

**BEFORE THE  
CITY OF PHILADELPHIA WATER, SEWER AND STORM WATER RATE BOARD**

<b>In the Matter of the Philadelphia Water</b>	:	
<b>Department’s Proposed Change in Water,</b>	:	<b>Fiscal Years 2026 - 2027</b>
<b>Wastewater and Stormwater Rates and Related</b>	:	
<b>Charges</b>	:	

**REBUTTAL TESTIMONY**

**OF**

**RICHARD A. BAUDINO**

**ON BEHALF OF**

## PHILADELPHIA LARGE USERS GROUP

**J. KENNEDY AND ASSOCIATES, INC.**

**MAY 13, 2025**

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**REBUTTAL TESTIMONY OF RICHARD A. BAUDINO**

1    **Q.     Please state your name and business address.**

2    A.     My name is Richard A. Baudino. My business address is J. Kennedy and Associates,  
3           Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell,  
4           Georgia 30075.

5    **Q.     What is your occupation and by whom are you employed?**

6    A.     I am a consultant to Kennedy and Associates.

7    **Q.     Did you file Direct Testimony in this proceeding?**

8    A.     Yes, I filed Direct Testimony on behalf of the Philadelphia Large Users Group  
9           ("PLUG").

10   **Q.     What is the purpose of you Rebuttal Testimony?**

11   A.     The purpose of my Rebuttal Testimony is to respond to certain recommendations in  
12           the Direct Testimony filed by Jerome Mierzwa and Roger Colton, witnesses for the  
13           Public Advocate ("PA").

1 **Q. Did Mr. Mierzwa address the water class cost of service study (“WCOS”) filed**  
2 **by Black and Veatch (“B&V”)?**

3 A. Yes. On page 16 of his Direct Testimony, Mr. Mierzwa testified that he disagreed  
4 with the Philadelphia Water Department’s (“PWD” or “Department”) proposal to  
5 phase-in the service class extra capacity factors that were developed in the AMI  
6 Demand Study performed by B&V. Mr. Mierzwa reran the Department’s 2026 WCOS  
7 with the full impact of the extra capacity factors from the Demand Study and presented  
8 a comparison of his results to B&V’s WCOS, which he presented in his Table 1 on  
9 page 16.

10 Rather than phase-in the extra capacity factors from the Demand Study, Mr.  
11 Mierzwa recommended using the revenue allocation and rate design process to  
12 mitigate the increases to service classes. On page 21 of his Direct Testimony, Mr.  
13 Mierzwa presented his Table 3, which shows his recommended service class revenue  
14 allocation based on his WCOS. Service class revenue increases range from 4.3%  
15 (Housing Authority) to 15.2% (Charities and Schools) compared to the overall retail  
16 increase of 9.7%.

17 **Q. Should the Board completely adopt the service class extra capacity factors from**  
18 **the AMI Demand Study in this case?**

19 A. No. I provided a detailed explanation in my Direct Testimony as to why the new  
20 service class extra capacity factors should not be adopted in this case and should be  
21 conservatively phased in over time, supplemented with additional future studies to  
22 enhance the accuracy of service class extra capacity factors. I will not repeat those  
23 arguments here, although they apply even more strongly to Mr. Mierzwa’s proposal to  
24 adopt the new extra capacity factors all at once. However, it is critical to keep in mind  
25 that while the updated Demand Study makes progress towards reflecting current data,

1 it only provides data for only a single year. Ideally, the update would have relied on  
2 a broader scope of updated data. Subsequent years may show differing results, as I  
3 pointed out in my Direct Testimony.

4 **Q. On page 17, lines 5 through 6 of his Direct Testimony, Mr. Mierzwa testified that**  
5 **mitigation should be accomplished through the class revenue allocation and rate**  
6 **design process. Did Mr. Mierzwa present a rate design proposal that could**  
7 **accomplish the class revenue allocations he proposed in his Table 3?**

8 A. No. Currently PWD has a single volumetric rate design that applies to all customers.  
9 Mr. Mierzwa failed to provide any rate design proposal that could possibly accomplish  
10 the various class increases he showed in his Table 3 within the framework of PWD's  
11 current rate design. As an example, consider his proposed Residential and  
12 Hospitals/Universities increases, which are 5.4% and 14.7%, respectively. Using  
13 PWD's current rate structure that is applicable to all service classes, Mr. Mierzwa did  
14 not provide any guidance on how such disparate increases could be implemented in  
15 this proceeding.

