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 Charges	Fiscal Years 2024-2025

EXCEPTIONS TO HEARING OFFICER'S REPORT SUBMITTED ON BEHALF OF PHILADELPHIA WATER DEPARTMENT

I. INTRODUCTION

The Philadelphia Water Department ("PWD" or "Department") files these Exceptions to the Hearing Officer's Report, dated May 30, 2023 (the "Report"), rendered by Marlane R. Chestnut (the "Hearing Officer") in the above-captioned proceeding before the Philadelphia Water, Sewer, and Storm Water Rate Board ("Rate Board"). The Department has briefed the issues addressed in the Report and urges the Board to reconcile the Hearing Officer's recommendations with these Exceptions in its deliberations.

Rate Board Regulations provide that a Participant filing exceptions shall identify any discussion or recommendation to which exception is taken and the supporting reasons for the exceptions, and/or indicate that its position has been misstated, that a false impression was created, or that an error or omission has been made.[1] The discussion below identifies five exceptions related to the following subjects in the Report: (A) sales volume projections; (B) inflation escalation factors; (C) increased revenue attributable to the Tiered Assistance Program ("TAP") Rate Rider Surcharge Rate ("TAP-R"); (D) administrative actions exceeding the Board's authority; and (E)

[1] *See*, Rate Board Regulations at §II.B.(6)(a)(2).

utilization of the Simple Model to calculate revenue requirements in the Report.

II. EXCEPTIONS

A. The Report Errs in Rejecting PWD Sales Volume Projections.

The Report errs in rejecting the Department's projection of billed volumes per account by customer type based on FY 2022 data (one year period).[2] Instead, the Report adopts the Public Advocate's projection based on a three-year average of sales volume per account for the period FY 2020, FY 2021 and FY 2022.[3] In this context, the Hearing Officer indicates that it is advisable to use a multi-year period to normalize revenues and expenses, and that it is appropriate to do so here.[4]

As noted in the record, PWD has observed a continuing decline in usage per account over the past five years.[5] This trend is reflected in Rate Board decisions in connection with the 2016, 2018 and 2021 rate proceedings.[6] PWD expects this trend is continuing in its service territory and nationally.

The Department submits that it is a mistake to use an average of FY 2020, FY 2021 and FY 2022 data for purposes of this projection. In utilizing the three-year period (FY 2020 through FY 2022), the Report (i) overlooks the pandemic and its anomalous impact on usage; and (ii) discounts the recent developments with regard to Vicinity Energy's ("Vicinity") construction of

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2 Report at 27-29.

3 *Id*. As stated in the Report, using a three-year average may result in an optimistic result, but it is not unreasonable here given the fluctuating levels of demand during the above period.

4 Report at 28.

5 PWD Rebuttal Statement 1 at 5-7; PWD Statement 7 at 43; Schedule BV-2 at Table 1-3.

6 The historic decline in billed sales volume per account is explicitly addressed in the 2016 Rate Determination (at page 16). This issue was not contested in the 2018 the rate proceeding. The 2018 Rate Determination is silent on this issue, but declining billed sales volumes are reflected in authorized rate levels for FY 2019 and FY 2020. The 2021 rate proceeding was decided by a "black box" settlement entered into by PWD and the Advocate and approved by the Rate Board. Declining billed sales volumes are again reflected in authorized rate levels for FY 2022 and FY 2023.

its new water treatment facility (significantly reducing usage projected for one of PWD's largest customers) during Rate Period.[7]

As demonstrated in this record, use of a three-year average ignores the longer-term trend of reduced volumes observed over the past five years.[8] Utilization of this approach as recommended in the Report, would actually offset the demonstrated long-term usage trends and produce an overly optimistic projection for water sales volumes, billings and revenues. The Report acknowledges the overall declining trend in sales,[9] but nonetheless adopts the Advocate's recommendation based on a three-year average (including the period of the pandemic). This approach is mistaken and defeats the intended purpose of normalization which is to utilize data from a typical (not anomalous) period to base future projections for ratemaking.[10]

In addition, as alluded above, the Report discounts Vicinity's anticipated reduction in billed water volume (due to construction of their own water treatment facility).[11] Historically, Vicinity has consistently been one of the Department's Top 10 customers.[12] This status will now change with the operation of the new facility which is expected to reduce billed annual water volumes by

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7 PWD Statement 7, Schedule BV-2 at pages 1-9 and 3-2.

8 PWD Rebuttal Statement 1 at 5-6.

9 Report at 28.

10 Note that the Report does not cite any basis for normalizing FY 2022 usage per account based on weather (wet or dry year) or other reasonable considerations, it simply adopts the three-year average which increases the usage per account to a level greater than that experienced in FY 2022.

