

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

----- X  
 :  
 Joint Application of PECO Energy Company :  
 and Public Service Electric & Gas Company : Docket No.  
 for approval of merger of Public Service : A-110550F0160  
 Enterprise Group, Incorporated with and :  
 into Exelon Corporation. :  
 :  
 Further Hearing :  
 :  
 ----- X

Pages 518 through 599

Hearing Room 1  
State Office Building  
Broad and Spring Garden Streets  
Philadelphia, Pennsylvania

DOCUMENT  
FOLDER

Monday, September 26, 2005

Met, pursuant to adjournment, at 10:04 a.m.

BEFORE:

MARLANE R. CHESTNUT, Administrative Law Judge

APPEARANCES:

PAUL BONNEY, Esquire  
KENT D. MURPHY, Esquire  
2301 Market Street  
P.O. Box 8699  
Philadelphia, Pennsylvania 19101  
(For PECO Energy Company)

DANIEL CLEARFIELD, Esquire  
Wolf, Block, Schorr & Solis-Cohen  
213 Market Street, Ninth Floor  
P.O. Box 865  
Harrisburg, Pennsylvania 17108-0865  
(For Public Service Electric & Gas)

SECRETARY'S BUREAU

2005 SEP 27 PM 1:33

RECEIVED

Commonwealth Reporting Company, Inc.

700 Lisburn Road  
Camp Hill, Pennsylvania 17011

(717) 761-7150

1-800-334-1063

ORIGINAL

68

## APPEARANCES (Continued):

MEGAN H. TROY, Esquire  
Preston, Gates, Ellis  
1735 New York Avenue N.W., Suite 500  
Washington, D.C. 20006-5209  
(For PPL Companies)

TANYA J. McCLOSKEY, Esquire  
555 Walnut Street  
Forum Place, Fifth Floor  
Harrisburg, Pennsylvania 17101-1923  
(For Office of Consumer Advocate)

SHARON E. WEBB, Esquire  
300 North Second Street, Suite 1102  
Harrisburg, Pennsylvania 17101  
(For Office of Small Business Advocate)

DANIEL CANTU-HERTZLER, Esquire  
One Parkway Building, 16th Floor  
1515 Arch Street  
Philadelphia, Pennsylvania 19102-1595  
(For City of Philadelphia)

THOMAS T. NIESEN, Esquire  
Thomas, Thomas, Armstrong & Niesen  
212 Locust Street, Suite 500  
P.O. Box 9500  
Harrisburg, Pennsylvania 17108  
(For Philadelphia Gas Works)

STEVE HERSHEY, Esquire  
DENISE ADAMUCCI, Esquire  
800 West Montgomery Avenue  
Philadelphia, Pennsylvania 19122  
(For Philadelphia Gas Works)

CHARLES McPHEDRAN, Esquire  
1518 Walnut Street, Suite 1100  
Philadelphia, Pennsylvania 19102  
(For Citizens for Pennsylvania's Future)

**Commonwealth Reporting Company, Inc.**

700 Lisburn Road  
Camp Hill, Pennsylvania 17011

WITNESS INDEX

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
Craig E. White				
By Mr. Niesen	523	--	594	--
By Mr. Murphy	--	525	--	595

-0-

FORM 1



P R O C E E D I N G S

1  
2 JUDGE CHESTNUT: This is the further hearing at  
3 Docket A-110550F0160. For the record, let me state that I  
4 am Administrative Law Judge Marlane R. Chestnut.

5 I'll note the following appearances for the record:  
6 Thomas Niesen representing the Philadelphia Gas Works, Kent  
7 Murphy and Paul Bonney representing PECO Energy Company,  
8 Megan Troy representing PPL Companies, Daniel Cantu-Hertzler  
9 representing the City of Philadelphia, Steven Hershey  
10 representing PGW, Denise Adamucci representing PGW, Dan  
11 Clearfield representing PSE&G, Sharon Webb representing  
12 OSBA, Charles McPhedran representing PennFuture, Tanya  
13 McCloskey representing the OCA. Is that everybody?

14 (No response.)

15 JUDGE CHESTNUT: Okay. Then we'll get started. I  
16 think at this point, are there any procedural matters  
17 anybody wishes to address?

18 (No response.)

19 JUDGE CHESTNUT: No? Okay then. I guess that takes  
20 us to Mr. White.

21 MR. WHITE: Good morning.

22 JUDGE CHESTNUT: Good morning. Raise your right  
23 hand, please.

24 Whereupon,

25 CRAIG E. WHITE

1 having been duly sworn, testified as follows:

2 JUDGE CHESTNUT: Please sit down and give and spell  
3 your name for the record.

4 THE WITNESS: Craig White, C-R-A-I-G, W-H-I-T-E.

5 JUDGE CHESTNUT: Mr. Niesen.

6 MR. NIESEN: Thank you, Your Honor.

7 DIRECT EXAMINATION

8 BY MR. NIESEN:

9 Q. Mr. White, what is your business address?

10 A. 800 West Montgomery Avenue, Philadelphia, PA,  
11 19122.

12 Q. And how are you employed?

13 A. I'm the interim chief operating officer.

14 Q. For Philadelphia Gas Works?

15 A. That's correct.

16 Q. And have you prepared a statement of direct  
17 testimony for use in this case?

18 A. Yes, I have.

19 MR. NIESEN: Your Honor please, I'd like to have  
20 marked for identification as PGW Statement No. 2 Mr. White's  
21 testimony. It bears a date of August 26, 2005, addressing  
22 Directed Question 5. May that be so identified?

23 JUDGE CHESTNUT: Yes.

24 (Whereupon, the document was marked  
25 as PGW Statement No. 2

for identification.)

BY MR. NIESEN:

Q. Mr. White, showing you what has been marked for identification as PGW Statement No. 2, is this the direct testimony which you prepared?

A. Yes, it is.

Q. Are there any additions or corrections which you would like to make to PGW Statement No. 2?

A. No, there's not.

Q. If I were to ask you the questions set forth in PGW Statement No. 2, would you give the answers as stated therein?

A. Yes, I would.

Q. Are those answers true and correct to the best of your knowledge, information and belief?

A. Yes.

MR. NIESEN: Your Honor please, at this time we would move into the record PGW Statement No. 2, the testimony of Mr. Craig E. White.

JUDGE CHESTNUT: Any objection?

MR. MURPHY: No objections, Your Honor.

JUDGE CHESTNUT: The document is admitted.

(Whereupon, the document marked as PGW Statement No. 2 was received in evidence.)

1 MR. NIESEN: And Mr. White is available for cross-  
2 examination.

3 JUDGE CHESTNUT: Mr. Murphy?

4 CROSS-EXAMINATION

5 BY MR. MURPHY:

6 Q. Good morning, Mr. White. My name is Kent  
7 Murphy. I'm representing PECO Energy. How are you doing  
8 today?

9 A. I'm doing well.

10 Q. That's great. Before I get into the substance  
11 of the issues addressed in your testimony, I had a few  
12 questions concerning your present job responsibilities and  
13 prior work experience. You've been employed by Philadelphia  
14 Gas Works for about 25 years; am I correct?

15 A. Correct.

16 Q. And the Philadelphia Gas Works is not a separate  
17 corporate entity but a gas operation that is owned by the  
18 City of Philadelphia?

19 A. I think it's commonly referred to as a  
20 collection of assets. I think we can all agree it's owned  
21 by the city.

22 Q. Very good. Now, are those assets operated by  
23 the Philadelphia Facilities Management Corporation?

24 A. Yes, under an agreement with the city.

25 Q. And you as acting chief operating officer for

1 PGW, does that make you an employee of the Philadelphia  
2 Facilities Management Corporation?

3 A. Not at this time because I am still in an  
4 interim or acting position, so I'm still an employee of PGW,  
5 not PFMC.

6 Q. Okay. Does that make you an employee of the  
7 City of Philadelphia?

8 A. No. We are employees operating the assets owned  
9 by the City of Philadelphia under an agreement with the  
10 city, between PFMC and the city.

11 Q. Okay. Now, in your present role, you have  
12 primary responsibility for the operations that operate and  
13 maintain the PGW gas distribution system?

14 A. That's one of my responsibilities.

15 Q. Do you have responsibility over PGW's customer  
16 service function?

17 A. Yes.

18 Q. Do you have responsibility over PGW's  
19 supplemental gas facilities? And by supplemental gas  
20 facilities, I mean the Port Richmond LNG facility, PGW's  
21 other LNG and propane air facilities?

22 A. Yes, I do.

23 Q. Now, you've been with PGW since soon after you  
24 graduated from college?

25 A. That's correct.

1 Q. During your career, have you been involved in  
2 the negotiation of a purchase or sale of any businesses?

3 A. No, I have not.

4 Q. Have you been involved in the negotiation of the  
5 purchase or sale of any assets?

6 A. By the true definition, no, I have not. We  
7 don't typically sell assets from the city, so we may turn  
8 the assets back over to the City of Philadelphia, assets  
9 that we don't use.

10 Q. I see. But you have been involved in the  
11 procurement of natural gas?

12 A. That's correct.

13 Q. As a buyer, primarily?

14 A. I've done the buying aspect of it but not  
15 primarily. Much of the work that I did was the planning  
16 side of the equation and the federal regulatory.

17 Q. Have you ever been in the role of a buyer's  
18 representative in a natural gas sale transaction?

19 A. Yes.

20 Q. And as a buyer's representative, did you  
21 perceive that your fiduciary duty was to ensure that the  
22 consideration paid for the gas did not exceed the fair  
23 market value of the assets?

24 A. I would think that that's a fair  
25 characterization.

1 Q. And have you been on the other side? Have you  
2 been a seller's representative in a natural gas transaction?

3 A. Yes.

4 Q. Okay. And did you perceive that it was your  
5 fiduciary duty to maximize the amount paid for the asset to  
6 assure that the value was not less than the fair market  
7 value?

8 A. I would say that, yes.

9 Q. Okay. You've never previously worked on a  
10 project in which a state authority state structure for any  
11 business operation was evaluated or considered, have you?

12 A. No, I have not.

13 Q. You have not previously has responsibility for  
14 putting together a synergy analysis in which benefits from a  
15 merger of two public utilities have been analyzed, have you?

16 A. No, I have not.

17 Q. Now, let's talk about your testimony in  
18 connection with Directed Question No. 5. Directed Question  
19 No. 5 reads, and I quote, "Would the combination of the  
20 PSE&G Gas Division with the PECO Gas Division and the  
21 Philadelphia Gas Works provide critical mass for a viable,  
22 profitable, shareholder-owned public utility, assuming a  
23 revenue stream from an LNG facility and separate of  
24 resolution of a billion dollar debt?" Is that a fair  
25 characterization of that?

1 A. I think that's exactly what the question was.

2 Q. Okay. Now, turning to page one, lines 19  
3 through 20 of your testimony, you state there that a purpose  
4 of your testimony is to respond to the question whether such  
5 a combination would provide for a profitable utility under  
6 the stated assumptions, correct?

