

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

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

<p style="text-align:center"><b>DIRECT TESTIMONY AND EXHIBITS OF RICHARD A. BAUDINO</b></p>
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**ON BEHALF OF**

**PHILADELPHIA LARGE USERS GROUP**

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

**MAY 1, 2025**

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**DIRECT 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.     Please describe your education and professional experience.**

8    A.     I received my Master of Arts degree with a major in Economics and a minor in  
9           Statistics from New Mexico State University in 1982. I also received my Bachelor of  
10          Arts Degree with majors in Economics and English from New Mexico State in 1979.  
11          In October 1989, I joined the utility consulting firm of Kennedy and Associates as a  
12          Senior Consultant where my duties and responsibilities covered substantially the same  
13          areas as those during my tenure with the New Mexico Public Service Commission  
14          Staff. I became Manager in July 1992 and was named Director of Consulting in  
15          January 1995. Currently, I am a consultant with Kennedy and Associates. Exhibit  
16          \_\_\_\_(RAB-1) summarizes my expert testimony experience.

1    **Q.     On whose behalf are you testifying?**

2    A.     I am testifying on behalf of the Philadelphia Large Users Group ("PLUG").

3    **Q.     What is the purpose of your testimony?**

4    A.     The purpose of my testimony is to address the following issues in Philadelphia Water  
5           Department's ("PWD" or "Department") current rate proceeding:

6           1.     Cost allocation and the Company's class cost of service studies for water  
7                   service ("WCOS") and wastewater service ("WWCOS").

8           2.     PWD's proposed allocation of its rate increase to customer classes.

9           3.     Rate design for the customer classes.

10                In addressing these issues I will respond to the Direct Testimony and the  
11                accompanying schedules filed by Black and Veatch Management Consulting, LLC  
12                ("B&V") in Statement 7.

13

14    **Water Class Cost of Service Study and Rate Design**

15

16    **Q.     Please summarize B&V's approach to the WCOS filed in Statement 7.**

17    A.     Consistent with past rate proceedings, B&V used the Base-Extra Capacity method to  
18           functionalize, classify, and allocate costs to customer classes. B&V described the  
19           Base-Extra Capacity method as follows in Schedule BV-2:

- 20
  - 21                   • Base costs are those which vary directly with the quantity of water used, as  
22                    well as those costs associated with serving customers under average load  
23                    conditions without the elements necessary to meet peak demands. Base costs  
24                    include purchased treatment chemicals, and other operating and capital costs  
25                    of the water system associated with serving customers to the extent required  
26                    for a constant, or average annual rate of use.
  - Extra capacity costs represent those operating costs incurred due to demands

1 in excess of average, and capital-related costs for additional plant and system  
2 capacity beyond that required for the average rate of use. Total extra capacity  
3 costs are subdivided into costs associated with maximum day and maximum  
4 hour demands.

- 5 • Customer costs are defined as costs that tend to vary in proportion to the  
6 number of customers connected to the system. These include meter reading,  
7 billing, collection and accounting costs, and maintenance and capital charges  
8 associated with meters and services.
- 9 • Fire Protection costs assigned to fire protection include operating expenses  
10 and capital costs associated with public and private fire protection.<sup>1</sup>  
11

12 Following the functionalization and classification steps, B&V's WCOS  
13 proceeded to allocate the cost of service to service classes. PWD's retail service  
14 classes consist of the following:

- 15 1. Residential
- 16 2. Senior Citizens
- 17 3. Commercial
- 18 4. Industrial
- 19 5. Public Utilities
- 20 6. Housing Authority
- 21 7. Charities and Schools
- 22 8. Hospitals and Universities
- 23 9. Hand Billed
- 24 10. Scheduled (Flat Rate)
- 25 11. Private Fire Protection
- 26 12. Public Fire Protection.  
27

28 B&V also allocated costs to its Wholesale customer Aqua Pennsylvania.

29 The next step in the process is to identify the appropriate service class  
30 allocation factors in order to allocate the base, extra capacity, customer, and fire  
31 protection costs of service to the service classes.

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<sup>1</sup> Schedule BV-2, page 4-7.

