

**PHILADELPHIA WATER DEPARTMENT AND PUBLIC ADVOCATE COMBINED  
RESPONSE TO TRANSCRIPT REQUEST**

**TR-23A.** PLEASE PROVIDE A LIST OF ADJUSTMENTS TO BE RECOGNIZED IN THE PWD FINANCIAL PLANNING MODEL.

**RESPONSE:**

The following table presents the Public Advocate adjustments acceptable to Philadelphia Water Department.

<u>Adjustment</u>	<u>Description of Adjustment</u>	<u>Citation to Record</u>
<b>Adjustments to Expenses</b>		
Additional Staffing Operating Labor Expense (Actual/Budget Factor) <sup>1</sup>	Application of Actual to Budget Factor consistent with cost classification	PA Statement 1, page 20, Lines 6-7
Debt Interest Rate <sup>2</sup>	Use of 5.25% interest rate for debt issuance in FY 2019 and FY 2020	PA Statement 1, page 27, Lines 15 – 16
Capacity to Pay Energy Costs	Reduce FY 2018 Operations Division Class 220 Power Budget by \$1,493,250. Note - This budget adjustment will be reduced	PA Statement 1, page 31, Schedule LKM-2, line 14

<sup>1</sup> This Public Advocate adjustment relates to the actual-to-budget factor to be applied for this expense for FY 2019-2021. PWD maintains its position that planned expenditures for Additional Employees should be approved for FY 2021.

<sup>2</sup> This Public Advocate adjustment reflects a 5.25% interest rate for planned issuances in FY 2019 and 2020 – which is acceptable to the Department. PWD maintains its position for FY 2021. See, PWD Statement 9A at 39.

	by the Operations Division Class 220 Power actual to budget factor of 75.62%.	
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Note – For comparison purposes, Black & Veatch will develop two scenarios of Table C-1: Projected Revenue and Revenue Requirements based upon:

- 1) Scenario #1: PWD’s Proposal and
- 2) Scenario #2: The Public Advocate’s Proposal

Both financial plan scenarios will reflect, PWD’s TAP Rate Rider Proposal as set forth in PWD Rebuttal Testimony as Black & Veatch does not have the information to reflect the Public Advocate’s TAP Rider approach in Scenario 2.

The following table presents a listing of the various assumptions and adjustments under consideration by PWD and the Public Advocate, for purposes of depicting overall revenue requirements over a three year rate period. Note that the Public Advocate maintains that the Board should only approve a two year rate period. These adjustments are subject to further refinement and discussion as set forth in the parties briefs. The bold, italicized font highlights the differences between the proposed factors.

<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
<b>Revenue Adjustments</b>		
Additional Service	<b><i>TBD</i></b>	FY 2019 – 0.0%
Revenue Required –		FY 2020 – 0.0%
Existing Base Rates		<b><i>FY 2021 – 0.0%</i></b>

<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
Additional Service Revenue Required – TAP Surcharge	Additional revenues based on recovery of projected TAP Loss via proposed TAP Surcharge rate	Additional revenues based on recovery of projected TAP Loss via proposed TAP Surcharge rate
Public Fire Protection	<i>Recovered via rates and charges</i>	<i>Recovered via General Fund</i>
Collection Factors (Non-Stormwater Only)	<b><i>FY 2017 – FY 2023</i></b> <b><i>Billing Year – 85.90%</i></b> <b><i>Billing Year + 1 – 9.08%</i></b> <b><i>Billing Year +2 and Beyond – 1.56%</i></b>  Schedule BV-E5: WP-1, Page 2	<b><i>FY 2017 – FY 2023</i></b> <b><i>Billing Year – 86.68%</i></b> <b><i>Billing Year + 1 – 8.88%</i></b> <b><i>Billing Year +2 and Beyond – 1.56%</i></b>  PA Hearing Exhibit 7 at 56.
<b>O&amp;M Escalation Factors</b>		
Class 220 – Power	FY 2019 – 0.0% FY 2020 – 0.0% <b><i>FY 2021 – 3.0%</i></b>  Schedule BV-E5: WP-1, Page 5	FY 2019 – 0.0% FY 2020 – 0.0% <b><i>FY 2021 – 0.0%</i></b>  PA Statement 1, Page 23, Lines 7 to 9
Class 221 – Gas	FY 2019 – 4.0% FY 2020 – 0.0% <b><i>FY 2021 – 3.0%</i></b>  Schedule BV-E5: WP-1, Page 5	FY 2019 – 4.0% FY 2020 – 0.0% <b><i>FY 2021 – 0.0%</i></b>  PA Statement 1, Page 23 Line 24 to Page 14 Line 1

<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
Class 200 – Other Services	<i>FY 2019 – 3.4%</i> <i>FY 2020 – 3.4%</i> <i>FY 2021 – 3.4%</i>  Schedule BV-E5: WP-1, Page 5	<i>FY 2019 – 1.98%</i> <i>FY 2020 – 1.98%</i> <i>FY 2021 – 1.98%</i>  PA Statement 1, Page 24, Lines 20 to 21
Class 307 - Chemicals	<i>FY 2019 – 0.0%</i> <i>FY 2020 – 3.8%</i> <i>FY 2021 – 1.0%</i>  Schedule BV-E5: WP-1, Page 5	<i>FY 2019 – 0.0%</i> <i>FY 2020 – 0.0%</i> <i>FY 2021 – 0.0%</i>  PA Statement 1, Page 25 Line 24 to Page 26 Line 1
Class 800 – Transfers	<i>FY 2019 – 2.5%</i> <i>FY 2020 – 2.5%</i> <i>FY 2021 – 2.5%</i>  Schedule BV-E5: WP-1, Page 6	<i>FY 2019 – 1.98%</i> <i>FY 2020 – 1.98%</i> <i>FY 2021 – 1.98%</i>
<b>O&amp;M Expense Adjustments</b>		
Rate Case Expenses	N/A	<i>FY 2019 – (\$1,884,107)</i> <i>FY 2020 – (\$1,884,107)</i> <i>FY 2021 – (\$1,884,107)</i>  PA Statement 1, Page 30, Lines 15 to 16  Note - Expenses pertaining to the Rate Board will be at 100% actual to budget factor. All other Rate

