

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

**PHILADELPHIA WATER)
DEPARTMENT) 2019 TAP Rider Reconciliation**

**DIRECT TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.**

ON BEHALF OF THE PUBLIC ADVOCATE

May 24, 2019

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BEFORE THE
PHILADELPHIA WATER, SEWER AND STORM WATER RATE BOARD

PHILADELPHIA WATER) 2019 TAP Rider Reconciliation
DEPARTMENT)

Direct Testimony of Lafayette K. Morgan, Jr.

I. INTRODUCTION

1

2 Q.

WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS

3

ADDRESS?

4 A.

My name is Lafayette K. Morgan, Jr. My business address is 10480 Little Patuxent

5

Parkway, Columbia, Maryland, 21044. I am a Public Utilities Consultant working

6

with Exeter Associates, Inc. Exeter is a firm of consulting economists specializing

7

in issues pertaining to public utilities.

8 Q.

PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND

9

QUALIFICATIONS.

10 A.

I received a Master of Business Administration degree from The George

11

Washington University. The major area of concentration for this degree was

12

Finance. I received a Bachelor of Business Administration degree with

13

concentration in Accounting from North Carolina Central University. I was

14

previously a CPA licensed in the state of North Carolina, but, in 2009, I elected to

15

place my license in an inactive status as I focused on start-up activities for other

16

business interests.

17 Q.

WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL

18

EXPERIENCE?

1 A. From May 1984 until June 1990, I was employed by the North Carolina Utilities
2 Commission - Public Staff in Raleigh, North Carolina. I was responsible for
3 analyzing testimony, exhibits, and other data presented by parties before the North
4 Carolina Utilities Commission. I had the additional responsibility of performing the
5 examinations of books and records of utilities involved in rate proceedings and
6 summarizing the results into testimony and exhibits for presentation before that
7 Commission. I was also involved in numerous special projects, including
8 participating in compliance and prudence audits of a major utility and conducting
9 research on several issues affecting natural gas and electric utilities.

10 From June 1990 until July 1993, I was employed by Potomac Electric Power
11 Company (Pepco) in Washington, D.C. At Pepco, I was involved in the preparation
12 of the cost of service, rate base and ratemaking adjustments supporting the
13 company's requests for revenue increases in the State of Maryland and the District
14 of Columbia.

15 From July 1993 through 2010, I was employed by Exeter Associates, Inc. as a
16 Senior Regulatory Analyst. During that period, I was involved in the analysis of the
17 operations of public utilities, with particular emphasis on utility rate regulation. I
18 reviewed and analyzed utility rate filings, focusing primarily on revenue
19 requirements determination. This work involved natural gas, water, electric and
20 telephone companies.

21 In 2010, I left Exeter to focus on start-up activities for other on-going business
22 interests. In late 2014, I returned to Exeter to continue to work in a similar capacity
23 to my work prior to my hiatus.

24 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
25 PROCEEDINGS ON UTILITY RATES?

1 A. Yes. I have previously presented testimony and affidavits on numerous occasions
2 before the North Carolina Utilities Commission, the Pennsylvania Public Utility
3 Commission, the Virginia Corporation Commission, the Louisiana Public Service
4 Commission, the Georgia Public Service Commission, the Maine Public Utilities
5 Commission, the Kentucky Public Service Commission, the Public Utilities
6 Commission of Rhode Island, the Vermont Public Service Board, the Illinois
7 Commerce Commission, the West Virginia Public Service Commission, the
8 Maryland Public Service Commission, the Corporation Commission of Oklahoma,
9 Kansas Corporation Commission, the Philadelphia Water, Sewer and Storm Water
10 Rate Board and the Federal Energy Regulatory Commission (“FERC”). In 2018, I
11 testified before the Philadelphia Water, Sewer and Storm Water Rate Board (“the
12 Board”) regarding the Water Department’s proposed rate increases for Fiscal Years
13 2019, 2020 and 2021.

14 Q. ON WHOSE BEHALF ARE YOU APPEARING?

15 A. I am presenting testimony on behalf of the Public Advocate.

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
17 PROCEEDING?

18 A. Exeter Associates has been retained by the Public Advocate to assist in the
19 evaluation of the Formal Notice of Proposed Changes in Rates and Charges –
20 Annual Adjustment of Tiered Assistance Program Rate Rider Surcharge Rates
21 (TAP-R) submitted by Philadelphia Water Department (“PWD” or “the
22 Department”). In this testimony, I present my findings on behalf of the Public
23 Advocate regarding the appropriate adjustment to the TAP-R that PWD is
24 requesting for its water and wastewater operations for the rate period beginning
25 September 1, 2019.