1 **Q. Did B&V modify its method of allocating costs to PWD's service classes in this**  
2 **case?**

3 A. Yes. In response to the Board's 2023 Rate Determination in the last PWD rate  
4 proceeding, B&V conducted what it termed as the AMI Demand Study ("Demand  
5 Study"), the results of which are included in Schedule BV-4: WP-1. In past WCOS,  
6 the Department relied on estimates of hourly and daily peak demands that were derived  
7 using industry recognized methodologies from monthly billing data and the  
8 application of assumptions of how each type of customer's demand peaks on the  
9 system. With data from the Department's AMI project, hourly data is now available  
10 for each meter and customer, providing detailed insight into service class maximum  
11 daily and hourly demands.

12 According to B&V, the Demand Study identified the period of July 1, 2023  
13 through September 6, 2023 as the appropriate time frame for detailed analysis of  
14 service class maximum day and maximum hour factors. Having developed the 2023  
15 service class extra capacity factors, B&V compared them to the factors used in the last  
16 base rate proceeding before the Board. Considering the level of cost of service impacts  
17 from the newly developed service class extra capacity factors, the Department  
18 recommended a phased approach in which 25% of the new extra capacity factors  
19 would be reflected in 2026 (Year 1) and 50% in 2027 (Year 2). The peaking factors  
20 calculated by B&V are presented in Table 2-4, Schedule BV-4: WP-2, page 6.

1 **Q. Did the Department and B&V consider a variety of factors in terms of how to**  
2 **implement the results of the Demand Study?**

3 A. Yes. The B&V Direct Testimony discussed a number of critically important  
4 considerations in implementing the results of the Demand Study in this proceeding.  
5 PWD Statement 7, pages 50 through 52 set forth the following considerations:

- 6 • The Demand Study indicated a more uniform rate structure could be examined,  
7 but must be conducted within the existing water rate structure and design.
- 8 • Other considerations could include "redefining the block volume levels;  
9 changing the number of blocks; implementing class-based rates; consideration  
10 of alternative block rates structures (such as inclining blocks and/or uniform  
11 rates); and combinations, thereof."<sup>2</sup>
- 12 • These changes should be discussed with customers and stakeholders prior to  
13 implementation.
- 14 • The phase-in allows for further exploration of rate structure changes with  
15 stakeholders, coupled with the evaluation of other rate structure changes (i.e.,  
16 stormwater rate structure changes), aligned with the anticipated replacement  
17 of the City's Basis2 billing system.

18 Importantly, B&V also noted that currently it is difficult to change the rate  
19 structure significantly due to the Department's use of its Basis2 billing system, which  
20 is scheduled for replacement in the next few years. Until Basis2 is replaced, B&V  
21 stated that "additional studies could be conducted using more AMI data (now that AMI  
22 rollout is nearly complete) to provide more insights into how different customer types

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<sup>2</sup> PWD Statement 7, page 51 of 63, lines 4 through 7.

1 peak on the PWD system. Such studies could examine peak water usage in 2024 and  
2 2025 that would provide a wider range of weather conditions for comparison."<sup>3</sup>

3 **Q. What are your conclusions regarding B&V's Demand Study and its proposed**  
4 **phase-in of new service class extra capacity factors?**

5 A. B&V's Demand Study is an important first step in updating the Department's service  
6 class demand factors and complies with the Board's Rate Determination in the last rate  
7 proceeding. However, given that this is just the first step, a phased approach is both  
8 prudent and necessary in this rate proceeding.

9 It should be recognized that the Demand Study is based on only one year of  
10 AMI data from 2023. Both system and customer class extra capacity factors will vary  
11 from year to year. Please refer to Exhibit RAB-2, which contains the Department's  
12 response to PA-III-6. This response presents the water system's average day,  
13 maximum day, and maximum hour production numbers from 2020 through 2024.  
14 Average day production varied from 220.3 million gallons per day ("MGD") to 230.0  
15 MGD. The maximum day varied from 251.7 MGD to 278.4 MGD, a variance of  
16 10.6%. The maximum hour varied from 316.1 MGD to 472.7 MGD, a variance of  
17 49.5%. Service class maximum day and maximum hour values could vary  
18 substantially from year to year as well. Therefore, I recommend that the Board avoid  
19 fully implementing the results of the Demand Study in this proceeding. I agree with  
20 B&V's testimony that additional studies using additional years of data, e.g., 2024 and  
21 2025, will provide more insights regarding the consumption and peaking behavior of  
22 the water system's service classes.

