

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
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**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

PWD-PA-IV-1. Confirm or Deny: In the context of projected water billings and receipts, the Average Volume per Account and “compound growth rate” are used in the projections of overall billed volumes.

Response: Confirmed.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-2. Must a 3-year average always be used in the development of revenue projections? If not, when would assumptions other than a 3-year average be prudent?

Response: No. It is not a must that a 3-year average should always be used in the development of revenue projection. The decision to use a period other than a 3-year average is determined on a case-by-case basis depending on the circumstance.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-3. Confirm or Deny: Wholesale customers are subject to the terms and conditions of their respective agreements entered into with the City of Philadelphia (as the wholesale service provider).

Response: Confirmed.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-4. As a matter of consistency, why hasn't Mr. Morgan proposed to apply a “compound growth rate” to wholesale water and wastewater volumes?

Response: In his testimony, Mr. Morgan argued against the use of the compound growth rate. Therefore, it would be inconsistent if he applied the compound growth rate to wholesale water and wastewater volumes.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-5. Confirm or Deny. Wholesale wastewater billed volumes are influenced by weather conditions.

Response: Denied. Weather is not the sole determinant of wastewater volume.

Responsible Witness

PWD-PA-IV-6. Confirm or Deny:

- (a) The Water Department has submitted with its 2025 general rate case filing a copy of its Financial Stability Plan; and
- (b) the Rate Board is required to consider the FSP in making its Rate Determination in this proceeding consistent with the Rate Ordinance (Philadelphia Code Section 13-101) and Rate Board Regulations.

Response:

- (a) The Financial Panel refers to a Financial Stability Plan which is attached to its testimony as Schedule FP-1. This attachment is not a new study or plan. It is, for the most part, the same analysis that has been filed with virtually every base rate case in recent years. In this year's filing, the document is titled "FY24 Summary & Five-Year Financial Projection Plan." In previous years, Mr. Morgan has been critical of the financial projections in this report because, very often, revenue projections are lower than the actuals and expense projections are higher than actuals.
- (b) Mr. Morgan is not a lawyer and is unable to opine about what the Rate Board is required by law to consider in making its rate determination.

Responsible Witness: Lafayette K. Morgan, Jr.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

PWD-PA-IV-7. Confirm or Deny: PWD's actual revenues in FY 2024 and updated projected revenues in FY 2025 are lower than those reflected in the 2023 Rate Determination.

Response: This analysis was not conducted. In PA-IV-21, the actual FY 2024 amounts were requested, the response has not yet been provided. In PA-IV-11 the mid-year FY 2025 projections were requested, PWD referred to PWD Statement 7, Schedule BV-1, Tables C-1 through C-3 and C-6 to C-9 as the most current available projections. The reference to "updated projected revenues in FY 2025" is vague because it is not known whether the most recent updated FY 2025 revenues are available to the Public Advocate.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-8. Confirm or Deny: PWD's transferred funds from the rate stabilization fund in FY 2024 and FY 2025 in order to cover and meet financial metrics.

Response: Denied. PWD transferred funds from the rate stabilization fund during FY 2024 and plans to transfer funds from the rate stabilization fund during October 2025 (according to PA-IV-3).

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-9. Confirm or Deny: PWD reduced spending in FY 2024 and also planned reductions in spending for FY 2025 to address revenue shortfalls.

Response: Mr. Morgan does not recall any FY 2024 cost savings. PWD indicates that it lowered SMIP/GARP expenditures, but that was put in place by the previous rate case. However, in the cost of service, PWD proposes to increase SMIP/GARP by \$10 million.

Responsible Witness: Lafayette K. Morgan, Jr.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

PWD-PA-IV-10. Confirm or Deny: Hedges are commonly used to lock in pricing when there is uncertainty with respect to future pricing.

Response: Confirmed.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-11. Please state the source of funds in the Rate Stabilization Fund?

Response: Revenues.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-12. Confirm or Deny: The Water Department has historically used monies in the Rate Stabilization Fund to help mitigate revenue adjustments.

