

1 arrangements that generate margins, thereby reducing GCR applicable expenses.

2 At all times the Company is studying the market for any economic advantage that  
3 it can derive in support of the firm ratepayer. This can take the form of caps and  
4 collars on pricing, puts to the system, and short term lending from the system to  
5 supplier/marketers.

6  
7 Q. Does PGW retain a portion of net proceeds from off-system sales?

8  
9 A. No. PGW does not retain any proceeds from off system sales. All revenues  
10 generated from off-system sales are used to offset gas costs to PGW's firm  
11 customers and are credited through PGW's GCR mechanism.

12  
13 Q. Does PGW propose to modify the sharing mechanism in this proceeding?

14  
15 A. No.

16  
17 Q. Does PGW retain any portion from its capacity release credits?

18  
19 A. No. PGW does not retain any of the credits for capacity release. All credits  
20 generated from capacity release are used to offset gas costs to PGW's firm  
21 customers.

22  
23 Q. Does PGW purchase gas from any affiliated interest?

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A. No.

Q. While PGW is ensuring the least cost procurement, how does it provide for system reliability?

A. PGW physically sources the gas in accordance with its firm pipeline paths. The pipelines give PGW firm entitlements on their systems for the sourcing of gas for which PGW pays a demand charge. By sourcing supply this way, PGW ensures its sole entitlement to this space on the pipeline and can not be accused of infringement. This practice also has the effect of mitigating the impact of potential supply region disruptions, such as natural and man-made disasters because not all the supply enters the pipe in the same place. Therefore, if something happens at one location, not all of PGW's supply will be affected.

Also, during the winter operating season, PGW's Gas Planning Department runs a weekly supply status model, which recognizes normal and design winter conditions and the latest actual balance of gas in all storage facilities. Supply Service utilizes the output of this model to make recommendations or change in its supply operating strategy to ensure that peak day needs and design winter conditions can be met from that point forward.

1 Q. Does PGW periodically review its existing contracts to determine if they are  
2 appropriate?

3  
4 A. Yes, PGW reviews each of its existing contracts on a regular basis to ensure that  
5 none of the contracts are adverse to its customers' interests. Whenever  
6 appropriate, PGW initiates renegotiations (where the contract permits) to change  
7 the terms.

8  
9 Q. Are there any areas of concern regarding gas procurement?

10  
11 A. Yes. There are three (3) areas that can greatly effect PGW's ability in gas  
12 procurement. First, the number of natural gas suppliers is a shrinking pool due to  
13 a number of market factors.

14  
15 Second, the financial side of each supplier is scrutinizing the amount of risk that  
16 their company is willing to extend to every company very closely. This  
17 combined with a natural gas market of higher prices limits the amount of natural  
18 gas supply that any one supplier is willing to commit to any company into the  
19 future.

20  
21 And third, beginning September 2003, PGW unbundled its rates and initiated  
22 customer choice pursuant to the Gas Choice Act. This allows customers to  
23 choose to purchase their natural gas supply from either PGW or from a qualified

1 third party. The uncertainty of the number of customers choosing alternate  
2 suppliers versus the customers which elect to stay with PGW adds a level of  
3 complexity to the gas procurement plan.  
4

5  
6 **II. DESIGN DAY REQUIREMENT**

7  
8 Q. Please provide an overview of the design day requirement.  
9

10 A. Details of PGW's design day methodology and an account of the 2003/2004  
11 winter design day requirement can be found in the response to item 53.64 (c)(13)  
12 and item 53.64(c)(14) in the information provided in PGW's February 2004 GCR  
13 Filing.  
14

15 Q. In your opinion are the gas costs PGW has incurred in the 2003-04 GCR period  
16 reasonable?  
17

18 A. Yes. They were the products of the least cost gas procurement strategy outlined  
19 in my testimony.  
20

21 Q. Does this complete your testimony?  
22

23 A. Yes.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

**DOUG MOSER**

**DOCUMENT** ON BEHALF OF

PHILADELPHIA GAS WORKS

DOCKET NOS. ~~R-00049157~~  
P-00042090

**DOCKETED**

MAY 28 2004

Philadelphia Gas Works  
Proposed 2004 Annual GCR Adjustment

2004 MAY 19 PM 2:44  
SECRETARY'S BUREAU

RECEIVED

**MAY 3, 2004**

**Q. DO YOU AGREE WITH MR. LELASH'S TESTIMONY STARTING ON PAGE 41 REGARDING THE LNG EXPANDER PROJECT?**

A. No. Although, Mr. LeLash correctly states that the LNG project has experienced delays in the startup, he incorrectly characterizes the project as a "relatively straight forward equipment replacement." The project is appropriately characterized as a replacement of PGW's current cascade liquefaction system that also utilizes an expander type system to provide the refrigeration.