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<sup>3</sup> PWD Statement 7, page 52 of 63, lines 12 through 15.

1 **Q. How should the results of the Demand Study be reflected in the WCOS in this**  
2 **case?**

3 A. For this case, I recommend that the Board utilize the 25% phase-in WCOS presented  
4 in Section 4 of Schedule BV-2. The 25% phase-in WCOS makes reasonable and  
5 prudent movement toward updated service class extra capacity factors without moving  
6 too quickly to implement a Demand Study that only reflects one year of data. It  
7 provides the Department and B&V time to analyze future years and perhaps  
8 incorporate those additional results in a future rate proceeding. It also avoids making  
9 excessive shifts in service class cost responsibility based on limited data.

10 Table W-17 below was taken from B&V's WCOS spreadsheet entitled  
11 "WCOS25\_26\_ver1.xls" and reproduces Table 4-12 in Schedule BV-2, page 4-24.  
12 This table summarizes the adjusted service class cost of service allocations, revenue  
13 from existing rates, and the resulting cost of service increases required for each class  
14 for the 2026 test year.



**TABLE W-17**  
**WATER: COMPARISON OF TEST YEAR COSTS OF SERVICE**  
**AND ADJUSTED COST OF SERVICE**  
**WITH REVENUES UNDER EXISTING RATES**  
**TEST YEAR 2026**

LINE NO.	CUSTOMER TYPE	(1) REVENUE UNDER EXISTING RATES \$	(2) ADJUSTED COST OF SERVICE \$	(3) INDICATED INCREASE (DECREASE) REQUIRED %
<b>Retail</b>				
<b>General Service</b>				
1	Senior Citizens	\$ 6,564,039	\$ 7,314,000	11.4%
2	Residential	203,528,025	227,262,000	11.7%
3	Commercial	97,538,448	107,728,000	10.4%
4	Industrial	4,086,294	4,234,000	3.6%
5	Public Utilities	816,983	934,000	14.3%
6	<b>Subtotal General Service</b>	<b>312,533,790</b>	<b>347,472,000</b>	<b>11.2%</b>
7	PHA	7,773,622	8,829,000	13.6%
8	Charities & Schools	6,159,164	7,025,000	14.1%
9	Hospitals & University	5,191,157	5,026,000	-3.2%
10	Hand Billed	15,535,039	19,237,000	23.8%
11	Scheduled (Flat Rate)	1,322	-	-100.0%
<b>Fire Protection</b>				
12	Private	5,495,056	6,694,000	21.8%
13	Public	8,248,000	10,786,000	30.8%
14	<b>Subtotal</b>	<b>8,248,000</b>	<b>10,786,000</b>	<b>30.8%</b>
15	<b>Total Retail Service</b>	<b>360,937,150</b>	<b>405,069,000</b>	<b>12.2%</b>
16	Total Wholesale	4,376,350	5,180,000	18.4%
17	<b>Total System</b>	<b>\$ 365,313,499</b>	<b>\$ 410,249,000</b>	<b>12.3%</b>

The results of the 25% phase-in WCOS show that the Industrial class should receive an increase much lower than the total system increase of 12.3%. Hospitals and University classes should actually receive a decrease based on the adjusted WCOS.

**Q. Did you examine the impact on B&V's 2027 WCOSS using the 25% phase-in of class demand factors?**

A. Yes. The Department provide the water class cost of service study for 2027 in its confidential work papers. The 2027 WCOSS used the 50% phase-in of extra capacity factors from the Demand Study. I reran the 2027 WCOSS substituting the extra capacity factors from the 25% phase-in scenario. Table 1 below presents the results from the revised 2027 test year WCOSS.

