

# PROPRIETARY INFORMATION

Docket Number A-110550 F0160

Name of Document Peco Cross Examination  
Exhibit 4

Date Document Received 9-26-2005

DOCUMENT CONTAINS

PROPRIETARY INFORMATION

PECO  
CROSS EXAMINATION  
Exhibit 5

A-110550F0160  
9/26/05 Phil  
DX

Joint Application of  
PECO Energy Company and  
Public Service Electric & Gas Company  
Docket No. A-110550F0160

PHILADELPHIA GAS WORKS

Response to Joint Applicants'  
Interrogatories and Requests for  
Production of Documents - Set IV

23. Under Mr. White's "authority structure," would PECO Energy's present owner be compensated for the fair market value of the PECO Energy gas division's assets? If so, by whom and how would the amount of compensation be determined? If not, how would the purchase price be determined?

**RESPONSE:**

Mr. White believes that it would be appropriate that the owners of both PGW and PECO Gas be compensated for their assets. He has not conducted any analysis of the value of those assets, the appropriate compensation or methodology for compensation. If a state authority or similar entity were created to "house" the new utility, that authority would have authority to issue bonds whose revenue might be used for such compensation.

DOCUMENT  
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PECO CROSS  
EXAMINATION  
Exhibit 10

A-110550F0160  
Phil v. 9/26/05

Joint Application of  
PECO Energy Company and  
Public Service Electric & Gas Company  
Docket No. A-110550F0160

PHILADELPHIA GAS WORKS  
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15. Does Mr. White believe that PGW's present gas operations suffer from an unstable liquidity base? Please provide all documents that address the relative stability of PGW's liquidity.

**RESPONSE:**

Yes. See documents filed with PUC regarding collections and cash flow as well as published credit reports from the various bond rating agencies. A copy of the most recent report from Standard & Poor's is attached.

DOCUMENT  
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2005 SEP 27 PM 1:46  
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<b>STANDARD &amp; POOR'S</b>	<b>RATINGS DIRECT</b>
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## Research: Philadelphia; Utility, Gas

**Publication date:** 30-Aug-2005  
**Primary Credit Analyst(s):** Jeanny Silva, New York (1) 212-438-1776; jeanny\_silva@standardandpoors.com  
**Secondary Credit Analyst(s):** Aneesh Prabhu, New York (1) 212-438-1285; aneesh\_prabhu@standardandpoors.com

### Credit Profile

#### AFFIRMED

\$46.815 mil. Philadelphia gas wks rev bnds (ASSURED GTY)	AAA/BBB-(SPUR)
\$160.660 mil. Philadelphia gas wks rev bnds (1998 Gen Ordinance) ser A dtd 06/01/1998 due 07/01/1999-2014 2018 2026	AAA/BBB-(SPUR)
\$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)
\$20.010 mil. Philadelphia gas wks rev bnds (Sub1998 Gen Ordinance) ser C dtd 06/01/1998 due 07/01/1999-2014	AAA/BB+(SPUR)
\$61.960 mil. Philadelphia gas wks rev bnds 16th ser dtd 05/07/1999 due 07/01/2000-2009 2013-2015	AAA/BBB-(SPUR)
\$112.245 mil. Philadelphia gas wks rev bnds 2nd ser dtd 05/07/1999 due 07/01/2000-2029	AAA/BBB-(SPUR)
\$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)
\$186.705 mil. Philadelphia gas works rev bnds seventeenth series (1975 Gen Ordinance) due 07/01/2005-2022 2026	AAA/BBB-(SPUR)
\$125.000 mil. Philadelphia gasworks rev bnds fourth series (1998 Gen Ordinance) due 08/01/2004-2022 2032	AAA/BBB-(SPUR)
\$102.530 mil. Philadelphia gas wks rev (1998 General Ordinance) (FSA)	AAA/BBB-(SPUR)
\$355.825 mil. Philadelphia gas wks	BBB-

**OUTLOOK:** NEGATIVE

### Rationale

On Aug. 30, 2005, Standard & Poor's affirmed its ratings on Philadelphia Gas Works' (PGW) revenue bonds. The ratings reflect the weak service territory, historically poor collections, high debt levels, and thin coverage of aggregate debt service. These weaknesses are partially offset by a lack of competitors and modest levels of support from the City of Philadelphia, Pa.

PGW is the nation's largest municipally owned gas utility, serving about 499,000 customers in Philadelphia. As of July 2005, the utility had about \$1.2 billion in total debt outstanding.

