Alternative Rate Structure Analysis

STAKEHOLDER MEETING NO. 3 – PENSION RIDER

Summary Meeting Notes

Date: September 10, 2019 **Time:** 2:30 PM – 4:30 PM

Location: Philadelphia Water Department Offices, 1101 Market Street, 6th Floor Conference Room

Agenda

- ✓ Welcome & Meeting No. 2 Recap
- ✓ Meeting Overview
- ✓ Focus Topic No. 3 – Rider for Pension Expenses
- ✓ Reflection & Discussion
- ✓ Wrap-up

Attendees

Participants:	Mathew Gerber, Philadelphia Large Users Group Robert Ballenger, Community Legal Services Cornelius Brown, Philadelphia Building Industry Association / Bohler Engineering
PWD Staff:	Melissa La Buda, Glenn Abrahams, Scott Schwarz
Consultant Team:	Ann Bui, David Jagt, Brian Merritt, Danae Mobley, Kash Srinivasan, Jennifer Hurley

The following is a summary of the third Alternative Rate Structure Stakeholder Group meeting. The presentation utilized during the meeting is available on the Philadelphia Water, Sewer and Storm Water Rate Board website: https://www.phila.gov/departments/water-sewer-storm-water-rate-board/

Attendees are listed above, and Appendix A includes a list of all invitees.

Welcome and Overview

Melissa LaBuda, the Philadelphia Water Department's (PWD or the Department) Deputy Water Commissioner of Finance, welcomed the Alternative Rate Structure Stakeholder Group (ARSG) and thanked them for their participation and feedback in this series of meetings. Ms. LaBuda then introduced Glen Abrahams, the Department's new Deputy Water Commissioner for Communications and Engagement.

The Black & Veatch Team (Team) provided background on the alternative rate structure analysis and reiterated that the Department had undertaken this effort to evaluate whether the current rate structure supports the Department's mission and goals and if it will continue to do so into the future. Ahead of the next rate proceeding, the Department was interested in exploring incremental changes in three main areas:

1. Water quantity charges;
2. Stormwater credits and incentives; and
3. A potential rider mechanism for pension related expenses (the topic of the third meeting).

More holistic changes will be further discussed following the next rate determination.

During the last ARSG meeting (Meeting No. 2), potential adjustments to the stormwater credits and incentives programs were discussed including aligning the stormwater credit program's technical requirements with the current stormwater management requirements, specifying an enrollment window for future credit applicants and adjustments to the SMIP/GARP budget. The Team noted that summary notes for Meeting No. 2 would be issued shortly. All meeting materials from prior meetings are also available on the Rate Board website. The Team thanked the ARSG for their feedback.

The ARSG was informed that the Team also spoke with the Department's Development Service Committee (DSC), which includes representation from engineers, designers, developers, property owners and other City partners involved in stormwater management throughout Philadelphia. The feedback of both groups will be taken into consideration as the Department moves forward.

The Team noted that with the rescheduling of the third meeting, the **deadline for written comments had also been extended to September 20th**.

Kash Srinivasan and Jen Hurley, the meeting facilitators, noted the discussion portion of the meeting would focus on the recommended alternative and the ARSG would be asked to provide feedback on the other options as well.

Focus Topic No. 3 – Potential Pension Rider

The Black & Veatch Team then provided a presentation which included general background on rate riders and their use within PWD's rates and charges; pension trends at the national, state and local level; PWD's pension expenses; example riders from other utilities and industries; the applicability of a pension rider to PWD and associated factors for consideration; alternative approaches; and a recommended alternative. The following section summarizes key points for the presentation. For a copy of the complete presentation, please refer to the Rate Board website.

Background on Rate Riders

Tiered Assistance Program (TAP Rate Rider)

Before delving into a potential rider for pension related expenses, the Team provided background on the Tiered Assistance Program (TAP) Rate Rider, which was adopted as a result of the last rate determination.

- The TAP Rate Rider (TAP-R) was implemented to recover the cost of lost revenue associated with providing discounts to qualifying TAP customers.
- Lost revenue is recovered as a surcharge via the water and sewer quantity charges and expressed in terms of dollars per thousand cubic feet ($ per MCF).
- The resulting TAP-R surcharge is included in the overall quantity charge rates.
- The TAP-R allows the Department to reconcile both the actual lost revenue experienced in a given year with the surcharges that are collected from non-TAP customers.
- The rider was developed to address:

- Difficultly in predicting overall levels of enrollment in the TAP program;
- Uncertainty with the respect to the revenue loss due to discounts; and
- Any potential under or over-recovery from PWD's non-TAP customers.

As part of the alternative rate structure analysis, the Department is interested in exploring what other expenses might benefit from adopting a similar approach.