<p style="text-align: center;"><b>Table 1</b> <b>2027 Adjusted Cost of Service and Revenue Under Existing Rates</b></p>				
	(1) Revenue Under Existing Rates	(2) Allocated Cost of Service	(3) Adjusted Cost of Service	(4) Indicated Increase (Decrease) Required
Senior Citizens	\$6,537,534.20	\$10,225,000.00	\$7,807,000.00	19.4%
Residential	\$200,728,859.73	\$235,393,000.00	\$239,633,000.00	19.4%
Commercial	\$98,045,300.75	\$113,797,000.00	\$115,847,000.00	18.2%
Industrial	\$3,991,833.87	\$4,377,000.00	\$4,456,000.00	11.6%
Public Utilities	<u>\$852,765.48</u>	<u>\$1,013,000.00</u>	<u>\$1,031,000.00</u>	20.9%
Subtotal General Service	\$310,156,294.02	\$364,805,000.00	\$368,774,000.00	18.9%
Housing Authority	\$7,814,530.07	\$9,819,000.00	\$9,496,000.00	21.5%
Charities & Schools	\$6,651,999.78	\$10,672,000.00	\$8,148,000.00	22.5%
Hospitals & University	\$5,588,770.81	\$7,588,000.00	\$5,793,000.00	3.7%
Hand Billed	\$14,540,763.38	\$18,912,000.00	\$19,253,000.00	32.4%
Scheduled (Flat Rate)	\$1,139.89	\$0.00	\$0.00	-100.0%
Fire Protection				
Private	\$5,495,055.70	\$7,009,000.00	\$7,135,000.00	29.8%
Public				
Standard Pressure	\$8,248,000.00	\$11,456,000.00	\$11,662,000.00	41.4%
High Pressure (a)	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	0.0%
Subtotal Public Fire Protection	\$8,248,000.00	\$11,456,000.00	\$11,662,000.00	41.4%
Total Retail Service	<u>\$358,496,553.65</u>	<u>\$430,261,000.00</u>	<u>\$430,261,000.00</u>	20.0%
Wholesale				
Aqua Pennsylvania	\$4,376,349.55	\$5,364,000.00	\$5,364,000.00	22.6%
Total Wholesale (Aqua Pennsylvania)	<u>\$4,376,349.55</u>	<u>\$5,364,000.00</u>	<u>\$5,364,000.00</u>	22.6%
Total System	\$362,872,903.20	\$435,625,000.00	\$435,625,000.00	20.0%
Source: B&V spreadsheet entitled "WCOS25_27_ver1.xls" modified for 25% shift in demand factors				

Table 1 shows that lower percentage increases are still strongly supported for the Industrial and Hospitals & University classes. Compared to the system average increase of 20%, the Industrial class receives a cost of service increase of 11.6% and Hospitals & University receives a 3.7% increase.

**Q. What are the Department's proposed revenues for the 2026 and 2027 test years?**

A. Both the Public Advocate ("PA") and PLUG issued discovery requests to ascertain the increases to service classes proposed by B&V and the Department. PWD responded to PA-III-21 with an analysis showing revenues based on current and proposed rates

1 for 2026 and 2027, with an explanation as to how current and proposed revenues were  
2 calculated. Refer to Exhibit RAB-3 for the Department's response.

3 Refer also to Exhibit RAB-4, which presents the revised comparison of current  
4 and proposed revenues included in the Department's supplemental response to PA-III-  
5 21. I also added percentage increases in service class revenues from current revenues  
6 in 2026 and 2027. For 2026, proposed retail revenue increases are fairly close, ranging  
7 from 8.6% to 9.3%. The proposed increases for Public and Private Fire Services are  
8 substantially higher. For 2027, the increases range from 15.4% to 18.5% compared to  
9 the average retail revenue increase of 18.1%.

10 Based on my understanding of the Department's response to PA-III-21 the  
11 current and projected revenues are based on anticipated revenue collections. The  
12 Department explained as follows:

13 Since PWD's revenues are collections based and the estimated FY 2026 revenue  
14 reflects collections on billings from FY 2026, FY 2025 and FY 2024 it is not  
15 appropriate to compare the projected collections based revenues to the cost of service  
16 by class. That is because such collections based revenue reflects the collection of  
17 billings based on rates established by prior cost of service distributions. Consistent  
18 with prior cost of service studies, the retail class based cost of service is compared to  
19 the retail billings by customer class prior to the lag factor adjustment. This comparison  
20 is provided on pages 894 to 898 (WCOS, RATES-3) of PWD Exhibit 6.

