

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

Philadelphia Water Department Proposed Changes in Rates and Charges	2026 TAP-R Reconciliation Proceeding
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**REPLY BRIEF OF THE
PHILADELPHIA WATER DEPARTMENT**

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I. INTRODUCTION

The Philadelphia Water Department (“PWD” or “Department”) files this Reply Brief in response to the Public Advocate’s Main Brief in the above captioned matter. The Advocate has indicated its opposition to PWD proposed annual adjustments to the Tiered Assistance Program (“TAP”) Rate Rider (“TAP-R”) to revise TAP-R surcharge rates in accordance with the rider approved by the Philadelphia Water, Sewer and Storm Water Rate Board (“Rate Board” or “Board”). As explained in the Department’s Main Brief, PWD believes that the Advocate’s positions are unsupported by the record and should be rejected. More pointedly, PWD believes that the Advocate has offered no credible alternative to the Department’s proposals given numerous errors and inconsistencies in its testimony and false assertions in its brief.¹

The table below summarizes the primary proposals of the Department and the Advocate.

Table 1 - Comparison of Participant Positions

Source	<u>Department’s Position</u> <u>PWD-5</u> (Feb. 17, 2026)	<u>Advocate’s Position</u> <u>PA St. 1 (Errata)</u> (May 13, 2026)
C-Factor: Total Billing Loss (TAP Discount)	\$53,006,249	\$48,814,756

¹ PA errors and inconsistencies are identified in PWD Rebuttal Statement 1 at 29-31 and Schedule PWD-11. Mr. Morgan indicated that he made a “good faith” effort to correct numerous errors in his testimony and related schedules as pointed out by PWD. Technical Hearing Transcript (May 14, 2026) at 105. He obviously failed to follow through, however. Please note that he overlooked the table on page 10 of PA Statement 1 (showing numbers of TAP participants inconsistent with his testimony, workpapers and other schedules filed of record). Mr. Morgan also made no revisions to his calculated E-Factor which was also identified as being in error.

Please note that the Advocate claims that his calculations in PA Statement 1 (as revised) and related schedules are supportable despite significant errors made in calculating the E-Factor. During the technical hearing, Mr. Morgan acknowledged that he did not correct the E-Factor with his errata. Technical Hearing Transcript (May 14, 2026) at 102-103. As pointed out in PWD Rebuttal Statement 1, Mr. Morgan failed to update the non-TAP billed volume amounts for the months of January 2026 to March 2026. *See*, PWD Rebuttal Statement 1 at 23. Schedule PWD-8, provides an updated calculation of the PA proposed E-Factor with the correction noted above. The corrected E-Factor shows ongoing under-recovery in the above months. *See*, PA Rebuttal Statement 1, Schedule PWD-8, Tables 3-W and 3-WW (Column 8) for January to March 2026.

E-Factor: Recovery of Past Under Collection	(\$14,109,978)	(\$10,525,726)
I-Factor:	(\$223,063)	(\$176,346)
Net Recoverable Costs (C)-E+I	\$67,339,291	\$59,516,828
Average number of TAP Participants (per month)	70,318	68,405
Average Discount (\$) per month per TAP Participant	\$62.82	\$59.47
Total Water Consumption	5,574,417	5,366,160
Average Consumption (cf) per TAP Participant	661 cf	654 cf

The respective water and wastewater TAP-R surcharges proposed by the Department and the Advocate (as compared to current TAP-R rates) are summarized in the table below.

Table 2 - Current and Proposed TAP-R Rates

	Current	Water Department Proposal	Public Advocate Proposal
Source:	<u>2025 TAP Rate Determination</u>	<u>Formal Notice</u>	<u>PA Testimony (Revised)</u>
Water TAP-R Surcharge	\$3.59 /MCF	\$5.65 /MCF	\$4.86 / MCF
Wastewater TAP-R Surcharge	\$5.07 /MCF	\$7.90 /MCF	\$6.80 / MCF

As explained in its PWD Main Brief and herein, the Department submits that based upon the record presented, the Rate Board should adjust current TAP-R rates consistent with PWD

proposals set forth in the Formal Notice and reject the recommendations of the Public Advocate.²

II. LEGAL STANDARDS

Section II of the Department’s Main Brief is incorporated herein by reference.