Reasons to Consider a Rider

The primary reasons to consider using a rider as a cost recovery mechanism is the ability of a utility to control the expense and whether the cost is easily identifiable. To identify potential expenses that could be included on a rider, the Team also looked at expenses which have been difficult to project, the volatility of the expense year to year, and the contribution to overall variance between projected and actual costs. Expenses with these general characteristics might benefit from the implementation recovery via a rider mechanism. Using a rider allows the utility to better reconcile costs and revenues with actual experience and closer to the period in which they occur. Moreover, a rider framework does not require a full rate proceeding.

The Team noted that pension expenses generally fit each of these criteria, as would be further explained during the presentation.

National Industry Trends

Pensions are a challenge that many utilities and industries are facing but they do not garner the same amount of attention as issues such as aging infrastructure, lead service lines and climate change when it comes to water utilities. The pension related challenges that PWD faces are not unique. Currently, 48 out of 50 states have underfunded pension plans. According to Moody's the unfunded pension liabilities nationwide are estimated at $4.4 trillion. This value is comparable to $4.5 trillion that the American Society of Civil Engineers estimates is needed to address aging infrastructure issues by 2025.

Similar to aging infrastructure issues, pensions are an area that have historically been underfunded. This creates another large funding gap that utilities will need to address moving forward and there is a great deal of uncertainty as to how to address the gap nationally.

Effects of Pension Issues on Credit Ratings

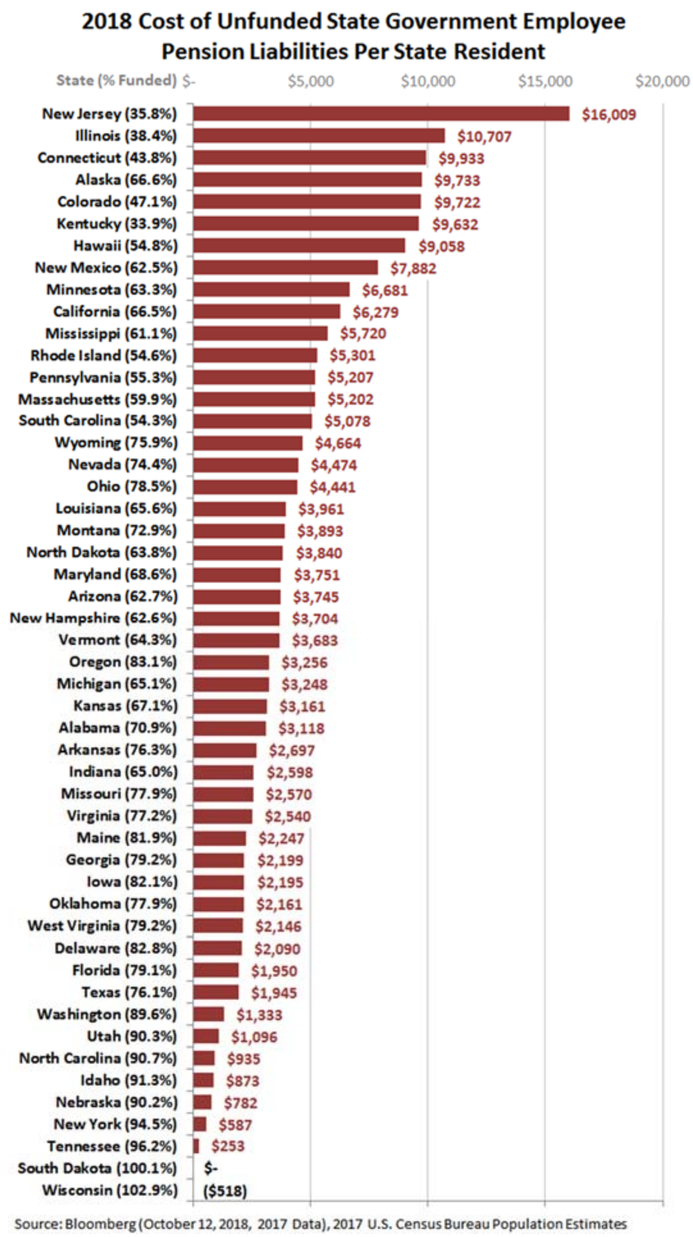
Pensions do present a risk when it comes to credit ratings and the size of the obligation as well as the planned course of action have impacted credit ratings for cities and states throughout the country.

- In 2013, Chicago's credit rating was downgraded to junk status. To address this and their unfunded pension liability, Chicago is increasing annual contributions from $1 billion in 2018 to $2.1 billion in 2023. This will result in both higher property taxes and utility bills for residents and customers alike.
- Detroit, Michigan and Stockton, California still have pension obligations despite having gone through bankruptcy.
- New Jersey and Illinois rank number one and number two when it comes to the cost of unfunded pension state liabilities when measured on a per state resident basis.