A weak service territory has contributed to low collection rates that have plagued the company for several years. Undercollection of billed accounts becomes acute in years with colder-than-normal winter months and high gas prices. In 2003 (5% colder-than-normal), PGW's collection rates fell to an historically low 87%. In the past two years, collection rates have improved, thanks in part to two consecutive years with warmer-than-normal winter months and various management initiatives. Year-to-date, the company has collected about 95% of billed gas revenues—a marked improvement from previous years. However, as the heating season approaches and with gas prices at record highs, it

remains to be seen if the company will be able to maintain its current 95% collection rate. The newly enacted Responsible Utility Customer Protection Act (Act 201) should provide PGW with the means for some lasting improvement. The law has allowed PGW to implement new rules regarding shut-offs, deposits, and customer tracking.

PGW's debt burden is high, with debt per customer at about \$2,400. Moreover, debt is expected to continue to increase as PGW depends entirely on external long-term financing to fund its capital-improvement program. The company spends about \$70 million in capital expenditures per year. It issues debt to fund its capital program on a two-year cycle. It is PGW's practice to use its capital improvement fund to meet ongoing working capital and debt-service requirements. The practice points to the general insufficiency of cash flows to meet ongoing operational and debt obligations.

Coverage of aggregate debt service has benefited from better collections and the suspension of PGW's annual \$18 million transfer payment to Philadelphia. For the fiscal year ended 2004, PGW's coverage of aggregate debt service was about 1.18x. Coverage in previous years had been at or below 1.0x. The company should end fiscal 2005 with coverage of about 1.25x. Coverages could decline if collection rates decline. All other things constant, new Act 201 rules and policies should enable PGW to collect a higher percentage of billed revenues than in previous years. However, if the winter is colder than normal and gas prices rise, delinquencies could increase and coverages decline, despite the new rules.

Competitive pressures are few, which reduces PGW's business risk. Although PGW's customers have had retail choice since September 2003, the absence of alternate providers has effectively secured the system's position as a regulated monopoly in Philadelphia. The utility's relationship to the city of Philadelphia also helps to reduce financial risk. Standard & Poor's assumes that the city will continue to provide modest levels of financial support to PGW. This support includes a suspension of PGW's annual payment to the city through PGW's fiscal 2008 and a deferral of PGW's \$45 million City loan bullet maturity until 2008.

### Liquidity

PGW's liquidity remains marginal despite annual transfer-payment forgiveness from the city of Philadelphia. Alternative sources of liquidity include a \$100 million commercial paper program, access to capital improvement program funds, and the ability to enter into gas-storage deferral contracts.

As of July 2005, PGW's unrestricted cash balances were \$32 million, or roughly 15 days of operating expenses. With \$79.8 million in commercial paper outstanding, PGW had no availability under its commercial paper program. PGW's commercial paper is backed by a letter of credit (LOC) from JP Morgan Chase & Co. Commercial paper capacity was increased to \$100 million in August 2005. This enhanced capacity will boost end-of-fiscal-year cash and available liquidity to about 31 days of operating expenses. The LOC does not contain a term-out provision. The current ratings assume that the company will renew its LOC shortly before it expires in May 2007. An inability to renew the facility at the current amount could lower ratings. PGW regularly makes interfund loans among its various consolidated accounts (including its capital improvement fund) to pay ongoing obligations, including debt service. PGW should have \$100 million in its capital fund at the end of the fiscal year. Gas-storage deferral contracts enhance PGW's short-term liquidity by delaying cash outlays in summer months, when liquidity is tight. The deferred payments involve a cost of carry, which makes them potentially less cost-effective than a traditional purchase-and-store strategy.

The company's gas supply contracts contain adequate assurance provisions, which provide counterparties with the right to demand prepayment if a supplier has reasonable grounds for insecurity regarding PGW's performance under the contract, including due to a material change in PGW's creditworthiness. Cash reserves and available commercial paper are inadequate to cover PGW's peak winter prepayment exposure.

### ■ Outlook

The outlook is negative. Ratings could be lowered if current collection rates and coverage levels decline. The current high gas price environment could negatively affect both measures in the next

heating season. Furthermore, current ratings assume that the city will providing annual payment forgiveness to PGW through (PGW's) fiscal year 2008. They also assume that the city will allow PGW to defer its \$45 million loan payable until 2008. Without such support, ratings would be lowered. The outlook may be revised to stable if the upcoming heating season does not result in lower collection rates and coverage levels.

### ■ Business Description

PGW is a municipally owned utility that purchases, sells, and distributes gas within the city limits of Philadelphia, Pa. The utility is managed by the Philadelphia Facilities Management Corp. All utility property is owned by the City of Philadelphia. PGW maintains a distribution system with about 3,000 miles of gas mains and 500,000 service lines serving about 499,000 customers. Nearly 95% of PGW's customers are residential users.

