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

In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges	**:**	**Fiscal Years 2024 – 2025 Rates and Charges to Become Effective September 1, 2023 and September 1, 2024**

PUBLIC ADVOCATES DISCOVERY REQUESTS & REQUESTS FOR PRODUCTION OF DOCUMENTS

SET III

PA-III-1. Reference the discussion on PWD Statement 2A at page 6, line 8, relating to PWD's cash reserve. Please provide PWD's cash reserve targets for FY 2023, 2024 and 2025.

PA-III-2. According to PWD Statement 2A at page 6, lines 12 through 15, without rate relief, the Department would not be able to meet the 90% test in FY 2025 and could deplete the Rate Stabilization Fund balance by the end of FY 2025. Please identify and explain all cost control measures and solutions that PWD has considered and has on standby in the event the projected operating results materialize. If the rate increase is the only solution contemplated by PWD, please state so.

PA-III-3. Please indicate whether any portion of PWD's management compensation is pegged to cost control or the revenues of the utility.

a. If yes, please provide a copy of the compensation plan document that describes how the plan works and identifies the specific goals or targets that must be met before any payments are made under the plan.

b. If the goals or targets vary from year to year, please provide the goals or targets for FY 2023, 2024 and 2025.

PA-III-4. If no portion of management compensation is tied to cost control or revenues goals, please identify the tools that are used to incentivize management to control costs.

PA-III-5. Reference PWD Statement 2A at page 6, line 21. Please define "under stress" as used in this sentence. In your response, please identify and quantify the metrics used to measure the amount of stress being experienced by PWD.

PA-III-6. On page 6, line 21 of PWD Statement 2A, it states that PWD's financial condition is under stress due to increased costs, since the 2021 general rate case.

a. Please explain how PWD could be under stress when the Financial Panel states on page 8 of its testimony, that FY 2022 revenues were higher than projected, and expenses were lower than projected.

b. Does PWD agree that the combination of higher revenues and lower expenses results in higher net revenues? If no, please explain.

PA-III-7. Please provide the basis for the statement beginning on page 7, line 2 that during FY 2023, PWD revenue requirements increased significantly above the level of authorized revenues. Please explain how this statement can be made at this point in time when FY 2023 has not yet ended.

PA-III-8. On page 13 of PWD Statement 2A, it states "[f]rom both an operational and a credit rating perspective it is essential for the Department to sustain debt service coverage levels significantly above the minimum levels required by the Rate Covenants to provide rating agencies and bondholders comfort that the Department is not continually operating at the edge of an event that would cause a violation of the Rate Covenants."

a. Please provide any documented evidence that supports this statement.

b. Please indicate and quantify what would be considered "significantly above the minimum levels required by the Rate Covenants".

PA-III-9. According to page 15, line 1 of PWD Statement 2A, "due to current circumstances, PWD proposes to forego certain financial targets during the Rate Period". Please identify the specific circumstances causing PWD to forego the financial targets.

PA-III-10. Beginning on page 12, line 24 of PWD Statement 2A, it states "PWD is requesting that the Rate Board affirm its approval of the specific financial metrics authorized in the 2018 general rate proceeding. These metrics are incorporated in the Department's updated Financial Plan and include the following: (i) targeting pay-go funding of at least 20% of the Department's capital program from current revenues; (ii) targeting a Senior Debt Service Coverage Ratio of 1.30x; and (iii) maintaining $150 million as the combined target for cash reserves in the Rate Stabilization and Residual Funds". Please explain how the Board can reaffirm the metrics listed above when PWD proposes to forego the percentage of capital funding from current revenues, the target Rate Stabilization Fund goal of $135 million, and the Debt Service Coverage of 1.30 times.

PA-III-11. Given that PWD is foregoing meeting the target financial metrics specified in the 2018 general rate case, please explain how PWD will convince rating agencies and bondholders that PWD is not continually operating at the edge of an event that would cause a violation of the Rate Covenants.

PA-III-12. Please identify the specific financial difficulties the Department is facing in FY2023, as stated on page 16, line 17 of PWD Statement 2A and provide evidence demonstrating the financial difficulties.

