

**Philadelphia Water Department
2021 General Rate Proceeding
Rate Period: FY 2022 and FY 2023**

Water Department Proposal

Settlement Term Sheet

A. “Black Box” Settlement

This Settlement is a “black box” settlement. Under a “black box” settlement, parties do not specifically identify adjustments to projected revenues and expenses. PWD¹ believes that the “black box” concept facilitates settlement agreements because it permits parties to retain their positions on important ratemaking issues for the proceeding at hand as well as for future proceedings.

1. Table C-1A: Projected Revenue and Revenue Requirements

	Settlement Proposal		
(dollars in 1000s)	FY 2022	FY 2023	Total
Line 10	\$10,411	\$47,011	\$57,422

a. FY 2022

As shown on Line 5 (for FY 2022) in Appendix 1, the Settlement is designed to produce additional annual water, wastewater, and stormwater revenue of \$10.411 million to become effective on September 1, 2021, for FY 2022.

That agreed-upon amount is a \$38.453 million reduction from the Department’s original request of \$48.864 million in additional revenues for FY 2022.

b. FY 2023

As shown on Line 6 (for FY 2023) in Appendix 1, the Settlement is designed to produce additional incremental annual water, wastewater, and stormwater revenue of \$34.110 million to become effective on September 1, 2022, for FY 2023. As shown on Line 10 (for FY 2023) in Ap-

¹ As used herein, “PWD” means and includes the Philadelphia Water Department and/or the Philadelphia Water Revenue Bureau, as the context may require, whereas “Department” refers exclusively to the Philadelphia Water Department.

pendix 1, the Settlement is designed to produce total additional annual water, wastewater, and stormwater revenue of \$47.011 million for FY 2023.

That total amount shown on Line 10 is (a) a \$45.086 million reduction from the Department's original request of \$92.096 million in annual additional revenues in FY 2023 and (b) the FY 2023 annual incremental portion of such additional revenues (\$34.110 million) is subject to further adjustment/reconciliation, as described below.

2. Reconciliation Adjustments to FY 2023

a. Reconciliation Procedure

The agreed-upon FY 2023 approved rate increase includes incremental additional revenues of \$34.110 million ("FY 2023 Base Rate Incremental Increase"). The FY 2023 Base Rate Incremental Increase is subject to two potential adjustments related to (i) Federal Stimulus Funding; and (ii) Changes in FY 2021 Financial Performance, as described below.

The above adjustments will be addressed in a Special Rate Reconciliation Proceeding for FY 2023.

The Special Rate Reconciliation Proceeding is intended to be simple, limited to the two adjustments defined in Section 2(a)(i) and (ii), and analogous to the TAP-R Reconciliation Proceeding. By approving the Settlement, the Rate Board is agreeing (in advance) to the use of the Special Rate Reconciliation Proceeding. Both the Department and the Public Advocate will be deemed to be Participants in the Special Rate Reconciliation Proceeding without notification to the Rate Board.

The Department shall initiate the Special Rate Reconciliation Proceeding. Any adjustment or reconciliation will be implemented effective September 1, 2022. It is anticipated that the Department will commence the above-described Special Rate Reconciliation Proceeding by filing an Advance Notice on or before March 1, 2022. In the Department's sole discretion, the Special Rate Reconciliation Proceeding may or may not be presented as part of the annual TAP-R Reconciliation Proceeding. In any event, the Public Advocate and other stakeholders shall be afforded a reasonable period of time to review and conduct discovery in order to evaluate the Department's reconciliation adjustments and may submit testimony and briefs supporting the Department's requested reduction or a different reduction to the FY 2023 Base Rate Incremental Increase.

i. Reconciliation Framework (Federal Stimulus)

Subject to Section 2(a) and this subsection (i), the FY 2023 approved rate increase is subject to reduction on a dollar-for-dollar basis via a required reconciliation process analogous to the TAP-

R proceeding to reflect the impact of “Stimulus Funding” (defined below) received by PWD during the “Receipt Period” (from July 1, 2021 to December 31, 2021).

