

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

BERNARD L. CUMMINGS

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R- 2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:

Partial Payment Allocation Practices
Recommendations Impacting Ability to Collect
Budget Billing
Discontinuance of Services to Leased Premises
Unauthorized Use and Post Bankruptcy Policies

June 9, 2017

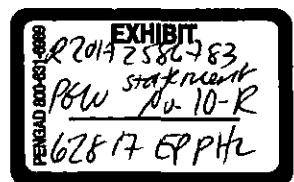


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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND TITLE.**

3 A. My name is Bernard Cummings and I am the Vice President, Customer Service and
4 Collections, at Philadelphia Gas Works ("PGW" or Company").

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK
6 HISTORY.**

7 A. I earned a Bachelor of Science degree in Business Administration from American
8 University in Washington, D.C. I also earned a Masters of Business Administration
9 degree from the University of Michigan in Ann Arbor, Michigan. Prior to my current
10 position, I was the Treasurer of PGW.

11 **Q. HAVE YOU SUBMITTED TESTIMONY AT ANY REGULATORY BODIES
12 BEFORE?**

13 A. Yes. I provided oral testimony in a series of related complaint proceedings, which are
14 discussed in footnotes 9 and 10 on page 11 of this testimony.

15 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

16 A. My testimony is submitted on behalf of PGW.

17 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS MATTER?**

18 A. No.

19 **Q. PLEASE SUMMARIZE THE PURPOSE OF YOUR TESTIMONY.**

20 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Mr. Roger
21 D. Colton, submitted by the Office of Consumer Advocate ("OCA") addressing PGW's
22 allocation of partial payments to prior outstanding charges for basic service, including
23 unpaid late payment charges, PGW's budget billing and PGW's collection activities.

(OCA St. No. 4).¹ My rebuttal testimony also responds to the direct testimony of Mr. Harry S. Geller, on behalf of Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia (“TURN”), regarding PGW’s collection activities. (TURN St. No. 1).²

II. PARTIAL PAYMENT ALLOCATION PRACTICES

Q. PLEASE SUMMARIZE THE OBSERVATIONS THAT MR. COLTON MAKES REGARDING PGW’S PARTIAL PAYMENT ALLOCATION PRACTICES.

A. Mr. Colton criticizes PGW’s practice of applying customers’ partial payments to past due late fee balances. He specifically testifies that “PGW posts all customer payments so that they reduce an accumulated late fee balance to \$0 before applying customer payments to any balance for current usage.” (OCA St. No. 4 at 36). The result of PGW’s posting of partial payments, according to Mr. Colton, is “that more recent late payment charges are paid before older unpaid principal balances are paid.” (OCA St. No. 4 at 37). He claims that this partial payment allocation practice “leaves older interest-bearing charges outstanding while retiring newer non-interest bearing charges.” (OCA St. No. 4 at 37-38).

Q. WHAT IS THE CONTEXT IN WHICH MR. COLTON’S RECOMMENDATIONS ARISE?

A. Mr. Colton’s recommendations arise in the context of situations where customers have failed to timely pay their bills, have had late payment charges imposed and thereafter have made partial payments that do not cover their prior and current balances. If customers pay their bills on time and in full, these issues do not arise.

¹ References are from the revised testimony served on June 2, 2017.

² References are from the revised testimony served on June 7, 2017.

1 **Q. WHAT DOES MR. COLTON RECOMMEND THAT PGW DO?**

2 A. It is not clear. His recommendations are for the Commission to: 1) direct PGW “to
3 modify its tariff and practices to comply with the PUC mandate that late fees represent
4 annual simple interest rather than posting payments to generate the same effect as
5 compounded interest;” and 2) “bar PGW’s unreasonable out-of-sequence payment
6 posting to maximize late payment charges and to require PGW to apply payments against
7 bills in the order and timing in which they were incurred.” (OCA St. No. 4 at 43).

8 **Q. WHY ARE THESE RECOMMENDATIONS NOT CLEAR?**

9 A. The recommendations are focused on prohibiting PGW’s current partial payment
10 allocation practices from continuing but do not clearly describe how Mr. Colton believes
11 that PGW should apply partial payments going forward.

12 **Q. PLEASE EXPLAIN.**

13 A. Certainly. As for the recommendation that PGW be directed to modify its tariff and
14 practices to comply with the PUC mandate that late fees represent annual simple interest
15 rather than posting payments to generate the same effect as compounded interest, Mr.
16 Colton does not explain how PGW’s partial payment allocation practices generate the
17 same effect as compounded interest. Below, I will explain why his assumption is
18 incorrect. Moreover, he does not specify the changes that he thinks PGW needs to make
19 to its practices.

20 **Q. HOW ABOUT THE RECOMMENDATION TO APPLY PARTIAL PAYMENTS**
21 **IN THE ORDER IN WHICH THEY WERE INCURRED?**

22 A. His recommendation for PGW to apply partial payments against bills in the order and
23 timing in which they were incurred seems to suggest that PGW first apply partial
24 payments to deposits, late payment charges and gas service (or “principal”) for the oldest

1 billing period, and then apply partial payments to the next oldest billing period, etc.

2 However, other comments in his testimony., seem to suggest that PGW should apply
3 partial payments to the charges for gas service so they are paid in full before any deposits
4 or late payment charges are paid.

5 **Q. WHICH PARTS OF HIS TESTIMONY LEAD YOU TO THE LATTER**
6 **INTERPRETATION?**

7 A. As I noted above, he testifies that PGW is reducing the outstanding late payment balance
8 before applying partial payments to any balance for current usage, which sounds like he
9 believes that late payment fees are not payable until customers are fully current on their
10 usage charges. Also, his repeated references throughout his direct testimony to PGW's
11 practice of leaving older interest-bearing charges outstanding while retiring newer non-
12 interest bearing charges suggests the same result. Since late payment fees are non-
13 interest bearing charges, as I will explain in more detail below, while outstanding
14 principal balances continue to have late payment charges assessed, Mr. Colton appears to
15 prefer a partial payment allocation practice that pays down all principal balances before
16 late payment charges are paid.

17 **Q. WHAT IS THE SIGNIFICANCE OF THIS LACK OF CLARITY IN MR.**
18 **COLTON'S RECOMMENDATIONS?**

19 A. The lack of clarity in Mr. Colton's recommendations has made it extremely difficult for
20 PGW to address any proposed changes that may be considered by the Commission.
21 Especially since this complex issue is being addressed within the context of a base rate
22 proceeding that must be decided in a compressed timeframe, PGW is simply unable to
23 adequately respond to Mr. Colton's unclear recommendations for changes to its partial
24 payment allocation practices. While I will explain the rationale and appropriateness of
25 PGW's partial payment allocation practices in this rebuttal testimony, I strongly urge that

1 the Commission refrain from directing any system-wide changes as part of this
2 proceeding, which will not have an adequate record upon which to base such
3 modifications.

4 **Q. YOU MENTIONED ABOVE THAT MR. COLTON APPEARS TO PREFER**
5 **CERTAIN PARTIAL PAYMENT ALLOCATION PRACTICES OVER OTHERS.**
6 **DO YOU HAVE AN OBSERVATION ABOUT MR. COLTON'S PREFERENCES?**

7 A. Yes. Mr. Colton's preferences with respect to PGW's partial payment allocation
8 practices are irrelevant and have no basis in PGW's tariff regarding late payment charges
9 or in the Commission's regulations. In short, the Company's tariff permits PGW to
10 impose late payment charges on overdue portions of the bill. And the Commission's
11 regulations require PGW, except in limited instances that are not applicable here, to first
12 apply partial payments to charges for prior service, including late payment charges,
13 before applying them to charges for current service. As PGW is in compliance with the
14 Commission's regulations, Mr. Colton's preferred partial payment allocation practices
15 should be disregarded.

16 **Q. WHAT IS IN PGW'S EXISTING AND PROPOSED TARIFFS WITH RESPECT**
17 **TO LATE PAYMENT CHARGES?**

18 A. Rule 4.2 in PGW's existing and proposed tariffs provides as follows:

19 Finance Charge on Late Payments. PGW will assess a late penalty
20 for any overdue bill, in an amount which does not exceed 1.5%
21 interest per month on the full unpaid and overdue balance of the
22 bill. These charges are to be calculated on the overdue portions of
23 PGW Charges only. The interest rate, when annualized, may not
24 exceed 18% simple interest per annum. Late Payment Charges
25 will not be imposed on disputed estimated bills, unless the
26 estimated bill was required because utility personnel were unable
27 to access the affected premises to obtain an Actual Meter Reading.

28 **Q. DOES PGW'S TARIFF PROVISION PROVIDING FOR LATE PAYMENT**
29 **CHARGES COMPLY WITH THE COMMISSION'S REGULATIONS?**

1 A. Yes. The Commission's regulations permit a public utility to assess a late payment
2 charge or penalty on any overdue public utility bill in an amount of 1.5% per month on
3 the overdue balance of the bill.³

4 **Q. WHAT IS THE PURPOSE OF LATE PAYMENT CHARGES?**

5 A. The purpose of late payment charges is to compensate PGW for the service of carrying
6 delinquent accounts. Also, late payment charges increase timely collections and ensure
7 that service is available to all customers based on equitable terms and conditions.
8 Customers who do not honor the obligation to pay their bills result in the inclusion of
9 such unpaid bills in the Company's uncollectible expense, which is ultimately paid by
10 PGW's ratepayers who do pay their bills on time. If customers do not timely pay late
11 payment charges, they are essentially borrowing money from paying customers, and
12 these interest free loans increase PGW's bad debt expense, increasing the burden that
13 must be shouldered by the rest of PGW's customer base.

14 **Q. WHAT ARE PARTIAL PAYMENTS?**

15 A. Partial payments are payments made by customers that are insufficient to pay the balance
16 that is due.

17 **Q. WHAT ARE THE COMMISSION'S REQUIREMENTS FOR THE**
18 **ALLOCATION OF PARTIAL PAYMENTS?**

19 A. The Commission's regulation provides, in its entirety, as follows:

20 In the absence of written instructions, a disputed bill or a payment
21 agreement, payments received by a public utility which are
22 insufficient to pay a balance due both for prior service and for

³ 52 Pa. Code § 56.22.

1 service billed during the current billing period shall first be applied
2 to the balance due for prior service.⁴

3 **Q. WHAT CONSTITUTES PRIOR SERVICE?**

4 A. The term “prior service” includes both basic service and non-basic service previously
5 rendered by PGW. Under the Commission’s regulations, basic service includes security
6 deposits, late payment charges, commodity charges, distribution charges, customer
7 service charges, reconnection fees, gas cost adjustment charges, interstate transition cost
8 surcharges and taxes.⁵ Charges for non-basic service include PGW parts and labor plan,
9 meter change and meter repair charges, warranties and miscellaneous charges.

10 **Q. DOES PGW’S TARIFF CONTAIN PROVISIONS REGARDING THE**
11 **ALLOCATION OF PARTIAL PAYMENTS TO THE BALANCE DUE FOR**
12 **PRIOR SERVICE?**

13 A. No.

14 **Q. HOW DOES PGW CURRENTLY ALLOCATE PARTIAL PAYMENTS?**

15 A. When partial payments are received, they are posted according to a hierarchy: deposit if
16 required is posted first; then any outstanding late payment charges are satisfied; and then
17 the remaining balance of the payment is posted to the oldest money, meaning that PGW
18 applies the payment to the oldest arrearages first and then the newer ones. Importantly,
19 PGW applies partial payments first to outstanding balances for prior basic service, which
20 includes security deposit, late payment charges and gas service or “principal.” PGW has
21 followed this partial payment allocation practice since at least 2000.

22 **Q. IS THIS PARTIAL PAYMENT ALLOCATION PRACTICE, PARTICULARLY**
23 **WITH RESPECT TO THE POSTING OF PARTIAL PAYMENTS TO**

⁴ 52 Pa. Code § 56.24.

⁵ 52 Pa. Code §§ 56.2 and 62.74(b)(3).

1 **OUTSTANDING LATE PAYMENT FEES, CONSISTENT WITH THE**
2 **COMMISSION’S REGULATIONS?**

3 A. Yes. The Commission’s regulations provide that “payments received by a public utility
4 which are insufficient to pay a balance due both for prior service and for service billed
5 during the current billing period shall first be applied to the balance due for prior
6 service.”⁶ Since the unpaid late payment charges constitute a balance due for prior
7 service, it is appropriate for PGW to allocate partial payments to those charges before
8 applying them to other charges for prior basic service.

9 **Q. DO THE COMMISSION’S REGULATIONS GOVERNING PARTIAL**
10 **PAYMENTS REQUIRE A CERTAIN HIERARCHY OF APPLYING PAYMENTS**
11 **TO SPECIFIC COMPONENTS OF PRIOR SERVICE CHARGES?**

12 A. No.

13 **Q. DO THE COMMISSION’S REGULATIONS GOVERNING PARTIAL**
14 **PAYMENTS REQUIRE PUBLIC UTILITIES TO APPLY THEM FIRST TO**
15 **PRINCIPAL BEFORE THEY ARE APPLIED TO LATE PAYMENT CHARGES?**

16 A. No.

17 **Q. DOES PGW’S PARTIAL PAYMENT ALLOCATION PRACTICE BENEFIT**
18 **OTHER CUSTOMERS?**

19 A. Yes. By paying off the late payment charges before the so-called “principal” charges,
20 PGW is reducing the costs of carrying delinquent accounts that are otherwise borne by
21 other ratepayers. This approach is fair and reasonable to other ratepayers and helps
22 ensure that the delinquent account actually pays the late payment charges.

23 **Q. WHAT DOES MR. COLTON RECOMMEND REGARDING PGW’S TARIFF?**

24 A. He recommends that PGW’s tariff be revised to include its payment posting sequencing
25 in its tariff.

⁶ 52 Pa. Code § 56.24.

1 **Q. DOES PGW AGREE WITH THAT RECOMMENDATION?**

2 A. No. I am unaware of any Commission requirement for the payment posting sequencing
3 to be included in the tariff. The Commission has previously approved PGW's tariff that
4 does not contain the sequencing of partial payments.⁷ I have also reviewed other public
5 utility tariffs that simply parrot the Commission's regulations about allocating partial
6 payments first to the balance due for prior service without providing any additional
7 information about how those partial payments are allocated to the various components of
8 the balance due for prior service. PGW Exhibit BLC-1 includes examples of late
9 payment and partial payment allocation provisions in other utility tariffs. While PGW is
10 willing to revise its tariff to indicate that it first allocates partial payments to the balance
11 due for prior service, using language similar to that which is in the Commission's
12 regulations, I see no reason to get into any further detail.