Response: Denied. Mr. Morgan's understanding is that monies in the Rate Stabilization Fund are used in order to cover expenses and meet financial metrics.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-13. Confirm or Deny: The Water Department is a not-for-profit utility?

Response: The Water Department is a department of the City of Philadelphia and is not operated to provide returns to shareholders.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-14. Please provide the source for the PCE Inflation factors of 2.1% and 2.0% referenced in Mr. Morgan's testimony.

Response: Please refer to PA Response II-1 Attachment 1.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-15. Does the Federal Reserve have purview over tariffs imposed by the federal government?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. Notwithstanding the Public Advocate's objection, and by way of further response, see the response to PWD-PA-II-1 and PWD-PA-IV-19. PCE factors represent the projected impact of economic growth reflected in the price of consumer goods rather than the Federal Reserve's targeted inflation rate, which is utilized to develop monetary policy.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-16. Does the Federal Reserve have purview over US trade policy?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-17. Since the 2023 rate proceeding, has the Federal Reserve achieved it's targeted inflation rate? a. Has CPI for Philadelphia reached the Federal Reserve's target inflation rate?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-18. What is the Federal Reserve's targeted interest rate? [2%]

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-19. Will you update your recommendation to track the most recent revisions to the PCE?

Response: The source of Mr. Morgan's inflation recommendation is the Congressional Budget Office ("CBO"). To the extent that Mr. Morgan is aware of the CBO updated inflation values, Mr. Morgan will update his recommendation.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-20. In preparing your testimony, did you review the Beige Book, dated February 2025 (hereafter "Beige Book")?

Response: No.

Responsible Witness: Lafayette K. Morgan, Jr.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

PWD-PA-IV-21. Is the Beige Book prepared by the Federal Reserve to evaluate changes in economic conditions nationally since the last report?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-22. Does the Federal Reserve gather information for the Beige Book through a range of contacts including businesses and other organizations in various Federal Reserve Districts around the country (New York, Philadelphia, Cleveland, St. Louis, Chicago, San Francisco, etc.)?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-23. Does the Beige Book indicate there is uncertainty of the impact of potential tariffs on the price on building materials?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-24. Does the Beige Book observe that prices were moderately rising nationally, as of its date of its recent publication (February 2025).

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-25. Does the Beige Book indicate that many businesses noted heightened economic uncertainty and expressed concerns about tariffs.

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-26. Does the Beige Book indicate that changes in fiscal and trade policies pose a greater risk of inflation.

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information



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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-27. Does the Beige Book indicate that overall uncertainty in the economy and with regard to tariffs may lead to future price increases?

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-28. With respect to building materials, are you aware of where the US imports most of its steel from? If one country that you select is [China], can you confirm that increased tariffs are in place for that country.

Response: No.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-29. Confirm or Deny: Significant shifts in US tariff and trade policies have taken place in 2025 with the new Administration and that same post were put in place after the Advance Notice filing in February.

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

concerning the positions Mr. Morgan has advanced in this proceeding. See response to PWD-PA-IV-15.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-30. Refer to Page 14 of PA Statement 1. On what basis, other than “for rate making purposes,” has Mr. Morgan recommended that PWD utilize the lower of two growth factors for energy and gas expenses presented in the Office of Sustainability documentation?

Response: Mr. Morgan explains the rationale for his adjustment on pages 13 and 14 of his direct testimony. The lower of the two growth factors was chosen to be conservative. As Mr. Morgan explained in his testimony, the documentation used by the Water Department is similar to the documentation that the Water Department has used in the past several rate cases. Those estimates have not been accurate.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-31. Is there a difference between budgeting and long-term planning?

Response: Yes.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-32. Regarding Lines 1 to 5 of page 10 of your testimony, provide specific references in PWD Statement 7 and in PWD Exhibit 6 for the “growth rates” for Other Water and Other Sewer Revenues.

