

Philadelphia Water Department Presentation Rate Board Hearing
February 22, 2016

CITY OF PHILADELPHIA
PHILADELPHIA WATER DEPARTMENT PRESENTATION
RATE BOARD HEARING
Monday, February 22, 2016
MINUTES of FORMAL HEARING

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LOCATION: 1515 Arch Street, 18th Floor
Philadelphia, Pennsylvania

REPORTED BY: ANGELA M. KING, RPR
Registered Professional Reporter

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HELD BEFORE:

NANCY BROCKWAY - HEARING OFFICER
BERNARD BRUNWASSER - CHAIR
FOLASADE A. OLANIPEKUN-LEWIS, BOARD MEMBER
SONNY POPOWSKY, BOARD MEMBER
MICHAEL CHAPMAN, BOARD MEMBER
LEE HUANG, BOARD MEMBER

1 Customers and the Large Department Service
2 Territory.

3 MS. OLANIPEKUN-LEWIS: I'm Folasade
4 Olanipekun-Lewis, Board Member.

5 MR. POPOWSKY: I'm Sonny Popowsky. I'm
6 a Member of the Board.

7 MR. CHAPMAN: Michael Chapman.

8 MR. BRUNWASSER: Bernie Brunwasser,
9 Member of the Board, former Water Commission.

10 HEARING OFFICER BROCKWAY: Chairman of
11 the Board.

12 MR. BRUNWASSER: Chairman.

13 MR. HUANG: Lee Huang, Econsult
14 Solutions.

15 MS. PICKENS: Good morning, everyone.
16 I'm Josie Pickens. I'm an attorney with
17 Community Legal Services here on behalf of the
18 Public Advocate.

19 MR. GOULD: George Gould, also Community
20 Legal Services, Public Advocate.

21 MS. TRAN: Good morning. Thu Tran, CLS,
22 the Public Advocate.

23 MR. BALLENGER: Good morning. Robert
24 Ballenger, CLS for the Public Advocate.

1 MS. KUMAR: I'm Prabha Kumar from Black
2 & Veatch.

3 MR. JAGT: Dave Jagt with Black and
4 Veatch.

5 MS. McCARTY: Debra McCarty, Water
6 Commissioner.

7 MS. BUI: Ann Bui, Black & Veatch.

8 MR. DASENT: Andre Dasent, outside
9 counsel Philadelphia Water Department.

10 MS. ALLEN: Valarie Allen from Ballard
11 Spahr.

12 HEARING OFFICER BROCKWAY: Can everybody
13 speak up a little bit?

14 MR. HARVEY: Mark Harvey, Director of
15 Operations for the Revenue Bureau.

16 MS. BETHEL: Michelle Bethel, Deputy
17 Revenue Commissioner for the Water Revenue.

18 MS. CROSBY: Susan Crosby, Law
19 Department, counsel to the Water Revenue
20 Department.

21 MS. LABUDA: Melissa LaBuda, Deputy
22 Water Commissioner.

23 MR. SCHWARZ: Scott Schwarz, Law
24 Department. Counsel for the Water Department.

1 MS. DAHME: I'm Joanne Dahme, Public
2 Affairs Manager, Water.

3 (Dan from PECO/Exelon also present. Couldn't
4 hear full name.)

5 MS. CLUPPER: Kathy Clupper, Public
6 Financial Management.

7 HEARING OFFICER BROCKWAY: I think it
8 would be helpful for people who are going to
9 talk, even ask questions, would give their
10 business card or write out that information for
11 our court reporter.

12 Anybody else want to --

13 MR. HELBING: Mike Helbing. I represent
14 PennFuture.

15 MR. DAVIS: Jon Davis with Raftelis
16 Financial Consultants working with the Water
17 Department.

18 MS. LOCKLEAR: Henrietta Locklear, also
19 with Raftelis.

20 MR. KREPS: Bart Kreps with Raftelis.

21 MR. MARKUS: Ed Markus, Amawalk
22 Consultant.

23 MR. PALLADIN: James Palladin.

24 HEARING OFFICER BROCKWAY: Anybody else?

1 You don't have to.

2 (No further introductions made.)

3 HEARING OFFICER BROCKWAY: Thank you.

4 The Water Rate Board Ordinance provides
5 for this day to consist of an opportunity for the
6 Department to present its case in general terms
7 and to respond to questions. The way we are
8 going to do this is we're going to let the
9 Department start off. I have already told
10 Mr. Dasent that the Board is going to be -- feel
11 free and do feel free to say wait, please, can
12 you go over that again or here is this question I
13 have related to that. So what might have been an
14 hour or so of the presentation is going to go on
15 somewhat longer. But my own view is that if you
16 try remember what your question was from 45
17 minutes ago, you have forgotten it.

18 So, we will try that and see how it
19 goes, but the Board should feel free. This is --
20 at this point which is the presentation by the
21 Department and the chance for the Board to ask
22 questions. We are going to have a break in the
23 morning. We're going to have a lunch break and a
24 break in the afternoon. If anybody needs any

1 other consideration, please let me know.

2 So I think we are ready. Without
3 further ado, Mr. Dasent, would you present your
4 Department.

5 MR. DASENT: Thank you, Madam Hearing
6 Officer. We have a PowerPoint presentation here
7 today. It we will lead with Commissioner
8 McCarty. We will present various segments of our
9 presentation by different members of our team.

10 HEARING OFFICER BROCKWAY: You should
11 talk directly to the Board.

12 MR. DASENT: As a consequence -- I'm
13 sorry.

14 HEARING OFFICER BROCKWAY: That's okay.
15 Pay no attention to the Hearing Officer.

16 (Laughter)

17 MR. DASENT: Just so you're aware, we
18 have various participants on the panel. We will
19 at various sections switch the panel so that in
20 our limited seating arrangement, we might make
21 the best presentation for you.

22 Debra McCarty will start our
23 conversation today with a slide concerning our
24 mission.

1 HEARING OFFICER BROCKWAY: Do we need to
2 turn down the lights?

3 MR. BALLENGER: Let me see if I can
4 figure that out.

5 HEARING OFFICER BROCKWAY: Rob is our
6 technical consultant.

7 (Lights dimmed as presentation begins.)

8 MS. McCARTY: Good morning. Again, my
9 name is Debra McCarty. And want to tell you a
10 little bit about the Department.

11 So stepping right in, who we are, going
12 over our mission, core services, regulatory
13 requirements. And am I supposed to be switching
14 this? Sorry.

15 (Referring to slides)

16 Cost of service, some of the building
17 blocks for the rate setting, overview of our rate
18 concepts. Study results, some of our key
19 assumptions, objectives, cost of service results,
20 and then the proposed rates and the bills. And
21 then our proposed rates, so the impact on the
22 bills, rate comparison, customer assistance.

23 So who are we?

24 We provide the City with integrated

1 water and wastewater services. We are the
2 City's -- one of the City's ten operating
3 departments. And we serve under a dedicated
4 water fund established pursuant to the City
5 Charter. We operate, maintain, repair and
6 improve the water and wastewater systems
7 throughout the City. We are fully funded by our
8 customers, again, as per charter and not any
9 taxes. Our rates are fixed by a Rate Board, you
10 all. As you know, we are funded by the Mayor and
11 City Council.

12 So what does Philadelphia Water do?

13 As I mentioned, we are integrated water,
14 stormwater and wastewater system. And we treat
15 and deliver, collect and treat. And there is
16 some storage and management throughout the City.

17 So who do we serve?

18 Predominantly, the City of Philadelphia.
19 Then we do have some wholesale customers outside
20 of the City. The drinking water, our retail is
21 1.6 million people, and then we have one
22 wholesale customer.

23 HEARING OFFICER BROCKWAY: May I --
24 sorry to interrupt. When you say people, I

1 always get confused. Do you mean meters or
2 individual customers with bills?

3 MS. McCARTY: People

4 MR. BRUNWASSER: Population.

5 MS. McCARTY: The total population of
6 Philadelphia is about 1.6 million people.

7 HEARING OFFICER BROCKWAY: Okay. Thank
8 you.

9 MS. McCARTY: It's people.

10 HEARING OFFICER BROCKWAY: Thank you.

11 MS. McCARTY: Wastewater, again, it's
12 1.6 million people. But we also have ten
13 wholesale customers.

14 So the drinking water, 58 percent of the
15 water comes from the Delaware River; and the
16 balance, 42 percent, is supplied by the
17 Schuylkill River. We have about 3,000 miles of
18 water mains, a lot of pumping stations, valves,
19 25,000 fire hydrants. And we have three large
20 drinking water plants. You can see them on the
21 map there. Some of our larger facilities,
22 pumping stations, storage is also by the dots.

23 So we supply in Fiscal 15, 236 million
24 gallons per day to our customers. The wastewater

1 side, we have 3,700 miles of sewers that deliver
2 the wastewater to our treatment plants. We also
3 have a centralized biosolids recycling center
4 also known as Sludge. And we have three large
5 wastewater treatment plants. Again, they are on
6 this map. You can see the drainage sheds for
7 those facilities. The average daily wastewater
8 treated was 397 million gallons per day in Fiscal
9 15.

10 We do have award winning facilities
11 drinking water. We are very proud of the fact
12 that we have 15 Year Directors Award for the
13 Partnership for Safe Water. We have received the
14 Governor's Award for Environmental Excellence.
15 And our drinking water quality which is why --
16 one of our -- top notch. We need or do better
17 than the Safe Drinking Water Act requires us to
18 do.

19 On the wastewater side, again, we are
20 award winning. And we have received the NACWA,
21 National Association for Clean Water Agencies
22 peak performance awards. Two of our facilities
23 we received platinum awards, meaning that five
24 years or greater they've achieved 100 percent

1 compliance with their discharge permits. The
2 Gold Award is 100 percent compliance. And
3 actually, this coming year for 2015 we will be
4 receiving five platinum awards. So, each
5 facility will receive a platinum award. We are
6 very proud of that. Of course, we comply with
7 local and state and federal standards. So, that
8 we believe is a big achievement.

9 Regulatory compliance, we are subject to
10 the Clean Water Act and have a consent Water
11 Agreement for our combined overflows, the Clean
12 Water Air Act and the Safe Drinking Water Act.
13 And we can't do that without skilled workforce,
14 advanced technologies and effective programs and
15 financial plans.

16 And I will turn it over to --

17 MS. BUI: Thank you. Good morning,
18 Members of the Board, visitors going through.
19 What I would like to do --

20 HEARING OFFICER BROCKWAY: Excuse me,
21 I'm sorry. For those of us who are not familiar,
22 could you repeat your names before you start?

23 MS. BUI: Sure. My name is Ann Bui,
24 that's B-u-i. I am the Managing Director for the

1 Water Industry. We are the rate consultants for
2 the Department. What we have always found, as
3 you can tell from Debra's presentation, is that
4 the Department manages a very, very complex
5 systems, both the water and wastewater. What I
6 am going to present now is an overview of how we
7 use that information to conduct a cost of
8 service.

9 If we can go to the next slide, basic
10 building blocks of when you conduct such a study
11 consist of three elements. We want to start from
12 the bottom and move our ways up to the top. The
13 first part is essentially financial planning.
14 That's where we take a look at our revenue
15 requirements. So, that composes -- consists of
16 your operating costs, your capital costs, your
17 reserve costs. In addition to, on the other side
18 as you've got expenses, is our rate revenues.
19 Where does our revenue come from and
20 miscellaneous revenues.

21 I like to think of that bottom element
22 kind of like balancing your budget at home. I
23 have income coming in. I have expenses going
24 out. We have got to balance that. That's the

1 purpose of that bottom element.

2 HEARING OFFICER BROCKWAY: May I
3 interrupt you again? I'm sorry. This an issue
4 that may come up. I'm not shy about
5 interrupting.

6 MS. BUI: Yes.

7 HEARING OFFICER BROCKWAY: Can you
8 explain to us the financial planning arrangement?

9 I see that here, who drafts the plan?
10 Who looks at the plan? What is the effect of the
11 plan?

12 MS. BUI: Yeah. What ends up happening
13 is that we sit down with everybody. And what you
14 are looking at are all the expenses that
15 utilities has to look at.

16 HEARING OFFICER BROCKWAY: I'm not
17 actually asking that question.

18 MS. BUI: For Philadelphia it would be
19 the Finance Department.

20 HEARING OFFICER BROCKWAY: I'm sorry to
21 interrupt, but I'm not being very clear about my
22 question. The finance plans lays out a plan.

23 MS. BUI: Correct.

24 HEARING OFFICER BROCKWAY: Who approves

1 that in the City, if anybody? And what effect
2 does it have on the obligations of the
3 Department?

4 MS. BUI: That I will refer to --

5 MS. LABUDA: What it is --

6 HEARING OFFICER BROCKWAY: Sorry, we
7 can't hear you.

8 MS. LABUDA: Melissa LaBuda, I'm with
9 the City of Philadelphia. So, it depends which
10 plan you are speaking to. As you know, most of
11 our assumptions came from the City of
12 Philadelphia's -- City of Philadelphia's Five
13 Year Plan which we submit to PICA, which is a
14 state-approved plan. That was the basis of many
15 of our assumptions.

16 From there, we then had to look at what
17 additional items or expenses might not be
18 captured in that plan. Which would be debt
19 service, what is our borrowing plans, how much do
20 we have to borrow to fund our infrastructure,
21 regulatory requirements and any additional hiring
22 that we might have to do.

23 HEARING OFFICER BROCKWAY: May I inquire
24 on the debt service? I'm trying to get a -- I

1 have a vague picture of various components, but
2 I'm trying to get it all clear in my mind.

3 So to get an estimate for debt service,
4 you not only take care -- you not only look at
5 what bonds and the other encumbrances you have
6 outstanding, but you project the capital
7 requirements?

8 MS. LABUDA: Well, I'm not sure. When I
9 speak to debt service, I don't speak of an
10 encumbrance. I speak of actual, physically
11 issued debt, actually that 1.9 million of debt
12 outstanding predominantly issued under our water
13 and wastewater bond ordinance.

14 Then you add to that PENNVEST. That's
15 our actual debt service to date. Then from there
16 you are going to add projected debt service,
17 which is additional borrowing we would need to
18 fund renewal and replacement and ongoing
19 improvements to the system, the water and
20 wastewater system.

21 HEARING OFFICER BROCKWAY: So, you would
22 do that kind of planning of capital investment
23 and use the results of that to inform the amount
24 of debt service you are going to have to make?

1 MS. LABUDA: Correct. In the financial
2 planning, the various tables in the proceeding
3 you will see existing debt service, which is from
4 our currently outstanding 1.9 million of debt
5 plus projected issuance over the planning period.

6 HEARING OFFICER BROCKWAY: And for
7 that -- for the things that drive the costs of
8 those, that debt service and projected debt
9 service, do you have a plan or a budget for those
10 items? And if you do, does anybody approve it
11 besides -- within the Department?

12 MS. LABUDA: So, of course there is a
13 capital plan which our chief engineer in the room
14 Steve Bertoc, which is submitted every year and
15 is approved and is presented to City Council,
16 approved by City Council. So yes, it is approved
17 outside of the Department.

18 HEARING OFFICER BROCKWAY: In other
19 words, by outside do you mean the City Council
20 approves it?

21 MS. LABUDA: Correct.

22 MR. BRUNWASSER: Also, the City Planning
23 Commission.

24 HEARING OFFICER BROCKWAY: Are you bound

1 by that? In other words, this is your plan and
2 you've got to stick to it?

3 MS. LABUDA: There is probably
4 incredible risks if we don't do what we said we'd
5 do to repair our infrastructure or renew our
6 infrastructure. It is a plan that is based on
7 engineering studies and needs of the system. So,
8 I would think there would be risks to the system
9 if we don't improve and renew the system, of
10 course.

11 HEARING OFFICER BROCKWAY: Thank you
12 very much.

13 MR. BALLENGER: Madam Hearing Officer, I
14 just heard from folks on the phone that they're
15 having really hard time hearing? Are these
16 microphones decorative or --

17 MS. LABUDA: This is my mistake. If
18 everyone -- while there is a green button, you
19 actually have to hit to be heard. Again, I'm
20 sorry about that.

21 MR. BALLENGER: Going forward it -- it
22 would be helpful. I know we have three or four
23 people on the phone with us today.

24 MS. LABUDA: I think the other part of

1 the financial plan, we touched on expenses
2 predominantly driven by PICA, the City's Five
3 Year Plan. We have talked about debt service.
4 Of course, the other part of the plan is, you
5 know, how are we going to use our reserves? And
6 if you look at the proceeding, you will see that
7 we are using reserves to bridge FY16 without a
8 rate increase and to mitigate rate increases in
9 '17 and '18.

10 Also, the other part of it is the
11 expense projection, revenue projection, debt
12 services projection and also how we are utilizing
13 current reserves to limit the impact in '17 and
14 '18 and, of course, the fact that we didn't have
15 a rate increase in '16.

16 HEARING OFFICER BROCKWAY: Thank you. I
17 apologize for the interruption. We probably will
18 come back to that topic later.

19 MS. LABUDA: I'm happy to answer
20 questions.

21 MS. BUI: So after we established our
22 revenue requirements, what we want to do is take
23 a look at cost of service, which is the second
24 element. Oftentimes, the way I look at that is

1 what does it cost to provide service to our
2 different customers? That's the way we want to
3 take a look at it whether they are wholesale or
4 retail. And we typically look at testers. We
5 are going to go into more detail for that later
6 on.

7 But simply put, if you want to take a
8 look at one year at a time to determine what does
9 your cost of service look like. How are your
10 costs that are incurred by the Department
11 allocated out, okay? From there we go into rate
12 design. And that is, as you all know, is how
13 exactly are we going to recover those costs from
14 our customers. You know, what mechanism are we
15 going to use? And that simply put is the rate
16 setting process.

17 It is something of an industry standard
18 that we use going forward. Let's talk a little
19 bit about what those industry standards are. Our
20 guidance documents out there which pretty much
21 every rate consultant follows. The American
22 Water Association, that is the predominant one.
23 It's called the M1 Manual. You will hear that
24 many, many a time. Then on the wastewater side,

1 we have the Water Environmental Federation, WEF.
2 They also have a guideline for that. And then
3 finally, there is new one that's out with respect
4 to guidelines on stormwater and how you want to
5 allocate those costs and design rates and some of
6 those rates and policies. Those are some of the
7 predominant standards we use within the industry.

8 Our next slide here goes a little bit
9 more into financial planning, which I'm not sure
10 exactly that we need to spend a lot of time on
11 because we answered some of those questions.
12 Fundamentally, anybody doing a cost of service
13 study, when we take a look at financial planning,
14 what you are trying to do here is based upon
15 reasonable assumptions, take a year, look at a
16 multi-year plan, okay?

17 So, you want to build financial
18 solvency. You need financial stability.
19 Everybody I think would agree with that. Even
20 personally financial stability will be great. We
21 need to be able to provide the bond capacity.
22 You have a very, very large system here. It's
23 very complex. It needs to be worked upon. There
24 needs to be investments made to make sure it's

1 going to renewal as well as additional capital
2 investment. In order to do that, we need to take
3 a look at potentially issuing debt to meet that.

4 When you borrow money, as we all know,
5 there are requirements that are placed upon that.
6 Those are known as the bond and insurance
7 covenants. We have to meet those requirements.
8 That's not an if. We must meet those
9 requirements because it does affect the credit
10 rating of the City.

11 And then finally --

12 HEARING OFFICER BROCKWAY: May I
13 interrupt you here?

14 MS. BUI: Yes.

15 HEARING OFFICER BROCKWAY: Credit rating
16 of the City. In other words, the credit rating
17 of the Department has an impact on the credit
18 rating of the City?

19 MS. BUI: Yes.

20 MR. BRUNWASSER: And vice versa.

21 HEARING OFFICER BROCKWAY: Thank you.

22 MS. BUI: You're very welcome. And then
23 the other thing we want to take a look at is we
24 want to make sure that if we need to have revenue

1 adjustments, that we try to levelize those out.
2 And I think all of us can understand that. When
3 you're looking at your own bills at home, the
4 last thing you want are bills going up and down
5 in pricing. You want to be able to mitigate
6 that. That is really important for our
7 customers.

8 So having gone through that, let's take
9 a look at those particular elements in a little
10 bit more detail. What we have done for the
11 Department is a six-year studies period. And
12 this -- what this flow chart does is it shows
13 what the different elements are that we take a
14 look at, the operation and the maintenance
15 expense, the capital expenditures, our debt
16 service.

17 And from those three large elements, we
18 come up with what our total revenue requirements
19 are.

20 HEARING OFFICER BROCKWAY: What are the
21 six years we are looking at in this case?

22 MS. BUI: It starts from Fiscal 15, I
23 believe.

24 MR. JAGT: We have to project for FY15

1 because we don't have end-of-year data. We have
2 to go through 15/16 all the way through 20/21.

3 HEARING OFFICER BROCKWAY: Thank you.

4 MS. BUI: And the reason why we do that
5 for a number of variety of reasons, one of which
6 is you don't -- for utilities or for agencies for
7 companies, you want to take a look at what that
8 overall plan is so that you can make adjustments
9 also to make sure that if revenue adjustments are
10 needed, they are not going up and down. You can
11 levelize things. If you take a very short view,
12 it's very difficult then to make sure that you
13 can mitigate that impact to your customers.

14 Questions?

15 Okay. Very good.

16 MR. BALLENGER: I heard, Mr. Jagt say
17 that you --

18 HEARING OFFICER BROCKWAY: I'm sorry.
19 We are going to hold questions from anybody but
20 the Board.

21 MR. BALLENGER: Oh, I'm sorry. My
22 apologies.

23 MS. BUI: The requirements on -- we know
24 what we need from an expense side. Our total

1 Revenue Department side, right? We sort of know
2 what our revenues are already because we have
3 revenues under our current rate plus we have some
4 miscellaneous revenues that the Department can
5 generate. We know what our money is coming in
6 the door. That gives us year-by-year what our
7 financial planning is going to be.

8 Now on top of that, once you established
9 that, you still have to take into consideration
10 those other requirements that I mentioned before:
11 The general bond ordinance, the insurance
12 covenants, and the Rate Board requirements. So,
13 that's the final element going through.

14 Now, we always get this question. What
15 exactly is the cost of service?

16 Cost of service is what you are trying
17 to do here is take the total system revenue
18 requirements and allocate them to the users of
19 the system in proportion to how they -- the
20 services they receive, okay? That's a very
21 simple way of putting it, but it's a lot of work
22 that goes into that.

23 So, what kind of costs do you allocate?

24 Well, the costs or -- let me put it this way.

1 Why do we want to allocate those costs?

2 First off, different customers have
3 different characteristics. They use the system
4 in a different fashion. If you think about it, a
5 residential customer uses water and wastewater in
6 one way compared to a commercial customer or an
7 industrial customer. There is different usage
8 patterns there and characteristics, and that's
9 what we try to reflect. There needs to be a
10 reasonable nexus between the fee that you charge
11 and the cost or the service that's being
12 provided. It needs to make sense. It needs to
13 be fair.

14 We have to meet our regulatory
15 requirements. And when I say that, it's like,
16 for example, there are federal grants that the
17 Department has been very lucky to receive. But
18 there's also requirements on those grants that we
19 must comply with that, as well. Again, what you
20 try to do is establish fair and reasonable basis
21 so that you can defend your rates.

22 This particular graph or picture
23 illustrates how we go about allocating the costs
24 of developing the actual cost of service, okay?

1 We start with our revenue requirements and we
2 take it one year at a time. We start with our
3 revenue requirements. And for the Department, we
4 have water system costs and we have wastewater
5 system costs, all right? You have to separate
6 them out because they serve different customers
7 at times, but they also have different cost
8 drivers. And then within those two categories
9 you also have your retail and your wholesale
10 again. Both sides.

11 Then what you do on the water side is
12 you look at the different customer types. You
13 allocate those various costs out to the different
14 customer types after you've established the
15 different functional components, and then you
16 drive the user rate charges.

17 HEARING OFFICER BROCKWAY: I looked
18 ahead to see if you had more on this.

19 MS. BUI: You're not supposed to do
20 that. Yes.

21 HEARING OFFICER BROCKWAY: As you know,
22 rate design -- cost allocation and rate design
23 are, some people call it an art rather than
24 science. It's driven by assumptions made about

1 what's the fair way of allocated rates.

2 How does the Department do it? I get
3 the feeling that you use historic costs or
4 embedded costs. In other words, you don't look
5 to see what the incremental costs would be in the
6 future. You take a picture of what the costs
7 have been or are today, and you figure out what
8 those costs are used for and that's how you
9 allocate. You allocate the costs to those who
10 use it for the purpose that is used -- that is.

11 MS. BUI: That is why you need to
12 allocate the way you do. We are looking at
13 future years as a basis for the projection of
14 those costs and patterns. Certain things it is
15 adjusted.