13 **Q. MR. COLTON INDICATES THAT PGW HAS NOT PRESENTED ITS**
14 **SEQUENCING OF PAYMENTS TO THE COMMISSION FOR REVIEW. (OCA**
15 **ST. NO. 4 AT 39). IS THAT CORRECT?**

16 A. Not entirely. While PGW has not specifically made a filing to request Commission
17 review of its partial payment allocation practices, PGW has been under the Commission's
18 jurisdiction since 2000. During that time, the Commission has handled numerous
19 informal complaints and adjudicated formal complaints in which PGW presented
20 information showing how it allocates partial payments to prior service, including late
21 payment charges. Until recently, no issues were ever raised about PGW's partial
22 payment allocation practices. In any event, no Commission regulations require the

⁷ *Pa. Public Utility Commission v. Philadelphia Gas Works*, Docket No. R-2009-213988 (Secretarial Letter dated August 26, 2010).

1 submission of the sequencing of partial payments to the Commission for review and
2 approval. Additionally, PGW is not aware of any other public utility that has obtained
3 approval for the posting process used for partial payments.

4 **Q. DOES MR. COLTON MAKE ANY ADDITIONAL RECOMMENDATIONS**
5 **REGARDING PGW'S TARIFF AND PRACTICES?**

6 A. Yes. He recommends that PGW be required to "apply payments against bills in the order
7 and timing in which they were incurred" and incorporate this practice in its tariff. (OCA
8 St. No. 4 at 43).

9 **Q. WHAT IS YOUR UNDERSTANDING OF THIS RECOMMENDATION?**

10 A. My understanding of this recommendation is that Mr. Colton believes that PGW should
11 be required to apply partial payments to security deposit (if required), late payment
12 charge and principal for the oldest billing period first. Only when that oldest period is
13 covered would PGW be able to apply payments to the next oldest billing period,
14 including any required security deposit or late payment charge due for that period.

15 **Q. DOES PGW AGREE WITH THIS RECOMMENDATION?**

16 A. No. Nothing in the Commission's regulations requires the allocation of partial payments
17 in a certain order to balances due for prior service. In short, the Commission's
18 regulations do not specify a hierarchy in the order of payments within the basic charges
19 themselves. Rather, the Commission's regulations only require that balances due for
20 prior service be paid first before balances due for the current billing period. PGW does
21 that. All of the late payment charges that were previously assessed and are still
22 outstanding constitute balances due for prior service. Therefore, PGW's process of
23 posting partial payments to balances due for prior service, including late payment

1 charges, does not violate the Commission's regulations and should not be disturbed,
2 particularly as part of this base rate proceeding.⁸

3 **Q. MR. COLTON TESTIFIES THAT PGW'S PROCESS OF POSTING PARTIAL**
4 **PAYMENTS "HAS BEEN HELD TO BE UNLAWFUL." (OCA ST. NO. 4 AT 37).**
5 **IS THAT CORRECT?**

6 A. No. Although the Commission adopted an order on December 8, 2016 finding that
7 PGW's process for posting partial payments violated the Commission's regulations,⁹ the
8 Commission subsequently issued an order on December 28, 2016 granting PGW's
9 Petition for Reconsideration, pending a further review of the merits. Therefore, I have
10 been advised by counsel that the December 8, 2016 order is not a final, appealable order;
11 as such, it is without effect.¹⁰ Further, it is noted that Mr. Colton provided testimony on
12 behalf of the complainants in that proceeding (OCA Response to PGW Interrogatory II-
13 22), which related to the posting of commercial customer payments (OCA Response to
14 PGW Interrogatory II-21).¹¹

⁸ I recognize that, consistent with Pennsylvania's regulatory review process, the Commission could promulgate regulations specifying the partial payment allocation practices that must be followed by public utilities throughout the Commonwealth. However, that process – unlike this base rate case – would permit public utilities to explain their current practices, their rationale and the impact of any changes to the Commission's regulations.

⁹ *SBG Management Services, Inc. / Colonial Garden Realty Co., L.P. v. Philadelphia Gas Works, and SBG Management Services, Inc. / Simon Garden Realty Co., L.P. v. Philadelphia Gas Works*, Docket Nos. C-2012-2304183 and C-2012-2304324 (Order entered December 8, 2016) ("*SBG Order*").

¹⁰ SBG Management Services, Inc. and related entities (collectively, "SBG") filed seven formal complaints with the Commission challenging, *inter alia*, the accuracy of its PGW bills, the lawfulness of PGW's billing methodology regarding the application of payments, and the assessment of late payment charges for amounts of unpaid PGW debt lien. The complaints were consolidated into three discrete groups for adjudication and disposition purposes owing to the numerous transactions involved and common questions of law and fact presented. The first group is discussed in the *SBG Order*. Initial Decisions were issued in the second (Docket Nos. C-2012-2304167, C-2012-2304215 and C-2012-2304303) and third group (Docket Nos. C-2012-2308454, C-2012-2308462, and C-2012-2308465), and exceptions were filed by PGW. The Commission has not acted on the exceptions for the second and third group.

¹¹ PGW Exhibit BLC-2 (OCA Discovery Responses to PGW-II-21 and 22).

1 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS ABOUT MR. COLTON'S**
2 **TESTIMONY REGARDING THE *SBG ORDER*?**

3 A. Yes. Mr. Colton testifies that the Commission adopted the Initial Decision of the
4 Administrative Law Judge and quotes from a portion of the Initial Decision which found
5 that PGW's partial payment allocation practices violated Section 56.22 of the
6 Commission's regulations concerning the calculation of late payment charges. (OCA St.
7 No. 4 at 37). However, a review of the Commission's *SBG Order* reveals that the
8 Commission adopted the Initial Decision, as modified, and did not conclude that PGW's
9 partial payment allocation practices violate Section 56.22 of the Commission's
10 regulations.¹² Rather, the Commission found that PGW's partial payment allocation
11 practices violate Section 56.24 of the Commission's regulations.¹³ This distinction is
12 important since even the *SBG Order* that is pending reconsideration on its merits does not
13 support Mr. Colton's legal theory regarding PGW's practices amounting to the
14 imposition of compound interest under Section 56.22.

15 **Q. WHAT DOES MR. COLTON SAY ABOUT PGW'S PARTIAL PAYMENT**
16 **ALLOCATION PRACTICES RELATIVE TO COMPOUND INTEREST?**

17 A. Without any factual basis or explanation, Mr. Colton leaps to the unsubstantiated
18 conclusion that PGW's sequencing of the posting of payments amounts to imposing
19 compound interest. (OCA St. No. 4 at 35, 43).

20 **Q. PLEASE DESCRIBE THE DIFFERENCE BETWEEN SIMPLE INTEREST AND**
21 **COMPOUND INTEREST.**

¹² 52 Pa. Code § 56.22.

¹³ 52 Pa. Code § 56.24; *SBG Order* at 97.

1 A. Simple interest is based on the principal of a loan while compound interest is based on
2 the principal amount and the accumulated interest. Simple interest is calculated by
3 multiplying the principal amount by the interest rate and the number of periods in a loan.
4 Compound interest is regarded as “interest on interest.”¹⁴

5 **Q. IS PGW CHARGING COMPOUND INTEREST?**

6 A. No. Consistent with PGW’s tariff, the Company imposes a late payment charge that does
7 not exceed 18% annual simple interest.

8 **Q. HOW DOES PGW ASSESS LATE PAYMENT CHARGES?**

9 A. When PGW assesses late payment charges on customers, it subtracts outstanding late
10 payment fees before applying the 1.5% late payment charge to the unpaid “principal”
11 balance. In that manner, PGW is only imposing a late fee on unpaid balances for
12 “principal.” Therefore, it is clearly not charging “interest on interest.” Mr. Colton’s
13 testimony simply fails to show otherwise.

14 **Q. IS MR. COLTON CORRECT THAT PGW ALLOCATES PARTIAL PAYMENTS**
15 **FIRST TO MORE RECENT LATE PAYMENT CHARGES BEFORE**
16 **ALLOCATING TO OLDER UNPAID PRINCIPAL BALANCES? (OCA ST. NO. 4**
17 **AT 37, 39).**

18 A. Yes. However, it is an accepted practice to apply a partial payment on a contract bearing
19 interest first to the accrued interest with the balance applied towards the reduction of
20 principal.¹⁵ That practice is followed with delay damages under the Pennsylvania Rules
21 of Civil Procedure.¹⁶ Moreover, PGW follows this practice as a way of incentivizing

¹⁴ <http://www.investopedia.com/articles/investing/020614/learn-simple-and-compound-interest.asp>

¹⁵ See, e.g., *Katzeff v. Fazio*, 628 A.2d 425 (Pa.Super. 1993); *Cusati v. Dellisanti*, 31 A.2d 604 (Pa.Super. 1943); *Buck v. Mutual Building & Loan Association of Altoona*, 49 Pa. Super. 128 (1912).

¹⁶ *Woods v. Dep’t of Transp.*, 641 A.2d 633 (Pa.Cmwlth. 1994).

1 customers to timely pay their bills in full. Customers who do not pay their bills increase
2 the Company's bad debt expense, obligating other ratepayers to shoulder a greater
3 burden.

4 **Q. MR. COLTON TESTIFIES THAT "PGW IS BARRED BY LAW FROM**
5 **IMPOSING LATE CHARGES ON LATE CHARGES." (OCA ST. NO. 4 AT 37).**
6 **PLEASE RESPOND.**

7 A. As an initial matter, I note that Mr. Colton does not explain the basis for his legal
8 conclusion that PGW's partial payment allocation practices are barred by law. Indeed,
9 PGW disagrees with Mr. Colton's legal opinion and will address that argument in the
10 legal briefs that are filed in this proceeding. Moreover, as I have testified, PGW does not
11 impose late charges on late charges. To the contrary, PGW subtracts unpaid late charges
12 from the outstanding balance prior to assessing the late payment fee. PGW's practice is
13 consistent with Section 56.22 of the Commission's regulations and Rule 4.2 of its tariff.

14 **Q. DOES MR. COLTON'S SCHEDULE RDC-1, PAGE 1 OF 2, SHOW HOW PGW**
15 **ALLOCATES PARTIAL PAYMENTS TO LATE PAYMENT CHARGES?**

16 A. Mr. Colton's Schedule RDC-1 (page 1 of 2) attempts to show how PGW allocates partial
17 payments to late payment charges, but it contains several errors which call into question
18 all of the calculations.

19 **Q. PLEASE IDENTIFY THE ERRORS YOU FOUND.**

20 A. One problem with Schedule RDC-1, page 1 of 2, is that Mr. Colton utilizes a late
21 payment charge of 1.25%, rather than the 1.50% that is in PGW's tariff. Another error is
22 that in Column C, labeled Late Payment Charge, for the bills for the months of March
23 and April, he fails to calculate the late payment charge on the basis of the accumulated
24 unpaid principal balances of \$650.00 and \$850.00, respectively. Instead, it appears that
25 he has calculated the late payment charge on the basis of the unpaid principal only for the

1 prior month. By contrast, for the May bill, he does correctly calculate the late payment
2 charge on the basis of the accumulated unpaid principal balance. In addition, for the July
3 and August bills, Column C shows late payment charges of \$0.90 and \$0.91, respectively,
4 whereas those numbers should be as shown in Column G, namely \$12.55 and \$13.35,
5 respectively. Although this may not be an exhaustive list of the errors on this schedule, it
6 is clear that the calculations are flawed and that no conclusions can be drawn from them.

7 **Q. WHAT OTHER CLAIMS DOES MR. COLTON MAKE ABOUT PGW'S**
8 **PARTIAL PAYMENT ALLOCATION PRACTICE?**

9 A. Mr. Colton claims that PGW's partial payment allocation practice artificially inflates total
10 costs to the customer because it posts more recent late payment charges before retiring
11 older principal charges. (OCA St. No. 4 at 37).

12 **Q. WHAT IS YOUR RESPONSE?**

13 A. I do not disagree that a customer may ultimately pay more for services when late
14 payment charges are zeroed out before partial payments are posted to "principal." This
15 occurs because PGW does not assess late payment fees on outstanding late payment
16 charges, but it does assess late payment fees on unpaid prior balances for gas service. As
17 I have discussed, this practice is consistent with the Commission's regulations and
18 PGW's tariff. Also, it is appropriate given the goal of late payment fees compensating
19 the Company (or more accurately, the other ratepayers) for the cost of carrying the debt.

20 **Q. DOES MR. COLTON'S SCHEDULE RDC-1, PAGE 2 OF 2, SHOW THE EFFECT**
21 **ON CUSTOMERS OF USING A DIFFERENT PARTIAL PAYMENT**
22 **ALLOCATION APPROACH THAN IS EMPLOYED BY PGW?**

23 A. No. While Mr. Colton – in broad brush manner – describes Schedule RDC-1, page 2 of
24 2, as clearly demonstrating the "continuing growth in the outstanding interest-bearing
25 principal," resulting from PGW's approach, he does not explain the schedule or

1 specifically describe what it shows. Indeed, to the extent that this schedule was
2 presented to compare PGW's approach with his preferred approach, the columns differ
3 between Schedule RDC-1, page 1 of 2, and Schedule RDC-1, page 2 of 2, making such a
4 comparison difficult. For instance, the column headings are different and Schedule
5 RDC-1, page 2 of 2, contains no Column H. Also, this schedule is unreliable to the
6 extent it is using incorrect data from Schedule RDC-1, page 1 of 2. Moreover, no
7 information has been offered on this schedule or any other schedule to show the
8 difference between PGW's approach and Mr. Colton's recommendation, in terms of the
9 effect on a customer's total charges.

10 **Q. WHAT DOES MR. COLTON SAY ABOUT THE JUST AND REASONABLE**
11 **REQUIREMENT OF THE PUBLIC UTILITY CODE?**

12 A. Mr. Colton testifies that PGW's order of posting partial payments violates the "just and
13 reasonable" requirement of the Public Utility Code. (OCA St. No. 4 at 39).

14 **Q. DO YOU AGREE?**

15 A. No. In fact, it is PGW's view that to modify its order of posting partial payments in the
16 manner insisted upon Mr. Colton – regardless of which of my interpretations of his
17 recommendation is correct – would result in the practices being unjust and unreasonable.
18 This view is based on the fact that this approach would require other customers who are
19 timely paying their bills in full to further subsidize those customers who are not timely
20 paying their bills in full by allowing the latter group to delay or even indefinitely avoid
21 paying late payment charges.

22 **Q. WHAT DOES MR. COLTON SAY ABOUT THE COST BASIS FOR PGW'S**
23 **PARTIAL PAYMENT ALLOCATION PRACTICES?**

24 A. Mr. Colton testifies that there is no cost basis for PGW's partial payment allocation
25 practices. (OCA St. No. 4 at 39).

