

BEFORE THE
PHILADELPHIA WATER, SEWER AND STORMWATER RATE BOARD

Re Application of the Philadelphia Water Department for Increased Rates and Related Charges	Fiscal Years 2017-2018
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DIRECT TESTIMONY OF JAMES PALLADINO

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is James Palladino. My business address is 1101 Market Street, Fifth Floor, Philadelphia, Pennsylvania.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am engaged by the Engineering firm of Black & Veatch as a contractor providing professional services to the Philadelphia Water Department (“Department”).

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I have a Bachelor’s Degree in Economics from LaSalle University. I have also completed two years of graduate study in Economics and Quantitative Methods at the Pennsylvania State University. See attached resume (Exhibit JP-1) for a more detailed description of my educational background and work experience.

Q. PLEASE DESCRIBE YOUR RELEVANT WORK EXPERIENCE WITH THE DEPARTMENT.

A. I was employed by the Philadelphia Water Department in its Finance Division from 1974 to 2011. I was responsible for studies of water and wastewater usage, revenues, billings, and cost of service as they relate to rates for the Water and Wastewater utilities. I also had responsibility for the negotiation and administration of wholesale water and wastewater contracts with the Department’s suburban customers. I retired from the Department in 2011 and have engaged in an independent consulting practice. Currently, I am working as a contractor for Black & Veatch, providing professional services to the Department.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide (i) an overview of proposed changes in the Department’s regulations on rates and charges for retail service; (ii) a comparison of PWD retail rates and charges with those of other large urban water and wastewater utilities; and (iii) an overview of wholesale service contracts.

Retail Service

Q. WOULD YOU GENERALLY DESCRIBE THE PROPOSED CHANGES IN REGULATIONS?

- A.** The Proposed General Service Water, Sewer and Stormwater Regulations set forth the proposed increases in basic water, sewer (wastewater), and stormwater rates. If the proposed regulations are approved and implemented, a typical residential customer's monthly bill will increase by 6.20% in FY 2017 and 5.50% in FY 2018 over current rates. For purposes of this testimony, a typical residential customer is assumed to use, on average 600 cubic feet of water (4,488 gallons) monthly.

The proposed General Service Water, Sewer and Stormwater regulations continue the existing policy of extending a 25% discount to income eligible senior citizens, and other groups including religious institutions, schools, charities, hospitals, colleges, etc.

Under the proposed rates beginning on 7/1/2016, charges for biochemical oxygen demand, "BOD" are proposed to be \$ 0.354 per pound for wastewater strength exceeding 250 mg/liter. Also, charges for suspended solids, "SS" are proposed to be \$ 0.377 per pound for wastewater strength exceeding 350 mg/liter.

Comparison With Other Large Urban Utilities

Q. HOW DO DEPARTMENT WATER, SANITARY SEWER AND STORMWATER CHARGES COMPARE WITH THOSE OF OTHER LARGE URBAN WATER AND WASTEWATER UTILITIES?

- A.** The Department's rates compare favorably with other large urban water and wastewater utilities, as illustrated by Exhibit JP-2 which is based upon published rates, as of August 1, 2015.

Based upon proposed changes in retail rates (i.e., annual increases of 6.20% in FY 2017 and 5.50% in FY 2018 typical residential customer), PWD will continue to compare favorably with comparable large urban utilities.

Wholesale Service

Q. PLEASE IDENTIFY THE SUBURBAN GOVERNMENTAL UNITS FOR WHICH THE DEPARTMENT PROVIDES WHOLESALE WASTEWATER AND/OR WATER SERVICES ON A CONTRACTUAL BASIS?

- A.** The Department provides wholesale wastewater service to the following suburban townships and authorities:

Abington Township	Bensalem Township
Bucks County Water & Sewer Authority	Cheltenham Township
Delaware County Regional Water Quality Control Authority (DELCORA)	
Lower Merion Township	
Lower Moreland Township	Lower Southampton Township
Springfield Township	Upper Darby Township

The Department also provides wholesale water contract service to Aqua Pennsylvania. The table below presents revenues associated with wholesale water and wastewater contracts as of June 30, 2015.