Beyond being more complex than a "relatively straight forward equipment replacement," the optimal circumstances that permit the performance testing of modifications can only occur in the spring and the fall. It is only during these two seasons that the energy to drive the LNG Expander system is available to be extracted from taking high-pressure gas from the pipeline and also reducing pressure to the PGW distribution system pressure. These circumstances are not available in the winter due to PGW system requirements and are not available in the summer due to lower pipeline and system flow. As a result of these short testing windows, the required testing after a major modification can become extended.

Additionally, PGW continues with the proper due diligence to bring this project to completion.

**Q. IS MR. LELASH'S TESTIMONY REGARDING CAPACITY ISSUES TOO SIMPLISTIC?**

A. Yes. Starting on page 42 of his testimony Mr. LeLash claims that PGW currently has excess capacity. However, this conclusion is based on an overly simplistic analysis and is misplaced. PGW's capacity is not only based on delivery for a design day. On an annual basis, PGW reviews the capacity/deliverability needed

to satisfy a design hour, a design month, and a design year. PGW's analyses for the design day, design month and design year utilizes all the applicable storage ratchets which reduce deliverability and applies minimum inventory levels to the LNG storage to enable PGW to meet its obligation to supply the customers under worst case conditions. The analysis for the design hour applies contractual deliverability restrictions to an hourly basis for the individual inputs to the system.

The capacity/deliverability must also support the system in the event there is a failure of specific individual components. PGW performs failure case scenarios on the most likely system components to assure that if a failure of the component occurs, PGW will still be able to support the required system load. All of these factors are considered in total when reviewing the proper quantity and mix of capacity/deliverability that PGW maintains. Oversimplifying this analysis by reviewing only the design day will jeopardize the system under the other design scenarios.

Furthermore, the study of an outside consultant supports current capacity levels. In 1997, ICF Kaiser concluded that PGW maintained the appropriate mix of pipeline capacity. Since the 1997 study, neither growth nor loss of load has materially impacted PGW's system, therefore, PGW's annual capacity modeling has appropriately maintained the same level of capacity. In fact, Mr. Lelash has recognized that PGW has "a no growth service territory".

As a result of the foregoing discussion, Mr. Lelash incorrectly concludes that off-system sales have been very low. Excess capacity does not exist to sell. If Mr.

Lelash were to compare PGW to other utilities with higher off-system sales levels, the other utilities may be in a position where capacity reduction is the proper remedy, not the increase of off-system sales. Comparative to other utilities, PGW has achieved the appropriate balance of off-system sales and capacity.

Additionally, Mr. Lelash incorrectly concludes that PGW needs to venture further into secondary markets by his assertion that PGW has not yet obtained meaningful revenues from its LNG capacity and LNG enhancements. The purpose of PGW's LNG program is to meet its design winter requirements. As a result, Mr. Lelash fails to recognize the primary purpose of PGW's LNG program. He also fails to recognize that the only enhancement that would permit PGW to reduce capacity would be additional LNG storage space.

**Q. HAS MR. LELASH CORRECTLY CHARACTERIZED THE FORWARD SALE OF GAS INVENTORY?**

A. No. Mr. Lelash states that PGW realized a loss in the amount of \$2,040,000 on the sale of 3 million Dth of storage gas to a third party and that the loss was recovered in the GCR mechanism. This is misleading and incorrect. In order to properly define the exact financial impact of the sale and repurchase, it must be analyzed from the moment that the storage gas was sold to the third party until the point-in-time it was re-purchased. PGW sold the storage gas for \$15,000,000 and later repurchased the storage gas for a net amount of \$15,390,000 (3,000,000 Dth times \$5.13 per Dth { $\$5.13 = \$5.42 \text{ per Dth less a discount of } \$0.29 \text{ per Dth}$ }). The result is a net repurchase premium of \$390,000.

The cost of the storage gas was \$5.68 per Dth for a total cost of \$17,040,000 (\$5.68 per Dth times 3M Dth) before the sale and repurchase. After the sale and the repurchase, PGW only incurred an additional cost of \$390,000 (this amount is not included for recovery in the GCR). As a result, the only cost included for recovery in the GCR is the original cost incurred before the sale and repurchase -- \$17,040,000.

