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March 15, 2002

VIA HAND DELIVERY

Johnnie Simms, Esquire
PA Public Utility Commission
Office of Trial Staff
Commonwealth Keystone Building
400 North Street; 2nd Floor
Harrisburg, PA 17120

DOCUMENT
FOLDER

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2002 MAR 18 AM 9:59
PA PUC
SECRETARY'S BUREAU

Re: Philadelphia Gas Works' 2002 Extra Ordinary Rate Filing;
Docket No. R-00017034E002

Dear Mr. Simms:

Enclosed please find the following PGW responses to OTS Interrogatories:

- RE - 11, 12, 17, 18 and 20
- RS - 17 - 28.

Additionally, please find PGW's response to Informal Discovery Request No. 2. Thank you for your attention to this matter.

Sincerely,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

/smw
Enclosures

cc: Parties of record (w/encl.)
Secretary McNulty (Certificate of Service only)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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MAR 20 2002

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Dated: March 15, 2002



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ORIGINAL

March 15, 2002

VIA HAND DELIVERY

James J. McNulty, Secretary
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02 MAR 15 PM 3:13
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SECRETARY'S BUREAU

Re: Pennsylvania Public Utility Commission v. Philadelphia
Gas Works; Docket No. R-0001734F0002

R-00017034F0002

Dear Secretary McNulty

On February 25, 2002, Philadelphia Gas Works filed its Petition for Extraordinary Rate Relief along with supporting testimony. We have discovered an error on JRB Exh. 2, attached to Statement E.R.P. No. 2 (Joseph Bogdonavage). Please remove JRB Exhibit 2 and insert the enclosed corrected schedule.

If you have any questions, please contact me at your convenience.

Sincerely,

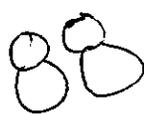
Daniel Clearfield
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

Enclosures

- cc: Hon. Cynthia Fordham w/enc.
- Chairman Glen Thomas, w/enc.
- Vice Chairman Robert K. Bloom, w/enc.
- Commissioner Aaron Wilson, Jr., w/enc.
- Commissioner Terrance J. Fitzpatrick, w/enc.
- Commissioner Kim Pizzingrilli, w/enc.
- Kirk House, OSA w/enc.
- Karen Moury, Law Bureau, w/enc.
- Robert Bennett, FUS, w/enc.
- Certificate of Service w/enc.



CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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Dated: March 15, 2002


Daniel Clearfield, Esquire

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Corrected 3/15/02

PHILADELPHIA GAS WORKS
FISCAL YEAR 2001-02
PROJECTED INCOME STATEMENT

PHILADELPHIA GAS WORKS
FISCAL YEAR 2001-02
PROJECTED DEBT SERVICE COVERAGE

Revised 3-06-02

	<u>Current Estimate</u> <u>2001-02</u>	<u>Test Year Budget</u> <u>2001-02</u>
Operating Revenues		
Gas Revenues	\$672,188	\$638,733
Margin Loss Gas Sales	(25,000)	-
Proposed Base Rate Incr.	-	44,000
Other Revenues	27,450	28,117
Total Operating Revenues	\$674,638	\$710,850
Operating Expenses		
Natural Gas Costs	\$373,016	\$334,566
Raw Material Exp.	10	10
Total Nat. Gas & Raw Mat'	\$373,026	\$334,576
Contribution Margins	\$301,612	\$376,274
Supply & Field Expenses	\$58,331	\$59,331
Customer Services	29,722	30,222
Bad Debt Expense	54,553	52,544
Marketing	4,000	5,596
Administrative & General	39,086	39,086
Health Insurance	31,490	30,490
Capitalized Benefits & A&G	(12,430)	(13,430)
Amortization	3,965	3,965
Pensions	3,091	3,091
Taxes	6,054	6,054
Added Costs PUC & Other	0	10,000
Labor/Cost Savings	(7,100)	(7,100)
Total Oper. & Maint.	\$210,762	\$219,849
Depreciation	\$31,585	\$31,587
Total Oper. & Maint. Exp.	\$242,347	\$251,436
Total Operating Expenses	\$615,373	\$586,012
Operating Income	\$59,265	\$124,838
Other Income	4,963	5,743
Income Before Interest	\$64,228	\$130,581
Interest		
Long-Term Debt	\$50,966	\$50,966
Other	6,148	6,498
AFUDC	(775)	(775)
Loss on Extinguished Debt	3,976	3,976
Total Interest	\$60,315	\$60,665
Net Income	\$3,913	\$69,916
City Payment	18,000	18,000
Net Loss From Operations	(\$14,087)	\$51,916