State Level Trends

As illustrated in Figure 1, while New Jersey and Illinois rank near the top when it comes to the unfunded state government employee pension liability per state resident, nearly every state except for South Dakota and Wisconsin, have some level of funding gap. Pennsylvania ranks thirteenth on a per state resident basis. For the past several years, Pennsylvania has ranked in the top five states with the largest unfunded pension liabilities with an estimated shortfall of $68.8 billion.

Figure 1 – Unfunded Pension Liabilities per State Resident



The Commonwealth of Pennsylvania has more than 3,200 public pension plans, the largest number of all 50 states. The state plays an active role in local pensions by mandating minimum funding requirements and providing contribution assistance. Factors that make solving the pension funding gap difficult include:

- Many plans in Pennsylvania have fewer active members than retirees and other inactive members.
- State and local governments are increasingly susceptible to contribution volatility and funding challenges stemming from negative plan cash flows as the growing portion of retirees increases.
- Some plans are having trouble making "tread water" contributions to prevent their pension liabilities from growing.

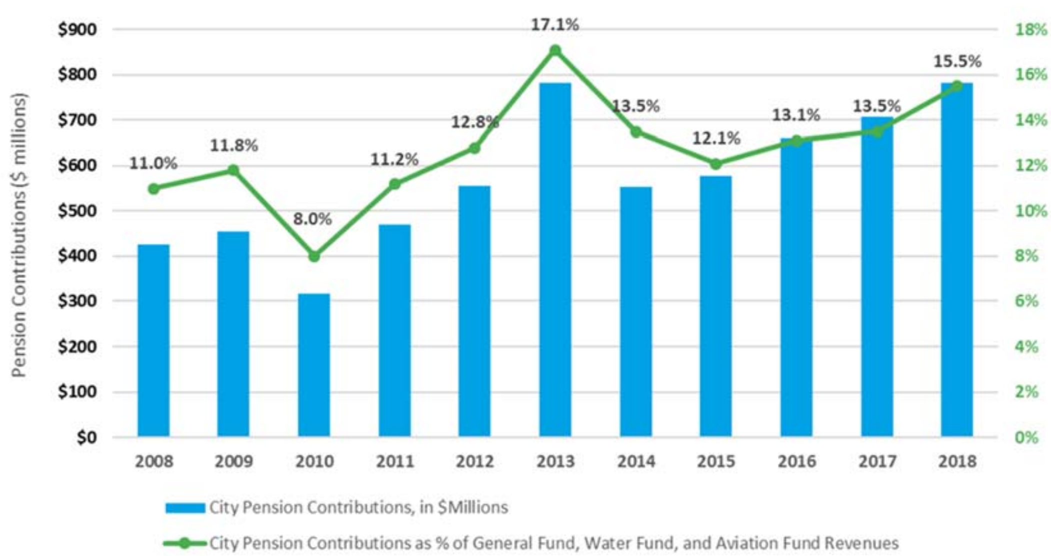
City of Philadelphia – Pension Plan

The Team presented background on the City's pension plan. The City's pension plan, which includes all Departments, including Water, Fire, Police as well as several other quasi-City agencies such as the parking authority. Note – Philadelphia Gas Works maintains a separate pension fund. The Pension Fund is managed by the Pension Board, who make decisions with respect to funding, supporting policies and investment decisions.

The City faces significant ongoing financial challenges in meeting its pension obligations, including an unfunded actuarial liability (UAL) of approximately $6.1 billion as of July 1, 2018. A summary of the City's contributions was presented and provided here in Figure 2. As seen in the figure, the City's contribution to the Municipal Pension Fund was approximately $782 million in FY 2018, of which the Water Fund's share was $62 million. The Team noted that the City has committed to making higher contributions to the pension fund. The higher contributions are just one step the City has undertaken to address its unfunded pension liabilities, others include:

- Reducing the assumed rate of return on a gradual and consistent basis;
- Adopting more conservative mortality rates;
- Changing from a level percent of pay amortization schedule to a level dollar amount schedule;
- Negotiating collective bargaining agreements by which additional contributions are being made and by which benefits will be capped;
- Securing additional funding, including funds required to be deposited by the City to the Municipal Pension Fund from its share of sales tax revenue;
- Adopting a Revenue Recognition Policy, which dedicates additional revenues to paying down the unfunded pension liability; and
- Changing the investment strategy to increase the use of passive investment vehicles.

