

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

1. Please confirm or deny whether you agree with the terms of the Stipulation entered into between the Advocate and PWD (dated April 5, 2022).

Response:

As the Public Advocate's witness, I was consulted regarding the Stipulation and am aware that the Public Advocate has agreed to it. My testimony is consistent with the Stipulation.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

2. Is your testimony to be reconciled or read as consistent with the Stipulation?

Response:

As stated on page 4, line 15 of my direct testimony, the Settlement contained a reconciliation procedure to which PWD and the Public Advocate agreed. My testimony is consistent with the reconciliation procedure that was included in the Settlement. I have presented my position based upon the approach that is outlined in Paragraph 11.A.(2)(a) of the Settlement. In addition, I have not presented new adjustments, or revised the assumptions used in the 2021 rate proceeding. I have not attempted to recalculate or revise the cost of service that was used in the last proceeding or present new projections as if they are known and certain. My testimony is consistent with the Stipulation, in that it determines a minimum threshold, calculates an amount to be shared (\$10.7 Million) and proposes how such amount should be shared (\$6.6 Million returned to customers in reduced rates). I have utilized the updated Financial Model only for limited purposes, as provided in the Stipulation.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

3. Based on the following statements from your testimony:

Related to that is the argument that no minimum threshold was established for the RSF in the Settlement or the 2021 Rate Determination. (page 6, lines 12-13).

Both the Public Advocate and PWD acknowledge that a minimum threshold was not defined in the 2021 Rate Determination. (page 14, lines 7-8).

Please confirm or deny whether the minimum threshold for the RSF is an issue to be litigated in this 2022 Special Rate Proceeding.

Response:

Section F of the Settlement states:

“It is agreed and understood that the following issues are reserved for litigation: (a) the Department’s proposal for implementation of arrearage forgiveness (which was challenged by the Public Advocate who presented an alternative proposal); (b) the Department’s proposal for cost recovery of arrearage forgiveness through the TAP Rider (which was challenged by the Public Advocate who presented an alternative proposal); and (c) those issues raised by the individuals who, as active participants, opposed the proposed increased rates and charges by the Department and who expressed opposition to the Partial Settlement.”

As I am not a lawyer, I am only able to confirm that Paragraph 4 of the Stipulation states that the minimum threshold must be litigated as a part of the SRP.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

4. Is the term the “minimum threshold” defined in 2021 Settlement? If so, please state the definition and its location in the 2021 Settlement.

Response:

As stated on page 14, lines 7 and 8 of my direct testimony, “[b]oth the Public Advocate and PWD acknowledge that a minimum threshold was not defined in the 2021 Rate Determination.”

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

5. Would using a "minimum threshold" of zero conflict with or violate any provision in the 2021 Settlement, the 2021 Rate Determination, Rate Board Regulations, the Rate Ordinance, the City Charter? If so, please explain the conflict or violation.

Response:

As I am not a lawyer, I am unable to opine as to whether the use of a minimum threshold of zero would violate the identified sources as it calls for me to make a legal conclusion. However, to my knowledge, the possibility of a minimum threshold of zero was not a consideration during the Settlement discussion. I also did not consider recommending the minimum threshold of zero in my direct testimony.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

6. Would using a "minimum threshold" of \$120 million conflict with or violate any provision in the 2021 Settlement, the 2021 Rate Determination, Rate Board Regulations, the Rate Ordinance, the City Charter? If so, please explain the conflict or violation.

Response:

As I am not a lawyer, I am unable to opine as to whether the use of a minimum threshold of \$120 million would violate the identified sources as it calls for me to make a legal conclusion. However, the use of a minimum threshold of \$120 million is not specified in any of the listed sources. It should be noted that a minimum threshold of \$120 million is not the Public Advocate recommendation.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

7. Would using a "minimum threshold" of \$135 million conflict with or violate any provision in the 2021 Settlement, the 2021 Rate Determination, Rate Board Regulations, the Rate Ordinance, the City Charter? If so, please explain the conflict or violation.