Also, as part of this arrangement, the third party required and PGW agreed to provide the third party the right to sell gas to PGW at first-of-the-month indices for five consecutive months beginning in December of 2003. These gas sales were completely separate requirements which were entered into as a condition of the underlying forward purchase arrangement.

**Q. IS MR. LELASH CRITICAL OF THIS TRANSACTION?**

A. I think it is fair to say that Mr. Lelash has some concerns, but these concerns have not prompted him to recommend any adjustment to PGW's proposed GCR.

**Q. CAN YOU SUMMARIZE HIS CONCERNS?**

A. Yes. Mr. Lelash questions the prices that PGW paid the third party for gas at first-of-the-month indices and claims that the company paid \$2,040,000 more than the sale price for its storage gas -- payments for gas supply which are included in PGW's GCR. However, it is inappropriate for Mr. Lelash to compare the cost of the five gas purchases from the third party with the sale price for the gas in storage. If a comparison is to be made, the comparison would be between the cost of the gas purchased with the price that PGW might otherwise have incurred to purchase the same volumes of natural gas during the same period. There is no indication in Mr. Lelash's testimony or otherwise that PGW could have procured

the same volumes of gas during the same period at a lower price and it is impossible to re-create such a scenario at this point in time.

**Q. IF PGW COULD HAVE PURCHASED THE SAME VOLUMES OF NATURAL GAS AT A LOWER PRICE WITHOUT THE FINANCING ARRANGEMENT, WOULD THIS BE DISPOSITIVE OF THE PRUDENCE OF THE GAS PROCUREMENT AT ISSUE?**

A. No, it would not. My understanding is that the standard governing PGW's gas procurement practices is found in Section 1318 of the Public Utility Code which provides that, "No rates for a natural gas distribution utility shall be deemed just and reasonable unless the commission finds that the utility is pursuing a least cost fuel procurement policy, consistent with the utility's obligations to provide safe, adequate and reliable service to its customers."

PGW's transactions questioned by Mr. Lelash clearly comply with this standard. The arrangement entered into by PGW was necessary to raise the cash for PGW to meet its obligations and provide safe, adequate and reliable service to its customers. At a minimum, without the arrangement, PGW would have been forced to buy gas at spot market prices on whatever days it managed to have cash available to spend on gas purchases. On certain days it might not have been a position to purchase gas needed to serve customers. Such an imprudent course would have left PGW and its ratepayers naked to the requirements of an extremely volatile gas supply market and could have resulted in exorbitant gas purchase expenditures. It is clear from Mr. Lelash's testimony that he would adamantly oppose such a high-risk, unprotected gas procurement strategy. Accordingly, while PGW appreciates his concerns, the transactions at issue as a whole were completely prudent.

Additionally, PGW has recently finalized a delayed payment with an associated premium transaction with a third party.

**Q. MR. LELASH CRITICIZES THE TIMING OF PGW'S GAS PURCHASES IN ITS PHYSICAL HEDGING PROGRAM. WHAT IS YOUR RESPONSE TO THIS CRITICISM?**

A. PGW entered into an agreement with several parties in settlement of the 2003-2004 GCR proceeding. As part of the settlement, PGW and the parties agreed to a gas purchasing program. The manner in which PGW has purchased its gas comports with this agreement.

PGW has reviewed Mr. Lelash's testimony with regard to physical hedging recommendations for PGW's 2004-2005 gas purchasing program and is interested in discussing these recommendations with the parties during this proceeding.

**Q. DO YOU DISAGREE WITH MR. LELASH'S STATEMENT ON PAGE 40 OF HIS TESTIMONY THAT "MOST GAS UTILITIES UTILIZE FINANCIAL HEDGES AS PART OF AN OVERALL HEDGING PROGRAM."**

A. Yes, after Mr. Lelash submitted his testimony, PGW requested that the Energy Association of Pennsylvania conduct an informal survey of Pennsylvania gas utilities and the results do not support Mr. Lelash's assertion among the companies surveyed. The question was posed as follows: "Does your company utilize financial hedging, i.e., futures, options and other instruments distinct from physical hedging, for natural gas supply?" Of the seven respondents, five major gas companies do not utilize financial hedging, one major gas company does not utilize financial hedging but has proposed to do so, and one gas distribution

company utilizes financial hedging. Three gas distribution companies did not respond to the survey.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF  
HUGH GILBERT PEACH, PH. D.