<u>Debt Service Calculation</u>	<u>Current Estimate</u> <u>2001-02</u>	<u>Test Year Budget</u> <u>2001-02</u>
Funds Provided		
Operating Revenues	\$674,638	\$710,850
Other Income +/-	-	-
Restricted Funds	4,963	5,743
AFUDC	775	775
Total Funds Provided	\$680,376	\$717,368
Funds Applied		
Fuel Costs	\$373,026	\$334,576
Other Operating Exp.	242,347	251,436
Less: Non-Cash Exp.	(36,165)	(36,165)
Total Funds Applied	\$579,208	\$549,847
Funds Available To Cover Debt Service		
	\$101,168	\$167,521
1975 Debt Service Coverage Ratio	1.82	3.02
Funds Available To Cover Capital Leases		
	\$45,640	\$111,993
Capital Leases	5,954	5,954
Funds Available To Cover 1998 Sr. Debt Service Coverage Ratio	30,926	30,926
	1.28	3.43
Funds Available To Cover 1998 Subordinate Debt Ser. Coverage Ratio		
	\$8,760	\$75,113
	1,986	1,986
	4.41	37.82
Revised Standard & Poor's Fixed Charge Coverage Ratio		
Net Available To Service Aggregate Debt Service	\$102,542	\$168,897
Aggregate Debt Service	\$94,394	\$94,394
Fixed Rate Coverage Ratio on Aggregate Debt Service	1.09	1.79
Fixed Rate Coverage Ratio Including \$18.0 M City Fee	0.91	1.50
Fixed Rate Coverage Ratio Including \$18.0 M City Fee & \$20.0 M TXCP Payment	0.77	1.28

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COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 18, 2002

ORIGINAL

James J. McNulty, Secretary
Pa. Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00017034F0002

Dear Secretary McNulty:

Enclosed please find an original and three (3) copies of the Answer of the Office of Trial Staff for filing in the above-captioned proceeding.

Copies are being served upon all active parties of record.

Very truly yours,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff
Pa. Public Utility Commission

JES:pae
c: Parties of Record
Enclosures

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No.
R-00017034F0002

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**THE OFFICE OF TRIAL STAFF'S ANSWER
TO THE PETITION OF PHILADELPHIA GAS WORKS
FOR EXTRAORDINARY RATE RELIEF**

The Office of Trial Staff ("OTS") files the following Answer pursuant to Section 5.61 of the Commission's Rules of Practice and Procedure to the Petition for Extraordinary Rate Relief filed by Philadelphia Gas Works ("PGW") on February 25, 2002.

1. On February 25, 2002, PGW filed with the Pennsylvania Public Utility Commission ("Commission") a Petition for Extraordinary Rate Relief ("Petition") pursuant to Sections 1308 (e) and 2212(c) of the Public Utility Code. In its Petition, PGW is seeking \$44 million in extraordinary relief in order to avoid a downgrade of its bond rating by Standard and Poor's ("S&P").

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2. It is PGW's position that absent an immediate \$44 million rate relief, S&P will downgrade PGW's bonds from investment grade to junk bond status. PGW is of the opinion that a downgrade will affect the Company's ability to provide safe and adequate service.

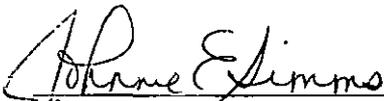
3. In conjunction with the Petition, PGW has filed a general base rate increase filing seeking a rate relief in the amount of \$60 million, of which \$44 million is being immediately requested in this Petition.

4. Consistent with 66 Pa. C.S.A. §1308(e), OTS respectfully request that the Commission prescribe by rule that "other evidentiary testimony" be presented by intervening parties prior to the Commission determining the reasonableness of PGW's Petition for Extraordinary Rate Relief.

5. A procedural schedule for this Petition has been adopted at a Prehearing Conference held before Administrative Law Judge Cynthia Williams Fordham. The procedural schedule affords the intervening parties the opportunity to present "other evidentiary testimony" on March 21, 2002. The evidentiary hearings will be held in Philadelphia on March 26, 2002 and March 27, 2002.

WHEREFORE, the Office of Trial Staff respectfully requests that the Commission prescribe by rule that other evidentiary testimony be presented in the proceeding prior to determining whether to grant or deny, in whole or in part, the Philadelphia Gas Works' Petition for Extraordinary Rate Relief .

Respectfully submitted,


Johnnie E. Simms

The Office of Trial Staff
P.O. Box 3265
Harrisburg, Pa. 17105
(717) 787-1976

Dated: March 18, 2002

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-00017034F0002
Philadelphia Gas Works :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Answer of the Office of Trial Staff, To The Petition of Philadelphia Gas Works for Extraordinary Rate Relief**, dated March 18, 2002 either personally, by first class mail, electronic mail, or by fax upon the persons listed below:

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Mr. Richard Lelash
Financial & Regulatory Consultant
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Hon. Cynthia W. Fordham
Administrative Law Judge
PA Public Utility Commission
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Broad & Spring Garden Streets
Philadelphia, PA 19130



Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: March 18, 2002
Docket No. R-00017034F0002

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1424 Chestnut Street, Philadelphia, PA 19102-2505
Phone: 215.981.3700, Fax: 215.981.0434
Web Address: www.clsphila.org

March 19, 2002

ORIGINAL
Filed by Federal Express

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Re: Philadelphia Gas Works (Extraordinary Rate Increase)
Docket No. R-00017034F.0002

DOCUMENT
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Dear Secretary McNulty:

I represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), the Tenants' Action Group (TAG) and Action Alliance of Senior Citizens of Greater Philadelphia, (collectively CEPA et al.) in the above-captioned matter.

Enclosed please find for filing an original and three (3) copies of the Answer of CEPA et al. to Philadelphia Gas Works' Petition for Extraordinary Rate Relief.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being served with copies of this Complaint.