1 **Q. WHAT IS YOUR RESPONSE?**

2 A. The cost of service principles that apply to ratemaking are not applicable to the
3 imposition of late payment charges or a company's partial payment allocation practices.
4 Late payment charges are not wholly based on the carrying and collection costs incurred
5 by the company, but rather are also designed to incentivize customers to timely pay their
6 bills. Further, PGW's partial payment allocation practices are intended to ensure that the
7 customers who are not paying their bills on a full and timely basis are the ones who are
8 responsible for paying their own late payment charges. This approach is consistent with
9 the policy objectives of Chapter 14 in the Public Utility Code.¹⁷ It is noteworthy that
10 Chapter 14 contains a declaration of policy noting the General Assembly's view that "it is
11 appropriate to provide additional collection tools to city natural gas distribution
12 operations to recognize the financial circumstances of the operations and protect their
13 ability to provide natural gas for the benefit of the residents of the city."¹⁸

14 **Q. WHAT DOES MR. COLTON SAY ABOUT THE COMMISSION'S DIRECTIVES**
15 **REQUIRING PUBLIC UTILITIES TO EFFECTIVELY MANAGE CUSTOMER**
16 **ACCOUNTS TO PREVENT THE ACCUMULATION OF LARGE,**
17 **UNMANAGEABLE ARREARAGES?**

18 A. Mr. Colton testifies that PGW's partial payment allocation practices are inconsistent with
19 the Commission's directives requiring public utilities to effectively manage customer
20 accounts to prevent the accumulation of large, unmanageable arrearages. (OCA St. No. 4
21 at 41-42).

22 **Q. HOW DO YOU RESPOND?**

¹⁷ 66 Pa. C.S., Ch. 14.

¹⁸ 66 Pa. C.S. § 1402(4).

1 A. First, the provisions in the Commission's regulations that are cited by Mr. Colton set
2 forth the requirements that PGW must follow in determining when it is appropriate to
3 assess late payment charges. They do not provide any standards that are applicable to the
4 later sequencing of partial payments. Second, as I have testified, PGW's partial
5 payment allocation practices are consistent with the Commission's policies that are
6 designed to prevent the accumulation of large, unmanageable arrearages. They are
7 consistent with these goals by providing inherent incentives for customers to timely pay
8 their bills in full.

9 **Q. ARE THE REGULATIONS CITED BY MR. COLTON RELEVANT TO A**
10 **REVIEW OF THE SEQUENCING OF PARTIAL PAYMENTS?**

11 A. No. PGW follows the regulations cited by Mr. Colton, which apply only to the
12 assessment of late payment charges. They contain no requirements applicable to the
13 allocation of partial payments. Further, as I have noted, the regulations that apply to the
14 allocation of partial payments only require that they be applied first to prior charges for
15 basic service, without specifying that they must be applied in any particular order to the
16 various components of basic service charges.

17 **Q. DOES MR. COLTON PROVIDE ANY DATA IN AN ATTEMPT TO SHOW THE**
18 **EFFECT OF PGW'S POSTING ORDER ON CUSTOMERS?**

19 A. Yes. Mr. Colton refers to data published by the Commission's Bureau of Consumer
20 Services regarding the number of PGW residential customers in debt and their average
21 monthly arrears and claims that the financial impact on residential customers "would be
22 substantial." (OCA St. No. 4 at 42-43).

23 **Q. PLEASE RESPOND.**

24 A. Mr. Colton's conclusion is based only on data showing the number of residential
25 customers who are in debt, the average monthly arrears that they owe and the number of

1 these customers who are Confirmed Low-Income customers. Although he claims that the
2 impact of PGW's posting order is "substantial," he does not quantify this impact in any
3 way. Further, the data he presents does not provide any information about the number of
4 customers who are making partial payments. I note that the record in the proceeding
5 culminating in the *SBG Order* shows that the effect is relatively minimal.¹⁹ Mr. Colton
6 also does not address the impact of the changes he recommends on customers who timely
7 pay their bills in full.

8 **Q. IN DISCUSSING MR. COLTON'S RECOMMENDATIONS EARLIER, YOU**
9 **INDICATED THAT HE SEEMS TO SUPPORT AN APPROACH WHEREBY**
10 **PGW WOULD ALLOCATE PARTIAL PAYMENTS TO GAS SERVICE OR**
11 **"PRINCIPAL" BEFORE THEY ARE POSTED TO ANY LATE PAYMENT**
12 **CHARGES. IF THAT IS HIS RECOMMENDATION, WHAT WOULD BE THE**
13 **EFFECT OF ADOPTING IT?**

14
15 A. If PGW would be required to first allocate partial payments to basic charges for gas
16 service or "principal" before any payments could be posted to outstanding late payment
17 charges, this practice would permit delinquent account customers to systematically avoid
18 paying late payment charges, which is not consistent with the policy objectives of
19 Chapter 14 of the Public Utility Code.²⁰ For example, under PGW's current practice, if a
20 customer has an unpaid principal balance of \$100,000 and unpaid late payment charges
21 of \$20,000, for a total balance due of \$120,000, and the customer pays \$100,000, that
22 partial payment would first pay off the \$20,000 in late payment charges and then reduce
23 the unpaid principal balance to \$20,000.

¹⁹ *SBG Order* (Initial Decision at 44-51).

²⁰ 66 Pa. C.S. Ch. 14.

1 Under an approach that requires partial payments to first pay off the “principal”
2 before posting a payment to the late payment charge, the same customer could pay
3 \$100,000 to reduce its principal balance to zero, leaving the entire \$20,000 in late
4 payment charges unpaid. The customer could then begin to accrue a new unpaid balance
5 of so-called “principal” charges, which it could subsequently pay, again without ever
6 paying the original unpaid late payment charges of \$20,000. This allocation rule could
7 help delinquent customers to avoid paying their late payment charges and shift the cost of
8 the service of carrying delinquent accounts from the delinquent customers to PGW’s
9 other customers.

10 **Q. WHAT IMPACT WOULD A CHANGE IN THE PARTIAL PAYMENT**
11 **ALLOCATION PRACTICES HAVE ON PGW’S OPERATIONS?**

12 A. The current partial payment allocation practices of PGW have been in place for many
13 years and are embedded in PGW’s billing system. Changes to those practices would
14 require system wide modifications of PGW’s current payment application and billing
15 process, which include new code development, and wide-ranging quality assurance and
16 user acceptance testing. These measures would be necessary to ensure that the
17 implementation of any new billing practices does not result in massive, Company-wide
18 billing errors.

19 **Q. PLEASE DESCRIBE THE TIMEFRAME AND COSTS THAT WOULD BE**
20 **INVOLVED.**

21 A. The timeframe and the costs involved – which will be passed along to customers
22 – are significant. PGW would be required to totally reprogram its bill payment program
23 for hundreds of thousands of customers. I estimate that it would take 33 weeks to
24 develop the code to reprogram the complex changes that would be entailed. In addition,
25 it would take another 24 weeks for quality assurance and user acceptance testing.

1 Notably, Mr. Colton did not develop the cost impact of PGW refraining from its
2 practice.²¹ Nor did he consider the level of cost that would be incurred by PGW to make
3 the necessary modifications to its billing system to accommodate his recommended
4 changes to its partial payment allocation practices.²²

5 **Q. WHAT IS YOUR RECOMMENDATION IF THE COMMISSION DESIRES TO**
6 **ESTABLISH A SPECIFIC METHOD TO BE EMPLOYED BY PUBLIC**
7 **UTILITIES IN APPLYING PARTIAL PAYMENTS TO PRIOR BASIC SERVICE**
8 **BALANCES?**

9 A. If the Commission desires to establish a specific method to be employed by public
10 utilities in applying partial payments to prior basic service balances, I believe that the
11 appropriate approach would be for the Commission to initiate a rulemaking proceeding,
12 rather than establishing a rule in the context of a base rate proceeding (or a complaint
13 proceeding) involving one public utility.²³ In that manner, the Commission could
14 determine the various public utilities' practices, as well as the rationales for and the
15 results of their approaches. In addition, use of the regulatory review process to establish
16 industry-wide standards would make the Commission aware of any operational or policy
17 impacts that may be experienced by public utilities as a result of a regulatory requirement
18 for a particular method of applying partial payments to balances for prior service. It is
19 important for the Commission to obtain comment and feedback from the industry or other
20 stakeholders as to the practical implications of any particular method, which would
21 enable it to weigh the pros and cons of different ways of applying partial payments. For

²¹ PGW Exhibit BLC-2 (OCA Discovery Responses to PGW-II-39).

²² PGW Exhibit BLC-2 (OCA Discovery Responses to PGW-II-32).

²³ Counsel advises that the only lawful means by which the Commission may establish industry-wide standards is through a rulemaking proceeding.

1 instance, PGW's method makes customers responsible for paying their own late payment
2 charges, thereby reducing uncollectible expenses that are borne by other customers –
3 which is consistent with the intent and procedures set forth in Chapter 14.

4 **III. RECOMMENDATIONS IMPACTING ABILITY TO COLLECT**

5 **Q. CAN YOU PLEASE EXPLAIN GENERALLY THE IMPORTANCE TO PGW OF**
6 **BEING ABLE TO COLLECT REVENUE FOR THE SERVICE THAT IS**
7 **PROVIDED?**

8 A. Yes. The level of cash on hand is a key determinant of the financial strength of a cash
9 flow regulated utility. As explained in the direct testimony of Mr. Graves, PGW's
10 revenue requirement is determined by having adequate cash flow and debt service
11 coverage (which is also based on cash) rather than by having a target accrued return on
12 equity. (PGW St. No. 4 at 19). Not being paid for service provided reduces cash receipts
13 and has a negative effect of PGW's cash flow and debt service coverage. Simply put,
14 without cash receipts, there is less cash on hand to pay for operations (i.e., to keep the
15 business running) and shortfalls in the capital improvement program.

16 **Q. DO MR. COLTON AND MR. GELLER OFFER PROPOSALS THAT COULD**
17 **NEGATIVELY IMPACT THE ABILITY OF PGW'S COLLECTIONS AND ITS**
18 **AVAILABLE CASH ON HAND?**

19 A. Yes. Both Mr. Colton and Mr. Geller offer proposals intended to address concerns they
20 have about the ability of low income customers to acquire and/or maintain service for
21 which they do not pay. While Ms. Adamucci and Dr. Peach will address various aspects
22 of these proposals, the focus of my rebuttal is to discuss how the proposals of Mr. Colton
23 and Mr. Geller can negatively impact the ability of PGW to receive payment for services
24 rendered.

1 A. **LIHEAP Crises Grant Policy**

2 **Q. PLEASE EXPLAIN MR. GELLER'S PROPOSAL REGARDING LIHEAP CRISIS**
3 **GRANTS AND YOUR CONCERN?**

4 A. Mr. Geller proposes that PGW accept any amount of a LIHEAP crisis grant to restore
5 service (TURN St. No. 1 at 35-36). While Ms. Adamucci more fully explains PGW's
6 current practices and Dr. Peach offers his view about why the proposal should be
7 rejected, I am concerned about how Mr. Geller's proposal would impact PGW's ability to
8 collect outstanding arrearages going forward.

9 **Q. PLEASE EXPLAIN.**

10 A. As I understand Mr. Geller's proposal, he is suggesting that PGW should accept any
11 amount of a LIHEAP crisis grant to restore service to a previously terminated customer
12 or a customer on a termination path without regard for any of the costs incurred or plan to
13 address payment of the arrearages owed. His proposal to accept less than the amount
14 required to restore service does not address the fact that costs have been expended by the
15 Company to terminate the service and additional costs would be incurred to restore the
16 service. Most likely, the person's service was terminated due to non-payment meaning
17 that arrearages have accrued on the account – another issue Mr. Geller does not address.
18 Requiring the Company to restore service for an amount that fails to compensate it for the
19 costs incurred and/or addressing the outstanding arrearages only exacerbates the problem
20 of increasing the amount of uncollectible debt. I note that, unlike other utilities, PGW
21 must physically shut off service at the curb valve or at the meter. Approximately one
22 quarter of PGW's premises do not have curb valves and over 80% of PGW meters are
23 inside the premises – this presents a challenge to terminate service because termination
24 requires either excavation or access to the meter. In addition to the challenges, there are

1 costs. Excavation can cost several thousand dollars. Additionally, gaining entry into a
2 property to effectuate non-payment shut-offs is often unsuccessful or requires multiple
3 attempts thereby increasing field service labor costs.

4 **Q. DO YOU HAVE OTHER CONCERNS WITH THIS PROPOSAL?**

5 A. Yes. I am concerned that it could wrongly incent consumers to allow service to be
6 terminated and then receive a LIHEAP crisis grant in any amount to restore service
7 without ever being required to address the outstanding arrearage or the on-going increase
8 in the arrearage. In addition, for customers on a termination path, this policy would
9 incent customers to accumulate large arrearages and not pay them. Consumers should be
10 positively incented to pay their bills and this proposal sends the opposite message which
11 could have a negative impact on the ability of PGW to collect revenue for services
12 rendered which will have a negative effect on its cash flow and debt service coverage.

13 **B. Termination Procedures**

14 **Q. IS MR. GELLER CRITICAL OF WHAT HE CALLS PGW'S "TERMINATION**
15 **POLICIES"?**

16 A. Yes. Mr. Geller takes the position that PGW should be doing more to avoid terminations
17 and facilitate reconnections and offers several recommendations intended to address his
18 concerns. (TURN St. No. 1 at 20).

19 **Q. WHAT IS YOUR RESPONSE TO THIS CRITICISM?**

20 A. While both Ms. Adamucci and Dr. Peach address this criticism and the proposals offered
21 by Mr. Geller, I want to add that the use of termination is a tool that PGW has to reduce
22 its uncollectible debt. As stated previously, not being paid for services provided reduces
23 cash receipts and has a negative effect on PGW's cash flow and debt service coverage.
24 Without cash receipts, there is less cash on hand to pay for operations and shortfalls in

1 the capital improvement program. Because PGW's termination process is a tool that
2 assists in both incentivizing customers to pay for services rendered and not requiring
3 PGW to continue to provide free services for which it will not get paid, PGW's
4 termination process is an important and necessary tool for the benefit of all PGW
5 ratepayers.