**Wholesale Water and Wastewater Customer Revenues
Fiscal Year Ending June 30, 2015**

	<u>O&M</u>	<u>Capital</u>	<u>Total</u>	<u>Original Contract Start Date</u>	<u>Contract End Date</u>
<u>Wastewater</u>					
Delcora ¹	\$7,886,945	-	\$7,886,945	03/04/1974	04/1/2028
Bucks County Water & Sewer Authority (BCWSA)	7,944,534	\$185,000	8,129,534	02/08/1971	3/31/2038
Upper Darby Township	2,741,827	146,910	2,888,737	01/10/1957	8/08/2023
Lower Southampton Township	1,750,223	1,357,000	3,107,223	02/18/1957	6/30/2024
Cheltenham Township	2,110,092	1,219,000	3,329,092	11/20/1923	6/30/2025
Lower Merion Township	2,359,309	173,996	2,533,305	09/02/1903	N/A
Springfield Township Erdenheim	1,111,964	609,000	1,720,964	08/05/1931	6/30/2023
Springfield Township Wyndmoor	145,047	138,000	283,945	08/05/1931	6/30/2023
BCWSA (for Bensalem) ³	1,502,552	97,421	1,599,973	01/03/1955	6/30/2023
Abington Township	1,002,854	503,000	1,505,854	12/09/1958	6/30/2023
Lower Moreland Township	475,457	286,000	761,457	06/12/1967	6/30/2025
Other Municipal Revenue	-	-	-	-	-
Total	<u>29,031,702</u>	<u>4,715,327</u>	<u>33,747,029</u>	-	-
<u>Water</u>					
Aqua Pennsylvania, Inc.	<u>2,662,329</u>	<u>1,088,000</u>	<u>3,750,329</u>	06/29/2000	3/01/2026
Total	<u>\$ 2,662,329</u>	<u>\$1,088,000</u>	<u>\$3,750,329</u>	-	-
Total Wholesale Revenues	<u>\$31,694,030</u>	<u>\$5,803,327</u>	<u>\$37,497,357</u>	-	-

Note: All customers other than Bensalem, Lower Merion, and Upper Darby have capital charges included in their operation and maintenance billings.

¹Delcora allocated Capital based on assets in service after 7/4/11.

²The total amount of LTCP expenditures covered by the Springfield-Wyndmoor contract is reflected in the Springfield in the Erdenheim amount.

³Bucks County Water and Sewer Authority maintains and operates the Bensalem Township Sewer System.

Q. DO THE DEPARTMENT'S CURRENT CONTRACTS FOR WHOLESALE SERVICE PROVIDE FOR THE RECOVERY OF FULL COST OF SERVICE FROM SUBURBAN TOWNSHIP CUSTOMERS?

A. Yes. Wholesale service is provided to suburban townships and authorities pursuant to agreements negotiated with each customer which are wholly based upon recovering the costs of serving these customers. Each agreement provides for return on investment, depreciation or alternatively, charges for appropriate shares of capital costs. Also, provided in each agreement, is an allocation of investment in plant providing service to a given wholesale service customer based upon the relationship of individual contract flows to the capacity of the facilities utilized. Only costs associated with facilities used directly by a wholesale customer are allocated to that customer. Each contract provides for a management charge (e.g., 10-12% of contract revenues).

Q. PLEASE DESCRIBE ANY SIGNIFICANT LOSSES IN REVENUE RELATED TO WHOLESALE WASTEWATER AND/OR WATER SERVICE.

A. As of June 30, 2014, wholesale water service to the Bucks County Water and Sewer Authority was terminated at the end of the negotiated contract term. The loss of revenues associated with that contract (approximately \$7.9 million annually) is reflected in the revenue requirement in this rate proceeding.

Q. PLEASE IDENTIFY THE CONTRACTS FOR WHOLESALE WATER AND WASTEWATER SERVICE THAT HAVE BEEN RENEGOTIATED SINCE THE LAST RATE PROCEEDING?

A. The contract with Delcora was revised on 4/1/2013 to include Long Term Control Plan (LTCP) cost sharing at 9.442971% and includes a 12% management charge. Its term runs through 4/1/2028.

