a decrease
24 in the -- the consumption over the

1 planning period. So you get a
2 slightly less amount every year.

3 MS. BROCKWAY: Also, I'm
4 looking at lines five through eight.
5 These are under the column "Months
6 Effective." All of those say ten.

7 MR. JAGT: That's correct.

8 BY MR. BALLENGER:

9 Q. So they are effective for ten months
10 of the fiscal year in which the rate increase
11 goes into effect; is that correct?

12 MR. JAGT: That's correct.

13 Q. And then in subsequent years they're
14 effective for all 12 months. Is that also
15 correct?

16 MR. JAGT: Correct.

17 MS. BROCKWAY: Give me a
18 minute to think about what that means.

19 MR. BALLENGER: Sure.

20 MS. BROCKWAY: I need a
21 picture, Ms. Bui. The ten is for the
22 first time that that particular
23 increase is put into effect.

24 MS. JAGT: Yes, ma'am. The

1 department has proposed rates
2 effective September 1st.

3 MS. BROCKWAY: Got it.

4 Thank you.

5 MR. BALLENGER: Thank you.

6 BY MR. BALLENGER:

7 Q. Earlier we talked a little bit about
8 schedule BV-E5 WP-1, which is the Water
9 Department financial plan. This was also
10 included in statement 9A. And I just had some
11 general questions here, so it may not be
12 necessary to follow along. But I will give
13 everyone a minute to get that in front of them.

14 MS. BROCKWAY: Yes, if you
15 could give us a minute.

16 BY MR. BALLENGER:

17 Q. So looking at this schedule, BV-E5
18 WP-1. Does this schedule provide the
19 assumptions utilized to derive the revenue
20 requirement in the proposed reading?

21 MS. KUMAR: Yes. It's
22 broadly described key assumptions that
23 were used in both the revenue
24 projections and the revenue

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

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

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

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

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

1 submitted along with the testimony.

2 And Mr. Jagt can refer you to the work
3 papers.

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

11 MS. KUMAR: This document
12 that's attached indicates revenue and
13 revenue requirement assumptions. This
14 document's purpose is to describe the
15 key assumptions that went into the
16 preparation of the revenue
17 requirements of the revenue
18 projection. This is not a description
19 of each calculation.

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

1 calculations supporting BV-E1, BV-E2 and BV-E3?

2 Is that correct, Mr. Jagt?

3 MR. DASENT: Are you

4 referring to work papers?

5 MR. BALLENGER: Yes.

6 MR. JAGT: Yes. The work

7 papers would represent the details and

8 the revenue requirements by year.

9 BY MR. BALLENGER:

10 Q. So that would be PWD Exhibit-6,

11 correct?

12 MR. JAGT: Correct.

13 Q. Is that from the Black & Veatch

14 computer model?

15 MR. JAGT: Yes.

16 Q. Okay. Is it possible to look at

17 Exhibit-6 and determine how you calculate your

18 revenue requirements in this case?

19 MS. KUMAR: Again, there is

20 a series of steps involved. It is not

21 a simple equation. And as it is

22 explained in the testimony, there are

23 different calculations that have to go

24 into the buildup of what we call the

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

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

24 MS. KUMAR: From the summary

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

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

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

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

21 MS. BROCKWAY: The Board did
22 not present --

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

1 Board has been presented with.

2 BY MR. BALLENGER:

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

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

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

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

15 Q. Okay. Sure.

16 MS. KUMAR: Thank you.

17 Q. So if I were to go into your model and
18 change the assumptions for expense items, like
19 payroll and pension, then the amounts on line
20 16, total operating expenses, those would adjust
21 to reflect those changed assumptions, would they
22 not?

23 MR. JAGT: Correct.

24 Q. And is it also true that if I change

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

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

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

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

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

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

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

12 BY MR. BALLENGER:

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

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

23 MR. BALLENGER: Okay.

24 BY MR. BALLENGER:

1 Q. On the line that says capital account
2 deposit percentage for years 2019, 2020 and
3 2021, do you see that I've kind of put in a one
4 percent in each of those three years?

5 MR. JAGT: Correct

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

4 MR. JAGT: Correct.

5 MS. BROCKWAY: What are
6 those three years again?

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

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

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

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

22 * * *

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

1 * * *

2 MR. JAGT: Right, subject to
3 check.

4 MS. BROCKWAY: Off of the
5 record.

6 * * *

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

9 * * *

10 BY MR. BALLENGER:

11 Q. So, Mr. Jagt, subject to check, can
12 you confirm that line 27 or table C-1 on page 43
13 of Exhibit-7 reflects a one percent capital
14 account deposit for fiscal years 2019, 2020 and
15 2021?

16 MR. JAGT: Subject to check.

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

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

24 MR. BALLENGER: Sure.

1 MS. BROCKWAY: Which
2 lines?

3 MR. BALLENGER: Lines one
4 through 25.

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

9 Q. Okay.

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

15 Q. Right. Okay. So your additional
16 service revenues did not change after the
17 capital account deposit was decreased by about
18 12 million dollars in each share of the rate
19 fee; is that correct?

20 MS. BROCKWAY: What was not
21 changed?

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

1 dollars in capital account deposit
2 that occurred each year.

3 MR. DASENT: I have to
4 object. The premises of the question
5 is wrong. She didn't say revenue
6 requirements. Said revenues in the
7 top part of the table. That's
8 different.

9 BY MR. BALLENGER:

10 Q. None of the projections of revenue
11 shown in the top half of the table changed, did
12 they?

13 MS. KUMAR: None of the
14 projections on the top of the table
15 will change, because it's not an
16 automatic change. It is something
17 that the rate specialist has to look
18 at to change it.

19 Q. That's where we're going. Thank you.

20 MS. KUMAR: If your question
21 is, will it automatically change, it
22 will not automatically change. It's
23 depending on what you are changing.

24 Q. But if you look at line 36 of the

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

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

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

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

15 MR. DASENT: 2019.

16 MR. BALLENGER: 2019.

17 MS. KUMAR: Yes, that's
18 correct.

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

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

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

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

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

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

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

18 MR. JAGT: That's correct.

19 BY MR. BALLENGER:

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

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

1 MR. BALLENGER: Sure.

2 BY MR. BALLENGER:

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

10 MS. BROCKWAY: What line?

11 MR. BALLENGER: Line 13.

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

14 BY MR. BALLENGER:

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

17 MS. KUMAR: Correct.

18 Q. But, otherwise, all of the figures
19 here that you used to derive total revenues are
20 unchanged; isn't that correct? Now, I'm on line
21 15.

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

24 MR. BALLENGER: Sure.

1 MS. KUMAR: Yes, that is
2 correct.

3 Q. Okay. But if you look at line 16
4 there is, of course, an impact on the total
5 operating expense; isn't that correct?

6 MS. KUMAR: Correct.

7 Q. And that's a reduction of ten million
8 dollars in total operating expenses for each of
9 the three years in the rate period, correct?

10 MS. KUMAR: That is
11 correct.

12 Q. And as we go further down the page,
13 line 23 you'll note that the total senior debt
14 service coverage in fiscal 2019, 2020 and 2021
15 have all changed, have they not?

16 MS. KUMAR: Could you refer
17 to the line again.

18 Q. Line 23, the total of senior debt
19 service coverage shown on page 45 of Exhibit-7
20 is different from what was in your original
21 model?

22 MS. KUMAR: Correct.

23 Q. And that's just the result of a
24 mathematical calculation of coverage, correct?

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

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

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

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

21 MS. KUMAR: Repeat your
22 question.

23 Q. Sure. If your revenue assumptions
24 were to be increased, that would also affect

1 your coverage calculation?

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

9 Q. All right. Just one more so that
10 we're clear. And this one goes the other way.
11 So if we turn the page to 47 of Hearing
12 Exhibit-7. So here, again, I started over with
13 the model and entered one adjustment. And
14 instead of reducing the SMIP and GARP
15 expenditure to zero, I increased it by an
16 additional five million to 15 million dollars in
17 2019, 2020 and 2021. Do you see that?

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

21 Q. 46 of Exhibit-7.

22 MS. KUMAR: Yes.

23 Q. So it's not a numbered line, but you
24 see where I've changed the numbers to 15 million

1 for three years of the rate period?

2 MS. KUMAR: Correct.

3 Q. And so then again if we turn to page
4 47, again, I was able to produce a number table
5 for C-1. And if you look at line 13, operating
6 fund interest income, I believe you'll see that
7 a similar adjustment has been made due to an
8 increase in expense during the rate period
9 fiscal 2019, fiscal 2020 and 2021; is that
10 correct?

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

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

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

21 MS. BROCKWAY: Where is that
22 change?

23 MR. BALLENGER: It's in line
24 13.

1 So, for example, fiscal year
2 2019, the original model shows
3 \$364,000 in operating funds interest,
4 income. And on page 47 of the exhibit
5 in fiscal 2019 it shows \$355,000 in
6 operating fund, interest and income
7 for fiscal 2019.

8 MS. BROCKWAY: Thank you.

9 BY MR. BALLENGER:

10 Q. And so here again if we look at line
11 16, total operating expenses, would you agree
12 with me that the additional five million dollars
13 that I put into the model has shown up here in
14 fiscal year 2019, 2020, 2021 as an increase in
15 operating expenses?

16 MS. KUMAR: Right.

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

22 MS. KUMAR: Show in line 23,

23 yes.

24 Q. And then just going down to line 36.

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

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

7 MS. KUMAR: What line?

8 Q. Line 36.

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

11 MS. BROCKWAY: Can you
12 restate the year.

13 MS. KUMAR: In line 36 of
14 Mr. Ballenger's Exhibit-C in line 36,
15 starting in years 2019, 2020, 2021,
16 the end of balance in line 36 begins
17 to go down relative to what we -- of
18 model Exhibit C-1. And in 2021, 2022,
19 2023 actually goes negative.

20 BY MR. BALLENGER:

21 Q. And, Ms. Kumar, earlier you talked
22 about -- the reasons why I think, when I make a
23 change in operating expense, there is no
24 corresponding change in your model's calculation

1 of revenue is because the user has to go into
2 the model and make some changes;; is that
3 correct?

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

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

23 Q. And just to be clear, did you say the
24 user has to make an adjustment, or the user has

1 to use judgment? I wasn't quite sure.

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

7 Q. Okay. And so in this case for fiscal
8 2019 where you are proposing a 1.6 percent
9 increase, that increase was determined by the
10 user manipulating the model; is that correct?

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

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

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

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

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

19 MR. JAGT: It would show a
20 revenue requirement, and it does show
21 a revenue requirement. It's showing
22 based on assumptions that are inputted
23 in the model, which is that you are
24 using the reserves and fund balances

1 to meet that revenue requirement
2 instead of raising additional revenues
3 or adjusting additional revenues.