16 PWD raised a similar concern with Mr. Mierzwa's revenue allocation proposal  
17 in its last rate in the Rebuttal Testimony presented by B&V. B&V testified as follows:

18 "Although Mr. Mierzwa presents a revised distribution of the awarded FY 2024  
19 revenue increase as the distribution of "Proposed Rates" revenues in Table 2 of his  
20 testimony, he does not provide the proposed rate schedule that this distribution of  
21 revenues is based on. It appears that the distribution of "Proposed Rates" revenues  
22 may be based on his revised CCOS Study results with reductions to specific customer  
23 types (Industrial, Hand Billed, Philadelphia Housing Authority and Private Fire  
24 Protection) based on gradualism offset by an increase in the Residential customers. *It*  
25 *should be noted that with the Department's current rate structure, where one rate*  
26 *schedule is applied to all customer types, some of these class specific adjustments may*  
27 *not be achievable.*<sup>1</sup> (italics added)

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<sup>1</sup> PWD Statement 2R, page 7 line 23 through page 8, line 6; PWD rate case for Fiscal Years 2024-2025.

1           It would take a total rate redesign to accomplish Mr. Mierzwa's proposed  
2           service class revenue allocation. That rate redesign would require class-based rates  
3           for each service class identified by PWD and B&V. Based on my understanding of  
4           the capabilities of the Department's Basis2 billing system, such a rate redesign is likely  
5           not possible until the Department replaces that system with a new billing system. In  
6           any case, Mr. Mierzwa's service class allocations should be rejected.

7   **Q. Did you also review the Hand Billed service class with respect to Mr. Mierzwa's**  
8   **revenue allocation proposal?**

9   A. Yes. I also reviewed the potential impact on the Hand Billed service class from Mr.  
10   Mierzwa's proposed revenue allocation. With \$15.535 million in current revenues,  
11   this class is the third largest retail class on PWD's system. This class contains an array  
12   of customers with meter sizes ranging from 5/8-inches to 12-inches. There are also  
13   very large customers in the Hand Billed class. According to B&V's work papers, the  
14   Hand Billed class has 12.6% of its total volumes consumed in the fourth block. Mr.  
15   Mierzwa's WCOS supports a much lower increase for these large customers, yet he  
16   also proposed large increases for the Industrial and Hospital/University classes. Once  
17   again, Mr. Mierzwa provided no guidance on how large customers in these classes  
18   could have very different rate increases or on how to design their rates.

19   **Q. How are customers grouped into the Hand Billed class?**

20   A. According to PWD's response to PA-VI-1, the Hand Billed customer line consists of  
21   customers coded H in its billing system. These accounts are for surcharge and sewer  
22   credit accounts, referencing Regulations Section 303.4 and 303.5. It appears that the  
23   department does not classify these customers based on their water service

1 characteristics. In future cases, the Department should consider reclassifying these  
2 customers into service classes that reflect their water service characteristics.

3 **Q. Does Mr. Mierzwa present an alternative revenue allocation proposal for the**  
4 **Board to consider?**

5 A. Yes. Beginning on page 23 of his Direct Testimony Mr. Mierzwa offered an  
6 alternative revenue allocation if the Board rejects his proposal. He recommended that  
7 if the Board adopts the Department's requested \$44.936 million increase, then PWD's  
8 proposed 2026 revenue allocation and rate design should be adopted. If the Board  
9 approves a lower increase, then he recommends that the revenue requirement reduction  
10 be proportionally assigned to reduce the rates of the customer classes whose cost-of-  
11 service is reduced from that indicated by PWD's CCOS study in the CCOS he  
12 presented which utilized the demand factors determined by the AMI Demand Factor  
13 study. The classes and their proportionate share of the reduction in revenue  
14 requirement is presented in his Table 4.

15 I recommend that the Board also reject Mr. Mierzwa's alternative revenue  
16 allocation. First, it is still tied to his alternative WCOSS, which should be rejected.  
17 Second, he once again provided no guidance as to how a rate design should be crafted  
18 to fit his proposal. Given PWD's current rate structure, it is highly likely his  
19 alternative revenue allocation could be accomplished without a complete restructuring  
20 of service class rates that is beyond the capabilities of the Basis2 billing system.