21 **Q. Did you compare the retail based class cost of service to retail billings by customer**  
22 **class from the referenced pages of PWD Exhibit 6?**

23 A. Yes. Table 2 below provide a comparison of the allocated retail class cost of service  
24 to the retail billings prior to the lag factor adjustment.

<p style="text-align: center;"><b>TABLE 2</b> <b>COMPARISON OF 2026 REVENUES AT COST OF SERVICE RATES TO CURRENT REVENUES</b></p>						
	(1) Current Revenues	(2) Revenues @ 2026 Cost of Service Rates	(3) PWD Proposed Dollar Increase	(4) PWD Proposed Pct. Increase	(5) 2026 Allocated COS	(6) Indicated % Increase (Decrease)
Residential	\$ 203,528,025	\$ 226,301,356	\$ 22,773,331	11.2%	\$ 227,262,000	11.7%
Senior Citizens	\$ 6,564,039	\$ 7,307,465	\$ 743,426	11.3%	\$ 7,314,000	11.4%
Commercial	\$ 97,538,448	\$ 108,546,629	\$ 11,008,181	11.3%	\$ 107,728,000	10.4%
Industrial	\$ 4,086,294	\$ 4,527,085	\$ 440,791	10.8%	\$ 4,234,000	3.6%
Public Utilities	\$ 816,983	\$ 917,955	\$ 100,972	12.4%	\$ 934,000	14.3%
Housing Authority	\$ 7,773,622	\$ 8,627,771	\$ 854,149	11.0%	\$ 8,829,000	13.6%
Charities & Schools	\$ 6,159,164	\$ 6,935,695	\$ 776,531	12.6%	\$ 7,025,000	14.1%
Hospital/University	\$ 5,191,157	\$ 5,819,843	\$ 628,686	12.1%	\$ 5,026,000	-3.2%
Hand Billed	\$ 15,535,039	\$ 17,017,017	\$ 1,481,978	9.5%	\$ 19,237,000	23.8%
Scheduled (Flat Rate)	\$ 1,322	\$ 346	\$ (976)	-73.8%		-100.0%
Fire Protect. (Private)	\$ 5,495,056	\$ 8,306,296	\$ 2,811,240	51.2%	\$ 6,694,000	21.8%
Fire Protect. (Public)	\$ 8,248,000	\$ 10,786,000	\$ 2,538,000	30.8%	\$ 10,786,000	30.8%
Total	\$ 360,937,150	\$ 405,093,458	\$ 44,156,308	12.2%	\$ 405,069,000	12.2%

Column (1) shows current revenues from B&V's Table W-17 I presented earlier. Column (2) presents revenues at cost of service rates referred to in the Department's response I cited above. Column (3) presents the percentage increase in 2026 revenues from current revenues. Columns (5) and (6) show the allocated class cost of service and indicated increases from B&V's Table W-17.

The total retail cost of service increase in this presentation is 12.2%. Excluding Fire Protection, service class increases range from 9.5% (Hand Billed) to 12.6% (Charities and Schools).

**Q. You have presented two different methods of looking at PWD's proposed increases to its water service classes. These two methods show different class and retail percentage increases. Please summarize the differences between the two methods and how you recommend the Board be guided in its decision on water service class revenue allocation.**

**A.** First, the service class revenue allocations shown in Exhibit RAB-4 are consistent with B&V's total revenue presentation of the 2026 Total Water Service Revenue presented on Line 8 of Table 3-13 of Schedule BV-2. From this perspective, the 2026 percentage increase in revenues from current rates is 9.7% according to the Department's response

1 to PA-III-21. Service class increases are generally slightly above or below that system  
2 average increase.

3 Second, the presentation in my Table 2 is consistent with the cost of service  
4 increase shown in Table 4-12 of BV-2. In this presentation, the total retail service  
5 class increase is 12.2%. The Industrial class receives a slightly lower than system  
6 average increase at 10.8%. The Hospitals and Universities class receives  
7 approximately a system average increase, even though the cost of service results show  
8 a revenue reduction.

9 My conclusion is that these different revenue presentations are confusing for  
10 customers who are attempting to understand and evaluate the Department's  
11 recommend class revenue allocations. B&V presented customer bill impacts in Tables  
12 C-4 and C-5 of Schedule BV-1, but these increases do not necessarily tie to the  
13 increases I have presented so far in my testimony and include both water, wastewater,  
14 and stormwater increases.