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

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

1 using reserves or adding reserves.

2 Q. I just want to focus a little bit on
3 the user aspects of this, because it seems to me
4 that -- that from my familiarity with the model,
5 that it really depends on, sort of, your inputs
6 in what's called the dashboard. Is that fair?
7 That the product of C-1 also depends on the
8 assumptions that are put in what's called the
9 dashboard of the model?

10 MS. KUMAR: That is correct.

11 Q. And that dashboard is not part of the
12 PWD Exhibit-6; is that correct?

13 MS. BROCKWAY: And what is
14 the dashboard? I've seen that term.

15 MR. BALLENGER: Proprietary
16 and confidential.

17 MS. BROCKWAY: I'm not
18 asking for that. I'm asking --

19 MR. BALLENGER: It is a
20 tablet, a model that perhaps
21 Mr. Jagt can talk about.

22 MS. BROCKWAY: It's not
23 unique to Black & Veatch, the idea of
24 the dashboard?

1 MS. KUMAR: The dashboard is
2 part of the model that the Public
3 Advocate received as part of this
4 submission.

5 Q. I just want to be clear, because we
6 talked about Exhibit-6 being a rate model. I
7 want to be clear that the dashboard is not part
8 of Exhibit-6; is that correct?

9 MS. KUMAR: It was not that
10 it was not printed by the dashboard.
11 It is very much part of the model that
12 was delivered.

13 MR. JAGT: Inputs on the
14 dashboard are (inaudible) it's very
15 much integrally part of the model.
16 Inputs that are provided on that
17 machine feed into and go into the cash
18 flow on the -- in the work paper
19 folder.

20 Q. Okay. And so in using the dashboard
21 someone can mainly choose the percentage of the
22 rate increase to be reflected in each year
23 during the rate periods; is that right?

24 MS. KUMAR: Depending on

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

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

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

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

19 MS. KUMAR: The user looks
20 at all of the interdependencies
21 between revenue line items and the
22 revenue requirements and transfers to
23 the funds and balances that need to be
24 achieved. These are -- all of these

1 are interdependencies. So the user
2 has to look at all these
3 interdependencies, determine issues or
4 revenue adjustments and the withdraws
5 and all of the deposits in the model,
6 yes.

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

18 Q. And we talked a little bit about the
19 impact on the residual fund from my examples,
20 which were a demonstration. These examples were
21 not meant to in any way to change our testimony
22 and position in this case. But it's also
23 correct, isn't it, that the user would determine
24 using the dashboard how much would be

1 transferred out of the residual fund to the
2 construction fund in any year in the rate
3 period, correct?

4 MR. JAGT: Correct.

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

10 MS. KUMAR: Could you repeat
11 that question.

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

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

23 Q. So someone has to go into the model
24 and figure out how to -- how to appropriately

1 reflect that adjustment?

2 MS. KUMAR: Correct.

3 Someone familiar with rate making and
4 the flow of funds and all of these
5 expenditures, yes. A person familiar
6 with it has to do that.

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

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

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

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

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

24 MR. JAGT: That is correct.

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

6 MR. JAGT: Similar format,
7 correct.

8 Q. A similar format. And this is what
9 was filed with the Water Department's request
10 for a rate increase for fiscal years 2013 and
11 2016; is that correct?

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

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

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

23 MR. BALLENGER: I'm sorry, I
24 said the 2012 rate proceeding set the

1 rates for 2013. It was proposing to
2 set the rates for fiscal year 2013
3 through fiscal year 2016. So it was a
4 four-year rate proceeding.

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

8 MR. BALLENGER: Yes.

9 MS. BROCKWAY: Thank you.

10 BY MR. BALLENGER:

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

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

1 ago and sort of examining them as if
2 they had validity today as opposed to
3 they were a forecast many, many years
4 back. And we're suggesting that is
5 irrelevant to this case.

6 MS. BROCKWAY: I don't
7 agree. I think it's relevant.
8 Perhaps not to produce a particular
9 forecast number, but I think the
10 question is, is the experience of
11 actuals versus forecasting -- I think
12 that's what Mr. Ballenger was going
13 to. And I think that experience is
14 relevant.

15 MR. DASENT: Please also
16 note that another layer to this
17 objection, that assumes all things --
18 all else being equal. Nothing else
19 has changed. No new assumptions.

20 MS. BROCKWAY: Absolutely
21 understood.

22 MR. BALLENGER: And I do
23 want to make sure -- you know, focus
24 on the first year outside of the rate

1 period.

2 MR. BALLENGER:

3 Q. So I'm going to try and find some
4 symmetry here by asking that we turn to make it
5 to page 49 of 57 Hearing Exhibit-7 of the Public
6 Advocate. And this is table C-1 from the last
7 rate proceeding. And, again, if we -- first of
8 all, the last rate proceeding was -- it was
9 conducted in 2016, and it sought additional
10 rates and charges in 2017 and 2018. So I would
11 like to start on line 11. Line 11 in fiscal
12 2017, am I correct, that what this shows is the
13 department was targeting or was requesting an
14 increase in rates to achieve six hundred and
15 seventy-five million three hundred and 76
16 thousand dollars in total water and waste water
17 service revenue?

18 MR. JAGT: Correct.

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

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

1 2017. Is that different and higher
2 than what was projected in 2016 or
3 2015, because this is dated December
4 2015.

5 Q. Which is fiscal 2016, correct?

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

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

13 MS. KUMAR: Correct.

14 Q. Thank you.

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

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

24 MS. KUMAR: Correct.

1 Q. Okay. So staying on page 49 and
2 looking at line 11, again. In fiscal year 2019,
3 which was outside of the rate period in the last
4 case, it appears to me that what you are
5 projecting here is a need for seven hundred and
6 36 thousand five hundred and 93 dollars in total
7 water and waste water service revenue for fiscal
8 2019; is that correct? I'm sorry, seven hundred
9 and 36 million 500 hundred and 93 thousand in
10 fiscal 2019. Is that correct?

11 MS. KUMAR: Correct.

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

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

24 MS. KUMAR: Based on

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

4 Q. Am I also correct that that's a
5 difference of over 24 million in your fiscal
6 2019 projections between the last two rate
7 cases?

8 MS. KUMAR: Repeat the
9 question, again please.

10 Q. The difference between your estimate
11 in 2016 and that rate proceeding for your fiscal
12 2019 revenue requirement and what you're now
13 projecting as your revenue requirement for
14 fiscal 2019 is over 24 million dollars; isn't
15 that correct?

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

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

1 what we've --

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

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

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

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

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

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

18 MR. BALLENGER: Thank you.

19 * * *

20 (Whereupon, a short break
21 was held.)

22 * * *

23 MS. BROCKWAY: Back on the
24 record.

1 BY MR. BALLENGER:

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

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

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

1 2018?

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

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

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

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

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

22 Q. I think we have it. Let's turn to
23 page -- maybe we don't have it. Let's do a
24 transcript request for that. Actually, I think

1 it's unnecessary. The Board's determination to
2 a 2016 case includes the table. And subject to
3 my own recollection, I believe the number was
4 unchanged. It is possible that the end of the
5 year stabilization rate is a hundred 11
6 million?

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

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

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

16 MR. BALLENGER: Correct.

17 BY MR. BALLENGER:

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

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

24 Q. Sure. If you would like to use that

1 as the source?

2 MS. BROCKWAY: Which C-1?

3 MR. DASENT: In the rate

4 fund.

5 MS. BROCKWAY: In the rate

6 fun. Thank you.

7 MS. KUMAR: Repeat the

8 question.

9 BY MR. BALLENGER:

10 Q. What is the projected fiscal year end
11 balance in the rate stabilization fund for
12 2018?

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

15 Q. I would like to ask you to turn page
16 49 of PWD's table for 9A?

17 MS. BROCKWAY: Hold on.

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

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

22 Q. Yes. It's page 49. Is everyone
23 there? I just started at the top of page 49,
24 line 2. It says rate stabilization balance is

1 projected to decrease from 201.9 million at the
2 end of the fiscal year 2018 to 156.39 million at
3 the end of fiscal year 2021. That's it.

4 MS. BROCKWAY: Which part?

5 Do you mean the ending balance for
6 fiscal 2018?

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

11 MR. JAGT: That's correct.
12 201 million -- 201.19 million. The
13 end of year, fiscal year 2017.

14 MS. BROCKWAY: Say it again.

15 MR. JAGT: It's the fiscal
16 year.

17 MS. BROCKWAY: What is the
18 "it"?

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

22 MR. BALLENGER: Thank you.

23 And in the last rate proceeding,
24 subject to check, the Board's approval

1 incorporated certain projected
2 balances for the rate stabilization
3 fund.

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

11 BY MR. BALLENGER:

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

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

21 THE COURT REPORTER: No, I
22 did not.

23 MR. BALLENGER: I couldn't
24 hear either.

1 MR. JAGT: Correct.

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

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

11 MR. JAGT: Correct.

12 Q. Okay. And then at the Rate Board
13 decision, which you've shown here for fiscal
14 2016, is also a transfer of 36,900,000 from the
15 rate stabilization fund. Isn't that correct?

16 MR. JAGT: Correct.

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

22 MR. JAGT: Correct.

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

1 clear.

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

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

9 MR. JAGT: Correct.

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

15 MR. JAGT: Correct.

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

20 MR. JAGT: Correct.

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

1 that correct?

2 MR. JAGT: Correct.

3 Q. Okay. And without going through each
4 step, you would agree that actual result was
5 actually 14 million dollars, seven hundred and
6 37 thousand dollars difference than what you
7 projected. Isn't that correct?

8 MS. KUMAR: Correct.

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

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

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

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

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

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

8 MS. KUMAR: Yes, sure.

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

12 BY MR. BALLENGER:

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

18 MS. LABUDA: That is
19 correct, yes.

20 Q. So the balance at the beginning of
21 fiscal 17 is higher because the department did
22 not withdraw as much as it projected in fiscal
23 2016; is that correct?

24 MS. LABUDA: That is

1 correct.

2 Q. And, likewise, in fiscal 2017 the
3 balance at the beginning of the year was higher
4 because the department did not -- strike that.
5 I think I mixed up my years. So, again, in
6 fiscal 2018 the balance at the beginning of the
7 fiscal year was higher, because the department
8 did not withdraw what it projected in fiscal
9 2016 or fiscal 2017; isn't that correct?