16 HEARING OFFICER BROCKWAY: It's an
17 adjusted --

18 MS. BUI: This is forward looking.

19 HEARING OFFICER BROCKWAY: How far
20 forward do you go for this one year?

21 MS. BUI: Well, it's each year. So, we
22 had to make estimates for Fiscal 15. As Dave
23 pointed out, it's not final yet. So, there are
24 estimates involved in there. And then you

1 project to the ensuing years.

2 MR. JAGT: Just to clarify. We have the
3 preliminary audited numbers for FY15. And we
4 have used the Department's financial statements,
5 the unaudited financial statements for developing
6 FY15. There will be significant adjustments from
7 that for the audit, but until the audit's
8 complete, we won't really know. But they are
9 like 99 percent.

10 HEARING OFFICER BROCKWAY: Looking
11 through, I'm not seeing that you come back to
12 this. Am I correct that this is our discussion
13 of cost allocation?

14 MS. BUI: No, no, no, no. There will be
15 more.

16 MS. LABUDA: Can I just make a
17 clarifying statement? Just so you know, the City
18 has not released it's Fiscal 15 certified
19 financial report. We are one tax ID. We are one
20 entity. We are called the City of Philadelphia.
21 Our component unit or our Department will release
22 its set of statements when the City releases. We
23 don't have the audit yet. We anticipate the
24 statements will be released. All the numbers

1 utilized by Black & Veatch represent unaudited
2 numbers because the audit is not yet complete.

3 MS. BECKLEY: I'm sorry. Didn't
4 understand. Sounded to me, you said -- sounded
5 to me like the numbers are 99 percent but they
6 are going to change significantly. I'm trying to
7 understand. Are we close or we not close?

8 MS. LABUDA: It's not -- what we are
9 speaking of is Black & Veatch sets -- the Water
10 Department's rates and charges are set on a
11 budgetary or legal basis. Those statements were
12 released in some time in October. The City also
13 released it's Quarterly City Manager's Report
14 last week which also had budgetary or the legal
15 statements in those. Those numbers are on the
16 PICA website and Director of Finance's website.

17 The statements that are currently under
18 audit and the audits not received are the GAAP
19 financial statements. We do not set rates and
20 charges on the GAAP basis. Our bond works on a
21 cash basis.

22 HEARING OFFICER BROCKWAY: Generally
23 Accepted Accounting Principles.

24 MS. LABUDA: Thank you. I'm sorry. Not

1 trying to speak in code.

2 I do not anticipate material shifts.

3 But until we have an audit letter, I can't opine
4 in either direction if there will or will not be
5 changes between my sitting in the room at this
6 table and Wednesday when they release. But on a
7 budgetary basis, on a cash basis, those
8 statements were released in October for an audit.
9 And they are 99 percent complete.

10 MR. HUANG: I had a few questions about
11 the reserves that Ms. LaBuda mentioned. Where
12 does that -- you mentioned that the existence of
13 the reserves allowed the Water Department to not
14 increase rates in '16 and to minimize the
15 increase imposed in '17. Series of questions
16 about the reserves.

17 Where do they come from? And what is
18 the purpose of their existence besides what --
19 besides that use, or is that the only purpose?

20 MS. LABUDA: We will touch on this later
21 in the presentation. But the reserves are a flow
22 of funds or the accounts that we have are very
23 clearly defined in our General Bond Ordinance.
24 So oftentimes, I advise most individuals to

1 figure out our flow of accounts through our
2 General Bond Ordinance because there are a very
3 specific set of accounts that we have. The two
4 reserves that our General Bond Ordinance allows
5 us to have are the Rate Stabilization Fund and
6 the Residual Fund.

7 It's the Rate Stabilization Fund that
8 allow us to withdraw revenues from this account
9 to bridge any deficiencies between expenses and
10 revenues. The Residual Fund is the bond and
11 bucket. It's the last place monies go. And we
12 cannot use anything in that account to bridge a
13 structural deficit. We can make a payment out of
14 it, but we can't use those funds to meet one of
15 our coverage or compliance matters.

16 MR. HUANG: Is it fair to call them a
17 buffer in a sense then?

18 MS. LABUDA: Absolutely. The Rate
19 Stabilization Fund is really the key fund to how
20 we can -- how we can have funds set aside for
21 unforeseen or unexpected emergencies that aren't
22 covered by rates and charges.

23 MR. HUANG: Do industry standards give
24 you some guidance on how much the reserves should

1 be held back versus essentially giving back to
2 the rate --

3 MS. LABUDA: The rating agencie -- and I
4 know Kathy Clupper from PFM will also speak to
5 this. I don't want to misstep here.

6 But yes, of course. The rating agency
7 provides significance guidance on the days cash
8 on hand, the amounts of cash we should have to
9 help balance the budget or mitigate or manage
10 unforeseen emergencies. That numbers, most of
11 our peers are anywhere from -- please, I am going
12 to have to fact check on this -- 250 days to 400
13 days cash on hand.

14 MR. HUANG: Last question. Does that --
15 the size of that buffer, can that be smaller if
16 this rate process happens more often?

17 MS. LABUDA: If you look through the
18 proceeding, we are talking about taking our rate
19 stabilization fund down to \$110 million. I don't
20 believe the Department could manage with anything
21 less than that. And that is due to the level of
22 our budget that rates and charges cover.

23 MR. HUANG: Thank you.

24 MR. POPOWSKY: Excuse me. Are you going

1 to address the questions that we ask to be
2 forwarded or --

3 MR. DASENT: The plan was to answer as
4 much as we can today as a part of the
5 presentation. We have written responses are also
6 possible. The Board directs us, we will --

7 MR. POPOWSKY: I'm just not sure. I
8 just can't tell if you are going to specifically
9 answer those questions.

10 MR. DASENT: Yes, we are.

11 MR. POPOWSKY: For example, I think we
12 asked about the Rate Stabilization -- the Rate
13 Stabilization Fund grew, didn't it, over the last
14 few years?

15 MS. LABUDA: The Department made
16 deposits into the Rate Stabilization Fund. Based
17 on the last rate proceeding, we managed a very
18 specific metric when revenues differed from the
19 financial plan as submitted at the last rate
20 proceeding, it drove deposits to be made to the
21 Rate Stabilization Fund in FY14 and FY15.
22 However, if you were to step into what the City's
23 projections are, the Black & Veatch projections,
24 you will see that we are taking money out in

1 FY16.

2 And just to answer your question, the
3 presentation does address most of the questions.
4 It might be helpful if we maybe reference the
5 page numbers as we're stepping through them and
6 which question it addresses.

7 MR. POPOWSKY: Thank you.

8 MR. DASENT: At the end, those questions
9 that are not directly addressed can be captured
10 in our Q and A at the end.

11 MS. BECKLEY: But I would remind the
12 Board that this presentation really is for you.
13 So to the extent that there's anything that you
14 want -- you should not hesitate to interrupt and
15 to ask questions. Because the whole point of
16 this is for the five of you to get what you need
17 as a basis for going forward in the proceeding.

18 HEARING OFFICER BROCKWAY: Before --
19 excuse me. Mr. Popowsky, I'm not clear what you
20 were looking for. Is the transcript of today
21 sufficient, or are you saying any time there's a
22 question from the Board they ought to take it
23 down and they ought to memorialize the answer?

24 MR. POPOWSKY: No. I just wanted -- we

1 gave a list of questions. I didn't know if they
2 were all going to be covered in this. I don't
3 want to interrupt every five minutes if you are
4 going to get to it.

5 MR. BRUNWASSER: I think what you are
6 showing here are very summary documents and
7 graphs. And obviously, there's a tremendous
8 amount of detail behind them. And I'm sure you
9 will clarify much of this as you go along.

10 MS. BUI: After my section, which is
11 pretty much the end of the sort of overview and
12 the general principles. Because I believe that
13 you are fairly knowledgeable already about the
14 cost of service studies, in general, but there
15 are others who are not including those in the
16 public. That is really the purpose of this.

17 And then we are going to go into a
18 little bit more detail with respect to study
19 results, the assumptions that are used which I
20 believe will also address a number of the
21 questions that the Board provided.

22 MR. POPOWSKY: Thank you.

23 MS. OLANIPEKUN-LEWIS: In what instances
24 would you have the ability to draw down the

1 residual fund?

2 MS. LABUDA: There is -- I'm going to
3 just have to read the very explicit provisions.
4 The Residual Fund is to maintain revenues after
5 all items have been paid through the water. What
6 technically goes through Residual Fund is we pay
7 the City the interest earnings on our Debt
8 Service Reserve Fund. It's called the Scoop.
9 It's capped at \$4.9 million.

10 At the end of the year, there is
11 evaluation done on the Debt Services Reserve
12 Fund. It moves of the Debt Service Reserve Fund,
13 flows to residual, then comes out of residual and
14 goes to the City Con Cash Account.

15 Another amount of monies that will flow
16 through, through the terms of the General Bond
17 Ordinance through the residual account will be
18 the additional payments we make to our capital
19 trust. There is two components of the capital
20 trust. There is the bond proceeds account and
21 then there is a self-generated capital. We have
22 a required transfer and discretionary transfer.

23 Discretionary transfer per the terms of
24 the General Bond Ordinance will flow from Water

1 Revenue Account to the Residual from the Residual
2 back up to the Capital Trust.

3 The other use of the Residual Fund was
4 related to something that predates me, so I will
5 which have to double check myself on all of the
6 specifics. There was an ordinance passed
7 sometime in 2007 or 2008 that set up a subaccount
8 of the residual account called a special
9 infrastructure. It was to do improvement at the
10 Naval Yard. It was to pay for capital rate of
11 expenditures at the Naval Yard.

12 MS. OLANIPEKUN-LEWIS: Thank you.

13 MR. BRUNWASSER: There was -- there is
14 one other thing that historically, obviously,
15 predates Ms. LaBuda. The Water Department gave
16 fees of approximately \$20 million of old debt,
17 picked off the high coupons and we fees out the
18 20 million with the Residual Fund. And that was
19 approved by bond counsel Ballard Spahr.

20 MS. BUI: If we move to the next slide,
21 which is the last slide on my section, it is the
22 purpose of rate design. Really, I think it's
23 important here that we look at what we're trying
24 to do is, again, recover the cost providing

1 service to our different customers in that
2 fashion. And that's how we design our rates.
3 Thank you very much.

4 Now before we move onto our next session
5 which is going to address a number of the
6 questions that the Board has sent us, the study
7 results, we are going to make a change out in
8 personnel so we can bring speakers for those
9 particular sections up here.

10 HEARING OFFICER BROCKWAY: Go off the
11 record.

12 - - -

13 (At this time, a brief break was taken.)

14 - - -

15 HEARING OFFICER BROCKWAY: We will go
16 back. And now additional people are going to
17 present?

18 MR. DASENT: Yes. David Jagt from Black
19 & Veatch will be our next presenter.

20 MR. JAGT: At this point, after having
21 an overview of the cost of service in the
22 financial plan and the process that we followed
23 in doing such, we are going to go over some of
24 the study results of the cost to service

1 analysis. And we will do a quick review of the
2 objectives, a review of the key assumptions for
3 the financial plan, and a brief review of the
4 cost of service results.

5 So, this question's been brought up a
6 number of times. We will go through it very
7 briefly on Slide 21. One of the big assumptions
8 you have to make is what is our study period for
9 the study?

10 The main focus of the study was the
11 first two years that we looked at the rates for
12 which were FY 2017 and 2018 for which we are
13 making the rate requests. However, as we know
14 based on Ann's discussion, we need to do a
15 projection of the longer term impact of the
16 financial plan and look at the impact of the
17 rates and the longer term outlook for the
18 utility. You don't want to make an assumption of
19 very low revenue increases now only to have rate
20 shock on the customers later on. So, it's a good
21 practice and the best practice in the industry to
22 do a longer term outlook. And that's why we did
23 the six-year financial plan, which corresponds to
24 the time frame for the Capital Improvement

1 Program Budget.

2 (Continues to refer to slides)

3 Take a brief look at the Study
4 Objectives. One of the key objectives is to
5 continue to provide safe and service to the
6 customers. Want to be able to continue to
7 provide safe drinking water and wastewater
8 services to our customers. And we also want to
9 make sure we cover -- meet the financial
10 investment or the bond holder's requirements. We
11 want to meet the Rate Board's requirements and
12 also the utility in general, what the revenue
13 requirements of the utilities are.

14 We have a complete list of the
15 requirements off to the right, but the main ones
16 I want to point out for today is we go ahead and
17 identify what the General Bond Ordinance minimum
18 requirements are in this slide where we identify
19 that senior debt service coverage per the bond
20 ordinance needs to be at least 1.2. And the
21 total debt service coverage needs to be 1.0.

22 HEARING OFFICER BROCKWAY: I'm sorry to
23 interrupt. But can you very, very briefly
24 discuss how you calculate the coverage ratio?

1 MR. JAGT: Okay. For the coverage ratio
2 for the bonds, we look at the projection of
3 revenues. And that's all the incoming revenues
4 into the fund that's identified acceptable in the
5 general ordinance as acceptable project revenues.
6 We net from that the operating, the O&M expense
7 to come up with the net project revenues.

8 Net project revenues are compared to the
9 senior debt service to develop the senior debt
10 coverage. You want to make sure that you have
11 enough -- after -- the revenues that come in the
12 door in the year after adjusting for rate
13 stabilization as well, you want to make sure you
14 have at least 1.2 times the debt service. And
15 you have to otherwise you are in technical
16 default and a big issue with the financial
17 agencies and the bonds.

18 You also need to make sure you meet a
19 1.0 coverage on the total revenue requirement, so
20 that means that your net revenues, your revenues
21 coming in plus rate stabilization minus O&M has
22 to be enough money to cover all your revenue
23 requirements going out. So, that has to meet
24 your O&M and your capital account deposit. That

1 has to be at 1.0.

2 We also have some requirements that were
3 in the ordinance that created the Rate Board. We
4 will cover those, as well. The key ordinance,
5 the key requirement we looked at was that total
6 revenues can't exceed total appropriations.

7 Do you have any questions? Want to make
8 sure before we go on.

9 MR. POPOWSKY: The Rate Stabilization
10 Fund is included in the numerator in both of the
11 coverages; is that right?

12 MR. JAGT: It is included in the
13 numerator in both of the coverages because
14 revenues have to -- you can adjust the revenues
15 by what you put in or take out of the rate
16 stabilization form. And that money can be used
17 towards coverage again. Revenues can only be
18 used one time and the rate stabilization is a
19 rainy day fund or a fund that if money is put
20 aside in the rate stabilization, it was not used
21 for coverage. But when it's strong back in, it
22 can be used for coverage in that year.

23 Another key principle of the General
24 Bond Ordinance is the fact that when we do our

1 analysis, we have to do the analysis in terms of
2 receipts as -- revenues as receipts. Revenues
3 are not reflected as bills going out the door,
4 but as revenues that we receive and collect from
5 the customers.

6 HEARING OFFICER BROCKWAY: You're not on
7 a cash basis, though?

8 MR. JAGT: We are on a cash basis.
9 That's correct. And it's based on revenues that
10 we receive are collected from our customers.

11 MR. BRUNWASSER: Mr. Jagt, isn't there
12 another requirement on the Rate Stabilization
13 Fund as far as the maximum that could be pulled
14 out?

15 MR. JAGT: That's right. We do cover
16 that later in the presentation. But I will go
17 ahead and cover this now.

18 In addition to the General Board
19 Ordinance[sic], throughout the years the Water
20 Department had established or provided insurance
21 on some of the bonds. And with the insurance
22 companies, we have an agreement or a covenant
23 that the water fund will meet 90 percent of debt
24 service from current revenues. So basically,

1 this rule or the insurance covenant puts a limit
2 on how much money we can withdraw from the Rate
3 Stabilization Fund in a specific year. So, we
4 can't suppress rates so low that we have to pull
5 more than -- we are not recovering 90 percent of
6 revenue or debt service from the current
7 revenues.

8 On the next slide, there is a brief
9 review of all the water fund accounts in the
10 funds. We went over this briefly. Missy went
11 through the funds, the key funds. The Revenue
12 Fund is the main driver for the utility. The
13 revenues come into the Revenue Fund. And debt,
14 O&M debt services paid out of -- funds are --
15 payments are made to other funds out of the
16 Revenue Fund.

17 The Rate Stabilization represents a fund
18 off to the side. It's a reserve or a rainy day
19 fund. That any year if we determine or the water
20 fund determines that it can defer some of its
21 revenue in that year to a future year, or it
22 requires a withdrawal from the Rate Stabilization
23 to meet its annual requirements, it can do so.

24 The Construction Fund is where all our

1 capital costs are met. It's where the bond
2 proceeds are put and capital costs are funded
3 from. The Debt Service Fund covers the debt
4 service. And there's also the debt service
5 reserve that provides for one-year maximum
6 principal and interest to make sure we have
7 reserve to meet debt service payment if we ever
8 have to.

9 We also have the residual fund which is
10 the -- after making all the payments to the other
11 funds, the net revenues comes out into the
12 residual fund. And the residual fund can be used
13 to make deposits into debt service reserve or
14 meet capital requirements. This reviews the
15 requirements or the possible uses of the residual
16 fund.

17 Take a brief look at our financial plan.
18 Basically, this slide is presenting the fact that
19 in order to meet the projected revenue
20 requirements for the utility, we have to do a mix
21 of withdrawals from rate stabilization and
22 revenue increases. These are our planned revenue
23 increases in the bulleted list or cumulative
24 revenue increases that we projected through the

1 financial plan from FY 2017 to 2021 to meet the
2 revenue requirements of the system. During our
3 rate period and in the initial year for FY17, we
4 projected a 34.7 million increase in revenues.
5 And in FY18 from the increases in '17 and '18, we
6 are proposing to increase revenues by 70.9
7 million.

8 HEARING OFFICER BROCKWAY: First, you
9 said cumulative. And now it sounds like these
10 are year-to-year increases.

11 MR. JAGT: It's cumulative. So what
12 we've present as FY18 is the result of the
13 increased revenues as proposed in '17 and '18.

14 HEARING OFFICER BROCKWAY: Okay. So
15 Fiscal 17, 34.7 million.

16 MR. JAGT: Correct.

17 HEARING OFFICER BROCKWAY: And then I
18 can't do the math, but --

19 MR. JAGT: A portion of the 70.9 is an
20 increase from the FY17 increase.

21 HEARING OFFICER BROCKWAY: Okay. So the
22 other -- you can figure out what the increase in
23 2018 is by subtracting 34.7 from 70.9?

24 MR. JAGT: Yeah. Because there is some

1 other impacts involved with the projection and
2 the changes.

3 HEARING OFFICER BROCKWAY: But in that
4 sense, these are cumulative. You don't add -- in
5 other words, the 179.6 -- is 179.6 relative to
6 the base that you started with?

7 MR. JAGT: Right. The best way to look
8 at that line item is the amount over -- it's the
9 additional revenues above the revenues under
10 existing rates. We do a projection of revenues
11 under existing rates or FY16 rates. And these
12 are the additional revenues we need above the
13 FY16 revenues.

14 MR. BALLENGER: Annual?

15 MR. JAGT: Correct. Along with these
16 planned increases from rates they are from the
17 revenues, we also have planned withdrawals from
18 the rate stabilization to help meet the projected
19 revenue department. We will review this in
20 detail in some of the graphs coming up.

21 As Ann reviewed, in Slide 17 you will
22 recall we did -- our approach is we are going to
23 take a projection of the revenue under existing
24 rates and then we are going to look to compare

1 that to the projection of revenue requirements
2 with the -- and we developed the revenue
3 requirements based on the components that were
4 outlined in Slide 17. Each of these slides that
5 we go through, we are going to review some of the
6 key assumptions that we used in those steps as we
7 work through the process presented in Slide 17.

8 So the first step we are going to look
9 at is the projection of revenue requirements or
10 revenues. The main source for the projection of
11 revenues is the historical billing data we do.
12 We have to look at the record of historical
13 billing data which we got from the new reports
14 that were developed from RFC which provide us
15 with the projected number of accounts or the
16 historical number of accounts and historical
17 water sales volumes and sewer billed revenue as
18 well as the stormwater we got from the stormwater
19 database.

20 HEARING OFFICER BROCKWAY: Can you -- I
21 apologize. Can you sound out what RFC stands
22 for.

23 MR. JAGT: Raftelis Financial
24 Consultants.

1 HEARING OFFICER BROCKWAY: Thanks.

2 MR. JAGT: We do a projection of
3 revenues under existing rates for FY 2016 through
4 2021. Again, the revenues are projected based on
5 receipts as per the General Bond Ordinance, so
6 reflects the amount of the revenues -- basically,
7 the collections from the customer. As the
8 customers pay the bill, we recognize them as
9 receipts or revenues in the door.

10 For each year in order to do that, we
11 have an assumed collection factor or a series of
12 collection factors. The cumulative effect of
13 collection factors are that in each fiscal year,
14 we will receive 96 percent of the billings. For
15 the City, we assume we are going to collect 100
16 percent of the billings. The City billings
17 reflects the general serve of the water, sewer
18 and stormwater service provided to the general
19 fund which includes all the City Departments as
20 well as the Aviation Fund.

21 MS. OLANIPEKUN-LEWIS: I have a
22 question. When you said 96 percent of using the
23 total retail, is that based on all the billings
24 on the -- those that you assume are collectibles?

1 I know that when you're looking at
2 accounts receivable, the assumptions are you're
3 going to get a hundred percent, but the percent
4 is pretty solid. That 96 percent of that amount
5 you receive to be collectible or the total
6 billing that you get?

7 MR. JAGT: It's 96 percent of the total
8 billings. So, it reflects a 4 percent is
9 uncollected.

10 MS. OLANIPEKUN-LEWIS: Okay.

11 MR. JAGT: This addresses some of the
12 questions we had from Council or the Board the
13 next few bulleted items. In our projections we
14 have an assumption there is reduction to water
15 revenues from the wholesale customers.

16 In the recent year 2015 Bucks County had
17 provided notice that they were no longer
18 continuing their water rate contract or water
19 service contract with the Department. We are
20 not -- you know, I know the Board's question
21 asked in detail what the drivers were.
22 Unfortunately, we -- not being on Bucks County
23 Board or not really knowing the -- what their key
24 drivers were, but we know that they just desired

1 to terminate the contract with the City, and we
2 had to reflect that in the financial plan.

3 MR. POPOWSKY: Do you know where they
4 went?

5 MR. HARVEY: They built their own
6 transmission system. (Rest of response trails
7 off.)

8 MS. BROCKWAY: He's saying they built
9 their own water transmission system. I think
10 it's out of the Chalfont.

11 MS. OLANIPEKUN-LEWIS: What's that
12 revenue loss?

13 MR. JAGT: That's 7 or 8 million per
14 year.

15 HEARING OFFICER BROCKWAY: Did you have
16 something else?

17 Did the Department try to negotiate with
18 Bucks County to keep them?

19 MS. McCARTY: Bucks County essentially
20 gave us notice. And given the relationship that
21 really wasn't -- we would have wanted to keep
22 them, of course, because they helped us in the
23 fixed costs. They were pretty definitive.
24 Certain that they just wanted to stop using our

1 water. We still believe that we are the best
2 deal and provide excellent quality. By the way,
3 the rates have gone up in Bucks County.

4 HEARING OFFICER BROCKWAY: Thank you
5 very much.

6 MR. JAGT: Then in addition to the
7 reductions from Bucks County, we also reflect a
8 recent reduction from Aqua PA. We also think
9 Aqua PA has been cutting back -- their initial
10 contract was set up for drought use, and they
11 continued to use the water that way. And they
12 have cut back their recent demands to a lower
13 level. And we reflect the lower level in the
14 financial plan.

15 Our projection also reflects a reduction
16 to the retail cost projections. The annual
17 decrease of 0.6 percent per year is reflected in
18 the projected volumes for retail. That's
19 primarily driven by the reduction in the demand
20 from the 5/8" customers. That's an industry wide
21 issue that other utilities have seen and, you
22 know, water utilities are dealing with
23 nationally.

24 HEARING OFFICER BROCKWAY: You don't

1 have water efficiency programs? You don't try to
2 encourage your customers to cut down?

3 MS. McCARTY: We have conservation
4 programs for low income. But you know without --
5 but yeah.

6 HEARING OFFICER BROCKWAY: I'm not
7 trying to make a point. I am just trying to
8 clarify.

9 MS. McCARTY: You know, it's the -- you
10 see this over the years because of low flow
11 fixtures of the toilets, low flow shower heads,
12 things like that. You see this reduction through
13 the years. As Dave said, the industry's fixing
14 this.

15 MR. JAGT: Done with that slide.

16 MR. DASENT: Jon Davis will speak next
17 on the new --

18 MR. JAGT: Jon is going to give details
19 later on in the presentation. We are going to go
20 ahead and at this point just give a brief
21 overview in the cost and the revenue requirement
22 impact to the new affordability program.

23 The Affordability Program was mandated
24 by Council. And the Water Department has

1 investigated setting up the Affordability Program
2 in accordance with the bill that was passed by
3 Council. And these are the revenue and revenue
4 requirement impacts associated with this. It's
5 supported from Jon's analysis of the setting up
6 and establishing what the program and costs are
7 involved.