21 **Q. Did your evaluation of Mr. Mierzwa's WCOS and proposed revenue allocation**  
22 **cause you to rethink your revenue allocation proposal in your Direct Testimony?**

23 A. I recommended in my Direct Testimony that the Industrial and Hospitals/Universities  
24 classes receive increases less than the system average increase. I also recommended

1 that the Department maintain the four declining block rate structure currently in place  
2 and that the Board reject equalizing the rates for the third and fourth blocks. Within  
3 the current volumetric rate structure that is applicable for all customers, it is important  
4 to avoid large increases to the fourth rate block in order to give lower rate increases to  
5 the first three blocks. Therefore, I conclude that B&V's general approach to service  
6 class revenue allocation that I presented in Table 2 of my Direct Testimony is not  
7 unreasonable. However, I maintain my recommendation to continue the current four  
8 declining block rate structure, modified to accommodate the final increase allowed by  
9 the Board. This could be accomplished by equalizing the percentage increases for the  
10 current second through fourth rate blocks.

11 **Q. What additional conclusions regarding cost allocation and rate design to offer to**  
12 **the Board?**

13 A. Given the rate structure currently in place for the Department, significant changes in  
14 service class revenue allocations are likely not possible at this time. It is my  
15 understanding that PWD is in the process of replacing its Basis2 billing system. When  
16 that process is accomplished, it is possible that revised class specific rate structures  
17 could be implemented enabling greater movement toward service class cost  
18 responsibility. However, this process will take additional time and study and should  
19 include communication with customers and PWD stakeholders as recommended by  
20 B&V. As I recommended in my Direct Testimony, PWD should continue to study  
21 and gather data on service class extra capacity factors that will provide additional  
22 clarity and accuracy on service class cost responsibility in future rate proceedings  
23 before the Board.

1 **Q. Did Mr. Mierzwa address the Stormwater Management Incentive Program**  
2 **(“SMIP”) and the Greened Acre Retrofit Program (“GARP”) and associated**  
3 **credits associated with those programs?**

4 A. Yes. Mr. Mierzwa noted that he proposed a sharing of the credits associated with those  
5 programs in the 2024-2025 rate proceeding. On page 27 of his Direct Testimony Mr.  
6 Mierzwa testified that all stormwater customers shared in the costs of the SMIP/GARP  
7 programs. He also testified that only customers who participated in these programs  
8 received their benefits through lower stormwater charges. Since Residential customer  
9 do not participate in the program, Mr. Mierzwa proposed a sharing of the credits  
10 through lower stormwater rates for the Residential class. Mr. Mierzwa presented his  
11 2023 proposal in more depth on page 28 of his Direct Testimony.

12 On page 33 of his Direct Testimony Mr. Mierzwa testified that PWD has not  
13 fulfilled the requirement of the 2023 Rate Determination to present and report on the  
14 Residential stormwater rate design and credits he proposed and must be required to do  
15 so. He recommended that the Board require the Department to file a report addressing  
16 his Residential stormwater rate proposal within 90 days of the Board’s final  
17 determination in this case. Following the report, the Board should permit the parties  
18 in this proceeding to respond to the Department’s report. The Board could then decide  
19 whether to hold a Special Rate Proceeding after the responses are filed.

20 **Q. What is your position regarding Mr. Mierzwa’s recommendation that the Board**  
21 **order the Department to file a report on his Residential stormwater proposals**  
22 **and possibly hold a Special Rate Proceeding after responses from the parties?**

23 A. Mr. Mierzwa’s recommendation should be rejected. It is unreasonable to subject the  
24 Board and the parties to this case to an additional filing by the Department and the  
25 attendant responses and Special Rate Proceeding just to address Mr. Mierzwa’s  
26 Residential stormwater proposals this year. I note that the Board did not adopt Mr.



1 Mierzwa's proposal in the last rate determination case. Mr. Mierzwa merely restated  
2 his proposal from the last case. He did not present any new or additional information  
3 in this case that would lead the Board to reconsider or adopt his proposal.

4 Instead, I recommend that if the Board concludes that the Department did not  
5 fully respond to Mr. Mierzwa's Residential stormwater proposals in this case, it order  
6 the Department to provide a full written report in the next rate proceeding. At that  
7 time the parties can issue discovery and respond in formal testimony on Mr. Mierzwa's  
8 issues. A special proceeding after this case would be needlessly time consuming and  
9 expensive for the Department, the other parties and for the Board.