11 Report at 29 (footnote 95). The Report indicates that there is insufficient information to take the loss of sales volumes associated with Vicinity into account. The Report relies on the PWD Official Statement, Series 2022C (dated August 9, 2022), in part, to support its recommendation. *See*, PWD Exhibit 5. Please note that the Vicinity issue (reduced usage) is more recently addressed in PWD Statement 7 at 14-15. There, the Department notes that Vicinity is a Top 10 customer and accounted for $7.5 million in combined water, sewer and stormwater revenues in FY 2021 (0.99% of Water Fund revenue). Beginning in FY 2024, this customer's water usage is anticipated to drop by 90,000 thousand cubic feet (Mcf). This projection is unassailed in the record. *See*, Responses to PA-III-15 through 17 and PWD Statement 7 at 14-15; Schedule BV-2 at pages 1-9 and 3-2. PWD responses to discovery also confirm that the Vicinity water treatment plant has been constructed and is now operational. *See*, PWD Response to PA-IV-1 and attachment. *See*, Appendix A. PWD submits that the issue of Vicinity's reduction in sales volume should not be discounted.

12 *See,* PWD Exhibit 5 at 24.

90,000 thousand cubic feet.[13] As noted in the record, Vicinity has completed construction of its new facility and it is now operational.[14] The Report discounts the anticipated reduction in these billed annual water volumes.

Taken together, the Report's recommendation regarding billed volumes per account by customer type defies the trend in recent years and ignores the fact that sales volumes per account will likely continue to decline as residential customers return to work (post pandemic)[15] and as Vicinity's annual water volumes decline now that its new plant is operational. PWD urges the Rate Board not to adopt this recommendation in the Report.

B. The Report Errs in Adopting the Advocate's Inflation Factors.

The Report errs in recommending the use of the Federal Open Market Committee (FOMC) Core Personal Consumption Expenditures (PCE) median inflation projections to adjust operating and maintenance ("O&M") expenses for three categories: Services, Materials and Supplies and Transfers.[16] The Hearing Officer adopted PCE escalation rates of 2.6% and 2.1% for FY 2024 and FY 2025, respectively for the above expense categories.

The recommended use the FOMC's PCE departs from prior precedent and industry standards in adjusting PWD's future O&M expenses.[17] The PCE has not been used in prior proceedings before the Rate Board to adjust O&M expenses. In the past, adjustments were based on the Department's historical experience and recognized cost indices, including the Consumer

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13 *See,* PWD Statement 7 at 14-15.

14 *See*, Appendix A; PWD Response to PA-IV-1.

15 The Board should also take administrative notice of the fact that the City's population has declined 2.3% since April 2020, according to the U.S. Bureau of Census (Cumulative Estimate of Population Changes for Incorporated Places, report dated May 2023).

16 Report at 34.

17 *See*, Report at 32-34.

Price Index (CPI) for the Philadelphia Area.[18] Nothing in the record indicates that using the FOMC's PCE is an accepted industry standard for ratemaking. The Report acknowledges that the PCE is the result of a survey by the Federal Reserve members for the purpose of regulating monetary policy.[19] This means that the PCE is more of an extension of federal monetary policy, and does not reflect specific cost pressures or market conditions facing the Department.[20]

The Report does not explain why using the PCE for Services, Materials and Supplies and Transfers is more reasonable than using the CPI for the Philadelphia Area. The Report is also silent as to the issue of escalation clauses in major contracts (e.g., Biosolids Recycling Center, Sludge Transport by Barge and Hatch Instruments Parts and Supplies)[21] which track inflation based upon the CPI (which is higher than the PCE). To be sure, the Department's recent experience with inflation is not consistent with the PCE.[22]

As explained in the record, the PCE should not be applied to escalate Services costs because (i) the PCE understates the level of inflation the Department is experiencing[23] and (ii) the CPI is explicitly referenced (as an inflation escalator) in certain major service contracts.[24] The Department also explained that its recent experience, as detailed in PWD Statement 4, shows that the future Class 200 costs (as well as costs for materials and supplies and other expense areas) are

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18 *See*, PWD Rebuttal Statement 1 at 13.

19 Report at 33.

20 PWD Rebuttal Statement 1 at 11-12.

21 PWD Rebuttal Statement 1 at 15.

22 PWD Brief at 48-49; PWD Rebuttal Statement 1 at 12.

23 *See*, PWD Rebuttal Statement 1 at 12-16.

24 *See*, PWD Rebuttal Statement 1 at 15; PWD Response to PA-III-27.

likely to exceed the projections of the PCE.[25] Such examples show that using the PCE will likely understate the Department's out-of-pocket expenditures in the Rate Period. This recommendation in the Report should not be adopted.

C. The Report Errs in Adopting the Advocate's Increased Revenue Attributable to TAP-R.

The Report errs in adopting the Public Advocate's adjustment in connection with TAP-R revenues[26] because (i) the premise of this adjustment is false; and (ii) no adjustment to TAP-R revenues should be made in a base rate proceeding**.**

1. TAP-R Revenue Adjustment is Based on a False Premise.

The premise of the adjustment is false for the following reasons:

(a) The Collection Factors utilized in both the base rate and TAP-R proceedings reflect collections from TAP and non-TAP billings — including TAP-R billings and revenues. The record clearly indicates this to be the case.[27]

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[25] PWD Rebuttal Statement 1 at 12-16. Recent and continuing increases for Staff Services per negotiated collective bargaining agreements (3.25%); Materials (46% - 258% depending on purchased items). *See*, PWD Statement 4 at 9-12. The above cited increases, which PWD has recently experienced (FY 2023) and will continue to experience, all exceed PCE projections adopted in the Report. Please note PCE projections have also historically understated inflation levels experienced by the Department. *See*, PWD Rebuttal Statement 1 at 12 (table of PCE projections FY 2021 to FY 2023) and compare with PWD Statement 4 at 9-12 (inflation experienced by PWD).