8 Again, we are following the slide or
9 review as per Slide 17. We will look at the
10 revenue requirement or the revenues first. When
11 we project that based on the level of discounts
12 provided in our customer base, we are going to
13 provide a projected amount of discounts
14 equivalent to 16.1 million to 18.6 million from
15 FY 2018 at the introduction of the program to FY
16 2021. So, that's 16.1 in FY18 and 18.6 in FY
17 2021.

18 That revenue impact will be offset by
19 the discontinuation of the WRAP Program which
20 will decrease -- we will see a decrease in grant
21 costs of 2.7 million per year. The net revenue
22 impact for FY18 is 13.4 million. In addition to
23 the revenue impact for the projection of
24 discounts, we also have the increased costs for

1 the support and implementation of the program
2 which includes personnel costs, which will
3 increase from 1.6 to 2.4 million. And that's
4 driven by the need for additional -- the addition
5 of 22 staffing positions to manage and implement
6 the program. That's a 9 percent overall increase
7 to the Water Revenue Bureau staffing. And it
8 includes the pension-to-pension obligations and
9 the benefits associated with that.

10 We also have some services costs
11 associated with it. And that includes the
12 improvements to basis2 or of the billing system
13 that handled the program, and also the office
14 space to support the additional staffing. And
15 that 1.3 million increase in FY 2017 as we
16 prepare for the startup of the program. And an
17 additional 0.7 to 0.8 beginning for FY18 to 2021.

18 Moving onto other key assumptions within
19 the program or the projected financial plan. For
20 O&M, we have looked at the key driver, the
21 Department organizer or the fund has their
22 program, the cost by personnel services, power
23 and chemicals and transfers to other departments.
24 The personnel costs are presented on Slide 27.

1 And we have a projection of the additional
2 staffing as we need for the increase to programs
3 and to meet the regulatory requirements. There
4 is a projection of additional staffing of 21
5 staff between FY17 and FY 2021.

6 HEARING OFFICER BROCKWAY: So this -- I
7 apologize. This is in addition to the additional
8 22 from the Affordability Program?

9 MR. JAGT: Yes, it is. This reflects
10 the additional staff in the Water Department
11 itself.

12 HEARING OFFICER BROCKWAY: And is --

13 MS. McCARTY: Water Revenue. The
14 affordability staffing increases -- the
15 affordability staffing increases are under Water
16 Revenue.

17 HEARING OFFICER BROCKWAY: This is for
18 some --

19 MS. McCARTY: This is within the Water
20 Department.

21 HEARING OFFICER BROCKWAY: It's for some
22 of the bills?

23 MS. McCARTY: Right.

24 MR. JAGT: The additional -- again, it

1 includes any increase to staffing. We have to
2 reflect the increase to pension, pension
3 obligation and benefits. It increases as well
4 there. We have the annual increase of salary of
5 3 percent, and also the average increase of
6 fringes and benefits increase 3 percent per year.

7 Again, the primary driver for the
8 increase in the fringes and the benefits were
9 from the City's Five Year Plan which was
10 recognized by PICA and approved.

11 HEARING OFFICER BROCKWAY: Was
12 recognized by what?

13 MR. JAGT: The PICA. They are submitted
14 to the State.

15 The projected financial plan also
16 reflects additional cost for services or Class
17 200 in the budget. The additional funding is
18 driven by regulatory compliance. We have the
19 increase in the grant programs of 3.5 million per
20 year, and that's for the Smith and Guard programs
21 for stormwater. And the regulatory compliance
22 for O&M were 0.6 million to 1.12 million for FY17
23 to FY 2021.

24 There is also some additional support

1 for an increased infrastructure renewal, the mark
2 out of the utilities out in the field that will
3 drift increase costs from 0.6 million to 0.7
4 million per year from FY17 to FY 2021.

5 Another key assumption or driver for the
6 Water Department is the power and chemicals. The
7 power costs with the purchases that the
8 Department has planned, advanced power purchases
9 it makes through its like energy plan. We were
10 able to not have any increase for power cost in
11 FY17. However, we need to recognize the fact
12 that that can't continue to go on based on longer
13 term experience. We anticipate a 5 percent
14 annual increase in '18.

15 Chemical costs are projected based on
16 3.3 percent annual increase.

17 HEARING OFFICER BROCKWAY: Is that
18 inflation and chemical costs or -- go ahead.

19 MR. HUANG: That's my question. The
20 power costs and the chemical costs, how much of
21 that is inflation and how much of that is volume?

22 MR. JAGT: It reflects the overall
23 increase for the Department's cost over the past
24 several years. So it would increase -- it would

1 reflect the changes in volume as well as the
2 annual purchase cost, so inflation and the
3 volume.

4 MR. HUANG: That was my other question.
5 It is anticipated that volume will increase?

6 MR. JAGT: Well, actually the volume is
7 decreasing. It's a slight decrease over time, so
8 0.6.

9 MR. HUANG: Okay.

10 MR. POPOWSKY: Do you have contracts for
11 purchasing electricity? I mean, 5 percent seems
12 pretty high.

13 MS. LABUDA: So, we are part of the
14 City. And we utilize the Office of
15 Sustainability for our energy purchases. For
16 FY17, the answer is yes. Approximately,
17 80 percent of our power costs have been purchased
18 forward where the price has been looked in. The
19 remaining 20 percent in laymens term how you pay
20 your electrician.

21 The FY18 purchases have not yet
22 occurred, but I can't speak to the timing of when
23 the City will enter into the market and hedge our
24 FY18 power purchases. So, this is an

1 inflationary assumption at this point.

2 (Barking heard over the phone connection.)

3 HEARING OFFICER BROCKWAY: Sounds like
4 there is somebody on the phone trying to make a
5 comment.

6 (Laughter)

7 MR. JAGT: Continuing on with Slide 28.
8 The department also has in the budget transfers
9 to other departments, they're interfund
10 transfers. And then they -- basically, it's
11 services provided by other departments that's
12 paid for by transfers in the finance and admin
13 portion of the budget. And that's projected to
14 increase from Fiscal -- it also includes in the
15 projection an increase that's going to -- that's
16 in the projection reflects some additional
17 upfront payments that have to be made to the
18 general fund to reimburse them for the
19 construction of a combined sewer outflow.

20 So the projection includes 1.8 million
21 in FY 2017 and 3.5 million in FY 2018. The
22 portion of the projection of interfund transfers
23 that reflects the services provided by other City
24 Departments reflects the annual increase or

1 inflationary increase of 3 percent per year.
2 Again, that reflects the services provided from
3 other departments. And they're primarily driven
4 by City personnel costs.

5 MR. CHAPMAN: Just a question. On page
6 27, the 21 additional staff members, you told us
7 on 26 what it was for the 22 and the
8 Affordability Program. But you didn't detail out
9 what it was going to be -- increased costs was
10 going to be in operations and maintenance.

11 MR. JAGT: I can -- we can pull that out
12 and provide that -- I don't happen to have it
13 right on my sheet right here. I can provide an
14 answer to that in a response.

15 MR. BRUNWASSER: Ms. LaBuda, would that
16 be in the operation budget for -- well, that's
17 right. It's year end flex.

18 MS. LABUDA: Right. We haven't yet --
19 the City hasn't released it's Fiscal 17 operating
20 budget yet. The specific details that would show
21 where the positions would occur that we are
22 hiring FY17 hasn't yet been released. The 22
23 positions that Dave is speaking of are over the
24 planning horizon and not just in year Fiscal 17.

1 I think -- I am working from memory
2 here, so please forgive me if I'm wrong. Very
3 few of those are in Fiscal 17.

4 MR. JAGT: That's correct.

5 MS. LABUDA: We will get back to you
6 with that amount.

7 MR. JAGT: Just to go over, what we
8 presented is an overview. Within the documents
9 for the rate filing, you had within the
10 supplemental papers to the B&V's testimony, I
11 think it's PWD Statement 9B, there is an
12 assumptions document that includes in more detail
13 or a lot more detail for each of the assumptions
14 presented. And there is a table, Figure 6
15 provides a projection of the additional staffing
16 costs by department and gives the overall or more
17 details as far as the backup for those numbers.

18 MR. CHAPMAN: Thank you.

19 MR. JAGT: It's within PWD's Statement
20 9B, which is the Black & Veatch supplemental
21 testimony. The BV-S1 is the supplemental
22 document one after the testimony. Has all the
23 assumptions for financial planning.

24 Following again Slide 17, we have

1 completed a review of the O&M requirements. And
2 going to shift over to the capital requirements
3 in the system.

4 This graph is a presentation of the
5 projected capital budget costs for the program.
6 And it also presents the funding plan of how
7 those revenue require the capital programs being
8 met. Now for each year, there is a green bar of
9 how -- or green and grey bar. And the blue bar
10 represents the projected expenses.

11 The green and grey bar represent how
12 those expenditures are being met from the funding
13 plan or the mix of bond issuance and cash funded
14 capital. The grey represents cash funded
15 capital. And the green represents projected bond
16 issues.

17 Now that FY16 looks a little funny
18 because it has all expenses and very little on
19 the funding side. The reason why that is, is
20 because in FY15 we had a bond issue that is
21 providing the funding to make it through FY16 in
22 the capital fund. So, all the revenue
23 requirements presented in '16 are being met from
24 the bond issuance plus the cash funding that's

1 being provided from the residual and the capital
2 account deposit.

3 So the plan, as you can see, it
4 increases the grey bar or the cash funded capital
5 over the planning period as we increase from 20
6 to 25 percent to try and increase the amount of
7 cash funding that we are doing in the -- for the
8 water fund. And that's to move the water fund to
9 best, you know, improve the position of the
10 utility and improve liquidity in the system and
11 meet the industry-wide best practices.

12 I think this addresses one of the
13 questions from the Board of how the residual fund
14 is used. It's reflected in the transfers and the
15 funding of the capital spending there. As we
16 stated, the other -- within the financial plan we
17 reflect the O&M, the capital requirements which
18 includes fund transfers. The cash funded
19 capital, which we are already mentioned, were
20 moving from 20 to 25 percent to increase the cash
21 funding in the department to improve liquidity
22 which will happen in a long period of time. To
23 move them, the Department needs to make to
24 improve its position and improve it's bond

1 ratings.

2 The additional transfer from residual
3 fund to construction fund is necessary to achieve
4 that goal. It also includes -- there is two
5 portions of the capital fund transfer, capital
6 fund. One is the required capital account
7 deposit. The General Bond Ordinance in addition
8 to the bond coverages that we've already reviewed
9 in the required debt service coverage, it
10 requires a transfer of 1 percent of net asset
11 value or original cost less depreciation of the
12 system's assets be transferred from the residual
13 fund to the capital account each year. So, 1
14 percent of the net value of assets is transferred
15 there, and that's required by the bond ordinance.

16 In addition to that, the Department
17 makes an elective amount of funding from the
18 residual fund. So, it's the combined cash
19 funding of the capital account deposit plus the
20 residual fund transfer that represents the cash
21 funded capital from the capital.

22 MS. OLANIPEKUN-LEWIS: What drives the
23 elected contributions from the residual account?

24 MR. JAGT: It's basically the amount

1 available to meet the 20 to 25 percent. But we
2 basically been the financial plan presented, we
3 presented a minimum balance that we wanted to
4 maintain in the fund of 15 million a year. And
5 we transferred as much out as we could based on
6 the projected financial plan maintaining that
7 15 million per year. And it did meet the target
8 of moving it from 20 to 25 percent over the
9 five-year period.

10 As we spoke before several times, three
11 is also the rate stabilization transfer. That
12 provides additional funding necessary. We will
13 review that in a slide coming up of how it helps
14 meet the revenue requirements for each of the
15 fiscal years projected.

16 Again, as we presented in Slide 17, we
17 do a projection of revenues and revenue
18 requirements. And we look at the additional
19 needs of the system. And this graph, it presents
20 that projection of flow of funds that we looked
21 at. So on the left side with the blue and the
22 greys, this is your revenue into the system --
23 that's your revenue requirements into the system
24 reflecting O&M, the debt service and the capital

1 account deposits and the transfers. On the right
2 side, we have the projection of the revenues
3 including the service revenues, the miscellaneous
4 revenues and the withdrawals from the rate
5 stabilization.

6 So, this graph answers the question from
7 the Board of how are you planning to use the rate
8 stabilization fund. You can see that with our
9 projection of revenue increases in addition to
10 the increased revenues that we have requested, we
11 also need to draw from the rate stabilization to
12 meet the annual revenue requirements in the
13 system. And that's 19 million is drawn in FY17
14 in addition to the revenue increase requested.
15 And 39 million is withdrawn in FY18 in addition
16 to the revenue increase that's been requested.

17 MR. HUANG: What will the balance be at
18 the end of '18?

19 MR. JAGT: The balance at that point at
20 end of '18 will be 111 million, which is the
21 targeted 110 million minimum balance for the
22 fund.

23 One key thing to point out here is this
24 projection reflects our projection of cost on the

1 system. So, O&M reflects our projection of
2 actuals. During the process or each annual
3 budget review, the Department also has to be able
4 to meet the coverage and projections based on
5 actual spending, which is why we need -- we would
6 need even more money from rate stabilization.
7 And that's one of the reasons or the drivers for
8 having the 110 million in the Rate Stabilization
9 Fund, sorry. Needed to take a breath.

10 Because the revenue requirement side
11 would be higher based on 100 percent of budget,
12 so we would have to increase the revenue side to
13 meet that which comes from available balances for
14 budgeting purposes in the Rate Stabilization
15 Fund.

16 Continuing a projection for FY19 through
17 '21, we already cheated and jumped ahead. At FY
18 2018 we are at minimum of 111 million or just
19 above the 110 million, so we can't continue to
20 withdraw from the Rate Stabilization Fund. Here
21 the revenues are increased to meet the revenue
22 requirements in each year and provide the
23 deposit-to-rate stabilization to rebuild the fund
24 or maintain the minimum balance.

1 On Slide 33, we have got a projection
2 which we've already reviewed of the rate
3 stabilization and the residual fund balances.
4 This addresses the Board's question which was how
5 we are utilizing the funds and the projected
6 balances as a result of the proposed plan. As we
7 have already reviewed, that with the planned
8 increases from the rate increased, proposed rate
9 increases. We are going to be at a drawdown
10 to -- from the beginning balance of FY14 at
11 185 million.

12 During FY15, we project we are going to
13 see an increase to 206 million, but then
14 subsequently be drawn down in '16, '17 and '18
15 down to 111 million. Which is just of the --

16 MS. OLANIPEKUN-LEWIS: This is with no
17 action taken?

18 MR. JAGT: This is with action taken.

19 MS. OLANIPEKUN-LEWIS: With action?

20 MR. JAGT: Yes, ma'am.

21 MS. LABUDA: Dave, can I step in?

22 MR. JAGT: Yes.

23 MS. LABUDA: That's an excellent
24 question. Really based on review of the General

1 Bond Ordinance, of course these withdrawals all
2 factor in revenue increase. Without the revenue
3 increase we requested, the withdrawals are much
4 higher which would lower the balance.

5 MS. OLANIPEKUN-LEWIS: Sure.

6 MR. POPOWSKY: Excuse me. I'm sorry.
7 The 110 million self-imposed target or is that
8 one of the mandatory --

9 MS. LABUDA: Well, there is two parts.
10 The General Bond Ordinance was written in 1989
11 and took effect in 1993. And in that document
12 was a required amount in the RSF to cover any
13 unforeseen emergencies. And that General Bond
14 Ordinance provides for \$45 million.

15 Here we are in 2016. I have nearly an
16 \$800 million operating budget, \$45 million is
17 woefully light. We don't separate charges to
18 cover a hundred percent of the budget. So when
19 you think of rates don't cover budget and the
20 minimum balance, the 110 is both trying to
21 balance our original budget and to cover any
22 unforeseen emergencies plus meet the minimum
23 requirement.

24 MR. JAGT: The projection on the graph

1 on the table with the combined Residual Fund and
2 the Rate Stabilization Fund essentially reflects
3 the operating reserves of the utility.

4 Moving on, sort of the what's the net
5 impact? One of the weighs of measuring or
6 definitely the financial -- the financial
7 industry looks at our projection and seeing how
8 we meet our performance. And one of the drivers
9 is meeting the bond ordinance requirements. So,
10 we will look at the projected debt service
11 coverage senior and total debt service coverage
12 final from the financial plan.

13 You will see the plan as proposed by the
14 policies of the Department increases the senior
15 debt service coverage from 1.24 in '16 to 1.25 in
16 '17, 1.26 in '18 and 1.35 coverage from there
17 after and 2019 and beyond. And the overall total
18 debt service coverage ranges from 1.13 and
19 increases to 1.22 over the period.

20 MS. OLANIPEKUN-LEWIS: Why did they jump
21 in coverage between '18 and '19?

22 MS. LABUDA: Really, the only way we can
23 begin to de-leverage the utility, if you read our
24 financial statements, we have 1.9 billion of debt

1 and the value of our assets after depreciation is
2 2 billion. We are nearly a hundred percent
3 leveraged. The only way we can begin to
4 de-leverage the utility and reduce the debt
5 burden on the account per customer is by growing
6 coverage and beginning to do more pay-as-you-go
7 capital, which would be inline with best industry
8 industry practices with our peers but it also
9 benefit our base.

10 MR. JAGT: As Board Member Bernie
11 Brunwasser pointed out, there is also insurance
12 covenant requirement, which is that 90 percent of
13 the debt service is funded from current revenues.
14 So, that is where we are providing the insurance
15 coverage test. And you can see each year -- the
16 closest year where we have the largest draw from
17 rate stabilization, we are at 107 percent of debt
18 service. And the rest of the years we are
19 improved coverage from above that. We are
20 meeting the insurance covenant requirement.

21 Rate Board Ordinance included a coverage
22 requirement that the revenues not exceed total
23 appropriations of the Water Fund. And we did a
24 projection based on our financial plan. And we

1 see that based on the proposed financial plan
2 with the proposed rate increases, that we
3 continued to meet the Board Ordinance
4 requirement.

5 So far, we reviewed the projected
6 assumptions and the financial plan results. At
7 this point, we are going to shift our review from
8 the review of the financial plan to the results
9 of the cost of service study.

10 So as Ann pointed out in her review, we
11 go through numerous allocations of the costs to
12 the total Water Department or water fund costs
13 from total water fund to to the costs of
14 providing water service. Wastewater service
15 included the total combined total of sanitary and
16 stormwater service.

17 Those costs are allocated through the
18 industry accepted principles from AWWA for the
19 water utility. Then the net result of the cost
20 distribution is the residential customer classes
21 being allocated 156 million of revenue
22 requirement. The non-residential class being
23 allocated 83 million. The PHA stands for the
24 Philadelphia Housing Authority. Allocated 6.3

1 million. City services, water services provided
2 to the City is 8 million. And total fire
3 including private fire and public fire protection
4 is 10.9 million. Total of 264.2 million for
5 FY17.

6 HEARING OFFICER BROCKWAY: Do you
7 provide in your filing the same type of breakout
8 for earlier and later fiscal years?

9 MR. JAGT: Yeah. Within our department
10 and within our filing, we do provide the
11 distribution of the existing revenues by class,
12 so you can compare the distribution under the
13 existing rate and what the resulting distribution
14 of service or the proposed rates are.

15 HEARING OFFICER BROCKWAY: Is this, the
16 Fiscal 17, maybe it doesn't make any difference.
17 Are you going -- are you assuming -- you can
18 assume anything with respect to the breakout for
19 Fiscal '18 and '19?

20 MR. JAGT: We only did a projection for
21 FY17 and '18. And the work papers provide the
22 distribution for FY17.

23 Next slide we do a presentation of the
24 wastewater cost of service allocation between the

1 sanitary, sewer and the stormwater cost to
2 service. It's the same breakdown between
3 residential and non-residential of Philadelphia
4 Housing Authority, the City services, so services
5 provided to the general fund and the aviation
6 fund. And the fire includes fire and public
7 fires. So that's -- there is no public fire in
8 the sewer because that's all under the water
9 service.

10 Total wastewater distribution cost is
11 216.2 million for FY17. The distribution is
12 presented between customer classes. And the
13 rates are subsequently designed to cover these
14 costs. Stormwater is projected to be
15 157.2 million. Again, the primary breakdown, the
16 distribution is between residential and
17 non-residential or residential picks up
18 46 percent of stormwater. And non-residential
19 picks up 46 in equal part. The City picking up
20 7 percent and 1 percent for PHA.

21 Just a brief review of the cost drivers.
22 That the key components that were driving the
23 cost increases for the Department. Some of the
24 challenges we had were including the declining

1 water usage. As we said, we lost Bucks County.
2 And we are also seeing in the projection base of
3 the water fund, a decrease in sales to 5/8"
4 meters. And as presented in the assumptions,
5 that reflects a 0.6 percent decrease in the water
6 sales over the steady period.

7 HEARING OFFICER BROCKWAY: Before we
8 move on from this, do you project that there is a
9 point at which the extent of the deficiency
10 implemented by customers levels off, or do you
11 project -- what do you project going forward as
12 far as the change, if any, in water?

13 MR. JAGT: Within the projection period
14 that we have, we project that the decrease to
15 continued through the study period. We have --
16 with each update we have done this. And for a
17 longer term projection, we do show a trailing off
18 or not continuing. But for the five-year or
19 six-year projected outlook, we continue to
20 reflect a reduction.

21 HEARING OFFICER BROCKWAY: Does the
22 filing include details on the derivation of the
23 assumptions with regard to impact of various
24 features like this on the consumption?

1 MR. JAGT: Not a breakdown at this
2 level. It mean, it gives the basis of what
3 the -- what the decrease was for the 5/8". It
4 does give a projection by class of the
5 consumption for each customer type.

6 HEARING OFFICER BROCKWAY: Do you have
7 that information handy, or is that something you
8 have to do a study for?

9 MR. JAGT: No. We can pull it up and
10 put a summary together. I will give you work
11 paper references where we can find that.

12 HEARING OFFICER BROCKWAY: Yeah. That
13 would be great.

14 MR. JAGT: I know for sure it's in the
15 customer portion of the financial plan, but I
16 have to look up and see what page number it would
17 be.

18 HEARING OFFICER BROCKWAY: Thank you.

19 MR. JAGT: We pointed this out before,
20 but the declining usage is projected as customer
21 basis uses more efficient appliances and
22 fixtures, and also conservation awareness and
23 ongoing efforts to decrease the water demand in
24 the system.

1 MR. POPOWSKY: Excuse me. What about
2 the number of customers? Isn't the City growing
3 again, I guess?

4 MR. JAGT: Over the recent three years,
5 we haven't seen very -- a strong enough increase
6 in the accounts to suggest continuing to increase
7 the number of accounts. In fact, it's relatively
8 stable. The one difficult thing is in one of the
9 test years or in three years ago at the
10 introduction of stormwater, some of the increase
11 in the accounts is believed to be the
12 introduction of the stormwater only accounts and
13 conversion to that. So, the tracking of the
14 accounts is believed that it's remained stable.
15 But the increase in the accounts is actually the
16 reflect the increase in accounts for stormwater
17 only.

18 Some of the other cost drivers we have
19 is the increasing efforts for the Department to
20 address the aging infrastructure needs with
21 increasing the capital reinvestment in the
22 system. Customer assistance programs are
23 continuing to be expanded to provide services or
24 continued excellent service to the customers for

1 the discounts and grants programs that we
2 currently have in place and the introduction of
3 the new Affordability Program to meet the
4 mandates of the bill recently passed by City
5 Council. You also have the environmental -- the
6 environmental regulations put on utility by the
7 safe -- by the State and Federal requirements
8 such as the Safe Drinking Water Act, the Clean
9 Air Act and the Clean Water Act.

10 We also have the driving policy or the
11 increase in personnel calls which, in addition to
12 being the inflationary increases that we have,
13 it's the new positions required to meet all the
14 other bulleted items on this list. In order to
15 meet the regulatory requirements and provide the
16 increase in customer service and meet the
17 requirements of aging infrastructure, we have to
18 increase the staff costs.

19 Again, this slide addresses one of the
20 Board's questions about the key drivers for the
21 cost increases.

22 MR. HUANG: I have a question. I am
23 surprised you didn't include some of the things
24 that were stated earlier about making sure that

1 the utility is fiscally sound. Can someone talk
2 about how close we are to a downgrade per these
3 ratios and what would the costs be of the
4 downgrade?

5 MS. CLUPPER: What was the question
6 again?

7 MR. HUANG: We were looking at some
8 ratios on page 34, and we were trying to have
9 them go in the right direction. So if they go in
10 the wrong direction, at some point the rating
11 agencies punish you. So, what does that look
12 like? And what is the cost consequence in terms
13 of cost of capital.

14 MS. CLUPPER: My name is Kathy Clupper
15 from Public Financial Management. There is not a
16 real specific actual answer. You understand that
17 there is trends. So currently, if you look at
18 the credit spreads between A, AA and BBB the
19 current Water Department is in the main category.
20 Between just looking in recent -- I have to make
21 my presentation on the slide and see my
22 information.