15 **Q. What is your recommendation for revenue allocation in this case?**

16 A. I recommend that the Industrial and Hospital/University service classes receive a  
17 lower increase than the system average increase for the 2026 and 2027 test years. In  
18 order to recognize gradualism, I recommend an increase of 50% of the overall retail  
19 system average increase. Using the system retail increase of 9.7% shown in Exhibit  
20 RAB-4, at 50% the Industrial and Hospitals/Universities would receive 4.85%. Using  
21 the presentation in Table 2, the retail increase is 12.2% and the increase for the  
22 Industrial and Hospitals/Universities would be 6.1%. This is consistent with the class

cost of service study results. This approach should also be applied to any increase approved by the Board for 2027.

**Q. Given B&V's description of the Department's Basis2 billing system, could your recommended increases be accomplished within the Department's single existing volumetric rate structure?**

A. My recommended increases reasonably follow the class cost of service study I support in this case. If Basis2 cannot fully reflect my recommendation, then B&V and/or the Department should explain why and revise the increases in the volumetric charges to come as close to my recommendations as possible using Basis2.

**Q. Please present the water rates proposed by B&V.**

A. Table 3 displays present and proposed rates for the 2026 and 2027 test years.

<b>Table 3</b>						
<b>Comparison of Present and Proposed Rates</b>						
<b>General Service Water Rates</b>						
Meter Size	Current Rate	2026 Proposed Rate	2027 Proposed Rate	2026 Pct. Increase	2027 Pct. Increase	
5/8	\$ 5.17	\$ 6.08	\$ 6.31	17.6%	22.1%	
3/4	\$ 5.70	\$ 7.06	\$ 7.35	23.9%	28.9%	
1	\$ 7.19	\$ 9.42	\$ 9.82	31.0%	36.6%	
1 1/4	\$ 9.00	\$ 12.38	\$ 12.91	37.6%	43.4%	
1 1/2	\$ 10.29	\$ 14.73	\$ 15.37	43.1%	49.4%	
2	\$ 14.75	\$ 21.85	\$ 22.79	48.1%	54.5%	
3	\$ 24.33	\$ 37.62	\$ 39.26	54.6%	61.4%	
4	\$ 43.28	\$ 65.44	\$ 68.29	51.2%	57.8%	
6	\$ 82.46	\$ 126.77	\$ 132.31	53.7%	60.5%	
8	\$ 127.03	\$ 197.89	\$ 206.57	55.8%	62.6%	
10	\$ 185.16	\$ 287.04	\$ 299.62	55.0%	61.8%	
12	\$ 313.27	\$ 503.58	\$ 525.79	60.7%	67.8%	
Volume Charges						
First 2 Mcf	\$ 64.32	\$ 72.45	\$ 74.79	12.6%	16.3%	
Next 98 Mcf	\$ 57.88	\$ 64.76	\$ 70.28	11.9%	21.4%	
Next 1,900 Mcf	\$ 44.84	\$ 50.16	\$ 54.97	11.9%	22.6%	
Over 2,000 Mcf	\$ 43.62	\$ 50.16	\$ 54.97	15.0%	26.0%	

It should be noted that the rates presented in Table 3 include a 5.1% lag factor

1 applied to cost of service rates. As a result, the percentage increases shown in Table 3  
2 do not necessarily correspond to the percentage increases I presented in Exhibit RAB-4  
3 and Table 2.

4 B&V proposed flattening the volume charges for 2026 and 2027 by equalizing  
5 the rates for the third and fourth blocks. Currently the fourth rate block is \$1.22 per  
6 Mcf less than the third rate block. Service charges were increased at a greater  
7 percentage than volume charges.

8 **Q. Do you agree with equalizing the volume charges for the third and fourth blocks?**

9 A. No. I recommend that the Board reject the flattening of the third and fourth blocks.

10 The B&V Demand Study continues to show a declining block structure for the water  
11 service department's rates. Table 4 presents B&V's comparison of the adopted 2025  
12 volume rates and the corresponding 2025 volume rates with 100% implementation of  
13 the Demand Study peaking factors. The rate comparison is from "Table 2-3 Rate  
14 Impact Comparison - Impact of AMI Demand Study Peaking Factors", Schedule  
15 BV-4, WP-2, page 4.