The contract with Cheltenham Township was amended on 3/19/2014 to include LTCP cost sharing at 2.4228005% and includes a 12% management charge. Its term runs through 6/30/2025.

Springfield Township's contract was revised on 2/24/2014 to include LTCP cost sharing at 0.7932 % and includes a 12% management charge. Its term runs through 6/30/2023.

Abington Township's contract was revised on 10/9/2014 to include LTCP cost sharing at 0.582436 % and includes a 12% management charge. Its term runs through 6/30/2023.

The contract with Lower Moreland was revised on 5/18/2015 to include LTCP cost sharing at 0.358829084 % and includes a 12% management charge. Its term runs through 6/30/2025.

Lower Southampton has verbally agreed to amend its contract to include LTCP cost sharing at 0.9641171%. Its contract includes a 12% management charge.

Upper Darby has been notified that the Department will initiate billing for LTCP costs later in FY 2016 at 2.13640%. Its management fee is 10% and the contract will terminate on 8/8/2023. The township has indicated its willingness to discuss LTCP cost sharing with the Department.

Q. ARE WHOLESALE CUSTOMER RATES BEING REVISED IN PARALLEL WITH THIS RATE PROCEEDING?

A. Yes. The Department will initiate a two stage rate increase for wholesale customers in parallel with the proposed rate increase for retail customers, which will become effective in FY 2017

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

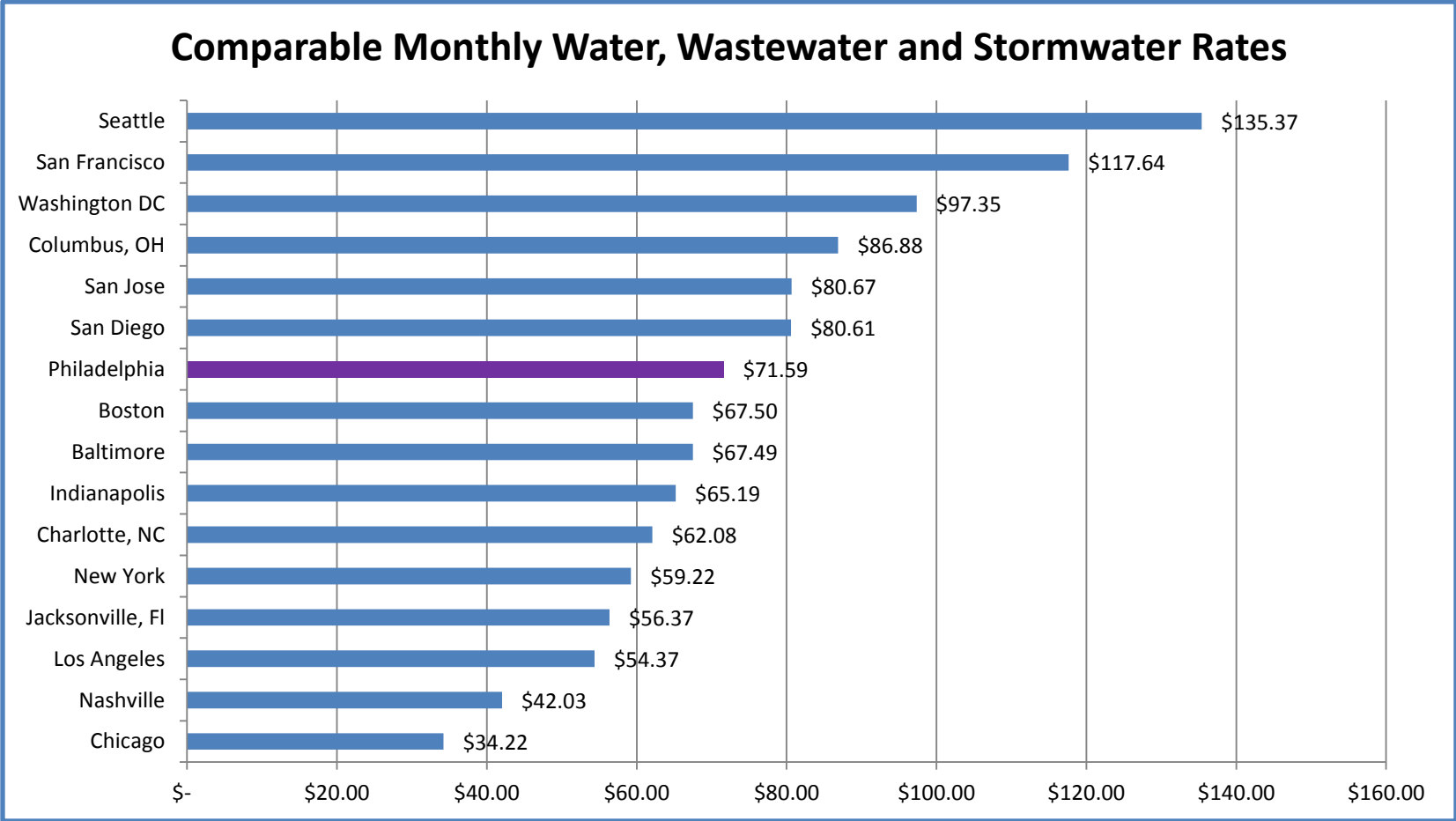
A. Yes, it does.

