

PGW Statement No. 2  
Docket No. A-110550F0160  
Witness: Craig E. White

*A-110550F0160  
Phila 9/26/05  
TC*

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
TESTIMONY OF

**CRAIG E. WHITE**

**DOCUMENT  
FOLDER**

ON BEHALF OF  
PHILADELPHIA GAS WORKS

Docket No. A-1100550F0160

**Joint Application of PECO Energy Company and Public Service  
Electric and Gas Company for Approval of the Merger of Public  
Service Enterprise Group Incorporated with and into Exelon Corporation**

Addressing Directed Question 5

August 26, 2005

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1 Q. PLEASE STATE YOUR NAME AND POSITION.

2 A. My name is Craig E. White. I have been employed by Philadelphia Gas Works  
3 ("PGW") for more than 20 years in various positions of ascending responsibility  
4 and am, presently, Acting Chief Operating Officer of PGW. I am a graduate of  
5 Kutztown University with a Bachelors of Science in Business Administration and  
6 of Drexel University with a Masters Degree in Business Administration –  
7 Financial Management. I have been and am a member of various committees and  
8 boards of the American Gas Association and the American Public Gas  
9 Association.

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

11 A. My testimony will provide one part of PGW's response to the following question  
12 directed by Vice Chairman Cawley and Commissioner Shane:

13 Would the combination of the PSE&G gas division with the PECO gas  
14 division and the Philadelphia Gas Works provide critical mass for a viable,  
15 profitable, shareholder owned public utility, assuming a revenue stream  
16 from an LNG facility, and separate resolution of the problem of a billion  
17 dollar debt?  
18

19 Specifically, I will respond to the question whether such a combination would  
20 provide for a profitable utility under the stated assumptions. Paul Carpenter will  
21 address one other aspect of the question.

22 Q. WHAT INFORMATION HAVE YOU USED IN PREPARING YOUR  
23 RESPONSE?

24 A. I base my response on my familiarity with PGW and a general familiarity with the  
25 operations of PECO gas division and PSE&G gas division. In addition, I have  
26 relied on financial data drawn from publicly available documents concerning  
27 PECO.

1 Q. WAS THE FINANCIAL DATA FROM PUBLICLY AVAILABLE  
2 DOCUMENTS SUFFICIENT TO ALLOW YOU TO ANSWER THE  
3 QUESTION FULLY?

4 A. No. PECO's publicly available financial data does not distinguish between that  
5 company's electric and gas divisions sufficiently to provide detailed information  
6 for purposes of answering of this question fully.

7 Q. YOU STATE THAT YOU REVIEWED FINANCIAL DATA RELATED TO  
8 PECO, BUT NOT PSE&G. WHY NOT?

9 A. There were several reasons. First, I have been advised by counsel that  
10 combination of PGW and PECO Gas with PSE&G Gas may create market power  
11 problems even greater than those created by the current proposed merger,  
12 particularly if there is a continued relation to the electric utilities owned by  
13 Exelon and PSEG.  
14 Second, New Jersey and Pennsylvania impose different regulatory oversight. In  
15 addition, the New Jersey companies utilize a different business model in a  
16 different economic environment. The synergies between PGW and PECO Gas  
17 are clear; they are much less obvious with PSE&G Gas.  
18 Third, PGW and PECO Gas utilize gas supply and storage contracts that are  
19 almost identical and would fit well, providing benefit to customers of each utility.  
20 The three LNG facilities of the two utilities are all in close proximity, facilitating  
21 operational and supply efficiencies. Finally, there are natural points where  
22 physical interconnection could be made between the PGW and PECO Gas

1 Division systems that would enhance reliability of supply for all customers and  
2 enhance the ability to serve new load.

3 *Assuming that market power issues could be resolved, PGW would have no*  
4 *objection in principle to including three gas systems in such a combined entity*  
5 *and would review any information that might indicate that the concerns*  
6 *articulated above can be overcome.*

7 Q. BASED UPON THE INFORMATION AVAILABLE TO YOU, DO YOU  
8 BELIEVE THAT COMBINING PGW WITH PECO GAS WOULD PROVIDE  
9 A VIABLE, PROFITABLE GAS UTILITY?