1 Q. PLEASE EXPLAIN HOW YOUR TESTIMONY IS ORGANIZED.

2 A. First, I provide a summary of the rate relief PWD requests and a brief statement of
3 my conclusions. Next, I discuss a more technical review of certain projections and
4 assumptions included in PWD's filing, proposing specific changes where
5 appropriate. Finally, I discuss the Public Advocate's recommendation for the TAP-
6 R.

7 Q. HOW DID YOU ANALYZE AND REVIEW THE COMPANY'S FILING?

8 A. I have reviewed PWD's filing and related supporting documentation, participated in
9 telephone discussions, and have reviewed PWD's responses to the Public
10 Advocate's data requests and the Board's Consultant's data requests.

11 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR
12 TESTIMONY?

13 A. Yes. I have prepared Exhibits LKM-1 and LKM-2. Exhibit LKM-1 shows the
14 derivation of the TAP-R rates for water and wastewater services. Exhibit LKM-2
15 provides the calculation of interest on over and under payments for the period
16 September 2018 through August 2019.

17

18 **II. SUMMARY AND RECOMMENDATIONS**

19 Q. PLEASE SUMMARIZE PWD'S TAP RATE ADJUSTMENT FILING.

20 A. In PWD's last rate proceeding, the rate case in which it sought rate increases for
21 Fiscal Years 2019, 2020 and 2021 ("the 2018 Rate Case"), the Department
22 proposed the TAP-R as a mechanism by which PWD could reconcile the actual
23 costs of the Tiered Assistance Program (TAP) and the actual costs of the Low-
24 Income Conservation Program (LiCAP) with the costs included in the rates
25 approved in a given proceeding. In essence, the TAP Rate Rider, as then proposed,

1 was intended to provide a process to align the timing of the recovery of revenue and
2 cost more closely with the period in which they were incurred. The PWD proposed
3 reconciling mechanism would allow timely recovery of the differences between the
4 base rate assumptions for TAP and the actual results of operation. Through a
5 collaborative process, PWD and the Public Advocate agreed that the TAP-R would
6 be its own volumetric rate, separate from base rates, that would track revenue losses
7 resulting from the TAP program rates and would permit annual reconciliation of
8 TAP costs in order to prevent either over or under-recovery¹.

9 In PWD's May 6, 2019 filing, it is proposing a Water TAP-R rate of \$0.72 per
10 thousand cubic feet (MCF) of water usage that becomes effective as of September
11 1, 2019. In comparison, the current Water TAP-R rate is \$0.67 per MCF. PWD also
12 proposes a Sewer TAP-R rate of \$1.17 per thousand cubic feet (MCF) of sewer
13 usage that becomes effective September 1, 2019. The current Sewer TAP-R rate is
14 \$0.94 per MCF.

15 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

16 A. Based upon my review of PWD's filing, I am recommending a Water TAP-R rate
17 of \$0.71 per thousand cubic feet (MCF) of water usage and a Sewer TAP-R rate of
18 \$1.16 per thousand cubic feet (MCF) of sewer usage. These are the resulting rates
19 after reflecting certain changes to PWD's calculations that I explain below.

20 Q. WHAT CHANGES ARE YOU RECOMMENDING IN DETERMINING
21 THE TAP-R?

22 A. Below is the calculation of the TAP-R reproduced from the Department's filing. I
23 am recommending changes to the C-Factor (Projected TAP Billing Loss) and the I-
24 Factor (Interest on Experienced & Estimated Net Over/Under Collection).

¹ Philadelphia Water, Sewer and Storm Water Rate Board 2018 Rate Determination, July 12, 2018, page 81.

1 Although I propose no methodological change to the E-Factor (Net Over/Under
 2 Collection), adjustments to the C-Factor produce minor changes to the E-Factor.

3

Calculation of TAP Rider Rates Effective September 1, 2019 (FY 2020) per PWD			
	TOTAL	Water	Wastewater
	Amount	Amount	Amount
(1) C = Projected TAP Billing Loss	\$ 10,104,228	\$ 4,142,734	\$ 5,961,495
(2) E = Experienced & Estimated Net Over/Under Collection	\$ (309,320)	\$ 49,518	\$ (358,838)
(3) I = Interest on Experienced & Estimated Net Over/Under Collection	\$ (7,547)	\$ 1,208	\$ (8,756)
(4) Net Recoverable Costs: (C) - (E + I)	\$ 10,421,096	\$ 4,092,007	\$ 6,329,089
(5) S = Projected Non- TAP Sales for Next Rate Period (MCF)		\$ 5,713,276	\$ 5,394,186
(6) TAP- R Surcharge: (4)/(5)		\$ 0.72 /MCF	\$ 1.17 /MCF

