

Philadelphia Water Department Rate Board Hearing
April 5, 2016

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CITY OF PHILADELPHIA
PHILADELPHIA WATER DEPARTMENT PRESENTATION
RATE BOARD HEARING
TUESDAY, APRIL 5, 2016
START TIME: 10:00 A.M.
END TIME 3:55 P.M.

- - -

LOCATION:

1515 ARCH STREET, 18TH FLOOR
PHILADELPHIA, PENNSYLVANIA 19111

REPORTED BY:

SHEILA KLOS, REGISTERED PROFESSIONAL REPORTER

HELD BEFORE:

NANCY BROCKWAY, HEARING OFFICER
SONNY POPOWSKY, BOARD MEMBER
BERNARD BRUNWASSER, CHAIRMAN

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1 ---
2 PROCEEDINGS.
3 ---
4 HEARING OFFICER: GOOD MORNING. MY NAME IS
5 NANCY BROCKWAY. I'M THE HEARING OFFICER. THIS IS
6 THE PHILADELPHIA WATER DEPARTMENT 2016 RATE CASE
7 TECHNICAL HEARINGS. WITH ME ON THE BENCH ARE THE
8 CHAIR OF THE WATER RATE BOARD, BERNIE BRUNWASSER
9 AND A MEMBER OF THE BOARD, SONNY POPOWSKY.
10 I THINK IT WOULD BE USEFUL TO TAKE
11 APPEARANCES NOT NECESSARILY FOR ANY LEGAL PURPOSES,
12 BUT JUST TO KNOW WHO IS HERE AND WHO WE MIGHT BE
13 HEARING FROM. SO IF YOU WANT TO START, ANDRE.
14 MR. DASENT: ANDRE DASENT FOR THE
15 PHILADELPHIA WATER DEPARTMENT AND ALSO WITH ME IS
16 SCOTT SCHWARTZ, GENERAL COUNSEL, PHILADELPHIA WATER
17 DEPARTMENT AND JI JUN OF THE PHILADELPHIA WATER
18 DEPARTMENT.
19 HEARING OFFICER: WHAT WAS THE LAST ONE?
20 MR. DASENT: J-I, J-U-N. AND FRANK PAIVA,
21 REVENUE DEPARTMENT.
22 HEARING OFFICER: THANK YOU.
23 MR. BALLENGER: ROBERT BALLENGER, COMMUNITY
24 LEGAL SERVICES, PUBLIC ADVOCATE IN THIS

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1 PROCEEDING.
2 MS. TRAN: THU TRAN ALSO WITH COMMUNITY
3 LEGAL SERVICES, PUBLIC ADVOCATE.
4 MS. PICKENS: JOSIE PICKENS WITH THE PUBLIC
5 ADVOCATE.
6 MR. GOULD: GEORGE GOULD, COMMUNITY LEGAL
7 SERVICES, PUBLIC ADVOCATE.
8 MR. DELANEY: DAN DELANEY. I REPRESENT
9 PECO AND EXCELON IN THE CASE, THE LARGE CUSTOMERS
10 OF THE DEPARTMENT.
11 MR. BAKARE: ADE BAKARE WITH THE
12 PHILADELPHIA LARGE USERS GROUP.
13 MR. HELBING: MICHAEL HELBING WITH PENN
14 FUTURE.
15 HEARING OFFICER: MR. HELBING, DO YOU WANT
16 TO SIT SOMEPLACE CLOSER? YOU DON'T HAVE TO.
17 IS THIS MR. MORGAN?
18 MR. BALLENGER: IT IS.
19 HEARING OFFICER: PROCESS OF ELIMINATION.
20 ANYBODY ELSE?
21 (NO RESPONSE.)
22 HEARING OFFICER: SO THERE HAS BEEN SOME
23 DISCUSSION OFF THE RECORD ABOUT THE SCHEDULE. WE
24 ARE DOING REVENUE REQUIREMENTS TODAY, TOMORROW

Page 4

1 UNTIL EARLY AFTERNOON AND THURSDAY. MR. DASENT AND
2 MR. BALLENGER HAVE MADE A SUGGESTION THAT TODAY WE
3 CROSS-EXAMINE OR THEY CROSS-EXAMINE THE
4 DEPARTMENT'S WITNESSES WHO ARE HERE ON THE PANEL ON
5 THE DIRECT FILING. AND THEN IF I HAVE GOT THIS
6 RIGHT, TOMORROW THERE WOULD BE A LITTLE ELABORATION
7 OF THE BULLET POINTS THAT WE GOT FROM THE
8 DEPARTMENT YESTERDAY TO MAKE SURE THAT WE
9 UNDERSTAND WHAT THE POINTS ARE AND
10 CROSS-EXAMINATION ON THAT. WE ARE LIKELY GOING TO
11 HAVE A MOTION TO ALLOW SURREBUTTAL TO THE
12 REBUTTAL. I WILL TAKE THAT UP LATER AND WE WILL
13 HAVE CROSS-EXAMINATION OF MR. MORGAN PROBABLY ON
14 THURSDAY AT THIS RATE. BUT WE'LL SEE HOW QUICKLY
15 IT GOES.
16 MR. DASENT: TOMORROW, BASICALLY WE ARE
17 PRESENTING A REBUTTAL CASE. AND THAT'S THE NEXT
18 STEP IN THE PROCESS AS OPPOSED TO EXPLAINING THE
19 OUTLINE.
20 HEARING OFFICER: THAT'S NOT MY
21 UNDERSTANDING.
22 LET'S GO OFF THE RECORD.
23 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
24 RECORD.)

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1 HEARING OFFICER: WE HAVE BEEN HAVING A
2 DISCUSSION ABOUT THE NATURE OF THE DEPARTMENT'S
3 REBUTTAL AND HOW THAT SHOULD BE HANDLED IN TERMS OF
4 WITNESSES. MY UNDERSTANDING IS THAT THE DEPARTMENT
5 UNDERSTOOD THAT IT WOULD FILE ITS OUTLINE, AND THEN
6 IT PLANNED TO PRESENT ITS WITNESSES TO DESCRIBE, TO
7 WALK THROUGH THE REBUTTAL TOMORROW.
8 AND MR. BALLENGER, YOU HAD A DIFFERENT
9 VIEW?
10 MR. BALLENGER: WELL, I'M NOT SURE HOW
11 DIFFERENT IT IS. I UNDERSTOOD THE ORDER TO BE THAT
12 THE DEPARTMENT WOULD FILE A CONCISE OR BRIEF
13 STATEMENT OF ITS REBUTTAL. THERE WAS DISCUSSION IN
14 ADVANCE OF THAT OF FILING IT AS AN OUTLINE OR A
15 BULLET POINT LIST. UPON REVIEW OF WHAT THE
16 DEPARTMENT FILED, I BELIEVED THAT IN ORDER FOR US
17 TO PREPARE ANY SURREBUTTAL, THAT WE WOULD NEED TO
18 AT LEAST HAVE A DISCUSSION OF THAT. AND MR. DASENT
19 SORT OF INFORMED ME THAT THEIR PROPOSAL WAS
20 SOMEWHAT BROADER THAN THAT.
21 HEARING OFFICER: MY UNDERSTANDING WOULD BE
22 THAT YOU WOULD CROSS-EXAMINE. SO THE QUESTION IS
23 WHETHER YOU NEED MORE DIRECT OUT OF THE MOUTHS OF
24 THE WITNESSES BEFORE YOU CAN CROSS-EXAMINE?

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1 MR. BALLENGER: WE DON'T OBJECT TO THE
2 DEPARTMENT TAKING SOME TIME TO WALK THROUGH ITS
3 REBUTTAL OUTLINE BECAUSE IT IS RATHER SKELETAL.
4 HEARING OFFICER: AND WE WILL DO THAT
5 IMMEDIATELY AFTER THE CLOSE OF CROSS ON THE DIRECT
6 CASE OF THE DEPARTMENT'S WITNESSES. SO IF WE GET
7 THAT FAR TODAY, WE WILL DO IT TODAY.
8 MR. DASENT: I WOULD ASK THAT IT BE DONE
9 TOMORROW BECAUSE THE WAY WE HAD APPROACHED THE CASE
10 WAS TO CROSS TODAY, AND THE NEXT STAGE WAS TO DO
11 OUR REBUTTAL. AND I THINK IN TERMS OF PRESENTATION
12 IN TERMS OF OFFERING THE BOARD THE BROADEST
13 EXPLANATION AND THE MOST CONCISE WAY WOULD BE
14 PREFERABLE TO DO IT STARTING TOMORROW MORNING.
15 HEARING OFFICER: DID YOU HAVE A DISCUSSION
16 WITH ME ABOUT THAT, ANDRE?
17 MR. DASENT: WELL, I THINK AS THIS HAS
18 EVOLVED, WE HAVE DEVELOPED AN OUTLINE. WE HAVE
19 SEEN THE TESTIMONY OF MR. MORGAN. WE HAVE TRIED TO
20 RESPOND IN AS COMPREHENSIVE A WAY AS WE COULD.
21 HEARING OFFICER: IN OTHER WORDS, YOU HAVE
22 NOT HAD THIS CONVERSATION WITH ME BEFORE TODAY?
23 MR. DASENT: NO, WE HAVE NOT HAD A
24 CONVERSATION BECAUSE THERE WAS NO OTHER PREHEARING

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1 CONFERENCE. BUT THIS MORNING ROB AND I WERE
2 TALKING TRYING TO THINK OF A WAY TO ORGANIZE THIS.
3 WE SUGGEST TO YOU THE FOLLOWING. THAT WE DO
4 CROSS-EXAMINATION TODAY. THAT WE DO A PRESENTATION
5 OF REBUTTAL TOMORROW. THAT WE ARE CROSSED ON THAT
6 REBUTTAL, AND WHATEVER FOLLOWS IS AT YOUR
7 DISCRETION?
8 HEARING OFFICER: IS THAT SATISFACTORY?
9 MR. BALLENGER: THAT'S ACCEPTABLE. WE CAN
10 WORK WITH THAT.
11 HEARING OFFICER: DOES ANYBODY ELSE WANT TO
12 WEIGH IN ON THIS? MR. DELANEY?
13 MR. DELANEY: I HAVE A QUESTION. THE
14 WITNESS IS GOING TO TESTIFY FOR THE FIRST TIME AT
15 THE END OF THE HEARING WHICH IS MY WITNESS. ARE
16 YOU PROPOSING TO DO REBUTTAL TO THEIR TESTIMONY
17 BEFORE THEY EVEN TESTIFY?
18 MR. DASENT: NO, BUT WE WOULD PROVIDE YOU
19 WITH AN OUTLINE OF THE REBUTTAL SO YOU WOULD KNOW
20 THOSE QUESTIONS. IN YOUR CASE, THERE IS ONLY TWO
21 POINTS.
22 MR. DELANEY: BUT AT THE TIME YOU ACTUALLY
23 PRESENT THE REBUTTAL, IT'S GREAT YOU GIVE US AN
24 OUTLINE. BUT THE PRESENTATION OF THE REBUTTAL BY

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1 YOUR WITNESSES WOULD BE AFTER MY WITNESS TESTIFIED
2 AS DIRECT; RIGHT?
3 MR. DASENT: YES.
4 MR. DELANEY: WHICH IS NOW EXPECTED TO BE
5 NEXT WEDNESDAY OR SOMETHING LIKE THAT?
6 MR. DASENT: THURSDAY.
7 MR. DELANEY: THAT'S FINE. I HAVE NO
8 OBJECTION, YOUR HONOR.
9 HEARING OFFICER: ORDINARILY, I'M USED TO A
10 SITUATION IN WHICH THERE IS PREFILE TESTIMONY AND
11 ALL OF THE TESTIMONY INCLUDING SURREBUTTAL IS IN
12 BEFORE ANYBODY STARTS CROSS AND SO YOU CROSS ON
13 EVERYTHING THAT'S COME IN. THIS A LITTLE DIFFERENT
14 FOR ME. BUT IF ALL THE PARTIES WANT TO DO IT THAT
15 WAY, IS THAT ACCEPTABLE TO THE BOARD?
16 MR. BRUNWASSER: YES.
17 MR. POPOWSKY: SURE.
18 HEARING OFFICER: WE WILL DO IT THAT WAY.
19 I HAVE ONE LITTLE HOUSEKEEPING, A COUPLE OF
20 HOUSEKEEPING. AS I SAID BEFORE, WITNESSES WON'T BE
21 SWORN. WE ARE ALL ADULTS AND WE EXPECT EVERYBODY
22 TO TELL THE TRUTH. PLUS WHICH I DON'T THINK THE
23 BOARD HAS ANY AUTHORITY FOR PUNISHING YOU IF YOU
24 DON'T.

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1 IN THE DEPARTMENT'S CASE AND CHIEF, THERE
2 ARE NO LINE NUMBERS. AND MY SUGGESTION IS THAT
3 WHEN YOU WANT TO DRAW THE ATTENTION OF A WITNESS TO
4 A PARTICULAR LINE, THAT YOU FIRST DRAW EVERYONE'S
5 ATTENTION TO THE PAGE AND GIVE US SOME TIME TO FIND
6 IT. AND THEN DRAW OUR ATTENTION TO THE FIRST LINE
7 OF A QUESTION OR THE FIRST LINE OF THE ANSWER SO
8 THAT WE CAN FIND THE BLOCK OF TEXT THAT YOU ARE
9 INTERESTED IN CROSS-EXAMINING ON. OTHERWISE, WE
10 WILL DO PAGE AND LINE NUMBER.
11 IS THERE ANYTHING ELSE WE NEED TO DO BEFORE
12 WE GET GOING?
13 MR. BALLENGER: I BELIEVE WE HAVE THE
14 MATTER OF ERRATA SHEETS, IF ANY. AND WE DO HAVE
15 ONE TO SUBMIT ONTO THE RECORD HERE TODAY, MADAM
16 HEARING OFFICER.
17 HEARING OFFICER: FROM MR. MORGAN'S
18 TESTIMONY?
19 MR. BALLENGER: YES, SO I'D LIKE TO MOVE
20 ONTO THE RECORD THE ERRATA SHEET TO DIRECT
21 TESTIMONY OF LAFAYETTE MORGAN, JR. AND I HAVE 13
22 COPIES TO DISTRIBUTE PER THE PREHEARING ORDER OF
23 THE HEARING OFFICER.
24 HEARING OFFICER: OFF THE RECORD.

3 (Pages 6 to 9)

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<p style="text-align: right;">Page 10</p> <p>1 (WHEREUPON, A DISCUSSION WAS HELD OFF THE 2 RECORD.) 3 HEARING OFFICER: SO WE HAVE HAD A 4 DISCUSSION THAT IF PEOPLE CAN, THEY WILL PROVIDE 5 ANY WRITTEN MATERIAL IN ADVANCE IN ELECTRONICALLY 6 THROUGH FRANCES. BUT IN ANY EVENT, PEOPLE WHO WANT 7 TO PRESENT SOMETHING TO THE RECORD BEYOND THE 8 TESTIMONY AND SO FORTH, WILL BRING THE COPY, THE 9 NUMBER OF COPIES THAT I SPECIFIED IN THE MEMO I 10 THINK ON FRIDAY. AND I WILL GET THOSE TO FRANCES 11 AND SHE WILL HAVE THEM POSTED ON THE WEBSITE. 12 MS. BECKLEY: IF YOU BRING HARD COPIES AND 13 YOU HAVE ALREADY PREFILED AN ELECTRONIC COPY OF THE 14 SAME WITH ME, PLEASE MAKE THAT CLEAR TO NANCY AND 15 SHE WILL MARK IT ON THERE SO WE DON'T POST THINGS 16 TWICE. 17 HEARING OFFICER: THANK YOU, FRANCES. 18 ANY OTHER PRE-CROSS-EXAMINATION ISSUES? 19 MR. DASENT: YOUR HONOR PLEASE, IF THERE ARE 20 QUESTIONS THAT ARE ELICITED, IF INFORMATION IS 21 BEING ELICITED THAT WE DO NOT HAVE ANSWERS FOR IN 22 THE ROOM, IT MAY TAKE THE FORM OF A TRANSCRIPT 23 REQUEST. AND ROB AND I TALKED ABOUT THAT AND WE 24 HADN'T HAD A CONVERSATION WITH YOU. SO I JUST</p>	<p style="text-align: right;">Page 12</p> <p>1 ELSE? 2 MR. DASENT: NO. 3 HEARING OFFICER: MR. DASENT, WOULD YOU 4 PRESENT YOUR WITNESSES. 5 MR. DASENT: YES, WE'D LIKE TO MARK FOR 6 IDENTIFICATION TODAY PWD STATEMENTS 1 THROUGH 9. 7 AND OUR WITNESSES ARE DEBORAH MCCARTY, MELISSA 8 LABUDA, STEPHEN FURTEK, ERIN WILLIAMS, DAVID KATZ 9 FOR STATEMENT 4. STATEMENT 5, JIM PALADINO, JAMES 10 PALADINO. 11 HEARING OFFICER: MR. PALADINO IS NOT HERE 12 TODAY; IS HE? 13 MR. DASENT: NO, BUT WE WERE MARKING FOR 14 IDENTIFICATION AT THIS TIME SORT OF ALL OF OUR 15 STATEMENTS. 16 HEARING OFFICER: OKAY. 17 MR. DASENT: STATEMENT 6, MICHELLE BETHEL 18 AND MARK HARVEY. STATEMENTS 7, KATHERINE CLUPPER. 19 STATEMENT 8, RAFTELIS FINANCIAL CONSULTANTS JOHN 20 DAVIS AND HENRIETTA LOCKLEAR. AND STATEMENT 9, 21 BLACK AND VEATCH CONSULTING AND THAT WOULD BE 22 PRABHA KUMAR AND DAVID JAGT, J-A-G-T. 23 THE WITNESSES FOR OUR PANEL FOR PURPOSES OF 24 CROSS-EXAMINATION, MR. BALLENGER, AND I HAVING HAD</p>
<p style="text-align: right;">Page 11</p> <p>1 WANTED YOU TO BE AWARE OF THAT POSSIBILITY TO MAKE 2 SURE THE RECORD IS FULL EVEN IF WE DON'T HAVE THE 3 INFORMATION PHYSICALLY WITH US. 4 HEARING OFFICER: YES. SOME TIME WE CAN 5 HAVE A PHILOSOPHICAL DISCUSSION ABOUT WHY THAT 6 DOESN'T BOTHER ME, THE TWO OF YOU TALKED ABOUT 7 THAT, BUT THE OTHER ONE DID. THAT'S GREAT. DID 8 YOU TALK ABOUT HOW MANY DAYS THE PARTY WOULD HAVE 9 TO RESPOND TO THE TRANSCRIPT REQUEST? 10 MR. DASENT: NO. 11 MR. BALLENGER: I DIFFER A LITTLE BIT WITH 12 THAT ANSWER. I THINK WE NEED TO HAVE THE RESPONSES 13 ON THE RECORD AS SOON AS POSSIBLE JUST IN CASE THEY 14 RAISE OTHER ISSUES. BUT I DON'T THINK WE AGREED 15 UPON A SPECIFIC TURNAROUND TIME. AND WE ARE 16 LOOKING TO OUR HEARING OFFICER TO INSTRUCT US. 17 HEARING OFFICER: THERE IS TWO WAYS OF 18 DOING IT. ONE OF THEM IS A STANDARD AMOUNT OF 19 TIME, AND THE OTHER ONE IS ISSUE BY ISSUE DEPENDING 20 UPON HOW DIFFICULT IT'S GOING TO BE TO PUT TOGETHER 21 THE MATERIAL. I'D BE HAPPY TO DO THE SECOND. 22 MR. BALLENGER: I THINK THAT'S FAIR. 23 MR. DASENT: THAT'S FAIR. 24 HEARING OFFICER: NOW IS THERE ANYTHING</p>	<p style="text-align: right;">Page 13</p> <p>1 A DISCUSSION BEFOREHAND ARE COST OF SERVICE AND 2 REVENUE REQUIREMENTS TODAY. AND THOSE WITNESSES 3 ARE CATHERINE CLUPPER, MELISSA LABUDA, BLACK AND 4 VEATCH, THE BLACK AND VEATCH WITNESSES I INDICATED 5 BEFORE, ANN BUI, PRABHA KUMAR AND DAVE JAGT. WE 6 HAVE OTHERS IN THE ROOM AS WELL DEPENDING UPON 7 CROSS-EXAMINATION QUESTIONS AND ANSWERING THOSE 8 QUESTIONS IN REAL TIME. 9 HEARING OFFICER: THANK YOU VERY MUCH. 10 I THINK IT WOULD BE USEFUL FOR PARTIES TO 11 PREPARE A LIST THAT CAN BE GIVEN TO THE COURT 12 REPORTER SO SHE WILL HAVE THE CORRECT SPELLING OF 13 EVERYONE'S NAME AND SO FORTH. 14 I WOULD ASSUME THAT WE ARE GOING TO GO 15 DEPARTMENT WITNESSES AND THEN CROSS-EXAMINATION BY 16 THE PUBLIC ADVOCATE AND THEN ANYONE ELSE, OR WOULD 17 YOU RATHER BE THE LAST? 18 MR. BALLENGER: UNLESS ANYONE IS DYING TO 19 GO, I CAN START. 20 HEARING OFFICER: OKAY. WE'LL START. THANK 21 YOU, MR. BALLENGER. 22 MR. DASENT: OUR WITNESSES ARE PROFFERED 23 FOR CROSS-EXAMINATION. 24 MR. BALLENGER: THANK YOU.</p>

4 (Pages 10 to 13)

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1 HEARING OFFICER: WOULD THE WITNESSES STATE
2 YOUR NAME AGAIN A COUPLE OF TIMES BEFORE YOU SPEAK
3 THIS MORNING JUST SO EVERYONE CAN GET IT CLEARLY IN
4 THEIR MINDS.
5 MR. BALLENGER: JUST AS A GENERAL
6 STATEMENT, I HAVE CROSS-EXAMINATION QUESTIONS THAT
7 MAY NOT BE DIRECTED AT A PARTICULAR WITNESS BUT TO
8 THE PANEL GENERALLY. AND OF COURSE, WE'LL ACCEPT A
9 RESPONSE FROM THE ONE WHO FEELS MOST KNOWLEDGEABLE
10 ABOUT THE SUBJECT.
11 I THINK WE HAVE A PRETTY GOOD GENERAL
12 OVERVIEW FROM THE FEBRUARY 22ND HEARING ON HOW
13 BLACK AND VEATCH APPROACHED THE COST OF SERVICE
14 STUDY AND THE DEVELOPMENT OF THE REVENUE
15 REQUIREMENTS IN THIS CASE. SO I DON'T WANT TO
16 WASTE OUR TIME GOING THROUGH ANOTHER GENERAL
17 OVERVIEW. BUT I DO WANT TO SPEND SOME TIME IN
18 CROSS-EXAMINATION ON THE ASSUMPTIONS UNDERLYING THE
19 COST OF SERVICE STUDY, THE BUDGET AND GROWTH
20 FACTORS.
21 SO THE FIRST QUESTION I HAVE IS, THE BUDGET
22 AND GROWTH FACTORS THAT WERE USED IN CALCULATING
23 THE REVENUE REQUIREMENTS, WERE THOSE DETERMINED BY
24 BLACK AND VEATCH AND THE WATER DEPARTMENT IN THE

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1 CONTEXT OF THIS COST OF SERVICE STUDY IN THIS
2 CASE?
3 MR. JAGT: BLACK AND VEATCH DOES AN
4 ANALYSIS AND PRESENTS IT FOR VIEW WITH THE CITY
5 BECAUSE THEY ARE MOST CLOSEST TO THE OPERATION OF
6 THE UTILITIES. SO IT'S WELL WORTH THEIR MANY YEARS
7 OF EXPERIENCE TO REVIEW THE PROJECTIONS OF REVENUE
8 AND REVENUE REQUIREMENTS FOR THE CITY. I FORGOT TO
9 INTRODUCE MYSELF. MY NAME IS DAVE JAGT. I'M WITH
10 BLACK AND VEATCH.
11 MR. BALLENGER: SO THE CITY PROVIDES SOME
12 RESPONSE TO THE INITIAL ASSUMPTIONS USED BY BLACK
13 AND VEATCH? AND THERE IS A PROCESS OF BACK AND
14 FORTH BETWEEN BLACK AND VEATCH AND THE CITY; IS
15 THAT CORRECT?
16 MS. LABUDA: THE CITY UTILIZED FOR THE
17 FIRST TIME THE FIVE-YEAR PLAN TO DRIVE MANY OF OUR
18 ASSUMPTIONS. THE CITY'S FIVE-YEAR PLAN WHICH IS A
19 STATE-APPROVED PLAN WAS NOT USED IN PRIOR
20 PROCEEDINGS. SO FOR THIS, WE TOOK A HARD LOOK AT
21 OUR ASSUMPTIONS AND USED THIS STATE-APPROVED
22 FIVE-YEAR PLAN TO DRIVE OUR ASSUMPTIONS.
23 MR. BALLENGER: SO THAT WOULD BE A YES THEN,
24 IT'S A BACK AND FORTH BETWEEN THE CITY AND BLACK

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1 AND VEATCH THE RESULTS IN THE COST OF SERVICE STUDY
2 ASSUMPTIONS? I'M JUST ASKING GENERALLY WHO IS
3 INVOLVED?
4 MS. KUMAR: THIS IS BLACK AND VEATCH. IT'S
5 A REVIEW PROCESS. WE MAKE THE ASSUMPTIONS, REVIEW
6 WITH THE CLIENT.
7 HEARING OFFICER: FOR CLARITY ON THE RECORD,
8 WHEN PEOPLE SAY THE CITY, CAN PEOPLE BE PRECISE
9 ABOUT WHICH PART OF THE CITY THEY MEAN? I THINK WE
10 HAVE BEEN TALKING ABOUT THE WATER DEPARTMENT IN ALL
11 OF THESE QUESTIONS?
12 MR. BALLENGER: THAT'S CORRECT, YES.
13 MS. LABUDA: IF I MAY MAKE A CLARIFYING
14 STATEMENT. THE CITY REFERS TO THE CITY OF
15 PHILADELPHIA'S FIVE-YEAR PLAN WHICH IS
16 STATE-APPROVED. SO WHEN I AM SAYING THE
17 STATE-APPROVED FIVE-YEAR PLAN IS FOR THE CITY OF
18 PHILADELPHIA HOLISTICALLY AND ITS DEPARTMENTS.
19 HEARING OFFICER: GREAT. THANK YOU.
20 MR. BALLENGER: AND PWD EXHIBIT 5, THAT
21 REFLECTS ALL OF THE VARIOUS ASSUMPTIONS IN THE COST
22 OF SERVICE; CORRECT?
23 MR. JAGT: YES.
24 MR. BALLENGER: I'D LIKE TO ASK BEFORE WE

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1 GET TO THE SUBSTANCE, AND I THINK ONE OF THE WAYS
2 I'D LIKE TO ORGANIZE THE CROSS TODAY IS BY
3 GENERALLY TAKING THE ASSUMPTIONS THAT MR. MORGAN
4 TESTIFIED ABOUT AND ASKING YOU QUESTIONS ABOUT
5 THEM.
6 I'D LIKE TO ASK FIRST, HAVE YOU HAD THE
7 CHANCE TO REVIEW THE ADJUSTMENTS MR. MORGAN MADE TO
8 THE BLACK AND VEATCH RATE MODEL?
9 MR. JAGT: MY NAME IS DAVE JAGT WITH BLACK
10 AND VEATCH. YES, WE HAVE REVIEWED THE ADJUSTMENTS
11 MADE TO THE O&M AND THE PROJECTED VOLUME ADJUSTMENT
12 AS PROVIDED AND HIGHLIGHTED FOR REVIEW.
13 MR. BALLENGER: THOSE WERE PROVIDED
14 ELECTRONICALLY ON MARCH 30TH AFTER OUR INFORMAL
15 DISCOVERY CALL THROUGH YOUR COUNSEL, MR. DASENT; IS
16 THAT CORRECT?
17 MR. JAGT: CORRECT.
18 MR. BALLENGER: SO WITH THAT INFORMATION,
19 YOU COULD DETERMINE AND QUANTIFY MR. MORGAN'S
20 ADJUSTMENTS IN HIS DIRECT TESTIMONY IN THIS CASE?
21 MR. JAGT: NOT ENTIRELY.
22 MR. BALLENGER: NOT ENTIRELY?
23 MR. JAGT: THERE WAS ONE ADJUSTMENT MADE
24 SUBSEQUENT TO OUR REVIEW.

5 (Pages 14 to 17)

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1 MR. BALLENGER: THAT WOULD BE THE RATE CASE
2 EXPENSE?
3 MR. JAGT: YES.
4 MR. BALLENGER: SO I'D LIKE TO DISTRIBUTE
5 ONE EXHIBIT FOR OUR CROSS-EXAMINATION HERE. AND
6 THIS IS MARKED AS PUBLIC ADVOCATE HEARING EXHIBIT
7 NUMBER 1. THE PAGES ARE NUMBERED FOR EASE OF
8 REFERENCE. AND I'D LIKE TO USE THIS TO HELP GUIDE
9 US THROUGH CROSS-EXAMINATION. AND I'D LIKE FOR
10 THIS EXHIBIT TO BE PLACED ON THE RECORD OF THIS
11 CASE.
12 HEARING OFFICER: WITHOUT OBJECTION?
13 EXCUSE ME. I'M GOING TO LET EVERYTHING IN.
14 SO THERE IS NOT MUCH POINT IN OBJECTING EXCEPT IF
15 THERE IS CONFIDENTIAL MATERIAL, IN WHICH CASE YOU
16 CAN JUMP UP QUICKLY AND SAY, WAIT A MINUTE. IS
17 THAT ALL RIGHT?
18 MR. BALLENGER: YES.
19 MR. DASENT: YES.
20 MR. BALLENGER: I DON'T THINK THERE WOULD
21 BE A BASIS FOR THAT IN THIS PARTICULAR EXHIBIT.
22 I'D LIKE TO ASK THE DEPARTMENT'S WITNESSES
23 TO LOOK AT THE FIRST PAGE. I HAVE DOUBLE-SIDED
24 THIS TO TRY TO SAVE PAPER. IF THAT'S NOT

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1 CUSTOMARY, I APOLOGIZE.
2 ON THE FIRST PAGE I HAVE A PAGE TITLE
3 ITEMIZATION OF PUBLIC ADVOCATE ADJUSTMENTS. MR.
4 MORGAN PREPARED THIS FOR US TODAY. OF COURSE, HE
5 WILL BE AVAILABLE FOR CROSS-EXAMINATION DURING THIS
6 PROCEEDING. MR. DASENT AND I DISCUSSED YESTERDAY
7 USING THIS AS A TOOL TO GUIDE US THROUGH
8 CROSS-EXAMINATION. AND I'D JUST LIKE TO EXPLAIN
9 WHAT THIS IS BEFORE WE PROCEED.
10 THIS IS A CALCULATION OF EACH ADJUSTMENT IN
11 MR. MORGAN'S TESTIMONY ON A STAND-ALONE BASIS USING
12 THE BLACK AND VEATCH MODEL. AND I WANT TO
13 ACKNOWLEDGE THAT AS MR. MORGAN HAS ACKNOWLEDGED IN
14 HIS TESTIMONY, THERE ARE VARIOUS INTERCONNECTIONS
15 IN THE MODEL. AND SO IF ONE WERE TO CALCULATE THE
16 SUM OF ALL OF THESE ADJUSTMENTS, THEY WOULD DIFFER
17 FROM THE TOTAL ADJUSTMENTS IN MR. MORGAN'S
18 TESTIMONY BECAUSE OF THOSE INTERRELATIONSHIPS. BUT
19 I THOUGHT THIS WOULD BE A USEFUL SORT OF ORDER OF
20 MAGNITUDE AS WE DISCUSS EACH OF THESE ADJUSTMENTS.
21 SO I THINK TO START CROSS-EXAMINATION, THE
22 FIRST THING I'D LIKE TO DO IS START ON THE REVENUE
23 SIDE BECAUSE WE ONLY HAVE A COUPLE OF ADJUSTMENTS
24 THERE. THEN WE CAN MOVE TO THE EXPENSE SIDE WHEN

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1 THERE ARE SOME BIG TICKET ITEMS.
2 ON THE REVENUE GROWTH RATE ADJUSTMENTS, ARE
3 YOU FAMILIAR WITH MR. MORGAN'S TESTIMONY CONCERNING
4 THE REVENUE RATE THAT RELATES TO USAGE DECLINE ON
5 PAGE 17 TO 19 OF HIS TESTIMONY?
6 MR. JAGT: CAN YOU REPEAT YOUR QUESTION?
7 MR. BALLENGER: I'M ASKING IF YOU ARE
8 FAMILIAR WITH MR. MORGAN'S ADJUSTMENT THAT IS AN
9 ADJUSTMENT TO THE USAGE DECLINE FACTORS IN YOUR
10 MODEL?
11 MR. JAGT: YES.
12 MR. BALLENGER: WOULD YOU, FOR PURPOSES OF
13 NOT HAVING TO ASK THIS QUESTION TEN TIMES, WOULD
14 YOU ACCEPT, SUBJECT TO CHECK, THE AMOUNTS THAT MR.
15 MORGAN HAS SHOWN HERE IN THE COLUMN UNDER 2017 AND
16 2018 OF LINE 1 REFLECT OUTPUT OF ALTERING THE
17 REVENUE GROWTH RATE AS MR. MORGAN HAS DONE IN HIS
18 TESTIMONY?
19 HEARING OFFICER: FOR THE RECORD, THAT'S
20 5,960,000, 9,493,000?
21 MR. BALLENGER: CORRECT.
22 HEARING OFFICER: IT'S EASIER IF WE PUT THE
23 NUMBERS DURING THE TRANSCRIPT BECAUSE THEN PEOPLE
24 DON'T HAVE TO FISH BACK AND FORTH.

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1 MR. JAGT: IS THIS PER THE ERRATA SHEET OR
2 THE TESTIMONY?
3 MR. BALLENGER: THERE WERE NO CHANGES TO
4 THE REVENUE ADJUSTMENTS OR THE O&M ADJUSTMENTS IN
5 THE ERRATA SHEET. SO THIS IS PURSUANT TO THE
6 ORIGINAL TESTIMONY AS WELL AS THE ERRATA SHEET.
7 MR. JAGT: THE ISSUE WE ARE GOING TO HAVE
8 IS THE TESTIMONY ITSELF INDICATED, AS HE INDICATED
9 IN HIS ERRATA, INDICATED A .5 PERCENT REDUCTION.
10 MR. BALLENGER: CORRECT.
11 MR. JAGT: BUT THE ACTUAL FILING OR THE
12 CALCULATIONS REFLECTED .05 REDUCTION.
13 MR. BALLENGER: CORRECT. AND THAT IS THE
14 ADJUSTMENT THAT WAS MADE. IT WAS FROM A 1.5
15 PERCENT DECLINE IN USAGE TO A .05 PERCENT DECLINE
16 IN USAGE FOR THE 5/8 INCH METER.
17 HEARING OFFICER: I HAVE TO INTERRUPT AGAIN
18 BECAUSE I'M LOOKING AT THE ERRATA SHEET. THE
19 FOURTH ITEM PAGE 19, LINE 15 SAYS, THE WATER
20 CUSTOMER REVENUES, THE TESTIMONY IS BY .50 PERCENT
21 SHOULD BE "WATER CUSTOMER REVENUES BY .005
22 PERCENT." SO IS IT USAGE OR REVENUES?
23 MR. BALLENGER: I BELIEVE IT'S THE IMPACT
24 OF THE USAGE ASSUMPTION ON REVENUES IN THIS CASE.

6 (Pages 18 to 21)

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Page 22	Page 24
<p>1 IT IS A VOLUME FACTOR, MADAM HEARING OFFICER. 2 HEARING OFFICER: OFF THE RECORD. 3 (WHEREUPON, A DISCUSSION WAS HELD OFF THE 4 RECORD.) 5 MR. BALLENGER: SO MY QUESTION IS WHETHER 6 SUBJECT TO CHECK, WOULD BE CORRECT THAT THAT IS THE 7 RESULT, LINE 1, A NEARLY \$6 MILLION ADJUSTMENT TO 8 REVENUES IN 2017 AND AN APPROXIMATELY \$9 AND-A-HALF 9 MILLION REDUCTION? AND THAT'S A REDUCTION TO THE 10 REVENUE REQUIREMENT. I APOLOGIZE. IT'S NOT THE 11 REVENUES, IT'S ADJUSTMENT TO THE REVENUE 12 REQUIREMENTS. 13 MR. DASENT: OBJECTION. JUST FOR CLARITY, 14 ARE WE TALKING ABOUT ACCORDING TO MR. MORGAN'S 15 REVISIONS OF THE RATE MODEL, HIS CALCULATION IS 16 THAT? 17 MR. BALLENGER: CORRECT. 18 MR. DASENT: WE ARE NOT CORROBORATING, WE 19 ARE NO SUPPORTING IT. 20 MR. BALLENGER: NO, YOU ARE NOT SUPPORTING 21 IT. IF THAT ADJUSTMENT IS MADE IN THE MODEL, A 22 USAGE DECLINE OF .05 PERCENT FOR THE 5/8 INCH METER 23 CLASS, THIS IS THE CHANGE TO THE REVENUE 24 REQUIREMENT. IT'S A DOWNWARD ADJUSTMENT TO THE</p>	<p>1 WHETHER YOU AGREE TO REDUCING THE SALES VOLUME 2 BY .05 INSTEAD OF 1.5 PRODUCES THIS \$6 MILLION AND 3 \$9 AND-A-HALF MILLION ADJUSTMENT TO THE REVENUE 4 REQUIREMENT USING THE BLACK AND VEATCH MODEL 5 SUBJECT TO CHECK? 6 MR. DASENT: AS REVISED BY MR. MORGAN? 7 MR. BALLENGER: AS REVISED BY MR. MORGAN. 8 BUT AS I THINK WE HAVE STATED, THIS IS WHAT WAS 9 ACTUALLY USED IN HIS TABLES. SO THIS WAS A TYPO IN 10 THE TESTIMONY. HIS CALCULATION IN HIS EXHIBIT TO 11 HIS TESTIMONY -- 12 HEARING OFFICER: WHOSE? 13 MR. BALLENGER: MR. MORGAN'S TESTIMONY 14 ACTUALLY USED THE CORRECT FACTOR. IT WAS A TYPO ON 15 LINE 7 OF PAGE 18. 16 HEARING OFFICER: I UNDERSTOOD MR. DASENT TO 17 BE TALKING ABOUT SOMETHING ELSE ABOUT THE MODEL. 18 MR. DASENT: YES. ALL OF THIS IS AN OUTPUT 19 THAT'S SHOWN ON MR. MORGAN'S SCHEDULES AND IS A 20 PRODUCT, I BELIEVE, HE WILL HAVE TO ESTABLISH, FROM 21 THE REVISED BLACK AND VEATCH MODEL. HE RAN THE 22 MODEL WITH THIS INPUT. I'M JUST TRYING TO MAKE 23 SURE WE ARE NOT CORROBORATING ANYTHING EXCEPT THAT 24 ON THIS TABLE IS A NUMBER THAT'S IN HIS SCHEDULES</p>
Page 23	Page 25
<p>1 REVENUE REQUIREMENT. 2 HEARING OFFICER: AGAIN, ACCORDING TO THE 3 ERRATA SHEET, IT'S THE WATER CUSTOMER REVENUES, NOT 4 THE USAGE. I'D ACCEPT THERE ARE SITUATIONS WHERE 5 THERE IS A ONE-TO-ONE RELATIONSHIP. BUT UNTIL I 6 UNDERSTAND THAT BETTER HERE, LET'S BE PRECISE. 7 MR. BALLENGER: I'M SORRY. OKAY. OKAY, I 8 APOLOGIZE. I THINK I HAVE CREATED A LITTLE BIT OF 9 CONFUSION HERE. I THINK THE ADJUSTMENT THAT I AM 10 REFERRING TO IS ACTUALLY THE ADJUSTMENT THAT 11 APPEARS ON PAGE 18, WHERE LINE 7 IN MR. MORGAN'S 12 ERRATA, HE HAS CHANGED THE NUMBER FROM .5 TO .05. 13 SO HIS TESTIMONY STATES THE USE OF THE THREE-YEAR 14 COMPOUND GROWTH RATE RESULTS IN A 0.05 PERCENT 15 DECREASE IN SALES TO 5/8 INCH. THAT'S THE 16 ADJUSTMENT. AND I APOLOGIZE. WE MAY HAVE A 17 FURTHER ERRATA DUE TO MY CONFUSION. 18 HEARING OFFICER: I DON'T THINK THAT YOU 19 MADE CONFUSION. I THINK I DID BY ASSUMING WE WERE 20 TALKING ABOUT PAGE 19. ANYWAY, I THINK WE CLEARED 21 IT UP. 22 MR. BALLENGER: I THINK I MENTIONED PAGE 23 19. I APOLOGIZE FOR THAT. 24 SO AGAIN, SUBJECT TO CHECK, I'M JUST ASKING</p>	<p>1 AND TESTIMONY AS REVISED. 2 HEARING OFFICER: I THINK WE CAN ASSUME THAT 3 YOU WERE NOT CORROBORATING THE SUBSTANCE OF IT. 4 YOU ARE NOT AGREEING WITH THE ADJUSTMENT AND WE 5 DON'T NEED TO BRING THAT UP AGAIN. BUT YOU HAD 6 SAID SOMETHING ABOUT QUESTION, WOULD THIS FALL OUT 7 OF THE BLACK AND VEATCH MODEL? OBJECTION. WHAT 8 MODEL ARE YOU TALKING ABOUT? 9 MR. DASENT: AS REVISED BY MR. MORGAN. HE 10 MADE HIS OWN INPUTS. 11 HEARING OFFICER: INPUTS IS ONE THING, BUT 12 THE ALGORITHMS WERE NOT REVISED? 13 MR. DASENT: HE WILL HAVE TO ESTABLISH 14 THAT. 15 HEARING OFFICER: GO AHEAD. 16 MR. BALLENGER: ASSUMING THE ALGORITHMS ARE 17 NOT REVISED AND ONE CHANGES SIMPLY THE DECLINE IN 18 USAGE FACTOR FROM 1.5 PERCENT TO .05 PERCENT FOR 19 THE 5/8 INCH METER CLASS, WOULD THE BLACK AND 20 VEATCH MODEL PRODUCE THE REVENUE REQUIREMENT 21 ADJUSTMENTS SHOWN ON LINE 1 OF PAGE 1 OF EXHIBIT 22 1? 23 MR. JAGT: JUST TO MAKE ONE CLARIFYING 24 STATEMENT TO THE QUESTION BECAUSE REVENUE</p>

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1 REQUIREMENT IS NORMALLY FOR ME AS A RATE ANALYST OR
2 AN ANALYST FOR ANALYZING RATES AND RATE-MAKING
3 PURPOSES, THE REVENUE REQUIREMENTS WOULD INCLUDE
4 O&M DEBT SERVICE, CAPITAL ACCOUNT DEPOSIT. THE
5 REVENUE IMPACTS WOULD BE ADJUSTMENTS TO REVENUE
6 UNDER EXISTING RATES, MISCELLANEOUS REVENUES. AND
7 IT WOULD BE THE NET REVENUE IMPACT THAT WE ARE
8 LOOKING AT TO THE REVENUE, THE NET REVENUE TO BE
9 RECOVERED FROM RATES.
10 SO WITH THE CLARIFICATION THAT WE ARE
11 REVIEWING THE NET REVENUE IMPACT AND SUBJECT TO
12 CHECK BECAUSE I DO HAVE, IT'S WITHIN THE RANGE OF
13 WHAT IT POSSIBLY WOULD BE. BUT IT DOES BOTHER ME
14 THAT OR I WOULD HAVE TO CHECK BECAUSE LINE 1 AND 2
15 ARE NOT REFLECTING THE TOTAL IMPACT THAT'S
16 REFLECTED ON LINE 4 OF THE CHANGE BETWEEN OUR
17 ORIGINAL SUBMITTED TESTIMONY AND THE REVISED
18 OUTPUT.
19 MR. BALLENGER: THANK YOU. AS I STATED
20 BEFORE, THE PURPOSE OF THIS IS TO LOOK AT EACH OF
21 THESE ADJUSTMENTS ON A STAND-ALONE BASIS AND THERE
22 IS SOME INTERCONNECTION. BUT I TAKE IT THAT WE
23 HAVE ESTABLISHED THAT THIS IS ACCEPTED SUBJECT TO
24 CHECK.

