

Philadelphia Water Department Rate Board Hearing
April 13, 2016

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CITY OF PHILADELPHIA
PHILADELPHIA WATER DEPARTMENT PRESENTATION
RATE BOARD HEARING

WEDNESDAY, APRIL 13, 2016

START TIME: 10:00 A.M.

END TIME: 2:15 P.M.

- - -

LOCATION:

1515 ARCH STREET, 18TH FLOOR
PHILADELPHIA, PENNSYLVANIA 19102

REPORTED BY:

SHEILA KLOS, REGISTERED PROFESSIONAL REPORTER

HELD BEFORE:

NANCY BROCKWAY, HEARING OFFICER
SONNY POPOWSKY, BOARD MEMBER
BERNARD BRUNWASSER: BOARD CHAIRMAN

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1 ---
2 PROCEEDINGS.
3 ---
4 HEARING OFFICER: I UNDERSTAND THERE IS SOME
5 HOUSEKEEPING.
6 MR. DASENT: YES, WE HAVE BRIEFLY DISCUSSED
7 OFF THE RECORD HOW WE WOULD PROCEED WITH RESPECT TO
8 TRANSCRIPT RESPONSES. WE HAVE, FOR EXAMPLE,
9 CIRCULATED EARLIER TODAY TRANSCRIPT RESPONSES FOR 1
10 THROUGH 7 BASICALLY. 8 IS TO COME. AND I HAVE AN
11 ATTACHMENT TO SEND YOU THAT'S BROUGHT TO MY
12 ATTENTION ALSO. SO THAT WILL FOLLOW. AND THE
13 BOARD MEMBERS NEED TO GET THEIR COPIES.
14 MR. POPOWSKY: WHEN YOU SAY CIRCULATED,
15 CIRCULATED TO ALL OF US?
16 MR. DASENT: WE SENT AN E-MAIL TO THE
17 PARTIES EARLIER, AND THE HEARING OFFICER TRANSCRIPT
18 RESPONSES. I NEED TO PUT YOU ON THE LIST ALSO.
19 MR. POPOWSKY: COULD YOU SEND IT TO THE
20 BOARD MEMBERS?
21 HEARING OFFICER: THAT WOULD BE EASIER. I
22 END UP SENDING IT TO FRANCES AND SHE ENDS UP
23 SENDING IT OUT. IT'S SORT OF LIKE THE WATER
24 REVENUE BOARD OVERFLOW.

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1 MR. DASENT: I UNDERSTAND. BUT WHAT I'M
2 TRYING TO DO IS MAKE SURE I APPROPRIATELY
3 COMMUNICATE WITH THE BOARD. THAT'S WHY I HESITATE,
4 BUT I WILL SEND THOSE OUT.
5 HEARING OFFICER: BECAUSE I TOLD YOU NOT TO
6 DO THAT EXCEPT THROUGH ME. I'M SORRY, IT'S MY
7 FAULT.
8 MR. DASENT: I'M HAPPY TO FOLLOW YOUR
9 DIRECTIVE ON THIS PARTICULAR NARROW POINT. I'LL
10 ASK AGAIN IF NECESSARY.
11 HEARING OFFICER: ANY OF THE EXHIBITS THAT
12 ARE COMING IN DURING THE CASE, PLEASE CIRCULATE
13 THEM NOT ONLY TO ME AND FRANCES AND MARIE I THINK
14 WOULD BE SENSIBLE AND THE OTHER PARTIES, BUT TO THE
15 BOARD.
16 MR. DASENT: WITH RESPECT TO THE HEARING
17 WITNESS, THE HEARING EXHIBITS THAT WE HAVE MARKED
18 ALONG THE WAY, WE HAVE CIRCULATED THOSE IN THE
19 HEARING ROOM. AND I SEE THU AND ROB HAVE ALSO HAD
20 THOSE POSTED TO THE WEBSITE. WE WANTED TO MAKE
21 SURE FOR PWD HEARING EXHIBITS, THAT ALL OF THOSE
22 WERE ADMITTED INTO THE RECORD. AND YOU MAY HAVE A
23 WIDER OR MORE EXPANSIVE ORDER THAN JUST OURS. BUT
24 I REMEMBER PWD HEARING EXHIBITS 1 THROUGH 5, WE

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1 COULD CERTAINLY RULE FOR THEIR INCLUSION IN THE
2 RECORD.
3 HEARING OFFICER: ALL SUBMISSIONS DURING THE
4 HEARING ARE AUTOMATICALLY PART OF THE RECORD. IT
5 IS POSSIBLE FOR A PARTY TO LATER OBJECT AND WANT TO
6 STRIKE SOMETHING. THAT HAS NOT HAPPENED. I DON'T
7 SEE IT HAPPENING. BUT BASICALLY THE FIRST, THE
8 DEFAULT IS IT'S IN THE RECORD.
9 MR. DASENT: FINALLY, WE SPOKE BRIEFLY ABOUT
10 A FINAL TRANSCRIPT REQUEST MEMORIALIZING THE
11 AGREEMENTS THAT WE HAVE MADE ON THE RECORD, AMI AND
12 POWER COSTS STAND OUT. IF THERE ARE OTHER
13 AGREEMENTS, I SUPPOSE WE COULD MEMORIALIZE THEM.
14 THOSE ARE THE TWO THAT I'M REMEMBERING. WE WOULD
15 LIKE TO HAVE THOSE SET OUT IN A FINAL TRANSCRIPT
16 REQUEST. AND I THINK WE ARE UP TO 11. BOTH
17 PARTIES OR ANY PARTY SHOULD BE ABLE TO RESPOND AS
18 TO THOSE AREAS THAT THEY BELIEVE THERE HAS BEEN AN
19 AGREEMENT. IN ADDITION TO THAT, BECAUSE WE ARE
20 FILING SIMULTANEOUS BRIEFS, I WAS GOING TO INCLUDE
21 THAT IN THE SAME TR.
22 HEARING OFFICER: OKAY.
23 MR. DASENT: AS A PART OF THE TR, IF WE
24 COULD ALSO SUMMARIZE THOSE MAJOR AREAS WE ARE GOING

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1 TO COVER IN OUR BRIEFS, WE CAN MAKE SURE
2 PARTICULARLY WITH THE PUBLIC ADVOCATE, THAT WE ARE
3 RESPONDING TO HIS VARIOUS CONCERNS. AND HE, IN
4 TURN, CAN KNOW OF THOSE AREAS THAT WE WANT TO
5 EMPHASIZE. I THOUGHT THAT WOULD GIVE YOU A HEADS
6 UP ALSO AS TO THOSE AREAS YOU WOULD EXPECT IN
7 BRIEFS. AND AS TO THOSE AREAS YOU HAVE ASKED ALONG
8 THE WAY FOR INSTRUCTION, THAT'S PROBABLY NOT THE
9 RIGHT WORD, FOR OUR VIEWPOINTS WITH RESPECT TO
10 VARIOUS ISSUES, THAT WE WOULD CAPTURE THOSE. AND
11 TO A DEGREE WE HAVE DONE IT IN TR RESPONSES. YOU
12 COULD DIRECT OUR ATTENTION TO THOSE AREAS YOU WANT
13 US TO EMPHASIZE, LIKE CUSTOMER SERVICE AND
14 DIFFERENT OTHER THINGS THAT HAVE COME UP IN YOUR
15 VARIOUS DIRECTIVES.
16 MR. POPOWSKY: I COULD ASK THAT, FOR
17 EXAMPLE, ON THE AMI AND THE POWER EXPENSE, THAT YOU
18 NOT JUST SET FORTH YOUR AGREEMENT TO REDUCE IT, BUT
19 TO BE VERY CLEAR WHAT THE IMPACT OF THAT IS ON THE
20 2017 AND THE 2018 RATE REQUEST. SO IF IT'S
21 \$500,000 IN YEAR ONE AND 500 -- PLEASE SET FORTH
22 THAT VERY CLEARLY.
23 HEARING OFFICER: WE ALSO I THINK HAVE A
24 TRANSCRIPT REQUEST FROM THE FIRST WEEK TO THAT

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1 EFFECT, AT LEAST WITH RESPECT TO THE AMI. I DON'T
2 REMEMBER. BUT ANYWAY, WHAT HE SAID.
3 MR. DASENT: YES. WE WILL DO THAT, YES.
4 MR. BALLENGER: MADAM HEARING OFFICER, JUST
5 TO BE CLEAR FROM OUR PERSPECTIVE AS THE RECORD IS
6 STILL DEVELOPING AND AS WE HAVE NOT COMMENCED
7 DRAFTING OUR BRIEF. OUR PROPOSAL WOULD BE TO SET
8 FORTH IN THE FINAL TRANSCRIPT REQUEST, AND I THINK
9 IT WOULD BE APPROPRIATE TO NUMBER THAT AT THE END
10 OF THE PROCEEDING. SO RATHER THAN NUMBERING IT 11
11 NOW, WE MAY HAVE OTHERS ALONG THE WAY TODAY. I
12 THINK IT SHOULD BE THE FINAL ONE. BUT WE WOULD
13 PROPOSE TO SET FORTH IN THERE THOSE FINANCIAL AND
14 PROGRAMMATIC ADJUSTMENTS, IF YOU WILL, THAT WE
15 BELIEVE ARE WARRANTED BASED ON THE RECORD.
16 BUT THERE ARE A NUMBER OF THINGS TO ADDRESS
17 IN THE BRIEF THAT ARE PROBABLY NOT EASY TO SET
18 FORTH IN THAT MANNER, FOR EXAMPLE, THE APPLICABLE
19 LEGAL STANDARDS WE BELIEVE THE BOARD SHOULD APPLY.
20 AND WE ALSO DON'T WANT TO BE FORECLOSED IF WE ARE
21 IN THE PROCESS OF DRAFTING THE BRIEF AND DISCOVER
22 THAT WE HAVE INADVERTENTLY LEFT OUT A POINT THAT WE
23 THINK SHOULD BE CONSIDERED BY THE BOARD FROM
24 RAISING THAT IN THE BRIEF.

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1 HEARING OFFICER: ABSOLUTELY. THAT WILL BE
2 EXTREMELY HELPFUL. MY UNDERSTANDING IS, LET'S JUST
3 TALK ABOUT MR. MORGAN'S TESTIMONY BECAUSE THIS
4 ISSUE CAME TO MIND WHEN WE WERE GOING THROUGH
5 THAT. HE HAD THIS VERY HANDY LIST OF ISSUES AND
6 THE STAND-ALONE ADJUSTMENTS THAT HE THOUGHT CAME
7 FROM THOSE ISSUES, RECOGNIZING THAT ONCE YOU PUT IT
8 THROUGH THE MACHINE, THERE IS IMPACTS GOING BACK
9 AND FORTH.
10 WHAT WAS NOT IN THERE BUT WHAT CAME OUT IN
11 THE CROSS AND WHAT HAS BEEN THE PATTERN THROUGHOUT,
12 IS THAT, AND I'LL JUST USE HIM AS AN EXAMPLE. HE
13 MIGHT HAVE HAD THREE REASONS WHY HE PROPOSED A
14 CERTAIN ADJUSTMENT. ACTUALLY, COME TO THINK OF IT,
15 THAT'S NOT HOW IT WENT. EACH ONE OF THOSE THREE
16 REASONS HE HAD WAS -- EXCUSE ME, I THINK THERE WERE
17 TIMES WHEN HE HAD MORE THAN ONE REASON TO SAY,
18 DON'T USE THIS NUMBER, USE THAT NUMBER. AND I
19 THINK THE PARTIES MAY HAVE STRENGTHENED IN THEIR
20 CONVICTION THAT SOME OF THOSE REASONS ARE IMPORTANT
21 OR THEY HAVE DECIDED TO LET THAT REASON GO BUT KEEP
22 ANOTHER REASON AND THUS KEEP THE ADJUSTMENT. THE
23 MORE YOU CAN GET INTO THAT, THE EARLIER YOU CAN,
24 THE EASIER. BUT I UNDERSTAND THAT WILL BE

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1 DIFFICULT.
2 WE HAD SOME OTHER DISCUSSION BEFORE WE GOT
3 ON THE RECORD I KNOW. SO WHEN DO YOU EXPECT YOU
4 WILL BE ABLE TO DO THIS, THIS FINAL TRANSCRIPT
5 REQUEST?
6 MR. DASENT: I HOPE TO DO IT EARLY NEXT
7 WEEK. I HAVEN'T TALKED TO MR. BALLENGER. JUST AN
8 OUTLINE BASICALLY OF THOSE ISSUES THAT WE THINK ARE
9 PERTINENT. AND I HAVE TO CHECK WITH OUR GENERAL
10 COUNSEL AND MAKE SURE THAT IS DOABLE.
11 HEARING OFFICER: I'M GOING TO SAY THAT'S
12 NOT PART OF THE RECORD. THAT'S PART OF YOUR
13 BRIEFING BECAUSE I CAN'T ACCEPT ANYTHING AFTER
14 MONDAY.
15 MR. DASENT: I SEE. UNLESS WE HOLD THE
16 RECORD OPEN JUST FOR THIS ONE ADJUSTMENT. IT COULD
17 BE OUTSIDE THE RECORD. IT IS BRIEFING. IT IS
18 ARGUMENT.
19 HEARING OFFICER: IT'S IN THE ORDINANCE, SO
20 I'M NOT SURE I HAVE THE AUTHORITY.
21 MR. DASENT: GOT IT. THAT WILL LEAVE US
22 THEN WITH OFFERING SOMETHING IN THE WAY OF ARGUMENT
23 THAT WOULD BE HELPFUL HOPEFULLY TO THE HEARING
24 OFFICER AND THE PARTIES IN PREPARING THEIR BRIEFS.

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1 HEARING OFFICER: THAT BE WOULD GREAT. I
2 APPRECIATE THAT. THAT WOULD BE VERY HELPFUL.
3 MR. DASENT: IF THE RECORD CLOSES ON APRIL
4 18TH, I BELIEVE THAT'S CORRECT.
5 HEARING OFFICER: YES.
6 MR. DASENT: THEN TWO WEEKS HENCE IS THE
7 DUE DATE FOR THE BRIEF?
8 HEARING OFFICER: TWO WEEKS FROM APRIL
9 18TH.
10 MR. DASENT: I WILL BE WITHIN THE DATE.
11 MR. BALLENGER: TO BE CLEAR, WE WOULD
12 CONSIDER THAT RESPONSE THEN IN NOT A TRANSCRIPT
13 REQUEST BUT SORT OF PREVIEW OF THE POINTS TO BE
14 ADDRESSED IN THE BRIEFS?
15 HEARING OFFICER: YES. YES. THAT WOULD BE
16 GREAT.
17 MR. BALLENGER: OKAY. EARLY, I THINK JUST
18 TO MAKE SURE WE HAVE TIME TO REVIEW THE RECORD AS
19 IT STANDS BY THE END OF THE DAY TODAY, I THINK A
20 WEEK IS PROBABLY A LITTLE BIT MORE REALISTIC FROM
21 OUR STANDPOINT. SO IF WE WOULD SAY MIDDLE OF NEXT
22 WEEK.
23 HEARING OFFICER: YOU FELLOWS WORK IT OUT.
24 AND ANY OTHER PARTY THAT WANTS TO SUBMIT A SIMILAR

3 (Pages 6 to 9)

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1 LIST FOR THEIR ISSUES, THE BOARD, I'M SURE, WOULD
2 WELCOME IT.
3 MR. BALLENGER: OKAY.
4 HEARING OFFICER: IS THERE ANYTHING ELSE?
5 MR. DELANEY: I HAVE JUST A QUESTION OR A
6 SUGGESTION. WE DON'T HAVE TO DO IT NOW. MAYBE
7 WHEN WE ARE ALL FINISHED TODAY BEFORE WE ALL
8 SEPARATE, MAYBE YOU WANT TO GIVE US AN IDEA OF WHAT
9 YOU WOULD LIKE IN THE BRIEFS. WE JUST TALKED ABOUT
10 THAT TO SOME EXTENT. MAYBE YOU COULD JUST BRIEFLY
11 ADDRESS WHAT WOULD BE HELPFUL TO YOU IN OUR BRIEF
12 FILING, WHAT YOU WOULD LIKE TO SEE. IT CAN BE AT
13 THE END OF THE DAY.
14 HEARING OFFICER: I WILL CAUCUS WITH THE
15 BOARD MEMBERS WHO ARE HERE AND WE WILL SEE WHAT WE
16 CAN DO ALONG THOSE LINES.
17 MR. DELANEY: GREAT.
18 HEARING OFFICER: NOW I BELIEVE WE ARE READY
19 FOR CROSS-EXAMINATION OF MR. COLTON. AND, AGAIN
20 HIS TESTIMONY IS ALREADY IN THE RECORD AND WE ARE
21 NOT SWEARING WITNESSES.
22 MR. DASENT: GOOD MORNING, MR. COLTON.
23 MR. COLTON: GOOD MORNING.
24 MR. DASENT: GOOD TO SEE YOU. IN INFORMAL

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1 DISCOVERY, A WEEK, MAYBE TEN DAYS AGO WE HAD A
2 CONVERSATION ABOUT A NUMBER OF ISSUES. YOU RECALL
3 THAT; CORRECT?
4 MR. COLTON: I DO.
5 MR. DASENT: AT THAT PARTICULAR POINT IN
6 TIME, YOU DESCRIBED KEY FACTORS TO THE SUCCESSFUL
7 IMPLEMENTATION OF A NEW AFFORDABLE RATES PROGRAM.
8 DO YOU REMEMBER THAT?
9 MR. COLTON: I REMEMBER HAVING THE
10 CONVERSATION. I DON'T REMEMBER THE SUBSTANCE OF
11 IT.
12 MR. DASENT: AT THAT POINT IN TIME, YOU
13 INDICATED FOUR MAJOR POINTS CAME TO MIND. BILLS
14 MUST BE AFFORDABLE. YOU MUST GET PEOPLE ENROLLED.
15 YOU HAVE TO CLEARLY COMMUNICATE CUSTOMER
16 RESPONSIBILITIES UNDER YOUR PROGRAM. AND YOU HAVE
17 TO HAVE A CONSISTENT APPLICATION OF THE RULES.
18 THOSE ARE THE FOUR POINTS YOU MENTIONED. DO THOSE
19 STILL SOUND LIKE POINTS THAT YOU WOULD BELIEVE ARE
20 IMPORTANT AS KEY FACTORS TO IMPLEMENTING A NEW
21 PROGRAM?
22 MR. COLTON: FROM THE CUSTOMER COMPANY
23 RELATIONSHIP PERSPECTIVE, YES.
24 MR. DASENT: WOULD YOU ALSO ADD TO THAT

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1 LIST THE PLAN MUST BE SUSTAINABLE ON A COST
2 RECOVERY, IN TERMS OF COST RECOVERY? WOULD YOU
3 AGREE WITH THAT ALSO?
4 MR. COLTON: I DON'T THINK THERE IS
5 ANYTHING UNIQUE ABOUT A START-UP PROGRAM THAT MAKES
6 THAT. I WOULD AGREE THAT THAT IS THE CASE WITH A
7 START-UP PROGRAM OR AN ONGOING PROGRAM.
8 MR. DASENT: NOW, YOU ALSO DESCRIBED AT
9 THAT POINT WHEN WE HAD OUR INFORMAL DISCOVERY, YOUR
10 EXPERIENCE WITH MUNICIPAL WATER AND SEWER
11 UTILITIES. DO YOU REMEMBER THAT?
12 MR. COLTON: I DO.
13 MR. DASENT: YOU MENTIONED AT THAT POINT
14 DETROIT WATER. I'M NOT SURE IF IT'S WATER AND
15 SEWER AUTHORITY.
16 MR. COLTON: DWSD, DETROIT WATER AND SEWER
17 DEPARTMENT.
18 MR. DASENT: YOU DEVELOPED A PLAN FOR THAT
19 ALSO?
20 MR. COLTON: I DID.
21 MR. DASENT: IT WAS A PERCENTAGE OF INCOME
22 PLAN?
23 MR. COLTON: IT WAS.
24 MR. DASENT: IT SEEMS LIKE CITY COUNCIL

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1 APPROVED IT, BUT FOR WHATEVER REASON IT DIDN'T
2 FINALLY GET APPROVED?
3 MR. COLTON: CITY COUNCIL APPROVED IT BUT
4 THE DEPARTMENT DECLINED TO IMPLEMENT IT.
5 MR. DASENT: THEN THERE WAS A COLLABORATIVE
6 PROCESS THAT FOLLOWED AND YOU PARTICIPATED IN THAT
7 PROCESS?
8 MR. COLTON: I DID.
9 MR. DASENT: THE OUTCOME OF THAT PROCESS
10 WAS NOT A PERCENTAGE OF INCOME PLAN, BUT AN
11 AFFORDABILITY PLAN OF SOME NATURE?
12 MR. COLTON: THERE WAS A FINAL REPORT THAT
13 CAME OUT OF THE BLUE RIBBON COMMITTEE. YES, THAT
14 HAD A WHOLE SERIES OF RECOMMENDATIONS.
15 MR. DASENT: BUT IT WASN'T A PERCENTAGE OF
16 INCOME PLAN AT THE END OF THE DAY?
17 MR. COLTON: THAT BLUE RIBBON PANEL DID NOT
18 INCLUDE A PERCENTAGE OF INCOME.
19 MR. DASENT: YOU ALSO INDICATED IN INFORMAL
20 DISCOVERY THAT YOU HAD NOT PREVIOUSLY BEEN INVOLVED
21 IN THE DESIGN, DEVELOPMENT OR IMPLEMENTATION OF AN
22 AFFORDABILITY PROGRAM? IN OTHER WORDS, YOUR
23 PROGRAM RECOMMENDATIONS ARE POLICY DRIVEN?
24 MR. COLTON: I'M NOT SURE I WOULD AGREE

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1 WITH THAT, NO.
2 MR. DASENT: SO YOU HAVE BEEN INVOLVED IN
3 THE IMPLEMENTATION OF AN AFFORDABILITY PROGRAM?
4 MR. COLTON: SURE. NOT EVERY PROGRAM AM I
5 INVOLVED WITH THE IMPLEMENTATION, BUT NOT EVERY
6 PROGRAM AM I EXCLUDED FROM THE IMPLEMENTATION.
7 HEARING OFFICER: OFF THE RECORD.
8 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
9 RECORD.)
10 HEARING OFFICER: BACK ON THE RECORD.
11 MR. DASENT: MR. COLTON, YOU ALSO INDICATED
12 DURING INFORMAL DISCOVERY, THAT YOU DID NOT
13 PREVIOUSLY HAVE EXPERIENCE IN THE INTEGRATION INTO
14 AN EXISTING CUSTOMER INFORMATION SYSTEM OR BILLING
15 SYSTEM? IS THAT STILL TRUE?
16 MR. COLTON: THAT'S TRUE.
17 MR. DASENT: NOW, DURING INFORMAL DISCOVERY
18 ALSO, WE LOOKED AT A FEW UTILITIES IN PENNSYLVANIA,
19 A LOT OF UTILITIES IN PENNSYLVANIA THAT HAVE HAD
20 PROGRAMS FOR TEN OR MORE YEARS. DO YOU RECALL
21 THAT?
22 MR. COLTON: I DO.
23 MR. DASENT: IT'S MENTIONED IN YOUR
24 TESTIMONY, RDC-10, YOU SURVEY THE VARIOUS

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1 UTILITIES, UTILITIES THAT HAVE HAD PROGRAMS FOR TEN
2 OR MORE YEARS?
3 MR. COLTON: I DO.
4 MR. DASENT: AND SOME OF THOSE PROGRAMS IN
5 FACT, PP&L, PENN POWER, IT'S PROBABLY MORE LIKE 20
6 YEARS?
7 MR. COLTON: WITHOUT AGREEING TO THOSE
8 SPECIFIC UTILITIES, PENN ELECTRIC IS NOT A 20 YEAR
9 UTILITY, COLUMBIA GAS. YOUR POINT IS WELL TAKEN,
10 HOWEVER, THAT THERE ARE SOME PENNSYLVANIA UTILITIES
11 FOR WHOM THE PROGRAMS ARE APPROACHING OR EXCEEDING
12 20 YEARS. YES.
13 MR. DASENT: THEY ARE FULLY MATURE PROGRAMS
14 IS REALLY MY POINT?
15 MR. COLTON: YES.
16 MR. DASENT: YOU ALSO TALK IN YOUR
17 TESTIMONY ABOUT A COST RECOVERY AND YOU MENTIONED
18 THAT EARLIER IN OUR CONVERSATIONS THIS MORNING.
19 AND IN TERMS OF COST RECOVERY, YOU TALK ABOUT THE
20 IRAP RIDER WHICH WE SEE AS AN APPENDIX TO YOUR
21 TESTIMONY, BUT YOU ALSO TALK ABOUT, AND I HAVE TO
22 CAREFUL RE-REVIEW TO FIND A FOOTNOTE, I THINK IT'S
23 ON PAGE 62 AND 63. YOU TALK ABOUT WHAT MAINE DOES
24 AND WHAT CALIFORNIA DOES WHICH IS DIFFERENT FROM AN

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1 IRAP RIDER. IT IS MORE LIKE A RESERVE THATS
2 CREATED FOR PURPOSES OF THE AFFORDABLE RATES
3 PROGRAM. DO YOU RECALL THAT?
4 MR. COLTON: I DO.
5 MR. DASENT: THOSE PROGRAMS ARE
6 ALTERNATIVES TO AN IRAP RIDER AS I BELIEVE YOU
7 MENTION IN YOUR TESTIMONY?
8 MR. COLTON: THE MAINE AND THE CALIFORNIA
9 APPROACHES WOULD BE ALTERNATIVES TO A RECONCILABLE
10 RIDER. YES.
11 MR. DASENT: ONE OF THOSE PROGRAMS, I THINK
12 IT IS CALIFORNIA, IT EVEN LOOKS FORWARD IN TIME AND
13 DEALS WITH THE POSSIBILITY OF THERE BEING A HIGHER
14 RECOVERY THAN PROJECTED ORIGINALLY. AND IT'S
15 RECONCILED AT THE END OF THE YEAR. ISNT THAT
16 TRUE?
17 MR. COLTON: YES. I THINK EACH OF THE
18 THREE ALTERNATIVES HOLDS THAT OUT AS A
19 POSSIBILITY.
20 MR. DASENT: IN THE TIME FRAME WE ARE
21 DEALING WITH IN THIS CASE WHICH IS THE
22 IMPLEMENTATION OF AN IRAP PROGRAM OR AFFORDABLE
23 RATES PROGRAM IN 2018, AT THE END OF THE YEAR,
24 DONT WE HAVE IN ESSENCE A TRUE-UP WHEN YOU SEE

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1 BASED UPON REAL PROGRAM COSTS, WHAT, IN FACT, OUR
2 EXPERIENCE WILL BE?
3 MR. COLTON: I HAVEN'T SEEN A PROPOSAL FOR
4 A TRUE-UP OR A RECONCILIATION, NO.
5 MR. DASENT: DEFACTO WHEN YOU HAVE ANOTHER
6 RATE INCREASE, FISCAL 18 WHEN WE FILE, ARENT YOU
7 IN ESSENCE HAVING A TRUE-UP AFTER A YEAR'S
8 EXPERIENCE?
9 MR. COLTON: EVERY TIME -- THE ANSWER TO
10 THAT ACTUALLY ISN'T STRAIGHT FORWARD. I THINK I
11 WOULD DISAGREE WITH THAT BECAUSE IF YOU OVERSPEND
12 OR UNDERSPEND, YOU MAY CHANGE YOUR RATES GOING
13 FORWARD. BUT YOU WOULDN'T, YOU WOULD NOT RECONCILE
14 YOUR NEW RATES WITH THE OVERAGE OR UNDERAGE. YOU
15 WOULDN'T REACH BACK AND RETROACTIVELY BRING FORWARD
16 AN UNDERSPENT AMOUNT OR AN OVERSPENT AMOUNT. YOU
17 WOULD SIMPLY, IT WOULD BE A NONRECONCILABLE CHANGE
18 IN RATES. AND EACH TIME YOU CHANGE RATES, YOU
19 WOULD MAKE THE CHANGE. BUT THERE WOULDN'T, THERE
20 WOULD NOT BE A RECONCILIATION.
21 MR. DASENT: BUT THE END OF THE DAY, AS A
22 PRACTICAL MATTER, BECAUSE THERE IS A RATE
23 STABILIZATION FUND, WOULD THAT BE TO THE BENEFIT OF
24 CUSTOMERS BECAUSE ANY OVERRECOVERY WOULD BENEFIT

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1 CUSTOMERS AS A WHOLE IN THE UTILITY IN TERMS OF
2 MITIGATING FUTURE RATE INCREASES? WORSE CASE
3 SCENARIO?
4 MR. COLTON: I DON'T KNOW THE ANSWER TO
5 THAT QUESTION. THE ANSWER WHICH SEEMED TO BE IT
6 DEPENDS ON IF THE WATER DEPARTMENT ESTIMATED A \$16
7 MILLION PROGRAM COST AND ONLY SPENT \$13 MILLION, I
8 DON'T KNOW AND I CERTAINLY HAVEN'T SEEN A PROPOSAL
9 ON WHAT WOULD HAPPEN TO THE \$3 MILLION IN
10 OVERRECOVERED COSTS.
11 MR. BALLENGER: WE WOULD ALSO JUST OBJECT
12 THAT REALLY THAT'S BEYOND MR. COLTON'S TESTIMONY.
13 HE DOESN'T ADDRESS ANYTHING RELATING TO THE RATE
14 STABILIZATION FUND IN HIS TESTIMONY.
15 MR. DASENT: THE IMPLICATIONS ARE THERE.
16 AND I'M JUST TRYING TO EXAMINE IF WE VETTED ALL
17 ALTERNATIVES INCLUDING YOUR IRAP RIDER, INCLUDING
18 RESERVES THAT MAINE AND CALIFORNIA ESTABLISH, THAT
19 WE WOULD FIND COMPETING CONSIDERATIONS THAT MUST BE
20 WEIGHED IN TERMS OF AN EVALUATION OF WHAT TO DO
21 GOING FORWARD. AND I THINK YOU ARE AGREEING WITH
22 THAT BECAUSE YOU MENTIONED TWO OF THOSE PROPOSALS,
23 MAINE AND CALIFORNIA AS ALTERNATIVES IN YOUR
24 TESTIMONY.