6 **C. Prudent Collections Management Activities**

7 **Q. PLEASE EXPLAIN WHY MR. COLTON TAKES THE VIEW THAT PGW DOES**
8 **NOT "ENGAGE IN PRUDENT MANAGEMENT ACTIVITIES" REGARDING**
9 **THE TREATMENT OF ACCOUNTS IN ARREARS.**

10 A. Mr. Colton makes the claim that "PGW does not use its own customer research to help
11 guide its credit and collection responses" and cites to a customer segmentation study
12 from 2005 as proof. (OCA St. No. 4 at 67-69).

13 **Q. WHAT IS YOUR RESPONSE TO THESE CLAIMS?**

14 A. PGW does employ a risk-based collection strategy. The core basis of the strategy is a
15 multi-pronged analysis that assigns a risk score associated with the customer's propensity
16 to pay. Mr. Colton's reliance on a study from twelve years ago in comparison to PGW's
17 practices today is not compelling

18 I also reject Mr. Colton's underlying premise: that PGW is doing an inadequate
19 job at collections because it is not employing Mr. Colton's preferred collection strategy.

20 I would note in fact that PGW has steadily improved its collections performance. As can
21 be seen by examining data presented in Mr. Stunder's rebuttal testimony (PGW St. No.
22 1R), PGW has steadily improved its uncollectible rate so much so that another OCA
23 witness is recommending that a 97% collections factor be used to calculate bad debt
24 expense and commented that "[t]he annual collection rates since 2015 demonstrate that
25 PGW is successfully collecting more of its billed revenues." (OCA St. No. 1 at 18.) I

1 believe that this recognition shows that PGW's present collections tools are working and
2 there is no need to examine an out of date study or to consider the recommendations of
3 someone who has never worked for a utility or in collections as far as I am aware.

4 ***D. Accounts with Arrears Exceeding \$10,000***

5 **Q. WHAT RECOMMENDATIONS DOES MR. COLTON MAKE REGARDING**
6 **CUSTOMERS WITH ARREARS EXCEEDING \$10,000?**

7 A. Mr. Colton recommends that PGW engage in a twelve month collaborative process to
8 determine methods and mechanisms by which it: (1) will offer energy education
9 specifically targeted to these accounts; (2) engage in energy efficiency and conservation
10 outreach and programming targeted to these accounts;, and, (3) engage in LIURP
11 eligibility determinations, outreach and programming specifically targeted to these
12 accounts. (OCA St. No. 4 at 67).

13 **Q. WHAT IS THE "PROBLEM" THAT MR. COLTON IS ATTEMPTING TO FIX**
14 **WITH THIS RECOMMENDATION?**

15 A. I am not sure. Mr. Colton acknowledges that PGW has reduced its arrears exceeding
16 \$10,000 from 2015 to 2016, with the number of accounts with arrears greater than
17 \$10,000 declining from 345 to 299 such accounts. (OCA St. No. 4 at 64). Further, he
18 concedes that the total amount of the arrears declined from 2015 to 2016, with the total
19 amount dropping from \$4,930,634 (which he erroneously indicates was \$4,930,934) to
20 \$4,122,061. Yet, he still proceeds to propose a twelve month collaborative process to
21 examine a series of issues that are not likely to result in any meaningful reductions in
22 arrears for this group of customers.

23 **Q. WHY DO YOU NOT THINK THE COLLABORATIVE MR. COLTON**
24 **SUGGESTS WOULD RESULT IN ANY MEANINGFUL REDUCTIONS IN**
25 **ARREARS FOR THESE CUSTOMERS?**

1 A. First, a collaborative process that examines offering energy education specifically
2 targeted to these accounts would be meaningless since the issue is not their energy usage
3 but rather the failure of these customers to pay their bills. Reducing the future
4 consumption of natural gas will not make a dent in reducing their existing arrearages.
5 Second, a collaborative process that discusses engaging in energy efficiency and
6 conservation outreach and programming targeted to these accounts would be a waste of
7 the Company's resources. Again, these are non-paying customers with arrearages over
8 \$10,000, which levels will not decline because they receive a subsidized energy efficient
9 appliance or education. Third, a collaborative process to consider engaging in LIURP
10 eligibility determinations, outreach and programming specifically targeted to these
11 accounts would not be productive. LIURP is available only for CRP customers – who
12 pay a bill that is based on a percentage of household income; this bill is not lowered by
13 LIURP. The LIURP subsidies that may be available would not make any impact on
14 CRP customers' high arrearages or their future bills.

15 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT HIS**
16 **RECOMMENDATION?**

17 A. Yes. Mr. Colton is not a collections expert and has no experience in performing utility
18 debt collection. Yet, he offers his recommendation from "a credit and collection
19 perspective," concluding that "PGW would be better served to devote efforts and
20 resources to bill management than to service terminations for nonpayment." (OCA St.
21 No. 4 at 67).

22 **Q. BESIDES THE UNPRODUCTIVE NATURE OF THE COLLABORATIVE THAT**
23 **HE RECOMMENDS, WOULD IT BE GOOD POLICY FOR PGW?**

24 A. No. Even though Mr. Colton acknowledges that customers who owe PGW \$10,000 or
25 more in arrearage cost PGW and its ratepayers money, he argues that PGW and its

1 ratepayers should reward these non-paying customers with significant arrearages with
2 “energy education,” energy efficiency and conservation outreach, and LIURP outreach
3 and services. (OCA St. No. 4 at 47). Thus, Mr. Colton’s conclusion is that the way to
4 address customers who fail to accept responsibility for their bills and cost PGW and its
5 ratepayers money is to spend more money on them to provide them with free energy
6 education and weatherization services. I do not believe that his recommended solution is
7 good policy for PGW. Nor is it consistent with Commission policy.

8 **Q. BESIDES THE DECLINES IN ARREARS OVER \$10,000 NOTED ABOVE,**
9 **WHAT INFORMATION DID MR. COLTON REVIEW IN MAKING HIS**
10 **RECOMMENDATION?**

11 A. Mr. Colton identified the 131 accounts that appeared on the 2015 and 2016 lists of
12 residential accounts over \$10,000 or more.²⁴ Within that population of 131 accounts, he
13 focused on the 59 accounts that increased their arrears from 2015 to 2016.

14 **Q. DO YOU HAVE ANY OBSERVATIONS ABOUT THIS PORTION OF MR.**
15 **COLTON’S ANALYSIS?**

16 A. Yes. A significant number of these accounts had debt that was uncollectible through
17 regular collection methods, such as termination, and was instead being recovered under a
18 payment amortization plan or a CRP. Of the 137 accounts, which represented \$1,989,355
19 of the reported arrears, 80 accounts were either enrolled in CRP or on a payment
20 arrangement for both years. Of these 80 accounts, 45 accounts were enrolled in CRP for
21 both years. When more closely examining the arrears associated with the 137 accounts,
22 73 accounts were enrolled in CRP in 2016 and this group of CRP customers represented

²⁴ I note that PGW’s records show that the number of accounts that appeared on both lists is 137.

1 \$1,021,587 or 51% of the arrears. If active payment arrangements are factored in, the
2 amount of arrears associated with the 137 accounts increases to 56%.

3 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS ABOUT HIS ANALYSIS?**

4 A. Yes. I think it is unreasonable for Mr. Colton to base his analysis and his demand that
5 PGW devote time and resources to a twelve-month collaborative process on the non-
6 payment patterns of 59 customers with arrears exceeding \$10,000.

7 **Q. WHAT DOES MR. COLTON CONCLUDE ABOUT SERVICE TERMINATIONS**
8 **FOR NONPAYMENT?**

9 A. Mr. Colton concludes that “the lack of service terminations for nonpayment does not
10 appear to have a substantive impact on whether or not an account experienced increases
11 in arrears.” (OCA St. No. 4 at 66).

12 **Q. DOES THE DATA REVIEWED BY MR. COLTON SUPPORT THIS**
13 **CONCLUSION?**

14 A. No. What Mr. Colton’s analysis fails to consider is that not all reported arrears are
15 subject to and available for regular collection methods, such as termination. The
16 accounts that have \$10,000 or more in arrears, which are reported to the Commission,
17 include accounts that are on payment agreements and CRP accounts. Reporting of CRP
18 accounts is required even though the CRP frozen arrearage is not collectible through the
19 regular collection processes and is recovered under the Universal Service and Energy
20 Conservation Surcharge over time only if the customer pays the monthly bill in full.

21 **Q. PLEASE PROVIDE THESE DETAILS FOR THE 345 ACCOUNTS REPORTED**
22 **FOR 2015.**

23 A. Of the 345 accounts reported for 2015, as of December 31, 2015: (i) 177 accounts were
24 on CRP; (ii) 29 accounts were on a payment agreement; (iii) 10 were tenant-landlord
25 accounts; and (iv) 129 were not on a CRP or a payment agreement. Thus, approximately

1 51% were on CRP and an additional approximately 8% were already on an active
2 payment agreement.

3 **Q. PLEASE PROVIDE THESE DETAILS FOR THE 299 ACCOUNTS REPORTED**
4 **FOR 2016.**

5 A. Of the 299 accounts reported for 2016, as of December 31, 2016: (i) 139 accounts were
6 on CRP; (ii) 25 were on a payment agreement; (iii) 4 were tenant-landlord accounts; and
7 (iv) 131 were not on CRP or a payment agreement at the time. Thus, approximately 55%
8 of the accounts reported arrears were not available for termination due to the customer
9 either being enrolled on CRP or a payment agreement.

10 **Q. WHAT IS THE SIGNIFICANCE OF THESE STATISTICS?**

11 A. Since well over half of the accounts with over \$10,000 in arrears are not available for
12 regular collection methods, including termination, meaningful conclusions cannot be
13 drawn about the impact of terminations on whether or not an account experienced
14 increases in arrears.

15 **Q. WHAT DOES MR. COLTON CONCLUDE ABOUT AVERAGE BILLS?**

16 A. Mr. Colton concludes that the “primary factor that can be identified from the Company’s
17 annual reports on account balances exceeding \$10,000 involves the level of the average
18 monthly bill.” (OCA St. No. 4 at 67).

19 **Q. IS MR. COLTON’S CONCLUSION CORRECT?**

20 A. No. Mr. Colton claims that \$150 is the average monthly bill amount that makes a
21 difference, since – for those who were on the 2015 and 2016 \$10,000+ report - 76% of
22 those with bills of \$150 or less reduced their arrears while 45.9% of those with bills over
23 \$150 reduced their arrears. Mr. Colton’s conclusion regarding average bills fails to

1 acknowledge that an average monthly bill is only reported for customers whose service
2 has been active for the prior 12 months.

3 **Q. HOW MANY OF THESE CUSTOMERS HAD AN AVERAGE MONTHLY BILL**
4 **REPORTED?**

5 A. In 2015, only 65% of customers (225 out of 345) had an average monthly bill reported,
6 and in 2016, only 71% of customers (213 out of 299) had an average monthly bill
7 reported.

8 **Q. DOES MR. COLTON'S REVIEW FAIL TO ACKNOWLEDGE OTHER**
9 **FACTORS?**

10 A. Yes. Mr. Colton's limited review, which he uses to support broad conclusions about the
11 usage/monthly bills of the customers in this report (and his determination on appropriate
12 collection processes for these customers) also fails to acknowledge any factors that could
13 impact a customer's/premises' usage such as size of the home, social changes to the
14 family such as birth of a baby, age of household members, etc. It is also important to
15 note that the average bill amount is based on the premise, not the specific customer's
16 average monthly bill/usage.

17 **Q. WHAT DOES MR. COLTON CONTEND WITH RESPECT TO THE**
18 **ACCOUNTS HAVING HAD ZERO NONPAYMENT DISCONNECTIONS?**

19 A. Mr. Colton argues that termination does not impact bill payment because "70% of the
20 accounts having had zero nonpayment disconnections decreased their arrearages from
21 2015, while 57% of the accounts having had only one nonpayment disconnection reduced
22 their arrearages. In contrast, of the 25 accounts with five or more nonpayment
23 disconnections, 15 decreased their account balance while 10 increased their account
24 balances." OCA St. No. 4 at 66.

25 **Q. HOW DO YOU RESPOND?**

1 A. Of the 137 accounts reported in both 2015 and 2016, only 27 reported zero terminations
2 in both years. The reason for lack of termination for these was not a collection policy.
3 When further examining those accounts, 24 out of the 27 were either enrolled on CRP or
4 a payment agreement for both years (with 12 being on CRP both years) – and thus
5 ineligible for termination. More relevant, the reported number of times a customer was
6 terminated for non-payment is over the life of the debt, not based on terminations in that
7 year. PGW has almost half a million residential customers but Mr. Colton concludes that
8 termination does not impact high bill payment based on a review of the number of times
9 345 accounts with unusually high arrears were subjected to termination over their life
10 span. Mr. Colton's analysis is woefully inadequate and should not be given any weight.

11 **Q. WHAT DOES MR. COLTON SAY ABOUT THE ROLE PLAYED BY**
12 **COMPANY-PROVIDED PAYMENT AGREEMENTS?**

13 A. Mr. Colton concludes that Company-provided payment agreements did not play a
14 substantive role in reducing account balances for the 137 customers owing \$10,000 or
15 more in both 2015 and 2016. OCA St. No. 4 at 66.

16 **Q. DO YOU AGREE?**

17 A. No. As a preliminary observation, a payment agreement is generally designed to assist a
18 customer with paying off debt – for customers who fail to pay a significant amount of
19 their bills, the value of a payment agreement could possibly decrease but that does not
20 lead to a conclusion that the customer in arrears should not be offered a payment
21 agreement if required under PUC regulation. Further, when examining the 137 accounts,
22 73 were enrolled on CRP (which is essentially a payment agreement) in 2016 and 56 of
23 these CRP customers or 77% reduced their arrears.
24

1 **IV. BUDGET BILLING**

2 **Q. WHY DOES MR. COLTON RAISE BUDGET BILLING ISSUES IN THIS**
3 **PROCEEDING?**

4 A. According to Mr. Colton, budget billing assists customers to pay their bills in a full and
5 complete fashion over the course of a year, and helps the Company to stabilize its receipt
6 of revenue over the course of the year thus ameliorating the need to move more of its
7 billings into fixed monthly charges. (OCA St. No. 4 at 51).

8 **Q. WHAT CRITICISMS DOES MR. COLTON RAISE REGARDING PGW'S**
9 **BUDGET BILLING POLICIES?**

10 A. Mr. Colton claims that not enough of PGW's customers are enrolled in budget billing and
11 PGW "would be well-served to increase" its enrollment numbers. (OCA St. No. 4 at 51).
12 To that end, Mr. Colton recommends that: (1) budget billing amounts reflect the "average
13 estimated public utility service costs" over a 10-, 11- or 12-month period; (2) customers
14 entering into a new payment arrangement ("PAR") be required to also enter into budget
15 billing at the same time and not be removed from budget billing once the PAR is
16 completed without an express request from the customer; and, (3) PGW modify its year-
17 end budget bill processes. (OCA St. No. 4 at 57-64).