23 If you want to compare the AA rate at
24 20-year revenue spread to the A rated, it's about

1 35 basis points. If you look between -- that's
2 if you look between the AA and BBB, it's about 40
3 basis points. And this, of course, changes when
4 credit spreads change. A year or so ago between
5 the A and AA, it was 44 basis points. There is a
6 cost.

7 In addition, there is also a cost to the
8 Department would like to do their bonds or have
9 other types of structure, the cost to the
10 liquidity facility also significantly increases
11 as the ratings go down.

12 MR. HUANG: And 35 basis points off
13 of -- what's the -- what am I multiplying that
14 to?

15 MS. LABUDA: Sure. Kathy is speaking
16 to --

17 MS. CLUPPER: Sorry. 0.35 percent.

18 MR. HUANG: Right.

19 MR. CHAPMAN: Off of what base?

20 MS. LABUDA: We issue tax exempt debt.
21 And so, it would not be the U.S. Treasury curve.
22 It would be the U.S. Treasury curve less some
23 factor, 0.6/0.7. It's called the municipal
24 market index, MMD. And I'm not sure. When Kathy

1 gives her presentation -- I can't recall where 30
2 year MMD is right now.

3 HEARING OFFICER BROCKWAY: I don't think
4 that's the question.

5 MR. HUANG: Yeah. How much of the debt
6 becomes more expensive?

7 MS. CLUPPER: Oh. Any new money that
8 you issue -- if you are issuing 250 million a
9 year, you can either issue that at cost of
10 capital of 4 percent or 4.5 percent depending on
11 where rates are.

12 HEARING OFFICER BROCKWAY: So, you go
13 through this in your testimony in the filing of
14 what the different bond issuances are and what
15 rates they're at and projected issuances?

16 MS. CLUPPER: I mean, the discussion of
17 ratings is more than just the cost of capital.
18 It's also the ratings are a reflection of the
19 financial stability of the system which allows
20 you to do a lot more. If you want to have a
21 created debt structure, if you want to create
22 subordinate debt, if you want to have a CIP
23 program, if you want to really tightly manage the
24 cost of your debt, you need to be at higher rate

1 than credit and you need to have certain amount
2 of liquidity and financial stability within your
3 system. So, it's more than just if I issue this
4 bond and A rating versus a AA I will save 1, 2,
5 3 million dollars a year. It's a bigger issue.
6 And it also, I mean, ratings reflect the
7 underlying financial strength of the system. You
8 want to have a higher rating because you want to
9 be a strong system. It's not a discreet
10 discussion.

11 MR. HUANG: Thank you.

12 HEARING OFFICER BROCKWAY: Are you going
13 onto -- let's go off the record.

14 - - -

15 (At this time, a discussion was held off the
16 record.)

17 - - -

18 HEARING OFFICER BROCKWAY: On the
19 record. We will take a break until 11:00.

20 - - -

21 (At this time, a break was taken.)

22 - - -

23 HEARING OFFICER BROCKWAY: We are back
24 on the record.

1 What are your next presentations,
2 Mr. Dasent?

3 MR. DASENT: Black & Veatch continues,
4 so Dave and --

5 HEARING OFFICER BROCKWAY: Do we have up
6 here at the desk everybody who is going to be
7 answering the questions?

8 MR. DASENT: Yes.

9 HEARING OFFICER BROCKWAY: Please
10 proceed.

11 MS. KUMAR: Good morning, again. We are
12 now going to go to the kind of the last part of
13 this discussion this morning that we've been
14 having.

15 HEARING OFFICER BROCKWAY: Your name
16 again?

17 MS. KUMAR: I'm Prabha Kumar from Black
18 & Veatch.

19 Dave here, my colleague, talked about
20 really the building, two building -- the first
21 two building blocks which are financial plan and
22 cost of service. He talked about the financial
23 plan projections of the revenue, the revenue
24 requirements and all the obligations that they

1 daily have to meet in terms of not only it's
2 operation and capital program but also general
3 bond coverages, the insurance coverage and rate
4 requirement later the plan, the six-year plan.
5 And then from there we went more specifically
6 into the two years, which was the rate being
7 requested which is the FY17 and FY18 where they
8 talked about the cost of service analysis, how
9 you take the revenue requirement and then you
10 break it down into service time between retail
11 and wholesale. And within retail, how you break
12 it down within service type.

13 Why do you do that? Because based on
14 that, you really set the rates. If you look at
15 Philadelphia rate structure, it really has
16 primarily on the water side it has the fixed
17 charges which are based on meter side and then
18 you have the volume rate. Those rates are
19 defined based on the detail cost of service
20 analysis. And intention with that, Philadelphia
21 also has on the retail side stormwater rates.
22 The stormwater rates are also defined based on
23 the detail cost of service that Dave kind of
24 talked about.

1 That brings the logical question, what
2 is the impact of all these rates on the customer.
3 In this section, we are going to talk about what
4 are the impact on bills. And when we talk impact
5 on bills, we typically talk about residential
6 customers because they are more of a homogenous
7 group. We are going to talk about that.

8 And then also the question is that how
9 does Philadelphia compare with other
10 municipalities, other utilities. We will get a
11 glimpse of that, as well. When we talk about
12 rate and rate impact, a logical question also is
13 can something be done for customers who are in
14 need? We will talk about the customer assistance
15 program.

16 What is the impact of the rate increase
17 if you're talking specifically in FY17? That is
18 a snapshot here. The current year, which is '16,
19 there was no rate increase. Currently, if you
20 take a typical residential customer. When we use
21 the word typical in this context, we are really
22 talking about a residential customer that uses 6
23 ccf or 600 cubic feet of water and 5/8" customer.
24 That's the predominant customer base in

1 Philadelphia.

2 When you look at that group of 5/8"
3 meters with 600 cubic feet of water usage, which
4 is what we call typical, the monthly bill
5 currently the customer is paying for water and
6 sewer and stormwater included is \$67.40. Now,
7 with the proposed rate increase that has been
8 filed, the additional monthly charge expected is
9 \$4.20. The charge would go up to \$71.60 for a
10 customer who does not have any discount like a
11 senior discount. If it's a senior citizen, it
12 will go from \$50.60 to \$53.07 in '17.

13 Then in '18 there is additional rate
14 requested that is being asked for. With that
15 there will be an additional increase of \$3.19 if
16 you look at from our monthly standpoint. The
17 bill is expected to go to \$75.50. These numbers
18 are rounded to the nearest 10-cents. This is
19 what is expected for a typical residential
20 customer in Philadelphia with the rate increases
21 that have been filed.

22 How does this compare when you look at
23 it from a national --

24 HEARING OFFICER BROCKWAY: Sorry to

1 interrupt. Does the rate filing have a bill
2 frequency analysis?

3 MS. KUMAR: Mean different levels of
4 usage?

5 HEARING OFFICER BROCKWAY: Yes.

6 MS. KUMAR: Yes, it does.

7 How does this compare when you compare
8 Philadelphia nationally in terms of water, sewer
9 and stormwater? How does that compare?

10 The chart actually shows utilities from
11 highest to the lowest in this group that we are
12 presenting here. And you can see Philadelphia is
13 more on the lower end of the spectrum. All the
14 utilities presented here, their rates are FY16
15 charge. It's not FY17. So what we have done for
16 Philadelphia, we are showing the FY16. And here
17 it is not the rounded number. Here it is the
18 actual, which is \$63.43. We are also showing at
19 '17 where it will be. You really get both view
20 in the same one bar for Philadelphia.

21 One thing to point out here, when we
22 talk about comparing Philadelphia with other
23 utilities of any benchmark that we talk about,
24 it's not really apples to apples on risk. Why is

1 that? It's because there are significant
2 differences on utilities as to where they draw
3 their water. If you take water utility, for
4 example, where do they draw their water? Is it
5 surface water? Do they use a combination of
6 surface and well waters? What kind of frequent
7 processes they have? Do they have frequent
8 process, or do they use more chlorination? There
9 are differences like that. And the level of the
10 aging infrastructure, not all of the
11 municipalities, even though some of them are
12 large like municipalities like Philadelphia, not
13 all of them have the same level of aging
14 infrastructure.

15 And also, if you look at how they have
16 historically funded their capital program, how
17 leveraged they are, what kind of bond and
18 insurance requirements they have and even what
19 their rates setting processes are, they are
20 significantly different. All of those factors go
21 into water utility and how they recover those
22 costs and ultimately what their bills look like.
23 That's why we say it's not always apples to
24 apples. However, it just gives you a high level

1 guidance of where does Philadelphia fall.

2 So while we can't interpret too much
3 from this in terms of operational performance or
4 cost efficiencies, it just gives you a broader
5 look at where Philadelphia stands.

6 Now, how does Philadelphia compare
7 regionally? We also took a much closer look at
8 Philadelphia and the neighboring utilities. In
9 this, we also looked at utilities of Pennsylvania
10 American and Aqua Pennsylvania and New Jersey
11 American. And here again Philadelphia, compares
12 very favorably both in terms of the current rates
13 in '16 and the '17 proposed bill when you look at
14 the typical bill.

15 MS. LABUDA: We can pause. I believe we
16 need to redial them.

17 HEARING OFFICER BROCKWAY: We are off
18 the record.

19 - - -

20 (At this time, a discussion was held off the
21 record to dial back in people on the phone.)

22 - - -

23 HEARING OFFICER BROCKWAY: We will go
24 back on the record. We are having some telephone

1 issues that are now corrected.

2 MS. KUMAR: We also took a look at how
3 do the proposed residential bills compare when
4 looking at from regional perspective. It still
5 compares very favorably. And especially you can
6 see on the sewer side Philadelphia, even the
7 current rate, we are actually the lowest. So
8 something to, again, keep in mind when we are
9 looking at these proposed request for rate
10 increases.

11 On the stormwater side, the reason we
12 had to pull stormwater out into separate analysis
13 is because not many municipalities have
14 stormwater fees. We took a look at some of the
15 large utilities that do have stormwater fees.
16 There again, Philadelphia's stormwater charges,
17 even the current and the proposed are extremely
18 favorable despite the large program we have for
19 long term plan and other programs.

20 When we talk about the financial plan
21 and the cost of service and the rates and the
22 impact, so while we have emphasized importance of
23 the revenue requirement and the utility meeting
24 all of its obligations, the obligations also

1 include the customer side. We really have two
2 sides of the coin, the utility side and also the
3 customer side. That is why we need to take a
4 balanced approach when we are trying to establish
5 both the financial plan and the cost of service
6 rate. One of the ways to establish is not only
7 trying to maintain the financial solvency of the
8 utility, but also is there anything that can be
9 done to protect customers from a perspective of
10 affordability.

11 The Water Department actually has a
12 number of programs as you can see here from
13 senior citizens discount to some discounts from
14 charitable organizations to the Assistance
15 Program and Home Emergency Loan Program. There
16 are different types of program and the
17 Conservation Assistance Program, so there are
18 different types of program that are already in
19 place to help low income customers. When you
20 look at these programs in aggregate and in FY15,
21 the Water Department provided over \$24 million of
22 assistance just for these programs.

23 Now on top of these programs that Dave
24 alluded to, there is going to be new

1 Affordability Program as passed by the counsel.
2 That Affordability Program and its needs are
3 coming on top of this assistance that's already
4 being provided. And the Affordability Program
5 Jon Davis from Raftelis is instrumental in
6 helping the City work through the program. He
7 will talk about that.

8 MR. POPOWSKY: Just before you do that.
9 The senior citizen discount, is that for low
10 income senior citizens? It's not for all?

11 MS. KUMAR: It's income tested, that is
12 correct. It's income tested.

13 MR. BRUNWASSER: The assumption is that
14 the new program -- I mean, the new requirements
15 passed by City Council will not be -- the
16 25 percent discount for eligible seniors will
17 continue over and above the new program?

18 MS. KUMAR: That is correct. That is
19 the assumption.

20 MR. BRUNWASSER: Right. Right. That
21 program went into effect over 30 years ago.
22 Every senior was grandfathered in regardless of
23 income at that time. So, I doubt there's too
24 many left that don't meet the requirements.

1 MS. OLANIPEKUN-LEWIS: I just wanted to
2 be clear. The new program accounts recently
3 enacted would be on top of the senior citizens
4 program?

5 MS. KUMAR: On top of all these
6 different assistance programs that you are seeing
7 on the screen.

8 MS. OLANIPEKUN-LEWIS: Okay.

9 HEARING OFFICER BROCKWAY: But it may
10 not result in a different rate because depending
11 on the design of the program, this is what's
12 called a burden-based program. You try to get
13 the rate to meet to determine percentage of the
14 customer's income. And there's a whole lot of
15 options there about how you define income and how
16 you define what the percentage is and how you
17 define what the usage is. But putting all of
18 those things aside, you end up with a target bill
19 for the customer.

20 MS. OLANIPEKUN-LEWIS: Would the new
21 program result in additional discounts, i.e.,
22 less revenues to the Water Department I guess is
23 where I'm trying to go?

24 MS. KUMAR: This is a good time to

1 transition to Jon Davis. He was instrumental in
2 helping the City with the program. He's going to
3 provide details on the program.

4 MS. OLANIPEKUN-LEWIS: Even though I was
5 a councilperson, I didn't help the council who
6 put this together, for the record. I was not
7 part of the drafting of this program, so you'll
8 be informing me.

9 MS. LABUDA: If I may go on the record
10 with just a clarifying comment, I apologize for
11 not stepping in earlier. But in terms of senior
12 citizens, they will have the option to either
13 stay in the 25 percent discount or apply for the
14 new program. There is not a scenario I foresee
15 where they would get both the discount an --

16 MS. OLANIPEKUN-LEWIS: That's what I was
17 trying to understand.

18 MS. LABUDA: -- and the new
19 Affordability Program. I apologize for not
20 jumping in there.

21 MR. DAVIS: Good morning. My name is
22 Jon Davis. I'm with Raftelis Financial
23 Consultants. We had the opportunity over the
24 past several months to work with the Water

1 Department, the Water Revenue Bureau and the City
2 Council to help draft a new customer
3 Affordability Program that better meets the needs
4 of economically disadvantaged customers within
5 the system.

6 The general structure of the program is
7 captured in the existing city ordinance which we
8 alluded to. A lot of the details, the
9 implementation details of the program, have yet
10 to be fully thought through and established. In
11 fact, a lot of the details of the program rely
12 pretty heavily on the outcome of this rate
13 filing. So over the next few months, we will be
14 working on this.

15 However, we do have some of the program
16 details, and we'd like to share some of those
17 with you here today. For instance, the program
18 is going to be divided into three income tiers as
19 we see here on the slide. That is based on
20 federal poverty level. And it's available for
21 customers at or below 150 percent of the federal
22 poverty level.

23 Within each of the income tiers, we have
24 usage levels which try to capture customers that

1 are existing in different level of consumption
2 currently. We have a low, medium and high usage.
3 And you see the development of those here. This
4 program is consistent with the EPA guidelines on
5 the development of affordability. It's also
6 consistent with industry practice in this regard,
7 so that's kind of in the basis of some of that
8 discussion.

9 MS. OLANIPEKUN-LEWIS: With each tier
10 you have a utilization analysis. Is that what
11 you're saying?

12 You have three income tiers. Within
13 each tier, then, you would look at consumption
14 utilization?

15 MR. DAVIS: That's correct. First,
16 you'd be placed in tiers. Then you look at
17 historical consumption to place you in.

18 Like to look at kind of the scope of the
19 program as we're -- as we analyzed it. The
20 potential is here for us at 56,000 PWD accounts
21 for about 13 percent of the residential
22 population that fall within this program with
23 respect to the income tiers that have been set
24 up. Additional assistance above the discount

1 tiers that we set up. We have additional
2 assistance for payment plans for other qualifying
3 customers, so it's just not limited to 150
4 percent or below of the federal poverty level.

5 And finally, the implementation of the
6 program as we mentioned, the details of it depend
7 on the outcome of this rate filing.

8 The table here at the bottom of the
9 slide shows some of the ways that the tiers and
10 the usage levels are divided up. And then the
11 resulting -- the resulting discounts that
12 customers would receive if they fall into these
13 tiers and usage levels. You see some pretty
14 significant discounts here. We also, if the
15 discounted bill falls below the minimum bill that
16 we have in the far right-hand corner, the
17 customer would receive a minimum bill. So, we do
18 have that.

19 So based on the result of the rate
20 filing, based on some of the technical issues
21 that are inherent in a program of this complexity
22 and the size, we will be working through a lot of
23 the implementation issues going forward. I know
24 the -- there were some questions from the Rate

1 Board regarding the details of implementation.
2 And we will be working through those over the
3 coming months.

4 MS. OLANIPEKUN-LEWIS: In no instance
5 would a customer pay 0. They will pay at least
6 \$12?

7 MR. DAVIS: Yes. There is a minimum
8 bill concept.

9 MR. POPOWSKY: Earlier slide you were
10 projecting a revenue decrease of 16.1 to 18.6
11 million. I assume, first of all, that is when
12 the program is fully in effect.

13 When is that? Is that 2018 or --

14 MR. DAVIS: Yes. 2018 is the
15 implementation.

16 MR. POPOWSKY: You wouldn't see that in
17 2017?

18 MR. DAVIS: Correct. You would see some
19 ramp up in costs resulting in the additional
20 personnel that you saw discussed in the costs of
21 service earlier. You also have some
22 implementation with respect to system design.

23 MR. POPOWSKY: What's -- what percentage
24 of customers, eligible customers, what's the

1 assumption as to what percentage of the customers
2 will take you up on it.

3 MR. DAVIS: That was one of the major
4 questions in developing the cost that we showed
5 earlier. This is a real -- really a unique
6 program. There are certainly instances of
7 customer affordability programs both within the
8 water and wastewater industry and within other
9 utility industries. But every one is unique in
10 that once it's put in place, there is no
11 certainty with respect to what's subscription
12 rate or the number of customers who qualify will
13 actually apply.

14 So, we made some assumptions from that.
15 We have used benchmarks from other utilities,
16 other regional utilities. We have tried to make
17 sure that the risk to PWD and to the City are
18 manageable risks. Those assumptions would be
19 fine tuning subsequent rate cases once the
20 program is in place.

21 MR. POPOWSKY: That was my question.
22 What is the assumption basic? To get to 16 to
23 18 million, you must have made an assumption.

24 MR. DAVIS: We have some assumptions

1 there. I can refer you to how exactly they are
2 handled within the work papers. What we wanted
3 to do is create a situation where 80 percent of
4 the time, the loss revenues would fall at or
5 below a certain market. That's how we came to
6 the numbers side of it.

7 MR. POPOWSKY: That's why I still don't
8 understand. That was the simulation you did so
9 that 80 percent of the time you'd cover your
10 cost. I still don't know what percentage of
11 customers you expect to participate.

12 MR. DAVIS: I would have to walk through
13 those details with you. It's consistent with
14 what other regional utilities are doing.

15 MR. HUANG: Isn't income eligibility
16 based on eligibility for gas?

17 MR. DAVIS: For this --

18 MR. HUANG: Or is it separately
19 determined?

20 MR. DAVIS: It's separately determined.

21 MR. HUANG: Okay.

22 MR. DAVIS: But they use similar
23 criteria.

24 HEARING OFFICER BROCKWAY: Did you have

1 a question?

2 MS. OLANIPEKUN-LEWIS: I was just
3 feeling Sonny's frustration here. Of the 56,000
4 accounts, you are making some assumption as to
5 who is participating. I think that's what you're
6 trying to get at. Is it 70, 50, 30 percent?
7 What is that number?

8 MR. DAVIS: It depends on the income
9 level. We see different subscription rates at
10 different income levels. Basically, if I have a
11 lower income and I'm eligible for a larger
12 discount, I am more likely to apply. So roughly
13 speaking, I would put it between 50 and
14 75 percent subscription.

15 HEARING OFFICER BROCKWAY: If it's
16 acceptable to the Board, I would think we might
17 be helped if we invite Mr. Ballenger to ask
18 questions if he has them right now about this. I
19 expect their witness Mr. Holden will be putting
20 on some testimony regarding, or we could wait.
21 It's up to you, Mr. Ballenger.

22 MR. BALLENGER: I might refer to
23 Ms. Pickens, as well. Yeah. I guess we can have
24 a couple of -- maybe just a couple of quick

1 questions.

2 Just for purposes of determining the
3 percentage discounts on page 46, Mr. Davis, we
4 have spoken before. I am just guessing, is this
5 based on the mid point of each tier again?

6 MR. DAVIS: Yes. It's based on the
7 middle -- the median income within the tier and
8 the median consumptions within the usage.

9 MR. BALLENGER: Okay. Is it also based
10 on a hypothetical family size of 2.5 persons or
11 thereabout that I think we dealt with in the
12 past?

13 MR. DAVIS: Under those circumstances,
14 the family size wouldn't play into that.

15 HEARING OFFICER BROCKWAY: How could it
16 not?

17 MR. BALLENGER: You have to determine
18 the amount of the actual household income.

19 MR. DAVIS: I'm sorry. I misunderstood
20 your question.

21 MR. BALLENGER: Okay.

22 MR. DAVIS: It is based on the average
23 household size for the City of Philadelphia.

24 MR. BALLENGER: Okay. Just in

1 calculating those discounts. Okay. As
2 Ms. Brockway mentioned, this is a burden-based
3 piece of legislation. What were the burdens used
4 that underlie these particular tier calculations
5 as a percentage of household income?

6 Do you happen to know what those were?

7 MR. DAVIS: I'm sorry. Are you talking
8 about the thresholds?

9 MR. BALLENGER: Yeah. Sort of the
10 affordability targets. We use different language
11 for them. I think Ms. Brockway referred to them
12 as burdens. We have talked about them in
13 different ways in the past.

14 Do you happen to know what those are?

15 MR. DAVIS: Generally, I think the
16 target is set by counsel for tier one is
17 2 percent of income; for tier 2 it was 3 percent
18 of income; and for tier 3 it was 4 percent of
19 income.

20 MS. BECKLEY: Clarify, the final version
21 of the bill I believe council left that to the
22 Rate Board. There was an earlier version of the
23 bill that included some of these.

24 MR. BALLENGER: But for purposes of the

1 proposal, those were the tiers. I just wanted
2 to -- I don't want to go into too many details
3 because this can, as you know, take on a life of
4 its own.

5 MS. PICKENS: Wasn't anticipated that in
6 years after the implementation year, that the
7 discounts will remain where they are on your
8 chart?

9 MR. DAVIS: I don't think we made
10 specific assumptions as to how that would be
11 handled. It seems like that would be reviewed
12 periodically to make sure those are still within
13 the intent of the original.

14 HEARING OFFICER BROCKWAY: I don't mean
15 to say that you need to ask questions all now or
16 all today, I just wanted to make sure that the
17 Board was brought up to speed on any issues
18 hanging out there that would be important to look
19 at as we look at the program.

20 MR. BALLENGER: Yeah. I think those
21 were sort of some of the bigger issues that we
22 touched upon is what sort of -- behind the scenes
23 here, what are we looking at what is affordable
24 is one thing we wanted to get at. What Josie was

1 getting at is that the percentage of it remains
2 the same forever, wouldn't necessarily meet the
3 objective. We are going to do some more
4 discovery and have some more conversations about
5 this I think as we go on. I will leave it at
6 that.

7 MR. BAKARE: My name is Ade Bakare,
8 Counsel for the Philadelphia At Large Interest
9 Group. Mr. Popowsky asked about the revenue in
10 the assistance program. It wasn't clear to me if
11 the figure that was given in the 16 to
12 18 million-dollar figure, is that you have same
13 customer option out of the senior citizens
14 discount program. Is that just on the cost side
15 of the new program?

16 MS. KUMAR: Just a minute. Let me go
17 back to that slide so that we can answer that
18 question.

19 HEARING OFFICER BROCKWAY: What's the
20 number of that?

21 MR. HUANG: Slide 26.

22 MS. KUMAR: Slide 26. This is Ms. Kumar
23 from Black & Veatch. Slide 26 we kind of touched
24 upon the revenue. So, we mentioned the decrease

1 of 16 to 18 million. But if you look at
2 specifically at 18, because there is an
3 assumption that the City grants portion of the
4 WRAP Program will be eliminated, therefore, the
5 net revenue decrease in '18 is 13.4 million. So
6 to your question, yes. Some of the other offsets
7 were looked into before driving the net revenue
8 decrease.

9 MR. BAKARE: Then just as a follow up
10 then, is there an isolated number that shows just
11 the cost of the new assistance program aside from
12 City's overall revenue decrease?

13 MS. BROCKWAY: I'm not sure I understand
14 the question.

15 MR. BAKARE: I'm wondering if the new
16 assistance program, I'm wondering what the cost
17 of that program itself is aside from just the
18 wholistic revenue decrease the Department will
19 experience at FY18. I think the Board would
20 benefit from isolating the cost of that specific
21 program just to get an idea of what the -- what
22 that line item impact is for the Department.

