

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

In the Matter of a Proposed Rate Increase in :
Water, Sewer and Storm Water Rates : **FY 2017-2018 Rates**

Public Advocate's Interrogatories & Requests for Production of Documents

Instructions: Please respond to the following Interrogatories and Requests for Production of Documents. Please repeat the interrogatory and provide the name of the person providing the response. Please provide copies of all replies in PDF and/or XLS format via email and/or on CDs.

Regarding the Direct Testimony of Melissa Labuda

PA-EXE-97. Reference the discussion of debt coverage at the bottom of page 6. Please explain why PWD is seeking debt coverages... “which are in excess of the 1989 General Bond Ordinance...requirement of 120 percent”. Specifically explain in detail and provide all empirical evidentiary documents showing that the “minimum senior debt service coverage should be 124 percent for FY16, 125 percent for FY17 and 126 percent for FY18. Also in your response, please provide supporting calculation showing the derivation of debt coverage ratios for FY 16, 17 and 18.

PA-EXE-98. Please provide a schedule (not references) detailing actual senior debt coverage for each of the past ten fiscal years.

PA-EXE-99. Reference page 7. Please explain in detail why PWD will target to fund at least 20 percent of the capital program with cash.”

PA-EXE-100. Reference page 17. Please explain in detail and provide support for the statement: “In addition the Department’s improved focus on Human Resources is reducing vacancies in Department in a meaningful manner.” Specifically, for FY13, through FY18, please identify the number of vacancies reduced (or projected to be reduced) as a result of the Department’s “improved focus”.

PA-EXE-101. Reference page 17. Please provide a supporting documentation detailing the:

- a. "Increase in exposure due to claims from recent water main breaks;" and
- b. Available balance in the indemnity account at fiscal year-end 2013, 2014 and 2015.

PA-EXE-102. Reference page 18. Please provide a schedule detailing the "series of projected debt schedules reflecting the timing of future issuance needs."

PA-EXE-103. Please provide a schedule similar to Exhibit ML-6, Attachment B, Table 11, Projected Revenue and Revenue Requirements, showing actual data for each FY 12 through FY15 and actual/projected data for FY 16.

PA-EXE-104. Reference page 3. Ms. Labuda states that the potential impact of the labor settlements was not an allowable expense in the prior rate proceeding. Please provide a citation from that proceeding that support this claim.

PA-EXE-105. Reference page 3. Ms. Labuda indicates that Bucks County Water and Sewer Authority terminated its wholesale water contract on June 30, 2014. Please provide a schedule identifying the annual cost savings associated with no longer serving Bucks and show how it has been reflected in the cost of service.

PA-EXE-106. Reference page 6. Please provide copies of the supporting documentation requiring the Department to maintain at least \$110 million in the Rate Stabilization Fund (RSF) and \$15 million in the Residual Fund, adjusted for inflation.

PA-EXE-107. Please provide a schedule detailing the actual cost of the 2012 rate case, broken down into the following categories: expense by vendor/contractor (separately identifying each such vendor/contractor and associated expense), personnel/labor cost, other (including a brief description).

Regarding the Direct Testimony of Black & Veatch Corp

PA-EXE-108. Reference page 26 of Direct Testimony of Black & Veatch Corp. "Pension, pension obligation, and benefits, which are directly related to personnel services expenses, which were estimated based upon current levels of such expenses and the growth rate reflected in the City's 5-Year Plan. Please identify the growth rate used in the

derivation of the pension, pension obligations, and benefits and provide documentation supporting the growth rate.

PA-EXE-109. Reference page 26 of Direct Testimony of Black & Veatch Corp. Please provide supporting documentation for the annual escalation factor of three percent (3.0%) that was used to project personnel budget costs.

PA-EXE-110. Reference page 27 of Direct Testimony of Black & Veatch Corp. Please provide a schedule identifying the additional staffing costs that are included to account for the additional staffing anticipated in the various divisions of the Water Department during the study period.

PA-EXE-111. Reference page 27 of Direct Testimony of Black & Veatch Corp. Please provide the supporting documentation and provide a schedule showing the derivation of the 3.3 percent annual escalation factor that is assumed based upon the most recent three-year average of Water Department chemical costs.