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1 MR. COLTON: I'M NOT SURE WHAT THE QUESTION
2 THERE WAS.
3 MR. DASENT: COST RECOVERY CAN TAKE A LOT
4 OF DIFFERENT FORMS. IRAP RIDER IS ONE FORM.
5 RESERVE MECHANISM SIMILAR TO MAINE AND CALIFORNIA,
6 THERE IS ANOTHER. AND THERE IS A THIRD. WE
7 MENTIONED, IN FACT, IN INFORMAL DISCOVERY, THAT THE
8 LIHEAP MODEL MIGHT BE APPLIED AS A WAY TO CAP COSTS
9 AND DETERMINE WHETHER THERE IS SUFFICIENT REVENUES
10 TO LAUNCH THIS PROGRAM. DO YOU REMEMBER SAYING
11 THAT?
12 MR. COLTON: YES, I HAVE SAID THAT CLEARLY
13 IN MY TESTIMONY, I SAID THAT THE RECOMMENDED
14 APPROACH WAS THE RECONCILABLE RIDER. THAT IS THE
15 APPROACH THAT THE PUC ADOPTED FOR GAS AND
16 ELECTRICITY, AND THAT HAS BEEN UNIFORMLY ADOPTED
17 THROUGHOUT PENNSYLVANIA.
18 IF THE DEPARTMENT DIDN'T WANT TO USE A
19 RECONCILABLE RIDER, THERE ARE OTHER OPTIONS. I
20 PERSONALLY DON'T BELIEVE THAT THE LIHEAP APPROACH
21 IS ONE OF THOSE OPTIONS.
22 MR. DASENT: IN THE CONVERSATION, WE WOULD
23 WEIGH ALL ALTERNATIVES. THE CONVERSATION IN THIS
24 INSTANCE HAS BEEN SORT OF SHORT. AND I'M TRYING TO

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1 THINK IN A PROGRAM AS SERIOUS AS THIS WHERE YOU
2 INDICATED IT'S APPROPRIATE TO HAVE CLEAR AND
3 UNDERSTANDABLE CUSTOMER RESPONSIBILITIES, BILLS
4 MUST BE AFFORDABLE, ALL OF THE THINGS WE NEED TO GO
5 THROUGH, WE ALSO HAVE TO ALSO WEIGH UTILITY
6 CONCERNS AND MAKE SURE AT THE END OF THE DAY WE
7 HAVE A PROGRAM THAT ACTUALLY WORKS, THAT'S CREDIBLE
8 AND CAN BE SUCCESSFUL AND BE LAUNCHED. YOU HAVE TO
9 AGREE WITH THAT? THAT'S MOM AND APPLE PIE?
10 MR. BALLENGER: OBJECTION. HE DOESN'T HAVE
11 TO AGREE WITH THAT.
12 MR. DASENT: IT'S LEADING HIM.
13 MR. COLTON: I AGREE THAT THE ULTIMATE GOAL
14 OF ANY PROGRAM IS TO HAVE A PROGRAM THAT WORKS. IT
15 BENEFITS NEITHER THE DEPARTMENT NOR THE RATE PAYERS
16 NOR THE PROGRAM PARTICIPANTS TO HAVE A PROGRAM THAT
17 DOES NOT WORK, WHICH IS WHY I HAVE MADE THE
18 OBJECTIONS TO PROGRAM DESIGN THAT I HAVE.
19 MR. DASENT: BUT YOU HAVE ALSO INDICATED
20 THAT THERE ARE VARIOUS ALTERNATIVES. AND THERE IS
21 NOT LIKE ONE BRIGHT SHINING ALTERNATIVE THAT
22 SUGGESTS THAT THERE IS ONLY ONE RIGHT WAY TO DO
23 THIS. THERE IS A REASONABLE RANGE OF ALTERNATIVES,
24 AND I THINK WE CAN BOTH AGREE ON THAT, THAT WE HAVE

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1 TO EXAMINE TO FASHION A PROGRAM THAT WILL BE
2 SUCCESSFUL FROM DAY ONE?
3 MR. COLTON: ARE YOU STILL TALKING ABOUT
4 COST RECOVERY?
5 MR. DASENT: I'M TALKING ABOUT COST
6 RECOVERY. BUT SINCE YOU DEALT WITH OTHER ISSUES IN
7 YOUR TESTIMONY, I BELIEVE THERE ARE A REASONABLE
8 RANGE OF OPTIONS IN A LOT OF DIFFERENT AREAS. I'M
9 POINTING THAT OUT TO YOU. DO YOU AGREE WITH
10 THAT?
11 MR. COLTON: I BELIEVE THAT THERE ARE, THAT
12 THERE IS A REASONABLE RANGE OF ALTERNATIVES FOR
13 COST RECOVERY. AS FAR AS PROGRAM DESIGN IS
14 CONCERNED, I THINK THAT THE OPTIONS THAT ARE
15 AVAILABLE HAVE BEEN RESTRICTED AND CONSTRICTED BY
16 THE ORDINANCE THAT WAS PASSED BY CITY COUNCIL. AND
17 WHETHER OR NOT WE BELIEVE THAT THERE ARE REASONABLE
18 ALTERNATIVES TO WHAT CITY COUNCIL SAID NO LONGER
19 MAKES A DIFFERENCE. THE QUESTION IS, DO, DOES THE
20 PROGRAM DESIGN THAT IS ADOPTED TO COMPLY WITH THE
21 CITY COUNCIL'S DICTATES OR THE CITY COUNCIL'S
22 DECISIONS IN ITS ORDINANCE?
23 MR. DASENT: SO RECONCILING OURSELVES AND
24 OUR PROGRAM DESIGN WITH CITY COUNCIL MANDATES, IT'S

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1 A PART OF WHAT YOU ARE SAYING IN YOUR TESTIMONY,
2 AND I HEAR YOU. IN ADDITION TO THAT, ARE THERE
3 OTHER STAKEHOLDERS AND REGULATIONS AND DIFFERENT
4 OTHER THINGS THAT COME IN TO PLAY INCLUDING THE
5 RATE BOARD'S ORDER IN THIS CASE AS TO TIERS, WHAT
6 STRUCTURE FOR THE PROGRAM THAT ALSO HAVE, ARE IN
7 THE MIX? YOU WOULD AGREE WITH THAT?
8 MR. COLTON: I AGREE, AND IN MY TESTIMONY
9 AS I INDICATE, THAT THERE ARE SOME DECISIONS THAT
10 ARE NOT WITHIN THE RATE BOARD'S PURVIEW BECAUSE
11 CITY COUNCIL HAS TAKEN THAT DECISION-MAKING AWAY
12 FROM THE RATE BOARD. AND THERE ARE OTHER DECISIONS
13 THAT ARE WITHIN THE RATE BOARD'S PURVIEW. YES.
14 MR. DASENT: WE TALKED A LITTLE BIT ABOUT
15 MITIGATION COSTS. CAN YOU TELL ME SOMETHING ABOUT
16 MAXIMUM CREDIT AS ANOTHER ALTERNATIVE, OF MAXIMUM
17 CREDIT BEING ESTABLISHED AS ANOTHER ALTERNATIVE TO
18 SORT OF LIMITING COSTS IN THE PROGRAM? YOUR
19 TESTIMONY DOESN'T SPEAK TO THAT.
20 MR. COLTON: IT DOES NOT.
21 MR. BALLENGER: THAT WOULD BE AN OBJECTION
22 THEN.
23 HEARING OFFICER: WHAT'S THE BASIS FOR AN
24 OBJECTION?

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1 MR. BALLENGER: BEYOND THE SCOPE OF HIS
2 TESTIMONY. IT'S CROSS-EXAMINATION.
3 HEARING OFFICER: I OVERRULE THAT.
4 MR. DASENT: THANK YOU.
5 TELL ME ABOUT MAXIMUM CREDITS AS A VEHICLE
6 TO LIMIT COSTS.
7 MR. COLTON: ONE ELEMENT OF THE CAP RATE
8 DESIGN, AND WHEN I SAY CAP RATE DESIGN, IM
9 SPEAKING OF THE CUSTOMER ASSISTANCE PROGRAM THAT
10 HAVE, THAT HAS BEEN ADOPTED PURSUANT TO STATE LAW
11 BY THE PUC AND BY THE STATE'S ELECTRIC AND NATURAL
12 GAS UTILITIES. ONE ELEMENT OF CAP RATE DESIGN IS
13 PROGRAM COST CONTROL. ONE ALTERNATIVE FOR PROGRAM
14 COST CONTROL THAT SOME ELECTRIC AND GAS UTILITIES
15 HAVE ADOPTED AND OTHERS HAVE NOT, IS A MAXIMUM
16 ANNUAL CEILING ON THE CREDITS THAT WOULD BE
17 PROVIDED TO EACH INDIVIDUAL CUSTOMER.
18 THE CREDITS AREN'T THE SAME CREDITS FOR
19 EVERY UTILITY. BUT ONCE YOU HIT THE CREDIT, THEN
20 AFTER YOU -- ONCE YOU HIT THE CAP CEILING, THEN THE
21 GENERAL APPROACH OF PEOPLE ADOPTING CAP CEILINGS,
22 CREDIT CEILINGS, IS THAT THE CUSTOMER IS
23 RESPONSIBLE FOR ANY ADDITIONAL DOLLARS OVER THAT.
24 AND WHEN I TALK ABOUT -- THERE IS SO MUCH WRAPPED

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1 UP IN THIS. WHEN I TALK ABOUT THE CAP CREDIT AND
2 THEREFORE, A CAP CREDIT CEILING, THE CAP CREDIT IS
3 THE DIFFERENCE BETWEEN THE BILL AT STANDARD RATES
4 AND THE BILL AT THE DISCOUNTED RATE. SO THAT CAP
5 CREDIT IS A TERM OF ART. SO A CEILING ON CAP
6 CREDITS IS A CEILING ON THE AMOUNT OF BENEFIT THAT
7 YOU WOULD BE PROVIDED.
8 MR. DASENT: THAT'S ANOTHER WAY TO CONTAIN
9 COSTS?
10 MR. COLTON: THAT IS ONE WAY TO CONTAIN
11 COSTS.
12 MR. DASENT: THANK YOU, MR. COLTON. THAT'S
13 ALL I HAVE.
14 HEARING OFFICER: ANY OTHER PARTIES?
15 (NO RESPONSE.)
16 HEARING OFFICER: THE BENCH?
17 MR. POPOWSKY: THANK YOU.
18 MR. COLTON, I JUST WANT TO MAKE SURE I
19 UNDERSTAND THE DIFFERENCE BETWEEN YOUR PROPOSAL IN
20 TERMS OF PERCENTAGE OF INCOME VERSUS WHAT THEY CALL
21 THE DISCOUNT PROPOSAL OF THE WATER DEPARTMENT. AND
22 IT SEEMS TO ME THAT WHAT THE WATER DEPARTMENT IS
23 SAYING IS THAT THEY ARE GOING TO PUT ALL OF THE
24 CUSTOMERS, THE ELIGIBLE CUSTOMERS INTO THREE TIERS

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1 BASED ON PERCENTAGE OF INCOME. AND THEN WITHIN
2 EACH TIER, THERE ARE THREE USAGE CATEGORIES, LOW
3 USAGE, SO YOU HAVE BASICALLY NINE DIFFERENT
4 POSSIBLE CREDITS THAT A CUSTOMER MIGHT GET BASED ON
5 WHICH OF THESE TIERS THEY END, THEY ARE IN AND HOW
6 MUCH THEY USE. SO THERE IS NINE DIFFERENT
7 POSSIBILITIES.
8 AND UNDER YOUR PROPOSAL, AS I UNDERSTAND
9 IT, IT'S A PERCENTAGE OF INCOME WHERE THE DISCOUNT,
10 THEY WOULD STILL FALL INTO THREE TIERS BUT EACH
11 INDIVIDUAL CUSTOMER'S DISCOUNT WOULD BE BASED ON
12 THAT INDIVIDUAL CUSTOMER'S INCOME; IS THAT
13 CORRECT?
14 MR. COLTON: THAT'S, THAT'S CORRECT.
15 MR. POPOWSKY: AND THEIR FAMILY SIZE BECAUSE
16 THAT'S -- WELL, LET ME START OVER. IT WOULD BE
17 BASED ON THEIR INDIVIDUAL INCOME. MAYBE I SHOULD
18 GO BACK. THE FAMILY SIZE IS IMPORTANT IN
19 DETERMINING WHERE THEY ARE IN TERMS OF THE FEDERAL
20 POVERTY LEVEL BECAUSE THE FEDERAL POVERTY LEVEL IS
21 DIFFERENT DEPENDING ON YOUR HOUSEHOLD SIZE; IS THAT
22 CORRECT?
23 MR. COLTON: FEDERAL POVERTY LEVEL IS
24 INCOME TAKING INTO ACCOUNT HOUSEHOLD SIZE. SO

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1 INCOME AND HOUSEHOLD SIZE WOULD DETERMINE THE
2 CUSTOMER'S TIER. AND THE CUSTOMER'S BILL WOULD BE
3 BASED ON THE CUSTOMER'S ACTUAL HOUSEHOLD INCOME.

4 MR. POPOWSKY: SO IN EFFECT, THEN THAT'S
5 REALLY THE DIFFERENCE THEN, IS THAT IT WOULD BE
6 BASICALLY, YOU WOULD FIGURE OUT WHAT TIER THEY ARE
7 IN. BUT THEN INSTEAD OF JUST APPLYING THE SORT OF
8 THE STANDARD CREDIT OR DISCOUNT UNDER THE WATER
9 DEPARTMENT PROGRAM, YOU WOULD BASE THAT ON EACH
10 CUSTOMER'S INDIVIDUAL HOUSEHOLD INCOME; IS THAT
11 CORRECT?

12 MR. COLTON: THE WAY I WOULD CATEGORIZE THE
13 DIFFERENCE IS THAT UNDER THE PERCENTAGE OF INCOME
14 APPROACH, THE BILLS ARE BASED ON EACH HOUSEHOLD'S
15 ACTUAL HOUSEHOLD INCOME. AND UNDER THE TIERED RATE
16 DISCOUNT APPROACH, THE BILLS ARE BASED ON AN
17 AGGREGATION OF AVERAGES BASED, IT WOULD BE AVERAGE
18 INCOME, AVERAGE USAGE WITHIN THE USAGE TIER,
19 AVERAGE HOUSEHOLD SIZE. SO INSTEAD OF BEING BASED
20 ON ACTUAL HOUSEHOLD CIRCUMSTANCES, THE TIERED RATE
21 DISCOUNT IS BASED ON A SET OF CITY-WIDE AVERAGES.

22 MR. POPOWSKY: REALLY WHAT I'M GETTING AT,
23 IS HOW MUCH MORE DIFFICULT IS IT TO DO WHAT YOU ARE
24 PROPOSING THAN IT IS TO DO WHAT THE DEPARTMENT IS

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1 PROPOSING? IT SEEMS TO ME THERE IS THAT ONE EXTRA
2 STEP. BUT EVEN UNDER THE WATER DEPARTMENT'S
3 PROPOSAL, THEY STILL NEED TO KNOW WHAT EACH
4 CUSTOMER'S INCOME IS IN ORDER TO FIGURE OUT WHAT
5 POT TO PUT THEM IN?

6 MR. COLTON: THAT'S TRUE. IN MY
7 EXPERIENCE, IT IS, THE IMPORTANT THINGS TO DO IS TO
8 COMPUTERIZE THE PROGRAM FROM THE VERY BEGINNING
9 WHICH HAS BEEN THE PROPOSAL BY THE DEPARTMENT. AND
10 ONCE YOU DO THAT, IT IS, THERE IS NO GREATER EFFORT
11 INVOLVED WITH A PERCENTAGE OF INCOME APPROACH THAN
12 WITH A TIERED RATE DISCOUNT APPROACH.

13 MR. POPOWSKY: THAT'S WHAT I WAS TRYING TO
14 DETERMINE. OKAY. AND JUST ONE OTHER IMPORTANT
15 POINT. THE RIDER THAT YOU ARE PROPOSING WOULD BE
16 RECONCILABLE FOR, LET'S CALL IT LOST REVENUE OR THE
17 AMOUNT OF THE CAP CREDIT. IT WOULD BE RECONCILABLE
18 FOR THAT, BUT IT WOULD NOT BE RECONCILABLE FOR
19 DEPARTMENT EXPENSES, ADMINISTRATIVE EXPENSES?

20 MR. COLTON: THE GENERAL RULE IS THAT THE
21 RECONCILABLE RATE RIDER WOULD PICK UP CAP CREDITS,
22 WOULD PICK UP VARIABLE COSTS, WOULD PICK UP THE CAP
23 CREDIT, WOULD PICK UP ARREARAGE FORGIVENESS
24 CREDITS. IT WOULD PICK UP EXTERNAL ADMINISTRATIVE

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1 COSTS. SO FOR EXAMPLE, IF THE DEPARTMENT
2 OUTSOURCED, AS I HAVE RECOMMENDED, OUTSOURCED THE
3 INTAKE AND INCOME VERIFICATION PROCESS AND SAID, WE
4 ARE GOING TO PAY YOU, YOU THE THIRD PARTY, \$35 OR
5 \$50 FOR EVERY PARTICIPANT THAT YOU ENROLL IN THE
6 PROGRAM, THEN THAT WOULD BE RECONCILABLE THROUGH
7 THE RIDER BECAUSE IT MAKES A DIFFERENCE WHETHER THE
8 THIRD PARTY ENROLLS 30,000 PEOPLE OR 35,000
9 PEOPLE. BUT INTERNAL ADMINISTRATIVE COSTS ARE
10 INCLUDED IN BASE RATES.

11 MR. POPOWSKY: IN ESSENCE, YOUR PROPOSAL IS
12 TO, UNDER THE RIDER PROPOSAL IS WE, THE BOARD,
13 SHOULD DETERMINE WHAT THE NUMBER IS FOR THE
14 INTERNAL ADMINISTRATIVE COSTS TO INCLUDE IN RATES.
15 BUT YOU WOULD PROPOSE THAT IN TERMS OF ALL OF THE
16 OTHER COSTS, THE EXTERNAL COSTS AND THE CREDITS,
17 THAT WE ESTABLISH A NUMBER BUT THEN MAKE IT
18 RECONCILABLE THROUGH THE IRAP RIDER OR
19 ALTERNATIVELY, THROUGH A DEFERRED ACCOUNT?

20 MR. COLTON: YES. AND YES, MY PROPOSAL IS
21 THAT INTERNAL ADMINISTRATIVE COSTS BE PART OF BASE
22 RATES JUST LIKE ANY OTHER STAFF COST. AND THE
23 EXTERNAL COSTS THAT VARY BASED ON THE NUMBER OF,
24 THAT DIRECTLY VARY BASED ON THE NUMBER OF

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1 PARTICIPANTS. IN THE MIX OF PARTICIPANTS, THERE
2 ARE A VARIETY OF THINGS THAT CAN MAKE THE COSTS
3 VARY THAT SHOULD BE DONE THROUGH A RECONCILABLE
4 RIDER. AND I HAVE NOT PROPOSED THE CALIFORNIA
5 APPROACH OR THE MAINE APPROACH AS AN ALTERNATIVE.

6 MY PROPOSAL IS TO DO WHAT THE PENNSYLVANIA
7 PUC HAS FOUND TO BE, HAS MIGRATED TO OVER 25 YEARS
8 OF EXPERIENCE WHICH IS THE RECONCILABLE RIDER.
9 THAT IS THE STANDARD. AND I NOTED CALIFORNIA AND
10 MAINE SIMPLY FOR THE PURPOSE OF SAYING THERE ARE
11 OTHER OPTIONS. BUT I DID NOT RECOMMEND THAT. MY
12 RECOMMENDATION IS A RECONCILABLE RIDER.

13 MR. POPOWSKY: COULD THE RECONCILABLE RIDER
14 BE DONE MORE FREQUENTLY? COULD THE RECONCILIATION
15 BE DONE MORE FREQUENTLY THAN ANNUALLY?

16 MR. COLTON: ABSOLUTELY. THE
17 RECONCILIATION COULD BE DONE QUARTERLY. YOU CAN
18 CHOOSE WHATEVER TIME PERIOD YOU WOULD LIKE
19 DEPENDING ON WHAT THE NEEDS OF THE UTILITY ARE.
20 BUT THERE ARE COMPANIES, THERE ARE UTILITIES IN
21 PENNSYLVANIA THAT DO QUARTERLY RECONCILIATIONS. I
22 THINK THE STANDARD IS ANNUAL, BUT IT'S NOT THE
23 EXCLUSIVE STANDARD.

24 MR. POPOWSKY: OKAY. SO I'M SORRY. I DID

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1 HAVE ONE OTHER AREA THAT I FORGOT. THERE IS A
2 PROVISION IN THE ORDINANCE ON ARREARAGE
3 FORGIVENESS, I BELIEVE. I DON'T HAVE IT RIGHT IN
4 FRONT OF ME. CAN YOU JUST EXPLAIN WHAT YOUR
5 PROPOSAL IS FOR ARREARAGE FORGIVENESS?
6 MR. COLTON: MY PROPOSAL IS THAT THE
7 DEPARTMENT COMPLY WITH THE ORDINANCE. AND THE
8 ORDINANCE STATES VERY CLEARLY AND VERY EXPLICITLY
9 THAT UNDER, FOR HOUSEHOLDS AT 0 TO 150 PERCENT OF
10 POVERTY, THAT THERE SHALL BE NO ADDITIONAL CHARGE
11 FOR PREEXISTING ARREARS, FOR ARREARS INCURRED BY
12 THE PROGRAM PARTICIPANT PRIOR TO THE TIME THAT THEY
13 HAVE ENROLLED IN THE PROGRAM. AND SO MY PROPOSAL
14 IS THAT THE PROGRAM HAVE AN EARNED FORGIVENESS
15 PROVISION UNDER WHICH THERE IS NO ADDITIONAL CHARGE
16 FOR PREEXISTING ARREARS.
17 MR. POPOWSKY: HOW LONG WOULD THAT -- SO I
18 CAN'T REMEMBER. OVER WHAT PERIOD WOULD YOU
19 ELIMINATE YOUR PREEXISTING ARREARS? IF YOU PAY
20 YOUR IRAP BILL EVERY MONTH FOR 24 MONTHS; IS THAT
21 IT?
22 MR. COLTON: THAT'S CORRECT. THAT WAS MY
23 RECOMMENDATION IS THAT PEOPLE EARN, IT'S AN EARNED
24 FORGIVENESS PROVISION THAT I RECOMMEND. SO ONCE

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1 YOU MAKE YOUR BILL PAYMENT, THEN YOU EARN THE
2 FORGIVENESS FOR THAT MONTH. AND THAT THE
3 PREEXISTING ARREARS BE FORGIVEN OVER A 24-MONTH
4 PERIOD.
5 MR. POPOWSKY: AGAIN, I'M SORRY. I DON'T
6 RECALL. WOULD THE FORGIVEN ARREARS EACH MONTH BE
7 INCLUDED IN THE IRAP? IS THAT, WOULD THAT BE,
8 WOULD THAT BE CONSIDERED LOST REVENUE? OR YOUR
9 TESTIMONY IS THATS NOT LOST REVENUE?
10 MR. COLTON: MY TESTIMONY IS A COMBINATION
11 OF THE TWO. THAT ARREARAGE FORGIVENESS CREDITS
12 WOULD BE SUBJECT TO RECONCILIATION EXCEPT TO THE
13 EXTENT THAT I PROPOSED A SERIES OF OFFSETS TO
14 EXCLUDE REVENUE THAT THE DEPARTMENT HAS ALREADY
15 RECOGNIZED WON'T BE COLLECTED WHETHER THERE IS AN
16 IRAP PROGRAM OR NOT. AND IF REVENUE WON'T BE
17 COLLECTED -- NOT REVENUE, IF BILLINGS WON'T BE
18 COLLECTED EVEN IN THE ABSENCE OF THE PROGRAM, THEN
19 THAT LOST REVENUE IS NOT A COST TO THE PROGRAM AND
20 THAT LOST REVENUE HAS ALREADY BEEN INCORPORATED AND
21 RECOGNIZED IN RATES.
22 MR. POPOWSKY: THANK YOU. THATS ALL THE
23 QUESTIONS I HAVE.
24 MR. BRUNWASSER: I HAVE A QUICK QUESTION.

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1 WE TALKED ABOUT THE CITY'S PROPOSAL THREE
2 TIERS AND I GUESS DIVISION OF EACH TIER AND TO
3 USAGE PATTERNS. SO THREE WITHIN EACH OF THE THREE
4 TIERS MEANING NINE DIFFERENT CATEGORIES, SO TO
5 SPEAK, FOR THE CUSTOMERS THAT FALL, THAT ARE
6 ELIGIBLE FOR THESE DISCOUNTED RATES.
7 YOUR PROPOSAL WOULD MEAN THAT THERE WOULD
8 BE MANY, MANY, ALMOST AS MANY DIFFERENT BILLINGS AS
9 THERE ARE CUSTOMERS THAT FALL INTO THIS RANGE. IN
10 OTHER WORDS, THEY WOULDN'T BE ONE OF NINE, BUT THEY
11 WOULD HAVE A BILL BASED ON THEIR OWN INCOME; IS
12 THAT CORRECT?
13 MR. COLTON: WELL, MY PROPOSAL IS --
14 MR. BRUNWASSER: PERCENTAGE OF INCOME I
15 SHOULD SAY.
16 MR. COLTON: MY PROPOSAL IS THAT THERE ARE
17 THREE TIERS, THE SAME THREE TIERS THAT ARE INCLUDED
18 IN THE ORDINANCE, 0 TO 50, 50 TO 100, 100 TO 150.
19 MR. BRUNWASSER: RIGHT.
20 MR. COLTON: AND THAT EACH PERSON'S, EACH
21 PROGRAM PARTICIPANT'S BILL BE BASED ON ACTUAL
22 HOUSEHOLD INCOME. AND THAT DECISION, AS I INDICATE
23 IN MY TESTIMONY, HAS BEEN TAKEN AWAY FROM THE
24 DEPARTMENT BECAUSE THAT DECISION WAS MANDATED BY

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1 THE ORDINANCE.
2 MR. BRUNWASSER: OKAY. RIGHT. WOULDN'T
3 DOING, IF THE BOARD COULD ADOPT OR WOULD ADOPT YOUR
4 RECOMMENDATION, THEN YOU WOULDN'T HAVE LETS SAY
5 NINE DIFFERENT TYPES OF DISCOUNTS? YOU WOULD HAVE
6 ALMOST AN INFINITE NUMBER BECAUSE THEY ARE
7 INDIVIDUALLY SIZED BY THAT PARTICULAR HOUSEHOLD'S
8 INCOME? IN OTHER WORDS, YES, THEY WOULD BE IN ONE
9 OF THREE TIERS UNDER YOUR RECOMMENDATION. BUT
10 WITHIN THOSE TIERS NO TWO BILLS ARE NECESSARILY
11 ALIKE?
12 MR. COLTON: I AGREE WITH YOU THAT NO TWO
13 BILLS ARE NECESSARILY ALIKE IN DOLLAR TERMS. THE
14 WAY THE PROGRAM IS SET UP, HOWEVER, IS THAT EACH
15 BILL IS ALIKE IN TERMS OF THE PERCENTAGE OF
16 HOUSEHOLD INCOME.
17 MR. BRUNWASSER: RIGHT.
18 MR. COLTON: BASED ON THE ACTUAL HOUSEHOLD
19 INCOME THAT THE HOUSEHOLD IS PAYING.
20 MR. BRUNWASSER: RIGHT.
21 MR. COLTON: SO ONCE YOU SET UP, ONCE YOU
22 PROGRAM THE ITERATION, THEN EVERY HOUSEHOLD GOES
23 THROUGH THE SAME PROGRAM. AND IT DOESN'T MAKE ANY
24 DIFFERENCE WHETHER YOU RUN 2000 PEOPLE OR 32,000

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1 PEOPLE THROUGH IT. IT IS THE SAME PROGRAM.
2 MR. BRUNWASSER: I UNDERSTAND. NOW, ONE OF
3 THE THINGS THAT HAPPENS OUT IN THE REAL WORLD IS
4 PEOPLE TEND TO COMPARE THEIR UTILITY BILLS AT
5 TIMES. IN OTHER WORDS, HOW HIGH WAS YOUR GAS BILL
6 LAST MONTH? \$278. MINE WAS ONLY \$160. WELL, WHY
7 IS THAT? BUT THEY ARE ON THE SAME BASIS KIND OF
8 AND THEY CAN UNDERSTAND THAT. I THINK WHEN YOU DO
9 INDIVIDUAL INCOME BASIS, MAYBE THIS ONE'S SERVICE
10 CHARGE IS DIFFERENT THAN THAT ONE'S SERVICE CHARGE
11 EVEN THOUGH THEY ARE BOTH PART OF THE SAME
12 PROGRAM.
13 AND WHAT I'M SAYING IS THOSE KINDS OF
14 THINGS RESULT IN A LOT OF PHONE CALLS TO THE WATER
15 REVENUE BUREAU ABOUT THEIR BILLS. IN OTHER WORDS,
16 IF YOU CAN LOOK AT YOUR BILL AND YOU HAVE, THIS HAS
17 HAPPENED IN THE PAST BY THE WAY. IF YOU LOOK AT
18 YOUR BILL AND YOU LOOK AT YOUR NEIGHBOR'S BILL AND
19 YOUR SERVICE CHARGE IS DIFFERENT. YOUR USAGE
20 CHARGE IS UNDERSTANDABLE, BUT YOUR SERVICE CHARGE
21 IS DIFFERENT, THIS ONE IS DIFFERENT. WELL, IT'S
22 BASED ON MY INCOME. YOUR INCOME AND MY INCOME ARE
23 NOT QUITE THE SAME, ALTHOUGH WE ARE IN THE SAME
24 CATEGORY. WHAT I'M SAYING IS IT SETS UP SOME

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1 CONFUSION, I THINK, FOR CUSTOMERS OUT IN THE CITY.
2 MR. COLTON: IF I MAY RESPOND TO THAT.
3 MR. BRUNWASSER: YES.
4 MR. COLTON: MY EXPERIENCE, I HAVE BEEN
5 DOING THESE PROGRAMS FOR 30 YEARS. AND I HAVE
6 WORKED IN 30 STATES AND A COUPLE OF CANADIAN
7 PROVINCES AND DEALT WITH HUNDREDS OF THOUSANDS OF
8 CUSTOMERS. AND THE SITUATION OR SCENARIO YOU JUST
9 POSITED HAS NOT ONCE ARISEN IN ANY OF THE
10 JURISDICTIONS IN ANY OF THE UTILITY TERRITORIES IN
11 WHICH I HAVE WORKED.
12 IN THEORY, I HEAR WHAT YOU ARE SAYING. IN
13 PRACTICE, IT HASN'T HAPPENED IN MY EXPERIENCE. AND
14 AT THE RISK OF SOUNDING UPPITY, I HAVE CONSIDERABLE
15 EXPERIENCE.
16 MR. BRUNWASSER: I UNDERSTAND. I
17 UNDERSTAND. MY EXPERIENCE IS PRETTY MUCH LIMITED
18 TO THE PHILADELPHIA WATER DEPARTMENT. AND I CAN
19 CITE AN INSTANCE OR AN ISSUE THAT HAPPENED WITHIN
20 THE WATER DEPARTMENT, ACTUALLY MORE SO THE BILLING
21 SYSTEM. WHEN THE WATER REVENUE BUREAU, AND THIS
22 GOES BACK ALMOST 30 YEARS. BUT WHEN THE WATER
23 REVENUE BUREAU HAD THE ABILITY IN THEIR COMPUTER,
24 THE BILLS DIDN'T ALWAYS GO OUT RIGHT ON TIME. IN

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1 FACT, THE BILLS HAD TO WAIT FOR THE CITY BILLS TO
2 GO OUT, PRIORITIZATION OF IT. AND SOMETIMES THEY
3 STARTED SENDING OUT BILLS FOR 33 DAYS, SOMETIMES
4 FOR 28 DAYS, ETCETERA.
5 THE MISTAKE WAS THEY ADJUSTED THE SERVICE
6 CHARGE BY THOSE NUMBER OF DAYS. AND THE REGS WERE
7 QUITE CLEAR. \$30 IS YOUR SERVICE CHARGE, WHATEVER
8 IT WAS, \$30 LET'S SAY. AND SOME PEOPLE GOT A \$28
9 SERVICE CHARGE. SOME GOT A \$33.50 SERVICE CHARGE.
10 AND IT LED TO AN ENORMOUS NUMBER OF PHONE CALLS TO
11 THE BUREAU WHICH CLOGGED UP THEIR SYSTEM WHICH
12 WASN'T TOO ROBUST AT THE TIME ANYWAY.
13 SO WHAT I'M SAYING IS ANYTHING THAT MAKES
14 IT MORE, A LITTLE MORE COMPLICATED HAS THE
15 POSSIBILITY OF UPPING CUSTOMER SERVICE CALLS,
16 THINGS OF THAT NATURE. AND THAT'S BASICALLY WHAT
17 I'M SAYING.
18 I DON'T HAVE ANYTHING FURTHER.
19 HEARING OFFICER: GOOD MORNING, MR.
20 COLTON. I HAVE GOT A NUMBER OF QUESTIONS TO TIE UP
21 SOME LOOSE ENDS.
22 YOU WERE DISCUSSING THIS QUESTION OF TIERS
23 VERSUS PIPP AND THE FOCUS OF THE DISCUSSION WAS ON
24 THE HOUSEHOLD INCOME. WHERE DOES HOUSEHOLD USAGE

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1 COME IN TO PLAY? BECAUSE IN ORDER TO HAVE A
2 PERCENTAGE OF INCOME -- SO YOU GET PUT IN WHATEVER
3 THE TIER IS FOR WHAT PERCENT WITHOUT REGARD TO
4 USAGE?
5 MR. COLTON: THAT'S CORRECT. USAGE WOULD
6 COME IN TO PLAY IN CALCULATING THE UNDERLYING BILL
7 AT STANDARD RESIDENTIAL RATES. AND THE BENEFIT IS
8 THE BILL AT STANDARD RESIDENTIAL RATES MINUS YOUR
9 PERCENTAGE, THE CUSTOMER'S PERCENTAGE OF INCOME
10 PAYMENT. AND SO USAGE WOULD FACTOR IN AT THAT, AT
11 THAT LEVEL.
12 HEARING OFFICER: IS THAT DIFFERENTIAL THE
13 SAME THING AS THE CAP CREDITS YOU HAVE BEEN TALKING
14 ABOUT?
15 MR. COLTON: CAP CREDITS IS, CAP CREDIT AT
16 THE STATE LEVEL IS A TERM OF ART. AND IT IS A TERM
17 THAT REFERS TO THE DIFFERENCE BETWEEN A CUSTOMER'S
18 BILL AT STANDARD RESIDENTIAL RATES AND THE
19 PERCENTAGE OF INCOME PAYMENT.
20 HEARING OFFICER: SO I THINK WHAT YOU ARE
21 SAYING IS WITHOUT USING THE WORD CAP CREDITS, IT'S
22 THE SAME CONCEPT AS WOULD BE USED IN YOUR PROPOSAL
23 PROGRAM?
24 MR. COLTON: YES. IT IS WHAT MR. DAVIS

10 (Pages 34 to 37)

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1 REFERRED TO AS LOST REVENUE. BUT ALL IT IS, IT CAN
2 GENERICALLY BE REFERRED TO AS THE DISCOUNT OR THE
3 PROGRAM BENEFIT. BUT IT IS THE DIFFERENCE BETWEEN
4 THE BILL AT STANDARD RESIDENTIAL RATES AND THE
5 PERCENTAGE OF INCOME PAYMENT.
6 HEARING OFFICER: THIS MAY JUMP AROUND. IN
7 YOUR TESTIMONY, THERE WAS A SUGGESTION THAT COSTS
8 COULD BE SAVED BY PROVIDING DIGITAL ACCESS TO THE
9 DEPARTMENT FOR PURPOSES OF PROVIDING INFORMATION
10 AND APPLYING AND SO FORTH. IS THAT STILL A GOOD
11 IDEA IN LIGHT OF THE LEVEL OF ACCESS THAT LOW
12 INCOME HOUSEHOLDS HAVE TO DIGITAL COMMUNICATIONS?
13 IN OTHER WORDS, LET'S START WITH LOW INCOME
14 HOUSEHOLDS TEND NOT TO HAVE THE SAME PERCENTAGE
15 ACCESS TO DIGITAL COMMUNICATION AS NON LOW INCOME;
16 RIGHT?
17 MR. COLTON: I AGREE WITH THAT.
18 HEARING OFFICER: SO ARE THERE ENOUGH LOW
19 INCOME CUSTOMERS WITH DIGITAL ACCESS TO MAKE IT
20 WORTHWHILE CREATING DIGITAL ACCESS FOR THOSE
21 CUSTOMERS TO INTERACT WITH THE CITY?
22 MR. COLTON: I THINK THERE ARE TWO
23 DIFFERENT WAYS TO LOOK AT THIS. ONE IS THE WAY
24 THAT WAS IMPLICIT WITHIN YOUR QUESTION WHICH IS THE

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1 CUSTOMER DIRECTLY ACCESSES THE DEPARTMENT DIGITALLY
2 AND APPLIES, WHICH IS NOT WHAT I'M RECOMMENDING.
3 WHAT I'M RECOMMENDING IS THAT THE
4 DEPARTMENT, I THINK THE MOST EFFICIENT WAY IS FOR
5 THE DEPARTMENT TO OUTSOURCE THE PROGRAM INTAKE AND
6 INCOME VERIFICATION. AND INSTEAD OF COLLECTING 47
7 DIFFERENT PIECES OF PAPER, 50,000 PIECES OF PAPER,
8 THE COMMUNICATION BETWEEN THE INTAKE ENTITY AND THE
9 DEPARTMENT IS DIGITALLY.
10 AND THAT IS, THAT'S GENERALLY WHAT
11 HAPPENS. THAT IF A UTILITY CONTRACTS WITH A
12 COMMUNITY-BASED ORGANIZATION OR A COMMUNITY ACTION
13 AGENCY, THE COMMUNITY ACTION AGENCY DOESN'T COPY
14 AND SEND 47, 50,000 PIECES OF PAPER TO THE
15 UTILITY. IT'S ALL DONE THROUGH FILE TRANSFERS.
16 AND GIVEN THE MANAGEMENT AUDIT'S RECOMMENDATIONS
17 AND DISCUSSIONS ABOUT THE INEFFICIENCY OF THE
18 PAPER-BASED SYSTEM AND GIVEN THAT THE NEW IRAP
19 PROGRAM IS GOING TO BE COMPUTERIZED FROM THE VERY
20 BEGINNING, THERE IS JUST NO REASON WHATSOEVER TO
21 HAVE 50,000 PIECES OF PAPER BEING PROCESSED BY THE
22 DEPARTMENT.
23 HEARING OFFICER: WOULD 50,000 PIECES OF
24 PAPER HAVE TO BE PROCESSED BY THE COMMUNITY-BASED

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1 GROUP?
2 MR. COLTON: THE COMMUNITY-BASED GROUP I
3 WOULD THINK WOULD PROCESS SOME PIECES OF PAPER.
4 ONE REASON TO GO THROUGH A COMMUNITY-BASED GROUP,
5 HOWEVER, IS THAT THE ODDS OF A CUSTOMER COMING IN
6 WHO HAS RECEIVED LIHEAP, WHO HAS BEEN THROUGH A
7 CSBG PROGRAM, COMMUNITY SERVICES BLOCK GRANT
8 PROGRAM, WHO HAS BEEN ENROLLED IN THE PGW CUSTOMER
9 RESPONSIBILITY PROGRAM INCREASE. SO THAT THERE IS
10 NOT A DUPLICATION OF INCOME VERIFICATION. THAT IF
11 YOUR INCOME HAS PREVIOUSLY BEEN VERIFIED FOR
12 PURPOSES OF LIHEAP, THEN THERE IS NO REASON TO
13 DUPLICATE THAT INCOME VERIFICATION AGAIN. THAT'S A
14 WASTE OF TIME AND A WASTE OF RESOURCES.
15 HEARING OFFICER: I WOULD HAVE TO COME BACK
16 TO THAT IN A SECOND. BUT I THINK YOU WERE HERE
17 YESTERDAY WHEN THERE WAS EXTENSIVE COLLOQUY ABOUT
18 THE WAY THAT THE CITY STRUCTURES ITS STAFFING AND
19 THE BARRIERS THAT THAT PUTS IN FRONT OF THE
20 DEPARTMENT AND THE WATER REVENUE BOARD TO OPERATE
21 IN THE WAY THAT YOU ARE PROPOSING. DID THOSE
22 STATEMENTS BY THE DEPARTMENT AND THE REVENUE BOARD
23 CHANGE IN ANY WAY YOUR VIEW ABOUT WHAT SHOULD BE
24 DONE?