- **Definition:** “Stimulus Funding” is defined as:
 - Except as excluded by the footnote below,² amounts from (a) the U.S. Department of Health and Human Services (HHS) or Philadelphia Housing Development Corporation (PHDC) under the Consolidated Appropriations Act of 2021, enacted on December 27, 2020 (“CARES Act”)³ and (b) the American Rescue Plan Act, enacted on March 11, 2021 (“ARPA”)⁴ (collectively, the “federal legislation”), that are allocated by City Council to PWD in the FY 2022 budget and/or received directly by PWD, during the Receipt Period, in either case, that can be used to reduce operating expenses that would otherwise be paid by ratepayers.
 - During the Receipt Period, any amounts received directly by PWD for reimbursement of PWD operating expenses submitted under the CARES Act.
- **Best Efforts:** PWD will utilize its best efforts to secure Stimulus Funding.
- **Threshold Bucket:** Downward adjustment will occur, if PWD receives \$2 million or more in Stimulus Funding (“Minimum Threshold”). No adjustment will be made if less than the above Minimum Threshold is reached.
- **Adjustment, Mechanics:** Provided the Minimum Threshold is met, an across-the-board reduction to the FY 2023 Base Rate Incremental Increase will be made in an amount equal to the Stimulus Funding received.

² For this purpose, “Stimulus Funding” excludes: (i) any amounts received directly by PWD from the City, HHS, PHDC or other state or local agencies administering federal funds for infrastructure or capital projects;(ii) any amounts allocated and/or received directly by PWD customers under the federal legislation, or other state or federal action, to alleviate potential or actual financial hardship of PWD’s customers; (iii) any amounts allocated and/or received directly by PWD from Utility Emergency Services Fund (“UESF”) in connection with UESF’s locally funded programs including the Utility Grant Program, Water Conservation Housing Stabilization Program, and the Customer Assistance Program for Water; and (iv) any amounts adopted by City Council through the budget process and/or received directly by PWD, beyond the Receipt Period

³ 116 P.L. 260; 134 Stat. 1182. Section 501 of the Consolidated Appropriations Act allocates \$638 million to the U.S. Department of Health and Human Services (HHS) to carry out a Low-Income Household Drinking Water and Wastewater Emergency Assistance Program. See, e.g., 15 USC § 9058a.

⁴ Public Law No: 117-2. Section 9901 of the American Rescue Plan Act, *inter alia*, provides funds to certain governmental entities that may be used, among other things, to make necessary investments in water, sewer, or broadband infrastructure. Section 2912 of American Rescue Plan Act allocates \$500 million to the HHS to assist low-income households that pay a high proportion of household income for drinking water and wastewater services. The funds under Section 2912 of American Rescue Plan Act are in addition to the funds under Section 501 of the Consolidated Appropriations Act.

- **Maximum Adjustment:** Reconciliation under this adjustment, separately or in combination with other adjustments, cannot lower the FY 2023 Base Rate Incremental Increase below zero dollars.

ii. Reconciliation Framework (Changes in FY 2021 Performance)

Subject to Section 2(a) and this subsection (ii), the FY 2023 Base Rate Incremental Increase is subject to reduction on a dollar-for-dollar basis via a required reconciliation process analogous to the TAP-R proceeding and within the parameters described below.

- **Adjustment, Mechanics:** The Department shall file a reconciliation request for FY 2023, setting forth the amount by which it requests the Rate Board reduce the FY 2023 Base Rate Incremental Increase to share with customers the benefit of FY 2021 amounts above a minimum threshold⁵ in the Rate Stabilization Fund. The Department shall include the City’s annual financial report for such fiscal year and a statement explaining the basis for the Department’s requested reduction (which may be any amount, including zero, up to \$34.110 million).
- **Maximum Adjustment:** Reconciliation under this adjustment, separately or in combination with other adjustments, cannot lower the FY 2023 Base Rate Incremental Increase below zero dollars.

