

RESPONSE TO PLUG's INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS

PLUG-1 Please identify the PWD staff members responsible for addressing customer service and/or billing inquiries from Large C&I customers.

Response:

At this time, there is not a designated staff person exclusively assigned for addressing customer service and/or billing inquiries from Large C&I customers. However, the Department is interested in identifying a staff person for such purpose.

Response Provided By: Debra McCarty, Philadelphia Water Department

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PLUG-2 Please confirm whether or not each individual identified in response to PLUG-1 is exclusively or primarily tasked with addressing customer service and/or billing inquiries from PWD's Large C&I customers.

Response:

Please see response to PLUG-1.

Response Provided By: Debra McCarty, Philadelphia Water Department

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PLUG-3 Please reference page 177, lines 10-12, of the Official Transcript from the February 22, 2016, Technical Hearing. Please provide all available documentation describing the referenced "call center initiative."

Response:

The report will be provided in CD format. For the other participants, the report will be provided in CD format upon request.

Response Provided By: Debra McCarty, Philadelphia Water Department

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PLUG-4 Please reference page 177, lines 14-19, of the Official Transcript from the February 22, 2016, Technical Hearing. Please provide all available information regarding PWD's efforts to cross-train PWD and Water Revenue Bureau personnel.

Response:

WRB and PWD's comprehensive call center project is focused on improving customer service by reducing wait-times, reducing the confusion related to multiple call centers, and strengthening the skill and professionalism of the customer service representatives ("CSRs"). While PWD and WRB will, for the foreseeable future, continue to operate physically independent centers - once cross training is completed - customers will have a seamless experience when calling and will be connected to a CSR who can resolve their issue without transferring the call elsewhere.

Progress to date has included comprehensive job/task analysis of call center work. The implementation team has identified and documented customer call related tasks, and clearly defined the most effective and efficient response. New and existing CSRs will be required to certify correct performance on each of these tasks. This work forms the basis for employee training and promotion.

Response Provided By: Michelle Bethel, Water Revenue Bureau and Joanne Dahme, Philadelphia Water Department

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PLUG-5 Please reference the Response to PA-EXE-106, stating "the RSF was established in conjunction with the Series 1993 Revenue Bonds to provide funds to cover annual expenditures when the revenues are less than projected and to prevent the need for large swings in rates year to year. "

- a. Please provide a schedule showing the revenue projections for years 2013-2015 applied to determine when revenues are "less than projected" for purposes of authorizing disbursements from the Rate Stabilization Fund.
- b. Please confirm whether PWD can draw down the Rate Stabilization Fund solely to cover revenues shortfalls or whether PWD can also draw down the Rate Stabilization Fund to cover new expenses that were not included in prior revenue projections.

Response:

A. As indicated in the attachment provided in response to PA-EXE-103, the actual revenue receipt was in alignment with the projected revenues in each of the fiscal years, 2013 through 2015. Please note that the FY 2013 rate case financial plan contemplated a withdrawal from Rate Stabilization Fund. The following table presents the projected and actual revenues from the attachment provided in response to PA-EXE-103.

Line No.	Description	FY 2013	FY 2014	FY 2015
1	Total Projected Revenues	598,532	637,774	662,139
2	Total Actual Revenues	606,730	643,019	676,846
3	Difference (Line 2 - Line 1)	8,198	5,245	14,707

Note: Revenues include Total Water & Wastewater Service Revenue and Other Income

B. The Rate Stabilization Fund can cover reasonably unforeseen unanticipated expenses. Please also see the response to PLUG-8.

Response Provided By: Ann Bui, Prabha Kumar and David Jagt, Black & Veatch, Melissa La Buda, Philadelphia Water Department

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PLUG-7 Is the process for projecting the Rate Stabilization Fund balances reported for Fiscal Years 2016-2018 in Table C-1 to Exhibit BV-E1 consistent with that used to develop the prior projections for Fiscal Years 2013-2015 reported in the response to PA-EXE-58?