23 HEARING OFFICER BROCKWAY: By cost, if I
24 can just clarify, I think you mean revenues

1 foregone plus net additional administrative
2 costs.

3 MR. BAKARE: Correct.

4 HEARING OFFICER BROCKWAY: And I say net
5 because there may be some savings. I don't know
6 whether that's going to be argued. But some have
7 argued there are administrative savings because
8 you make bills affordable.

9 But actually, did you look into that
10 question whether or not there was any
11 administrative savings from making bills
12 affordable?

13 MR. DAVIS: We did not make any
14 assumptions as to that in 2018 because we wanted
15 to see how the program would be implemented.
16 Keep in mind that a lot of the development of
17 this was -- was done while the discussions were
18 going on. The City can also -- details being
19 finalized. So, we do not have assumptions with
20 respect to any savings on that area.

21 The cost of the -- the cost in lost
22 revenue associated specifically with the customer
23 Affordability Program are captured on this slide.
24 The increase in costs and the assumptions for

1 lost revenue were used in the cost of service.

2 MS. KUMAR: The revenue portion shows
3 the revenue decrease, but then the personnel and
4 citizen shows the cost increase the cost of
5 administering the program. So, those are the
6 personnel costs and the services cost.

7 MR. BAKARE: Okay. I guess that what I
8 hear is that at this point in time, that isolated
9 cost of this program doesn't -- isn't available
10 at this point in time.

11 MS. KUMAR: That is the -- the personnel
12 costs and the services cost are the cost of the
13 program when you're talking about isolated cost.
14 That 22 staff positions with the cost of 1.6 or
15 2.4 million projected for the study period and
16 the additional 1.3 million just in '17 for the
17 basis2 billing system to get it up and running to
18 accommodate this program and the 0.7 to
19 0.8 million in '18 through '21 to again support
20 this program. Those are the isolated costs from
21 the cost side of the fence.

22 So that is in addition to the revenue
23 decrease of 13.4 million they are showing in '18.

24 MR. BAKARE: Yup. That makes sense.

1 Thank you.

2 HEARING OFFICER BROCKWAY: I do have one
3 more question. What assumption is made about
4 outreach and intake for the program?

5 How are customers advised that the
6 program exists? Who does the intake?

7 MR. DAVIS: With respect to the cost of
8 that, we did look at those costs. And the
9 assumption would --

10 HEARING OFFICER BROCKWAY: Pardon me.
11 I'm not looking at costs.

12 MR. DAVIS: You're just looking at
13 implementation?

14 HEARING OFFICER BROCKWAY: Yeah. How
15 that was done. What assumption was made about
16 how it was done?

17 MS. BETHEL: Hi, I'm Michelle Bethel.
18 I'm the Deputy Revenue Commissioner for Water
19 Revenue.

20 Specific assumptions for how we're going
21 to do outreach, we are actually waiting to put
22 the whole implementation plan together. So, we
23 don't have specific numbers on actually how we
24 would roll that out at this time.

1 MS. OLANIPEKUN-LEWIS: You would at
2 least do it a year out before sometime.

3 MS. BETHEL: Oh, yes. Yes. I think a
4 lot of this comes when we have a final decision
5 from the Board. We will be able to move forward
6 on what we are actually going to be pushing out
7 to our customers.

8 MR. HUANG: If my math is right, the
9 FY17 outlay is 1.6 million plus 1.3 million. The
10 first number is for personnel and the second
11 number is for the IT. And that's in the year
12 prior to the roll out of the actual discount.

13 MS. LABUDA: Correct. So in our '17
14 budget submission that we're currently working on
15 that aren't yet public, you are absolutely
16 correct that the Water Revenue Bureau's budget
17 does contemplate the additional hiring of the
18 full-time staff during FY17. It does also -- the
19 Water Revenue Budget as well as the Water
20 Department Budget also capture the additional
21 incremental cost related to basis2 changes as
22 well as additional support measures that we need.

23 MR. BRUNWASSER: Is it a safe bet even
24 now to say that at a very low minimum, this would

1 be actually printed on the bill these -- this
2 program could be -- the alert could be printed on
3 the bill and also billing inserts which would not
4 cost the Water Department or the Revenue Bureau
5 any extra postage as they would insert that into
6 the bill? I mean, that I think we can probably
7 assert now.

8 MS. BETHEL: Yes. That's an accurate
9 assumption. You said the billing inserts and
10 putting the messages on the bill, that's
11 something that we have control of right now.
12 That it's not going to be an additional cost.

13 MR. BRUNWASSER: Correct.

14 MS. BETHEL: For the bill messaging.

15 MR. MARKUS: Is the Department looking
16 to outsource --(trails off.)

17 HEARING OFFICER BROCKWAY: This is Ed
18 Markus, a financial consultant. The question is,
19 has the Department looked at whether to outsource
20 the intake of customers?

21 MS. BETHEL: We have not settled on
22 exactly how we will do that. We are open to
23 taking that into consideration to outsource that
24 process.

1 HEARING OFFICER BROCKWAY: If I could
2 follow up on that, my assumption is that at this
3 point, the Department of Revenue personnel would
4 take payments and receive applications and
5 determine who would be eligible.

6 MS. BETHEL: If I'm understanding your
7 question, the personnel that take payments are
8 not the personnel that will be taking the
9 applications. Payment processing, which is
10 within Revenue on the tax side, handle all of our
11 payments. They do not handle or process the WRAP
12 current applications.

13 HEARING OFFICER BROCKWAY: So that --

14 MS. BETHEL: It's a different group of
15 personnel.

16 HEARING OFFICER BROCKWAY: Still under
17 Revenue.

18 MS. BETHEL: Still under Revenue, yes.

19 HEARING OFFICER BROCKWAY: Just to alert
20 you that some of the things that I think would be
21 useful to get into before the Board makes a
22 decision will be to what extent somebody is
23 deemed eligible by virtue of their receipt of
24 some other means tested benefit. And.

1 MR. MARKUS: Do the 22 positions reflect
2 the assumption that the review is done in-house?

3 MS. BETHEL: Yes.

4 MR. MARKUS: No decision has been made
5 yet.

6 MS. BETHEL: Has not. But we would be
7 prepared that it if were handled in-house, that's
8 how we would -- as I said, we are up for thinking
9 differently for processing of those additional
10 pieces of paper that would come in through the
11 program.

12 HEARING OFFICER BROCKWAY: Does the
13 Board want to pursue this further at this time?

14 (No further questions from the Board.)

15 HEARING OFFICER BROCKWAY: You will have
16 more on this. At this point --

17 MR. DAVIS: That's all I have.

18 HEARING OFFICER BROCKWAY: Let's go off
19 the record.

20 - - -

21 (At this time, a discussion was held off the
22 record.)

23 - - -

24 HEARING OFFICER BROCKWAY: Back on the

1 record.

2 MS. McCARTY: Now we're at the Rate
3 Board questions that we received. Those were
4 numbered. Hopefully, you can follow along.

5 Questions 1 through 6, we believe we
6 addressed in sections of this presentation, 1
7 through 3 in the cost of service presentations.
8 Question 7, which is describe the major factors
9 effecting the order of bond ratings. That will
10 be addressed in Kathy Cuppler's presentation from
11 PFM.

12 And Question 10 is -- we believe, again,
13 is addressed in the cost of service
14 presentations, section four. And that's the
15 proposal to implement the low income payment,
16 excuse me, the low income program.

17 So Question 9 and 11, I will try to
18 address right now. So Question 9, for those of
19 you who don't have the question, I will read it
20 first.

21 "Why is the Department switching from
22 automatic meter reading, AMR, to advance meter
23 reading infrastructure, AMI? What are the
24 anticipated quantifiable costs and benefits of

1 that decision and when is it supposed to be
2 implemented?"

3 This is no longer a part of our rate
4 filing. But I wanted to note that moving to AMI
5 will provide our customers with better service,
6 will allow the Department to address service
7 issues in a more timely manner, should streamline
8 the shutoff process. And that it will -- we're
9 eventually going to have to replace the ERTs, the
10 encoded radio transmitters because they are
11 coming to the end of their useful life.

12 This contract will need to be approved
13 by City Council. The final contract for AMI will
14 need to go before City Council. It's a long term
15 contract and it will need to be approved by them.

16 So going on to -- if there is no -- yes?

17 MS. OLANIPEKUN-LEWIS: I'm dating
18 myself. I was actually working for the Finance
19 Director when the first AMIs were installed. I
20 was detailed to Board of Water Revenue Bureau.
21 The big issue was, I did a subcommittee on theft
22 of services.

23 Can you talk a little bit about how the
24 new AMI is going to, I guess, better detect theft

1 of services relative to the current AMRs?

2 MS. McCARTY: So currently, we get a
3 reading once a month when the Itron truck, if you
4 will, that had PW on it as well drives by and
5 picks up the reads from the various groups that
6 it does on a monthly basis. And so, it's
7 basically every 30 days plus or minus you get a
8 reading. AMI will provide the data, you know,
9 pretty much instantaneously. We will be able to
10 see what's going on.

11 The goal is the technology is evolving
12 as we speak even. The goal is to be able to
13 detect if the meter is taken offline. We will
14 know, for instance, if we shut off a delinquent
15 customer, if they start using water again, that
16 means -- and they are not supposed to, they
17 illegally restored themselves, we will get that
18 the next day once we start seeing consumption
19 again. A shut off customer should be zero
20 consumption. We will see that pretty much
21 instantaneously.

22 MS. OLANIPEKUN-LEWIS: You are not using
23 a radio signal anymore? What type of technology
24 do you use to capture that data?

1 MS. MCCARTY: It --

2 MS. OLANIPEKUN-LEWIS: Let me rephrase
3 it. Under the AMR it's a radio frequency.

4 MS. MCCARTY: Right. The truck has to
5 drive by.

6 MS. OLANIPEKUN-LEWIS: What technology
7 will you use under AMIs?

8 MS. MCCARTY: We are looking at fixed
9 network where you'll have receivers placed
10 throughout the City. Depends upon the vendor.
11 Some need more, some need less. Again, we're in
12 the preliminary stages of figuring all of this
13 out. But fixed network will be -- you know,
14 there will always be contact with that. That's
15 the goal.

16 MR. POPOWSKY: Do you know, are there
17 Pennsylvania water utilities using AMI? Aqua PA?
18 Pennsylvania American that are going to AMI?

19 MS. MCCARTY: Off the top of my head,
20 couldn't tell you. I think Aqua is moving toward
21 it. I can't tell you off the top of my head.

22 MR. POPOWSKY: Do you know how much it's
23 going to cost? 10 million? 50 million? A
24 hundred million?

1 MR. BRUNWASSER: Yes.

2 (Laughter)

3 MS. McCARTY: Right now we don't have
4 a -- I mean, it's hard to say. Again, this is
5 out of the rate filing period. But for the, you
6 know, 17/18. But it will cost something, I can
7 assure you. What that is, you know, we haven't
8 even begun to -- we have an idea, but it's
9 difficult to say until we know exactly what we
10 want. We are still in the preliminary stages of
11 figuring that out, looking at what's out there,
12 working with vendors, figuring it all out.

13 I really can't give a good answer to
14 that right now.

15 MR. POPOWSKY: I think PECO got a
16 200 million-dollar grant from the Federal
17 Government to just pay part of their switch to
18 AMI for electric. So I just -- before you spend
19 this money, I was just hoping to get some sense
20 of how much this will cost. I mean, what are
21 the -- the question is what are the quantitative
22 benefits -- I realize it's no longer part of this
23 case. I certainly hope at some point we will
24 find out what the quantitative costs and the

1 quantitative benefits are. I understand the
2 benefits of automated meter reading for water
3 utility.

4 MR. BRUNWASSER: I think moving to AMR
5 back in 1996, it meant the elimination of up to
6 130 meter readers from the Water Revenue Bureau.
7 And at the time, they were successful in reading
8 a meter perhaps only once every three times. And
9 they tried to read on a quarterly basis. So, the
10 typical house was read once a year leading to
11 lots of disputes, lots of phone conversations
12 between the customer and the Revenue Bureau.

13 So, there was a tremendous savings. And
14 of course, the savings of employees' continues.
15 All of those people were phased out. They were
16 not laid off.

17 HEARING OFFICER BROCKWAY: Can I ask the
18 question this way. Do you yet have even a draft
19 business case for the investment? By which I
20 mean, what the Member Popowsky was talking about,
21 there is all the anticipated cost. Here is all
22 the anticipated savings.

23 What's the relationship between cost and
24 savings?

1 MS. LABUDA: There has been some
2 preliminary work done. It would be disingenuous
3 to say there wasn't some work done. We are
4 coming fast upon the end of the contract of our
5 current technology. We have no choice but to do
6 something different. And I don't want to get the
7 year wrong on the record. I don't know if it's
8 '19. But there are preliminary analyses. And I
9 think that's why we are pausing on this.

10 We are not trying to hold something
11 back. I think it's just all very preliminary,
12 and we are still reviewing it. I respect your
13 request to come back at some point and talk about
14 this further. But I think today it's very
15 preliminary.

16 MR. POPOWSKY: That's fine. I was
17 hoping at some point before you spent hundreds of
18 millions of dollars --

19 MS. LABUDA: I think it's a very fair
20 and valid request. I just -- I think we need --
21 I am looking at our legal counsel and our CEO. I
22 think we need a little more time to really do our
23 homework and do a more formal presentation.

24 HEARING OFFICER BROCKWAY: One of the

1 reasons that I ask is because you already got
2 the -- as Chair Brunwasser says, the labor
3 savings. In addition to new meters, my
4 understanding of AMI is that you need this new
5 two-way communication system. And you need a new
6 back office system for meter reading management.
7 Both of those are part of the big cost drivers
8 for electric and gas when they go to AMI.

9 MS. McCARTY: Well, what I can tell you
10 is that we have looked at our meters and then
11 done extensive testing. And believe that we will
12 not need to replace the meters as part of this.
13 So, that's a substantial savings to our
14 customers.

15 HEARING OFFICER BROCKWAY: If you
16 don't -- that's interesting. If you don't need
17 to replace the meters, the contract is coming to
18 an end. Would it not be possible to extend the
19 contract, there is then an alternative that you
20 are looking for?

21 MS. McCARTY: There are two one-year
22 options to renew on an existing contract. We are
23 anticipating being able to, you know, do the roll
24 out in conjunction with taking those two things,

1 two one-year options to renew. Those two
2 extensions. The -- the contract we have is an
3 excellent contract. Our lawyers served us well.
4 And we would have to renegotiate costs with the
5 current vendor and do not expect to get as
6 attractive rates as we currently have. And in
7 fact, we pretty much been told good luck with
8 that.

9 HEARING OFFICER BROCKWAY: Right. And
10 so, that would go into any temporary hypothetical
11 or preliminary business case as I was using.

12 MS. McCARTY: Right. As I think I
13 mentioned, we do need to replace the ERT. Their
14 additional life is coming to an end. We have to
15 do something.

16 HEARING OFFICER BROCKWAY: The ERTs
17 meaning the module on the meter.

18 MS. McCARTY: Exactly. There are three
19 components of what I could consider a meter.
20 There is the meter, measuring the flow, then
21 there's a register recording that consumption,
22 and then register is sending a signal to the ERT.
23 The ERT is what sends the signal to the trucks
24 that drives by.

1 HEARING OFFICER BROCKWAY: I don't want
2 to take time now. Sounds as if you're not there
3 yet in your study of this. But just to raise the
4 issue of -- I don't want an answer now, but just
5 to raise the question. Will there be a
6 difference in the cyber security of Department
7 functions if you go to AMI as opposed to
8 extending ERT?

9 MS. McCARTY: Well, security is one of
10 the issues that we are concerned about of course.

11 HEARING OFFICER BROCKWAY: Any more
12 questions on the AMI at this point?
13 (No questions from the Board at this time.)

14 MS. McCARTY: Moving to Question 11:
15 "Please briefly discuss the Department's efforts
16 to ensure the safety of the City's water supply
17 particularly with respect to the level of lead in
18 the drinking water."

19 If you haven't figured out already from
20 what I said previously, we take our commitment to
21 provide safe drinking water to our customers
22 very, very seriously. As such 24/7, 365 days a
23 year, our employers are working to ensure we live
24 up to that commitment. The two plants utilized

1 best available technology to treat the river
2 waters while still controlling costs. Treatment
3 of water is, I like to tell folks, is a
4 chemical/physical process. You add some
5 chemicals and things physically happen. You
6 remove things. The pollutants basically is what
7 we are hoping to remove. And, you know, so
8 physically through sedimentation and filtration.

9 We have monitors throughout our
10 distribution system or conveyance system. And
11 that allows us to monitor and maintain quality to
12 each of our customers to their tap. Speaking
13 specifically to the lead issue, as part of the
14 treatment process to control corrosion in the
15 conveyance system, we add safe orthophosphate.

16 This practice creates a thin coating
17 inside the pipe. The coating prevents water from
18 coming in contact with the lead solder or the
19 lead pipe. It's important to note that the Water
20 Department does not have any lead pipes.
21 Remember, that our customers own from the
22 connection to the water main up to and including,
23 you know, to the meter. And then, of course,
24 inside. The remainder of the inside plumbing.

1 The meter is already inside.

2 So, the idea is that that coating when
3 your water was sitting in there, doesn't -- keeps
4 the water from coming in contact with the lead
5 solder and the lead pipe. Water is universal
6 solvent, so you don't want it dissolving -- the
7 lead dissolving in our water. And we estimate
8 about 50 to 60,000 properties do have lead pipes
9 or lead solder.

10 MR. BRUNWASSER: And the water that we
11 get, the water that leaves the pre-water
12 treatment plants is lead-free?

13 MS. McCARTY: Yes.

14 MR. DASENT: I believe we have one final
15 question on the regulatory compliance.

16 MS. McCARTY: Scott Schwarz will handle
17 that question.

18 MR. SCHWARZ: I'm Scott Schwarz, general
19 counsel for the Water Department. The question
20 was as follows: "the federally mandated unfunded
21 long term control plan seems to be the major
22 challenge for the Department both now and in the
23 future. Are there new and more stringent federal
24 or state rules on the horizon which may impact

1 future revenue requirements?"

2 The answer is yes. We have talked
3 already about the three major acts. Let me give
4 you some examples under each act.

5 First act would be the Clean Water Act.
6 And under that act, there presently on the
7 horizon some new water quality standards for both
8 Wissahickon Creek and the Delaware River. EPA
9 proposed new standards for Wissahickon Creek in
10 May of 2015 that would control the total amount
11 of the phosphorous entering the watershed.

12 That kind of rule is called a total
13 maximum daily load or TMDL. It would set limits
14 on phosphorous entering the Wissahickon Creek
15 Watershed from both wastewater treatment plants,
16 stormwater and other sources. That document is
17 still in draft form and we don't know when it's
18 going to be finalized.

19 On the Delaware, the Delaware River
20 Basin Commission recently mentioned strengthening
21 the dissolved oxygen standard in the Delaware.
22 And that may be revised to better protect fish in
23 the Delaware. Again, that's very preliminary.
24 And we don't have a good date on when that may

1 happen.

2 Also under the Clean Water Act, there
3 are some other ways that more stringent
4 requirements go into a place. One is through our
5 permits. All of our permits have expired, so we
6 are operating under automatic renewals. And we
7 have some drafts of the new requirements. There
8 are some new requirements in the draft permits.
9 For example, the stormwater draft permit for a
10 stormwater system would require us to do
11 additional monitoring and take certain remedial
12 actions that would monitor for certain results.

13 There is a lot of new requirements at
14 our treatment plant. Draft permits. Just to
15 give you an example, the new draft permit for our
16 Northeast Plant requires us to do a study of
17 trash in the Tacony-Frankford Creek. If it turns
18 out that our system is contributing to the trash,
19 take certain remedial actions. Those permits are
20 not finalized yet, but they are on the horizon.

21 And finally, under the Clean Water Act,
22 there is EPA guidance and policy interpreted
23 continuously under our consent order or
24 agreement. We just got a letter from EPA a month

1 ago that asked for a new analysis of alternatives
2 for providing for overflow controls. That's due
3 January 2017. We also have a major filing under
4 the current consent order due in October. It's
5 called -- well, there are various things
6 required. But the major filing is called an
7 Evaluation Adaptation Plan. And the consent
8 order provides that we will make changes to the
9 long term control plan if necessary based on
10 that.

11 Those are the Clean Water Act changes.
12 It's both a water quality standard permit
13 requirements and EPA interpretation of the policy
14 and guidance. Under the Clean Air Act, the big
15 issue following, it's been in the news lately, is
16 the EPA's plan for reducing greenhouse gas
17 emissions from electric generation units. City
18 is actually a party in that case. It's been
19 appealed in the DC Circuit by about 200 parties.
20 There's tons of parties involved.

21 The Supreme Court states that rule a few
22 weeks ago, five to four vote. The rules stayed.
23 But the rule is now being created for DC Circuit.
24 All the first briefs were filed on Friday,

1 briefings done in April. The outcome of that
2 case may have some long term impact on energy
3 crisis. It's not a direct impact to us, but it
4 could have a direct impact.

5 And finally, under the Safe Drinking
6 Water Act, we already mentioned lead and copper.
7 There is a number of rules under the Safe
8 Drinking Water Act that may be revised and are on
9 the horizon for revision. One is the Unregulated
10 Contamination Modicum Rule. That rule was
11 proposed by EPA in December for comment. The
12 comment period closed February 9, and that rule
13 required us to monitor for 30 unregulated
14 contaminants beginning in 2017.

15 Another rule, drinking water rule, is
16 the Revised Total Pollen Form Rule. EPA
17 published that rule some time ago and requires us
18 to monitor for pollen-formed bacteria. Takes
19 effect April 2016. There's a parallel effort in
20 the state to do a state rule that would be more
21 stringent. And that was proposed October 3 of
22 2015 and is currently being reviewed at the state
23 for implementation in 2017.

24 And if accepted, briefly mentioned lead

1 and copper. It's entirely possible we will have
2 not only a new rule for lead and copper but some
3 new guidance on how to monitor for lead and
4 copper.

5 That is kind of an overview. I don't
6 think I covered everything on the horizon. But
7 those are the ones that potentially could impact
8 over the next couple of years or beyond that in
9 the long term horizon.

10 MS. McCARTY: If I may add to the lead
11 and copper, we test every three years as per the
12 regulation. Next year in 2017, which is FY18, we
13 will sample in the warmer weather, spring and
14 summer. Will be -- if those regulations change,
15 it will likely impact that sample and/or the
16 guidelines.

17 MR. BRUNWASSER: Are you done with the
18 questions so far?

19 MS. McCARTY: Right.

20 MR. BRUNWASSER: I have one. I think I
21 mentioned it in the written portion. Clearly,
22 the Department has lowered its revenue
23 requirements somewhat by refinancing old debt
24 which is with lower interest than has effected

1 the Fed service to the benefit of lowering the
2 revenue requirement. But there are other things
3 that the Department has done. I think the solids
4 handling was a major factor in the Department.
5 The City wastewater side does created a
6 tremendous amount of solids each and every day,
7 24/7.

8 I'd kind of like to get an update on
9 that improvement and what that has resulted in,
10 in lowering of revenue requirements over the past
11 few years and how that's going today.

12 MS. McCARTY: I apologize. I don't have
13 those numbers off the top of my head. We can
14 provide that.

15 I can tell you that it continues to be
16 very successful. And is -- does save us a lot of
17 money every year. It's been a good partnership
18 with the vendors. We can get you those numbers.

19 MR. BRUNWASSER: Yeah, that would be
20 great. That would also address the clean air
21 problem.

22 MS. McCARTY: Yes.

23 MR. BRUNWASSER: Near the Southwest
24 Plant or near the airport for those of you used

1 to experience those odors.

2 HEARING OFFICER BROCKWAY: I was
3 thinking it as a procedural matter that if you
4 have questions that you have taken, that
5 Mr. Dasent can put them in the form of discovery.
6 Call it the record reflects, whatever you want.
7 Answer them that way and then the answers will be
8 posted in due course on the website.

9 MS. LABUDA: I believe there was one
10 more question from the Board that we haven't yet
11 answered if I may address it. The question
12 related to why is -- I apologize.

13 "Please describe and quantify any
14 expected payments to be made from the Department
15 to the City's general fund during FY17 and 18."

16 Earlier in the presentation I described
17 the interest earnings on the Debt Service Reserve
18 Fund. We're required to transfer those from the
19 Debt Service Reserve Fund to the Residual Fund
20 and from the Residual Fund to go to the City's
21 Con Cash. Outside of that, we make payments to
22 the general fund for services that they provide.
23 In the filing, the projection for the general
24 fund, our payment for services I believe in FY17

1 was approximately 8.5. And in '18 it's 10.4.
2 But inclusive in those numbers, and I'm sure our
3 consultants will double check me on this, are our
4 portions of the payment for the construction of a
5 combined sewer outflow. That is why there is
6 slightly higher than prior years.