Very truly yours,

Philip A. Bertocci

PHILIP A. BERTOCCI

Attorney for CEPA et al.

cc: Certificate of Service

Administrative Law Judge Cynthia W. Fordham
Robert J. Bennett, Fixed Utility Services

Enclosures

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MAR 19 2002

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

51

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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MAR 19 2002

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No.
R-00017034F.0002

DOCKETED
APR 23 2002

ANSWER OF CEPA ET AL. TO PHILADELPHIA GAS WORKS'
PETITION FOR EXTRAORDINARY RATE RELIEF

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Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) and the Tenants' Action Group (TAG) (hereinafter collectively "CEPA et al.") hereby answer the Philadelphia Gas Works' Petition for Extraordinary Rate Relief (hereinafter "Petition") as follows:

I. Introduction.

1. On February 25, 2002, PGW filed for a general base rate increase seeking to increase its base rates by \$60 million annually. In its Petition, which is part of this general base rate increase filing, PGW also requests that the Commission grant PGW's

request for \$44 million of the requested \$60 million base rate increase as extraordinary rate relief effective on or about April 11, 2002 on one day's notice as permanent rate relief. Petition, at ¶¶ 24-28, "Wherefore Clause." If granted, this extraordinary base rate increase would increase on an annualized basis overall customer bills approximately 8% above present levels, which are currently already 16% higher than rates existing in early November, 2000.¹

2. As part of the request for an extraordinary base rate increase, the Petition asks that the Commission modify the requirements of Section 1308(e) of the Public Utility Code in order to: (1) extend the time to consider the request and; (2) waive or declare inapplicable the rate of return requirement which sets a limit on the amount of extraordinary rate relief available under this section of the Code.

3. In its Petition, PGW avers that its need for a \$44 million extraordinary base rate increase is "immediately necessary" within the meaning of Section 1308(e) of the Public Utility Code for the "maintenance of financial stability in order to enable the utility to continue providing normal services to its customers, avoid reductions in its normal maintenance programs, avoid substantially reducing its employment" 66 Pa.C.S. §1308(e). It further claims that because PGW rates are not set on a "fair return on fair value" basis, the Commission should ignore or waive the clear legislative intent reflected in Section 1308(e) to provide some quantitative limit to the amount of extraordinary relief that may be obtained under this Section.

¹ Existing residential rates are Customer Charge (\$12), Base Rate (\$6.777/Mcf) and GCR (\$2.0203/Mcf). The proposed \$44 million increase applied as an across the board increase (except for the MUN/MS rate which is not included) would increase the Base Rate to \$7.5803/Mcf. In early November, 2000, the residential rates were Customer Charge (\$8), Base Rate (\$6.613) and GCR (\$1.0982/Mcf).

II. Answer.²

4. The Petition rests exclusively upon the Standard & Poor's February 12, 2002 Notice (hereinafter "Notice"). Petition, ¶ 4.³ This Notice states that PGW is filing for emergency rate relief in February 2002 with the Pennsylvania Public Utility Commission (PUC) to address "liquidity issues."

5. The Notice states that "[w]ithout immediate cash flow improvement, ratings will be lowered." It further quotes a Standard & Poor's credit analyst as stating that "if the PUC approves an emergency rate request, Standard & Poor's will review the adequacy of the increase and determine if ratings will be affirmed or lowered."

6. The Notice notes the existing ratings for the 1975 and 1998 senior bonds (Triple B) and the subordinated bonds (Triple B-). The Notice then provides a summary of the risks and "offsetting" strengths which the existing ratings reflect.

7. The enumerated risks set forth in the Notice are as follows:

(1) poor liquidity, requiring borrowing from PGW's capital fund account in January 2002 for debt servicing obligations, reliance on financial transactions that create nonrecurring revenues in this fiscal year and potential deferral on the \$45 million loan from the utility's owner, the City of Philadelphia, which is currently due to be repaid in

² This Answer is timely. PGW served the Petition on CEPA *et al.* by mailing it to counsel on February 25, 2002. CEPA *et al.* have 20 days plus three additional days within which to file a response. 52 Pa.Code §§5.61(a), 1.56(a). CEPA *et al.*'s Answer is deemed to have been filed when mailed by Federal Express to the Commission's Secretary. 52 Pa.Code §1.11(a)(2).

³ A copy of the Notice is attached hereto as Exhibit A. Although PGW extensively paraphrases and selectively quotes the Notice to serve its purposes, the Petition does not readily permit the Commission to measure PGW's claims against the actual text. The Petition contains no citation or attached copy of the actual two page Standard & Poor's text. The text attached to this answer is a copy of the text contained in the Extraordinary Rate Petition pre-filed Testimony and Exhibits at PGW E.R.P.St.4, Exhibit BCB-1 (Bisgaier).

January 2003;

(2) "weak fixed-charge coverage that, including lease payments and the annual payment to the City of Philadelphia [\$18.2 million including interest] has ranged between 1.0 times (x) -1.1x during the past four years";

(3) "limited ability of the city of Philadelphia to provide assistance due to the city's tight financial situation";

(4) PGW's problems with high account receivables, associated with a high proportion of low-income residents in PGW's service territory and which were exacerbated in 2001 due to escalating fuel prices recoverable through the gas cost recovery (GCR) mechanism;

(5) a "warm winter, which likely will cause PGW to miss budgeted forecasts in fiscal 2002";

(6) "inability to convert from interim management to permanent management by December 2001, as directed by PUC's interim rate order in November 2000."