### ■ Business Profile

PGW's business profile score is characterized as satisfactory-to-weak, or a '6' on Standard & Poor's 10-point scale, where '1' is the highest score. Business profile scores for most (gas) local distribution companies (LDC) range from '1' (excellent) to '4' (strong).

### Regulation

PGW's customers have had retail choice since September 2003. Given the unfavorable demographics and collection characteristics of PGW's service territory, as well as the absence of an alternative supplier, we assume that in the near-to-intermediate term PGW will likely remain a regulated monopoly.

The Pennsylvania Public Utility Commission (PUC) has regulated PGW base and gas cost recovery rates and other charges since July 1, 2000. We view PGW's regulatory environment as generally supportive of credit quality. For example, the utility has access to automatic gas cost recovery and weather normalization adjustment (WNA).

Automatic gas cost recovery enables PGW to reflect the rise or fall in actual and projected gas costs in customer rates on a real-time, quarterly basis. The recovery mechanism includes an end-of-year true-up provision whereby any overrecovery or underrecovery of gas costs incurred are passed through to customers in the following fiscal year. In 2001, the Pennsylvania Public Utility Commission (PUC) allowed PGW to retain an \$11 million overrecovery to meet obligations due through January 2002.

Weather normalization enables PGW to smooth out fluctuations in distribution revenues due to abnormal weather. PGW's WNA had an initial three-year period, beginning in August 2002. The company is reviewing its WNA and will submit a filing to the PUC shortly. In response to the filing, the PUC will decide whether to continue, continue with modifications, or eliminate the WNA. The current rating assumes that the company will continue to have access to its WNA. Although poor collections exacerbate liquidity problems in colder-than-normal years (as total customer bills increase), the WNA keeps distribution revenues from dropping precipitously in years with warmer-than-normal winters.

In February 2005, the PGW won a major victory with the passage of Act 201. Because of the new law, PGW may now shut off service to delinquent customers during the winter and on Fridays under certain conditions. To shut off service to non-low-income customers during winter months, PGW is no longer required to get PUC permission. As per the new law, PGW may now require customers whose service has been shut off to pay past-due bills in full, arrange for a payment agreement, pay a reconnect fee, and/or pay a deposit before it restores service. The new law also permits PGW to make any adult living in a home where service has been shut off accountable for all or part of an overdue balance before the adult can obtain service in his or her name. While opposition to Act 201 persists, the current ratings assume that the company will not be forced to roll back any of its new collection-related rules and policies.

### Markets

PGW serves about 499,000 customers in the city limits of Philadelphia. Residential customers (95% of customers) should provide for a stable and predictable revenue stream. However, unlike the surrounding metro area, the City of Philadelphia is characterized by a declining population, below-average wealth levels, and higher-than-average unemployment levels that contribute to poor collections. Philadelphia's population declined 1.2% per year on a compound annual basis between 1994 and 1998. Median household effective buying income is only 74% of the national average. Also, the average unemployment rate for 2004 was 7.43% for Philadelphia, compared with 5.49% for the U.S. as a whole.

Low collection rates have plagued the company for several years. The company has written-off about 20% of receivables annually since 2001. As of July 2005, about 78% of PGW's gross receivables were more than 90 days old. That said, after falling to a historic low in 2003 (87%), collection rates appear to be improving. Collection rates have benefitted from two consecutive years with warmer-than-normal winters and various management initiatives. Year-to-date, the company has collected about 95% of billed gas revenues—a marked improvement from previous years. The collection rate could decline again in the event of a colder-than-normal winter and natural gas prices rise to record highs.

### Operations

PGW manages its gas supply through a mix of flowing supplies, off-system underground storage, and city-owned and PGW-operated liquefied natural gas (LNG) facilities. PGW purchases about 40% of its gas requirements through four firm supply contracts. Purchases are first-of-the-month index. PGW's access to an automatic purchased gas adjustment clause tempers its exposure to the volatile natural gas market. However, the gas cost pass-through mechanism assumes that PGW has a 100% collection rate. With collection rates typically in the low 90% area, PGW is not insulated from commodity risk.

PGW receives gas from two pipeline transmission companies that own most of the facilities and land at eight of the nine city gas stations—Texas Eastern Transmission Corp. and Transcontinental Gas Pipe Line Corp. As such, PGW draws gas primarily from the U.S. Gulf Coast and Canada. PGW's reliance on only two pipeline interconnections exposes it to moderate event risk and negative supply shocks.

During periods when PGW's load is less than contracted transportation service, it may use available capacity on the aforementioned pipelines to deliver gas to its off-system storage facilities or to liquefy and store gas in its LNG facilities. Purchasing gas during lower-cost summer months, storing it, and then redelivering it during the winter reduces the company's gas supply costs, which when high, tend to exacerbate its collection problems. However, the company's deferred gas storage transactions tend to cut into some of the cost savings. The transactions allow PGW to delay cash outlays for gas obtained in liquidity-tight summer to the winter. The deferred payments involve a cost of carry, which makes them potentially less cost-effective than a traditional purchase and store strategy.