[26] Report at 57. This adjustment assumes there is increased revenue attributable to the TAP Rider (in the amount to be adjusted). Based on this assumption, the Advocate's adjustment reduces the revenue requirement by $4.927 million in both FY 2024 and FY 2025. Please note that the assumed increased revenue attributable to the TAP Rider during the Rate Period exceeds the projected TAP-R net recoverable costs, as shown in the 2023 TAP-R Joint Settlement, Exhibit 1, line 4. *See* discussion, *infra*.

[27] The following references in the record indicate that TAP-R billings are reflected in the system-wide collection factors:

(1) PWD Statement 7, page 50: "Note – the non-stormwater-only collection factor is utilized in establishing water and sewer charges because the TAP-R surcharges are included in the overall water and sewer quantity charges."

(2) PWD Response PA-I-17 provides the basis of payment pattern reports used to establish the system-wide collection factors which clarifies that billings and payments include service and usage charge transactions which would include TAP-R since it is a usage charge transaction.

(b) Collectability is addressed in TAP-R proceedings. The collectability of TAP-R revenue is an existing factor in the basis of TAP-R.[28] Per Section 10 of the Department's Rates and Charges, the TAP-R surcharge rates recover the lost revenue related to TAP, or the TAP Credits. The TAP-R formula (agreed upon by the parties and authorized in the 2018 Rate Determination) contains several factors including an "E-Factor" which explicitly recognizes collectability in the calculation of the net amount of over or under collection of the TAP-R surcharge, as defined in PWD Rates and Charges at Section 10.1(b)(3).[29]

(c) The proposed adjustment appears to rely on customers paying more than two times their TAP-R charges, since the FY 2024 TAP-R rates proposed by the Settlement are designed to provide $2.14 million in TAP-R revenue.[30] It is simply impossible for the Department to realize the proposed additional $4.9 million increase in TAP-R revenues in FY 2024 based on the TAP-R rates proposed by the Settlement.

2. TAP-R Adjustment Should Not Be Made in Base Rate Proceeding.

All adjustments to TAP-R revenues are the subject of the TAP-R rate reconciliation proceeding.[31] The TAP-R was created to separate and track cost recovery of TAP credits via TAP-R revenues. Such revenues are specifically a part of the 2023 TAP-R Settlement[32] agreed upon by the Public Advocate and the Water Department (parties). This Settlement was entered into by the

[28] PWD Rebuttal Statement 3 at 15.

[29] *See*, PWD Statement 7 at 50. Please note that the system-wide collection factor for non-stormwater only customers of 97.32% currently used in the computation of the E-Factor was adopted following the 2021 Rate Determination. Per the current cost of service study, the updated system-wide collection factor for non-stormwater only customers is 96.88%. This collection factor is based on historical collection data. The updated collection factor was not contested by the Advocate (or any other participant) in the 2023 general rate case or the 2023 TAP-R proceeding.

[30] 2023 TAP-R Settlement Petition, Exhibit 1 at line 4.

[31] PWD Rebuttal Statement 3 at 15.

[32] https://www.phila.gov/media/20230418152239/PWD-TAP-R-Joint-Settlement-Agreement-APR18-Combined.pdf

parties thereto on April 18, 2023 and recommended for approval by the Hearing Officer on May 8, 2023.[33] TAP-R revenues should not be included as a revenue or revenue requirement in base rates consistent with the established TAP-R reconciliation process and PWD's Rates and Charges.[34]

TAP-R revenues and TAP credits are only presented in Table C-1B, to allow the derivation and presentation of the Department's overall financial performance. As noted in PWD Statement 7, Table C-1A is the basis for determining base rate revenue requirements. Any adjustments to TAP-R revenues or TAP credits are the subject of the TAP-R reconciliation proceeding.

(a) Separate Process Established to Track TAP-R Revenues and Cost Recovery of TAP Credits.

The purpose of the TAP-R is to track TAP-R revenues and cost recovery of TAP Credits separate from base rate revenues. The TAP-R reconciliation process only works if these boundaries are observed. Please note that, on its face, any adjustment to TAP-R revenues made in a general rate case and shown on Table C-1A are plainly wrong. This Table explicitly excludes TAP-R surcharge revenues. Since the implementation of TAP-R in the 2018 Rate Proceeding, TAP-R revenues are only reflected in the revenue and revenue requirement of the TAP-R rates. The proposed adjustment to reduce the base rate revenue requirement based on a portion of TAP-R revenues clearly introduces the risk of double counting the TAP-R revenues.

The underlying assumptions for the TAP-R surcharge rate are also set forth in the Proposed Reconciliation Statement.[35] These assumptions include codified factors including (i) the allocation factor (60/40 split between wastewater and water), (ii) the system-wide collection factor (used to

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33 https://www.phila.gov/media/20230509161423/Hearing-Officer-Report-TAP-R-2023.05.08.pdf

34 PWD Rates and Charges at Section 10.

35 *See*, 2023 TAP-R filing, Proposed Reconciliation Statement at 2-3 (Formal Notice).

adjust TAP billing loss and TAP-R billing's for the Most Recent Period) and (iii) the interest rate (over/under collection).[36] The aforementioned codified factors were also updated in this record and were not contested.[37]

(b) Changes to TAP-R Surcharge Rate Underlying Assumptions Are Appropriately Applied in a TAP-R Proceeding.