<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
		case expenses <b>budget</b> adjustment will be reduced by the Finance Department actual to budget factors.
TAP Implementation Costs	<i>N/A</i>	<p><i>FY 2019 – (\$733,333)</i></p> <p><i>FY 2020 – (\$733,333)</i></p> <p><i>FY 2021 – (\$733,333)</i></p> <p>PA Statement 1, Page 31, Lines 24 to 25</p> <p>Note - This <b>budget</b> adjustment will be reduced by the Finance Department Class 200 actual to budget factor of 46.33%.</p>
SMIP/GARP	<i>Reflect increased expense of \$10 million per year beginning in FY 2019.</i>	<p><i>FY 2019 – (\$10,000,000)</i></p> <p><i>FY 2020 – (\$10,000,000)</i></p> <p><i>FY 2021 – (\$10,000,000)</i></p> <p>PA Statement 1, Page 18, Line 21</p>
<b>Capital Cost Adjustments</b>		
Capital Budget Spend Factor	<p><i>FY 2018 – 90%</i></p> <p><i>FY 2019 - 90%</i></p> <p><i>FY 2020 – 90%</i></p> <p><i>FY 2021 – 90%</i></p> <p>Schedule BV-E5: WP-1, Page 9</p>	<p><i>FY 2018 – 76%</i></p> <p><i>FY 2019 – 76%</i></p> <p><i>FY 2020 – 76%</i></p> <p><i>FY 2021 – 76%</i></p> <p>PA Statement 1, Page 28, Lines</p>

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<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
		17 to 20
Bond Issuance Costs	FY 2019 – 0.56% FY 2020 – 0.56% FY 2021 – 0.56%  <i>Revised Issuance Costs</i>	FY 2019 – 0.56% FY 2020 – 0.56% FY 2021 – 0.56%  PA Statement 1, Page 28, Lines 1 to 3
Debt Interest Rate	FY 2019 – FY 2020: per agreed upon adjustment  <i>Future Years:</i> <i>FY 2021 – 6.0%</i>  Schedule BV-E5: WP-1, Page 8	FY 2019 – FY 2020: per agreed upon adjustment  <i>Future Years:</i> <i>FY 2021 – 5.25%</i>
Debt Issuance Amounts	<i>FY 2019 – \$285.0 Million</i>  <i>B&amp;V will resize bonds based upon PWD’s proposed capital spend and other capital financing metrics (i.e. debt service coverage and cash funded capital)</i>	<i>Note:</i>  <i>B&amp;V will resize bonds based upon the Public Advocate’s proposed capital spend and other capital financing metrics (i.e. debt service coverage and cash funded capital).</i>
<b>Cash Funded Capital</b>		
Debt Service Coverage	<i>FY 2019 – 1.28 x</i> <i>FY 2020 – 1.30 x</i> <i>FY 2021 – 1.30 x</i>	<i>FY 2019 ≥ 1.2 x</i> <i>FY 2020 ≥ 1.2 x</i> <i>FY 2021 ≥ 1.2 x</i>

<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
	Schedule BV-E5: WP-1, Page 8	PA Statement 1, Page 35, Lines 13 to 15
Capital Account Deposit	<b><i>FY 2019 – 1.5%</i></b> <b><i>FY 2020 – 1.5%</i></b> <b><i>FY 2021 – 1.5%</i></b>  Schedule BV-E5: WP-1, Page 9	<b><i>FY 2019 – 1.0%</i></b> <b><i>FY 2020 – 1.0%</i></b> <b><i>FY 2021 – 1.0%</i></b>  PA Statement 1, Page 29, Lines 22 to 23
Residual Fund Transfer to Construction	<b><i>FY 2019 – FY 2021</i></b> <b><i>Transfers as available while maintaining Residual Fund Balance of \$15.0 million.</i></b>  Schedule BV-E5: WP-1, Page 9	<b><i>FY 2019 – FY 2021</i></b> <b><i>Annual transfer amount to be calculated as: \$45,000,000 minus the Capital Account Deposit for such year.</i></b>
<b>Reserves</b>		
Rate Stabilization Fund Balance	<b><i>FY 2019 – FY 2021</i></b> <b><i>Target: \$150 Million</i></b>  Schedule BV-E5: WP-1, Page 9	<b><i>FY 2019 – FY 2021</i></b> <b><i>Target: No Specific Target.</i></b> <b><i>Transfers to/from Rate Stabilization Fund to be determined through dashboard, based on maintaining \$15,000,000 Residual Fund balance at each year end (and satisfying legally mandated coverage requirements).</i></b>  PA Statement 1, Page 40, Lines

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<u>Assumptions</u>	<u>PWD Proposal</u>	<u>Public Advocate Proposal</u>
		14 to 15
Residual Fund Balance	<i>FY 2019 – FY 2021</i> <i>Target: \$15 Million</i>  Schedule BV-E5: WP-1, Page 9	<i>FY 2019 – FY 2021</i> <i>Target: \$15 Million</i>  PA Statement 1, Page 40, Lines 15 to 16

**RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC on behalf of the Philadelphia Water Department and Lafayette Morgan, Exeter Associates, Inc. on behalf of the Public Advocate