About 45% of peak day demand can be met with vaporized gas from two city-owned and PGW-operated LNG facilities. The LNG facilities enhance supply security.

About 56% (by length) of PGW's gas mains are cast iron, 33% are steel, 5% are ductile iron, and 5% are plastic. PGW's capital spending budget reflects the extensive maintenance and capital expenditures generally associated with older cast iron systems. Over the past three years, about 62% of PGW's capital expenditures were related to maintaining distribution facilities, including its mains and small diameter services.

### Competitiveness

Retail customers in Pennsylvania can choose among natural gas suppliers as per the Pennsylvania Gas Choice Act of 1999. However, below-average demographics in PGW's service territory and the utility's high risk for uncollectible accounts keep would-be competitors at bay. Currently, there are no competitive natural gas suppliers offering service to residential customers in PGW's service territory. Residential customers account for 95% of all customers and about 70% of total gas sales.

### Management

The current management team, in place since July 2000, has had some success in tackling certain regulatory, operational, and other issues, such as obtaining an immediate interim rate increase of \$36 million from the PUC in April 2002, addressing billing system functionality problems also in 2002, and working with the city to defer or eliminate its \$18 million annual payment.

Management will likely confront significant financial and operational challenges. High gas prices—especially if coupled with a colder-than-normal winter—could stretch the company's customers and add to the company's uncollectible account, thereby reducing cash flows. Also, opposition to Act 201, whether at the local level or in the state legislature, could thwart management's ability to implement rules and policies designed to further improve collections. In the past year, management has implemented several collection strategies that are likely to improve collections. These include requiring deposits from previously delinquent customers, making landlords partially responsible for overdue tenant accounts, proceeding with winter and Friday shut-offs, and tracking customers for new gas service.

### Financial Profile

PGW's below-average financial profile is characterized by high debt levels, thin coverage of aggregate debt service, and low collection rates that pressure liquidity.

PGW's debt burden is high with debt per customer at about \$2,400. Moreover, debt is expected to continue to increase as PGW depends entirely on external long-term financing to fund its capital improvement program. The company's capital expenditures total about \$70 million per year. It issues debt to fund its capital program on a two-year cycle. It is PGW's practice to use its capital improvement fund to meet ongoing working capital and debt-service requirements. The practice points to the general insufficiency of cash flows to meet ongoing operational and debt obligations.

Coverage of aggregate debt service has benefited from better collections and the suspension of PGW's annual \$18 million transfer payment to the city. For the fiscal year ended 2004, PGW's coverage of aggregate debt service was about 1.18x. Coverage in previous years had been at or below 1.0x. The company should end fiscal 2005 with coverage of about 1.25x. Coverages could decline if collection rates decrease. All other things constant, new Act 201 rules and policies should enable PGW to collect a higher percentage of billed revenues than in previous years. However, in the event of a colder-than-normal winter and elevated gas prices, delinquencies could increase and coverages decline, despite the new rules.

### Legal provisions/covenants

The gas system's net revenues secure the bonds. Series 1998 1C bonds are subordinate to all other 1975 and 1998 ordinance bonds. Aside from Series 1998 1C, all bonds share equally in the pledge of revenues. The lien created by the 1975 ordinance was closed, except for refunding bonds. There are no additional bonds tests. To issue bonds under either ordinance, the chief financial officer for the city must file a financial report that determines that estimated net revenues will be sufficient to meet the covenants of the respective ordinance.

Under the 1998 ordinance, the rate covenant requires 1.5x coverage of maximum annual debt service on the senior bonds, but only 1x coverage of the debt remaining under the 1975 ordinance and the subordinate bonds. The rate covenant for the 1975 ordinance bonds still requires 1.5x coverage on all outstanding 1975 ordinance debt. Therefore, rates must be set to satisfy both ordinances, or at the higher rate required by the two ordinances. As the debt under the 1975 ordinance matures and the amount of debt under the 1998 ordinance increases, the revenue required to satisfy the rate covenants will decrease. The company is currently in compliance with its covenants.

PGW does not have a debt-service reserve fund. However, bondholders benefit from the existence of two sinking fund reserve accounts. Under both ordinances, PGW is required to maintain sinking funds with deposits sufficient to meet 100% of debt service (relating to all bonds) due in the following year. The sinking funds were funded from bond proceeds.

Under its management agreement, the Philadelphia Facilities Management Corp. is required to make an annual \$18 million payment to the city on behalf of PGW. The city has waived this requirement through 2009. Authorizing legislation must be passed at the city level annually to permit and formalize the suspension.