7 A. That's correct.

8 Q. Now, let's turn to page three of your testimony,  
9 specifically lines seven through ten. There's a question  
10 that asks you to express your belief as to whether combining  
11 PGW with PECO Gas would provide a viable, profitable gas  
12 utility, correct?

13 A. That's correct.

14 Q. And in your response, you indicate, "Yes, it  
15 could, though the use of the term 'profitable' implies  
16 investor ownership and, as set forth below, one important  
17 alternative would be a not for profit entity such as an  
18 authority structure."

19 Now, where you say "Yes, it could," are you referring  
20 to the viability of a for profit utility through the  
21 combination of PGW and PECO Gas?

22 A. Yes.

23 Q. And from that, it's your belief that such a  
24 combination could be performed as part of a for profit  
25 holding company structure such as Exelon's, assuming that

1 there were no market power concerns?

2 A. I think it would be fair to say that we didn't  
3 draw any specific conclusions as to what the structure would  
4 be, so that could be one structure and that could be a  
5 viable alternative.

6 Q. Thank you for that clarification. Now, if your  
7 state authority structure were ultimately reviewed and  
8 adopted, would I be correct that PECO's existing natural gas  
9 customers would become customers of the authority that would  
10 also include PGW's existing operations and customers?

11 A. That's one structure that we considered would be  
12 a possibility for the future.

13 Q. Now, by necessity, this state authority  
14 structure would require PECO to divest itself of its gas  
15 operations, correct?

16 A. It would require PECO to sell its gas  
17 operations, yes.

18 Q. And the state authority structure that you  
19 suggest that we consider would not include the PSE&G gas  
20 division; am I correct?

21 A. We, as I indicated in my testimony, we believe  
22 that that would just further complicate the situation. Of  
23 course, since as you pointed out earlier, I haven't studied  
24 the authority structure and what that entails, but we  
25 surmise that it would be somewhat more complicated to

1 include PSE&G from another state in a state authority in the  
2 state of Pennsylvania.

3 Q. So the answer to my question is, correct?

4 A. Could you restate your question or could you  
5 repeat your question?

6 Q. The state authority structure that you propose  
7 would not include the PSE&G gas division?

8 A. That would be correct.

9 Q. And the state authority would not be a  
10 shareholder owned utility; am I correct?

11 A. That's correct.

12 Q. Rather, the state authority would be created as  
13 a state owned and managed operation?

14 A. That would be our expectation, yes.

15 Q. And the state authority would be a non-profit  
16 operation?

17 A. That's correct.

18 Q. So the testimony that you give pertaining to the  
19 state authority structure does not contemplate inclusion of  
20 the PSE&G gas division, does not contemplate a shareholder  
21 owned utility and does not contemplate a for profit  
22 operation as specified in Directed Question No. 5; am I  
23 correct?

24 A. That's correct.

25 Q. In fact, the concept of a state authority

1 structure is not even suggested by the directed question; am  
2 I correct?

3 A. No, but I think that it's fair to say that the  
4 Commissioners were looking for input and PGW provided that  
5 and looked at all alternatives, and certainly the testimony  
6 focuses on the concept of moving it to an authority, but it  
7 doesn't preclude the fact that it could be combined under a  
8 profitable investor owned entity.

9 We didn't assume one way or another whether or not it  
10 would be inappropriate to do it in a multitude of different  
11 manners.

12 Q. Thank you, Mr. White. Now, based on your prior  
13 testimony today, your resume and other materials that were  
14 provided in response to discovery, I would be correct that  
15 you do not hold yourself out as an expert in creating state  
16 authority structures or the viability of creating such a  
17 structure?

18 A. I think that would be correct.

19 Q. Let's move to page two of your testimony,  
20 specifically lines 16 through 17. You state there that,  
21 "The synergies between PGW and PECO Gas are clear; they are  
22 much less obvious with PSE&G Gas."

23 Have you done a comprehensive synergies analysis of  
24 the combination of PGW and PECO with PSE&G's gas operations?

25 A. You used the word "comprehensive," so I'll say

1 no.

2 Q. Is the extent of your analysis on the PSE&G  
3 operation that which is reflected in your testimony?

4 A. As my testimony states, I have some familiarity  
5 with both the PECO system and the PSE&G system, so I used  
6 that familiarity as a basis or what undergirds the comments  
7 that I've made in this testimony.

8 Q. Thank you.

9 A. You're welcome.

10 Q. Now, you indicate in your testimony that your  
11 review of the PGW and PECO Gas operations was only a very  
12 preliminary analysis; is that --

13 A. I think I say that a number of times.

14 Q. Yes. Was that preliminary analysis conducted by  
15 you?

16 A. No, it was not.

17 Q. Was the study, if it could be characterized as  
18 such, was it prepared under your supervision or control?

19 A. It was prepared by a group of folks at -- I'm  
20 sorry, let me answer the question correctly. It was not  
21 prepared under my supervision. It was prepared under the  
22 supervision of the company that we asked to do the study,  
23 but there were a number of us that worked on the concept and  
24 provided the direction to the third party, which in this  
25 case was PFM, Public Financial Management.

1 Q. So it wasn't prepared under your supervision or  
2 control?

3 A. It was prepared under the supervision of senior  
4 management, of which I am one.

5 Q. Okay. And you are at least familiar with the  
6 study, correct?

7 A. I'm familiar with the study and determinations  
8 that were made in there.

9 Q. Let's turn to page 13 -- or page three, excuse  
10 me, since there are only six pages.

11 A. I got worried.

12 Q. Page three, line 16.

13 MR. NIESEN: I'm sorry, Mr. Murphy, what line,  
14 please?

15 MR. MURPHY: Line 16.

16 THE WITNESS: Page three?

17 MR. MURPHY: Yes.

18 BY MR. MURPHY:

19 Q. There you indicate that the study that was  
20 prepared I believe by PFM as you stated is based on various  
21 gross assumptions. Now, one of the gross assumptions in the  
22 model used in the preliminary analysis is that the  
23 purchaser, in this case PGW, would neither raise nor lower  
24 rates to PECO Gas customers; is that correct?

25 A. That's correct.

1 Q. And so the revenue flow from the former PECO Gas  
2 operations was assumed to be the same level of revenue as  
3 was experienced in 2003 and 2004?

4 A. That's correct, with one caveat. Obviously, the  
5 revenue would vary according to weather, so 2003 and 2004  
6 had their own unique levels of revenue and margin, but they  
7 were the two years that we used as a basis for this study.

8 Q. Right, but you made no effort to weather  
9 normalize the revenue?

10 A. No, we did not.

11 Q. And the expense levels for the PECO Gas  
12 operations, were they assumed to be the same level of  
13 expenses as were experienced in those years except in the  
14 area of taxes applicable to a private corporation?

15 A. Now you're getting into the level of detail in  
16 the study where my recollection may not be a hundred  
17 percent, but I would say that we used the 2003-2004 data as  
18 a proxy for what we believed would happen going forward,  
19 what we could expect.

20 Q. So you're not familiar whether the study removed  
21 the corporate taxes applicable to PECO Energy?

22 A. I believe in the dialogue in the front of the  
23 study, it does say that, but if you want to point that out  
24 to me, the specific language, I'd be happy to verify that  
25 for you. You're asking me about a document that I don't

1 have in front of me.

2 Q. Very good. I'll make an effort to refresh your  
3 recollection.

4 A. Okay, I appreciate that.

5 MR. MURPHY: Your Honor, this analysis was provided  
6 in response to the discovery and it might help the cross-  
7 examination.

8 JUDGE CHESTNUT: You're not going to make this an  
9 exhibit, or are you?

10 MR. MURPHY: We are proposing to make it as an  
11 exhibit and I believe it would be marked for identification  
12 as PECO Cross-Examination Exhibit No. 5, although 4 was not  
13 admitted into the record.

14 JUDGE CHESTNUT: Shall we call it four, since mine is  
15 not marked at all?

16 MR. MURPHY: No. 4.

17 JUDGE CHESTNUT: It will be so marked.

18 (Whereupon, the document was marked  
19 as PECO Cross-Examination Exhibit  
20 No. 4 for identification.)

21 MR. NIESEN: Kent, is what you're marking the entire  
22 document or just --

23 MR. MURPHY: This is actually an excerpt. It's the  
24 full study without the workpapers that were attached to it.

25 JUDGE CHESTNUT: Do you want this marked proprietary?

1 MR. MURPHY: Your Honor, we don't believe it needs to  
2 be marked proprietary since it's an exhibit that --

3 JUDGE CHESTNUT: Since why?

4 MR. MURPHY: Because it's an exhibit that's marked  
5 confidential and proprietary by PGW and not --

6 JUDGE CHESTNUT: Well --

7 MR. NIESEN: Your Honor, excuse me. We're not asking  
8 that it be marked as a proprietary exhibit.

9 BY MR. MURPHY:

10 Q. Have you had a chance to look at the --

11 A. Page four, bullet one? Is that what you are  
12 specifically referring to?

13 Q. Yes. So the expense level for the former PECO  
14 Gas operations as considered in this study were assumed to  
15 be the same level except in the area of corporate taxes  
16 applicable to a private corporation?

17 A. I believe that that's correct, but as I  
18 indicated before, I used the basic results of this study as  
19 a support for my testimony, and I'm not here to sponsor this  
20 study, but certainly will do my best to answer whatever  
21 questions I can about it.

22 Q. Very well. If you would turn to page five of  
23 that analysis, the study provides that an overall  
24 acquisition cost of about \$1.1 billion to \$1.2 billion  
25 dollars -- and this is under model results -- may be

1 supported by the cash flow while generating approximately  
2 1.5 times debt service coverage. Just offhand, what is the  
3 importance of the 1.5 times debt service coverage?

4 A. As I understand it, and as we've identified in  
5 your earlier questioning, the finance area of the company  
6 does not report to me, but as I understand it, in our  
7 municipal operation, a 1.5 coverage is viewed by bond rating  
8 agencies and other financial institutions as an appropriate  
9 level for a company, municipal operation to operate. So --  
10 I'll stop right there. I'll let you ask the question.

11 Q. Let's turn back to page one of that analysis  
12 under "executive summary." The study provides that while  
13 there may be a few scenarios that suggest that PGW's  
14 purchase of the PECO Gas operations might be viable, other  
15 scenarios suggest that a purchase price that is materially  
16 higher than \$1.1 billion diminishes the margins and suggests  
17 the cash flow may not be sufficient; is that correct?

18 A. That's correct.

19 Q. And so under this preliminary analysis, you  
20 could easily conclude that there are purchase prices that  
21 would render the viability of the purchase of PECO Gas  
22 operations under your state authority to not be viable?

23 A. Could.

24 Q. Now, the report is replete with discussion that  
25 the quality of the information the analysts relied upon

1 presented challenges and in some places was uninformative,  
2 primarily due to the difficulty that the information  
3 reviewed by the analysts reflected the combined electric and  
4 gas operations of PECO Energy and not the gas business on a  
5 stand-alone basis; is that correct?