DOCUMENT

ON BEHALF OF  
PHILADELPHIA GAS WORKS

DOCKETED  
MAY 28 2004

DOCKET NOS. R-00049157  
P-00042090

Philadelphia Gas Works

Proposed CRRC

March 1, 2004

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Hugh Gilbert Peach and my business address is 16232 NW Oakhills Drive,  
3 Beaverton, Oregon 97006.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Principal of H. Gil Peach & Associates LLC, where I direct and conduct  
6 program evaluation and policy studies primarily related to energy efficiency services and  
7 universal services in the US and Canada.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
9 **PROFESSIONAL EXPERIENCE.**

10 A. I was awarded the Doctorate of Philosophy in Sociology from New York University, the  
11 Master of Arts in Economics from the New School for Social Research in New York  
12 City, the Master of Arts in Sociology from Michigan State University, and the Bachelor  
13 of Science in Sociology from Michigan State University. Since 1988, I have been  
14 principal of H. Gil Peach & Associates performing evaluation, research, and policy  
15 studies. Prior to that I was responsible for similar work for a number of years for a multi-  
16 state utility (Pacific Power, where I served as Evaluation Manager), a small foundation  
17 working on ways to improve City services for the City of New York (the Fund for the  
18 City of New York), as a civil servant (for the Health and Housing agencies of the City of  
19 New York), and prior to that I worked at the New York Stock Exchange. I began to  
20 study low-income utility issues in Pennsylvania in 1988. Since then, I have carried out  
21 evaluation, research, and policy studies in Pennsylvania for a total of sixteen (16) years  
22 from project to project, primarily in Pittsburgh and in Philadelphia, but also around the  
23 state. For the past seven (7) years, going on eight, I have been studying energy use,  
24 energy services, and universal services in the City of Philadelphia. My resume, which

1 describes my educational background and work experience is attached and marked as  
2 Exhibit HGP-1.

3 **Q. HAVE YOU EVER CONDUCTED STUDIES FOR A PUBLIC UTILITY**  
4 **COMMISSION?**

5 A. Yes. This experience includes responsibility for the audit of energy efficiency evaluation  
6 and related practices of the Long Island Lighting Company in a formal audit by the New  
7 York Commission, and several verification studies carried out jointly for utilities and  
8 commissions including the Wisconsin Commission and the Ontario Energy Board. I  
9 have also carried out a management study of Boston Edison energy efficiency evaluation  
10 practices in connection with a commission order and served as consultant to the staff of  
11 the Massachusetts Commission. I have also been responsible for a management study of  
12 energy efficiency evaluation for Los Angeles Water and Power (Electric Division), as  
13 chartered by their board which performs a similar role to a public utility commission.  
14 Currently, I am conducting the legislatively mandated two-year evaluation of the new  
15 systems benefit charge for the Housing Division and the Welfare Division of the State of  
16 Nevada. In addition, virtually all of my work in Pennsylvania in independent evaluation  
17 studies for utilities is conducted according to provisions of the Pennsylvania Utility Code  
18 and is jointly accountable to the Commission through the Bureau of Consumer Services.  
19 Staff and Commissioners have relied on the evaluation studies I have conducted.

20 **Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION**  
21 **BEFORE?**

22 A. I have submitted testimony in a previous matter, but have not previously testified before  
23 the Commission. However, I was invited to Harrisburg to present to the Pennsylvania  
24 Commissioners the results of the Equitable Gas Universal Services Energy Assistance  
25 Program. This study demonstrated the success of a well run Universal Services Program

1 in benefiting all customers, including participants and non-participants. Also, I have  
2 provided testimony to the Massachusetts, Rhode Island, Connecticut, and Kentucky  
3 Commissions.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. My testimony will explain and document the effect that historically high natural gas costs  
6 have had on the ability of PGW customers to pay their bills. I will explain why  
7 customers of all types – residential and commercial alike – are not only creating greater  
8 levels of uncollectibles than ever before but are paying a smaller percentage of their total  
9 bill as well. My testimony will also demonstrate that these unusually high gas prices  
10 have a unique impact on PGW because of the demographics of its customer population.

11 **Q. PLEASE SUMMARIZE YOUR FINDINGS**

12 A. Philadelphia utility gas customers are caught by two conflicting trends -- a sustained  
13 upward trend in the price of natural gas and a substantial and continuing decline in real  
14 income in the City that affects all income groups. In addition, there are shifts in cost in  
15 the economy that make economic viability more difficult for middle class families with  
16 children. It has become quite difficult for families with children and one breadwinner.