The TAP-R codified factors are proposed to be updated to align with proposed rates and charges in the instant proceeding. These factors are discussed in PWD Statement 7 at 48-50. The Advocate did not contest this update or the system-wide collection factors. The system-wide collection factors are currently reflected in the Collectability Factors used in the TAP-R.[38] The system-wide factors are applied to both TAP-R Billings and TAP Discounts to determine the reconciliation requirement (i.e., the amount of over or under recovery) in establishing TAP-R rates. Based on the record presented, no adjustment is appropriately made in this proceeding.

To be clear, PWD's position is that any improved collectability associated with TAP-R revenues needs to be addressed in the TAP Rate Rider formula itself and not within base rates. The Advocate's suggestion of "improved collectability" is with respect to TAP-R surcharges collected from Non-TAP customers. This is the appropriate focus of TAP-R proceedings (separating and tracking TAP-R revenues and the recovery of TAP credits). This adjustment is misplaced and should be rejected for this primary reason.

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36 *Id.* In addition, estimation assumptions are utilized for (i) TAP participants, (ii) TAP billing loss, (iii) TAP billed volumes and (iv) non-TAP billed volumes.

37 Also note that the net revenue requirement for the FY 2024 TAP-R will be lower than that in FY 2020 to FY 2022 TAP-R (assuming Settlement is approved). In light of the above, the level of actual TAP-R billings will be less than those reflected in the Collectability Factors — so for this reason as well, no adjustment is warranted.

38 PWD Rebuttal Statement 3 at 15-16.

The adjustments presented by the Advocate and adopted in the Report are also flawed as same are based upon future typical bills utilizing PWD's initial rate request as the basis for deriving the so called "improvement." Please note that the Report recommends that rates be reduced from the levels originally proposed by the Department. The adoption of this adjustment therefore requires using estimated typical bills based on PWD proposed rates not likely to adopted by the Rate Board. This fact also demonstrates the circular nature of the Advocate's arguments which, as explained above, negate the purpose of the TAP Rate Rider itself. [39]

Based upon all of the foregoing, this recommendation in the Report should be rejected.

D. The Report Errs in Recommending Actions that Exceed the Rate Board's Authority.

The Report errs in recommending various actions by the Rate Board which exceed its authority.[40] More specifically, the Report cites a number of PWD and Water Revenue Bureau ("WRB") policy and reporting recommendations that, although they may have interest and value to the Board and the public, are outside of the scope of the Rate Board's authority and cannot be adopted. As noted in the Report with reference to the City Solicitor Opinion, dated June 7, 2016, the Rate Board does not have the power to direct how PWD and WRB provide services.[41] The

[39] Any adjustment affecting TAP-R billing collections should be made in a TAP-R proceeding contemporaneously with the reconciliation for the Most Recent Period and projections for the Next Rate Period. This is part of the TAP-R reconciliation process. Please note that no proposed adjustment regarding this issue was made in the recently completed 2023 TAP-R proceeding. The only issue negotiated by the Advocate and PWD in the Settlement was in connection with TAP participation levels. No mention of the proposed TAP-R billings collections adjustment is made in the Settlement entered into by the Advocate and PWD (this would impact the recommendation for FY 2024). Please also note that the TAP-R rates are set annually so no adjustment for FY 2025 could be applied until the next TAP-R proceeding is filed (and TAP participation levels are established) in any event.

[40] *See*, Report at 48, 52, 53, 59, 61, 62 and 63.

[41] Report at 66. *See also*, 2016 Rate Determination at Appendix B. https://www.phila.gov/media/20200123620200/DeterminationDate-Stamped.060716.pdf

Board does not have statutory authority beyond its mandate to "fix and set rates and charges."[42] The Board is charged with rate making as its primary function.

Under the Philadelphia Home Rule Charter ("Charter"), the Revenue Department is empowered to collect delinquent water and sewer rents and fees and the Law Department is charged with handling all litigation, including collection actions and enforcing pursuit of delinquent accounts. Therefore, the Rate Board's authority does not extend to directing the City as to how to engage in its collection efforts.

Similarly, the Board is not granted authority to determine the specific design and oversight of the low-income assistance programs codified in 19-1605 of the Philadelphia Code. The Rate Board is empowered to fix rates and charges, but how the WRB and PWD are able to execute and administer the programs is beyond the Board's jurisdiction. Finally, the Rate Board's authority to fix and set rates and charges is limited by standards set forth in the Charter and provided in the Philadelphia Code.[43] Pursuant to this understanding, the following recommendations made by the Hearing Officer are outside of the scope of the Rate Board's authority to impose on the City:

(1) Require PWD to explore data-sharing with PGW for TAP enrollment;[44]

(2) Require PWD to provide a "specific plan for the design and possible implementation of a text-based pilot TAP notification and/or recertification program;"[45] and

(3) Require a formal study of "rate class" usage characteristics be undertaken and completedf and certify same before the next rate filing can be made.[46]

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[42] *See,* Philadelphia Code §13-101(3).