III. PROPOSED TAP-R ADJUSTMENT

A. Annual Adjustment Issues Raised by the Advocate.

The Public Advocate raises several criticisms of the Department’s position in four subject areas asserting that: (i) PWD proposals are unreasonable; (ii) PWD’s reliance on four months actual data is unsupported; (iii) PWD’s C-Factor calculation overstates TAP costs; and (iv) PWD’s Growth Factor for TAP Participation is unsupported. The Department has addressed each of the above subject areas in its Main Brief. Table 3 details where the PWD response to each PA criticism can be found in the record.

Table 3 - Water Department Responses to Public Advocate Criticisms

<u>PA Criticisms</u>	<u>PWD Response</u>
PWD proposals are unreasonable.	<i>See</i> , PWD Brief at 2-7; 13-37; PWD Rebuttal Statement 1 at 3-16; 16-31.
PWD’s reliance on four months actual data is unsupported.	<i>See</i> , PWD Brief at 20-36; PWD Rebuttal Statement 1 at 3-5.
PWD’s C-Factor calculation overstates TAP costs.	<i>See</i> , PWD Brief at 13-20; PWD Rebuttal Statement 1 at 18-21.
PWD’s Growth Factor for TAP Participation is unsupported.	<i>See</i> , PWD Brief at 2-7; 21-27; PWD Rebuttal Statement 1 at 5-13.

² The Advocate maintains in its Main Brief that its recommendations are sound and based on known and measurable data. Given the inconsistencies in presentation (many of which remain uncorrected in this record) and the absence of explanation for the bases for its projections, there is no credible foundation for its recommendations in this proceeding. *See*, PWD Main Brief at 20-36; PWD Rebuttal Statement 1 at 22-31.

This Reply Brief focuses primarily on the Advocate's claims related to the 2018 Rate Determination which were not directly addressed in the PWD Main Brief and the PA misstatements regarding PWD's calculation of its proposed C-Factor and E-Factor stated in its brief.

1. 2018 Rate Determination.

The Public Advocate argues that “when the TAP-R rider formula was adopted, the Department and the Advocate agreed that PWD would utilize nine or ten months of actual TAP participation data, and two to three months of projected data, in projecting TAP costs for future periods.”³ The Advocate offers a truncated excerpt from the 2018 Rate Determination in support of its argument.⁴ The Advocate fails to mention, however, that the cited language from the 2018 Rate Determination relates to the E-Factor (reconciliation for prior over/under recovery) not the C-Factor (projections TAP billing losses for the Next Rate Period). A more complete statement of the pertinent provisions of the 2018 Rate Determination is provided below:

4. In calculating the TAP Rider in the annual reconciliation submission, **for the 12-month period prior to the effective date of the TAP Rider:**

- a. PWD will use actual TAP revenues and expenses data from approximately the first 9 to 10 months of the current period, and annualized/projected revenues and expenses for the remaining months of the current period in order to estimate the full 12-month period of TAP revenue loss and surcharge revenues, which are subject to reconciliation.
- b. PWD will reconcile TAP Rider calculations of the current period, based on the difference between (i) annualized/projected TAP surcharge revenues and expenses, and (ii) the actual TAP surcharge revenues and expenses experienced during that current period.⁵ [Emphasis added].

³ See, PA Main Brief at 4 (footnote 10).

⁴ *Id.*

⁵ See, 2018 Rate Determination at 81-82.

To be clear, the Department's proposals are consistent with the agreements memorialized in the 2018 Rate Determination for the following reasons:

- This area of agreement refers to the historical period of time subject to reconciliation (12-month period prior to the effective date of the TAP Rider), or the E-Factor component of the analysis and not the prospective rate period reflected in the C-Factor.
- The intent of the excerpted language is to use known, actual data from the current period and does not mention the use of actual data from prior periods.

In point of fact, the Advocate's proposed approach of using data from a prior period for future projections is inconsistent with the agreements reached in establishing the TAP-R formula. The Advocate is also incorrect to the extent it is using a prior period in the determination of its proposed C-Factor.

2. C-Factor Calculation.

The Advocate also argues that "one reason PWD's projections appear to indicate PWD is under-collecting, or falling behind in recovering discounts provided to TAP participants relates to the manner in which PWD calculates the "C" factor."⁶ This is a false assertion. As stated in the PWD Main Brief, whether or not the average discount includes TAP-R surcharges associated with TAP customer is a non-issue in the instant proceeding for several reasons:

1. Base rates starting September 1st will increase more than the small portion of the TAP-R surcharges that are included in the average TAP discount for the prior period (especially those from prior to August 2025).

⁶ PA Main Brief at 6.