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1 HEARING OFFICER: YES. IS IT YOUR INTENTION
2 TO GO THROUGH ALL TEN OF THESE?
3 MR. BALLENGER: I'M GOING TO CROSS ON ALL
4 TEN OF THESE, BUT I WANTED TO SEE IF WE COULD
5 ESTABLISH THAT THERE WAS AT LEAST SOME BASIC
6 AGREEMENT MAKING EACH OF THESE ADJUSTMENTS THAT
7 PRODUCES THESE RESULTS USING THE MODEL.
8 HEARING OFFICER: IS THAT SOMETHING THAT YOU
9 CAN TELL IN REAL TIME, OR WOULD IT BE HELPFUL FOR
10 YOU TO HAVE A LITTLE TIME BEFORE THESE QUESTIONS
11 CONTINUE IN ORDER TO CHECK THIS?
12 MR. JAGT: WITHIN THE RANGE, WE CAN DO IT
13 SUBJECT TO CHECK.
14 HEARING OFFICER: LET'S GO AHEAD.
15 MR. BALLENGER: THAT WILL SAVE US A LOT OF
16 TIME, I BELIEVE. THANK YOU.
17 WHERE WAS I? MY UNDERSTANDING IS THAT
18 BLACK AND VEATCH HAS PROJECTED THE RATE FOR USAGE
19 VOLUME FOR 5/8 INCH METERS TO DECLINE BY 1.5
20 PERCENT PER YEAR OVER THE RATE PERIOD. ISN'T THAT
21 CORRECT?
22 MR. JAGT: CORRECT.
23 MR. BALLENGER: THE BASIS FOR THAT
24 ASSUMPTION IS THE RATE OF DECLINE IN USAGE OVER THE

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1 YEARS 2010 THROUGH 2015; IS THAT CORRECT?
2 MR. JAGT: THAT IS CORRECT.
3 MR. BALLENGER: YOU ARE AWARE THAT MR.
4 MORGAN TESTIFIED YOU SHOULD INSTEAD USE A
5 THREE-YEAR GROWTH RATE FOR YEARS 2012 THROUGH 2015;
6 CORRECT?
7 MR. JAGT: CORRECT.
8 MR. BALLENGER: THANK YOU.
9 THAT RESULTS IN A LOWER RATE OF DROPOFF,
10 ALMOST ZERO REDUCTION; CORRECT? .05 PERCENT IS THE
11 RESULT OF THE USE OF THE THREE-YEAR AVERAGE? IS
12 THAT CORRECT?
13 MR. JAGT: CORRECT.
14 MR. BALLENGER: THAT'S THE DECLINE FROM
15 HISTORICAL USAGE PER ACCOUNT OF 7.32 MCF DOWN TO
16 7.31 MCF IN 2015? THAT'S THE 2012 THROUGH 2015
17 DECLINE?
18 MR. JAGT: YES, SUBJECT TO CHECK. WE
19 LOOKED AT THAT.
20 MR. BALLENGER: I'M REFERENCING WORK PAPER
21 ASSUMPTIONS 4 FROM PWD EXHIBIT 6. I HAVE IT HERE
22 IF YOU WOULD LIKE TO TAKE A LOOK.
23 MR. JAGT: WE HAVE PREPARED THAT ALREADY.
24 MR. BALLENGER: SO THAT'S CORRECT?

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1 MR. JAGT: YES. BUT WHEN A REVISION WAS
2 MADE WITHIN THE ANALYSIS WITHIN THE MODEL TO ROUND
3 THE CONSUMPTION PER ACCOUNT TO THE TWO DECIMAL
4 PLACES, SO THERE IS A SLIGHT VARIANCE. IF YOU
5 DON'T ROUND, IT WOULD BE LIKE 0.07 PERCENT DECLINE.
6 WITH THE ROUNDING TO THE TWO DECIMAL PLACES, IT'S
7 THE 0.05 AS PROPOSED.
8 MR. BALLENGER: WHO MADE THE DECISION TO
9 MAKE THAT ADJUSTMENT?
10 MS. KUMAR: THIS IS PRABHA KUMAR. THE
11 0.07 THAT DAVE IS REFERRING TO IS MR. MORGAN'S
12 MODEL WHERE HE HAS ROUNDED IT. SO IF HE DIDN'T
13 ROUND IT, IT WOULD BE 0.07. BECAUSE HE ROUNDED IT,
14 IT'S 0.05. THAT'S WHAT THEY ARE POINTING OUT.
15 HEARING OFFICER: I DON'T MEAN TO BE A
16 FLAMING HOT BENCH. HOW CAN YOU ROUNDING CHANGE
17 FROM A .05 TO A .07?
18 MR. JAGT: JUST THE WAY THE DIGITS FELL
19 OUT. THE POSITION OF THE DIGITS WITH THE ROUNDING,
20 THE ROUNDING JUST REDUCED THE AVERAGE DECREASE OVER
21 THAT TIME FRAME.
22 MR. BALLENGER: CAN YOU JUST CLARIFY WHAT
23 YOU ROUNDED THE ADJUSTMENT TO?
24 MR. DASENT: OBJECTION. CLARIFICATION. IT

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1 SOUNDS LIKE WE ROUND SOMETHING, YET MR. MORGAN
2 DID. I WANT TO MAKE SURE WE UNDERSTAND. IF WE ARE
3 TESTIFYING, WE CAN ONLY TELL THE BOARD WHAT WE KNOW
4 THAT WE DID. WHAT HE DID NEEDS TO BE ELICITED FROM
5 HIM.
6 MR. BALLENGER: I THINK THAT'S WHAT WE ARE
7 ASKING, IS WHAT YOU DID IN ROUNDING THESE
8 NUMBERS?
9 MR. JAGT: WE DIDN'T.
10 MS. KUMAR: WE DID NOT.
11 MR. JAGT: SUBJECT TO CHECK.
12 MR. BALLENGER: SO WE TALKED ABOUT WORK
13 PAPER ASSUMPTION 4 FROM PWD EXHIBIT 6. DO THOSE
14 NUMBERS REFLECT ROUNDING? WE TALKED ABOUT THE
15 7.32 HISTORICAL USAGE PER ACCOUNT FOR GENERAL
16 SERVICE 5/8 INCH METER. IS THAT A ROUNDED
17 NUMBER?
18 MR. JAGT: WHEN IT PRESENTS THE RESULTS,
19 IT'S ROUNDED. IT'S JUST THAT THERE ARE, THERE
20 COULD BE A FEW DIGITS BEHIND.
21 MR. BALLENGER: AGAIN, FOR 2015 WE HAVE A
22 NUMBER OF 7.31 MCFS PER ACCOUNT GENERAL SERVICE 5/8
23 INCH METER. IS THAT A ROUNDED NUMBER?
24 MR. JAGT: YES, AS PRESENTED.

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1 MR. BALLENGER: DO YOU HAVE A COPY OF MR.
2 MORGAN'S TESTIMONY?
3 MR. JAGT: YES.
4 MR. BALLENGER: I'D LIKE TO DIRECT YOU TO
5 PAGE 17 OF MR. MORGAN'S TESTIMONY, LINE 7. AND HE
6 HAS A CHART THAT'S REPRODUCED IN HIS TESTIMONY. DO
7 YOU SEE THERE THAT THE AVERAGE USAGE FOR 5/8 INCH
8 METERS WAS 7.89 MCFS IN 2010?
9 MS. KUMAR: YOU ARE CORRECT.
10 MR. BALLENGER: AND 7.85 IN 2011?
11 MS. KUMAR: YES.
12 MR. BALLENGER: THEN IT DROPS TO 7.32 IN
13 2012; CORRECT?
14 MR. JAGT: CORRECT.
15 MR. BALLENGER: I THINK YOU CAN SEE IT GOES
16 UP A LITTLE BIT IN 2013; CORRECT?
17 MR. JAGT: CORRECT.
18 MR. BALLENGER: AND DOWN TO BELOW THE 2012
19 LEVEL IN 2014 AND RISES IN 2015 TO 7.31; IS THAT
20 CORRECT?
21 MR. JAGT: CORRECT.
22 HEARING OFFICER: THIS IS ALL ON THE
23 RECORD. IS THERE ANY NEED TO MAKE HIM GO THROUGH
24 IT? WHAT IS THE POINT OF THIS?

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1 MR. BALLENGER: THERE IS NOT MUCH MORE THAT
2 WE NEED TO ASK EXCEPT THAT OMITTING AN UPTAKE SINCE
3 2012, WOULD YOU AGREE THAT USAGE REDUCTION HAS NOT
4 BEEN A SIGNIFICANT FACTOR SINCE 2012 BASED ON THESE
5 NUMBERS?
6 MR. JAGT: CAN YOU REPEAT THE QUESTION?
7 MR. BALLENGER: WOULD YOU AGREE SINCE 2012,
8 BASED ON THESE NUMBERS, THERE HAS NOT BEEN A
9 SIGNIFICANT AMOUNT OF USAGE REDUCTION?
10 MR. JAGT: NO. THAT'S CORRECT.
11 MR. BALLENGER: YOU WOULD AGREE WITH
12 THAT?
13 MS. KUMAR: THE NUMBERS INDICATED THERE IS
14 VARIETY OF THE USAGE YEAR TO YEAR.
15 MR. BALLENGER: BUT NO SIGNIFICANT REDUCTION
16 IN USAGE SINCE 2012; CORRECT?
17 MR. JAGT: SINCE 2012; CORRECT.
18 MR. BALLENGER: ARE YOU FAMILIAR WITH MR.
19 MORGAN'S ADJUSTMENT CONCERNING THE BILLING
20 ADJUSTMENT FACTOR? AND AGAIN, I'D REFER YOU TO
21 PAGE 1 OF HEARING EXHIBIT 1. ARE YOU FAMILIAR WITH
22 THE ADJUSTMENT MR. MORGAN MAKES OF PAGE 19 AND HIS
23 TESTIMONY?
24 MR. JAGT: YES.

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1 MR. BALLENGER: AS I UNDERSTAND, THE
2 BILLING ADJUSTMENT FACTOR IS SOMETHING THE
3 DEPARTMENT HAS INCLUDED AS "AN ALLOWANCE FOR RISKS
4 ASSOCIATED WITH THE ASSUMPTIONS USED IN THE
5 DEVELOPMENT OF BILLINGS AS PROJECTIONS". RIGHT?
6 MR. JAGT: CORRECT.
7 MR. BALLENGER: AND THAT'S WHAT YOU STATED
8 IN RESPONSE TO PA-EXE 137; RIGHT?
9 MR. JAGT: CORRECT.
10 MR. BALLENGER: YOU HAVE APPLIED THE WATER
11 AND SEWER BILLING ADJUSTMENT FACTOR TO 2016, FISCAL
12 YEAR 2016 AS WELL AS FISCAL YEAR 2017 AND 2018;
13 CORRECT?
14 MR. JAGT: CORRECT.
15 MR. BALLENGER: THE STORMWATER ADJUSTMENT
16 ONLY APPLIES TO FISCAL 17 AND 18 OF THE RATE
17 PERIOD; IS THAT CORRECT?
18 MR. JAGT: SUBJECT TO VERIFICATION.
19 MR. BALLENGER: IT'S ASSUMPTIONS 8, I
20 BELIEVE, OF PWD EXHIBIT 6. DO YOU SEE THE LAST
21 LINE ON ASSUMPTIONS 8, CALCULATED BILLINGS
22 ADJUSTMENT FACTOR STORMWATER? YOU AGREE THAT YOU
23 HAVE BEGUN APPLYING THAT FACTOR IN 2017 AT A ONE
24 PERCENT REDUCTION; CORRECT?

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1 MR. JAGT: AS AN INPUT ON THAT PAGE;
2 CORRECT.
3 MR. BALLENGER: WHAT DOES THAT MEAN, AS AN
4 INPUT ON THAT PAGE?
5 MR. JAGT: SO SUBJECT TO CHECK OF WHETHER
6 THE PROJECTION OF THE REVENUES IN '16 INCORPORATED
7 THE ADJUSTMENT FOR STORMWATER.
8 HEARING OFFICER: SO YOU ARE NOT AWARE IF
9 YOU INCORPORATED A ONE PERCENT BILLING ADJUSTMENTS
10 FACTOR TO STORMWATER FOR FISCAL YEAR 2016?
11 MR. JAGT: CORRECT. SUBJECT TO CHECK.
12 MR. BALLENGER: I THINK I'D LIKE TO ASK A
13 TRANSCRIPT REQUEST FOR THAT, PLEASE.
14 HEARING OFFICER: YOU GOT IT.
15 MR. DASENT: YES.
16 HEARING OFFICER: THANK YOU. DO WE NEED TO
17 NUMBER THE TRANSCRIPT THINGS OR GO BY --
18 MR. DASENT: IF WE NUMBER THEM, I THINK IT
19 WOULD HELP US TRACK THEM. SO TRANSCRIPT REQUEST
20 I?
21 HEARING OFFICER: YES.
22 MR. BALLENGER: I'D LIKE TO ACTUALLY ASK
23 THAT IN TWO PARTS. ONE IS TO CONFIRM WHETHER OR
24 NOT BLACK AND VEATCH USED A CALCULATED BILLINGS

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1 ADJUSTMENT FACTOR FOR STORM WATER? AND PART TWO.
2 IF SO, PLEASE QUANTIFY THE AMOUNT OF THAT
3 ADJUSTMENT IN DOLLARS, FISCAL '16.
4 MS. KUMAR: SPECIFICALLY FOR FISCAL YEAR
5 '16?
6 MR. BALLENGER: CORRECT.
7 MS. KUMAR: THANK YOU.
8 1A AND B?
9 MR. BALLENGER: SURE. THAT WOULD BE GOOD.
10 AM I CORRECT THAT THIS IS A NEW ADJUSTMENT
11 IN THE RATE PROCEEDING?
12 MR. JAGT: IT IS NOT.
13 MR. BALLENGER: YOU HAVE USED THE
14 CALCULATED BILLINGS ADJUSTMENT FACTOR IN PAST RATE
15 PROCEEDINGS FOR THE WATER DEPARTMENT?
16 MR. JAGT: THAT IS CORRECT. THERE ARE
17 INTERROGATORY QUESTIONS REGARDING THEM IN THE
18 PAST. I'D HAVE TO REVIEW THE STORM BOOK FOR THE
19 NUMBER. BUT YES, IT'S BEEN REVIEWED.
20 MR. BALLENGER: WAS THERE ANY HISTORICAL
21 DATA PROVIDED IN THIS FILING ON THE BILLINGS
22 ADJUSTMENT FACTOR FOR PRIOR FISCAL YEARS?
23 MR. JAGT: OTHER THAN -- NOT HISTORICAL
24 ADJUSTMENTS. NO.

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1 MR. BALLENGER: NO HISTORICAL INFORMATION
2 ON THE BILLINGS ADJUSTMENT FACTOR? I'M SORRY, I
3 DIDN'T QUITE UNDERSTAND.
4 MR. JAGT: NO HISTORICAL BILLINGS
5 ADJUSTMENT OR NO PRESENTED; CORRECT.
6 MR. BALLENGER: NONE PRESENTED? OKAY.
7 THANK YOU.
8 IN RESPONSE TO PA-EXE 194, THE DEPARTMENT
9 ACKNOWLEDGES IT HAS NO WORK PAPERS SUPPORTING THIS
10 ADJUSTMENT. ISN'T THAT RIGHT?
11 MR. JAGT: WELL, THE WORK PAPERS SUPPORTING
12 THE ADJUSTMENT WOULD BE THE PROJECTION AND THE
13 VARIANCE AND THE PROJECTION. WE ARE VERY
14 TRANSPARENT IN THE FACT WE APPLIED THE ADJUSTMENT.
15 WE HAVE IN THE PROJECTION OF REVENUES OR BILLINGS,
16 WE PRESENT THE BILLINGS BEFORE THE ADJUSTMENT AND
17 THE BILLINGS AFTER THE ADJUSTMENT.
18 MR. BALLENGER: SO IN RESPONSE TO PA-EXE
19 194, THE SECOND SENTENCE READS, THERE ARE NO OTHER
20 DETAILED WORK PAPERS OTHER THAN THOSE REFLECTED IN
21 THE PROJECTED BILLINGS PRESENTED IN PWD EXHIBIT 6.
22 ISN'T THAT CORRECT?
23 MR. JAGT: THAT'S CORRECT.
24 MR. BALLENGER: SO THERE IS NO INFORMATION

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1 IN THE FILINGS TO DETERMINE HOW THAT ADJUSTMENT HAS
2 WORKED OUT?
3 MR. JAGT: OTHER THAN THE EXAMPLE THAT THAT
4 INTERROGATORY ITSELF POINTS OUT. ONE OF THE RISKS
5 ASSOCIATED WITH THE PROJECTIONS OF REVENUE.
6 MR. BALLENGER: LET'S TALK ABOUT THAT. IN
7 THAT RESPONSE, THE DEPARTMENT GIVES AN EXAMPLE
8 WHERE USAGE BASED ON A THREE-YEAR AVERAGE IS HIGHER
9 THAN USAGE DURING ONE OF THE YEARS IN THAT
10 THREE-YEAR AVERAGE PERIOD. ISN'T THAT CORRECT?
11 MR. JAGT: CORRECT.
12 MR. BALLENGER: THOSE NUMBERS ARE BASED ON
13 CUSTOMER 4, WORK PAPER CUSTOMER 4, I BELIEVE; IS
14 THAT CORRECT?
15 MR. JAGT: THAT'S CORRECT.
16 MR. BALLENGER: THE RISK THAT YOU HAVE
17 IDENTIFIED THERE IS THAT USAGE DURING THE FORECAST
18 YEARS COULD BE LIKE USAGE FROM ONE YEAR WITHIN THE
19 THREE-YEAR AVERAGE; IS THAT CORRECT?
20 MR. JAGT: THAT'S CORRECT.
21 MR. BALLENGER: WHEN I LOOK AT CUSTOMER 4,
22 IT APPEARS TO ME THE USAGE IN TWO OF THE THREE
23 YEARS USED IN THAT AVERAGE IS HIGHER THAN THE
24 AVERAGE; ISN'T THAT RIGHT?

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1 MR. JAGT: THAT'S CORRECT.
2 MR. BALLENGER: AND YOU HAVEN'T PROPOSED AN
3 ADJUSTMENT FOR THAT POSSIBILITY; ISN'T THAT
4 CORRECT?
5 MR. JAGT: CORRECT.
6 MR. BALLENGER: THAT'S SORT OF HOW AVERAGES
7 WORK; ISN'T IT? THERE MAY BE UPS AND DOWNS FROM
8 TIME TO TIME. BUT ON BALANCE, OVER A PERIOD OF
9 YEARS, THINGS TEND TO --
10 MR. JAGT: HOWEVER, IN AN OVERAGE, THE CITY
11 IS NOT AT RISK OF A TECHNICAL DEFAULT. IN AN
12 UNDERAGE, WE ARE AT RISK OF DEFAULT.
13 MR. BALLENGER: IN THE EVENT OF AN OVERAGE,
14 YOU COLLECT MORE REVENUES THAN YOU PROJECT?
15 MS. LABUDA: AND THE MONEY GOES TO THE RATE
16 STABILIZATION FUND AND IS USED IN PROCEEDING YEARS
17 TO OFFSET THE RATE INCREASES AS WE HAVE DONE DURING
18 THIS PROCEEDING.
19 HEARING OFFICER: THAT'S MELISSA LABUDA.
20 MS. LABUDA: MELISSA LABUDA. THANK YOU. I
21 APOLOGIZE.
22 MR. BALLENGER: WE'LL TALK ABOUT THAT.
23 SO I THINK WE SHOULD MOVE ON TO SOME OF THE
24 EXPENSE ADJUSTMENTS. AND THE NEXT ONE THAT'S

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1 LISTED ON PAGE 1 OF HEARING EXHIBIT 1 IS AN
2 ADJUSTMENT TO LIQUIDATED ENCUMBRANCE PERCENTAGE.
3 ARE YOU FAMILIAR WITH MR. MORGAN'S ADJUSTMENTS
4 CONCERNING LIQUIDATED ENCUMBRANCES?
5 MR. JAGT: CORRECT.
6 MR. BALLENGER: AS I UNDERSTAND IT,
7 LIQUIDATED ENCUMBRANCES REPRESENT COMMITMENTS AND A
8 REDUCTION OF EXPENSE; IS THAT RIGHT?
9 MR. JAGT: IT'S A CONTRA-EXPENSE.
10 MR. BALLENGER: IS THAT A REDUCTION TO
11 EXPENSE?
12 MR. JAGT: YES. IT HAS THE NET EFFECT.
13 MS. LABUDA: CORRECT, YES.
14 MR. BALLENGER: I'M NOT FAMILIAR WITH USING
15 THE TERM CONTRA-EXPENSE OR CONTRA-REVENUE IN A PWD
16 RATE CASE IN THE PAST. HAVE WE USED THAT
17 TERMINOLOGY IN THE PAST?
18 MR. DASENT: I THINK WE HAVE USED REDUCTION
19 OF REVENUES IN THE PAST. THAT'S A WAY TO SAY THAT
20 MORE PRECISELY.
21 MR. BALLENGER: THAT'S NEW PHRASEOLOGY?
22 MR. JAGT: IT HAS THE SAME EFFECT WHETHER
23 IT'S A CONTRA-EXPENSE OR AN IMPACT.
24 MS. LABUDA: YES.

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1 MR. BALLENGER: CHECKING MY RECOLLECTION.
2 THANK YOU.
3 SO THE LIQUIDATED ENCUMBRANCE RATIO, THAT'S
4 THE RATIO THAT APPLIES TO THE CLASS 200 AND CLASS
5 300 EXPENSES; IS THAT CORRECT?
6 MR. JAGT: CORRECT; THAT'S CORRECT.
7 MR. BALLENGER: A LOWER RATIO MEANS A LOWER
8 REDUCTION IN COSTS OR A LOWER, OR A LARGER
9 CONTRA-EXPENSE; AM I CORRECT?
10 WHAT IS THE IMPACT OF A LOWER RATIO OF
11 LIQUIDATED ENCUMBRANCE?
12 MR. JAGT: LOWER RATIO ENDS UP WITH A
13 HIGHER NET REVENUE REQUIREMENT.
14 MR. BALLENGER: A HIGHER RATIO ENDS UP WITH
15 A LOWER NET REVENUE REQUIREMENT?
16 MR. JAGT: THAT'S CORRECT.
17 MR. BALLENGER: THANK YOU. AND AGAIN, ON
18 LINE 3 OF PAGE 1 OF PUBLIC ADVOCATE HEARING EXHIBIT
19 1, MR. MORGAN HAS CALCULATED ON A STAND-ALONE
20 BASIS, HIS ADJUSTMENT WHICH UTILIZES THE THREE-YEAR
21 AVERAGE FOR LIQUIDATED ENCUMBRANCES. DO YOU SEE
22 THAT ON LINE 3? IT'S APPROXIMATELY \$12.6 MILLION
23 REDUCTION IN REVENUE REQUIREMENT IN 2017 AND
24 APPROXIMATELY \$12.9 MILLION REDUCTION TO REVENUE

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1 REQUIREMENT IN 2018. DO YOU SEE THAT?
2 MS. LABUDA: THIS IS MELISSA SPEAKING. WE
3 NEED A MINUTE TO FIND THAT SPECIFIC PIECE OF
4 PAPER.
5 MR. BALLENGER: SORRY. IT'S ON THE BACK
6 PAGE OF EXHIBIT 1.
7 HEARING OFFICER: OFF THE RECORD.
8 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
9 RECORD.)
10 MR. JAGT: IN THIS ADJUSTMENT WHICH IS
11 SUBJECT TO THE ORDER OF HOW YOU MAKE THE
12 ADJUSTMENTS, THAT WOULD DEFINITELY BE SUBJECT TO
13 CHECK. WE CANNOT VERIFY THIS AT THIS POINT.
14 MR. BALLENGER: OKAY.
15 HEARING OFFICER: THAT IS THE \$12 MILLION?
16 MR. JAGT: \$12 MILLION.
17 HEARING OFFICER: THANK YOU.
18 MR. BALLENGER: SO THIS IS A FACTOR THAT
19 FLUCTUATES FROM YEAR TO YEAR; IS THAT CORRECT?
20 MR. JAGT: I'M GOING TO DEFER TO MS.
21 LABUDA. I'M GOING TO MAKE AN OVERALL OBSERVATION
22 THAT DURING, OVER TIME, A LONGER PERIOD IS LESS
23 SUBJECT TO VARIANCE. HOWEVER, IN THE PAST THREE
24 YEARS, IT HAS BEEN, PAST EXPERIENCE, A SIGNIFICANT

11 (Pages 38 to 41)

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1 VARIANCE. AND IT'S ALL BECAUSE OF POLICY CHANGING
2 AT THE CITY THAT MISSY CAN EXPLAIN IN MUCH BETTER
3 DETAIL THAN I CAN.
4 MS. LABUDA: MELISSA LABUDA, PHILADELPHIA
5 WATER DEPARTMENT. WHEN WE TAKE A LONGER LOOK, AS
6 DAVID'S IMPLIES, A LIQUIDATED ENCUMBRANCE DOES NOT
7 VARY GREATLY. HOWEVER, THERE WERE TWO YEARS IN THE
8 THREE-YEAR AVERAGE THAT BREAK THE NORM BECAUSE OF A
9 PROCESS IN THE CITY WHEREBY THERE WAS AN
10 UNFORTUNATELY BUILDUP IN ENCUMBRANCES THAT OCCURRED
11 OVER A TWO-YEAR PERIOD.
12 WE ARE LOOKING AT 2015. OUR LIQUIDATED
13 ENCUMBRANCE NUMBER WAS BACK TO 19,388,000. SO WHEN
14 YOU ONLY LOOK AT THE THREE-YEAR PERIOD, YOU ARE
15 GRABBING TWO DISTORTED YEARS, VERSUS WHEN YOU USE A
16 LONGER RANGE, YOU PICK UP THE HISTORICAL TRENDS.
17 AND IN FACT, FOR FISCAL YEAR 16, WE ALREADY SEE
18 THAT WE ARE MORE IN LINE WITH FISCAL YEAR 15'S
19 LIQUIDATED ENCUMBRANCE AMOUNT.
20 MR. BALLENGER: SO I'D LIKE TO TAKE A LOOK
21 AT ASSUMPTIONS 33 WHICH IS PART OF PWD EXHIBIT 6.
22 THIS PROVIDES THE LIQUIDATED ENCUMBRANCE RATIO FOR
23 THE PAST FIVE CONCLUDED FISCAL YEARS. DO YOU HAVE
24 THAT IN FRONT OF YOU?

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1 MR. DASENT: WHAT PAGE ARE YOU REFERRING
2 TO?
3 MR. BALLENGER: ASSUMPTIONS 33.
4 MR. JAGT: YES.
5 MR. BALLENGER: ON THAT PAGE, IT PROVIDES
6 THE ACTUAL LIQUIDATED ENCUMBRANCE RATIO AND THE
7 BUDGET ENCUMBRANCE RATIO; ISN'T THAT CORRECT?
8 MR. JAGT: CORRECT.
9 MR. BALLENGER: WOULDNT YOU AGREE THAT IN
10 EACH OF THOSE FIVE YEARS, THE ACTUAL ENCUMBRANCE
11 RATIO WAS HIGHER THAN WHAT YOU BUDGETED? SO IN
12 2011, THE BUDGET WAS FOR ROUGHLY 11 PERCENT
13 ENCUMBRANCE RATIO AND IN 2011, THE ACTUAL WAS JUST
14 OVER 16 PERCENT? ISN'T THAT CORRECT?
15 MR. JAGT: YES.
16 MR. BALLENGER: THEN AGAIN, IN 2012, THE
17 ACTUAL WAS 14 AND-A-QUARTER PERCENT AND THE BUDGET
18 WAS FOR 12.8 PERCENT? SO THE ACTUAL WAS AGAIN,
19 HIGHER THAN BUDGET?
20 MR. JAGT: CORRECT.
21 MR. BALLENGER: IN 2013 AND 2014 YOU JUST
22 TALKED ABOUT A LITTLE BIT. BUT THOSE WERE
23 DRAMATICALLY HIGHER THAN BUDGET; WOULD YOU NOT
24 AGREE?

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1 MR. JAGT: THAT'S CORRECT.
2 MR. BALLENGER: IN 2015 I SEE THAT YOU ARE
3 APPROXIMATELY BUDGET WITH 12 AND-A-HALF PERCENT
4 ACTUAL AND 12.29 PERCENT BUDGET; CORRECT?
5 MR. JAGT: CORRECT. JUST TO NOTE, THIS IS
6 AS IT'S PRESENTED IN THE BUDGET FOR THE WATER
7 DEPARTMENT AND NOT IN THE RATE ANALYSIS ITSELF.
8 HEARING OFFICER: WHAT'S THE DIFFERENCE?
9 MR. JAGT: WE MAY HAVE USED A DIFFERENT
10 ASSUMPTION FROM THE BUDGET IN THE RATE ANALYSIS.
11 THAT, I WOULD HAVE TO VERIFY. WE DON'T ALWAYS JUST
12 TAKE WHAT THE BUDGET HAS.
13 HEARING OFFICER: THE BUDGET IS THE
14 DEPARTMENT BUDGET, NOT THE CITY BUDGET?
15 MR. JAGT: THE DEPARTMENT BUDGET WITHIN THE
16 CITY BUDGET; CORRECT.
17 HEARING OFFICER: THANK YOU.
18 MR. JAGT: I'D ALSO LIKE TO POINT OUT FY 15
19 IS TIGHTENED UP SIGNIFICANTLY.
20 MR. BALLENGER: I'M CONFUSED ABOUT YOUR
21 STATEMENT THAT THIS MAY NOT HAVE BEEN USED IN THE
22 COST OF SERVICE SINCE THIS WAS PART OF PWD EXHIBIT
23 6.
24 MR. JAGT: IT'S PRESENTED AS A RANGE IN THE

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1 VARIANCE OF PWD, THE WATER DEPARTMENT'S BUDGET, THE
2 LIQUIDATED ENCUMBRANCE TO THE CLASS 200 AND 300
3 BUDGETED EXPENSES. AND WE PRESENTED FOR THE
4 ACTUAL. JUST AS WE WANT TO REVIEW THE HISTORICAL
5 OF BOTH WHEN DEVELOPING OUR PROJECTION, WE RELY
6 MORE ON THE ACTUAL THAN THE BUDGET. BUT IT'S THERE
7 FOR A RELATIVE REFERENCE.
8 MR. BALLENGER: I'M SENSING A TRANSCRIPT
9 REQUEST, MADAM HEARING OFFICER, LURKING.
10 MS. LABUDA: CAN YOU ASK YOUR QUESTION
11 DIFFERENTLY? I APOLOGIZE. CAN YOU RESTATE YOUR
12 QUESTION? THIS IS MELISSA LABUDA. I WOULD LIKE
13 TO HEAR THE QUESTION AGAIN IN REGARDS AND YOUR
14 ANSWER AGAIN.
15 MR. BALLENGER: I THINK MAYBE WE CAN CLEAR
16 IT UP. IN RESPONSE TO PA-EXE 21, I BELIEVE YOU
17 STATED, AND THIS IS A QUOTE, "PER DISCUSSIONS WITH
18 THE WATER DEPARTMENT, 12 PERCENT WAS USED TO
19 PROJECT LIQUIDATED ENCUMBRANCE BECAUSE THIS MORE
20 CLOSELY ALIGNS WITH EXPERIENCED AND TARGETED
21 BUDGETARY AMOUNTS." ISN'T THAT CORRECT?
22 MR. JAGT: CORRECT.
23 MR. BALLENGER: SO IN OTHER WORDS, YOU DID
24 NOT RELY ON THE INFORMATION IN ASSUMPTIONS 33 IN

12 (Pages 42 to 45)

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1 CALCULATING THE LIQUIDATED ENCUMBRANCES?
2 MR. JAGT: THAT'S NOT CORRECT. WE KNOW
3 FROM WHAT'S HAPPENED WITH THE CHANGE IN CITY POLICY
4 DURING THE TWO YEARS FOR FISCAL YEAR 13 AND 14 THAT
5 THE RESULTS FROM 13 AND 14 ARE VERY, THE LIQUIDATED
6 ENCUMBRANCES WERE UNUSUALLY HIGH RELATIVE TO
7 HISTORICAL LEVELS. SO WE COULD NOT USE THEM GOING
8 FORWARD. IN FACT, THE CITY KEEPS TRACK OF THE
9 TOTAL OBLIGATIONS THAT ARE AVAILABLE TO BE WRITTEN
10 OFF.
11 MS. LABUDA: IF YOU WOULD LIKE, MELISSA
12 LABUDA SPEAKING AGAIN. TO GIVE YOU SOME
13 BACKGROUND. THE CITY SET ITS BUDGET FOR FISCAL
14 YEAR 17 IN OCTOBER OF FISCAL YEAR 16. SO B&V WOULD
15 NOT UTILIZE BUDGETARY INFORMATION FOR A LIQUIDATING
16 ENCUMBRANCE NUMBER THAT'S EIGHT MONTHS OLD. THEY
17 WOULD GO TO OUR ACCOUNTING SYSTEM OR ASK US TO AND
18 SAY, WHAT IS AVAILABLE TO LIQUIDATE? AND I HAVE
19 THOSE NUMBERS HERE IN FRONT OF ME.
20 SO IN FISCAL YEAR 15, WE LOOKED AT THE
21 CLOSE OF BALANCE AVAILABLE TO LIQUIDATE AND HAD TO
22 FIGURE OUT HOW MUCH WOULD WE ACTUALLY NOT UTILIZE
23 AS AN EXPENSE? SO THEY BASE THEIR INFORMATION ON
24 ACTUALS VERSUS BUDGETS THAT ARE SET EIGHT TO NINE

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1 MONTHS IN ADVANCE OF A FISCAL YEAR.
2 MR. BALLENGER: MR. JAGT, I HEARD YOU SAY
3 EARLIER OVER TIME THERE IS A LESS VARIATION IN
4 LIQUIDATED ENCUMBRANCE RATIO. AGAIN, I'M LOOKING
5 AT ASSUMPTIONS 33 AND SEEING IN 2011 AND 2012,
6 THERE WAS SOME SIGNIFICANT VARIATION BETWEEN BUDGET
7 AND ACTUAL LIQUIDATED ENCUMBRANCE RATIO; ISN'T THAT
8 CORRECT?
9 MR. JAGT: WITHIN TWO TO FOUR PERCENT.
10 YES.
11 MR. BALLENGER: OKAY.
12 MR. JAGT: BUT NOT NEAR DOUBLE THAT
13 OCCURRED IN '14 AND '13.
14 MR. BALLENGER: IN THIS ACTUAL LIQUIDATED
15 ENCUMBRANCE INFORMATION THAT YOU HAVE, MS. LABUDA,
16 HAS IT BEEN PLACED ON THE RECORD IN THIS
17 PROCEEDING?
18 MS. LABUDA: LIQUIDATED ENCUMBRANCES ARE ALL
19 IN THE FINANCIAL STATEMENTS. SO IF YOU GO TO THE
20 BUDGETARY SCHEDULE OF ANY WATER DEPARTMENT
21 STATEMENT WHICH IS ON THE RECORD, YOU WILL SEE THE
22 LIQUIDATED ENCUMBRANCE AMOUNTS. SO THE ANSWER IS
23 YES.
24 MR. BALLENGER: I THOUGHT YOU STATED BLACK

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1 AND VEATCH CHOOSES THE MOST RECENT MONTHLY
2 INFORMATION AT THE TIME?
3 MS. LABUDA: NO, I DID NOT. IF I USED THE
4 WORD MONTHLY, IT'S AN INCORRECT STATEMENT. THEY
5 LOOK AT CLOSE OF BOOKS FISCAL YEAR 15 WHICH IS
6 LIQUIDATED ENCUMBRANCE WAS 19,388,638 WHICH TIES TO
7 THE WATER DEPARTMENT'S FINANCIAL STATEMENTS WHICH
8 WE DID OFFER ON THE RECORD.
9 MR. JAGT: ACTUALLY, CORRECTION. MELISSA
10 LABUDA REFERENCED THAT IF WE ARE DOING AN ANALYSIS
11 AT THE POINT IN TIME, WE USE THE BEST AVAILABLE
12 DATA AT THE TIME WHICH COULD BE BASED ON MONTHLY
13 REPORT AT THAT TIME. AT THIS TIME, IN THE
14 DEVELOPMENT OF THIS RATE CASE, WE HAD THE YEAR
15 END '15, AND THAT'S WHAT WE USED AT THAT POINT IN
16 TIME.
17 MR. BALLENGER: THANK YOU.
18 I THINK WE CAN MOVE ONTO THE NEXT ITEM ON
19 PAGE 1, HEARING EXHIBIT 1, IF EVERYONE HAS IT STILL
20 WHICH IS THE PAYROLL SPIN FACTOR.
21 HEARING OFFICER: I TAKE IT THERE IS NO
22 TRANSCRIPT REQUEST?
23 MR. BALLENGER: NO. I THINK IT'S
24 ADEQUATELY CONFUSING.

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1 SO ON LINE 4 OF MR. MORGAN'S ITEMIZATION
2 HERE WHICH IS INCLUDED AS PAGE 1 OF HEARING EXHIBIT
3 1 FROM THE PUBLIC ADVOCATE, MR. MORGAN HAS
4 CALCULATED THAT THE ADJUSTMENT HE PROPOSES TO
5 PAYROLL EXPENSES REDUCES THE REVENUE REQUIREMENT BY
6 5 MILLION IN 2017 AND A LITTLE MORE THAN 5 MILLION
7 IN 2018. DO YOU SEE THAT? I'M NOT ASKING YOU TO
8 AGREE TO IT BECAUSE I THINK WE HAVE ACCEPTED,
9 SUBJECT TO CHECK, THIS IS A DEVISE TO WALK US
10 THROUGH CROSS-EXAMINATION BY ORDER OF MAGNITUDE.
11 MR. JAGT: THIS ONE, I CAN SEE, WE CAN
12 VERIFY THAT IT'S WITHIN THE RANGE. BUT AGAIN,
13 SUBJECT TO THE ORDER, SUBJECT TO CHECK.
14 MR. BALLENGER: AND THE WATER DEPARTMENT
15 HAS PROPOSED USING A 100 PERCENT SPIN FACTOR FOR
16 PAYROLL; ISN'T THAT CORRECT?
17 MR. JAGT: THAT'S CORRECT.
18 MR. BALLENGER: IN RESPONSE TO PA-EXE 37A,
19 YOU STATED THAT IT IS ANTICIPATED THAT PWD WILL
20 CONTINUE TO UTILIZE 100 PERCENT OF BUDGET. THAT'S
21 A QUOTE. "IT IS ANTICIPATED THAT PWD WILL CONTINUE
22 TO UTILIZE 100 PERCENT OF BUDGET", FOR SALARIES AND
23 WAGES; ISN'T THAT RIGHT?
24 MR. JAGT: THAT'S CORRECT.