Exhibit JP-1

Resume of James Palladino

- Education**
- La Salle University** Philadelphia, PA
Bachelor of Arts, Economics June 1967
- Pennsylvania State University** University Park, PA
Ph.D. Program in Economics/Quantitative Analysis 1967-1969
- Experience**
- Philadelphia Water Department (PWD)** Philadelphia, PA
Consultant April 2012 to present
- Develops proposed contracts to municipal customers and negotiates acceptance of contracts with Township Managers, Finance Officials, Solicitors
 - Interacts with senior management of the Department, including Deputy Commissioners, Attorneys of City Solicitor's Office, Consultants to PWD
 - Reviews rate studies, testimony of PWD staff, rate regulations
- Philadelphia Water Department** Philadelphia, PA
Senior Rates Manager June 1974 to January 2011
- Responsible for studies of water and wastewater usage, revenues, billings as related to the development of retail and wholesale rates
 - Directs rate filing presentation in formal rate hearings
 - Responsible for overall management of contractual relationships with PWD's ten wholesale municipal water and wastewater customers, including drafting and negotiating contracts with township managers, solicitors and finance officials
- Rider University** Lawrenceville, NJ
Instructor of Quantitative Methods/Statistics 1968-1974
- Taught undergraduate courses in Quantitative Methods and Statistics
- Pennsylvania State University – Capitol Campus** Middletown, PA
Instructor of Quantitative Analysis/Statistics 1967-1968
- Taught undergraduate courses in Quantitative Methods and Statistics
- Pennsylvania State University – Abington Campus** Abington, PA
Instructor of Quantitative Analysis/Statistics 1974-1982
- Taught undergraduate courses in Quantitative Methods and Statistics on a part time basis in the evening school
- Honors**
- National Defense Education Act Fellowship for graduate study at Pennsylvania State University
1967-69
- Activities**
- Volunteer arbitrator for Better Business Bureau of Eastern Pennsylvania 1984-2001
 - Book reviewer for CHOICE, a publication of the American Library Association
1969-1982

Exhibit JP-2



Source: Rates based on published water, sewer, and stormwater rate schedules available online as of 8/1/15 and assumes 6 CCF or 4,488 gallons of billed water and sewer discharges

- Note: Rate increases were approved for 2016 for the following cities: Seattle, San Francisco, New Orleans, and San Antonio.
- ** City of Louisville rates reflect sewer and stormwater charges billed by the Louisville and Jefferson County Metropolitan Sewer District and water rates billed by the Louisville Water Company
- *** City of St. Louis rates reflect sewer rates billed by the Metropolitan St. Louis Sewer District and water rates billed by the City of St. Louis
- **** Effective June 2016, Chicago will raise rates whenever the CPI raises.
- + Philadelphia: Proposed rate for 7/1/16 was used