[43] *See*, 2016 Rate Determination at Appendix B. https://www.phila.gov/media/2020012362020/DeterminationDate-Stamped.060716.pdf

[44] Report at 52.

[45] Report at 53.

[46] Report at 43.

In addition to the above items that exceed the Board's rate making authority, the Report imposes certain additional reporting requirements that are overly burdensome and not feasible due to the current functionality of the Basis2 and CAMP systems:

(4) Require PWD to submit quarterly reporting on the status of the anticipated upgrade to the current accounting and billing system;[47]

(5) Require PWD to provide an accounting of TAP participants by month from 7/1/22 – 6/30/23 to audit ratable forgiveness;[48]

(6) Require PWD to provide a report beginning on 7/1/22 - 6/30/23 to specifically address the one-time lump sum retroactive forgiveness of customers that re-entered TAP;[49] and

(7) Require PWD to provide account-specific audit of occupant accounts from 7/1/22 to present regarding the transfer of arrears and TAP-related forgiveness.[50]

Items (5) and (6) above are addressed in the TAP reports to the Rate Board that the City currently provides on principal and penalty forgiveness amounts for TAP customers and therefore requiring these additional reporting breakdowns would be an administrative burden to the City because those functions are not within CAMP's current design.[51] For that reason, the City submits that an inordinate amount of time and resources would be needed to design, develop, test, run and validate new reporting. This is not a wise use of our limited resources.

Regarding Item (7) above, the City disagrees with the Hearing Officer's assertion that the PWD Regulations require the City to separately report on occupant accounts from tenant accounts

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47 Report at 59. Please note that the billing system upgrade is anticipated in FY 2026 and an RFP has not issued. So, as a practical matter, there will be no summary of work, timeline, program design or planning to report in the coming months.

48 Report at 61.

49 Report at 62.

50 Report at 63.

51 A partial list of new reporting requirements (20 in number) recommended by the Public Advocate and adopted by the Hearing Officer are set forth in the Report at page 58.

in TAP.[52] The Regulations include distinct definitions for Pre-TAP Arrears of occupant accounts and tenant accounts, but only as to the initial creation of those accounts and how their Pre-TAP Arrears are calculated at the outset of the customer entering TAP. The Regulations do not speak to later tracking these accounts on a separate basis for audit purposes, as the Hearing Officer suggests.

As discussed above, the actions recommended by the Hearing Officer entail a significant effort to explore additional data gathering and reporting which may prove to be costly and yield only superfluous information. Diversion of limited resources may also have an adverse effect on progress in more impactful areas such as TAP pre-qualification in coordination with other City programs. PWD submits that it would be a mistake for the Rate Board to overstep its authority and seek to reallocate resources away from efforts to extend TAP benefits to qualifying customers. Based upon all of the above, the aforementioned recommendations of the Hearing Officer directing how PWD and WRB must provide services should not be adopted.

E. The Report Errs in its Calculation of Certain Adjustments Using the Simple Model.

The Report errs in its utilization of the Rate Board's Simple Model (the "Simple Model"). As noted in PWD's Brief, the Simple Model does not automatically adjust for all changes to the revenue requirements.[53]

To prevent confusion or misunderstandings, it is critical to recognize that all adjustments to revenue requirements, adopted by the Rate Board, must be input in the Simple Model. That is, adjustments to the Simple Model, which influence other elements of the revenue requirement, must be carried-through completely, on a manual basis, to reflect the Rate Board's decision. The Simple

52 Report at 62-63.

53 PWD Brief at 32.

Model attached to the Report does not appear to (i) carry-through the adjustments for interest earnings and liquidated encumbrances or (ii) accurately present the billed volume adjustment, as discussed below.

1. Interest Earnings.

The Report errs in adopting the Public Advocate's total interest earnings adjustment.[54] This adjustment is based upon the flow of funds included in PA Statement 1 (Schedule LM_JR-1, Lines 14a and 15a) which reflects all of the Advocate's proposed adjustments, including the ones rejected by the Hearing Officer.[55]

To correct the above, the Rate Board should apply the interest rate it adopts following the application of all other adjustments. The Simple Model does not have the capability to calculate interest earnings in this instance; and calculations must be performed outside of the Simple Model to derive the amounts that should be represented in the final tables based upon the Rate Board's decision.

2. Liquidated Encumbrances.

The Report errs in not addressing the issue of liquidated encumbrances. More specifically, the Report's recommended Table C-1A does not reflect the correct liquidated encumbrances projection based upon its adjustments with respect to Class 200 and 300 expenses — as apparently no adjustment was made. The necessary adjustment to liquidated encumbrances can be calculated

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[54] Report at 36. The adjustment reduces revenue requirements by $0.2 million in FY 2024 and $0.3 million in FY 2025. *See*, Appendix B.