7 MS. MCCARTY: If there are no more
8 questions.

9 HEARING OFFICER BROCKWAY: There any
10 more questions from the Board?

11 MR. BRUNWASSER: I also had a question
12 about, you know, obviously the Department and the
13 City Treasurer met with bond rating agencies when
14 the question of a Rate Board came up. And
15 changing the rate making policy of the Water
16 Department, you know, which have been in effect
17 about 65 years. I was wondering -- I read the
18 two reports by Fitch and Moody's.

19 I was wondering what they may have said
20 verbally to the Department and the City regarding
21 the Board itself?

22 MS. LABUDA: Kathy Clupper and I will
23 address that question.

24 MR. BRUNWASSER: Oh, that's fine.

1 MS. CLUPPER: As you know, historically
2 the rating agencies have given the City a pass or
3 it's been a credit positive that the Commissioner
4 can ultimately set the rate. So the City has
5 historically set the rates close to 1.2 and has
6 used the rate stabilization fund to maintain
7 coverages. Which I will talk about in my
8 presentation. That's on the low side of kind of
9 utility 1.2 and 1.21 coverage. The City kind of
10 has gotten a pass.

11 The new Rate Hearing Board which was
12 presented during the last rating presentations,
13 we did an outline, what was the new rule, we gave
14 them the legislation. We basically said this was
15 a new construct. I think we articulated it was
16 an opportunity to kind of have a long kind of
17 ongoing relationship with the Rate Hearing Board
18 which is typical in other municipalities who had
19 independent Rate Boards. It's very much of here
20 is a presentation. Here is information. And
21 then they deliberate and they, you know, either
22 improve or whatever.

23 So, that's how it was presented. It was
24 an opportunity. They understand what the rules

1 are, what was in legislation or the ordinance.
2 Fitch in particular did raise it as a credit
3 concern because it's an unknown. Anything that's
4 an unknown in the world of rating agencies is
5 credit negative because they always default to
6 the worst possible scenarios.

7 So in this case, I think they're -- and
8 investors are anticipating what's going to
9 happen. They are going to see what comes back.
10 It's also a trend. I think it's a "to be
11 determined" whether it's ultimately a credit
12 positive or credit negative.

13 MS. LABUDA: I think on the other side,
14 though, to address your question is that during
15 the financial crisis, there was something called
16 Dodd-Frank Act. Rating agencies in their reports
17 and in our discussions paralleled their concerns.
18 The discussions in the room were paralleled in
19 the rating presentations. It's not as if there's
20 some offset discussion that wasn't captured in
21 those reports. If you read the reports, you can
22 highlight the concern, the uncertainty on many
23 fronts on rising capital program. And, of
24 course, the uncertainty with the Department's

1 ability to achieve requested rate increases.

2 MS. CLUPPER: The public conversion, if
3 you refer to the last official statement, does
4 outline what's in the rate for this Board. And I
5 did go back after because of the question and
6 looked at the rating presentation. There was a
7 couple slides that basically just outlined what
8 was in there and kind of what's going to happen.
9 That was really the extent of the conversation.

10 Nobody knows what's going to happen, so
11 that's basically it.

12 MR. BRUNWASSER: Thank you.

13 HEARING OFFICER BROCKWAY: Go off the
14 record.

15 - - -

16 (At this time, a discussion was held off the
17 record.)

18 - - -

19 HEARING OFFICER BROCKWAY: Go back on
20 the record.

21 MS. MCCARTY: The Department believes
22 that the proposed plan and rate request will
23 sustain us and our mission of providing
24 integrated water, wastewater, stormwater services

1 to our customer. So, it provides the financial
2 sufficiencies, the stability that a large utility
3 such as us, ourselves, require, supports
4 equitable cost recovery, provides customer
5 assistance as responsible utilities should do,
6 and meets our General Bond Ordinance and
7 insurance covenants.

8 So, all those requirements are met in
9 our request. And then I am actually done.

10 HEARING OFFICER BROCKWAY: We will go
11 off the record.

12 - - -

13 (At this time, a discussion was held off the
14 record.)

15 - - -

16 HEARING OFFICER BROCKWAY: Let's go back
17 on the record. We are going to push through
18 until 1:00 a.m -- 1:00 p.m.

19 (Laughter)

20 MS. CLUPPER: Thank you very much. I
21 was asked to provide a presentation on credit
22 ratings, some of the impact on the hearing on the
23 Water Department's credit rating. So, what I
24 would like to do is just to go through this

1 presentation. And please feel free to interrupt
2 me.

3 So starting on page 2, I thought it
4 might be a good idea just to kind of talk about
5 what the credit rating agencies, what they view
6 their role is, what they are and what they
7 aren't. As Missy alluded to, Dodd-Frank has
8 changed kind of a lot of their approaches. They
9 are much more uptight about their presentations
10 and information flow.

11 So what they are, credit ratings are
12 opinions about essentially credit risks. They
13 are supposed to be forward-looking opinions.
14 They express opinions about the ability and the
15 willingness of an insurer to meet its financial
16 obligations in full and on time. They are not a
17 recommendation or prognosis, but are intended to
18 provide market participants with information
19 about relative credit lists.

20 They express relative opinions about
21 credit worthiness related to debt from the
22 strongest to the weakest and with the universe --
23 within the universe of credit risk. They also
24 take a global view, too, as well just in

1 comparing credits within the United States. They
2 do not constitute investment advice. Credit
3 ratings are not indications of market liquidity
4 in the debt security or its price in the
5 secondary market. They are not guarantees of
6 credit quality or future credit risk.

7 Feel like I'm a commercial.

8 They are not absolute measures of
9 default probability, but they are at the end of
10 the day to speak about the likelihood of default.
11 So when they do the analysis, the credit analysts
12 are generally sector specific. There are some
13 credit analysts that also rate the City, but
14 generally there is at least one credit analyst
15 that is specific to the utility sector.

16 They look at the sources of funding,
17 security, revenue diversity and stability. They
18 are going to look at financial flexibility, the
19 ability to meet obligations, strength in the
20 operations for maintenance, you know, when they
21 deliver the product, liquidity investments and
22 cash flow, debt structure. They are going to
23 look and see how much fixed rate you have, how
24 much variable rate you have, do you have

1 derivatives.

2 The strength of the management team is
3 an important quality. That is something the City
4 has generally rated very high on both in the City
5 general funds as well as water. They are going
6 to look at historic performance current year and
7 look at future. They look at trends. If you
8 change something this year that might be a credit
9 positive, but it's not necessarily going to
10 translate into an upgrade. They are going to
11 want to see a trend in later years.

12 The rating agencies provide a lot of
13 written material on kind of their view of
14 different sectors. That material was connected
15 to my or part of my testimony, so I would
16 encourage you to read it. It's very informative.
17 I think it's very interesting.

18 So when you look at the sector credit on
19 utilities, there is just a couple things that
20 they have a concern about. Economic climate. I
21 mean, the water utility sector provides a central
22 service. That's a credit positive. Everybody
23 needs to have sewer water. That's a good thing.

24 The economic cycle has been a big

1 conversation over the last several years. There
2 is a more positive growth in the economy, but
3 they don't really necessarily think that the
4 current expansion is just going to have a
5 marginally positive impact on operation, which is
6 interesting. It's not a boom kind of scenario.

7 Cost recovery remains a challenge.
8 Total cost recovery is a challenge because most
9 of the utility rely on consumer usage to fund
10 fixed costs. So you have when consumer usage is
11 down, obviously, you have less revenue. That is
12 a problem when a part of your expenses are fixed
13 debt service, potential liability and other
14 things. That's a concern.

15 Changes in the environmental
16 regulations, of course, is a concern that's going
17 to lead to increased operating and capital costs.
18 And I think there's going to be wastewater
19 utilities faced individual pressures from
20 enhanced discharge requirements.

21 Another theme is the delayed capital
22 spending. This is a theme not just in water
23 utilities, but all over municipal sector. Long
24 term capital spending remains moving either

1 unchanged or slightly lower despite aging
2 infrastructure. It takes a while for
3 municipalities to gear up and give the
4 constituency buy in, political buy in. At the
5 end of the day, increased capital requires
6 increased revenue.

7 Those are some of the things that are
8 indicated in some of the sector writeups. The
9 next page talks a little bit about the key rating
10 drivers. When we are advising our clients on
11 what to do as far as rating agencies, we spend a
12 lot of time going through these computations to
13 help our clients provide their information in a
14 way that's going to be beneficial to outcome.

15 Moody's has recently in '14 released a
16 scorecard to try to make the process a bit more
17 transparent. The scorecard scores certain
18 metrics, the system characteristics which would
19 include asset conditions, service area, system
20 size, financial strength. Some of the key ratios
21 are debt service coverage, cash on hand and debt
22 to operating revenue. Management is an important
23 component. And then legal provisions, which
24 would include the rate covenant and some of the

1 debt service reserves fund requirement.

2 This is all put into an Excel
3 spreadsheet. It spits out a scorecard which is
4 then qualitatively changed or adjusted depending
5 on, you know, certain factors. So they -- it
6 only assists in the analysis and provide kind of
7 a point of conversation. So if you have a
8 scorecard that shows you have a rating of A and
9 you end up getting a rating of A-minus, then you
10 have a point of contention to talk to the rating
11 agency about.

12 S&P more recently in January of 2016
13 finally released their analytical framework which
14 is a similar attempt to try to make the process
15 more transparent. There's is a little more
16 complicated. They take enterprise risk profile
17 and financial risk profile, and then they apply
18 overlapping factors and rating caps. So, rating
19 cap might be the rating of the underlying
20 municipality. So, they take what could be a very
21 simple framework and made it more complicated.
22 At least it gives a lot of really more detailed
23 guidance.

24 They will, for instance, look at the

1 economic fundamentals, look at the underlying
2 economic conditions, industry risk, external
3 factors of the sector, market position,
4 operational management. And then the financial
5 risk profiles look at these different areas, some
6 of the key ratios. And there's obviously a theme
7 with all the rating agencies on the ratios,
8 liquidity ratios or these cash on hand, debt to
9 capitalization, which is your long term debt --
10 short/long term debt over your debt position,
11 debt service coverage and then sort of
12 contingency liabilities over long term debt.

13 These are key ratios that they look at.
14 And then Fitch has not really come up with a
15 scorecard yet. They're writeup is much more
16 qualitative. I think there's really, if you have
17 a chance to read it, there's a lot of written
18 material and best practices. They have their ten
19 C's of analytical framework.

20 They do actually do a good job in
21 writeup. Talking about attributes for strong
22 systems, medium and weaker system. It's a really
23 good kind of guideline, you know, to see where
24 you fit in. Because these are all -- even though

1 there is a scorecard which makes it easier, you
2 do need to look at peer comparisons.

3 At the end of the day, you put all this
4 information in and you need a point of reference.
5 So page 6 just gives you an idea of larger
6 systems. There was a question about some of
7 the -- that I received about why certain peers
8 were selected.

9 You know, what we do and we do this with
10 Missy. We spend a lot of time talking about what
11 are good peers. You obviously want to look at an
12 urban area, larger area. You want to look at a
13 peer that's maybe on the east coast because
14 they're going to have the same kind of water
15 issues and combined sewer overflow issues versus
16 the west coast, which is lack of water.

17 And, you know, you want to pick some
18 peers such as DC Wasser, which is best practice
19 kind of peer. They do a lot of cutting edge.
20 They do the first green bond and they do year
21 century bonds. They do a lot of interesting
22 things. That is sort of what we think about when
23 we think about peers. It really needs to be a
24 dynamic process. You know, we look at the rating

1 presentations or the rating writeups of different
2 peers. Because maybe some one peer might be
3 changing their debt structure, so it throws off
4 the ratio. It's important to see this as a
5 dynamic process, but it's also your requirements
6 in the ordinance that you do consider peer
7 comparisons. We want to make sure we gave you
8 this information.

9 So, you can see in this page 6, that
10 overall most water utilities and large systems
11 are in the AA category. And that is, you know,
12 pretty typical. I mean, it's just all three
13 rating systems, most of them are AA credits.
14 It's essential service. Most of them have a
15 degree of liquidity and coverage that allows them
16 to fall in the AA category.

17 HEARING OFFICER BROCKWAY: Just a
18 clarification. The ratings that you have in the
19 column, there are three different ratings.
20 Typically, those are the three different ratings.
21 Can you just share which is which?

22 MS. CLUPPER: The first one typically is
23 Moody's. You will know Moody's ratings because
24 it's an A with a small letter or B with a small

1 letter. The middle one is Standard & Poor's.
2 And then Fitch is usually last. And when there's
3 just two ratings, typically it's Moody's and
4 Standard & Poor's.

5 So for instance, Baltimore does not have
6 Fitch. It's also important to note that once you
7 are rated by a rating agency that a debt is
8 outstanding, they will continue to hold that
9 rating until the rating no longer exists. You
10 can't -- it's not as easy to pick and choose
11 rating agencies once your debt is rated with a
12 Moody's A. Even if you didn't call them up with
13 the next issue, that issue will always have a
14 Moody's A rating. The investors know that. It's
15 not as easy to kind of go shopping.

16 On page 7 shows where the Water
17 Department ratings are. Just for point of
18 reference, Water Department are the highest rated
19 credit in the suite of Philadelphia's ratings.
20 That would include general obligation credit
21 rating, airport and PGW. It is probably
22 considered -- it is considered the strongest of
23 the four rating categories. So, that's good
24 news. I think there was a question a little bit

1 about what's the relationship between the
2 underlying City rating and the water rating?
3 There is a relationship. It's one of those caps
4 or factors that they add to it.

5 For instance, if the City's rating --
6 and it does reflect the underlying, you know,
7 wealth or poverty of the household income -- if
8 that's on the low side, that would be a credit
9 negative. The pension, unfunded pension
10 liability is a huge issue for the City of
11 Philadelphia. Philadelphia Water Department has
12 a, you know -- is a percent of that unfunded
13 liability, so they carry their own unfunded
14 liability.

15 They also have to pay a percentage about
16 45 million. I think it would be minimum MMO that
17 the City pays. They also pay another \$26 million
18 of debt service for the pension fund. There is a
19 connection there. It is a City Department.
20 There is a connection. It's not to say that the
21 Water Department if they all the sudden had 1.5
22 times coverage over a period of years when they
23 get through their increases, but there is a
24 connection there.

1 On page 8, we try to outline sort of
2 these are key facts or quotes from the most
3 recent rating reports in 2015. Just in general,
4 not to read them through, but there are some
5 themes there. Credit positives are, you know,
6 there's a large -- you serve a large and diverse
7 service area. Management has always been cited
8 as a credit positive. You have ample water
9 supply, which is important.

10 Some of the challenges would include the
11 legal covenants, the fact that you don't have to
12 have 1.2 times coverage without using the Rate
13 Stabilization Fund would be a weaker real
14 covenant. There is zero debt service coverage
15 levels. The weak demographics, as I said, does
16 present a challenge, obviously.

17 Then sort of the -- in past writeups,
18 the last writeup, we did have days cash on hand
19 because you had just gone through the rate
20 increase. You did not have additional revenue
21 that was, you know, available. And the rating
22 agencies in the past, they start to now include
23 the Rate Stabilization Fund in their calculation
24 of these cash on hand which we think is

1 appropriate. Not all due. That sort of, you
2 know, something that the Department's been
3 encouraging kind of over a period of years.

4 There is another concern, of course, is
5 the large capital improvement budget. I think
6 these are pretty much consistent across the
7 Board. What the rate agency will look for this
8 time will be continued increasing debt service
9 coverage. We spent a lot of time talking to them
10 in the past several years about trying to move
11 from that 1.2 to a higher debt service coverage.
12 We're going to look at, you know, days cash on
13 hand. They are going to, frankly, look at the
14 result of Rate Hearing Board. They are going to
15 continue to look at trends.

16 They are also going to look at the
17 City's unfunded pension. You know, how is the
18 City addressing that? That is an important
19 issue. You know, I think that they will be
20 interested in what happens here.

21 What we have done, I'm hope I'm not
22 talking too fast. Everybody is hungry, I know.

23 On page 9, what we did was we tried to
24 identify some key rating metrics. And I mean, I

1 think it's also important to know that these can
2 change. I mean, we spend lot of time with the
3 Water Department financial staff thinking about
4 what we should include, you know, read this. You
5 know, it's a work -- work in process. I want to
6 point out a couple sort of themes that are
7 critical. This is mentioned before. That's the
8 debt ratio, which is your debt to assets.

9 You are highly leveraged system. You do
10 have for your assets of 2 billion an outstanding
11 debt of 1.8 billion. It would be better if that
12 was -- your debt was a lot lower than your
13 assets. That means you funded your projects.
14 So, that's a ratio that we kind of looked at.
15 Debt service coverage is another one, and then
16 days cash on hand. Those are three really
17 critical ratios.

18 What we talked about in the past is sort
19 of honing down on those and creating an ongoing
20 Philadelphia Water Department scorecard. I
21 think -- those would be three things that we
22 would harp on or continue to raise.

23 Just to talk a little bit about why --
24 what my -- you know, my recommendation is when I

1 submitted my testimony, spent some time
2 discussing Pay Go. If you increase the Pay Go, I
3 know that the Department is looking at 20. I
4 think 40 percent Pay Go would be a great goal to
5 have. If you do that, if you start to fund your
6 capital with a higher percentage of current
7 revenues, these other ratios will fall in line.
8 You will have debt service coverage. You will
9 have the liquidity that you need. You will then
10 be stronger and more financially stable system
11 because you're not -- every capital project is
12 not funded by debt.

13 And while now, you know, we are just
14 looking -- what we do is we look at more than
15 five years. You need to look, 10, 20 years and
16 you can have an idea that you are going to be
17 borrowing 200 to 250 a year pretty much. I mean,
18 you have a significant capital plan. And if you
19 do that and take that out over a period of years
20 at 20 percent Pay Go or 40 percent Pay Go, it's a
21 significant difference. And it allows the system
22 to have a financial flexibility to address, you
23 know -- I think on the next page 10, which is the
24 graph that I alluded to, illustrates this very

1 well.

2 I mean, it allows the Department to
3 address those things and habit which are economic
4 crisis, increase the cost of materials. So, what
5 this chart is, it's just the revenue spread to
6 the AAA. MMD is an industry -- it's a basket of
7 rates that are set. Our industry uses that to
8 price transactions off of the MMD. It's a yield
9 curve. There's an MMD rate for every year 1
10 through 40. This looks to 20 years and the
11 revenue MMD. And it's spread to the AAA.

12 So AAA MMD is like the gold standard.
13 And then it's A rated. And if you are AA rated
14 credit throughout this crisis, you had consistent
15 spreads. I mean, it went up after '08, but it
16 didn't spike. If you were an A-rated credit
17 after '08, you see the, you know, space between
18 the spread is, you know, significantly higher in
19 '08 and it's starting to come down. And of
20 course if you're a BBB rated credit, it really
21 spiked.

22 I think what this table tries to
23 illustrate is so that rating -- credit ratings
24 are not just about the next bond issue. They

1 certainly are. They help buy down the cost of
2 credit. They are also a reflection of your
3 ability to maintain financial stability during
4 different periods of the economy. So, it does
5 lower your cost to borrow to have a higher credit
6 rate. It also helps on certain other products
7 that you can do liquidity facilities, bank
8 facility. It allows you, as I mentioned before,
9 to create different structures within your debt
10 structure, commercial paper.

11 So, subordinate debt structure would
12 allow you to issue bonds on a subordinate basis
13 with a debt service fund that allows you to
14 borrow more money. You know, you don't have to
15 fund 10 percent or debt to service fund. That's
16 positive. You are able to have a more complex
17 debt structure if you're in the higher rating
18 category.

19 So, that is my spiel for having 40
20 percent Pay Go. I think the Department seems to
21 be going in the right direction. And we support
22 the financial plan, you know, moving higher debt
23 service coverage, more Pay Go, and more cash on
24 hand, as well.

1 MR. HUANG: Roughly, what is the AAA MMD
2 rate right now?

3 MS. CLUPPER: The AAA MMD rate for GO,
4 this is like being the State of Maryland, 30 year
5 right now is 2.78 percent. The 10-year average,
6 I knew you would ask this question, so I looked
7 it up -- that's 4 percent. That's 10-year
8 average for the AAA MMD. The Water Department
9 prices when they do a bond issue now and they
10 rate in their level is about -- can be between
11 70 -- you add another 70 basis point, 7 percent
12 to 80 or 90. That does get you when you're doing
13 projections up to 5 percent, 5 and a half because
14 you have to be conservative projecting out.

15 Just as a point of interest, the credit
16 spread for the Department has decreased in the
17 last couple years from 2013 for the longer end.
18 It was like 90 -- 0.9 percent. The last
19 transaction was 0.7 percent. You do get a
20 benefit from kind of the increase. The ratings
21 didn't change necessarily, but there was better
22 coverage. And you know, there's a lot of
23 reasons.

24 The credit spread is a dynamic

1 situation. When we're asked what interest rate
2 we should use to project, we usually default to
3 5 percent. I mean, another little interesting
4 fact that I looked up, the MMD in the 30 year has
5 been lower than where it is now less than
6 1 percent since 1986. I mean, we are at
7 incredibly low rates. It's just so unusual. And
8 so, I think when you're doing future projections,
9 you have to be mindful of the fact --

10 MR. HUANG: It's only going to go up.

11 MS. CLUPPER: Yeah.

12 MR. MARKUS: Can you explain, they talk
13 about why the Department is not historically in
14 use.

15 MS. CLUPPER: When you create a
16 subordinate structure, we did look at this a
17 couple years ago. You have your senior lien.
18 Like say, for instance, just City of Baltimore
19 for example.

20 In their documents, right, a senior lien
21 of 1.4 percent. And then their subordinate lien
22 would be 1.15 percent. Well, if you have a
23 1.2 percent coverage, you don't have any room to
24 create a subordinate debt. That's what I'm

1 talking about when you create and have a higher
2 coverage level, obviously, then you are able to
3 create different structures within your debt
4 structure. At this point the Water Department
5 doesn't have the coverage history to create a
6 subordinate lien.

7 MR. MARKUS: Also, behind why not more
8 variable rate?

9 MS. CLUPPER: Yes. I think the
10 Department has a pretty good debt structure.
11 There's not a lot of variable rate.

12 MS. LABUDA: From a classical theory,
13 given the level of interest rates over the past
14 five years, we are best poised to enter into long
15 term fixed rate debt because it's natural. When
16 does variable rate debt make sense?

17 Variable rate debt will make sense is a
18 rising interest rate environment. So, I think we
19 have taken a classical approach. We've issued
20 our most recent financing, we went long. And I
21 think as market conditions changed and the
22 ratings improve, we will look to add more
23 variable rate. Right now for the interest rate
24 environment we are in, given what we are in, when

1 we issued the 2015 A deal, the best practice was
2 to issue long day to debt to lock in low interest
3 rates. And that was to the benefit.

4 MS. CLUPPER: I also want to mention
5 that Standard & Poor's is really concerned about
6 variable rate debt because they are totally
7 concerned about liquidity facilities. When you
8 have a lot of variable rate debt, you not only
9 have interest rate risk as a municipality, you
10 now have bank risk and corporate risk. You can
11 see that in 2008, those issuers that were in the
12 BBB and A category, including the City of
13 Philadelphia, had difficulty replacing their
14 letter of credits because there were banks who
15 just didn't want to do that anymore.

16 That's a really critical risk that you
17 don't want to take unless you are pretty sure you
18 are cream of the crop in the rating category.

19 MS. LABUDA: It might make sense when
20 you issue variable rate debt, you have to have
21 the ability the bond can be put back and given
22 back to you at any point in time. What Kathy is
23 talking about liquidity facility, you take a step
24 back. It's almost like the price we pay to

1 maintain somebody to provide the ability for the
2 Department to absorb or buy back, take back all
3 of its bonds at some point in time because the
4 rates tend to reset at some frequent period,
5 weekly, daily, quarterly. You have to have the
6 capacity at any point in time to be able to buy
7 all of those bonds back. And there is a price to
8 pay for that flexibility because we do not have
9 enough cash to do that ourselves.

10 MR. MARKUS: In the CIP, there's a very
11 small amount for PENNVEST in the next five years
12 or so. Curious as to why not more?

13 MS. LABUDA: I mean, PENNVEST actually
14 creates rate pressures. Let's be honest here.
15 PENNVEST has a very short useful life. You
16 amortize it over 20 years. I have no control or
17 no ability to set the pattern of my principal
18 with the pattern of my infrastructures, so I'm
19 putting a new water main in and it has a useful
20 life of 50 years. PENNVEST says that doesn't
21 matter. Your useful life, you have to amortize
22 the debt over 20 years. That fact pattern puts
23 pressure on current rate payers today.

24 The other problem with PENNVEST in this

1 five-year planning period is also that we have a
2 Debt Service Reserve Fund requirement. PENNVEST
3 is on parity with all other debt. I do not have
4 a tool or a means via this debt structure to pay
5 for my reserve fund requirement. And what has
6 happened with prior PENNVEST loans is I have had
7 to take it out of the operating side and fund my
8 debts service reserve fund.