10 A. Yes, it could, though the use of the term profitable implies investor ownership  
11 and, as set forth below, one important alternative would be a not for profit entity  
12 such as an authority structure. The term "viable, financially-stable" would  
13 encompass both alternatives. I must caution that my initial review is only a first  
14 step and could not, in the time allowed and with the information available, entail  
15 the full due diligence needed to offer a final conclusion.

16 With some gross assumptions regarding a merged PGW and PECO Gas entity, a  
17 preliminary analysis of the pertinent data available indicates that a merged entity  
18 could be viable. A complete response will require a more thorough evaluation of  
19 certain data related to common plant facilities of the current combined PECO  
20 electric and gas utility operation, including how corporate costs and current tax  
21 obligations are allocated between the two divisions. The acquisition of PGW and  
22 the PECO Gas division through a taxable bond offering by a public enterprise  
23 could be supported by the cash flow generated sufficient to pay the debt service

1 and provide liquidity for working capital and capital improvements. I am advised  
2 that once the new entity begins functioning, it could utilize tax exempt debt to  
3 refinance existing debt or to provide for on-going capital expenditures.  
4 PECO ratepayers would benefit through a lower cost of capital and security of  
5 supply and operations. Additional benefits in the form of reduced corporate  
6 related tax payments would result from the tax-exempt status of the combined  
7 entity. PECO ratepayers would further benefit from improved cash flow with the  
8 elimination of dividend payments. A possible rate freeze for an undetermined  
9 period for current PECO and PGW customers could be an option. PGW  
10 ratepayers could benefit from the economic growth and commercial/industrial  
11 component of the PECO Gas service territory, while both sets of ratepayers could  
12 benefit from streamlining operations and eliminating duplicative services of the  
13 merged entity. The combined enterprise could have a more stable liquidity base.  
14 *Combining PGW and PECO Gas would provide benefits with regard to gas*  
15 *supply. A combined entity would likely have the ability to negotiate more*  
16 *favorable contracts with regard to commodity, storage, and deliverability without*  
17 *being so large as to raise market power issues. As mentioned above, the*  
18 *interconnection of the two systems would enhance security of delivery to all*  
19 *customers while also enhancing efficiency.*  
20 Furthermore, there is potential for efficiency improvement for both utilities that  
21 could result from combining certain operational components. While some of  
22 those efficiencies, such as a single call center, centralized fleet management, and  
23 centralized meter reading, billing and collections, may now exist between PECO

1 Electric and PECO Gas, there are greater efficiencies that could be realized from a  
2 combined PGW/PECO Gas operation. For example, this entity would have  
3 centralized gas field services and distribution operations, gas management,  
4 centralized management of LNG facilities, and centralized gas procurement.  
5 Providing PECO Gas customers with direct access to PGW's LNG facilities  
6 should provide significant benefit to them. Such benefit would be further  
7 enhanced by completion of the proposed LNG terminal project.

8 Finally, as set forth above, I have reviewed publicly available data related to  
9 PECO revenue, cash flow and debt. I have assumed that the combined entity  
10 would not impose rate changes for either PGW or PECO Gas ratepayers for a  
11 period of at least several years. While reasserting that any conclusion I reach  
12 must remain subject to a more detailed study of precise PECO Gas data, my  
13 general conclusion is that there is sufficient data supporting the financial and  
14 operational viability of a combined company to make such a study in the interest  
15 of the ratepayers.

16 Q. WHAT ASSUMPTIONS DID YOU MAKE WITH REGARD TO WHETHER A  
17 SHAREHOLDER-OWNED UTILITY WOULD BE APPROPRIATE?

18 A. I made no assumptions with regard to ownership. PGW would review with  
19 interest any analysis regarding either a shareholder-owned public utility or  
20 ownership by another type of entity. I believe, however, that there is a substantial  
21 and demonstrable benefit for both PGW customers and PECO Gas customers if  
22 one assumes not-for-profit ownership such as a state authority or a similar entity,

1           since such an entity would enjoy exemption from certain taxes, a lower cost of  
2           capital, and would have no obligation to provide shareholder return.

3    Q.    HOW DO YOU ADDRESS THE SEPARATE RESOLUTION OF THE  
4           BILLION DOLLARS OF DEBT?

5    A.    I did not address that issue. In the question posed, it is a given.

6    Q.    DOES THIS CONCLUDE YOUR TESTIMONY?

7    A.    Yes.