2. Overall TAP Discounts are anticipated to increase due to both ongoing increases in enrollment and the above mentioned increase in base rates.
3. The E-Factor calculations net out the TAP-R surcharge from the discounts, so that TAP-R revenues are only compared against the discounts attributable to TAP customer bills for which they would otherwise be responsible.⁷ It bears emphasis that actual TAP discounts net of TAP-R surcharges to TAP customers are compared to the actual TAP-R revenues from non-TAP customers. This is entirely the point of reconciliation. This approach and calculation methodology have been in place since the very first reconciliation proceeding.⁸

Also, during the next TAP-R proceeding, the TAP-R revenues will be compared against the revenue requirements including any under or over-collection associated with the prior rate period. In carrying out this analysis (comparison), we will see whether the TAP-R revenues are (i) sufficient in the amount recovered; or (ii) above the amount needed to cover TAP discounts; or (iii) under the amount needed to cover such discounts.

Please note that the Advocate (in asserting the C-Factor over-states total TAP billing losses) is now challenging how the projected Total Billing Losses for the Next Rate Period are to be calculated.⁹ This is a departure from the 2018 Rate Determination. The Advocate is suggesting a different calculation method for TAP billing losses. PLUG also supports changes to the C-Factor calculation either effective immediately or effective for future TAP-R adjustment

⁷ Please note that the E-Factors calculated by the Advocate (\$10,525,726) and Department (\$14,109,978) in this proceeding are both negative — indicating in both proposals that current and prior TAP-R surcharge rates are significantly under-recovering TAP discounts from the current and prior reconciliation period. *See*, Table 1 herein.

⁸ PWD Main Brief at 14-18.

⁹ PA Main Brief at 6-8. Please note that throughout the current proceeding, the Advocate has failed to recognize the definition of the C-Factor, as established in PWD's Rates and Charges, which clearly defines it as prospective. The C-Factor represents the discounts to be provided during the next rate period. The Department maintains that the average discount be established based on the data from the current period as originally proposed in the 2018 Rate Determination.

proceedings.¹⁰ The Department maintains that based upon the evidence presented, there is no reason to change the approach to calculating the C-Factor — the average discount should be established based on the data from the current period as established in the 2018 Rate Determination.¹¹ Moreover, if a change in calculation method is to be seriously considered, it should be raised in a general rate proceeding — not a reconciliation proceeding.

3. E-Factor Calculation.

The Advocate further argues that the E-Factor represents “the actual discounts provided in the twelve-month period beginning September 1, 2025, minus the TAP-R revenues collected during such period” and goes on to state that the E-Factor “attempts to adjust prior period (but not current period) billings to subtract TAP-R surcharges embedded in PWD’s calculated discounts.”¹² This statement is wrong for the following reasons:

- The E-Factor covers the Most Recent (or Current Period) of September 1, 2025 to August 31, 2026.
- As presented in Table 3-W and 3-WW in both the Water Department’s and the Public Advocates filings, the current TAP-R surcharges of \$3.59/MCF and \$5.07/MCF are net from the actual discounts provided. These surcharges became effective September 1, 2025. They are noted in the calculations presented in the header of column 3, which shows clearly the TAP-R surcharge being net from TAP discounts for reconciliation purposes in this proceeding.
- Due to the timing of the filing, the remaining months of the Current Period need to be estimated.

¹⁰ PLUG Main Brief at 6-8, 11.

¹¹ See, PWD Main Brief at 13-20; Rebuttal Statement 1 at 18-21.

¹² PA Main Brief at 3.

- Tables 3-W-A, 3-WW-A, 4-W-A and 4-WW-A address the prior reconciliation period of September 1, 2024 to August 31, 2025, adjusting the prior E & I Factor amounts to incorporate actual data not available during the prior proceeding. These tables show the prior TAP-R surcharges of \$3.08/MCF and \$4.40/MCF being net from the TAP Discounts in the same manner as presented for the Most Recent Period. Note – the TAP-R surcharges for this period went into effect on September 1, 2024. Column 10 shows the amount of under-recovery was significantly underestimated during the last TAP-R Proceeding, resulting in the further downward adjustment presented as “Adjustment for Prior Estimates” on Tables 3-WA and 3-WW-A, respectively.

The Advocate’s argument cited above suggests a failure to understand how TAP-R calculations work. That is, net recoverable costs are the basis for the TAP-R rates for the next rate period. In a subsequent annual adjustment proceeding, the revenue generated from those rates are compared against the actual TAP discounts provided (net of TAP-R). The reason for under-recovery is that, in recent TAP-R proceedings, the C-Factor and E-Factor were set too low.