B. Cost of Service

1. Cost and Benefit Allocations

PWD will convene stakeholder meetings to evaluate alternative ways of sharing the costs/benefits of ratepayer-funded non-residential stormwater overflow remediation projects. PWD will develop proposals prior to the next base rate proceeding.

2. Residential Rate Structure

PWD will develop a proposal to evaluate tiered residential stormwater rate structures to reflect the range of residential property sizes. PWD will convene stakeholder meetings to discuss such proposal prior to its next base rate proceeding.

3. Rate Design, Revenue Allocation and Cost of Service.

The rate design, revenue allocation and cost of service recommendations, proposed by the Department, are approved as a part of the settlement.

⁵ The settling parties expressly agree that participants in the Special Rate Reconciliation Proceeding may propose different “minimum thresholds” and that a “minimum threshold” has not been established in connection with Section 2(a)(ii).

C. Customer Service and Policy Agreements

1. TAP Administration.

a. TAP Recertification

To protect TAP participants, PWD has waived program recertification during the pandemic. This policy will continue to be in place for the near term. For the longer term, PWD will consider the merits of establishing a longer period of TAP certification for certain groups (e.g., pensioners, SSI, and LIHEAP recipients).

b. TAP Outreach/Participation

To improve outreach for TAP, PWD will evaluate new approaches to inform PWD customers of this program and other assistance programs that PWD offers. This will include outreach to customers restored since the start of COVID-19 and greater outreach in the Black community in concert with community organizations. PWD will organize and participate in community meetings, summits, or other gatherings where PWD can effectively communicate the availability of assistance for PWD customers. PWD will actively engage in meetings, summits and other gatherings where the availability of assistance can be communicated to PWD customers. PWD will also consider proposals raised at such outreach meetings.

PWD will organize and participate in community meetings concerning TAP participation, including meetings with Black community leaders and Black grassroots community members to discuss what aspects of processes related to TAP application, enrollment, and recertification can be improved upon.

2. Language Access

To improve communication with PWD customers, PWD will consider changes in its language access plans, in coordination with the City's Office of Immigrant Affairs. This would include interacting with stakeholder groups and translating customer service-related forms/applications into various additional languages.

PWD will work with community stakeholders to determine which additional documents need to be translated. The translated written documents will be available on the City's website and other places where intake services are provided for PWD customers.

3. Moratorium on Utility Shut-Offs.

To protect PWD customers during the pandemic, PWD will continue to review and evaluate the need to extend the current moratorium to protect public health and safety.

Prior to lifting the current moratorium, PWD, in concert with stakeholders, will evaluate the feasibility of extending the moratorium evaluating, among other considerations, public health guidance and economic conditions.

4. COVID-19 Protections.

a. Payment Agreements

To protect customers, PWD will provide more flexible terms for payment arrangements to help PWD customers bring their accounts current. PWD is currently extending payment agreements for up to five years. PWD also provides income-based payment agreements up to 15 years. These policies will remain in place for the near future.

PWD will evaluate the Public Advocate’s proposals to proactively extend payment arrangements to assist customers who have fallen behind during the COVID-19 pandemic.

PWD will conduct outreach with community organizations to “enroll” customers with past due balances in suitable payment arrangements with longer repayment terms.

b. Tenant Issues

To address certain tenant issues raised in this proceeding (establishing tenant accounts, proof of residency), PWD will review business practices, website disclosures, and governing regulations.

PWD will specifically review its internal policies, website language, and PWD regulations regarding establishing a tenant account (e.g., provisions of regulations deeming the owner to have consented to having service placed in the tenant’s name (unless service is off at the time of application) and (ii) policies requiring other utility bills in the tenant’s name).