PA-EXE-112. Reference page 27 of Direct Testimony of Black & Veatch Corp. Please provide a schedule showing the three-year average of the Producer Price Index that validates the use of the three-year average escalation factor used for chemical costs. Include the PPI source documents in your response.

PA-EXE-113. Reference page 27 of Direct Testimony of Black & Veatch Corp.:

- a. Please provide the supporting documentation and show the derivation of the 3.0 percent annual escalation factor used for other expense categories by Black & Veatch. Identify the recent 3 years used in the analysis; and
- b. Please identify and provide all of the “various cost indices” reviewed by Black and Veatch to evaluate the 3.0 percent escalation rate for all other expense categories as stated on page 27. Include copies of the source documents in your response.

PA-EXE-114. Reference pages 27 to 28 of Direct Testimony of Black & Veatch Corp. Please provide a schedule detailing annual inter-department charges for FY 16 through FY 21. In your response, provide supporting documentation showing Black & Veatch’s

derivation of the annual inter-departmental charges were for each year from \$164.4 million in FY 16 to \$195.9 million in FY 21.

PA-EXE-115. Reference page 28 of Direct Testimony of Black & Veatch Corp. “The cash flow adjustment indicated in line 9 of Table W-3 and line 10 of Table WW-3 represents the net result of carrying forward costs which are encumbered in one year, but which do not become a cash expenditure until a subsequent year.” Please provide the basis of the statement with supporting documentation.

PA-EXE-116. Reference page 29 of Direct Testimony of Black & Veatch Corp. “The debt service is estimated based on a 30-year amortization schedule and an annual interest rate of 5.25 percent for each of the bond issues proposed during FY 17 through FY 20, and 5.50 percent for FY 21.” Please provide the basis for the 5.25 percent and 5.50 percent and provide supporting documentation for those rates.

PA-EXE-117. Reference page 30 of Direct Testimony of Black & Veatch Corp. It is stated that “In addition, line 10 indicates that \$246.9 million will be available from the Residual Fund as another major source of funding of the capital improvement program.” Please explain how the projections of these available funds were determined and provide supporting documentation.

PA-EXE-118. Reference page 30 of Direct Testimony of Black & Veatch Corp. Please provide supporting documentation for the interest rate of 0.36% percent that was assumed to determine the interest income for FY 16 through FY 21.

PA-EXE-119. Reference page 37 of Direct Testimony of Black & Veatch Corp. It is stated that the projected revenue increases were established, taking into consideration an anticipated draw down from the Rate Stabilization Fund. Please provide the basis of this statement.

Regarding the Direct Testimony of Katherine L. Clupper

PA-EXE-120. According to page 3 of Ms. Clupper’s testimony, there are four key drivers for assessing municipal systems financial strength.

- a. Is it correct that all four drivers are taken from Fitch Ratings? If not, please provide the source of each of the drivers.
- b. Does Ms. Clupper believe that these are the critical factors of assessment for the Board to consider in its decision in this proceeding?
- c. As part of the four drivers, Ms. Clupper mentions “affordability metrics”. Please describe what affordability metrics are and provide the affordability metrics for the Department for FY 15 through FY 18 along with the supporting calculations.

PA-EXE-121. Reference Page 4 of Ms. Clupper’s testimony. Please provide copies of the most recent Moody’s and Standard & Poor’s scorecards for the Department. Please provide copies of peer indices, sector medians or industry standards which are used to compare the Department’s results.

PA-EXE-122. Reference the table at the top of Page 4 of Ms. Clupper’s testimony. Please provide a similar table for District of Columbia Water & Sewer Authority, City of Cleveland Water Enterprise and City of Baltimore with the ratios for Moody’s, Fitch and Standard & Poor’s .

PA-EXE-123. Reference Page 5 of Ms. Clupper’s testimony. Please provide Moody's Utility Revenue Rating Methodology Table with the values for District of Columbia Water & Sewer Authority, City of Cleveland Water Enterprise and City of Baltimore.