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1 MR. COLTON: NO. AND IT'S, REMEMBER, IT'S
2 NOT SIMPLY MY VIEW. IT WAS WHAT I PROPOSED IS THE
3 SAME PROPOSAL THAT WAS INCLUDED IN THE MANAGEMENT
4 AUDIT REPORT THAT WAS ATTACHED TO MS. LOCKLEAR'S
5 TESTIMONY. SO THAT PROPOSAL OR THAT RECOMMENDATION
6 DIDN'T ORIGINATE WITH ME. IT ORIGINATED WITH --
7 HEARING OFFICER: RIGHT.
8 MR. COLTON: BUT THE ANSWER TO YOUR
9 QUESTION IS NO. CLEARLY, CLEARLY COLLECTIVE
10 BARGAINING, TO THE EXTENT THAT IT'S AN ISSUE, HAS
11 TO BE TAKEN INTO CONSIDERATION. BUT WHEN THE
12 PUBLIC ADVOCATE ASKS QUESTIONS, THE MOST THAT THE
13 DEPARTMENT SAID IN RESPONSE TO THE DISCOVERY WAS
14 THAT COLLECTIVE BARGAINING MIGHT POSE AN ISSUE.
15 THERE WASN'T THAT IT WAS AN ABSOLUTE BARRIER. SO
16 OF COURSE, COLLECTIVE BARGAINING NEEDS TO BE TAKEN
17 INTO ACCOUNT. YES, I AGREE.
18 HEARING OFFICER: I WANT TO MAKE A
19 TRANSCRIPT REQUEST OF THE DEPARTMENT. I THINK WE
20 ARE UP TO 11. TO CLARIFY ON THE COLLECTIVE
21 BARGAINING AGREEMENT, PUTTING ASIDE ALL OF THE
22 OTHER PROBLEMS WHICH I AM NOT FORGETTING. BUT
23 FOCUSING ON THE QUESTION OF OUTSOURCING. ARE THERE
24 TERMS IN THE AGREEMENT WHICH REQUIRE, FOR EXAMPLE,

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<p style="text-align: right;">Page 42</p> <p>1 THAT YOU FIRST TRY TO DO IT IN-HOUSE OR THAT PUT 2 ANY EXPLICIT BARRIERS ON THE ABILITY OF THE 3 DEPARTMENT. 4 MR. DASENT: THAT'S A TRANSCRIPT REQUEST? 5 HEARING OFFICER: THAT'S A TRANSCRIPT 6 REQUEST. I DON'T NEED TO KNOW THE ANSWER RIGHT 7 NOW. 8 MS. TU: MS. BROCKWAY, CAN WE CLARIFY THAT 9 THE RESPONSE ADDRESS A NEW PROGRAM VERSUS 10 OUTSOURCING AN EXISTING PROGRAM? 11 HEARING OFFICER: YES. YES. I'M TALKING 12 ABOUT THE IRAP PROGRAM PROPOSAL. OF COURSE NOW I 13 HAVE FORGOTTEN. I WANTED TO COME BACK. MAYBE IT 14 WILL COME TO ME IN A SECOND. 15 ON PAGE 52, AND I'M JUMPING AROUND NOW, I'M 16 SORRY, OF YOUR TESTIMONY. THERE IS, YOU ARE 17 DISCUSSING A QUESTION OF DOUBLE RECOVERY OF 18 EMBEDDED LOST REVENUES. CAN YOU EXPLAIN HOW, IF AT 19 ALL, THAT DISCUSSION APPLIES TO THE PROPOSED 20 PROGRAM? IT MAY BE IN YOUR TESTIMONY, BUT EDUCATE 21 ME. 22 MR. COLTON: THE COST RECOVERY THAT HAS 23 BEEN PROPOSED IN THIS PROCEEDING BY THE DEPARTMENT 24 ASSUMES THAT IN THE ABSENCE OF IRAP, THAT 100</p>	<p style="text-align: right;">Page 44</p> <p>1 BILLING. 2 SO IF YOU TAKE THAT PORTION THAT WE KNOW 3 WON'T BE COLLECTED EVEN IN THE ABSENCE OF THE 4 PROGRAM AND PUT THAT IN RATES BUT THEN ALSO INCLUDE 5 IT AGAIN IN THE COST RECOVERY OF THE PROGRAM, YOU 6 ARE COLLECTING THE SAME UNPAID BILLS TWICE. 7 HEARING OFFICER: I'D LIKE TO TALK A LITTLE 8 BIT ABOUT THE RELATIONSHIP BETWEEN WRAP AND IRAP 9 BECAUSE YESTERDAY THERE WAS SOME TESTIMONY, YOU 10 PROBABLY HEARD, ABOUT THE NEED TO PHASE OUT WRAP. 11 CAN YOU DISCUSS WHAT YOUR CONCEPT IS IN THE 12 TESTIMONY? OR IF IT'S CHANGED BASED ON THAT 13 TESTIMONY, WHAT YOUR CONCEPT IS ABOUT THE 14 RELATIONSHIP BETWEEN WRAP, WRAP RECIPIENTS, PEOPLE 15 WHO MIGHT APPLY FOR WRAP AND IRAP? 16 MR. COLTON: IRAP IS INTENDED TO SUPPLANT 17 WRAP IN ITS ENTIRETY. THE WRAP PROGRAM SHOULD BE 18 SUBSUMED BY IRAP. AND THAT'S NOT ONLY TRUE FOR 19 CUSTOMERS AT 0 TO 150 PERCENT OF POVERTY. IT IS 20 TRUE FOR CUSTOMERS AT 150 PERCENT OF POVERTY TO 250 21 PERCENT OF POVERTY. THERE IS SPECIFIC LANGUAGE IN 22 THE ORDINANCE, I JUST HAPPENED TO HAVE WRITTEN IT 23 DOWN. 1605-3(G) AND 1605-3(D)1. AND WHAT THAT 24 PART OF THE ORDINANCE SAYS IS THAT 3(I)1, A</p>
<p style="text-align: right;">Page 43</p> <p>1 PERCENT OF THE BILLS RECEIVED BY LOW INCOME 2 CUSTOMERS WHO WILL ULTIMATELY BECOME IRAP 3 PARTICIPANTS WILL BE PAID IN THE ABSENCE OF THE 4 PROGRAM. 5 HEARING OFFICER: THOSE ROUGHLY 31,000 6 EVERYBODY IS USING? 7 MR. COLTON: YES. SO THAT 100 PERCENT. 8 AND THEREFORE, IF YOU PROVIDE A DISCOUNT THAT 9 RESULTS IN THE CREDIT WHICH AGAIN IS THE DIFFERENCE 10 BETWEEN STANDARD RESIDENTIAL RATES AND THE 11 DISCOUNTED RATE, THAT 100 PERCENT OF THAT 12 DIFFERENCE WILL NEED TO BE PASSED THROUGH AS A 13 PROGRAM COST. 14 HEARING OFFICER: PUTTING ASIDE THE ENTIRE 15 QUESTION OF OFFSETS, WHAT YOU ARE TALKING ABOUT IS 16 -- NO, IS THIS AN OFFSET ISSUE? 17 MR. COLTON: THIS IS A TYPE OF OFFSET. AND 18 WHAT MY TESTIMONY INDICATES IS THAT WE KNOW THAT 19 THAT'S NOT THE CASE. WE KNOW THAT 100 PERCENT OF 20 THE REVENUE OF ANY BILLINGS ARE NOT COLLECTED IN 21 THE ABSENCE OF THE PROGRAM. AND THAT SOME PORTION 22 OF THOSE BILLINGS WILL BE, ARE NOT COLLECTED AND 23 ARE ALREADY INCORPORATED IN RATES BECAUSE THE RATES 24 ARE SET BASED ON THE REVENUE AND NOT UPON THE</p>	<p style="text-align: right;">Page 45</p> <p>1 CUSTOMER SHALL BE ENROLLED IN IRAP UPON APPROVAL OF 2 A COMPLETED APPLICATION. AND THEN YOU GO, FOR 3 PEOPLE WHO QUALIFY FOR IRAP BECAUSE OF FINANCIAL 4 HARDSHIP OR SPECIAL HARDSHIP. THAT'S THE WAY 5 PEOPLE AT, UNDER THE ORDINANCE, PEOPLE AT 150 TO 6 250 PERCENT OF POVERTY ENTER IRAP THROUGH A 7 FINANCIAL HARDSHIP OR A SPECIAL HARDSHIP. 8 HEARING OFFICER: DO THE PEOPLE AT 150 9 PERCENT OR BELOW AND THEY ARE NOW ON WRAP, DO THEY 10 HAVE TO MAKE AN APPLICATION TO GET ONTO IRAP? 11 MR. COLTON: I DIDN'T TALK ABOUT THAT IN MY 12 TESTIMONY. AND I WOULD, I WOULD THINK NOT. AGAIN, 13 I WOULD THINK THAT IF THE CUSTOMER HAS, HAS 14 VERIFIED THEIR INCOME TO THE SATISFACTION OF THE 15 DEPARTMENT PREVIOUSLY, TO REQUIRE THAT CUSTOMER TO 16 COME IN AND VERIFY THEIR INCOME AGAIN IS 17 UNNECESSARY AND IS A WASTE OF RESOURCES. 18 HEARING OFFICER: YESTERDAY THERE WAS ALSO A 19 SUGGESTION THAT THERE ARE SOME FOLKS ON IRAP WHO 20 WOULD DO BETTER ON IRAP THAN THEY WOULD -- EXCUSE 21 ME. SOME FOLKS ON WRAP WHO WOULD DO BETTER ON WRAP 22 THAN THEY WOULD ON IRAP. DO YOU AGREE WITH THAT? 23 AND IF SO, WHAT SHOULD BE DONE FOR THOSE 24 CUSTOMERS?</p>

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1 MR. COLTON: I ACTUALLY, I DO AGREE WITH
2 THAT. AND I AM GOING TO SAY SOMETHING THAT MAY BE
3 A SURPRISE. BUT THERE ARE PEOPLE ON WRAP AND THERE
4 ARE LOW INCOME CUSTOMERS ON THE PHILADELPHIA WATER
5 DEPARTMENT SYSTEM WHO WILL NOT RECEIVE BENEFITS
6 THROUGH IRAP BECAUSE THEIR BILLS WILL BE LOWER THAN
7 THEIR PERCENTAGE OF INCOME BILL. AND UNDER THOSE
8 CIRCUMSTANCES, THE CITY COUNCIL HAS DECIDED THAT
9 THOSE PEOPLE DON'T RECEIVE A BENEFIT, SETTING ASIDE
10 WHETHER THEY MIGHT RECEIVE A BENEFIT THROUGH THE
11 SENIOR DISCOUNT OR SOME OTHER PROGRAM NOTE
12 ASSOCIATED WITH IRAP.

13 BUT THERE ARE SOME CUSTOMERS WHOSE BILLS,
14 WHOSE ACTUAL BILLS WILL NOT EXCEED THEIR PERCENTAGE
15 OF INCOME BILL. AND THEREFORE, THEY WILL NOT
16 PARTICIPATE. AND UNDER MY PROPOSAL, THEY WOULD NOT
17 RECEIVE A BENEFIT.

18 NOW, UNDER THE TIERED RATE DISCOUNT, AND
19 ONE OF THE DIFFERENCES BETWEEN THE TIERED RATE
20 DISCOUNT AND THE PERCENTAGE OF INCOME IS THAT UNDER
21 THE TIERED RATE DISCOUNT, EVEN IF YOUR BILL IS
22 AFFORDABLE BASED ON A PERCENTAGE OF INCOME, YOU ARE
23 STILL GOING TO RECEIVE WHETHER IT'S THE 90 PERCENT
24 DISCOUNT OR WHATEVER THE DISCOUNT IS IN THE TIER.

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1 HEARING OFFICER: IF WITHIN THE TIER, YOU
2 HAPPENED TO HAVE INCOME ON THE HIGH SIDE OF MEDIAN
3 AND USAGE ON THE LOW SIDE OF MEDIAN?

4 MR. COLTON: YES. YOU MAY HAVE AN
5 AFFORDABLE BILL, BUT YOU ARE GOING TO RECEIVE
6 BENEFITS NONETHELESS UNDER THE TIERED RATE
7 DISCOUNT, WHICH IS ONE REASON YOU WERE ASKING
8 YESTERDAY, WHY DOES THE TIERED RATE DISCOUNT COST
9 MORE THAN THE PERCENTAGE OF INCOME PROGRAM? AND
10 THE REASON IS BECAUSE UNDER, ONE REASON IS THAT
11 UNDER THE TIERED RATE DISCOUNT, YOU ARE GIVING AWAY
12 MONEY TO PEOPLE IRRESPECTIVE OF WHETHER THOSE
13 PEOPLE HAVE AN AFFORDABLE BILL OR NOT AFFORDABLE
14 BILL.

15 UNDER THE PERCENTAGE OF INCOME PROGRAM, YOU
16 ARE GIVING THE AMOUNT OF MONEY THAT'S NEEDED UNDER
17 THE PARAMETERS SET BY THE CITY COUNCIL. AND IF YOU
18 DON'T NEED A BENEFIT, YOU DON'T RECEIVE A BENEFIT.
19 WELL, I'LL STOP.

20 HEARING OFFICER: SO FOLLOWING UP ON
21 CHAIRMAN BRUNWASSER'S LINE OF QUESTIONS ABOUT
22 UNHAPPY CUSTOMERS. WOULD YOU AGREE THAT SOME CARE
23 WOULD HAVE TO BE TAKEN WHEN THOSE FOLKS ARE
24 IDENTIFIED TO TAKE THEM OFF WRAP WITHOUT THEM

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1 FEELING AS IF THEY HAD BEEN CHEATED OR SOME OTHER
2 VERY ADVERSE RESULT?

3 MR. COLTON: OF COURSE. I AGREE WITH WHAT
4 YOU JUST SAID. THAT EXPLAINING THE PROGRAM, AND
5 CUSTOMER EDUCATION IS A VERY IMPORTANT ASPECT OF A
6 PROGRAM. BUT REMEMBER THE PRINCIPLE I JUST LAID
7 OUT. THAT PEOPLE WHOSE BILLS, WHOSE ACTUAL BILLS
8 DON'T EXCEED THE PERCENTAGE OF INCOME IS NOT UNIQUE
9 TO PHILADELPHIA WATER. THAT THAT'S TRUE FOR ANY
10 PROGRAM.

11 I AM INVOLVED WITH A PROGRAM NOW INVOLVING
12 UGI GAS, A PENNSYLVANIA GAS COMPANY. AND WHAT UGI
13 GAS DOES IS PEOPLE WHO RECEIVE A PERCENTAGE OF
14 INCOME BENEFIT GET PUT ON THE PERCENTAGE OF INCOME
15 PLAN. IF YOU ARE INCOME QUALIFIED BUT YOUR BILL
16 ISN'T HIGH ENOUGH TO RECEIVE PERCENTAGE OF INCOME
17 PAYMENTS, THEN YOU ARE OFFERED A LEVELIZED BUDGET
18 PLAN BECAUSE A LOT OF PEOPLE VIEW LEVELIZED BUDGET
19 PLANS AS BEING ONE OF THE, OF A BIG BENEFIT.

20 BUT IT'S THE POINT BEING THAT THE FACT THAT
21 THERE WILL BE PEOPLE WHO ARE INCOME QUALIFIED BUT
22 DON'T RECEIVE BENEFITS IS NOT UNIQUE TO THE
23 PHILADELPHIA WATER DEPARTMENT.

24 HEARING OFFICER: DO YOU HAVE ANY SENSE

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1 ABOUT WHAT PROPORTION OF THE WRAP RECIPIENTS TODAY
2 WOULD BE IN THAT SITUATION?

3 MR. COLTON: I DON'T. I KNOW THAT WHEN I
4 HAVE LOOKED AT THESE WITH OTHER UTILITIES, IT'S ONE
5 OF THE REASONS THAT UTILITIES DON'T HIT PARTICIPATE
6 RATES AT 90 PERCENT OR 75 PERCENT. THAT ASSUMES
7 THAT EVERYBODY WHO IS INCOME QUALIFIED WOULD ALSO
8 HAVE BILLS THAT WOULD BE SUFFICIENTLY HIGH TO HAVE
9 THEM RECEIVE AN INCOME, PERCENTAGE OF INCOME
10 BENEFIT. AND ONE OF THE REASONS THAT PARTICIPATION
11 RATES ARE 40, 45, 50 PERCENT AND NOT 75 PERCENT IS
12 BECAUSE THAT'S JUST NOT TRUE. IT JUST DOESN'T, THE
13 WORLD DOESN'T WORK LIKE THAT.

14 HEARING OFFICER: I DIDN'T MEAN TO GO HERE,
15 BUT IT SOUNDS LIKE YOUR DEFINITION OF PARTICIPATION
16 RATE AND MINE WOULD BE DIFFERENT BECAUSE I WOULD
17 HAVE THOUGHT THAT THE GROUP OF ELIGIBLES WOULD NOT
18 ONLY BE ELIGIBLE BY INCOME BUT ALSO BY PERCENTAGE
19 OF INCOME.

20 MR. COLTON: NO. THAT'S NOT HOW I USE
21 PARTICIPATION RATE. WHEN I TALK ABOUT THE
22 PARTICIPATION RATE, I'M TALKING ABOUT THE
23 PERCENTAGE OF INCOME-ELIGIBLE HOUSEHOLDS THAT
24 PARTICIPATE AND DERIVE BENEFITS FROM THE PROGRAM.

13 (Pages 46 to 49)

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1 HEARING OFFICER: BUT THEY ALSO HAVE TO,
2 THEY ARE ALSO SCREENED BY THE PERCENTAGE OF INCOME
3 BILLED?
4 MR. COLTON: THE PARTICIPANTS ARE, BUT THE
5 ELIGIBLES ARE NOT.
6 HEARING OFFICER: I SEE. GIVE ME A COUPLE
7 OF MINUTES.
8 WOULD GRANDFATHERING BE ANOTHER WAY OF
9 RESPONDING TO THE CONCERNS OF WRAP CUSTOMERS WHO
10 WOULD NOT OTHERWISE BE ELIGIBLE FOR IRAP?
11 MR. COLTON: YES. PECO, WE JUST, WE, A
12 GROUP OF STAKEHOLDERS INCLUDING THE PECO, THE
13 OFFICE OF CONSUMER ADVOCATE, THE STATE OFFICE FOR
14 CONSUMER ADVOCATE FOR WHOM I WORK AND LOW INCOME
15 ADVOCATES JUST WENT THROUGH A MEDIATION PROCESS.
16 THE RESULT OF THAT MEDIATION PROCESS JUST, IT ENDED
17 A YEAR AND-A-HALF AGO. THE RESULT OF THAT
18 MEDIATION PROCESS WAS THAT ALL OF THE STAKEHOLDERS
19 AGREED THAT THE TIERED RATE DISCOUNT THAT PECO USED
20 WAS SPENDING MORE MONEY WITH A LOWER AFFORDABILITY
21 IMPACT THAN A PERCENTAGE OF INCOME. SO PECO COULD
22 MOVE FROM ITS TIERED RATE DISCOUNT TO A PERCENTAGE
23 OF INCOME PLAN, REDUCE ITS COSTS AND IMPROVE ITS
24 AFFORDABILITY. THE REASON THAT'S RELEVANT TO YOUR

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1 QUESTION IS BECAUSE THERE WERE ABOUT 40,000
2 HOUSEHOLDS WHO WOULD NO LONGER QUALIFY FOR
3 BENEFITS.
4 HEARING OFFICER: OUT OF ABOUT HOW MANY
5 PARTICIPANTS?
6 MR. COLTON: OUT OF 140,000. OR THE WAY TO
7 CONCEPTUALIZE THIS IS IT'S NOT THEY DON'T QUALIFY
8 FOR BENEFITS. IT'S THEY QUALIFY FOR A ZERO DOLLAR
9 BENEFIT. SO IF THAT MAKES A DIFFERENCE.
10 THE APPROACH THAT ALL OF THE STAKEHOLDERS
11 AGREED TO WAS THAT IN THE FIRST YEAR AFTER THE
12 TRANSITION, THOSE CUSTOMERS THAT WOULD QUALIFY FOR
13 ZERO DOLLAR BENEFIT WOULD RECEIVE A \$50 FLAT
14 GRANT.
15 HEARING OFFICER: IT WOULDN'T NECESSARILY BE
16 THE SAME AS THE BENEFIT FROM BEFORE, BUT IT WOULD
17 BE SOMETHING?
18 MR. COLTON: IT WOULD BE SOMETHING. SO
19 IT'S NOT THEY COME UP TO THE, TO THE START OF THE
20 PERCENTAGE OF INCOME PROGRAM AND THEN RECEIVE
21 ZERO. SO FOR THAT FIRST ENTRY YEAR, THEY RECEIVE A
22 FLAT GRANT OF \$50.
23 HEARING OFFICER: SO THAT WOULD BE FISCAL
24 YEAR 19, THE WAY PEOPLE HAVE BEEN CONCEIVING OF THE

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1 PROGRESS OF THIS PROGRAM?
2 MR. COLTON: YES. IF THIS PROGRAM STARTS
3 IN FISCAL YEAR 18, ONE, ONE POLICY DECISION OR
4 PROGRAM DESIGN DECISION YOU COULD USE WOULD BE IN
5 THAT FIRST FISCAL YEAR, THAT IF YOU ARE INCOME
6 QUALIFIED BUT QUALIFY FOR A ZERO DOLLAR BENEFIT,
7 WE'LL GIVE YOU A FLAT GRANT OF X DOLLARS. I
8 HAVEN'T PROPOSED IT.
9 HEARING OFFICER: DO YOU HAVE A
10 RECOMMENDATION OF ABOUT WHAT THAT X DOLLARS WOULD
11 BE?
12 MR. COLTON: I DON'T HAVE -- THERE WOULD BE
13 -- I DON'T HAVE A RECOMMENDATION. I WOULD NEED TO
14 THINK THROUGH AND LOOK AT WHAT THE COST, THE BUDGET
15 CONSEQUENCES ARE.
16 HEARING OFFICER: YOU ARE GOING TO HAVE TO
17 HELP ME FIGURE OUT WHERE I'M GETTING THIS. I THINK
18 IT HAS TO DO WITH THE WRAP PHASEOUT. BUT YOU HAVE
19 A FIGURE OF TEN PERCENT. I DON'T REMEMBER WHAT
20 THAT REFERS TO.
21 MR. DASENT: ADMINISTRATIVE COSTS.
22 MR. COLTON: ADMINISTRATIVE COSTS.
23 HEARING OFFICER: DID THAT CONTEMPLATE
24 CONTINUING COSTS FOR WRAP DURING THE PHASEOUT?

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1 MR. COLTON: NO. BECAUSE IN MY OPINION,
2 NOT SIMPLY IN MY OPINION BUT MY READING OF THE
3 ORDINANCE IS THAT IRAP SUPPLANTS WRAP. SO THERE
4 WOULDN'T BE, THERE WOULDN'T BE ONGOING
5 ADMINISTRATIVE WRAP COSTS. WAS THAT YOUR
6 QUESTION?
7 HEARING OFFICER: SO IN OTHER WORDS, THE TEN
8 PERCENT INCLUDES WHATEVER COSTS THERE ARE
9 ASSOCIATED WITH GRANDFATHERING OR OTHERWISE
10 TRANSITIONING WRAP CUSTOMERS WHO WOULD BE LOSING
11 BENEFITS OVER TO IRAP?
12 MR. COLTON: YES.
13 HEARING OFFICER: ON PAGE 30, YOU TALK ABOUT
14 EARNED ARREARAGE FORGIVENESS. AND YOU BASICALLY
15 SAY THAT THERE IS NO COST TO THESE, IF I UNDERSTAND
16 YOUR TESTIMONY, OR DO I MISUNDERSTAND YOUR
17 TESTIMONY? I'LL READ IT. IT'S LINE 13 AND 14.
18 THE ARREARAGE FORGIVENESS PROGRAM FOR CUSTOMERS AT
19 OR ABOVE 150 PERCENT OF THE FEDERAL POVERTY LEVEL
20 DOES NOT ADD AN INCREMENTAL COST TO THE PROGRAM.
21 COULD YOU EXPLAIN WHAT YOU MEAN BY THAT?
22 MR. COLTON: YES. THE WAY I PROPOSE TO
23 ADDRESS EARNED FORGIVENESS FOR PEOPLE AT 150 TO 250
24 IS, REFLECTS THE ORDINANCE. THE ORDINANCE SAYS

14 (Pages 50 to 53)

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1 THAT FOR LOW INCOME CUSTOMERS, PREEXISTING, THERE
2 SHALL BE NO ADDITIONAL PAYMENT FOR PREEXISTING
3 ARREARS. BUT THE ORDINANCE LIMITS THAT TO LOW
4 INCOME CUSTOMERS. AND LOW INCOME IS A DEFINED TERM
5 UNDER THE ORDINANCE AS BEING 0 TO 150 PERCENT OF
6 POVERTY. THE ORDINANCE FURTHER SAYS THAT ANY
7 PAYMENTS ABOVE A PAYMENT THAT IS APPLIED TO BILLS
8 FOR CURRENT SERVICE SHALL BE APPLIED TO
9 PRE-EXISTING ARREARS. SO WHAT I HAVE PROPOSED IS
10 THAT --

11 HEARING OFFICER: THAT'S REGARDLESS OF
12 INCOME?

13 MR. COLTON: REGARDLESS OF INCOME INCLUDING
14 PEOPLE ALL THE WAY TO 250 PERCENT OF POVERTY.

15 SO WHAT I HAVE PROPOSED IS THAT CUSTOMERS
16 AT BETWEEN 150 AND 250 PERCENT OF POVERTY BE
17 ALLOWED TO PARTICIPATE IN IRAP IN ORDER TO RECEIVE
18 EARNED FORGIVENESS. AND THAT THEY BE CHARGED 4
19 PERCENT OF INCOME AS THE COST OF PARTICIPATING IN
20 THE PROGRAM. AND THAT TO THE EXTENT THAT CUSTOMERS
21 PAY FOR FOUR PERCENT OF INCOME, AND THAT FOUR
22 PERCENT OF INCOME EXCEEDS THEIR ACTUAL BILL, THEN
23 THE EXCESS IS APPLIED TO THEIR PREEXISTING
24 ARREARS.

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1 HEARING OFFICER: IS THAT THE EARNED
2 PART?

3 MR. COLTON: WELL, WHAT THE NUMBERS THEN
4 SHOW IS THAT IF YOU DO THAT OVER A TWO-YEAR PERIOD,
5 PEOPLE WILL BE, WILL PAY OFF THEIR PREEXISTING
6 ARREARS WITHOUT NEEDING TO HAVE AN EARNED
7 FORGIVENESS CREDIT. AND IF SOMEBODY DOESN'T WANT
8 TO PAY FOUR PERCENT OF INCOME, THEN THEY CAN CHOOSE
9 AND HAVE THE EXCESS APPLIED TO THEIR PREEXISTING
10 ARREARS, THEY CAN CHOOSE NOT TO PARTICIPATE IN THE
11 PROGRAM. BUT IF THEY CHOOSE TO PARTICIPATE IN THE
12 PROGRAM, PAY FOUR PERCENT OF INCOME WITH THE
13 PERCENTAGE OF INCOME APPLIED TO THEIR CURRENT BILL
14 FOR SERVICE AND THEIR PREEXISTING ARREARS. YOU DO
15 THAT OVER A TWO-YEAR PERIOD, PEOPLE ARE GOING TO
16 RETIRE THEIR PREEXISTING ARREARS.

17 HEARING OFFICER: DO YOU HAPPEN TO KNOW
18 ASIDE FROM IRAP, WHAT ORDER OF APPLICATION OF
19 REVENUES THE DEPARTMENT USES FOR THE WATER BOARD?
20 IN OTHER WORDS, YOU CAN IMAGINE A UTILITY THAT YOU
21 HAVE AN OUTSTANDING BALANCE OF 100 AND YOU HAVE A
22 BILL OF 25 AND YOU PAY 25. SOME UTILITIES WOULD
23 TAKE THAT AGAINST THE 100. SO YOU WOULD STILL OWE
24 THE 25 PLUS 75, SO YOU STILL OWE 100. IN EITHER

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1 CASE YOU MIGHT STILL OWE 100. BUT IN ONE CASE,
2 YOUR ARREARS HAVE BEEN AFFECTED DIRECTLY, AND THE
3 OTHER CASE YOU BUILD UP ARREARS BECAUSE THE MONEY
4 HAS NOT BEEN APPLIED TO YOUR CURRENT BILL.

5 DO YOU KNOW, DOES THE DEPARTMENT APPLY LESS
6 THAN TOTAL PAYMENTS TO THE CURRENT BILL, OR DO THEY
7 FIRST APPLY IT TO THE ARREARS?