10 MS. LABUDA: That is
11 correct.

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

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

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

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

24 Q. I had some questions about that, too.

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

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

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

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

14 MR. BALLENGER: Thank you.

15 MR. JAGT: There was an
16 adjustment at the approach in the
17 dashboard between the two rate cases.
18 In the prior rate case we looked at
19 each of the utilities separately. So
20 when we got to the dashboard, we input
21 the bond issues, the transfers and the
22 revenue increases for the water or the
23 waste water utilities. And the total
24 would be the combined addition of the

1 two. We had revised that approach
2 through this rate study in that we
3 used the total. We looked at the
4 utility as a whole, a single utility.
5 We entered the adjustments for the
6 revenue required for additional
7 revenues. The transfers and the bond
8 issuances based on the total water and
9 waste water utility. We used the
10 inputs for the water utility, and then
11 the sewer as a calculated net
12 difference.

13 Q. Thank you.

14 MS. BROCKWAY: Difference
15 from what?

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

19 BY MR. BALLENGER:

20 Q. Thank you. That's helpful in my
21 limited knowledge of dashboard to hear that. I
22 think turn to page 25 of the rebuttal statement,
23 statement number one. And at the top of this
24 page you have a table showing total revenues

1 over a period of years, 2012 through 2017. And
2 then further down the table you show operating
3 expense over the same period, 2012 through
4 2017. And I just want to focus on the note that
5 follows the table. And so on lines 13 through
6 16 you attribute a significant portion of the
7 revenue projection variance to 11 million dollar
8 release from debt to service reserve due to
9 saving through a bond refunding. Is that right?

10 MR. JAGT: That is correct.

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

21 MR. JAGT: Correct.

22 Q. And I just want to focus on this
23 refunding. Do I understand your testimony to be
24 the 11 million dollars that was released from

1 the debt reserve contributed to a higher balance
2 in the rate stabilization fund?

3 MR. JAGT: No.

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

9 MR. JAGT: No.

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

13 MS. LABUDA: Yes.

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

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

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

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

10 Q. Okay. That's helpful. Thank you.

11 So -- hang on one second.

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

1 residual.

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

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

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

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

22 Q. And just want to make sure that I
23 understand, because I'm not terribly familiar
24 with the five-year plan. The five-year plan is

1 something that is done annually, isn't it?

2 MS. LABUDA: Correct. Yes.

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

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

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

23 When I was looking at the breakdown
24 that we referred to earlier, I noticed that a

1 large variance from the Board's decision in your
2 actual results was in the personal service and
3 fringe benefits category of the finance
4 department. And I'm on page 51 of the Hearing
5 Exhibit-7 of the Public Advocate.

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

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

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

14 MR. DASENT: Assumptions
15 document.

16 MS. BROCKWAY: You're not
17 talking about the financial plan.
18 You're talking about something
19 different.

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

23 MS. BROCKWAY: Now I see it.

24 MR. BALLENGER: I

1 apologize. I didn't read the full
2 title.

3 BY MR. BALLENGER:

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

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

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

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

24 MS. KUMAR: Yes.

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

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

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

17 MS. KUMAR: Yes.

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

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

24 MR. BALLENGER: Sure.

1 MS. KUMAR: Yes.

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

10 MS. KUMAR: Correct.

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

16 MS. KUMAR: Correct.

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

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

23 Q. Okay. And as I look at this, would
24 you agree with me that the collection factor in

1 the billing year appears to increase, with one
2 exception? It appears to increase between 2012
3 and 2016 very steadily?

4 MS. KUMAR: Correct.

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

9 MR. JAGT: Correct.

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

19 MS. KUMAR: Correct. During
20 the last rate hearing we had limited
21 data at that time, because that was
22 the first time that that was engaged
23 to provide the information at that
24 time. That was the first time they

1 were engaged to provide that
2 information. So we had several
3 information, which we used. And in
4 this rate case, we now, because of the
5 passage of time, we have more, more
6 information. And so we've used
7 quality available information. That's
8 Mr. (inaudible) to get our Board
9 representative information on the
10 collection factor.

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

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

21 MS. BROCKWAY: So this is
22 from the filing?

23 MR. BALLENGER: Yes. This
24 is included in the filing of the last

1 rate proceeding.

2 BY MR. BALLENGER:

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

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

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

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

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

1 MS. KUMAR: What page
2 number?

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

8 MS. KUMAR: Yes.

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

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

14 Q. Sure.

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

22 I don't know whether you
23 were going to go there, but that's
24 something I need to understand

1 better.

2 MR. BALLENGER: Okay. We
3 might get there.

4 BY MR. BALLENGER:

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

11 MS. KUMAR: Yes.

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

16 MS. KUMAR: Correct.

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

19 MS. KUMAR: Yes, correct.

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

1 for purposes of the TAP riders?

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

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

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

15 Q. Yes. I'm sorry. I think I messed
16 that up. Do you see that the collection data
17 that I have shown for the years 2012 through
18 2016, in the bottom table it's the same as the
19 collection data that's shown in the top table?

20 MS. KUMAR: Yes.

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

1 Would you accept that, subject to check?

2 MS. KUMAR: Yes.

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

7 MS. KUMAR: Subject to
8 check, yes.

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

15 MS. KUMAR: We do want to
16 state that there is a difference in
17 approach this time that we used. It's
18 not just using the same numbers and
19 the same -- this time, because we have
20 additional data, we've been able to
21 have three complete factors. So for
22 2012 billings, 2013 billings and 2014
23 we had three complete patterns of full
24 payments that came in from those

1 billings.

2 In addition to that because
3 we also have the more recent 2015 and
4 2016 billings. So we not only use
5 three complete billing patterns, which
6 we did not have last time. So we have
7 that data this time, plus the two
8 additional years.

9 We used comprehensive data
10 that was available. It is not just
11 trying to use the same approach and
12 trying to figure out which one will
13 give a more better -- give a higher
14 prediction number. That would mean
15 that there was no rationale behind
16 what we were doing. There was a
17 specific rationale as to why this time
18 we used the data. Again, because the
19 first time we had three complete
20 payment patterns from (inaudible) that
21 it was able to provide. In addition
22 to that, we had the billing from 2015
23 and 2016. We collectively used all of
24 the data, because that is a much more

1 representative collection factor.

2 Also when we did this, the
3 96.54 percent -- again, applying to
4 2017 and beyond it also -- our
5 projection was very, very close to
6 what we actually experienced in terms
7 of our actual revenue in 2017.

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

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

1 that?

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

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

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

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

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

19 BY MR. BALLENGER:

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

1 So I would like to mark this as
2 Hearing Exhibit-8, Public Advocate, dated May
3 14, 2018, to be included on the record today.

4 And I want to understand a little bit
5 better -- we talked just briefly on Friday about
6 write-offs. And I wanted to see if I could
7 understand the department's write-off practices
8 a little better. And this is a memorandum in
9 Hearing Exhibit-8 that's dated August 12th,
10 2011. It is to the accounting review's panel
11 and from Mark DeHarvey, utility accounting
12 manager of our water revenue bureau. I note
13 that the water commissioner -- the then water
14 commissioner and then deputy water commission of
15 finance are both copied on this memorandum.

16 And what I wanted to focus on was that
17 this memorandum on the first page, statement, it
18 submits a total of seven million, three hundred
19 and 39 thousand five hundred fifty-seven dollars
20 and 39 cents of delinquent none-collectible
21 water fund accounts for exclusively from the
22 water fund financial statements. And I think --
23 maybe it was probably answered a little bit on
24 Friday. I may be misremembering. Am I right

1 that if an uncollectible account receivable is
2 written off that that would, in fact, be the
3 collection rate for the year of the write-off?

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

9 MR. BALLENGER: Okay. Thank
10 you.

11 MS. LABUDA: So
12 Mr. Ballenger, to address what exactly
13 this document represents. This is a
14 document, obviously as we stated, from
15 2011, which predates my tenure with
16 the City, but factually what it is is
17 simply an acknowledgment for the
18 certified annual financial report.
19 There were some amounts that are
20 deemed uncollectible for our financial
21 statement reporting purposes only.
22 The liens are not released, and the
23 amounts are not taken out of
24 billings. This is simply for capital

1 purposes for GAP government accepted
2 accounting principle statements. And
3 with that, I'll turn it over
4 to --

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

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

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

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

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

1 the lien. It's very different than
2 incremental release of a lien at the
3 end of 15 years.

4 BY MR. BALLENGER:

5 Q. So are these memorandums still
6 prepared today? Not today, today, but
7 currently? Do you receive these memorandums?

8 MS. LABUDA: These are
9 memorandums that are prepared by the
10 city once a year, yes.

11 Q. Okay. And do these write-offs in any
12 way affect the collection factors?

13 MS. LABUDA: They do not.
14 I'll turn it over.

15 MS. KUMAR: No, they do
16 not. Because these (inaudible) this
17 paper are not really written off,
18 because they continue to show up in
19 billing. They continue to show up in
20 billings and the billing data that we
21 as financial consultants get. There
22 is a (inaudible) of billings. And
23 then the collections are reported
24 again, that's billings, because it

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

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

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

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

19 MS. BROCKWAY: What
20 exhibit?

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

24 BY MR. BALLENGER:

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

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

1 that question.

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

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

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

24 BY MR. BALLENGER:

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

6 MS. JENNIFER: Yes.

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

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

15 BY MR. BALLENGER:

16 Q. So, I guess, I'm looking at the
17 difference between the numbers reported on page
18 54 of Hearing Exhibit-7 and what's reported page
19 nine of the rebuttal statement. I'm just saying
20 that fiscal year 2013. And what -- it appears
21 to me that's greater than -- there's a greater
22 than 1.5 percent adjustment to the collection
23 rate in fiscal 13. Is that correct? It just
24 seems like a very significant change in the

1 collection rate for a single year?

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

5 Q. Okay.

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

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

12 MS. JENNIFER: Yes.

13 Q. And they change annually?

14 MS. JENNIFER: They change
15 whenever they change.

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

18 MS. JENNIFER: They could,
19 yes.

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

21 MS. BROCKWAY: Before you go
22 on, are you going to ask about --
23 because I had a lot of questions about
24 that too. I noticed it and was

1 confused. This might go back to what
2 you were saying about the reason.
3 Just looking at current year,
4 comparing the data and the rebuttal
5 statement from the data filed in the
6 2016 case. For each year it appears
7 that -- the filing in the 2018 case
8 was less than the figure now. Is that
9 something, a reflection of what you're
10 saying about the write-offs, or is it
11 something else?

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

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

22 MS. JENNIFER: The
23 difference is that every time this
24 calculation is done what we count as

1 billings might change a little bit,
2 because some bills have been
3 subsequently reversed. So we don't
4 count them as billings anymore.