6 A. That's correct.

7 Q. Now, at page seven of the study, and I'll give  
8 you a moment to get there.

9 A. Page seven? I'm there.

10 Q. Under the heading "purchase price," the report  
11 provides that, "We have assumed and included" --

12 JUDGE CHESTNUT: I'm sorry. Mr. Murphy, you really  
13 don't have to read it. I mean, I've been pretty patient  
14 here, but --

15 MR. MURPHY: I'm sorry.

16 JUDGE CHESTNUT: It already says it. Just direct him  
17 to the part where you want him to look at.

18 BY MR. MURPHY:

19 Q. Do you see where it says that it assumes and  
20 includes a favorable acquisition price?

21 A. Yes.

22 Q. What do you think is meant by the phrase,  
23 "favorable acquisition price" that is used in that context?

24 A. As I understand it, when the PFM group did the  
25 study, they looked at approximately a \$1 billion net cost of

1 plant. There was an assumption that there may be some  
2 combined assets that exist today that would have to be  
3 replicated or purchased from PECO, and there was also an  
4 assumption that there could be a premium. Those two  
5 numbers, in addition to the \$1 billion, resulted in the 1.1  
6 million to 1.2 million dollar estimated purchase price.

7 Q. You mean to say "billion," correct?

8 A. I'm sorry, billion. I'm sorry. Million would  
9 be fine, but billion is appropriate.

10 Q. It is not your opinion, however, that this price  
11 was somehow pegged at a fair market value for the PECO Gas  
12 assets?

13 A. I don't know that. I don't know that. As I  
14 just said, it was based upon the net cost of plant plus as  
15 assumption for the replication of certain combined  
16 facilities plus a premium.

17 Q. Where in the analysis does it reference a  
18 premium?

19 A. Well, I think the 1.1 to 1.2 recognizes that  
20 there could be some variation there above our numbers.

21 Q. Now, you haven't performed a synergy analysis of  
22 the combination of PECO and PSE&G, have you?

23 A. No.

24 Q. You are aware that the applicants have done a  
25 synergy analysis of PECO and PSE&G, are you?

1 A. I'm not aware of that.

2 Q. You're not aware, so you haven't reviewed Mr.  
3 Arndt's testimony in this case?

4 A. I've seen Mr. Arndt's testimony but I didn't  
5 review it to any great degree.

6 Q. And you have done no synergies analysis of the  
7 combination of PECO, PSE&G and PGW businesses other than  
8 what is reflected in your testimony?

9 A. That's correct.

10 Q. Have you done any synergy calculations  
11 whatsoever with regard to those three gas businesses?

12 A. With regard to the three?

13 Q. Yes.

14 A. No, not with regard to the three.

15 Q. In fact, you haven't conducted any analysis of  
16 the value of the PECO assets, the appropriate compensation  
17 or methodology for compensation under your state authority  
18 structure, have you?

19 A. Not beyond a discussion that we believe that if  
20 there was an authority created, the authority would have to  
21 float taxable bonds.

22 If you recall, the study that you're pointing to is a  
23 study where we asked PFM to analyze or assess the purchase  
24 of PECO's gas division by PGW. That study does not address  
25 the issue of an authority, the creation of an authority and

1 so forth. I talk about that in my testimony, but the study  
2 was done and it specifically asked for an assessment of the  
3 purchase of PECO Gas.

4 Q. Mr. White, I'm going to show you a copy of a  
5 response to a data request that was provided concerning your  
6 authority structure and the compensation.

7 MR. MURPHY: I'd like to have this exhibit marked as  
8 PECO Cross-Examination Exhibit No. 5, Your Honor.

9 JUDGE CHESTNUT: So marked.

10 (Whereupon, the document was marked  
11 as PECO Cross-Examination Exhibit  
12 No. 5 for identification.)

13 BY MR. MURPHY:

14 Q. Have you had a chance to familiarize yourself  
15 with that document, Mr. White?

16 A. Yes.

17 Q. Now, it says -- could you read into the record  
18 what the second sentence says?

19 JUDGE CHESTNUT: No. You don't need to be reading  
20 anything into the record if you're going to moving this in.

21 MR. MURPHY: Okay.

22 BY MR. MURPHY:

23 Q. You're familiar with this response?

24 A. Yes.

25 Q. Was it prepared by you or under your direct --

1 A. Yes, it was.

2 Q. Thank you. Have you done any synergies analysis  
3 of the benefits that PECO's existing electric and gas  
4 customers presently derive from the combination of the  
5 electric and gas businesses?

6 A. I'm sorry, Mr. Murphy. Could you repeat that?

7 Q. Have you done any synergies analysis of the  
8 benefits that PECO's existing electric and gas customers  
9 presently derive from the combination of the electric and  
10 gas businesses?

11 A. No, other than to note that there are probably  
12 synergies because of the fact that they have overlapping  
13 service territories. And as I indicated, there are most  
14 likely synergies with respect to billing and certain  
15 components of the business that are required in both the  
16 electric and gas areas.

17 Q. Have you had an opportunity to read the  
18 testimony of Mr. Arndt and Mr. Jirovec in this case related  
19 to the divestiture of the PECO Gas operations?

20 A. No, I haven't.

21 Q. If there were a divestiture of the PECO Gas  
22 operations, Mr. White, how would PECO's electric customers  
23 be compensated for the loss of synergy savings that would  
24 result from stripping away the gas business?

25 A. I would imagine PECO would have to make that

1 determination in the sale price.

2 Q. That sale price would be the result of  
3 negotiation?

4 A. I would expect so.

5 Q. Okay. Do you know whether the PFM analysis  
6 factored that into its purchase price?

7 A. I wouldn't know that. As I was discussing in  
8 your earlier questions, we were talking about the PFM  
9 report, and now we're talking about something entirely  
10 different. In the PFM report, as I indicated, it's my  
11 understanding that they factored in a net cost of plant, a  
12 small allowance for variation in added costs for combined  
13 facilities, and a premium amount, somewhere in the  
14 neighborhood of \$100 million.

15 With respect to that study, I can give you that  
16 information. With respect to what PECO would sell the  
17 facilities for, I don't know the answer to that. Would be a  
18 fair market or an appropriate market value, I should say.

19 Q. Okay. Mr. White, I appreciate your testimony on  
20 that issue. In your testimony, you also state that a  
21 possible rate freeze for an undetermined period could be an  
22 option. You're speaking about a rate freeze that would be  
23 for PECO Gas's customers; are you not?

24 A. PECO Gas and I think in my testimony I also  
25 recognize a rate freeze for PGW customers could be

1 contemplated as well.

2 Q. Right. And the feasibility of such a gas rate  
3 freeze would depend on what if any synergies could be  
4 extracted in the state authority structure?

5 A. I don't think so. I think the rate freeze would  
6 be based upon, number one, my assessment of the political  
7 environment, and number two, the revenue streams would have  
8 to justify that the entities could survive with no rate  
9 adjustments.

10 Q. And that would also depend upon the price that  
11 PECO is paid for the gas business, correct?

12 A. I don't follow that question. You mean the  
13 price that PGW or the authority paid?

14 Q. The authority paid for PECO's gas operations.

15 A. I would expect so, yes.

16 JUDGE CHESTNUT: Excuse me. Can I ask you a question  
17 about this possible rate freeze?

18 THE WITNESS: Sure.

19 JUDGE CHESTNUT: Are you talking about non-fuel costs  
20 or fuel costs and non-fuel costs, or what?

21 THE WITNESS: No, I'm not talking about fuel costs at  
22 all, Judge Chestnut. I am referring to strictly the non-  
23 fuel base rate component.

24 JUDGE CHESTNUT: Okay.

25 BY MR. MURPHY:

1 Q. Mr. White, you indicated earlier that there was  
2 an appropriate market value that would be paid for the PECO  
3 Gas assets. Is there a difference between appropriate  
4 market value and fair market value in your mind?

5 A. Obviously we couldn't get into a bidding war  
6 because once the price would be at a level that would be so  
7 exorbitant that it wouldn't make sense, wouldn't allow us to  
8 have 1.5 coverage, that an appropriate level would be a  
9 level that would sufficiently compensate PECO for the assets  
10 and at the same time would allow the authority to function  
11 with a 1.5 coverage.

12 Q. So that appropriate market value could be  
13 somewhat less than fair market value?

14 A. Appropriate for the scenario to work for both  
15 parties has to be acceptable to both parties. I don't see  
16 the distinction.

17 Q. Okay. Do you think the shareholders of PECO  
18 Energy might find a distinction between a lower price and a  
19 higher price for the gas asset?

20 MR. NIESEN: I guess I'd object. He wants Mr. White  
21 to speculate about what things that PECO's shareholders --

22 JUDGE CHESTNUT: I think Mr. White can certainly  
23 answer the question, and if he can't, say so.

24 THE WITNESS: I think the question is somewhere along  
25 the lines of what you asked me earlier about my job and my

1 duty to maximize the sale price of anything that I've been  
2 involved in, and I would expect that PECO ratepayers would  
3 expect that from the management of PECO -- not PECO  
4 ratepayers, but PECO shareholders would expect that from the  
5 management of PECO.

6 BY MR. MURPHY:

7 Q. That we would maximize the value for the gas  
8 operations?

9 A. Sure. I would expect that.

10 Q. Thank you. Now, in your testimony, you  
11 indicated that under the state authority structure, that the  
12 Commonwealth would need to issue bonds to purchase the PECO  
13 Gas operations.

14 A. That's correct.

15 Q. And the same would be true for the PGW  
16 operations, that debt issues would be in the range of about  
17 \$1.2 billion, also, wouldn't it?

18 A. I think you're talking about apples and oranges.  
19 PGW has \$1.1 billion of municipal debt. What we're talking  
20 about in the PFM study is the fact that a market value or a  
21 purchase value of \$1.2 billion would be, in an authority  
22 environment, would be paid for through taxable debt that  
23 would be issued by the authority.

24 That taxable debt would not only compensate PECO or  
25 the Exelon Company for its gas division but would also be

1 there to compensate the city for its gas division if we move  
2 to an authority structure, and I think that's what your  
3 question was. If I'm wrong, correct me.

4 Q. How much debt would that be?

5 A. Well, we don't know what the market price would  
6 be for the PECO assets at this point. We don't know what  
7 the city would want for their assets. And of course we have  
8 the municipal bonds outstanding right now for PGW.

9 Q. Presently, those municipal bonds amount to about  
10 billion dollars worth of debt; am I correct?

11 A. Right.

12 Q. And so you would issue a billion dollars of debt  
13 to purchase the PECO Gas operations under at least the  
14 scenario that this study indicates, and wouldn't you also  
15 have to issue a billion dollars worth of debt to acquire the  
16 PGW assets under the authority structure?

17 A. My response to that would be, there's no  
18 assumption that we would defease the municipal bonds. There  
19 is an assumption that the city would be paid an appropriate  
20 level for these Philadelphia Gas Works assets.

21 Q. Okay. Now, how would that payment be financed?

22 A. Through taxable bonds.

23 Q. Okay. So based on the current value of those  
24 assets, how much would you believe that would be?

25 A. I couldn't speculate on that. I don't know what

1 the city would expect. But what I can tell you is this,  
2 that the combined entity under an authority structure should  
3 have a 1.5 debt service coverage.