Response: Page 10, lines 1 to 5 of Mr. Morgan’s direct testimony, does not make statements regarding growth rates. It is assumed the request refers to page 11

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

instead. See Confidential Attachment PA Response IV-32. The attachment shows screenshots of the affected cells, and relevant cell formulae.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-33. Although your testimony does not propose adjustments to the FY 2025 O&M expenses Schedule LKM-1 reflects a \$2.6 million reduction to the FY 2025 O&M. Please provide the basis of this adjustment. Include supporting calculations.

Response: The \$2.6 million adjustment was made to remove the effect of the one-time bonus granted to certain employees during FY 2025, as provided in the attachment to PWD's response to Public Advocate Discovery Set IX-17. If not removed, the FY 2026 and FY 2027 payroll rate increase will be applied to the one-time bonus as if it were an annually recurring pay. During the preparation of this discovery response, Mr. Morgan became aware that the full reduction of the one-time bonus was not removed from the cost of service. The Public Advocate will correct the adjustment and provide an errata to Mr. Morgan's testimony.

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-34. Has Mr. Morgan (you) included the adjustment proposed by Mr. Colton in his analysis (i.e., figures in LKM-1). Have you independently reviewed all revenue and expense adjustments detailed in Mr. Colton's testimony (PA Statement 3)? If so, please confirm that you have applied the adjustments in schedules proffered with your testimony and identify where those adjustments are shown?

Response: Mr. Morgan included Mr. Colton's adjustments in Schedule LKM-1. The adjustment to the cost of service is reflected in the Simplified model on Line 8a. A breakdown of the adjustment is presented below. Mr. Colton's adjustments were not independently reviewed.

**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 2026 – 2027  
Rates and Charges to Become Effective  
: September 1, 2025  
and September 1, 2026**

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

		Total Adjustment	Water	Wastewater
Upward Revenue adjustment to reflect the additional collectability of revenues associated with TAP discounts		\$ 8,373	\$ 3,374	\$ 4,999
Upward Revenue adjustment to reflect additional revenue collection associated with PWD's Raise Your Hand program		477	192	285
Upward Revenue adjustment to reflect revenue preserved due to PWD's Raise Your Hand program		599	241	358
Ratios from AssumptionTab			40%	60%

Responsible Witness: Lafayette K. Morgan, Jr.

PWD-PA-IV-35. With reference to PA Statement 1 at page 12, please provide (i) a detailed description of Federal Open Market Committee (FOMC) core inflation projections referred to in your testimony together with source documentation; and (ii) a list items that are included or excluded in this index of inflation.

- a. Please confirm or deny whether changes in prices for items such as phosphoric acid, sodium hydroxide, sodium hypochlorite, blended sodium phosphate and activated carbon are included in this inflation index.
- b. Please confirm or deny whether changes in prices for valves, couplings, sleeves or meters are included in this index of inflation.
- c. Please confirm or deny whether changes in prices for materials such as ductile iron pipe and curb stops are included in this index of inflation.

Response: The Public Advocate has objected to this discovery request as it does not refer to an issue addressed in Mr. Morgan's testimony and so is not reasonably calculated to lead to the discovery of admissible information concerning the positions Mr. Morgan has advanced in this proceeding.

Responsible Witness: Lafayette K. Morgan, Jr.

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

<b>In the Matter of the Philadelphia Water Department's Proposed Change in Water, Wastewater, and Stormwater Rates and Related Charges</b>	<b>Fiscal Years 2026 – 2027 Rates and Charges to Become Effective : September 1, 2025 and September 1, 2026</b>
--	---

**PUBLIC ADVOCATE RESPONSES TO  
PHILADELPHIA WATER DEPARTMENT'S  
INFORMATION REQUESTS  
SET IV**

PWD-PA-IV-36. On what basis does Mr. Morgan recommend his SMIP/GARP adjustment (reducing projected expenses by \$10 million in FY 2027).

Response: Mr. Morgan explains this adjustment on beginning on page 14, line 16 of his testimony.

Responsible Witness: Lafayette K. Morgan, Jr.