10 **Q. Did PLUG address Mr. Mierzwa's proposal regarding the SMIP and GARP**  
11 **credits in the 2024 – 2025 rate determination?**

12 A. Yes. PLUG provided detailed rebuttal testimony in that proceeding opposing Mr.  
13 Mierzwa's proposed treatment of SMIP and GARP credits. PLUG's position in this  
14 case has not changed.

15 **Q. Please present PLUG's position on Mr. Mierzwa's SMIP and GARP credit**  
16 **proposals.**

17 A. It is correct that all customers are responsible for the costs of these programs.  
18 However, all customers benefit from these programs because customer investments in  
19 stormwater retrofits allow PWD to manage stormwater runoff and meet its stormwater  
20 management goals. If PWD did not manage its stormwater runoff, the utility and its  
21 customers would be exposed to fines issued by the EPA. Because the stormwater  
22 management measures allow PWD to avoid potential EPA fines, stormwater costs are  
23 lower and all customers benefit from the lower rates.

1           Only customers who install stormwater management measures on their  
2           properties should be eligible for stormwater billing credits. PWD's credit policy is  
3           clearly intended to offer incentives associated with the installation of stormwater  
4           management measures. Penalizing property owners participating in these programs  
5           by eroding eligibility for future credits diminishes the intended incentives. Customers  
6           who install stormwater management measures will also incur ongoing maintenance  
7           expenses and are responsible for continued operation of the management measures.  
8           Incentivizing long-term maintenance and preservation of the management measures is  
9           critical to ensure PWD and all of its customers benefit from compliance with PWD's  
10          Consent Order and Agreement. Therefore, there are both valid policy and ratemaking  
11          bases for offering stormwater credits only to customers who install stormwater  
12          management measures. PWD has demonstrated that all customers benefit from the  
13          current practice. As a result, Mr. Mierzwa's stormwater credit proposal should be  
14          rejected.

15   **Q.    Did you review the Direct Testimony of PA witness Roger Colton?**

16   A.    Yes. Mr. Colton proffered certain recommendations that would reduce costs for non-  
17          participants in the Department's TAP and TAP rider program. PLUG supports these  
18          adjustments as reasonable and necessary for efficient and responsible management of  
19          the TAP.

20   **Q.    Please discuss the first adjustment you support.**

21   A.    Beginning on page 23 of his Direct Testimony, Mr. Colton discussed his position  
22          regarding increased collection of TAP Rider revenues. To summarize, Mr. Colton  
23          argued that (1) the TAP participant collection rate is higher than the non-TAP low-

1 income collection rate; and (2) TAP credit payments that are collected as a TAP Rider  
2 on customers' bills have a higher collection rate than bills to low-income customers.  
3 On page 25 of his Direct Testimony, Mr. Colton cited to the Board's Rate  
4 Determination in the last rate case, noting that the Board stated "[w]e agree that higher  
5 collectability resulting from the TAP program should be reflected in rates as a  
6 reduction...to the Department's proposed rate increases in both Fiscal Years 2024 and  
7 2025. We also agree with the Public Advocate that this difference in collectability is  
8 not addressed in the limited TAP-R proceedings."<sup>2</sup>

9 As a result, an adjustment should be made to avoid overstating the  
10 Department's revenue requirement. The Department's recommended adjustment to  
11 the revenue requirement using its assumptions is \$10.4 million. Under Mr. Colton's  
12 assumptions this adjustment would be \$8.4 million. PLUG agrees with and supports  
13 this recommendation.

14 **Q. Discuss the second adjustment you support.**

15 A. Beginning on page of his Direct Testimony Mr. Colton presented his position on  
16 excluding the cost of perfecting municipal liens from PWD's cost of service because  
17 these costs are not a cost of providing water service to customers and, therefore, should  
18 be excluded from the cost of service. I agree with Mr. Colton's position and  
19 recommend it be adopted by the Board.

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<sup>2</sup> Rate Determination, at 24, June 21, 2023.

1    **Q.     Are these two recommendations the only ones with which PLUG agrees?**

2    A.     No, not necessarily. After the hearing in this proceeding, PLUG may adopt and  
3           support in its briefs other recommendations that promote efficiency and cost  
4           reductions not only in the TAP program but in other areas of PWD's cost structure.

5    **Q.     Does this conclude your Rebuttal Testimony?**

6    A.     Yes.