PA-EXE-124. Please provide all reasons why Ms. Clupper has chosen the District of Columbia Water & Sewer Authority, City of Cleveland Water Enterprise and City of Baltimore as comparable peers to the Department besides the underlying household income levels.

PA-EXE-125. Please provide a schedule detailing the household income levels for the District of Columbia Water & Sewer Authority, City of Cleveland Water Enterprise, City of Baltimore and the Department service areas.

PA-EXE-126. Reference Page 7 of Ms. Clupper’s testimony.

- a. Please provide supporting documentation and identify the “large systems” with 58 percent of capital financed by debt.
- b. Please provide supporting documentation and identify the “Fitch A-Rated systems” with 64 percent of capital financed by debt.

PA-EXE-127. Reference Page 7 of Ms. Clupper’s testimony.

- a. Please provide supporting documentation for the assumption that the Department will issue \$250 million of debt annually over the next 25 years as implied by Ms. Clupper.
- b. Please provide a spreadsheet illustrating how the debt would double.

PA-EXE-128. Reference Page 8 of Ms. Clupper’s testimony. Please indicate the time period in which District of Columbia Water & Sewer Authority, City of Cleveland Water Enterprise and City of Baltimore achieved the actual Debt Service Coverage ratios of 1.73, 1.50 and 1.60, respectively.

PA-EXE-129. Reference Page 8 of Ms. Clupper’s testimony. Please explain and provide a schedule detailing how PWD derived the senior debt service coverage of 124 percent in FY2016, 125 percent in FY2017, 126 percent in FY2018, and 135 percent by FY 2019 that it is proposing.

PA-EXE-130. For the period FY 2011 to 2015, please provide a schedule detailing the Department’s average number days cash on hand and include the supporting calculation.

PA-EXE-131. Reference Page 9 of Ms. Clupper’s testimony, please provide an illustration of the calculation of “Days cash on hand” as the Department proposes to calculate it.

PA-EXE-132. Reference Page 9 of Ms. Clupper’s testimony, please explain the statement “the allowable use of [the Residual Fund] is broader and more flexible” than the Rate Stabilization Fund.

PA-EXE-133. Please explain what “equity in the Treasurer’s account” is; how funds accumulate in the equity account; where the funds are deposited; and what are the uses of equity in the treasurer’s account.

PA-EXE-134. Please provide all studies and analyses that demonstrate that as the level of debt increases by a municipal utility, the level of expenses, excluding debt servicing and capital expenditures, will increase.

Regarding the Direct Testimony of Debra McCarty

PA-EXE-135. Reference Page 6 of Ms. McCarty’s Testimony. Ms. McCarty states “[t]he Wastewater Planning Program is currently developing a long-term Wastewater Master Plan that will incorporate the regulatory requirements contained in the COA and LTCP, connect the collection system and treatment plants holistically, and look beyond current regulatory drivers to envision the future of the utility.” What does it mean to connect the collection system and treatment plants holistically?

PA-EXE-136. Reference Page 8 of Ms. McCarty’s Testimony. According to Ms. McCarthy, the Department will experience higher operating costs because of regulatory requirements during the rate period.

- a. Please provide a schedule identifying the projected increase over FY 2015 that will be incurred during FY 16, 17 and 18 relating to the existing NPDES permits for the three wastewater treatment plants.
- b. Please provide a schedule identifying the projected increase over FY 2015 that will be incurred during FY 16, 17 and 18 relating to Title V permits.
- c. Please provide a schedule identifying the projected increase over FY 2015 that will be incurred during FY 16, 17 and 18 relating to the conversion of Department disinfection facilities from liquid chlorine to sodium hypochlorite.
- d. Please provide a schedule identifying the projected increase over FY 2015 that will be incurred during FY 16, 17 and 18 relating to the Clean Water Act compliance.

Regarding PWD Exhibit 6, FINPLAN15.XLS Assumptions

PA-EXE-137. Reference Assumptions-6-9. Please explain in detail the purpose of the Calculated Billings Adjustment Factor and how it is utilized in the model.

PA-EXE-138. Reference Assumptions-10:

- a. Please explain in detail the purpose of the General Service Override and how it is utilized in the model; and
- b. Please explain in detail the purpose of the Revenue Increase Compression Factor and how it is utilized in the model.