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1 MR. BALLENGER: I WAS LOOKING THROUGH THE
2 ASSUMPTIONS. AND ISN'T IT ALSO CORRECT YOU HAVEN'T
3 ACTUALLY USED 100 PERCENT OF BUDGET IN FISCAL 13,
4 14 OR 15 FOR SALARIES AND WAGES? ISN'T THAT
5 CORRECT?
6 MR. JAGT: WE USED 100 PERCENT FOR THE
7 WATER FUND OR WATER DEPARTMENT AND FOR THE
8 INTERDEPARTMENTAL WE USED THE THREE-YEAR AVERAGE.
9 MR. BALLENGER: BUT HAVE YOU ACTUALLY
10 UTILIZED 100 PERCENT OF BUDGET FOR THE WATER
11 DEPARTMENT IN A PRIOR AUDITED FISCAL YEAR FOR
12 SALARIES AND WAGES?
13 MS. LABUDA: IF I MAY GO ON THE RECORD,
14 IT'S MELISSA LABUDA. I'M GOING TO CHECK --
15 MR. BALLENGER: I'M ACTUALLY BASING THIS ON
16 THE ASSUMPTIONS FROM THE RATE MODEL WHICH IS
17 ASSUMPTIONS 22A AND 22B.
18 MR. JAGT: SO THAT'S --
19 MR. BALLENGER: THAT'S WHERE I AM.
20 ASSUMPTIONS 22A. AND I SEE A LOT OF HISTORICAL
21 AVERAGES THAT DON'T, THE CLASS 100 DO NOT TOTAL TO
22 100 PERCENT. AND I'M ASKING YOU IF THAT IS
23 CORRECT, THAT I'M READING THAT CORRECTLY?
24 MR. JAGT: THAT'S CORRECT, THAT

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1 HISTORICALLY THE ACTUAL RESULTS ARE BELOW 100
2 PERCENT BUT SIGNIFICANTLY INCREASING OVER THE
3 THREE-YEAR PERIOD.
4 MR. BALLENGER: IN RESPONSE TO PA-EXE 100,
5 YOU STATE THAT STAFFING LEVELS CURRENTLY STAND AT
6 92 PERCENT AS OF OCTOBER 1ST, 2015; IS THAT
7 CORRECT?
8 MS. LABUDA: THAT IS CORRECT.
9 MR. BALLENGER: IN RESPONSE TO PA-EXE 66,
10 PWD ACKNOWLEDGES THAT IT'S UNLIKELY THE WATER
11 DEPARTMENT CAN ACHIEVE A VACANCY RATE BELOW 100;
12 ISN'T THAT ALSO CORRECT?
13 MS. LABUDA: PWD DOES NOT FUND FOR 100
14 PERCENT OF ITS VACANCY. THE NUMBERS PWD USES IS
15 ACTUAL EMPLOYEES AND COSTS TO DATE. WE HAVE NEVER
16 BUDGETED FOR 100 PERCENT OF OUR VACANCIES IN OUR
17 ORIGINAL BUDGETS.
18 MR. BALLENGER: THE QUESTION WAS SIMPLY
19 WHETHER IT WAS UNLIKELY THAT PWD COULD ACHIEVE A
20 VACANCY RATE BELOW 100?
21 MS. LABUDA: PWD DOESN'T FUND FOR 100
22 PERCENT OF VACANCIES.
23 MR. BALLENGER: SO I HAVE A COPY OF THE
24 RESPONSE TO THE PA-EXE 66.

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1 MS. LABUDA: SO DO I.
2 MR. BALLENGER: I'M JUST ASKING.
3 MS. LABUDA: I HAVE IT.
4 MR. BALLENGER: SO AM I CORRECT THAT IT
5 STATES REACHING A VACANCY NUMBER BELOW 100 IS
6 UNLIKELY NOW OR IN THE IMMEDIATE FUTURE?
7 MS. LABUDA: CORRECT, WHICH IS WHY WE DON'T
8 BUDGET FOR 100 PERCENT OF OUR VACANCIES. YES;
9 CORRECT.
10 MR. BALLENGER: THANK YOU. THANK YOU.
11 I THINK THE THING WE SHOULD PROBABLY SPEND
12 A LITTLE BIT OF TIME ON IS LINE 6 OF PUBLIC
13 ADVOCATE HEARING EXHIBIT 1, PWD ADDITIONAL
14 ADJUSTMENTS. THIS IS ONE AREA WHERE DUE TO THE
15 VOLUME OF ADJUSTMENTS, MR. MORGAN DID NOT ITEMIZE
16 EACH OF THESE ADJUSTMENTS. AND I HAVE INCLUDED
17 HERE ON PAGES 28 THROUGH 43 OF HEARING EXHIBIT 1,
18 THE RESPONSE. IT'S TITLE RESPONSE ATTACHMENT
19 PA-EXE 143, EXE 145 AND EXE 146. I'D LIKE TO WALK
20 THROUGH EACH OF THESE ADDITIONAL ADJUSTMENTS WITH
21 YOU.
22 MR. JAGT: TO CONCLUDE, WE WANT TO CONCLUDE
23 THE PREVIOUS RESPONSES REGARDING THE --
24 MR. BALLENGER: I'M SORRY.

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1 MR. JAGT: -- THE ACTUAL BUDGET FOR CLASS
2 100. WE ARE POINTING OUT THE FACT THAT THE BUDGET,
3 AS SUBMITTED BY THE CITY, IS LESS THAN, DOES NOT
4 REFLECT 100 PERCENT STAFFING. THERE IS A VACANCY
5 ASSUMED IN BUDGETING. SO BY MOVING TO 100 PERCENT
6 ACTUAL THE BUDGET, IT'S 100 PERCENT OF WHAT'S
7 BUDGETED WHICH REFLECTS AND ASSUMES A VACANCY
8 RATE. SO WE ARE NOT MOVING, EXPENSES PROJECTED THE
9 RATE CASE DO NOT REFLECT FILLING EVERY VACANCY.
10 MR. BALLENGER: SO BACK TO WHERE WE WERE.
11 WE WERE TALKING ABOUT THE ADDITIONAL ADJUSTMENTS.
12 THOSE ARE INCLUDED IN PWD EXHIBIT 5, FIGURE 6.
13 THAT STARTS ON PAGE 7 OF PWD EXHIBIT 5. SO I'D
14 LIKE TO WALK THROUGH THESE AND JUST TALK A LITTLE
15 BIT ABOUT THE BASIS FOR MR. MORGAN'S ADJUSTMENT.
16 FIRST, GENERALLY SPEAKING, TO THE EXTENT
17 THERE IS AN ADDITIONAL ADJUSTMENT SHOWN HERE IN
18 FISCAL 17, AM I CORRECT THAT IT'S BECAUSE THE WATER
19 DEPARTMENT HAS INCLUDED AN ADDITIONAL EXPENSE IN
20 ITS BUDGET FOR FISCAL 17?
21 MS. LABUDA: CORRECT.
22 MR. BALLENGER: THAT BUDGET HAS NOT YET
23 BEEN APPROVED; HAS IT?
24 MS. LABUDA: IT HAS NOT.

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1 MR. BALLENGER: PWD DOESN'T SPEND 100
2 PERCENT OF ITS BUDGET EVERY YEAR; DOES IT?
3 MS. LABUDA: NOR DOES IT SET RATES TO COVER
4 100 PERCENT OF ITS BUDGET. YES, AND WE DONT COVER
5 RATES TO COVER, SET RATES TO COVER 100 PERCENT OF
6 OUR BUDGET.
7 MR. BALLENGER: THANK YOU. EXCEPT THAT
8 THERE ARE NO ADJUSTMENT FACTORS APPLIED TO THESE;
9 ISN'T THAT CORRECT?
10 MR. JAGT: THAT IS CORRECT.
11 MR. BALLENGER: THANK YOU.
12 FOR THESE PROFORMA EXPENSES WE HAVE
13 EXCHANGED SEVERAL DATA REQUESTS; HAVEN'T WE? AND
14 HAVEN'T WE ALSO HAD A CONFERENCE CALL ON THESE
15 ADJUSTMENTS?
16 MS. LABUDA: YES. WE HAVE HAD A CONFERENCE
17 CALL. WE HAVE ANSWERED SEVERAL EXES.
18 MS. KUMAR: AND A WORKSHOP IN DECEMBER.
19 MS. LABUDA: AS WELL.
20 MR. BALLENGER: I MAY GET TO THAT LATER.
21 LET'S TALK ABOUT THE FIRST ITEM HERE WHICH
22 IS CLASS 100 IN FINANCE DEPARTMENT. AND WE ASKED
23 IN PA-EXE 143 FOR DETAILED WORK PAPERS SUPPORTING
24 THE ADJUSTMENT IN FINANCE; ISN'T THAT CORRECT?

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1 MR. JAGT: CORRECT.
2 MR. BALLENGER: IF I DIRECT YOU TO PAGE 36
3 OF PUBLIC ADVOCATE HEARING EXHIBIT 1. THIS IS
4 CAPTIONED O&M ADJUSTMENT NUMBER 8, FINANCE. IS
5 THIS WHAT WAS PROVIDED IN RESPONSE?
6 MS. LABUDA: I'M SORRY. I'M KEEPING UP,
7 I'M TURNING TO PAGE 143.
8 MR. BALLENGER: IT'S IN THE EXHIBIT. IT'S
9 TOWARD THE BACK, PAGE 36 OF THE EXHIBIT. I'M JUST
10 ASKING IF I FOUND THE RIGHT ADJUSTMENT IN THIS WORK
11 PAPER, LINE 5? IS THAT THE CORRECT, IS THAT WHAT
12 YOU PROVIDED AS A RESPONSE TO OUR REQUEST FOR WORK
13 PAPERS SUPPORTING THIS ADDITIONAL ADJUSTMENT OF
14 56,000 TO 64,000?
15 MR. JAGT: YEAH, THAT WAS ONE PLACE WHERE
16 WE PROVIDED THIS INFORMATION.
17 MR. BALLENGER: ARE THERE OTHER WORK PAPERS
18 THAT WERE PROVIDED?
19 MR. JAGT: NO. THIS WAS THE --
20 MR. BALLENGER: THIS WAS THE WORK PAPER?
21 MR. JAGT: YES.
22 MR. BALLENGER: AM I CORRECT IN NOTE NUMBER
23 1 YOU EXPLAIN THAT ADDITIONAL COSTS BASED ON
24 DISCUSSION WITH PWD STAFF; IS THAT CORRECT?

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1 MR. JAGT: THAT IS CORRECT.
2 MR. BALLENGER: THAT IS THE ONLY BASIS UPON
3 WHICH YOU HAVE PROVIDED ANY ESTIMATE OF THE COST OF
4 THIS ADJUSTMENT; ISN'T THAT CORRECT?
5 MR. JAGT: THAT IS CORRECT.
6 MR. BALLENGER: LET'S FLIP TO PAGE 28 OF
7 43. WE'LL GO TO THE NEXT ADJUSTMENT.
8 MR. DASENT: BEFORE YOU LEAVE THE FIRST
9 ADJUSTMENT, MISSY DOESN'T ALWAYS JUMP IN. SHE IS
10 NOT AN AGGRESSIVE PERSON. I STILL WOULD LIKE TO
11 HAVE INPUT ALONG THE WAY SO WE DONT MISS
12 SUBJECTS.
13 MR. BALLENGER: I THINK WE HAVE TALKED
14 ABOUT IT ALREADY.
15 MS. LABUDA: WE HAVE DISCUSSED IT AND THE
16 DEPARTMENT IS BEST POISED TO ESTABLISH ITS STAFFING
17 NEEDS. WHAT YOU ARE QUESTIONING IS, IS THE
18 DEPARTMENT ABLE TO JUSTIFY ADDING ONE ADDITIONAL
19 ACCOUNTANT IN FINANCE DIVISION? AND WE ARE --
20 MR. BALLENGER: THAT'S NOT THE QUESTION
21 ACTUALLY.
22 MS. LABUDA: WE DID PROVIDE SUPPORT BECAUSE
23 WE ACTUALLY PROVIDED YOU THE CIVIL SERVICE CODE
24 THAT DESCRIBES A DESCRIPTION OF WHAT THIS POSITION

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1 WOULD DO. SO WHAT WORK PAPER --
2 MR. BALLENGER: I UNDERSTAND THE POSITION.
3 HEARING OFFICER: PLEASE DON'T INTERRUPT
4 HER.
5 MS. LABUDA: WHAT I'M TRYING TO ASCERTAIN
6 ON THESE POSITION QUESTIONS, CLASS 100 IN TABLE 6
7 OF FIGURE 6 IS, ARE YOU MAKING THE ASSUMPTION THAT
8 THE DEPARTMENT IS NOT BEST POISED TO ESTABLISH ITS
9 STAFFING NEEDS? AND THAT PROVIDING YOU WITH THE
10 CIVIL SERVICE REGS THAT SUPPORT THESE POSITIONS AND
11 THE JOB SPECS THAT WE COMPLETED HAS NOT MET YOUR
12 SATISFACTION?
13 HEARING OFFICER: HE DOESN'T HAVE TO ANSWER
14 THE QUESTION.
15 MS. LABUDA: HE DOESN'T. BUT --
16 MR. BALLENGER: OUR REQUEST WAS FOR
17 DETAILED WORK PAPERS, AND THAT WOULD SUPPORT THE
18 AMOUNT OF THE ADJUSTMENT. AND WE GOT A STATEMENT
19 THAT THIS WAS BASED ON DISCUSSION WITH PWD STAFF.
20 THAT IS THE SUM TOTAL OF THE EXPLANATION FOR THIS
21 AMOUNT IN THE RATE CASE. THAT'S ALL I WAS TRYING
22 TO ESTABLISH.
23 MR. JAGT: IN THE ASSUMPTIONS DOCUMENT, WE
24 DOCUMENT THAT IT IS FOR THE INCLUSION OF AN

15 (Pages 54 to 57)

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1 ADDITIONAL ACCOUNTING POSITION.
2 HEARING OFFICER: JUST A SECOND. ARE WE
3 TALKING ABOUT FINANCE CLASS 100, LINE 5?
4 MS. LABUDA: CORRECT.
5 MS. KUMAR: THIS IS PRABHA KUMAR. FOR THAT
6 JUSTIFICATION, BLACK AND VEATCH IS CONCERNED THAT'S
7 A POSITION THAT THE DEPARTMENT DEEMED NECESSARY FOR
8 THEIR OPERATIONS. AND SO THAT'S THE INFORMATION
9 THAT THE DEPARTMENT CONVEYS TO US AND WE INCLUDED.
10 AND THE JUSTIFICATION IS WHAT MS. LABUDA JUST
11 PRESENTED, THAT THEY DEEMED THIS POSITION IS
12 NECESSARY. THEY INDICATED WHAT THE POSITION IS AND
13 THEY INDICATED JOB CORPS. SO BEYOND THAT, TO SAY
14 HOW WAS THAT, WHAT ARE THE WORK PAPER FOR THAT ONE
15 POSITION? THAT IS THE WORK PAPER.
16 MR. BALLENGER: MOVING ONTO THE NEXT
17 ADJUSTMENT WHICH IS ADDITIONAL STORMWATER
18 MANAGEMENT AND GREEN AREA RETROFIT PROGRAM COSTS.
19 AGAIN, PAGE 28 OF 43 OF PUBLIC ADVOCATE HEARING
20 EXHIBIT 1 PROVIDES WHAT I BELIEVE WAS INTENDED TO
21 BE THE WORK PAPER IN RESPONSE TO OUR REQUEST; ISNT
22 THAT CORRECT.
23 MR. JAGT: CAN YOU REPEAT THE QUESTION?
24 MR. BALLENGER: PAGE 28. IS THIS THE

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1 CORRECT WORK PAPER THAT WAS PROVIDED IN RESPONSE TO
2 OUR REQUEST?
3 MS. KUMAR: THAT IS CORRECT.
4 MR. BALLENGER: AGAIN, IN NOTE 1 IT STATES,
5 ADDITIONAL COSTS BASED ON DISCUSSIONS WITH PWD
6 STAFF; ISNT THAT CORRECT?
7 MS. KUMAR: THAT IS CORRECT.
8 MS. LABUDA: AND THE DEPARTMENT ALSO
9 SUPPLIED ADDITIONAL INFORMATION ON THIS ADJUSTMENT
10 FOR OUR REGULATORY COMPLIANCE PROGRAM IN PENN
11 FUTURE 1-8 AND IN EXE 156 WHERE WE ARTICULATED THIS
12 PROGRAM IS FUNDING A CRITICAL COMPONENT OF OUR
13 CONSENT ORDER AND AGREEMENT. PA-EXE 156B AND PENN
14 FUTURE 1-8, IN CASE YOU DIDN'T GET THOSE.
15 MR. BALLENGER: I DID. LET'S BACK UP FOR A
16 MINUTE. ON THE ADDITIONAL ACCOUNTANT POSITION,
17 HAVE YOU IDENTIFIED THE ACCOUNTANT THAT YOU ARE
18 GOING TO HIRE IN FISCAL YEAR 2017?
19 HEARING OFFICER: THAT'S BACK ON THE OTHER
20 ADJUSTMENT?
21 MR. BALLENGER: YEAH, BACKING UP ONE.
22 MS. LABUDA: CAN I HIRE -- LET ME SEE IF I
23 UNDERSTAND YOUR QUESTION. YOU ARE ASKING IF I HAVE
24 HIRED IN BUDGET YEAR '16 A POSITION THAT I DIDN'T

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1 FUND IN MY FISCAL 16 BUDGET?
2 MR. BALLENGER: I'M ASKING IF YOU HAVE
3 IDENTIFIED THE ADDITIONAL ACCOUNTANT THAT YOU ARE
4 GOING TO HIRE?
5 MS. LABUDA: THE ANSWER IS NO. WE HAVE
6 IDENTIFIED THE JOB SPECIFICATION THAT WE WILL
7 UTILIZE IN BUDGET YEAR '17 FOR, FROM THE LIST THAT
8 WILL COME OUT OF THE CIVIL SERVICE COMMISSION THAT
9 WE WILL USE TO HIRE THE ACCOUNTANT.
10 MR. BALLENGER: YOU HAVEN'T MADE A JOB
11 OFFER TO AN INDIVIDUAL PERSON?
12 MS. LABUDA: I AM UNABLE TO EXTEND A JOB
13 OFFER FOR A POSITION THAT WASN'T IN MY FISCAL 16
14 BUDGET. IT WAS SUBMITTED AS PART OF MY FISCAL 17
15 BUDGET DETAIL. SO I TECHNICALLY WILL NOT BE HIRING
16 THIS POSITION UNTIL JULY 1, 2016 WHICH IS THE START
17 OF THE SCHOOL YEAR.
18 MR. BALLENGER: SO SOMEONE WILL START ON
19 JULY 1, 2017 IN THIS NEW POSITION?
20 MS. LABUDA: IT DEPENDS ON THE TIME OF THE
21 CIVIL SERVICE TEST.
22 MR. BALLENGER: THE ADJUSTMENT WE WERE JUST
23 TALKING ABOUT TO THE STORMWATER MANAGEMENT AND
24 GREEN AREA RETROFIT PROGRAM. YOU HAVEN'T PROVIDED

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1 WORK ORDERS FOR THE PROJECTS THAT WOULD BE FUNDED
2 IN FISCAL 17 AND FISCAL 18; HAVE YOU, ACTUAL WORK
3 ORDERS?
4 MS. KUMAR: THIS IS PRABHA KUMAR FROM BLACK
5 AND VEATCH AGAIN. THIS IS A BUDGET. SO THIS IS A
6 GRANT THAT IS GOING TO BE GIVEN FOR WHICH
7 APPLICATIONS WILL BE ACCEPTED IN '17. SO THAT
8 THERE ARE NOT CURRENTLY WORK ORDERS, IF THAT'S WHAT
9 YOU MEAN BY WORK ORDERS, FOR PROJECTS THERE ARE NOT
10 WORK ORDERS YET. THIS IS A GRANT TO BE GIVEN FOR
11 APPLICATIONS THAT ARE TO BE ACCEPTED.
12 MR. BALLENGER: SO NO APPLICATIONS HAVE
13 BEEN ACCEPTED FOR GRANTS IN 2017 OR 2018; IS THAT
14 CORRECT?
15 MS. KUMAR: NOT YET, BECAUSE WE ARE NOT IN
16 FISCAL 17 OR 18.
17 MR. BALLENGER: THANK YOU.
18 SO WE'LL SPEND A LITTLE TIME ON THE NEXT
19 ONE WHICH IS FINANCE CLASS 200 CITY GRANTS
20 CONTRA-REVENUE CREDITS. AND THIS PERTAINS TO THE
21 AFFORDABILITY PROGRAM.
22 MS. LABUDA: ROB, MAY WE GO OFF THE RECORD?
23 I SEE MY TEAM CONGREGATING.
24 HEARING OFFICER: OFF THE RECORD.

16 (Pages 58 to 61)

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Page 62	Page 64
<p>1 (WHEREUPON, A DISCUSSION WAS HELD OFF THE 2 RECORD.) 3 HEARING OFFICER: BACK ON THE RECORD. 4 MS. KUMAR: THE QUESTION WAS, ARE THERE 5 WORK ORDERS FOR THE 17? THERE ARE NO WORK ORDERS 6 FOR THE GRANT YET, BUT APPLICATIONS HAVE BEEN 7 ACCEPTED. BUT THEY HAVE NOT BEEN TRANSMITTED IN 8 THE PROJECT, THE WATER PROJECTS OR WORK ORDERS. 9 MR. BALLENGER: THANK YOU. 10 SO I'D LIKE TO TALK A LITTLE BIT ABOUT THE 11 NEXT ADJUSTMENT IN FINANCE WHICH IS A \$4 MILLION 12 ADJUSTMENT. THIS REFLECTS THE LAST YEARS OF THE 13 CURRENT WRAP PROGRAM; ISN'T THAT CORRECT? 14 MS. KUMAR: COULD YOU PLEASE GIVE A PAGE 15 REFERENCE? 16 MR. BALLENGER: I'M LOOKING AT, THIS IS IN 17 FIGURE 6 OF PWD EXHIBIT 5, THE THIRD ROW IN FINANCE 18 CLASS 200. THE \$4 MILLION ADJUSTMENT FROM 2016 TO 19 2017. 20 HEARING OFFICER: I DON'T KNOW WHERE YOU 21 ARE. SO LET'S START AGAIN. 22 MR. BALLENGER: I'M IN PWD EXHIBIT 5 FIGURE 23 6. 24 HEARING OFFICER: WE DON'T HAVE IT.</p>	<p>1 MR. BALLENGER: MY EXHIBIT 1. YES, MA'AM. 2 SORRY, MADAM HEARING OFFICER. PAGE 1 IS A DATA 3 REQUEST AND PAGE 2 IS THE RESPONSE -- I'M SORRY, 4 PAGE 2 IS THE DATA REQUEST. PAGE 3 IS A RESPONSE 5 TO THE DATA REQUEST PROVIDED IN THE LAST RATE 6 PROCEEDING. AND THIS CONCERNS THE REVENUE 7 REQUIREMENTS FOR WRAP. I'D LIKE YOU TO TAKE A LOOK 8 AT THE THIRD TO THE BOTTOM ROW ON PAGE 3 OF THE 9 EXHIBIT. AND YOU SEE THERE THAT THE PROJECTED 10 INCREASE IN SPENDING IN AN AMOUNT OF ALMOST \$24 11 MILLION WAS REQUESTED IN THE LAST RATE PROCEEDING; 12 ISN'T THAT CORRECT? 13 MR. DASENT: OBJECTION. THIS HAS NO 14 RELEVANCE TO THIS CASE OR THIS RATE. MS. LABUDA 15 ALSO WAS NOT IN THE LAST RATE PROCEEDING, SO SHE IS 16 FINDING IT DIFFICULT TO ESTABLISH WHAT EXACTLY 17 HAPPENED BECAUSE IT WAS NOT, IT'S NOT A PART OF 18 THIS RATE FILING. WE WOULD OBJECT. IT'S 19 IMMATERIAL. 20 HEARING OFFICER: BEFORE WE GO FURTHER, OFF 21 THE RECORD. 22 (WHEREUPON, A DISCUSSION WAS HELD OFF THE 23 RECORD.) 24 HEARING OFFICER: BACK ON THE RECORD.</p>
Page 63	Page 65
<p>1 MR. BALLENGER: WHICH IS NOT IN MY 2 EXHIBITS. 3 HEARING OFFICER: SORRY. 4 MR. BALLENGER: IF WE WANT TO LOOK AT IT IN 5 THE EXHIBITS, I BELIEVE IT IS IN HERE. YES. IT IS 6 PAGE 33 OF THE EXHIBIT. AND THIS IS THE \$4 MILLION 7 FOR THE WRAP PROGRAM; AM I CORRECT? 8 MS. KUMAR: THAT'S CORRECT. 9 MR. BALLENGER: THE DEPARTMENT'S POSITION, 10 I BELIEVE, IS THAT THIS WAS NOT INCLUDED IN THE 11 COST OF SERVICE FOR 2012 RATE CASE; IS THAT 12 CORRECT? 13 MS. LABUDA: IT WAS NOT IN THE DEPARTMENT'S 14 BUDGET. MAY I ANSWER THE QUESTION DIRECTLY? 15 MR. BALLENGER: YES. 16 MS. LABUDA: AS I HAVE CONFIRMED WITH COST 17 OF SERVICE, NOR WAS IT IN THE COST OF SERVICE 18 STUDY. I DIDN'T WORK FOR THE DEPARTMENT DURING 19 THAT TIME. 20 HEARING OFFICER: I UNDERSTAND, BUT I 21 IMAGINE YOU HAVE REVIEWED SOME OF THE HISTORY. I'D 22 LIKE TO DIRECT YOU TO PAGE 2 OF THE EXHIBIT. THIS 23 IS A DATA REQUEST. AND THEN PAGE 3. 24 HEARING OFFICER: EXHIBIT 1?</p>	<p>1 MS. LABUDA: I WASN'T HERE AT THE TIME, SO 2 I CAN'T SPEAK TO WHAT WAS. 3 MR. BALLENGER: JUST TO REFRESH. THE 4 DEPARTMENT'S POSITION WAS THAT \$4 MILLION FOR 5 FUNDING OF WRAP WAS NOT INCLUDED IN THE COST OF 6 SERVICE IN THE LAST RATE CASE; ISN'T THAT 7 CORRECT? 8 MS. LABUDA: THAT IS CORRECT. IT'S THE 9 CONTRA-REVENUE TO BE EXACT. 10 MR. DASENT: WE MIGHT FINISH THAT RESPONSE. 11 HEARING OFFICER: LET HER FINISH. 12 MR. DASENT: NOTHING MORE. I'M SORRY. 13 HEARING OFFICER: I'M SORRY. GO AHEAD. 14 HEARING OFFICER: ON THE BOTTOM OF PAGE 3, 15 EXHIBIT 1 IN THE RIGHT-HAND COLUMN, THE THIRD ROW 16 FROM THE BOTTOM, DO YOU SEE THAT IT STATES, AND I 17 QUOTE "PROJECTED INCREASE IN SPENDING FOR WRAP AND 18 OTHER ASSISTANCE PROGRAMS GIVEN GREATER NEED IN 19 CURRENT ECONOMY AND IMPROVED OUTREACH". DO YOU SEE 20 THAT STATEMENT? 21 MR. DASENT: PLEASE NOTE OUR CONTINUING 22 OBJECTION. 23 MS. LABUDA: IT WASN'T IN THE MODEL. I 24 CANNOT SPEAK TO WHAT WAS WRITTEN ON THIS PAGE AS I</p>

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1 WASN'T WITH THE DEPARTMENT AT THE TIME IN THIS
2 POSITION. I WASN'T WORKING FOR THE CITY. I CANNOT
3 ARTICULATE, I CANNOT CONFIRM OR DENY ANYTHING THAT
4 IS IN THE PIECE OF PAPER YOU HAVE PROVIDED IN FRONT
5 OF ME. HOWEVER, IT WAS NOT IN THE COST OF SERVICE
6 MODEL NOR WAS IT BUDGETED IN THE DEPARTMENT.
7 HEARING OFFICER: THAT'S TRUE FOR EVERY ITEM
8 HERE?
9 MS. LABUDA: JUST SPEAKING OF THE WRAP
10 SPECIFICALLY, THE \$4 MILLION ADJUSTMENT FOR WRAP.
11 MR. BALLENGER: LOOKING AT PAGE 4 OF PUBLIC
12 ADVOCATE HEARING EXHIBIT 1. THIS IS A STANDARD
13 INTERROGATORY THAT WAS FILED WITH THE DEPARTMENT'S
14 RATE REQUEST IN 2012. AND DO YOU SEE THERE THAT AS
15 JUSTIFICATION FOR 6.6 PERCENT OF THE DEPARTMENT'S
16 REVENUE NEED, IT DESCRIBES AN INCREASED REVENUE
17 REQUIREMENT FOR CUSTOMER ASSISTANCE PROGRAMS IN THE
18 AGGREGATE AMOUNT OF \$23,911,000; IS THAT CORRECT?
19 MR. DASENT: PLEASE NOTE MY CONTINUING
20 OBJECTION. SAME SUBJECT MATTER, SAME ANSWER.
21 MR. BALLENGER: I'M SIMPLY ASKING IF THE
22 WITNESSES CAN SEE THAT PRINTED ON THIS PIECE OF
23 PAPER.
24 HEARING OFFICER: BEFORE WE GO FURTHER, I

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1 DON'T THINK IT'S NECESSARY TO OBJECT. I'M GOING TO
2 THINK ABOUT THAT OVER THE BREAK BECAUSE WHETHER OR
3 NOT YOU NEED TO OBJECT I THINK GOES TO THE QUESTION
4 OF WHAT THE RECORD HAS TO BE FOR APPEAL. AND I
5 DON'T KNOW WHETHER YOU NEED TO PRESERVE ANY
6 OBJECTIONS. BUT GO AHEAD AND OBJECT NOW AND WE'LL
7 SEE.
8 MR. DASENT: IT'S ALWAYS SAFER. AND PLEASE
9 NOTE ALSO IT WOULD BE AN OBJECTION. IT'S ON THE
10 PIECE OF PAPER IN FRONT OF US WHICH WILL BE A PART
11 OF THE RECORD. SO THE RECORD SPEAKS FOR ITSELF.
12 JUST ANOTHER AREA TO OBJECT.
13 HEARING OFFICER: WERE YOU DONE? I'M
14 SORRY.
15 MS. KUMAR: CAN WE ANSWER? YES, WE CAN SEE
16 THE 6.6 PERCENT OF REVENUE IN THE DOCUMENT. WE DO
17 WANT TO GET ON THE RECORD THAT THE 4 MILLION THAT
18 IS BEING REFERRED TO IN FIGURE 6, WE CAN'T MAKE A
19 CONNECTION THAT THAT 4 MILLION WHICH IS CITY GRANTS
20 ASSOCIATED WITH WRAP EQUATES TO WHAT IS WRITTEN
21 HERE. SO WE CAN'T MAKE, JUMP TO THAT LEAP OF
22 CONCLUSION. CANNOT.
23 MR. BALLENGER: YOU CANNOT?
24 MS. KUMAR: NO.

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1 MR. BALLENGER: YOU CANNOT?
2 MS. KUMAR: BECAUSE THIS ONE, JUST BECAUSE
3 IT USES THE WORD WRAP, WE CANNOT MAKE THE
4 CONNECTION THE CITY GRANTS LISTED FOR 4 MILLION IN
5 FIGURE 4 EQUALS TO THIS LINE ITEM IN THIS DOCUMENT
6 IN FRONT OF US.
7 MR. DASENT: MADAM HEARING OFFICER, SO THE
8 RECORD IS CLEAR, THERE ARE MANY MORE PROGRAMS THAN
9 JUST WRAP.
10 HEARING OFFICER: YOU DON'T NEED TO TESTIFY,
11 MR. DASENT. GO OFF THE RECORD.
12 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
13 RECORD.)
14 HEARING OFFICER: BACK ON THE RECORD.
15 MR. BALLENGER: I WOULD LIKE TO GO AHEAD AND
16 INTRODUCE ANOTHER EXHIBIT FOR PURPOSES OF BEING
17 OVERLY CAUTIOUS. THIS IS PUBLIC ADVOCATE HEARING
18 EXHIBIT 2.
19 HEARING OFFICER: OFF THE RECORD.
20 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
21 RECORD.)
22 HEARING OFFICER: MR. BALLENGER, WILL YOU
23 HAVE QUESTIONS BASED ON THE WORDS THAT ARE IN THE
24 DOCUMENT?

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1 MR. BALLENGER: NOT AT THIS TIME, MADAM
2 HEARING OFFICER.
3 HEARING OFFICER: THE DOCUMENT SPEAKS FOR
4 ITSELF. YOU DON'T NEED TO ASK THE QUESTIONS.
5 MR. BALLENGER: FINE.
6 HEARING OFFICER: THIS IS EXHIBIT 2?
7 MR. BALLENGER: YES. I'D JUST LIKE TO
8 STATE WHAT THIS IS, PUBLIC ADVOCATE HEARING EXHIBIT
9 2 IS THE JOINT PETITION FOR SETTLEMENT OF THE LAST
10 RATE PROCEEDING. I PUT THIS IN THE RECORD BECAUSE
11 OF LANGUAGE ON PAGE 4.
12 HEARING OFFICER: YOU DON'T NEED TO SAY
13 THAT.
14 MR. BALLENGER: FAIR ENOUGH. WE'LL MOVE
15 ALONG.
16 FOR THE LAST COUPLE OF YEARS, FISCAL YEARS
17 14 AND 15, HASN'T WRAP BEEN FUNDED AT APPROXIMATELY
18 THE \$4 MILLION LEVEL IN EACH OF THE PASSING TWO
19 YEARS?
20 MS. KUMAR: SLIGHTLY LESS THAN \$4 MILLION.
21 THIS IS PRABHA KUMAR. SLIGHTLY LESS THAN \$4
22 MILLION. SUBJECT TO VERIFICATION, THE NUMBERS ARE
23 CLOSE TO 3.8 MILLION.
24 HEARING OFFICER: ACCORDING TO, THIS IS

18 (Pages 66 to 69)

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<p>1 FIGURE 1 OF PWD EXHIBIT 5. THE TOTAL FOR FISCAL 2 YEAR 15 WAS \$3,930,000; IS THAT CORRECT? 3 MS. KUMAR: SUBJECT TO VERIFICATION, YES. 4 MR. BALLENGER: THAT WAS FUNDED THROUGH 5 EXISTING RATES; WAS IT NOT? 6 MS. KUMAR: WAS NOT PART OF THE LAST COST 7 OF SERVICE AS WAS DISCUSSED. THE CITY GRANT FOR 8 WRAP WAS NOT IN THE DEPARTMENT'S BUDGET IN THE 9 PREVIOUS RATE CASE. AND THEREFORE, DID NOT GO INTO 10 THE COST OF SERVICE. SO YOUR QUESTION ABOUT HOW IT 11 WAS FUNDED, AGAIN, SUBJECT TO VERIFICATION, IT 12 PROBABLY CAME ON THE RATE STABILIZATION FUND. 13 MR. BALLENGER: WE MAY DIFFER AS TO WHETHER 14 OR NOT IT WAS FUNDED IN THE LAST RATE PROCEEDING. 15 MY QUESTION WAS SPECIFICALLY, HAS THAT \$3.9 IN 16 FISCAL 15, HAS THAT ASSISTANCE BEEN PROVIDED 17 THROUGH EXISTING RATES? YES OR NO? 18 MS. KUMAR: AGAIN, IT'S PROBABLY PROVIDED 19 THROUGH THE RATE STABILIZATION FUND. 20 MR. BALLENGER: WHICH IS COMPRISED OF MONEY 21 COLLECTED FROM CUSTOMERS UNDER EXISTING RATES? 22 MS. KUMAR: THAT IS CORRECT. 23 MR. BALLENGER: THANK YOU. 24 AM I CORRECT THAT WRAP IS THE ONLY DISCOUNT</p>	<p>1 DISAGREEMENT ON THAT IN A BRIEF. THAT'S ALL I HAVE 2 ON WRAP AND I SUGGEST WE BREAK AT THIS POINT. 3 HEARING OFFICER: GOING TO BREAK FOR 15 4 MINUTES. GO OFF THE RECORD. 5 (WHEREUPON, A BREAK WAS TAKEN OFF THE 6 RECORD.) 7 HEARING OFFICER: BACK ON THE RECORD. A 8 COUPLE OF HOUSEKEEPING. WE ARE GOING TO BREAK FOR 9 LUNCH AT 1:00 FOR AN HOUR. WE'LL GO TO 5:00 IF WE 10 HAVE TO TODAY. WE REALLY WANT TO TRY TO WRAP UP 11 CROSS-EXAMINATION OF PWD'S DIRECT CASE. AND DURING 12 THE BREAK, MR. BAKARE AND MR. BALLENGER SPOKE ABOUT 13 HAVING MR. BAKARE COME UP AND ASK HIS ONE QUESTION 14 ON ONE OF THE THINGS THAT'S ALREADY DISCUSSED, AND 15 EVERYONE IS AGREEABLE. 16 SO IF YOU PLEASE. 17 MR. BAKARE: I'LL JUST STAND IN THE CORNER 18 HERE. JUST A QUICK QUESTION ABOUT THE ASSUMPTIONS 19 NUMBER 4 DOCUMENT. IT WAS PART OF THE PWD EXHIBIT 20 NUMBER 6. 21 MR. JAGT: LET ME SEE WHAT YOU ARE REFERRING 22 TO. 23 MR. BAKARE: IT'S THE SAME DOCUMENT 24 DISCUSSED EARLIER THIS MORNING. HISTORICAL USAGE</p>
Page 71	Page 73
<p>1 AND ASSISTANCE PROGRAM THAT THE WATER DEPARTMENT 2 HAS IDENTIFIED AS AN ADDITIONAL ADJUSTMENT IN 3 FIGURE 6? 4 MR. JAGT: NO. 5 MR. BALLENGER: HOW AM I INCORRECT? 6 MR. JAGT: AS AN ADDITIONAL COST, YES, 7 OTHER THAN THE AFFORDABILITY PROGRAM. BUT WITHIN 8 THE BUDGET, THERE ARE THE OTHER ASSISTANCE PROGRAMS 9 LIKE THE -- 10 MR. BALLENGER: PHA DISCOUNT, SENIOR 11 CITIZEN DISCOUNT? 12 MR. JAGT: THEY ARE NOT ADDITIONAL COSTS, 13 BUT THEY ARE COSTS WITHIN THE BUDGET. 14 MR. BALLENGER: BUT WRAP IS THE ONLY 15 EXISTING PROGRAM THAT HAS BEEN PULLED OUT TO MAKE 16 AN ADDITIONAL ADJUSTMENT GOING FORWARD; ISN'T THAT 17 CORRECT? 18 MS. LABUDA: YES, BECAUSE THE DEPARTMENT 19 DID NOT CAPTURE IT IN ITS PRIOR PROCEEDING. AND IN 20 AN EFFORT TO MAKE SURE WE WERE CAPTURING BOTH 21 PROJECTIONS AND EXPENSES THAT THE DEPARTMENT IS 22 INCURRING, WE HAVE ADJUSTED THE MODEL TO CAPTURE 23 THE REVENUE REDUCTION OF WRAP. 24 MR. BALLENGER: WE'LL TAKE UP OUR</p>	<p>1 FOR ACCOUNT AND HISTORICAL AVERAGES DATA. EARLIER, 2 AN ADJUSTMENT WAS DISCUSSED TO THE GENERAL SERVICE 3 5/8 METER THAT WOULD REDUCE THE HISTORICAL USAGE 4 BY .05 PERCENT VERSUS THE 1.5 PERCENT IN THE 5 DEPARTMENT'S ORIGINAL TEST. IN THE EVENT THAT THAT 6 USAGE IS REDUCED AND THE REVENUE REQUIREMENT IS 7 ALSO REDUCED, DOES THAT CREATE A SHORTFALL IN THE 8 REVENUE REQUIREMENT FOR THE DEPARTMENT? 9 MS. KUMAR: COULD YOU PLEASE REPEAT THE 10 QUESTION BECAUSE AGAIN, IN THE CONTEXT OF WHAT WE 11 WERE TALKING, REVENUE REQUIREMENT IS ALL OF THE 12 COSTS THE DEPARTMENT INCURS -- 13 HEARING OFFICER: WHAT HE IS ASKING IS IF 14 YOU REDUCE THE ASSUMPTION ON THE USAGE AND THE 15 REVENUES FROM THAT USAGE, DO YOU ALSO 16 CORRESPONDINGLY REDUCE THE COSTS? 17 MR. JAGT: NO. 18 MR. BAKARE: LET ME MAKE SURE I'M BEING 19 CLEAR ON THAT. THERE IS AN OVERALL REVENUE 20 REQUIREMENT. HERE YOU ARE ADJUSTING THE USAGE FOR 21 ONE METER SIZE. DOES THAT ADJUSTMENT REDUCE THE 22 OVERALL REVENUE REQUIREMENT FOR THE RATE 23 INCREASE? 24 MS. KUMAR: IT DOES NOT.</p>

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1 MR. JAGT: WE ARE REFERRING TO REVENUE
2 REQUIREMENT AS O&M, SERVICE, THE CAPITAL ACCOUNT
3 DEPOSIT. SO THOSE DO NOT CHANGE ORDER AS YOU
4 ADJUST.
5 MS. KUMAR: IT'S AN ANSWER IN TWO PARTS.
6 IF YOU CHANGE THE USAGE FACTOR AS PROPOSED, THEN
7 YES, THE REVENUE REQUIREMENT IN TERMS OF THE COSTS
8 FOR THE DEPARTMENT TO OPERATE ALL OF THE THINGS
9 THEY HAVE TO OPERATE, THOSE COSTS WILL NOT GO DOWN,
10 BY THE NET RATE REVENUE REQUIREMENT, YES, THAT WILL
11 GO DOWN.
12 MR. BAKARE: SO WHEN YOU SAY NET RATE
13 REVENUE REQUIREMENT, IS THAT WHAT I UNDERSTAND TO
14 BE PRESENT REVENUES FOR THE DEPARTMENT? IF YOU
15 ADJUST THE USAGE PROJECTIONS, THEN WHAT YOU ARE
16 SAYING IS YOU ARE ESSENTIALLY INCREASING THE
17 REVENUES FROM YOUR, INCREASING THE REVENUES YOU
18 HAVE EARNED PRESENTLY BECAUSE YOU ARE DECREASING
19 THE FUTURE PROJECTION OF USAGE FOR THAT PIPELINE
20 SIZE?
21 MS. KUMAR: WE ARE INCREASING THE REVENUE
22 PROJECTIONS BECAUSE EVERYTHING THAT IS PROVIDED IS
23 FOR '17 AND '18. SO IN '17, IF YOU REDUCE THE
24 DECLINE THAT IS BEING PROPOSED, THEN YES, THE

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1 PROJECTION OF REVENUES IN '17 WILL INCREASE AND
2 THEREFORE, THE PROJECTION OF NET RATE OF REVENUE
3 REQUIREMENT WILL DECREASE.
4 MR. BAKARE: ONE LAST FOLLOW-UP THERE.
5 THAT NET REVENUE REQUIREMENT IS ALLOCATED ACROSS
6 ALL OF THE CUSTOMERS? THERE IS NO SPECIFIC NET
7 REVENUE REQUIREMENT FOR EACH METER SIZE. SO THAT
8 ADJUSTMENT TO THE 5/8 METER SIZE USAGE PROJECTION,
9 THAT EFFECT IS ALLOCATED ACROSS ALL OF THE METER
10 SIZES BECAUSE OF ITS EFFECT ON NET REVENUES?
11 MR. JAGT: THAT'S NOT CORRECT.
12 MS. KUMAR: THAT'S NOT CORRECT. IT AFFECTS
13 ONLY THE 5/8 INCH.
14 MR. JAGT: UNITS OF SERVICE FOR EACH
15 CUSTOMER TYPE WILL BE ADJUSTED ACCORDINGLY, AND THE
16 ALLOCATION OF COSTS TO THAT CUSTOMER TYPE WOULD
17 ALSO BE ADJUSTED ACCORDINGLY AS THE UNITS OF
18 SERVICE ARE ADJUSTED.
19 MR. BAKARE: SO WHEN YOU ADJUST THE UNITS
20 OF SERVICE FOR ONE CUSTOMER CLASS, IS THERE THEN A
21 CORRESPONDING ADJUSTMENT FOR OTHER CUSTOMER
22 CLASSES?
23 MR. JAGT: YES, THAT'S CORRECT.
24 HEARING OFFICER: IS OR IS NOT?