18 **Q. WHAT TYPE OF BUDGET BILLING DOES PGW OFFER CUSTOMERS?**

19 A. As described more fully in the rebuttal testimony of Ms. Adamucci, PGW offers a
20 voluntary budget billing program to residential customers known as Easy Way. In
21 addition to this, the majority of customers with PARs are also on budget billing though
22 not through the Easy Way Budget program. Therefore, Mr. Colton's second
23 recommendation is already being implemented by the Company.

24 **Q. DO YOU AGREE THAT BUDGET BILLING CAN REDUCE ARREARS?**

1 A. No, although I do agree that budget billing is a good option to offer customers and that
2 any policies assisting customers with the payment of their bills are generally salutary.
3 However, PGW's Easy Way budget billing program already consists of "good payers"
4 because residential customers are not able to enter the program unless they are current on
5 their bills. Further, if the Easy Way billing customer misses two consecutive payments,
6 he/she is removed from the program. I would also note that customers participating in
7 PGW's CRP are not eligible for budget billing because their asked-to-pay month amount
8 is based on their income and not their usage.

9 **Q. DO YOU AGREE THAT BUDGET BILLING CAN STABILIZE REVENUE**
10 **RECEIPT?**

11 A. I do agree that there may be some improvement in the ability of PGW to collect payments
12 through budget billing programs but I do not believe it would be consistent with the level
13 Mr. Colton offers in his testimony.

14 **Q. PLEASE EXPLAIN.**

15 A. Mr. Colton's analysis includes assumptions that are not accurate. First, he fails to
16 recognize that customers with arrearages are not able to enroll in the Easy Way budget
17 billing program and, therefore, the Company would not have any greater assurance of
18 collecting these amounts. Second, Mr. Colton assumes that all customers on Easy Way
19 budget billing would be full payers of the budget. As noted above, if a customer on an
20 Easy Way Budget bill misses two consecutive payments, he/she is removed from the
21 program.

22 **Q. DOES YOUR EXPERIENCE WITH THE COLLECTABILITY RATE OF PGW'S**
23 **CUSTOMERS SUPPORT THE VIEW OF MR. COLTON REGARDING THE**
24 **IMPACT OF PLACING MORE CUSTOMERS IN THE EASY WAY BUDGET**
25 **BILLING PROGRAM?**

1 A. No. While the collectability rate for Easy Way budget billing customers is high, as noted
2 in my previous response, customers electing to participate in the program are generally
3 “good payers.” Since a substantial number of PGW’s PARs also include budget billing
4 (unless the customer does not want it), I considered the collectability of PGW’s PARs
5 which – at the end of FY16 – was 76%. This number, however, does not directly
6 correlate to what would be expected if all customers were placed into a PAR with budget
7 billing because it only includes customers on active PARs or just one payment behind.
8 The number does not reflect all the customers who were once on a PAR and broke the
9 agreement. The other collectability rate I considered is the one for residential customers
10 who are not on a PAR, not in CRP and not in Easy Way. For these customers, at the end
11 of FY16, their collectability rate was 42%. I believe that a collectability rate for
12 customers placed on budget billing without any restrictions (i.e. the requirement to
13 maintain payments) would be much closer to the general 42% collectability rate of
14 PGW’s residential customers who are not in any type of payment assistance program.
15 Based on my experience, the general payment habits of a customer do not vary too
16 significantly because they are able to pay on a levelized payment plan.

17 **Q. DO YOU HAVE OTHER ISSUES REGARDING MR. COLTON’S PROPOSAL?**

18 A. Yes, similar to the concerns expressed previously, Mr. Colton does not address the
19 realities of arrears which is something that the Company cannot ignore from a collections
20 standpoint. If he is proposing that all customers regardless of arrears are placed in budget
21 billing and unable to be removed for future arrears, then the question becomes how long
22 will the customer have to pay off that arrears? Depending on the level of arrears, the
23 amount could be significant meaning that: (1) the customer’s monthly bill will be large;
24 and/or, (2) the Company will be required to bear the cost of not receiving that revenue.

1 **Q. IS MR. COLTON'S CRITICISM ABOUT PGW'S BUDGET BILLING**
2 **ENROLLMENT NUMBERS VALID?**

3 A. No. Importantly, Mr. Colton only analyzes PGW's Easy Way Budget program, which is
4 available only to residential customers who are current on their accounts.²⁵ As I stated
5 previously, residential customers who enter into a new PAR are generally required to
6 have a budget bill (unless the customer has a Protection From Abuse order and/or
7 specifically asks not to be placed on budget billing). Currently there are approximately
8 only 68 customers (including commercial customers) on a PAR that does not include
9 budget billing. By not looking at the full number of customers who are either enrolled in
10 the Easy Way Budget billing plan or have budget billing with their PAR, Mr. Colton's
11 conclusion that less than 10% of PGW's residential customers are availing themselves of
12 some form of budget billing is not accurate.

13 **Q. CAN PGW REQUIRE CUSTOMERS TO ENROLL IN BUDGET BILLING?**

14 A. No. Some customers likely do not want to be on the Easy Way program and I am
15 advised by counsel that the Commission's regulations require utilities to offer budget
16 billing as an option for the customer and not a requirement.²⁶

17 **Q. DO YOU SUPPORT MR. COLTON'S RECOMMENDATION TO**
18 **AUTOMATICALLY MAINTAIN A CUSTOMER ON BUDGET BILLING AT**
19 **THE END OF THEIR PAR?**

20 A. No, I have been advised by counsel that Mr. Colton's recommendation is not consistent
21 with current PUC regulations stating that budget billing is an option for the customer, not
22 a requirement.²⁷

²⁵ Mr. Colton's analysis relies on discovery responses from PGW specifically limited to providing data about its Easy Way budget billing program. Mr. Colton did not ask any discovery questions about PARs and budget billing.

²⁶ 52 Pa. Code § 56.12(7).

1 **Q. WHAT CRITICISM AND RECOMMENDATION DOES MR. COLTON OFFER**
2 **REGARDING YEAR-END BUDGET BILLING PROCESSES?**

3 A. Mr. Colton postulates that Easy Way customers leave the program due to end-of-year
4 problems which he believes are the result of “unreasonable” amortization periods for
5 year-end underpayments. (OCA St. No. 4 at 61-64). He also argues that customers with
6 arrearages between \$150 and \$300 at the end of the year mean that PGW has under-
7 estimated the heating bill by at least one full month. (OCA St. No. 4 at 62-63).

8 **Q. PLEASE EXPLAIN PGW’S TRUE-UP BILLING AND ON-GOING**
9 **MONITORING OF BUDGET AMOUNTS.**

10 A. At the end of 12 months of Easy Way billing, the Company engages in a true-up
11 reconciliation that bills customers for gas used but not paid within the 12 months of the
12 Easy Way budget and to reset the budget amount for the next budget billing period. For
13 balances less than \$100, customers are asked to pay that amount immediately. For
14 balances between \$100 and \$299, customers are billed those balances over six months.
15 For any balance of \$300 or over, customers are billed that balance over 12-months.

16 **Q. REGARDING THE TRUE-UP BILLING, WHAT DOES MR. COLTON**
17 **RECOMMEND?**

18 A. Mr. Colton believes that the repayment periods should be increased. For year-end true-
19 up balances greater than \$100 but less than \$300, Mr. Colton recommends that the
20 balance be spread over six months – PGW already does so. For true-ups of \$300 or
21 more, Mr. Colton recommends that they be spread out over a future period and claims
22 that PGW has “misconstrued” the Commission’s regulations permitting a utility to

²⁷ 52 Pa. Code § 56.12(7).

1 amortize amounts exceeding \$300 over at least a 12-month period at the request of the
2 customer.²⁸

3 **Q. DO YOU AGREE WITH THESE RECOMMENDATIONS?**

4 A. No. I am advised by counsel that PGW's collection of Easy Way true-up balances is
5 directly consistent with the language of the Commission's regulation.²⁹ In addition, the
6 regulation only requires that PGW amortize the true-ups upon customer request, but
7 PGW provides all customers with true-ups in these ranges with an amortized period. I
8 would also note that PGW is concerned with the fairness to other customers of permitting
9 the carrying of debt for a significant period of time for a customer who received the
10 benefit of a lower bill and under current PGW policy would automatically be provided
11 with a full year to pay the true-up amount. Other customers not enrolled in Easy Way
12 would be expected to timely pay their bills or be assessed a late payment charge. In
13 addition, as I have testified previously, the more debt the Company is required to incur
14 without receiving payment for service rendered, the more stress this places on the cash on
15 hand available to pay for operations and shortfalls in the capital improvement program.

16 **V. DISCONTINUANCE OF SERVICES TO LEASED PREMISES**

17 **Q. PLEASE EXPLAIN MR. GELLER'S CONCERNS REGARDING PGW'S**
18 **PROCESSES REGARDING THE DISCONTINUANCE OF SERVICE TO**
19 **LEASED PREMISES.**

20 A. Mr. Geller takes the view that PGW has not put in place "adequate policies" to ensure its
21 compliance with Section 1521 of the Public Utility Code which addresses the

²⁸ Mr. Colton also references the "PUC's ability-to-pay guidelines" but does not provide any cite or reference to these guidelines.

²⁹ 52 Pa. Code § 56.12(7). This includes Mr. Colton's view that the phrase "at least a 12-month period" somehow means that PGW must offer amortization for a longer period.

1 discontinuance of service to premises that are likely to be tenant occupied and makes
2 several recommendations that he claims will address his concerns. (TURN St. No. 1 at
3 37). Mr. Geller is critical of PGW's processes for determining that a dwelling unit is
4 tenant occupied. (TURN St. No. 1 at 38-40). Based only on a review of data regarding
5 the notices PGW has provided to premises, Mr. Geller speculates that PGW does not
6 provide adequate notice to all affected tenants when PGW attempts to collect from a
7 landlord-ratepayer.

8 **Q. PLEASE EXPLAIN PGW'S POLICIES TO DETERMINE THAT A DWELLING**
9 **UNIT IS TENANT OCCUPIED?**

10 A. When the service agreement is initially set up, PGW verifies whether the property is
11 tenant occupied. If there is any question as to whether a property is tenant occupied,
12 PGW will send personnel to verify that the property is tenant occupied. PGW will also
13 send personnel to verify that a property is tenant occupied upon contact from the
14 customer.

15 **Q. DOES PGW PROVIDE TENANTS WITH THE PROTECTIONS AVAILABLE**
16 **TO TENANTS UNDER THE DISCONTINUANCE OF SERVICE TO LEASED**
17 **PREMISES STATUE BOTH BEFORE AND AFTER PGW TERMINATES**
18 **SERVICE TO A LANDLORD-RATEPAYER?**

19 A. Yes. If a landlord-ratepayer has service terminated, tenants are able to utilize the
20 protections set forth in the statute to pay and have service restored.

21 **Q. IS MR. GELLER CORRECT THAT PGW DOES NOT ADEQUATELY NOTIFY**
22 **TENANTS OF THEIR RIGHTS WHEN PGW PURSUES COLLECTION**
23 **AGAINST A LANDLORD-RATEPAYER?**

24 A. No. Mr. Geller claims that PGW sent only 163 notices to tenants over a period of more
25 than six and a half years informing them of their rights pursuant to Section 1523 of the
26 Code. (TURN St. No. 1 at 41). The number relied upon by Mr. Geller, however,
27 represents the number of notices sent to premises. It does not represent the number of

1 notices sent directly to the tenants. Logically, the number of notices to tenants would
2 have been greater. In any event, Mr. Geller is attempting to establish an alleged failure
3 on PGW's part based upon his speculation as to how many tenant notices PGW *should*
4 have sent out. This is not probative evidence of anything.

5 **VI. UNAUTHORIZED USE AND POST BANKRUPTCY POLICIES**

6 **Q. DOES MR. GELLER OFFER RECOMMENDATIONS REGARDING**
7 **UNAUTHORIZED USE AND POST-BANKRUPTCY POLICIES?**

8 A. Yes. Mr. Geller recommends that PGW begin to track the number of times it reverses a
9 determination of unauthorized use and document the reason. (TURN St. No. 1 at 42).
10 Mr. Geller also recommends that PGW review whether its adequate assurance deposit
11 requirements after a consumer has filed for bankruptcy are unreasonable. (TURN St. No.
12 1 at 43).

13 **Q. WHAT IS YOUR VIEW OF THESE TWO RECOMMENDATIONS?**

14 A. Regarding both issues, Mr. Geller's testimony only makes the allegation that there may
15 be concerns but he does not present any evidence to support those claims. Specifically
16 regarding PGW's post-bankruptcy policies, I am advised by counsel that those policies
17 are governed by the Bankruptcy Code under federal law and are not appropriately raised
18 here.³⁰

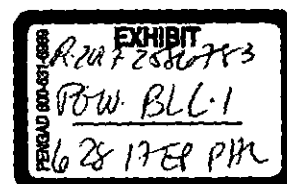
19 **VII. CONCLUSION**

20 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

21 A. Yes.

³⁰ In discovery requesting that Mr. Geller provide the statutory cite requiring that a consumer in bankruptcy has to pay an "adequate assurance" deposit, Mr. Geller responded that his testimony did not refer to a statutory requirement. PGW Exhibit BLC-2 (TURN Discovery Response to PGW-II-4).

Exhibit BLC-1



RULE 9 - BILLING AND PAYMENT FOR SERVICE (CONTINUED)

(C)

D. PAYMENT

(1) Bills are considered as received by customer when delivered via the U.S. Postal Service or mailed electronically to the premises where the service is supplied or an address mutually agreed upon. Delay in the receipt of or failure to receive bill does not extend the due date. **(C)**

(2) Bills may be paid during business hours at any commercial office or collection agency of the Company authorized to receive payments.

(3) Payment of bills by mail will be accepted as paid when postmarked before midnight on the due date or when received by the Company within five days after the due date. Payments of bills that are electronically transmitted to the Company will be accepted as paid on the date of the actual receipt of payment. **(C)**

(4) Payment of bills after the due date specified on the bill is subject to a late payment charge, as provided for in the applicable rate schedule.

(5) The customer is responsible for payment for use up to discontinuance or termination of service.

(6) In the event of discontinuance or termination of service at a residence or dwelling, the Company may transfer any unpaid balance to any other residential account of the same ratepayer, or in the event of termination, to a third-party guarantor's account.