4

5 **Projected TAP Billing Loss**

6 Q. WHY ARE YOU ADJUSTING THE TAP BILLING LOSS?

7 A. The projected TAP billing loss is calculated based upon the projected number of
 8 TAP Participants for the next rate period multiplied by the Average Discount per
 9 TAP Participant based on the Most Recent Period. PWD projected the number of
 10 TAP participants using a 2 percent growth rate for the remaining six months of the
 11 current rate period² and then held the number of customers flat for the next rate
 12 period. According to PWD, the 2 percent monthly growth rate used in its
 13 projections was consistent with the monthly projections used to forecast TAP
 14 enrollment growth in the 2018 Rate Case. February 2019 was the last month of
 15 actual participants in the filing. From March through August 2019, PWD escalated
 16 the previous month’s participants by the 2 percent growth rate to derive the next
 17 month’s number of participants.

18 I have adjusted the projected TAP billing loss to reflect two changes. First, I
 19 have used a 1 percent growth rate for the escalation. Second, rather than using the
 20 month of February as the base from which to begin the escalation of customers, I

² The Department’s filing utilizes actual data for the six months September through February, and estimated data for the six months March through August.

1 have used the average number of customers during the first six months of the
2 current rate period as the base number of participants from which I would begin the
3 monthly escalation of participants.

4 Q. WHY HAVE YOU USED THE AVERAGE NUMBER OF PARTICIPANTS
5 TO PROJECT THE MONTHLY NUMBER OF PARTICIPANTS FOR THE
6 REMAINING MONTHS OF THE CURRENT RATE YEAR?

7 A. As I reviewed the monthly number of participants, I observed that the number of
8 participants in February had decreased to a level that was materially less than the
9 average number of customers for the period. In the response to the Public Advocate
10 PA-TRR-5, PWD stated that:

11
12 February 2019 coincided both with moratorium and with the ramp
13 up of recertifications for TAP. Customers who do not recertify in
14 the program are removed from TAP. Although we have not had
15 the opportunity of analyzing the data extensively, customers may
16 have chosen not to recertify during moratorium because they
17 would not be subject to shut off and did not need to take advantage
18 of the shut off protection afforded them by TAP participation.
19 Customers who did not recertify would not have received TAP
20 bills in February. The actual number of participants in March
21 2019 was 14,784.
22

23 Clearly, based upon PWD's explanation, there are some circumstances which
24 indicate that the number of participants for February may not be normal. Hence, an
25 escalation based upon the February 2019 participants might lead to a lower level of
26 projected participants going forward. Using the average number of participants to
27 escalate customer growth would result in a more representative projected number of
28 participants based on the Department's recent history.

29 Q. WHY HAVE YOU USED A ONE PERCENT GROWTH RATE?

1 A. After reviewing the monthly growth rate from September 2018 through February
2 2019, I determined the average monthly growth rate was 0.92 percent. Therefore,
3 the 2 percent growth rate used by PWD is not representative of the growth being
4 experienced by PWD. The 1 percent growth rate I have used is slightly higher than
5 the rate experienced by PWD since September 2018 and is more reasonable than the
6 2 percent rate.

7 **Interest on Experienced & Estimated Net Over/Under Collection**

8 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR THE
9 INTEREST ON EXPERIENCED & ESTIMATED NET OVER/UNDER
10 COLLECTION?

11 A. PWD calculates the interest on the Experienced & Estimated Net Over/Under
12 Collection by applying the annual applicable interest rate to the total over/under
13 collection for the period. This approach calculates interest as if the entire amount of
14 the over or under collection was experienced as of the first month of the rate period.
15 In reality, the amount that is over or under collected fluctuates from month to
16 month. Therefore, the customer or PWD is only entitled to interest on the over or
17 under collected funds as the accumulate.

18 I am recommending an adjustment that revises PWD's calculation of interest.
19 My approach calculates the annual interest as it accumulates monthly over the rate
20 period due to the over or under collection of funds PWD experiences.

21 **Summary of the Public Advocate's Recommendations**

22 Q. PLEASE PROVIDE A SUMMARY OF THE TAP-R FOR WATER AND
23 WASTE WATER SERVICES.

24 A. The table below presents the summary of TAP-R, by component, as recommended
25 by the public advocate. See Exhibit -LKM 1.