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1 MR. BAKARE: WHEN YOU ADJUST THE UNITS OF
2 SERVICE FOR ONE CUSTOMER CLASS, IS THERE A
3 CORRESPONDING ADJUSTMENT TO THE UNITS OF SERVICE
4 FOR OTHER CUSTOMER CLASSES?
5 MR. DASENT: OTHER METER SIZES?
6 MR. BAKARE: OTHER METER SIZES?
7 MS. KUMAR: COULD WE TAKE A MINUTE TO
8 CONFER AND ANSWER, PLEASE?
9 MR. JAGT: STATE THE QUESTION AGAIN,
10 PLEASE.
11 MR. BAKARE: WHEN YOU ADJUST THE NET
12 REVENUES -- LET ME ASK IT IN TWO PARTS. WHEN YOU
13 ADJUST THE USAGE FOR METER SIZE, THAT ADJUSTMENT
14 REDUCES THE NET REVENUES EARNED FROM THAT METER
15 SIZE OR RECEIVED FROM THAT METER SIZE OVER THE RATE
16 ADJUSTMENT PERIOD; IS THAT CORRECT?
17 MS. KUMAR: IT INCREASES THE REVENUE THAT'S
18 COMING FROM THAT METER SIZE. THE QUESTION IS, IF
19 YOU REDUCE THE USAGE FACTOR FOR THE 5/8 INCH METER
20 THAT IS BEING PROPOSED, DOES IT REDUCE THE REVENUES
21 COMING FROM THAT METER SIZE?
22 MR. BAKARE: NET REVENUES, REDUCES THE NET
23 REVENUES; CORRECT? NET REVENUE REQUIREMENTS?
24 MS. KUMAR: IT REDUCES THE NET REVENUE

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1 REQUIREMENT, YES.
2 MR. BAKARE: SO WHEN THAT OCCURS FOR THE
3 5/8 METER SIZE, DOES THAT IN ANY WAY IMPACT THE NET
4 REVENUE OF REQUIREMENT FOR OTHER METER SIZES?
5 MS. KUMAR: IT WILL AFFECT.
6 MR. BAKARE: IS THE DEPARTMENT ABLE TO
7 QUANTIFY THE IMPACT OF THAT ADJUSTMENT TO OTHER
8 METER SIZES?
9 MR. JAGT: NOT AT THIS TIME. IT'S COST OF
10 SERVICE ISSUES.
11 HEARING OFFICER: OFF THE RECORD.
12 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
13 RECORD.)
14 HEARING OFFICER: BACK ON THE RECORD.
15 MR. JAGT: MORE THAN LIKELY, THERE WOULD
16 BE -- THE TYPE OF QUESTION YOU ARE ASKING, IS THE
17 COST OF SERVICE OR COST ALLOCATION BETWEEN CUSTOMER
18 CLASS WHICH POTENTIALLY WILL BE DISCUSSED NEXT WEEK
19 IN THE RATE PROCEEDINGS. BUT AS YOU ADJUST THE
20 UNITS OF SERVICE FOR THE CUSTOMERS, IT WILL ADJUST
21 THE ALLOCATIONS TO THE CUSTOMER TYPE. SO IT WILL
22 HAVE AN IMPACT, BUT I CAN'T QUANTIFY IT AT THIS
23 TIME.
24 MR. BAKARE: ONE FINAL QUESTION. FOR 2011,

20 (Pages 74 to 77)

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1 LOOKING AT THE HISTORICAL USAGE PER ACCOUNT FOR THE
2 COMMERCIAL INDUSTRIAL CLASSES, THE DATA INDICATES
3 THAT THE HISTORICAL USAGE FOR ACCOUNTS IS ZERO FOR
4 THE YEAR 2011 IN THAT DOCUMENT. CAN YOU EXPLAIN
5 THE ZERO VALUES IN THAT COLUMN?
6 MR. JAGT: AS WE TALKED ABOUT AT THE
7 PREVIOUS MEETING WITH THE BOARD, THE RATE BOARD,
8 THE DATA FOR 2010 AND '11, WE ONLY HAVE FOR THE
9 TOTAL GENERAL SERVICE. WE DO NOT HAVE THE DETAIL
10 BY THE CUSTOMER TYPE FOR THOSE YEARS. SO WE ONLY
11 HAVE IT AVAILABLE FOR GENERAL SERVICES IN TOTAL.
12 MR. BAKARE: FOLLOWING UP ON THAT THEN.
13 WHAT DATA DID YOU USE THEN TO CALCULATE THE FIVE
14 YEARS HISTORICAL AVERAGE FOR THOSE INDUSTRIAL AND
15 COMMERCIAL METER SIZES?
16 MR. JAGT: WELL, WE DID NOT PRESENT UNTIL
17 FISCAL YEAR 2012 WHEN WE HAD THE DATA BY CUSTOMER
18 TYPE.
19 MR. BAKARE: RIGHT. BUT 2012 PROVIDES FOUR
20 YEARS OF DATA. SO HOW DID YOU CALCULATE, WHAT DID
21 YOU SUBSTITUTE FOR THE DATA FOR THAT 5TH YEAR TO
22 PRODUCE THE FIVE-YEAR AVERAGE CALCULATION FOR
23 HISTORICAL AVERAGE?
24 MR. JAGT: I THINK THE MISPERCEPTION IS

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1 THAT WE USED THE FIVE-YEAR AVERAGE FOR THE DECREASE
2 IN THE TOTAL AVERAGE CONSUMPTION PER ACCOUNT FOR
3 5/8 INCH. THE AVERAGE CONSUMPTION PER ACCOUNT THAT
4 WE ASSUME IS BASED ON THE THREE-YEAR AVERAGE. SO
5 WHEN WE PROJECT THE FISCAL YEAR '16 VOLUME, WE BASE
6 THAT, BASED ON THE NUMBER OF PROJECTED ACCOUNTS
7 PER '16 AND THE AVERAGE VOLUME PER ACCOUNT BASED ON
8 THREE-YEAR HISTORY, THE AVERAGE FOR THE THREE YEARS
9 TO ALL CUSTOMER TYPES.
10 MS. KUMAR: CLARIFICATION HERE. WHEN YOU
11 TALK ABOUT THE 5/8 INCH ADJUSTMENT FOR THE USAGE,
12 THAT APPLIES TO ALL 5/8 INCH. IT'S NOT FOR
13 RESIDENTIAL OR COMMERCIAL BECAUSE IN THE WATER
14 DEPARTMENT, THE RATES ARE FOR 5/8 INCH. SO ALL 5/8
15 INCH METERS WERE TAKEN INTO ACCOUNT WHEN THAT
16 ADJUSTMENT WAS, WHEN WE DID THAT ADJUSTMENT AT 1.5
17 PERCENT.
18 MR. BAKARE: RIGHT. I UNDERSTAND THAT.
19 THE FIRST PART OF MY QUESTION RELATES JUST
20 TO UNDERSTAND WHAT THE IMPACT OF THAT ADJUSTMENT OF
21 5/8 METER CLASS WOULD BE ON THE OTHER METER
22 CLASSES.
23 THE SECOND PART JUST TO CLARIFY DATA, I WAS
24 UNABLE TO RECONCILE IN THE CHART BECAUSE I COULDN'T

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1 FIGURE OUT HOW THE 2011 RELATE TO THE FIVE-YEAR
2 HISTORICAL AVERAGE DATA PRODUCED IN THE FIFTH
3 COLUMN IN THE CHART.
4 MS. KUMAR: SURE. TO ANSWER THAT, IT'S NOT
5 A 5/8 INCH METERS DOESN'T EXIST FOR THE COMMERCIAL.
6 THEY EXISTED, BUT THEY WERE ROLLED INTO OTHER 5/8
7 INCH METERS. IT WAS NOT DELINEATED AS COMMERCIAL
8 OR INDUSTRIAL. BUT THOSE 5/8 INCH METERS STILL
9 EXISTED, BUT ROLLED UP IN OTHER 5/8 INCH METERS.
10 MR. BAKARE: TO BE TOTALLY CLEAR, MY
11 CONCERN IS THE GREATER THAN 5/8 INCH. I'M NOT
12 CONCERNED ABOUT 5/8.
13 MS. KUMAR: THAT APPLIES TO 5/8 INCH AND
14 GREATER THAN 5/8 INCH. THE DATA WAS ROLLED UP
15 IN '10 AND '11 IN OTHER 5/8 INCH DATA AND GREATER
16 THAN 5/8. IT'S NOT ABSENCE OF DATA. IT'S ROLLED
17 INTO OTHER TYPES.
18 MR. BAKARE: OKAY. I THINK I UNDERSTAND
19 THAT.
20 THE ONE THING I DON'T UNDERSTAND. SAY THE
21 DATA WAS ROLLED INTO OTHER TYPES. IF YOU HAD A
22 REFERENCE GREATER THAN 5/8 INCH METER, THAT SHOULD
23 BE ALL THE OTHER METER TYPES. WHY WOULD THAT VALUE
24 BE ZERO IF YOU ROLL THE 5/8 INCH METER DATA INTO

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1 THE OTHER METER TYPES?
2 MS. LABUDA: THIS IS MELISSA LABUDA
3 SPEAKING. THE ONE THING WE HAVE WORKED VERY HARD
4 ON FOR THIS RATE PROCEEDING IS BETTER REPORTING AND
5 BETTER DATA. SO THE BLANK COLUMNS REPRESENT DATA
6 THAT WE HAD AT THAT POINT IN TIME. SINCE THAT
7 TIME, SINCE THE LAST RATE PROCEEDING, WE ENHANCED
8 OUR REPORTING CAPABILITIES SO WE HAVE BETTER DATA
9 TODAY THAN WE DID BACK IN THE PRIOR PROCEEDING. I
10 CAN'T SPEAK TO EXACTLY HOW WHERE THE CUSTOMER
11 CLASSES, THE CUSTOMER TYPES YOU ARE REFERRING TO
12 ARE IN THE TABLE. BUT WE HAVE BETTER DATA TODAY.
13 MR. BAKARE: I UNDERSTAND THAT. TO BE
14 FAIR, THIS CHART WAS PROVIDED EARLIER IN THE
15 PROCEEDING, BUT THIS ISSUE DIDN'T COME UP UNTIL THE
16 TESTIMONY WAS FILED LATER IN MARCH. SO THAT'S THE
17 REASON WHY WE ARE JUST NOW LOOKING AT THIS CHART,
18 TO EXAMINE IT A LITTLE BIT CLOSER. AND EVEN THOUGH
19 I SEE THE DATA IN 2011 WASN'T THERE. I'M STILL NOT
20 QUITE SURE HOW THE DATA IN THE FIVE-YEAR AVERAGE
21 COLUMN WAS DEVELOPED WITH THE 2011 DATA BEING
22 UNCLEAR. THAT'S THE LAST PART THAT I'M STILL
23 TRYING TO UNDERSTAND.
24 MS. KUMAR: SO LET ME TRY EXPLAINING AND

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<p style="text-align: right;">Page 82</p> <p>1 DAVE WILL TOO. BASICALLY, WHEN WE ARE LOOKING AT 2 THE USAGE DECLINE, WE ARE REALLY LOOKING AT TWO 3 CATEGORIES, 5/8 INCH METER AND GREATER THAN 5/8 4 INCH METERS. SO THE 5/8 METER DATA FOR THE FIVE 5 YEARS IS AVAILABLE. EVEN THOUGH FOR THE COMMERCIAL 6 AND INDUSTRIAL AND PUBLIC UTILITIES, YOU DON'T SEE 7 IT BROKEN OUT AS THOSE THREE TYPES, THE TOTAL 5/8 8 METERS IS AVAILABLE FOR ALL FIVE YEARS. SO FOR 9 EXAMPLE, THE 5/8 COMMERCIAL, 5/8 INDUSTRIAL, 5/8 10 PUBLIC UTILITIES JUST HAPPENS TO BE ROLLED UP INTO 11 THE 5/8 OF THE OTHER TYPES. IT'S JUST NOT 12 DELINEATED. SO THE NUMBER OF 5/8 METERS IN '10 AND 13 '11, IT DIDN'T DECREASE OR CHANGE IN ANY WAY. YOU 14 JUST DON'T SEE THE DATA AS PRESENTED, BUT IT IS 15 ROLLED UP. 16 SO THEREFORE, TO YOUR QUESTION, WE DO HAVE 17 THE 5/8 AVERAGE, AVERAGE FOR FIVE YEARS FOR THE 5/8 18 METERS. WE DO HAVE THE FIVE-YEAR AVERAGE FOR THE 19 GREATER THAN 5/8 METERS. SO THE FACT THAT YOU ARE 20 SEEING A BLANK HERE DID NOT AFFECT THE ANALYSIS OR 21 TO KIND OF QUOTE YOUR WORDS, IT'S NOT AN ISSUE. 22 MR. BAKARE: THIS IS THE ABSOLUTE LAST 23 QUESTION. I THINK I'M GOING TO GET A LITTLE MORE 24 SPECIFIC. FOR THE FIVE-YEAR AVERAGE FOR THE</p>	<p style="text-align: right;">Page 84</p> <p>1 REQUEST? 2 MR. JAGT: YEAH. 3 HEARING OFFICER: TO CONFIRM THIS? TO 4 CONFIRM THIS? 5 MR. JAGT: YES, THAT'S CORRECT. 6 HEARING OFFICER: THAT'S TRANSCRIPT REQUEST 7 2. 8 MR. BAKARE: THANK YOU. 9 HEARING OFFICER: BEFORE WE GO BACK TO ROB, 10 I GET FROM THE COLLOQUY THAT THERE ARE SO FEW 11 VARIABLE O&M COSTS THAT THESE ADJUSTMENTS WE HAVE 12 BEEN TALKING ABOUT DO NOT CHANGE YOUR ESTIMATION OF 13 COSTS. IS THAT, IS MY UNDERSTANDING THAT 14 CORRECT? 15 MR. JAGT: YEAH. THE VARIABLE COSTS WHICH 16 WOULD BE THE CHEMICALS AND THE ELECTRICITY. THE 17 INFLATION FACTOR, THE ESCALATION FACTOR WE USED PER 18 CHEMICALS IS BASED ON THE THREE-YEAR HISTORICAL 19 EXPERIENCE FOR PWD. SO IT WILL INCLUDE THE AVERAGE 20 REDUCTION IN VOLUME FOR THE THREE YEARS -- 21 HEARING OFFICER: IT'S ALREADY TAKEN INTO 22 ACCOUNT? 23 MR. JAGT: THAT'S CORRECT. 24 HEARING OFFICER: SORRY. MR. BALLENGER.</p>
<p style="text-align: right;">Page 83</p> <p>1 GREATER THAN 5/8 METER INDUSTRIAL, FIVE-YEAR 2 AVERAGE IS 132.45. THAT NUMBER CAME FROM THE DATA, 3 I'M ASSUMING, THAT'S ON THE RIGHT SIDE OF THE 4 CHART, HISTORICAL USAGE PER ACCOUNT. SUBJECT TO 5 CHECK, I BELIEVE THOSE NUMBERS AVERAGED OUT DO NOT 6 COME OUT TO 132.45. 7 SO THE DATA THAT WAS USED TO PRODUCE THAT 8 NUMBER ISN'T ON THIS CHART. I UNDERSTAND THAT. 9 BUT THAT'S WHAT I'M TRYING TO CLARIFY. SHOULD I BE 10 ABLE TO REPRODUCE THAT NUMBER BY LOOKING AT THIS 11 CHART, OR NOT? 12 MR. JAGT: WE CAN DO A TRANSCRIPT REQUEST 13 TO FULFILL, TO MAKE SURE WE ARE GETTING YOU THE 14 INFORMATION THAT YOU NEED BASED ON THE ANALYSIS. 15 HOWEVER, WE WANT TO CLARIFY THAT FOR EACH OF THE 16 GREATER THAN 5/8, THE AVERAGE CONSUMPTION PER 17 ACCOUNT THAT'S ASSUMED FOR EACH CUSTOMER TYPE IS 18 BASED ON THE THREE-YEAR AVERAGE FOR '15, '14 AND 19 '13. 20 MR. BAKARE: OKAY. 21 MR. JAGT: SO IT SHOULD COME STRAIGHT OUT 22 OF THE MODEL OF WHAT THAT IT DOES. IT'S A 23 THREE-YEAR AVERAGE FOR EACH CUSTOMER TYPE. 24 HEARING OFFICER: IS THERE A TRANSCRIPT</p>	<p style="text-align: right;">Page 85</p> <p>1 MR. BALLENGER: GOING BACK TO FIGURE 6 OF 2 PWD EXHIBIT 5. I WOULD JUST LIKE TO PICK UP AT 3 OPERATIONS, ADDITIONAL COSTS FOR ADDITIONAL 4 ABATEMENTS. AND I SEE THAT AS A HALF A MILLION 5 DOLLAR ADDITIONAL ADJUSTMENT RANGING UP TO \$600,000 6 PER YEAR AT THE END OF THE FIVE-YEAR PERIOD 7 REFERENCE, 2017 THROUGH 2021. I JUST WANTED TO 8 DOUBLE CHECK. IN RESPONSE TO PA-EXE 177, YOU 9 SHOWED AN INCREASED NUMBER OF PROPERTIES REQUIRING 10 ABATEMENT; ISN'T THAT RIGHT? THAT'S NOT IN MY 11 EXHIBIT. IT'S JUST A DATA REQUEST THAT WAS ASKED. 12 MS. LABUDA: MELISSA LABUDA. TURNING TO 13 PA-EXE 177. IT IS CORRECT THAT THE -- I'M SORRY, 14 ROB, WERE YOU ASKING ABOUT PROPERTIES CLEANED OR A 15 NUMBER OF WATER MAIN BREAKS? 16 MR. BALLENGER: I WAS TALKING ABOUT THE 17 NUMBER OF PROPERTIES CLEANED. 18 MS. LABUDA: WE DID SHOW AN INCREASE. 19 YES. CORRECT. 20 MR. BALLENGER: I SEE THAT FOR FISCAL 2016, 21 YOU ARE SHOWING INFORMATION TO DATE. SO THAT'S NOT 22 FULL-YEAR INFORMATION; CORRECT? 23 MS. LABUDA: THAT'S AS OF FEBRUARY 1ST. SO 24 CORRECT. YES.</p>

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1 MR. BALLENGER: I HAVE INCLUDED IN PUBLIC
2 ADVOCATE HEARING EXHIBIT 1 JUST AN ARTICLE FROM
3 JUNE 14TH, 2015 CONCERNING A LARGE WATER MAIN
4 BREAK. WAS THAT ONE OF THE FACTORS THAT
5 CONTRIBUTED TO THE ADDITIONAL NUMBER OF PROPERTIES
6 REQUIRING ABATEMENT, THE LARGE MAIN BREAK? IT
7 STARTS ON PAGE 5 OF PUBLIC ADVOCATE HEARING EXHIBIT
8 1.

9 MS. LABUDA: ROB, WOULD YOU MIND REPEATING
10 THE QUESTION?

11 MR. BALLENGER: SURE. I WAS JUST ASKING
12 DID THE LARGE WATER MAIN BREAK THAT'S DESCRIBED ON
13 PAGE 5, 6 AND 7 AND 8 OF PUBLIC ADVOCATE HEARING
14 EXHIBIT 1, WAS THAT ONE OF THE THINGS THAT
15 CONTRIBUTED TO THE INCREASED NUMBER OF PROPERTIES
16 REQUIRING ABATEMENT?

17 MR. DASENT: FOR THE RECORD, JUST BY THE
18 DATE OF IT, IT DOESN'T APPEAR THAT THIS BREAK
19 OCCURRED -- IT APPEARED AFTER THE '16 BUDGET WAS
20 IMPROVED. AND RELATING DEBORAH MCCARTY FOR THE
21 RECORD.

22 MR. BALLENGER: BUT THE CLAIMS FOR THESE,
23 THE PROPERTIES DAMAGED IN THIS WATER MAIN BREAK
24 WOULD HAVE COME IN, THIS WAS RIGHT AT THE END OF

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1 HEARING OFFICER: WE HADN'T DECIDE THAT YOU
2 GET IT.

3 MR. BALLENGER: WE'LL RESERVE A REQUEST FOR
4 RECROSS --

5 HEARING OFFICER: OKAY.

6 MR. BALLENGER: -- AT SOME POINT, BUT I'D
7 LIKE TO MOVE ON SINCE I KNOW WE ARE NEARING THE
8 LUNCH HOUR. MAYBE WE CAN COME BACK TO IT AT THE
9 END OF THE DAY.

10 I WANT TO MOVE TO ESCALATION FACTORS. BUT
11 BEFORE I DO, I JUST, I THINK IN OUR DISCUSSION
12 EARLIER, MAYBE SOMETHING SHOULD BE CLARIFIED. AS I
13 SEE IT IN YOUR COST OF SERVICE MODEL, ONE OF THE
14 VERY SORT OF FOUNDATION ELEMENTS IS REVENUES UNDER
15 EXISTING RATES, ISN'T THAT CORRECT?

16 MS. KUMAR: THAT IS CORRECT. THAT'S THE
17 FIRST STEP.

18 MR. BALLENGER: THOSE EXISTING RATES WERE
19 SET BY THE COMMISSIONER PURSUANT TO THE TERMS OF A
20 SETTLEMENT AGREEMENT WE ENTERED INTO; ISN'T THAT
21 CORRECT?

22 MR. JAGT: CORRECT. CORRECT.

23 MR. BALLENGER: SO I THINK I WANTED TO MAKE
24 SURE THAT WAS CLEAR. THAT'S HEARING EXHIBIT 2.

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1 FISCAL 16; ISN'T THAT CORRECT? FISCAL 15, I'M
2 SORRY, FISCAL 15?

3 MS. LABUDA: YES, IT WAS AT THE END OF
4 FISCAL 15, YES.

5 MS MCCARTY: THE CLAIMS COME IN IN THE
6 BEGINNING OF '16?

7 MS. MCCARTY: THE CLAIMS CONTINUED TO COME.
8 THEY ARE NOT ALL SETTLED YET.

9 MR. BALLENGER: THANK YOU. THANK YOU. YOU
10 WOULD NOT CONSIDER A BREAK OF THAT MAGNITUDE TO BE
11 AN ORDINARY OCCURRENCE; WOULD YOU?

12 MS. MCCARTY: ON AVERAGE, THAT WAS A
13 TRANSMISSION MAIN BREAK. ON AVERAGE, OVER THE PAST
14 SEVERAL YEARS, WE HAVE SEEN ANYWHERE FROM FIVE TO
15 SEVEN TRANSMISSION MAIN BREAKS A YEAR. SO THE
16 LARGE NUMBER OF BREAKS THAT WE HAVE, THE LAST TWO
17 FISCAL YEARS IT WAS OVER 900 WATER MAIN BREAKS.
18 THE MAJORITY OF THOSE ARE, OF COURSE, NOT THIS
19 MAGNITUDE. THEY ARE ALL THE SMALLER DISTRIBUTION
20 MAINS. DOES THAT ANSWER THE QUESTION?

21 MR. BALLENGER: I THINK WE WILL LIKELY
22 RESERVE AN OPPORTUNITY FOR SOME RECROSS ON THE
23 ADDITIONAL ADJUSTMENTS IF THAT COMES UP IN REBUTTAL
24 AND MOVE ON.

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1 ON TO ESCALATION FACTORS. MR. MORGAN,
2 AGAIN, HAS ADJUSTMENTS HERE. AND I THINK IT'S
3 HELPFUL TO LOOK AT PAGE 1, PUBLIC ADVOCATE HEARING
4 EXHIBIT 1, LINE 7. HERE, MR. MORGAN HAS ESTIMATED
5 THE CHANGES TO THE ESCALATION FACTORS. THE
6 ESCALATION FACTORS, THOSE ARE ASSUMPTIONS OF
7 INCREASED COSTS THAT YOU APPLY BASED ON WHERE YOU
8 END UP WITH FISCAL 16. YOU USE ESCALATION FACTORS
9 TO ESTIMATE COSTS FOR '17 AND '18; ISN'T THAT
10 CORRECT?

11 MR. JAGT: CORRECT.

12 MR. BALLENGER: SO MR. MORGAN'S TESTIMONY
13 POINTS OUT A NUMBER OF ADJUSTMENTS TO THE
14 ESCALATION FACTORS. AND THOSE AMOUNT TO
15 APPROXIMATELY ONE AND-A-HALF MILLION IN FISCAL 17
16 AS SHOWN ON LINE 7 AND ABOUT 3.6 MILLION IN 2018
17 ALSO SHOWN ON LINE 7. I WANT TO ASK SOME QUESTIONS
18 HERE. ONE OF THE ESCALATION FACTORS APPLIES TO
19 ENERGY COSTS. AND I'M SURE MR. DELANEY MAY WANT TO
20 GET IN HERE AT SOME POINT, BUT I'LL GO FIRST.

21 THE WATER DEPARTMENT PURCHASED THE MAJORITY
22 OF ITS POWER FOR FISCAL 17 AT A COST THAT'S ON PAR
23 WITH FISCAL 16; ISN'T THAT CORRECT?

24 MR. JAGT: CORRECT.

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1 MR. DASENT: HOLD ON ONE SECOND. SO THE
2 RECORD IS CLEAR ON POWER COSTS. CERTAINLY SOMEONE
3 ELSE IN THE ROOM INCLUDING SCOTT SCHWARTZ HAS THE
4 EXPERTISE TO TELL US WHERE WE ARE IN TERMS OF
5 NEGOTIATING CONTRACTS FOR POWER COSTS. BUT THE
6 DEPARTMENT WOULD REMOVE THE INCREASED PROJECTION OF
7 POWER COSTS BASED UPON THE CONTRACTS THAT ARE
8 NEGOTIATED OR BEING NEGOTIATED IN THE VERY NEAR
9 TERM. WE HAVE A CLEARER IDEA OF WHAT OUR COSTS ARE
10 NOW AND THERE WILL BE NO ESCALATION. AND RATHER
11 THAN GO THROUGH A LONGER DISCUSSION, I THOUGHT WE
12 WOULD JUST OMIT THAT OR INDICATE THAT FOR THE
13 RECORD.
14 MR. BALLENGER: STIPULATE TO NO
15 ESCALATION?
16 MS. LABUDA: JUST ON ELECTRICITY.
17 MR. DASENT: WE ARE REMOVING THE FIVE
18 PERCENT PROPOSED PROJECTION OF THE POWER COSTS IN
19 FISCAL 18.
20 MR. DELANEY: COULD I ASK A QUESTION? THAT
21 IS ONLY FOR '18; RIGHT, REMOVED COMPLETELY FROM THE
22 CASE THEN, THE ESCALATION?
23 MR. DASENT: YES, THAT'S CORRECT.
24 MR. DELANEY: VERY GOOD. THANK YOU.

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1 HEARING OFFICER: MR. DELANEY, CAN YOU
2 REPEAT THE SECOND PART OF YOUR QUESTION SO THE
3 REPORTER CAN CATCH IT?
4 MR. DELANEY: YES, CONFIRM THAT THE FIVE
5 PERCENT INCREASE ESCALATION FOR ELECTRICITY WAS
6 ONLY FOR THE SECOND YEAR OF THE RATE INCREASE WHICH
7 WAS 2018. I THINK WE CONFIRMED THAT'S BEEN
8 WITHDRAWN BY THE DEPARTMENT.
9 MR. DASENT: THAT'S CORRECT.
10 MR. DELANEY: SO THERE IS NO INCREASE.
11 MR. BALLENGER: NOW WE ARE MOVING. LET'S
12 TRY THAT AGAIN. NO MORE ON ELECTRICITY THEN.
13 SO MOVING ON TO GENERAL EXPENSES. AND THE
14 DEPARTMENT HAS ESCALATED OR ESTIMATED AN ESCALATION
15 OF THREE PERCENT FOR EACH OF THE TWO YEARS IN THE
16 RATE PERIOD; IS THAT CORRECT?
17 MR. JAGT: WE HAVE --
18 MR. BALLENGER: I CAN POINT YOU TO WHERE IT
19 IS. EXHIBIT 6, DIRECT O&M 1.
20 HEARING OFFICER: WHEN YOU SAY EXHIBIT 6?
21 MR. BALLENGER: I'M SORRY. PWD EXHIBIT 6
22 WHICH WAS INCLUDED IN THE FILING.
23 HEARING OFFICER: THAT'S DOCUMENT BVS 1.
24 WHAT PAGE OF THAT EXHIBIT DID YOU SAY AGAIN?

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1 MR. BALLENGER: I'M FINDING IT HERE. IT'S
2 NOT NUMBERED. LET ME FIND IT. THIS IS A VERY LONG
3 PWD EXHIBIT. IT'S A VERY LONG EXHIBIT, EXHIBIT 6.
4 IT'S PAGE 194 OF 819 PAGES IN THE ELECTRONIC
5 VERSION. I'M SURE THAT'S HELPFUL.
6 HEARING OFFICER: IF I MAY, THIS IS THE VERY
7 LONG SPREADSHEET AT THE BACK?
8 MR. BALLENGER: YES.
9 HEARING OFFICER: OKAY.
10 MR. BALLENGER: AND I'M JUST LOOKING, FIRST
11 OF ALL, LET ME JUST ASK. LOOKING THROUGH THIS. I
12 ONLY FOUND ONE PLACE WHERE THE GENERAL ESCALATION
13 FACTOR WAS USED THAT APPEARS TO BE IN FINANCE 800
14 IN TRANSFERS. IS THAT CORRECT?
15 MR. JAGT: CORRECT. THAT WAS PRESENTED IN
16 THE ASSUMPTIONS DOCUMENT.
17 MR. BALLENGER: JUST LOOKING AT THE WORK
18 PAPER THAT WAS SUBMITTED HERE.
19 HEARING OFFICER: CAN YOU HELP ME READ THIS?
20 I DON'T SEE A FINANCE 800.
21 MR. BALLENGER: IT'S UNDER THE HEADING PWD
22 DIRECT O&M, THE FIRST SHADED ENTRY IS HUMAN
23 RESOURCES AND ADMINISTRATION.
24 HEARING OFFICER: I'M IN A DIFFERENT ONE

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1 THAN YOU. OFF THE RECORD.
2 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
3 RECORD.)
4 HEARING OFFICER: BACK ON THE RECORD.
5 MR. BALLENGER: SO I'M JUST LOOKING AT THE
6 ACTUAL EXPENSES FOR THAT LINE.
7 HEARING OFFICER: WHICH LINE AGAIN?
8 MR. BALLENGER: IT'S UNDER FINANCE, NUMBER
9 800 TRANSFERS.
10 HEARING OFFICER: YES.
11 MR. BALLENGER: IT APPEARS OVER THE FIVE
12 YEARS, 2010 TO 2015, THE COSTS IN THAT CATEGORY
13 HAVE DECLINED SUBSTANTIALLY. WOULD YOU AGREE WITH
14 THAT?
15 MR. JAGT: YES. THAT'S CORRECT.
16 MR. BALLENGER: FOR FUTURE ESCALATION, YOU
17 ARE AWARE THAT MR. MORGAN RECOMMENDS THE USE OF THE
18 BLUE SHIP ECONOMIC INDICATORS, WHAT'S REFERRED TO
19 AS THE GROSS DOMESTIC PRODUCT PRICE INDEX, GDPPI
20 INSTEAD OF THE CONSUMER PRICE INDEX; CORRECT?
21 THAT'S HIS RECOMMENDATION?
22 MR. JAGT: THAT'S HIS RECOMMENDATION.
23 MR. BALLENGER: WOULD YOU AGREE THAT THE
24 CONSUMER PRICE INDEX IS BASED ON THE PRICE OF A

24 (Pages 90 to 93)

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1 FIXED BASKET OF GOODS?
2 MR. JAGT: WE DIDN'T USE CONSUMER PRICE
3 INDEX.
4 HEARING OFFICER: SAY THAT AGAIN.
5 MR. JAGT: WE DID NOT USE CONSUMER PRICE
6 INDEX.
7 MR. BALLENGER: HOW DID YOU DETERMINE THE
8 ESCALATION FACTOR OF 3 PERCENT IN THIS CATEGORY?
9 MR. JAGT: AS INDICATED IN THE ASSUMPTIONS
10 DOCUMENT. THE CLASS 500 AND 800 FOR THE TRANSFERS,
11 IT'S PREDOMINANTLY THE CLASS 100 OR IT'S SERVICES
12 PROVIDED BY THE CITY TO THE WATER DEPARTMENT AND
13 THEY ARE REIMBURSING THE CITY FOR THESE SERVICES.
14 THOSE COSTS TREND OR ARE DRIVEN BY THE CLASS 100
15 INCREASES, SO WE USE THE THREE PERCENT.
16 MS. LABUDA: IN ADDITION TO THE THREE
17 PERCENT, THERE IS AN ADDITIONAL ADJUSTMENT RELATED
18 TO A TAX SETTLEMENT AGREEMENT WITH SUGARHOUSE --
19 MR. BALLENGER: NO. I WAS JUST TALKING
20 ABOUT THIS GENERAL ESCALATION FACTOR 36 PERCENT AT
21 THIS POINT.
22 SO OVER THE LAST THREE YEARS, THE ACTUAL
23 EXPENDITURES HAVE DECLINED AND YOU ARE ESTIMATING A
24 THREE PERCENT INFLATION FACTOR NONETHELESS?

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1 MR. JAGT: THAT'S CORRECT. BUT FROM THAT
2 POINT OF PERSPECTIVE, THAT VARIES YEAR TO YEAR AS
3 THE DEPARTMENT PROVIDES DIFFERENT LEVELS OF
4 SERVICES EACH YEAR. SO THE YEARS WHERE IT'S
5 HIGHER, IT'S MORE THAN LIKELY THAT SNOW REMOVAL,
6 THE WATER DEPARTMENT PROVIDES SNOW REMOVAL
7 ASSISTANCE IN THE WINTER. AND WE ARE PROJECTING
8 FROM THE BUDGET LEVEL IN '16 AND PROJECTING IT
9 FORWARD. SO THE REDUCTION IS ALREADY REFLECTED.
10 THE HISTORICAL MAY REFLECT THE FACT THAT IT'S A
11 YEAR WHERE THE CITY HAS TO PROVIDE ADDITIONAL
12 SERVICES BEYOND WHAT IT BUDGETED TO PROVIDE
13 ASSISTANCE FOR. AND WE ARE BEING CONSERVATIVE IN
14 THE PROJECTION OF EXPENSES IN THIS CASE.
15 MS. KUMAR: TO ADD TO WHAT DAVE SAID. IF
16 YOU LOOK AT HISTORICAL YEARS OF '12, '13 AND '14,
17 IT'S NOT THAT THESE COSTS ARE CONTINUOUSLY
18 DECREASING. ONE YEAR YOU SEE AN INCREASE AND
19 ANOTHER YEAR YOU SEE A DECREASE. SO THESE ARE
20 THINGS THAT CAN GO UP, CAN GO DOWN. AND THEREFORE,
21 AND NOW WHAT WE ARE TAKING IS ACTUALLY, IF YOU LOOK
22 AT FISCAL YEAR 13, IT WENT UP ALL THE WAY TO 10.7
23 MILLION. AND IN '15, IT'S 6.2. AND THE THREE
24 PERCENT THAT WE ARE REFERRING TO IS TAKEN FROM THAT

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1 POINT ONWARD, FROM '16 ONWARD. AND '16, IT'S 6.5
2 AS PER THE BUDGET. AND SO WE ARE TAKING IT FROM
3 THE 6.5 ONWARD WITH A THREE PERCENT ESCALATION.
4 SO RELATIVE TO THE HISTORICAL YEARS, YES,
5 IT IS LOWER. BUT THESE ARE COSTS THAT CAN GO UP
6 AND DOWN DEPENDING UPON THE SERVICES THAT THE
7 DEPARTMENT RECEIVES. SO TO PREDICT A CONTINUOUS
8 DECLINE IS NOT PRACTICAL FOR THE PROSPECT OF RATE
9 MAKING.
10 MR. BALLENGER: SO IN RESPONSE TO AN
11 EARLIER DATA REQUEST, I THINK YOU DID DISCUSS WHERE
12 THE THREE PERCENT CAME FROM. YOU SAID THIS WAS THE
13 ESCALATION FACTOR USED FOR PROJECTING OTHER
14 OPERATING EXPENSES? THAT'S WHAT YOU WERE JUST
15 SAYING. IS THAT RIGHT, MR. JAGT? YOU WERE SAYING
16 IT WAS BASED ON -- LET ME SEE. THAT WAS PA-EXE
17 113. IS THAT WHAT YOU WERE RELYING UPON?
18 MR. JAGT: YEAH. THIS IS DIFFERENT. IF
19 YOU NOTICE, YOU WERE REFERRING TO THE THREE PERCENT
20 SELECTED FROM SPECIFIC LINE ITEMS WITHIN THE WORK
21 PAPERS. PA-EXE 113 REFLECTS OR REFERS TO THE THREE
22 PERCENT IN THE TESTIMONY. IN THE TESTIMONY, WE DID
23 NOT PRESENT EVERY OTHER INFLATION FACTOR. WE
24 PRESENTED THE AVERAGE EFFECT OF THE DETAILED

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1 ASSUMPTIONS THAT WE PRESENTED IN THE ASSUMPTIONS.
2 AND THAT'S WHAT WE ARE DOCUMENTING IN THE
3 RESPONSE.
4 MR. BALLENGER: THANK YOU.
5 HEARING OFFICER: BEFORE YOU GO ON. FOR THE
6 PURPOSES OF THE RECORD, WHEN YOU HAVE SUCH AN
7 ESCALATION OR YOU DON'T HAVE SUCH AN ESCALATION,
8 DOES THE AMOUNT OF REVENUE FROM THE CITY, THE
9 AMOUNT OF MONEY THAT HAS TO BE PAID TO THE CITY,
10 DOES THAT VARY ACCORDINGLY? IN OTHER WORDS, IF
11 YOU HAVE MORE, IF YOU HAVE A HIGHER USE NEED FOR
12 THOSE SERVICES, YOU PAY MORE TO THE CITY? AND
13 CORRESPONDINGLY, IF YOU HAVE A LOWER NEED FOR THE
14 CITY, YOU PAY LESS? I'M SORRY. I HAVE GOT IT
15 BACKWARDS.
16 MR. JAGT: CAN YOU RESTATE, REPEAT?
17 MR. BRUNWASSER: IN THE CASE OF SNOW REMOVAL
18 WHICH CAN BE A SUBSTANTIAL COST TO THE DEPARTMENT
19 IN CLASS 100, FRINGE BENEFITS, THE DEPARTMENT
20 RECORDS ITS EXPENSES FOR THESE SNOW REMOVAL EVENTS
21 AND THEN PRESENTS THEM TO THE GENERAL FUND. AND AT
22 THE END OF THE YEAR, IN THE INNER FUND PROCESS, THE
23 INNER FUND NEGOTIATIONS, THE WATER DEPARTMENT GETS
24 REIMBURSED BY THE GENERAL FUND FOR THE COST THAT

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1 IT'S EXPENDED IN ITS CLASS 100 AND CLASS 500 IN THE
2 WATER FUND FOR FRINGE BENEFITS. THEREFORE, IT'S A
3 WASH, IT'S SUPPOSED TO BE A WASH. IN OTHER WORDS,
4 THE WATER DEPARTMENT IS NOT SUPPOSED TO AND DOES
5 NOT PERFORM FREE SERVICES FOR ANY OTHER FUND.
6 HEARING OFFICER: SO WHAT I'D LIKE YOU TO DO
7 IN THE DEPARTMENT IS CONFIRM OR DENY OR MODIFY
8 WHETHER THAT WAS AN ACCURATE PICTURE OF HOW THINGS
9 WORK NOW AND WHAT DIFFERENCE THAT MAKES FOR THE
10 REVENUE REQUIREMENTS.
11 MS. LABUDA: IT IS CORRECT THAT THE CITY
12 PERFORMS SOMETHING CALLED AN INTERFUND PROCESS,
13 WHEREBY THERE IS A DETAILED ACCOUNTING OF SERVICES
14 THAT THE CITY HAS PROVIDED TO THE DEPARTMENT.
15 HEARING OFFICER: CAN YOU SPEAK UP A LITTLE
16 BIT?
17 MS. LABUDA: SURE. THERE IS A DETAILED
18 TRACKING OF EXPENSES WITHIN THE CITY THAT HAPPENS
19 AT END OF THE YEAR WHERE THE DEPARTMENT CHARGES THE
20 CITY FOR SERVICES IT PROVIDED THAT DON'T DIRECTLY
21 CORRELATE TO OUR CORE MISSIONS OF PROVIDING WATER
22 AND WASTE WATER SERVICES AND, OF COURSE, STORMWATER
23 IS A COMPONENT OF WASTE WATER.
24 TO THE SAME REQUEST, THE CITY CHARGES THE

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1 WATER FUND BASED ON SOMETHING CALLED A CAP PLAN FOR
2 THE SERVICES THAT THE CITY PROVIDES TO THE
3 DEPARTMENT. WE PAY FOR THOSE SERVICES OUT OF CLASS
4 800. THE SERVICES THAT ARE QUITE VARIED, AND IT'S
5 ALL DETAILED IN THE INTERFUND MEMO WHICH I DON'T
6 HAVE IN FRONT OF ME. BUT THERE IS EXTENSIVE DETAIL
7 ON WHAT WE PAY THE CITY, AND THAT IS ALL THROUGH
8 THAT 800 LINE.
9 HEARING OFFICER: WHAT I'M TRYING TO FIND
10 OUT IS WHETHER OR NOT FOR THE PURPOSE OF REVENUE
11 REQUIREMENT, THE QUESTIONS THAT MR. BALLENGER ASKS
12 ARE ESSENTIALLY ONE PART OF WHAT IS A WASH
13 TRANSACTION, OR WHETHER THAT IS NOT THE CASE?
14 MS. LABUDA: IT IS NOT A WASH TRANSACTION.
15 UNFORTUNATELY, I DON'T HAVE THE INTERFUND MEMO IN
16 FRONT OF ME TO CITE SPECIFICALLY THE MATHEMATICAL
17 SHIFT BETWEEN WHAT WE OWE THE GENERAL FUND AND WHAT
18 THE GENERAL FUND OWES US.
19 HEARING OFFICER: COULD YOU TAKE A
20 TRANSCRIPT REQUEST TO -- I DON'T NEED A LOT OF
21 DETAIL. BUT IF YOU COULD EXPLAIN TO ME WHY YOU
22 ANSWERED IT'S NOT A WASH, AND THAT'S ALL I NEED.
23 MR. BALLENGER.
24 MR. BALLENGER: SURE.