9 So in this rate period, PENNVEST would
10 only increase our rate request through the
11 issuance pattern, very short useful life, how you
12 have to pay for the Debt Service Reserve Fund.
13 It just doesn't -- from that very simple
14 financial perspective, it doesn't make sense.

15 Now five years out, we can talk about it
16 again. But in the next two years, three years, I
17 just don't see that making sense unless we're
18 going to raise our rate.

19 HEARING OFFICER BROCKWAY: So, does the
20 Board have any more questions on this topic?

21 Let's go off the record.

22 - - -

23 (At this time, a discussion was held off the
24 record.)

1 - - -

2 HEARING OFFICER BROCKWAY: I have got
3 about 12:40. We will come back at 1:45 and pick
4 up with questions from the active participants.

5 - - -

6 (At this time, a break was taken.)

7 - - -

8 HEARING OFFICER BROCKWAY: We have
9 discussed off the record the order of questioning
10 by active participants. We would like to bring
11 up first Mr. Tim Carney who is a tenants' rights
12 specialist from the Tenant Unit Representative
13 Network.

14 MR. CARNEY: Thank you, Madam Chair
15 person and Members of the Board. My name is Tim
16 Carney. I'm a staff worker at the Tenant Unit
17 Representative Network, TURN. I'm here today
18 because I have two major concerns that I wanted
19 to question about this rating increase --
20 proposed rate increase.

21 The first concern is that so much of
22 Philadelphia is poor and I don't see them paying
23 the rate increase. And the second concern is in
24 the area of customer service. Whereas, on a

1 weekly basis as an advocate for tenants which is
2 47 percent of the households in the City of
3 Philadelphia, I'm constantly bumping heads with
4 the Staff of the Water Department or the Water
5 Revenue Bureau with respect to USTRA.

6 HEARING OFFICER BROCKWAY: With respect
7 to what?

8 MR. CARNEY: USTRA, Utility Services
9 Tenant Rights Act, which is a state law to
10 protect rate payers from being shut off when it's
11 not their fault, it's the landlord's fault.
12 We're an organization -- a tenant advocacy
13 organization. We deal with tenants but
14 overwhelmingly we deal with low income tenants on
15 a daily basis. Being able to pay rent and
16 utilities is a constant difficulty for so large a
17 section of the population.

18 Although, I applaud City Council's
19 Affordable Rate Program, I'm not sure it's
20 enough. So my first question is that, is that I
21 would ask that the rate increase be tailored in
22 such a way that the income of the households is
23 very specifically taken into effect before they
24 could be issued the rate increase. Because

1 despite the WRAP program and the new City Council
2 Custom Affordability Program, though I saw the
3 discounts were incredible in some of the
4 percentages of poverty, they weren't extended
5 above 150 percent of poverty. In some families
6 they are still needed.

7 Two, as I learned in my long work in
8 social services, that an overwhelmingly large
9 percentage of people when you have to apply for
10 the program never apply for the program,
11 therefore, don't guess use of it. While you may
12 have wanted to keep the 16 million as a low
13 figure, I certainly stood and sat in the back and
14 wanted it to be an extremely high figure.
15 Because I would have hoped that every single
16 eligible person would apply for it and cost you a
17 lot more than what you're projecting in your
18 16 million or 13 million.

19 My first question is, please don't
20 extend the rate increase unless you are going to
21 monitor people's ability to pay carefully, which
22 means you may have to restructure very
23 considerably.

24 And the second question I have is, how

1 are you going to use any of the money that you
2 have now or you would get in a rate increase to
3 improve customer service? Because on a weekly
4 basis, myself and my coworkers on behalf of
5 Philadelphia tenants are battling your staff.
6 And we're all paid for by the City. We are all
7 on the same team. And yet, it seems like
8 sometimes we run into staff people at the Water
9 Department who think that USTRA was never passed
10 or doesn't exist.

11 And you ask to talk to supervisors. You
12 ask to talk to folks. And the hurdles and the
13 burdens that are put in front of tenants just
14 keep piling up higher and higher even though the
15 water shut off came from the Water Department,
16 it's the Water Department that broke the law.
17 And yet, the staff people tend to make the poor
18 and low income tenants as though they're the
19 thieves of water.

20 My question is, how are you going to
21 improve customer service so that people who apply
22 for USTRa can be treated fairly and very, very
23 quickly because we can waste four hours and in
24 some cases days, fourteen days trying to get

1 somebody's water reconnected when insurmountable
2 hurdles are put in somebody, like, when demand a
3 lease when this part of the City has verbal
4 leases and people don't have lease. Yet, that's
5 the only thing you'll take.

6 People are beaten down and they're not
7 getting the service we need. We need somebody in
8 the Water Department that we can call up who
9 understands USTRA and is going to effectively
10 administer on behalf of our citizens.

11 My question is, and I will stop, how are
12 we going to improve the customer service
13 specifically around USTRA so a agency like ours
14 who is advocating for tenants every single day
15 can have somebody you can talk to get this done,
16 especially when the water is being metered and,
17 therefore, the water companies knows they are
18 never going to lose a pay.

19 MR. DASENT: If I might, Madam Hearing
20 Officer, authority to pay issues that are raised
21 by Mr. Carney are very important to us and are
22 addressed in the filing. We are happy to address
23 those. Customer service issues, although very
24 important to us, related to USTRA or other

1 issues, probably fall outside of the purview of
2 this proceeding but nonetheless must be
3 addressed. We will have someone at WRB interact
4 with Mr. Carney and make sure between the Law
5 Department and our people at other personnel at
6 WRB that we address this issue and hear his
7 concern.

8 HEARING OFFICER BROCKWAY: Why do the
9 customer service issues fall outside the
10 proceeding in our view?

11 MR. DASENT: Because the statute
12 establishing the report deals specifically with
13 rate issues as opposed to customer service and
14 other related issues that would remain under the
15 public utility code and not specifically
16 addressed in Water Rate Boards.

17 HEARING OFFICER BROCKWAY: So, let's
18 not -- let me see if I can break this down.

19 With respect to the 150 percent, my
20 understanding from the discussion this morning
21 was that the Department is not fixed on that as
22 an upper limit but has chosen that as the basis
23 for the planning?

24 MR. DASENT: The ordinance also

1 addresses the various thresholds, so we need look
2 too much further than Bill No. 140607 creating
3 the program to see that the various tiers,
4 various thresholds we must address.

5 HEARING OFFICER BROCKWAY: You must
6 address those. Doesn't say you're not allowed to
7 address others is my understanding. But anyway,
8 that whole question is going to be taken up.

9 What I would do is I would treat
10 Mr. Carney's question as a statement request.
11 And we'll make sure to get at that question when
12 we get further into those details.

13 MR. BALLENGER: Madam Hearing Officer, I
14 was just taking some notes. I don't have a
15 microphone. I will try to use my outside voice.

16 HEARING OFFICER BROCKWAY: Is this on
17 the 150 percent?

18 MR. BALLENGER: No, ma'am.

19 HEARING OFFICER BROCKWAY: Because I had
20 more to say.

21 MR. BALLENGER: I was taking some notes
22 when Mr. Carney was speaking. I thought I heard
23 him ask was how will you improve customer service
24 with these new rates, which to me seems to be

1 relevant to rates and charges. I just, you know,
2 in all fairness to Mr. Careny, his issues as well
3 as others issues, are in some ways relative to
4 rates and charges.

5 HEARING OFFICER BROCKWAY: If you had
6 not interrupted me, that's what I would have
7 said. I don't see that it's off limits to talk
8 about those. How exactly that's going to come
9 up, I don't know. I also understand the
10 Department is not prepared today to answer that
11 question.

12 MR. DASENT: Yes. That's certainly
13 true. I was taking it a step further because of
14 the limited time that we do have before the Rate
15 Board that we would devote it to issues that are
16 specifically, according to the Rate Board
17 Ordinance, in your purview so that we accomplish
18 those things that we need to accomplish.

19 HEARING OFFICER BROCKWAY: Well, I would
20 say to that is absolutely. But as I manage the
21 hearing process, I'm on the lookout for where are
22 their disputes. Probably 90 percent of the
23 filing is not in dispute. And so we don't need
24 to spend much time on it. What we are looking

1 for is where are those areas where people
2 disagree and might have an impact on the outcome.
3 I'm not prepared to say we don't have time to get
4 into this. I would urge the Department to be
5 thinking along the lines of what is their budget
6 for customer service and what is their
7 relationship to those who actually give it
8 service. If there is time, we will definitely
9 get into it.

10 Anything else from the Board on this?

11 (No Board response.)

12 HEARING OFFICER BROCKWAY: With that, we
13 can't answer your questions today, but we have
14 taken them down. And the first one is definitely
15 going to be addressed. Second one sounds like
16 there is disagreement about how far we can get
17 into it. We will -- I think if you want to talk
18 to Mr. Ballenger, he is leading the charge for
19 customers. And you can talk to him about the
20 extent to which you need.

21 Is that all right?

22 MR. CARNEY: (Nods head.)

23 HEARING OFFICER BROCKWAY: Thank you
24 very much, Mr. Carney.

1 Mr. Bakare.

2 MR. BAKARE: Yes. Thank you. First, my
3 name is Adeolu Bakare. I'm counsel for the
4 Philadelphia Law Coalition for ad hoc customers
5 in the Law Department Service. As in the initial
6 segue, I have a very similar customer service
7 issue, so just to frame my perspective on that.

8 The Water Department's filing itself
9 discusses the customer's service structure in the
10 Department utilizes with the Water Revenue Board
11 being responsible for dealing with customer
12 payment issues and the Water Department itself
13 not performing those functions. So as I
14 understand from a general utility standpoint, a
15 customer service issue in a rate case context is
16 individual service issue. A customer may not be
17 able to come here and say, hey, you didn't fix
18 the leak in my house last Tuesday. But a
19 structural customer service issue that effects
20 the Department on the whole is, from in my
21 understanding, a rate related issue because that
22 is a wholistic customer service issue that
23 relates the way the customers paid for service.
24 That's how I would frame those customer service

1 issues from my perspective.

2 So the issue that I would like to raise
3 to ask the Department is for large industrial
4 customers whose services are more complex than
5 other smaller customers, when they call the water
6 Revenue Board to raise issues in terms of rate
7 complaints, bill inaccuracies and other bill
8 disputes, there is often a lot of confusion with
9 the Water Revenue Board because they're not
10 intimately familiar with these customers'
11 facilities and services as a Water Department
12 would be, especially with the new stormwater
13 rates coming in and have been coming in over the
14 past few years.

15 To that end, would the Department
16 consider instituting a new position where you
17 would have someone on the Department side that's
18 sort of an industrial customer service
19 representative to field those complaints? That's
20 an interesting standard other water utilities,
21 even municipal utilities, generally implement.
22 Water Department historically does not.

23 MR. DASENT: Mr. Bakare, you should be
24 aware of the fact that the Water Department has a

1 team of people who are directly related to
2 stormwater management or larger customers to
3 communicate with directly and deal with those
4 particular issues that you've highlighted in your
5 comment. Historically, we have had other folks
6 in the Department that are designated to receive
7 calls for larger customers also, so there is not
8 a sort of bureaucratic runaround.

9 MR. BAKARE: That's correct. And I will
10 clarify that a little bit because my members have
11 reported the Water Department is actually very
12 good and very responsive to the stormwater
13 mitigation measures and the operational side of
14 stormwater program. The problem is with billing
15 disputes related to stormwater issues and sewer
16 rates and water rates. As I mentioned, those
17 issues are handled by the Water Revenue Board.

18 So the customers between a rock and hard
19 place. They have the billing dispute to call the
20 Revenue Board and say that there is something
21 wrong here. The Revenue Board really does not
22 have the knowledge of their systems and their
23 individual facilities to address the issues that
24 generate those rate and billing disputes.

1 MS. McCARTY: Are you talking about --
2 for the stormwater that is online is the, you
3 know, the manual for and it goes through how you
4 can appeal, et cetera. As Mr. Dasent mentioned,
5 there is a whole team that will review those if
6 there are any disputes with the stormwater.

7 Are you talking for, you know, like the
8 surcharge customers?

9 MR. BAKARE: Not just that. Even if the
10 customer is able to reach the Department and
11 express stormwater safe credit not properly
12 calculated, the Department will look at that.
13 But the Revenue Board at the same time isn't part
14 of that process. They still want the payment
15 even though the billing dispute is being
16 addressed on the Department side, the Revenue
17 Board is not necessarily involved in that
18 process. They are still demanding payment.

19 MS. McCARTY: You're saying that the
20 account isn't being put in dispute. And Water
21 Revenue Bureau is acting on the delinquency? Is
22 that what you're saying?

23 MR. BAKARE: Yes. I'm saying there
24 could be better communication between the

1 Department and the Water Revenue Board. I think
2 the solution would be for large industrial
3 customers to have not just stormwater personnel
4 within the Department, but actually transfer
5 billing dispute responsibility for large
6 industrial customers from the Revenue Board to
7 the Department.

8 MS. WILLIAMS: Erin Williams,
9 Philadelphia Water Department. Just to address
10 the stormwater related issues. Similar to water
11 and billing sewer water disputes, for stormwater
12 you are correct the staff handling the customers
13 service issues are housed as Water Department as
14 opposed to Water Revenue Bureau. We do follow
15 similar procedures that customer service
16 representatives at the WRB follow. We do raise a
17 call and we document the dispute in the basis2
18 billing system and follow then customer service
19 interaction. That's online that Commissioner
20 McCarty mentioned earlier.

21 We do make sure we have adequate
22 communication with WRB so that when our customers
23 call WRB to bring up stormwater billing issues,
24 it's documented in a database that's accessible

1 to both WRB and PWD.

2 MR. BAKARE: That's a helpful
3 explanation. We don't have to address this. I
4 will just make the point that that -- I think
5 considering how seeing sort of centralizing the
6 responsibility for all industrial customers,
7 something the Department should consider whereas
8 a further centralizing beyond what the present
9 structure offers.

10 MS. DAHME: Joanne Dahme. We have been
11 working on a call center initiative for about two
12 years now. We are with Revenue Michelle Bethel.
13 The goal of that is to cross transfer. Now we
14 have two different call centers. Customer call
15 when center for one type of thing. They call the
16 Water Revenue Bureau for the other issues.

17 We are looking to cross train
18 representatives so that both of our reps will
19 have knowledge on both sides of the business. I
20 think that will help address some of that. We
21 are looking to more formalize some of the
22 training regiment so higher so higher levels of
23 information about operations and services and
24 that type of thing. We are hoping to launch that

1 some time in the spring as sort of like a pilot.
2 But our ultimate goal is really to make sure no
3 matter what number a customer calls, they will
4 get a representative who can address billing and
5 service issues and be able to answer all those
6 question.

7 I think there will always be something
8 to bump up. I understand there is a need and who
9 would you bump that up to? That is also
10 something we are looking at.

11 MR. BAKARE: Specifically, although I
12 understand all customers are important, regarding
13 industrial customers because they are so few of
14 them and their issues are so specialized, some
15 particular consideration for that customer
16 service pipeline could be advisable.

17 MS. McCARTY: Again, if it's the
18 surcharge customers, you know they have a
19 pipeline to our industrial waste unit who is
20 responsible for that program.

21 MR. BAKARE: When you say surcharge
22 customers, I'm not --

23 MS. McCARTY: Customers that get billed
24 on basically the strength of the wastewater they

1 discharge to our system.

2 MR. BAKARE: Right. Okay.

3 MS. McCARTY: Like a Pepsi or Coca-Cola.

4 MR. BAKARE: I did mention stormwater,
5 but this issue isn't limited to stormwater
6 issues. It's really a billing issue across the
7 board for sanitary stormwater and wastewater.

8 MS. McCARTY: I mean, offline if you
9 have a specific customer, I'm happy to speak to
10 you, as well.

11 MR. BAKARE: Thank you.

12 I think earlier in the presentation we
13 mentioned importance of cost of service. The
14 question that I had is the Water Department, as I
15 read the filing, doesn't separately allocate it's
16 unaccounted or nonrevenue water costs as you
17 calculate this system-wide range. That
18 percentage is not applied across the Board to all
19 customer classes; is that correct?

20 MR. DASENT: Going to ask Black & Veatch
21 to field that question.

22 MR. JAGT: Just to clarify, it's true
23 that we don't have -- there's not a difference in
24 the collection factor for customer type, but

1 there is by customer service because that's --
2 that's where one of the fundamental differences
3 about whether the bill gets paid is reflected.
4 Because stormwater only customers, PWD has
5 limited from less -- they can't shut off water
6 and get -- and have more response to paying a
7 bill as the water and sewer customer.

8 As such, we reflect a lower collection
9 factor for stormwater only customers. And that's
10 stormwater only, city and water and sewer general
11 serve retail billing are the only three factors
12 that we reflect.

13 MR. BAKARE: So for water customers,
14 strictly water, every water customer pays the
15 same rate -- I'm sorry, not unaccounted for
16 water. I apologize -- for non-revenue water in
17 terms of the billing standpoint? Customer
18 rearages, those no-revenue percentages for
19 non-payment, late payment, all customers pay the
20 same non-revenue percentage?

21 MR. JAGT: Now in the fact that it's a
22 collection of factors, so we're projecting
23 collections or revenues from the customers and
24 we're not actually projecting the expense of the

1 non-payment. So, it's reflected in our financial
2 plan in that we only reflect the revenues coming
3 in and receipts on that basis. But it's not like
4 you'll see a revenue requirement for the
5 non-payment.

6 MR. BAKARE: You don't project a certain
7 percentage of unpaid bills in your projection.

8 MR. JAGT: To clarify, we do. I'm just
9 pointing out the fact that it would be in the
10 fact that it's not in our receipts. And that's
11 how we reflect it as like -- in the bottom line,
12 it ends up as like a requirement. But it's not
13 like you can go down the revenue requirements and
14 see uncollected as a revenue requirement. It's a
15 cost.

16 MR. BAKARE: Then my question is, has
17 the Department ever considered looking at the
18 uncollectibles on a customer class in either size
19 basis and allocating that across different
20 customer classes of either size?

21 MR. JAGT: Over the years, it's been
22 considered and it's been looked at. There's
23 never been -- the variation between it has never
24 been considered enough to show the difference

1 between customer classes. And there are some
2 policy issues that go along with that to drive.
3 For one thing, we don't track the reps and rate
4 stabilization is system wide. It's not like we
5 do a detailed, true up by customer class to see
6 how much rate stabilization is associated with
7 each class.

8 Another factor is the fact that we use
9 the same -- currently under the current rate
10 structure, all of the meters, there is the same
11 charge for all customer classes by meter size.
12 And as such, to introduce a new factor that would
13 vary across customer classes, we would almost
14 have to consider introducing another or rate
15 structure to address the cost recovery difference
16 among the customer types.

17 MR. BAKARE: Okay.

18 MR. JAGT: The level of difference, I
19 don't know what that would be. It's rather de
20 minimus compared to the total revenue.

21 MR. BAKARE: That may actually address
22 my next question, too, which is I was wondering
23 how the Department would allocate the cost of the
24 new Affordability Program?

1 Would that be also sort of across the
2 Board, or would that be tilted more towards
3 residential less than non-residential?

4 MR. JAGT: At this point, it's across
5 the board. That's consistent with EPA standards
6 for affordable low income programs.

7 MR. BAKARE: I think I was promised 15
8 minutes of fame here. I will try to wrap this
9 up.

10 MR. JAGT: One point, this approach to
11 do it across the board is also consistent with
12 how we currently recover the discount programs
13 that we have in place right now. So, the
14 non-residential discounts and the senior citizen
15 discounts that are -- well, PHA, the discounts
16 for non-residential for charitable customers and
17 the discounts for senior citizens -- the
18 non-residentials also includes schools. They're
19 all recovered across the entire customer base.

20 MR. BAKARE: Thank you.

21 One question that I had -- again, I
22 don't want to go too far down into this issue.
23 But there was a discussion on the switch from
24 automatic meters to AMI. The question that got

1 raised for me -- is something for the Department
2 to just hear and keep in mind in the future. The
3 issue that I saw in that discussion was the fact
4 that if you discuss the installing AMI at City
5 Council and there's a City Council mandate to
6 move forward before the rate considerations have
7 been addressed, that rate could put customers in
8 a situation where it's sort of -- you're moving
9 ahead before we really discuss what the rate
10 impact begins.

11 What mr. Popowsky hinted at earlier, I
12 would wonder how will the Department interact
13 with City Council for establishing the cost basis
14 for the AMI program?

15 Remember, I said this is not -- we don't
16 have to go into the details now.

17 MS. McCARTY: It is in the future. Of
18 course, whatever we would take before City
19 Council and the Rate Board, of course, we would
20 have our numbers. We just don't right now have
21 what those numbers are. As I mentioned, we have
22 looked at if we had to replace the meters. And
23 at this point, we don't believe we do from our
24 testing. So that will save a lot of money for

1 our rate payers. But what it will look like with
2 AMI in terms of vendors that have been provided,
3 we don't have that right now. But we are working
4 on it. And it will be part of probably the next
5 rate case.

6 MR. BAKARE: Thank you.

7 And I think my final question relates
8 back to the 5 percent annual increase in purchase
9 power costs. And the question there is the
10 Department would have a very different electric
11 file than other City buildings and accounts, so
12 this is sort of two part question.

13 The first part is, does anybody here
14 know whether the City really separately looks at
15 the Department in terms of how -- going to
16 rephrase.

17 Has the Department ever looked at buying
18 power on its own apart from the city and weighed
19 those costs and benefits of going on the market
20 or undergoing and then buying power as opposed
21 just going in the City? I would wonder if the
22 Department specific load profile would lead to
23 more beneficial power contract than being lumped
24 in with other City accounts with very, very

1 different low profiles.

2 MR. SCHWARZ: Scott Schwarz again.

3 The energy buying policy is set on
4 citywide level. Three separate prices the city
5 charges the Department. One price for airport,
6 one for water and one for general fund. We do
7 believe that what you are suggests has been taken
8 into account.

9 MR. BAKARE: We can move onto
10 Mr. Ballenger.

11 HEARING OFFICER BROCKWAY: Okay. Thank
12 you very much. Okay. Mr. Ballenger.

13 MR. BALLENGER: Thank you. To start
14 with, I'd like to again apologize for the
15 interruption earlier, Madam Hearing Officer. I
16 wasn't being impolite. I'm sorry for it.

17 Just sort of a preliminary comment, I
18 just -- I'm appreciating seeing how attentive and
19 interested everyone is here today, particularly
20 the Board Members and appreciated all of your
21 questions. I hope that as this process moves
22 forward, we will not be in the same position to
23 have witnesses here to answer your questions
24 directly. I'm hopeful that we can hear from you

1 in other ways. Maybe you can attend technical
2 hearings, follow-up questions as this case moves
3 forward. But we appreciate the opportunity to
4 ask some questions here today of the Department
5 as we really get underway.

6 I guess the first question as the
7 Department's focused, we have had a lot of
8 discussion on the bonds. And I'm not a bond
9 buyer. But I just -- as the matter of curiosity
10 wanted to know when the last downgrade was of the
11 Water Department's bonds if anyone recalls?

12 MR. BRUNWASSER: I can answer that.
13 Water Department didn't -- just slight
14 background.

15 The Water Department up until 1974 was
16 dependent on the City's general obligation debt
17 to fund its capital program. The Water
18 Department, of course, was the one that paid the
19 debt service on its share of the GO Debt at the
20 time. What happened beginning in 1974, the Water
21 Department was allowed under state -- under
22 change in state law to issue revenue bonds for
23 the first time, backed up by the full, of the
24 rates and revenues of the Department and not the

1 general pledge of the city.

2 From 1974 to 1990, the bonds were rated
3 A, single A. In 1990, the City had some major
4 dropping off of revenue. And the result was the
5 downgrading of all City credit by all three bond
6 rating agencies at the time. And those were
7 single digit numbers like D or C or whatever they
8 were, but it was certainly way below investment
9 grade.

10 In 1991, Water Department was the first
11 City credit to go out into the marketplace again.
12 The way it was done -- by the way, at the same
13 time we were doing this, the state was beginning
14 to organize PICA, the Pennsylvania
15 Intergovernmental Cooperation Agency. It's still
16 here today because there's probably still some
17 PICA debt out there.

18 PICA was designed to raise capital for
19 the City which it could not go into the capital
20 markets. But the Water Department was able to go
21 into the capital markets in June of '91 and
22 receive BBB or BBB minus. I forget right now.
23 Low investment rate level. And we sold and
24 issued roughly \$300 million from which the

1 proceeds of we paid off consolidated cash of the
2 City, got ourselves out of consolidated cash for
3 the City, which is one of the requirements. And
4 also, we paid back the capital fund of the City
5 the con cash, consolidated cash accounts of the
6 City. So, we actually had some infusion of money
7 into the city which we owed the City because
8 everybody was riding on -- I think the Airport
9 capital fund at that time.