(7) Regular employees who are head of a family and mainly responsible for the maintenance of the premises they occupy may secure up to 50% reduction in their bills for service under Residential Rate Schedule RS in lieu of other benefits available to other employees. This option is in the process of elimination and is limited to employees who are presently receiving such reduction and continue to live and work in the area previously served by the former Tariff Electric Pa. P.U.C. No. 196 (Scranton).

(8) Payments which are insufficient to pay for both a balance due for prior use and billing for current use are first applied to the balance due for prior use, except when an unpaid bill is a disputed bill or when a payment plan for an overdue balance is agreed upon.

E. BUDGET BILLING

Budget billing is available upon request for service under residential and general service rate applications except for temporary, seasonal, and speculative service. Budget billing may start in any month, for new or existing customers, and may be discontinued upon request at which time any difference between budget billing and billing based on actual use becomes due and payable. In any month when the amount billed for the previous billing period is overdue, budget billing may be terminated; any difference owed the Company is immediately due, and bills thereafter are rendered based on metered use.

When a residential customer elects budget billing, the Company estimates the bills over a 10-month, 11-month or 12-month period to eliminate, to the extent possible, seasonal fluctuations in utility bills. The Company shall review accounts at least three times during the optional billing period. At the conclusion of the budget billing year, a resulting reconciliation amount exceeding \$100, but less than \$300, shall be, at the request of the customer, amortized over a 6-month period. Reconciliation amounts exceeding \$300 shall be amortized over at least a 12-month period, at the request of the customer. Shorter amortization periods are permissible at the request of the customer.

When a non-residential customer elects budget billing, the Company bills the customer each month an amount equal to one-twelfth of the estimated annual charges under the rate schedule. The monthly charge is adjusted, as required, so that total payments at the end of the budget billing cycle approximately equal actual charges. When billing based on actual use exceeds charges at the end of the twelfth month, the excess is added to regular billing in equal increments over the succeeding four months with no penalty.

Each month, interest at the rate of one-twelfth of the average of 1-year Treasury Bills for the months of September, October, and November of the previous year is applied to funds in the customer's account which are the result of payments for the billed amount in excess of actual charges for service to date. No interest is charged when there is a negative balance.

(Continued)

(I) Indicates Increase **(D)** Indicates Decrease **(C)** Indicates Change

RULES AND REGULATIONS - Continued

16. PAYMENT TERMS

16.1 BILLING PERIOD. Billing for service will be based upon the amount of use and the time interval of its supply. Rate values stated for direct application to monthly periods will be adjusted when the time elapsed between readings is substantially greater or less than a month.

16.2 BILLING OPTIONS. A Low Volume Customer may select one of the following two billing options: (1) Consolidated NGDC Billing; or (2) Separate NGS Billing. If a Low Volume Customer does not make a selection, the Customer shall receive Consolidated NGDC Billing.

16.3 PAYMENT PERIOD. Bills are payable upon presentation, and payment may be made at any commercial office of the Company or at any authorized payment agency. Payment for service received must be made on or before the due date shown on the bill, which shall be not less than 20 days from the date of transmittal of the bill for Rate GR, GC and OL (excluding Summary Billing Accounts); not less than 15 days from the date of transmittal of the bill for all other rates, including Summary Billing Accounts, with the exception of accounts (including Summary Billing Accounts) with the United States of America or the Commonwealth of Pennsylvania or any of their departments or institutions for which 30 days will be allowed. If a normal due date should fall on a Saturday, Sunday, bank holiday, or any other day when the offices of the Company which regularly receive payments are not open to the general public, the due date shall be extended to the next business day. The payment period will not be extended because of the Customer's failure to receive a bill unless said failure is due to the fault of the Company.

16.4 FINANCE CHARGE. If payment may be made at a Company office or authorized payment agency after the due date shown on the bill, a finance charge will be added to the unpaid balance until the entire bill is paid. If payment is made by mail, the finance charge will be added if the payment is received by the Company more than 5 days after the due date shown on the bill. For Rates GR, GC and OL, this finance charge will be 1-1/2% per month; for all other rates the finance charge will be 2% per month.

16.5 BUDGET BILLING

(a) At the option of a Customer receiving service under Rates GR, GC, and OL, an estimated total bill for all service to be received by the Customer over a twelve-month period may be budgeted over the period and an average bill rendered monthly for payment each month. Any difference between the budgeted amounts so paid and the actual charges for a twelve-month budget period will at the customer's option, either be amortized over the next twelve months or incorporated into the twelfth month bill. Absent an indication of preference from the customer, the debit or credit will be amortized. Budget billing may be discontinued upon the customer's request at which time any difference between budget billing amounts and actual charges becomes due and payable. If a monthly budget bill is not paid, a late fee will be added to the unpaid balance of actual charges on the next billing date in accordance with Rule 16.4. Any such late fee will be calculated based on the lesser of budget billing arrears and arrears from actual charges.

(b) When the Company provides Consolidated NGDC Billing, the NGSs charges will be included in the Customer's Budget Billing Plan.

16.6 CALCULATION OF FINANCE CHARGE. Where a finance charge is applicable, the amount of the finance charge to be added to the unpaid balance shall be calculated by multiplying the unpaid past due balance, exclusive of any previous unpaid finance charges, by the appropriate finance charge rate. Finance charges shall be applied to all charges when the Company is providing Supplier of Last Resort service and to the Fixed Distribution Service Charges, Variable Distribution Service Charges and any applicable service charges when the Customer has selected an NGS. The Company will apply finance charges to NGS charges at the NGS's electronic request when the Company is performing billing services for the NGS.

16.7 APPLICATION OF PAYMENT. When the Company provides Consolidated NGDC Billing or SLR (Sales) Service and a Low Volume Customer remits a partial payment to the Company, the payment will be applied as follows:

1. Any past due balances including those for prior PECO basic service charges, for prior NGS receivables purchased by the Company, for prior installment amounts on payment agreements, and also for any reconnection charges.
2. Any current charges including those for PECO basic service charges, for current NGS receivables purchased by the Company, and for current installment amounts on payment agreements.
3. Non-basic service charges.

(C)

UGI UTILITIES, INC. - GAS DIVISION

RULES AND REGULATIONS

8. BILLING AND PAYMENT - Continued

8.5 Payment Due Date. The due date for payment of Residential Customers' bills shall not be less than twenty (20) days from the date of mailing and fifteen (15) days for a Non-Residential Customer's bill with the exception that bills to the Commonwealth of Pennsylvania, the Government of the United States, or any of their agencies, and elementary and secondary schools shall be due fifteen (15) days after the date of mailing unless otherwise extended to thirty (30) days by mutual agreement. For all billings, if the due date for payment should fall on a Saturday, Sunday, bank holiday or any other day when the offices of the Company where payments are regularly received are not open to the general public, the due date shall be extended to the next business day. Failure to receive a bill will not release the Customer from payment obligations.

8.6 Date of Payment for Residential Customers. For payments by mail, the effective date of payment shall be the date of the postmark. For payments made through electronic transmission, the effective date of payment shall be the date of actual receipt of payment by the Company. For payments made at a branch office or an Authorized Payment Agent, the effective date of payment shall be the date of actual receipt of payment at that location.

8.7 Late Payment Charge. Late payment charges will be applied as follows to the balance due which is not paid by the due date including amounts billed by the Company on behalf of natural gas suppliers other than the Company. Residential Customers will be charged a late payment charge of one and one half (1 1/2) percent per month on the balance due not paid by the due date; provided that, for a Residential Customer's payment by mail, the Company shall not impose a late payment charge unless payment is received more than 5 days after the due date. Non-Residential Customers will be charged five (5) percent per month on the balance due not paid by the due date and an additional one and one half (1 1/2) percent per month for each month thereafter.

8.8 Return Payment Service Charge. The Company may impose a service charge of Twenty Dollars (\$20.00) for each check or negotiable instrument (including electronic payment) received in payment of bill(s) which is dishonored and returned by the bank upon which it is drawn. The Company may require a Customer to tender non-electronic payment after the Customer tenders two (2) consecutive electronic payments that are subsequently dishonored, revoked, canceled or otherwise not authorized.

8.9 Due Date Extension Program. Residential Customers meeting the qualification requirements of the Due Date Extension Program shall, upon written application, have the due date for payment of bills for service to their personal residence extended. To qualify, Applicants must submit proof that their sole source of support, and that of others in their household, is derived from a permanent fixed income plan, issuing monthly checks. Under the program, the due date for payment on a bill normally falling due between the sixth day of the month and the twentieth day of the month shall be extended to the first working day after the twentieth of the month. The due date for payment on a bill normally falling due between the twenty-first day of the month and the fifth day of the following month, shall be extended to the first working day after the fifth day of the latter month.

RULES AND REGULATIONS

8. BILLING AND PAYMENT - Continued

8.10 Application of Payments for Rates RT and NT. Where Company renders a bill for natural gas supply service on behalf of a Choice Supplier and a partial payment is received, the partial payment shall first be applied to pre-retail access Company balances and then to post-retail access balances.

In the event a customer has a pre-retail access Company balance, partial payment shall be applied in the following order of priority:

1. First to outstanding pre-retail access Company balances, or the installation amount on a payment arrangement with the Company on this balance; then to
2. Current regulated Company charges; then to
3. Choice Supplier supply charges; then to
4. Non-Basic Service charges; then to
5. Hardship Energy Fund contributions.

In the event a Customer develops a post-retail access balance, partial payment shall first be applied to the pre-retail access Company balances in the order of priority specified above. Thereafter, partial payment shall be Company applied in the following order of priority:

1. First to outstanding post-retail access Company Balances, or the installation amount on a payment arrangement with the Company on this balance; then to
2. Current regulated Company charges; then to
3. Choice Supplier service charges; then to
4. Non-Basic service charges; then to
5. Hardship Energy Fund contributions.

Where Company renders a budget bill on behalf of a Choice Supplier for Natural Gas Supply service, partial payments shall be applied on a pro rata basis after outstanding pre-retail access balances and post retail access balances have been paid in accordance with the orders of priority specified above. For purposes of this Section, pre-retail access balances means outstanding account balances incurred prior to Customer transferring to Rate RT and NT.

For purposes of this Section, post-retail access balances means outstanding account balances incurred after Customer transfers to Rate RT and NT.

8.11 Unless otherwise stated in this Section, 8. Billing and Payment, all billing and payment provisions of this section apply to Customers served under all Company rate schedules, including Rate Schedules RT and NT where a Customer's Choice Supplier also participates in the Company's Purchase of Receivables ("POR") program.

8.12 Payment Refunds. Refunds due customers greater than two dollars (\$2) shall be mailed to the Customer. Refunds less than two (\$2) may be picked up at the office within sixty (60) days. After sixty (60) days, the refund shall be applied to Operation Share.

RULES AND REGULATIONS**7. LEAKS AND WASTE**

The ratepayer shall use all due care to prevent a waste of gas. It is the responsibility of the ratepayer to exercise all due care in the detection of defects and leaks, and in case of failure or deficiency of gas, leakage, excess pressure, or other dangerous developments incident to the handling of gas under pressure, the ratepayer agrees to give immediate notice thereof to the Company, and his failure to do so, should loss follow, shall be conclusive evidence of his contributory or comparative negligence.

8. NONLIABILITY OF COMPANY

The Company shall not be liable for failure to furnish a sufficient supply of gas or for failure to transport the ratepayer's gas to the ratepayer arising from any cause whatsoever, nor shall the Company be liable for any injury to person or property arising from the use of gas by or the supply of gas to the ratepayer which is not the result of negligence on the part of the Company. The liability of the Company for damages for failure to furnish a sufficient supply of gas or for failure to transport ratepayer's gas to him shall be limited to an amount equivalent to the ratepayer's proportionate monthly ratepayer customer charge for the period of service during which a supply failure occurs. In no event shall the Company be liable for extraordinary or consequential damages arising in any manner whatever as a result of supply failure. For the purposes of this Rule, all pipe, fittings, and appliance on the ratepayer's side of the curb cock or shutoff valve of the service pipes which connects with the Company's main line are the property and responsibility of the ratepayer, and in no event shall the Company be liable for any injury to person or property arising there from.

9. MEASUREMENT OF GAS

All gas delivered shall be measured by meter. The term "Mcf," as used in the Company's schedule of rates, shall mean 1,000 cubic feet of gas at no more than 8 ounces above an assumed atmospheric pressure of 14.4 pounds at whatever temperature the gas may be during the period of measurement. If gas is supplied from a low-pressure distribution system in which the pressure of the gas is regulated not to exceed 8 ounces, the measurement will be at whatever pressure the gas may be during the period of measurement. If gas is delivered from a high-pressure system, measurement will be corrected to a pressure base of 14.73 psia. If measurement is corrected for temperature, measurement will be corrected to 60°F.

All meters shall be owned by the Company, and said meters and any regulators in connection therewith shall be at all times open to inspection by both the Company and the ratepayer for the purpose of seeing that they are in condition of good repair.

The measurement of gas by meter shall be conclusive on the ratepayer and the Company, excepting that from the time the meter is found to be defective or ceases to register, until the meter is repaired, the gas delivered shall be estimated by the average of another meter, or by the amount delivered by meter during a previous corresponding period under similar conditions. In the event of the ratepayer's dissatisfaction with the registration of the meter, the Company will, upon written application, accompanied by the fee specified in the rules of the Commission, have the same removed, sealed, and tested and a certificate of test given the ratepayer. If the meter so tested shall be found to be inaccurate within the limits specified in the Rules of the Commission, the Company shall refund the charge for such test.

10. BILLING AND PAYMENT

No entity providing billing may share or use information concerning individually negotiated rates of a ratepayer, which has been acquired only through the entity's role as a billing agent, with another ratepayer or any third party without the prior written authorization of the Company. The Company shall offer a separate payment option for residential ratepayers to equalize monthly payment amounts.

Billing Options

The Company will offer two billing options: (1) the issuance of a bill by the Company which contains the NGS charges; or (2) the issuance of a bill that contains only the Company's charges, in which case the NGS will bill the ratepayer separately for NGS charges. The right of a ratepayer to receive a separate bill from his/her NGS for the NGS' charges is subject to the ability of the NGS to provide a separate bill and the terms under which the NGS may offer to provide a separate bill.

RULES AND REGULATIONS**10. BILLING AND PAYMENT (continued)****Allocation of Payments**

Under billing option (1), the following order for the application of partial payments shall apply to all residential ratepayers and to non-residential ratepayers unless the contract between the non-residential ratepayer and the NGS provides for a different method:

- a. Payment agreement for pre-existing balance or pre-existing balance;
- b. Current Company charges;
- c. NGS charges;
- d. Non-basic service charges;
- e. Hardship energy fund contribution.