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1 IF YOU WOULD LIKE TO, PLEASE GO RIGHT
2 AHEAD.
3 MS. LABUDA: MADAM HEARING OFFICER, IF I
4 MAY. IN OUR OFFICIAL STATEMENT, WE PROVIDE VERY
5 EXTENSIVE DETAIL ON THIS. IT TALKS ABOUT THE
6 RELATIONSHIP TO THE CITY. WE ARE ONE OF TEN
7 OPERATING DEPARTMENTS --
8 HEARING OFFICER: MS. LABUDA, IT WOULD BE
9 EASIER FOR US IF YOU COULD DO THIS IN WRITING AS A
10 TRANSCRIPT REQUEST.
11 MS. LABUDA: JUST FOR THE RECORD, WE WILL
12 CITE, WE DO HAVE THIS DETAIL IN THE OFFICIAL
13 STATEMENT PROVIDED AS PART OF THE PROCEEDING IN THE
14 2015. IT'S ON PAGE 22. WE WILL, OF COURSE, PUT IT
15 ON THE RECORD SEPARATELY.
16 MR. BALLENGER: THANK YOU.
17 HEARING OFFICER: MR. BALLENGER.
18 MR. BALLENGER: I JUST WOULD CONTINUE ON
19 WITH THE TABLE ON PAGE 1 OF PUBLIC ADVOCATE HEARING
20 EXHIBIT 1. AND WOULD DIRECT YOUR ATTENTION TO LINE
21 8 WHICH IS THE CONTRIBUTIONS AND INDEMNITY SPIN
22 FACTOR. MR. MORGAN CALCULATES A REDUCTION IN THE
23 REVENUE REQUIREMENT OF JUST ABOUT ONE AND-A-HALF
24 MILLION, SLIGHTLY MORE THAN ONE AND-A-HALF MILLION

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1 DOLLARS PER YEAR OVER THE TWO-YEAR RATE PERIOD.
2 AND I THINK WE HAVE A SORT OF STANDING, SUBJECT TO
3 CHECK UNDERSTANDING, SO WE'LL MOVE PASSED THAT.
4 BUT YOU UNDERSTAND MR. MORGAN IS
5 RECOMMENDING USING THE THREE-YEAR AVERAGE FOR HIS
6 ADJUSTMENT; IS THAT CORRECT?
7 MR. JAGT: I UNDERSTAND THAT'S HIS
8 SUGGESTED REVISION.
9 MR. BALLENGER: OKAY. AND I'D LIKE TO TAKE
10 A LOOK WITH YOU AT PWD EXHIBIT 5 OF APPENDIX 1.
11 AND THIS IS ON PAGE 7 DOCUMENT WHICH INCLUDES, IT'S
12 APPENDIX 1. IT STATES IT'S THE ACTUAL BUDGET
13 FACTORS CONTINUED ON THE TOP OF THE PAGE.
14 HEARING OFFICER: HOW FAR INTO THE EXHIBIT
15 IS IT?
16 MR. BALLENGER: I CAN LOOK ON THE SCREEN
17 HERE AND FIND THAT FOR YOU.
18 MR. JAGT: IT'S PAGE 14.
19 HEARING OFFICER: THANK YOU. BEFORE THE
20 BILLING AND COLLECTION REPORTS?
21 MR. BALLENGER: I'M ACTUALLY IN THE
22 APPENDIX. I DON'T THINK THAT'S THE RIGHT PAGE, MR.
23 JAGT.
24 MR. JAGT: PAGE 14.

26 (Pages 98 to 101)

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Page 102

1 HEARING OFFICER: I'M LOOKING AT PAGE 17.
2 HEARING OFFICER: WE'LL LEAVE IT FOR NOW.
3 THIS INDICATES TO ME THAT IN YOUR WRITTEN
4 SUMMARIES, IN YOUR WRITTEN SUMMARIES, YOU WILL HAVE
5 TO BE REALLY, REALLY CLEAR ABOUT WHERE THESE
6 DOCUMENTS ARE BECAUSE AS YOU CAN SEE, THERE IS
7 HUNDREDS OF PAGES HERE AND I WILL HAVE TO FIND WHAT
8 YOU ARE CITING. I DON'T NECESSARILY HAVE TO FIND
9 IT RIGHT THIS MINUTE.
10 MR. BALLENGER: I'M LOOKING AT THE LINE
11 ITEM FOR CONTRIBUTIONS. AND IT SHOWS A BUDGET O&M
12 EXPENSE OF SIX AND-A-HALF MILLION DOLLARS PER YEAR
13 FOR FISCAL YEAR 13, FISCAL YEAR 14 AND FISCAL YEAR
14 15?
15 MS. KUMAR: THE PAGE NUMBER AGAIN?
16 MR. BALLENGER: PAGE 17. AND BASED ON THE
17 ACTUAL O&M EXPENSE REPORTED FOR EACH OF THOSE
18 YEARS, WOULDNT YOU AGREE THAT THE ACTUAL EXPENSE
19 WAS LESS THAN 100 PERCENT?
20 MS. LABUDA: HISTORICALLY, YES.
21 UNFORTUNATELY, ANY TYPE OF RECOLLECTION IN
22 INDEMNITIES -- YES, I SEE THAT HISTORICALLY, WE
23 HAVE EXPERIENCED TRENDS LOWER THAN 100 PERCENT.
24 BUT UNFORTUNATELY, ANY TYPE OF ADJUSTMENT TO THIS

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1 LINE HAS A DIRECT IMPACT TO CUSTOMERS AND OUR
2 ABILITY TO MEET CUSTOMERS' NEEDS AND DEMANDS. AND
3 AS OF APRIL 4TH, THE BALANCE IN OUR INDEMNITY
4 ACCOUNT FOR FISCAL YEAR 16 IS DOWN TO \$850,000 AND
5 WE STILL HAVE A FEW MONTHS TO GO. SO THIS IS A
6 DIRECT CUSTOMER SERVICE IMPACT.
7 MR. BALLENGER: SO ON THIS SAME PAGE, IT
8 CALCULATES THE ACTUAL TO BUDGET FACTOR FOR EACH OF
9 THOSE THREE YEARS. AND ON AVERAGE FOR THE
10 THREE-YEAR AVERAGE, IT REPORTS IT'S ABOUT 77
11 PERCENT; ISNT THAT CORRECT?
12 MS. LABUDA: THAT IS CORRECT.
13 MR. BALLENGER: I'D LIKE TO ASK YOU TO TAKE
14 A LOOK AT PUBLIC ADVOCATE HEARING EXHIBIT 1.
15 STARTING ON PAGE 9, I HAVE INCLUDED AN EXCERPT FROM
16 TESTIMONY AGAIN, FROM THE LAST RATE PROCEEDING.
17 BUT AS WE TURN THE PAGE TO WHAT IS PAGE 11 OF
18 PUBLIC ADVOCATE HEARING EXHIBIT 1, YOU WILL FIND
19 THERE A TABLE. AND THAT TABLE SHOWS THAT SINCE
20 1996, THE DEPARTMENT HAS BUDGETED SIX AND-A-HALF
21 MILLION DOLLARS PER YEAR FOR THIS LINE ITEM AND HAS
22 NEVER IN A SINGLE YEAR EXPERIENCED A 100 PERCENT
23 SPEND; ISNT THAT CORRECT?
24 MR. DASENT: THE DOCUMENT SPEAKS FOR

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1 ITSELF. I'M NOT SURE THAT WE CAN VERIFY THE SOURCE
2 OF THIS INFORMATION IN THE HEARING ROOM. BUT
3 SUBJECT TO CHECK.
4 MR. BALLENGER: SUBJECT TO CHECK.
5 MR. JAGT: IT SHOULD BE NOTED ON THIS ONE,
6 THOUGH, THAT PWD IS SELF-INSURED. AND THERE ARE
7 YEARS WHERE WE EXPERIENCED 100 PERCENT OR MORE IN
8 THESE ACCOUNTS. AND IN THAT, THEY ARE
9 SELF-INSURED. IT'S A RISK TO NOT FUND. IN THAT,
10 IT'S A CUSTOMER SERVICE ISSUE THAT THEY CANNOT
11 PROVIDE THE RESPONSIVENESS TO THE CUSTOMERS IF THEY
12 DON'T HAVE THE BUDGET TO FUND THE RESPONSIVENESS
13 REQUIRED.
14 MR. BALLENGER: IN THE YEAR IN WHICH, IN A
15 YEAR IN WHICH THERE WAS AN EXPENSE HIGHER THAN WHAT
16 WAS BUDGETED, YOU WOULD HAVE AT YOUR DISPOSAL THE
17 AMOUNTS IN THE RATE STABILIZATION FUND; WOULD YOU
18 NOT?
19 MS. LABUDA: UNFORTUNATELY, IT'S NOT THAT
20 SIMPLE. THIS IS AN APPROPRIATION HELD AT THE WATER
21 FUND LEVEL. AND IF WE HAVE A YEAR WHERE WE EXCEED
22 THE BUDGETARY APPROPRIATION, THERE IS OBVIOUSLY A
23 DELAY IN ANY TYPE OF PROCESSING OF ANY CLAIM
24 BECAUSE, OF COURSE, WE WOULD HAVE TO GO BACK TO

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1 CITY COUNCIL AND SEEK SOMETHING CALLED A TRANSFER
2 ORDINANCE TO TRANSFER THE APPROPRIATION TO ALLOW US
3 TO INCUR THE PROPER APPROPRIATION TO PAY THE CLAIMS
4 TO OUR CUSTOMERS. SO AGAIN, IT COMES DOWN TO
5 CUSTOMER SERVICE ON THIS. AND WE CAN'T BE IN A
6 POSITION WHERE WE CAN'T PROVIDE CUSTOMER SERVICE IN
7 MEETING THE CLAIMS.
8 MR. DASENT: A POINT OF CLARIFICATION,
9 MADAM HEARING OFFICER, ALSO REFERRING TO THIS
10 DOCUMENT IN THE PUBLIC ADVOCATE'S EXHIBIT, THE
11 INDEMNITIES CHART. IT ENDS IN 2011. THE
12 EXPERIENCE OBVIOUSLY POST THAT IS RELEVANT ALSO.
13 SO IT'S A LONGER HISTORICAL RECORD. BUT TO THE
14 PRESENT, IT IS WHAT WE HAVE BEEN SPEAKING TO, MORE
15 RECENT PATHS.
16 MR. BALLENGER: THANK YOU, MR. DASENT.
17 THAT'S WHAT WE JUST REFERRED TO ON PAGE 17 OF
18 EXHIBIT 5, I BELIEVE, THE \$6.5 MILLION BUDGETED.
19 IT'S MORE RECENT THREE YEARS. I STARTED WITH THE
20 MORE RECENT INFORMATION, IN OTHER WORDS.
21 SO LET'S MOVE ON TO, I THINK WE ARE NEARING
22 THE END OF WHAT'S SHOWN ON PAGE 1 OF HEARING
23 EXHIBIT 1. AND I WOULD AGAIN JUST MOVE DOWN THE
24 LINE TO NUMBER 9 WHICH IS THE CHANGE IN THE DEBT

27 (Pages 102 to 105)

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1 INTEREST RATE. AND HERE, MR. MORGAN HAS CALCULATED
2 THAT AN ASSUMPTION OF A FIVE AND-A-QUARTER PERCENT
3 INTEREST RATE SHOULD BE ADJUSTED TO A FIVE PERCENT
4 INTEREST RATE, AND THAT PRODUCES AN ADJUSTMENT OF
5 \$675,000.
6 MR. JAGT: THAT IS CORRECT. NOT EVEN
7 SUBJECT --
8 MR. BALLENGER: NOT EVEN SUBJECT TO
9 CHECK? WE SHOULD HAVE STARTED WITH THIS ONE.
10 MS. CLUPPER: IS IT POSSIBLE FOR ME TO PUT
11 CLARIFICATION ON WHERE RATES ARE?
12 MR. BALLENGER: I HAVE A COUPLE OF
13 QUESTIONS SORT OF ABOUT THAT. AND I'M HAPPY FOR
14 WHOEVER ON THE PANEL WANTS TO RESPOND. JUST GOING
15 THROUGH THE DISCOVERY, I BELIEVE WE ASKED A COUPLE
16 QUESTIONS HERE. IN RESPONSE TO PA-EXE 27, THE
17 DEPARTMENT EXPLAINED THAT THE FIVE AND-A-QUARTER
18 INTEREST RATE WAS BASED ON THE CITY OF
19 PHILADELPHIA'S INTEREST RATE ASSUMPTION FOR FISCAL
20 16. IS THAT CORRECT?
21 MR. JAGT: CORRECT.
22 MR. BALLENGER: WAS THAT FOR GENERAL
23 OBLIGATION BONDS OF THE CITY?
24 MR. JAGT: NO.

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1 MR. BALLENGER: WHAT WAS THAT FOR?
2 MS. LABUDA: THE FORMER CITY TREASURER WHO
3 IS NO LONGER PART OF THE NEW ADMINISTRATION HAD
4 ESTABLISHED A PRACTICE WHEREBY SHE LOOKED AT EACH
5 OF THE CREDITS AND FORMULATED, WITH THE HELP OF
6 FINANCIAL ADVISORS, THE INTEREST RATE ASSUMPTIONS
7 THAT WE WERE TO UTILIZE IN OUR DEBT SERVICE
8 BUDGET. AND THIS ASSUMPTION TIES DIRECTLY TO OUR
9 FISCAL 16 DEBT SERVICE BUDGET.
10 MR. BALLENGER: THANK YOU.
11 JUST AS A POINT OF COMPARISON. I HAVE
12 INCLUDED HERE ON PAGE 12 OF PUBLIC ADVOCATE HEARING
13 EXHIBIT 1 JUST A PRINTOUT OF THE BOND RATINGS OF
14 THE CITY WHICH INCLUDES GENERAL OBLIGATION BONDS,
15 OTHER TAX SUPPORTED DEBT, TAX AND REVENUE
16 ANTICIPATION NOTES. AND RIGHT BELOW THAT, WATER
17 AND WASTE WATER REVENUE BONDS. JUST LOOKING AT
18 THIS. AM I CORRECT THAT THE WATER DEPARTMENT'S
19 RATING FOR MOODY'S AND FITCH ARE HIGHER THAN THOSE
20 OF THE CITY?
21 MS. CLUPPER: YES. BUT THE WATER
22 DEPARTMENT IS A REVENUE CREDIT, SO YOU CANT
23 NECESSARILY COMPARE THE CREDIT SPREAD OF A GENERAL
24 OBLIGATION CREDIT TO THE WIRE. SO THEY HAVE THEIR

Page 108

1 OWN CHARACTERISTIC IN THE MARKET BECAUSE THEY ARE
2 REVENUE, NOT GENERAL OBLIGATIONS.
3 MR. BALLENGER: MR. MORGAN OBSERVED THAT
4 THE CITY'S MOST RECENT BOND ISSUE HAD AN INTEREST
5 RATE OF FIVE PERCENT. DO YOU AGREE WITH THAT?
6 MS. CLUPPER: SO THE MOST RECENT ISSUE HAD
7 COUPON RATES OF FIVE PERCENT. THE THOUGHT PROCESS
8 OF THE CITY TREASURER'S OFFICE, NOT TO SPEAK FOR
9 MS. WINKLER, BUT IN GENERAL WHEN YOU ARE PREDICTING
10 FUTURE BOND RATES, YOU WANT TO BE CONSERVATIVE. WE
11 ALL UNDERSTAND WE ARE AT THE LOWER END OF WHERE THE
12 INTEREST RATE MARKET SPIN OVER THE LAST SEVERAL
13 YEARS. SO THE PRACTICE WAS TO ADD 100 BASIS POINTS
14 TO WHAT WAS THE INTEREST COST OR THE TRUE INTEREST
15 COST OF THE LAST ISSUE WHICH WAS ABOUT FOUR
16 AND-A-QUARTER. THAT'S WHERE THE FIVE AND-A-QUARTER
17 CAME FROM.
18 TO PUT A PERSPECTIVE ON THIS, BECAUSE I
19 THINK IT'S IMPORTANT TO UNDERSTAND THAT FIVE
20 AND-A-QUARTER IS NOT UNREASONABLE. IF YOU LOOK AT
21 THE TEN-YEAR AVERAGE OVER THE LAST 30 YEARS, THIS
22 IS FOR AAA CREDITS. AND THE MUNICIPAL MARKET DATA
23 WHICH IS AN INDUSTRY STANDARD. FOR THE 30-YEAR
24 RATE IS ABOUT 3.9 PERCENT. THAT'S A TEN-YEAR

Page 109

1 AVERAGE WITH A RANGE OF 5.94 AT THE HIGH END AND A
2 2.47 AT THE LOW. WE ARE CURRENTLY AT THE LOW END
3 OF THAT. JUST UNDERSTANDING WE ARE AT THE LOW END
4 OF A TEN-YEAR AVERAGE OF WHERE RATES ARE. SO YOU
5 ARE LOOKING FORWARD, SO YOU WANT TO BE
6 CONSERVATIVE.
7 SO IF YOU ADD TO THE AVERAGE OF 3.90, 80
8 BASIS POINTS CREDIT SPREAD WHICH IS WHERE THE WATER
9 DEPARTMENT IS USUALLY PRICED AND YOU ADD 100 BASIS
10 POINTS TO THAT, YOU ARE ACTUALLY CLOSER TO SIX
11 PERCENT. SO YOU CAN SLICE AND DICE THIS MANY WAYS.
12 BUT AT THE END OF THE DAY, FIVE AND-A-QUARTER IS
13 NOT UNREASONABLE AND YOU NEED TO BE CONSERVATIVE
14 WHEN YOU ARE PROJECTING 30-YEAR BOND ISSUANCE
15 COSTS. SO FIVE AND-A-QUARTER IN OUR OPINION WOULD
16 NOT BE UNREASONABLE. THAT'S THE THOUGHT OF THE
17 TREASURER'S OFFICE WHEN THEY ARE TRYING TO BUDGET
18 FOR DEBT SERVICE. IF YOU ARE ADDITIONAL DEBT
19 SERVICE FUNDS, THEN YOU ARE BETTER OFF BEING
20 CONSERVATIVE THAN NOT HAVING ENOUGH TO PAY YOUR
21 DEBT SERVICE.
22 HEARING OFFICER: WHY NOT DO THAT 80 BASIS
23 POINT AND 100 BASIS POINT AGAINST 2.47 AS OPPOSED
24 TO THE AVERAGE?

28 (Pages 106 to 109)

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1 MS. CLUPPER: YOU COULD DO THAT. THE
2 REASON, THE THOUGHT IS THAT YOU LOOK AT AN AVERAGE
3 RATE BECAUSE YOU ARE AT THE LOW END OF WHERE
4 INTEREST RATES ARE. WE ARE AT THE LOW END OF A
5 TEN-YEAR AVERAGE. SO IF YOU ARE PROJECTING
6 FORWARD, YOU HAVE TO ASSUME RATES ARE GOING TO GO
7 UP. YOU WANT TO ASSUME RATES ARE GOING TO GO UP
8 BECAUSE YOU ARE TRYING TO BE CONSERVATIVE. AND YOU
9 ARE ADDING THE ADDITIONAL.

10 HEARING OFFICER: MY QUESTION IS, DO YOU
11 EXPECT THAT RATES WILL GO UP, MY MATH IS TERRIBLE.
12 LET'S SAY 2.5 TO 3.9 IS 1.4. SO 140 BASIS POINTS
13 BY 2018?

14 MS. CLUPPER: NOT NECESSARILY. IM
15 EXPLAINING TO YOU THE RATIONAL THAT THE CITY
16 TREASURER OFFICE USES TOOK FOUR AND-A-QUARTER AND
17 ADDED 100 BASIS POINT.

18 HEARING OFFICER: I GOT IT. IM WONDERING
19 WHETHER OR NOT --

20 MS. LABUDA: THE STATISTICS THAT KATHY IS
21 CITING ARE FOR A AAA CREDIT, THE PREMIER CREDIT IN
22 THE MUNICIPAL MARKET. AND AS YOU CAN SEE, WE ARE
23 NOT RATED A AAA. WE ARE ONLY RATED AN A. SO THERE
24 HAS GOT TO BE ADDITIONAL COSTS ADDED BECAUSE WE

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1 THAT THE RANGE OF RATES, RANGE FROM 2.4 TO 5.94
2 OVER A TEN-YEAR PERIOD. SO YES, RATES DO GO UP AND
3 DOWN AND THAT'S WHY YOU NEED TO BE CONSERVATIVE.

4 HEARING OFFICER: SOMETIMES SOMEBODY WILL
5 EXPLAIN TO ME WHY IT WAS 4.24 AS OPPOSED TO 2.47 IF
6 WE ARE AT THE LOWEST POINT?

7 MS. CLUPPER: BECAUSE THAT'S A AAA.

8 MR. BALLENGER: AAA VERSUS --

9 HEARING OFFICER: THANK YOU.

10 MR. BALLENGER.

11 MR. BALLENGER: THANK YOU.

12 SO I DON'T THINK I HAVE EXTENSIVE CROSS ON
13 LINE 10 OF PAGE 1, PUBLIC ADVOCATE HEARING EXHIBIT
14 1 WHICH IS INTERDEPARTMENTAL IMPACT. BUT I WANT TO
15 BE CLEAR ON WHAT THESE CHANGES REPRESENT AND MAKE
16 SURE I UNDERSTAND. THESE ARE, AS I UNDERSTAND IT,
17 IF MR. MORGAN MAKES AN ADJUSTMENT TO SOME OF THE
18 ASSUMPTIONS IN O&M EXPENSE, THAT CAN CARRY OVER TO
19 INTERDEPARTMENTAL O&M; IS THAT CORRECT?

20 MR. JAGT: THAT'S CORRECT.

21 MR. BALLENGER: THAT'S WHAT HAPPENED HERE.
22 SO THESE ARE CHANGES TO INTERDEPARTMENTAL EXPENSES
23 THAT ARE GENERATED IN THE MODEL WHEN ONE MAKES A
24 CHANGE TO AN ASSUMPTION THAT AFFECTS DIRECT O&M? I

Page 111

1 CAN'T BORROW AT WHAT A AAA CREDIT CAN BORROW AT.
2 HEARING OFFICER: I UNDERSTAND THAT. WHAT
3 I'M GETTING AT IS THE RATE OF CHANGE FROM THE LOW
4 POINT TO ASSUMING HIGHER POINTS. WE HAD THE FED
5 RAISE INTEREST RATES A TEENY BIT, I THINK IT WAS IN
6 DECEMBER. AND THEN THERE IS A LOT OF PRESS NOW
7 THEY ARE NOT GOING TO DO IT AGAIN BECAUSE IT HAD A
8 BAD IMPACT ON THE ECONOMY.

9 MS. CLUPPER: I UNDERSTAND WHAT YOU ARE
10 SAYING. DO WE THINK RATES ARE GOING TO SHOOT UP
11 180 TO 200? DO I THINK THAT? NO. THE POINT IS
12 THAT WHEN YOU ARE PROJECTING DEBT SERVICE, YOU NEED
13 TO BE CONSERVATIVE. BECAUSE IF YOU ARE WRONG, IM
14 NOT GOING TO -- MAYBE THEY DO GO UP. IF YOU ARE
15 WRONG, NOW YOU DON'T HAVE ENOUGH MONEY TO PAY FOR
16 YOUR DEBT SERVICE. THAT'S A WORST POSITION TO BE
17 IN THAN HAVING TOO MUCH. YOU NEED TO BE, YOU NEED
18 TO BE CONSERVATIVE.

19 HEARING OFFICER: SO 100 BASIS POINT IS NOT
20 ENOUGH CUSHION?

21 MS. CLUPPER: THAT'S EXACTLY -- 425 WAS THE
22 TIC, THE TRUE INTEREST COST FOR THE LAST NEW MONEY
23 ISSUE, AND 100 BASIS POINTS WAS ADDED ON. I SPOKE
24 TO THOSE OTHER FIGURES TO GIVE YOU A PERSPECTIVE

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1 THINK I'M RESTATING THE SAME QUESTION. SO I'LL
2 WITHDRAW IT. THAT, I THINK, WAS REALLY THE ONLY
3 THING I WANTED TO BE CLEAR ON. SO THERE IS NO MORE
4 THAN THAT.

5 HEARING OFFICER: ARE YOU DONE WITH THIS
6 LIST OF EXHIBITS?

7 MR. BALLENGER: I AM DONE WITH PAGE 1.

8 HEARING OFFICER: JUST 1:00. OFF THE
9 RECORD.

10 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
11 RECORD.)

12 HEARING OFFICER: BACK ON THE RECORD.

13 MR. JAGT: THIS IS YOUR ESTIMATE. DO YOU
14 KNOW, IS THAT THE RESULT OF THE ESCALATION FACTORS
15 THAT ARE ACTUALLY IN THE BUDGET? OR DOES IT
16 INCLUDE THE ELIMINATION OF THE ADDITIONAL O&M?

17 MR. MORGAN: IT'S THE ELIMINATION OF THE
18 ADDITIONAL O&M.

19 HEARING OFFICER: SORRY. OFF THE RECORD.

20 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
21 RECORD.)

22 HEARING OFFICER: WE ARE BREAKING UNTIL
23 2:00.

24 (WHEREUPON, A BREAK WAS TAKEN OFF THE

29 (Pages 110 to 113)

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1 RECORD.)
2 HEARING OFFICER: BACK ON THE RECORD. MR.
3 BALLENGER, HAS KINDLY AGREED THAT MR. DELANEY CAN
4 INSERT SOME OF HIS QUESTIONS ON THESE TOPICS AT
5 THIS TIME.
6 MR. DELANEY.
7 MR. DELANEY: THANK YOU, YOUR HONOR.
8 I HAVE SOME QUESTIONS ON THE DEPARTMENT'S
9 FINANCIAL PLAN. NOW, I HAD ONE QUESTION. WHEN THE
10 HEARING BEGAN THIS MORNING, I'M TRYING TO THINK
11 WHEN MS. CLUPPER IDENTIFIED THE FINANCIAL PLAN AS
12 THE STATE PLAN. DO YOU RECALL THAT CONVERSATION
13 THIS MORNING? IT WAS ON THE RECORD. MS. LABUDA.
14 WE ARE ALL TALKING ABOUT THE SAME THING? I WAS
15 CONFUSED BY THAT.
16 HEARING OFFICER: ONE AT A TIME. SO WE HAVE
17 AN ANSWER FROM MS. CLUPPER.
18 MS. CLUPPER: THIS IS KATHY CLUPPER. MY
19 UNDERSTANDING IS THAT MS. LABUDA WAS REFERRING TO
20 THE CITY'S FIVE-YEAR PLAN WHICH IS A DOCUMENT
21 THAT'S GENERATED OUT OF THE CITY FINANCE DEPARTMENT
22 AND IS WITH REGARDS TO ALL CITY DEPARTMENTS
23 INCLUDING THE WATER DEPARTMENT. IT'S APPROVED BY
24 PICA WHICH IS A STATE-AUTHORIZED AUTHORITY. IT'S

Page 115

1 NOT THE FINANCIAL PLAN THAT SHE SUBMITTED IN HER
2 TESTIMONY.
3 MR. DELANEY: THAT'S NOT THE PLAN THAT IS
4 IN THE ACTUALLY RATE FILE?
5 MS. CLUPPER: THAT'S RIGHT. THE FIVE-YEAR
6 PLAN IS THE DOCUMENT THE CITY, IT'S ON THEIR
7 WEBSITE, PUBLIC PUBLISHING.
8 MR. DELANEY: TO BE VERY CONFUSING. ISN'T
9 THE FINANCIAL PLAN IN THIS CASE ALSO A FIVE-YEAR
10 PLAN?
11 HEARING OFFICER: SAY THAT AGAIN. YOU ARE
12 CLOSE, BUT I CAN'T HEAR YOU.
13 MR. DELANEY: YOU WILL HAVE TO READ THE
14 TRANSCRIPT. I THINK THEY ARE BOTH FIVE-YEAR PLANS
15 I GUESS WAS THE QUESTION I HAD?
16 MS. CLUPPER: THAT'S RIGHT. YES.
17 MR. DELANEY: I HAD SOME QUESTIONS FOR MS.
18 LABUDA.
19 HEARING OFFICER: ACTUALLY, I HEARD THREE.
20 I HEARD THE RATE FILING THE FIVE-YEAR PLAN FOR THE
21 CITY AND THE BUDGET.
22 MS. LABUDA: CAN YOU REPEAT THE QUESTION?
23 MR. DELANEY: I THINK IT'S THE HEARING
24 OFFICER'S QUESTION.

Page 116

1 HEARING OFFICER: WE HAVE BEEN TRYING TO
2 FIGURE OUT WHAT DIFFERENT PLANS ARE AND ESTABLISH
3 THAT THE FIVE-YEAR PLAN YOU AND I TALKED ABOUT THIS
4 MORNING, AND I THINK YOU TALKED ABOUT WITH MR.
5 BALLENGER WAS PART OF THE CITY PLAN AND PICA
6 APPROVED IT?
7 MS. LABUDA: CORRECT.
8 HEARING OFFICER: THEN I THOUGHT I HEARD TWO
9 OTHER PLANS BEING DISCUSSED.
10 MS. LABUDA: THEN THERE IS THE WATER
11 DEPARTMENT BUDGET WHICH IS PART OF, SUBMITTED AS
12 THE OVERALL CITY BUDGET. SO WE HAVE OUR OWN BUDGET
13 AND WE HAVE THE CITY BUDGET.
14 HEARING OFFICER: THEN THERE WAS A QUESTION
15 ABOUT WHETHER THE RATE FILING TRACKED EITHER ONE OF
16 THESE EXACTLY.
17 MS. LABUDA: SO THE ANSWER TO THAT IS NO.
18 THE RATE FILING TRACKS THE CITY'S FIVE-YEAR PLAN
19 ASSUMPTIONS AS BEST AS IT CAN. BUT THERE ARE
20 CERTAIN ITEMS AS A WATER AND WASTE WATER UTILITY
21 THAT THE FIVE-YEAR PLAN WOULDN'T CONTEMPLATE SUCH
22 AS CHEMICALS NEEDED FOR THE TREATMENT OF WATER AND
23 WASTE WATER OR ENERGY NEEDS OR EVEN THE SPECIFICS
24 ON OUR INDEMNITY FUND MAY NOT TRACK THE GENERAL

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1 FUND BECAUSE IT WOULD BE BASED ON OUR CLAIMS.
2 HEARING OFFICER: ACTUALLY, DO THOSE THEN
3 FOR THE RATE FILE, DO THEY COME OUT OF THE WATER
4 DEPARTMENT BUDGET OR ARE THEY DEVELOPED FOR THE
5 RATE PLAN?
6 MS. LABUDA: SO THE RATE FILING COVERS THE
7 WATER FUND WHICH CAPTURES NOT JUST THE WATER
8 DEPARTMENT BUDGET. IT ALSO CAPTURES THE BUDGET OF
9 THE FINANCE DIRECTOR BECAUSE IN THE FINANCE
10 DIRECTOR'S BUDGET IS WHERE OUR PENSIONS AND FRINGES
11 ARE COVERED. IT ALSO, THE WATER FUND ALSO
12 CONTEMPLATES OFFICE OF INFORMATION TECHNOLOGY. SO
13 THE OIT, OUR PORTION OF THE OIT SERVICES,
14 PROCUREMENT, FLEET. THE DEBT SERVICE COMMISSIONER
15 IS RESPONSIBLE FOR PAYING THE DEBT SERVICE ON THE
16 BONDS ISSUED BY THE WATER DEPARTMENT. AND THAT'S
17 AGAIN, BACK TO THE WATER FUND. SO IT'S ABOVE THE
18 WATER DEPARTMENT BUDGET.
19 SO YOU REALLY NEED TO LOOK AT THE MAYOR'S
20 BUDGET IN BRIEF AND THE PAGE ON THE WATER FUND TO
21 SEE ALL OF THE COMPONENTS OF WHAT RATES AND CHARGES
22 ARE COVERED WHICH B&V DOES DETAIL IN THEIR WORK
23 PAPERS.
24 HEARING OFFICER: I STILL DON'T UNDERSTAND.

30 (Pages 114 to 117)

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1 MS. LABUDA: YOU DON'T UNDERSTAND?
2 HEARING OFFICER: THE THING I'M NOT CLEAR
3 ABOUT IS WHETHER THERE ARE ANY ITEMS IN THE RATE
4 FILING WHICH ARE NEITHER IN THE FIVE-YEAR PLAN NOR
5 IN THE BUDGET? AND THEN A SECOND QUESTION, ARE
6 THERE ANY ELEMENTS IN THE RATE FILING THAT ARE
7 DIFFERENT FROM THE FIVE-YEAR PLAN OR THE BUDGET?
8 MS. LABUDA: SO WHERE WE WOULD BE DIFFERENT
9 WOULD BE, OF COURSE, ON ELECTRICITY AND CHEMICAL
10 COST. THAT WOULD BE DIFFERENT.
11 HEARING OFFICER: I'M SORRY, MS. LABUDA. I
12 APOLOGIZE FOR INTERRUPTING. THAT WOULD BE CONTRARY
13 TO?
14 MS. LABUDA: CONTRARY TO? COULD I RESTATE
15 THE QUESTION?
16 HEARING OFFICER: YEP.
17 MS. LABUDA: HAVE WE MADE A PROJECTION OR
18 UTILIZED AN ASSUMPTION THAT CONTRADICTS THE
19 FIVE-YEAR PLAN?
20 HEARING OFFICER: OR THE BUDGET?
21 MS. LABUDA: I'M THINKING.
22 MR. JAGT: THE ONE THING FOR SURE IS THE
23 COMPONENTS THAT ARE BASED OFF, WE STARTED FROM THE
24 2016 BUDGET FOR THE DEPARTMENT AND ALSO THE

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1 INTERDEPARTMENTAL DIVISIONS OR DEPARTMENTS THAT
2 TRANSFER AND ARE PART OF THE MAYOR'S BUDGET IN
3 BRIEF. FOR ALL OF THE COST CENTERS, WE ARE USING
4 AN ACTUAL BUDGET FACTOR TO REDUCE FROM THE BUDGET
5 TO A LEVEL OF ACTUAL EXPENSES.
6 HEARING OFFICER: I DIDN'T CATCH THAT. SO
7 IF AN ACTUAL AMOUNT BECOMES KNOWN AFTER THE BUDGET
8 IS APPROVED?
9 MR. JAGT: BASED ON HISTORICAL ANALYSIS, WE
10 ASSUME AN ACTUAL, THE BUDGET, THE FACTOR FOR EACH
11 DIVISION AND CLASS OF EXPENSE. AND THAT'S APPLIED
12 TO THE BUDGETED LEVEL OF EXPENSE TO ESTIMATE
13 ACTUALS.
14 HEARING OFFICER: THANK YOU VERY MUCH.
15 MR. DELANEY.
16 MR. DELANEY: MS. LABUDA, I HAD A COUPLE
17 QUESTIONS FOR YOU.
18 MS. LABUDA: SURE.
19 MR. DELANEY: I'M LOOKING AT YOUR PAGE 6 OF
20 YOUR TESTIMONY. BUT MAYBE, DO YOU HAVE THE EXCERPT
21 OF THE FINANCIAL PLAN WHICH IS MARKED BVS 1 PAGE
22 10? IT SORT OF TRACKS WHAT YOU HAVE IN YOUR
23 INITIAL PAGE 6 OF YOUR TESTIMONY. IT'S BVS 1 AND
24 IT WAS ON PAGE 10. PART OF THE FINANCIAL PLAN

Page 120

1 REVENUE AND REVENUE REQUIREMENT ASSUMPTIONS.
2 HEARING OFFICER: I THINK THAT'S PART OF PWD
3 EXHIBIT 5.
4 MS. LABUDA: PAGE 6 OF MY TESTIMONY IN BVS
5 1 OF THE B&V DOCUMENTATION?
6 MR. DELANEY: PAGE 10 OF EXHIBIT 5, I
7 THINK. ARE YOU READY?
8 MS. LABUDA: YES, THANK YOU. I APOLOGIZE.
9 MR. DELANEY: ON PAGE 6, YOU TALK ABOUT,
10 YOU DISCUSS THE MINIMUM SENIOR DEBT SERVICE
11 COVERAGE THAT THE DEPARTMENT IS GOING TO HAVE OVER
12 A CERTAIN PERIOD.
13 MS. LABUDA: CORRECT.
14 MR. DELANEY: THERE ARE TABLES ON THIS PART
15 OF THE FINANCIAL PLAN THAT I THINK ARE WHAT YOU ARE
16 REFERRING TO. AND I SEE NUMBER 4 ON THAT PART OF
17 THE FINANCIAL PLAN HAS THE BOND COVENANT TRANSFERS
18 AND THE FUND BALANCES. DO YOU SEE THAT? AND I
19 BELIEVE THAT CHART THERE IS THE SAME AS THE ONE YOU
20 REFERENCE IN YOUR TESTIMONY. THE NUMBERS WERE THE
21 SAME, I BELIEVE.
22 MS. LABUDA: YES, BUT IT'S NOT ON PAGE 6 OF
23 MY TESTIMONY.
24 MR. DELANEY: IT'S NOT ON PAGE 6?