8 MR. COLTON: THERE IS, I DO KNOW THAT. BUT
9 I DON'T KNOW IT OFF THE TOP OF MY HEAD. I KNOW
10 THAT THE PUBLIC ADVOCATE ASKED A DATA REQUEST
11 RESPONSE. AND IT WAS ACTUALLY THE SUBJECT, THERE
12 IS SOME NODS HERE, IT WAS THE SUBJECT OF A
13 SUBSEQUENT FOLLOW-UP INFORMAL DISCOVERY SESSION.
14 BUT THERE IS A DATA REQUEST RESPONSE THAT
15 EXPLICITLY ASKS, WHAT IS THE ORDER IN WHICH
16 PAYMENTS ARE RECEIVED? AND I DON'T REMEMBER THE
17 NAME OR THE NUMBER OF IT. BUT THERE IS A PUBLIC
18 ADVOCATE DATA REQUEST RESPONSE.

19 HEARING OFFICER: GREAT. GIVE ME A SECOND.
20 I THINK THAT'S ALL THE QUESTIONS I HAVE.

21 MR. POPOWSKY: I APOLOGIZE. I HAD ONE MORE
22 QUESTION. DID YOU ACCEPT THE PWD'S PROPOSAL FOR A
23 \$12 A MONTH MINIMUM BILL?

24 MR. COLTON: YES. A MINIMUM BILL IS AN

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1 IMMINENTLY REASONABLE -- YES. THE ANSWER IS YES.

2 HEARING OFFICER: ACTUALLY, I DID FORGET TO
3 MARK ONE THING. I THINK IT'S IMPLICIT IN YOUR
4 TESTIMONY AND OTHER TESTIMONIES. BUT MY
5 UNDERSTANDING FROM YOUR TESTIMONY IS THAT YOU THINK
6 THAT THE SENIOR DISCOUNT IS SEPARATE FROM IRAP?

7 MR. COLTON: YES.

8 HEARING OFFICER: SO COULD YOU GET BOTH IRAP
9 AND THE SENIOR DISCOUNT?

10 MR. COLTON: NO. I THINK THE ORDINANCE
11 MAKES THAT PRETTY CLEAR. THERE IS A SECTION IN THE
12 ORDINANCE THAT SAYS THAT IF PARTICIPATION IN A
13 DIFFERENT PROGRAM RESULTS IN A MORE AFFORDABLE
14 BILL, THAT PEOPLE SHALL PARTICIPATE IN THE OTHER
15 PROGRAM OR SHALL BE ALLOWED TO PARTICIPATE IN THE
16 OTHER PROGRAM. BUT THERE IS A SECTION OF THE
17 ORDINANCE THAT SPECIFICALLY ADDRESSES THAT.

18 HEARING OFFICER: WHAT'S CONFUSING TO ME IS
19 THAT SOMETIMES I GET THE IMPRESSION FROM THE
20 DEPARTMENT THAT IN THEIR WORLD, WRAP IS ANOTHER
21 PROGRAM. ACTUALLY, THE DEPARTMENT CAN EXPLAIN
22 THEIR VIEW ABOUT THAT IN ITS BRIEF. BUT THAT'S WHY
23 THIS QUESTION OF THE SENIOR DISCOUNT COMES UP.

24 MR. COLTON: IN MY OPINION, THE ORDINANCE,

15 (Pages 54 to 57)

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1 THERE ARE TWO SECTIONS OF THE ORDINANCE THAT SAYS
2 IF YOUR INCOME QUALIFIED, THERE IS THE ONE SECTION
3 THAT SAYS A CUSTOMER SHALL BE ENROLLED IN IRAP.
4 AND THERE IS THE OTHER SECTION THAT TALKS ABOUT THE
5 ELIGIBILITY OF 150 TO 250 FOR PURPOSES OF ENROLLING
6 IN IRAP. SO I THINK THE ORDINANCE IS PRETTY CLEAR
7 THAT IRAP SUPPLANTS WRAP AS A PROGRAM. WRAP SHOULD
8 GO AWAY.
9 HEARING OFFICER: I DO HAVE ONE MORE
10 QUESTION WHICH I OUGHT TO KNOW THE ANSWER TO. YOU
11 CAN HELP ME OUT. LET'S SAY THAT IT IS NOT POSSIBLE
12 TO OUTSOURCE, SO WE ARE DEALING WITH THE CURRENT
13 STAFF. WE ARE DEALING WITH THE CURRENT
14 ARRANGEMENT. UNDER WRAP OR OTHER INCOME-BASED, I
15 GUESS THAT'S THE INCOME-BASED PROGRAM NOW. DO YOU
16 HAPPEN TO KNOW WHETHER OR NOT THE DEPARTMENT OR THE
17 BOARD TAKES INTO ACCOUNT IF SOMEBODY IS WHAT YOU
18 MIGHT CALL CATEGORICALLY ELIGIBLE, THAT IS TO SAY
19 THEY RECEIVE SSI AND THE MAXIMUM BENEFIT FOR SSI IS
20 DEFINITELY BELOW, BELOW THE MAXIMUM INCOME FOR
21 WRAP?
22 MR. COLTON: THE DEPARTMENT DOES NOT DO
23 THAT AT PRESENT. AND WE KNOW THAT BECAUSE HAVING
24 CATEGORICAL ELIGIBILITY WAS A RECOMMENDATION IN THE

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1 MANAGEMENT AUDIT THAT WAS ATTACHED TO MS.
2 LOCKLEAR'S TESTIMONY. SO IT IS, IF THERE IS A
3 UNION, A COLLECTIVE BARGAINING --
4 HEARING OFFICER: LET'S NOT PUT IT ALL ON
5 THE UNION. LET'S JUST SAY THERE ARE REASONS WHY
6 THIS BOARD COULD NOT DO WHAT YOU WANT.
7 MR. COLTON: IF THERE ARE REASONS THAT
8 WOULD PREVENT THE BOARD FROM OUTSOURCING THE INTAKE
9 AND INCOME VERIFICATION, USING A CATEGORICAL
10 ELIGIBILITY MAKES EMINENT SENSE AND IT'S SOMETHING
11 I HAVE RECOMMENDED FOR 20 OR 30 YEARS. BECAUSE IF
12 SOMEBODY HAS ESTABLISHED THEIR ELIGIBILITY FOR
13 LIHEAP, IT MAKES NO SENSE FOR THE DEPARTMENT TO
14 SAY, WE ARE GOING TO REQUIRE YOU TO REESTABLISH
15 YOUR ELIGIBILITY FOR OUR PURPOSES AS WELL.
16 HEARING OFFICER: I DO HAVE A FOLLOW-UP TO
17 THIS. BUT IT'S 11:30. OFF THE RECORD.
18 (WHEREUPON, A BREAK WAS TAKEN OFF THE
19 RECORD.)
20 HEARING OFFICER: BACK ON THE RECORD.
21 MR. DELANEY.
22 MR. DELANEY: YES. LET ME FIRST THANK THE
23 HEARING EXAMINER AND THE PARTIES FOR ALLOWING US TO
24 PRESENT OUR WITNESS TELEPHONICALLY. VERY BRIEFLY,

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1 I WANT TO IDENTIFY THE TESTIMONY OF ROBERT
2 ROSENTHAL WAS SUBMITTED PURSUANT TO THE SCHEDULE
3 THAT WE HAD IN THE CASE. THE DIRECT TESTIMONY
4 CONSISTS OF EIGHT PAGES OF TESTIMONY AND SEVEN
5 PAGES OF EXHIBITS.
6 MR. ROSENTHAL, LET ME ASK YOU. DO YOU HAVE
7 ANY CHANGES OR REVISIONS TO YOUR TESTIMONY YOU
8 WOULD LIKE TO MAKE AT THIS TIME?
9 MR. ROSENTHAL: NO, I DO NOT.
10 MR. DELANEY: I UNDERSTAND THAT THE
11 TESTIMONY IS ALREADY INCLUDED IN THE RECORD IN THIS
12 CASE. MR. ROSENTHAL IS AVAILABLE FOR EXAMINATION.
13 HEARING OFFICER: FOR CONVENIENCE, WE HAVE
14 BEEN GIVING SHORT NUMBERS TO TESTIMONY. WHY DON'T
15 WE CALL THAT PECO-1.
16 MR. DELANEY: SURE.
17 HEARING OFFICER: MR. DASENT.
18 MR. DASENT: IF THE WITNESS IS PROFFERED
19 FOR CROSS, I HAVE A COUPLE QUESTIONS.
20 MR. DELANEY: SURE, HE IS AVAILABLE FOR
21 CROSS.
22 MR. DASENT: MR. ROSENTHAL, GOOD MORNING.
23 MR. ROSENTHAL: GOOD MORNING.
24 MR. DASENT: I KNOW YOU FROM MANY, MANY

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1 YEARS BACK.
2 MR. ROSENTHAL: YES, WE HAVE A HISTORY THAT
3 GOES BACK A WAYS.
4 MR. DASENT: I WANTED TO TELL YOU THE FIRST
5 INSTANCE, YOUR POWER ADJUSTMENT MENTIONED IN YOUR
6 TESTIMONY, WE HAVE RESOLVED THAT. IT'S BASICALLY
7 OFF THE TABLE BECAUSE WE ARE NOT ASKING FOR THE
8 INCREASE IN 2018. ARE YOU AWARE OF THAT?
9 MR. ROSENTHAL: VERY GOOD.
10 MR. DASENT: WE ARE NARROWING THE SCOPE OF
11 WHAT WE NEED TO ADDRESS TODAY.
12 MR. ROSENTHAL: THANK YOU.
13 MR. DASENT: WHAT WE ARE GOING TO DO NEXT
14 IS IN RESPONSE TO YOUR TESTIMONY, DEAL WITH THE TWO
15 ISSUES THAT REMAIN. ONE HAS TO DO WITH TOTAL DEBT
16 SERVICE COVERAGE, AND THE SECOND DEALS WITH YOUR
17 CHEMICAL COSTS ADJUSTMENT THAT'S TIED TO THE
18 PRODUCER PRICE INDEX.
19 MR. ROSENTHAL: THAT IS FINE.
20 MR. DASENT: WITH THE HEARING OFFICER'S
21 PERMISSION, MR. JAGT FROM BLACK AND VEATCH WILL
22 OFFER REBUTTAL TESTIMONY TRACKING THE OUTLINE WHICH
23 WAS CIRCULATED TO THE PARTIES.
24 HEARING OFFICER: SO AS I UNDERSTAND IT, YOU

16 (Pages 58 to 61)

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<p style="text-align: right;">Page 62</p> <p>1 HAVE NO CROSS ON HIS DIRECT? 2 MR. DASENT: I OFFERED ONE QUESTION ABOUT 3 POWER COSTS JUST TO CLARIFY THE RECORD. I HAVE 4 NOTHING MORE FOR MR. ROSENTHAL. WE ARE GOING TO GO 5 RIGHT TO REBUTTAL IF YOU PERMIT US. 6 HEARING OFFICER: DOES ANY OTHER PARTIES 7 HAVE QUESTIONS FOR MR. ROSENTHAL ON DIRECT? 8 MR. BALLENGER: I DO. 9 HEARING OFFICER: CAN YOU COME FORWARD? 10 MR. BALLENGER: CERTAINLY. I'LL JUST 11 STAND. I WON'T DISPLACE ANYONE FROM THEIR 12 COMFORTABLE SEATS. 13 THANK YOU. MR. ROSENTHAL, I JUST HAD 14 COUPLE OF QUESTIONS. 15 HEARING OFFICER: THIS IS ROB BALLENGER. 16 MR. BALLENGER: THANK YOU. ROB BALLENGER 17 FOR THE PUBLIC ADVOCATE. I JUST, I WANTED TO 18 DIRECT YOU TO PAGE 5 OF YOUR TESTIMONY. AND 19 STARTING AT -- THANK YOU. ARE YOU THERE? 20 MR. ROSENTHAL: YES, PAGE 5 YOU SAID? 21 MR. BALLENGER: YES, SIR. 22 MR. ROSENTHAL: OKAY. 23 MR. BALLENGER: STARTING AT LINE 8, YOU 24 SAY, IT'S A GENERALLY ACCEPTED RATE-MAKING</p>	<p style="text-align: right;">Page 64</p> <p>1 OFFICER. IF I COULD JUST FOLLOW UP WITH ONE 2 QUESTION. MR. ROSENTHAL, I KNOW YOU FROM PUC 3 PROCEEDINGS IN PENNSYLVANIA. HAVE YOU EVER 4 PARTICIPATED IN A MUNICIPALLY REGULATED UTILITY 5 PROCEEDING? 6 MR. ROSENTHAL: NOT IN A HEARING SETTING. 7 MR. DASENT: SO THIS WOULD BE YOUR MAIDEN 8 VOYAGE IN TERMS OF DEALING WITH MUNICIPAL 9 REGULATION? 10 MR. ROSENTHAL: NO. AS DIRECTOR OF FIXED 11 UTILITIES, I HAD TO DEAL WITH A NUMBER OF 12 MUNICIPALITIES AND THEIR RATE MAKING. SO IT WAS 13 NOT, IT WAS NORMALLY FOR THEIR OUT-OF-AREA OR 14 OUT-OF-MUNICIPAL CUSTOMERS. 15 MR. DASENT: SO WITHIN THE CONTEXT OF PUC 16 JURISDICTION, YOU HAVE DEALT WITH MUNICIPAL 17 UTILITIES OPERATING OUTSIDE THEIR SERVICE 18 TERRITORY? 19 MR. ROSENTHAL: THAT'S CORRECT. 20 MR. DASENT: THANK YOU. THAT'S IT. 21 HEARING OFFICER: ANY MORE QUESTIONS ON THE 22 DIRECT? 23 (NO RESPONSE.) 24 HEARING OFFICER: HEARING NONE, MR. DASENT</p>
<p style="text-align: right;">Page 63</p> <p>1 PRINCIPLE IN PENNSYLVANIA THAT CLAIM TEST YEAR 2 EXPENSES MUST BE KNOWN AND MEASURABLE AT THE TIME 3 OF FILING. DO YOU SEE THAT? 4 MR. ROSENTHAL: YES. 5 MR. BALLENGER: IS THAT BASED ON YOUR 6 EXTENSIVE EXPERIENCE IN RATE MAKING IN 7 PENNSYLVANIA? 8 MR. ROSENTHAL: YES. 9 MR. BALLENGER: IS YOUR OPINION THAT THE 10 KNOWN AND MEASURABLE STANDARD APPLIES IN ANY WAY 11 AFFECTED BY THIS BEING A MUNICIPAL UTILITY 12 PROCEEDING? 13 MR. ROSENTHAL: NOT TO MY KNOWLEDGE. 14 MR. BALLENGER: SO YOU BELIEVE IT DOES 15 APPLY ACCORDING TO THE STANDARD THAT YOU'VE 16 ARTICULATED IN YOUR TESTIMONY; IS THAT RIGHT? 17 MR. ROSENTHAL: YES. 18 MR. BALLENGER: I THINK THAT'S ALL I HAVE 19 FOR YOU, SIR. THANK YOU. 20 HEARING OFFICER: ANYBODY ELSE? 21 (NO RESPONSE.) 22 HEARING OFFICER: HEARING NONE, LET'S TAKE 23 IT BACK TO MR. DASENT. 24 MR. DASENT: THANK YOU, MADAM HEARING</p>	<p style="text-align: right;">Page 65</p> <p>1 WILL YOU PRESENT YOUR REBUTTAL? 2 MR. DASENT: YES. WITH YOUR HONOR'S 3 PERMISSION, WE WILL RECALL DAVID JAGT FROM BLACK 4 AND VEATCH WHO WILL REBUT MR. ROSENTHAL'S 5 TESTIMONY. 6 MR. JAGT, MR. ROSENTHAL CONCLUDES THAT 7 THERE IS A CROSS SUBSIDY IN TOTAL DEBT SERVICE 8 COVERAGE BETWEEN WATER AND WASTE WATER UTILITIES. 9 DO YOU AGREE WITH HIS CONCLUSIONS? 10 MR. JAGT: NO, WE DO NOT AGREE WITH HIS 11 CONCLUSIONS REGARDING THIS MATTER. THERE IS NO 12 IMBALANCE OR CROSS SUBSIDY BETWEEN THE WATER AND 13 SEWER UTILITY. THE ALLOCATION OF THE REVENUE 14 REQUIREMENTS, MEANING THE O&M AND THE DEBT SERVICE 15 ARE ALL ALLOCATED BASED ON COST OF SERVICE 16 PRINCIPLES. AND THE OVERALL DEBT SERVICE COVERAGE 17 IS AN OUTCOME BASED ON THE DISTRIBUTION OF THE 18 REVENUE REQUIREMENTS IN THE RESULTING REVENUE. 19 HEARING OFFICER: I'LL INTERRUPT FOR A SEC. 20 MR. ROSENTHAL, DID YOU GET ALL OF THAT? 21 MR. ROSENTHAL: I THINK I GOT MOST OF IT. 22 HEARING OFFICER: OFF THE RECORD. 23 (WHEREUPON, A DISCUSSION WAS HELD OFF THE 24 RECORD.)</p>

17 (Pages 62 to 65)

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1 HEARING OFFICER: BACK ON THE RECORD. MR.
2 ROSENTHAL, WAS THERE ANY POINT THAT YOU WANTED TO
3 ASK HIM TO CLARIFY?
4 MR. ROSENTHAL: I KNOW HE EXPRESSED THE
5 OPINION REGARDING THE EXPENSES AND THE DEBT
6 SERVICE. I GUESS THE QUESTION IN MY MIND IS WHEN
7 ESTABLISHING THE REVENUE REQUIREMENTS ASSOCIATED
8 WITH THOSE, IF CONSIDERATION WAS GIVEN TO THE
9 SPREAD OF THE COVERAGES, DIFFERENCE BETWEEN THE TWO
10 SERVICES?
11 HEARING OFFICER: THAT SOUNDS LIKE A LITTLE
12 ADVANCED SURREBUTTAL.
13 MR. DASENT: YES.
14 HEARING OFFICER: BUT NOW WE ARE SET UP SO
15 THAT MR. JAGT, I HOPE, CAN BE QUITE CLEAR. AND
16 WE'LL TAKE IT BACK TO HIM FOR FURTHER REBUTTAL.
17 MR. DASENT: YOU WERE SPEAKING A FEW
18 MOMENTS AGO, MR. JAGT, ABOUT THE ALLOCATION OF O&M
19 AND DEBT SERVICE COST TO THE WATER AND WASTE WATER
20 UTILITIES AND WHETHER THAT WAS THE UPSHOT OF YOUR
21 COST OF SERVICE APPLICATION IN THIS CASE?
22 MR. JAGT: THAT WOULD BE THE FUNDAMENTAL,
23 THE BIGGEST DRIVERS IN THE COASTAL ALLOCATION
24 BETWEEN --

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1 HEARING OFFICER: OFF THE RECORD.
2 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
3 RECORD.)
4 HEARING OFFICER: BACK ON THE RECORD. LET'S
5 TAKE THAT QUESTION AND ANSWER AGAIN, PLEASE.
6 MR. DASENT: BOB, WE ARE GOING TO JUST
7 REPEAT THE QUESTION. THE ALLOCATION OF O&M AND
8 DEBT SERVICE COST TO THE WATER AND WASTE WATER
9 UTILITIES FOR FISCAL 2017 AND 18 ARE BASED UPON
10 COST OF SERVICE PRINCIPLES WAS YOUR STATEMENT, MR.
11 JAGT. COULD YOU EXPAND ON THAT?
12 MR. JAGT: THE LARGER PORTION OF THE
13 REVENUE REQUIREMENTS IS THE OPERATION AND
14 MAINTENANCE EXPENSE AND THE DEBT SERVICE. THESE
15 REVENUE REQUIREMENTS ARE ALLOCATED BASED ON COST OF
16 SERVICE PRINCIPLES AND ARE DONE IRREGARDLESS OF THE
17 TOTAL DEBT SERVICE COVERAGE. THAT'S AN OUTCOME
18 THAT COMES AS A RESULT OF THE PROPOSED REVENUE
19 INCREASE AND THE REVENUE REQUIREMENTS.
20 NOW, IN THE PROCESS, WE OBVIOUSLY GO
21 THROUGH TO MAKE SURE THAT THE PROPOSED REVENUES WE
22 HAVE MET THE BOND COVERAGE REQUIREMENTS. AND AS
23 WE'VE DISCUSSED THROUGH THIS WEEK AND LAST WEEK,
24 THERE ARE THREE MAIN DRIVERS FOR THE COVERAGE AS

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1 REQUIRED BY THE GENERAL BOND ORDINANCE AND THE
2 INSURANCE COVENANTS. SO WE HAVE TO MAKE SURE THAT
3 WE HAVE ENOUGH REVENUE OR SUFFICIENT REVENUES IN
4 EACH UTILITY TO COVER THE TOTAL DEBT SERVICE OR THE
5 SENIOR DEBT SERVICE COVERAGE AT 1.20 TIMES OR A
6 MINIMUM OF 1.20 TIMES AND THE TOTAL REVENUE
7 REQUIREMENT OF 1.00. AND THE TOTAL REVENUE
8 REQUIREMENT WOULD INCLUDE SENIOR DEBT SERVICE,
9 SUBORDINATE DEBT SERVICE AND THE CAPITAL ACCOUNT
10 DEPOSIT.
11 MR. DASENT: CAN YOU ARBITRARILY EXCHANGE
12 OR INTERCHANGE WATER AND WASTE WATER DEBT SERVICE
13 COVERAGE LEVELS SUGGESTING THAT THAT WOULD ACHIEVE
14 COST OF SERVICE?
15 MR. JAGT: TO ACHIEVE COST OF SERVICE
16 BETWEEN BOTH THE WATER AND THE WASTE WATER
17 UTILITIES AND ACHIEVE THE SAME EQUITY, YOU HAVE TO
18 ACHIEVE THE SAME LEVEL OF COVERAGE FOR THE DRIVING
19 FACTOR OR THE MOST IMPORTANT FACTOR FOR THE
20 LIMITING FACTOR OF THE REQUIREMENTS OF THE GENERAL
21 ORDINANCE.
22 HEARING OFFICER: I'M SORRY TO INTERRUPT.
23 WHAT DO YOU MEAN BY EQUITY IN THAT STATEMENT?
24 MR. JAGT: IN EQUITY, I MEAN THAT WE NEED

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1 TO MAKE SURE WE ARE PROVIDING THE SAME LEVEL OF
2 COVERAGE FOR THE WATER FUND AND THE WASTE WATER
3 FUND IN THEIR REVENUES AND NOT DISPROPORTIONATELY
4 PROVIDING MORE OF THE REVENUE FROM THE WATER OR THE
5 WASTE WATER FUND.
6 HEARING OFFICER: EVEN IF BOTH MEET THE
7 MINIMUMS, YOU CAN'T HAVE ONE LET'S SAY THAT'S AT
8 1.2 AND ONE THAT IS AT 1.25?
9 MR. JAGT: IF YOU DO THAT, YOU WOULD BE
10 LIKE SHIFTING REVENUE FROM ONE TO THE OTHER TO MEET
11 THE SAME LEVEL OF COVERAGE. AND WE FEEL THAT'S
12 LIKE INAPPROPRIATE.
13 HEARING OFFICER: THAT'S WHAT YOU MEANT BY
14 EQUITY?
15 MR. JAGT: YES. AND THE DRIVING FACTOR FOR
16 THE RULES WE HAVE OR THE GENERAL ORDINANCE IS THE
17 SENIOR DEBT SERVICE COVERAGE. WE NEED TO ADJUST
18 REVENUES TO ACHIEVE THE TARGETED SENIOR LEVEL DEBT
19 SERVICE COVERAGE TO MEET ALL OF THE REQUIREMENTS OF
20 THE GENERAL ORDINANCE.
21 MR. DASENT: MR. ROSENTHAL SEEMS TO SUGGEST
22 YOU CAN INTERCHANGE ONE FOR THE OTHER, WATER VERSUS
23 WASTE WATER COVERAGE, DEBT SERVICE COVERAGE. IS
24 THAT TRUE AND TO BE CONSISTENT WITH COST OF SERVICE

18 (Pages 66 to 69)

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1 PRINCIPLES?
2 MR. JAGT: NO. WE NEED TO MAKE SURE WE
3 OBTAIN THE SAME COVERAGE BETWEEN THE WATER AND THE
4 WASTE WATER FUND.
5 MR. DASENT: MR. ROSENTHAL ALSO RECOMMENDS
6 THAT CHEMICAL EXPENSES FOR FISCAL 2017 AND 2018
7 SHOULD BE BASED UPON THE MOST RECENT THREE-YEAR
8 PRODUCER PRICE INDEX FOR INDUSTRIAL CHEMICALS. DO
9 YOU AGREE?
10 MR. JAGT: NO, WE DONT AGREE.
11 MR. DELANEY: I DONT THINK YOU CORRECTLY
12 STATED THE QUESTION. HE IS NOT PROMOTING THE
13 THREE-YEAR AVERAGE. IS THAT WHAT YOU SAID?
14 MR. DASENT: I SAID HE IS BASING IT ON THE
15 PRODUCER PRICE INDEX.
16 MR. DELANEY: THANK YOU. WHY DONT YOU
17 RESTATE IT. IM SORRY I INTERRUPTED YOU.
18 MR. DASENT: THAT'S OKAY.
19 MR. ROSENTHAL RECOMMENDS THAT CHEMICAL
20 EXPENSES FOR FISCAL 2018 BE BASED UPON THE MOST
21 RECENT PRODUCER PRICE INDEX FOR INDUSTRIAL
22 CHEMICALS. DO YOU AGREE WITH THAT?
23 MR. JAGT: NO, WE DO NOT AGREE.
24 MR. DASENT: WOULD YOU EXPLAIN WHY THE

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1 THREE-YEAR HISTORICAL AVERAGE USED BY PWD FOR ITS
2 OWN HISTORY OR EXPENDITURES FOR CHEMICALS IS MORE
3 APPROPRIATE?
4 MR. JAGT: RIGHT. WE USE THE THREE-YEAR
5 AVERAGE OF PWD'S ACTUAL EXPERIENCE AND INCREASE IN
6 CHEMICAL COSTS. AND WE PRESENT THAT IN OUR
7 TESTIMONY IN EXHIBIT BVS-1 WHICH WAS AN ATTACHMENT
8 TO THE STORMWATER, THE SUPPLEMENTAL TESTIMONY. AND
9 THATS ON PAGE 20 OF BVS-1. THOSE INCREASES THAT
10 WE CALCULATED ARE BASED ON PWD'S ACTUAL EXPERIENCE
11 OVER THE THREE YEARS AND REFLECTS THEIR EXPERIENCE
12 IN CHEMICAL COSTS AS IN OPERATING THE SYSTEM.
13 MR. DASENT: WOULD USE OF AN ESCALATION
14 FACTOR BE MORE OF A PROXY IF YOU DIDNT HAVE THIS
15 HISTORICAL INFORMATION?
16 MR. JAGT: IN OUR OPINION, THE ESCALATION
17 FACTOR WOULD REFLECT THE COST INCREASES OR
18 DECREASES AS PROPOSED OVER LIKE AN OVERALL INDUSTRY
19 OF CHEMICALS. IT INCLUDES ALL TYPES OF CHEMICALS
20 THAT ARE NOT NECESSARILY USED IN THE WATER
21 TREATMENT OR WASTE WATER TREATMENT PROCESS. AND
22 ALSO WOULDNT REFLECT ADDITIONAL COST INCREASES AS
23 A REFLECTION OF ADJUSTMENTS TO THE TREATMENT
24 PROCESS OR ADJUSTMENTS TO VOLUMES OR ANY OTHER

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1 FACTOR THAT THE UTILITY HAS AN ACTUAL EXPERIENCE.
2 MR. DASENT: IS THIS CONSISTENT WITH YOUR
3 APPLICATION OF THREE-YEAR HISTORICAL AVERAGES IN
4 DIFFERENT PLACES IN THE FILING?
5 MR. JAGT: YES, IT IS.
6 MR. DASENT: THAT'S ALL WE HAVE.
7 HEARING OFFICER: ANY CROSS FROM OTHER
8 PARTIES?
9 (NO RESPONSE.)
10 HEARING OFFICER: ANY CROSS FROM THE
11 BENCH? ANY QUESTIONS FROM THE BENCH?
12 MR. DELANEY: I HAVE SOME QUESTIONS FOR
13 HIM.
14 HEARING OFFICER: WE ARE READY FOR
15 REDIRECT. NO, RECROSS.
16 MR. DELANEY: I THINK WITH THE DETAIL THAT
17 WE ARE NOW FACING IN THIS, I'M PROBABLY GOING TO
18 ASK YOUR ABILITY TO HAVE MR. ROSENTHAL ACTUALLY
19 TESTIFY AGAIN WHICH WOULD BE SURREBUTTAL.
20 HEARING OFFICER: IT'S SOMETHING. WE DON'T
21 REALLY ACTUALLY KNOW WHAT IT'S GOING TO BE CALLED.
22 MR. DASENT: THAT'S GOOD. SURREBUTTAL.
23 HEARING OFFICER: IT'S A RESPONSE. RIGHT
24 NOW YOU ARE CORRECT, THIS IS CROSS OF THE

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1 DEPARTMENT WITNESS ON HIS REBUTTAL.
2 MR. DELANEY: THANK YOU.
3 NOW, LET ME ASK YOU INITIALLY. HAVE LOOKED
4 AT EXHIBIT 1 TO MR. ROSENTHAL'S TESTIMONY?
5 HEARING OFFICER: WHILE HE IS LOOKING FOR
6 THAT, MR. ROSENTHAL --
7 MR. DELANEY: ATTACHED TO HIS TESTIMONY AS
8 AN EXHIBIT?
9 HEARING OFFICER: WHILE THEY ARE LOOKING FOR
10 THAT, MR. ROSENTHAL, DID YOU HEAR THE QUESTION FROM
11 MR. DELANEY?
12 MR. ROSENTHAL: YES, I COULD.
13 HEARING OFFICER: GREAT.
14 MR. JAGT: YES, WE HAVE.
15 MR. DELANEY: IS IT YOUR TESTIMONY NOW
16 LOOKING AT HIS EXHIBIT -- ONLY CHANGED A FEW OF THE
17 NUMBERS THAT YOU USED IN YOUR ORIGINAL FILING?
18 HEARING OFFICER: OFF THE RECORD.
19 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
20 RECORD.)
21 HEARING OFFICER: YOU HAVE LOCATED PECO
22 EXHIBIT 1, EXHIBIT 1.
23 MR. DELANEY: YES. I WANT TO FIND MY NOTES
24 HERE TO ASK HIM QUESTIONS. GIVE ME A SECOND HERE.