4 So if you take the \$1.1 billion of municipal debt,  
5 you take the 1.1 to 1.2 billion dollars worth of taxable  
6 debt and you take whatever you have to include to purchase  
7 the assets from the city. At the end of the day, the  
8 revenue streams have to support a 1.5 coverage ratio.

9 Q. And that 1.5 coverage ratio could be on  
10 \$2 billion of debt and not just one?

11 A. Right now, Philadelphia Gas Works' coverage  
12 ratio is over 1.5, with the \$1.1 billion worth of debt.

13 Q. Okay. So are you asking the Commonwealth to  
14 explore an idea that would result in the issuance of  
15 approximately \$2 billion worth of debt?

16 A. As I indicated before, there's no assumption  
17 that the municipal debt would be defeased, so I am  
18 suggesting that this study and the information that I've  
19 included in my testimony indicate that there's enough  
20 information out there that it warrants further study.

21 Q. Okay.

22 A. That's the sum and substance of what I'm saying.  
23 There's enough information that it warrants further study.

24 Q. Okay. But you don't know how much debt you  
25 would be talking about under the state authority structure?

1 A. No, I do not.

2 Q. Okay. Is it your understanding that legislation  
3 would be needed to create the authority structure?

4 A. I would assume so, but as you mentioned earlier,  
5 I'm not an expert in that area, so I really can't say.

6 Q. Do you happen to have any idea how long such  
7 legislation would take to be enacted? Six months? A year?

8 A. I couldn't opine on that.

9 Q. Do you have any idea whether the Pennsylvania  
10 Senate, the House of Representatives or the Governor would  
11 support the issuance of bonds and authorize the takeover of  
12 PECO Gas' operations?

13 A. I have no knowledge of that.

14 Q. Is it your view that this proceeding and the  
15 Commission's approval of the present merger application  
16 would have to wait until that legislation is enacted?

17 A. Could you repeat that question? I'm sorry.

18 Q. Is it your position that approval of this merger  
19 application, the joint petition for settlement would have to  
20 wait until there's legislation that would authorize the  
21 state authority structure?

22 A. I think what the merger has to wait for is the  
23 determination on market power, and if part of that market  
24 power determination is that divestiture of gas assets is  
25 appropriate, then to answer to your question, I think the

1 answer is yes, it would have to wait.

2 Q. Let's get back to the rate assumptions made in  
3 your preliminary analysis. Why is it a basic assumption  
4 that the rates for PECO's gas customers would neither  
5 increase nor decrease, even with the cost reductions  
6 identified in the analysis?

7 A. Are you asking me -- I'm sorry, can you repeat  
8 the question?

9 Q. Why is it a basic assumption that the rates for  
10 PECO's gas customers would neither increase nor decrease,  
11 even with the cost reductions identified in the analysis?

12 A. Could you point to the cost reductions you're  
13 referring to?

14 Q. We discussed them previously. It has to do with  
15 the taxes that are applicable to private corporations.

16 A. I remember we discussed the fact that the study  
17 indicates that they were removed, but we didn't discuss the  
18 issues pertaining to what additional costs may be incurred,  
19 what other ramifications there may be, be it plus or minus.

20 At the end of the day, the assumption in the study  
21 was that rates would be held on a consistent basis because  
22 there was sufficient information to assume that a 1.5 debt  
23 service coverage could be maintained if the assets were  
24 bought at a level of approximately 1.1 to 1.2 million  
25 dollars.

1 Q. Are you saying -- correct me if I'm wrong, but a  
2 basic assumption of this study is that the rates would  
3 remain constant and not change, correct?

4 A. I understand that question, and the answer is,  
5 correct.

6 Q. Okay. Thank you. Why is it a basic assumption?

7 A. I'm of the opinion that in order for the  
8 divestiture of PECO's gas division to be acceptable to  
9 citizen ratepayers, that there would have to be some period  
10 of time where they would have rate surety.

11 Q. How long a period of time?

12 A. I think in my testimony I believe I say several  
13 years.

14 Q. But you also said that it was undetermined,  
15 correct?

16 A. I would say several years is at least three  
17 years.

18 Q. Now, under your scenario, would you use the cash  
19 flows obtained from the suburban PECO Gas operations to  
20 subsidize the liquidity problems faced by the cash-poor PGW  
21 operations?

22 A. We're talking about one entity at the end of the  
23 day in my scenario, so we're not subsidizing from one to the  
24 other. We're creating one entity, and the assets and  
25 revenues and so forth of that one entity will be utilized

1 across the board.

2 Q. Are the cash flows that would be obtained from  
3 the suburban PGW operations, would they be used to subsidize  
4 any liquidity problem or subsidize the liquidity problems  
5 that are faced by the Philadelphia Gas operations?

6 A. If you combine the two companies, there may not  
7 be a liquidity problem.

8 Q. Okay. Is there a liquidity problem currently  
9 with the PGW gas operations?

10 A. I believe I've either stated that in my  
11 testimony or in response to one of your interrogatories.

12 Q. Okay. Now --

13 A. And I've attached the Standard & Poor's report.

14 Q. What is that liquidity problem?

15 A. Well, that liquidity problem stems from the  
16 ever-increasing cost of natural gas and the associated  
17 impacts it has on bad debt and our ability to collect.

18 Q. And what would happen if a rate increase became  
19 a necessity to offset the cash deficiencies under your state  
20 authority structure? Would you also move to increase the  
21 rates of all customers?

22 A. Well, I think if we settled or made a commitment  
23 in an agreement with the PUC, we wouldn't have a choice. We  
24 would not be able to raise rates.

25 Q. Even in the situation where you might face

1 liquidity problems down the road?

2 A. If the company were to commit or the authority  
3 or whatever structure would exist, it would have to commit  
4 on the basis that it would have assurances that it would be  
5 able to meet liquidity requirements. And that may be a  
6 component of the arrangement. I can't speculate as to how  
7 that would be designed into the future.

8 Q. So even if you have liquidity problems, you  
9 would maintain the commitment not to change rates, even  
10 though it might affect your debt coverages?

11 A. No. What I'm saying is that in the initial  
12 commitment to not raise rates for three years, there would  
13 have to be an absolute situation or assurance that liquidity  
14 would not be a problem or there would have to be some  
15 mechanism to address the liquidity problem. I don't know  
16 whether the mechanism would be an increase in rates or an  
17 expansion of commercial paper, a loan, a sale of assets,  
18 could be anything.

19 Q. Those are the options that are currently  
20 employed by PGW, correct?

21 A. I wouldn't say that, but they are options that  
22 could be employed.

23 Q. Which of the options that you just mentioned  
24 does PGW not use?

25 A. We haven't sold assets.

1 Q. Okay. Are you aware of when PECO's gas division  
2 last filed to increase its base rates?

3 A. Yeah, it's almost unbelievable, but I'm aware it  
4 was earlier nineties.

5 Q. It actually was in the late eighties.

6 A. Late eighties?

7 Q. Yeah, late eighties.

8 A. I'm sorry. I stand corrected.

9 Q. Are you aware of any concerns regarding PECO  
10 Gas's present liquidity or financial health?

11 A. Well, due to the fact that the information we  
12 looked at was in a lot of cases consistent for both gas and  
13 electric, we don't have enough information to make that  
14 determination.

15 Q. Okay. So you're not aware of any concerns?

16 A. I'm not aware.

17 Q. Okay. Under your present municipally owned  
18 structure, didn't PGW last receive base rate relief in 2003?

19 A. Subject to check, I would say yes.

20 Q. And how many base rate increases has PGW had  
21 under its municipally owned structure since the late  
22 eighties?

23 A. I couldn't say, but if you have any information  
24 on that --

25 Q. Would you accept that it's several?

1 A. Several, yes.

2 Q. Okay. And those base rate increases, I take it,  
3 were based on PGW's need for revenue to assure adequate debt  
4 coverage for its revenue bonds?

5 A. Adequate coverage, allowing sufficient funds for  
6 working capital and debt service.

7 Q. And are you aware that under its present  
8 shareholder, PECO's present gas base rates are lower than  
9 PGW's under its municipal structure for comparable  
10 residential and commercial gas service?

11 A. I'm certainly aware of that.

12 Q. Okay. Are you a customer of PECO Gas?

13 A. At the present time, I am, yes.

14 Q. Now, we spoke about the possible rate effects of  
15 the state authority structure. Some possible benefits that  
16 PGW and PECO existing customers might get from the proposal  
17 also will depend upon the assumptions contained in the  
18 directed question, namely the resolution of debt and the LNG  
19 project, right?

20 A. I think they're two items. I think increased  
21 competition with a gas division that's not part of an  
22 electric division may be an advantage to customers as well.

23 Q. Turn to page five of your testimony, line six,  
24 please. There you talk about enhancements to the benefits  
25 under the state authority structure that would result from

1 the completion of the proposed LNG terminal project.

2 Is that project to be located at the PGW Port  
3 Richmond facility?

4 A. Yes, but I would have to respond to your point  
5 about, you specifically mentioned "authority." It would be  
6 any combination of the two utilities that would benefit from  
7 this, not just an authority structure.

8 Q. Now, would you agree with me that the PGW LNG  
9 terminal project is at a very early stage?

10 A. If you consider a two and a half year process at  
11 an early stage, I would agree with you, but we've been  
12 working on it for about two and a half years.

13 Q. Okay. Is it premature to offer any opinion on  
14 its political or regulatory viability?

15 A. I think it's premature, yes.

16 Q. So would you say it's also premature to suggest  
17 that there will be any benefits associated with that  
18 project?

19 A. Well, if it's premature to make an assessment as  
20 to whether or not the project will be completed, I guess it  
21 would be premature to assume benefits. I don't believe it's  
22 premature to assume that the project would have benefit.

23 Q. Okay. Now, you've indicated in response to  
24 discovery that the anticipated in-service date for the LNG  
25 terminal project is sometime in 2009.

1 A. That's correct.

2 Q. And you also indicated that prerequisite  
3 approvals would first need to be obtained from the FERC, the  
4 Philadelphia Gas Commission and City Council; is that  
5 correct?

6 A. That's correct, and I believe I go on to mention  
7 that the PUC also will have a play in the process.

8 Q. Have any of the applications for those approvals  
9 been filed?

10 A. No.

11 Q. When do we expect them to be filed?

12 A. They will be filed after City Council approval.

13 Q. Which is when?

14 A. That's not yet determined but if I were to  
15 hazard a guess, probably late winter, early spring.

16 Q. Do you know how long the approval process will  
17 take after City Council approves it?

18 A. I'm familiar with the extent of the FERC process  
19 and I have been advised that it could take up to 18 months.

20 Q. Eighteen months?

21 A. Up to 18 months.

22 Q. Now, those approvals are not a sure thing  
23 themselves, though, are they?

24 A. No.

25 Q. And even if you obtained a permit from the FERC,

1 it could require your facility to adhere to present FERC  
2 safety criteria; am I correct?