17 In Philadelphia, in contrast to other regions of Pennsylvania, a pattern of  
18 continuing payment trouble is extended under these conditions to the lower middle and  
19 middle-income households. With declining ability to pay an increasing cost of gas, and  
20 given that in winter it is generally not possible to cut back on the use of gas for heating, it  
21 is likely that upwards of fifty percent (50%+) of households will be increasingly unable  
22 to pay full gas bills. Since both trends are driven by changes in the national economy for  
23 which no solution is currently evident, they are likely to continue. Both trends are  
24 outside the reach of the Philadelphia Gas Works, which must, nevertheless, develop

1 approaches to resolve the payment problems. While I understand from the testimony of  
2 Mr. Moser that the high gas prices are projected to continue for several years, the changes  
3 related to the economy should not be understood as temporary changes, but as historic  
4 changes in the economy, the type of change that is referred to by economists as a  
5 fundamental change in structure. Payment problems, that will affect not only low income  
6 families but those up well through the strata of middle-income, will have to be worked  
7 with for the foreseeable future. Overcoming this will take a considerable effort by both  
8 the public and private sector and at all levels of government and is not the kind of  
9 problem that can be resolved by PGW alone.

10 **Q. HAVE YOUR PAST ASSIGNMENTS CAUSED YOU TO DEVELOP AN**  
11 **UNDERSTANDING OF THE DEMOGRAPHIC AND OTHER**  
12 **CHARACTERISTICS OF PGW CUSTOMERS?**

13 A. Yes. On behalf of PGW, I have conducted a number of studies of PGW residential  
14 customers which have assisted and informed my opinions in this testimony.

15 **Q. PLEASE DESCRIBE YOUR STUDIES OF PGW RESIDENTIAL CUSTOMERS.**

16 A. H. Gil Peach & Associates LLC was engaged by PGW to develop three studies related to  
17 understanding and facilitating the transition to regulation by the Pennsylvania Public  
18 Utility Commission. The purpose was to help PGW evaluate how to best modify its  
19 Customer Responsibility Program (CRP) to fit within requirements and expectations for  
20 Customer Assistance Programs in Pennsylvania, exploring both immediate and long-term  
21 program approaches. We were also engaged to do a short follow-on study of the Senior  
22 Citizen Discount and then, later, to prepare testimony.<sup>1</sup> These studies provide an  
23 empirical basis for evaluating the relationship between cost and ability to pay for PGW

---

<sup>1</sup> This study was included in the record of the restructuring case.

1 customers and have assisted in the development of the conclusions I reach in this  
2 testimony.

3 **Q. IS YOUR TESTIMONY DIRECTLY RELEVANT TO LOW-INCOME**  
4 **UNIVERSAL SERVICES PROGRAM CUSTOMERS IN THE PHILADELPHIA**  
5 **GAS WORKS CUSTOMER RESPONSIBILITY PROGRAM?**

6 A. No. Due to the foresight of the PUC in adopting Universal Service Programs as an  
7 alternative payment modality and of PGW in developing and refining its program in  
8 accordance with the Pennsylvania Code and the requirements of the Bureau of Consumer  
9 Services, households in the Customer Responsibility Program are largely shielded from  
10 the current comparatively high price of gas supply. This is accomplished through the  
11 percentage of income payment plan adopted as the basic design for the Customer  
12 Responsibility Program (CRP). Under CRP, low-income customers pay a fixed  
13 percentage of their income (depending on their income level) regardless of the price of  
14 gas or level of consumption. It is important to note however, that while the CRP  
15 customers are shielded from the problems of this winter, only approximately two-thirds  
16 of PGW customers who are eligible for CRP because of their income level actually  
17 participate in the program. Approximately 30,000 customers who are income-eligible for  
18 CRP are not enrolled in the program. These customers are extremely vulnerable and are  
19 likely having great difficulty in paying their bills or are not paying them at all.  
20 One other point must be kept in mind with regard to the impact of the CRP customers on  
21 the problem which is at the heart of this proceeding. CRP customers pay a percentage of  
22 their income as their full responsibility, without regard to usage or the price of gas. As  
23 originally designed, this program required participants to pay an amount sufficient to  
24 cover the variable costs of serving them plus some contribution to the company's fixed  
25 costs. With gas costs at current levels, CRP customers do not come close to covering the

1 cost of service. The Company then attempts to collect this additional amount from  
2 remaining customers in its Universal Service Charge. As this charge goes up, it adds to  
3 the total billings that non-CRP customers are responsible for paying, of which in recent  
4 periods they are actually paying less and less.