Figure 2 – City Contributions to the Philadelphia Pension Fund FY 2008 to FY 2018



Source: *2019 The Pew Charitable Trust*

In addition to these changes active employees are also increasing their contributions as shown in Figure 3. As a result, workers are bearing more risk via investment, inflation, longevity, and plan termination. Many receive lower benefits because of the greater use of hybrid plans, longer vesting periods, and lower Cost of Living Adjustments (COLAs).

Figure 3 – Annual Employee Contributions to the Philadelphia Pension Fund FY 2008 to FY 2018

Source: *2019 The Pew Charitable Trust*

In summary, both the City and its employees are paying more toward the pension fund every year. It's anticipated that these trends will continue for the foreseeable further. The overall contributions will further be influenced by market performance, which has fluctuated significantly in the past, leading to many of the changes in funding approaches noted earlier.

PWD Pension Expenses

The Team then presented background on the Department's pension related expenses.

PWD Pension Expenses – Background

As shown in Figure 4, workforce costs make up nearly 37% of the Department's annual obligations, the single largest cost next to capital financing. Of the overall obligations, pension costs make up 10%.

Pension costs have nearly doubled over the last 7-8 years. Put in context of the Water Fund's contribution as a percentage of the Municipal Minimum Obligation (MMO) has increased from 5.6% in FY 2010 to 10% in FY 2018. It was noted that the MMO is the state-mandated minimum a municipality must contribute to any pension plan established for its employees.

Figure 4 – FY 2018 Expense Summary Resident

	EXPENSE CATEGORY	FY18 FINAL ($000s)
10.6%	**- Pension Costs**	**76,957**
18.3%	- Personal Services	132,309
7.9%	- Other Employee Benefits	56,889
	Workforce Costs	266,154
21.7%	Services	156,997
2.6%	Electricity and Gas	18,858
3.9%	Materials , Equipment & Supplies	28,306
3.0%	Chemicals	21,771
0.9%	Indemnities	6,779
30.1%	Capital Program - Debt Service Payments	218,483
1.0%	General Fund Reimbursement	7,319
	TOTAL	**724,667**

Increases in pension costs are generally due to increases in required contributions. In addition, per a recent City policy change, funding for pension costs must come from operating revenues. Prior to the change, capital funding could be utilized toward pension expenses. In other words, some pension expenses associated with the capital program were funded via long-term debt issues. And finally, overall increases in Department staffing levels have also impacted pension costs.

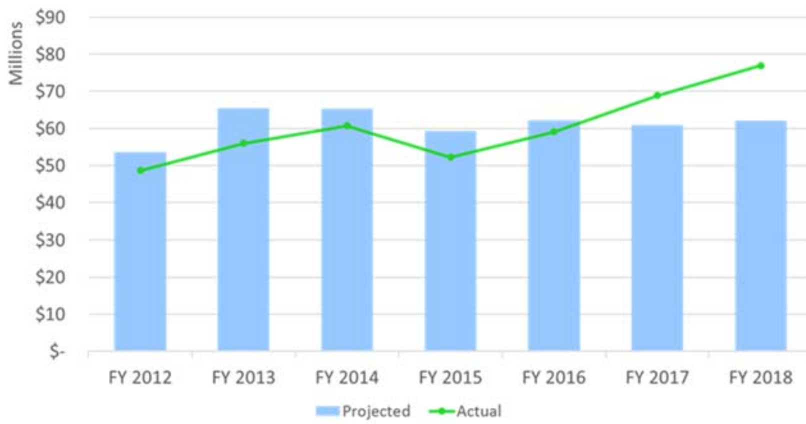
Pension costs are further influenced by:

- The overall performance of the City's pension plan.
- Actuarial calculations (performed by an outside firm), which determine pension liabilities.
- Finally, as the Department's staffing levels increase in comparison to the rest of the City, PWD's proportion of costs may further increase. If PWD's staffing levels continue to increase and other departments remain the same or decrease, PWD will bare more of the pension expenses.

Comparison of Prior Projections and Actual Experience

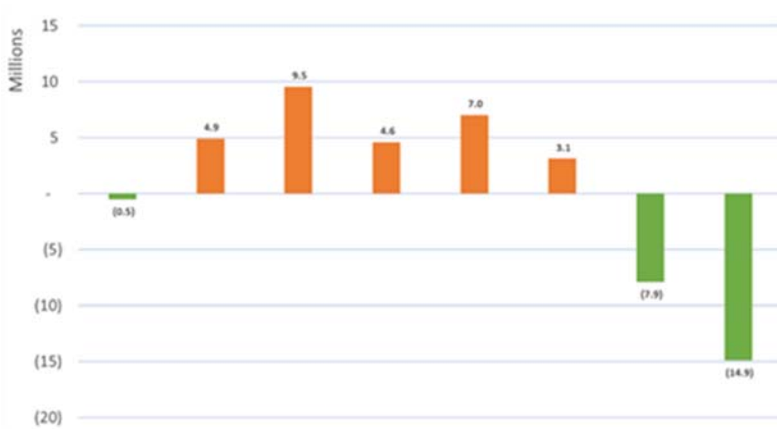
The Team again stated that based on the parameters used to help identify potential costs for a rider mechanism, expenses that have historically been difficult to project were considered. The Team presented a comparison of projected and actual pension expenses as shown in Figure 5. Actual expenses are represented by the green line and the projected expenses from the rate determinations by the blue bars.