19 (Pages 70 to 73)

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1 HEARING OFFICER: OFF THE RECORD.
2 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
3 RECORD.)
4 HEARING OFFICER: BACK ON THE RECORD.
5 MR. DELANEY: JUST THE QUESTION I HAVE FOR
6 YOU, THE EXHIBIT 1 THAT WAS ATTACHED TO OUR
7 ORIGINAL TESTIMONY. WOULD YOU AGREE LOOKING AT
8 THAT, THAT IN DOING HIS CALCULATIONS AND PRODUCING
9 THE EXHIBIT, THAT MR. ROSENTHAL ACTUALLY USED MOST
10 BUT NOT ALL OF THE DATA THAT YOU HAD USED IN YOUR
11 OWN CALCULATION? I GUESS WHAT I'M REFERRING TO
12 ARE THE NUMBERS THAT YOU USED IN YOUR TABLES W6,
13 WW6 AND C1 IN EXHIBIT BV-E1?
14 MR. JAGT: SUBJECT TO CHECK, YES.
15 MR. DELANEY: DO YOU HAVE THOSE WITH YOU
16 RIGHT NOW, THOSE DOCUMENTS I JUST INDICATED, W6,
17 WW6 AND C1?
18 MR. JAGT: YES.
19 MR. DELANEY: LOOKING INITIALLY AT W6 AND
20 WW6.
21 MR. DASENT: WHICH TABLE ARE YOU LOOKING AT
22 NOW?
23 MR. DELANEY: I AM NOW LOOKING AT W6 AND
24 WW6, SPECIFICALLY LINE 29. AND I BELIEVE THE LINE

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1 29 ON BOTH EXHIBITS IS THE TOTAL COVERAGE. DO YOU
2 SEE THAT?
3 MR. JAGT: CORRECT.
4 MR. DELANEY: IS IT CORRECT THAT THOSE
5 NUMBERS ARE DIFFERENT IN THOSE LINES OF THE TWO
6 EXHIBITS?
7 MR. JAGT: YES. THE TOTAL COVERAGE IS
8 DIFFERENT BETWEEN THE TWO EXHIBITS. THE TOTAL
9 SENIOR DEBT SERVICE COVERAGE ON LINE 25 ARE EQUAL
10 BETWEEN THE TWO EXHIBITS.
11 HEARING OFFICER: THAT WAS W6 AND C1 OR
12 WW6?
13 MR. DELANEY: THAT WAS W6.
14 HEARING OFFICER: W6 AND C1?
15 MR. DELANEY: NO. W6 AND WW6 IS WHAT HE
16 JUST DESCRIBED.
17 HEARING OFFICER: GREAT. THANK YOU.
18 MR. DELANEY: LET ME ASK YOU ALSO ABOUT THE
19 EXHIBIT C1 WHICH AGAIN IS IN BV-E1 IN THE TABLE, IN
20 THE TABLE C1. AND WOULD IT ALSO BE TRUE THAT THE
21 TOTAL COVERAGES ON LINE 29 OF W6 AND WW6 AND THE
22 TOTAL COVERAGE NUMBERS ON LINE 30 OF THE C1 ARE NOT
23 IDENTICAL; ISN'T THAT CORRECT?
24 MR. JAGT: THAT'S CORRECT. AGAIN, I WANT

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1 TO POINT OUT THAT THE SENIOR DEBT SERVICE COVERAGE
2 IS THE SAME BETWEEN THE THREE.
3 MR. DELANEY: LETS TALK ABOUT THAT A
4 LITTLE BIT. LOOKING AT THE DIFFERENCE BETWEEN THE
5 TOTAL COVERAGE AND THE COVERAGE THAT YOU HAVE JUST
6 DESCRIBED, THE TOTAL SENIOR DEBT COVERAGE. WHAT IS
7 THE DIFFERENCE IN HOW THOSE TWO LINES ARE
8 CALCULATED?
9 MR. JAGT: THE TOTAL SENIOR DEBT SERVICE
10 COVERAGE IS THE RATIO OF THE NET REVENUES WHICH
11 WOULD BE LINE 21 VERSUS THE TOTAL SENIOR DEBT
12 SERVICE WHICH WOULD BE LINE 25 OF TABLE C1.
13 MR. DELANEY: HOW IS THAT DIFFERENT THEN
14 FROM THE TOTAL COVERAGE? THE TOTAL COVERAGE, HOW
15 IS THE TOTAL COVERAGE DIFFERENT FROM THAT?
16 MR. JAGT: TOTAL COVERAGE ALSO LOOKS AT THE
17 REVENUE RATIO OF NET REVENUES TO THE SENIOR DEBT
18 SERVICE COVERAGE, THE CAPITAL ACCOUNT DEPOSIT AND
19 ANY SUBORDINATE DEBT.
20 MR. DELANEY: THE SENIOR DEBT COVERAGE AND
21 THE CAPITAL ACCOUNT DEPOSIT, THEY ARE NOT
22 CALCULATED INTO THE TOTAL SENIOR DEBT COVERAGE; IS
23 THAT CORRECT?
24 MR. JAGT: NO. THE CAPITAL ACCOUNT DEPOSIT

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1 IS NOT INCLUDED AS A REQUIREMENT FOR THE SENIOR
2 DEBT SERVICE COVERAGE.
3 MR. DELANEY: THAT WOULD ALSO BE, LINE 28
4 IS THE CAPITAL ACCOUNT DEPOSIT AND 27 WOULD BE THE
5 TOTAL DEBT SERVICE ON BONDS? YOU MENTIONED BOTH
6 OF THOSE.
7 MR. JAGT: WE ALREADY HAVE THE SENIOR DEBT
8 SERVICE COVERAGE. WE WOULD HAVE TO ADD THE
9 SUBORDINATE DEBT WHICH WE DO NOT HAVE ANY
10 SUBORDINATE DEBT.
11 MR. DELANEY: GREAT. THANK YOU. LET ME
12 JUST FIND MY NOTES HERE.
13 HEARING OFFICER: BUT YOU DO HAVE A CAPITAL
14 ACCOUNT DEPOSIT?
15 MR. JAGT: YES. TO POINT OUT, THE CAPITAL
16 ACCOUNT DEPOSIT, IT'S ALREADY ALLOCATED BETWEEN,
17 APPROPRIATELY BASED ON --
18 HEARING OFFICER: I'M SORRY. YOUR COUNSEL
19 MAY WANT TO BRING THAT OUT ON REDIRECT.
20 MR. JAGT: OKAY.
21 MR. DELANEY: LET ME ASK YOU SOME QUESTIONS
22 HERE ABOUT THE CAPITAL ACCOUNT DEPOSIT. CAN YOU
23 RETURN TO THE DEPARTMENT'S RESPONSE TO THE PUBLIC
24 ADVOCATE INTERROGATORY EXE 200? AND I'D LIKE YOU

20 (Pages 74 to 77)

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1 TO LOOK AT THE ATTACHMENT WHEN YOU GET THERE IF YOU
2 HAVE IT.
3 HEARING OFFICER: OFF THE RECORD.
4 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
5 RECORD.)
6 HEARING OFFICER: BACK ON THE RECORD.
7 MR. DELANEY: HAVE YOU FOUND THE ATTACHMENT
8 TO THE INTERROGATORY?
9 MR. JAGT: YES.
10 MR. DELANEY: THAT ATTACHMENT IS LABELED
11 PRIORITY AND APPLICATION OF PROJECT REVENUES. AND
12 DEMONSTRATES, AS I UNDERSTAND IT, THE PRIORITY OF
13 THE PAYMENT OF THE OPERATING EXPENSES. NOW, IS IT
14 CORRECT THAT THE NEXT TO THE LAST BLOCK IDENTIFIES
15 THE CAPITAL ACCOUNT DEPOSIT? WOULD IT BE CORRECT
16 THAT THAT WOULD INDICATE THE TRANSFERS WHICH WOULD
17 HAVE THAT LEVEL OF PRIORITY? I'M TALKING ABOUT
18 THE BLOCK AT THE BOTTOM OF THE EXHIBIT.
19 MR. JAGT: CORRECT, THE CAPITAL ACCOUNT
20 DEPOSIT.
21 MR. DELANEY: SO THERE IS A PRIORITY OF
22 MAKING THE CAPITAL DEPOSIT PRIOR TO ANY PAYMENTS TO
23 THE CITY'S GENERAL FUND WOULD HAVE A PRIORITY OVER
24 THAT?

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1 MR. JAGT: CORRECT.
2 MR. DELANEY: LET ME ASK YOU TO GO TO --
3 HEARING OFFICER: BECAUSE I THINK THE RECORD
4 MIGHT BE UNCLEAR HERE. I GOT THAT THE TRANSFERS TO
5 THE CITY ARE LOWER IN PRIORITY THAN THE CAPITAL
6 ACCOUNT DEPOSIT? IS THAT WHAT YOU TESTIFIED?
7 MR. DELANEY: ACTUALLY, YOU WOULD HAVE TO
8 READ ALL OF THE ENTRIES HERE ON THE ATTACHMENT TO
9 DO THAT. THE ONE WHERE IT ACTUALLY GETS TO CAPITAL
10 ACCOUNT DEPOSITS HAS THAT LEVEL OF PRIORITY WHICH
11 IS DEMONSTRATED IN THE ATTACHMENT.
12 HEARING OFFICER: I UNDERSTAND THAT. YOU
13 WERE COMPARING THAT, MR. DELANEY, TO SOME TRANSFER
14 TO THE CITY. AND I WAS TRYING TO FIGURE OUT WHICH
15 ONE HAD HIGHER PRIORITY. I COULDN'T TELL FROM THE
16 COLLOQUY WHAT THE RECORD IS GOING TO SHOW ON THAT.
17 MR. DELANEY: MY POINT WAS THAT THE
18 PRIORITY FOR THE CAPITAL ACCOUNT DEPOSIT WOULD BE
19 OVER ANY TRANSFERS OF THE CITY WAS THE QUESTION.
20 HEARING OFFICER: IT WOULD BE HIGHER?
21 MR. DELANEY: YES, IT WOULD HAVE A HIGHER
22 PRIORITY.
23 MS. LABUDA: MELISSA LABUDA. MAY I TRY AND
24 CLARIFY THE RESPONSE?

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1 MR. DELANEY: SURE.
2 MS. LABUDA: SO THE PRIORITY OF PAYMENTS IS
3 PORTRAYED PROPERLY IN EXHIBIT PA-EXE SET 8. AND
4 THE FINAL PAYMENT TO THE CITY THAT IS LOWER THAN
5 THE CAPITAL ACCOUNT DEPOSIT IS DEFINED AS THE SCOOP
6 WHICH IS THE INTEREST EARNINGS ON THE DEBT SERVICE
7 RESERVE FUND. AND THAT IS THE LESSER OF
8 APPROXIMATELY 4.9 MILLION OR INTEREST EARNINGS ON
9 THE RESERVE. AND THAT IS A LOWER PAYMENT THAN THE,
10 A LOWER PRIORITY THAN THE CAPITAL ACCOUNT DEPOSIT.
11 MR. DELANEY: SO CLARIFYING WHAT YOU JUST
12 TOLD ME, IT WOULD BE UNDER THIS ONE? IS THAT YOU
13 ARE SAYING? (INDICATING)
14 HEARING OFFICER: UNDER WHICH ONE?
15 MR. DELANEY: THE ONE WE JUST IDENTIFIED
16 WHICH IS THE NEXT TO THE LAST BLOCK ON THE
17 SCHEDULE?
18 MS. LABUDA: CORRECT. AGAIN, WE ARE
19 REFERRING TO THE RESPONSE ATTACHMENT, I BELIEVE, TO
20 EXE 200 THAT WE HAVE PROVIDED. IT IS LOWER. IT IS
21 TRANSFERRED OUT OF THE DEBT SERVICE RESERVE FUND TO
22 THE RESIDUAL FUND WHICH IS THE BOTTOM BUCKET OF OUR
23 PRIORITY PAYMENT FROM THE RESIDUAL FUND TO THE
24 GENERAL FUND.

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1 MR. DELANEY: I HAVE TO ASK YOU. WHAT
2 SPECIFIC MATTER ARE YOU DESCRIBING?
3 MS. LABUDA: THANK YOU FOR CLARIFYING. IT
4 IS THE SCOOP PAYMENT TO THE GENERAL FUND.
5 MR. DELANEY: WHICH HAS A LESSER PRIORITY
6 THAN --
7 MS. LABUDA: THE CAPITAL ACCOUNT DEPOSIT.
8 MR. DELANEY: THE CAPITAL ACCOUNT?
9 MS. LABUDA: CORRECT.
10 MR. DELANEY: THANK YOU FOR THAT
11 CORRECTION.
12 LET ME ASK YOU TO TURN TO PWD EXHIBIT 5
13 PAGE 10. HAVE YOU FOUND IT?
14 MR. DASENT: I THINK SO. IT'S PART OF THE
15 ASSUMPTIONS DOCUMENT?
16 MR. DELANEY: YES, IT WAS.
17 HEARING OFFICER: IN CASE WE DIDN'T SAY IT
18 EARLIER, IT'S PAGE 10 OF BVS-1.
19 MR. DELANEY: LET ME DIRECT YOUR ATTENTION
20 TO THE BOTTOM OF THE PAGE TITLED BOND COVENANCE
21 TRANSFERS OF THE FUND BALANCES. UNDER SECTION B
22 LABELED CAPITAL ACCOUNT DEPOSIT, AM I CORRECT THAT
23 THE PROJECTED 2015 CAPITAL ACCOUNT DEPOSIT IS BASED
24 ON A ONE PERCENT OF THE FISCAL YEAR 2014 PLANT

21 (Pages 78 to 81)

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1 INVESTMENT?
2 MR. JAGT: FOR FISCAL YEAR 15, THATS
3 CORRECT.
4 MR. DELANEY: I GUESS LOOKING AT THE BOTTOM
5 OF THE PAGE. THE PROJECTED FISCAL YEAR 2016 TO
6 2021 CAPITAL ACCOUNT DEPOSIT FORECASTS AN INCREASE
7 OF 2.5 PERCENT PER YEAR BASED ON THE AVERAGE ANNUAL
8 INCREASE AND NET PLANT INVESTMENT DURING FISCAL
9 YEAR 2013 AND 14. AND ITS ON THE BOTTOM OF THE
10 PAGE. IS THAT CORRECT?
11 MR. JAGT: THATS CORRECT.
12 MR. DELANEY: CAN I AGAIN, I WANT TO GET
13 THE RIGHT NUMBER ON THE CITATION HERE. AGAIN, THIS
14 WOULD BE, I HAVE IT AS BVS I GUESS RENAMING IT HERE
15 PAGE 60.
16 HEARING OFFICER: BVS-1, PAGE 60.
17 MR. DELANEY: YES.
18 THAT IS A PAGE THATS TITLE --
19 MR. DASENT: 16 OR 60?
20 MR. DELANEY: 60, 6-0. IM LOOKING FOR A
21 PAGE THAT SAYS SUPPLEMENTAL SCHEDULE RATE COVENANT
22 COMPLIANCE FOR FISCAL YEAR ENDED JUNE 30, 2014.
23 HEARING OFFICER: SOMEBODY IDENTIFY WHAT WE
24 ARE LOOKING AT.

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1 MR. DELANEY: THIS PAGE IS THE SUPPLEMENTAL
2 SCHEDULE RATE COVENANT COMPLIANCE FOR THE FISCAL
3 YEAR END JUNE 30, 2014.
4 NOW THE BOTTOM OF THE PAGE, I THINK IT HAS
5 THE CALCULATION OF COVERAGES A, B AND C AT THE
6 BOTTOM OF THE PAGE. I JUST HAVE A QUESTION. CAN
7 YOU EXPLAIN WHY THE CALCULATION B WAS INCLUDED IN
8 THAT SCHEDULE?
9 MS. LABUDA: THIS IS MELISSA LABUDA
10 SPEAKING. IM GOING TO READ THE FOOTNOTES BECAUSE
11 I BELIEVE ON THE SUPPLEMENTAL SCHEDULE OF RATE
12 COMPLIANCE FOR FISCAL YEAR ENDING 14, THERE IS A
13 DEFINITION FOR COVERAGE B. I WANT TO MAKE SURE I
14 CITE EXACTLY WHAT WE HAVE.
15 MR. DELANEY: CAN YOU STATE AGAIN WHAT YOU
16 ARE GOING TO READ?
17 MS. LABUDA: ON THE SUPPLEMENTAL SCHEDULE
18 RATE COMPLIANCE, I BELIEVE THERE IS AN EXACT
19 DEFINITION OF WHAT IS IN COVERAGE B IN THE TEXT
20 BELOW THE TABLE.
21 MR. DELANEY: IS THAT ON THE PAGE WE JUST
22 CITED?
23 MS. LABUDA: YES, IT IS ON THE PAGE, I
24 BELIEVE.

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1 HEARING OFFICER: SOMEONE HELP US FIND --
2 HERE WE GO. WE ARE TALKING ABOUT THE BOTTOM OF THE
3 PAGE. THANKS.
4 MS. LABUDA: MAY I JUST CLARIFY FOR THE
5 RECORD BECAUSE I DONT SEE THE DEFINITION FOR
6 COVERAGE BEYOND THIS PAGE, WHAT I WOULD HOPE TO
7 FIND. BUT WHAT COVERAGE B REPRESENTS IS THE TOTAL
8 ALL-IN COVERAGE INCLUDING THE CAPITAL ACCOUNT
9 DEPOSIT.
10 MR. DELANEY: SO I GUESS YOU ARE NOT
11 CERTAIN WHY ITS CALCULATED, WHICH WAS THE QUESTION
12 I HAD?
13 MS. LABUDA: THERE IS THREE COVERAGES ON
14 THE PAGE. THE FIRST IS COVERAGE A WHICH IS
15 REPRESENTING THE COVERAGE REFLECTING THE TRANSFER
16 TO OR FROM THE RATE STABILIZATION FUND. COVERAGE C
17 IS THE ACTUAL COVERAGE THE DEPARTMENT WOULD HAVE
18 ACHIEVED IF IT HAD BEEN ABLE TO TRANSFER THE RATE
19 STABILIZATION FUND MONIES THROUGH THE WATERFALL AND
20 ALLOW TO ACCOUNT FOR NEW COVERAGE. AND COVERAGE B
21 IS THE TOTAL COVERAGE OF THE SYSTEM. AND I DONT
22 SEE THOSE WORDS ON THAT PAGE. I APOLOGIZE.
23 MR. DELANEY: THE CAPITAL ACCOUNT DEPOSIT
24 AMOUNT IS INCLUDED IN THE CALCULATION OF THAT

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1 COVERAGE THEN?
2 HEARING OFFICER: YOU ARE AGAIN TALKING
3 ABOUT COVERAGE B?
4 MR. DELANEY: YES. COVERAGE B WHICH WAS
5 THE ORIGINAL QUESTION.
6 MS. LABUDA: CORRECT.
7 MR. DELANEY: GREAT. THANK YOU FOR YOUR
8 ASSISTANCE.
9 MS. LABUDA: IM SORRY IT TOOK SO LONG.
10 THANK YOU.
11 MR. DELANEY: CAN I REFER YOU TO A PUBLIC
12 ADVOCATE INTERROGATORY RESPONSE, EXE 106?
13 HEARING OFFICER: EXE 106?
14 MR. DELANEY: YES.
15 HEARING OFFICER: THEY HAVE IT.
16 MR. DELANEY: LOOKING AT THE SECOND
17 PARAGRAPH OF THE RESPONSE, IT IDENTIFIES THE
18 REVENUES THAT WILL BE MAINTAINED IN THE RESIDUAL
19 FUND. AND AS I UNDERSTAND THE RESPONSE, THAT
20 INCLUDES THE REQUIRED DEPOSITS TO THE CAPITAL
21 ACCOUNT OF THE CONSTRUCTION FUND. WOULD I BE
22 CORRECT THAT THESE TRANSFERS TO THE RESIDUAL FUND
23 ARE IN CONJUNCTION WITH THE SERIES 1993 REVENUE
24 BONDS WHICH I BELIEVE IS INDICATED AT THE TOP OF

22 (Pages 82 to 85)

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1 THE PAGE?
2 MS. LABUDA: CAN YOU RESTATE THE QUESTION,
3 PLEASE?
4 MR. DELANEY: SURE. I ASKED YOU ABOUT THE
5 SECOND PARAGRAPH OF THE RESPONSE AND THE PUBLIC
6 ADVOCATE INTERROGATORY ANSWER EXE 106. AND I
7 INDICATED THAT THE SECOND PARAGRAPH OF THE RESPONSE
8 IDENTIFIES THE REVENUES THAT WOULD BE MAINTAINED IN
9 THE RESIDUAL FUND. AND AS I UNDERSTAND THE
10 RESPONSE, THAT INCLUDES REQUIRED DEPOSITS INTO THE
11 CAPITAL ACCOUNT OF THE CONSTRUCTION FUND. WOULD I
12 BE CORRECT THAT THESE TRANSFERS TO THE RESIDUAL
13 FUND ARE IN CONJUNCTION WITH THE SERIES 1993
14 REVENUE BONDS?
15 MS. LABUDA: YOU ARE CORRECT THAT THE
16 RESIDUAL FUND WAS ESTABLISHED AS PART OF THE 1993
17 GENERAL BOND ORDINANCE.
18 MR. DELANEY: THANK YOU FOR THAT.
19 I HAVE A COUPLE QUESTIONS HERE ON THE
20 BALANCE OF SERVICES WHICH IS WHAT I UNDERSTOOD WHAT
21 YOU ADDRESS BRIEFLY IN YOUR INITIAL TESTIMONY. AND
22 I JUST HAVE SOME QUESTIONS ABOUT HOW YOU DID THE
23 COST OF SERVICE. AND MAYBE YOU CAN JUST ANSWER
24 THEM.

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1 MR. JAGT: OKAY.
2 MR. DELANEY: IS IT CORRECT THAT THE COST
3 OF SERVICE THAT YOU PROPOSED FOR THE DEPARTMENT AS
4 CALCULATED IN A PORTION TO WATER AND SEWER SERVICE
5 WOULD ALSO BE DESIGNED TO COVER THE RESPECTIVE
6 SENIOR DEBT SERVICE WHEN YOU DID THAT?
7 MR. JAGT: JUST TO BE CLEAR, CAN YOU
8 RESTATE THE QUESTION?
9 MR. DELANEY: SURE. I CAN DO THAT. I
10 ASKED YOU WHETHER IT WAS CORRECT THAT THE COST OF
11 SERVICE PROPOSED BY THE DEPARTMENT IN THE CASE AS
12 CALCULATED IN A PORTION TO THE WATER AND SEWER
13 SERVICE WAS ALSO DESIGNED TO COVER THOSE SERVICES,
14 RESPECTIVE SENIOR DEBT SERVICE?
15 MR. JAGT: YES. THAT'S CORRECT.
16 MR. DELANEY: I HAVE ANOTHER SIMILAR
17 QUESTION. WOULD IT BE CORRECT THAT IF THE SENIOR
18 DEBT COVERAGE TARGET WAS NOT BEING MET WITH THE
19 PROPOSED INCREASE FOR THE INCREASED REVENUE, THEN
20 THE PROPOSED REVENUE WOULD HAVE TO BE INCREASED TO
21 COVER THAT? DO YOU WANT ME TO STATE IT AGAIN?
22 MR. JAGT: YES.
23 MR. DELANEY: I'M ASKING IF IT WOULD BE
24 CORRECT IF THE SENIOR DEBT COVERAGE TARGET WAS NOT

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1 BEING MET BY THE PROPOSED REQUEST FOR INCREASED
2 REVENUE, WOULD IT BE CORRECT THAT THE PROPOSED
3 REVENUE WOULD THEN HAVE TO BE INCREASED?
4 MR. JAGT: THEORETICALLY. IF A PROPOSED
5 LEVEL OF REVENUE WASN'T SUFFICIENT TO MEET THE --
6 MR. DELANEY: SENIOR DEBT COVERAGE TARGET.
7 MR. JAGT: -- SENIOR DEBT SERVICE COVERAGE
8 TARGET, WE WOULD HAVE TO REVISE THE PROPOSED
9 REVENUE INCREASE TO PROVIDE THE TARGETED LEVEL OF
10 COVERAGE.
11 MR. DELANEY: IF YOU SAW AS SOMEONE WORKING
12 ON THIS A WIDE DISPARITY BETWEEN THE WATER AND
13 SEWER SERVICES COVERING THEIR APPORTIONED DEBT,
14 WOULD YOU THINK THAT WOULD BE A BASIS TO
15 INVESTIGATE SUCH A DISPARITY AND MAKE A CHANGE IF
16 NECESSARY?
17 MR. JAGT: THAT'S NOT THE CASE HERE. WITH
18 THE WATER FUND, WE HAVE ONLY SENIOR DEBT SERVICE
19 COVERAGE AT THIS TIME. THE DRIVER OR THE MAIN
20 FUNDAMENTAL DRIVER FOR THE LEVEL OF REVENUE TO MEET
21 THE COVERAGE REQUIREMENTS IS THE SENIOR DEBT
22 SERVICE COVERAGE. FOR EXAMPLE, IF WE HAD SET
23 REVENUES TO THE LEVEL TO RECOVER THE 1.00 ON THE
24 TOTAL REVENUE REQUIREMENT, WE WOULD NOT HAVE

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1 REVENUE SUFFICIENT TO MEET THE SENIOR DEBT SERVICE
2 COVERAGE. SO WE ESTABLISHED THE REVENUE
3 REQUIREMENTS OR THE LEVEL OF REVENUE TO MEET THE
4 DRIVING FACTOR WHICH IS THE SENIOR DEBT SERVICE
5 COVERAGE.
6 MR. DASENT: IS THAT LINE 26, MR. JAGT?
7 MR. JAGT: YES, THAT'S CORRECT. LINE 26 OF
8 C1.
9 MR. DELANEY: SO IF IT DID NOT MEET THAT
10 LEVEL, THEN YOU WOULD HAVE TO INCREASE THE RATES;
11 IS THAT CORRECT, OR AT LEAST INVESTIGATE WHY THAT'S
12 THE CASE?
13 MR. JAGT: CORRECT.
14 MR. DELANEY: IF IN EXAMINING OR PERFORMING
15 YOUR COST OF SERVICE STUDY, IF YOU DISCOVERED A
16 COVENANT WASN'T BEING MET, WOULD THAT BE A REASON
17 TO INVESTIGATE THE RATES AND SEE WHETHER THEY WERE
18 ADEQUATE?
19 MR. JAGT: ABSOLUTELY. YES.
20 MR. DELANEY: I WOULD THINK SO.
21 IF YOU SAW IN YOUR RATE FORECAST WHEN YOU
22 WERE DESIGNING THE RATES FOR THE CASE, THAT THE
23 COVERAGE RATES ARE CHARGING MORE FOR ONE SERVICE
24 VERSUS ANOTHER SERVICE -- LET ME TRY THIS AGAIN.

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1 IF YOU SAW IN YOUR RATE FORECAST THE COVERAGE RATES
2 CHANGING MORE FOR ONE SERVICE VERSUS ANOTHER
3 SERVICE, WOULD YOU TAKE THAT INTO ACCOUNT IN
4 DEVELOPING THE PROPOSED RATES?
5 MR. JAGT: AGAIN, THE DRIVERS ARE MEETING
6 THE REVENUE REQUIREMENTS FOR THE YEAR, MEETING THE
7 GENERAL BOND ORDINANCE REQUIREMENTS AND LOOKING AT
8 THE SENIOR DEBT SERVICE COVERAGE AND THE TOTAL DEBT
9 SERVICE COVERAGE. THE SENIOR DEBT SERVICE COVERAGE
10 WE HAD TO PUSH, WE HAD TO ESTABLISH THE REVENUES AT
11 THE LEVELS WE DID FOR THE WATER AND THE WASTE WATER
12 FUND AT THESE LEVELS TO ARRIVE AT THE SENIOR DEBT
13 SERVICE COVERAGE OF THE TARGETED LEVELS AS
14 PRESENTED ON LINE 26.
15 HEARING OFFICER: I DON'T THINK THAT'S AN
16 ANSWER TO THE QUESTION. I THINK WHAT HE WAS ASKING
17 WAS, LET'S SAY YOU DO THE INITIAL CALCULATION AND
18 THE COVERAGE FOR SEWER SENIOR DEBT AND FOR WATER
19 ARE DIFFERENT. WOULD YOU HAVE TO ADJUST THE
20 REVENUES, FOR EXAMPLE, INCREASE SEWER IN ORDER TO
21 MAKE THEM EQUAL?
22 MR. JAGT: CORRECT. TO PROVIDE THE SAME
23 LEVEL OF REQUIREMENT BETWEEN THE WATER AND THE
24 WASTE WATER REVENUES, WE WOULD TARGET PROVIDING THE

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1 SAME LEVEL OF COVERAGE BETWEEN THE TWO UTILITIES.
2 MR. DELANEY: THE SPECIFIC QUESTION I HAD
3 WITH THAT WAS, YOU WOULD TAKE THAT INTO ACCOUNT IN
4 DEVELOPING THE PROPOSED RATES?
5 MR. JAGT: YES.
6 MR. DELANEY: YES? OKAY.
7 MR. JAGT: FOR SENIOR DEBT.
8 HEARING OFFICER: SO IN OTHER WORDS, TO MAKE
9 THIS REALLY CLEAR BECAUSE I HAVE TO WRITE THIS UP.
10 WHEN YOU SET REVENUE RATES FOR WATER AND RATES FOR
11 SEWER, IF YOU HAD TO ADJUST ONE OF THEM TO GET TO
12 THAT EVEN COVERAGE, THE RATES FOR THAT CLASS OF
13 SERVICE WOULD DIFFER THAN IF YOU HADN'T HAD TO
14 ADJUST THEM? WOULD YOU INCREASE THE RATES FOR THE
15 TYPE OF SERVICE, AND I DON'T KNOW THE
16 CLASSIFICATIONS WELL ENOUGH, ENOUGH TO MEET THAT
17 COVERAGE RATIO EQUAL TO COVERAGE RATIO FOR THE
18 OTHER TYPE OF SERVICE?
19 MR. JAGT: CORRECT.
20 MS. KUMAR: THIS IS PRABHA KUMAR FROM BLACK
21 AND VEATCH. THE KEY IS THAT THE SENIOR DEBT
22 COVERAGE IS A DRIVING COVERAGE, AS MR. JAGT
23 EXPLAINED. AND THAT COVERAGE HAS TO BE THE SAME
24 FOR WATER AND SEWER BECAUSE THAT IS TARGETED

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1 COVERAGE. SO BOTH WATER AND SEWER THEY HAVE TO
2 MEET THAT, BOTH WATER AND WASTE WATER HAVE TO HAVE
3 THAT SENIOR DEBT COVERAGE. SO THE QUESTION IS THAT
4 IF THE RATES OF WASTE WATER IS NOT MEETING THAT
5 SENIOR DEBT COVERAGE, DO YOU HAVE TO INCREASE THE
6 REVENUE LEVELS FOR WASTE WATER? YES.
7 MR. DELANEY: THAT'S GOOD ENOUGH. GREAT.
8 THANK YOU.
9 I THINK, MR. JAGT, THE OTHER ISSUE THAT YOU
10 EXAMINED OR MADE IN SOME TESTIMONY ON WAS THE
11 DEPARTMENT'S CHEMICAL COSTS; RIGHT?
12 MR. JAGT: YES, SIR.
13 MR. DELANEY: I HAVE TO ASK YOU SOME
14 QUESTIONS ABOUT THIS BECAUSE OF THE WAY THIS ISSUE
15 DEVELOPED IN THE CASE. BY OUR ACCOUNT, THE RATE
16 FILING AND SEVERAL OF THE DISCOVERY RESPONSES
17 PRODUCED A TOTAL OF FOUR DIFFERENT NUMBERS FOR THE
18 DEPARTMENT'S 2015 CHEMICAL COSTS. AND THE ONES
19 THAT WE IDENTIFIED ARE THE ONE YOU SPOKE OF WHICH
20 WAS THE PAGE 20 OF EXHIBIT BVS-1 WHICH HAS THE \$22
21 MILLION FIGURE IN IT.
22 MR. JAGT: CORRECT.
23 MR. DELANEY: THE 2015 COST OF CHEMICALS IS
24 ALSO IDENTIFIED IN THE ORIGINAL FILING IN TABLES W2

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1 AND WW2 OF PWD STATEMENT 9A IN WHICH IDENTIFIES THE
2 2015 CHEMICAL COSTS TO BE \$19,030,000.
3 THEN THERE IS ANOTHER TWO INTERROGATORY
4 RESPONSES WHICH ADDRESS THIS ISSUE IN MY VIEW. THE
5 RESPONSE TO PUBLIC ADVOCATE INTERROGATORY EXE-185
6 WHICH HAS AN INDICATION OF \$17,915,484. AND THEN
7 THE RESPONSE TO PECO INTERROGATORY NUMBER 3-1 WHICH
8 INDICATES THAT THERE, FOR THE FIRST TIME RAISES
9 THAT THERE IS UNEXPLAINED ENCUMBRANCY AMOUNT ON THE
10 CHEMICAL COSTS FROM FISCAL YEAR 2015. AND THAT WAS
11 PROVIDED TO US, I THINK IT WAS MARCH 17TH, LAST
12 MONTH.
13 LET ME ASK YOU INITIALLY. TO YOUR
14 KNOWLEDGE, ARE THERE ANY OTHER CITATIONS IN THE
15 FILING OR ANY OF THE DISCOVERY ANSWERS THAT ALSO
16 PROVIDES ANOTHER NUMBER FOR THE ACTUAL 2015
17 CHEMICAL COSTS?
18 (WITNESS NODS.)
19 MR. DELANEY: THERE IS NOT? IS THAT WHAT
20 YOU ARE INDICATING?
21 MR. JAGT: NO.
22 MR. DELANEY: THERE IS NOT ANOTHER LISTING
23 IN THE DISCOVERY RESPONSES OR THE FILING OTHER THAN
24 THE ONES THAT I HAVE JUST IDENTIFIED?

24 (Pages 90 to 93)

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1 MR. JAGT: SUBJECT TO CHECK. WE HAVE
2 REVIEWED THE VARIOUS CITED EXHIBITS AND REFERENCES
3 TO THE FISCAL YEAR 2015 CHEMICAL COSTS AND REVIEWED
4 AND SUMMARIZED THEM FOR COMPARISON.
5 MR. DELANEY: THERE IS NO DETAIL IN THE
6 RESPONSE TO OUR INTERROGATORY THAT EXPLAINS THE
7 ACTUAL ENCUMBRANCE. AND IN FACT, THAT WAS THE
8 FIRST TIME IN THE ENTIRE CASE THAT IT WAS MENTIONED
9 IN TERMS OF THE CHEMICAL EXPENSE.
10 HEARING OFFICER: IS THAT A QUESTION?
11 MR. DELANEY: YES.
12 MS. LABUDA: MELISSA LABUDA. AN
13 ENCUMBRANCE WAS EXPLAINED IN A FEW SPOTS IN THE
14 FILING. SPECIFICALLY IN THE GENERAL BOND
15 ORDINANCE, WE CITED PAGE 39 OF THE 2015 FINANCIAL
16 STATEMENT FOR THE OFFICIAL DEFINITION OF AN
17 ENCUMBRANCE.
18 MR. DELANEY: SORRY. CAN YOU GIVE ME THE
19 CITATION AGAIN FOR THAT AGAIN?
20 MS. LABUDA: IT WAS PROVIDED AS A STANDARD
21 INTERROGATORY 31. AND IT'S THE SERIES 2015 AB
22 OFFICIAL STATEMENT. AND I BELIEVE WE POINTED
23 PARTIES OR PARTICIPANTS TO PAGE NUMBER 39 FOR THE
24 DEFINITION OF AN ENCUMBRANCE.