3 A. Could.

4 Q. And if that were the case, would the financial  
5 viability of the project be jeopardized?

6 A. Could.

7 Q. Are you aware of whether PGW would need to seek  
8 additional approvals for the siting of the proposed LNG  
9 project besides the ones that we've previously discussed?

10 A. There may be other approvals, but based upon my  
11 understanding, they would be the primary approvals.

12 Q. Are you aware of whether the LNG terminal  
13 project would need to obtain permits from the US EPA, the  
14 Environmental Protection Agency?

15 A. I assume that EPA would be part of the overall  
16 assessment.

17 Q. The United States Coast Guard as part of  
18 Homeland Security?

19 A. Well, now you're talking about an issue that I  
20 do have some familiarity with. The Coast Guard and Homeland  
21 Security are providing the report that would be part of the  
22 FERC assessment, so when you look at the FERC process, let's  
23 not look at these as being sequential. These are things  
24 that are done as a component of the overall FERC assessment.

25 Q. How about the United States Department of Energy

1 for the importation of LNG?

2 A. I imagine that's part of the FERC approval as  
3 well but I would just say, subject to check.

4 Q. Do you have any idea when PGW will file the FERC  
5 application?

6 A. I would expect that the FERC application will be  
7 filed, as soon thereafter, City Council approval

8 Q. Does the FERC process also have a public input  
9 aspect to it?

10 A. Yes.

11 Q. Are you aware whether that public input aspect  
12 tends to be a political lightning rod?

13 A. I wouldn't be able to give you an answer to  
14 that. What I would say is that I think the country as a  
15 whole is looking at an energy strategy that includes LNG, so  
16 I would expect that it would be viewed in some circles very  
17 positively, in other circles maybe not as positively.

18 Q. And that political or public aspect involves the  
19 safety issues, am I correct, generally?

20 A. That's one component of it, yes.

21 Q. What other components are there?

22 A. Well, I would assume that the viability of the  
23 project, I would assume it would have to do with safety  
24 plans, security -- I don't know which one you mentioned of  
25 the two, but you mentioned one so I'm going to mention both

1 -- and I'm sure a host of other items.

2 Q. Okay. Thank you. You mentioned that you expect  
3 to get City Council approval sometime in late winter of  
4 2006; is that correct?

5 A. That would be, just based upon what we know  
6 today, that would be what our expectations are, sometime  
7 late winter or next spring.

8 Q. And do you know that City Council would be  
9 voting in favor of the project?

10 A. I can't presuppose what our elected officials  
11 are going to vote on, or how they're going to vote.

12 Q. Has PGW contracted with a construction firm to  
13 build the facilities needed to bring the terminal project  
14 into reality?

15 A. No.

16 Q. When do you expect that contract will be signed?

17 A. Actually, I don't expect that PGW would sign  
18 that contract. PGW is doing this in combination with a  
19 developer which we have not announced at this point.

20 Q. Okay. Do you have a contract with that  
21 developer?

22 A. We do not have a contract at this point. We  
23 have a -- I'm trying to think of the term -- we have an  
24 agreement of the broad terms of a deal.

25 Q. Does delay in the project affect the economics

1 of the deal or the viability of the deal?

2 A. When you say "delay"?

3 Q. Delay in terms of getting the approvals, the  
4 siting, the construction.

5 Q. I assume as long as we meet our 2009-2010 time  
6 frame, we'll be in better shape than if it extends into  
7 2011.

8 Q. Now, what happens, why is the delay a concern?

9 A. We get into the market that much later, and you  
10 have a revenue stream that much later.

11 Q. Okay. Why does entering the market affect the  
12 economics, the timing of the entering of the market affect  
13 the economics?

14 A. I can only suggest that it's my understanding  
15 that supply is a critical component, and the supply  
16 availability has to be there.

17 Q. So it affects the need for the project in the  
18 marketplace?

19 A. I'm sorry, could you repeat that?

20 Q. Timing, does it affect the need for the project  
21 in the marketplace?

22 A. I believe that unless the timing goes out well  
23 beyond the current expectation of the supply/demand  
24 imbalance, it's going to be needed.

25 Q. Okay. Has PGW developed a firm cost estimate

1 for the cost of the facilities?

2 MR. NIESEN: If Your Honor pleases, I'm going to  
3 object to further questions about it. We had a short couple  
4 of sentences about LNG facilities in the testimony. We've  
5 had ten minutes of cross on that particular point. I think  
6 it's beyond the scope of what we presented.

7 MR. MURPHY: I'll move --

8 JUDGE CHESTNUT: I don't think so, but I hope you're  
9 wrapping it up --

10 MR. MURPHY: I'll move on, Your Honor, if it will  
11 speed things along.

12 BY MR. MURPHY:

13 Q. In response to discovery in this matter, you  
14 also indicated that PGW is not yet able to fully disclose  
15 and in some areas quantify the financial benefits that are  
16 anticipated from the project; am I correct?

17 A. That's correct. We are operating under an  
18 agreement of confidentiality, and I'm sure, Mr. Murphy, you  
19 understand all the implications of that. So therefore, much  
20 of what I know, I'm not at liberty to discuss today with  
21 you.

22 Q. So you do have knowledge concerning the  
23 financial aspects of the project?

24 A. Certainly.

25 Q. And the viability of the project?

1 A. Certainly.

2 Q. Okay.

3 A. But it's under an order of confidentiality. I  
4 can't discuss it.

5 Q. Mr. White, you indicate in your testimony that  
6 the benefits of the combined gas business would be enhanced  
7 by this project, but you're telling me now that you can't  
8 tell me what those benefits are?

9 A. Oh, no. I'm not limiting it to strictly the LNG  
10 terminal. I mean, right now, as you probably know, Mr.  
11 Murphy, the fuel rate on the LNG facility in the PECO  
12 service territory is about 38 percent. PGW currently  
13 liquifies with two facilities that liquify at one percent to  
14 ten percent.

15 There's a huge difference in fixed costs and the cost  
16 to fill your facility. Obviously, combining the two  
17 companies would provide some synergies that would possibly  
18 benefit PECO customers handsomely.

19 MR. MURPHY: Your Honor, I'd move to strike that last  
20 response as it's not responsive to the question.

21 JUDGE CHESTNUT: It isn't responsive. I'm not going  
22 to strike it, but it really wasn't responsive to the  
23 question.

24 THE WITNESS: Mr. Murphy, could you ask the question  
25 again and I'll try to be responsive to your question?

1 BY MR. MURPHY:

2 Q. What are the financial benefits associated with  
3 the LNG terminal project as you understand them to be today?

4 MR. NIESEN: May I ask for the reference in the  
5 testimony where there's some --

6 JUDGE CHESTNUT: He's obviously talking about page  
7 five, lines six and seven, right? Aren't you, Mr. Murphy?

8 MR. MURPHY: Yes, I am.

9 JUDGE CHESTNUT: Is that how you understood the  
10 question?

11 THE WITNESS: Yes. Mr. Murphy, would you ask me the  
12 question one more time, please?

13 BY MR. MURPHY:

14 Q. What are the financial benefits that you have  
15 assumed with respect to the LNG terminal project?

16 A. I have assumed that there will be financial  
17 benefit which I am not at liberty to discuss.

18 Q. You're not at liberty to discuss them because of  
19 the confidentiality --

20 A. Because there's an ongoing contractual --  
21 ongoing negotiation between PGW and a developer.

22 MR. MURPHY: Your Honor, I don't see any alternative  
23 but to strike his testimony if he's not willing to --

24 JUDGE CHESTNUT: No. Just move on, Mr. Murphy. We  
25 understand what his testimony is, and the fact is, in terms

1 of probative weight to be put upon it, that's a different  
2 issue.

3 (Inaudible discussion.)

4 MR. MURPHY: We'll move to another topic.

5 JUDGE CHESTNUT: Mr. White, you cannot be  
6 communicating with him now.

7 THE WITNESS: I apologize.

8 BY MR. MURPHY:

9 Q. What's the design daily throughput capacity of  
10 the LNG terminal project, Mr. White?

11 A. The design daily throughput capacity of the Port  
12 Richmond shipping terminal, or our current facility?

13 Q. The shipping terminal, the proposed project.

14 A. We would like to move 500,000 dekatherms a day  
15 through that facility.

16 Q. Okay. That would be deliverable every day?

17 A. Yes.

18 Q. If you have such a large facility, wouldn't this  
19 displace the need for much of the interstate pipeline  
20 capacity that PGW currently holds on, say, Texas Eastern and  
21 Transco?

22 A. I think that from a security of supply  
23 standpoint, we may retain the assets. We may enter into an  
24 asset management agreement with a third party and there may  
25 be opportunity to recover demand costs associated with those

1 assets through the benefits that are realized by freeing up  
2 those assets through displacement.

3 And what I mean by that is the fact that if you can  
4 move that much vapor out of your LNG facility, you obviously  
5 free up existing needs on your pipeline assets. When you  
6 free up those needs, those assets become salable in the open  
7 market. So we may work with a third party who may look for  
8 opportunities to make those sales.

9 Q. So those freed-up assets would be available for  
10 use by other shippers on those interstate pipelines,  
11 correct?

12 MR. NIESEN: Your Honor, I object to that question.  
13 I really don't know what that has to do with the limited  
14 topic of LNG facilities as expressed in the testimony.

15 JUDGE CHESTNUT: He answered the question. I think  
16 it's a legitimate follow-up question. The fact that he had  
17 it in his testimony opens the door. It's not a constraint  
18 on the questions that can be asked.

19 But on the other hand, Mr. Murphy, I really want you  
20 to, you know, wrap this up soon.

21 MR. MURPHY: We're moving along.

22 BY MR. MURPHY:

23 Q. Would you answer the question?

24 A. Could you repeat the question, please?

25 Q. The freed-up assets, would those be available

1 for use by other shippers on those interstate pipelines?

2 A. The freed-up assets would still be PGW assets.  
3 PGW would attempt to maximize the utilization of those  
4 assets and maximize the revenues and margins you could  
5 generate from those assets. We may do it directly or we may  
6 do it through an asset manager.

7 Q. So you believe that that would improve your  
8 competitive position in the natural gas markets in  
9 southeastern Pennsylvania?

10 A. Well, I don't draw that nexus.

11 Q. Would the freeing up of the capacity that you  
12 discussed, the contract capacity on the interstate  
13 pipelines, with the addition of the LNG terminal project,  
14 create a better competitive environment for PGW than it is  
15 in currently?

16 A. I would think that the ability to bring a large  
17 insurgence of supply into the mid-Atlantic region through  
18 the LNG terminal would provide an advantageous situation for  
19 not only PGW but other entities in the mid-Atlantic region.

20 Q. And that would be, in your estimate, in 2009?

21 A. In 2009, that's correct.

22 Q. Now, did Dr. Carpenter in his testimony include  
23 the LNG terminal project in his assessment of the market  
24 power issue?

25 MR. NIESEN: I object to the question asking him to

1 comment on Dr. Carpenter's testimony.