5 **Q. EXAMINING NON-CRP CUSTOMERS THEN, AS YOU UNDERSTAND IT,**  
6 **WHAT ARE THE CURRENT FACTS CONCERNING THE PAYMENT**  
7 **PATTERNS FOR THESE PGW CUSTOMERS?**

8 A. Based upon the facts as they have been presented to me, and which are described in the  
9 testimony and schedules of Mr. Bogdonavage in this proceeding, the amount of dollars  
10 that PGW customers owe and are not remitting has reached unprecedented levels. Just as  
11 concerning, those amounts represent unprecedented percentages of PGW customers'  
12 billed amounts.

13 If we look at this record, the overall relation between typical bill and percentage  
14 receipts is of a very large size.<sup>2</sup> The correlation on nominal bill from 1992 to 2002 is  
15 0.76, and on real bill it is 0.78. When looking at overall receipts, this is a substantial  
16 effect.

---

<sup>2</sup> The standard convention for interpreting correlations is that a "small" effect size for a Pearson correlation is defined as  $r = 0.10$ , "medium" is  $r = 0.30$ , and "large" is  $0.50$ . Cohen, Jacob, *Statistical Power Analysis for the Behavioral Sciences, Second Edition*. Hillsdale, New Jersey" Lawrence Erlbaum Associates, 1988, PP. 77-81.

**Table 1: Typical Residential Bill & Overall Percentage Receipts**

Relation of Nominal Bill and Receipts			Relation of Real Bill and Receipts			
FY	Average Bill	OPB	FY	CPI Index	OPB	Average Bill (Constant \$)
1994	919	90.0%	1994	154.6	90.0%	1122
1995	756	97.8%	1995	158.7	97.8%	899
1996	869	92.9%	1996	162.8	92.9%	1034
1997	892	97.2%	1997	166.5	97.2%	1011
1998	940	98.0%	1998	168.2	98.0%	1055
1999	937	92.1%	1999	171.9	92.1%	1029
2000	817	92.9%	2000	176.5	92.9%	874
2001	1150	88.1%	2001	181.3	88.1%	1198
2002	870	97.6%	2002	184.9	97.6%	888
2003	1301	86.6%	2003	188.8	86.6%	1301
Pearson correlation: $r = -76.0\%$			Pearson correlation: $r = -77.9\%$			
R-Squared = 57.8%			R-Squared = 60.6%			

Source of Data for this Workpaper: Average Bill from Exhibit JRB-3; CRPB from Exhibit JRB-4; CPI from Series CUURA102SA0.

2

3 **Q. WHAT, IN YOUR OPINION ACCOUNTS FOR THIS EXPERIENCE?**

4 A. In my opinion, PGW is experiencing these unprecedented levels of uncollectibles as a  
5 result of a variety of factors, all related to the persistently high price of natural gas and  
6 the impact that the high price has on the ability to pay of a very large percentage of PGW  
7 customers. Another factor is the continuing decline of real incomes in the City, which is  
8 discussed later in my testimony. The situation is exacerbated by the cold weather this  
9 winter. The result is that customer bills are increasing because of increased consumption  
10 and the rising cost of natural gas at a time when many customers have increasingly  
11 limited ability to pay.

1 Q. HOW HAS THE PRICE OF NATURAL GAS INCREASED?

2 A. Generally, and as set forth in greater detail in the testimony and schedules of Douglas  
3 Moser in this proceeding, the cost of natural gas has increased approximately as shown in  
4 the following table and graph.<sup>3</sup>

5 **Table 2: Sustained Increases in Gas Price**

Month	Gas Price Index	% change 1 Month	% Change 12 Months
Dec-01	148.46	-	-
Jan-02	148.23	-0.16%	-
Feb-02	148.27	0.03%	-
Mar-02	144.82	-2.33%	-
Apr-02	144.14	-0.47%	-
May-02	143.17	-0.68%	-
Jun-02	146.01	1.99%	-
Jul-02	146.09	0.06%	-
Aug-02	148.43	1.60%	-
Sep-02	149.24	0.54%	-
Oct-02	149.45	0.14%	-
Nov-02	150.51	0.71%	-
Dec-02	149.83	-0.45%	0.92%
Jan-03	150.60	0.51%	1.60%
Feb-03	150.20	-0.27%	1.30%
Mar-03	162.20	7.99%	12.00%
Apr-03	163.60	0.86%	13.50%
May-03	165.50	1.16%	15.60%
Jun-03	170.10	2.78%	16.50%
Jul-03	170.20	0.06%	16.50%
Aug-03	170.70	0.29%	15.00%
Sep-03	176.40	3.34%	18.20%
Oct-03	176.50	0.06%	18.10%
Nov-03	177.60	0.62%	18.00%
Dec-03	181.00	1.91%	20.80%