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1 MR. DELANEY: WHERE DID YOU MAKE THIS
2 ADDITIONAL EXPLANATION? WOULD IT BE IN THE
3 STANDARD INTERROGATORY RESPONSE?
4 MS. LABUDA: I BELIEVE IT'S IN ONE OF THE
5 EXES. I DON'T KNOW THE EXACT EXE. WE WOULD HAVE
6 TO CHECK THE EXE NUMBER.
7 HEARING OFFICER: WHEN WAS THE FINANCIAL
8 STATEMENT SUBMITTED?
9 MR. DASENT: WITH THE FILING.
10 MS. LABUDA: THE STANDARD INTERROGATORIES
11 WERE PROVIDED WITH THE INITIAL FILING.
12 MR. DELANEY: I GUESS MY QUESTION IS A
13 LITTLE NARROWER THAN THAT. WHEN DID YOU ACTUALLY
14 -- WHAT IS THE ENCUMBRANCE? YOU NEVER PROVIDED
15 SPECIFIC INFORMATION ON THE ENCUMBRANCE FOR THE
16 CHEMICAL NEEDS; RIGHT? THE CHEMICAL COSTS I SHOULD
17 SAY?
18 MS. LABUDA: THE DEPARTMENT SETS RATES AND
19 CHARGES AND IS REQUIRED TO MEET ITS BOND PROVISIONS
20 ON A CASH BASIS. AND SO THAT WOULD INVOLVE ACTUAL
21 INVOICES PROCESSED TO DATE AND AN ENCUMBRANCE. THE
22 BEST EXAMPLE I CAN GIVE YOU ON THE CHEMICAL
23 ENCUMBRANCE IS THAT WE WILL USE CHEMICALS IN MAY
24 AND JUNE TO MEET OUR WATER QUALITY STANDARDS AND

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1 WE'LL HAVE TO MAKE A RESERVE OR ENCUMBRANCE TO PAY
2 FOR THOSE INVOICES THAT WE WILL NOT RECEIVE BY
3 CLOSE OF BUSINESSES JUNE 30TH. IN FACT, THE
4 INVOICES FOR THOSE CHEMICALS THAT WE HAVE UTILIZED
5 IN MAY AND JUNE LIKELY WON'T BE RECEIVED UNTIL
6 NOVEMBER OR DECEMBER AND IN JANUARY.
7 MR. DELANEY: COULD I ASK YOU WHAT YEAR?
8 MS. LABUDA: SO FISCAL, CLOSE OF BUSINESS
9 JUNE 30, 2015 IF YOU WANT TO BE EXACT. WE WILL
10 HAVE USED CHEMICALS IN APRIL, MAY AND JUNE OF
11 2015. WE WILL NOT HAVE RECEIVED INVOICES BY JUNE
12 30TH OF 2015. HOWEVER, WE HAVE TO CLOSE OUR BOOKS
13 ON A CASH BASIS OF ACCOUNTING WHICH MEANS WE HAVE
14 TO MAKE A RESERVE FOR THOSE EXPENSES THAT WE WILL
15 HAVE TO PAY THAT COME IN IN THE NEXT FISCAL YEAR.
16 SO JULY 1, 2015. THE DEPARTMENT WILL LIKELY
17 RECEIVE THOSE INVOICES IN OCTOBER, NOVEMBER AND
18 DECEMBER FOR CHEMICALS THAT WERE LIKELY DELIVERED
19 IN MAY AND JUNE.
20 MR. DELANEY: OF 2015? IS THAT THE DATES
21 YOU ARE CITING TO US?
22 MS. LABUDA: CORRECT, OF 2015. SO IN FACT,
23 WHILE WE HAD A \$4 MILLION ENCUMBRANCE OR RESERVE
24 FOR CHEMICALS, TO DATE, WE HAVE PROCESSED \$1.4

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1 MILLION OF INVOICES AGAINST THAT RESERVE WHICH
2 MEANS THE REMAINING BALANCE OF CHEMICALS
3 OUTSTANDING IS SOMETHING BETWEEN 10 AND 12 PERCENT
4 OR A SAFETY FACTOR. WE ALSO HAVE SPOKE ON THE
5 RECORD THAT REMAINING ENCUMBRANCES ARE LIQUIDATED
6 IN THE FOLLOWING FISCAL YEAR. SO AT THE CLOSE OF
7 BOOK '16, WE WILL REDUCE OPERATING EXPENSES WHEN WE
8 SET OUR COVERAGE CALCULATION BY LIQUIDATED
9 ENCUMBRANCES. AND I BELIEVE WE DISCUSSED THAT ON
10 THE RECORD AS WELL.
11 MR. DELANEY: NOW, I THINK YOU JUST
12 RESPONDED TO THIS. WHAT IS THE NATURE OF THE GOODS
13 AND SERVICES RELATED TO THE ENCUMBRANCES? IT'S
14 CHEMICAL COSTS; IS THAT CORRECT?
15 MS. LABUDA: AN ENCUMBRANCE IS MADE FOR
16 CLASS, FOR PROFESSIONAL SERVICES, FOR MATERIALS,
17 FOR EQUIPMENT. SO AN ENCUMBRANCE IS MADE FOR ANY
18 GOODS OR SERVICES OR A PIECE OF EQUIPMENT THAT
19 MIGHT HAVE BEEN PURCHASED OR USED OR PROVIDED
20 DURING A FISCAL YEAR. HOWEVER, WE DON'T RECEIVE
21 ANY INVOICES BY JUNE 30TH OF THAT CORRESPONDING
22 FISCAL YEAR.
23 MR. DELANEY: I'M GETTING A LITTLE CONFUSED
24 ON THE YEAR DATES. LET ME ASK THIS QUESTION. DOES

25 (Pages 94 to 97)

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1 THE DEPARTMENT RECEIVE THE GOODS OF SERVICES
2 ASSOCIATED WITH THE ENCUMBRANCE AT THIS POINT
3 DURING FISCAL YEAR 2015?
4 MS. LABUDA: IF WE CAN SPEAK SPECIFICALLY
5 TO THE CHEMICAL EXAMPLE. WE DID RECEIVE THE
6 CHEMICAL DELIVERIES DURING FISCAL YEAR 15 WHICH
7 WOULD HAVE BEEN JULY 2, 2014 THROUGH JUNE 30, '15.
8 IT'S JUST INVOICING DOES NOT OCCUR SIMULTANEOUSLY
9 WITH THE DELIVERY OF THE CHEMICALS THAT WERE
10 PROVIDED. AND THAT THAT INVOICING HAS A TIME
11 DELAY.
12 MR. DELANEY: I THINK IN RESPONSE TO A
13 PRIOR QUESTION, YOU HAD ACTUALLY IDENTIFIED WHEN
14 THE INVOICES WERE PROVIDED TO YOU?
15 MS. LABUDA: THE INVOICES WERE RECEIVED
16 OVER MULTIPLE MONTHS SINCE THE CLOSE OF THE FISCAL
17 YEAR. IT IS NOT UNCOMMON TO RECEIVE INVOICES FOR
18 SERVICES OR GOODS OR EQUIPMENT AFTER THEY HAVE BEEN
19 PROVIDED.
20 MR. DELANEY: I THINK THAT'S ALL THE
21 QUESTIONS I HAVE.
22 HEARING OFFICER: DO WE HAVE ANY QUESTIONS
23 FROM THE BENCH?
24 (NO RESPONSE.)

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1 HEARING OFFICER: I THINK I HAVE INTERJECTED
2 ALL OF THE ONES THAT I WANTED.
3 OFF THE RECORD.
4 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
5 RECORD.)
6 HEARING OFFICER: BACK ON THE RECORD. MR.
7 ROSENTHAL, YOU CAN'T HEAR ME NOW, BUT THANK YOU FOR
8 APPEARING BY PHONE AND ALL OF THE PARTIES HERE FOR
9 ACCOMMODATING THAT.
10 WE HAVE HAD A SUGGESTION. WE ARE BACK NOW
11 TO ISSUES OF MR. COLTON'S TESTIMONY. WE HAVE HAD A
12 SUGGESTION FROM THE PUBLIC ADVOCATE THAT THEY DO
13 THEIR REDIRECT. AND IF THERE IS ANY ISSUES THAT
14 ARE NOT PART OF THAT THAT THEY WOULD HAVE WANTED TO
15 DO IN SURREBUTTAL, THAT THEY PROCEED THROUGH THOSE.
16 AND THEN WE'LL TALK ABOUT, WE WILL HAVE RECROSS AND
17 SEE WHETHER OR NOT MR. DASENT WANTS TO PUT UP HIS
18 WITNESS FOR ANY RESPONSE TO THAT.
19 SO ARE WE READY TO GO AHEAD?
20 MR. DASENT: YES.
21 HEARING OFFICER: IF WE TURN IT BACK OVER TO
22 MS. PICKENS.
23 MS. PICKENS: MR. COLTON, ON
24 CROSS-EXAMINATION, MR. DASENT ASKED YOU ABOUT YOUR

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1 WORK ON THE AFFORDABILITY PROGRAM IN DETROIT. WERE
2 THERE ANY FACTORS UNIQUE TO DETROIT, MICHIGAN THAT
3 SHAPED THE OUTCOME OF THAT AFFORDABILITY PROGRAM?
4 MR. COLTON: YES. THERE WAS A STATE
5 CONSTITUTIONAL AMENDMENT CALLED THE HEADLEY
6 AMENDMENT WHICH WAS FOLLOWED BY A STATE SUPREME
7 COURT DECISION IN THE CITY OF LANSING WHICH THE
8 DETROIT WATER AND SEWER DEPARTMENT HELD FORTH AS
9 BARRING ANY INCOME-BASED RATES FOR NOT ONLY THE
10 MUNICIPAL WATER DEPARTMENT BUT FOR ANY INCOME-BASED
11 PROGRAM FOR MUNICIPAL DEPARTMENTS GENERALLY. SO
12 RATHER THAN -- WELL, THERE WAS NO WAY TO RESOLVE
13 WHETHER BOLT AND HEADLY AMENDMENT, IN FACT, WOULD
14 HAVE BARRED A LOW INCOME PROGRAM. SO WE JUST SET
15 THAT ISSUE ASIDE.
16 MS. PICKENS: THAT WAS A MICHIGAN CASE AND
17 MICHIGAN LAW?
18 MR. COLTON: YES. IT WAS, THERE WERE TWO
19 IRRECONCILABLE OPINIONS. THE CITY COUNCIL BELIEVED
20 THAT THE BOLT DECISION WAS NOT APPLICABLE. THE
21 DETROIT WATER AND SEWER DEPARTMENT BELIEVED THE
22 BOLT DECISION WAS APPLICABLE. AND WITHIN THE
23 CONTEXT OF THE DISCUSSIONS OVER THAT SPECIFIC,
24 STATE SPECIFIC PROVISION, THERE WAS NO WAY TO

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1 RESOLVE THAT IN THE CONTEXT OF THE BLUE RIBBON
2 PANEL.
3 MS. PICKENS: YOU WERE ASKED ABOUT YOUR WORK
4 ON MUNICIPAL PROGRAMS. HAVE YOU WORKED ON ANY
5 MUNICIPAL PAYMENT, PERCENT OF INCOME PAYMENT PLAN
6 PROGRAM HERE IN PHILADELPHIA?
7 MR. COLTON: I HAVE. OF COURSE, THE
8 PHILADELPHIA GAS WORKS HAS A PERCENTAGE OF INCOME
9 PLAN AND HAS HAD A PERCENTAGE OF INCOME PLAN FOR
10 SEVERAL DECADES NOW. AND IT WAS MY PERCENTAGE OF
11 INCOME PROPOSAL THAT WAS ORIGINALLY ADOPTED BY THE
12 PHILADELPHIA GAS COMMISSION. PHILADELPHIA GAS
13 WORKS IS NOW REGULATED BY THE STATE PUC, BUT THAT
14 REGULATION BY THE STATE PUC HAS BEEN RELATIVELY
15 RECENT. AND THE PGW PERCENTAGE OF INCOME PROGRAM
16 PREDATED THE TIME AT WHICH PGW BECAME REGULATED BY
17 THE STATE PUC.
18 MS. PICKENS: AND YOU MENTIONED PECOS CAP
19 REDESIGN AND THAT CAP PROGRAM TURNING INTO A PIPP.
20 HAD PECO EVER BEFORE OPERATED A PIPP, A PERCENT OF
21 INCOME PLAN?
22 MR. COLTON: YES, PECOS LOW INCOME PROGRAM
23 ORIGINATED AS A PERCENTAGE OF INCOME PLAN BACK IN
24 THE LATE 1980'S AND EARLY 1990'S. PECO THEN

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1 EXPERIMENTED WITH A TIERED RATE DISCOUNT. AND IN
2 PENNSYLVANIA, THE INVESTOR-OWNED UTILITIES SUBMIT A
3 REVISED UNIVERSAL SERVICE PROGRAM EVERY THREE
4 YEARS. AND SO EVERY THREE YEARS, THE OFFICE OF
5 CONSUMER ADVOCATE, THE LOW INCOME STAKEHOLDERS AND
6 THE COMMISSION THROUGH THE BUREAU OF CONSUMER
7 SERVICES, THE PUC'S BUREAU OF CONSUMER SERVICES
8 EXPRESS CONCERN ABOUT PECO'S MOVE TO A TIERED RATE
9 DISCOUNT. IT'S ONE REASON THAT THE PECO TIERED
10 DISCOUNT EXPANDED FROM THREE DISCOUNTS -- FROM
11 THREE TIERS ULTIMATELY TO SEVEN TIERS. AND IT IS
12 THE REASON THAT ULTIMATELY PECO ABANDONED THAT MOVE
13 TO ITS TIERED DISCOUNT AND HAS NOW GONE BACK TO A
14 PERCENTAGE OF INCOME PROGRAM. SO PECO MOVED FROM A
15 PIPP TO THE TIERED DISCOUNT AND TINKERED WITH THAT
16 TIERED DISCOUNT TO TRY TO IMPROVE THE
17 AFFORDABILITY. AND IT COULDN'T ADEQUATELY DO THAT
18 AND THEN EVENTUALLY MOVED BACK TO A PIPP.
19 MS. PICKENS: THANK YOU.
20 MR. COLTON: PIPP BEING PERCENTAGE OF
21 INCOME PLAN JUST TO NOT USE ACRONYMS.
22 HEARING OFFICER: FOR THE RECORD, PERCENTAGE
23 OF INCOME PAYMENT PLAN, PIPP.
24 MS. PICKENS: MR. DASENT ASKED YOU ABOUT

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1 MAXIMUM CREDIT LIMITATIONS. IS THE MAXIMUM CREDIT
2 LIMITATION PERMITTED BY THE IRAP ORDINANCE IN YOUR
3 OPINION?
4 MR. COLTON: THE ORDINANCE CERTAINLY
5 DOESN'T EXPLICITLY AUTHORIZE MAXIMUM CREDIT AND THE
6 ORDINANCE DOES SAY THAT BILLS ARE TO BE AFFORDABLE
7 BASED ON ACTUAL HOUSEHOLD INCOME. SO I BELIEVE THE
8 ORDINANCE COULD BE READ AS NOT PERMITTING A MAXIMUM
9 CREDIT CEILING.
10 MS. PICKENS: DOES THE IRAP ORDINANCE
11 CONTEMPLATE CONSERVATION AT ALL?
12 MR. COLTON: CONSERVATION IN TERMS OF WATER
13 CONSERVATION, YES. IT DOES. AND WATER
14 CONSERVATION IS, IT IS A COST CONTROL MEASURE AS WE
15 FOUND IN THE STATEWIDE -- NOT SIMPLY IN THE
16 PENNSYLVANIA PROGRAMS, BUT IN EACH OF THE PROGRAMS
17 THAT I HAVE BEEN INVOLVED WITH IN 30 SOME STATES.
18 TO THE EXTENT THAT -- AND PGW IS A GOOD EXAMPLE
19 WHERE PGW, WHEN PGW DESIGNED ITS ENERGY EFFICIENCY
20 PROGRAMS IN THE PRECEDING THAT IT WAS IN BEFORE THE
21 PUC IN 2015 AND CONTINUING ON TODAY. ONE OF THE
22 BENEFITS THAT PGW HAS RECOGNIZED THROUGH ITS CRP
23 PROGRAM, THROUGH ITS PERCENTAGE OF INCOME PROGRAM,
24 CRP BEING CUSTOMER RESPONSIBILITY PROGRAM. ONE OF

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1 THE BENEFITS IS THAT EVERY DOLLAR OF REDUCED BILL
2 THAT CAN BE GENERATED THROUGH AN EFFICIENCY
3 PROGRAM, A GAS EFFICIENCY OBVIOUSLY FOR PGW, WATER
4 CONSERVATION FOR PWD IS A DOLLAR OF REDUCED COST OF
5 THE LOW INCOME DISCOUNT PROGRAM, OF THE LOW INCOME
6 PERCENTAGE OF INCOME PROGRAM.
7 MS. PICKENS: IN YOUR EXPERIENCE, DO
8 CUSTOMERS TYPICALLY INCREASE USAGE AFTER ENROLLMENT
9 INTO A PERCENT OF INCOME PAYMENT PLAN?
10 MR. DASENT: JUST NOTE OUR OBJECTION. THIS
11 IS WELL BEYOND CROSS NOW. I BELIEVE I ASKED ONE
12 QUESTION ON PERCENTAGE OF INCOME PROGRAMS. AND IT
13 HAD TO DO WITH DETROIT AND THE FACT IT WAS NOT
14 APPROVED AT THAT PARTICULAR POINT.
15 HEARING OFFICER: I THINK YOU MIGHT HAVE
16 MISSED SOME OF OUR DISCUSSION EARLIER. WE HAD A
17 REQUEST FROM THE PUBLIC ADVOCATE TO PUT TOGETHER
18 REDIRECT AND SURREBUTTAL. IS THAT ALL RIGHT WITH
19 YOU?
20 MR. DASENT: TAKING THAT INTO CONSIDERATION,
21 MY OBJECTION IS REALLY DIRECTED TOWARD THE FACT
22 THAT CROSS-EXAMINATION NOW HAS GONE WELL BEYOND,
23 THE EXAMINATION NOW HAS GONE BEYOND THE CROSS AND
24 WE ARE INTO SURREBUTTAL. SO YOU ARE RIGHT.

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1 HEARING OFFICER: IS THAT ALL RIGHT?
2 MS. PICKENS: MADAM HEARING OFFICER, THE
3 CROSS DID CONTAIN COST CONTAINMENT.
4 HEARING OFFICER: IT DOESN'T MATTER. SO
5 PLEASE GO AHEAD.
6 MS. PICKENS: MY QUESTION FOR YOU WAS
7 WHETHER IN YOUR EXPERIENCE, CUSTOMERS TYPICALLY
8 INCREASED USAGE AFTER ENROLLMENT INTO A PERCENT OF
9 INCOME PAYMENT PLAN?
10 MR. COLTON: NO. THERE IS STUDY AFTER
11 STUDY THAT HAS LOOKED AT THAT QUESTION IN THE
12 STUDIES AND HAVE FOUND HAVE, UNIFORMLY FOUND THERE
13 ARE ZERO STUDIES THAT HAVE FOUND THAT PEOPLE
14 INCREASE THEIR CONSUMPTION, SYSTEMATICALLY INCREASE
15 THEIR CONSUMPTION UPON ENTERING A PERCENTAGE OF
16 INCOME PLAN.
17 WHAT THE STUDIES HAVE FOUND IS THAT PEOPLE
18 WHO ENTER INTO PERCENTAGE OF INCOME PLANS GENERALLY
19 HAVE SOMEWHAT HIGHER CONSUMPTION THAN AVERAGE BUT
20 THEY DON'T INCREASE THEIR CONSUMPTION.
21 HEARING OFFICER: BEFORE YOU GO AHEAD. I
22 DON'T REMEMBER ANYTHING IN REBUTTAL DEALING WITH
23 USAGE IN THAT WAY.
24 MR. DASENT: I DON'T EITHER. I'M TRYING TO

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1 APPLY A LIBERAL STANDARD. I THINK WE ARE GETTING
2 BEYOND. BUT YOUR HONOR, I'M GOING TO DEFER TO
3 YOU.
4 HEARING OFFICER: OFF THE RECORD.
5 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
6 RECORD.)
7 HEARING OFFICER: BACK ON THE RECORD.
8 MS. PICKENS: THERE WAS A QUESTION FROM THE
9 BOARD ABOUT WHETHER IT'S MORE COMPLICATED TO
10 ADMINISTER A PERCENT OF INCOME PAYMENT PLAN BECAUSE
11 THE DISCOUNTS ARE NOT STANDARDIZED. IS THAT
12 ACCURATE IN YOUR OPINION, THAT IT'S MORE
13 COMPLICATED?
14 MR. COLTON: NO. AND WHAT NEEDS TO BE
15 REALIZED ABOUT A PERCENTAGE OF INCOME PLAN VERSUS A
16 -- ABOUT A PERCENTAGE OF INCOME PLAN IS THAT A
17 PERCENTAGE OF INCOME PLAN DOES NOT CALCULATE
18 DISCOUNTS. A PERCENTAGE OF INCOME PLAN CALCULATES
19 THE BILL. AND THE DISCOUNT IS SIMPLY USED IN A
20 BACK-OFFICE TYPE OF WAY IN DETERMINING THE COSTS TO
21 BE RECOVERED FROM PROGRAM NONPARTICIPANTS. SO
22 THERE IS NO REASON THAT, THERE WAS A DISCUSSION
23 ABOUT NEIGHBORS WONDERING WHY THEY RECEIVED ONE
24 DISCOUNT AND SOMEBODY ELSE RECEIVING ANOTHER

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1 DISCOUNT. NOBODY IS GOING TO KNOW WHAT THE
2 DISCOUNT IS. FOR EXAMPLE, TWO NEIGHBORS WOULDN'T
3 KNOW EACH OTHER'S DISCOUNTS BECAUSE THE PERCENTAGE
4 OF INCOME CALCULATES THE BILL. AND TWO NEIGHBORS
5 MAY RECEIVE DIFFERENT BILLS, BUT TWO NEIGHBORS
6 RECEIVE DIFFERENT BILLS ALL THE TIME IN THE NORMAL
7 COURSE OF EVENTS. THERE IS NO COMPLEXITY CREATED
8 THROUGH THE PERCENTAGE OF INCOME PLAN.
9 MS. PICKENS: A POINT OF CLARIFICATION. ON
10 YOUR CROSS RESPONSES, YOU TALKED ABOUT THE BENEFIT
11 OF AVAILABILITY TO IRAP PARTICIPANTS AND
12 PARTICIPANTS WHO DO NOT RECEIVE BENEFITS. WERE YOU
13 TALKING ABOUT DISCOUNTS OR ALL BENEFITS?
14 MR. COLTON: I BELIEVE THAT I MAY HAVE NOT
15 MADE MYSELF CLEAR BECAUSE I TALKED ABOUT THE
16 RECEIPT OF A ZERO DOLLAR BENEFIT. AND WHEN I
17 TALKED ABOUT THE RECEIPT OF A ZERO DOLLAR BENEFIT,
18 THAT IS THE BENEFIT TOWARD THE BILL FOR CURRENT
19 SERVICE. SOMEONE MAY PARTICIPATE IN IRAP JUST LIKE
20 THEY PARTICIPATE IN OTHER PERCENTAGE OF INCOME
21 PLANS AND RECEIVE A ZERO DOLLAR BENEFIT TOWARD
22 THEIR BILL FOR CURRENT SERVICE BUT NONETHELESS
23 PARTICIPATE IN THE PROGRAM IN ORDER TO RECEIVE
24 BENEFITS IN THE FORM OF ARREARAGE FORGIVENESS.

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1 SO SOMEBODY MAY, I TALKED ABOUT THE UGI
2 PROGRAM WHERE SOMEBODY WHOSE BILL IS LESS THAN THE
3 PERCENTAGE OF INCOME BILL WOULD NONETHELESS
4 PARTICIPATE IN THE PROGRAM AND RECEIVE EARNED
5 FORGIVENESS FOR THEIR PREEXISTING ARREARS EVEN
6 THOUGH THEY ARE RECEIVING NO BENEFITS FOR THEIR
7 BILL FOR CURRENT SERVICE.
8 MS. PICKENS: COULD YOU BRIEFLY EXPLAIN HOW
9 DOES YOUR PERCENT OF INCOME PROGRAM COMPARE TO THE
10 TIERED DISCOUNT MODEL IN TERMS OF TARGETING
11 AFFORDABILITY?
12 MR. COLTON: I TALKED ABOUT TARGETING A
13 LITTLE BIT EARLIER. THE PERCENTAGE OF INCOME PLAN
14 IS EXPLICITLY TARGETED TO AFFORDABILITY BASED ON
15 ACTUAL HOUSEHOLD INCOME WHICH IS REQUIRED BY THE
16 CITY COUNCIL ORDINANCE. THE TIERED DISCOUNT
17 PROGRAM BY DESIGN WILL OVERPAY SOME CUSTOMERS AND
18 UNDERPAY OTHER CUSTOMERS. THE ONLY TIME THAT A
19 BILL UNDER A TIERED DISCOUNT DESIGN, AND THIS IS BY
20 DESIGN, BY CONSCIOUS DESIGN, THE ONLY TIME A BILL
21 IS AFFORDABLE IS WHEN THE CUSTOMER OR THE
22 PARTICIPANT, THE PROGRAM PARTICIPANT IS AT THE
23 AVERAGES ON ALL OF THE FACTORS THAT GO IN. SO ONLY
24 IF THE PARTICIPANT HAS THE CITY-WIDE AVERAGE

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1 INCOME, HAS THE CITY-WIDE AVERAGE CONSUMPTION
2 WITHIN THE CONSUMPTION TIERS, HAS THE CITY-WIDE
3 AVERAGE HOUSEHOLD SIZE, ONLY IF THE PROGRAM
4 PARTICIPANT IS AT ALL OF THOSE CITY-WIDE AVERAGES
5 WILL THE TIERED DISCOUNT APPROPRIATELY TARGET THE
6 BENEFITS TO ACHIEVE AFFORDABILITY.
7 IN ALL OUR OTHER CIRCUMSTANCES, THE
8 DISCOUNT WILL EITHER RESULT IN AN OVERPAYMENT OR AN
9 UNDERPAYMENT. AND THE PROBLEM IS THAT WHEN YOU
10 MUSH ALL OF, MUSH, THAT'S A TERM OF ART, WHEN YOU
11 MUSH ALL OF THAT TOGETHER INTO AN AVERAGE, WHAT YOU
12 ARE DOING, WHAT ONE DOES EFFECTIVELY IN A
13 SPREADSHEET, IS YOU ARE TAKING SOME OF THE HIGHER
14 INCOMES AND ALLOCATING THEM TO SOME OF THE LOWER
15 INCOMES SO EVERYBODY COMES OUT IN THE AVERAGE.
16 BUT IN REALITY, THAT'S NOT THE WAY IT
17 WORKS. IN REALITY, THE PEOPLE WITH THE HIGHER
18 INCOMES GET TOO MUCH, TOO MANY BENEFITS. AND THE
19 PEOPLE WITH THE LOWER INCOMES GET TOO FEW
20 BENEFITS. AND SO THE PROGRAM DOESN'T TARGET
21 AFFORDABILITY IN THE WAY THAT THE ORDINANCE
22 CONTEMPLATES.
23 MS. PICKENS: THANK YOU.
24 ONE OF THE BOARD MEMBERS ASKED YOU ABOUT

28 (Pages 106 to 109)

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1 YOUR PROPOSAL FOR EARNED FORGIVENESS. IN YOUR
2 OPINION, WHY ARE YOU PROPOSING THAT EARNED
3 FORGIVENESS BE INCORPORATED NOW INTO COST INSTEAD
4 OF WAITING FOR REGULATION?

5 MR. COLTON: THE PROPOSAL THAT WAS
6 INCORPORATED IN THE COSTS IN THE WORK PAPERS
7 PRESENTED UNDERLYING THE DEPARTMENT'S WITNESSES'
8 TESTIMONY HAS A COPAYMENT TO BE ALLOCATED OR TO BE
9 APPLIED AGAINST PREEXISTING ARREARS. THE ORDINANCE
10 STATES THAT PARTICIPANTS IN THE IRAP SHALL HAVE NO
11 ADDITIONAL PAYMENTS REQUIRED AGAINST PREEXISTING
12 ARREARS. SO THE COSTS THAT HAVE BEEN PROPOSED BY
13 THE DEPARTMENT FOR THE PROGRAM ASSUME A PROGRAM
14 DESIGN FEATURE THAT IS EXPLICITLY BARRED BY THE
15 ORDINANCE.

16 AND SO I HAVE PROPOSED AN ARREARAGE
17 FORGIVENESS PROGRAM SO AS TO TAKE INTO ACCOUNT
18 THOSE COSTS IN A WAY THAT IS CONSISTENT WITH THE
19 ORDINANCE.

20 MS. PICKENS: IN THE REBUTTAL OUTLINE AND
21 TESTIMONY, THE DEPARTMENT SAYS THAT YOUR PROGRAM
22 COSTS ARE INCONSISTENT WITH A START-UP PROGRAM.
23 HAVE YOU WORKED WITH START-UP PROGRAMS IN THE
24 PAST?

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1 MR. COLTON: I HAVE.

2 MS. PICKENS: ARE YOUR COST RECOMMENDATIONS
3 APPROPRIATE FOR START-UP?

4 MR. COLTON: YES. MOST OF THE PROGRAMS
5 THAT I HAVE WORKED WITH HAVE BEEN START-UP PROGRAMS
6 OBVIOUSLY AT ONE POINT OR ANOTHER. THE COLORADO
7 PROGRAM IS THE MOST RECENT WHERE I WORKED FOR A
8 PUBLIC SERVICE COMPANY OF COLORADO IN THE ACTUAL
9 IMPLEMENTATION OF THE PROGRAM. BUT WHETHER IT'S
10 THE PGW PROGRAM WHICH WAS IMPLEMENTED IN THE LATE
11 '80S AND EARLY '90S OR THE CAP PROGRAMS FOR THE
12 PUC, THE NEW JERSEY PROGRAM, I HAVE BEEN INVOLVED
13 WITH THOSE START-UP PROGRAMS. AND IN MY
14 RECOMMENDATIONS REGARDING START-UP PROGRAM,
15 REGARDING THE IRAP PROGRAM AREN'T, ARE NOT
16 INCONSISTENT WITH MY EXPERIENCE WITH START-UP
17 PROGRAMS.

18 BUT MY EXPERIENCE WITH START-UP PROGRAMS
19 TOO LETS ME DISTINGUISH BETWEEN A PROGRAM SUCH AS
20 PGW WHEN IT FIRST STARTED ITS EAP, WHAT'S CALLED
21 EAP WHEN IT WAS FIRST ADOPTED. AND PGW HAD NO
22 PREDECESSOR PROGRAM. COLORADO, THE PUBLIC SERVICE
23 COMPANY OF COLORADO HAD NO PREDECESSOR PROGRAM.
24 IN MY OPINION, IRAP IS NOT A START-UP

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1 PROGRAM. THE DEPARTMENT HAS EXPERIENCE IN HOW TO
2 IDENTIFY LOW INCOME CUSTOMERS, HOW TO HANDLE
3 APPLICATIONS. JUST AS PECO REDESIGNED ITS PROGRAM
4 AND OTHER UTILITIES HAVE REDESIGNED THEIR PROGRAMS,
5 JUST BECAUSE YOU ARE REDESIGNING A PROGRAM DOESN'T
6 MAKE IT A START-UP PROGRAM. AND YOU DON'T GO
7 THROUGH THAT LEARNING PROCESS THAT YOU GO THROUGH
8 WHEN YOU HAVE HAD NO PREDECESSOR PROGRAM. PWD
9 OBVIOUSLY HAS HAD A PREDECESSOR PROGRAM AND THEY
10 WON'T GO THROUGH THE SAME START-UP PROCESS.

11 MS. PICKENS: FINALLY, I HAVE JUST A FEW
12 QUESTIONS ABOUT THE REBUTTAL TESTIMONY YESTERDAY.
13 MR. DAVIS TESTIFIED THAT BENCH MARKING MAY NOT BE
14 THE BEST WAY TO ASSESS LOSS OF REVENUE AND THAT THE
15 MONTE CARLO SIMULATION WAS BETTER. ARE YOU THAT
16 FAMILIAR WITH BEST PRACTICES IN THIS AREA?

17 MR. COLTON: I AM. WITH THIS AREA BEING
18 BOTH MUNICIPAL UTILITIES COST RECOVERY AND COST
19 RECOVERY FOR LOW INCOME ASSISTANCE PROGRAMS, LOW
20 INCOME, A PERCENTAGE OF INCOME PROGRAM OR
21 OTHERWISE. AND THE BEST PRACTICE IS TO PROTECT THE
22 INTEREST OF BOTH THE RATE PAYER AND THE COMPANY.
23 AND THAT'S THE REASON THAT I HAVE RECOMMENDED A
24 RECONCILABLE SURCHARGE BECAUSE IT ADDRESSES BOTH

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1 THE INTEREST OF THE COMPANY OR THE DEPARTMENT
2 OBVIOUSLY WITH PWD BEING ABLE TO RECOVER THE COSTS
3 THAT IT WILL INCUR IN DELIVERING THE PROGRAM. BUT
4 IT PROTECTS THE INTERESTS OF THE RATE PAYERS AS
5 WELL IN NOT PAYING FOR NONEXISTENT COSTS, FOR NOT
6 OVERPAYING FOR COSTS.

7 THE WAY, THE USE OF THE MONTE CARLO PROCESS
8 THAT'S BEEN PRESENTED IN THIS CASE ENSURES THAT
9 THERE WILL BE AN OVERCOLLECTION OF COSTS BECAUSE
10 THE PARTICIPATION RATES THAT ARE USED IN THE MONTE
11 CARLO, GETTING TO THE 80 PERCENT, COVERING 80
12 PERCENT OF THE POSSIBLE SCENARIOS ARE
13 UNACHIEVABLE.