8. The enumerated strengths which "offset the risks" as set forth in the Notice are as follows:

(1) a labor contract freezing labor costs for the next two years, reducing benefits and reasserting management prerogatives;

(2) improvements in billing, call center performance and auditing procedures;

(3) "[s]ound legal provisions that require 1.5x coverage on an accrual basis on the senior bonds";

(4) timely PUC approvals of required gas cost rate increases since July 2000;

(5) successful solicitation of LIHEAP "cash" and "crisis" grants aiding cash flow and earnings position.

9. In this case, PGW has the heavy burden of proving each element of its claim that

\$44 million in extraordinary base rate increases is “immediately necessary” for the “maintenance of financial stability in order to enable the utility to continue providing normal services to its customers, avoid reductions in its normal maintenance programs, avoid substantially reducing its employment” To the extent that PGW does not meet this burden for its claim, or any portion of its claim, the Commission must reject the claim or that portion of the claim. Pa. PUC v. Metropolitan Edison Co., Docket Nos. R-80051196 and P-80070235 (Order entered August 28, 1980), at 6.

10. PGW claims that the Notice means that Standard & Poor’s will inevitably downgrade all PGW bonds to junk bond status if the Commission does not on or about April 11, 2002 grant the Company an extraordinary rate increase in the amount of \$44 million. Petition, at p. 1.

11. This claim is not supported by the Notice for, inter alia, the following reasons:

- (a) The Notice identifies “weak fixed-charge coverage” as one risk, but does not prescribe any specific formula or dollar rate increase requirement that must be met to avoid a downgrade;
- (b) The Notice states only generally that ratings will be lowered, if cash flow does not improve, but does not state that senior bonds will be reduced by more than one level, to a level below investment grade status, if cash flow is found to be inadequate;
- (c) The Notice states only generally that ratings will be lowered, if cash flow does not improve, but does not state that ratings on all bonds, both senior and subordinate will be reduced, if cash flow is found to be inadequate;
- (d) The Notice states only generally that ratings will be lowered, if cash flow does not improve, but does not state that such downgrade(s) may be averted only and exclusively by provision of immediate, “ongoing, permanent sources of revenue” (Petition, at p.1) as distinguished from measures utilizing various resources, including but not limited to

waiver or grant back of the City Payment, extension of the City loan, sale of inventory, etc.

(e) The Notice opines, apparently on the basis of the City's self-serving averments, that the City of Philadelphia has limited ability to provide assistance, but does not recognize that the City itself states that it would have the ability, if necessary, to meet debt service ratio requirements to provide additional project revenues to PGW through grant-back of the \$18 million City Payment in FY2002.

12. PGW and the City distort the reasonable meaning of the Notice to focus solely on the alleged need for extraordinary rate relief in their claim that only such a rate increase of \$44 million will prevent downgrade of its bonds (Petition, at p.2), while discounting the potential importance to Standard & Poor's of resolute action to remove other enumerated risk factors fully within the control of PGW and its municipal owner such as high accounts receivable and inability to convert from interim management to permanent management.

13. PGW and the City distort the reasonable meaning of the Notice to focus solely on the alleged need for extraordinary rate relief in their claim that only such a rate increase of \$44 million will prevent downgrade of its bonds, while discounting the potential importance to Standard & Poor's of offsetting factors specifically identified by the Notice, such as substantial debt service coverage ratios, a favorable labor contract, operational improvements, an improved gas cost rate mechanism, and LIHEAP performance.

14. In addition to distorting the meaning of the Notice itself, PGW fails to mention that the other two major rating agencies, Moody's and Fitch, have not issued similar expressions of concern about PGW's present financial status. PGW's presentation

erroneously assumes that Standard & Poor's alone defines the attitude of the financial community toward PGW's credit worthiness.

15. PGW's claims that it is in imminent danger of losing its ability to maintain its Tax Exempt Commercial Paper program (Petition, ¶ 11), of losing its ability to utilize a Forward Purchase Agreement if necessary to meet its financial requirements (Petition, ¶ 10), to sell bonds necessary for its capital programs (Petition, ¶ 12) are not convincing because they flow from a distorted, exaggerated and self-serving interpretation of the Notice.

16. PGW's claims that it is in imminent danger of losing its ability to assure safe, continuous and adequate service to its customers (Petition, ¶ 14) are not convincing because they flow from a distorted, exaggerated and self-serving interpretation of the Notice.

17. PGW's claims that its owner, the City of Philadelphia intends to "do its part to respond to the crisis" does not in fact commit the City to take any steps that it has not previously taken, other than delaying for eight additional months the due date of the repayment of the \$45 million City loan. Petition, ¶ 15. As in the previous Interim Base Rate case, the City continues to aver that it would grant back up to \$18 million on a one-time only basis if necessary, while at the same time seeking an amount of rate relief which would make such grant back unnecessary. It continues to insist on receiving \$200,000 in interest from PGW when the Company is authorized to make the City payment at the end of June, rather than in four installments from March through June. Moreover, in this proceeding, the City has proposed to raise the rates of all customers except those charged to itself (MUN/MS Rate), thereby shifting an additional \$800,000 of the requested \$44 million extraordinary rate increase to the predominately residential

customer base.

18. CEPA et al. do not object to PGW's request to modify the requirements of Section 1308(e) to allow the Commission an extension of time to consider PGW's request.