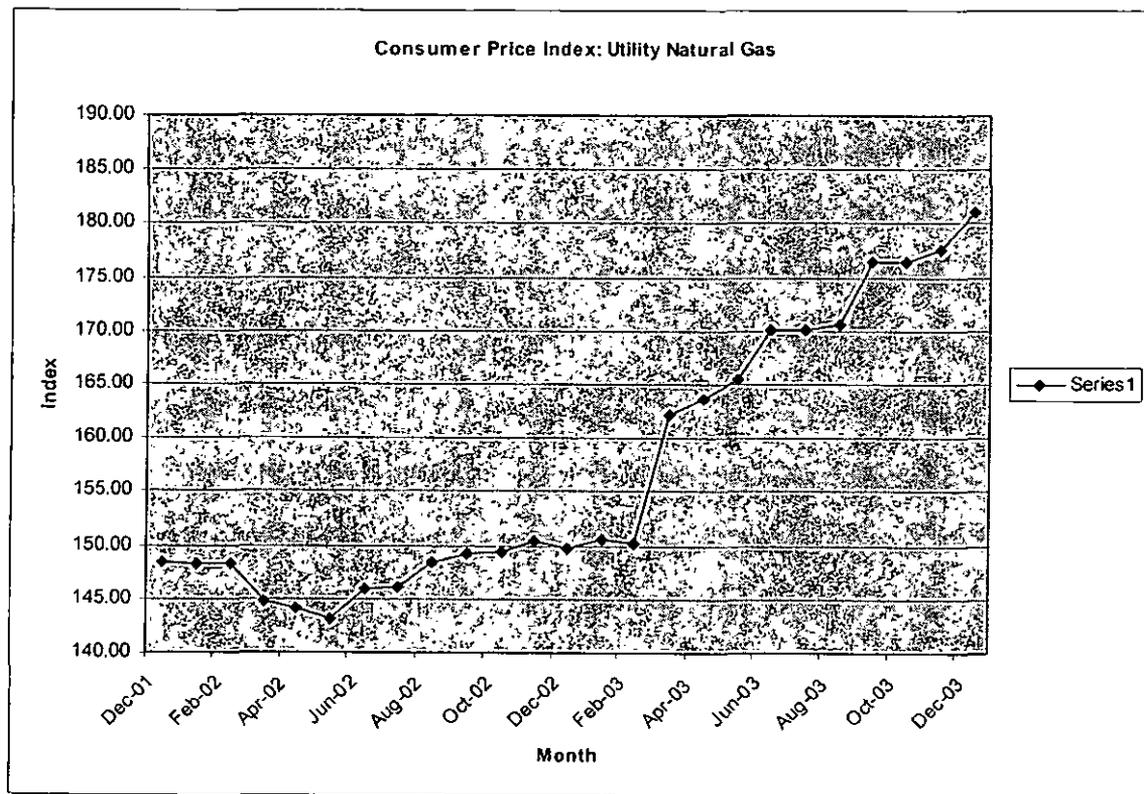
Source: US Bureau of Labor Statistics  
Mid-Atlantic Office Consumer Price Index Ann  
<http://www.bls.gov/ro3/#inflation>

6  
7 As is evident in the table, the increase in gas price is substantial and continuing. The

<sup>3</sup> Data is for the Philadelphia-Wilmington-Atlantic City, PA-DE-NJ-MD, CMSA. The Pennsylvania portion is Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties; New Jersey Portion: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, and Salem Counties; Delaware Portion: New Castle County; and Maryland Portion: Cecil County

1 numbers show that the consumer price index for utility natural gas has had a positive  
2 change for 10 straight months, beginning in March of 2003, with a 20.8% year vs. year  
3 increase from December 2002 to December 2003. During the summer, although the bills  
4 were lower than in winter, there were problems in paying bills. This was probably due to  
5 problem of families trying to deal with the cumulative effect of the bills from the  
6 previous winter. With the return of winter the increase in price, the need to heat can  
7 explain why people cannot pay their bills.

8 The increasing trend is visible in the Consumer Price Index curve for natural gas.  
9



10  
11 **Figure 1: Gas Price Index Rises Sharply**

12 The PGW specific data shows a similar pattern. On a total charge basis, gas  
13 charges to customers have increased by 80% since 1992 in nominal dollars and about  
14 40% in real dollars. This calculation is shown in Table 2 using PGW's current projection  
15

1 for MCF for the Residential Heating rate by month, rates as of 12/1/2003 and as of  
 2 9/1/1992 and using the US BLS CPI Series CUURA102SA0, for Philadelphia-  
 3 Wilmington-Atlantic City PA-NJ-DE-MD.