14 SO THE BETTER WAY TO DO THAT TO PROTECT THE
15 INTEREST OF THE UTILITY IN RECOVERING ALL OF THE
16 COSTS THAT IT WILL INCUR BUT IN PROTECTING THE
17 INTEREST OF THE RATE PAYER IN NOT PAYING MORE COSTS
18 THAT WERE INCURRED WOULD BE TO ADOPT A RECONCILABLE
19 SURCHARGE. AND IT'S ONE OF THE REASONS THAT THE
20 RECONCILABLE SURCHARGE IS THE STANDARD IN COST
21 RECOVERY.

22 MS. PICKENS: A FINAL QUESTION RELATED TO
23 THAT. YESTERDAY DURING REBUTTAL, MR. DAVIS AND I
24 BELIEVE MS. LABUDA DISCUSSED HOW THEIR 80 PERCENT

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1 CONFIDENCE LEVEL, THEIR MODEL. AND IT'S DIFFERENT
2 FROM YOUR MODEL BECAUSE YOUR MODEL PLACES THE
3 DEPARTMENT AT FINANCIAL RISK. HOW DO YOU RESPOND
4 TO THAT?
5 MR. COLTON: WELL, I DISAGREE WITH THAT FOR
6 THE REASONS I JUST STATED. I HAVE SET FORTH A
7 MODEL WHICH ALLOWS THE UTILITY, ALLOWS THE
8 DEPARTMENT TO RECOVER ALL OF THE COSTS THAT IT WILL
9 INCUR. ONE QUESTION IS, DOES THE RECONCILIATION
10 OCCUR ON AN ANNUAL BASIS OR A QUARTERLY BASIS?
11 AND THAT'S, THAT'S A POLICY DECISION FOR THE BOARD
12 TO DECIDE WHETHER THE BOARD WANTS A QUARTERLY
13 RECONCILIATION. SOME UTILITIES DO QUARTERLY
14 RECONCILIATION. BUT THE RECONCILIATION PROCESS
15 PROTECTS BOTH THE INTERESTS OF THE RATE PAYER AND
16 THE INTERESTS OF THE UTILITY AND ELIMINATES THE
17 RISKS THAT YOUR QUESTION ASKS ABOUT.
18 MS. PICKENS: THANK YOU. CHECKING WITH MY
19 TEAM. DO WE HAVE ANY OTHER? THOSE ARE ALL OUR
20 QUESTIONS. THANK YOU.
21 MR. BRUNWASSER: OBVIOUSLY, WE HAVE SPENT A
22 GREAT DEAL OF TIME ON LOW INCOME CUSTOMERS. I WAS
23 WONDERING WHAT THE EFFECT, FOR EXAMPLE, WE HAVE,
24 YOU CITE PGW QUITE OFTEN. DO YOU HAVE ANY IDEA OF

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1 YEAR WHAT THE TOTAL COSTS ARE AND THE PER
2 PARTICIPANT COSTS ARE. AND LET ME, RATHER THAN
3 READING OFF A SERIES OF NUMBERS THAT WOULD BE HARD
4 FOR EVERYBODY, TELL ME IF I'M BEING INAPPROPRIATE
5 HERE. JUST TO HAVE A SERIES OF NUMBERS IN THE
6 TRANSCRIPT, I WILL PROVIDE THOSE NUMBERS IN A TABLE
7 TO YOU.
8 ONE THING YOU NEED TO BE AWARE OF IS THAT
9 THERE ARE MULTIPLE UNIVERSAL SERVICE PROGRAMS AT
10 THE STATE LEVEL. SO WHAT I WILL DO IS I WILL
11 ISOLATE OUT THE CAP COSTS, THE RATE DISCOUNT COSTS
12 AND I'LL PROVIDE THAT AS A TABLE.
13 MR. BRUNWASSER: BECAUSE THE BOARD CLEARLY
14 IS INTERESTED NOT ONLY IN THE LOW INCOME CUSTOMER
15 AND THE RECOVERY OF REVENUES, BUT ALSO IN THE
16 AVERAGE CUSTOMER WHO DOES NOT QUALIFY FOR ANY OF
17 THE PROPOSED DISCOUNTS OR ANY CURRENT DISCOUNTS.
18 MR. COLTON: YES.
19 HEARING OFFICER: I'M NOT SURE THAT THAT
20 PARTICULAR INFORMATION WILL FULLY ANSWER THE
21 CHAIR'S QUESTION BECAUSE OF TWO THINGS. ONE,
22 BECAUSE IT DOESN'T DEAL WITH PGW AS FAR AS I KNOW,
23 OR DOES IT?
24 MR. COLTON: NO. PGW, EACH UTILITY, I

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1 WHAT THE SUBSIDY AMOUNTS TO WHEN A PERSON, WHEN A
2 NORMAL CUSTOMER DOES NOT QUALIFY? WHAT DO THEY
3 PAY IN THEIR BILL AT PGW IN ORDER TO SUPPORT THESE
4 TYPES OF PROGRAMS?
5 MR. COLTON: I HAVE THE ANSWER TO THAT ON
6 MY COMPUTER WHICH I COULD LOOK UP NOW OR I COULD
7 PROVIDE IT IN A RESPONSE.
8 MR. BRUNWASSER: YES, I WOULD LIKE TO HAVE
9 YOUR RESPONSE. IN DOING RESEARCH MONTHS AND MONTHS
10 AGO BEFORE WE EVER BEGAN THIS PARTICULAR CASE,
11 GOING ON THE INTERNET, I HAPPENED UPON A CHART
12 WHICH, AND I CAN'T RECALL EXACTLY WHO PREPARED THE
13 CHART. BUT I PRESUME IT MAY HAVE COME OUT OF SOME
14 PGW HEARINGS IN THE PAST. AND WHAT WAS A LITTLE
15 BIT STARTLING TO ME AS A CONSUMER ALSO, WAS THAT IT
16 SEEMED THAT 18 PERCENT OF A PERSON'S GAS BILL IN
17 PHILADELPHIA WAS GOING TO SUPPORT THESE PROGRAMS.
18 DOES THAT SOUND WITHIN THE REALM OF POSSIBILITY?
19 BECAUSE I KNOW I SAW A CHART TO THAT EFFECT, A
20 TABLE I SHOULD SAY.
21 MR. COLTON: THAT DOESN'T SOUND RIGHT TO
22 ME. BUT I CAN TELL YOU THAT PENNSYLVANIA GAS AND
23 ELECTRIC UTILITIES REPORT TO THE BUREAU OF CONSUMER
24 SERVICES WHICH IS THE BUREAU OF THE STATE PUC EVERY

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1 WONT GIVE YOU A STATEWIDE NUMBER. ILL GIVE
2 YOU --
3 HEARING OFFICER: BUT INCLUDING THE
4 PHILADELPHIA GAS WORKS?
5 MR. COLTON: PGW WILL BE THERE FOR ALL OF
6 THE YEARS SUBSEQUENT TO WHEN PGW BECAME RATE
7 REGULATED BY THE PUC.
8 HEARING OFFICER: BUT THE DATA, THE DATA
9 THAT'S CLOSEST TO HELPING US ANSWER THE QUESTION AS
10 I UNDERSTAND THE QUESTION, WOULD BE THE TOTAL
11 DOLLARS. HOW YOU GET THERE, WHAT THE LEVEL OF
12 BENEFITS ARE, I DON'T THINK THAT'S IMPORTANT FOR
13 THIS QUESTION. BUT THEN YOU HAVE TO TRANSLATE THE
14 TOTAL DOLLARS TO THE AVERAGE IMPACT ON OTHER
15 CUSTOMERS. AND I DON'T THINK WE WOULD HAVE IN
16 THOSE REPORTS THE INFORMATION WE WOULD NEED TO MAKE
17 THAT TRANSITION.
18 MR. COLTON: I CAN MAKE THAT CALCULATION
19 BECAUSE I CAN TAKE THE TOTAL CAP COSTS AND DIVIDE
20 IT BY THE NUMBER OF RESIDENTIAL RATE PAYERS AND
21 GIVE YOU A PER RATE PAYER COST.
22 HEARING OFFICER: I WANT TO, WE ARE TALKING
23 ABOUT WHAT'S GOING TO BE TR 12.
24 MR. DASENT: YES.

30 (Pages 114 to 117)

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1 HEARING OFFICER: I WANT TO INVITE MR. DAVIS
2 TO COMMENT ON WHETHER OR NOT THAT CALCULATION WOULD
3 BE AT LEAST A GOOD PROXY FOR THE IMPACT ON
4 NONPARTICIPANTS.

5 MR. DAVIS: AS FAR AS WHAT THE PGW IMPACT
6 WOULD BE?

7 HEARING OFFICER: I DON'T MEAN THE SPECIFIC.
8 THE FORM OF CALCULATION WHICH IS TO SAY THE DOLLARS
9 COST OF THE PROGRAM DIVIDED BY, YOU SAID THE TOTAL
10 NUMBER OF RESIDENTIAL CUSTOMERS. I WOULD ASSUME
11 THAT WE ARE TALKING ABOUT THE TOTAL NUMBER OF
12 NONPARTICIPANTS, OR SHOULD IT BE TOTAL
13 PARTICIPANTS?

14 MR. COLTON: IT WOULD BE BY THE TOTAL
15 NUMBER OF CUSTOMERS PAYING FOR THE PROGRAM.

16 HEARING OFFICER: SO THE TOTAL NUMBER OF
17 NONPARTICIPANT CUSTOMERS?

18 MR. COLTON: RIGHT. THE REASON I'M
19 HESITATING IS THAT PGW, THE COST OF PGW'S PROGRAM
20 IS SPREAD OVER ALL CUSTOMER CLASSES. AND THAT'S
21 NOT TRUE WITH OTHER UTILITIES. SO WHAT I WOULD
22 NEED TO DO IS TO GIVE YOU SOMETHING AND BE VERY
23 TRANSPARENT ABOUT WHEN I'M REPORTING A NUMBER
24 THAT'S REPORTED TO BCS AND WHEN I'M GIVING YOU A

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1 NUMBER THAT I HAVE CALCULATED.

2 HEARING OFFICER: YOU WILL SHOW THE
3 CALCULATIONS.

4 MR. DASENT: CAN I HELP TRY TO FORMULATE
5 THE QUESTION BY PROVIDING QUANTIFICATION OF THE
6 IMPACT OF CRP PROGRAM, CUSTOMER RESPONSIBILITY
7 PROGRAM ON NONPARTICIPATING CUSTOMERS AT PGW AS
8 WELL AS OTHER UTILITIES AS A WAY TO SORT OF GET THE
9 WHOLE UNIVERSE? IF I MIGHT VOLUNTEER, BETWEEN OUR
10 CONSULTANTS, WE CAN ALSO OFFER NUMBERS FROM PGW,
11 NOT MANY OTHER CUSTOMERS SO MUCH, TO GO BACK A
12 NUMBER OF YEARS AND FROM COMPARATIVE PURPOSES, YOU
13 CAN HAVE THE BEST OF BOTH WORLDS.

14 MR. POPOWSKY: IF I COULD JUST INTERJECT.
15 WE ACTUALLY HAVE AN ESTIMATE FROM MR. DAVIS, I
16 THINK, OF THE IMPACT OF THIS DISCOUNT IN THIS
17 CASE? RIGHT? IF I'M LOOKING AT PUBLIC ADVOCATE
18 HEARING EXHIBIT 5 RDC 60. I THINK YOU STATED THAT
19 AT THE 80 PERCENT CONFIDENCE LEVEL, THE AVERAGE
20 CUSTOMER BILL CORRECTION WOULD BE \$2.48.

21 MR. DAVIS: WE DID HAVE A ROUGH CALCULATION
22 IN THERE. IT WAS, YES, THAT IS, THAT WAS PART OF
23 IT.

24 MR. POPOWSKY: PAGE 1 OF 12 OF PUBLIC

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1 ADVOCATE HEARING EXHIBIT, I ASSUME THAT'S A MONTHLY
2 INCREASE? I'M SORRY. PAGE 1 OF 12 OF PUBLIC
3 ADVOCATE HEARING EXHIBIT 5. I THINK AT THE 80
4 PERCENT CONFIDENCE LEVEL, YOU ESTIMATED THAT THE
5 RESULTING RATE INCREASE IN THIS CASE WOULD BE
6 \$2.48.

7 MR. DAVIS: YES. I WOULD QUALIFY THAT AS
8 BEING VERY ROUGH. BUT YES, THAT IS THE INTENT OF
9 IT.

10 MR. POPOWSKY: THAT IS A MONTHLY INCREASE.

11 HEARING OFFICER: IF I MAY, THAT'S NOT JUST
12 BECAUSE IT'S AT THE 80 PERCENT CONFIDENCE LEVEL,
13 IT'S THE FALLOUT OF WHAT THAT SIMULATION PRODUCES
14 IN TERMS OF PARTICIPANTS?

15 MR. POPOWSKY: AT THE \$16.3 MILLION
16 SHORTFALL LET'S CALL IT.

17 MR. DAVIS: RIGHT. THE INTENT OF THAT WAS
18 TO APPROXIMATE THE FULL COST AS INCLUDED IN THE
19 COST OF SERVICE. SO THAT WOULD INCLUDE ONGOING
20 ADMINISTRATION COSTS AS WELL.

21 MR. BRUNWASSER: ONE OF THE OTHER THINGS
22 THAT YOU SHOULD KNOW IS THAT SOME YEARS AGO, WITHIN
23 THE PAST TEN YEARS I WOULD SAY, CITY COUNCIL, A
24 CITY COUNCIL PERSON INTRODUCED AN ORDINANCE WHICH I

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1 BELIEVE WAS APPROVED REQUESTING ON EACH BILL TO
2 TELL THE CUSTOMER HOW MUCH OF HIS PAYMENT IS GOING,
3 WHAT PERCENTAGE I GUESS OR DOLLARS OF HIS PAYMENT
4 ARE GOING TO SUPPORT THESE LOW INCOME PROGRAMS.

5 AND THE ORDINANCE, AS MEMORY SERVES,
6 ACTUALLY PASSED. AND THE LAW DEPARTMENT SAID THAT
7 IT WASN'T REQUIRED THAT THE WATER DEPARTMENT COMPLY
8 WITH THAT PARTICULAR PIECE OF LEGISLATION. BUT
9 THERE IS AN INTEREST ON BEHALF, I BELIEVE, OF SOME
10 OF THE COUNCIL PERSONS THAT THAT KIND OF FIGURE
11 SHOULD BE MORE EXPLICIT THAN IT IS TODAY.

12 HEARING OFFICER: WE HAVE TR 12 WHICH HAS TO
13 DO WITH -- WERE YOU DONE?

14 MR. POPOWSKY: I GUESS I WOULD JUST ASK MR.
15 COLTON IF THAT \$2.48, IF YOU LOOK AT THAT NUMBER
16 AND WHETHER YOU DID ANY, DID YOU ATTEMPT TO MAKE
17 ANY KIND OF ESTIMATE OF WHAT THE IMPACT OF YOUR
18 PROPOSAL WOULD BE ON THE AVERAGE CUSTOMER?

19 MR. COLTON: I HAVEN'T DONE THAT TO DATE.

20 HEARING OFFICER: SO I'D LIKE TO ASK FOR
21 THAT AS A TRANSCRIPT REQUEST. WE ARE UP TO 13.
22 THAT IS TO SAY AN ESTIMATE OF THE IMPACT OF THE
23 COLTON APPROACH TO THE NONPARTICIPANTS IF THAT'S
24 ACCURATE. SO THAT'S TR 13. COULD WE GET CLOSE TO

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1 THAT? AND HERE I'M GOING TO REVEAL THAT I'M
2 UNCERTAIN ABOUT MY NUMBERS. BY TAKING THE \$2.48
3 AND APPLYING THE RATIO OF YOUR TOTAL DOLLAR AMOUNT
4 TO THE DEPARTMENT'S TOTAL DOLLAR AMOUNT?
5 MR. COLTON: YES.
6 HEARING OFFICER: THAT WOULD BE WHAT? 13
7 SOMETHING TO 16 SOMETHING? IS THAT BALLPARK?
8 MR. DASENT: THAT'S RIGHT.
9 MR. COLTON: NO. MINE WAS, MY COST TO RATE
10 PAYERS WAS \$9,001,869.
11 HEARING OFFICER: SAME PRINCIPLE WOULD
12 APPLY, THOUGH?
13 MR. COLTON: THE SAME PRINCIPLE. THE COSTS
14 PER RATE PAYER GIVEN MY COST CALCULATIONS WOULD BE
15 PROPORTIONATELY LESS GIVEN THAT I'M PROPOSING A \$9
16 MILLION IN COST RECOVERY.
17 HEARING OFFICER: I WOULD STILL LIKE YOU TO
18 DO THE CALCULATION AND WE ARE PROBABLY GOING TO
19 HAVE SOME REJOINDER ON THAT.
20 I HAVE A COUPLE MORE QUESTIONS.
21 ON THE START-UP ISSUE AND PIPP VERSUS
22 DISCOUNT. THERE WAS TESTIMONY THAT THERE HAS BEEN
23 A REQUEST TO IMPROVE THE INFORMATION TECHNOLOGY
24 AVAILABLE TO THE DEPARTMENT AND THE BOARD, REVENUE

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1 BOARD. BUT THAT THERE IS NO ESTIMATE OF WHEN THAT
2 MIGHT BE FORTHCOMING. IF THAT'S THE CASE, DOES
3 THAT CHANGE ANY OF YOUR CONCEPTS ABOUT THE COST OF
4 YOUR PROGRAM AND HOW A START-UP WOULD RUN?
5 MR. COLTON: YES. I AM ASSUMING THAT THE
6 EXPENDITURES THAT HAVE BEEN RECOMMENDED FOR THE IT
7 COSTS ARE, IN FACT, EXPENDED. AND THAT THE PROGRAM
8 WILL BE COMPUTERIZED FROM ITS INCEPTION.
9 HEARING OFFICER: THE EXPENDITURES IN THE
10 SHOEMAKER REPORT WHICH HAS BEEN ADMITTED?
11 MR. COLTON: YES, AND THE EXPENDITURES IN
12 MR. DAVIS' TESTIMONY.
13 HEARING OFFICER: SO MR. DAVIS MAY CLARIFY
14 THIS FOR US. BUT THERE IS MONEY IN MR. DAVIS' FOR
15 AN IT UPGRADE?
16 MR. COLTON: YES.
17 HEARING OFFICER: THAT ANSWERS THAT.
18 JUST PICKING OFF A COUPLE OF LITTLE
19 THINGS. YOU MENTIONED THE ISSUE BETWEEN ANNUAL AND
20 QUARTERLY RECONCILIATION. WOULD YOU AGREE THAT
21 UTILITIES WENT TO QUARTERLY RECONCILIATION OF
22 DECOUPLING VARIANCES BECAUSE THE ANNUAL
23 IMPLEMENTATION AT CENTRAL MAIN POWER COMPANY BACK
24 MANY YEARS AGO NOW PRODUCED AN ENORMOUS SHORTFALL

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1 AT THE END OF THE YEAR? THAT WAS DECOUPLING?
2 MR. COLTON: YES. I DIDN'T KNOW THAT, BUT
3 IT DOESN'T SURPRISE ME.
4 HEARING OFFICER: WOULD YOU EXPECT THAT
5 THERE WOULD BE A GREAT VARIANCE FROM ONE YEAR TO
6 THE NEXT IN THE SHORTFALL OR OVERAGE?
7 MR. COLTON: NO.
8 HEARING OFFICER: FINALLY, WE WERE TALKING
9 ABOUT HOW NEIGHBORS COMPARE BILLS BUT ARE NOT UPSET
10 BY DIFFERENCES IN BILLS. THIS ACTUALLY GOT ME TO
11 THINKING ABOUT HOW WILL THE BILL BE PRESENTED?
12 AND THERE IS THE MINIMUM AMOUNT. AND IF THAT IS
13 DIFFERENT FOR A CUSTOMER BECAUSE THEY ARE ON THIS
14 PROGRAM FROM ANOTHER CUSTOMER WHO IS NOT ON THE
15 PROGRAM AND HAS A HIGHER MINIMUM BILL, HAS A HIGHER
16 FLAT RATE BILL, COULD THAT CREATE CONFUSION OR
17 UPSET?
18 MR. COLTON: AS I TESTIFIED EARLIER TODAY,
19 I HAVE, WITH ALL OF THE UTILITIES I HAVE WORKED
20 WITH, I HAVE NEVER HAD A UTILITY CLIENT OR A
21 UTILITY FOR WHOM I HAVE DIRECTLY WORKED WITH OR A
22 UTILITY WHOSE PROGRAM I HAVE WORKED ON THAT HAS
23 TALKED ABOUT AN IMPACT OF THE LOW INCOME PROGRAM ON
24 CALL CENTERS OR SIGNIFICANT COMPLAINTS ABOUT

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1 DIFFERENCES BETWEEN CUSTOMER BILLS. I HAVE JUST IN
2 MY 30 YEARS, I HAVE NEVER HAD THAT EXPERIENCE.
3 MR. BRUNWASSER: IT'S UNDERSTANDABLE TO MOST
4 PEOPLE THAT THERE COULD BE GREAT VARIATION IN THE
5 BILLS BASED ON USAGE. HERE WE NOW OVER THE YEARS
6 ISOLATED USAGE COSTS FROM FIXED COSTS. AND SO WE
7 HAVE A FIXED COST COMPONENT. AND THAT COMPARISON
8 IS WHAT I'M, WHAT I WAS TALKING ABOUT. THAT EVEN
9 WITHIN THESE PARAMETERS, SINCE EVERYONE'S BILL
10 WOULD BE, ON YOUR RECOMMENDATION WOULD BE BASED ON
11 THEIR SPECIFIC INCOME LEVELS, THAT WOULD CHANGE
12 PRESUMABLY THE FIXED COST COMPONENT WHICH
13 HERETOFORE HAS BEEN EXACTLY THE SAME FOR
14 RESIDENTIAL CUSTOMERS.
15 WHAT I'M SAYING IS YOU COULD HAVE PEOPLE
16 LIVING IN THE SAME HOUSE, YOU KNOW, ROW HOMES NEXT
17 TO EACH OTHER BASICALLY AT THE SAME GENERAL LEVEL
18 OF INCOME, BUT ONE HAVING -- OBVIOUSLY BOTH OF THEM
19 HAVING THOSE SPECIFIC CHARGES BASED ON THEIR
20 SPECIFIC SITUATION. SO THAT WHEN THEY COMPARE WHAT
21 THEY THINK IS THE FIXED COST, THEY SEE, WELL, I'M
22 PAYING X FOR FIXED COST. YOU ARE PAYING X PLUS TWO
23 AND THAT IS CREATING SOME CONFUSION. AND AS I
24 SAID, I HAVE SEEN THIS WHEN THE REVENUE BUREAU

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1 CHANGED THE WAY IT PRESENTED THE BILL AND IN THAT
2 PARTICULAR CASE, MISTAKENLY STARTED TO ADJUST THE
3 SERVICE CHARGE. AND RESULTING IN TENS OF THOUSANDS
4 OF CALLS I WOULD SAY EASILY TO THE COMPANY OR TO
5 THE BUREAU. SO THATS, THATS WHERE I WAS GOING.
6 OBVIOUSLY, VOLUME IS DIFFERENT FOR EVERYONE.

7 HEARING OFFICER: ACTUALLY, LET ME FOLLOW UP
8 ON THIS. AND I THINK AT LEAST FOR THE DEPARTMENT--
9 WE ARE GOING TO BE DONE BY 2:00, AT LEAST FOR THE
10 DEPARTMENT, WE ARE GOING TO, I HAVE A TRANSCRIPT
11 REQUEST 14 WHICH IS A PROFORMA BILL FOR AN IRAP
12 CUSTOMER NOT NECESSARILY WITH ALL OF THE LOGOS AND
13 SO FORTH BUT SHOWING THE COMPONENTS OF THE BILL AND
14 HOW, IN OTHER WORDS, DO YOU SHOW THE ACTUAL BILL
15 AND THEN SAY, OH, BUT WE ARE DISCOUNTING IT? OR
16 DO YOU JUST PRESENT THE BILL WITHOUT THE BREAKOUT?
17 OR HOW IS THAT GOING TO BE DONE? YOU DONT HAVE
18 TO ANSWER RIGHT NOW. IF YOU COULD PROVIDE THAT.

19 AND I ALSO ASK IF IT'S ALL RIGHT IF MR.
20 COLTON HAS AN OPINION ON THAT, IF HE WANTED TO PUT
21 IN HIS PROFORMA. AND IF IT MATTERS, WHETHER IT'S
22 SOMEBODY AT \$12 MINIMUM LEVEL OR HIGHER, THEN IT
23 WOULD BE USEFUL TO SEE THAT DIFFERENCE. BUT IT'S
24 UP TO YOU.

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1 SO I DONT HAVE ANY OTHER QUESTIONS, BUT I
2 AM SURE THAT MR. DASENT HAS SOME QUESTIONS AND HE
3 MAY EVEN HAVE SOME REJOINDER.

4 MR. DASENT: YES, SOME REJOINDER AND NO
5 FURTHER QUESTIONS FOR MR. COLTON ON CROSS.

6 HEARING OFFICER: OFF THE RECORD.
7 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
8 RECORD.)

9 HEARING OFFICER: MR. DASENT.

10 MR. DASENT: YES. GIVE ME ONE MINUTE IF
11 YOU WOULD TO REVIEW THE QUESTIONS WITH MY
12 CONSULTANT AND WE WILL BE READY TO GO.

13 HEARING OFFICER: WE ARE STILL ON THE
14 RECORD, SO GO AHEAD.

15 MR. DASENT: MR. DAVIS, EARLIER TODAY MR.
16 COLTON ADVANCED VARIOUS CRITICISMS OF PWD'S
17 AFFORDABLE RATES PROPOSAL. DO YOU AGREE WITH HIS
18 RECOMMENDATIONS DEALING WITH STRUCTURE AND
19 ADMINISTRATIVE COSTS, DOUBLE RECOVERY AND THE IRAP
20 RIDER? I'LL ASK ONE AT A TIME.

21 WITH RESPECT TO STRUCTURE, DO YOU AGREE
22 WITH MR. COLTON'S RECOMMENDATIONS?

23 MR. DAVIS: I DO NOT. AND I JUST WANT TO
24 REITERATE THAT YESTERDAY I THINK WE DISCUSSED IN MY

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1 TESTIMONY AND MY CROSS WHY I THOUGHT THE EXISTING
2 PROPOSAL MET THE REQUIREMENTS OF THE CITY ORDINANCE
3 AS CONSTRUCTED. DESPITE THE CRITICISMS TODAY, I
4 THINK IT'S A VERY GOOD, A VERY GOOD WAY OF
5 APPROXIMATING AFFORDABILITY FOR CUSTOMERS NOT ONLY
6 TAKING INTO ACCOUNT THE INCOME TIERS THAT WE HAVE,
7 BUT ALSO HISTORICAL USAGE AND CAPTURE CUSTOMERS
8 THAT HAVE LOWER OR HIGHER BILLS BASED ON THEIR
9 HISTORICAL USAGE.

10 AND THE ONE THING THAT I THINK WE OUGHT TO
11 COME BACK TO THAT IS REALLY A DIFFERENCE, THE CRUX
12 OF THE DIFFERENCE FOR ME BETWEEN THE PERCENTAGE OF
13 INCOME PLAN AND THE TIERED DISCOUNT PROGRAM IS WHEN
14 WE HAVE DISCUSSED THIS WITH THE WATER DEPARTMENT,
15 WRB, THEY BELIEVE THEY CAN SUCCESSFULLY IMPLEMENT A
16 TIER DISCOUNT PROGRAM. IT PIGGYBACKS ON SOME OF
17 THE PROGRAMMING THAT'S ALREADY IN PLACE FOR SENIOR
18 CITIZEN DISCOUNTS. SO IT'S JUST AN EXTENSION OF
19 THAT. THEY SEE THEIR WAY CLEAR TO BE ABLE TO
20 DELIVER THAT KIND OF PROGRAM ON TIME AS REQUIRED BY
21 THE ORDINANCE.

22 THERE ARE SOME SIGNIFICANT DIFFERENCES OF
23 OPINION ON WHETHER THEY WILL BE AS SUCCESSFUL WITH
24 DEVELOPING ANOTHER TYPE OF PROGRAM AND HAVING IT

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1 READY ON TIME TO MEET, AS WHAT WE DISCUSSED, IS
2 THIS CRITICAL SUCCESS FACTORS OF THE PROGRAM THAT
3 NEEDS TO BE IN PLACE GOING FORWARD. THATS BEING
4 AVAILABLE, BEING CONSISTENT, PROVIDING AFFORDABLE
5 BILLS. SO WE HAVE ONE PROPOSAL BY THE WATER
6 DEPARTMENT AND THE WATER REVENUE BUREAU THEY AGREE
7 THEY CAN DO. AND WE HAVE ANOTHER PROPOSAL BY
8 ANOTHER PARTY THAT THEY HAVE SIGNIFICANT CONCERNS
9 ABOUT BEING ABLE TO DO.

10 MR. DASENT: WITH RESPECT TO ADMINISTRATIVE
11 COSTS, A TEN PERCENT CAP HAS BEEN DISCUSSED IN THE
12 TESTIMONY AND AGAIN TODAY. DO YOU AGREE WITH
13 THAT?