19. CEPA et al. opposes PGW's request that the Commission interpret Section 1308(e) in a manner which ignores as inapplicable to municipally owned utilities the legislative intent to limit the amount of extraordinary relief which may be granted and/or waive that aspect of Section 1308(e). CEPA et al. incorporate by reference the position of the Office of Consumer Advocate (OCA's Answer to PGW' Petition for Extraordinary Rate Relief, at p. 4), which states that the cap on the amount of rate relief that can be awarded to PGW through Section 1308(e) should be based on the PGW's minimum bond debt service ratio coverage requirements.

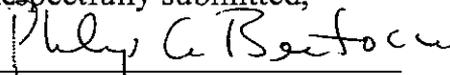
20. The extraordinary base-rate increase of \$44 million which PGW seeks is not "just and reasonable," in violation of the Public Utility Code and the U.S. Constitution, and represents one more chapter in the City's continuing effort to burden ratepayers exclusively with the full costs of refurbishment necessitated by the City's mismanagement of PGW.

III. Conclusion.

21. For all the foregoing reasons, CEPA et al. respectfully request that full evidentiary hearings be conducted as scheduled, that the PUC reject PGW's request for

extraordinary relief, reject PGW's request for a waiver of the limitation on the amount of rate relief that may be awarded under Section 1308(e).

Respectfully submitted,



PHILIP A. BERTOCCHI, ESQUIRE
EDWARD A. MCCOOL, ESQUIRE

Attorneys for CEPA et al.

COMMUNITY LEGAL SERVICES, INC.
1424 Chestnut Street, 4th Floor
Philadelphia, Pa 19102
(215) 981-3702

March 19, 2002

Philadelphia Gas Works' Ratings Remain on CreditWatch Due To Worsened Liquidity Position

*Aneesh Prabhu, New York (1) 212-438-1285;
Jodi E Hecht, New York (1) 212-438-2019*

NEW YORK (Standard & Poor's) Feb. 12, 2002--Standard & Poor's triple-'B' underlying rating (SPUR) and triple-'B' uninsured rating on Philadelphia Gas Works' (PGW) Ordinance 1975 and 1998 senior bonds, and its triple-'B'-minus SPUR on the 1998 Ordinance subordinated bonds remain on CreditWatch with negative implications where they were placed July 20, 2000.

PGW's poor liquidity position has worsened with December 2001 cash balances at \$3.8 million (2.5 days' cash) compared to ending cash of about \$8.4 million at fiscal year-end August 2000. PGW is filing an emergency rate relief in February 2002 with the Pennsylvania Public Utility Commission (PUC) to address liquidity issues. Without immediate cash flow improvement, ratings will be lowered. PGW's poor liquidity is due, in part, to the PUC final rate order of a \$33.6 million rate increase in December 2001, about \$31.0 million less than requested. This rate shortfall, combined with the warmer-than-budgeted weather this winter and higher receivables, contributes to poor liquidity, which is not appropriate for the current rating level. "If the PUC approves an emergency rate request, Standard & Poor's will review the adequacy of the increase and determine if ratings will be affirmed or lowered," said Standard & Poor's credit analyst Aneesh Prabhu.

PGW, the largest municipally owned gas utility in the U.S., purchases, sells, and distributes gas to more than a half-million customers within the city of Philadelphia. At fiscal year-end August 2001, PGW had about \$900 million of debt outstanding.

The ratings reflect the following risks:

-- The poor liquidity position required PGW to temporarily borrow from its capital fund account in January 2002 for servicing debt obligations, and requires PGW to rely on financial transactions that create nonrecurring revenues in this fiscal year. Without additional project revenues or rate relief, PGW may be unable to reimburse its capital fund. PGW will also seek a deferral on the \$45 million working capital city loan, due in January 2003.

-- Weak fixed-charge coverage that, including lease payments and the annual payment to the city of Philadelphia,

Exh.b.t "A"

has ranged between 1.0 times (x)-1.1x during the past four years.

-- Limited ability of the city of Philadelphia to provide assistance due to the city's tight financial situation.

-- PGW's problems with high account receivables, which were exacerbated in 2001 due to escalating fuel prices recoverable through the gas cost recovery (GCR) mechanism. Receivables have been historically high due to a high proportion of low-income residents in the demographics of PGW's service territory.

-- A warm winter, which likely will cause PGW to miss budgeted forecasts in fiscal 2002.

-- Inability to convert from interim management to permanent management by December 2001, as directed by PUC's interim rate order in November 2000. The search for permanent management is at an advanced stage and is expected to conclude by April 2002.

Nonetheless, the following strengths offset the risks:

-- A favorable closing to the labor contract negotiations in June 2001; the contract freezes labor costs for the next two years, reduces benefits, and reasserts management prerogatives regarding work rules.

-- Operational improvements that included correcting the faulty billing system, improving call center performance, and auditing procedure improvements.

-- Sound legal provisions that require 1.5x coverage on an accrual basis on the senior bonds.

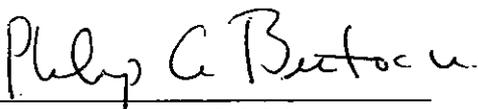
-- The PUC's timely approvals of required gas cost rate increases since regulatory oversight changed in July 2000.

-- PGW has successfully solicited federal and state funds in the form of LIHEAP and Crisis grants, which have aided the company's cash flow and earnings position.

VERIFICATION

I, Philip A. Bertocci, Esquire, attorney for CEPA et al., hereby state that the facts contained in the foregoing Answer are true and correct to the best of my knowledge, information and belief, that I am duly authorized to make this Verification on behalf of CEPA et al., 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 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).