10 Anyway, in order to sell these bonds,
11 the rating agencies had to be convinced that the
12 City could not dip their hands into any Water
13 Department funds. And later on the Airport did
14 the same thing in order to be able to access the
15 capital markets. In order to sell the bonds, we
16 had to go on a tour of institutional investors in
17 cities like Boston, Chicago, San Francisco,
18 Philadelphia and New York to explain why people
19 could invest in Philadelphia bonds.

20 What we discovered was the further out
21 from Philadelphia we were, the more marketable
22 the bonds were. But in any event, it was a big
23 success and it was very important to the City
24 because a little later on the City came within \$5

1 billion of blowing payroll. So, the City had to
2 issue script since 1929 but we were almost there.

3 But that was the last downgrade. And it
4 was a slow but steady improvement to get to the
5 ratings that we have today, which are actually
6 the highest ratings the Department's ever had.

7 MR. BALLENGER: Thank you. That was my
8 recollection from the financial statements was
9 the ratings have definitely come up.

10 I wanted to ask a little bit about the
11 rate methodology. I think Dave and Prabha maybe
12 can help me out a little bit here. I just wanted
13 to see if you would note any -- from a very high
14 level, any changes to the models since the last
15 rate case in terms of how -- this is the first
16 time we have seen the, you know, the model
17 itself. But it seems as though the presentations
18 style has changed. We have Table C1 instead of
19 Table 11 for, example.

20 But are there any changes sort of in how
21 you construct the model now as compared to how it
22 was constructed three and a half years ago?

23 MR. DASENT: Let me interject one
24 thought. If you'll remember, the rate model was

1 proprietary model provided to you by
2 confidentiality agreement. I'm not sure on the
3 public record if there is best way to vet that
4 concern as opposed to ask them offline the very
5 same questions. You have signed the
6 confidentiality agreement and no one else has.

7 MR. BALLENGER: I wasn't talking about
8 the manner in which it works. I meant in terms
9 of meeting the City's needs.

10 MR. DASENT: Just trying to protect
11 Black & Veatch any way I can.

12 HEARING OFFICER BROCKWAY: Seems to me
13 if the answer is yes or no, that that would not
14 violate the confidentiality agreement. I agree
15 going beyond that, we start getting into details.

16 MS. KUMAR: Technically, the model is
17 not different. It's following the same industry
18 guidelines and principles. The naming of the
19 tables is a little more granular breaking it
20 between water tables, wastewaters tables,
21 wholesale tables and stormwater tables. One
22 continues in numbers that used to be there
23 before.

24 MR. BALLENGER: Okay. Thank you. What

1 I was looking for.

2 I don't have everything in front of me,
3 so I may be slightly wrong about the numbers. I
4 trust you'll all correct me. I believe in 2012
5 when the last three cases settled, there was an
6 expectation that the combined rate stabilization
7 Residual Fund balances will be maintained at
8 approximately the hundred million dollar level as
9 of the end of Fiscal 15.

10 MR. DASENT: The settlement agreement on
11 that point will speak for itself subject to
12 check. Mr. Jagt can answer it.

13 MR. JAGT: Subject to check 115.

14 MR. BALLENGER: I knew it was ballpark.
15 Okay. And I just -- we're now looking at the
16 FY15 numbers and we're saying about double that
17 in the combined balances, right?

18 MR. JAGT: Uh-huh.

19 MR. BALLENGER: You talked a little bit
20 about the use of those various funds before. And
21 my understanding was that rate stabilization and
22 Residual Fund and even construction fund, all of
23 those are available as a source of borrowing to
24 meet operating expenses. Subject to check, it

1 says that in the official statements.

2 MR. DASENT: If that's a legal
3 conclusion I'm not sure.

4 MS. LABUDA: I would call up Ballard
5 Spahr.

6 MR. DASENT: Valarie Allen from Ballard
7 Spahr is here. That will give authoritative
8 source.

9 MR. BALLENGER: Sure.

10 HEARING OFFICER BROCKWAY: Off the
11 record.

12 - - -

13 (At this time, a discussion was held off the
14 record.)

15 - - -

16 HEARING OFFICER BROCKWAY: While we've
17 been off the record, I had a question on the side
18 as to what is the evidentiary weight to be given
19 to the statements here?

20 Just to remind everybody, there will be
21 no oaths taken at any point in the proceeding so
22 you're all on Scout's honor to tell the truth.
23 But we definitely do expect that you are telling
24 the truth. So anybody -- anything that you say

1 now somebody else could rely upon with the usual,
2 oh, I made a mistake or I had to clarify, yadda,
3 yadda, yadda. But we don't have oaths and we
4 don't have certainly speaking evidence, but we do
5 have information. And I appreciate the
6 forthcoming and honesty of everybody involved.

7 MS. ALLEN: Is it working? I've been
8 watching everybody do this all morning. Still
9 good. Okay. Great. My name is Valarie Allen
10 I'm a lawyer at Ballard Spahr here in
11 Philadelphia. We are counsel to the Water
12 Department.

13 I'm sorry. Can you repeat the full
14 question?

15 MR. BALLENGER: I just wanted -- and
16 this is sort of the least consequential part of
17 the question. I wanted to confirm that rate
18 stabilization Residual Funds and construction
19 fund balances are available for borrowing to
20 cover expenses if necessary?

21 MS. ALLEN: Yes. Rate stabilization is
22 available to transfer to the revenue fund, and
23 then can be used for operating expenses.
24 Physical fund monies can be transferred and used

1 for operating expenses directly. Construction
2 fund money is not available for operating
3 expenses.

4 MR. BALLENGER: Well, I don't have it in
5 front of me, but I believed -- subject to check,
6 I believe it was available at least for borrowing
7 to cover expenses.

8 MS. ALLEN: For borrowing, but it would
9 have to be reimbursed.

10 MR. BALLENGER: Sure.

11 MS. ALLEN: Just to reiterate from this
12 morning, there is limitation on the amount of
13 money that can be used from the --

14 MR. BALLENGER: For coverage purpose,
15 yes. In the past there's been a sort of
16 historical practice to borrow on an annual basis,
17 a fairly substantial amount from the Rate
18 Stabilization Fund. I believe it was
19 \$45 million.

20 Has that process continued to date or is
21 that discontinued?

22 MS. LABUDA: I think what you're
23 referring to is the procedural practice where the
24 RSF makes a loan to water operating to cover any

1 deficiencies. As you might be aware, December is
2 a pretty tough month for the Water Department.
3 We make our pension payment in December as well
4 as pay our largest debt service payment. So,
5 that loan between RSF and water operating is
6 booked and rebooked at the start of every fiscal
7 year.

8 MR. BALLENGER: There is still a
9 45 million a year loan?

10 MS. LABUDA: The 206 loan includes the
11 45 million loan. It's not added into.

12 MR. BALLENGER: No.

13 MS. LABUDA: Just so we're clear.

14 MR. BALLENGER: I didn't believe it was.
15 I just wanted to sort of track where the money is
16 moving to from time to time. I think we're going
17 to have more to explore about that later.

18 I wanted to ask, in a lot of public
19 utility rate cases, and this has been the case
20 also in the past with the Department, we have
21 looked at certain expenses and seen a statement
22 from the Department as to whether those projected
23 expenses were non-recurring or continuing. Seems
24 like there's a few in this case. And I don't

1 have, you know, again, the whole file here.
2 Think there's a start up costs associated with
3 new loan income program, for example. Think it
4 was \$1.3 million.

5 Would the Department consider that it
6 would be fair to amortizing that cost as opposed
7 to including it in year one?

8 MS. LABUDA: I don't mean to go back to
9 the bond ordinance, but how would we amortize an
10 expense that would occur in FY17? Our bond
11 ordinance is on a cash basis. The cash for the
12 obligation or expense in occurs in year. I don't
13 have the ability to amortize expense. That's not
14 how General Bond Ordinance works. That's on cash
15 basis.

16 MR. BALLENGER: But coverage or --

17 MS. LABUDA: Coverage in --

18 MR. BALLENGER: You move money out of
19 rate stabilization fund to make sure you
20 maintain. We have talked about managing to the
21 1.2, 1.21, 1.22. These are costs that customers
22 would be asked to pay \$1.3 million in rates in
23 perpetuity for a program that gets billed only
24 once. It's built into the rates.

1 HEARING OFFICER BROCKWAY: Before you
2 answer the question, what 1.3 million in
3 perpetuity? Is that every year?

4 MR. BALLENGER: It's built into the
5 rates is all I'm saying.

6 MR. DASENT: Please note this isn't an
7 objection, but it's very close. In perpetuity
8 assumes the Board will never act on it, and
9 that's just not --

10 MR. BALLENGER: For a period of two
11 years when it only gets spent in the first.

12 HEARING OFFICER BROCKWAY: If the
13 Department could break this up into we absolute
14 can't do it legally or we can do it, but it's a
15 stupid idea.

16 MS. ALLEN: I just wanted to make sure I
17 understood your point about the fact that the
18 Department makes transfers from rate
19 stabilization but then it pays itself back. That
20 all happens within one fiscal year. That is not
21 something that once that loan is made, they don't
22 have the ability under the ordinance to amortize
23 that over --

24 MR. BALLENGER: I understand.

1 MS. ALLEN: If that is the analogy you
2 are drawing, I'm not quite sure what you're
3 asking them to do.

4 MR. BALLENGER: I'm just asking whether
5 it would be fair to amortize the non-recurring
6 expenses for purposes of accounting for those
7 costs.

8 MS. ALLEN: Unfortunately, they would be
9 able to -- for ordinance purposes, there is no
10 way to do that. There is no mechanism to do
11 that. They have to recognize expense as it
12 occurs to see what is available to pay debt
13 service in the given year.

14 HEARING OFFICER BROCKWAY: Let me back
15 up, if I might, to see if this helps. I actually
16 had a question about why the 1.3 million or all
17 of it was an expense item as opposed to a capital
18 item because I don't know what it's being used
19 for. But my guess is that some of it for
20 benefits that will extend beyond the year.

21 MS. LABUDA: You have to read City's
22 capital guidelines. The question is, is it
23 greater than the limited amount to meet capital
24 eligible? Yes. But does it meet the definition

1 of capital? I don't believe they do because they
2 are really on the operating level. So, it
3 doesn't feel to me as it would be with -- those
4 expenses would meet the terms of capital
5 guidelines as provided by the City of
6 Philadelphia.

7 HEARING OFFICER BROCKWAY: Go ahead.

8 MS. KUMAR: Chairman, if I may answer,
9 just for clarity, the 1.3 million that is being
10 referred, it's really the basis2 system modeling
11 cost and the office business associated with
12 that. But the primary cost is basis2 in the
13 1.3 million. It's not recording cost. It's only
14 incurred in '17 not in '18. Just for clarity.

15 HEARING OFFICER BROCKWAY: But doesn't
16 that -- that to me suggests because it's going to
17 be used for many years after. That's why it's
18 strange to me that's capital cost and not an
19 expense -- an expense, not a capital costs.

20 MS. LABUDA: It would have to -- I don't
21 have the guidelines in front of me. I will say
22 to fact check. If that lasts greater than '17
23 year, hard to know if this one-time
24 implementation will extend the life of the

1 system. Does not meet capital guidelines as per
2 the standards.

3 MR. BALLENGER: Sort of skipping around.
4 Sorry. We talked a little bit about usage
5 reduction sort of on a population basis and that
6 being one of the drivers of this case. I was
7 looking at the numbers of residential customers
8 since 2010. It seemed to me there had also been
9 a fairly significant decline in the number of
10 residential customers over the last five years.

11 I mean, does the Department have an idea
12 as to why that would be the case? I believe it's
13 about 30,000 or so. I don't know which table,
14 I'm sorry.

15 MS. LABUDA: I think we may have to
16 follow up on this one because I do not have total
17 recall, nor do I have the privilege of work for
18 the City in 2010 to attempt to answer that. May
19 we get back to you?

20 MR. BALLENGER: Absolutely. Thank you.
21 I just wonder if there is portion of -- one
22 question we had about the usage and we talked
23 about that. I think the Board at its last
24 meeting and even today, I think, is aware that

1 Philadelphia is really in a lot of ways coming
2 up. And it was a concern of ours that I would
3 like it if you follow up.

4 MS. LABUDA: Can I just repeat the
5 question back.

6 MR. BALLENGER: Sure.

7 MS. LABUDA: The question is, can we
8 articulate the shifts in customer accounts since
9 2010, specifically the drop, the decrease in
10 residential accounts.

11 MR. BALLENGER: Yeah. Not the numbers,
12 just the reason why there's been a decline.

13 MS. LABUDA: Thank you.

14 MR. JAGT: Is that in reference to
15 usage?

16 MR. BALLENGER: I'm not talking about
17 usage. Talking about number of residential
18 accounts. I think it started, don't quote me,
19 440. It's now down to 410 or thereabouts
20 ballpark.

21 One other thing, and I'm going back a
22 little bit to the conference call that we had
23 back in December. I'm probably -- my memory is
24 suspect a little bit, but I'm starting from one

1 of the pages in the presentation.

2 MR. DASENT: This the workshop
3 presentation?

4 MR. BALLENGER: That's where the
5 question originated from. I want to make sure we
6 were clear. On page 25 of the cost of service
7 presentation, it says that fiscal year cash
8 receipts reflect 96 percent of fiscal year
9 billings. And I just wasn't quite sure how that
10 correlated with the collection factor that was
11 designated in the December filing? I think we
12 were looking at 84 and change percent of current
13 year collections.

14 Is this the sum of all.

15 MR. DASENT: Are you talking about a
16 rolling twelve months or collection factor?

17 MR. BRUNWASSER: That's a current
18 collection factor.

19 MR. BALLENGER: Yeah.

20 HEARING OFFICER BROCKWAY: I'm sorry,
21 folks. One at a time.

22 MR. BRUNWASSER: By definition that's
23 what's billed beginning July 1, the beginning of
24 a fiscal year and what's collected in that year

1 by June 30. And of course, a lot of the bills
2 that were sent out in June are not due. The due
3 date falls beyond the fiscal year. So roughly,
4 you collect historically approximately 85 to
5 86 percent of current billings. Historically, 7
6 to 9 percent of the immediate prior year
7 billings, and historically, 2 to 3 percent of all
8 prior year to that. All prior to that. And the
9 end you, you've collected roughly 96 percent on
10 average.

11 MR. BALLENGER: Is that more or less?

12 MR. JAGT: Correct. The details of all
13 the specific collection factors for the three
14 years -- the current year, first year prior and
15 second year prior -- and also the breakdown
16 between the collection factor for water and sewer
17 and stormwater only are provided in the
18 assumptions document. And while it's being
19 presented is the effective collection -- total
20 collections for retail for that fiscal year.

21 MS. KUMAR: It's 96.3 percent per the
22 document.

23 MR. BALLENGER: Okay. Thank you. I
24 thought it was probably just a rounding issue.

1 MS. KUMAR: Yes.

2 MR. BALLENGER: This may be more for
3 Water Revenue, but I will let anyone answer it
4 who is so inclined.

5 As we talked about during that December
6 call, the 84 and change is down a little bit from
7 where we were three years ago with about 85.5
8 being the collection amount. Are there -- does
9 the Department set sort of performance goals at
10 the beginning of the year as to our goal is to
11 collect 86 percent or next year we want to go to
12 87 percent?

13 Does the Department do that kind of
14 planning from year to year? If so, how? And how
15 would it measure its performance if it did?

16 MS. BETHEL: Michelle Bethel again.

17 Our goal is always to collect every
18 penny that we bill. But as we stated
19 historically, what we collect during the fiscal
20 year is, it is what it is. Of course, we always
21 want to collect more. But historically, that is
22 what we have been able to collect.

23 MR. BALLENGER: Okay. I think I've gone
24 through questions that I had in my mind. I'm

1 looking to my team to see if there's anything --

2 HEARING OFFICER BROCKWAY: Let's go off
3 the record.

4 - - -

5 (At this time, a discussion was held off the
6 record.)

7 - - -

8 MS. PICKENS: Hi, everyone. Josie
9 Pickens again. I have a general question about
10 the new staffing and what factors went into the
11 calculation in the numbers of people you need
12 both for the WRAP and for the new Water
13 Department positions?

14 MS. BETHEL: For the 22 positions that
15 we were projecting for WRB, it's going with
16 amounts of pieces of paper that we would
17 anticipate perhaps receiving based on what we get
18 right now. So right now that unit deals in like
19 12,000 pieces of paper. If we went with that
20 assumption of 50,000 and, of course, if it's not
21 a hundred percent adoption, we still have to --
22 just for -- in a perfect scenario, if we got all
23 that, then we did the calculations based on that.
24 So, that's what got us to our staffing.

1 With the IT, same thing they did. They
2 knew how long, projected how long this project
3 would take. And they broke it out how many
4 people they would need for that many of hours.

5 MS. LABUDA: For the Water Department
6 positions, I will give you an example. I will
7 speak about the Finance Division. We looked at
8 current projects we needed to complete in house.
9 We look at civil service regulations. Identified
10 positions, identified the salary, figured out
11 what the job specs would be based on the work we
12 needed to get done. That's how it -- that would
13 be the formula for most of the -- all of the
14 Water Department positions.

15 Just looking back to the document, human
16 resources that we provided as part of the filing
17 and also as part of the proceeding, each division
18 it talks about the position with human resource
19 and admin and how many people, what they were
20 going to do and the estimate of the salary. It's
21 same type of formula. What's the work that needs
22 to be done? What's the civil service code it
23 correlates to. What's the salary. Of course, in
24 addition to salaries paid for pension.

1 MS. MCCARTY: If I may, you know there
2 is 21 positions for the Water Department. You
3 know, they are scattered around for compliance
4 purposes like a concept order agreement. But
5 some of those positions are related to inspection
6 of our sewer connections, connection to the sewer
7 system which is protection of our infrastructure.
8 We find plumbers maybe don't do the best job. We
9 are going to be changing some things around so
10 there is better inspection of them. And our goal
11 is for the Water Department to perform those
12 inspections. Sewer system integrity is prolonged
13 either further. That's an example.

14 MS. PICKENS: You mentioned new
15 initiatives. Are there things that you haven't
16 covered in the presentation that you anticipate
17 would be contemplated by that?

18 MS. MCCARTY: What I -- what I just
19 mentioned is a new initiative.

20 MS. LABUDA: That's really it. When I
21 speak about finance, I think of things like just
22 reconciliations.

23 MS. PICKENS: Thank you.

24 MR. BALLENGER: I think at this point I

1 would like to ask if they are on the phone with
2 us, if anyone from Exeter or otherwise would like
3 to have any questions. If so, they would chime
4 in on.

5 MR. MIERZWA: I'm good right now.

6 MR. MORGAN: This is Lafayette Morgan.
7 I have a couple of questions. One deals with --
8 can you hear me okay?

9 MR. BALLENGER: Yes.

10 MR. MORGAN: One deals with electric
11 power. And I realize someone just asked a
12 question on this, but the audio was bad so I
13 couldn't quite get the full gist of the question.

14 First question is, I'm trying to see if
15 I can find out from whom does the Department get
16 it's electric power?

17 HEARING OFFICER BROCKWAY: It's what?

18 MR. BALLENGER: Electric power.

19 MR. SCHWARZ: This is Scott Schwarz
20 again. The Department does not buy power
21 directly. The City buys power. The Department
22 is not a separate legal entity. We cannot enter
23 into contracts. The City's buys power through a
24 low service provider directly off the grid.

1 We're a member of PJM. And there's procedure
2 City Council set up for buying power directly off
3 the grid.

4 MR. BALLENGER: Did you hear him?

5 MR. MORGAN: Yes. Yes. In other words,
6 not a specific rate schedule that it uses to get
7 power if I'm understanding correctly?

8 MR. SCHWARZ: That's correct. We are
9 required to get three quotations. And usually
10 the purchase is executed within a few minutes.

11 HEARING OFFICER BROCKWAY: The "we" as I
12 understand it in that sentence was the City, not
13 the Department?

14 MR. SCHWARZ: That's correct. All power
15 is purchase by the City of Philadelphia through
16 the Procurement Department. From that, there is
17 separate account for the airport, water and the
18 general fund. They each charged a separate rate
19 by the City.

20 MR. MORGAN: How does the power get a
21 apportioned to the Department? It's some metered
22 or?

23 MR. SCHWARZ: We don't have meters for
24 all our facilities. But there is a load profile.

1 The Water Department is not involved in that.
2 It's a different office. But there's an energy
3 consultant these quarterly meetings. The load
4 profiles are examined, and the prices are set
5 based on load profiles.

6 MR. MORGAN: Okay. The other area I had
7 input intentions. And my understanding is that
8 the Department, the employees of the Department
9 participate in the City's pension plan; is that
10 correct?

11 MS. LABUDA: Yes, that is correct.
12 We're a part of the City of Philadelphia's
13 pension plan.

14 MR. MORGAN: Can you help me understand
15 again how those costs are apportioned to the
16 Department?

17 MS. LABUDA: Again, I'm going to cite my
18 favorite phrase today, I think, which is fact
19 check. I'm speaking from memory, and I don't
20 want to misstate something on the record.

21 The Department is charged its pension
22 cost based on the Department's allocable share of
23 pension which is really the number of Department
24 or Water Fund employees over total City

1 employees. It also looks at our retirees versus
2 city retirees. That table, those metrics, are
3 best displayed in the most recent city general
4 obligation offering in the back of the document.
5 There's a table that just shows the calculation
6 of Water Department or Water Fund employees
7 versus overall city employees.

8 MR. MORGAN: Okay. That's all I have.

9 MR. BALLENGER: Thank you, Lafayette.

10 With that, I believe the Public Advocate will
11 turn it over to anyone else who has questions.

12 HEARING OFFICER BROCKWAY: As far as I
13 know, no one else has questions, but we will give
14 people one last shot. Yes. Do come on up.
15 Good.

16 MR. HELBING: Good afternoon. Promise
17 to keep this short. My name is Mike Helbing for
18 PennFuture. One of the participants in this
19 case. PennFuture is an environmental
20 organization, our focus on this case is slightly
21 different than some of the other groups. We are
22 focused primarily on -- we are very supportive of
23 the Water Department's Green City Clean Waters
24 program. That is where a lot of our focus is. I

1 just had two specific questions about some things
2 that came up in the last rate case that I saw
3 also in some of the document here, but I just
4 wasn't sure. I didn't see a lot of analysis.

5 The first is the credit program. This
6 is in statement 9B from the Black & Veatch. It
7 talks about on page 13 it allows for credit of --
8 depending on the circumstances, 80 percent,
9 90 percent IAGA credit. And at the bottom says
10 credit program -- no changes are proposed to this
11 current credit program.

12 My question is, was there any further
13 analysis done on in this rate case versus any
14 data gathered in the interim since the last rate
15 case? Or was it just carried forward for these.

16 MS. KUMAR: In terms of the percentages
17 which are regulation, these are in the
18 regulations. And so, these were all vetted
19 during the last rate case proceedings. So, these
20 percentages were not changed. Because one of the
21 things that also came in the last citizens
22 advisory committee during the last rate case, one
23 of the questions raised was what is the guarantee
24 that we are doing this current program and what

1 is the guarantee this credit program will be
2 there next time? And the Department wanted to
3 honor that. This was all decided on doing that
4 last rate case. It's only fair to retain that
5 for a period of time.

6 So with that in mind, this was reviewed
7 by the percentages. And decide these will still
8 be valid for these rate proceedings.

9 MR. HELBING: You said the numbers were
10 reviewed. Is that in the documents made
11 available? Is that part of the formal notice the
12 review?

13 MS. KUMAR: They are there in the
14 regulation, as well.

15 MR. HELBING: Okay. Similar question
16 about enhanced program. In the document it say
17 it's basically being carried forward as in the
18 last rate case. Was that being reevaluated based
19 on data gathered since the last rate filing?

20 MS. KUMAR: That is true. The enhanced
21 capital program, it's in the statistics there in
22 the testimony itself.

23 HEARING OFFICER BROCKWAY: Can you slow
24 down just a tad.

1 MS. KUMAR: Statistic is there in the
2 testimony, but there is also additional responses
3 given in the interrogatory questions that were
4 raised in terms of pattern. The program is
5 officially closed, was closed in September of
6 2013 to the normal new enrollees. The existing
7 enrollees will continue to be in the program as
8 long as they meet the eligibility requirements.

9 MR. HELBING: Okay. Thank you. That's
10 all I have.

11 HEARING OFFICER BROCKWAY: Okay.
12 Anybody else?

13 Seeing none, I want to thank the
14 Department very much for subjecting yourself to
15 all these questions and to the participants for
16 asking questions. And I want to thank the
17 Members. Feels cheeky to do that.

18 This is adjourned and this Presentation
19 day is closed.

20 (Presentation adjourned at 3:00 p.m.)

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C E R T I F I C A T I O N

I, hereby certify that the proceedings and evidence noted are contained fully and accurately in the stenographic notes taken by me in the foregoing matter, and that this is a correct transcript of the same.

ANGELA M. KING, RPR
Court Reporter - Notary Public

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