Figure 5 – Prior Projections vs. Actual Experience



As evident by the above figure, prior projections have both under and overestimated pension related expenses. Taking a closer look at the variances, summarized in Figure 6, prior projections have overestimated actual expenses by $9.5 million dollars and more recently under estimated costs by nearly $15 million. These more recent variances (in FY 2017 and FY 2018) are a result of the change in funding policy noted earlier in the presentation; the rates for these fiscal years were adopted prior to the change in policy.

Figure 6 – Projected vs. Actual Variance



Figures 5 and 6 illustrate both the difficulty in historically projecting pension expenses as well as the influence of decisions, outside of the Department's purview. The Team noted that depending on how other cost categories perform, the variance associated with pension projections can contribute to how much is either deposited or drawn from the Department's Rate Stabilization Fund each year. The Rate

Stabilization Fund is the Department's primary source of reserve funding and is also intended to provide the Department with the ability to manage revenue adjustments and customer rates. The Department does not have the ability to adjust rates, with respect to pension expenses, between rate proceedings to better reflect actual experience.

Projected PWD Pension Expenses and Personnel Count

The Team then presented recent 5-year projections of both pension expenses and personnel counts. Looking forward, pension expenses are anticipated to increase from $79 million last fiscal year to nearly $88 million in FY 2024. In addition, PWD's headcount is expected to continue to grow to nearly 2,600 to meet utility needs. It was noted that these figures were estimates and subject to change.

Pension Riders – What are Others Doing?

Pension and Other Post-Employment Benefits (OBEP) related riders are more common in the electric and natural gas industries. While there are a few examples in the water industry, this is an area where water utilities generally lag electric and gas utilities, which have had these types of mechanisms in place for years.

This is similar to the TAP Rider, where PWD was one of the first water utilities in the country to adopt such an approach for recovering lost revenue associated with their low-income assistance program. Whereas many electric and gas utilities have had surcharge mechanisms in place to aid in the cost recovery of their universal service programs for well over a decade.

With respect to pension costs, electric and gas utilities face many of the same challenges as water utilities, in that they need to continue to recover costs via annual operating revenues without eroding their reserves, they need to be able to address and respond to market fluctuations to continually meet their long-term pension liabilities, as well meet any applicable indenture requirements.

Pension and OPEB Related Rider – Examples

The Team then presented examples of pension and OPEB related riders used in the electric, gas and water industries. The examples are presented in Figure 7.

Figure 7 – Pension and OPEB Related Rider Examples

Utility	Type	Rider Mechanism(s)	Expenses Recovered	Reconciliation Frequency	Charge Component
National Grid	Electric	Pension Adjustment Factor (PAF)	Uncapitalized Pension and OPEB expenses	Annual	$ Per kWh
Eversource Energy	Electric	PAF	Uncapitalized Pension and PBOP expenses	Annual	$ per kWh
PGW	Gas	OPEB Surcharge	OPEB Expenses	Annual	$ per Mcf
Cal Water	Water	Pension Surcharge Healthcare Surcharge	1) Uncapitalized pension expenses 2) Healthcare expenses	Annual	$ per CCF

It was noted that the California Water Company (Cal Water) Pension and Healthcare Surcharges utilize balancing accounts to help track both the expenses and the revenues collected. The surcharges are included in the volumetric or quantity charges and expressed as dollars per hundred cubic feet.

Applicability to PWD

Looking at the applicability of a rider to PWD's pension expenses, as the Team noted previously:

- Pension costs make up nearly 10% of the Department's annual obligations and are expected to rise from $79 million in FY 2019 to $88 million in FY 2024;
- Further, the Department does not directly control its pension expenses. The calculations to determine pension liabilities are performed by an outside actuarial firm; and
- In addition, the Department's proportion of staffing level in comparison to the rest of the City influences the Department's portion of pension costs.

Given the variability and overall level of pension expenses, any under or over performance can have a material impact on fund balances and may affect the Department's ability to meet bond ordinance and rate board covenants. Similar to the TAP Rider, recovering pension expenses via a rider mechanism would provide agility in reflecting actual experience in rates and in addressing the cost recovered via rates in a more timely and transparent fashion.