Philadelphia Gas Works Financial Statistics						
		-Fiscal year ended Aug. 31-				
	12 months ended July 2005 (unaudited)	2004 (audited)	2003 (audited)	2002 (audited)	2001 (audited)	2000 (audited)
Debt-service coverage (incl. capital leases; no comm. paper) (x)	1.38	1.18	1.28	1.16	1.21	1.12
Coverage of debt service & city payment (excluding comm. paper) (x)	1.38	1.18	1.07	0.99	1	0.93
Days cash on hand (incl. available comm. paper)	15.4	16.9	0.2	3.7	0.3	6.4
Amount of debt/customer (\$)	2,419	2,106	2,245	2,024	2,063	1,864
% of billings received	94.8	91.4	86.6	97.6	88.1	92.9

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

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Joint Application of  
PECO Energy Company and  
Public Service Electric & Gas Company  
Docket No. A-110550F0160

PECO  
Cross Examination  
Exhibit 7  
A-110550F0160  
Phila xx 9/26/05

PHILADELPHIA GAS WORKS  
Response to Joint Applicants'  
Interrogatories and Requests for  
Production of Documents - Set IV

2. Please identify by regulatory agency, governmental body or court, caption and docket number all administrative and judicial proceedings in which Mr. White has previously testified and provide copies of all testimony submitted by Mr. White in such proceedings during the last five years (2001-2005).

**RESPONSE:**

By agreement with Joint Applicants, PGW is providing docket numbers for testimonies of Mr. White from 2001 through 2005. The docketed proceedings, all of which are Public Utility Commission proceedings, are M-00021612, R-0001734F0002, R-00017034, R-00006042, R-00005619 and R-00005654. PGW is providing copies of Mr. White's testimonies for the period 2001 through 2005 before the Public Utility Commission and the Philadelphia Gas Commission. Mr. White's PUC and PGC testimonies for the designated period are being provided electronically with the electronic service of these Set IV answers with the exception of the testimonies at R-00005619 and R-00005654 copies of which were not retained at PGW.

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**DIRECT TESTIMONY OF  
CRAIG WHITE  
ON BEHALF OF  
PGW'S FY 2006 CAPITAL BUDGET**

7 **Q. Please state your name and official capacity at PGW?**

8  
9 **A. My name is Craig White. I am employed at the Philadelphia Gas Works**  
10 **as Interim Chief Operating Office and Senior Vice President.**

11  
12 **Q. What was your role in preparing this FY 2006 Capital Budget?**

13  
14 **A. In my capacity as Interim Chief Operating Officer, the vast majority of the**  
15 **departments that have requested funds for projects and initiatives in the**  
16 **FY 2006 Capital Budget are accountable directly to me or through my**  
17 **direct reports. As such, I directed the development and reviewed the**  
18 **individual budgets of these departments, in conjunction with my direct**  
19 **reports, to ensure that the objectives of the capital budget were being**  
20 **satisfied.**

21  
22 **Q. What are the major objectives established in formulating the FY 2006**  
23 **Capital Budget?**

24  
25 **A. As always, the FY 2006 Capital Budget was prepared primarily to support**  
26 **PGW's most critical business objectives, to maintain a safe and reliable**

1 infrastructure for both new and existing customers. This budget  
2 submission achieves this goal. In addition, this budget submission  
3 recognizes PGW's current financial condition without compromising its  
4 objectives; and is supported by a comprehensive review process which  
5 ensures funding for the highest priority projects.  
6

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7 **Q. Regarding the FY 2006 Capital Budget, what is the level of program**  
8 **approval PGW is requesting?**  
9

10 A. The FY 2006 Capital Budget proposed by PGW is for a total gross amount  
11 of \$65,868,000, which is a 12.3%, or \$7.216 million increase from PGW's  
12 FY 2005 Capital Budget of \$58,652,000. The level of authorization  
13 proposed in this Capital Budget reflects the need to operate PGW in a  
14 safe and reliable manner and within prudent financial parameters, while  
15 recognizing that PGW operates in an environment where rates and  
16 services provided must be competitive and affordable to our customers.  
17

18 **Q. Does the Proposed Capital Budget provide the necessary funding to**  
19 **ensure the continued safe and reliable operation of PGW's facilities?**  
20

21 A. Yes. The level of funding requested in this Capital Budget filing, along  
22 with resources provided in the Operating Budget, support the continued  
23 operational integrity of PGW's facilities. The safety of the public and our

1 employees continues to be our highest priority and the funding proposed  
2 in this budget request supports this objective.