Date: March 19, 2002



PHILIP A. BERTOCCI

R-00017034F.0002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa.Code § 1.54 (relating to service by a participant).

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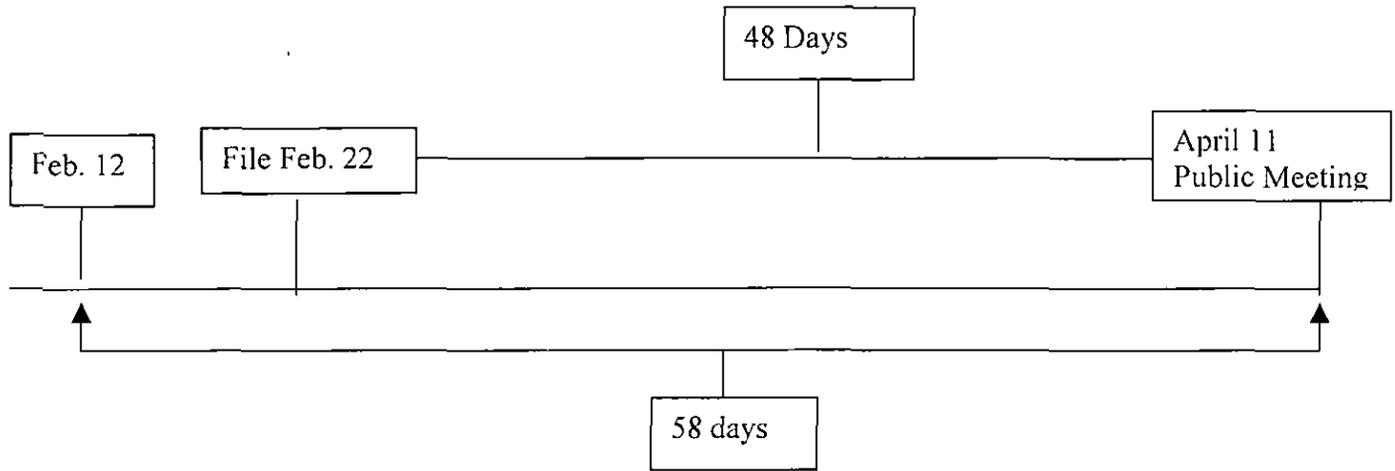


PHILIP A. BERTOCCHI, ESQUIRE

Date: 3/19/02

ATTACHMENT A

ORIGINAL



February 27 – Initial Discovery Due

March 6 – Answers to Initial Discovery Distributed and Follow Up

March 7 – Follow Up Discovery Due

March 13 – 14 – Informal Discovery/
Answers to Follow up to Written

March 20 – Responsive Testimony

March 26 and/or 27 – Hearing or Workshop

April 2 Noon – Memos submitted to PUC

April 11 -- PUC Announces Decision

DOCUMENT
FOLDER

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APR 4 2002

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02 FEB 26 PM 3:45

(10)

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March 19, 2002

Honorable Cynthia Fordham
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DOCKETED
APR 26 2002

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2002 MAR 21 AM 9:49
PA PUC
SECRETARY'S BUREAU

Re: Pa. PUC v. Philadelphia Gas Works
Docket No. R-00017034F0002

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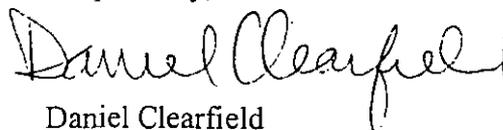
Dear Judge Fordham:

We are writing to advise your Honor that one of PGW's witnesses, Janice Davis, the Finance Director of the City of Philadelphia, will be unavailable to appear at the hearings on PGW's Petition for Extraordinary Rate Relief. Ms. Davis will be in Dallas, Texas from March 23 through April 3 for the scheduled birth of her grandchild.

We have advised the Office of Consumer Advocate, Office of Trial Staff, Office of Small Business Advocate, Consumer Education and Protective Association, and Philadelphia Industrial and Commercial Gas Users Group of this conflict and they are agreeable to Ms. Davis appearing telephonically for cross-examination and rebuttal if they determine that they have questions for her. Assuming your Honor is also agreeable to a telephone appearance by Ms. Davis, we will make the necessary arrangements.

Thank you for your consideration in this regard. If you have any questions, please contact me at your convenience.

Respectfully,



Daniel Clearfield
For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/jlg

cc: Certificate of Service

DSH:31529.1/PHI211-156924

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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March 19, 2002

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2002 MAR 21 AM 9:34
PA PUC
SECRETARY'S BUREAU

Re: Pa. PUC v. Philadelphia Gas Works
Docket No. R-00017034F0002

Dear Judge Fordham:

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Thank you for your consideration in this regard. If you have any questions, please contact me at your convenience.

DOCKETED

JUN 17 2002

Respectfully,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/jlg

cc: Certificate of Service

DSH:31529.1/PHI211-156924

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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Date: March 20, 2002



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March 21, 2002

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APR 26 2002

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Re: Pa. PUC v. Philadelphia Gas Works;
Docket No. R-00017034C0001 and R-00017034E0002

Dear Secretary McNulty:

Please allow this letter to serve as Philadelphia Gas Works' ("PGW") response to the above-referenced complaints and any other complaints that may be filed in regard to PGW's requested base rate increase docketed at R-00017034. On March 14, 2002, the Commission instituted, on its own motion, an inquiry and investigation into PGW's proposed Supplement No. 17 to Tariff-Gas PA P.U.C. No. 1. Accordingly, consistent with 52 Pa. Code § 5.61(d), no response to these or any other complaints is necessary and the allegations are deemed denied. A copy of this letter is being provided to Daniel J. Barccia and the Consumers Education and Protective Association via first class mail. We will also provide any other complainants with a copy of this correspondence.

