

RESPONSE TO
PUBLIC ADVOCATE'S INTERROGATORIES
AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
QUESTIONS 1-17

Dated: February 2021

1 **PA-VI-1.** REFER TO BLACK & VEATCH TESTIMONY AT PAGE 15. PLEASE
2 EXPLAIN WHY THE PROJECTED SALES FROM AQUA PENNSYLVANIA
3 AND THE WASTEWATER CUSTOMERS REMAIN UNCHANGED FOR 2022
4 AND 2023.

5
6 **RESPONSE:**

7 The projected receipts for Aqua PA and Wastewater Wholesale Customers as shown Page
8 15 are based on existing rates. As presented in PWD Statement 7A Schedule BV-5, Table
9 3-3 (Line 15), Table 6-4 (Line 16) and Table 6-5 the projected units of service for wholesale
10 customers are projected at the same level for FY 2022 and FY 2023. As existing rates and
11 projected volumes and loadings are the same, so are projected receipts.

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13 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-VI-2.** REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB.

2 A. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE
3 DERIVATION OF THE ACCOUNT ESCALATION FACTORS FOR THE
4 STUDY PERIOD.

5 B. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE
6 DERIVATION OF THE VOLUME ESCALATION FACTORS FOR THE
7 STUDY PERIOD.

8 C. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE
9 DERIVATION OF THE 1% ESCALATION FACTORS APPLIED TO OTHER
10 REVENUE.

11
12 **RESPONSE:**

13 A. As stated in PWD Statement 7A, Schedule BV-6: WP-1, accounts are assumed to
14 remain stable. As shown in PWD Exhibit 6, Customer-1 (Page 108) all escalation
15 factors are set to “Account - No Growth.”

16 B. Please refer to the response to PA-ADV-5 for the basis for the volume escalation
17 factors (as related to customer demand).

18 C. The referenced “Escalation Factor” of 1% is applied in the context of penalties. As
19 stated in PWD Statement 7A, Schedule BV-6: WP-1, the 1.0% is applied to billings
20 under existing rates for FY 2021 to estimate penalties. The 1.0% estimated ratio of
21 penalties to billings is based on the FY 2020 actual ratio of penalties to billings of
22 1.38% and the historical average ratio of 1.5% [see PWD Exhibit 6, Other Revenue-3
23 (page 219)]. The actual FY 2020 ratio of penalties to billings of 1.38% is equivalent
24 to the weighted average ratio of penalties to billings assuming 9 months at the
25 historical average ratio of 1.5% (prior to the impact of COVID) and 3 months at the
26 estimate of 1.0% (months impacted by waived penalties due to COVID) as
27 demonstrated in the following formula:
28

$$\frac{(9 \text{ months} \times 1.50\%) + (3 \text{ months} \times 1.00\%)}{12 \text{ months}} = 1.38\%$$

RESPONSE PROVIDED BY: Black & Veatch Management Consulting, LLC

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1 **PA-VI-3.** REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB. IN THE
2 ALLOCATION SECTION, PLEASE EXPLAIN WHY SEWER IS NOT
3 ALLOCATED A PORTION OF THE AVIATION AND STATE AND FEDERAL
4 GRANTS.

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6 **RESPONSE:**

7 The reference to “Aviation” in the Allocation Section of Assumptions-3 (page 26 of PWD
8 Exhibit 6) is a typographical error. This line item should state “Misc City Revenues.”
9 Consistent with historical experience and prior cost of service analyses Misc City Revenues
10 have been reflected as water system related revenues.

11
12 Consistent with historical experience and prior cost of service analyses, State and Federal
13 Grants are not allocated to the wastewater (sewer) system. The anticipated State and Federal
14 Grants are water system related.

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17 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-VI-4.** REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB. PLEASE
2 EXPLAIN THE RATIONALE FOR THE “ADDITIONAL REVENUE
3 COMPRESSION FACTOR”.

4
5 **RESPONSE:**

6 The “Additional Revenue Compression Factor” is utilized for the development of projected
7 additional revenues in years in which the proposed revenue increase is not put into effect
8 for a full fiscal year. As discussed in PWD Statement 7A, Schedule BV-6 on Page ES-9,
9 *“the proposed revenue increases are effective for 10 out of 12 months. By not implementing*
10 *increases for a full fiscal year, during the first fiscal year of a revenue increase, billings and*
11 *revenues are reduced and reflect about 98.16% of total combined revenues.”*

12
13 The Additional Revenue Compression Factor is utilized to reflect this circumstance.