3  
4 **Q. Could you identify significant changes in the FY 2006 Capital Budget**  
5 **from the FY 2005 Capital Budget?**

6  
7 **A.** The FY 2006 Capital Budget is \$7.216 million more than the amount  
8 approved in the FY 2005 Capital Budget. Major increases in the budget  
9 from FY 2005 to FY 2006 were experienced in Distribution (\$5.558  
10 million), Building Services (\$1.741 million), Customer Service (\$950,000),  
11 and Fleet Operations (\$1.984 million). In addition there is a \$1.115 million  
12 increase in funds for Systems and Technology related initiatives, the  
13 majority of this increase is the result of the need to replace PGW's SCADA  
14 System for \$710,000.

15  
16 Correspondingly, significant decreases were experienced in Gas  
17 Processing (\$1.908 million), and FOI (\$2.637 million). I will discuss these  
18 budget variances during the remainder of my testimony.

19  
20 **Q. In the FY 2006 Capital Budget, there are no funds requested for**  
21 **Phase II of PGW's LNG Liquefaction Replacement Program at the**  
22 **Richmond Plant. Could you provide an update of this important**  
23 **program?**

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A. Last year's budget submission forecasted the inclusion of funding for Phase II of PGW's LNG initiative in FY 2006. The proposed budget and forecast provides no funding for Phase II of PGW's LNG Replacement Program. This decision was based upon the need to fully explore the potential for constructing a LNG terminal at the Richmond Plant. While major obstacles need to be overcome, this alternative offers PGW the opportunity to gain a substantial increase in revenues, while at the same time eliminating the need for a future investment in the Phase II Plant.

**Q. Could you discuss the development of the FY 2006 Capital Budget for the Gas Processing area?**

A. The FY 2006 Capital Budget for Gas Processing assumes that the Phase I Expander Plant will successfully complete its performance test in March and be available to produce LNG during the upcoming liquefaction season. With this assumption, PGW allocated no funds for investment in the existing Cascade liquefaction facility. With no new initiatives to fund, the budget in Gas Processing is targeted to support basic infrastructure improvements to maintain the existing risk profile. Thus, the \$1.908 million reduction in the budget from the FY 2005 level is consistent with the limited objectives of this budget.

1  
2 With the deferral of Phase II of the LNG Liquefaction Replacement  
3 Program, PGW felt it prudent to take contingency steps to protect PGW's  
4 critical need for LNG. PGW will begin advanced engineering work for  
5 critical elements of the Cascade Plant to ensure if there is a plant failure;  
6 the downtime can be limited to one season by reducing the total  
7 implementation period by the timeframe required for engineering design  
8 and development of procurement documents. PGW may need to depend  
9 on the existing Cascade Plant to support its LNG operations, an option  
10 that could require additional investment in the Plant to increase Plant  
11 reliability for an extended period of time.

12  
13 The budget approved by Management insures that the Gas Processing  
14 Department operates within acceptable levels of risk. It bears emphasis  
15 that maintaining our facilities at an acceptable level of dependability is a  
16 continual responsibility that PGW takes very seriously - utilizing the vast  
17 experience and expertise of our Gas Processing and Engineering  
18 Departments' personnel to meet this objective.

19  
20  
21 **Q. Could you discuss the development of the FY 2006 Capital Budget**  
22 **request in Distribution and any major assumptions in its**  
23 **development?**

1  
2 A. The major issue addressed in the development of the Distribution  
3 Department's budget was the requirement that main replacement levels  
4 must be consistent with current management's objective to reduce and  
5 eventually eliminate PGW's cast iron inventory. This goal is supported by  
6 the continuing funding of an 18-mile main replacement program that will  
7 allow PGW to maintain its risk profile.

8  
9 Based upon this level of replacement, unit costs for individual budget  
10 categories were then developed. Continuing the process initiated in the  
11 past proceedings, up to four statistical techniques were considered in  
12 developing cost assumptions. It should be noted that this process was  
13 presented at a workshop held with representatives of the Gas Commission  
14 and the Public Advocate in January, 2005.

15  
16 There were two significant changes in budget assumptions for Distribution  
17 from last year. First, the FY 2005 Capital Budget included 500 service  
18 restorations related to collection activities; however PGW's forecast this  
19 level to be substantially surpassed by approximately 1,700 units. PGW  
20 believes that with the intention of changing the culture of its customers  
21 regarding collections, it is most important that PGW be consistent in  
22 implementing its collection strategy and continues its shut off program into  
23 FY 2006. Therefore, the FY 2006 Capital Budget includes 2,200 service

1 restorations to support our collection efforts. The other major change in  
2 budget assumptions in FY 2006 is the increase in the Marketing forecast  
3 for service additions. The FY 2005 budget assumed 959 service  
4 additions, however it is anticipated that 1,647 will be installed in FY 2005.  
5 The Marketing forecast for FY 2006 is based upon 1,450 service  
6 additions, a decrease from the FY 2005 forecast, but a substantial  
7 increase from the original budget.