<b>Table 4</b>		
<b>Rate Impact Comparison</b>		
<b>Approved Rates and Rates per AMI Demand Study</b>		
	<b>FY25 Charge Per MCF</b>	<b>FY25 Charge Per MCF</b>
	<u>Approved Rates</u>	<u>AMI Demand Study</u>
First 2	\$64.32	\$56.31
Next 98	\$57.88	\$64.88
Next 1,900	\$44.84	\$51.62
Over 2000	\$43.62	\$46.75

Table 4 shows that full implementation of the AMI Demand Study supports continued use of a four tier declining block, although the structure of the charges are different from the 2025 approved rates. Please note that I provided the numbers in Table 4 for comparison purposes only and that I do not support moving the volumetric rate structure to those in the fully implemented Demand Study. This table simply shows that a continuation of a four-tiered declining block rate is justified.

It is important to add that flattening the third and fourth blocks would incur unjustifiably increased bills to customers with usage in the fourth block. Note that B&V proposed increasing the fourth block charge by 15%, compared to the second and third block increases of 11.9%.

In conclusion, I recommend the Board approve a four-tiered declining block rate in this case and reject B&V's recommendation of setting the third and fourth block charges the same, which results in a three-tiered declining block rate. The fourth block rate should be set at a discount to the third block rate that approximates the current difference in rates if practicable.

#### **Wastewater Class Cost of Service and Rate Design**

**Q. Did you review the proposed wastewater service class rate design from B&V?**

A. Yes. Exhibit RAB-5 presents the Department's proposed rate design for the wastewater service classes. Columns (4) and (5) present the percentage increases to wastewater charges in 2026 and 2027 compared to current rates. Generally, service charges are increased at lower percentages than volume charges. In 2026, for example, service charge increases range from 6.7% to 7.5%, while the increase for the volumetric wastewater charge (based on billed water volumes) increases at 15.3%.



1 **Q. Do you agree with the percentage increases for service charges and volume**  
2 **charges?**

3 A. No, I do not agree with increasing volume charges at greater percentage rates than the  
4 fixed service charges. Most of the cost of the Department's sewer system is fixed,  
5 meaning that costs associated with sewer plant in service and depreciation, for  
6 example, do not vary with the volumes generated by customers. Fixed costs should  
7 be collected in fixed charges to the extent practicable. Thus, for purposes of this case  
8 I recommend that sewer service charges and volume charges be increased at the same  
9 percentage rate. Compared to the Department's proposed sewer rates, this means that  
10 service charges would be greater and volume charges would be lower. Assuming a  
11 10% allowed increase by the Board, both the service charges and volume charges  
12 would increase at 10%. Table 5 below presents an example of how my proposed  
13 wastewater rate design would look.

<b>Table 5</b> <b>Equal Increase to Service and Volume Wastewater Charges</b>			
METER BASED SERVICE CHARGE			
Meter Size Inches	(1) Current Monthly Charge	(2) System Average Percentage Increase	(3) FY 2026 Proposed Monthly Charge
5/8	\$7.64	10.0%	\$8.40
3/4	\$9.79	10.0%	\$10.77
1	\$14.43	10.0%	\$15.87
1 1/2	\$25.53	10.0%	\$28.08
2	\$39.44	10.0%	\$43.38
3	\$71.26	10.0%	\$78.39
4	\$120.98	10.0%	\$133.08
6	\$238.64	10.0%	\$262.50
8	\$377.82	10.0%	\$415.60
10	\$545.20	10.0%	\$599.72
12	\$992.49	10.0%	\$1,091.74
QUANTITY CHARGE			
	Current Charge per Mcf		FY 2026 Charge per Mcf
All billable water usage	\$41.11	10.0%	\$45.22
Groundwater Charge	\$14.81	10.0%	\$16.29
SURCHARGE RATES			
	Current Charge per lb		FY 2026 Charge per lb
BOD (excess of 250 mg/l)	\$0.45	10.0%	\$0.54
SS (excess of 350 mg/l)	\$0.46	10.0%	\$0.56

1

2 **Q. Do you have any other recommendations for the volumetric rates for**  
3 **wastewater?**

4 A. Yes. I recommend that PWD investigate the possibility of a declining block rate for  
5 the billable water usage charge. Such a rate would recognize that PWD's per unit fixed  
6 costs for its wastewater system decline as usage increases in a similar fashion to the  
7 Department's water system, which has declining block rates. I recommend that the  
8 Department undertake such a study and present it in its next rate filing before the  
9 Board.