2 JUDGE CHESTNUT: I think he can answer it if he can.  
3 If he can't, then he can say no.

4 THE WITNESS: I don't know the answer to that  
5 question.

6 MR. MURPHY: Okay. Thank you.

7 BY MR. MURPHY:

8 Q. Let's move to page four, line 15 of your  
9 testimony. You state there that the combination of PGW with  
10 the PECO gas division under the state authority structure  
11 could have a more stable liquidity base.

12 Is it your position that the benchmark for liquidity  
13 that you were comparing to was PGW?

14 A. I believe that's what I stated in my response to  
15 your question, in your interrogatories. The answer is yes.

16 Q. Is there an imminent cash flow problem that will  
17 prevent PGW from paying all its bills on a current basis?

18 A. Not necessarily.

19 Q. Is PGW threatened with a situation where they  
20 might soon default on its long-term revenue bonds?

21 A. No, we are not in a situation where we believe  
22 we are going to default, but we all have to recognize that  
23 natural gas prices have gone from \$7 to \$20 or could go to  
24 \$20. And obviously, that could have significant detrimental  
25 impacts on the two questions -- or related to the issues

1 that you just raised in those two questions.

2 So, you know, if prices continue to escalate, there  
3 could be problems that have to do with PGW's liquidity and  
4 otherwise. But we're not there yet. But I think it would  
5 be inappropriate if I didn't at least recognize that, and  
6 I'm sure it has impacts on other entities as well, other  
7 utilities as well.

8 MR. MURPHY: Your Honor, I have a request that the  
9 following exhibit be marked as PECO Cross-Examination  
10 Exhibit No. 6. It's a response to Joint Applicants' Set IV,  
11 No. 15.

12 JUDGE CHESTNUT: It will be so marked.

13 (Whereupon, the document was marked  
14 as PECO Cross-Examination Exhibit  
15 No. 6 for identification.)

16 BY MR. MURPHY:

17 Q. Are you familiar with this response, Mr. White?

18 A. Yes.

19 Q. Are you familiar with the Standard & Poor's  
20 Ratingsdirect?

21 A. I'm familiar with the basics of the Standard &  
22 Poor's assessment.

23 Q. Would you agree that this document provides a  
24 reasonably accurate depiction of PGW's present financial  
25 situation?

1           A.    I would assume that it would based upon the  
2 agency that's providing it.

3           Q.    And the date is August 30, 2005.  PGW's present  
4 Standard & Poor's bond rating is BBB minus; is it not?

5           A.    That's correct.

6           Q.    Is that one step above a non-commercial junk  
7 bond rating?

8           A.    I believe it is.

9           Q.    What would happen if PGW's bond rating were  
10 reduced to junk bond status?

11          A.    I couldn't give you all the ramifications of  
12 that, but I understand that it would not be a good thing.

13          Q.    Can you be more specific?

14          A.    Well, I'm the chief operating officer.  I'm not  
15 the chief financial officer.  I do know that we do not want  
16 to get into a situation where our bonds are in default or we  
17 have no ability to -- I should rephrase that.  We don't want  
18 to be in a position where we have no ability to issue debt  
19 to support our capital programs.

20          Q.    Would that place you into bankruptcy?

21          A.    I don't think bankruptcy is a term that applies  
22 to Philadelphia Gas Works.

23          Q.    Would you be insolvent?

24          A.    I'm not even sure if insolvent applies to  
25 Philadelphia Gas Works.

1 Q. Okay. How would you raise capital if you could  
2 not raise commercial grade --

3 A. I don't know the answer to that.

4 Q. Let's turn to page three of the Standard &  
5 Poor's document. Is it fair to state that the S&P indicates  
6 that two of the reasons that your bond rating has not been  
7 downgraded are an assumed forgiveness of \$18 million a year  
8 from the city and that PGW has been allowed to defer payment  
9 of a \$45 million loan?

10 A. I think they're two reasons, but I think the  
11 feedback that I get -- and I did not meet with Standard &  
12 Poor's directly, but we had folks that did -- was the fact  
13 that our collectibility went from 86.7 to 95 percent, and I  
14 think that had a lot to do with it in addition to the items  
15 that you just mentioned.

16 Q. Okay. But that collectibility could be  
17 adversely affected by the current high price of natural gas?

18 A. That would be a very fair statement.

19 Q. Let's go to another topic. Mr. White, in buying  
20 or selling an asset, the condition of those assets is an  
21 important factor in assessing their value or viability; am I  
22 correct?

23 A. I would expect so, yes.

24 Q. Would you agree that PGW's infrastructure is in  
25 poor condition?

1           A.    I would agree that PGW's infrastructure has cast  
2 iron, which is typically considered an issue of risk that  
3 has to be managed, but I would not in any way indicate that  
4 our infrastructure is in poor condition.

5           Our facility is an old facility of which we have to  
6 manage and maintain, and we have a risk structure embedded  
7 in our capital program that's acceptable to us and  
8 acceptable to the folks that oversee PGW.

9           Q.    Have those assets been neglected?

10          A.    I don't believe so.

11          Q.    Would you agree with the following statement,  
12 that, "PGW has an aged distribution system comprised  
13 primarily of cast iron main. Its supplemental gas  
14 facilities are nearing the end of useful life. The fleet is  
15 the oldest when benchmarked against other utilities, and  
16 many of its basic facilities have been ignored and are in  
17 need of repair."

18          A.    No, I would not totally agree with that. First  
19 of all, we have -- less than 50 percent of facility is cast  
20 iron.

21          MR. MURPHY: Another response to discovery, Your  
22 Honor, is --

23          THE WITNESS: Mr. Murphy, if I may just finish my  
24 point, the point that I'm making is based upon what I know  
25 today as we sit here today.

1 BY MR. MURPHY:

2 Q. Has that position changed over the last few  
3 months?

4 A. I would say that it has been consistent in that  
5 short period of time.

6 MR. MURPHY: Your Honor, I ask that PGW's response to  
7 Set IV, No. 2 of joint applicants' interrogatories be marked  
8 for identification as PECO Cross-Examination Exhibit No. 7.

9 JUDGE CHESTNUT: It will be so marked.

10 (Whereupon, the document was marked  
11 as PECO Cross-Examination Exhibit  
12 No. 7 for identification.)

13 BY MR. MURPHY:

14 Q. Mr. White, do you recognize this response?

15 A. Yes, I do.

16 Q. Do you recognize the testimony that's attached  
17 to it?

18 A. Yes.

19 Q. Would you turn to page 13 of that testimony?

20 This is your testimony that was provided for the --

21 A. Yes.

22 Q. -- Philadelphia Gas Commission this year, in  
23 May, I believe?

24 JUDGE CHESTNUT: Excuse me, did you say page 13?

25 MR. MURPHY: Page 13, Your Honor.

1 BY MR. MURPHY:

2 Q. The statement I just read concerning the state  
3 of the PGW system is a direct quote out of this testimony;  
4 is it not?

5 A. Yes, it is.

6 Q. Why do you disagree with this statement now?

7 A. Well, because I have information -- and maybe  
8 I'm using that information in my recollection of it a little  
9 differently than how it was portrayed here -- but we have a  
10 fleet optimization program ongoing that we will be  
11 submitting to the Philadelphia Gas Commission where we're  
12 refurbishing our fleet over a five year period.

13 So I looked at that as a problem that has been  
14 addressed and will be significantly modified in a relatively  
15 short period of time.

16 Q. With regard to your fleet?

17 A. Yes, with regard to the fleet. With regard to  
18 the distribution system, as I mentioned, we've been around  
19 since 1862 or 1865, so we do have older facilities.

20 And I mentioned the fact that we have aged facilities  
21 from that standpoint. But I don't believe that there's  
22 anything here that indicates that we're neglecting. And I  
23 think when you asked me the question, I was referring  
24 specifically to neglect.

25 Q. Okay. Mr. White, at line eight, you indicate

1 that many of the basic facilities have been ignored and are  
2 in need of repair. Doesn't that suggest that there has been  
3 some neglect?

4 A. That has to do with our buildings and our  
5 district offices, and things of that sort. It doesn't have  
6 to do with the basic core infrastructure of providing gas  
7 distribution service.

8 Yes, we have, if you go into one of our district  
9 offices, it's not in the condition that we are either proud  
10 of or would like to see it in.

11 If you go into our main office buildings, we have  
12 areas where, you know, obviously we'd like to make it a  
13 little bit more -- put it in better condition for the  
14 employees to work in every day.

15 We are in the process right now of refurbishing our  
16 meter shop. So all of these -- this testimony is submitted  
17 to the Philadelphia Gas Commission for the reason and the  
18 purpose of justifying facility needs that we need going  
19 forward. And certainly we believe that there are things  
20 that we have to correct.

21 But the basic infrastructure, the way we manage our  
22 cast iron main, the underground system, our LNG plants, we  
23 maintain these facilities so that they're in good  
24 operational order. So this covers a much broader gamut.  
25 This is our capital budget. It doesn't just deal with those

1 basic components.

2 So maybe I just needed to add a little clarity to  
3 that response, but my position as chief operating officer is  
4 that my main goal is to maintain safety and reliability so  
5 that the areas of this business that have a big impact on  
6 safety and reliability I don't believe have been neglected.

7 Q. Thank you. The Port Richmond LNG facility is  
8 one of the supplemental gas facilities that are mentioned  
9 there?

10 A. Yes.

11 Q. What does it mean to be near the end of their  
12 useful life?

13 A. As I understand it, there's a couple meanings to  
14 that. It could mean that, from an accounting standpoint,  
15 it's at the end of its useful life. And then obviously, it  
16 could be the end of its useful life as far as from an  
17 operating standpoint.

18 Many facilities could be at the end of their useful  
19 life and still be refurbished. So it doesn't necessarily  
20 mean that the facility is not operational. It just means  
21 that it has to be maintained.

22 Q. And the cost of maintaining it is generally  
23 higher than for a new facility, correct?

24 A. Typically, yes. And that is the situation at  
25 Port Richmond. We have two liquefaction facilities. One is

1 very labor intensive and expensive. The other one is brand  
2 new and has fewer moving parts and less maintenance.

3 Q. And the same could be said about the cast iron  
4 mains?

5 A. Cast iron mains is a significant issue.

6 Q. In terms of what, the operating and the  
7 maintenance costs?

8 A. Well, yes, maintenance and removal and  
9 replacement.

10 Q. Let's put this testimony aside and talk about  
11 your call center operations, Mr. White. Do you have  
12 responsibility over PGW's call center operations?

13 A. Yes. The vice president of customer affairs  
14 reports to me and the call center falls under his  
15 jurisdiction.

16 Q. Are you aware of any regulatory commitment that  
17 PGW has made in the last several years with respect to the  
18 effectiveness of PGW's call center operations?

19 MR. NIESEN: If Your Honor pleases, I object to that  
20 question. I don't know what that has to do with the  
21 particular piece of testimony that Mr. White is presenting.