PWD, in conjunction with the Law Department, will review policies to facilitate tenants opting to request to transfer pre-existing arrears into his/her account.

5. Other Issues.

PWD will provide quarterly reports to the Rate Board with regard to its progress as to the subject areas identified in this Section C. PWD will also consider proposals or recommendations made by stakeholders, community groups and customers in connection with outreach, language access, and tenant issues.

D. Miscellaneous.

1. PWD shall withdraw its Motion in Limine to Limit or Exclude Certain Portions of the Testimony of Roger D. Colton, submitted on April 6, 2021. In so doing, PWD is not waiving its position as to the limited jurisdiction of the Rate Board.

2. PWD will provide responses to all outstanding Public Advocate data requests that were (a) not objected to, (b) withdrawn or unanswered by agreement or (iii) otherwise excluded by the hearing officer from the record in the rate proceeding. Except as provided above, responses to the aforesaid data requests shall be admitted into the record without objection, unless subject to a limitation imposed by the hearing officer or Rate Board.

3. The record of the 2021 General Rate Proceeding shall consist of all documents identified in Section II.B.6.b of the Rate Board's Regulations.

E. Issues Reserved For Litigation

1. TAP Rider; Arrearage Forgiveness

a. Arrearage Forgiveness: Implementation

b. Arrearage Forgiveness: Cost Recovery

2. Issues Raised by Lance Haver and Michael Skiendzielewski

[End]

TABLE C-1A: PROJECTED REVENUE AND REVENUE REQUIREMENTS
Base Rates Excluding TAP-R Surcharge
(in thousands of dollars)

Line No.	Description	2022	2023
OPERATING REVENUE			
1	Water Service - Existing Rates	263,593	266,743
2	Wastewater Service - Existing Rates	423,433	429,267
3	Total Service Revenue - Existing Rates	687,026	696,010
	Additional Service Revenue Required		
	Percent Increase		
	Months Effective		
4	FY 2021	-	-
5	FY 2022	10,411	12,901
6	FY 2023		34,110
7	FY 2024		
8	FY 2025		
9	FY 2026		
10	Total Additional Service Revenue Required	10,411	47,011
11	Total Water & Wastewater Service Revenue	697,437	743,022
	Other Income (a)		
12	Other Operating Revenue	29,192	29,111
13	Debt Reserve Fund Interest Income	-	-
14	Operating Fund Interest Income	1,230	1,249
15	Rate Stabilization Interest Income	1,088	982
16	Total Revenues	728,947	774,364
OPERATING EXPENSES			
17	Total Operating Expenses	(517,470)	(533,064)
NET REVENUES			
18	Transfer From/(To) Rate Stabilization Fund (b)	9,900	11,300
19	NET REVENUES AFTER OPERATIONS	221,376	252,600
DEBT SERVICE			
	Senior Debt Service		
	Revenue Bonds		
20	Outstanding Bonds	(163,516)	(164,558)
21	Pennvest Parity Bonds	(10,885)	(11,067)
22	Projected Future Bonds	(8,000)	(30,798)
23	Commercial Paper	(2,000)	(4,000)
24	Total Senior Debt Service	(184,401)	(210,423)
25	TOTAL SENIOR DEBT SERVICE COVERAGE (L19/L24) (c)	1.20 x	1.20 x
26	Subordinate Debt Service	-	-
27	Transfer to Escrow	-	-
28	Total Debt Service on Bonds	(184,401)	(210,423)
29	CAPITAL ACCOUNT DEPOSIT	(29,447)	(31,155)
30	TOTAL COVERAGE (L19/(L24+L26+L29)) (c)	1.03 x	1.04 x
31	End of Year Revenue Fund Balance	7,529	11,022

(a) Includes other operating and nonoperating income, including interest income on funds and accounts transferable to the Revenue Fund.