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

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

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

21 MS. JENNIFER: Okay.

22 MS. BROCKWAY: Thank you.

23 MR. BALLENGER: Just to be
24 up to date I would like to ask for a

1 transcript request. I think I'm up to
2 14.

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

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

12 MR. MERRITT: Can you
13 provide page reference?

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

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

23 MR. BALLENGER: It's
24 irrelevant to the collection rate,

1 according to the witnesses. But it
2 does show write-off information or
3 financial reporting.

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

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

12 MS. BROCKWAY: Yes.

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

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

22 MR. BALLENGER: Thank you.
23 I'm wondering if anyone else has any
24 questions for this panel at this time,

1 because that concluded my cross of
2 this panel. And I was hoping we might
3 have enough time to talk a little fire
4 protection before the day is out.

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

7 MR. BALLENGER: Okay.

8 MR. EWING: I have one
9 question.

10 BY MR. EWING:

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

15 MR. JAGT: Yes.

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

22 MS. KUMAR: The dashboard
23 itself, not the result. The dashboard
24 has input, certain input that goes

1 into the development of that -- of
2 those results. For example, the
3 (inaudible) adjustments that are
4 reflected for fiscal 2021, 2022, 2023,
5 that's actual input of percentages
6 going to the dashboard. Similarly,
7 Mr. Jagt can confirm there are other
8 inputs -- also, for example, the
9 amount of the draw from the
10 re-stabilization fund. And in given
11 years are deposits to the
12 re-stabilization fund in a given year
13 will be in the dashboard.

14 So the dashboard has
15 essentially input that then has an
16 influence of how that particular table
17 looks. And then the dashboard also
18 has charts and stuff like that that
19 would reflect. You do the input. You
20 can see what the impact is. The
21 dashboard itself does all the
22 calculations right then and there
23 (inaudible). The entire model has
24 been submitted in (inaudible) addition

1 to the model itself in this filing.

2 BY MR. EWING:

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

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

1 certain adjustments or certain
2 assumptions might change as well. So
3 until the time we actually finalize
4 images, which is usually before we
5 start writing the testimony, we then
6 run the (inaudible). And then the
7 final duration actually goes into
8 testimony and to all exhibits all
9 reviewed and -- by the department.

10 BY MR. EWING:

11 Q. I'm just -- I'm wondering -- thank
12 you. I understand that it's complex. I'm
13 wondering if there is any way for our purposes
14 of review to understand the differences between
15 what are the input variables versus what are the
16 assumptions versus what are the products of the
17 algorithms that go into figuring this out.

18 MS. KUMAR: One part of what
19 you're asking, what are the key
20 assumptions that went into the
21 analysis? All of those assumptions
22 are listed in this document that we
23 just referred to, which is schedule
24 BV-E5 WP-1. That lists all of the

1 assumptions that goes into the revenue
2 projections, the requirement
3 projections by category. And so those
4 are all of the key assumptions that go
5 into under the development of the
6 finance plan. It actually calculates
7 through different steps, the model
8 itself. And then the final output, to
9 summarize, this is what you see in
10 that Table 3-1.

11 MR. EWING: Okay. Thank
12 you.

13 MR. POPOWSKY: Thank you,
14 and good afternoon. I also have just
15 a couple of questions on your
16 testimony and one follow up on table
17 C-1.

18 BY MR. POPOWSKY:

19 Q. It strikes me that on table C-1
20 that -- it seems to me what you're solving for,
21 and I realize this is not the sole product, but
22 what you're solving for in the years of the rate
23 increases -- actually starting in 2020. You're
24 solving for 1.3 debt service coverage ratio.

1 Let me just finish. In order to get to that it
2 seems to me you start with revenue at existing
3 rates, then you look at projected expenses at
4 any given projected test year. And then if
5 there is a difference between those, between
6 your existing rates and your projected expenses,
7 you solve to say how much additional revenue do
8 we need in that test year in order to produce a
9 1.3 debt service. But with a complicating
10 factor that you have two sources to get to 1.3.
11 You can either take the money out of the rate
12 stabilization fund or you can increase rates?

13 MS. KUMAR: Or both.

14 Q. Or both. Some combination. So the
15 rate increase in each year is, as far as I've
16 been able to determine over the last two cases,
17 the sum of whatever money you're willing to take
18 out of the rate stabilization fund, plus
19 whatever money you seek to recover from the
20 customers. Is that sort of the way it works?

21 MS. KUMAR: The additional
22 revenues that we estimate, plus the
23 additional -- the withdraws that we
24 deem are reasonable given all of the

1 other (inaudible) we have to meet.
2 Then those two factors together kind
3 of really determine the level of
4 revenue adjustments we need from those
5 service charges. And also where the
6 debt service coverage will be at that
7 point in time when we do that.

8 Q. Right. I mean, it's not a coincidence
9 that the debt service code is always 1.3, 1.3
10 and 1.3 in the out years. That's the, sort of,
11 the target that you're shooting for. And you
12 reach that target by a combination of withdraws
13 from the rate stabilization fund and increases
14 in rates?

15 MS. LABUDA: So I think of
16 coverage as the mechanism that allows
17 us to pay for a portion of our capital
18 projects from cash or internally
19 generated funds. So cover in and of
20 itself is not the solving factor.
21 It's really what it does. It flows
22 money through the waterfall, past
23 operating expenses, and allows funds
24 to go to a capital account. So when

1 we're talking about 1.3 times coverage
2 in fiscal year 2019, we're talking
3 about how much money are you willing
4 to transfer to a larger growing
5 capital program from current
6 revenues. And if you don't transfer
7 60-odd million a year through the
8 factor of coverage, then you're going
9 to increase the borrowing.

10 So coverage, from my view,
11 is the mechanism that allows us to pay
12 for our capital through current
13 revenues.

14 Q. And I'm not suggesting it's an end in
15 itself. I'm just saying as far as I can tell,
16 the way the equation -- the way the model works
17 is, like I said, it can't be a coincidence that
18 it always comes out to 1.3. You must be solving
19 for that number, including the factors that
20 you've mentioned. You're nodding your head. Is
21 that correct?

22 MS. LABUDA: Yes. I mean,
23 the goal is to try and favor 20
24 percent of the capital program from

1 current revenues or internally
2 generated funds and how do you achieve
3 that. You then define what is your
4 coverage --

5 Q. And then there was a question, I think
6 by Mr. Ballenger, that, well, if the Board were
7 to make an adjustment, it doesn't automatically
8 flow through the model. But if the Board would,
9 let's say, as we did in the last case, were to
10 say that expense A, we think, is only one
11 million. You say it's two million. We could go
12 to this table, C-1, reduce the total operating
13 expense by one million. And you would need one
14 million less in revenue in order to get the same
15 1.3 coverage?

16 MS. KUMAR: Correct. All
17 being equal. So I think the question
18 whether the model automatically will
19 do that -- the model will not
20 automatically do that. The user who
21 is using the model will have to
22 recognize now that, yes, there is a
23 million decrease in the operating
24 expense, which will flow through the

1 model. The management of revenue
2 adjustment is something that you will
3 have to go and change. That's what we
4 said has to go change in the
5 dashboard.

6 Q. Right. And so theoretically you could
7 choose to put another million into the rate
8 stabilization fund or you could reduce the rate
9 increase loss by a million. That's the judgment
10 that you --

11 MS. KUMAR: Correct. That's
12 the determination we said we would
13 have to make.

14 Q. Right. But if the Board said, We
15 think it should be a lower rate increase, then
16 you would lower the rate increase?

17 MS. KUMAR: Correct.

18 Q. So that's helpful. Thank you. And
19 just a couple of questions on your rebuttal
20 testimony, statement one. There is a statement
21 at the top of page five that I think is
22 important. It's not really -- i'm not even sure
23 if it's directed to you or not. But whoever
24 wrote this said, it's important to note -- I'm

1 sorry. Top of page five of your rebuttal
2 statement. You say, "It's important to note
3 that a utility can always change a series of
4 rate increases if future analysis shows it is
5 warranted and the utility follows a proper rate
6 change process." Do you see that?

7 MS. KUMAR: Can you repeat
8 it again?

9 Q. I'm sorry. The very first sentence at
10 the top of page five of your rebuttal
11 testimony. Do you see that sentence?

12 MS. KUMAR: Yes.

13 Q. And I think that's really more of an
14 observation than expert testimony. But when you
15 say "a utility," my sense is what you're saying
16 here is if, for example, two years from now or
17 one year from now if the department believes
18 that it needs additional revenues --
19 notwithstanding the Board's decision in this
20 case. If the situation changes to where you
21 felt that you needed additional rate increases,
22 I take it that it's the position of the
23 department that you could file for an additional
24 rate increase at that time. Is that what you're

1 saying?

2 MS. KUMAR: Right. What
3 we're saying is that the department
4 can make the changes to receive those
5 rate increases if they -- in situation
6 one subject to, obviously, the
7 procedures, the rate approval
8 procedures that exist. In this case
9 it's a Rate Board.

10 Q. And I think it may be a legal issue,
11 which I'm looking at both, the advocate and
12 the -- I think it's a fairly important point,
13 which at least I would like to hear from the
14 counsel whether you both agree that -- and I
15 don't, frankly, see anything in the ordinance
16 otherwise. But what you were saying is, if we
17 reach a decision, we, the Board, make a decision
18 for either a two-year or three-year rate
19 increase, notwithstanding our decision,
20 signature of the department, I believe -- I
21 think what you're saying here is feel free to
22 come in and file for another rate increase, and
23 then we would have 120 days to decide that.

24 MR. DASENT: That's

1 correct. There is no bar to our
2 filing for rate relief that other
3 conditions dictate, like emergency.
4 Any other thing that we didn't
5 anticipate might cause us to come
6 back. There is no bar barring filing
7 for additional rate relief.

8 MR. BALLENGER: I agree, for
9 the most part. I think, of course,
10 the Board made a decision that
11 included a stay-out provision or
12 something like that. But there may be
13 some -- something the Water Department
14 might have to do differently, like
15 show that it has satisfied the
16 following -- but I don't think that's
17 the vision in this case.

18 And generally speaking, I
19 tend to agree with Mr. Dasent that
20 this is a proceeding that's commenced
21 by petition by the Water Department.
22 And it's free to petition at some
23 other later date.

24 Q. That's helpful to have an agreement on

1 that point. One last point, because I think
2 we're going to be waiving cross-examination,
3 which is fine with me, on the rate design and
4 rate structure witnesses. There is a sentence
5 at the bottom of page five where PWD would like
6 the time to consider an alternative rate
7 structure as part of the next proceeding. I
8 just wanted to pin that down. Maybe Mr. Jagt
9 would be the best answer.