If you have any questions regarding this letter, please contact me at your convenience.

Sincerely,



Mark S. Stewart

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

MSS/jlg

cc: Daniel J. Barccia
Consumers Education and Protective Association

DSH:31541.1/PHI211-156924



McNees Wallace & Nurick LLC
attorneys at law

DOCKETED

JUN 17 2002

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March 21, 2002

Honorable Cynthia Williams Fordham
Administrative Law Judge
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Broad & Spring Garden Streets
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Philadelphia, PA 19130

DOCUMENT
FOLDER

**Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works;
Docket No. R-00017034F002**

Dear Judge Fordham:

In accordance with the procedural schedule, please be advised that the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") will not be filing testimony in the above-referenced proceeding. PICGUG reserves the right, however, to participate in hearings, perform cross-examination, and file a memorandum, as necessary.

As evidenced by the attached Certificate of Service, all parties in this proceeding are being duly served with a copy of this letter. If you have any questions, please contact us.

RECEIVED
02 MAR 21 AM 10:14
PA.P.U.C.
SECRETARY'S BUREAU

Very truly yours,

McNEES WALLACE & NURICK LLC

By *Charis M. Burak*
Charis M. Burak

Counsel to the Philadelphia Industrial and
Commercial Gas Users Group

CMB/lhe
c: James J. McNulty, Secretary (via hand delivery)

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of Section 1.54 (relating to service by a participant).

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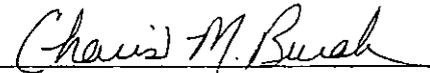
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Charis M. Burak

Dated this 21st day of March, 2002, in Harrisburg, Pennsylvania.



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March 21, 2002

DOCKETED

JUN 17 2002

Daniel Clearfield, Esquire
Wolf, Block, Schoer & Solis-Cohen LLP
212 Locust Street
Suite 300
Harrisburg, PA 17101

Re: Pennsylvania Public Utility Commission v. Philadelphia
Gas Works
Docket Number R-00017034F0002

Dear Mr. Clearfield:

Reference is made to your correspondence, dated March 19, 2002, regarding Janice Davis, the Finance Director of the City of Philadelphia.

Thank you for notifying me and the other parties that she will be unavailable to appear at the scheduled hearings in person. I have no objection to Ms. Davis appearing telephonically for cross-examination and rebuttal, if necessary. Please make the necessary arrangements.

Sincerely,

Cynthia Williams Fordham

CYNTHIA WILLIAMS FORDHAM
Administrative Law Judge

cc: Service List
File Room

Service List

R-00017034F0002 Pennsylvania Public Utility Commission v.
Philadelphia Gas Works

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ORIGINAL

March 22, 2002

James McNulty, Secretary
PA Public Utility Commission
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

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02 MAR 22 PM 3:37
SECRETARY'S BUREAU

Re: Philadelphia Gas Works v. Pa Public Utility Commission,
Docket No. R-00017034F0002

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works enclosed for filing please find BCB-1 (Updated) (Bisgaier St. E.R.P. 4). This updated exhibit will be handed out during the hearing on Tuesday, March 26th.

If you should have any questions, please do not hesitate to contact me.

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Very truly yours,

Dan Clearfield

Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww
Enclosure

cc: Hon. Cynthia Fordham w/enc.
Parties of Record w/enc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA FACSIMILE & FIRST CLASS MAIL

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Dated: March 22, 2002


Daniel Clearfield, Esquire

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STANDARD & POOR'S	RATINGS DIRECT
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Return to Regular Format

Research:

Summary: Philadelphia, PA; Utility, Gas

Publication date: 12-Feb-2002

Analyst: Aneesh Prabhu, New York (1) 212-438-1285; Jodi E Hecht, New York (1) 212-438-2019

Credit Profile

CREDITWATCH UPDATE

\$160.660 mil. Philadelphia gas wks rev bnds (1998 Gen Ordinance) ser A dtd 06/01/1998 due 07/01/1999-2014 2018 2026

To From

AAA/BBB(SPUR) BBB

\$103.550 mil. Philadelphia gas wks rev bnds (1998 Gen Ordinance) ser B dtd 06/01/1998 due 07/01/2014 2018 2028

AAA/BBB(SPUR) BBB

\$20.010 mil. Philadelphia gas wks rev bnds (Sub1998 Gen Ordinance) ser C dtd 06/01/1998 due 07/01/1999-2014

AAA/BBB-(SPUR) BBB-

\$61.960 mil. Philadelphia gas wks rev bnds 16th ser dtd 05/07/1999 due 07/01/2000-2009 2013-2015

AAA/BBB(SPUR) BBB

\$112.245 mil. Philadelphia gas wks rev bnds 2nd ser dtd 05/07/1999 due 07/01/2000-2029

AAA/BBB(SPUR) BBB

\$120.225 mil. Philadelphia gas works rev bnds (1998 Gen Ordinance) third ser dtd 06/01/2001 due 08/01/2003-2019 2021 2031

AAA/BBB(SPUR) BBB

\$355.825 mil. Philadelphia gas wks

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Rationale

Standard & Poor's 'BBB' underlying rating (SPUR) and 'BBB' uninsured rating on Ordinance 1975 and 1998 senior bonds, and its 'BBB- SPUR on the 1998 Ordinance subordinated bonds remain on CreditWatch with negative implications where they were placed July 20, 2000.