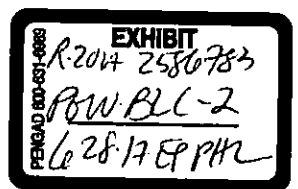
Residential and Commercial Ratepayers

Bills will be rendered and be payable once each month. The Company may read any meter once each month, but ordinarily it will read meters of residential and commercial ratepayers once every two months. As to any ratepayer whose meter is read once every two months, the volumes consumed for the first month of each bimonthly meter reading period shall be determined by estimation, on the basis of the ratepayer's previous service, adjusted for weather conditions, and the volumes consumed for the second month of each bimonthly meter reading period shall be determined by subtracting the first month's estimated volumes from the total actual volumes consumed or delivered for the bimonthly period as shown by the meter. The bill for each month shall be the result of applying to the volumes consumed or delivered, the applicable rates, charges, and penalties (if any) set forth in this tariff.

Upon request, the Company will supply any ratepayer with a card form upon which he may record his meter reading at the end of the first month of each bimonthly meter reading period, and if such card is received by the Company within two days after the close of such month, the bill for such month will be computed from the meter reading shown on the card instead of by estimate. The Company will adjust estimates of bills for changes in conditions of which it has been notified in advance by a ratepayer.

A bill will be rendered to each residential and commercial ratepayer on account of each meter. Bills will be rendered as nearly as possible on the same day of every month and shall be payable upon presentation. A bill shall be deemed delinquent if it is not paid by the due date. The due date for residential and commercial ratepayers shall be twenty (20) days after the date of mailing the bill unless the Company agrees to an extension. Delinquent residential accounts shall be subject to a late-payment charge of one and one-half percent (1 ½%) per month for bills not paid within five days after the due date. Delinquent commercial accounts shall be subject to a late-payment charge of one and one-half percent (1 ½%) per month. Late-payment charges will be based on delinquent charges for services provided under this tariff or for NGS supply charges purchased by the Company under the purchase of receivables provisions set forth in Rate SBS of the Company's Supplier Tariff. Payment of bills may be made at authorized collection offices or agencies of the Company during the regular business hours thereof. Payment may be deemed to have been made on the date it is received at any such office or, if remittance is made by mail, on the date of the official U.S. Postal Service postmark.

Exhibit BLC-2



Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works
Docket No. R-2017-2586783

Responses to
Philadelphia Gas Works Interrogatories to the
Office of Consumer Advocate
Set II

21. OCA St 4 (Colton), pages 4-5 and 35-43. Please confirm that the issue raised in this testimony is currently pending before the Commission on reconsideration in the matter of *SBG Management Services/Colonial Garden Reality Company v. Philadelphia Gas Works*, Docket No. C-2012-2304183, *et al.*, as referenced on page 37. If this statement is not confirmed, please explain.

Response:

One of the issues presented in the cited proceeding is the lawfulness of PGW's out-of-sequencing posting of commercial customer payments. The referenced testimony concerns the treatment of residential customer payments under the existing tariff.

Witness: Roger Colton

Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-2017-2586783

Responses to
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Set II

22. OCA St 4 (Colton), pages 4-5 and 35-43. Please confirm that Mr. Colton provided testimony on behalf of the complainants in the proceeding referenced on page 37. If this statement is not confirmed, please explain.

Response:

Confirmed.

Witness: Roger Colton

Pennsylvania Public Utility Commission

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Set II

32. Please confirm that Mr. Colton has not inquired as to the level of costs that would be incurred by PGW to make the necessary modifications to its billing system to accommodate his recommended changes to its partial payment allocation practices.

Response:

Agreed.

Witness: Roger Colton

Pennsylvania Public Utility Commission

v.

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Docket No. R-2017-2586783

Responses to
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Set II

39. OCA St 4 (Colton), pages 4-5 and 35-43. Please produce documentation showing the cost impact of Mr. Colton's proposed approach, as contrasted with PGW's partial payment allocation practices, on PGW's annual late payment charge revenue.

Response:

Mr. Colton has not developed the cost impact of PGW refraining from posting customer payments to bills out-of-sequence to the time at which those bills were incurred so as to maximize late payment revenue.

Witness: Roger Colton

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

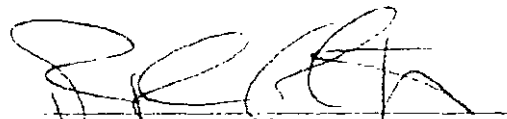
Philadelphia Gas Works

Docket No. R-2017-2586783

VERIFICATION

I, Roger D. Colton, hereby state that I am the witness responsible for responding to Philadelphia Gas Works' Interrogatories directed to the Office of Consumer Advocate, Set II, Numbers 17-59, and that the facts above set forth are true and correct to the best of my knowledge, information and belief in these interrogatory responses. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:


Roger D. Colton

Consultant Address: Fisher, Sheehan & Colton
34 Warwick Road
Belmont, MA 02478

DATED: June 1, 2017

233089.doc

Response of TURN et al. to PGW Interrogatories to TURN et al., Set II

Docket No. R-2017-2586783

Request: (4) Reference TURN, St. 1 at 42, line 20. Identify the statutory cite requiring that a consumer in bankruptcy has to pay an "adequate assurance" deposit.

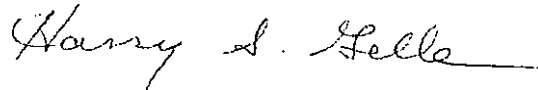
Response: (4) The testimony referred to in TURN *et al.*, St. 1, at 42, ln 20 does not refer to a statutory requirement and therefore no cite is provided. The issue presented in TURN *et al.*, St. 1, at 42, ln 20 is whether the amount requested by PGW is affordable and acts as a barrier to low income customers' ability to maintain service following a bankruptcy filing.

Response provided by: Harry Geller, Esq.

Dated: June 2, 2017

VERIFICATION

I, **Harry S. Geller**, witness of Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia ("TURN *et al.*") hereby state that the facts contained in the foregoing pleading are true and correct to the best of my knowledge, information and belief, that I am duly authorized to make this Verification, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 10 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).



Date: 6/2/17

Harry S. Geller witness of TURN et al.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REJOINDER TESTIMONY OF

BERNARD L. CUMMINGS

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R- 2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:

Partial Payment Allocation Practices

June 26, 2017

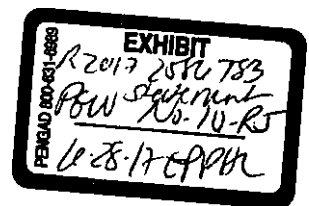


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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND TITLE.**

3 A. My name is Bernard Cummings and I am the Vice President, Customer Service and
4 Collections, at Philadelphia Gas Works ("PGW" or Company").

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. My testimony is submitted on behalf of PGW.

7 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS MATTER?**

8 A. Yes. I submitted rebuttal testimony on June 9, 2017, responding to the direct testimony
9 of Mr. Roger D. Colton, submitted by the Office of Consumer Advocate ("OCA"), and
10 the direct testimony of Mr. Harry S. Geller, on behalf of Tenant Union Representative
11 Network and Action Alliance of Senior Citizens of Greater Philadelphia.

12 **Q. PLEASE SUMMARIZE THE PURPOSE OF YOUR REJOINDER TESTIMONY.**

13 A. The purpose of my rejoinder testimony is to respond to the surrebuttal testimony of Mr.
14 Colton submitted by OCA. Specifically, in this rejoinder testimony, I respond to Mr.
15 Colton's recommended changes to the manner in which PGW allocates partial payments
16 to prior unpaid balances. For the reasons explained in my rebuttal testimony and in this
17 testimony, PGW continues to oppose the proposal advanced by Mr. Colton.

18 **II. PARTIAL PAYMENT ALLOCATION PRACTICES**

19 **Q. DOES MR. COLTON CORRECTLY EXPLAIN IN HIS SURREBUTTAL**
20 **TESTIMONY HOW PGW ALLOCATES PARTIAL PAYMENTS? (OCA ST. NO.**
21 **4-S AT 18).**

22 A. Yes. Mr. Colton correctly explains in his surrebuttal testimony how PGW allocates
23 partial payments. When customers make payments that are insufficient to pay a balance
24 due both for prior service and for service billed during the current billing period, PGW
25 first applies those partial payments to the balance due for prior service. Within that

1 balance due for prior service, the partial payments are posted according to a hierarchy: a
2 deposit if required is posted first; then any outstanding late payment charges applied to
3 bills for prior service are satisfied; and then the remaining balance of the payment is
4 posted to the oldest money, meaning that PGW applies the payment to the oldest
5 arrearages first and then the newer ones.

6 **Q. MR. COLTON REFERS TO YOUR EARLIER CONFUSION ABOUT HIS**
7 **RECOMMENDATIONS FOR CHANGES TO THESE PRACTICES AS A “RED**
8 **HERRING.” (OCA ST. NO. 4-S AT 21). PLEASE RESPOND.**

9 A. As I explained in my rebuttal testimony, Mr. Colton’s direct testimony was not clear
10 regarding the changes he was proposing that PGW make to its partial payment allocation
11 practices. I pointed to specific passages from his direct testimony that suggested
12 different possible interpretations of what he was recommending. Specifically, some of
13 his direct testimony seemed to suggest that all principal balances must be retired before
14 any late payment charges are paid. As I further noted, the lack of clarity in Mr. Colton’s
15 recommendations has made it extremely difficult for PGW to fully address proposed
16 changes to its billing system that may be considered by the Commission within the
17 context of this base rate proceeding that must be decided in a compressed timeframe.
18 (PGW St. No. 10 at 3-5).

19 **Q. IN REVIEWING MR. COLTON’S SURREBUTTAL TESTIMONY, DO YOU**
20 **NOW UNDERSTAND HIS PROPOSAL FOR CHANGING PGW’S PARTIAL**
21 **PAYMENT ALLOCATION PRACTICES.**

22 A. Yes. Through his surrebuttal testimony, Mr. Colton has clarified the specific changes
23 that he proposes to make to PGW’s partial payment allocation practices. I now
24 understand that Mr. Colton recommends that PGW’s partial payment allocation practices
25 be modified so that partial payments are first applied to the oldest balances, without any
26 priority given for unpaid deposits or late payment charges. He explains that the way this

1 would work is that “[c]harges appearing on a customer’s bill in January, for example, will
2 be retired before charges appearing on a customer’s bill in April (and so on) irrespective
3 of whether they are charges for current service or late payment charges.” (OCA St. No.
4 4-S at 22).

5 **Q. PLEASE DESCRIBE THE KEY DIFFERENCE BETWEEN PGW’S APPROACH**
6 **AND MR. COLTON’S PROPOSED METHOD FOR ALLOCATING PARTIAL**
7 **PAYMENTS, AS YOU NOW UNDERSTAND IT.**

8 A. The key difference between PGW’s approach and Mr. Colton’s proposed method, for
9 purposes of this proceeding, relates to the application of partial payments to late payment
10 charges.¹ In allocating partial payments, PGW first zeroes out all unpaid late payment
11 charges for prior service, to the extent that the partial payment covers them, before
12 applying them to unpaid gas charges for prior service. Mr. Colton would have PGW
13 apply partial payments to the oldest charges first, regardless of whether they are
14 outstanding late payment charges or outstanding charges for gas.

15 **Q. NOW THAT YOU UNDERSTAND MR. COLTON’S PROPOSAL, DO YOU**
16 **BELIEVE THAT HIS METHODOLOGY IS REASONABLE AND IN THE BEST**
17 **INTERESTS OF PGW AND ITS CUSTOMERS?**

18 A. No, I do not. The effect of Mr. Colton’s proposed method for allocating partial
19 payments is that customers who incur them can delay paying late payment charges
20 indefinitely. The result is that other customers are forced to bear the carrying costs
21 caused by the customers who do not timely pay their bills. Importantly, all late payment
22 charges are now accounted for in PGW’s income statement and ratepayers receive the
23 benefit from them in the form of higher pro forma revenues.

¹ Mr. Colton does not address deposits.

1 **Q. IN HIS SURREBUTTAL TESTIMONY, MR. COLTON STATES THAT PGW**
2 **POSTS PARTIAL PAYMENTS TO RETIRE ALL NON-INTEREST BEARING**
3 **LATE FEES BEFORE POSTING PAYMENTS TO RETIRE ANY INTEREST-**
4 **BEARING UNPAID BALANCES FOR CURRENT SERVICE. (OCA ST. NO. 4-S**
5 **AT 19). IS THIS CORRECT?**

6 A. Yes, this description is correct - to the extent that the partial payments are sufficient to
7 retire all outstanding late payment charges. To reiterate, PGW posts partial payments to
8 retire all late payment charges for prior service, to the extent the payments cover them,
9 before posting the partial payments to retire unpaid balances for current service. In order
10 to clearly illustrate how PGW's partial payment allocation practice works, I have
11 prepared Table BLC-1 which is included in PGW Exhibit No. BLC-3.² A review of
12 Table BLC-1 shows that when the first partial payment of \$50.00 is made in April, it is
13 first applied to the outstanding \$27.75 in late payment charges (accumulated over three
14 months of not paying bills) and the remaining amount of \$22.25 is applied to the balance
15 due for prior gas service. When another partial payment of \$50.00 is made in May, it is
16 used to first retire the outstanding late payment charge of \$13.92, which was assessed in
17 May for prior service, before it is applied to unpaid gas service. This practice continues
18 throughout the year. Under PGW's approach, it would recover \$137.16 of the properly-
19 assessed late payment charges from the customer over the course of the year.

20 **Q. WHAT IS THE EFFECT OF MR. COLTON'S PROPOSAL?**

21 A. Using the same figures as in Table BLC-1, which are based on Schedule RDC-1SR, the
22 effect of Mr. Colton's proposal is shown Table BLC-2 which is also included as part of

² For ease of reference, Table BLC-1 shows the same billed amounts and total payments as is shown on Mr. Colton's schedule attached to his surrebutal testimony, which is marked as Schedule RDC-1SR. The only variation is that this table shows the \$100.00 partial payment made in September as a single payment on the 10th of the month rather than as two separate payments of \$50 on the 1st and 10th of the month.

PGW Exhibit No. BLC-3. Notably, despite incurring \$143.77 in late payment charges over the course of the year, Mr. Colton's proposed approach would result in the same customer paying only \$5.25 in late payment charges during the entire year. This occurs because the customer only paid a total of \$550.00 in partial payments, which were insufficient to cover the total principal balances in January and February of \$650.00. If Mr. Colton's proposal is adopted, PGW would not be able to apply the partial payments to the late payment charges of \$5.25 assessed in February until October. Further, for the rest of the year, PGW would not be able to apply the partial payments to the late payment charges assessed beyond February.