PA-EXE-139. Reference Assumptions-11:

- a. Please explain in detail the following decreases in Sewer Only Billed Volume from FY15 to FY16:
 - i. Municipal 247,108 to 232,000
 - ii. Groundwater (Non-City): 248,776 to 190,000

PA-EXE-140. Reference Assumptions-21:

- a. Please explain in detail how the Estimated Increase in System Net Value of 2.50 percent was determined; and
- b. Please provide a schedule detailing the Total System Net Plant Investment for each FY 11-15.

PA-EXE-141. Reference Assumptions-22A: Please explain in detail why it is proper for ratemaking purposes to utilize a three-year average in determining Actual to Budget Factors for the following expenses, considering extraordinary historical factors, as compared to the other two years:

Department	Expense	3-Year Avg.	Yr.-Factor
Human Resources and Administration	Materials and Supplies	69.40%	2014-82.01%
Human Resources and Administration	Equipment	108.90%	2014-171.52%
Finance	Services	51.62%	2013-40.51%
Finance	SMIP/GARP	100.00%	2015-113.15%
Finance	Materials	25.78%	2015-47.53%
Finance	Transfers	62.12%	2013-85.62%

PA-EXE-142. Reference Assumptions-32. Please explain in detail why 12.00 percent was utilized in the model for Liquidated Encumbrances considering that the historical averages were 12.50 percent, 19.23 percent, and 17.66 percent, respectively.

Regarding PWD Exhibit 6, FINPLAN15.XLS Direct O&M

PA-EXE-143. Reference Direct O&M-2. Please provide detailed workpapers supporting each O&M adjustment for FYs 17 and 18:

- a. Human Resources and Administration;
- b. Finance;
- c. Planning and Engineering;
- d. Operations;
- e. Planning & Environmental Services; and
- f. Public Affairs.

Regarding PWD Exhibit 6, FINPLAN15.XLS Inter Dept O&M

PA-EXE-144. Reference InterDept O&M-1:

- a. Please explain in detail the increase in expense for Division of Technology Services from \$10,226,939 for FY15 to \$13,166,774 for FY16;
- b. Please explain in detail the increase in expense for Division of Technology Materials & Supplies from \$944,117 for FY14 to \$1,609,074 for FY15;
- c. Please explain in detail the increase in expense for City Finance Pension from \$40,861,335 for FY15 to \$46,529,000 for FY16; and
- d. Please explain in detail the increase in expense for City Finance Contributions from \$3,840,767 for FY15 to \$6,500,000 for FY16.

PA-EXE-145. Reference InterDept O&M-2. Please provide detailed workpapers supporting each O&M adjustment for FYs 17 and 18:

- a. Fleet Management;
- b. City Finance; and
- c. Revenue.

Regarding PWD Exhibit 6, FINPLAN15.XLS O&M Adjustments

PA-EXE-146. Please provide detailed workpapers supporting all adjustments shown on these worksheets for FYs17 and 18:

- a. Additional SMIP Costs;
- b. General Fund Reimbursement (combined sewer outfall construction);
- c. AMI;
- d. OOW Additional Staffing, and Class 200 Additions;
- e. Funding for Grants;
- f. HR & Admin Additional Staffing and Class 200 Revision;
- g. P&E Additional Staffing and Class 200 Costs;
- h. Finance Additional Staffing;
- i. Public Affairs Additional Staffing;
- j. Operations Add Package Adjustments; and
- k. Affordability Program.

Regarding PWD Exhibit 6, FINPLAN15.XLS Debt Service

PA-EXE-147. Reference DS-4. Please explain in detail why the Issuance Costs percentage has been increased from 0.51 percent for FY15 to 1.50 percent for FY17 and FY18.

Regarding PWD Exhibit 6, FINPLAN15.XLS Funds

PA-EXE-148. Reference Funds-1:

- a. Please define the term “Balance Target” regarding the Construction Fund;
- b. Please explain in detail why a \$70,000,000 ending Revenue Fund balance is projected for FYs17 and 18; and
- c. Please provide schedules for each of the combined funds showing actual data for each FY12-FY14.