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1 MS. LABUDA: I DON'T BELIEVE SO. I'M GOING
2 TO DOUBLE CHECK. BUT I BELIEVE THE NUMBERS ARE THE
3 SAME. THEY SHOULD BE. THEY ARE ON PAGE 5. I HAVE
4 THEM. WE HAVE THE FISCAL 17 AND FISCAL 18
5 ESTIMATED AMOUNTS OF BOND FUNDING.
6 MR. DELANEY: BOND COVERAGE DATA IS WHAT WE
7 ARE TALKING ABOUT, PROJECTED?
8 MS. LABUDA: YOU ARE CORRECT. IT'S ON THE
9 BOTTOM OF PAGE 6.
10 MR. DELANEY: LOOKING AT THE CHART THERE.
11 THE 2015 NUMBER FOR THAT IS 1.23; RIGHT?
12 MS. LABUDA: UM-HUM.
13 MR. DELANEY: I WAS GOING TO ASK YOU. THE
14 LAST NUMBER ON THE LIST FOR 2021 IS 1.35; RIGHT?
15 MS. LABUDA: CORRECT.
16 MR. DELANEY: WHAT ACTIONS IS THE
17 DEPARTMENT GOING TO TAKE TO INCREASE THE DEBT
18 COVERAGE FROM THE INITIAL NUMBER OF 1.23 TO 1.35?
19 DOES IT INVOLVE, AND I'LL STOP TALKING AND YOU CAN
20 SPEAK. IS IT DEPENDENT ON THE ANTICIPATED BOND
21 ISSUES AND ASSUMED INTEREST RATES THAT ARE IN THE
22 FINANCIAL PLAN?
23 MS. LABUDA: THAT'S A MULTIPART QUESTION.
24 SO THE FIRST THING IS THAT PART OF THIS IS OUTSIDE

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1 OF THIS RATE PROCEEDING. SO IF MY COUNSEL ADVISES
2 ME TO HAVE A DISCUSSION ON THE RECORD FOR AMOUNTS
3 OUTSIDE OF THE RATE PROCEEDING, I'M HAPPY TO.
4 MR. DASENT: IT'S A PROJECTION, BUT IT'S
5 WITHIN OUR RATE FILING.
6 MR. DELANEY: BUT THE NUMBERS ARE IN MS.
7 LABUDA'S TESTIMONY; RIGHT?
8 MS. LABUDA: CORRECT. THEY ARE IN MY
9 TESTIMONY. YOU ARE ABSOLUTELY CORRECT. SO WHAT
10 YOU ARE SEEING HERE IS THE DEPARTMENT'S INCREMENTAL
11 GROWTH IN SENIOR DEBT SERVICE COVERAGE. AND THAT
12 WOULD CORRELATE WITH THE DEPARTMENT TRYING TO
13 DELIVER ITSELF. SO IF YOU READ OUR OFFICIAL
14 STATEMENTS, WE HAVE 1.9 BILLION OF DEBT AND 2.1
15 BILLION OF ASSETS. BY MOVING SENIOR COVERAGE UP
16 INCREMENTALLY, WE ARE TRYING TO PAY FOR A PORTION
17 OF OUR CAPITAL PROGRAM WITH REVENUES VERSUS BOND
18 FUNDING 100 PERCENT OR NEARLY 100 PERCENT.
19 MR. DELANEY: BY INCREASING THE DEBT
20 COVERAGE, HOW WOULD YOU DO THAT? WOULD YOU BE
21 DOING THE DEBT SERVICE THAT'S CONTAINED IN THAT
22 PAGE OF THE FINANCIAL PLAN THAT I GAVE YOU A LITTLE
23 WHILE AGO AND CITED TO YOU? WOULD IT BE REFUNDING
24 DEBT? I'M WONDERING WHERE YOU GET THE BIG JUMP

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1 HERE. THAT'S NOT REAL CLEAR TO ME.
2 MS. LABUDA: SO IF YOU LOOK, THERE IS A
3 COUPLE THINGS. SO THE DEBT USEFUL LIFE OF THE
4 SYSTEM IS APPROXIMATELY 13 YEARS. I NEED TO FACT
5 CHECK THAT BECAUSE IT MIGHT BE 12.89 OR 12.9. SO
6 13 IS A ROUND NUMBER. THE AVERAGE LIFE DEBT
7 OUTSTANDING IS WE ARE GOING TO CALL IT 13 YEARS.
8 THAT MEANS THAT WE ARE PAYING A SIGNIFICANT AMOUNT
9 OF PRINCIPLE OVER THE NEXT FEW YEARS. THEREAFTER,
10 WE HOPE AS THE DEBT SERVICE PATTERNS BECOME A LESS
11 SIGNIFICANT PORTION OF THE OVERALL WATER FUND, TO
12 BE ABLE TO PUT MORE FUNDS TOWARDS DELEVERAGING THE
13 UTILITY WHICH WILL SAVE RATE PAYERS MONEY OVER THE
14 LONG RUN BECAUSE YOU WOULD HAVE TO BORROW LESS.
15 MR. DELANEY: I'M JUST KIND OF CONFUSED BY
16 THE PROJECTION YOU HAVE HERE THAT WE JUST TALKED
17 ABOUT IN YOUR TESTIMONY. YOU SEEM TO HAVE A PRETTY
18 GOOD JUMP THERE IN THE PERCENT FROM 2015 TO 2021.
19 I'M WONDERING HOW YOU ARE GOING TO ACCOMPLISH
20 THAT.
21 MS. KUMAR: TO ADD TO WHAT WAS EXPLAINED.
22 THIS COVERAGE IS PREMISED UPON ALSO THE FINANCIAL
23 PLAN WHICH HAS BEEN FILED WHERE THE '17 AND '18 ARE
24 WITHIN THIS RATE REQUEST, BUT '19, '20 AND '21 ARE

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1 OUTSIDE OF THE RATE REQUEST. BUT THE FINANCIAL
2 PLAN CONTEMPLATES THE SERIES OF REVENUE ADJUSTMENTS
3 NOT ONLY FOR '17, '18, BUT ALSO FOR '19, '20, '21.
4 THOSE PROPOSED REVENUE ADJUSTMENTS WHICH ARE NOT IN
5 THIS RATE PERIOD ARE DESIGNED TO ACHIEVE THOSE
6 KINDS OF COVERAGE.
7 MR. DELANEY: IT WOULD SEEM TO ME -- MAYBE
8 I SHOULD ASK YOU. WHAT ARE THE OPPORTUNITIES THAT
9 THE DEPARTMENT HAS IN THAT PERIOD TO INCREASE ITS
10 REVENUES TO ACTUALLY BE IN A BETTER SITUATION WITH
11 THE DEBT COVERAGE? IT'S NOT SOLELY THE SERIES OF
12 BONDS I WOULDN'T THINK? WE JUST TALKED ABOUT IT A
13 MOMENT AGO.
14 MS. LABUDA: SO THE CITY SETS A FIVE-YEAR
15 PLAN WHICH WE HAVE TALKED ABOUT THE CITY'S
16 FIVE-YEAR PLAN. THE DEPARTMENT SETS A FIVE-YEAR
17 FINANCIAL PLAN. IN THAT PLAN IS A SERIES OF
18 REVENUE REQUIREMENTS THAT WE HAVE EITHER FILED FOR
19 WITH THIS RATE BOARD OR WILL FILE FOR AT A FUTURE
20 TIME. SO ITS FUTURE RATE INCREASES WILL NOT ONLY
21 COVER THE GROWING COST OF CONSENT ORDER AND
22 AGREEMENT REQUIREMENT. IT'S ALSO THE DEMANDS ON
23 RENEWAL AND REPLACEMENT AND ALSO A PORTION OF IT
24 WILL GO TOWARDS IMPROVED DELEVERAGING THE UTILITY.

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1 MR. DELANEY: ONE OF THE WAYS TO DO IT IS
2 TO HAVE ADDITIONAL RATE CASES THROUGH THE FIVE-YEAR
3 PERIOD; RIGHT?
4 MS. LABUDA: YES, SIR. YES. CORRECT.
5 MR. DELANEY: ARE THERE OTHER WAYS THAT THE
6 DEPARTMENT CAN DEVELOP REVENUE TO HELP THEM WITH
7 THESE COVERAGE, DEBT COVERAGE? ANYTHING ELSE?
8 MS. LABUDA: I'M GOING TO DOUBLE CHECK THE
9 QUESTION. THE QUESTION IS, ARE YOU ASKING IF WE
10 ARE GOING TO EXPAND OUR SERVICES BEYOND THE WATER
11 AND WASTE WATER SYSTEM?
12 MR. DELANEY: I'M ASKING YOU WHAT OTHER
13 AREAS CAN ACTUALLY PROVIDE CAPITAL TO THE
14 DEPARTMENT TO ACTUALLY DO THIS KIND OF THING? IF
15 THAT'S THE ANSWER, THAT'S NOT A BAD ONE.
16 MS. LABUDA: THERE REALLY ISN'T. THE
17 ANSWER IS THERE IS NO OTHER AREAS THAT PROVIDE
18 CAPITAL. IT'S REALLY ON THE DEPARTMENT TO MEET
19 THIS GOAL WITH IMPROVING COVERAGE.
20 MR. DELANEY: I HAVE A RELATED QUESTION ON,
21 I THINK IT'S ON PAGE 7 OF YOUR TESTIMONY. WHERE
22 ACTUALLY IT'S PART OF THE LIST OF THE FINANCIAL
23 PLAN ELEMENTS. IT SAYS, THE WATER DEPARTMENT WILL
24 TARGET TO FUND AT LEAST 20 PERCENT OF THE CAPITAL

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1 PROGRAM WITH CASH, THEREBY REDUCING A PORTION OF
2 THE LONG-TERM BORROWING REQUIREMENTS. NOW YOU ARE
3 NOT CURRENTLY ABLE TO DO THAT; RIGHT?

4 MS. LABUDA: NO. WE HISTORICALLY HAVE NOT
5 MET THAT METRIX. I NEED TO FACT CHECK MY RESPONSES
6 TO THE VARIOUS QUESTIONS I HAVE ANSWERED, BUT WE
7 HAVE NOT MET THAT METRIX IN THE PRECEDING FIVE
8 YEARS. AND MOST PEER UTILITIES ARE IN EXCESS OF 20
9 PERCENT. IT'S PART OF THE REASON WE ARE SO
10 LEVERAGED IS THAT WE HAVEN'T DONE 20 PERCENT. THAT
11 WAS THE GOAL FROM THE PRIOR PROCEEDING. WE HAVE
12 NOT INCREASED THE GOAL BECAUSE WE DIDN'T MEET IT.

13 MR. DELANEY: THE THING WE JUST TALKED
14 ABOUT A MOMENT AGO ABOUT OPTIONS THE DEPARTMENT
15 WOULD HAVE TO DO THAT. THIS SEEMS ANOTHER ONE THAT
16 WOULD REQUIRE MORE REVENUE FOR YOU TO BE ABLE TO DO
17 WHAT WE JUST DESCRIBED WHICH IS THE 20 PERCENT OF
18 THE CAPITAL PROGRAM WITH CASH?

19 MS. LABUDA: THE ONLY WAY WE CAN IMPROVE
20 THE PORTION OF OUR CAPITAL PROGRAM FUNDED WITH CASH
21 IS DUE TO THE GENERAL BOND ORDINANCE TERMS AND THE
22 FLOW OF FUNDS IS I HAVE TO INCREASE COVERAGE TO
23 ALLOW MORE MONEY TO FLOW THROUGH THE WATERFALL TO
24 REACH THE CAPITAL TRUST. WITHOUT CHANGING THAT

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1 COVERAGE METRIX, I HAVE NO ABILITY TO MOVE MORE
2 MONEY TO THE CAPITAL TRUST.

3 MR. DELANEY: I UNDERSTAND THAT.

4 MS. CLUPPER, I HAVE A COUPLE QUESTIONS FOR
5 YOU IF THAT'S OKAY.

6 MS. CLUPPER: SURE.

7 MR. DELANEY: I THINK MY RECOLLECTION OF
8 YOUR TESTIMONY, YOU LARGELY TALK ABOUT HOW THESE
9 CREDIT COMPANIES SET CREDIT RATINGS WITH PARTICULAR
10 CORPORATIONS, BUSINESSES, THAT KIND OF THINGS.

11 MS. CLUPPER: RIGHT.

12 MR. DELANEY: IN YOUR OPINION, IS THE DEBT
13 SERVICE COVERAGE AN IMPORTANT CONSIDERATION IN THE
14 WAY THESE RATING ARE SET?

15 MS. CLUPPER: YES. IT'S ONE OF THE
16 CRITICAL RATIOS THAT ALL THESE RATINGS LOOK AT.

17 MR. DELANEY: WHAT'S THE ADVICE YOU HAVE
18 FOR THE DEPARTMENT TO ACTUALLY INCREASE ITS DEBT
19 COVERAGE? WHAT WAS YOUR RECOMMENDATION?

20 MS. CLUPPER: OUR RECOMMENDATION WAS TO
21 CONTINUE TO INCREASE THE COVERAGE BEYOND THE
22 LEGALLY REQUIRED 1.2 COVERAGE BECAUSE YOU NEED TO
23 GENERATE ADDITIONAL RESOURCES TO INCREASE THE
24 AMOUNT OF PAY OR INTERNALLY GENERATED FUNDS THAT

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1 YOU USE TO PAY FOR CAPITAL SO THAT YOU ARE NOT
2 APPROACHING 100 PERCENT OR A HIGHER LEVER. AND
3 IT'S SOMETHING ALL THE RATING AGENCIES MENTION IN
4 THEIR REPORT AND IT'S SOMETHING THEY ALL MENTION IN
5 THEIR CRITERIA.

6 MR. DELANEY: I KNOW I JUST ASKED MS.
7 LABUDA WHAT SHE THOUGHT WOULD BE WAYS TO DO THAT.
8 DO YOU HAVE ANY OTHER ONES OTHER THAN WHAT SHE
9 DESCRIBED?

10 MS. CLUPPER: I THINK ADDITIONAL REVENUES
11 IS LARGELY DRIVEN BY RATE INCREASES.

12 MR. DELANEY: RATE INCREASES? I THINK THE
13 LAWYERS ARE HAPPY TO HEAR THAT. THANK YOU.

14 I JUST HAVE SOME QUESTIONS FOR THE BLACK
15 AND VEATCH PANEL. I WOULD LIKE TO ASK YOU ABOUT
16 THE TABLE C1. I WANTED AN EXPLANATION ON SOME OF
17 THIS. I DON'T THINK I UNDERSTOOD ALL OF THE
18 NUMBERS IN TABLE C1, COMBINED UTILITY PROJECTED
19 REVENUE AND REVENUE REQUIREMENTS. I GUESS THE
20 LINES 4 TO 9 ON THE TABLE IDENTIFY ANNUAL INCREASES
21 IN REVENUE. I GUESS THE PERIODS 2017 TO 2021. I
22 RECOGNIZE THE FIRST TWO YEARS TO BE THE PROPOSED
23 PERCENTAGE INCREASES FOR THESE, FOR THE CURRENT
24 CASE. BUT WHAT ARE THE SOURCES OF THE NUMBERS IN

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1 LINE 7 THROUGH 9? WHAT IS THE SOURCE OF THE
2 REVENUE FOR THOSE?

3 MR. JAGT: BASED ON THE FINANCIAL METRIX
4 THAT WE HAVE AND THE ASSUMPTIONS OF THE RATE CASE.
5 SO WITH OUR ESCALATION FACTORS FOR O&M, THE CAPITAL
6 PROGRAM AND THE CAPITAL FUNDING REQUIREMENTS, THE
7 PROPOSED BOND ISSUES, WE HAD A TARGET OF
8 MAINTAINING THE WORKING CAPITAL OR THE APPROPRIATE
9 FUNDS TO CONTINUE FUNDING THE CAPITAL PROGRAM AND
10 RUNNING THE PROGRAM OF MAINTAINING LIKE THE 110
11 MILLION AND THE RATE STABILIZATION AND THE 15
12 MILLION IN THE RESIDUAL. AND ALSO THE TARGETED
13 DEBT SERVICE, SENIOR DEBT SERVICE COVERAGE. SO WE
14 ADJUST THE REVENUE INCREASES AS NECESSARY TO MEET
15 THE FINANCIAL METRIX.

16 MR. DELANEY: WHAT YOU ARE DESCRIBING TO ME
17 ARE THE NUMBERS ON LINE 7 TO 9; RIGHT, HOW THEY
18 WERE DEVELOPED?

19 MR. JAGT: CORRECT.

20 MR. DELANEY: I WAS LOOKING AT THE DEBT
21 SERVICE COVERAGE ON LINES 26 AND 30 OF THAT
22 SCHEDULE. WOULD IT BE CORRECT THAT THE INCREASES
23 IN THE DEBT COVERAGE IN THOSE LINES ARE RELATED TO
24 INCREASES IN REVENUES THAT ARE IDENTIFIED IN LINE 5

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1 TO 9?
2 MS. KUMAR: THAT IS THE OUTCOME OF THAT.
3 THAT IS CORRECT. IF YOU DON'T HAVE THOSE KIND OF
4 SERIES OF REVENUE INCREASES SUGGESTED IN LINES 5
5 THROUGH 9, WE WOULD NOT BE ABLE TO REACH THE
6 TARGETED DEBT COVERAGE PROJECTED IN LINE 26.
7 MR. JAGT: IT'S ALSO IF YOU LOOK AT LINE
8 25, THERE IS A DECREASE IN THE PROJECTED DEBT
9 SERVICE.
10 MS. KUMAR: 19.
11 MR. JAGT: AND 19.
12 MR. DELANEY: 25 AND 19?
13 MR. JAGT: LINE 19 WHICH IS THE TOTAL
14 SENIOR DEBT SERVICE COVERAGE. SORRY, IT'S LINE 25,
15 THE TOTAL SENIOR DEBT SERVICE DECREASES THE 198
16 MILLION, 196.9.
17 MS. KUMAR: IN FISCAL 19.
18 MR. JAGT: CORRECT. WHEN THE DEBT SERVICE
19 INCREASES, WE ARE KEEPING THE REVENUE AT THE
20 CURRENT LEVERAGE AT AN INCREASED COVERAGE.
21 MS. CLUPPER: AND ALSO NOTE ONE COMMENT ON
22 LINE 35 HOW THE TRANSFER TO THE CONSTRUCTION FUND
23 INCREASES BECAUSE THAT'S WHERE THE "EXTRA MONEY"
24 FALLS TO, IS THE CONSTRUCTION FUND.

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1 MR. DELANEY: AS I LAWYER, I ALWAYS GET
2 CONFUSED WHEN I SEE PARENS AROUND NUMBERS. SO THE
3 CITATION THAT YOU JUST GAVE ME WAS 35; RIGHT?
4 MS. CLUPPER: LINE 35.
5 MR. DELANEY: THE PARENTHESES AROUND THOSE
6 NUMBERS, IS THAT REDUCTIONS IN COST OR IS THAT
7 ADDITIONAL?
8 MS. CLUPPER: IT'S A TRANSFER TO
9 CONSTRUCTION FUND.
10 MR. DELANEY: TRANSFER TO. ALL RIGHT.
11 WOULD I BE CORRECT THAT THE HIGHER THE DEBT
12 SERVICE COVERAGE NUMBER IS ON LINE 26 TO 30, THE
13 MORE BENEFICIAL TO THE DEPARTMENT'S FINANCIAL
14 CONDITION; RIGHT?
15 MS. CLUPPER: YES.
16 MR. DELANEY: I STILL HAVE ONE OTHER
17 QUESTION WHICH IS ON A DIFFERENT SUBJECT, BUT MAYBE
18 YOU CAN ANSWER IT IF YOU KNOW. DOES THE RATE
19 FILING, IS THE DEPARTMENT STILL GOING TO ATTEMPT TO
20 RECOVER ANY OF THE AMI COSTS IN THIS CURRENT CASE
21 WHICH I UNDERSTAND IS FOR THE ADVANCED METERING
22 WHICH IS NOW NOT IN THE CASE? I'M JUST WONDERING,
23 ARE THERE ANY EXPENSES RELATED TO THAT THAT ARE
24 GOING TO --

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1 MR. DASENT: WE ENTERED INTO A STIPULATION
2 WITHDRAWING A&I COSTS FROM THE RATE FILING. THIS
3 IS THE SPECIFIC DATA RESPONSE THAT QUANTIFIES IT.
4 IT'S ROUGHLY \$500,000.
5 MR. DELANEY: IT'S THE ONE THAT'S ON THE
6 WEBSITE INTERROGATORY RESPONSES?
7 MR. DASENT: YES.
8 MR. DELANEY: AM I ASKING TOO MUCH IF YOU
9 COULD TELL ME WHICH ONE IT WAS?
10 MR. DASENT: I CAN HELP YOU FIND IT.
11 MR. DELANEY: THAT'S ALL THE QUESTIONS I
12 HAVE. THANK YOU, YOUR HONOR. THANK YOU
13 WITNESSES.
14 HEARING OFFICER: BEFORE WE GO BACK TO MR.
15 BALLENGER. IT SEEMS AS IF EVERY FINANCIAL ANALYST
16 SAYS THAT THE BETTER YOUR COVERAGE IS, THE LOWER
17 YOUR COSTS AND VICE VERSA. IS THERE ANY WAY TO --
18 IF YOU DREW A LINE OF, I DON'T KNOW WHAT'S ON THE X
19 OR THE Y AXIS, WHATEVER WAY YOU DO IT. WOULD YOU
20 DRAW A STRAIGHT LINE, AND WHAT ANGLE WOULD IT BE OR
21 WOULD YOU DRAW A CURVE LINE? IN OTHER WORDS, DO
22 WE KNOW IF WE DO, IF WE INCREASE THE COVERAGE RATIO
23 BY X PERCENT, WHAT WE ARE GOING TO GET IN TERMS OF
24 REDUCED, PUTTING EVERYTHING ELSE ASIDE?

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1 MS. LABUDA: EVERYTHING ELSE ASIDE?
2 MS. CLUPPER: SO I THINK THERE IS TWO
3 ANSWERS TO THAT. I'M NOT VERY GOOD AT MATH IN MY
4 HEAD, BUT I CAN GIVE YOU THE CONCEPTUAL ANSWER. SO
5 IF YOU INCREASE YOUR COVERAGE, YOU ARE MORE
6 FINANCIALLY HEALTHY AND YOU ARE GOING TO GET A
7 HIGHER CREDIT RATING. SO THE DEBT YOU BORROW WILL
8 BE ISSUED AT LOWER INTEREST RATES. SO MAYBE YOU
9 WOULD BE A HALF PERCENTAGE POINT OR DEPENDENT WHERE
10 THE MARKET IS. SO THAT'S QUANTIFIABLE. SO YOU CAN
11 LOWER YOUR DEBT SERVICE GOING FORWARD ON AN ANNUAL
12 BASIS.
13 HEARING OFFICER: MY QUESTION HAS MORE TO DO
14 WITH, HAS ANYBODY DONE A STUDY OF WHAT THE
15 RELATIONSHIPS HAVE BEEN? YOU HEAR THIS
16 RELATIONSHIP STATED ALL THE TIME. BUT I HAVE NEVER
17 SEEN ANYBODY DO A REGRESSION ANALYSIS OF WHAT
18 DIFFERENCE IT MAKES, THIS AMOUNT OF DEBT SERVICE
19 COVERAGE OR THE OTHER AMOUNT OF DEBT SERVICE
20 COVERAGE. AND THEN TRANSLATING TO RATINGS AND
21 TRANSLATING TO COSTS.
22 MS. CLUPPER: I DON'T KNOW OF ANY STUDY.
23 BUT I CAN SHOW YOU ISSUES THAT HAVE BEEN, I CAN
24 SHOW YOU THE MARKET RESPONSE TO ISSUES THAT ARE

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1 RELATED AA VERSUS A. THERE IS A QUANTIFIABLE
2 DIFFERENCE IN THE INTEREST COST. BUT I THINK EVEN,
3 THAT'S THE FIRST SIMPLE ANSWER.
4 I THINK THE BIGGER PICTURE IS SOMETHING YOU
5 HAVE TO LOOK AT OVER 20 SOME YEARS. IT'S DIFFICULT
6 WITH UTILITIES BECAUSE THE INCREASED FEDERAL OR
7 INCREASED REGULATIONS AND INFRASTRUCTURE. IT'S
8 HARD TO TAKE A 25-YEAR PERIOD, 25 YEARS AGO AND
9 PICK IT UP AND PUT IT HERE AND COMPARE. BUT IF YOU
10 JUST THINK ABOUT ISSUING \$250 MILLION A YEAR OVER
11 25 YEARS, WHAT THAT DEBT SERVICE WOULD BE VERSUS
12 REDUCING THAT ANOTHER 80 PERCENT. YOU ARE JUST
13 GOING TO HAVE LOWER DEBT SERVICE AND THE DEBT
14 SERVICE IS GOING TO GO LIKE THIS. IT'S GOING TO DO
15 THAT IN MOST UTILITIES. AND IF YOU SHAVE A LITTLE
16 BIT OF THAT COVERAGE OFF, YOU ARE GOING TO PROVIDE
17 MORE FINANCIAL FLEXIBILITY. (INDICATING)
18 HEARING OFFICER: A CURVE RUNNING FROM NEAR
19 ZERO UP TOWARD HIGHER AS THE X AXIS GETS LONGER.
20 THAT'S FOR THE RECORD. DON'T WORRY ABOUT IT. I'M
21 WASTING EVERYBODY'S TIME, BUT I WILL ASK ONE MORE
22 QUESTION ABOUT THIS.
23 MS. CLUPPER: I THINK IT'S REALLY IMPORTANT
24 TO THINK ABOUT THIS.

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1 HEARING OFFICER: THE CONCEPT IS QUITE
2 CLEAR. WHAT'S ALWAYS BOTHERED ME IS IN PRINCIPLE,
3 YOU COULD GO FOR A COVERAGE RATIO THAT WOULD GIVE
4 YOU A AAA. AND WHY DO YOU DO THAT OR WHY DO YOU
5 NOT?
6 MS. LABUDA: IT'S NOT WHAT WE ARE DOING.
7 HEARING OFFICER: YOU ARE NOT GETTING MY
8 POINT.
9 MS. CLUPPER: I UNDERSTAND WHAT YOU ARE
10 SAYING. THEY ARE NOT DOING THAT, THEY ARE NOT
11 PROPOSING THAT. IT'S NOT ABOUT THE AAA OR THE
12 COVERAGE RATIO ABOUT WHAT ARE YOU DOING WITH THE
13 FUND? WHAT RESOURCES ARE YOU GENERATING TO MAKE
14 SURE YOUR SYSTEM IS SUSTAINABLE INTO THE FUTURE?
15 TO ME, THAT'S THE DISCUSSION. WHERE DOES THAT
16 MONEY FALL TO AND HOW ARE THEY USING THOSE
17 RESOURCES TO MAINTAIN AND SUSTAIN THE ASSETS OF THE
18 SYSTEM?
19 HEARING OFFICER: I'M GOING TO LEAVE IT
20 HERE. IT'S NOT REALLY GIVING ME THE INFORMATION
21 THAT I NEED, BUT MAYBE THAT'S BECAUSE NOBODY HAS
22 THAT INFORMATION.
23 MR. BALLENGER.
24 MR. BALLENGER: LET'S KIND OF STAY SORT OF

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1 WHERE WE ARE ON THIS TOPIC AND TOUCH ON A COUPLE OF
2 THINGS WE'VE TALKED ABOUT.
3 ONE OF THE THINGS THAT I THOUGHT MR.
4 DELANEY ASKED WAS, WHAT ELSE THE DEPARTMENT CAN DO
5 TO INCREASE COVERAGE. AND I THINK THE ANSWER I
6 HEARD WAS THAT THERE NEEDED TO BE ADDITIONAL
7 REVENUES. WHEN THAT ANSWER WAS GIVEN, DID YOU MEAN
8 ADDITIONAL NET REVENUES?
9 MS. KUMAR: REALLY, A COUPLE OF ANSWERS.
10 ONE IS THAT YES, NET REVENUE INCREASES THAT ARE
11 KIND OF INDICATED IN THE FINANCIAL PLAN FOR '19,'20
12 AND '21. BUT ALSO THE KEY FACT THAT IT'S NOT JUST
13 THE REVENUE INCREASE AS WE POINTED OUT IN FISCAL
14 YEAR 19, THERE IS GOING TO BE A SIGNIFICANT DROP IN
15 THE DEBT SERVICE. AND THE DROP IN THE DEBT SERVICE
16 SUBSTANTIALLY CONTRIBUTES TO THE COVERAGE GOING UP
17 IF YOU LOOK AT THAT ONE YEAR. BECAUSE THE DEBT IS
18 DROPPING IN FISCAL 19, THE COVERAGE GOES FROM 1.26
19 TO 1.35 EVEN THOUGH THE REVENUE ADJUSTMENTS THAT'S
20 PROPOSED IS ONLY 4.73 PERCENT. IT'S A COMBINATION
21 OF TWO THINGS.
22 MR. BALLENGER: THAT'S HELPFUL. WHEN WE
23 TALKED ABOUT INCREASING REVENUES, THAT COULD BE
24 THROUGH AN INCREASE AND RAISED CHARGE TO CUSTOMERS

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1 OR A DECREASE IN EXPENSE OR SOME COMBINATION OF THE
2 TWO?
3 MS. KUMAR: AS PART OF THE PLAN THAT HAS
4 BEEN FILED HERE, THE FIVE-YEAR PLAN, IT'S THE
5 CONTEMPLATION OF THE 4.73 PERCENT REVENUE
6 ADJUSTMENTS COUPLED WITH THE SUBSTANTIVE DECREASE
7 IN DEBT SERVICES.
8 MR. BALLENGER: I SEE MR. JAGT MOUTHING THE
9 ANSWER THAT I'M LOOKING FOR, WHICH IS THAT THAT IS
10 TRUE. IN THEORY, THE CALCULATION OF DEBT SERVICE
11 COVERAGE IS NET REVENUE BASED. AND NET REVENUES
12 COULD INCREASE THROUGH REDUCTION IN EXPENSE; IS
13 THAT CORRECT?
14 MS. KUMAR: IN THEORY, YES.
15 MR. BALLENGER: I WANT TO MAKE SURE WE HAVE
16 THAT COVERAGE.
17 I ALSO NOTICED IN SORT OF PICKING UP ON
18 WHAT THE HEARING OFFICER WAS ASKING ABOUT AND
19 STAYING WHERE MR. DELANEY WAS IN PWD EXHIBIT 5 ON,
20 I BELIEVE IT'S PAGE 10. ON THIS PAGE, YOU SHOW
21 INCREASING DEBT SERVICE COVERAGE WHILE
22 SIMULTANEOUSLY SHOWING INCREASE IN INTEREST RATE
23 COSTS. SO IN FISCAL 2021, YOU ARE PROJECTING
24 HAVING HIGHER DEBT SERVICE COVERAGE, BUT YOU ARE

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1 ALSO PROJECTING PAYING HIGHER INTEREST RATES.
2 SOMETHING ABOUT THAT SEEMED TO CONFLICT WITH THE
3 NOTION THAT I THINK YOU WERE TRYING TO EXPLAIN,
4 THAT WHEN YOU INCREASE DEBT SERVICE COVERAGE, YOUR
5 DEBT SERVICE COSTS GO DOWN. COULD YOU EXPLAIN
6 THAT?

7 MS. LABUDA: THESE PROJECTIONS GO BACK
8 AGAIN TO THE CITY TREASURER'S OFFICE AND THE
9 FIVE-YEAR PLAN. AND WHAT YOU ARE SEEING IS YOU ARE
10 ASKING THE CITY TO PROVIDE A LOOK IN THE FUTURE OF
11 WHERE INTEREST RATES MIGHT BE IN THE MUNICIPAL
12 MARKET FOR AN A CREDIT. AND BASED ON TODAY'S, OUR
13 TRUE INTEREST COSTS AS KATHY CITED EARLIER PLUS OUR
14 CREDIT SPREAD PLUS SOME SORT OF ECONOMIC FACTOR OR
15 GEO POLITICAL RISKS, WE HAVE ASSIGNED A 5.5 PERCENT
16 WHICH FEELS WOEFULLY LIGHT RIGHT NOW AND PROBABLY
17 SHOULD BE CLOSER TO SIX PERCENT IN MY OPINION FOR
18 SOMETHING THAT IS SO FAR IN THE FUTURE BECAUSE
19 THERE ARE SO MANY FACTORS THAT COULD CHANGE THE
20 INTEREST RATE ASSUMPTION WHEN YOU ARE LOOKING THAT
21 FAR AHEAD.

22 MR. BALLENGER: SINCE I HAVE BEEN NOTICING
23 THAT MR. CLUPPER HAS HAD A LOT OF CALLS, WHY DONT
24 WE SEE IF WE ASK A COUPLE QUESTIONS AND HOPEFULLY

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1 WE CAN LET YOU GO BECAUSE I KNOW YOUR TIME IS
2 PRECIOUS.

3 HEARING OFFICER: I'M HAVING A HARD TIME
4 HEARING.

5 MR. BALLENGER: I WAS SAYING I WAS JUST I'M
6 GOING ASK A FEW QUESTIONS OF MS. CLUPPER, AND
7 OBVIOUSLY IF ADE HAS QUESTIONS.

8 MS. CLUPPER: I CAN STAY HERE UNTIL 5:00.
9 I'M FINE.

10 HEARING OFFICER: I WON'T HAVE THAT MANY
11 QUESTIONS FOR YOU.

12 I JUST, I WANTED TO TOUCH ON A COUPLE OF
13 THINGS IN YOUR TESTIMONY. AND ON PAGE, IT'S
14 ACTUALLY NOT IN MY EXHIBIT. LET ME STEER CLEAR OF
15 THAT FOR THE MOMENT. SO ON PAGE 4 OF YOUR
16 TESTIMONY, YOU GIVE SOME INFORMATION FROM THE
17 RATING AGENCIES ABOUT THE WATER DEPARTMENT AND THE
18 CURRENT SORT OF STATISTICS FROM THE RATING
19 AGENCIES. I WANTED TO ASK IF YOU HAVE DONE SORT OF
20 A PEER GROUP ANALYSIS REALLY LOOKING AT NOT JUST
21 THESE PARTICULAR FACTORS -- ACTUALLY, I'M SORRY.
22 I'M ON PAGE 8 OF YOUR TESTIMONY. BUT LOOKING AT
23 RATES AND CHARGES AS WELL TO SEE WHETHER THE THREE
24 UTILITIES YOU LOOK AT HERE, DISTRICT OF COLUMBIA, A

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1 CITY OF CLEVELAND AND THE CITY OF BALTIMORE ARE
2 COMPARABLE IN OTHER WAYS TO THE CITY.

3 MS. CLUPPER: SO WE HAVE, WE HAVE WORKED
4 WITH THE DEPARTMENT OVER SEVERAL YEARS IN DOING A
5 LOT OF PEER ANALYSIS USING THE MOODY'S FINANCIAL
6 DATA WHICH IS AVAILABLE. THAT'S THE ONE RATING
7 AGENCY THAT PROVIDES THAT KIND OF DATA. SO I'M NOT
8 SURE -- CAN YOU BE MORE SPECIFIC ABOUT HOW THEY ARE
9 ALIKE? WE HAVE SELECTED CLEVELAND AND WE LOOK AT
10 BALTIMORE, WE LOOK AT DC BECAUSE OF THE SIZE. WE
11 LOOK AT EASTERN CITIES. WE TRY TO LOOK AT POSSIBLY
12 UNDERLYING SOCIOECONOMIC IN BALTIMORE AND THE
13 MEDIAN HOUSEHOLD IS SIMILAR. SO THERE IS NOT ONE
14 EXACT CITY OR AUTHORITY THAT'S EXACTLY LIKE
15 PHILADELPHIA. SO WE HAVE LOOKED AT SEVERAL, WE
16 HAVE PROVIDED THE WATER DEPARTMENT A LOT OF
17 DIFFERENT ANALYSES. SO I'M NOT SURE. YOU HAVE TO
18 BE MORE SPECIFIC. IN WHAT WAY?

19 MR. BALLENGER: I UNDERSTAND. THAT WAS A
20 LITTLE BIT OF A GENERAL QUESTION. WHAT I WAS
21 PICKING UP ON WAS SOME DISSIMILARITIES. AND NAMELY
22 FOR EXAMPLE, THE CITY OF CLEVELAND WATER
23 ENTERPRISE. THAT'S JUST A WATER UTILITY.

24 MS. CLUPPER: RIGHT. THAT'S RIGHT.

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1 MR. BALLENGER: THERE IS A SEPARATE
2 REGIONAL SEWER UTILITY IN THAT AREA?

3 MS. CLUPPER: YES. THAT'S RIGHT, WHICH IS
4 WHY WE LOOK AT SEVERAL.

5 MR. BALLENGER: I UNDERSTAND. I WAS DRAWN
6 TO THESE THREE BECAUSE THEY WERE INCLUDED IN YOUR
7 TESTIMONY. I WANTED TO UNDERSTAND IT A LITTLE BIT
8 BETTER. AND ALSO JUST IN LOOKING AT, I THINK THERE
9 WAS ANOTHER DATA RESPONSE TO PA-EXE 122 THAT SHOWED
10 THAT DC'S MEDIAN HOUSEHOLD INCOME IS REALLY PRETTY
11 SIGNIFICANTLY HIGHER THAN PHILADELPHIA'S. DO YOU
12 RECALL THAT?

13 MS. CLUPPER: IT IS. AND THE REASON WHY WE
14 USED DC WAS FRANKLY BECAUSE THEY ARE CONSIDERED
15 BEST PRACTICE IN A LOT OF AREAS. THEY ARE AN URBAN
16 EASTERN CITY. SO THEY ARE AN IMPORTANT PEER. THE
17 WATER DEPARTMENT CONSIDERS THEM AN IMPORTANT PEER
18 UTILITY.

19 MR. BALLENGER: JUST GOING BACK TO
20 CLEVELAND FOR A MOMENT. ARE YOU AWARE THAT THEY
21 HAVE PASSED AN ORDINANCE FREEZING THEIR RATES FOR
22 THREE YEARS?

23 MS. CLUPPER: NO. BUT I THINK, I THINK
24 AGAIN THIS IS NOT ABOUT ONE PARTICULAR PEER. THIS

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1 IS ABOUT LOOKING AT A RANGE OF PEER UTILITIES,
2 LOOKING AT THE MEDIANS OF THE RATING AGENCIES.
3 IT'S PART OF WHAT THE ORDINANCE FRANKLY THAT SET UP
4 THE RATE BOARD REQUIRES HELPED PUT THAT ORDINANCE
5 TOGETHER. THE REASON WHY WE DID THAT IS BECAUSE WE
6 WANTED TO MAKE SURE THERE IS SORT OF A LARGE VIEW
7 ABOUT WHAT'S HAPPENING IN THE MUNICIPALLY-OWNED
8 UTILITY SPACE.

9 SO WE CAN PROBABLY PICK THROUGH, I WORK
10 WITH THE CITY OF BALTIMORE. I'M SURE WE CAN FIND
11 ALL KIND OF THINGS THAT ARE DIFFERENT FROM
12 BALTIMORE AND THE CITY OF PHILADELPHIA. THAT'S
13 REALLY NOT THE POINT.

14 THE POINT IS WHEN YOU LOOK AT A GENERAL
15 CROSS-SECTION OF PEERS, THERE IS THEMES THAT ARISE.
16 AND THE THEME THAT ARISES IS IN PHILADELPHIA'S CASE
17 IS THE LACK OF COVERAGE. WE HAVE THE HIGH
18 LEVERAGE. THOSE ARE CRITICAL ISSUES FOR THE
19 DEPARTMENT. THEY HAVE THE SAME CIP ISSUES AS OTHER
20 EASTERN UTILITIES HAVE. SO THAT'S WHY WE LOOK AT A
21 RANGE OF PEER DATA. SO I'M NOT AWARE THAT
22 CLEVELAND PASSED AN ORDINANCE.

23 MR. BALLENGER: I'VE INCLUDED JUST A
24 PRINTOUT FROM THEIR, THE CLEVELAND WATER WEBSITE ON

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1 PAGES 22 TO -- YEAH, 22 TO 24 OF PUBLIC ADVOCATE
2 HEARING EXHIBIT 1.

3 MS. CLUPPER: FRANKLY, I'M NOT SURE IT'S
4 RELEVANT, FIRST. SECOND OF ALL, WE WILL HAVE TO
5 SEE WHAT HAPPENS TO THEIR CREDIT RATING WHEN THAT
6 HAPPENS. THAT'S NOT THE POINT OF THE PEER
7 REVIEWS.

8 MR. BALLENGER: OKAY.

9 ALL OF THE INFORMATION THAT YOU HAVE, I
10 THINK YOU SAID THIS IS ALL FROM MOODY'S, ALL
11 INFORMATION? IT'S NOT DIRECTLY FROM THE UTILITIES
12 TO YOU? IT'S COMES FROM MOODY'S?

13 MR. CLUPPER: WHEN WE DO THE PEER ANALYSIS,
14 MOODY'S FINANCIAL ARE, THEY PROVIDE THE MFRS, THEY
15 PROVIDE A LOT OF THIS DATA. THE OTHER RATING
16 AGENCIES DON'T PROVIDE THE SAME KIND OF DATA. WE
17 ALSO DO LOOK AT FINANCIAL STATEMENTS AND OTHER WORK
18 THAT OUR FIRM DOES. SO IT'S KIND OF A
19 COMBINATION.