10 Are we talking about switching to a
11 rate design that's based on customer classes as
12 opposed to simply based on what usage and meter
13 size? Are we talking about cost of service
14 study, rate allocation or a whole new rate
15 design?

16 MR. JAGT: So it would be a
17 comprehensive study looking at the
18 cost of service and looking at the
19 various options for the rate design
20 within that. So we did look at rate
21 design by customer class and also
22 looking at the rate structure of
23 whether -- you know, what options we
24 should consider, and move away from

1 the declining --

2 MS. KUMAR: Anything else
3 that the department wants to
4 consider. So what will be alternative
5 (inaudible). The anticipation is that
6 it would be holistic (inaudible).

7 MR. POPOWSKY: Okay. It
8 might be good to flesh that out at
9 some point, so if the Board wishes to
10 pursue that or asks the department to
11 pursue that, then we know what it is
12 that we're asking for. Thank you.
13 That's all of the questions that I
14 have. Thank you for your patience all
15 day today.

16 MS. BROCKWAY: I'm probably
17 going to bounce around. Let me start
18 with that last question.

19 BY MS. BROCKWAY:

20 Q. This will be in the record for the
21 2016 rate case. But I remember some discussion
22 around, I think, the large industrial proposal
23 to do something to change the cost allocation.
24 And one of the reasons it was argued not to was

1 that one really ought to have a complete revised
2 cost of service analysis and rate design. Do
3 you recall that?

4 MR. DASENT: Yes.

5 Q. We finished that case in July of 2016,
6 and it's now 2018. Has any of that work been
7 done before -- it looks like from rebuttal
8 statement one, page five is that that analysis
9 has not started?

10 MR. MERRITT: No. And the
11 timeline between rate cases had
12 something to do with that. We
13 couldn't get all of that done and the
14 get the rate filing in on time. So
15 we're hoping in this particular
16 instance we'll have enough time to do
17 that. And we're interested in doing
18 that, and will agree to do that with
19 the Public Advocate support with your
20 blessing so that going forward we will
21 have a full evaluation of the
22 alternatives presented for rate design
23 and a customer class analysis.

24 Q. I want to make sure that we understand

1 what it means to "flesh out," the definition.
2 We've said that we're going to take notice of
3 the RFP. Would the RFP detail what tasks must
4 be done?

5 MR. DASENT: My suspension
6 is that we will not, but Ms. Kumar can
7 correct me. What I was hoping is, we
8 might expand upon what our position
9 would be in terms of the scope of the
10 such analysis. And then your Honor
11 can see our point of view and compare
12 it to whatever other point of view
13 that the Public Advocate might have.

14 MS. LABUDA: So the RFP does
15 contemplate a (inaudible) for our
16 alternative design. But it does not
17 provide details of our methods. And I
18 think that's what you're looking for.
19 It absolutely contemplates the
20 service. It does not provide any of
21 the details. So we will have to
22 follow up on that.

23 MR. DASENT: And if we could
24 address that in a brief, that may be

1 one way to get more information in
2 front of you.

3 MR. BALLENGER: It would be
4 a little hard for us to comment in our
5 brief to the department's proposal
6 announced in its brief, but I can
7 certainly consult in filing our brief
8 about what he thinks that proposal
9 should entail. I can try to do that
10 from our vantage point. But it's a
11 little bit hard to know the proposal
12 to respond to under the mechanism that
13 Mr. Dasent has proposed. But I
14 realize we also are where we are in
15 this case right now.

16 MR. DASENT: We're both
17 advocates for the same thing, but we
18 still have to articulate the nuts and
19 bolts of it.

20 MS. BROCKWAY: I don't think
21 Mr. Ballenger is advocating that, but
22 he's acceding.

23 MR. MERRITT: Mr. Mierzwa,
24 Mr. Ballenger's witness, brings it up

1 in his testimony.

2 MS. BROCKWAY: So we do have
3 some record on that?

4 MR. BALLENGER: Mr. Mierzwa
5 doesn't -- what I don't think actually
6 sort of propounds a design for what
7 should be in a rate study.

8 MS. BROCKWAY: You don't
9 page with little boxes.

10 MR. BALLENGER: I mean, in
11 general I think he finds some areas to
12 be out of balance and says, This could
13 be balanced for a formal rate study.
14 But I understand that this is a
15 lengthy undertaking. And so I'm just
16 going to recommend in the absence of a
17 rate study the following. Without
18 putting words in his mouth, I think
19 he'd be comfortable with that. I can
20 talk to him about it. But I think
21 it's going to be a little hard for us
22 to be very detailed in the brief on
23 this issue.

24 BY MS. BROCKWAY:

1 Q. Does the department have a clear sense
2 now of the scope of what it wants to have done?

3 MS. LABUDA: No. We have
4 not identified possible alternative
5 structures to have (inaudible). We
6 need to get through these proceedings,
7 close the technical hearings, close
8 the briefs and then sit down in July
9 and think where the structures are
10 that make sense to review loss and
11 prophet to the Board as part of the
12 next proceeding.

13 Q. What's going to happen is that if you
14 get what you have asked for in this case, the
15 next proceeding won't be for three years?

16 MS. LABUDA: Correct. And
17 we would have to start immediately in
18 July. We need time to evaluate the
19 rate structure.

20 Q. When would you put -- if you didn't
21 have to come before the Board, when would you
22 put the new rate structure in?

23 MS. LABUDA: Not until the
24 next time we file for rates. It

1 wouldn't be between 2019, 2020, 2021,
2 It would be for fiscal 22.

3 Q. That's helpful. So I gather that the
4 parties are going to brief this. I have
5 struggled with how sort of how to pose this
6 question without being snarky. Throughout the
7 testimonies of the department there are places
8 where it says you have to do it this way, this
9 is the best way, this is the only thing you
10 evidence for, yada, yada. On rebuttal statement
11 one, number six -- and I actually didn't
12 understand what it contributed to the rebuttal
13 in the first place. The paragraph starting line
14 ten says, "It's important to recognize the key
15 word 'guidance.'" And it goes on to say, "The
16 manual explicitly recognizes the need to
17 consider the specific circumstances of the
18 system and service provided. Don't follow the
19 manual bindingly."

20 To me, it suggests more
21 flexibility in rate making practices than other
22 parts of the testimony sounded to me. I don't
23 know if that's a specific enough point to reply
24 to. But if it -- if there is something that you

1 can say about that, that would be helpful to me.

2 MS. KUMAR: What they're
3 saying is that it's not just a matter
4 of flexibility. It's just really
5 saying that when we (inaudible).
6 There are also examples provided in
7 the guide manual. And there are even
8 some guidance factors provided in the
9 guidance manuals, like the capacity
10 factors. So those are really examples
11 or illustrations. And what we're
12 saying is that those are guidance.
13 They're not stipulations. So when you
14 actually do the analysis, run the
15 overall principles, we use the
16 principles given in those manuals. We
17 still have to very carefully and
18 closely look at the utility for which
19 we are doing the study and all of the
20 circumstances and the requirements of
21 that particular utility and the
22 services it provides and its rate
23 base.

24 So it is still very much a

1 guidance manual. Still the principles
2 are all valid. But can you take a
3 principle and apply it without using
4 the circumstance and the data and the
5 situations of that utility
6 for which we are using data. We are
7 saying those have to be very careful
8 and consider.

9 Q. I'm going to change gears, I think, so
10 give me a second. In the rebuttal pages 13 to
11 14 we're talking about SMIP and GARP. And if I
12 understand the point of this part of the
13 testimony correctly, if you reduce the amount of
14 funding to private actors, customers in this
15 case, you have to spend that money on public
16 projects and those are more costly per project.
17 Is that a correct interpretation?

18 MS. LABUDA: That is
19 correct, yes.

20 Q. What would change is not just the
21 total amount of money -- excuse me. Not where
22 it's directed but the total amount if you wanted
23 to get the same resulting green space?

24 MR. MERRITT: So right now

1 under the SMIP/GARP program, the Green
2 Acres associated with the current
3 (inaudible), we requested a budget and
4 realized it was private property. So
5 if the funding is not provided for the
6 green acre program, SMIP and GARP,
7 then the department, to meet its
8 five-year milestone, has to find that
9 green acre on a public -- within a
10 public space. It costs more to
11 install the green infrastructure on
12 public property than it does on
13 private property.

14 Q. I understand all of that. I'm trying
15 to understand what do you solve for in using the
16 -- I would imagine, tell me if I'm wrong, that
17 you would solve for the number of Green Acres
18 you need to meet your (inaudible). No matter how
19 you get there you got to get there, the number
20 of Green Acres?

21 MR. MERRITT: Right.

22 Q. So it sounds like also the department
23 interprets a Board decision saying -- let's say
24 we agree. You don't need those ten million

1 dollars. You would interpret that as a decision
2 that you could not give funds to private actors.
3 It's probably a legal question.

4 MR. DASENT: Additional
5 funds, expand the program.

6 MS. BROCKWAY: Yes. This is
7 getting actually into something which
8 is hard to even define.

9 MR. DASENT: One interesting
10 point. Erin Williams will be in the
11 room tomorrow. And she really speaks
12 to this issue very specifically. If
13 you can hold that question until
14 tomorrow, then I can get you the
15 appropriate interpretation, rather
16 than from my layman's approach.

17 MS. BROCKWAY: Okay. I'll
18 pass this on to tomorrow. Let me see
19 if I have anything for today.

20 BY MS. BROCKWAY:

21 Q. On the collection factors, I may
22 misunderstand how you're using the three
23 categories of time periods. But I would have
24 thought going forward -- just a moment. Maybe

1 you'll clear up my confusion if you'll go to
2 rebuttal statement one, page nine, the billings
3 data there.

4 This question it doesn't matter what
5 the numbers are. Could you review, talking
6 about the lines as being the years and the
7 columns as being billing year, billing year plus
8 one, billing year plus two and beyond, as the
9 columns, how you ultimately get to 96.33,
10 whatever it is you got to.

11 MS. KUMAR: Would you state
12 that again?

13 Q. What is the math that you would apply
14 to these numbers to get to a proposal?

15 MS. KUMAR: Would it help if
16 we give you an illustration to explain
17 that today?

18 Q. Sure. Actually, let me ask the
19 question based on this. Can we mark this as an
20 exhibit? It's PWD --

21 MR. DASENT: Just call it
22 Exhibit-X for now, if you don't mind.

23 BY MS. BROCKWAY:

24 Q. Okay. I want to look at lines that

1 say punitive collection chapter. And this is
2 the department which ends up with 96.5. Do I
3 understand that the three boxes there which
4 represent billing year, billing year plus one,
5 9.08 and past two plus as 1.56, do I understand
6 that the 8.50 -- if I took all of the numbers in
7 the column above and divided them by five,
8 that's what I would get?