22 JUDGE CHESTNUT: I think it's pretty clear what the  
23 relevance of that question is. If you have a specific page  
24 and line reference, you can provide it, but I think it's  
25 pretty clear. Didn't you mention that one of the potential

1 benefits would be a combined call center? I thought I --

2 THE WITNESS: I don't believe I said that. I think  
3 what I said, Judge Chestnut, is that that exists currently  
4 today between PECO Electric and PECO Gas, and of course that  
5 would be maintained going forward. But I don't think  
6 there's any more relevance to it than that.

7 JUDGE CHESTNUT: Let me find that reference.

8 MR. MURPHY: It's on page four, Your Honor, lines 20  
9 through 23 over to page five.

10 JUDGE CHESTNUT: Yes, you specifically say a single  
11 call center is a potential source of efficiency.

12 MR. NIESEN: It's, "may now exist between PECO  
13 Electric and PECO Gas."

14 MR. MURPHY: And it says, "While some of those  
15 efficiencies," on line 21, which is a reference for the  
16 potential for efficiency improvement.

17 (Pause.)

18 BY MR. MURPHY:

19 Q. Mr. White, will you please answer the question?

20 JUDGE CHESTNUT: Do you have a question outstanding?  
21 I lost track.

22 THE WITNESS: I lost track of that as well.

23 BY MR. MURPHY:

24 Q. The question is, are there any regulatory  
25 commitments that PGW has made with respect to its call

1 center operations effectiveness?

2 A. A number of years ago, we were required to  
3 increase the capabilities of the call center so that we  
4 answered 80 percent of the calls in 30 seconds or less.

5 Q. Is it your position that that commitment has  
6 been satisfied in recent months?

7 A. In recent months, we have moved in a direction  
8 of -- a position that our customer survey indicates that we  
9 have a high level of customer satisfaction, and therefore  
10 have moved some of those assets that allowed us to maintain  
11 80/30 and moved those assets to enable us to increase  
12 collections.

13 So we moved somewhat off of the 80/30, but on an  
14 annual basis we interpret that 80/30 and we try to meet that  
15 80/30 on an annual basis. There may be times during the  
16 year where we do not meet the 80/30.

17 Q. Would you agree that since June of 2004, PGW has  
18 not met its 80/30 commitment in any one month?

19 A. Subject to check, that could very well be true.

20 Q. And would you agree that for five of those  
21 months during that period, that PGW's call center operations  
22 answered the phone within 30 seconds less than 30 percent of  
23 the time?

24 A. Subject to check, I would have to --

25 Q. Okay. I know you wear a lot of hats at the

1 company, Mr. White --

2 A. Yeah. I mean, I wouldn't know that statistic.  
3 I do know that collections have improved during that time  
4 and I do know that there's a general movement in the  
5 industry to focus more on customer satisfaction and these  
6 issues are being raised with the PUC right now.

7 Q. So it's your position that a customer would  
8 rather have his bills collected than have an answer to his  
9 phone calls?

10 A. No. It's my position that we interact with the  
11 PUC probably more on our customer affairs activities than  
12 any other company in the state, and I'm certain that if the  
13 PUC believed that we were handling those aspects of the  
14 business inappropriately, they would let us know. And where  
15 they have let us know, we have made modifications and  
16 reacted to their concerns.

17 Q. Okay. Do you have responsibility over the  
18 information technology group at PGW?

19 A. Yes, I do.

20 Q. And do you have responsibility in that capacity  
21 for the information that's posted to the PGW web page?

22 A. Yes.

23 Q. In particular on the customer service side?

24 A. Anything that's on that web page would be either  
25 put on by our marketing department, our corporate

1 communications or our information systems, all three of  
2 which report to me.

3 Q. And you would believe that that information  
4 would be true and correct?

5 A. I would expect so, yes.

6 MR. MURPHY: Your Honor, I'd like to have marked for  
7 identification as PECO Cross-Examination Exhibit No. 8 three  
8 pages which were downloaded from the PGW web page.

9 JUDGE CHESTNUT: It will be so marked.

10 (Whereupon, the document was marked  
11 as PECO Cross-Examination Exhibit  
12 No. 8 for identification.)

13 BY MR. MURPHY:

14 Q. Are you familiar with the information that's  
15 reflected here, Mr. White?

16 A. I don't go on the web page to look at it very  
17 often, but I'm familiar with the information.

18 Q. Frankly, I haven't been on your web page very  
19 often myself. Does this information that's reflected on  
20 page one regarding monthly call center performance appear to  
21 be correct?

22 A. I'm sure it is if it's posted here.

23 Q. Now, turn to page two of that. There's a  
24 percentage of calls abandoned, monthly averages. Would you  
25 believe that that information is correct?

1           A.    I would believe that, if it's posted here, it's  
2 correct. Now, of course, Mr. Murphy, you understand that  
3 the components of "abandoned" may mean that the customer  
4 hung up on their own volition. Some of these things, I  
5 think we'd have to delve into deeper. I don't have the  
6 answers off the top of my head. But I have to caution you  
7 that the data may be a term of art that the PUC uses and may  
8 include those components.

9           Q.    Let me ask you, you made a commitment to the  
10 Commission on the 80 percent answered within 30 seconds.  
11 What happened to that commitment? Why is PGW apparently not  
12 meeting that commitment?

13           A.    I assume that the commitment was made at a point  
14 in time where PGW had a time frame to get its call center  
15 back in order, its billing and so forth. We did so.

16                   And as we manage the customer affairs activities on  
17 an ongoing basis, we have to balance resources along with  
18 tasks.

19           Q.    So would you say that you're not meeting the  
20 commitment because you're not spending sufficient resources?

21           A.    Well, subject to check, I'm not sure if the  
22 commitment is still a hundred percent in place. There may  
23 be variations to that commitment pursuant to discussions  
24 with the BCS. I'm not privy to that. I don't recall.

25           Q.    Well, did you answer the question? Is the lack

1 of satisfying the 80/30 --

2 A: We haven't been fined for it, so I don't know  
3 anything further than that.

4 Q. Will you answer the question as to whether your  
5 failure to satisfy the 80/30 requirement is due to a lack of  
6 sufficient resources allocated to the task?

7 MR. NIESEN: I guess I'll object to the question. It  
8 supposes that there's still an 80/30 requirement. I think  
9 he explained --

10 JUDGE CHESTNUT: You can rephrase it that way, if  
11 there is a requirement. I mean, Mr. White already testified  
12 that someone made the decision to divert resources from the  
13 call center to collections.

14 THE WITNESS: And other areas of -- universal  
15 service, the CAP Program, a number of other things. I mean,  
16 we're balancing, as everyone is aware, like every other  
17 company, a variety of customer activities.

18 JUDGE CHESTNUT: Does that lead you to an answer to  
19 Mr. Murphy's question?

20 THE WITNESS: I think, to answer Mr. Murphy's  
21 question, we have made a conscious decision to reduce from  
22 the 80/30 level.

23 BY MR. MURPHY:

24 Q. Would you accept that PECO's call center  
25 operations have averaged more 70 percent of the time during

1 each of the last four years?

2 A. I don't know the answer to that. All I do know  
3 is that we had a higher bar to reach than PECO, but I guess  
4 PECO, if they've met the 70/30 or the 70/40 or whatever they  
5 had, subject to check, I would assume they did. But I have  
6 no idea.

7 JUDGE CHESTNUT: Do you have a way to check it? You  
8 said subject to check.

9 THE WITNESS: I'm sure that if we are required to put  
10 this on the web site, so are they, so I would imagine that  
11 Mr. Murphy, if he went on our web site and they have that  
12 information --

13 MR. MURPHY: Your Honor, it's in Ms. Alexander's  
14 testimony in this case.

15 JUDGE CHESTNUT: Okay.

16 BY MR. MURPHY:

17 Q. Now, PECO has agreed in the joint petition for  
18 settlement to comply with a call abandonment rate of five  
19 percent. Isn't it true that PGW's monthly call abandonment  
20 rate exceeded ten percent in all but two months over the  
21 period, July, 2004 through July, 2005?

22 A. Did you just ask me about the call abandonment  
23 rate?

24 Q. Yes.

25 A. I'm looking at the chart. I mean, there are

1 many times that we are over the ten percent, but also I see  
2 nine and six, so I just want to clarify, it's not every  
3 time.

4 Q. All right. How is it that PECO's customers  
5 would benefit from an association with your call center  
6 operations?

7 A. Well, because, I mean, when we talk about call  
8 center, we're talking about the generic issue of customer  
9 affairs, and I think there's many aspects to it.

10 And obviously, if I were cross-examining a PECO  
11 witness right now, I'd be talking about our universal  
12 service and our discount program and things of that sort,  
13 which I could share equal differences to what we see here,  
14 but we're not in that position today, so --

15 JUDGE CHESTNUT: Mr. White, why don't you just answer  
16 the question?

17 THE WITNESS: Could you repeat the question?

18 BY MR. MURPHY:

19 Q. How would PECO Gas customers benefit from an  
20 association with PGW's call center operations?

21 A. I think we do the call center operation very  
22 well, and I think that the reflection of what you see here  
23 was conscious decision to do other, meet other customer  
24 expectations.

25 MR. MURPHY: Okay. I just have a few more areas,

1 Your Honor.

2 JUDGE CHESTNUT: Would this be a good time for a  
3 short break?

4 MR. MURPHY: We could take a break.

5 JUDGE CHESTNUT: Okay.

6 (Recess.)

7 JUDGE CHESTNUT: Are we ready to resume? Mr. Murphy.

8 MR. MURPHY: Thank you, Your Honor. Your Honor, I  
9 believe that I only have about 10, 15 minutes left.

10 JUDGE CHESTNUT: Oh, we could have waited.

11 BY MR. MURPHY:

12 Q. Mr. White, wouldn't one way to deal with PGW's  
13 liquidity crisis be to seek a rate increase from the PUC?

14 A. That is an alternative.

15 Q. And wouldn't another way to resolve the  
16 liquidity crisis be for the city to infuse sufficient equity  
17 capital into PGW's operations?

18 A. That's an alternative.

19 Q. If those are two alternatives, why haven't they  
20 been pursued?

21 A. At this point, we don't believe that our  
22 customers could absorb higher base rates than we have today,  
23 and I don't believe the city has incremental funding to help  
24 us with our liquidity issues.

25 Q. Couldn't the city raise taxes?

1           A.    I guess they could, business privilege taxes and  
2 things like that.

3           Q.    With those options, why is it that PGW's makes  
4 this effort in this proceeding to cause PECO to divest its  
5 gas operations so that PGW's operations can team up with the  
6 suburban gas operations of PECO Energy?

7           MR. NIESEN: I object to that. The characterization  
8 is what I object to.

9           JUDGE CHESTNUT: Well, then, Mr. White can recast it  
10 or Mr. Murphy can rephrase it.

11          THE WITNESS: If I have the offer to recast it, I  
12 would say there's no insidious plot here, and that's the way  
13 I interpreted the question. What there is is a study that  
14 was done that indicates that it seems reasonable that the  
15 PUC should consider a study that would evaluate whether or  
16 not the combination of PECO's gas division and PGW's gas  
17 operation would be in the best interests of the citizens of  
18 southeastern Pennsylvania.