PA-III-13. Is it a correct understanding of PWD Statement 2A that the rate increase, as requested by PWD, will avoid a "credit rating downgrade or market access deterioration" even though that proposed rate increase would result in target financial metrics which PWD previously argued would cause a ratings downgrade? Please fully explain.

PA-III-14. According to PWD Statement 7, beginning at page 10, line 21, the requested rate increases and accompanying TAP-R surcharge revenues will allow PWD to meet target financial metrics. Please identify and quantify the specific target financial metrics that Black & Veatch believes PWD should attain.

PA-III-15. According to PWD Statement 7, beginning at page 14, line 25, Vicinity plans to reduce its overall water usage which will result in Vicinity receiving limited water service, sewer and stormwater services. Please provide the expected usage volume and revenues for each of these services for FY 2024 and 2025. Please show how these revenues were reflected in the cost of service.

PA-III-16. Please provide the data used to calculate the 90,000,000 cubic feet for each year of the three years used in the average relating to the loss of Vicinity.

PA-III-17. Please explain what actions were taken by PWD to retain Vicinity as a customer.

PA-III-18. Reference PWD Statement 7, beginning at page 15, line 9,

a. Please provide the billed volumes and loadings data used to calculate the estimated three-year average.

b. If not provided above, please provide the supporting calculation in electronic format with the formulae intact.

PA-III-19. Please provide a narrative that explains what the hydraulic and hydrologic ("H&H") modeling is. In your response, please include the following:

a. Please explain how the H&H modeling results in a lower allocation of LTCPU costs.

b. An explanation of what LTCPU costs are, whether they are assessed of PWD or the wholesale customers.

c. Please explain how the wholesale customers were billed for these costs.

d. Since the H&H modeling results in a reduction of costs allocated to wholesale customers, what happens to the costs that were formerly allocated to the wholesale customers?

PA-III-20. Reference PWD Statement 7 at 15-16, if the adjustments to reflect wholesale wastewater customers anticipated revenues is intended to reflect a reduction in costs that were allocated to wholesale customers, did PWD make an adjustment to the cost of service to remove the costs that were previously allocated? If no, please explain why.

PA-III-21. Reference PWD Statement 7, beginning at page 19, line 22. In PWD FY 2022-2023 rate increase filing, Black & Veatch stated on page 19, line 23, that the Finance Department Spend Factor specifically excluded FY 2020 data because the FY 2020 data included non-typical expenses. Why is Black & Veatch now including FY 2020 in determining the Finance Department Spend Factor in this proceeding?

PA-III-22. Reference PWD Statement 7, beginning at page 20, line 13. Please identify each object class O&M expense for which PWD developed a planned budget increase in FY 2024. For each item, identify the FY 2022 actual amount, the FY 2023 budget amount and the FY 2024 budget amount. Include all supporting workpapers, calculations and assumptions.

PA-III-23. Regarding the power and gas costs, please provide the supporting documentation for the FY 2023 and 2024 amounts.

PA-III-24. Please provide the supporting documentation for the FY 2023 and 2024 chemical expense.

PA-III-25. Please provide the source documentation for the Chemical cost escalation factors of 23.82% and 11.43% identified on page 23, lines 11 and 12 of PWD Statement 7.

PA-III-26. Please provide the supporting documentation for the $8.9 million increase in Services costs identified on page 24, line 5 of PWD Statement 7.

PA-III-27. Please identify and provide copies of each service contract subject to inflation escalation and provide the current annual costs.

PA-III-28. Please provide the source documents for the 7.77%, 6.7% and 4.69% escalation factors identified on page 24, lines 12 to 15 of Statement PWD Statement 7.

PA-III-29. According to PWD Statement 7, at page 24, lines 19 to 21, "[i]n addition to planned increases in equipment purchases in FY 2024, Black & Veatch also applied escalation factors to estimated FY 2023 expenses to project equipment expenses." Please explain how this was calculated. Does this mean the FY 2024 equipment purchases amount was added to the escalated FY 2023 expenses amount?

PA-III-30. Please provide a breakdown of the items included in the FY 2024 equipment purchases and the related amount.

PA-III-31. Please provide the source documents for the 10.12%, 9.41% and 6.63% escalation factors identified on page 24, lines 21 to 24 of Statement PWD Statement 7.