9 MS. KUMAR: Correct. The
10 average of all of the billing years.

11 Q. And similarly -- so in billing year
12 plus one, I would divide by four, because I only
13 had four --

14 MS. KUMAR: Four, correct.
15 And then in the last you only have
16 three years.

17 Q. What's confusing me is how you know in
18 any given year -- somehow I have it in my mind
19 that another way of doing it would be let's take
20 payment pattern set three, fiscal 2014, that you
21 would add across. So you would have the
22 billings for that year, billings for -- that
23 were billed a year plus one ago and billings for
24 billing year plus two ago.

1 MS. KUMAR: So what you're
2 asking is if you literally go across
3 part 12, which we call payment pattern
4 set one, payment pattern set two and
5 payment pattern set three --

6 Q. Yes.

7 MS. KUMAR: Similarly for
8 the in-progress pattern 15 and
9 in-progress pattern 16. Then we would
10 have -- similarly to the 96.54 we
11 would have numbers for each of those
12 payment patterns. And you're saying
13 averaging those?

14 Q. Yes, averaging across rather than
15 averaging columns.

16 MR. JAGT: One problem is
17 the way in which you apply it.
18 Because the financial plan is based on
19 the billings for over the years. So
20 we're doing a projection of revenues
21 based on the collection of billings
22 over time. So when we developed the
23 projection of the fiscal year 2017
24 revenues, we reflect that we're going

1 to collect 85.9 percent of the fiscal
2 year 2017 buildings. We project that
3 we're going to collect 9.08 percent of
4 the fiscal year 2016's billings. And
5 1.56 percent of the FY 2015 billings.

6 Q. And the sum of those three is the
7 assumed dollar collection in the year in
8 question?

9 MR. JAGT: Correct.

10 MS. KUMAR: Correct. And so
11 it's not like we just -- in the model
12 itself it's not like somebody is doing
13 it and putting in 96.5 for us as an
14 input.

15 Q. I understand it. Please let me -- I
16 get confused easily. And I think I'm going to a
17 different point. I had it. Now I can't
18 remember it.

19 MR. JAGT: Can I explain one
20 thing? So we have looked at using a
21 single number at times. And what we
22 have found through analysis is that if
23 we try and simplify it down to a
24 single number, that doesn't reflect

1 the pattern of revenue increase
2 historically. So if you look back
3 over the years, the three historical
4 years that we are applying the factors
5 to, the revenue increase or the
6 rate -- increase in rates over that
7 time has an impact on the amount of
8 receipts we receive in each year.

9 Q. I think I'm back to what's confusing
10 me, which is to -- let's say we are now looking
11 at fiscal 2016, where you have one category, the
12 actual billing collections. In that year you
13 also received monies for earlier bills, correct?

14 MS. KUMAR: Correct. So in
15 2016 the department received money for
16 the bills that they sent out in 2016.
17 They're beginning to receive money for
18 the bills that they sent out in 2015.
19 They're beginning to receive money for
20 the bills that they sent out in 2014.
21 But the one that is coming in 2014,
22 those will only trickle. That's
23 really the pattern we're referencing
24 to. So we are saying in billing

1 year -- if you take any billing year,
2 we are saying that that based on the
3 average historical data, the
4 department should be getting over 85.9
5 percent from that billing year. But
6 in that same year, as Mr. Jagt
7 explained, you would also get 9
8 percent of the previous year's
9 billing. And in that same year you
10 would be getting point 1.56 percent of
11 the year before. So every year you're
12 getting that year's, from the year
13 before and the year before that.

14 Q. So let's say for our purposes that you
15 bill \$100, and we're still talking -- we're
16 trying to figure out what to estimate for fiscal
17 2017, actually, here on this chart. If you add
18 these numbers, they're averages of prior years,
19 but they apply to prior years' revenues. And I
20 think we just had the statement that your
21 collection is going to depend among other
22 things, on the amount of revenues you need to
23 collect. So I'm having trouble applying the
24 9.08 to fiscal 2017 and 1.56 to fiscal 2017.

1 MS. BROCKWAY: Let's assume
2 billings in fiscal 2017 was \$100.
3 Okay? So what we're saying is that in
4 fiscal 2017 you would get 85.9 dollars
5 out of that \$100 in fiscal 2017.

6 And then in fiscal 2017, we
7 also take a look at what was actually
8 billed in 2016. In 2016 we may not
9 have billed \$100. The department may
10 have billed \$80, let's say.

11 Q. I think the confusion here is because
12 it's all represented in percents. And I wonder
13 if you're changing the denominator to get the
14 percentages. Because the 9.08 is a function of
15 dollars in previous years, not billings for
16 2017.

17 MS. KUMAR: Correct. This
18 is really based on -- percentages of
19 85.9, 9.08 and 1.56 is really
20 determined from actual historical data
21 that is available as to what those
22 percentages look like. What is the
23 pattern? You're just determining the
24 pattern of money coming in. And then

1 we apply the pattern to the actual
2 revenues that we calculated in the
3 model. So whether it is 2017 or 2018
4 or 2019, we calculated the revenues
5 based on rate schedule and water
6 consumption and a number of meters,
7 all of those things.

8 So that's for determining
9 the actual billings. Once we
10 determine the billings for each of the
11 years, whether it's 2017 or whether
12 it's 2018, 2019, once we calculated
13 the billings then we have to determine
14 what we are going to collect.

15 To determine what we are
16 going to collect that's when we use
17 this pattern. So we could apply 85.9
18 percent to 2017. We would apply 9.28
19 to 2016 and 1.56 to 2015. So that's
20 what we could do for 2017.

21 MR. JAGT: There is another
22 way to look at this.

23 Q. Can you hold on just a second.

24 MR. JAGT: Sure.

1 Q. I didn't understand what you just
2 said. I didn't see where those numbers were on
3 the page.

4 MS. KUMAR: The pattern that
5 we are talking about, 85.9, 9.08 and
6 1.56, is a line (inaudible) factor.
7 So that's a pattern we determine based
8 on historical data. Now the question
9 is how is the pattern being applied.

10 So in our model we have --
11 we pretty much have a projection from
12 2017 onward. So for 2017's billing,
13 we know we calculated the billing for
14 2017 based on all of (inaudible). We
15 calculated the 2017 billing. How much
16 do we collect? To determine how much
17 of that 2017 billing (inaudible).

18 Q. Okay. I think I got what you're
19 doing. And if I understand it, these separate
20 averages based on actual data, which summed to
21 96.54, you are assuming that that pattern will
22 continue?

23 MS. KUMAR: Correct.

24 MR. EWING: Can I ask a

1 question?

2 MS. KUMAR: Yes.

3 MR. EWING: Sorry to

4 interrupt.

5 BY MR. EWING:

6 Q. What are the implications of the
7 differences in these two models relative to
8 collection factors? The 96.54 versus the 96.11
9 percent? Is it simply that in model one more is
10 collected than model two, and that's a preferred
11 outcome?

12 MS. KUMAR: Yes. To
13 explain, basically what we are showing
14 here is that -- a big part of
15 collection practices is really what
16 Black & Veatch used in this governing
17 projection in the rate filing that we
18 have done.

19 And what we are presenting
20 in the next one is Mr. Morgan had
21 suggested a different approach in his
22 testimony. And so when you apply what
23 he is recommending and you apply --
24 you look at the pattern that he is

1 recommending, what we are seeing is
2 that the total, cumulative collection
3 would only be 96.01 percent. Whereas
4 what we had done would result in a
5 cumulative collection of 96.54
6 percent.

7 If our cumulative collection
8 is reflecting a 96.5 percent
9 collection, then mitigates the rate
10 fees we need, because we are
11 projecting a little more revenue than
12 what Mr. Morgan was projecting under
13 his approach. That's what we are
14 saying.

15 Q. Take that a step further, however.
16 Because in Mr. Morgan's factors he's got about
17 .9 percent more coming in year one. Less
18 coming in years two and three. I wonder, how
19 much does it cost the Water Department to get
20 back that dollar from a year ago, to get back
21 that dollar from two years ago, not just the
22 time value of money, but other operating costs
23 and alike that might be sunk into chasing those
24 dollars? Even though the accumulative effect is

1 less, as you point out, if you get more of it
2 today is that potentially a mitigating factor
3 for the implication that you just articulated?

4 MS. KUMAR: So before we
5 answer the question. When you say you
6 get more of it today, the more of it
7 of today is really a mathematical
8 number. 86.68 came because Mr. Morgan
9 just averaged 2014, 2015 and 2016.
10 That's how the 86.68 came about. See
11 the dotted line? Those are the things
12 that Mr. Morgan used to get his
13 average.

14 So for us, it is not which
15 number is a preferred option. We are
16 saying that when we have complete data
17 that is available to us, using the
18 more data that we use, you get a more
19 representative collection to project.

20 Q. So it's a different methodology for
21 the math, and yours is more correct? You're
22 stating that yours is more correct?

23 MS. KUMAR: It's a different
24 way of averaging. And we are saying

1 we are using more complete data that
2 is available.

3 MR. EWING: Okay. I
4 understand. Thank you.

5 MR. BALLENGER: If I may
6 just quickly point out that you
7 discuss a third sort of alternative
8 today on the record in the hearing of
9 averaging three -- the three most
10 recent -- yes. Thank you.

11 MR. EWING: Your boxes. I
12 got it.

13 MR. BALLENGER: Thank you so
14 much.

15 MS. BROCKWAY: I've been
16 trying to find where expenditures for
17 advanced meter infrastructure are
18 located. And the only place I've seen
19 that discussed in what I've read, I
20 have been reading all of the work
21 papers, is the budget that
22 Mrs. McCarty presented to the city
23 council, which didn't say a lot about
24 it, but had -- said we're making

1 meters better. Should I ask about
2 that with Ms. McCarty tomorrow?

3 MR. DASENT: That's fine.

4 BY MS. BROCKWAY:

5 Q. I think I asked this in 2016 and got a
6 similar answer, that I was going down the wrong
7 path. But we now are in May of fiscal 2018.
8 And I'm wondering if there is any point in using
9 any actuals that we have. We have several
10 months of actuals.

11 MS. LABUDA: We do have ten
12 months of actuals at this point in time.

13 Q. Keep your voice up.

14 MS. LABUDA: I apologize.
15 We do have ten months of actuals,
16 actual data. There is a significant
17 portion of transactions that the City
18 calculates between July and September,
19 and then looks as if they had occurred
20 in June. And a lot of that has to
21 do with the additional costs related
22 to healthcare and pensions.