Response:

The process used to project the Rate Stabilization Fund balances in the Financial Plan presented for Fiscal Years 2016 to 2018 in Table C-1 is consistent with the Cost of Service methodology used Fiscal Years 2013-2015. The following table illustrates the cash flow analysis methodology used to project Rate Stabilization Fund Transfers and the resulting Rate Stabilization Fund Balances:

Line No.		Fiscal Year Ending June 30,			
		2015	2016	2017	2018
The following Process is used to determine the level of transfer to and from the Rate Stabilization Fund					
1	Total Service Revenue Required [Table C-1, Line 11]	648,663	644,101	675,376	707,463
2	PLUS: Other Income [Table C-1, Sum of Lines 12 to 15]	<u>28,146</u>	<u>23,829</u>	<u>23,178</u>	<u>6,889</u>
3	Total Revenues (Line 1 + Line 2)	676,809	667,931	698,553	714,352
4	LESS: Total Operating Expenses [Table C-1, Line 19]	(402,908)	(431,074)	(458,171)	(471,457)
5	Net Revenue Before RSF Transfer [Line 3 + Line 4]	273,901	236,857	240,383	242,895
6	Total Senior Debt Service [Table C-1, Line 25]	205,270	220,713	207,715	223,661
7	Senior Debt Service Coverage Target	1.23	1.24	1.25	1.26
8	LESS: Total Debt Service with Required Coverage [Line 6 x Line 7]	(252,483)	(273,685)	(259,643)	(281,813)
9	Net Revenue Transfer to OR (Withdrawal from) RSF [Line 5 - Line 8] (Rounded)***	<u>21,400</u>	<u>(36,900)</u>	<u>(19,300)</u>	<u>(39,000)</u>
Rate Stabilization Fund Balance					
10	Beginning RSF Balance	184,796	206,206	169,306	150,006
11	Projected Transfer to / (Withdrawal from) RSF [Line 9]	<u>21,410</u>	<u>(36,900)</u>	<u>(19,300)</u>	<u>(39,000)</u>
12	Ending Balance [Line 11 + Line 12]	206,206	169,306	150,006	111,006

*** The Transfer to / withdrawal from RSF are planned based on the following criteria:

- a. Achieve the targeted Debt Coverage
- b. Achieve a levelized revenue increase from year to year, to the extent practical
- c. Maintain the required annual RSF balance of \$110 Million
- d. Mitigate customer rate impact

As illustrated in the table, the projected Rate Stabilization Fund Transfers and Balances reflect the net cashflow of the projected revenues and revenue requirements.

While the process for determining the Rate Stabilization Fund Transfers and Balances has not changed, the projected Rate Stabilization Transfers and Balances are subject to a variety of factors that influence

actual results. It should be noted that the current cost of service study reflects the following adjustments to the projection of operating expenses in an effort to reduce the level of variances as a result of actual results:

- Pension and Benefits costs. During prior rate proceedings the Water Department's share of Pensions and Benefits costs were projected in total. For the current cost of service analysis, the Pensions and Benefits have been projected based on the following three components:
 - o Pension. This component reflects the Water Fund's allocation of the Pension Fund Minimum Municipal Obligation.
 - o Pension Obligation. This component reflects the Water Fund's allocation of the City Pension Obligation Bonds.
 - o Benefits. This component reflects the Water Fund's allocation of the City Benefit costs.

These three components were isolated to align the cost projections in the cost of service study with the City-wide projection of these costs as reflected in the City's Five Year Plan.

- Properties. The projection basis for class 200 costs from City Properties was revised to align with the City-wide projection of these costs as reflected in the City's Five year Plan.

Response Provided By: Ann Bui, Prabha Kumar and David Jagt, Black & Veatch

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- PLUG-8 Please reference page 44, lines 22-24, of the Official Transcript of the February 22, 2016, Technical Hearing before the Water Rate Board. Here PWD Witness David A. Jagt represents that PWD has "an agreement or covenant that the water fund will meet 90 percent of debt service from current revenues."
- a. Please provide a copy of the referenced agreement or covenant.
 - b. Please confirm whether the referenced agreement or covenant limits total Rate Stabilization Fund withdrawals to 10% of debt service.
 - c. Please confirm whether the 10% threshold includes transfers from the Residual Fund.
 - d. Please confirm whether, in a year where PWD has already met the 10% debt service threshold for Rate Stabilization Fund withdrawals, it could withdraw additional amounts from the Rate Stabilization Fund to address other expenses, such as revenue shortfalls due to declining sales.