8  
9 **Q. Could you discuss any major deviations in the FY 2006 Capital**  
10 **Budget request in Field Services from the assumptions presented in**  
11 **PGW's FY 2005 budget for the department?**

12  
13 **A.** The Field Service's budget provides resources for normal operations:  
14 meter/regulator additions and replacements, and AMR related initiatives,  
15 for both residential and commercial customers. With this budget request,  
16 funding is provided for the continuation of the replacement of mercury  
17 sealed regulators to eliminate potential environmental risk and the  
18 replacement of PGW's inventory of "C" class meters with rotary meters to  
19 eliminate the need for a costly testing program for these meters as  
20 required by the PUC.

21

1 Q. The FY 2006 Capital Budget for Fleet Operations is \$3.459 million,  
2 which is a significant increase over the FY 2005 budget. Could you  
3 comment on this major budget variance?  
4

5 A. The budget recommended for Fleet Operations reflects the  
6 implementation of recommendations offered in the recently completed  
7 Fleet Optimization Study. The overall assessment presented in the Fleet  
8 Optimization Study validates the commonly held viewpoint, that due to  
9 past resource constraints PGW's fleet has an increasing failure rate with a  
10 corresponding decrease in the vehicle availability rate, and a performance  
11 that is consistent with a fleet that is older than industry norms. Operating  
12 an older fleet requires that PGW maintain a larger fleet of spare vehicles  
13 in order to compensate for the poor reliability of the older fleet. To  
14 address this situation, the study recommends a revitalization plan with a  
15 phased-in implementation period of five years, proposing a steady and  
16 consistent investment in vehicle replacements and increased preventative  
17 maintenance activities, as well as additional system enhancements to  
18 improve fleet operations.

19  
20 In addressing the size of the fleet, the study indicates that under current  
21 operating assumptions, PGW's fleet can be reduced by approximately five  
22 (5) percent. This reduction assumes that 10% of the fleet can be  
23 redeployed from individual assignments, with 5% of these vehicles

1 reassigned to a vehicle pool to support the added transportation  
2 requirements associated with vehicle redeployment. The remaining  
3 redeployed vehicles would be used to retire the oldest vehicles in the fleet  
4 across the board. The criterion utilized to quantify the 10% redeployment  
5 measure is based upon a benchmark analysis that uses annual utilization  
6 to determine vehicle threshold. If a vehicle's annual usage does not meet  
7 the threshold benchmark of Other Urban Gas Utilities, the vehicle is  
8 designated for redeployment.

9  
10 In conducting a review of PGW's Vehicle Policy, the study indicates that  
11 PGW's policy is reasonable; however the use of vehicle allowance rather  
12 than full time vehicle assignments to specific personnel with car or car-like  
13 requirements is a shift that PGW should consider to reduce the size of the  
14 fleet.

15  
16 While the above mentioned actions are short term, the study indicates that  
17 long term improvements can be achieved through additional vehicle  
18 retirements and a robust Vehicle Preventative Maintenance Program.

19 Over a period of time, improved reliability and increased planned  
20 maintenance will allow for the gradual phasing out of the number of  
21 vehicle spare requirements currently maintained by PGW, representing an  
22 additional 10% potential savings in the future.

23

1 Q. Could you provide an update on the budget request for the Building  
2 Services area in FY 2006?

3 A. The current, as well as past budgets for Building Services have been  
4 severely reduced in response to PGW's financial condition and the need  
5 to fund higher priority initiatives. This deferring of initiatives in Building  
6 Services has not gone on without severe impact to the condition of PGW's  
7 *physical facilities and it is a situation which cannot continue.* However,  
8 PGW believes it is not wise to spend precious funds without developing a  
9 long term plan for our future facility requirements. Therefore, a  
10 comprehensive Strategic Facilities Assessment Study will be conducted in  
11 FY 2006 to determine such a plan. The purpose of this study will be to  
12 review the existing inventory of facilities and their cost and determine a  
13 plan for their maintenance, as well as identify alternatives which could be  
14 more cost effective. Among the areas to be reviewed include the  
15 following:

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- The condition and concentration of District Offices
- The number of outlying station and space requirements to support operations and provide leak coverage
- Warehousing Space
- Office space requirements and configuration

1 **Q. Could you discuss the FY 2004 Capital Budget for the Customer**  
2 **Affairs area?**

3  
4 **A. The FY 2006 Capital Budget for the Customer Affairs area is \$1.290**  
5 **million, with an additional \$500,000 for the PMO. The vast majority of this**  
6 **request is focused on improving the efficiency and effectiveness of our**  
7 **customer service infrastructure.**

8  
9 It is also noteworthy to mention that no funding is requested for  
10 enhancements to BCCS. This decision is based upon the assumption that  
11 PGW needs to evaluate the long term requirements of BCCS and not fund  
12 any specific requirements. Therefore in FY 2006 a comprehensive study  
13 will be commenced to evaluate future requirements in this area.