1 **Q. Is PWD proposing to change the eligibility requirements and administration of**  
2 **the Charity Rate program currently contained in Section 5.3 of its tariff?**

3 A. Yes. PWD proposes to strike the existing language in Section 5.3, 5.5 and 5.6 of its  
4 tariff and promulgate a new regulation entitled "204.0 Charity Water Rates and  
5 Charges Program." The proposed new regulation is included in Schedule SMC-2  
6 attached to PWD Statement 5 with Direct Testimony proffered by the Department of  
7 Revenue.

8 The new eligibility requirements are included in Section 204.2 and have  
9 significantly expanded from the eligibility requirements in the current tariff. In  
10 addition, Section 204.5 contains a provision that a customer receiving a discount must  
11 renew every two years in order to continue receiving the discount. Section 204.6  
12 contains language that would allow the Department to remove a customer from the  
13 Charity Rate program for violation of any City law or regulation, no matter how minor  
14 or unrelated to water service. Section 204.8 contains language regarding exclusion of  
15 certain facilities that are not used exclusively for the principal purpose of the applicant.

16 **Q. On page 18, lines 14 through 16 of the Department of Revenue Direct Testimony,**  
17 **it is stated that there is no "change to the substantive content of the qualification"**  
18 **for the Charity Rate. Do you agree with this statement?**

19 A. No. The content of the proposed eligibility for the Charity Rate changed substantially,  
20 with additional requirements that are not included in the current language. In addition,  
21 there is no requirement for the customer to reapply every two years for the Charity  
22 Rate in PWD's current tariff.

1 **Q. Did the Department of Revenue panel explain why the changes in the eligibility**  
2 **requirements, the two-year renewal, or the broadened removal terms were**  
3 **needed or why such changes are reasonable?**

4 A. No. The Department of Revenue panel failed to explain or justify these new eligibility  
5 requirements and the need for a two-year renewal for the customers in the program.  
6 The Department of Revenue also failed to explain or justify why a customer that  
7 violates a City law or regulation that is minor (such as a parking violations), and/or  
8 completely unrelated to PWD's service, should be removed from the Charity Rate  
9 program.

10 **Q. Is there any explanation as to how Hospitals and Universities that are currently**  
11 **on the Charity Rate would be affected by the new eligibility requirements and the**  
12 **two-year renewal?**

13 A. No. There is no explanation as to how the existing customers in the Hospitals and  
14 Universities service class who are qualified and receiving the Charity Rate discounts  
15 would be affected by the new eligibility criteria or the two-year renewal requirement.

16 **Q. Should the Board approve the new Charity Rate regulation as proposed in**  
17 **Schedule SMC-2?**

18 A. No. The proposed new regulation appears to contain significant and unjustified  
19 changes that could adversely affect current customers in the Hospitals and Universities  
20 service class. There was no discussion or evaluation of the impact of this new  
21 regulation on existing Charity Rate customers. I strongly recommend the Board reject  
22 the Department's proposed Charity Rate regulation and keep in total the current  
23 Charity Rate language in the Department's tariff.

1   **Q.   Mr. Baudino, do you support PWD's requested water, wastewater, and**  
2   **stormwater revenue increases in this proceeding?**

3   **A.   No.** My testimony focuses on allocation and rate design, but the focus of my testimony  
4       on these matters should not be construed as supportive of PWD's proposed revenue  
5       requirement.

6   **Q.   Does this conclude your Direct Testimony?**

7   **A.   Yes.**

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

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

<p style="text-align:center"><b>EXHIBITS</b></p> <p style="text-align:center"><b>OF</b></p> <p style="text-align:center"><b>RICHARD A. BAUDINO</b></p>
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**ON BEHALF OF**

**THE PHILADELPHIA LARGE USERS GROUP**

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

**MAY 1, 2025**