Factors for Consideration

There are several factors which need to be considered when evaluating a potential rider for the Department's pension related expenses. The Team acknowledged that all of the examples of pension and OPEB related riders utilized the consumption-based charges (of their respective utility) as part of their respective recovery mechanisms. These utilities are primarily single service utilities (i.e. electric, gas or water) whereas PWD provides water, sewer and stormwater services.

Further, since pension costs are a personnel-related operation and maintenance expense, all cost components and customers receive an allocation of those costs under cost of service principles. As a result, under the current approach, pension costs are recovered via all rates and charges. Adjusting how pension costs are recovered from customers may have an impact on overall rates and charges and how costs are recovered by PWD's various customer types.

Pension Riders – Alternative Approaches

The Team then presented several alternative approaches. It was noted that the alternatives were only explored at a conceptual level. Detailed approaches and example calculations had not been developed. The Department and the Team were interested in understanding which option would be most feasible and should be developed further. A summary of the alternative approaches, options along with advantages and disadvantages are provided in Figure 8.

Figure 8 – Pension Rider Alternative Approaches

Approach	Option	Advantages	Disadvantages
Water / Sewer Quantity Surcharge	All pension expenses	• Simple surcharge / reconciliation calculations • Similar to TAP Rider • Allows for annual reconciliation of revenues and expenses	• Less than ideal cost recovery as costs only recovered from water and sewer • Overburdens water and sewer quantity charges • Stormwater customers would not contribute
	Only under/over-performance of pension expenses	• "Base level" pension costs remain in each rate • Limits the number of rates and charges impacted • Simple surcharge / reconciliation calculations • Similar to TAP Rider • Allows for annual reconciliation of expenses	• Less than ideal cost recovery as costs only recovered from water and sewer • Overburdens water and sewer quantity charges • Stormwater customers would not contribute to surcharge or benefit from credit
Percentage Cost Adjustment	Cost-based adjustment for each rate (percent basis)	• Allows for adjustment to all rates to be adjusted to better align with actual experience	• Requires adjustment to all rates and may require more complex calculations and documentation
Per Bill Surcharge	All pension expenses	• Retains a nexus in that each type of utility service contributes to recovery of pension costs • Reconciliation more feasible compared to a surcharge on all fees	• Not directly tied to current base rate recovery approach • Might result in a significant cost per bill (i.e., $/bill or $/meter size)
	Only under/over-performance of pension expenses	• "Base level" pension costs remain in each rate • Retains a nexus in that each type of utility service contributes to recovery of pension costs • Lower surcharge compared to recovering all costs per bill • Could be reset with a base rate proceeding	• Not directly tied to base rate recovery • Might result in a significant cost per bill (i.e., $/bill or $/meter size)

Recommended Alternative

Of the alternatives, a per bill surcharge (or sur-credit) for only the under or over performance of the expense seems most feasible at this time. This approach:

1. Keeps a portion of pension expenses within the base rates;
2. Retains a nexus by being distributed to all utility service types;
3. Could be reset with a base rate proceeding; and
4. Allows for simplified reconciliation compared to the other alternatives.

Note – the Recommended Alternative was identified by Black & Veatch for further evaluation. The Department has not made a determination on which, if any approach, should be pursued.

Summary

The Team then wrapped up the technical portion of the presentation and summarized:

- Pension costs make up nearly 10% of Department operating expenses.
- The Department does not have direct control over this expense.
- The Department's contributions are expected to further increase and will be influenced by market fluctuations / pension plan performance.
- A rider mechanism would:
    - Aid in managing costs recovered by rates
    - Allow for more timely adjustments

Questions Posed During the Presentation

The following is a summary of questions posed during the presentation.

Question: Legally, the Water Fund and its money are separate from the rest of the City (i.e. the general fund). Are all the City departments paying into one City Pension Fund?
Response: Water does not have a separate pension fund. There are several other City departments, non-city agencies and quasi-City organization that pay into the fund. PGW maintains a separate pension fund. The Board of Pensions and Retirements (Pension Board) oversees the management of the Pension Fund.
Question: With multi-employers and one pension plan, how do you make sure that the Department is paying the right amount for its employees (and beneficiaries)?
Response: Payments from the Water Fund to the City's General Fund for the Municipal Pension are governed by funding policies and requirements and also reflect the Water Fund's share of allocable costs.
Question: When the Water Department is remitting costs for pensions, who determines how much the Department is responsible for? How often are payments made?
Response: The City determines the amount each Department is responsible for paying into the pension fund. This is based upon the required contributions, overall personnel levels, plan requirements, etc. Payments are made annually.
Question: Has the Water Fund increased its percentage contribution to the MMO?
Response: Yes. The Water Department's percentage contribution to the MMO is directed by the City and this has increased due to changes in funding policy, overall increases in employee levels when compared to the rest of the City, among other factors.
Question: PGW froze their plan and switched their plan for new employees. Is the City's plan still a uniform approach for all City employees?
Response: The are multiple tiers within the retirement plans currently offered, which depend on when an employee started/their tenure with the City, professional level, and annual salary. There

