

**PHILADELPHIA WATER DEPARTMENT REBUTTAL TESTIMONY OUTLINE – ROBERT A. ROSENTHAL**

Summary of Rebuttal Testimony - PWD will proffer rebuttal testimony addressing the following subject areas to rebut the contentions of PECO witness Robert Rosenthal that (1) there is cross-subsidy between water and wastewater services; (2) this perceived cross-subsidy should be lessened by equalizing the total debt coverages of the water and wastewater services by modifying the proposed water and wastewater revenue increase percentages; and (3) the proposed annual escalation factor for chemical expenses reflect a decline rather than an escalation.

The Outline of Rebuttal Issues for Mr. Rosenthal is set forth below. PWD rebuttal witnesses include: Debra McCarty, Melissa LaBuda, and Black & Veatch (B&V) witnesses, David Jagt, Prabha Kumar and Ann Bui. The subject areas to be addressed noted in the outline.

Outline of Rebuttal Issues

- I. Mr. Rosenthal erroneously concludes that there is a cross-subsidy in *Total Debt Coverages* between the water and wastewater services. (B&V)
  - a. There is no imbalance or cross-subsidy;
  - b. The allocation of O&M and Debt Service costs to the water and wastewater services in FY 2017 and FY 2018, based on cost of service principles, results in the Total Coverage values being different between Water and Sewer.
  - c. An *arbitrary balancing* of the Total Debt Coverage will cause a deviation from cost of service principles.
  
- II. Mr. Rosenthal erroneously recommends that chemical expenses for the FY 2017-FY 2018 rate period should be based on the most recent three year Producer Price Index for industrial chemicals (B&V, LaBuda, McCarty)
  - a. The FY 2015 chemical costs presented in the various documents (PWD testimony, exhibits and interrogatory responses) are consistent and represent FY15 chemical costs at different points in time.
  - b. The use of PWD's three-year historical actual average to project chemical costs is appropriate and reasonable.
  - c. The basis of the three-year historical average increase in Water Fund's chemical costs is presented in Page 20 of Exhibit BV-S1.
  - d. The use of Producer Price Index (PPI) for Industrial Chemicals, as the escalation factor, is not appropriate as it does not reflect the Water Department's historical actual cost experience.
  - e. The Department must have sufficient resources to operate.