Q. PLEASE PROVIDE FURTHER DETAILS ABOUT WHAT TABLE BLC-2 SHOWS.

A. Table BLC-2 shows that under Mr. Colton's proposed approach, the partial payments of \$50.00 in April, \$50.00 in May, and \$100.00 in September would have reduced the \$350.00 balance for January down to \$150.00. Then, when the customer made the \$200.00 partial payment in October, it would have been applied to pay the \$150.00 still due for January. The remaining \$50.00 of the October partial payment would have been used to pay the \$5.25 late payment charge assessed in February and write down the February principal balance by \$44.75, reducing the February principal balance to \$255.25. The subsequent partial payment of \$150.00 made in November would have further reduced the February principal balance down to \$105.25. The \$9.75 late payment charge assessed in March would have remained unpaid throughout the remainder of the year as no additional partial payments were made.

In fact, if the customer continued on the same billing and payment patterns into year two, the first two \$50.00 partial payments in April and May of year two would be

1 applied to the balance of \$105.25 from February of year one. The March late payment
2 charge for year one in the amount of \$9.75 would not be paid until the \$100.00 partial
3 payment in September of year two.

4 **Q. WHAT ARE THE LONG-TERM EFFECTS OF MR. COLTON'S PROPOSED**
5 **APPROACH?**

6 A. The long-term effects of Mr. Colton's proposed approach are that a customers who
7 continue to make partial payments would be able to defer paying late payment charges
8 indefinitely. Even if the customer would eventually make high enough partial payments
9 to cover the late payment charges assessed in year one, they would be continuing to incur
10 late payment charges on constantly growing principal balances. As a result, if PGW
11 would be required to terminate its practice of first using partial payments to zero out late
12 payment charges, it is likely, or at least possible, that PGW would never fully recover
13 properly assessed late payment charges from the customers who incurred them.

14 **Q. WHAT IS WRONG WITH AN APPROACH THAT ALLOWS CUSTOMERS TO**
15 **INDEFINITELY DELAY PAYING LATE PAYMENT CHARGES?**

16 A. The problem with an approach that allows customers to indefinitely delay paying late
17 payment charges they incurred is that other customers on PGW's system are forced to
18 bear the carrying costs. The longer that late payment charges are unpaid by the
19 customers who incurred them, the longer this burden must be borne by the remaining
20 customers. Quite simply, it is not fair to PGW's paying customers to bear the carrying
21 costs associated with these customers who are not paying their bills on time, are incurring
22 late payment charges and are then making only partial payments.

23 **Q. WHAT IS WRONG WITH AN APPROACH THAT ALLOWS A CUSTOMER TO**
24 **PAY ONLY \$5.25 IN LATE PAYMENT CHARGES DURING A YEAR DESPITE**
25 **INCURRING LATE PAYMENT CHARGES OF \$143.77 OVER THE COURSE**
26 **OF THE YEAR?**

1 A. In addition to the problem noted above, an approach that allows a customer to pay only
2 \$5.25 in late payment charges during a year despite incurring late payment charges of
3 \$143.77 over the course of the year is wrong because it fails to create an incentive for
4 customers to pay their bills on a timely basis. A primary purpose of late payment charges
5 is to increase timely collections and ensure that service is available to all customers on
6 equitable terms and conditions. If a customer is able to avoid or at least significantly
7 delay the payment of late payment charges, the effectiveness of the late payment charge
8 as a collection tool would be obliterated. A nearly certain result is that PGW's bad debt
9 expense would increase.

10 **Q. DOES PGW'S PARTIAL PAYMENT ALLOCATION PRACTICE BENEFIT**
11 **OTHER CUSTOMERS?**

12 A. Yes. By paying off the late payment charges before the so-called "principal" charges,
13 PGW is reducing the costs of carrying delinquent accounts that are otherwise borne by
14 other ratepayers. This approach is fair and reasonable to other ratepayers and helps
15 ensure that the delinquent account actually pays the late payment charges. I note that
16 Mr. Colton responded to PGW discovery indicating that he "agrees generally that
17 customers incurring late payment charges should be responsible for paying them." (OCA
18 VI-4, included as PGW Exhibit No. BLC-4).

19 **Q. WHAT DOES MR. COLTON SAY ABOUT PGW'S PARTIAL PAYMENT**
20 **ALLOCATION PRACTICES RELATIVE TO COMPOUND INTEREST?**

21 A. Mr. Colton stresses that he has "not ever asserted that PGW charges compound interest."
22 (OCA St. No. 4 at 19). Rather, he explains that in his opinion, PGW's payment posting
23 process "generates the same effect" as charging compound interest and he refers to the
24 Commission's regulations that prohibit public utilities from charging compound interest.
25 (OCA St. No. 4-S at 19-20).

1 **Q. WHAT IS THE BASIS FOR HIS OPINION?**

2 A. The basis for Mr. Colton's opinion is his claim that PGW's payment posting process
3 allegedly generates the same effect as charging an interest rate of 19.562%. (OCA St.
4 No. 4-S at 19).

5 **Q. DOES HE EXPLAIN THAT CLAIM?**

6 A. No. That was the point that I made in my rebuttal testimony, when I said that "[w]ithout
7 any factual basis or explanation, Mr. Colton leaps to the unsubstantiated conclusion that
8 PGW's sequencing of the posting of payments amounts to imposing compound interest."
9 (PGW St. No. 10-R at 12). Mr. Colton still has not explained his compound interest
10 theory.

11 **Q. DO PGW'S PARTIAL PAYMENT ALLOCATION PRACTICES GENERATE**
12 **THE SAME EFFECT AS CHARGING COMPOUND INTEREST?**

13 A. No. As I explained in my rebuttal testimony, compound interest is regarded as "interest
14 on interest." (PGW St. No. 10-R at 13). When PGW assesses late payment charges on
15 customers, it subtracts outstanding late payment fees before applying the 1.5% late
16 payment charge to the unpaid principal balance. In that manner, PGW is only imposing a
17 late fee on unpaid balances for principal. Therefore, it is clearly not charging "interest on
18 interest."

19 **Q. MR. COLTON CLAIMS THAT PGW'S METHOD "INDIRECTLY" RESULTS IN**
20 **CHARGING MORE INTEREST THAN 1.5%. (OCA ST. NO. 4-S AT 19-20). IS**
21 **HE CORRECT?**

22 A. No. Rule 4.2 in PGW's Tariff states that "PGW will assess a late penalty for any
23 overdue bill, in an amount which does not exceed 1.5% interest per month on the full
24 unpaid and overdue balance of the bill." (PGW St. No. 10-R at 5). That is exactly what
25 PGW does. It is the customer's actions in not paying the amount he or she is required to

1 pay in a timely manner and then only making partial payments that creates any other
2 effect. One could just as easily conclude that under Mr. Colton's method, a non-paying
3 customer is failing to pay the 1.5% late payment fee because the long delay in paying the
4 late payment fee effectively reduces the real cost to the customer when the time value of
5 money is considered.

6 **Q. PLEASE ADDRESS MR. COLTON'S TESTIMONY CONCERNING THE**
7 **TIMEFRAME AND COSTS INVOLVED TO MODIFY PGW'S PARTIAL**
8 **PAYMENT ALLOCATION PRACTICES. (OCA ST. NO. 4-S AT 22-23).**

9 A. In addressing my testimony concerning the timeframe and costs that would be involved
10 to modify PGW's partial payment allocation practices, Mr. Colton repeatedly
11 characterizes PGW's practices as "unlawful." (OCA St. No. 4-S at 22-23). As PGW's
12 partial payment allocation practices are currently under review by the Commission, Mr.
13 Colton's characterization is without basis. Also, the question of whether these practices
14 are unlawful is more appropriately addressed in the legal briefs that are filed in this
15 proceeding. In any event, Mr. Colton has referred to no Commission regulations that
16 require partial payments to be allocated in a particular manner among various charges for
17 prior service. Before any determination is made by the Commission to require PGW to
18 modify its partial payment allocation practices, which I have been advised by counsel
19 comply with the Commission's regulations, it is my opinion that the Commission should
20 be aware of the timeframe and costs that would be involved.

21 **Q. WHAT DOES MR. COLTON SAY ABOUT RECOVERY OF COSTS THAT**
22 **WOULD BE INCURRED TO MODIFY PGW'S PRACTICES?**

23 A. With respect to the costs that would be incurred to modify PGW's partial payment
24 allocation practices, Mr. Colton contends that the costs "should not be chargeable to
25 ratepayers." (OCA St. No. 4-S at 22-23).

1 **Q. HOW DO YOU RESPOND?**

2 A. As a municipally-owned, cash flow ratemaking company with no shareholders, PGW is
3 completely funded by its ratepayers and has no other source available to pay for these
4 costs. If PGW is required to change its present practices, the costs to do so would have
5 to be paid by ratepayers. At a high level, PGW roughly estimates that the cost for system
6 changes would be \$400,000 or more, depending on the final technical requirements and
7 the need for additional testing. This estimate does not include all costs such as the costs
8 of training all customer service representatives. Other financial impacts include the
9 decline in PGW's revenues from late payment charges and an increase in PGW's bad
10 debt expense, which would need to be made up via higher rates charged to the rest of the
11 customers.

12 **III. CONCLUSION**

13 **Q. DOES THAT COMPLETE YOUR REJOINDER TESTIMONY?**

14 A. Yes.

Exhibit BLC-3

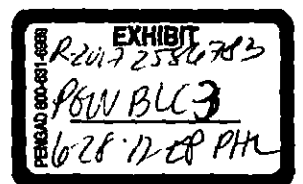


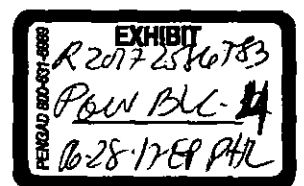
TABLE BLC-1

Date	Bill for Gas Service	Late Payment Charge	Partial Payment Received	Partial Payment Applied to Unpaid LPC	Partial Payment Applied to Unpaid Gas Service	Cumulative Balance Due for Gas Service
1-JAN	\$350.00					\$350.00
1-FEB	\$300.00	\$5.25				\$650.00
1-MAR	\$200.00	\$9.75				\$850.00
1-APR	\$100.00	\$12.75				\$950.00
10-APR			\$50.00	\$27.75	\$22.25	\$927.75
1-MAY	\$60.00	\$13.92				\$987.75
10-MAY			\$50.00	\$13.92	\$36.08	\$951.67
1-JUN	\$60.00	\$14.27				\$1,011.67
1-JUL	\$60.00	\$15.17				\$1,071.67
1-AUG	\$60.00	\$16.07				\$1,131.67
1-SEP	\$60.00	\$16.97				\$1,191.67
10-SEP			\$100.00	\$62.49	\$37.51	\$1,154.17
1-OCT	\$75.00	\$17.31				\$1,229.17
10-OCT			\$200.00	\$17.31	\$182.69	\$1,046.48
1-NOV	\$75.00	\$15.70				\$1,121.48
10-NOV			\$150.00	\$15.70	\$134.30	\$987.18
1-DEC	\$200.00	\$14.81				\$1,187.18

TABLE BLC-2

Date	Bill for Gas Service	Late Payment Charge	Partial Payment Received	Partial Payment Applied to Unpaid LPC	Partial Payment Applied to Unpaid Gas Service	Cumulative Balance Due for Gas Service
1-JAN	\$350.00					\$350.00
1-FEB	\$300.00	\$5.25				\$650.00
1-MAR	\$200.00	\$9.75				\$850.00
1-APR	\$100.00	\$12.75				\$950.00
10-APR			\$50.00	\$0.00	\$50.00	\$900.00
1-MAY	\$60.00	\$13.50				\$960.00
10-MAY			\$50.00	\$0.00	\$50.00	\$910.00
1-JUN	\$60.00	\$13.65				\$970.00
1-JUL	\$60.00	\$14.55				\$1,030.00
1-AUG	\$60.00	\$15.45				\$1,090.00
1-SEP	\$60.00	\$16.35				\$1,150.00
10-SEP			\$100.00	\$0.00	\$100.00	\$1,050.00
1-OCT	\$75.00	\$15.75				\$1,125.00
10-OCT			\$200.00	\$5.25	\$194.75	\$930.25
1-NOV	\$75.00	\$13.95				\$1,055.25
10-NOV			\$150.00	\$0.00	\$150.00	\$855.25
1-DEC	\$200.00	\$12.82				\$1,055.25

Exhibit BLC-4



Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works
Docket No. R-2017-2586783

Responses to
Philadelphia Gas Works Interrogatories to the
Office of Consumer Advocate
Set VI

4. Please refer to OCA's response to PGW Set II-28. Please indicate whether Mr. Colton agrees that if late payment charges are not waived, not voluntarily paid by someone other than the customer incurring the charges, or found to have been properly charged in the first instance, then the customers responsible for incurring the late payment charges should be responsible for paying them. If he does not agree, please explain.

Response:

Mr. Colton agrees generally that customers incurring late payment charges should be responsible for paying them. Circumstances exist, which may not be comprehensively captured by the list of circumstances included in the question, where customers incurring late payment charges are not responsible for paying them. For example, to the extent that pre-existing arrearages of CRP participants include late payment charges, those CRP participants are not responsible for paying those late payment charges. Mr. Colton has not made a comprehensive review of all circumstances where the question of whether a person incurring late payment charges is not responsible for paying them. However, this one contrary example (i.e., CRP participants with pre-existing arrearages that include late payment charges) demonstrates that the circumstances cited in the question are not the "only" situations where the issue may be presented.

Responding Witness: Roger D. Colton

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

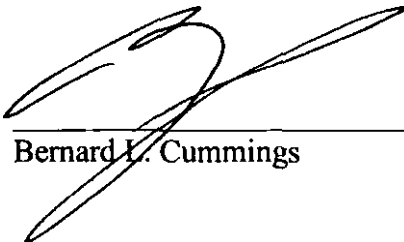
Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial	:	
Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT

I, Bernard L. Cummings, hereby state that the facts set forth below are true and correct to the best of my knowledge, information and belief and I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

1. I have submitted testimony in this proceeding on behalf of Philadelphia Gas Works and am authorized to make this statement on its behalf.
2. I prepared PGW St. No. 10-R, which includes Exhibit BLC-1 and Exhibit BLC-2, and which was served on the parties in this proceeding on June 9, 2017.
3. I prepared PGW St. No. 10-RJ, which includes Exhibit BLC-3 and Exhibit BLC-4, and which was served on the parties in this proceeding on June 26, 2017.
4. I do not have any corrections to any of this testimony.
5. If I were asked the same questions set forth in each of these statements today, my answers would be the same.

Date: June 27, 2017



Bernard L. Cummings