are still some fixed pension benefits plans in place; however, newer employees are on a hybrid style plan. An attendee commented that this would provide some background on the expected costs (from an actuarial approach).
<u>Question</u>: Will this [pension] cost continually increase, or will it plateau at some point?
<u>Response</u>: On a national level, there are several studies that show that the pension obligations will likely continue to increase. That said, pension costs are dependent on a number of factors including market performance, targeted rate of return, fund maturation and others that can influence costs in the future. Pension costs are similar to aging infrastructure issues – it may be some time before the costs are addressed due to deferred investment. Changes in pension funding and policies are meant to address this in part.
<u>Question</u>: With respect to the rider examples from the gas and electric industry that have been cited, are these municipal or Investor Owned Utilities (IOU)?
<u>Response</u>: The examples are mostly from the IOU side. That said, municipal utilities face the same challenges as IOUs when it comes to pension expenses. An attendee commented that it was surprising IOUs required pension riders, noting that (from their perspective) they would have anticipated privately held utilities would have transitioned to 401(k) style retirement plans. The Team noted that even though IOUs typically have more flexibility than municipalities, IOUs may deal with legacy pension expenses and may also have elements of prior public pension plans in place (from before the transition to an IOU).
<u>Question</u>: [In reference to the California Water Services Pension and Healthcare Surcharges], what is the balancing fund (i.e. balancing account)?
<u>Response</u>: The balancing account is a separate account which is used to track both the pension and healthcare expenses as well as the surcharge revenue received. It acts as a tracking mechanism and helps to address under/over-recovery of the respective expenses.
<u>Question</u>: With respect to the Per Bill Surcharge [Per Service] alternative, would the bill be uniform, or would it vary by customer type?
<u>Response</u>: The alternatives have only been evaluated at a conceptual level; this is an area that would need to be further evaluated – similar to the effective meter size and the allocations applied to residential and non-residential customers. The Team would anticipate that any factors for applying or distributing costs would likely need to be codified with the final rider language. Attendees felt it would be helpful to see an example of how costs would be distributed in order to formulate an opinion and provide feedback.

Reflection and Discussion

The facilitators led the meeting attendees through a discussion of the recommended alternative and asked for feedback on the other options presented. The following is summary of the discussion.

Recommended Alternative

The following is a summary of the discussion of the recommended alternative.

- An attendee noted they were unaware that the Department didn't have full control over its pension costs.
- A member of the ARSG inquired what happens when there is a significant under/over performance in the year you are reconciling? How does that work?
  - They cited this could be a challenge if there is a different number used for "base level" pension expenses every year, which would make calculations and reconciliation confusing and potentially volatile.
  - The Team noted that the alternatives were conceptual, and examples would need to be developed. Further, the rider would work both ways and customers would receive a credit in the event that actual pension costs were lower than expected.
- An attendee commented that they liked the simplicity of just reconciling the amount over or under amount. Noting that they weren't sure if taking on a more complex calculation approach would be worth it between proceedings.
  - The ARSG was asked if the over/under approach is a better option than the "all-in" approach?
  - The attendee said they were not sure but liked the simplicity of the over/under option at a conceptual level.
  - Another ARSG member felt the over/under seems to make more sense because the base level could be set during a full rate proceeding and in theory this expense would be vetted prior to inclusion in the rates. Their concern with the "all-in" approach is that it divorces the expense from the rate case process. The over/under is preferable because it will allocate the bulk of the money equitably through the rate case process.
- An attendee asked if there could be a threshold that could be utilized? And suggested that perhaps the rider didn't kick in unless there was a certain level of variance (e.g. 2 percent).
  - The Team noted that the original TAP Rider approach included a threshold, and this is something that could be explored for a Pension Rider as well.
- An ARSG member asked if the main advantage of the proposal was increased cash flow and adjusting more quickly in potential spikes [in costs] from the pension fund.
  - The Team noted that the rider approach wouldn't be aimed at increasing cash flow, rather it is intended to help avoid the diversion of funds from other necessary activities, such as capital improvements or required operation and maintenance.
  - An attendee felt that from the user perspective, costs are less predictable under a rider approach. The cost of service issue is a concern since the rider may not allocate costs in the most equitable way (versus what can be achieved during a full rate proceeding).
  - Another attendee felt that it could lead to single issue rate making.