14
15 The rationale, development and application of the Additional Revenue Compression Factor
16 is consistent with the prior rate proceeding.

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18 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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PA-VI-5. REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE DERIVATION OF THE O&M ESCALATION FACTORS DURING THE STUDY PERIOD.

RESPONSE:

As noted in PWD Statement 7A page 20 Lines 7 to 13, the basis for the O&M Escalation Factors is provided in PWD Statement 7A, Schedule BV-6: WP-1.

RESPONSE PROVIDED BY: Black & Veatch Management Consulting, LLC

- 1 **PA-VI-6.** REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB.
2 REGARDING THE CAPITAL ACCOUNT DEPOSIT,
3 A. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE
4 DERIVATION OF THE WATER/WASTEWATER PERCENTAGES.
5 B. PLEASE PROVIDE THE SUPPORTING DOCUMENTATION SHOWING THE
6 DERIVATION OF THE ESTIMATED INCREASE IN SYSTEM NET VALUE.
7
8

9 **RESPONSE:**

- 10 A. The capital account deposit is allocated to the water and wastewater systems based on
11 the allocation of plant investment reflected in the cost of service analysis as presented
12 in Tables W-8 and WW-9 of PWD Statement 7A, Schedule BV-1.
13 B. As stated in PWD Statement 7A, Schedule BV-6: WP-1, the net plant investment is
14 inflated 5.8% per year based on the average annual increase in net plant investment
15 during FY 2019 and FY 2020. The following table summarizes the supporting data
16 provided on PWD Exhibit 6, Assumptions-21 (Page 59).
17

Fiscal Year	Net Plant Investment	Annual Increase
2018	\$2,487,889,000	
2019	\$2,655,300,000	6.73%
2020	\$2,783,276,000	4.82%
Average		5.77%

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25 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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PA-VI-7. REFER TO PWD_FINPLAN21_22.XLSM, “ASSUMPTION #S” TAB.
REGARDING THE “RATE STABILIZATION FUND BALANCE
ALLOCATION B/W W & WW”. PLEASE PROVIDE THE DERIVATION OF
THE PERCENTAGES ALLOCATED TO WATER AND WASTEWATER.

RESPONSE:

Consistent with prior cost of service studies, the Rate Stabilization Fund Balance allocation between the water and wastewater systems is estimated based on the overall allocation of revenues.

RESPONSE PROVIDED BY: Black & Veatch Management Consulting, LLC

1 **PA-VI-8.** ACCORDING TO THE RESPONSE TO PA-ADV-8, THE “RELEASE FROM
2 DEBT SERVICE RESERVE” IS RELATED TO AN EXCESS IN THE DEBT
3 RESERVE ACCOUNT AND THAT THE RELEASE FROM DEBT SERVICE
4 RESERVE REFLECTS THE PROJECTION OF A TRANSFER OF FUNDS TO
5 THE REVENUE FUND. PLEASE EXPLAIN WHY, FOR FY 2021, THE
6 RELEASE FROM DEBT SERVICE RESERVE IS SHOWN AS REVENUE TO
7 THE DEPARTMENT.
8

9 **RESPONSE:**

10 Please refer to the response to PA-V-5.
11

12 The General Water and Wastewater Revenue Bond Ordinance of 1989, Section 4.09, Debt
13 Reserve Account, details that any money in the Debt Reserve Account in excess of the Debt
14 Reserve Requirement shall be transferred to the Revenue Fund.
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16 **RESPONSE PROVIDED BY:** Philadelphia Water Department and Black & Veatch
17 Management Consulting, LLC
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1 **PA-VI-9.** REGARDING THE SEWER SYSTEM OTHER REVENUE, WHY IS THE
2 DEPARTMENT PROJECTING \$0 FOR MISC. CITY REVENUE FOR FY 2021,
3 2022 AND 2023, WHEN THE HISTORICAL DATA SHOWS THE
4 DEPARTMENT RECEIVED MISC. CITY REVENUES EVERY YEAR FROM
5 2016 THROUGH 2020?
6

7 **RESPONSE:**

8 The presentation of the historical data (FY 2016 to FY 2020) of “Misc City Revenues” in
9 PWD Exhibit 6, Other Revenue-1 and Other Revenue-2 (Pages 217 and 218). See response
10 attachment PA-VI-9.pdf for the update of Other Revenue-1 and Other Revenue-2.
11