1
2
3

Calculation of TAP Rider Rates Effective September 1, 2019 (FY 2020) per Public Advocate			
	TOTAL	Water	Wastewater
	Amount	Amount	Amount
(1) C = Projected TAP Billing Loss	\$ 9,928,633	\$ 4,070,739	\$ 5,857,893
(2) E = Experienced & Estimated Net Over/Under Collection	\$ (339,653)	\$ 37,087	\$ (376,739)
(3) I = Interest on Experienced & Estimated Net Over/Under Collection	\$ (3,017)	\$ 1,135	\$ (4,152)
(4) Net Recoverable Costs: (C) - (E + I)	\$ 10,271,302	\$ 4,032,518	\$ 6,238,784
(5) S = Projected Non- TAP Sales for Next Rate Period (MCF)		\$ 5,713,276	\$ 5,394,186
(6) TAP- R Surcharge: (4)/(5)		\$ 0.71 /MCF	\$ 1.16 /MCF

4

5 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

6 A. Yes, it does.

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

**EXHIBITS ACCOMPANYING
THE DIRECT TESTIMONY**

OF

LAFAYETTE K. MORGAN, JR.

ON BEHALF OF THE PUBLIC ADVOCATE

May 24, 2019

**Philadelphia Water Department
 TAP Rate Rider Proceeding
 Public Advocate Calculation of TAP Rider Rates Effective September 1, 2019**

Line No.	Description	Total Amount	Water Amount	Wastewater Amount
1	C = Projected TAP Billing Loss	\$ 9,928,633	\$ 4,070,739	\$ 5,857,893
2	E = Experienced & Estimated Net Over/Under Collection	(339,653)	37,087	(376,739)
3	I = Interest on Experienced & Estimated Net Over/Under Collectic	<u>(3,017)</u>	<u>1,135</u>	<u>(4,152)</u>
4	Net Recoverable Costs	\$ 10,271,302	\$ 4,032,518	\$ 6,238,784
5	S = Projected Non-TAP Sales for Next Rate Period (MCF)		<u>5,713,276</u>	<u>5,394,186</u>
6	TAP-R Surcharge per MCF		<u>\$ 0.71</u>	<u>\$ 1.16</u>

Philadelphia Water Department TAP Rate Rider Proceeding Public Advocate Calculation of Interest Owed Or To Be Recovered Water Services				
Line No.	Billing Period	Water Over/(Under) Collection	Cumulative Balance	Interest Owed/ (Interest to be Recovered)
	(1)	(2)	(3)	(4)
1	Sep-18	\$ 34,097	\$ 34,097	\$ 69
2	Oct-18	\$ 18,321	\$ 52,418	\$ 107
3	Nov-18	\$ 3,266	\$ 55,684	\$ 113
4	Dec-18	\$ (5,925)	\$ 49,759	\$ 101
5	Jan-19	\$ (13,125)	\$ 36,634	\$ 74
6	Feb-19	\$ 4,991	\$ 41,626	\$ 85
7	Mar-19	\$ 6,920	\$ 48,546	\$ 99
8	Apr-19	\$ 3,889	\$ 52,435	\$ 107
9	May-19	\$ 824	\$ 53,260	\$ 108
10	Jun-19	\$ (2,260)	\$ 51,000	\$ 104
11	Jul-19	\$ (5,384)	\$ 45,616	\$ 93
12	Aug-19	\$ (8,529)	\$ 37,087	\$ 75
Total		\$ 37,087		
Total Revised I-Factor Recovery				\$ 1,135

Philadelphia Water Department TAP Rate Rider Proceeding Public Advocate Calculation of Interest Owed Or To Be Recovered Wastewater Services				
Line No.	Billing Period	Water Over/(Under) Collection	Cumulative Balance	Interest Owed/ (Interest to be Recovered)
	(1)	(2)	(3)	(4)
1	Sep-18	\$ 1,563	\$ 1,563	\$ 3
2	Oct-18	\$ (8,569)	\$ (7,006)	\$ (14)
3	Nov-18	\$ (32,213)	\$ (39,219)	\$ (80)
4	Dec-18	\$ (41,148)	\$ (80,367)	\$ (163)
5	Jan-19	\$ (52,715)	\$ (133,082)	\$ (271)
6	Feb-19	\$ (22,054)	\$ (155,136)	\$ (315)
7	Mar-19	\$ (25,880)	\$ (181,015)	\$ (368)
8	Apr-19	\$ (30,244)	\$ (211,260)	\$ (430)
9	May-19	\$ (34,657)	\$ (245,917)	\$ (500)
10	Jun-19	\$ (39,099)	\$ (285,015)	\$ (580)
11	Jul-19	\$ (43,598)	\$ (328,613)	\$ (668)
12	Aug-19	\$ (48,126)	\$ (376,739)	\$ (766)
Total		\$ (376,739)		
Total Revised I-Factor Recovery				\$ (4,152)