19          BY MR. MURPHY:

20          Q.    Now, let's go back to your testimony at page  
21 four. You state under your state authority structure, that  
22 PECO's gas ratepayers would benefit in the form of reduced  
23 corporate tax payments as a result of the tax exempt status  
24 of the combined utility.

25                Is what you're saying that the combined state

FORM 1

1 authority structure would not pay, say, state income tax?

2 A. I believe that's correct.

3 Q. Public utility realty tax?

4 A. I couldn't say specifically what taxes are  
5 applicable to an authority.

6 Q. Does PGW presently pay --

7 A. It's my understanding that we pay very little  
8 taxes.

9 Q. Okay. So state capital stock tax, your answer  
10 would be the same?

11 A. Yes.

12 Q. And it wouldn't pay certain local taxes; is that  
13 correct?

14 A. Yes.

15 Q. In your assessment of the benefits of the state  
16 authority structure, have you considered the loss of these  
17 tax revenues?

18 A. I think I mentioned in my testimony that there  
19 may have to be some recognition or some funds made available  
20 to support initiatives that could be potentially impacted by  
21 a reduction in local taxes, but I didn't necessarily get  
22 involved too much on the state side of it.

23 Q. So these funds would be designed to replace the  
24 lost tax revenues?

25 A. Yes, but very limited.

1 Q. Very limited?

2 A. Yes. In other words, at a local level, it  
3 doesn't appear that it would be a large amount.

4 Q. How about at the state level?

5 A. I don't know the answer to that.

6 Q. Okay. Would the loss of this tax revenue be a  
7 benefit to the state and local governments?

8 A. I wouldn't expect that a loss of revenues would  
9 be a benefit to whatever entity was receiving the funds.

10 Q. So the answer is no, it would not be a benefit?

11 A. I think I said that.

12 Q. Okay. Are you aware of the utility regulatory  
13 assessment that's paid by public utilities to defray the  
14 cost of the Public Utility Commission, the Office of Small  
15 Business Advocate, the Office of Consumer Advocate?

16 A. I am aware of the fact that we at PGW spend a  
17 significant amount, and I'm not sure if that's the name of  
18 it, but we pay, based upon the fact that we now fall under  
19 the jurisdiction of the PUC, we pay a significant. I think  
20 that that amount is, for a gas utility, is probably the  
21 largest in the state, but that's just my recollection.

22 JUDGE CHESTNUT: I'm sorry, your last answer there,  
23 are you saying that PGW pays the largest amount of any gas  
24 utility or that gas utilities generally pay a large --

25 THE WITNESS: No, I was saying that it was my

1 recollection that when we fell under the jurisdiction of the  
2 PUC, like our situation previously under the Philadelphia  
3 Gas Commission where we paid a substantial amount of money  
4 for not only the PGC but the public advocate, we now make a  
5 similar type payment to the state of Pennsylvania with  
6 respect to our now falling under the jurisdiction of the  
7 PUC, and it was my understanding from a gas utility  
8 standpoint that we make the largest payment.

9 JUDGE CHESTNUT: Again, from a gas utility  
10 standpoint, PGW makes the largest of the --

11 THE WITNESS: Of the Pennsylvania --

12 JUDGE CHESTNUT: -- has the largest assessment of the  
13 gas utilities, the jurisdictional gas utilities?

14 THE WITNESS: That was my recollection.

15 JUDGE CHESTNUT: Okay.

16 BY MR. MURPHY:

17 Q. Mr. White, if the state authority structure --  
18 let's put the state authority structure aside and assume  
19 that PGW entered the domain of a privately owned public  
20 utility with PECO. Would it be paying state and local  
21 taxes?

22 A. If PGW, the assets that make up PGW were sold to  
23 a privately owned organization, I would expect that they  
24 would be not dissimilar than what PECO is today as far as  
25 structure and responsibility to pay taxes.

1 Q. So there could be an additional revenue stream  
2 for the city, say, perhaps, if that were the case?

3 A. There may be, yes.

4 Q. Just to get back to Cross-Examination Exhibit  
5 No. 7, the testimony before the Philadelphia Gas Commission,  
6 at line eight, you mentioned that certain facilities have  
7 been ignored. Can you indicate who has been ignoring them?

8 A. They're ignored based upon the limited amount of  
9 funds, so it's not a -- there's a prioritization that has to  
10 be made based upon the available capital dollars that we  
11 have. That prioritization is made by a group of us, and  
12 overseen by myself and Tom Knudsen, our CEO.

13 So we have to make judgments as to where we're going  
14 to spend limited amount of funds. As I indicated before,  
15 our first choice is to address safety and reliability.

16 So I would imagine where the buck stops is with  
17 myself and Mr. Knudsen, and then of course we present that  
18 to our board of directors for approval, and once the board  
19 of directors, the PFMC, submits a resolution, then we would  
20 submit that capital budget to the Philadelphia Gas  
21 Commission for review. The Philadelphia Gas Commission  
22 makes a recommendation to the City Council, and then the  
23 City Council will approve it.

24 So there's a lot of people involved here, but from my  
25 standpoint, and since the capital budget has such a

1 significant impact on the responsibilities that fall within  
2 my jurisdiction, my prioritization is safety, reliability,  
3 regulatory, and then anything else.

4 Q. Now, that process results in the deferral of  
5 certain projects from year to year?

6 A. Yes.

7 Q. And is that deferral process sustainable?

8 A. No. It only defers the project to a later year.  
9 The project still has to be done.

10 Q. Okay. So the short-term deferrals aren't  
11 acceptable over an extended period of time?

12 A. At some point you have to make the investment.

13 Q. Have you deferred certain safety related  
14 projects?

15 A. We don't believe we've deferred anything that  
16 would incur a safety risk for the customer.

17 MR. MURPHY: That's all the cross I have for today,  
18 Your Honor, and I would move into the record Cross-  
19 Examination Exhibits Nos. 4 through 8.

20 JUDGE CHESTNUT: Any objection?

21 MR. NIESEN: I have no objection to the admission of  
22 the exhibits. However, in respect to Cross-Examination  
23 Exhibit No. 4, you'll note that the header at the top of the  
24 pages shows a date and then a deleted date. That actually  
25 occurs, my understanding, is because when the document is

1 printed, a new date is inserted automatically by the word  
2 processing program. So with that understanding -- it's a  
3 track changes format and it inserts the date that the  
4 printing occurs of the particular document.

5 JUDGE CHESTNUT: I understand that, yes. The  
6 documents are admitted.

7 (Whereupon, the documents marked as  
8 PECO Cross-Examination Exhibits  
9 Nos. 4 through 8 were received  
10 in evidence.)

11 JUDGE CHESTNUT: Redirect?

12 MR. NIESEN: May we have a short recess to consider  
13 our redirect?

14 JUDGE CHESTNUT: Yes.

15 (Recess.)

16 JUDGE CHESTNUT: We'll go back on the record from our  
17 break. Mr. Niesen?

18 MR. NIESEN: Yes. We have brief redirect.

19 **REDIRECT EXAMINATION**

20 BY MR. NIESEN:

21 Q. Mr. White, during your cross-examination, topics  
22 were discussed including the condition of PGW utility plant.  
23 As the chief operating officer of Philadelphia Gas Works,  
24 are you familiar with any independent public engineering  
25 reports concerning the condition of PGW utility plant?



1 Q. Mr. White, do you have the Black and Veatch  
2 study with you?

3 A. No, I do not.

4 Q. So there's no way we can confirm this  
5 independently?

6 A. Well, I guess just as the representation of the  
7 70/30 and things like that are on the Internet, the  
8 verification of the Black and Veatch report is that it's a  
9 public document. It is required by the city finance  
10 director before we can issue bonds.

11 We issued bonds in October, so there's no doubt that  
12 an engineering report exists. So I think it can be  
13 verified.

14 MR. MURPHY: Your Honor, as we haven't had an  
15 opportunity to see this document, I would move to strike  
16 the --

17 JUDGE CHESTNUT: No. If you want to see it, you can  
18 have an on-the-record data request.

19 MR. MURPHY: We would then make an on-the-record data  
20 request for this Black and Veatch study that was discussed  
21 in his redirect testimony.

22 MR. NIESEN: Sure. It's a public document. We'll  
23 provide that.

24 MR. MURPHY: And would we have an opportunity to  
25 respond to that?

1 JUDGE CHESTNUT: If you feel it necessary to rebut  
2 Mr. White' statement here, we can address that.

3 MR. MURPHY: Thank you, Your Honor.

4 JUDGE CHESTNUT: Anything further?

5 MR. MURPHY: No further questions.

6 JUDGE CHESTNUT: Thank you very much, Mr. White.  
7 You're excused.

8 THE WITNESS: Thank you, Judge.

9 (Witness excused.)

10 JUDGE CHESTNUT: I think that takes us to the end of  
11 our witnesses. The only issue then is to remind you about  
12 the briefing schedule that was contained in Prehearing Order  
13 No. 7.

14 Main briefs are due -- and these are actual due  
15 dates, that is filing dates and dates I want to receive  
16 them. In terms of service on other parties, that's a  
17 different issue, but this is the dates that I want to get  
18 your pleadings, which is October 14th for the main brief,  
19 October 21st for the reply brief. They're the dates you  
20 have to file them.

21 Again, as I said, if you want to serve them by next  
22 day service on the other parties, that's fine. And if you  
23 have a problem -- yes, Ms. McCloskey?

24 MS. McCLOSKEY: Your Honor, when you say you want to  
25 receive them, you mean you want the hard copy in your hand

1 on October 14th?

2 JUDGE CHESTNUT: I would, since these are the dates  
3 you came up with, yes. If you have a problem, let me know,  
4 and I'll obviously accept it the next day, to be honest, but  
5 I'd like you to make your best effort to see that I get it  
6 as soon as possible.

7 I can't give you any kind of commitment as to when  
8 the decision will be due, but I can assure you that I will  
9 do it as quickly as possible. I already have the history  
10 written, so you don't have to spend a lot of time on that.  
11 At least as of last week, it's written, up to last week.

12 And I would urge you to do a very good job on your  
13 briefs. Make it easy for me to cut and paste. You cannot  
14 be too simple. Simplify it as much as you can. And I just  
15 urge you to do a good job.

16 Are there any questions? I think one of my prior  
17 prehearing orders already contained the specifics about what  
18 should be in the brief and how it should be addressed. Does  
19 anybody have any questions about that or any other questions  
20 concerning this proceeding before we adjourn?

21 (No response.)

22 JUDGE CHESTNUT: No? Thank you very much, then.  
23 This hearing is adjourned.

24 (Whereupon, at 12:20 p.m., the proceedings were  
25 concluded.)

C E R T I F I C A T E

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me and thereafter reduced to typewriting by me or under my direction, and that this transcript is a true and accurate record to the best of my ability.

COMMONWEALTH REPORTING COMPANY, INC.

By: *J.A. Kelly*

John A. Kelly,  
Certified Verbatim Reporter

-0-

RECEIVED  
2005 SEP 27 PM 1:33  
PA PUL  
SECRETARY'S BUREAU

FORM 1

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25