PWD is under-recovering TAP costs because in each of the three most recent past proceedings, the overall net recoverable costs used to establish TAP-R were too low. To be sure, including data from the prior rate period resulted in an understated average discount. The “actual periods” within the E-Factor are the measure of this performance in each reconciliation proceeding to date. The formula and approach mirrors that for the recovery of Universal Service Program costs utilized by PUC regulated utilities.

4. PA Misunderstanding of C-Factor and E-Factor Calculations.

The Advocate appears to misunderstand the calculation of the C-Factor and E-Factor.

The C-Factor is prospective, estimating the Total TAP Discounts for the period of September 1, 2026 through August 31, 2027. The following figure illustrates the periods of time associated with each of the components of the TAP-R formula and how they are referenced in the list of agreements identified in the 2018 Rate Determination.

Calendar Year	2024				2025								2026								2027															
Month	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8
Rate Periods	Prior Rate Period								Current Rate Period								Next Rate Period																			
TAP-R Factors	E-Factor Prior								E-Factor								C-Factor																			
2018 Agreement									12 Months prior to the effective date of TAP-R								Effective Period for Proposed TAP-R																			

The E-Factor addresses the period of September 1, 2025 through August 31, 2026. As stated on the record, the actual Total TAP Discounts reported include amounts associated with both base and surcharge rates, due to known and documented limitations of the Basis2 billing system. In other words, the TAP discounts included in the E-Factor are based upon the rates currently in effect. As such, the E-Factor calculations include a step to remove the TAP-R surcharge amounts associated with TAP customer discounts. This resulting amount of TAP discounts net of TAP-R surcharges is then compared to the revenues from non-TAP customers from the TAP-R surcharge, effective September 1, 2025 through August 31, 2026. Actual data for TAP discounts, TAP billed volumes as well as Non-TAP billed volumes are available for September 2025 through March 2026. The only estimates used in the E-Factor calculation are for the remaining months of April 2026 to August 2026.

In other words, the actual net TAP discounts are being reconciled with TAP-R revenues during the above period. No additional modification to the E-Factor calculations is required. PWD offers the above explanation to clarify the record.

B. Annual Adjustment Issues Raised by Non-Advocate Participants.

1. Additional PLUG Issues.

PLUG's Main Brief makes two additional arguments on the annual adjustment.

First, PLUG argues that the Rate Board should take steps to ensure that costs are manageable.¹³ Specifically, PLUG asks the Rate Board to consider usage limitations on TAP Participants as well as other means of managing the TAP Discount going forward.¹⁴

Second, PLUG argues that the Rate Board should take steps to ensure that large users' needs are appropriately balanced with the needs of the community.¹⁵

The Department is also concerned that TAP costs should be manageable. In this regard, facilitating TAP enrollees' participation in the Low-Income Conservation Assistance Program ("LICAP") is one step towards that goal. Carefully addressing TAP expansion (as pending legislation considers an additional income tier) is a second, more significant step. Taken together, these two steps (as well as others that PWD, PLUG and others may raise in the future) will help ensure that all customer needs are appropriately balanced with respect to TAP and the recovery of TAP costs. The discussion of PLUG concerns would appropriately continue in Residential Customer Assistance and Services (R-CAS) stakeholder meetings (as well as other stakeholder meetings) and in the next general rate case.

2. Issues Raised by Mr. Haver.

Mr. Haver filed a Main Brief addressing various issues. In reply, the Department incorporates Section III.B of the Department's Main Brief.

¹³ PLUG Main Brief at 8-10.

¹⁴ PLUG Main Brief at 10. PLUG did not explain its proposal in detail, although it invited future discussion of its concerns (e.g., cost control measures) in a general rate proceeding.

¹⁵ PLUG Main Brief at 8-10.

IV. CONCLUSION

For all of the reasons stated in this Reply Brief (together with the facts and information contained in the record), the Department respectfully requests that the Hearing Officer recommend that (1) the Rate Board find that the rates and charges proposed by the Department are supported by the record, are in compliance with the Rate Ordinance and other applicable requirements and therefore should be permitted to be placed in effect for service rendered on and after September 1, 2026; (2) the Rate Board reject any remaining issues, proposals, modifications and/or adjustments by the other participants hereto; and (3) the Rate Board authorize the Department to file revised TAP-R rates and charges consistent with the Formal Notice.

Respectfully submitted,

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