[55] The projection of interest income is based on the interest rate assumption and the projected fund balances and the projection of system revenue and revenue requirements. Therefore, if the Rate Board accepts any of the Advocate's recommendations with regard to revenue or revenue requirements, the adjustments adopted by the Board should also reflect a corresponding adjustment to interest earnings. The adjustment to projected interest earnings is necessary to reflect the overall impact of any proposed revenue and revenue requirement adjustments. The Simple Model does not automatically adjust projected interest earnings. Rather, it relies on inputs from users to reflect this adjustment.

by applying 16.11% to the total projected Water Department Class 200 and 300 projections (excluding SMIP/GARP). These amounts can then be input into the Simple Model on Line 15a of Table C-6 to reflect the updates. Based on the adjustments adopted in the Report, the adjustment for liquidated encumbrances will increase revenue requirements by $1.2 million in FY 2024 and $2.5 million in FY 2025. *See*, Appendix B.

The adjustment to projected liquidated encumbrances is necessary to reflect the overall impact of any proposed Class 200 and Class 300 related adjustments.[56] Please note that the calculation of liquidated encumbrances was not contested in the instant rate proceeding.

In view of the foregoing, the Rate Determination in this proceeding should include an adjustment to liquidated encumbrances based upon adjustments to the Class 200 and 300 expenses approved by the Board.

3. Billed Volume; Application of Revenue Adjustments

PWD cautions the Rate Board with respect to the recommended adjustments to the revenue under existing rates. As presented in the Report, these adjustments are made solely to Water Service Revenue (Line 1a of Table C-1A: Base Rates Excluding TAP-R Surcharge). The adjustments to billed volume, in fact, impact wastewater revenues as well. These adjustments to the existing base rate water service revenue line item include changes to projected billed volumes based upon the 3-year average usage per account (as discussed above) as well as so-called TAP-R surcharge revenue "improvements" based upon future rates. As noted previously, TAP-R surcharge revenues should be excluded from base rate revenues and presented separately.[57] *See*,

[56] Liquidated encumbrances for FY 2023 thru FY 2028 are estimated as 16.11% of projected Services (Class 200) and Materials and Supplies (Class 300) expenses excluding SMIP/GARP. The projection is based on the average of the actual ratio of liquidated encumbrances to expenses for Services (Class 200) and Materials and Supplies (Class 300) experienced in FY 2020 to FY 2022. SMIP/GARP is excluded from this ratio as the budget has been fully expended. *See*, PWD Statement 7, Schedule BV-2 at 1-18.

[57] PWD Exceptions at 8-9.

Appendix B.

It bears emphasis that adjustments, approved in the 2023 Rate Determination, will need to be reflected in the Compliance Filing. The same will need to be distributed across water and wastewater revenues under existing rates in order to reflect the appropriate cost of service impacts. That is why the Department is bringing this issue to the Board's attention at this time.

III. CONCLUSION

For the reasons set forth in the record, its Main Brief, and these Exceptions, the Department respectfully requests that the Rate Board grant the Department's Exceptions and modify or reject the recommendations in the Report.

Respectfully submitted,

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Dated: June 5, 2023

Appendix A

Excerpt from PWD's Response To The
Public Advocate's Interrogatories (Set IV)

RESPONSE TO

PUBLIC ADVOCATE'S INTERROGATORIES (SET IV)

AND

REQUESTS FOR PRODUCTION OF DOCUMENTS

QUESTIONS 1-38

Dated: March 2023

PA-IV-1. REFERENCE PWD STATEMENT 7, PAGE 14, LINE 21 THROUGH PAGE 15, LINE 6. PLEASE PROVIDE EVIDENCE THAT VICINITY IS BUILDING ITS OWN FACILITY AND THAT THE FACILITY WILL BE OPERATIONAL BY FEBRUARY 2024.

RESPONSE:

Please see response attachment PA-IV-1. To the best of our knowledge, the facility is already operational.

RESPONSE PROVIDED BY: Philadelphia Water Department

Received
11/16/2022
BB

VICINITY

November 15, 2022

Jennifer Moore
Industrial Waste & Backflow Compliance
Philadelphia Water Department
Jefferson Center
1101 Market St, 6th Floor
Philadelphia, Pa 19107

Dear Ms. Moore:

This letter is to provide notification that Vicinity Energy Philadelphia, Inc is ready to proceed with the discharge of wastewater to the Philadelphia Water Department sewer system from our new RO/UF water plant once approved by the Philadelphia Water Department.

Per our Industrial Waste permit PHIL01860929OM issued on 12/30/21, this discharge will come from Sample Point 3, which is our ultrafiltration outlet. We are prepared to begin sampling from this point once this notification has been approved.

If you require any additional information at this time, I can be reached via email at Jessica.Hartley@vicinityenergy.us [redacted].

Sincerely,

Jessica Hartley
Environmental, Health & Safety Manager
Vicinity Energy Philadelphia, Inc.

Appendix B

Summary of Hearing Officer Report Adjustments and Impact on Water Department Projected Revenues and Revenue Requirements (FY 2024 and FY 2025)

The following tables were prepared to illustrate the appropriate application and impacts of the adjustments proposed in the Hearing Officer's Report in context of the Simple Model.

- **Sales Volume Adjustment:** Lines 1A and 2A of Table C-1A reflect the Hearing Officer's recommended adoption of the Advocate's use of 3-year billed volume per account on both the water and wastewater revenues under existing rates in context of projecting billed volumes. These amounts match the Morgan / Rogers Schedule LM_JR-1 (page 1 of 2) and the supporting workpapers provided in response to PWD-I-2.