23 I think we, as a collective
24 finance group, are not opposed to

1 revisiting fiscal year 2018 as part of
2 any type of subsequent model update
3 that we have to do based on decisions
4 from the Board. And it will not be a
5 full fiscal year. Meaning, I won't
6 know my final pension costs yet, and I
7 won't know my final healthcare.

8 Q. I'm not sure anybody would want you to
9 make additional adjustments that were not
10 discussed on the record in your final thing. So
11 I think we're probably not talking about
12 updating to actuals unless we have a chance to
13 explore them. Sounds like the same answer as
14 last time?

15 MS. LABUDA: It does,
16 unfortunately. It is the same
17 answer.

18 MS. BROCKWAY: Okay. This is
19 on the whole subject of rate case
20 expenses. And I think this is going
21 to be one of those "additional
22 adjustment claim" problems. If you
23 remember in the last rate case, the
24 department was using one category for

1 certain types of escalations, a bunch
2 of escalations, and Mr. Morgan was
3 using something else. And it was hard
4 for me to sort out what were the
5 Apples and what were the oranges. And
6 I'm having that problem. I think I
7 will have that problem with the rate
8 case expenses. Either that or I have
9 no way of knowing whether or not
10 escalating the forecast for 2018 has
11 anything to do with the cost that
12 you're going to have in the future.
13 Reason being, you told us that there
14 are different things that are being
15 done. So -- and since you've also in
16 rebuttal said, "No, we don't budget to
17 a number and then try to figure out
18 what we can do with it. We budget to
19 what we need to spend," I would be
20 grateful for more detail on all of the
21 things that are in the category
22 that -- if you can answer this, that
23 Mr. Morgan calls rate case expense.
24 And I think you've said that you have

1 additional in your -- in what you call
2 rate case expense.

3 MR. DASENT: Yes.

4 MS. BROCKWAY: To be able to
5 sort those out. And I take it
6 from -- and that would be transcript
7 request -- unless you want to do that
8 now. That would be transcript request
9 15.

10 MR. DASENT: That works
11 best.

12 MS. LABUDA: So, of course,
13 I believe we answered a discovery
14 question with the details on line
15 (inaudible) and costs related to the
16 rate case, which contemplated costs
17 associated with outside legal counsel,
18 financial advisor services and
19 financial consulting services. And we
20 would be happy to proffer that table
21 again. But I think the team probably
22 wants to talk about where it's in the
23 model.

24 BY MS. BROCKWAY:

1 Q. Yes. Because I understand that you
2 look at a number and escalated it, and I'm still
3 trying to figure out how you know that taking a
4 number and escalate will cover the particular
5 things that have to be done in these years,
6 since I've seen differences from year to year.

7 MR. JAGT: The rate case
8 expenses show up in two places within
9 the budget and within the model. That
10 would be in PWD finance class 200,
11 which is the services cost. It also
12 would show up in the Rate Board cost
13 center, and again it's class 200.
14 So -- all of the O&M, the direct O&M
15 and other department O&M input sheets
16 within the work papers and the model,
17 you can see those costs by department,
18 class 200 department, and how it's
19 reflected in there.

20 Q. Am I correct that in order to develop
21 cost -- actually. Let me ask it this way.
22 Mr. Morgan calls it rate case expense. What do
23 you call it?

24 MS. LABUDA: So Mr. Morgan

1 refers to the cost as rate case
2 expense. And what I call those costs
3 is costs that provide continued
4 services when we're not in the rate
5 case. So when we're not in the rate
6 case, the financial advisors provide
7 financial advisory services related to
8 debt issuance matters. When we're not
9 in the rate case as part of a dead
10 issuance, we use Black & Veatch to
11 prepare feasibility studies related to
12 debt issuance. So we repurpose those
13 contracts and those dollars to achieve
14 other things we cannot do when we're
15 in the middle of a rate case. We
16 could never do a rate case and a bond
17 deal at the same time, because I do
18 not have the staff to effect that.

19 So we purpose the dollars
20 and the contract to achieve things in
21 between rate cases that we cannot do
22 during rate cases.

23 MS. BROCKWAY: Mr. Dasent,
24 shouldn't that be enlarged?

1 MS. LABUDA: He's suggesting
2 that in addition to work we're doing
3 related to debt issuance and bond
4 authorization and engineering studies
5 additional use of those dollars and
6 proceeding fiscal years would be
7 evaluating alternative rate
8 structures.

9 MS. BROCKWAY: Still seems
10 to me that those are very different
11 activities and could require very
12 different amounts of consulting time
13 or expenditure. But what I understand
14 you guys to be doing is taking a
15 fiscal 2018 figure that covers those,
16 which would include what we're doing
17 here today, and escalate that, rather
18 than escalate -- rather than look
19 at -- it assumes two things. One,
20 which is that there is a similar
21 amount of money, plus an escalation
22 rate in the next two years. And I'm
23 having trouble with that.

24 MS. LABUDA: So we factor

1 down original budgets to reflect
2 actual spending factors. And there is
3 some acknowledgment of inflationary
4 pressures in class 200 in the model.
5 But we do factor down the original
6 budget to reflect spending patterns.

7 MR. JAGT: Actually the
8 budgets are based on an average over
9 two years. So the rate case right now
10 reflects the FY-15 and FY-16, actual
11 budget experience. So it would
12 include a year with rate case and a
13 year without. So by doing that, it
14 gives -- reflects an average spend
15 from that budget.

16 BY MS. BROCKWAY:

17 Q. When you say "that budget" you mean --

18 MR. JAGT: We have the class
19 200, actual budget factors, that are
20 applied to four, finance, PWD finance,
21 and the Rate Board class 200 expenses
22 that factor in the historical for
23 experience.

24 Q. And the historical experience is

1 fiscal 2015 and 16?

2 MR. JAGT: Correct. Now,
3 the Rate Board, we didn't have two
4 years to have that basis. So I think
5 we were using 100 percent, relative to
6 the amount of the PWD budget. It's
7 not substantial. But to have some
8 historical one year was (inaudible).

9 MS. KUMAR: In other words,
10 this was not the first time where a
11 rate case happens one year, and then
12 in the following year the other
13 services is happening this
14 historically as well.

15 MS. BROCKWAY: I think you
16 said that several times, and I get
17 that. And what I'm saying is, I can
18 conceive that these are very different
19 types of services and would require
20 different amounts of consulting. So
21 I'm -- let me just put out to you that
22 I am having trouble with just applying
23 an escalation factor when we know that
24 we're going to have different types of

1 services in the future. You might, if
2 you projected for a full cost study in
3 rate design and then the litigation,
4 you even project higher. So maybe I'm
5 inviting you to raise rates but --

6 I still want to ask that in
7 transcript 15 to compare Mr. Morgan's
8 rate case expense to yours and how
9 they're developed. Mr. Morgan will
10 get a chance to correct it if you get
11 it wrong. Meaning, the components and
12 what they cover. To me, the
13 components would be certain line
14 items, then then fiscal 15 and 16,
15 from what I understand. And what they
16 cover would be -- what were generally
17 activities in fiscal 2015 and 2016.

18 BY MS. BROCKWAY:

19 Q. And I guess I'd put it this way. Why
20 do you think it's the same level? I understand
21 that you're going to need to have services. Why
22 do you think it's going to be the same level in
23 the next -- an escalation of this average in the
24 next three years? And you may have already said

1 it. That's why I'm asking you to repeat what
2 you've already said. I don't remember who
3 answered this question.

4 But there was a question about the
5 coverage ratio, I
6 think -- no, it was not. My note is here saying
7 that you said you would lower your rate increase
8 if the Board said so as opposed to raising the
9 RSF. And what struck me was this gets to this
10 whole question of how -- two things, how does
11 the Board operate? What does the Board do, in
12 fact? Let's say we said, We're going to give
13 you nine tenths of what you asked for. You
14 wouldn't have any line items, and let's not talk
15 about the legality. But presumably you could
16 devote those revenues as you see fit. What I'm
17 trying to get at is, to what extent is what the
18 Board says about any particular item something
19 that you feel obliged to stick to? Does it
20 become your budget?

21 MS. LABUDA: It's a broad
22 question. Based on the renderings in
23 the prior proceeding, the decision
24 from prior proceedings gave us the

1 ability to manage in a financially
2 prudent manner, and it did not limit
3 us from doing prudent things, such as
4 transferring funds to an escrow, which
5 reduced future borrowing costs. So I
6 think it just depends on how the
7 decision is rendered. And I point to
8 the decision in the proceeding as not
9 permitting us.

10 Q. That example sounds like something
11 which came up afterwards, and so the Board
12 wouldn't have considered it. If the Board --
13 I'm not sure what the example was earlier. But
14 it was something to the effect of --

15 MS. LABUDA: So I'm getting
16 some very good examples. So we had
17 overage in one year of the indemnity
18 fund, and we had to pay those
19 indemnities. As a matter of fact, the
20 general fund gave us a loan, and then
21 we had to pay the general fund back.
22 I'm calling it a loan, but it's
23 probably not the proper term. So
24 there are things that we're going to

1 have to do outside of the decisions
2 rendered.

3 Q. I'm not questioning or challenging. I
4 just trying to understand what the understanding
5 is of the department about the effect of Board
6 decisions. Because it sounded in that answer
7 before, but I don't know if anybody remembers
8 that exchange. But it sounded as if you guys
9 would do what we said, at least with respect to
10 whatever was being talked about then.

11 MS. KUMAR: Yeah. I think
12 the question was in the context of if
13 just the Board said that the revenue
14 requirement was going down for a
15 particular category of cost. Let's
16 say, for example, SMIP/GARP. I think
17 Mr. -- after answering to the Board
18 the chair was saying that if the
19 particular expenditure the Rate Board
20 says has to go down, and let's say
21 it's SMIP/GARP. Then all else being
22 equal, and we are to meet all of the
23 metric and still coverages of 1.3 that
24 you were referencing to, then how

1 would you do that in that particular
2 context? All being equal and just the
3 cost to bring down by the five million
4 dollars, then it will reduce the level
5 of revenue. Because if you don't
6 reduce the level of adjustments, then
7 we will be actually increasing the
8 amount of money that goes into the
9 restabilization fund.

10 If the position is that,
11 Hey, we want you to reduce this
12 particular cost, expenditure line
13 item, but however all of the metrics
14 you would still need, then the revenue
15 adjustment work -- the level of
16 revenue increase you're asking will
17 come down. Again, only strictly from
18 a rate making standpoint. Now, if you
19 say five million dollars, the Board is
20 going to take the position that five
21 million dollars has to come out, what
22 the department would do is not
23 something that we can answer. All we
24 were answering in that question was,

1 all else being equal of the cost item,
2 the Board saying we have to come down,
3 what will we do strictly from a
4 mathematical modeling standpoint? We
5 said we would adjust the revenue.
6 That's the answer we gave.