(b) Pursuant to the General Ordinance, as of June 30 of each Fiscal Year, the City may transfer (i) from the Rate Stabilization Fund to the Revenue Fund or (ii) from the Revenue Fund to the Rate Stabilization Fund, the amount determined. The amounts presented are subject to actual results.

(c) Projected estimates are subject to actual financial results and final transfers to/from Rate Stabilization (see note (b)). The amounts presented are subject to actual results.

TABLE C-4

COMBINED SYSTEM: COMPARISON OF TYPICAL BILL FOR RESIDENTIAL CUSTOMERS UNDER EXISTING AND PROPOSED RATES

(1) Meter Size Inches	(2) Monthly Use Mcf	(3) FY 2021		(4) FY 2022		(5) FY 2023		(7) % Proposed of FY 2022
		Existing Rates \$	Proposed Rates \$	% Proposed of Existing %	Proposed Rates \$	% Proposed of Existing %		
5/8	0.0	28.02	28.96	3.4	30.70	6.0		
5/8	0.2	43.50	45.04	3.5	47.85	6.2		
5/8	0.3	51.24	53.07	3.6	56.43	6.3		Typical Senior
5/8	0.4	58.98	61.11	3.6	65.01	6.4		
5/8	0.5	66.73	69.15	3.6	73.58	6.4		Typical Residential
5/8	0.6	74.46	77.18	3.7	82.15	6.4		
5/8	0.7	82.20	85.22	3.7	90.73	6.5		
5/8	0.8	89.94	93.25	3.7	99.31	6.5		
5/8	1.7	159.60	165.59	3.8	176.49	6.6		
5/8	2.7	232.63	243.40	4.6	259.46	6.6		
5/8	3.3	275.33	289.42	5.1	308.52	6.6		

Notes:

The FY 2021 figures reflect the existing base and current TAP-R rates, of \$0.57/MCF for water and \$0.78/MCF for sewer.

The FY 2022 figures reflect:

- (1) the proposed TAP-R rates, of \$0.70/MCF for water and \$1.07/MCF for sewer; and
- (2) the proposed FY 2022 base rates in accordance with the Settlement Agreement.

The FY 2023 figures reflect:

- (1) the proposed FY 2023 TAP-R rates, of \$0.70/MCF for water and \$1.07/MCF for sewer; and
- (2) the proposed FY 2023 base rates in accordance with the Settlement Agreement.

These rates are subject to reconciliation prior to implementation.

The TAP-R rates are subject to annual reconciliation.

Typical Senior Citizen is presented prior to discount. Eligible Senior Citizen's receive a 25% discount on their total bill. The associated FY 2021, FY 2022, and FY 2023 bills would be \$38.43, \$39.80 and \$42.32, respectively.