Response:

- a. A summary of the Insurance Covenants is included on page 13 of the Official Statement for the City of Philadelphia Water & Wastewater Revenue Bonds Series 2015A and Water & Wastewater Revenue Refunding Bonds Series 2015B (refer to the attachment to Standard Interrogatory 31). See attachment response PLUG - 8 - PWD 2010 Covenant agreement for the full agreement.
- b. The Insurance Covenant does not limit Rate Stabilization Fund withdrawals to 10% of debt service. The Insurance Covenant establishes the minimum requirement for the level of Net Revenues that must be collected within a fiscal year excluding the Rate Stabilization Fund Transfer, which minimum requirement is an amount that equals 90% of the debt service payable in that fiscal year, as indicated in the Official Transcript, Rate Board Hearing, Philadelphia Water Department Presentation, February 22, 2016.
- c. Please see the response to item b of this request. In addition, under the terms of the 1989 General Ordinance and the Insurance Covenants, transfers from the Residual Fund do not constitute Net Revenues. Net Revenues may include (before exclusions): (i) Project Revenues collected and deposited into the Revenue Fund, (ii) interest earnings transferred to the Revenue Fund on balances in certain funds and accounts other than the Residual Fund, and (iii) transfers from the Rate Stabilization Fund to the Revenue Fund.
- d. Please see the response to item b of this request. Rate Stabilization Fund withdrawals can be used to address funding shortfalls, when revenues are not adequate to meet the annual revenue requirements, subject to fulfilling the General Bond Ordinance and Insurance Covenants.

Response Provided By: Ann Bui, Prabha Kumar and David Jagt, Black & Veatch, Valerie Allen
Ballard Spahr

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- PLUG-9 Please reference Table C-1 to Exhibit BV-E1, row 10.
- a. Please confirm whether the requested revenue increases for Fiscal Years 2017 and 2018 include costs associated with an Income-Based Affordability Program authorized by Philadelphia City Council Bill No. 140607.
 - b. To the extent PLUG-9(a) is answered in the affirmative, please identify the total cost of the Income-Based Affordability Program.
 - c. To the extent PLUG-9(a) is answered in the affirmative, please provide the anticipated cost allocation and rate design for costs associated with the Income-Based Affordability Program.

Response:

- a. Yes. Costs associated with the proposed Affordability Program are included in the requested FY 2017 and FY 2018 revenue increases.
- b. The total cost impact of the proposed Affordability Program is determined primarily based on two components:
 - 1. Revenue Reduction: The estimated reduction in water, sewer, and stormwater revenues (\$16.1 million) resulting from the anticipated launch of the Affordability Program in FY 2018 and accounting for the discontinuation of the WRAP City Grants (\$2.7 million); and
 - 2. O&M Costs: Additional O&M costs estimated for the implementation and administration of the proposed Affordability Program. The additional O&M costs relate to additional personnel (including salary, benefits, pension, and pension obligations), basis2 billing system enhancements and maintenance, and the additional office space for personnel.

The following table presents the estimated cost impact of the Affordability Program for FY 2017 and FY 2018 that is included in the Financial Plan and reflected in the proposed rates. The cost impact is presented in millions of dollars.

Affordability Program Cost Impact (in millions \$)

Line No.	Description	FY 2017	FY 2018
1	Revenue Reduction Impact ¹	\$ -	\$ 13.4
2	Additional O&M Costs	\$ 2.9	\$ 2.9
3	Total Estimated Cost Impact (Line 1 + Line 2)	\$ 2.9	\$ 16.3

- Notes: ¹Reflects the net impact of the affordability program based on the following:
- \$16.1 million revenue reduction due to Affordability Program.
 - \$2.7 million increase due to discontinuation of WRAP City Grants.

Please note that these costs were also presented in the *Cost of Service Presentation to the Rate Board* on February 22, 2016. In addition, these costs are noted in PWD Statement-9B: Supplemental Direct Testimony and Exhibits of Black & Veatch Corporation, Financial Plan: Revenue and Revenue Requirement Assumptions, Document #BV S-1.

- c. The proposed Affordability Program is an assistance program that is to be offered in addition to the other existing water/sewer/stormwater assistance programs namely the Senior Citizens Discounts; Philadelphia Housing Authority Discounts; Charities/Education/Hospitals Discounts; and UESF Grants. In all of these discount based assistance programs, the resulting cost impact is allocated system wide to all the customers regardless of whether they belong to the residential or non-residential customer types. Consistent with this approach, the cost impact of the proposed Affordability Program is recovered system wide from all the customers. In other words, the cost impact is cascaded along with all other O&M and capital costs to all the water, sewer, and stormwater retail customers through the multiple levels of cost of service allocations, which ultimately gets reflected in the proposed retail water, sewer, and stormwater rate schedules.

Given that multiple aspects including financial plan assumptions, bond and insurance covenants, rate board ordinance requirements, operational and debt service costs, and assistance programs all have a direct impact on the final proposed rates, it is not practical to delineate the specific impact of any single factor such as the proposed Affordability Program, on the proposed rate schedules.

Response Provided By: Ann Bui, Prabha Kumar and David Jagt, Black & Veatch