- **TAP-R Revenue Adjustment**: Line 12A of Table C-1A reflects the Hearing Officer's recommended adoption of the Advocate's "improved collection of TAP-R revenues." This matches the presentation of this adjustment as provided in the Morgan / Rogers Schedule LM_JR-1 (page 1 of 2) and the supporting workpapers provided in response to PWD-I-2.

- **Interest Earnings Adjustment:** Lines 14A and 15A of Table C-1A reflect the Hearing Officer's recommended adoption of interest rates of 1.5% following the application of all other adjustments on the projected flow of funds.

- **Inflation Factor Adjustment**: Lines 17A of Table C-1A reflects the impacts of the Hearing Officer's recommended adoption of the escalation factors and the application of the associated change in liquidated encumbrances. Table C-6 is provided to present the detailed breakdown of the projected Operation and Maintenance Expense based on the Hearing Officer Report recommendations.

TABLE C-1A: PROJECTED REVENUE AND REVENUE REQUIREMENTS BASE RATES EXCLUDING TAP-R SURCHARGE (in thousands of dollars)

Revised Hearing Officer Report Summary

Line No.	Description			2023	2024	2025
	OPERATING REVENUE					
1	Water Service - Existing Rates			294,038	296,093	298,680
1a	Water Service - Existing Rates			294,038	299,391	302,121
2	Wastewater Service - Existing Rates			472,292	476,637	478,997
2a	Wastewater Service - Existing Rates			472,292	478,949	481,427
3	Total Service Revenue - Existing Rates			766,330	772,731	777,677
3a	Total Service Revenue - Existing Rates			766,330	778,340	783,548
	Year	Calc % Increase	Months Effective			
4	FY 2023					
4a	**FY 2023**					
5	FY 2024	**12.75%**			80,412	99,154
5a	**FY 2024**	**9.15%**	**9.794**		**58,143**	**71,716**
6	FY 2025	**8.80%**			-	62,977
6a	**FY 2025**	**8.29%**	**9.794**			**57,846**
7	FY2026					
7a	FY2026					
8	FY2027					
8a	FY2027					
9	FY2028					
9a	FY2028					
10	Total Additional Service Revenue Required			-	80,412	162,131
10a	Total Additional Service Revenue Required			-	58,143	129,563
11	Total Water & Wastewater Service Revenue (a)			766,330	853,142	939,807
11x	Other Income (a)					
11a	Total Water & Wastewater Service Revenue			766,330	836,484	913,111
11xa	Other Income (a)					
12	Other Operating Revenue			29,601	29,664	29,713
12a	Other Operating Revenue			29,601	34,591	34,640
13	Debt Reserve Fund Interest Income			-	-	-
13a	Debt Reserve Fund Interest Income			-	-	-
14	Operating Fund Interest Income			1,882	1,982	2,023
14a	Operating Fund Interest Income			1,882	2,968	3,030
15	Rate Stabilization Interest Income			1,365	1,339	1,336
15a	Rate Stabilization Interest Income			1,365	2,009	2,004
16	Total Revenues			799,178	886,128	972,880
16a	Total Revenues			799,178	876,052	952,785
	OPERATING EXPENSES					
17	Total Operating Expenses			(564,671)	(611,326)	(654,537)
17a	Total Operating Expenses			(564,671)	(603,166)	(638,190)

TABLE C-1A: PROJECTED REVENUE AND REVENUE REQUIREMENTS
BASE RATES EXCLUDING TAP-R SURCHARGE
(in thousands of dollars)

Revised Hearing Officer Report Summary

Line No.	Description	2023	2024	2025
	NET REVENUES			
18	Transfer From/(To) Rate Stabilization Fund	5,000	100	600
18a	Transfer From/(To) Rate Stabilization Fund	5,000	100	600
19	NET REVENUES AFTER OPERATIONS	239,507	274,902	318,943
19a	NET REVENUES AFTER OPERATIONS	239,507	272,986	315,195
	DEBT SERVICE			
20	Outstanding Bonds	(187,747)	(185,847)	(183,090)
20a	Outstanding Bonds	(187,747)	(185,847)	(183,090)
21	Pennvest Parity Bonds	(10,935)	(12,031)	(16,329)
21a	Pennvest Parity Bonds	(10,935)	(12,031)	(16,329)
22	Projected Future Bonds	-	(21,083)	(53,880)
22a	Projected Future Bonds	-	(19,167)	(50,132)
23	Commercial Paper	(900)	(900)	(900)
23a	Commercial Paper	(900)	(900)	(900)
24	WIFIA		(17)	(956)
24a	WIFIA		(17)	(956)
25	Total Senior Debt Service	(199,582)	(219,878)	(255,154)
25a	Total Senior Debt Service	(199,582)	(217,961)	(251,406)
26	TOTAL SENIOR DEBT SERVICE COVERAGE (L19/L25)	1.20	1.25	1.25
26a	TOTAL SENIOR DEBT SERVICE COVERAGE (L19a/L25a)	1.20	1.25	1.25
27	Subordinate Debt Service	-	-	-
27a	Subordinate Debt Service	-	-	-
28	Transfer to Escrow	-	-	-
28a	Transfer to Escrow	-	-	-
29	Total Debt Service on Bonds	(199,582)	(219,878)	(255,154)
29a	Total Debt Service on Bonds	(199,582)	(217,961)	(251,406)
30	CAPITAL ACCOUNT DEPOSIT	(23,383)	(24,295)	(25,242)
30a	CAPITAL ACCOUNT DEPOSIT	(23,383)	(24,295)	(25,242)
31	TOTAL COVERAGE (L19/(L25+L27+L30))	1.07	1.13	1.14
31a	TOTAL COVERAGE (L19a/(L25a+L27a+L30a))	1.07	1.13	1.14