20 MS. LABUDA: THE MFRA DATA, AS KATHY
21 MENTIONED, WAS MADE VIA A PAID SUBSCRIPTION. I
22 WANT TO MAKE YOU AWARE. IT WASN'T SOMETHING EVEN
23 WE COULD --

24 MR. BALLENGER: I THINK THERE WAS ACTUALLY

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1 A RESPONSE ABOUT THAT. I AM CLEAR ON THAT. THANK
2 YOU.

3 HEARING OFFICER: EVERYBODY HAS TO TALK
4 LOUDER.

5 MR. BALLENGER: SORRY. WE'LL ALL PROJECT.

6 THERE WAS ANOTHER, I THINK IT'S ALSO PAGE 9
7 OF YOUR TESTIMONY, MS. CLUPPER. AND I'M SURE I
8 JUST DON'T UNDERSTAND. SO I HOPE YOU CAN HELP ME.

9 MS. CLUPPER: SURE.

10 MR. BALLENGER: I'M LOOKING AT THE FITCH
11 INFORMATION THE MIDDLE OF THE TABLE. AND AGAIN I'M
12 ON THE WRONG PAGE. I'M ON PAGE 4 OF YOUR
13 TESTIMONY. I APOLOGIZE FOR THE CONFUSION. I JUST
14 WONDERED WHETHER THIS INFORMATION WAS CORRECT.
15 UNDER CAPITAL IMPROVEMENT PROGRAM DEBT FINANCE
16 PERCENTAGE, FITCH IS REPORTING THE WATER DEPARTMENT
17 IS 70 PERCENT FINANCED BY DEBT.

18 MS. CLUPPER: YES. THAT WAS IN THEIR,
19 THAT'S FROM THEIR REPORTS. WE ARE NOT SURE WHY,
20 BUT THAT'S WHAT THEY WERE SAYING.

21 MR. BALLENGER: BUT THAT'S WRONG?

22 MS. CLUPPER: YEAH.

23 MS. LABUDA: MR. BALLENGER ASKED IF THE
24 DEPARTMENT CAN CITE WHY ONE OF THE RATING AGENCIES

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1 HAD AN INCORRECT METRIX IN ONE OF THEIR DATABASES.
2 WE DON'T HAVE THE PRIVILEGE OF ENTERING THE DATA IN
3 THEIR DATABASES. IT PROBABLY POINTS OUT TO GAAP IN
4 SOMETHING THAT I NEED TO CALL AND CORRECT TO ENSURE
5 THAT THEY CITE THE HIGHER LEVERAGE NUMBER GOING
6 FORWARD.

7 HEARING OFFICER: WHAT NUMBER SHOULD BE
8 THERE IF THEY HAD THE RIGHT NUMBER?

9 MS. LABUDA: IT WOULD BE IN THE 90 PERCENT
10 RANGE. I'M NOT SURE I'M ON THE RIGHT PAGE OF
11 TESTIMONY.

12 MR. BALLENGER: PAGE 4 OF MS. CLUPPER'S
13 TESTIMONY. JUST TO BE CLEAR, I WASN'T ASKING WHY
14 THEY GOT IT WRONG, BUT THAT'S HELPFUL. I WASN'T
15 SURE WHETHER THEY GOT IT WRONG OR WHETHER THERE WAS
16 SOMETHING ELSE, THERE WAS SOME OTHER SOURCE OF
17 FINANCING THAT THEY WERE TAKING INTO ACCOUNT AND
18 THAT WE HAVEN'T TALKED ABOUT.

19 MS. LABUDA: TO THE BEST OF OUR KNOWLEDGE,
20 I'M NOT AWARE OF ANYTHING OTHER THAN A DATA ENTRY
21 ERROR.

22 MR. BALLENGER: MS. CLUPPER, AS YOU KNOW, I
23 FOUND SOME INTEREST IN THE DAY'S CASH-ON-HAND
24 CALCULATIONS. AND I JUST WANTED TO TOUCH ON THOSE

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1 VERY QUICKLY. AND YOU PROVIDED, YOU PROVIDE A
2 CHART IN RESPONSE TO A DATA REQUEST WHICH IS PA-EXE
3 130 CALCULATING THE NUMBER OF DAYS CASH ON HAND.
4 MS. LABUDA: IF YOU WILL JUST ALLOW ME ONE
5 MOMENT TO PULL UP THE EXE. I APOLOGIZE.
6 MR. BALLENGER: NOT A PROBLEM. I WILL DO
7 THE SAME THING. I'M SORRY, I DO NOT BELIEVE IT'S
8 IN THE EXHIBIT.
9 HEARING OFFICER: OFF THE RECORD.
10 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
11 RECORD.)
12 HEARING OFFICER: BACK ON THE RECORD.
13 MR. BALLENGER: I JUST SEE IN HERE, AND I
14 WANT TO CONFIRM. SO THE LINE THAT SHOWS WITH RATE
15 STABILIZATION FUND SHOWS A RANGE OF BETWEEN 260 AND
16 353 DAYS CASH ON HAND. WHAT I WAS CURIOUS ABOUT
17 WAS IN THIS REQUEST, AND IT MAY HAVE BEEN A TIMING
18 ISSUE. WE ASKED FOR THE CALCULATIONS FOR FISCAL
19 2011 TO 2015. AND I THINK THIS MAY HAVE BEEN AN
20 ISSUED BEFORE THE YEAR-END FINANCIAL STATEMENTS
21 WERE COMPLETED. DO YOU HAPPEN TO KNOW WHAT THE
22 NUMBER IS FOR FISCAL YEAR 2015?
23 MS. CLUPPER: NOT OFFHAND, BUT WE CAN
24 FIGURE IT OUT.

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1 MR. BALLENGER: IT DOESN'T LOOK LIKE IT'S
2 TERRIBLY DIFFICULT. COULD WE ASK A TRANSCRIPT
3 REQUEST? I'M SURE THAT IS SOMETHING THAT CAN BE
4 DONE RELATIVELY QUICKLY.
5 HEARING OFFICER: THAT WILL BE, I THINK
6 TRANSCRIPT REQUEST NUMBER 4.
7 MR. BALLENGER: I BELIEVE. AND THAT WOULD
8 BE FOR UPDATED RESPONSE ADDING A COLUMN TO THIS
9 TABLE. I THINK THAT'S THE BEST WAY TO ORGANIZE
10 THAT.
11 I HAD ONE OTHER QUESTION ABOUT THE RESPONSE
12 TO PA-EXE 133. AND WE HAVE SOME QUESTIONS BECAUSE
13 I HAD NOT REALLY LOOKED INTO THE EQUITY AND
14 TREASURY ACCOUNT. I THINK I UNDERSTAND THAT AS A
15 GAAP ADJUSTMENT, THAT IS NOT SOMETHING THAT THE
16 DEPARTMENT HAS TRADITIONALLY SORT OF RECOGNIZED
17 UNDER ITS GENERAL BOND ORDINANCE. BUT THE RESPONSE
18 TO PA-EXE 133 STATES THAT, IN CONSIDERATION OF
19 RATES AND CHARGES, EQUITY IN THE TREASURER'S
20 ACCOUNT IS NOT CONSIDERED. AND I JUST, I WONDERED
21 WHETHER THAT WAS, WHETHER THERE WAS A SOURCE FOR
22 THAT CONCLUSION. DO YOU HAVE A SOURCE FOR THAT
23 CONCLUSION?
24 MS. CLUPPER: JUST ONE MINUTE.

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1 THIS IS PROBABLY, MISSY CAN PROBABLY ANSWER
2 THIS BETTER THAN ME. I'M GOING TO LET HER ANSWER
3 THIS.
4 MS. LABUDA: ASK THE QUESTION ONE MORE
5 TIME.
6 MR. BALLENGER: SO I WAS JUST READING THE
7 SECOND SENTENCE OF THE RESPONSE AND IT STATES,
8 HOWEVER, IN THE CONSIDERATION OF RATES AND CHARGES,
9 "EQUITY IN THE TREASURER'S ACCOUNT" IS NOT
10 CONSIDERED. AND I WAS WONDERING WHAT THE SOURCE OF
11 THAT STATEMENT WAS?
12 MS. LABUDA: IF YOU LOOK AT OUR GENERAL
13 BOND ORDINANCE, YOU WILL NOTICE THAT WE SET RATES
14 AND CHARGES ON A CASH BASIS. AND ON A CASH BASIS,
15 THERE IS NO BALANCE IN EQUITY IN THE TREASURER'S
16 ACCOUNT. WE DON'T HAVE A BALANCE IN THE ACCOUNT.
17 IT'S ZERO. SO I WOULD SAY IF YOU ARE LOOKING FOR A
18 SOURCE, THE SOURCE IN HOW WE SET RATE AND CHANGES
19 IS OUR GENERAL BOND ORDINANCE AND THE FLOW OF FUNDS
20 AND THE ACCOUNTING METHODOLOGY IN THE GENERAL BOND
21 ORDINANCE.
22 MR. BALLENGER: I GUESS MAYBE THE QUESTION
23 WAS TOO TECHNICAL. ARE YOU AWARE OF ANY AUTHORITY
24 THAT PRECLUDES THE BOARD FROM CONSIDERING THE FULL

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1 MEASURE OF DAYS CASH ON HAND AS REFLECTED IN PA-EXE
2 130 IN ESTABLISHING RATES AND CHARGES?
3 MS. LABUDA: PA-EXE 130 LOOKS AT WHAT THE
4 RATING AGENCIES WILL CAPTURE, BUT IT DOESN'T
5 ACKNOWLEDGE THAT RATES AND CHARGES LOOK AT A CASH
6 BASIS OF ACCOUNTING. AND IF YOU LOOK AT THE
7 BUDGETARY SCHEDULE IN THE BACK OF OUR FINANCIAL
8 STATEMENTS, THERE IS NOTHING IN THAT ACCOUNT.
9 SO WHAT YOU WOULD, IN FACT, BE ASKING THE
10 BOARD TO DO IS VIOLATE OUR GENERAL BOND ORDINANCE
11 WHICH I BELIEVE IS PROBLEMATIC. BUT I'LL LOOK TO
12 MY LEGAL COUNSEL OF HOW WE SHOULD RESPOND.
13 MR. BALLENGER: I DON'T THINK THAT'S THE
14 QUESTION.
15 MS. CLUPPER: I THINK I UNDERSTAND THE
16 QUESTION. SO RATES AND CHARGES, IN THEORY, WOULD
17 BE YOU HAVE REVENUE, YOU HAVE EXPENSES AND THEN YOU
18 HAVE GOT TO DO WHAT YOU HAVE TO DO AND CHARGE
19 RATES. SO THAT BOTTOM BUCKET YOU HAVE 1.2 OR YOU
20 ARE GOING TO DO WHATEVER YOU WANT WITH YOUR MONEY.
21 SO YOU ARE CHARGING RATES TO RUN THE OPERATION.
22 YOU ARE ONLY ALLOWED TO USE, IN THE CASE OF THE
23 CITY, THEY ARE ALLOWED TO USE BALANCE OVER HERE,
24 THE RATE STABILIZATION FUND TO IMPACT THOSE RATES

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1 AND CHARGES. THAT'S BECAUSE IT'S SET UP
2 SPECIFICALLY CALLED THE RATE STABILIZATION FUND AND
3 YOU ARE ALLOWED TO USE THIS POT OF MONEY IN WHAT
4 NORMALLY IS A CALCULATION OF CURRENT REVENUE,
5 CURRENT EXPENSES AND THEN CURRENT DEBT SERVICE.
6 SO GENERALLY, YOU ARE NOT ALLOWED TO UNITS
7 POTS OF MONEY. THERE ARE SOME THAT ALLOW YOU TO
8 USE CASH ON HAND, BUT THAT'S NOT CONSIDERED BEST
9 PRACTICES. SO IT'S NOT, IT'S NOT, I DON'T THINK
10 UNUSUAL FOR A MUNICIPALLY-OWNED UTILITY TO NOT BE
11 ABLE TO USE POTS OF MONEY, EQUITY IN FIGURING THEIR
12 RATES AND CHARGES BECAUSE IT'S NOT CURRENT INCOME.
13 HEARING OFFICER: IS THERE A DIFFERENCE
14 BETWEEN THE EQUITY IN THE TREASURY ACCOUNT AND THE
15 RATE STABILIZATION FUND?
16 MS. CLUPPER: YES.
17 MR. BALLENGER: YES.
18 MS. LABUDA: YES.
19 MS. CLUPPER: AND EQUITY IS A GAAP NUMBER
20 IN THE SENSE.
21 MS. LABUDA: IT IS.
22 MS. CLUPPER: SO IT MAY OR MAY NOT ACTUALLY
23 BE CASH BECAUSE GAPP AND CASH DON'T ALWAYS
24 NECESSARILY CONNECT.

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1 MR. BALLENGER: I THINK ONE OF THE
2 INTERESTING THINGS IS THAT FOR COMPARISON PURPOSES,
3 MY UNDERSTANDING IS THAT DAY'S CASH ON HAND FOR
4 SOME OF THE OTHER UTILITIES ALSO INCLUDE RATE
5 STABILIZATION FUND AMOUNTS.
6 MS. CLUPPER: IF THEY HAVE ONE.
7 HEARING OFFICER: THEY WOULD ALSO NATURALLY
8 INCLUDE EQUITY IN THE TREASURER'S ACCOUNT IF THAT
9 WAS DISCLOSED.
10 MS. CLUPPER: IF IT EXISTS. THERE WAS A
11 PERIOD OF TIME WHERE THE RATE AGENCIES DIDN'T USE
12 THE RATE STABILIZATION FUND IN THE DAY'S CASH ON
13 HAND. WE SPENT TIME. THERE IS A REASON WHY THEY
14 DIDN'T, BECAUSE IT'S NOT READILY AVAILABLE FOR
15 CURRENT OPERATING INCOME. IT'S FOR OPERATING, BUT
16 YOU COULDN'T PULL IT OUT AND USE IT TO FUND
17 CAPITAL. IT HAS TO GO THROUGH THE WATERFALL.
18 MR. BALLENGER: CAN I ASK ABOUT THAT
19 ACTUALLY? ARE YOU SAYING THAT RATE STABILIZATION
20 FUNDS CAN'T BE USED FOR CAPITAL WORK?
21 MS. CLUPPER: IT HAS TO GO THROUGH THE
22 WATER FUNDS.
23 MR. BALLENGER: THE OFFICIAL STATEMENT
24 TALKS ABOUT INTERFUND TRANSFERS AND STATES THAT

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1 THOSE AMOUNTS CAN BE LOANED.
2 MS. CLUPPER: YOU ARE CONFUSING --
3 MR. BALLENGER: IT'S THE SAME AS DOLLARS.
4 I'M SAYING THE DOLLARS WILL BE AVAILABLE IF NOT.
5 MS. LABUDA: MAY WE INTRODUCE VALERIE ALLEN
6 SO WE CAN CLARIFY THIS MATTER?
7 HEARING OFFICER: PLEASE. AND ONE PERSON AT
8 A TIME.
9 MS. ALLEN: I AM VALERIE ALLEN, COUNSEL TO
10 THE WATER DEPARTMENT. CAN YOU ASK YOUR QUESTION
11 AGAIN DISTINGUISHING BETWEEN LOANS AND TRANSFERS?
12 MR. BALLENGER: THE FIRST QUESTION WAS
13 WHETHER AMOUNTS IN THE RATE STABILIZATION FUND
14 COULD BE TRANSFERRED TO THE CONSTRUCTION FUND FOR
15 CAPITAL WORK?
16 MS. ALLEN: NO, IT CAN'T BE TRANSFERRED.
17 MONEY FROM THE RATE STABILIZATION FUND CAN BE
18 TRANSFERRED, MONEY IN THE RATE STABILIZATION FUND
19 CAN BE TRANSFERRED TO THE REVENUE FUND. AND ONCE
20 IT'S IN THE REVENUE FUND, YOU CAN GO THROUGH THE
21 ANALYSIS IN 406 THAT TALKS ABOUT HOW YOU ALLOCATE
22 MONIES IN THE REVENUE FUND AND IN WHAT PRIORITY.
23 YOU ALSO -- I'LL LET YOU ASK YOUR FOLLOW-UP
24 QUESTION.

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1 MR. BALLENGER: MY INTERPRETATION OF THAT
2 TRANSFER WAS THAT THAT WAS A TRANSFER FOR MEETING
3 COVERAGE REQUIREMENT; IS THAT CORRECT? SO IT'S
4 TRANSFERRED FROM THE RATE STABILIZATION FUND TO THE
5 REVENUE FUND FOR THE PURPOSES OF SATISFYING
6 COVERAGE?
7 MS. ALLEN: I CAN'T SPEAK TO WHAT THE
8 PURPOSE IS. I CAN TELL YOU WHAT THE ORDINANCE
9 PERMITS. BUT ONCE THE MONEY GOES INTO THE REVENUE
10 FUND, ONCE MONEY IS IN THE REVENUE FUND, YOU HAVE
11 TO TRACK THROUGH THE PRIORITIES OF HOW THAT MONEY
12 CAN BE USED.
13 MR. BALLENGER: THEN THE SECOND PART OF THE
14 QUESTION IS WHETHER MONEY IN THE RATE STABILIZATION
15 FUND COULD BE LOANED TO THE CONSTRUCTION FUND FOR
16 CAPITAL?
17 MS. ALLEN: YES, BUT THAT HAS TO BE PAID
18 BACK IN THE SAME FISCAL YEAR.
19 MR. BALLENGER: IN THE SAME FISCAL YEAR?
20 OKAY.
21 MR. BALLENGER: I THINK THAT IS ALL I HAVE
22 FOR MS. CLUPPER. I HAVE A COUPLE OF OTHER SUBJECTS
23 AND I CAN OPEN IT UP IF ADE HAS ANY QUESTIONS ON
24 THIS LINE. IF WE WOULD LIKE TO STAY HERE.

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1 HEARING OFFICER: OFF THE RECORD.
2 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
3 RECORD.)
4 HEARING OFFICER: WE ARE BACK ON THE
5 RECORD.
6 MR. BAKARE: I DO HAVE ONE QUICK QUESTION.
7 THIS QUESTION RELATES BACK TO THE RATE
8 STABILIZATION FUND ISSUE WE WERE ALL JUST
9 DISCUSSING. AND TALKING ABOUT THE PROCESS FOR
10 USING THOSE FUNDS TO MOVE THE CONSTRUCTION FUND.
11 MY QUESTION IS ABOUT THE GENERAL PROCESS FOR
12 AUTHORIZING DISBURSEMENTS FROM THE RATE
13 STABILIZATION FUND. IN RESPONSE TO DISCOVERY PLUG
14 8D, THE QUESTION WAS, PLEASE CONFIRM WHETHER IN THE
15 YEAR WHERE PWD HAS ALREADY MET A 10 PERCENT DEBT
16 SERVICE FOR RATE STABILIZATION FUND WITHDRAWS,
17 COULD IT WITHDRAW ADDITIONAL AMOUNTS FROM THE RATE
18 STABILIZATION FUND TO ADDRESS OTHER EXPENSES SUCH
19 AS REVENUE SHORTFALL DUE TO DECLINE IN SALES? THE
20 ANSWER WAS, RATE STABILIZATION FUND WITHDRAWS CAN
21 BE USED TO ADDRESS FUNDING SHORTFALLS WHEN REVENUES
22 ARE NOT ADEQUATE TO MEET THE ANNUAL REVENUE
23 REQUIREMENTS SUBJECT TO FULFILLING GENERAL BOARD
24 ORDINANCE AND INSURANCE COVENANTS.

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1 SO WHEN THE DEPARTMENT IDENTIFIES A
2 SHORTFALL OF REVENUES, IS THERE COMPLETE DISCRETION
3 TO REMOVE FUNDS FROM THE RATE STABILIZATION FUND,
4 OR ARE THEY SORT OF LIMITING FACTORS AND STANDARDS
5 THAT MUST BE MET OR APPROVALS THAT MUST BE OBTAINED
6 BEFORE THOSE WITHDRAWS ARE MADE? I APOLOGIZE FOR
7 THE LONG QUESTION, BUT IT'S A COMPLICATED SUBJECT.
8 MS. LABUDA: YES. SO TYPICALLY, I'LL
9 ANSWER IT FROM A TYPICAL FISCAL YEAR, IS ONCE A
10 YEAR THE CITY CLOSES ITS BOOKS ON A CASH BASIS OF
11 ACCOUNTING. AND WE ASSESS OUR FINANCIAL POSITION.
12 WE LOOK AT REVENUES RECEIVED. WE LOOK AT EXPENSES
13 INCURRED, DEBT SERVICE THAT WE NEED TO PAY.
14 REQUIRED TRANSFERS, WHETHER IT'S TO THE GENERAL
15 FUND OR REQUIRED TRANSFERS TO OUR CAPITAL TRUST
16 WHICH WE DO HAVE A REQUIRED TRANSFER FOR RENEWAL
17 AND REPLACEMENT. WE JUST CALL IT PROPERTY PLANT
18 AND EQUIPMENT. AND WE ASSESS WHETHER OR NOT WE CAN
19 MEET ALL OF THOSE OBLIGATIONS WITH REVENUES WE
20 RECEIVE DURING THAT FISCAL PERIOD.
21 IF WE CANNOT MEET ALL OF THOSE OBLIGATIONS,
22 WE PREPARE A FORM, AND I'M FORGETTING THE NAME OF
23 THE SPECIFIC FORM WE HAVE TO FILL OUT FOR THE
24 FINANCE, THAT WOULD REQUEST THE MOVEMENT OF FUNDS

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1 OUT OF THE RATE STABILIZATION FUND TO THE WATER
2 OPERATING TO ENSURE WE CAN MEET ALL OF OUR
3 TRANSFERS AND OBLIGATIONS FOR THAT FISCAL YEAR.
4 BUT IT IS TYPICALLY A ONCE IN A YEAR MATHEMATICAL
5 ASSESSMENT. IT HAS NOT BEEN MY LIMITED, IN MY
6 EXPERIENCE IN THE TWO PLUS YEARS I HAVE BEEN WITH
7 THE DEPARTMENT WHERE THAT MOVEMENT OF FUNDS HAS
8 INCURRED ANY OTHER TIME EXCEPT FOR THE CLOSE OF THE
9 FISCAL YEAR.
10 MR. BAKARE: THANK YOU.
11 THE FOLLOW-UP IS, DOES THE DEPARTMENT AT
12 ANY POINT IN TIME EVER CONSIDER MODIFYING
13 OPERATIONS, POSTPONING PROJECTS, LOOKING AT OTHER
14 WAYS TO ADJUST ITS REVENUE NEEDS? OR IS THE RATE
15 STABILIZATION FUND SORT OF THE FIRST, THE PRIMARY
16 OPTION TO MEET A REVENUE SHORTFALL? SO TO
17 CONCISELY STATE THAT, DO YOU LOOK FOR OPERATIONS
18 FIRST AND THEN TO THE FUND? OR DO YOU LOOK AT THE
19 FUND AS THE PRIMARY METHOD OF MEETING REVENUE
20 SHORTFALL?
21 HEARING OFFICER: I TAKE IT YOU MEAN BY
22 OPERATIONS, PULLING BACK ON SOME OTHER PROJECT?
23 MR. BAKARE: YES. DO YOU LOOK TO MAKE
24 OPERATIONAL ADJUSTMENTS BEFORE YOU LOOK TO THE FUND

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1 FOR WITHDRAW? OR IS THE FUND VIEWED AS A PRIMARY
2 AND PREFERENTIAL METHOD TO ADDRESS REVENUE
3 SHORTFALL BEFORE HAVING TO MAKE OPERATIONAL
4 ADJUSTMENTS?
5 MS. LABUDA: WE HAVE REGULATORY MANDATES
6 WHICH REQUIRE US TO MEET CERTAIN METRIX WHEN IT
7 COMES TO PROVIDING THE HIGHEST QUALITY DRINKING
8 WATER OR THE PROPER LEVELS OF WASTE WATER THAT WE
9 DISBURSE INTO OUR RIVERS. SO GIVEN OUR REGULATORY
10 MANDATES, IT DOES COME DOWN TO THE RSF. WE CAN
11 LOOK FORWARD OUTSIDE OF ANY ONE ISOLATED FISCAL
12 YEAR. WE DO A FORWARD LOOK AND POTENTIALLY
13 IDENTIFY SOMETHING TO DO ON THE OPERATIONAL SIDE
14 PROVIDED IT DOESN'T VIOLATE ANY OF OUR REQUIRED
15 STATE OR FEDERAL MANDATES.
16 BUT FROM A FISCAL YEAR PERSPECTIVE, IN A
17 FISCAL YEAR LOOK, IT COMES DOWN TO THE RATE
18 STABILIZATION FUND BECAUSE THE FISCAL YEAR WILL
19 HAVE OCCURRED. WE WILL HAVE MET OUR WATER
20 MANDATES, OUR WASTE WATER MANDATES, OUR REGULATORY
21 REQUIREMENTS AND THE YEAR WILL HAVE PASSED. IN
22 MANY CASES, WE CAN'T HAVE TIME TO RETROACTIVELY
23 UNDO WORK THAT WAS ALREADY COMPLETED. THE LOOK
24 HAPPENS AT THE END OF THE FISCAL YEAR.

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1 MR. BAKARE: THANK YOU.
2 HEARING OFFICER: MR. BALLENGER.
3 MR. BALLENGER: SO LET'S, I THINK, CONTINUE
4 ON WITH SOME QUESTIONS ABOUT THE RATE STABILIZATION
5 FUND. AND MS. LABUDA, I THINK IN THE FEBRUARY 22ND
6 HEARING, AND I THINK THIS IS ALSO ADDRESSED IN YOUR
7 TESTIMONY, YOU STATED THAT THE DEPARTMENT IS USING
8 THE RESERVES TO BRIDGE FISCAL YEAR 2016 WITHOUT AN
9 INCREASE, TO MITIGATE RATE INCREASES IN 2017 AND
10 2018; IS THAT ACCURATE?
11 MS. LABUDA: YES. THAT IS CORRECT.
12 MR. BALLENGER: AS YOU KNOW, IN MR.
13 MORGAN'S TESTIMONY, WE LOOKED AT THE HISTORY, THE
14 RECENT HISTORY OF WHAT'S HAPPENED WITH THE RATE
15 STABILIZATION FUND AND CONCLUDED THAT THE
16 PROJECTIONS DON'T ALWAYS MATCH NEATLY. ARE YOU, I
17 KNOW YOU ARE RELATIVELY NEW TO THE WATER
18 DEPARTMENT. BUT HAVE YOU, ARE YOU FAMILIAR WITH
19 THE RATE STABILIZATION FUND BALANCES FOR YEARS
20 PRECEDING THE HISTORICAL REVIEW THAT WAS PRESENTED
21 IN RESPONSE TO PA-EXE 103 WHICH I THINK GOES FROM
22 2012 THROUGH 2015?
23 MS. LABUDA: WHAT WAS THE REFERENCE?
24 MR. BALLENGER: PA-EXE 103. AND I HAVE IT

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1 IN, HERE IS ONE WHERE I ACTUALLY, I MANAGED TO PUT
2 IT INTO PUBLIC ADJUSTER HEARING EXHIBIT 1, PAGES
3 14, 15 AND 16 AND 17 ARE THE RESPONSES FROM THE
4 DEPARTMENT TO PA-EXE 103 WAS A SCHEDULE OF THE
5 FINANCIAL PLAN FROM THE LAST RATE CASE.
6 MS. LABUDA: CAN I HAVE THE EXHIBIT NUMBER,
7 PLEASE?
8 MR. BALLENGER: HEARING EXHIBIT 14, 15, 16,
9 17.
10 MS. LABUDA: YES, I AM FAMILIAR WITH THE
11 BREAKDOWN COMPLETED BY -- MELISSA LABUDA. I AM
12 FAMILIAR WITH THE RATE CASE BRINGDOWN FROM THE
13 FINANCIAL PLAN COMPLETED DURING THE PRIOR
14 PROCEEDING.
15 MR. BALLENGER: ARE YOU FAMILIAR WITH THE
16 SIMILAR FIGURES FROM THE YEARS BEFORE 2012?
17 MS. LABUDA: I AM FAMILIAR, THOUGH I CANNOT
18 CITE THE BALANCES WITH THE FIGURES.
19 MR. BALLENGER: I CAN'T EITHER.
20 MS. LABUDA: OKAY.
21 MR. BALLENGER: BUT WOULD IT BE, I BELIEVE
22 YOUR STATEMENT HAS BEEN THAT YOU HAVE HISTORICALLY
23 OUTPERFORMED. SO WOULD IT BE REASONABLE TO EXPECT
24 THAT THE AMOUNTS IN THE RATE STABILIZATION FUND

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1 HAVE, ON A GENERAL BASIS, EXCEEDED THE AMOUNTS THAT
2 YOU HAVE PROJECTED IN RATE CASES IN THE PAST?
3 MS. LABUDA: HISTORICALLY, THE DEPARTMENT
4 HAS OUTPERFORMED. AND I HAVE SPENT A LOT OF TIME
5 RECONFIGURING HOW THE DEPARTMENT HAS PROVIDED
6 PROJECTIONS IN THIS RATE PROCEEDING AND WORKED VERY
7 HARD AT REFINING THOSE PROJECTIONS, UTILIZING THE
8 CITY'S FIVE-YEAR PLAN WHICH IS A MATERIAL SHIFT IN
9 PRIOR PROCEEDINGS. SO YES, I AM AWARE OF THE
10 OUTPERFORMANCE. AND THAT OUTPERFORMANCE WENT INTO
11 THE RSF. AND YES, THE BALANCES ARE GREATER THAN WE
12 PROJECTED. AND I HAVE ALSO WORKED VERY HARD WITH
13 THE TEAM AT THIS TABLE TO CHANGE PROJECTIONS GOING
14 FORWARD.
15 MR. BALLENGER: I BELIEVE ALL OF THE
16 FIGURES ARE HERE FOR US, OR AT LEAST I THINK WE CAN
17 PUT THEM TOGETHER IF WE REALLY HAD TO. BUT I THINK
18 THE BASIC NUMBERS ARE AVAILABLE. I JUST WOULD ASK
19 AT THE TIME OF THE LAST RATE CASE SETTLEMENT, JUST
20 TO GET IT ON THE RECORD, ISN'T IT CORRECT THAT THE
21 DEPARTMENT PROJECTED THE RATE STABILIZATION FUND
22 BALANCE WOULD BE ABOUT \$74 AND-A-HALF MILLION AT
23 THE END OF FISCAL YEAR 2015?
24 MR. DASENT: WHERE ARE YOU REFERRING TO?

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1 MR. BALLENGER: IT'S ACTUALLY ATTACHED TO
2 MS. LABUDA'S TESTIMONY AS ML 6.
3 MS. LABUDA: YES, AND IT'S ALSO AN EXE.
4 HEARING OFFICER: CAN YOU TAKE A SUBJECT TO
5 CHECK?
6 MR. BALLENGER: SURE.
7 HEARING OFFICER: I'M ASKING HER.
8 MS. LABUDA: SUBJECT TO CHECK, THE NUMBER
9 IS APPROXIMATELY \$70 MILLION.
10 MR. BALLENGER: AT THE END OF FISCAL YEAR
11 2015, ACCORDING TO YOUR AUDITED OFFICIAL
12 STATEMENTS, YOU ACTUALLY HAD OVER \$206 MILLION IN
13 THE RATE STABILIZATION FUND; RIGHT?
14 MS. LABUDA: CORRECT.
15 MR. BALLENGER: FLIPPING BACK TO PAGE, I
16 GUESS WE CAN GO WITH PAGE 14 OF THE PUBLIC ADVOCATE
17 HEARING EXHIBIT 1. LINE 12 OF THE BRINGDOWN OF THE
18 2013 RATE CASE.
19 HEARING OFFICER: HOLD ON. PAGE 14?
20 MR. BALLENGER: YES, PAGE 14.
21 HEARING OFFICER: THANK YOU.
22 MR. BALLENGER: BASED ON THIS EXHIBIT, FOR
23 FISCAL YEAR 2012, IN THE SETTLEMENT, AND THIS IS
24 SHOWN IN ROW 12, TRANSFERRED FROM/TO RATE

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1 STABILIZATION FUND. IN 2012, THE DEPARTMENT WAS
2 PROJECTING THAT IT WOULD TRANSFER \$14,435,000 FROM
3 THE RATE STABILIZATION FUND TO THE REVENUE FUND.
4 IS THAT CORRECT?
5 MS. LABUDA: IT'S CORRECT. YES. CORRECT.
6 MR. BALLENGER: GOING ACROSS FOUR ROWS TO
7 THE COLUMN UNDER ACTUAL RESULTS FOR 2012. IT SHOWS
8 THAT WHAT ACTUALLY HAPPENED WAS THE DEPARTMENT
9 TRANSFERRED \$8,526,000 FROM THE REVENUE FUND THE
10 RATE STABILIZATION FUND; CORRECT?
11 MS. LABUDA: THAT IS CORRECT. AND WE HAVE
12 DOCUMENTED THE REASONS IN THE FINANCIAL PLAN ON
13 PAGE 17, WHICH IS WHY I KEEP STRESSING WE HAVE
14 CHANGED HOW OUR METHODOLOGY AND PROJECTIONS ON WHY
15 THE DEPARTMENT OUTPERFORMED DURING THE PRIOR
16 PROCEEDINGS AND THE MAIN DRIVERS FOR THAT
17 OUTPERFORMANCE. SO YES, WE DID OUTPERFORM
18 PREDOMINANTLY DUE TO PROJECTIONS RELATED TO PENSION
19 PAYMENTS AND HEALTHCARE COSTS ALSO ASSOCIATED WITH
20 LIQUIDATED ENCUMBRANCE. AND WE WORKED REALLY HARD
21 IN OUR PROJECTIONS IN THIS PROCEEDING.
22 MR. BALLENGER: AGAIN, GOING OVER FOUR
23 COLUMNS. JUST TO FOLLOW UP THE MATH HERE. THE SUM
24 OF THOSE TWO FIGURING THE \$18,435,000 AND THE

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1 \$8,526,000. WHEN ADDED TOGETHER, THAT PRODUCES THE
2 \$22,961,000 SHOWN UNDER THE COLUMNS WITH THE
3 HEADING DIFFERENCE FOR 2012; CORRECT?
4 MS. LABUDA: CORRECT.
5 MR. BALLENGER: YOU ARE AWARE, I ASSUME YOU
6 ARE AWARE BECAUSE IT WAS ATTACHED TO YOUR
7 TESTIMONY, THAT THAT PROJECTION, THAT \$14 MILLION
8 WOULD BE TAKEN FROM THE REVENUE ACCOUNT TO THE RATE
9 -- I'M SORRY, FROM THE RATE STABILIZATION FUND TO
10 THE REVENUE FUND, THAT THAT WAS MADE AT THE TIME OF
11 THE SETTLEMENT OF THE LAST RATE CASE? THAT WAS
12 APPROXIMATELY AUGUST, 2012.
13 MS. LABUDA: I'M NOT -- I WASN'T HERE AT
14 THAT TIME. SO I'M NOT SURE WHAT THE QUESTION IS,
15 BUT I'M DEFINITELY NOT FAMILIAR WITH THE TIMING.
16 AND I LOOK TO MY COUNSEL TO HELP BRIDGE.
17 MR. DASENT: IF YOU DON'T KNOW, THAT'S THE
18 ANSWER.
19 MS. LABUDA: I DON'T KNOW.
20 MR. BALLENGER: WE HAVE ESTABLISHED THAT
21 WAS THE PAGE THAT WAS ATTACHED TO YOUR TESTIMONY?
22 MS. LABUDA: CORRECT.
23 MR. BALLENGER: YOU DON'T KNOW WHEN IT WAS
24 PRODUCED?

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1 MR. DASENT: AS WE STATED EARLIER, THE BLACK
2 AND VEATCH HELPED PUT THIS TABLE TOGETHER.
3 MR. BALLENGER: I AM TALKING ABOUT EXHIBIT
4 ML 6 TO THE WATER DEPARTMENT'S STATEMENT 2. SO IT
5 WAS AN EXHIBIT TO YOUR TESTIMONY.
6 MS. LABUDA: YES. IT'S CORRECT. ML 6 IS
7 THE SETTLEMENT. IT IS THE FORMALLY WHAT WE CALLED
8 TABLE 11 OR TABLE 12. AND IT SHOWS THE COVERAGE
9 AND METRIX FROM THE PRIOR RATE PROCEEDING. I
10 CANNOT CITE TO THE SPECIFIC PROJECTION DATE.
11 MR. BALLENGER: WHEN IT WAS PRODUCED?
12 OKAY.
13 DO YOU SEE ON THE BOTTOM OF THAT PAGE, THE
14 BOTTOM RIGHT-HAND CORNER OF ML 6, THAT THERE IS A
15 DATE ON THE BOTTOM OF THE PAGE? IT SAYS AUGUST,
16 IT SAYS 8/8/2012?
17 MS. LABUDA: I SEEM TO HAVE LOST MY
18 EXHIBIT.
19 MR. BALLENGER: THIS IS EXHIBIT ML 6 TO PWD
20 STATEMENT 2.
21 HEARING OFFICER: OFF THE RECORD.
22 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
23 RECORD.)
24 HEARING OFFICER: WE HAVE BEEN REFERRING TO

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1 TABLE 11 PROJECTED REVENUE AND REVENUE REQUIREMENTS
2 ATTACHED, WHICH IS AN ATTACHMENT, ATTACHMENT B AND
3 IT'S EXCERPTED IN EXHIBIT ML 6.
4 MR. BALLENGER: I WANTED TO JUST TIE THIS
5 UP. THAT THAT EXHIBIT IS DATED 8/8/2012 BY BLACK
6 AND VEATCH CORPORATION; IS THAT CORRECT?
7 MS. LABUDA: IT APPEARS TO BE DATED 8/8,
8 BUT I CANNOT CONFER WHEN THE ASSUMPTIONS WERE DONE
9 FOR THAT ANALYSIS.
10 MS. KUMAR: WE WERE IN THAT RATE CASE AT
11 THAT TIME. SO THIS WAS FISCAL 12 AND WE WERE IN
12 THE PREVIOUS RATE CASE.
13 MR. BALLENGER: THIS WAS PRODUCED AFTER THE
14 CLOSE OF FISCAL 12.
15 MR. JAGT: BUT THAT MAY NOT, THE
16 PROJECTIONS MAY NOT REFLECT THE END OF YEAR
17 FINANCIALS AT THAT POINT.
18 HEARING OFFICER: OFF THE RECORD.
19 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
20 RECORD.)
21 HEARING OFFICER: GO BACK ON THE RECORD.
22 MS. LABUDA: SO IF I MAY JUST GIVE YOU A
23 LITTLE SENSE OF THE TIMING OF CLOSE OF BOOKS. SO
24 THE CITY'S FISCAL YEAR ENDS ON JUNE 30TH. HOWEVER,

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1 THE MATHEMATICAL CALCULATIONS THAT COMMENCE THAT
2 DRIVES OUR BUDGETARY OR OUR LEGAL BASIS, FINANCIAL
3 STATEMENTS AND OUR GAAP STATEMENTS, THOSE ANALYSES
4 AND MATHEMATICAL CALCULATIONS DON'T OCCUR UNTIL
5 OCTOBER FOR A BUDGETARY BASIS, AND IT'S POST
6 OCTOBER 15TH. AND THEN ON A GAAP BASIS, WE DON'T
7 HAVE FINAL NUMBERS FOR GAAP ACCOUNTING UNTIL
8 SOMETIME IN JANUARY. SO IT IS POSSIBLE, EVEN
9 THOUGH I WASN'T HERE GIVING WHAT I KNOW OF THE
10 CITY'S TIMING, THAT WE HADN'T DONE THE CALCULATIONS
11 TO CLOSE THE BOOKS AS OF JUNE 30TH.

12 MR. BALLENGER: HAVING INCLUDED IN PUBLIC
13 ADVOCATE HEARING EXHIBIT 1, PAGES 18 AND 19. TWO
14 PAGES FROM THE BOND ISSUE FROM THE DEPARTMENT.
15 IT'S DATED AT THE BOTTOM OF PAGE 18, OCTOBER 24TH,
16 2012. AND THE FOLLOWING PAGE IS TAKEN FROM THE
17 ENGINEERING REPORT THAT IS ENCLOSED, THAT IS
18 ATTACHED TO THE OFFICIAL STATEMENT. AND THAT IS
19 DATED BLACK AND VEATCH CORPORATION, OCTOBER 9TH,
20 2012. DO YOU SEE THAT?

21 MS. LABUDA: YES.

22 MR. BALLENGER: I WANTED TO DRAW YOUR
23 ATTENTION AGAIN TO LINE 12 WHERE IT SAYS, TRANSFER
24 FROM (TO RATE STABILIZATION FUND) AND UNDER THE

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1 THIS WAS RELATIVELY CONSERVATIVE TO THE DATA AT THE
2 TIME OR NOT, IF THERE WASN'T AVAILABLE DATA TO
3 IMPROVE THE POSITION WITHOUT HAVING SECURED
4 DOCUMENTATION FOR IT, WE WOULD NOT HAVE REFLECTED
5 IT IN THE REPORT.