Mcf - Thousand cubic feet

TABLE C-5
COMBINED SYSTEM: COMPARISON OF EXAMPLE BILLS
FOR NON-RESIDENTIAL CUSTOMERS
UNDER EXISTING AND PROPOSED RATES

(1) Meter Size Inches	(2) Monthly Use Mcf	(3) Impervious Area sf	(4) Gross Area sf	(5) FY 2021		(6) FY 2022		(7) FY 2023	
				Existing Rates \$	Proposed Rates \$	% Proposed of Existing %	Proposed Rates \$	% Proposed of FY 2022 %	
5/8	0.0	1,794	2,110	39.75	38.55	(3.0)	41.01	6.4	
5/8	0.2	1,794	2,110	55.23	54.63	(1.1)	58.16	6.5	
5/8	0.3	1,794	2,110	62.97	62.66	(0.5)	66.74	6.5	
5/8	0.4	1,794	2,110	70.71	70.70	(0.0)	75.32	6.5	
5/8	0.5	1,794	2,110	78.46	78.74	0.4	83.89	6.5	
5/8	0.6	4,000	5,500	112.13	111.58	(0.5)	119.27	6.9	
5/8	0.7	4,000	5,500	119.87	119.62	(0.2)	127.85	6.9	
5/8	0.8	26,000	38,000	412.25	399.86	(3.0)	430.54	7.7	
5/8	1.7	26,000	38,000	481.91	472.20	(2.0)	507.72	7.5	
5/8	2.7	4,000	5,500	270.30	277.80	2.8	296.58	6.8	
5/8	3.3	4,000	5,500	313.00	323.82	3.5	345.64	6.7	
5/8	11.0	7,000	11,000	901.27	953.16	5.8	1,017.05	6.7	
1	1.7	7,700	7,900	251.68	252.31	0.2	269.95	7.0	
1	5.0	22,500	24,000	668.22	678.11	1.5	726.33	7.1	
1	8.0	7,700	7,900	701.86	736.68	5.0	786.30	6.7	
1	17.0	22,500	24,000	1,522.14	1,598.63	5.0	1,707.57	6.8	
2	7.6	1,063	1,250	621.72	658.68	5.9	701.88	6.6	
2	16.0	22,500	24,000	1,478.95	1,550.54	4.8	1,656.12	6.8	
2	33.0	66,500	80,000	3,245.05	3,385.99	4.3	3,620.31	6.9	
2	100.0	7,700	7,900	7,276.55	7,822.62	7.5	8,339.46	6.6	
4	30.0	7,700	7,900	2,391.49	2,550.83	6.7	2,718.89	6.6	
4	170.0	10,500	12,000	11,779.08	12,657.30	7.5	13,487.99	6.6	
4	330.0	26,000	38,000	21,980.87	23,608.78	7.4	25,154.47	6.5	
4	500.0	140,000	160,000	34,010.90	36,379.51	7.0	38,775.99	6.6	
6	150.0	10,500	12,000	10,665.70	11,451.84	7.4	12,202.99	6.6	
6	500.0	41,750	45,500	32,922.57	35,349.72	7.4	37,660.16	6.5	
6	1,000.0	26,000	38,000	63,978.69	68,785.12	7.5	73,266.57	6.5	
6	1,500.0	140,000	160,000	96,627.12	103,738.45	7.4	110,512.79	6.5	
8	750.0	10,500	12,000	48,312.53	51,946.12	7.5	55,328.63	6.5	
8	1,500.0	66,500	80,000	95,875.96	103,032.69	7.5	109,746.67	6.5	
8	2,000.0	26,000	38,000	126,617.52	136,167.40	7.5	145,028.21	6.5	
8	3,000.0	140,000	160,000	189,685.95	203,830.73	7.5	217,109.43	6.5	
10	600.0	22,500	24,000	39,284.40	42,203.78	7.4	44,953.17	6.5	
10	1,700.0	41,750	45,500	108,254.22	116,376.47	7.5	123,951.40	6.5	
10	3,300.0	26,000	38,000	206,972.34	222,583.87	7.5	237,058.81	6.5	
10	6,000.0	140,000	160,000	374,862.77	402,991.20	7.5	429,211.03	6.5	

Typical Small Business

- (a) Examples with gross area less than 5,000 square feet reflect an impervious area of 85% of the gross area consistent with PWD Regulations section 304.3.
- (b) FY 2021 figures reflect existing base and current TAP-R rates, of \$0.57/MCF for water and \$0.78/MCF for sewer.
- (c) FY 2022 figures reflect:
 - (1) the proposed TAP-R rates, of \$0.70/MCF for water and \$1.07/MCF for sewer; and
 - (2) the proposed FY 2022 base rates in accordance with the Settlement Agreement.
- (d) The FY 2023 figures reflect:
 - (1) the proposed FY 2023 TAP-R rates, of \$0.70/MCF for water and \$1.07/MCF for sewer; and
 - (2) the proposed FY 2023 base rates in accordance with the Settlement Agreement. These rates are subject to reconciliation prior to implementation. The TAP-R rates are subject to annual reconciliation.

Mcf - Thousand cubic feet
 sf - square feet