12 As stated in the response to PA-VI-3, consistent with historical experience and prior cost of
13 service analyses Misc. City Revenues have been reflected as water system related revenues.
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15 **RESPONSE PROVIDED BY:** Black & Veatch Management Consulting, LLC
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1 **PA-VI-10.** BEGINNING ON AT PAGE 37, LINE 13 OF MS. LA BUDA'S TESTIMONY,
2 UNDER CITY-WIDE BUDGETING AND ACCOUNTING POLICIES, PWD IS
3 NO LONGER ABLE TO PROCURE CERTAIN VEHICLE TYPES WITH
4 CAPITAL FUNDS AND MUST INSTEAD USE OPERATING FUNDS. WHAT
5 TYPES OF VEHICLES DOES THE RECENT CHANGE IN ACCOUNTING
6 AND BUDGETING POLICIES PRECLUDE FROM BEING PURCHASED
7 WITH CAPITAL FUNDS?
8

9 **RESPONSE:**

10 Per the City's capital eligibility guidelines vehicles that are considered equipment and have
11 a cost of at least \$100,000 and a useful life of at least 5 years are eligible to be purchased
12 with capital funds. As such any equipment which costs less than \$100,000 is purchased
13 with operating funds. Some examples of operating funded equipment purchases include
14 and are not limited to trailers, pick-up trucks, air compressors, pumps, generators, and
15 mowers.
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17 **RESPONSE PROVIDED BY:** Philadelphia Water Department
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1 **PA-VI-11.** PLEASE EXPLAIN WHY THE WATER AND WASTEWATER CAPITAL
2 BUDGETS EACH INCLUDE \$6 MILLION FOR VEHICLES AND IDENTIFY
3 THE TYPE OF VEHICLES THE DEPARTMENT HAS INCLUDED IN THE
4 WATER AND WASTEWATER CAPITAL BUDGETS.

5
6 **RESPONSE:**

7 Capital funded vehicle purchases include, but are not limited to, utility trucks, dump trucks,
8 large loaders, backhoes, inlet cleaning trucks, large trailers, and loader / skidsteers, etc.

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10 See response to PA-VI-10.

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12 **RESPONSE PROVIDED BY:** Philadelphia Water Department
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1 **PA-VI-12.** REFER TO THE TESTIMONY OF STEPHEN J. FURTEK AND TRISHA
2 GRACE. ACCORDING TO THE WITNESSES, THE FY 2022 CAPITAL
3 BUDGET OF \$378.9 MILLION IS \$232.5 MILLION LESS THAN THE FY 2021
4 CAPITAL BUDGET DUE TO THE DECREASE IN BIDDING PROJECTS IN
5 FY 2021 RELATED TO THE PANDEMIC. HOWEVER, FY 2021 IS NOT YET
6 COMPLETE.

7 A. HOW DID THE WITNESSES KNOW, IN THE FALL OF 2020, WHAT
8 PROJECTS WOULD ULTIMATELY BE BID DURING THE REMAINDER OF
9 FY 2021? PLEASE PROVIDE SUPPORTING EVIDENCE IN YOUR
10 RESPONSE.

11 B. THE WITNESSES CLAIM THAT FY 2021 IS SIGNIFICANTLY HIGHER
12 THAN FY 2022 AS A RESULT OF CARRYING FORWARD THE UNUSED FY
13 2021 APPROPRIATION. PLEASE EXPLAIN WHY THE DEPARTMENT
14 WOULD ADD THE UNUSED FY 2021 BUDGET APPROPRIATION TO THE
15 SAME YEAR (FY 2021) THAT IT STATES THERE WAS DECREASED
16 BIDDING BECAUSE OF THE PANDEMIC.

17
18 **RESPONSE:**

19 A. The Department's Operations Division evaluated which projects were of a critical
20 nature and should not be delayed in the Fall of 2020.

21 B. The approved and unused portion of the Department's FY 2021 capital program is
22 available for use in FY 2022. In FY 2021 there was an understanding that as stated in
23 the response to part A above that the FY 2021 capital budget would not be fully
24 encumbered and instead approximately \$230 million of the FY 2021 budget would be
25 delayed and carried forward to FY 2022. For that reason, the Department lowered the
26 FY 2022 request by this approximate amount.

27
28 **RESPONSE PROVIDED BY:** Steve Furtek, Philadelphia Water Department

1 **PA-VI-13.** MS. LA BUDA STATES THAT "...IN APRIL 2020, THE WATER
2 DEPARTMENT SUBMITTED ITS PROPOSED FY 2021 BUDGET PROPOSAL
3 TO THE CITY'S BUDGET BUREAU - REFLECTING THE REDUCTIONS
4 DISCUSSED EARLIER IN MY TESTIMONY."