Response:

As I am not a lawyer, I am unable to opine as to whether the use of a minimum threshold of \$135 million would violate the identified sources as it calls for me to make a legal conclusion. However, the use of a minimum threshold of \$135 million is not specified in any of the listed sources. It should be noted that a minimum threshold of \$135 million is not the Public Advocate recommendation.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

8. Would using a "minimum threshold" of \$150 million conflict with or violate any provision in the 2021 Settlement, the 2021 Rate Determination, Rate Board Regulations, the Rate Ordinance, the City Charter? If so, please explain the conflict or violation.

Response:

As I am not a lawyer, I am unable to opine as to whether the use of a minimum threshold of \$150 million would violate the identified sources as it calls for me to make a legal conclusion. However, the use of a minimum threshold of \$150 million is not specified in any of the listed sources. It should be noted that a minimum threshold of \$150 million is not the Public Advocate recommendation.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

9. With reference to PA Statement 1 at 19-20: Please explain how your recommendations are consistent with the Stipulation negotiated between PWD and the Advocate with regard to the calculation of the FY 2021 Financial Performance Adjustment.

Response:

On page 5, lines 1 through 21 of my direct testimony and Paragraph 11.A.(2)(a)(i) and Paragraph 11.A.(2)(a)(ii) of the Settlement contained a reconciliation procedure. My recommendations are consistent Settlement reconciliation procedure, which was not modified by the Stipulation. See also responses to Questions 2, 27 and 28.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

10. Based on the "Actual FY 2021" data presented on pages 9 and 12 of your testimony and the 2021 data presented in Exhibit LKM-1:
- (A) Confirm or Deny that the "Actual FY 2021" data for Operating Revenues: Water Service – Existing Rates and Operating Revenues: Wastewater Service – Existing Rates presented on pages 9 and 12 of your testimony reflect the calculated FY 2021 revenues based on the FY 2020 water and wastewater rate schedules (effective during FY 2021), actual FY 2021 billing statistics (accounts, billed volumes, billable parcels, and billable IA and GA), and the FY 2021 collection factors as provided in the B&V model supporting BV-4.
- (B) Confirm or deny that the "Actual FY 2021" data for Operating Revenues: Total Service Revenue – Existing Rates presented on pages 9 and 12 or your testimony (\$714,888) is greater than the FY 2021 Operating Revenues: Total Service Revenue – Existing Rates (\$705,612) presented in LKM-1.
- (C) Confirm or deny that the 2021 data presented in LKM-1 is consistent with the 2021 data provided in the Simple Model for the 2022 Rate Reconciliation Proceeding provided to the special rate proceeding participants by the Hearing Officer on March 22, 2022.
- (D) Confirm or deny that the 2021 data for Total Revenue (\$730,451) presented on Line 16 of LKM-1 and the Simple Model for the 2022 Rate Reconciliation Proceeding is consistent with Schedule ML-2 and interrogatory response PA-I-13.

Response:

- A. Confirmed.
- B. Confirmed. It should be noted that the FY 2021 Operating Revenues presented in LKM-1 do not represent the actual FY 2021 revenues. On page 20, lines 7 and 8 of my testimony, I also state Schedule LKM-1 was presented for illustrative purposes.
- C. Confirmed. As stated above, Schedule LKM-1 was presented for illustrative purposes. I have made no representations that the amounts are the actual 2021 results.
- D. Confirmed.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

11. Based on the following statement on page 17 (lines 8-11) of your testimony:

“The model utilized to produce Schedule BV-4 does not use PWD’s FY 2021 financial results as supplied in response to PA-I-13. Accordingly, PWD’s consultants have used a starting point for projections that is inconsistent with PWD’s FY 2021 financial results.”

Why do you present the referenced data from the model as “Actual FY 2021” data on pages 9 and 12 of your testimony?

Response:

In the Financial Performance section Schedule ML-2, the \$730,451,031 is referred to as the preliminary Final Results. Black & Veatch states on ES-1 that “The updated forecast begins with preliminary final results from FY 2021...” Given that Black & Veatch provides the cost of service projections, I assumed that its “preliminary final results” were as close as we could get in this proceeding to the actuals.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

12. With reference to PA Statement 1 at 9 (Table): Please identify source information, provide work papers and an explanation as to how the information in this table was compiled.