14  
15 **Q. Could you discuss what is in the budget from a technology and**  
16 **system improvement perspective?**

17  
18 **A. From a technology view, the FY 2006 Capital Budget includes \$1.819**  
19 **million for the Information Technology Department. Regarding the funding**  
20 **for PGW's information system infrastructure, it is important to mention that**  
21 **sufficient funds have been budgeted to maintain the reliability of the**  
22 **infrastructure as well as provide funding to ensure the reliability of service**  
23 **to our customers.**

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Also included in this category is a request to fund two other initiatives.

First, \$645,000 is included in the FY 2006 Capital Budget to complete PGW's FOI project. This project request represents funding to introduce the new Mobile Dispatch System into the Distribution area to reduce the reliance on paper forms, including electronic scheduling and dispatching of Distribution work. These costs are limited to the purchase of hardware necessary to utilize the the new Mobile application. Development work for this project was approved as part of the FY 2005 Capital Budget.

Secondly funding is requested for replacement of PGW's SCADA (Supervisory Control and Data Acquisition) system. The current system utilizes six year old equipment and the software needs to be upgrade to the latest version. The critical nature of this system and its adverse impact if it failed, dictates the need to replace this system.

**Q. Would you like to offer some concluding remarks to conclude your testimony?**

**A. Yes. I think it is imperative for all to recognize that the budget presented in this filing is a product of both the need to properly maintain the safety and reliability of PGW's core operations and the reality that the current financial condition negatively impacts PGW's ability to operate in the manner that it would prefer. This budget was achieved after a**

1 comprehensive review process that resulted in deferred initiatives. While  
2 deferring initiatives and maintaining an acceptable risk level is doable in  
3 the near term, this short-term strategy is not acceptable over an extended  
4 period. It is impossible to ignore the fact that PGW is not a utility with  
5 newer facilities. The reality is that it has an aged distribution system  
6 comprised primarily of cast iron main; its supplemental gas facilities are  
7 nearing the end of useful life; the fleet is the oldest when benchmarked  
8 against other utilities, and many of its basic facilities have been ignored  
9 and are in need of repair. However before committing funds to address  
10 any specific issue, PGW believes it is important that the problem be  
11 evaluated in a comprehensive manner. In this regard, we will be  
12 commissioning two specific studies in FY 2006 that will provide guidance  
13 for the development of future capital budgets.

14  
15  
16 **Q. Does this conclude your testimony?**

17  
18 **A. Yes.**

19  
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21  
22 **12-Sep-05**

PECO CROSS  
EXAMINATION  
Exhibit

9/26/05  
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## Monthly Call Center Performance

Monthly Grade of Service - the number of calls answered within 30 seconds

Month & Year	Percentage
August 2005	49%
July 2005	50%
June 2005	62%
May 2005	76%
April 2005	41%
March 2005	27%
February 2005	24%
January 2005	37%
December 2004	55%
November 2004	23%
October 2004	23%
September 2004	21%
August 2004	47%
July 2004	26%
June 2004	62%

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Total Calls Answered Per Month - The total number of calls answered in PGW's Call Center

Month & Year	Number of Calls
August 2005	96,851
July 2005	88,193
June 2005	97,787
May 2005	89,331
April 2005	98,223
March 2005	113,561
February 2005	103,094

January 2005	116,027
December 2004	125,744
November 2004	126,216
October 2004	127,601
September 2004	100,694
August 2004	102,041
July 2004	88,203
June 2004	91,230

**Average Speed of Answer in Seconds - The amount of time (in seconds) a customer is in the queue before a Customer Service Representative answers the call.**

<i>Month &amp; Year</i>	<i>Seconds</i>
August 2005	92
July 2005	74
June 2005	50
May 2005	29
April 2005	110
March 2005	176
February 2005	189
January 2005	125
December 2004	83
November 2004	283
October 2004	309
September 2004	186
August 2004	97
July 2004	166
June 2004	60

**Percentage of Calls Abandoned - The percent of calls that come into the Call Center that are unanswered.**

<i>Month &amp; Year</i>	<i>Percentage</i>
August 2005	9%
July 2005	8%
June 2005	5%
May 2005	3%
April 2005	10%
March 2005	15%
February 2005	16%
January 2005	11%

December 2004	6%
November 2004	21%
October 2004	24%
September 2004	16%
August 2004	9%
July 2004	14%
June 2004	5%

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