7 MS BROCKWAY:

8 Q. Yes. I'm not talking just from a
9 mathematical perspective, which is why we hadn't
10 coordinated earlier. Ms. LaBuda?

11 MS. LABUDA: So the
12 suggestion is that, Madam Hearing
13 Officer, before anything else you'll
14 want to proffer the same question to
15 your legal counsel and ask for an
16 opinion on it as well.

17 Q. Yes. My suspicion is that what a
18 lawyer would say about these topics would depend
19 very much on which line item we were talking
20 about, for one thing.

21 Well, I can get into the
22 larger question of rate stabilization fund. It
23 has seemed to me that a rate stabilization fund
24 was set up and has been used as a way to

1 stabilize rates and revenues and expenses that
2 are out of alignment temporarily until they get
3 back into alignment.

4 I'm having a hard time
5 seeing what the difference is between that and
6 amortizing. Because the amortization is just a
7 mathematical procedure or developing a revenue
8 requirement. It certainly doesn't mean you can
9 or do amortize. What it does is it has an
10 effect on how much it's taking out of all that's
11 equal, the rate stabilization fund.

12 MS. KUMAR: The amortization
13 really changes what you actually
14 present as a revenue requirement. The
15 actual revenue requirement for a
16 particular expenditure is -- for this
17 particular example let's say 1.5
18 million dollars. The department is
19 actually going to spend 1.5 million
20 dollars that year. By simply stating
21 1.5 million dollars and saying that
22 I'm going to show 750 one year and
23 then 750 in another year, you're
24 understating the revenue requirement

1 for that year. Simply because of an
2 implicit assumption that the 750 that
3 you're pushing to the next year, even
4 though you know you need it that year,
5 is going to come from the
6 re-stabilization.

7 So even from a modeling
8 standpoint it's really an arbitrary
9 way of presenting a cost, a lower
10 cost, when that is not the really
11 lower cost that year. So if you
12 really want to present it the right
13 way, you have to present the cost, the
14 year the cost is going to happen. And
15 the argument is you have to somehow
16 support the cost from some other
17 source of revenue, such as the
18 re-stabilization fund. That's what
19 the argument should be. It cannot be
20 that, My cost is really 1.5 million
21 dollars, but by the way I'm going to
22 just arbitrarily put 750 this year,
23 750 next year. That's not the way --
24 then you could make that arguement of

1 any cost. You can arbitrarily take
2 any cost and say I'm going to just
3 take part of it this year and part of
4 it next year. But that's not at all
5 reflective of how expenditures happen,
6 especially in the Water Department,
7 when we are already doing an actual
8 budget spend in fact.

9 MS. BROCKWAY: An investor
10 of utilities, obviously, they had the
11 same situation. And I think the
12 question comes up, because you can
13 divide things into capital costs and
14 expenses. And probably you treat
15 expense the way investor owners do,
16 which is you book them in the year in
17 which they're expended and the year in
18 which you get the benefit from them.
19 In capital you spread out over the
20 years that you get the benefit from.

21 MS. KUMAR: Yes. Typically
22 the capital costs are usually over the
23 life of the asset. That's one of the
24 reasons why the department prudently

1 balances the amount of cash financing
2 and debt financing, because assets
3 have a much longer life. But a rate
4 case is truly an operating
5 expenditure. Anything like the rate
6 case is an operating expenditure,
7 especially who has outside service.
8 The department has to pay for those
9 services in the year they receive
10 those services.

11 MS BROCKWAY: Give me a
12 little bit of time, please.

13 BY MS. BROCKWAY:

14 Q. On rebuttal statement one, page 67.
15 You're saying at line 23 that, as demonstrated
16 by the testimony of Melissa LaBuda in PWD
17 statement two, PWD is far from being an outlier
18 with regard to financial metrics. And then you
19 go on to say, "If Mr. Morgan's assertions were
20 true, PWD's reserves and current credit rating
21 would be well beyond." I take that to mean much
22 higher than peer communities?

23 MR. JAGT: Correct.

24 Q. I was going through some of the credit

1 rating agency discussions and also some of the
2 results. And I had a very difficult time just
3 based on -- I think it was in that record
4 response -- not record response. In PWD's
5 response to Water Rate Board discovery
6 questions. I thought that I saw something
7 about -- I think I see everything in here, and
8 then it's not. The rating given by other
9 agencies, by agencies to other utilities,
10 starting at -- well, there's debt service
11 coverage starting at page 20. And there are a
12 number of different criteria for rating. And it
13 may be -- first of all, it appears to me that --
14 it's not shown here, I don't think. But there
15 is quite a bit of difference in the ratings of
16 these various utilities.

17 MS. LABUDA: I'm sorry.

18 What was the question again, please?

19 Q. There's a lot of difference in the
20 ratings of various use peer utilities?

21 MS. LABUDA: That's
22 correct. And that's why we stayed in
23 the medium for an A-rated utility in
24 our graphics, so that you could see

1 where other A-rated systems appear
2 versus the water company, water
3 system.

4 Q. So it got me to thinking that the
5 reserves and credit rating would be beyond those
6 of peer communities. It seems to me that there
7 are other variables that could be changed or
8 could be looked at that would explain the credit
9 rating.

10 In other words, all of these
11 utilities have these -- I saw -- I can't
12 remember whether it was New York or some other
13 utility that had an enormous overhead of debt.
14 And there was another utility that had -- I'm
15 making these up, because I don't remember. But
16 there were various different ways in which
17 different utilities went about their business
18 and did what they did and got paid for what they
19 did. Even for utilities that were in the same
20 relative box. So I was having trouble
21 understanding whether there couldn't be other
22 factors besides the overperformance factor that
23 would drive PWD's ratings. So that statement
24 the bottom of page 6 to 7, it's not necessarily

1 true.

2 MS. LABUDA: The rating
3 agencies have formulated (inaudible).

4 MS. BROCKWAY: I'm sorry.
5 You have to speak into the
6 microphone.

7 MR. NISSEN: My name is
8 Peter Nissen. I'm the managing
9 director for Acacia Financial Group.
10 I'm one of the financial advisors to
11 the Water Department in connection
12 with their financing as well as in
13 connection with this rating hearing.

14 MS. BROCKWAY: Before we go
15 further, you were not a sponsor of
16 this rebuttal statement one, if I
17 understand correctly.

18 THE WITNESS: I'm on number
19 two.

20 MS. LABUDA: The questions
21 that are being asked are really coming
22 back to statement one. So I can do my
23 best to address that. There are
24 utility rating agency score cards now,

1 and that came out of the financial
2 crisis. (Inaudible) and they all have
3 grids. And the grids kind of measure
4 different characteristics. Some of
5 the characteristics, financial
6 strength, management and legal
7 provisions. They're the general
8 categories that the rating agencies
9 rate in a mathematical way to kind of
10 assess the overall rating.

11 MS. BROCKWAY: All I'm
12 trying to get at is that this one
13 sentence, between line six and seven,
14 is possibly true, but not necessarily
15 true. So if you could look at that
16 sentence.

17 MR. DASENT: Which document
18 are we looking at?

19 MS. BROCKWAY: We are still
20 looking at rebuttal one, pages six to
21 seven. The bottom of page six over to
22 seven.

23 MS. LABUDA: So may I please
24 read this statement into the record?

1 "Any overperformance is
2 either to be invested into the utility
3 leverage to manage future rate
4 increases and/or maintain necessary
5 liquidity."

6 MS. BROCKWAY: Yes -- no.
7 It's next statement.

8 MS. LABUDA: As demonstrated
9 by the testimony of Ms. LaBuda PWD's
10 (inaudible) outlier with regard to
11 financial metrics.

12 BY MS. BROCKWAY:

13 Q. If Mr. Morgan's statements were true,
14 PDW's reserves and current rating would be, I
15 take it, to be much higher than those of peer
16 communities? It says, "well beyond."

17 MS. LABUDA: We're referring
18 to Mr. Morgan's statement that addresses that we
19 consistently outperform. We did not
20 consistently outperform in 2017. And
21 our ratings reflect our financial
22 performance.

23 BY MS. BROCKWAY:

24 Q. Yes. But that's a different statement

1 from this. This is a statement that says, you
2 can't believe Mr. Morgan's testimony if for no
3 other reason your current reserves and current
4 credit rating are not as high as they would have
5 been had they been correct.

6 I'm probing how much you really think
7 that that's a necessary condition or a necessary
8 conclusion to draw.

9 MS. LABUDA: I'm not sure if
10 Mr. Morgan's testimony is hinting at a
11 higher rating for the system.

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

14 * * *

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

17 * * *

18 MS. BROCKWAY: My next
19 question is maybe not appropriate to
20 ask of nonlawyer witnesses, so I won't
21 ask it.

22 Let me tell you what you
23 might want to consider in your brief.
24 In rebuttal one pages seven to eight

1 you're talking about what the city
2 code allows. And starting on line
3 four of page eight you say that "PWD
4 is allowed to establish rates and
5 charges that include allowances
6 related to unforeseen expenses,
7 reasonable anticipated cost increases
8 and decreases in revenues."

9 I would like the department,
10 anybody can chime in, to say does the
11 section allow the Board to establish
12 rates and charges that reflect
13 reductions related to unforeseen
14 reduction in revenue, reasonably
15 anticipated cost decreases, reasonably
16 anticipated increases in revenue.

17 In other words, is this just
18 one way? I'm still confused about the
19 whole question of the relationship
20 between all of the budgets. But I
21 think it's better taken up tomorrow,
22 so I'm going to do that.

23 We've got to mark Andrea's
24 exhibit.

1 MR. DASENT: It's Hearing
2 Exhibit PWD-1.

3 Is there any other business
4 to come before this afternoon?

5 MR. DASENT: We can pick up
6 tomorrow. We have a bit to do, but I
7 don't think Rob is going to be
8 long-winded tomorrow. That's my
9 prediction.

10 MR. BALLENGER: I speak with
11 a certain cadence. I may be slower.
12 I may be slower than I sound. I think
13 the only thing that I had open for
14 today was fire protection, but we can
15 revisit that tomorrow. And I do not
16 have a lot of cross on PWD rebuttal
17 statement number two. At least not in
18 comparison to what we had today.

19 MR. DASENT: Fair enough.

20 MS. BROCKWAY: Okay. Thank
21 you very much. We'll adjourn until
22 10:00 tomorrow morning.

23 (Whereupon, the hearing was
24 adjourned at 5:00 p.m.)

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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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