Response:

The amounts in the "Actual 2021" are taken from the electronic worksheets for Schedule BV-4. (See Attachment 12-1). The amounts in the "Formal Notice Projection 2021" are taken from Schedule BV-1 from the Formal Notice in the 2021 rate proceeding. (See Attachment 12-2)

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

13. With reference to PA Statement 1 at 12 (Table): Please identify source information, provide work papers and an explanation as to how the information in this table was compiled.

Response:

The amounts in the "Actual 2021" are taken from the electronic worksheets for Schedule BV-4. (See Attachment 12-1). The amounts in the "Rate Order Projection 2021" are taken from the electronic worksheets file: "PWD_FinPlan21_23_Settlement.xlm" (See Attachment 13-1.)

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

14. With reference to PA Statement 1 at 13 (line 10): Please confirm the date when Hurricane Ida occurred.

Response:

Hurricane Ida made landfall on August 29, 2021.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

15. With reference to PA Statement 1 at 15 (lines 8-10): Please confirm or deny that the 2021 Rate Determination (dated June 16, 2021) approved a "black box" Settlement of the 2021 general rate case ("2021 Settlement").

Response:

Confirmed.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

16. If Question 15 is answered in the affirmative, please define what a black box settlement represents.

Response:

A black box settlement is a settlement in which the components and the derivation of the settlement amount are not disclosed.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

17. Are projections of specific revenue requirements approved in a black box settlement?

Response:

A black box settlement discloses the total revenues to be generated from the agreed upon settlement.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

18. With reference to PA Statement 1 at 12 (Table): In the context of the 2021 Settlement, were specific projections approved by the Rate Board as represented in the Table (under heading "Rate Order Projections 2021")?

Response:

The settlement proposed increases in FY 2022 and FY 2023 over FY 2021 projected revenues from rates. However, the Settlement did not disclose the specific projections of 2021 revenues on which the increases were premised.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

19. With reference to PA Statement 1 at 13 (line 5): You indicate that PWD “over performed” in FY 2021. Please describe financial over performance as you mean it in your testimony.

Response:

Over perform indicates the Company achieved better financial results than it projected despite the challenges being faced.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

20. With reference to PA Statement 1 at 13 (line 5): Please explain how PWD financial over performance in FY 2021 is to be measured under the terms and conditions of the 2021 Settlement.

Response:

PWD's over performance is discussed beginning on page 8, line through page 14, line 3.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

21. With reference to PA Statement 1 at 13 (line 10): Please explain why the \$13.217 million Construction Fund transfer was made in FY 2021.

Response:

I did not inquire as to the specific reason for the transfer to the construction fund. Generally, the Construction Fund only may be used to pay capital expenditures, such as, the costs of acquiring or constructing new assets.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

22. With reference to PA Statement 1 at 15 (line 1): Please explain your statement that the RSF "balance of concern is \$120 million, not \$135 million."

Response:

On Page 3 of S&P's Ratings Report, it is stated:

"If PWD's financial results indicate a rate covenant violation, then we would likely lower the rating. If we believe that future rate covenant compliance is likely to rely on unplanned additional rate increases to achieve revenue requirements, deplete the RSF below the targeted \$120 million indicated in its current projections, or require significant capital or COA project delays, we would likely lower the rating."

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

23. With reference to PA Statement 1 at 18-19: Please confirm or deny that savings related to lower pension fund contributions as identified during the 2021 rate proceeding are reflected in the following:
- (A) The 2021 Settlement; and/or
 - (B) Schedule BV-4.

Response:

- A. Denied. The Settlement was a black box.
- B. Schedule BV-4 was not evaluated in depth because it was beyond the scope of this proceeding. Therefore, I am unable to affirmatively state whether the lower pension expense is included in BV-4.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

24. If Question 23 is answered in the negative for either (A) and/or (B), please explain the basis for your conclusion that savings related to PWD pension fund contributions are not included in projections for FY 2022 and 2023.

Response:

Please see the response to Question 23.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

25. With reference to PA Statement 1 at 19-20: Please confirm or deny that the funds in the Residual Fund balance can be utilized for purposes of debt service coverage.