- An attendee posed the question: "what would prevent the City from using this as a fast-acting mechanism for cost allocation?" Couldn't the City conceivably push more pension costs to the Department (knowing the Department could utilize the Rider to recover costs).
    - The Team responded that there isn't necessarily something that could prevent this from occurring. However, the Team and the Department were assuming good intent. The Team also reiterated that the Pension Fund is governed by the Pension Board and there are policies, accounting measures and ordinances that help to oversee pension activities.
- Several committee members felt that they would need more background information on the Pension Board, the pension plan, funding requirements, and how allocations are determined for each Department. Noting that this was a big gap in information, they felt needed to be addressed, in order to evaluate the various alternatives.
- The ARSG asked if the Department considered talking to the City to see if their contribution could be more predictable or known earlier. They further inquired if the Pension Board has a lot of discretion in how it determines allocations and if their process was codified.
    - The Team noted that the MMO contribution may not allow for much discretion when it comes to the minimum contributions that need to be made each year. The MMO is also based upon the available data included the past years performance. This helps the Pension Board make informed decisions about contributions.

Other Alternatives

The ARSG was asked for their feedback on the other alternative approaches, if they had other suggestions or any general comments on the pension rider concept.

- An ARSG members commented that it might be helpful to align rate cases with the budgeting and planning process so that there is less of a lag when the Cost of Service analysis is developed.
    - The Team noted that the base rate case process has been pushed back to allow for the budgeting and five-year plan updates. The financial year begins on July 1st; however, rates do not go into effect until September 1st.
    - An attendee felt that the Department should serve as an intermediary with the Pension Board and City to help control costs and advocate on behalf of the rate payers.
- Another attendee felt this isn't necessarily something you want to plan into a complicated recurring issue, especially with rate cases every 2 years. They wondered if it was worth pulling out pension costs as an issue at this time noting it may not be worth the level of effort for small variances.
    - The ARSG member was asked "What's the benefit of delaying catching up on cost recovery?"
    - It doesn't necessarily mean that rates would have to catch up.
    - Rate proceedings offer a more holistic approach to cost recovery when everything is reviewed at the same time.
    - The ARSG was further asked "If the Department is only doing a rate case every 5 years, would the proposal be more favorable to you?"
        - The attendee noted they would have stronger objections to longer rate periods, noting that when the Department established rates every 4 years, it has led to more of an accumulation of reserves.

    - It was noted that with longer rate periods a rider would help avoid accumulations due to over estimating expenses.
    - The attendee would be interested in seeing more data about how the scenarios might play out.
- Another ARSG member noted that other alternatives seemed like a pass-through and inquired "on average, wouldn't this *[costs versus revenues]* balance out over time or is it just the concern that costs will just keep increasing?"
  - The Team noted that this is a particularly volatile and large expense that could have more pronounced impacts on reserves. There is a risk of continuing to deplete reserves year after year for this cost which might impact funding available for other needs such as necessary system repairs.
  - The Team also mentioned that pass-through mechanisms are becoming more common as utilities can be more transparent about the elements of their service that are not fully in control of.
  - The attendee felt the biggest risk associated with a pension rider was the same as the justification, noting that a pass-through approach absolves the utility of the responsibility for the utility to be more creative about how they can mitigate the cost impacts.
  - The Team noted that Philadelphia is in a good position to come up with a reasonable solution that doesn't defer attention from the issue.
- An attendee asked if there would be an isolated item on the customer's bill for something like this (i.e. pension rider surcharge).
  - A pension rider surcharge could be handled similar to the TAP-R surcharge and included in other expenses. For TAP-R the surcharge is included in the overall water and sewer quantity charges, and not a separate line item on customer bills.
  - A line item charge would require changes to customer bills and have billing system implications. These would have to be evaluated. It was noted that a simple approach may be the best option to help calculate the impacts and explain to stakeholders.

Appendix A – Meeting Invitees

Organization	Contact Name
Department of Commerce	Libby Peters
Friends of Wissahickon	Maura McCarthy
Managing Directors Office	Liz Lankenau
National Resources Defense Council	Larry Levine
PECO/Exelon	Anthony Holtzman Alfred Ryan Daniel P. Delaney (K&L Gates)
PennEnvironment	Stephanie Wein, Clean Water Advocate David Masur, Executive Director
PennFuture	Alice Baker, Staff Attorney
Pennsylvania Horticultural Society	Glen Abrams
Philadelphia Building Industry Association	Cornelius Brown
Philadelphia Land Bank	Steve Cusano (Senior Counsel, City of Philadelphia)
Philadelphia Large Users Group (PLUG)	Alessandra Hylander
PIDC	Tom Dalfo
Public Advocate	Robert Ballenger / Community Legal Services
Rate Board Consultant (Amawalk)	Ed Markus
Sustainable Business Network	Anna Shipp