Philadelphia Gas Works' (PGW) PGW's poor liquidity position has worsened with December 2001 cash balances at \$3.8 million (2.5 days' cash) compared to ending cash of about \$8.4 million at fiscal year-end August 2000. PGW is filing an emergency rate relief in February 2002 with the Pennsylvania Public Utility Commission (PUC) to address liquidity issues. Without immediate cash flow improvement, ratings will be lowered. PGW's poor liquidity is due, in part, to the PUC final rate order of a \$33.6 million rate increase in December 2001, about \$31.0 million less than requested. This rate shortfall, combined with the warmer-than-budgeted weather this winter and higher receivables, contributes to poor liquidity, which is not appropriate for the current rating level. "If the PUC approves an emergency rate request, Standard & Poor's will review the adequacy of the increase and determine if ratings will be affirmed or lowered," said Standard & Poor's credit analyst Aneesh Prabhu.

PGW, the largest municipally owned gas utility in the U.S., purchases, sells, and distributes gas to more than a half-million customers within the city of Philadelphia. At fiscal year-end August 2001, PGW had about \$900 million of debt outstanding.

The ratings reflect the following risks:

- The poor liquidity position required PGW to temporarily borrow from its capital fund account in January 2002 for servicing debt obligations, and requires PGW to rely on financial transactions that create nonrecurring revenues in this fiscal year. Without additional project revenues or rate relief, PGW may be unable to reimburse its capital fund. PGW will also seek a deferral on the \$45 million working capital city loan, due in January 2003.

- Weak fixed-charge coverage that, including lease payments and the annual payment to the city of Philadelphia, has ranged between 1.0 times (x)-1.1x during the past four years.
- Limited ability of the city of Philadelphia to provide assistance due to the city's tight financial situation.
- PGW's problems with high account receivables, which were exacerbated in 2001 due to escalating fuel prices recoverable through the gas cost recovery (GCR) mechanism. Receivables have been historically high due to a high proportion of low-income residents in the demographics of PGW's service territory.
- A warm winter, which likely will cause PGW to miss budgeted forecasts in fiscal 2002.
- Inability to convert from interim management to permanent management by December 2001, as directed by PUC's interim rate order in November 2000. The search for permanent management is at an advanced stage and is expected to conclude by April 2002.

Nonetheless, the following strengths offset the risks:

- A favorable closing to the labor contract negotiations in June 2001; the contract freezes labor costs for the next two years, reduces benefits, and reasserts management prerogatives regarding work rules.
- Operational improvements that included correcting the faulty billing system, improving call center performance, and auditing procedure improvements.
- Sound legal provisions that require 1.5x coverage on an accrual basis on the senior bonds.
- The PUC's timely approvals of required gas cost rate increases since regulatory oversight changed in July 2000.
- PGW has successfully solicited federal and state funds in the form of LIHEAP and Crisis grants, which have aided the company's cash flow and earnings position.

OALJ Hearing Report

Please Check Those Blocks Which Apply

Docket No.:	R-00017034F0002		YES	NO
		Prehearing Held:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Case Name:	Pennsylvania Public Utility Commission v.	Hearing Held:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Philadelphia Gas Works	Testimony Taken:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
		Transcript Due:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
		Hearing Concluded:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Location:	Philadelphia, PA	Further Hearing Needed:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Date:	March 26, 2002	Estimated Add'l Days:		
		RECORD CLOSED:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
ALJ:	Cynthia W. Fordham	DATE:	3/26/02	
Reporting Firm:	Commonwealth Reporting	Briefs to be Filed:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
		Memos	DATE:	4/3/02
		Bench Decision:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		REMARKS:	1 day transcript received 2d day of hearing cancelled	

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	E-mail Address: cburak@mwn.com	Fax Number: (717) 237-5300
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Check this box if additional parties or attendees appear on back of form.

Reporter's Signature

Note: Completion of this form does not constitute an entry of appearance, see 52 Pa. Code §§1.24 and 1.25.

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OALJ Hearing Report

Please Check Those Blocks Which Apply

Docket No.:	R-00017034F0002		YES	NO
		Prehearing Held:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Case Name:	Pennsylvania Public Utility Commission v.	Hearing Held:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Philadelphia Gas Works	Testimony Taken:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		Transcript Due:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		Hearing Concluded:	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Location:	Philadelphia, PA	Further Hearing Needed:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
		Estimated Add'l Days:		
Date:	March 27, 2002	RECORD CLOSED:	<input type="checkbox"/>	<input type="checkbox"/>
ALJ:	Cynthia W. Fordham	DATE:		
		Briefs to be Filed:	<input type="checkbox"/>	<input type="checkbox"/>
		DATE:		
Reporting Firm:	Commonwealth Reporting	Bench Decision:	<input type="checkbox"/>	<input type="checkbox"/>
		REMARKS:	Hearing Completed 3/26/02; 3/27 - cancelled.	

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Telephone:	E-mail Address:	Fax Number:

Check this box if additional parties or attendees appear on back of form.

Reporter's Signature

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