Response:

The question is not clear. Balances in the Residual Fund have been "counted" for purposes of calculating debt service coverage.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

26. If your response to Question 25 is in the affirmative, please explain how your proposed adjustment (\$1.24 million reduction) would theoretically affect debt service coverage and the rate stabilization fund balance in FY 2021.

Response:

The adjustment I propose is to FY 2023 rates and charges and would not have any impact on FY 2021. However, in general, if funds are deposited in the Rate Stabilization Fund instead of the Residual Fund, the Rate Stabilization Fund would show a higher balance and PWD's senior debt service coverage would be lower. I also note that according to the B&V's Financial Plan Model, PWD's FY 2021 senior debt service coverage rounds to 1.28x, not 1.27x ($\$238,197,000 / \$186,158,000 = 1.27954$).

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

27. With reference to PA Statement 1 at 18-19: Please explain why the Residual Fund adjustment is not subject to the 50/50 split proposed for the other component of your FY 2021 Financial Performance Adjustment.

Response:

My testimony does not propose an adjustment to the Residual Fund. My testimony proposes that \$6.6 million of PWD's FY 2021 out-performance be shared with customers, taking into account multiple considerations.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

28. With reference to PA Statement 1 at 18-19: Please explain how the adjustment based on the Residual Fund balance is consistent with the 2021 Settlement terms and conditions.

Response:

See Response to Question 27. The Settlement did not dictate how PWD outperformance would be shared.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

29. With reference to the following statement on page 4 (lines 21-23) of your testimony:

“When combined, the Settlement resulted in an authorization of \$57.521 million increase in PWD’s rates over the two-year rate period...”

Please provide the basis of the \$57.521 million PWD rate revenue increase over the two-year rate period.

Response:

The referenced statement contains an error. As shown in the 2021 Rate Determination, page 35, the Settlement resulted in \$57.422 million increase over the two-year period.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

30. With reference to the following statement on page 8 (lines 3-9) of your testimony:

“The Department argued that if my recommendation were [accepted], it would force the Department to make operational cuts that will reduce customer service levels; it would delay necessary capital improvements that will result in higher incurred costs; and it would jeopardize the Department’s financial condition. Ultimately, the Department was granted only \$10.4 million, or 21 percent of its request for FY 2022. Yet, as shown below, the Department has outperformed the metrics that are used to determine the adequacy of its rates.”

(A) Verify that both your recommendation and the \$10.4 million granted revenue increase referenced in this statement relate to FY 2022.

(B) How would the referenced recommendation or granted revenue increase for FY 2022 impact the Department’s outperformance in FY 2021.

Response:

A. Correct.

B. It would not. The referenced statement supports that PWD will continue to outperform its projections.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

31. With reference to the following statement on page 16 (lines 18-20) of your testimony:

“Black & Veatch assumes some outperformance in service revenues (just under 3% outperformance in revenues under existing rates in FY 2022 and FY 2023)...”

(A) Verify or deny that “just under 3%” outperformance in service revenues is based on a comparison of the revenues under existing (FY 2022) rates presented in BV-4 (Line 3 of Table C-1) and revenues under existing (FY 2021) rates presented in the Settlement (Line 3 of Table C-1).

(B) If your response to part A is denied, please provide the calculations supporting the “just under 3%” outperformance.

Response:

A. Confirmed.

B. See A.

PHILADELPHIA WATER DEPARTMENT
Special Rate Proceeding
Responses to PWD's Interrogatories and Requests for Production of Documents
to The Public Advocate
Set I

32. With reference to the following statement on page 16 (lines 21-22) of your testimony regarding the revenue projections presented in Schedule BV-4:

“Black & Veatch estimates PWD's FY 2022 revenues to be lower than FY 2021's actual results...”

Verify or deny that the FY 2022 Total Service Revenue - Existing Rates (Line 3 of Table C-1) presented in BV-4 is \$8.8 million greater than Total Service Revenue - Existing Rates as presented in LKM-1 for FY 2021 (line 3).

Response:

The referenced statement is based upon a comparison of service revenues as shown in B&V's updated Financial Plan model. The model shows total service revenues of \$714,888 for FY 2021 and total service revenues of \$714,412 for FY 2022.