TABLE C-1A: PROJECTED REVENUE AND REVENUE REQUIREMENTS
BASE RATES EXCLUDING TAP-R SURCHARGE
(in thousands of dollars)

Revised Hearing Officer Report Summary

Line No.	Description	2023	2024	2025
	RESIDUAL FUND			
32	Beginning of Year Balance	16,102	15,095	15,079
32a	Beginning of Year Balance	16,102	15,095	15,079
33	Interest Income	155	150	150
33x	Plus:			
33a	Interest Income	155	150	150
33ax	Plus:			
34	End of Year Revenue Fund Balance	16,542	30,729	38,547
34a	End of Year Revenue Fund Balance	16,542	30,729	38,547
34x	Additional Rev Req Needed	0	0	(1)
35	Deposit for Transfer to City General Fund (b)	1,945	1,999	2,026
35x	Less:			
35a	Deposit for Transfer to City General Fund (b)	1,945	1,999	2,026
35ax	Less:			
36	Transfer to Construction Fund	(16,600)	(29,800)	(34,400)
36a	Transfer to Construction Fund	(16,600)	(29,800)	(34,400)
37	Transfer to City General Fund	(1,945)	(1,999)	(2,026)
37a	Transfer to City General Fund	(1,945)	(1,999)	(2,026)
38	Transfer to Debt Service Reserve Fund	(1,105)	(1,096)	(4,298)
38a	Transfer to Debt Service Reserve Fund	(1,105)	(1,096)	(4,298)
39	End of Year Balance	15,095	15,079	15,078
39a	End of Year Balance	15,095	15,079	15,078
	RATE STABILIZATION FUND			
40	Beginning of Year Balance (c)	138,989	137,760	133,625
40a	Beginning of Year Balance (c)	138,989	137,760	133,625
41	Deposit From/(To) Revenue Fund	(5,000)	(100)	(600)
41a	Deposit From/(To) Revenue Fund	(5,000)	(100)	(600)
42	Deposit From/(To) TAP-R	3,771	(4,036)	476
42a	Deposit From/(To) TAP-R	3,771	(4,036)	476
43	End of Year Balance	137,760	133,625	133,501
43a	End of Year Balance	$ 137,760	$ 133,625	$ 133,501

* **The Deposits From/(To) TAP-R shown in Lines 42 and 42a reflect the figures provided by PWD in its filing for this Proceeding. Based on the results of the 2023 TAP-R Proceeding, these figures and the End of Year Balance may change somewhat from the amount shown above.**

Revised Input

TABLE C-6: PROJECTED OPERATION AND MAINTENANCE EXPENSE (in thousands of dollars)

Revised Hearing Officer Report Summary

Line No.	Description	Updated 2023	2024	2025
	Water and Wastewater Operations			
1	Personal Services	172,675	181,131	193,552
1a	Personal Services	172,675	181,131	193,552
2	Pension and Benefits	143,762	149,631	158,182
2a	Pension and Benefits	143,762	149,631	158,182
3	Subtotal	316,437	330,761	351,735
3a	Subtotal	316,437	330,761	351,735
	Purchase of Services			
4	Power	17,993	19,927	19,927
4a	Power	17,993	19,927	19,927
5	Gas	6,934	8,250	8,250
5a	Gas	6,934	8,250	8,250
6	SMIP/GARP	25,000	20,000	20,000
6a	SMIP/GARP	25,000	20,000	20,000
7	Other	154,813	175,489	186,030
7a	Other	154,813	167,724	170,424
8	Subtotal	204,740	223,665	234,207
8a	Subtotal	204,740	215,900	218,601
	Materials and Supplies			
9	Chemicals	36,926	52,679	65,227
9a	Chemicals	36,926	52,679	65,227
10	Other	25,108	27,058	28,871
10a	Other	25,108	25,760	26,301
11	Subtotal	62,033	79,737	94,098
11a	Subtotal	62,033	78,439	91,528
12	Equipment	4,292	5,842	6,392
12a	Equipment	4,292	5,842	6,392
13	Indemnities and Transfers	10,854	11,340	11,791
13a	Indemnities and Transfers	10,854	11,017	11,151
14	Subtotal Expenses	598,357	651,346	698,223
14a	Subtotal Expenses	598,357	641,960	679,407
15	Liquidated Encumbrances	(33,686)	(40,020)	(43,686)
15a	Liquidated Encumbrances	(33,686)	(38,794)	(41,217)
16	Total Expenses	564,671	611,326	654,537
16a	Total Expenses	$ 564,671	$ 603,166	$ 638,190

Revised Input