14 MR. DAVIS: I DONT AGREE WITH THAT BECAUSE
15 I THINK THAT THERE ARE A LOT OF DISCREPANCIES.
16 FIRST, COMPARING THE TESTIMONY FROM MR. COLTON WITH
17 THE PA TESTIMONY LAST WEEK, MR. MORGAN SEEMED TO
18 EXCLUDE THAT ADJUSTMENT BY THE DEPARTMENT THAT
19 WOULD HAVE ALLOWED EVEN A TEN PERCENT ADJUSTMENT
20 FOR ADMINISTRATIVE COSTS. CURRENTLY RIGHT NOW, WE
21 HAVE ABOUT ROUGHLY 10,000 PEOPLE IN THE EXISTING
22 WRAP PROGRAM. THAT INCLUDES FOLKS, I BELIEVE, BOTH
23 UNDER 150 PERCENT OF FEDERAL POVERTY LEVEL WHICH
24 WOULD BE AVAILABLE FOR THE IRAP PROGRAM AND PEOPLE

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1 FROM 150 TO 250 PERCENT.
2 UNDER BOTH MY TESTIMONY AND I BELIEVE MR.
3 COLTON'S AS WELL, WE ARE LOOKING AT POTENTIALLY
4 30,000 CUSTOMERS IN THE NEW IRAP PROGRAM. ROUGHLY
5 TO ME, THAT'S WELL IN EXCESS OF TRIPLE THE WORK
6 THAT THE WATER REVENUE BUREAU CURRENTLY HAS TO DO.
7 I THINK ALL OF THEIR COSTS ARE PREDICATED ON
8 TRIPLING SOME LEVEL OF EXISTING EFFORT. AND THAT'S
9 IN ADDITION TO THE FACT THAT WE HAVEN'T ESTABLISHED
10 THAT ALL OF THE COMPONENTS OF THE EXISTING WRAP
11 PROGRAM GO AWAY. THERE MAY BE SOME INSTANCES WHICH
12 WE CAN'T PRECLUDE AT THIS POINT WHICH REQUIRE THAT
13 BOTH OF THOSE PROGRAMS HAVE TO GO ON FOR SOME TIME
14 IN SOME LEVEL.
15 CURRENTLY, I THINK WE HAVE A PORTION OF 9
16 FTES THAT ARE INVOLVED IN ADMINISTERING THE
17 EXISTING WRAP PROGRAM. WE HAVE ASKED FOR 22 MORE.
18 I THINK IF WE DO SOME QUICK MATH, WE WOULD SEE THAT
19 THAT'S PRETTY PROPORTIONAL TO WHAT WE CURRENTLY
20 HAVE. IF WE DON'T ALLOW FOR THAT KIND OF
21 ADMINISTRATIVE COST ON THE PART OF THE WATER
22 REVENUE BUREAU, WE SIMPLY JUST WON'T GET THE PEOPLE
23 ENROLLED IN THE PROGRAM IN A TIMELY MANNER WHICH
24 REALLY IMPACTS THE ABILITY OF US TO PROVIDE A

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1 SUCCESSFUL PROGRAM.
2 NOW, I THINK I USED THE TERM SKIMPING
3 YESTERDAY AND I WAS TOLD OR I AGREE THAT THAT'S
4 KIND OF A PEJORATIVE TERM, SO I WITHDREW IT. BUT I
5 WOULD SAY THAT WHAT WE HAVE IN THE PROPOSAL, AND
6 I'M NOT SURE WHETHER WE ARE TALKING ABOUT MR.
7 COLTON'S OR MR. MORGAN'S. BUT EITHER WAY, I THINK
8 WE ARE TALKING ABOUT A MATERIAL UNDERFUNDING OF THE
9 PROGRAM. AND I THINK THAT'S GOING TO ADVERSELY
10 AFFECT THE ULTIMATE SUCCESS OF THE PROGRAM.
11 MR. BALLENGER: IF I MAY INTERJECT FOR A
12 MOMENT AGAIN TO EXPLAIN MY CONCERN. THE DEPARTMENT
13 CONTINUES TO FOCUS ON MR. MORGAN'S TESTIMONY IN HIS
14 ABSENCE. I WOULD ALSO DIRECT THE PARTIES TO
15 FOOTNOTE 1 ON PAGE 3 OF MR. MORGAN'S TESTIMONY
16 WHERE HE SPECIFICALLY SAYS HE DOES NOT SPECIFICALLY
17 ADDRESS REVENUE REQUIREMENTS ASSOCIATED WITH THE
18 NEW PROGRAM TO ASSIST LOW INCOME CUSTOMERS BECAUSE
19 THAT WAS HANDLED EXCLUSIVELY BY MR. COLTON.
20 I'D LIKE THE RECORD TO BE CLEAR ON THAT AND
21 I'D APPRECIATE IT IF WE CONTINUE TO FOCUS ON THE
22 SUBJECT MATTER IN MR. DAVIS' TESTIMONY AND MR.
23 COLTON'S TESTIMONY AND NOT DWELL ON MR. MORGAN'S
24 WHILE HE IS NOT AVAILABLE TO RESPOND. IT'S

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1 UNFAIR.
2 HEARING OFFICER: I WOULD, WITH RESPECT TO
3 THAT ARGUMENT, I DON'T CREDIT IT BECAUSE THIS IS
4 THE WAY IT GOES. IF YOU ARE NOT HERE WHEN YOUR
5 TOPIC COMES UP LEGITIMATELY, THAT'S TOO BAD.
6 BUT HAVING SAID THAT, I THINK THE RECORD IS
7 CLEAR ABOUT WHAT BORDERS MR. MORGAN PUT ON HIS
8 TESTIMONY. AND SO THE WAY I WOULD INTERPRET THAT
9 IS THAT THE STATEMENT THAT HE DIDN'T INCLUDE
10 CERTAIN DOLLARS IS NOT ACCURATE BECAUSE HE DIDN'T
11 INTEND TO INCLUDE DOLLARS. IS THAT CORRECT?
12 MR. BALLENGER: THAT'S FAIR ENOUGH, MADAM
13 HEARING OFFICER. BUT MY UNDERSTANDING IS ALSO WE
14 WERE DEALING WITH SUBJECT MATTER BY SUBJECT MATTER
15 IN THIS PROCEEDING. AND AS THE CITY KNOWS, MR.
16 COLTON WAS HERE -- I'M SORRY, MR. MORGAN WAS HERE
17 FOR REVENUE REQUIREMENTS AND COSTS OF SERVICE. WE
18 HAVE TRANSITIONED TO IRAP AS A SEPARATE SUBJECT
19 MATTER IN THE SCHEDULE LIST OF THE WITNESSES
20 REQUIRED TO BE AVAILABLE FOR THIS DISCUSSION.
21 HEARING OFFICER: I DON'T REALLY, I DON'T
22 SEE HOW WE COULD HAVE AVOIDED A SITUATION LIKE THIS
23 BECAUSE THE STATEMENT UNDER QUESTION IS A MATERIAL
24 UNDERFUNDING OF THE PROGRAM. MY UNDERSTANDING IS

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1 THAT IN MR. MORGAN'S, THERE IS ZERO.
2 MR. DASENT: EXACTLY.
3 HEARING OFFICER: SO NO MATTER WHOSE
4 ESTIMATE OF THE COST OF THE PROGRAM. HAVING SAID
5 THAT, I'M NOT SURE WHAT THE POINT IS OF THE
6 STATEMENT. BUT IF YOU ARE TALKING ABOUT THE
7 DIFFERENCE BETWEEN \$9 MILLION AND \$16 MILLION, THAT
8 HAS NOTHING TO DO WITH MR. MORGAN. AND YOU CAN
9 CHARACTERIZE THAT AS YOU WANT.
10 MR. BALLENGER: THANK YOU.
11 MR. DAVIS: CAN I ANSWER THAT?
12 HEARING OFFICER: YES.
13 MR. DAVIS: I BELIEVE WHAT WE WERE REFERRING
14 TO HERE IS THE ADMINISTRATIVE COSTS. AND I DON'T
15 KNOW THAT MR. MORGAN'S FOOTNOTE DISQUALIFIED THE
16 ADJUSTMENTS FOR THE ADMINISTRATIVE COSTS. I
17 BELIEVE THAT HE SAID THAT THERE SHOULD BE NO
18 ADMINISTRATIVE, ADDITIONAL ADMINISTRATIVE COSTS AS
19 WAS IN THE ADJUSTMENT THAT WE TALKED ABOUT LAST
20 WEEK EITHER FOR IT START-UP OR FOR ONGOING
21 ADMINISTRATION.
22 MR. BALLENGER: I BELIEVE HE IS CONFUSING
23 THE EXPERTS, WHO IS WHO.
24 MR. DASENT: THE NEXT QUESTION. ALSO IN

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1 THE DISCUSSION TODAY, DOUBLE RECOVERY CONCERNS THAT
2 MR. COLTON AROSE. AND DO YOU AGREE WITH THOSE
3 PARTICULAR CONCERNS PARTICULARLY WITH RESPECT TO
4 YOUR PROPOSAL?

5 MR. DAVIS: WELL FIRST OF ALL, I DON'T
6 AGREE WITH CALLING THEM DOUBLE RECOVERY. THERE IS
7 NO DOUBLING OF THE RECOVERY IN ANY WAY. I WOULD
8 WANT TO POINT OUT THAT WHEN A CUSTOMER RECEIVES A
9 DISCOUNTED BILL UNDER THE DEPARTMENT'S PROPOSAL,
10 FROM AN ACCOUNTING PERSPECTIVE, THE DISCOUNT IS
11 BOOKED. WE CALL IT AN EXPENSE OR WE CALL IT A
12 CONTRA-REVENUE. IT IS BOOKED. AND THAT WILL
13 REMAIN THE SAME WHETHER THE CUSTOMER PAYS THE NET
14 OF HIS REMAINING CHARGES OR NOT. THE COST OF THE
15 DISCOUNT, THE COLLECTION FACTOR FOR A DISCOUNT IS
16 ALWAYS 100 PERCENT.

17 MR. DASENT: THERE WAS ALSO DISCUSSION
18 TODAY FROM MR. COLTON CONCERNING HIS IRAP RIDER.
19 IN FACT, AN EXTENDED DISCUSSION. DO YOU HAVE ANY
20 CONCERNS ABOUT THE IRAP RIDER?

21 MR. DAVIS: WE DO HAVE SOME CONCERNS. I
22 THINK IT'S AN INTERESTING APPROACH WHICH WE LEARNED
23 ABOUT I GUESS FOR THE FIRST TIME ON MARCH 24TH WHEN
24 TESTIMONY WAS PROVIDED ALTHOUGH WITH SOME OTHER

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1 APPROACHES THAT WERE INCLUDED IN NOTES OF THAT AND
2 SOME OTHERS THAT WE HAVE ACTUALLY COME UP WITH AS
3 WELL.

4 THESE ARE ALL GOOD IDEAS. I THINK THE
5 CHALLENGE IS GETTING COMFORTABLE WITH THEM IN THE
6 SHORT TIME THAT WE HAVE HAD TO LOOK AT THEM. THERE
7 ARE SOME CHALLENGES I THINK THAT THE DEPARTMENT HAS
8 RAISED WITH RESPECT TO TIMING. EVEN IF THIS IS
9 DONE ON A QUARTERLY BASIS, THERE IS A GOOD DEAL OF
10 LAG BETWEEN HOW LONG IT MIGHT TAKE US TO IMPLEMENT
11 ADJUSTED RATES PER THE RIDER AND HOW FAST THAT
12 REVENUE WOULD COME IN.

13 SO THERE ARE CONCERNS, BUT I WOULDN'T SAY
14 THAT WE ARE DISMISSING THOSE AS OPTIONS GOING
15 FORWARD. I JUST THINK GIVEN THE TIMELINE THAT WE
16 ARE UNDER HERE, IT MAY BE A CHALLENGE TO GET THOSE
17 IMPLEMENTED. AND THAT'S WHY WE ESPOUSED THE
18 METHODOLOGY THAT MR. DASENT TALKED ABOUT EARLIER IN
19 HIS CROSS OF MR. COLTON WHICH IS, LET'S TAKE AN
20 ADMITTEDLY CONSERVATIVE VIEW OF THE POTENTIAL COST
21 HERE. LET'S RECOVER THOSE. TO THE EXTENT THAT
22 THEY ARE CONSERVATIVE, THAT MONEY ACCUMULATES IN
23 THE RATE STABILIZATION FUND AND WE TAKE CARE OF IT
24 IN THE NEXT RATE FILING. BUT IT'S ALWAYS THERE FOR

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1 THE BENEFIT OF EXISTING CUSTOMERS.

2 MR. DASENT: ALSO TODAY WE HAVE HAD
3 DISCUSSION OF A NUMBER OF ISSUES, MS. LABUDA, NOT
4 ONLY THE IRAP RIDER, ADMINISTRATIVE COSTS GENERALLY
5 AND REGULATIONS AS TO CERTAIN ASPECTS OF THE
6 AFFORDABLE RATES PROGRAM. I THINK WE NEED A
7 REALITY CHECK FROM SOMEONE WHO HAS ACTUALLY GOT TO
8 IMPLEMENT THIS. CAN YOU HELP US WITH THAT?

9 MS. LABUDA: SURE. I HAVE CONCERNS WITH
10 THE RIDER SPECIFICALLY WHEN WE ARE SPEAKING TO A
11 BOND INDENTURE THAT REQUIRES US TO MEET CERTAIN
12 METRIX FOR REVENUES RECEIVED BETWEEN JULY 1 AND
13 JUNE 30TH.

14 THE CONCEPT OF A RIDER IS INTERESTING BUT
15 PROBLEMATIC IN THAT IF THE RECONCILIATION WERE TO
16 OCCUR SEMIANNUALLY, AND ASSUMING THAT
17 RECONCILIATION WAS DONE WITHIN 24 HOURS AND READY
18 TO GO JANUARY 1ST, AND THAT'S A HUGE ASSUMPTION,
19 THEN I HAVE TO WORK WITH MY BASIS 2 TEAM AND MY
20 WATER REVENUE BUREAU COLLEAGUES AND GET A NEW RATE
21 STRUCTURE IMPLEMENTED WHICH TAKES 30 TO 45 DAYS TO
22 PROGRAM INTO THE BILLING SYSTEM. SO NOW I HAVE
23 MOVED FROM JANUARY 1ST TO SOMETHING LIKE FEBRUARY
24 OR MARCH. AND I HAVE TO COVER MY COVENANTS AND

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1 MEET THOSE METRIX BY JUNE 30TH WHICH MEANS MY RATE
2 INCREASE IS COMPRESSED BETWEEN MARCH 1ST AND JUNE
3 30TH. SO YOU HAVE JUST INCREASED RATES
4 SIGNIFICANTLY FOR A THREE-MONTH PERIOD TO COLLECT
5 \$20 MILLION OF REVENUES.

6 I FIND THAT INCREDIBLY PROBLEMATIC. AND
7 WOULD ASK FOR A PROGRAM THAT'S NOT QUITE MATURE,
8 THE PROGRAM IS NOT MATURE, WE HAVEN'T EVEN STARTED
9 IT. HOW COULD WE POSSIBLY CONTEMPLATE THIS
10 ADDITIONAL HURDLE WHEN WE NEED THE PROGRAM TO BE
11 RELEASED AND IMPLEMENTED SUCCESSFULLY?

12 HEARING OFFICER: ON THE \$20 MILLION, THAT
13 DOESN'T SOUND RIGHT TO ME FOR THE FOLLOWING
14 REASON. THAT WE HAVE \$16 MILLION AS THE TOTAL COST
15 ON THE HIGHEST COST. AND SO WHAT WE ARE TALKING
16 ABOUT IS ABOVE AND BELOW THAT, THE RIDER WOULD NOT
17 CHANGE THAT BASE AMOUNT. IT WOULD JUST COLLECT THE
18 OVERAGE AND UNDERAGE WHICH WOULD NOT BE ANYWHERE
19 NEAR \$20 MILLION; RIGHT?

20 MS. LABUDA: THAT'S INTERESTING THAT THE
21 RIDER WOULD NOT BE FOR THE FULL COST OF THE
22 PROGRAM. IT WOULD BE FOR A DIMINIOUS AMOUNT. 10
23 PERCENT EITHER DIRECTION OF WHATEVER THE COST OF
24 THE PROGRAM IS. I STILL FIND THAT THE FRAMEWORK I

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1 HAVE LAID OUT IS STILL THE CHALLENGE OF A
2 RECONCILIATION SEMIANNUAL OR QUARTERLY. AND THEN A
3 RECONCILIATION DONE QUICKLY IN A BILLING SYSTEM
4 THAT TAKES 30 TO 45 DAYS TO UPDATE WITH THE NEW
5 RATE STRUCTURE. THAT IS THE FACTUAL FALLOUT OF THE
6 SYSTEM WE HAVE, AND FORCING THAT NEW RATE, WHATEVER
7 THE NUMBER IS BETWEEN THE DATE I CAN GET IT
8 IMPLEMENTED IN THE BILLING SYSTEM AND JUNE 30TH.
9 AND I THINK THAT IS THE ULTIMATE CHALLENGE
10 WITH THE RIDER IS THAT WE ARE GOING TO HAVE
11 COMPRESSION ON WHATEVER THE AMOUNT IS WE ARE TRYING
12 TO COLLECT IN A VERY SHORT PERIOD OF TIME. AND I
13 THINK THAT'S UNJUST AND UNFAIR OF THE RATE PAYERS
14 TO FORCE THEM TO BEAR THE BURDEN OF THAT RATE
15 INCREASE OVER SUCH A COMPRESSED PERIOD OF TIME FOR
16 A PROGRAM WE HAVEN'T YET STARTED. A MATURE PROGRAM
17 FIVE, SIX YEARS, WE CAN TALK ABOUT IT.
18 MR. DASENT: ARE THERE ANY OTHER CONCERNS
19 INCLUDING RESOURCES AS FAR AS THE START-UP PROGRAM
20 WHICH IS NOT EVEN FULLY CONCEPTUALIZED YET?
21 MS. LABUDA: OF COURSE THERE ARE. THE MORE
22 COMPLEX THE PROGRAM, THE MORE TRAINING AND
23 DEVELOPMENT WE ARE GOING TO NEED WITH THE
24 YET-TO-BE-HIRED STAFF. I WOULD LIKE TO CONTINUE TO

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1 STRESS THE IMPORTANCE OF FOLLOWING OUR CURRENT
2 APPROACH OF A DISCOUNT-BASED PROGRAM THAT WE KNOW
3 WE CAN IMPLEMENT SUCCESSFULLY. AND I THINK THAT'S
4 CRITICAL TO THIS PROGRAM.
5 MR. DASENT: MR. DAVIS, MR. COLTON ALSO
6 MENTIONED THAT IRAP WASN'T A START-UP PROGRAM GIVEN
7 WRAP LEGACY. GIVEN THE NATURE OF THE ORDINANCE
8 REQUIREMENTS WHICH ARE DIFFERENT FROM THE WRAP, DO
9 YOU AGREE OR DISAGREE?
10 MR. DAVIS: I DISAGREE THAT IT IS NOT NEW IN
11 THAT THERE ARE SO MANY OF THE DETAILS OF IT, MANY
12 OF WHICH ARE YET TO BE DETERMINED THAT ARE GOING TO
13 BE DIFFERENT. IT'S NOT STARTING FROM SCRATCH AS IT
14 WERE, BUT IT'S STARTING FROM SOME POINT THAT IS SO
15 DIFFERENT THAT IT'S ALMOST AS BAD OR ALMOST AS HARD
16 AS IF WE WERE STARTING FROM SCRATCH.
17 MR. DASENT: MR. DAVIS, THERE WAS ALSO
18 MENTION EARLIER TODAY OF THE MONTE CARLO METHOD AND
19 THERE POSSIBLY BEING AN OVERRECOVERY OF LOST
20 REVENUES. WHY IS CONSERVATISM IMPORTANT HERE?
21 MR. DAVIS: I THINK FOR THE REASONS THAT MS.
22 LABUDA MENTIONED. THE BOND COVENANTS OF THE
23 UTILITY REQUIRE THAT THE COLLECTIONS BE WITHIN THE
24 FISCAL YEAR. WE DON'T KNOW WHAT, WE DON'T KNOW

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1 GOING BACK TO MY TESTIMONY YESTERDAY OR MY CROSS
2 YESTERDAY, WE DON'T KNOW EXACTLY HOW MANY ELIGIBLE
3 CUSTOMERS THERE MIGHT BE. WE DON'T KNOW HOW MANY
4 OF THOSE MIGHT CHOOSE TO SUBSCRIBE TO THE PROGRAM.
5 AND BECAUSE OF THAT, WE DON'T KNOW WHAT THE COST OF
6 THE CUMULATIVE DISCOUNTS THAT WE OFFER MIGHT BE.
7 SO I THINK IT'S IMPERATIVE THAT WE BE
8 CONSERVATIVE ON THIS FIRST GO-AROUND UNTIL WE HAVE
9 SOME BETTER INFORMATION AND ARE ABLE TO MAKE MORE
10 INFORMED DECISIONS GOING FORWARD.
11 HEARING OFFICER: ON THE BETWEEN 10,000 AND
12 30,000. WOULD YOU DISAGREE THEN THAT IN THE FIRST
13 YEAR, THERE WILL BE A RAMP-UP AND THAT YOU WON'T
14 HAVE 30,000 FOR THE ENTIRE YEAR AND YOU MIGHT NOT
15 EVEN FOR THE SECOND YEAR?
16 MR. DAVIS: I THINK IT WOULD BE THE INTENT
17 TO HAVE FOLKS AS MUCH READY TO GO WHEN THE PROGRAM
18 KICKS OFF AS POSSIBLE. THAT WOULD SEEM TO MEET
19 KIND OF THE CRITERIA FOR SUCCESS THAT WE LAID OUT
20 BEFORE. THAT IS A CHALLENGE FROM A COMMUNICATION
21 STANDPOINT. BUT I THINK THAT WOULD BE THE INTENT,
22 THAT WE BE READY TO GO AND HOPEFULLY AS FULLY
23 SUBSCRIBED AS WE CAN GET AT THE VERY OUTSET.
24 HEARING OFFICER: I'M SORRY. MR. DASENT.

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1 MR. DASENT: THAT'S OKAY.
2 MR. DASENT: MR. DAVIS, JUST FOLLOWING UP.
3 IS IT CONCEIVABLE THERE WOULD BE MORE APPLICATION
4 THAN 30,000 IF YOU EXPECT A PARTICIPATION RATE OF
5 30,000?
6 MR. DAVIS: ABSOLUTELY. AND I THINK, AND
7 PERHAPS MS. BETHEL COULD BETTER SPEAK TO WHAT WE
8 EXPERIENCE NOW. I THINK WE HAVE PROBABLY
9 EXPERIENCE WELL ON THE ORDER OF, FOR 10,000
10 ENROLLEES, WE HAVE HOW MANY THOUSANDS?
11 MS. BETHEL: MICHELLE BETHEL. FOR THE
12 10,000 APPLICANTS WHICH ARE ACTIVE, WE GET ABOUT
13 20,000 APPLICATIONS FOR THE 10,000 THAT ARE
14 EVENTUALLY APPROVED INTO THE PROGRAM.
15 MR. DAVIS: SO IF WE JUST EXTEND THAT LOGIC
16 FOR 30,000 SUBSCRIBERS TO THE PROGRAM, IT WOULDN'T
17 BE OUT OF LINE TO THINK WE WOULD HAVE 60,000
18 APPLICATIONS THAT MIGHT HAVE TO BE PROCESSED.
19 MR. DASENT: MR. DAVIS, IN EXAMINING A
20 COMPARISON OF PER CAPITA COSTS UNDER MR. COLTON'S
21 PROPOSAL VERSUS YOUR PROPOSAL, HOW CAN YOU BE
22 REASONABLY ASSURED YOU ARE COMPARING APPLES TO
23 APPLES IN TERMS OF FIGURING OUT COST?
24 MR. DAVIS: I THINK, AND THIS WAS FOR A

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1 REQUEST I THINK THAT WE HAD EARLIER. I WAS JUST
2 CONCERNED THAT THE NUMBER THAT MR. COLTON HAD OF \$9
3 MILLION IS NOT APPLES TO APPLES WITH OUR
4 CORRESPONDING NUMBER OF \$16.3 MILLION.

5 HEARING OFFICER: BECAUSE?

6 MR. DAVIS: BECAUSE FOR ONE THING, HE
7 SUBTRACTS \$4 MILLION FOR CITY GRANTS. WE ARE
8 TAKING \$2.7 MILLION FROM CITY GRANTS. THE \$2.7 IS
9 NOT NETTED OUT OF THE \$16.3 IN OUR NUMBER. I GUESS
10 WHAT I WOULD ASK IS THAT WE HAVE CONTROL OVER HOW
11 OUR NUMBER IS PROJECTED TO MAKE SURE WE ARE LOOKING
12 AT APPLES TO APPLES.

13 MR. DASENT: IT ALSO CAME UP DURING
14 QUESTIONING TODAY OF MR. COLTON AND HIS ANSWERS
15 ABOUT THE VARIABILITY AND PARTICIPATION RATES OF
16 THE PROGRAM. CAN YOU KNOW FOR A START-UP PROGRAM
17 IF THERE WILL BE VARIABILITY AND PARTICIPATION
18 RATES FROM ONE YEAR TO THE NEXT?

19 MR. DAVIS: I THINK OUR EXPERIENCE WITH THE
20 WRAP PROGRAM WOULD TELL US THAT THERE IS OR THAT
21 THERE CERTAINLY CAN BE A LOT OF VARIABILITY FROM
22 ONE YEAR TO THE NEXT. AND IT GOES TO A LOT OF
23 ISSUES, WHETHER THEY BE ECONOMIC ISSUES THAT ARE IN
24 THE OVERALL ECONOMY OR JUST THE CHALLENGE OF

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1 COURT REPORTERS WHO HAVE BEEN SO FAITHFUL AND SO
2 QUICK. AND ALL THE PARTIES WHO HAVE BEEN SO
3 COOPERATIVE REALLY AND MADE THIS A REALLY, A
4 POSITIVE EXPERIENCE FROM THE BENCH POINT OF VIEW.
5 WE HAVE HAD A TREMENDOUS AMOUNT OF HELP FROM THE
6 PUBLIC WATER DEPARTMENT STAFF AND WE APPRECIATE
7 THAT. AND ALSO THE LAW DEPARTMENT, SPEAKING OF
8 FRANCES. AND I THINK WITH THAT, WE CAN SAY THANK
9 YOU.

10 MR. DELANEY.

11 MR. DELANEY: A QUESTION. DO YOU WANT TO
12 BRIEFLY DESCRIBE WHAT YOU WOULD LIKE TO SEE IN THE
13 BRIEFS? I UNDERSTAND THE ORDINANCE SAYS WE ARE
14 SUPPOSED TO PROVIDE SUMMARIES. WE COULD DO THAT IN
15 A COUPLE PARAGRAPHS.

16 HEARING OFFICER: YES. I DONT KNOW
17 WHETHER YOU WERE IN THE ROOM WHEN WE DISCUSSED THAT
18 SOMETIME NEXT WEEK AT LEAST THE DEPARTMENT AND THE
19 PUBLIC ADVOCATE WERE GOING TO SUBMIT WHAT THEY
20 CONSIDER TO BE THE LIST OF ISSUES THAT THEY THOUGHT
21 NEEDED A SPECIAL FOCUS. I SAID AT THE BEGINNING OF
22 THIS, OF THIS -- SO THAT WOULD GIVE SOME
23 INFORMATION.

24 I SAID AT THE BEGINNING OF THIS PROCESS,

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1 GETTING PEOPLE RE-ENROLLED AND USED TO RE-ENROLLING
2 ON A REGULAR SCHEDULE. THOSE NUMBERS DO FLUCTUATE
3 AT ANY GIVEN TIME. THEY COULD BE VERY DIFFERENT.

4 MR. DASENT: THAT'S ALL WE HAVE. THANK
5 YOU, YOUR HONOR.

6 HEARING OFFICER: IS THERE ANY CROSS ON THE
7 REJOINDER?

8 MR. BALLENGER: WE ASSUMED THAT WAS THE
9 LAST WORD ON THE SUBJECT. SO I DEFER.

10 HEARING OFFICER: IT'S THE LAST AFFIRMATIVE
11 TESTIMONY. I WILL ALLOW YOU TO CROSS IF YOU HAVE
12 SOME.

13 MR. BALLENGER: NOT FROM ME. ILL DEFER TO
14 JOSIE.

15 MS. PICKENS: WE ARE GOING TO WRAP.

16 HEARING OFFICER: SO THERE IS NO FURTHER
17 CROSS FROM PUBLIC ADVOCATE. ANY OTHER PARTIES?
18 (NO RESPONSE.)

19 HEARING OFFICER: HEARING NONE. THE BENCH?
20 (NO RESPONSE.)

21 HEARING OFFICER: SEEING NONE. I THINK WE
22 ARE DONE.

23 I WANT TO THANK SO HE MANY PEOPLE THAT IM
24 GOING TO FORGET ALL OF THEM. BUT CERTAINLY OUR

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1 THAT I WAS NOT GOING TO DEMAND THAT THE SUMMARIES
2 BE IN ANY GIVEN ORDER WITH IDENTIFYING THE SAME
3 PROBLEM IN THE SAME ORDER, THAT I'LL FIGURE THAT
4 OUT. SO I THINK YOU WOULD BE WELL ADVISED TO JUST
5 IMAGINE THIS TO BE A BRIEF AND PUT YOUR SUMMARY
6 THAT WAY. IT'S A SUMMARY OF YOUR ARGUMENTS AND THE
7 EVIDENCE IN THE RECORD THAT SUPPORTS YOUR
8 ARGUMENTS. AND WE MAY HAVE SOME LEGAL ARGUMENTS AS
9 WELL WHICH YOU ARE WELCOME TO PUT IN THE BRIEF.

10 MR. DASENT: OUR INTENT IS TO
11 COMPARTMENTALIZE IT IN SUCH A WAY THAT YOU CAN
12 LITERALLY SORT OF CUT AND PASTE FROM OUR RESPECTIVE
13 POSITIONS THOSE AREAS IN DISCRETE PARAGRAPHS THAT I
14 THINK COULD BE HELPFUL IN TERMS OF PUTTING TOGETHER
15 THE OVERALL FINDINGS.

16 HEARING OFFICER: ABSOLUTELY. I WAS ONLY
17 SAYING THAT I HAVE BEEN IN SOME CASES WE WERE
18 REQUIRED TO PUT, NEW YORK DOES THIS AND IT DRIVES
19 ME CRAZY. YOU ARE REQUIRED, THEY HAVE AN OUTLINE
20 OF THE BRIEF AND YOU HAVE TO FILE EVERYTHING
21 ACCORDING TO THAT OUTLINE. AND I JUST, I DONT
22 NEED THAT AND I DONT WANT THAT.

23 MR. DASENT: THANK YOU.

24 HEARING OFFICER: YOU ARE ALL FREE TO PUT

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1 WHAT IS PROMINENT FOR YOU WHERE YOU WANT TO PUT
2 IT. AND YOU MAY HAVE DIFFERENT OPINIONS ABOUT WHAT
3 THE CATEGORIES ARE. BUT WE DEFINITELY AGREE YOU
4 WILL WANT TO DIVIDE CATEGORIES.
5 IS THERE ANYTHING ELSE?
6 MR. POPOWSKY: WHAT WOULD BE HELPFUL TO ME
7 AT LEAST, AND I THINK I SAID THIS BEFORE, WAS FOR
8 EACH FISCAL YEAR 2017 AND 18, I'D LIKE TO KNOW WHAT
9 THE IMPACT ON THE RATE INCREASE, ON THE PROPOSED
10 RATE INCREASE IS OF EACH ADJUSTMENT. AND THAT NOW
11 WOULD INCLUDE MR. COLTON'S ADJUSTMENTS. SO THAT
12 WHEN THE BOARD COMES AROUND TO VOTING IN OUR PUBLIC
13 MEETINGS IN MAY, ALL OF US WILL KNOW WHAT THE
14 IMPACT OF EACH OF THOSE VOTES IS. AND I THINK
15 THOSE CAN BE PROVIDED ON A STAND-ALONE BASIS, I
16 THINK.
17 MR. BALLENGER: AS MR. MORGAN SORT OF
18 DESCRIBED, AND IN HIS ABSENCE, I WON'T REFER TO HIM
19 AGAIN, AS I BELIEVE A WITNESS HAS DESCRIBED, THERE
20 ARE INTERRELATIONSHIPS. SO OUR APPROACH IN THE
21 HEARING, PUBLIC ADVOCATE HEARING EXHIBIT 1 WAS SORT
22 OF ORDER OF MAGNITUDE. SO WITH THAT CAVEAT, WE ARE
23 HAPPY TO TRY TO DO THAT TO THE BEST OF OUR ABILITY
24 SO THE BOARD CAN SORT OF UNDERSTAND THE RELATIVE

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1 VALUE, ALTHOUGH IN ACTUALITY THAT MAY BE SOMEWHAT
2 DIFFERENT WHEN IT'S RUN THROUGH THE MODEL.
3 MR. POPOWSKY: I REALIZE. IF YOU CAN JUST
4 TELL US WHAT THOSE INTERPLAYS, WHAT THEY ARE. BUT
5 AGAIN FOR EACH, I THINK WE NEED TO KNOW, I THINK WE
6 ARE SETTING TWO SETS OF RATES HERE, 2017 AND 2018.
7 AND SO I THINK THAT'S WHY WE NEED TO HAVE THE
8 ADJUSTMENTS BROKEN DOWN BY FISCAL YEAR.
9 AND THE OTHER THING THAT WOULD JUST BE
10 HELPFUL TO ME IN TERMS OF THE BRIEFS IS I'D LIKE TO
11 UNDERSTAND FROM EACH OF THE PARTIES WHAT SORT OF
12 THE TARGET IS, WHAT SORT OF THE OPERATIVE TARGET IS
13 AND THE INTERPLAY BETWEEN THE RATE STABILIZATION
14 FUND, THE SENIOR DEBT COVERAGE RATIO AND THE OTHER
15 RATIOS. WHAT IS IT THAT WE ARE OBLIGATED TO MEET?
16 I THINK THE ORDINANCE SPELLS OUT CERTAIN
17 REQUIREMENTS. BUT I'D LIKE TO MAKE SURE I
18 UNDERSTAND IN TERMS OF NUMBERS WHAT IT IS THAT WE
19 ARE REQUIRED, WHAT THE GOAL HERE, WHAT THE GOAL
20 LINE IS. SO THAT'S WHAT I WOULD FIND USEFUL.
21 MR. BRUNWASSER: CLEARLY, THE BOARD IS
22 PROBABLY GOING TO BE INTERESTED IN THE ADJUSTMENTS
23 THAT MAKE THE BIGGEST IMPACT. SO YOU HAVE ALREADY
24 SAID THAT YOU WILL BE KIND OF USING THAT AS A GUIDE

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1 AS TO HOW YOU GO THROUGH THINGS. BUT YOU HAVE TO
2 REMEMBER THREE OF THE MEMBERS OF THE BOARD ARE TRUE
3 CIVILIANS AS FAR AS RATE-MAKING IS CONCERNED. AND
4 THE BOARD, WHEN IT MEETS, IS GOING TO DETERMINE
5 WHAT KIND OF ISSUES ARE IMPORTANT TO IT AND MAY NOT
6 TRACK EXACTLY AS THE CAUSE AND EFFECT OF THE
7 ADJUSTMENTS. AND WHATEVER THE BOARD BELIEVES IS
8 IMPORTANT AS A GROUP, WE WILL PROBABLY OPINE ON.
9 MR. BALLENGER: THANK YOU, MR. CHAIRMAN.
10 HEARING OFFICER: FINALLY, OFF THE RECORD.
11 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
12 RECORD.)
13 HEARING OFFICER: EVERYONE SEEMS TO BE IN
14 AGREEMENT THAT BEFORE THE BOARD MAKES ITS FINAL
15 DECISION, IT WILL BE USEFUL FOR THE DEPARTMENT TO
16 RUN THE NUMBERS AS THEY ARE TENTATIVELY DECIDED BY
17 THE BOARD. AND WE WILL AT SOME OTHER TIME NOT
18 DURING THE HEARINGS, DISCUSS THE TIMING OF THAT AND
19 THE PROTOCOLS. AGAIN, I WANT TO THANK EVERYBODY
20 AND THESE HEARINGS ARE OVER.
21 (WHEREUPON, THE HEARING WAS CONCLUDED AT
22 2:15 P.M.)
23
24

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1 REPORTER'S CERTIFICATION
2
3
4 I HEREBY CERTIFY THAT THE WITNESS WAS DULY
5 SWORN BY ME AND THAT THE DEPOSITION IS A TRUE
6 RECORD OF THE TESTIMONY GIVEN BY THE WITNESS.
7
8 _____
9 SHEILA J. KLOS
10 REGISTERED PROFESSIONAL REPORTER
11 COMMISSIONER OF DEEDS
12
13 (THE FOREGOING CERTIFICATION OF THIS
14 TRANSCRIPT DOES NOT APPLY TO ANY REPRODUCTION OF
15 THE SAME BY ANY MEANS, UNLESS UNDER THE DIRECT
16 CONTROL AND/OR SUPERVISION OF THE CERTIFYING
17 REPORTER.)
18
19
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