6 MS. KUMAR: YOU CAN SEE FROM THE TIMING
7 WHEN WE WERE TALKING, THIS IS REALLY JUST THE
8 SECOND QUARTER. IF YOU ARE LOOKING AT AUGUST,
9 THAT'S THE FIRST QUARTER OF 2012. OCTOBER, YOU ARE
10 TALKING JUST THE BEGINNING OF SECOND QUARTER OF
11 2012. THE PROJECTIONS ARE ALL FISCAL YEAR 2012.
12 SO THERE IS NO WAY WE CAN HAVE ANY INFORMATION AS
13 TO WHAT THE TRUE NUMBERS WOULD BE WHICH WILL OCCUR
14 AT THE END OF FISCAL 12 WHICH IS RIGHT IN THE
15 BEGINNING OF FISCAL 12. THAT'S WHY THAT WAS THE
16 PROJECTION AT THAT POINT IN TIME BASED ON THE DATA
17 AVAILABLE AT THAT POINT IN TIME.

18 MR. BALLENGER: I'D LIKE TO JUST ASK A
19 COUPLE MORE QUESTIONS ABOUT THE RESPOND TO PA-EXE
20 103 WHICH I THINK WE CAN STAY ON PAGE 17 OF THE
21 PUBLIC ADVOCATE HEARING EXHIBIT 1. AND WE HAVE
22 TALKED ABOUT, I'M LOOKING AT THE FOUR COLUMNS UNDER
23 THE HEADING, IMPACT TO RSF WHICH I TAKE TO BE
24 IMPACT TO RATE STABILIZATION FUND. WE HAVE TALKED

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1 COLUMN FOR 2012, IT APPEARS TO REPORT A \$14,435,000
2 TRANSFER FROM THE RATE STABILIZATION FUND TO THE
3 REVENUE FUND. DO YOU SEE THAT?

4 MS. LABUDA: YES, THAT APPEARS TO BE THE
5 SAME METRIX CITED IN THE TABLE ML 6, LINE 12.

6 MR. BALLENGER: SO BASED ON YOUR
7 EXPLANATION OF TIMING, THIS PROJECTION THAT WAS
8 MADE IN OCTOBER AND THE PROJECTION THAT WAS MADE IN
9 AUGUST, BOTH OF THEM ASSUMED THE SAME AMOUNT WHICH
10 WOULD BE REQUIRED FROM THE RATE STABILIZATION FUND
11 TO BE TRANSFERRED INTO THE REVENUE FUND?

12 MS. LABUDA: YES, AND I WOULD CAUTION AGAIN
13 BACK TO THE OCTOBER 9TH DATE THAT GIVEN WHAT I KNOW
14 OF MY TIME WITH THE CITY AND CITING THE OCTOBER
15 15TH DATE A FEW MINUTES EARLIER, THE DEPARTMENT MAY
16 NOT HAVE KNOWN ITS YEAR-END BALANCES. BUT AGAIN, I
17 WASN'T HERE.

18 MR. JAGT: ALSO, WE SHOULD NOTE FOR THE
19 COST FEASIBILITY STUDY, WE ARE GOING TO BE
20 CONSERVATIVE IN THE PROJECTIONS BECAUSE BLACK AND
21 VEATCH IS PROVIDING A PROJECTION OF REVENUE AND
22 REVENUE REQUIREMENTS TO USE IN THE BOND MARKET OR
23 GOING TO THE BOND MARKET AND WE NEED TO BE
24 RELATIVELY CONSERVATIVE IN THE PROJECTIONS. SO IF

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1 ABOUT FISCAL 2012. AND I WANT TO TALK JUST BRIEFLY
2 ABOUT THE OTHER YEARS SHOWN HERE.

3 IN FISCAL 13, THE DEPARTMENT SHOWS HERE
4 THAT APPROXIMATELY \$39 MILLION MORE WAS, I'M
5 REFERRING TO THESE AS ADDITIONAL RATE STABILIZATION
6 FUNDS. BUT I REALIZE THAT IN DOING SO, I MAY NOT
7 BE SORT OF ON EQUAL FOOTING WITH WHAT YOU SHOW ON
8 THE FIRST PAGE. BUT YOU SHOW A TOTAL IMPACT OF \$39
9 MILLION IN THE ADDITIONAL FUNDS OF THE RATE
10 STABILIZATION FUND THAN WHAT YOU PROJECTED; IS THAT
11 CORRECT?

12 MR. JAGT: CORRECT.

13 MR. BALLENGER: THE SAME IN 2014, YOU SHOW
14 OVER \$43 MILLION IN ADDITIONAL FUNDS IN THE RATE
15 STABILIZATION FUND IN EXCESS OF YOUR PROJECTIONS;
16 RIGHT?

17 MR. JAGT: THAT'S CORRECT.

18 MR. BALLENGER: IN 2015, YOU SHOW \$25
19 MILLION ADDITIONAL FUNDS IN THE RATE STABILIZATION
20 FUND BEYOND YOUR PROJECTIONS? ROUND NUMBERS?

21 MR. JAGT: THAT'S CORRECT.

22 HEARING OFFICER: ARE YOU READING THIS OFF
23 THE CHART?

24 MR. BALLENGER: YES. I'M ON PAGE 17,

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1 IMPACT TO RATE STABILIZATION FUND. THE LINE THAT
2 IS NOT NUMBERED WHICH SAYS TOTAL IMPACT. I'M JUST
3 GOING ACROSS THAT ROW ON THE BOTTOM.
4 HEARING OFFICER: ARE WE TALKING ABOUT THE
5 FAR RIGHT BOX?
6 MR. BALLENGER: YES.
7 HEARING OFFICER: THANK YOU.
8 MR. BALLENGER: AND SO THIS WAS DURING THE
9 THREE FISCAL YEARS IN WHICH THE DEPARTMENT
10 IMPLEMENTED AN APPROXIMATELY \$140 MILLION RATE
11 INCREASE; CORRECT?
12 MR. JAGT: CORRECT.
13 MR. BALLENGER: IF I ADD THOSE THREE YEARS
14 TOGETHER, THE IMPACT TOTAL IMPACT OF THE RATE
15 STABILIZATION FUND FOR FISCAL 13, 14 AND 15, I COME
16 UP WITH ABOUT \$107 MILLION, A LITTLE BIT MORE; IS
17 THAT ALSO CORRECT?
18 MR. JAGT: CORRECT.
19 MR. BALLENGER: ON A PERCENTAGE BASIS, \$107
20 MILLION IS ABOUT 77 PERCENT OF \$140 MILLION; IS
21 THAT CORRECT?
22 MS. LABUDA: I CAN'T DO MATH IN MY HEAD.
23 BUT I WILL ACKNOWLEDGE THAT THE DEPARTMENTS
24 OUTPERFORMED ITS PROJECTIONS IN AREAS RELATED TO

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1 PENSIONS, HEALTHCARE COSTS AND LIQUIDATED
2 ENCUMBRANCES. AND WE CHANGED OUR PROJECTIONS GOING
3 FORWARD. THE REASON WE WERE ABLE TO BRIDGE FISCAL
4 YEAR 16 WITHOUT A RATE INCREASE IS WE ARE USING THE
5 FUNDS THAT ARE IN THE DEPOSIT ON THE RSF TO BRIDGE
6 OUR STRUCTURAL DEFICIT. SO YES, WE OUTPERFORMED
7 AND YES, WE CHANGED OUR PROJECTIONS GOING FORWARD.
8 WE ARE NOW USING THE CITY'S FIVE-YEAR PLAN
9 PROJECTIONS FOR PENSIONS AND HEALTHCARE.
10 HEARING OFFICER: ARE ANY OF THE FISCAL
11 YEARS ON THIS PAGE ON THE NEW SYSTEM?
12 MS. LABUDA: NO.
13 MR. JAGT: AGAIN, THIS WAS PART OF WHAT WAS
14 REVIEWED AS PART OF THE ANALYSIS OF WORKING
15 TOGETHER TO IMPROVE THE PROJECTIONS. AS MISSY
16 IDENTIFIED, THE TOTAL O&M EXPENSE WAS, IT WAS
17 CONSERVATIVELY PROJECTED FOR FRINGES. AT THE TIME,
18 THE FRINGES WERE AT, RIGHT BEFORE THE RATE CASE,
19 FRINGES WERE AT 105 PERCENT IN THE BUDGET. SO THE
20 ACTUAL BUDGET FACTOR TOOK THE FRINGES AND BUMPED IT
21 UP TO 105 PERCENT. THIS TIME, ALSO FRINGES WERE
22 PROJECTED IN A TOTAL LUMP SUM. ALL THREE EXPENSES
23 WITHIN FRINGES WERE ADDED UP TOGETHER.
24 SO WE HAD PENSION, THE PENSION OBLIGATION

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1 BONDS AND THE BENEFITS. THOSE COSTS FOR THIS RATE
2 CASE HAVE BEEN BROKEN UP BETWEEN THE THREE
3 COMPONENTS TO IMPROVE THE ACCURACY OF THE
4 PROJECTION. WE ALSO TIED ALL OF THOSE PROJECTIONS
5 AND THE COSTS TO THE FIVE-YEAR PLAN TO ENSURE THAT
6 WE WERE USING THE CITY PROJECTIONS, NOT MAKING AN
7 ADJUSTMENT AT THE TIME FOR THE ACTUAL FACTOR BUT
8 RELYING ON THE CITY'S ANALYSIS FOR THE PROJECTION.
9 ALSO, YOU ARE LOOKING AT LIQUIDATED
10 ENCUMBRANCES IS A SIGNIFICANT CONTRIBUTOR TO THE
11 BALANCE THAT WENT INTO THE RATE STABILIZATION
12 FUND. AND THESE WERE ONE-TIME EVENTS AND CHANGE IN
13 POLICY THAT, CHANGE IN POLICY AFTER THE RATE CASE
14 THAT WROTE OFF OBLIGATIONS AND RESULTED IN NET
15 REVENUES TO THE CITY WHICH IMPROVED TO THE BALANCE
16 OF MORE THAN, OVER THE PERIOD WE ARE LOOKING AT, IT
17 CONTRIBUTED CLOSE TO \$28 MILLION TO THAT BALANCE.
18 MR. BALLENGER: I'M SORRY. COULD YOU SAY
19 THAT AGAIN? WHAT CONTRIBUTED \$28 MILLION?
20 MS. LABUDA: WHAT DAVE WAS CITING IS ALSO
21 IN FINANCIAL PLAN WHICH WAS PWD EXHIBIT 2. SOMEONE
22 CORRECT ME IF I HAVE THAT WRONG. ON PAGE 17 WHERE
23 WE CITE THAT THE LIQUIDATED ENCUMBRANCES, THE
24 LIQUIDATING OBLIGATIONS THAT WERE LONG-STANDING HAD

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1 A ONE-TIME EVENT. AND IT HAD OUR PROJECTIONS OFF
2 BY \$28 MILLION. PAGE 17 OF THE DOCUMENT YOU ARE
3 OPENING, PWD EXHIBIT 2.
4 MR. BALLENGER: I AM WORKING MY WAY THERE.
5 I TRIED NOT TO CARRY THIS ENTIRE OVER.
6 HEARING OFFICER: OFF THE RECORD.
7 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
8 RECORD.)
9 HEARING OFFICER: GO BACK ON THE RECORD.
10 MR. BALLENGER: MR. JAGT, YOU SAID THAT YOU
11 HAD, YOU HAD IMPROVED, I BELIEVE THE STATEMENT YOU
12 MADE WAS THAT YOU HAD IMPROVED THE ACCURACY OF THE
13 PROJECTIONS. WILL WE KNOW FOR SURE HOW ACCURATE
14 THE PROJECTIONS ARE BEFORE THIS RATE CASE IS
15 RESOLVED?
16 MS. LABUDA: THIS IS A DIFFICULT QUESTION
17 NOT BECAUSE -- ONE OF THE BIGGEST DRIVERS OF THE
18 CITY'S OVERALL COST RELATES TO THE PENSION SYSTEM.
19 SO WHILE THE PENSION SYSTEM AND THE PENSION
20 PROJECTIONS WE UTILIZE FOR THIS PLAN WE BELIEVE IN,
21 THEY DO NOT YET CAPTURE THE PENSION FUND'S
22 PERFORMANCE IN FISCAL YEAR 15 WHICH I BELIEVE WAS
23 AROUND THE ONE PERCENT RATE OF RETURN VERSUS A
24 TARGETED RATE OF RETURN OF 7.75 PERCENT. SO THE

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1 DIFFERENTIAL BETWEEN 1 PERCENT AND 7.75 PERCENT
2 WILL BE AMORTIZED AND CHANGE THE COST WE HAVE
3 UTILIZED IN OUR PENSION ASSUMPTIONS AND THOSE
4 NUMBERS WILL COME OUT IN OCTOBER.
5 SO YES, I BELIEVE WE USED SOUND PROJECTIONS
6 BASED ON REASONABLE INFORMATION WE HAD, BUT WE KNOW
7 THE NUMBERS ON PENSIONS ARE CHANGING IN OCTOBER.
8 AND BASED ON THE PENSION FUND PERFORMANCE, I DON'T
9 BELIEVE THEY ARE GOING ANYWHERE BUT UP.
10 MR. BALLENGER: SO I HEAR YOU AND I GUESS
11 I'M JUST ASKING SORT OF PHILOSOPHICALLY. HOW CAN
12 WE DETERMINE THE ACCURACY OF YOUR PROJECTIONS WHEN
13 THEY HAVE NOT YET, WE DO NOT YET HAVE ACTUAL
14 NUMBERS TO TEST THEM AGAINST? I THINK LET ME ASK
15 IT AS A YES OR NO QUESTION. AM I CORRECT THAT WE
16 WILL NOT KNOW HOW ACCURATE YOUR PROJECTIONS ARE
17 UNTIL SOMETIME LONG AFTER WE HAVE MADE A DECISION,
18 THE BOARD HAS MADE A DECISION IN THIS RATE
19 PROCEEDING?
20 MR. DASENT: OBJECTION. ARGUMENTATIVE.
21 MR. BALLENGER: IT'S A YES OR NO QUESTION.
22 MR. DASENT: ARGUMENTATIVE.
23 HEARING OFFICER: LET'S TAKE OUT THE "LONG
24 AFTER".

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1 MR. BALLENGER: IMMEDIATELY AFTER.
2 HEARING OFFICER: CAN YOU ANSWER WHEN WE
3 TAKE OUT THE DESCRIPTION OF THE LENGTH OF TIME?
4 ACTUALLY, I THINK THE RECORD ALREADY SHOWS THE
5 ANSWER IS YES, SO LET'S NOT BELABOR IT.
6 MR. BALLENGER: OKAY. THANK YOU. LET ME
7 CONFER WITH MY CO-COUNSEL FOR ONE MOMENT.
8 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
9 RECORD.)
10 HEARING OFFICER: MR. BALLENGER, GO AHEAD.
11 MR. BALLENGER: THANK YOU. I JUST HAD A
12 COUPLE OF ADDITIONAL SORT OF LOOSE-END QUESTIONS.
13 WE SPENT A LOT OF TIME GOING OVER ASSUMPTIONS,
14 BUDGET FACTORS AND GROWTH FACTORS. AND WE COULD
15 SPEND MORE TIME ON IT, BUT I THINK WE PROBABLY HAVE
16 SPENT ENOUGH ON THE SPECIFICS. SO I WANTED TO JUST
17 TALK A LITTLE BIT IN GENERALITIES.
18 EARLIER, I THINK PRABHA, YOU MENTIONED THE
19 FACT THAT WE HAD A CONFERENCE CALL ON DECEMBER
20 10TH, I BELIEVE, 2015?
21 MS. KUMAR: THE WORKSHOP WE HAD.
22 MR. BALLENGER: WAS IT A TWO-HOUR
23 CONFERENCE CALL?
24 MS. KUMAR: YES.

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1 MS. LABUDA: YES.
2 MR. BALLENGER: YOU AGREE THAT THE GOAL OF
3 THAT CALL WAS TO AGREE UPON THE APPROPRIATE
4 METHODOLOGY TO SET BUDGET AND GROWTH FACTORS? DO
5 YOU AGREE TO THAT?
6 MR. DASENT: OBJECTION. THAT ACTUALLY
7 WASN'T THE PREMISE OF HAVING THAT CALL. IT WAS TO
8 ACQUAINT YOU WITH THE RATE FILING ASSUMPTIONS SO
9 THERE WOULD BE NO SURPRISES LATER AND HAVE AN
10 EXCHANGE OF IDEAS BECAUSE IT REFLECTED IN PART
11 HISTORICALLY THINGS THAT MIKE BLEIWEIS WHO WAS YOUR
12 FORMER WITNESS TESTIFIED TO IN THE PAST.
13 HEARING OFFICER: MAY I ALSO INQUIRE WHETHER
14 THERE IS ANY RELEVANCE TO THIS? DOES IT MATTER IF
15 YOU AND THEY DISAGREE?
16 MR. BALLENGER: I WAS GOING TO REFERENCE
17 PUBLIC ADVOCATE HEARING EXHIBIT 2 WHICH WAS THE
18 SETTLEMENT AGREEMENT ENTERED INTO IN THE LAST RATE
19 PROCEEDING. AND THE VERY SPECIFIC LANGUAGE ON PAGE
20 5 OF THAT EXHIBIT UNDER THE HEADING BUDGET AND
21 GROWTH FACTORS WORKSHOP STATES QUITE CLEARLY,
22 BEFORE PROPOSING THE IMPLEMENTATION OF PERMANENT
23 NEW RATES, USING A RATE SETTING METHODOLOGY THAT
24 PROJECTS THE DEPARTMENT'S REVENUE REQUIREMENT OVER

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1 A PERIOD LONGER THAN ONE SINGLE FISCAL YEAR, THE
2 DEPARTMENT SHALL CONVENE A COLLABORATIVE WORKSHOP
3 WITH COMMUNITY LEGAL SERVICES AND THE RESPECTIVE
4 DEPARTMENT AND CLS EXPERTS WITH THE GOAL OF
5 AGREEING UPON AN APPROPRIATE METHODOLOGY TO SET
6 BUDGET AND GROWTH FACTORS FOR USE IN ITS RATE
7 FILING.
8 MR. DASENT: ONCE AGAIN, THE EXHIBITS FOR
9 ITSELF.
10 MR. BALLENGER: IT SPEAKS FOR ITSELF. I
11 UNDERSTAND.
12 MR. DASENT: WE ARE RETRYING THE LAST RATE
13 CASE APPARENTLY.
14 HEARING OFFICER: MR. DASENT, NO, I DON'T
15 THINK WE ARE. I THINK WHAT HE IS TRYING TO SET UP
16 IS THAT THE DEPARTMENT PROMISED IT WOULD GIVE A
17 WORKSHOP, AND HE IS CLAIMING THAT YOU DIDN'T GIVE A
18 WORKSHOP, IF I UNDERSTAND THE POINT HERE.
19 MR. BALLENGER: I WAS GOING TO ASK SOME
20 QUESTIONS TO THAT EFFECT. BUT MADAM HEARING
21 OFFICER, THAT IS SORT OF ONE OF THE ISSUES HERE.
22 AND I JUST, I THINK WE HAVE SPENT A LOT OF TIME
23 TALKING ABOUT THESE UNDERLYING ASSUMPTIONS. AND
24 ONE OF THE GOALS WAS TO NOT SPEND QUITE AS MUCH

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1 TIME DOING THAT. AND SO I HAD SOME ADDITIONAL
2 QUESTIONS TO THAT END.
3 HEARING OFFICER: IF YOU WILL PUT
4 INFORMATION ON THE RECORD THAT WILL HELP THE BOARD
5 MAKE A DECISION IN THIS CASE, THAT'S FINE.
6 MR. BALLENGER: THAT'S FINE. I THINK THAT
7 WE DON'T NEED TO BELABOR THE POINT. I THINK WE
8 HAVE GOTTEN, I THINK THE DEPARTMENT UNDERSTANDS THE
9 NATURE OF THE ISSUE MAYBE IN A WAY THEY DIDN'T
10 BEFORE. SO WITH THAT, I THINK I HAVE CONCLUDED MY
11 CROSS-EXAMINATION FOR THE TIME BEING.
12 HEARING OFFICER: IT IS 3:30. WE'LL GO OFF
13 THE RECORD.
14 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
15 RECORD.)
16 HEARING OFFICER: BACK ON THE RECORD.
17 BEFORE WE HAVE REDIRECT, I JUST HAVE A COUPLE MORE
18 QUESTIONS FOR THE DEPARTMENT.
19 I CHARACTERIZE WHAT I THOUGHT MR. BALLENGER
20 WAS TRYING TO GET AT. MY QUESTION TO YOU ALL IS,
21 DID YOU HAVE SUCH WORKSHOP? DID YOU TRY TO AGREE
22 WITH THEM ABOUT THESE FACTORS?
23 MR. DASENT: WE HAD A CONFERENCE CALL SOME
24 MONTHS AGO BEFORE THE RATE FILING, AND WE HAD WHAT

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1 WE BELIEVE WAS AN EXCHANGE OF IDEAS. BUT MOST
2 IMPORTANTLY, MEMORIALIZED IN THE VARIOUS CHANGES
3 THAT ARE MADE IN THE FILING WERE THINGS THAT MIKE
4 BLEIWEIS, THEIR CONSULTANT HAD SUGGESTED IN THE
5 LAST CASE. USE OF AVERAGES, THINGS OF THAT
6 NATURE. WE SHARED THAT WITH THEM. WE HAD A
7 DISCUSSION. IT WENT ON FOUR TWO HOURS. WE THOUGHT
8 WE HAD MET OUR OBLIGATION.
9 HEARING OFFICER: IS THAT THE SAME
10 CONVERSATION YOU JUST A MINUTE AGO DESCRIBED AS
11 MOSTLY YOU PRESENTING TO THEM WHAT YOUR --
12 MR. DASENT: WE SHARED WITH THEM, YES, THE
13 VARIOUS RATE FILING ASSUMPTIONS SHOWING THEM, IN
14 ESSENCE, THAT WE WERE RECOGNIZING SOME OF THE
15 RECOMMENDATIONS THAT WERE MADE IN THE LAST CASE.
16 AND WE SHARED THE EXHIBIT 5, PWD EXHIBIT 5 AND WE
17 WALKED THEM THROUGH IT.
18 HEARING OFFICER: WHAT I'M TRYING TO GET AT
19 IS WHETHER OR NOT YOU FULFILLED THE OBLIGATION THAT
20 YOU AGREED TO IN THE LAST RATE CASE WITH RESPECT TO
21 THE NEGOTIATING WITH THEM -- NOT NEGOTIATING SO
22 MUCH BUT WORKING TOGETHER TO TRY TO COME UP WITH A
23 COMMON SET OF THESE FACTORS.
24 MR. DASENT: BECAUSE WE ADOPTED SOME OF

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1 THEIR FACTORS THAT THEY SAID IN THE LAST CASE WERE
2 APPROPRIATE, WE THOUGHT WE HAD AND WE MADE A NUMBER
3 OF OTHER CONCESSIONS THROUGH THE MANAGEMENT AUDIT,
4 THROUGH OTHER THINGS WE WENT THROUGH BETWEEN THE
5 RATE CASE, THE LAST SETTLEMENT AND THE FILING THAT
6 SUGGESTED TO US THAT WE HAD MOVED IN THEIR
7 DIRECTION. WE HAD GIVEN THEM BETTER DATA. WE HAD
8 GIVEN THEM OUR ASSUMPTIONS AHEAD OF TIME. WE HAD
9 NOT DONE THAT BEFORE. THE CONFERENCE CALL WAS TO
10 ACCOMPLISH THAT. AND WE THOUGHT WE HAD FULFILL OUR
11 OBLIGATION. IF THERE WAS TO BE MORE OF AN EXCHANGE
12 OR A FACE-TO-FACE MEETING, THAT WAS NOT SOMETHING
13 THAT WAS DISCUSSED.
14 MR. BALLENGER: MADAM HEARING OFFICER, I
15 BELIEVE THIS IS LARGELY ARGUMENT AT THIS POINT
16 BECAUSE WE ISSUED A DATA REQUEST ABOUT THIS, AND
17 MR. DASENT RESPONDED TO IT. AND WE DID NOT INTEND
18 TO CALL MR. DASENT AS A WITNESS HERE FOR THIS
19 PURPOSE. I THINK THAT WOULD POTENTIALLY POST AN
20 ETHICAL ISSUE.
21 MR. DASENT: I'M TELLING THE TRUTH.
22 HEARING OFFICER: IF A PARTY SUCH AS THE
23 PUBLIC ADVOCATE IS GOING TO WANT THE BOARD TO SAY
24 SOMETHING ABOUT WHETHER OR NOT THE TERMS OF THE

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1 LAST SETTLEMENT AGREEMENT WERE COMPLIED WITH, I
2 JUST WANTED TO MAKE SURE THAT THE RECORD WAS FULL
3 ON THAT. AND SO I THINK I HAVE HEARD FROM BOTH
4 SIDES NOW, UNLESS SOMEBODY HAS SOMETHING ELSE TO
5 SAY ABOUT IT.
6 MR. DASENT: IN OUR POSITION PAPERS, I CAN
7 I THINK WE CAN SPELL IT OUT EVEN MORE.
8 HEARING OFFICER: IS THAT ALL RIGHT, MR.
9 BALLENGER?
10 MR. BALLENGER: THAT'S FINE WITH HIM.
11 HEARING OFFICER: OFF THE RECORD.
12 (WHEREUPON, A DISCUSSION WAS HELD OFF THE
13 RECORD.)
14 HEARING OFFICER: BACK ON THE RECORD.
15 REDIRECT.
16 MR. DASENT: BRIEF REDIRECT.
17 MR. JAGT, YOU DISCUSSED THE RATE OF ANNUAL
18 USES DECLINED IN YOUR CROSS-EXAMINATION BY THE
19 PUBLIC ADVOCATE. YOU REFERRED TO THE DECLINE IN
20 USES IN 2012. YOU INDICATE THERE HAS NOT BEEN A
21 SIGNIFICANT DECLINE SINCE THEN. WHAT PERCENTAGE
22 DECLINE DID YOU ACTUALLY ASSUME IN THE RATE
23 FILING?
24 MR. JAGT: WE ASSUMED A ONE AND-A-HALF

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1 PERCENT DECLINE -- WE ASSUMED A 1.5 PERCENT ANNUAL
2 DECREASE TO THE AVERAGE VOLUME PER ACCOUNT FOR 5/8
3 INCH GENERAL SERVICE CUSTOMERS.
4 MR. DASENT: THE BASE FOR THAT?
5 MR. JAGT: THE BASIS OF THAT WAS THE
6 AVERAGE FIVE-YEAR CHANGE IN THE AVERAGE ANNUAL
7 CONSUMPTION OF 5/8 CUSTOMERS FROM FISCAL YEAR 2015
8 TO 2010. WE USED THE LONGER RANGE PERIOD TO ENSURE
9 THAT WE WERE AVOIDING ANNUAL FLUCTUATIONS AS A
10 RESULT OF CLIMATE CHANGES LIKE YEAR TO YEAR,
11 WHETHER IT WAS A WET YEAR OR DRY YEAR, WHETHER TO
12 REFLECT CUSTOMER USAGE PATTERN CHANGES OVER THE
13 PERIOD OF TIME. AND IT'S ALSO BASED ON EXPERIENCE
14 THE SYSTEM.
15 WHEN YOU LOOK AT THE ANNUAL AVERAGE CHANGE
16 PER YEAR, IT FLUCTUATES SO MUCH YEAR TO YEAR THAT
17 YOU CAN'T USE THE SHORTER TERM PERIOD TO LOOK AT
18 THE AVERAGE DECREASE IN THE SALES PER ACCOUNT. YOU
19 HAVE TO LOOK AT THE LONGER RANGE TERM.
20 HEARING OFFICER: THE LONGER RANGE TERM,
21 REMIND US IS HOW LONG?
22 MR. JAGT: IT'S FIVE YEARS.
23 MR. DASENT: CONCERNING THE BILLING
24 ADJUSTMENT FACTOR. YOU INDICATED YOU APPLIED THIS

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1 FACTOR HISTORICALLY IN RATE FILING. AND YOU ALSO
2 INDICATED THERE WAS A WORK PAPER REFERENCE FOR THIS
3 RATE FILING. IS THERE ANYTHING IN THE WAY OF
4 ADDITIONAL SUPPORT THAT YOU WOULD MENTION IN
5 CONNECTION WITH THE BILLING ADJUSTMENT FACTOR?
6 MR. JAGT: THE BILLING ADJUSTMENT FACTOR,
7 AS WE EXPLAINED, WE WERE VERY TRANSPARENT IN THE
8 FACT THAT WE APPLIED THE BUILDING ADJUSTMENT
9 FACTOR, A FACTOR OF SAFETY FOR THE MULTIPLE FACTORS
10 THAT ARE INVOLVED WITH THE PROJECTION OF REVENUES.
11 THERE ARE SO MANY ASSUMPTIONS THAT GO INTO THE
12 PROJECTION OF REVENUES INCLUDING THE ONE EXAMPLE
13 THAT WE BROUGHT UP OF THE AVERAGE CONSUMPTION PER
14 ACCOUNT THAT WE USE AS THE STARTING POINT.
15 IN ADDITION TO THAT, YOU HAVE THE VOLUME
16 DISTRIBUTIONS THAT ARE ASSUMED IN THE PROJECTION OF
17 REVENUES. AND ALL OF THESE THINGS REFLECT, ARE
18 BASED ON CURRENT CUSTOMER USAGE PATTERNS. TO
19 REFLECT THAT THERE IS A RISK ASSOCIATED WITH ALL OF
20 THESE, WE APPLY AN ACTUAL, AN ADJUSTMENT FACTOR TO
21 PROVIDE A LITTLE BIT OF FACTOR SAFETY WITH THE
22 PROJECTED BILLINGS. AND IT'S WITHIN, IT'S WITHIN
23 THE ONE IMPACT THAT WE ANALYZED AS AN EXAMPLE. AND
24 THAT'S THE POTENTIAL REDUCTION TO ANNUAL USAGE.

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1 THAT IF IT GOES DOWN TO THE LEVEL THAT WE HAVE
2 EXPERIENCED OVER THE PAST THREE YEARS, WE CAN
3 POTENTIALLY SEE AT LEAST A ONE OR TWO AND-A-HALF
4 MILLION DOLLAR DEDUCTION IN THE PROJECTED
5 BILLINGS.
6 HEARING OFFICER: IN WHAT?
7 MR. JAGT: IN PROJECTED BILLINGS.
8 MR. DASENT: MR. JAGT, FINALLY YOU WERE
9 CROSSED CONCERNING DEPARTMENTAL CHARGES. AND THIS
10 DOVETAILED WITH SOME OF THE RECOMMENDATIONS MR.
11 MORGAN MADE IN HIS TESTIMONY. WHAT DO
12 INTERDEPARTMENTAL CHARGES INCLUDE AND WHY IS IT
13 SIGNIFICANT?
14 MR. JAGT: IN THE EXHIBIT THAT THEY
15 PROVIDED IN THE TABLE IN THE PROJECTED IMPACT TO
16 THE TRANSFERS, IT APPEARS BASED ON OUR
17 UNDERSTANDING OF THE ANALYSIS, THAT IT WOULD
18 INCLUDE THE IMPACT OF THE CHANGE TO THE ESCALATION
19 FACTORS FOR O&M, THE CHANGE TO THE ASSUMPTIONS FOR
20 ACTUAL BUDGET FACTORS, THE ELIMINATION OF THE CSO
21 OR THE REPAYMENT TO THE GENERAL FUND FOR THE CSO
22 PROJECT. AND POSSIBLY IS THE ADDITIONAL COST FOR
23 THE PENSION AND THE BENEFITS ASSOCIATED WITH THE
24 ADDITIONAL STAFFING THAT WAS PROPOSED IN THE

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1 FILING.
2 BUT ONE OF THE KEY FACTORS IS THE
3 ELIMINATION OF THE CSO REPAYMENT. THAT'S ALREADY
4 IN AGREEMENT THAT THE WATER FUND HAS WITH THE
5 GENERAL FUND. IT'S REFLECTED IN THE FINANCIAL
6 STATEMENTS AS A COMMITMENT TO REPAY THE GENERAL
7 FUND AND IT IS A REVENUE REQUIREMENT THAT THE WATER
8 FUND WILL HAVE IN THE FINANCIAL PERIOD OR THE RATE
9 PERIOD.
10 MS. LABUDA: THE TERMS OF THE AGREEMENT
11 DON'T ALLOW US TO USE OUR CAPITAL FUND TO PAY FOR
12 ALL OF THE COST. SO WE BEGAN MAKING THIS PAYMENT
13 I'M GOING TO GUESS, FACT CHECK, BUT I BELIEVE IT
14 WAS FISCAL YEAR 14. UNFORTUNATELY, FISCAL YEAR 17
15 AND 18 PAYMENTS HAVE TO COME OUT OF WATER OPERATING
16 BECAUSE THEY DO NOT MEET THE ELIGIBILITY TO BE PAID
17 OUT OF CAPITAL. SO THOSE AMOUNTS WHICH IS 3.5
18 MILLION IN '18 AND 1.8 MILLION IN '17 IS THE
19 REIMBURSEMENT TO THE GENERAL FUND THAT WE MUST MAKE
20 OUT OF OUR REVENUE ACCOUNT AND CANNOT USE OUR
21 CAPITAL ACCOUNT.
22 MR. DASENT: THANK YOU. THAT'S ALL WE
23 HAVE.
24 HEARING OFFICER: DOES ANYONE HAVE ANY

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1 RECCROSS BASED ON REDIRECT?
2 MR. BALLENGER: I BELIEVE MS. TRAN HAS A
3 QUESTION.
4 MS. TRAN: MR. JAGT ARE YOU AWARE THAT THE
5 DEPARTMENT IS ADVISING THE 50,000 TO 60,000 HOME
6 OWNERS WITH LEAD SERVICE LINES TO RUN WATER FOR A
7 FEW MINUTES A DAY TO CLEAR OUT ANY LEAD IN THEIR
8 DRINKING WATER, ONCE IN THE MORNING AND THEN AGAIN
9 AFTER WORK OR AT THE END OF THE DAY?
10 MR. DASENT: I NEED TO OBJECT. THIS IS
11 YOUR FIRST QUESTION, BUT THAT'S BEYOND THE SCOPE OF
12 REDIRECT.
13 MS. TRAN: WE ARE TALKING ABOUT THE 1.5
14 DECREASE IN CONSUMPTION. AND AT THE SAME TIME --
15 HEARING OFFICER: I'LL ALLOW IT. LET'S NOT
16 FUSS. GO AHEAD.
17 MR. JAGT: WE'LL DEFER TO THE WATER
18 DEPARTMENT AS THAT'S A RECENT --
19 MS. TRAN: IF YOU ARE NOT AWARE, THAT'S
20 OKAY. WE MAY HAVE TO BRING THIS UP LATER.
21 MS. MCCARTY: COULD YOU REASK THE
22 QUESTION? COULD YOU REASK THE QUESTION AGAIN,
23 PLEASE?
24 MS. TRAN: SURE. THERE HAS BEEN A PROJECTED

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1 1.5 PERCENT DECREASE IN CONSUMPTION AMONG SMALL
2 USERS. BUT AT THE SAME TIME, WE ARE AWARE THAT THE
3 DEPARTMENT HAS ADVISED THE 50,000 TO 60,000 OR SO
4 HOMEOWNERS WITH LEAD SERVICE LINES TO RUN WATER, TO
5 RUN THEIR FAUCETS FOR A FEW MINUTES EVERY DAY AT
6 THE BEGINNING OF THE DAY AND AFTER WORK OR AFTER
7 SCHOOL WHEN THEY ARE HOME TO RUN WATER AGAIN FOR A
8 FEW MINUTES A DAY. THAT INDICATES A LOT OF, A
9 LITTLE MORE THAN MINIMAL INCREASE IN USAGE. HAS
10 THAT BEEN RECONCILED WITH THE 1.5 PERCENT
11 ADJUSTMENT?
12 MS. MCCARTY: WHAT I CAN TELL YOU IS
13 ACTUALLY THAT ADVICE IS NOT NEW AND IT'S REALLY NOT
14 FOR A FEW MINUTES. YOU REALLY NEED TO, WHETHER
15 LEAD SERVICE OR NOT, YOU SHOULD FLUSH YOUR LINE.
16 SO THIS IS NOT NEW. SO I WOULD SUSPECT IT'S
17 ALREADY INCLUDED IN THE CONSUMPTION NUMBERS THAT
18 B&V HAS USED. YOU SHOULD ALWAYS FLUSH YOUR LINE.
19 WE HAVE BEEN ADVISING OUR CUSTOMERS FOR YEARS TO
20 FLUSH THEIR LINE PARTICULARLY WITH THAT SERVICE.
21 IN ADDITION TO, THAT WE ADD A CHEMICAL ZINC
22 ORTHOPHOSPHATE AND TREATMENT TO COAT THE PIPE TO
23 PRODUCT OUR CUSTOMERS WHO HAVE LEAD SERVICES AND
24 LEAD SOLDER IN THEIR PLUMBING.

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1 MS. TRAN: THERE WAS A CITY COUNCIL HEARING
2 RECENTLY IN THE LAST --
3 MS. MCCARTY: I WAS THERE.
4 MS. TRAN: YOU WERE THERE. WEREN'T YOU
5 INFORMED BY AT THE CITY COUNCIL WOMAN HELEN GYM
6 AND/OR CITY COUNCIL WOMAN BASS THAT A LOT OF PEOPLE
7 ARE NOT AWARE THAT THEY EVEN HAVE LEAD SERVICE
8 LINES TO DO SUCH FLUSHING OF THEIR FAUCETS AND
9 PLUMBING?
10 MS. MCCARTY: AGAIN, IT'S NOT JUST
11 PROPERTIES THAT HAVE LEAD SERVICES. YOU SHOULD
12 FLUSH YOUR LINE TO GET FRESH WATER. I THINK MOST
13 PEOPLE DO IT, AND WE ARE NOT TALKING MINUTES. I
14 DID A CALCULATION FOR A THREE-QUARTER INCH SERVICE
15 FROM THE WATER MAIN TO 200 FEET IN WHICH IS PRETTY
16 GENEROUS AND PROBABLY AN OVER, LARGER THAN REALLY
17 IS. THAT'S TWO GALLONS OF WATER. TWO GALLONS.
18 THAT'S LESS THAN TWO SENTENCE. IT'S NOT
19 SIGNIFICANT.
20 MS. TRAN: WE CAN GET THE LANGUAGE FROM THE
21 TRANSCRIPT.
22 MS. MCCARTY: WE RECOMMEND, I'M NOT DENYING
23 THAT WE RECOMMEND CUSTOMERS FLUSH THEIR WATER. BUT
24 I WOULD THINK THAT ONE OF MY RESPONSES BECAUSE I

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1 HAVE BEEN PRETTY CONSISTENT, I BELIEVE, IS THAT
2 WHEN YOU HAVE LEAD SERVICE OR NOT, YOU SHOULD FLUSH
3 YOUR LINE. AND CUSTOMERS NATURALLY DO IT BECAUSE
4 THEY WANT COLDER WATER. AND THEY FLUSH IT TO GET
5 COLDER WATER BECAUSE THE COLDER WATER IS IN THE
6 WATER MAIN. SO IT'S A GALLON OR TWO DEPENDING UPON
7 HOW FAR AWAY YOU ARE FROM THE MAIN FOR RESIDENTIAL
8 WHO HAS, IT'S THREE QUARTER INCH TO 5/8.
9 MS. TRAN: I THINK THERE IS ENOUGH ON THAT.
10 THANK YOU.
11 HEARING OFFICER: ANY REDIRECT?
12 MR. DASENT: NOTHING.
13 HEARING OFFICER: WELL, THANK YOU VERY MUCH.
14 MR. POPOWSKY: I JUST WANT TO LET FOLKS KNOW
15 BECAUSE AFTER PRIOR ENGAGEMENT THERE THAT WAS MADE
16 LONG BEFORE, A COMMITMENT LONG BEFORE THIS HEARING
17 SCHEDULE WAS SET, I HAVE TO LEAVE THE HEARING AT
18 THE LUNCH BREAK TOMORROW AT 1:30. SO I WON'T BE
19 HERE FOR ANYTHING THAT HAPPENS AFTER 1:30. I'LL
20 READ THE TRANSCRIPT, I ASSURE YOU.
21 MS. LABUDA: THANK YOU.
22 HEARING OFFICER: WE'LL CONVENE AGAIN
23 TOMORROW AT 10:00 A.M.
24 MR. DASENT: ANOTHER ROOM, THE GLASS ROOM ON

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1 THIS FLOOR. I'LL BE HERE EARLY AND DIRECT
2 EVERYBODY.
3 HEARING OFFICER: TOMORROW MORNING IN THE
4 GLASS ROOM ON THE 18TH FLOOR. THANK YOU VERY
5 MUCH. WE ARE OFF THE RECORD.
6 (WHEREUPON, THE HEARING WAS ADJOURNED AT
7 3:55 P.M.)
8 (WHEREUPON, THE WITNESS WAS EXCUSED.)
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

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1 REPORTER'S CERTIFICATION
2
3
4 I HEREBY CERTIFY THAT THE WITNESS WAS DULY
5 SWORN BY ME AND THAT THE DEPOSITION IS A TRUE
6 RECORD OF THE TESTIMONY GIVEN BY THE WITNESS.
7
8 _____
9 SHEILA J. KLOS
10 REGISTERED PROFESSIONAL REPORTER
11 COMMISSIONER OF DEEDS
12
13 (THE FOREGOING CERTIFICATION OF THIS
14 TRANSCRIPT DOES NOT APPLY TO ANY REPRODUCTION OF
15 THE SAME BY ANY MEANS, UNLESS UNDER THE DIRECT
16 CONTROL AND/OR SUPERVISION OF THE CERTIFYING
17 REPORTER.)
18
19
20
21
22
23
24

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STREHLOW & ASSOCIATES, INC.
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