5 A. IS IT CORRECT THAT THE BUDGET PRESENTED IN APRIL WAS A
6 REVISED BUDGET?

7 B. PLEASE EXPLAIN WHETHER CHANGES TO THE CAPITAL BUDGET
8 WOULD HAVE BEEN REFLECTED IN THE APRIL 2020 BUDGET
9 SUBMISSION. IF NO, WHY NOT, ASSUMING THIS WAS A REVISED
10 BUDGET.

11
12 **RESPONSE:**

13 A. Yes.

14 B. The April 2020 budget submission did not reflect any changes to the capital budget
15 since at that time the severity and length of the pandemic and its effects were
16 unknown. There was an understanding that the Department would adjust the FY
17 2022 budget in the Fall of 2020 once we had a better handle on the impacts of the
18 pandemic.

19 **RESPONSE PROVIDED BY:** Steve Furtek, Philadelphia Water Department
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1 **PA-VI-14.** ACCORDING TO MR. HAYMAN, PWD HAS ALSO POSTPONED THE
2 IMPLEMENTATION OF CERTAIN NON-CRITICAL CAPITAL PROJECTS
3 TO FOCUS ON MAJOR SYSTEM IMPROVEMENTS. PLEASE EXPLAIN
4 HOW THE POSTPONEMENT IS REFLECTED IN THE CAPITAL BUDGETS.

5
6 **RESPONSE:**

7 The postponement of non-critical projects will result in the FY 2021 capital budget not being
8 fully encumbered. For this reason, the FY 2022 capital budget submission was lowered to
9 acknowledge these differences.

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11 **RESPONSE PROVIDED BY:** Steve Furtek, Philadelphia Water Department
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1 **PA-VI-15.** ACCORDING TO A RECENT STORY IN THE PHILADELPHIA INQUIRER,
2 THE CITY HAS RECEIVED A \$100 MILLION LOAN TO BUILD A
3 POLLUTION CONTROL FACILITY.

4 A. PLEASE EXPLAIN WHETHER THE COST OF THE FACILITY IS INCLUDED
5 IN THE COST OF SERVICE IN THIS PROCEEDING.

6 B. PLEASE INDICATE WHETHER THE COSTS OF THIS LOAN IS INCLUDED
7 IN THE COST OF SERVICE. IF SO, PLEASE PROVIDE THE INTEREST
8 RATE, ISSUANCE COSTS AND THE TERMS OF THE LOAN.

9 C. PLEASE INDICATE WHETHER THE DEPARTMENT INTENDS TO RETIRE
10 ANY OUTSTANDING DEBT WITH PART OF THE PROCEEDS FROM THIS
11 LOAN. IF YES, PLEASE IDENTIFY THE LOAN THAT THE DEPARTMENT
12 INTENDS TO RETIRE.

13
14 **RESPONSE:**

15 A. Yes. This project is included in the Capital Program and the overall financing required
16 to support the program is reflected in the Cost of Service.

17 B. The specific borrowing costs associated with this project were not known at the time of
18 the development of the Cost of Service Study. The financing needed for this project
19 during the Rate Period would be provided via the Commercial Paper (CP) program. The
20 details of the CP program are discussed in the response to Q18 of PWD Statement 7A.

21 C. No, the Department does not plan on retiring other outstanding debt.
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23 **RESPONSE PROVIDED BY:** Philadelphia Water Department and Black & Veatch
24 Management Consulting, LLC
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PA-VI-16. PLEASE PROVIDE THE TOTAL ANTICIPATED COSTS OF THIS RATE CASE BY ISSUE AREA AND SERVICE PROVIDER. IN YOUR RESPONSE, PLEASE SHOW HOW THE RATE CASE EXPENSES ARE REFLECTED IN THE COST OF SERVICE IN THIS PROCEEDING.

RESPONSE:

Please refer to response attachment PA-VI-16 and 17.

RESPONSE PROVIDED BY: Philadelphia Water Department

1 **PA-VI-17.** PLEASE SEPARATELY PROVIDE THE TOTAL COSTS OF THE
2 DEPARTMENT'S LAST TWO RATE CASES BY ISSUE AREA AND
3 SERVICE PROVIDER.
4

5 **RESPONSE:**

6 Please refer to response attachment PA-VI-16 and 17.
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8 **RESPONSE PROVIDED BY:** Philadelphia Water Department
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