4  
 5 **Table 3: Nominal and Real Increase (2003 vs. 1992)**

2003 vs. 1992				
Residential Heating		Customer Bill		
Month	MCF	2003	1992	1992
		PGW Rate of 12/1/2003 (2003 Dollars)	PGW Rate 9/1/1992 (2003 Dollars)	PGW Rate 9/1/1992 (1992 Dollars)
Jan	20.8	282.14	206.79	160.57
Feb	18.3	249.67	182.56	141.75
Mar	14.9	205.52	149.60	116.16
Apr	9.9	140.58	101.13	78.52
May	4.7	73.04	50.71	39.38
Jun	2.8	48.37	32.30	25.08
Jul	2.2	40.57	26.48	20.56
Aug	2.1	39.27	25.51	19.81
Sep	1.9	36.68	23.57	18.30
Oct	2.8	48.37	32.30	25.08
Nov	6.6	97.72	69.13	53.68
Dec	11.9	166.55	120.51	93.58
Year	98.8	\$1,428.48	\$1,020.59	\$792.47
2003 Bill as Percentage of 1992 Bill (Nominal):				180%
2003 Bill as Percentage of 1992 Bill (Real):			140%	
Note: Cost per MCF 12/01/2003:		12.9877		
Cost per MCF 09/01/1992:		7.5275		
CPI for 1992 (base 1982-1984)		146.6		
CPI for 2003 (base 1982-1984)		188.8		
CPI Ratio (2003/1992)		1.2879		

6  
 7  
 8 **Q. HOW HAVE THESE PERSISTENTLY HIGH GAS CHARGES AFFECTED**  
 9 **CUSTOMER PAYMENT PATTERNS?**

10 A. They have decimated them. Customers have followed their historic patterns and failed to  
 11 pay a portion of their, now much higher PGW bill. But just as important, the months of

1 very high gas charges have caused them to pay an even smaller amount relative to their  
2 total bill.

3 **Q. CAN YOU EXPLAIN WHY THIS IS OCCURRING?**

4 A. Yes. The research evidence on the inelastic nature of energy usage is clear. Generally,  
5 families increase the use of fuel for heat when it gets cold. In my experience conducting  
6 interview surveys of low-income customers, there is really no choice, regardless of  
7 income, and regardless of whether or not the family has the ability to pay the gas bill at  
8 the end of the month.

9 I would like to highlight the difference between inelastic demand and problem  
10 customer payment. They are two separate facts. Customers having payment difficulty,  
11 including middle class customers experiencing payment difficulty, still have no choice  
12 but to use increased fuel in colder weather. But, in my experience in conducting and  
13 managing the conduct of interviews with hundreds of customers, the winter moratorium  
14 is a kind of "godsend" for households that cannot pay all of the bills that come due at the  
15 same time in the winter. Given impossible choices, it is understandable that they take  
16 advantage of the winter moratorium. I note that a recent study done for Oak Ridge  
17 National Laboratory finds a similar result:<sup>4</sup>

18 When gas bills rise...Consumers often pay other bills before paying utility bills because  
19 of protections against loss of service that are included in most utility tariffs. As a result,  
20 in periods of high gas prices, uncollectibles can grow substantially above the level  
21 anticipated in the regulated rate...Presenters at a number of gas utility  
22 conferences...cited increases of 80 percent or more in uncollectibles.

23  
24 A recent study of middle class payment difficulties by Warren & Tyagi underlines the

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<sup>4</sup> Henning, Bruce, Michael Sloan, Maria de Leon, Energy and Environmental Analysis, Inc., *Natural Gas and Energy Price Volatility, Prepared for the Oak Ridge National Laboratory*. October 2003, P. I-63.

1 similar dilemma of a two-income middle class professional family in which one job is  
2 lost due to the incursion of “big box” stores and the closure of local employment.<sup>5</sup>

3  
4 “Few families have substantial savings, so they usually run out of cash within a month or  
5 so. Soon the charges start mounting up for the basics of life—food, gasoline, and  
6 whatever else can go on “the card.” When there still isn’t enough to go around, the game  
7 of impossible choices begins. Pay the mortgage or keep the heat on? Cancel the car  
8 insurance or the health insurance. Meanwhile, interest and late fees have piled on,  
9 making everything more expensive.”

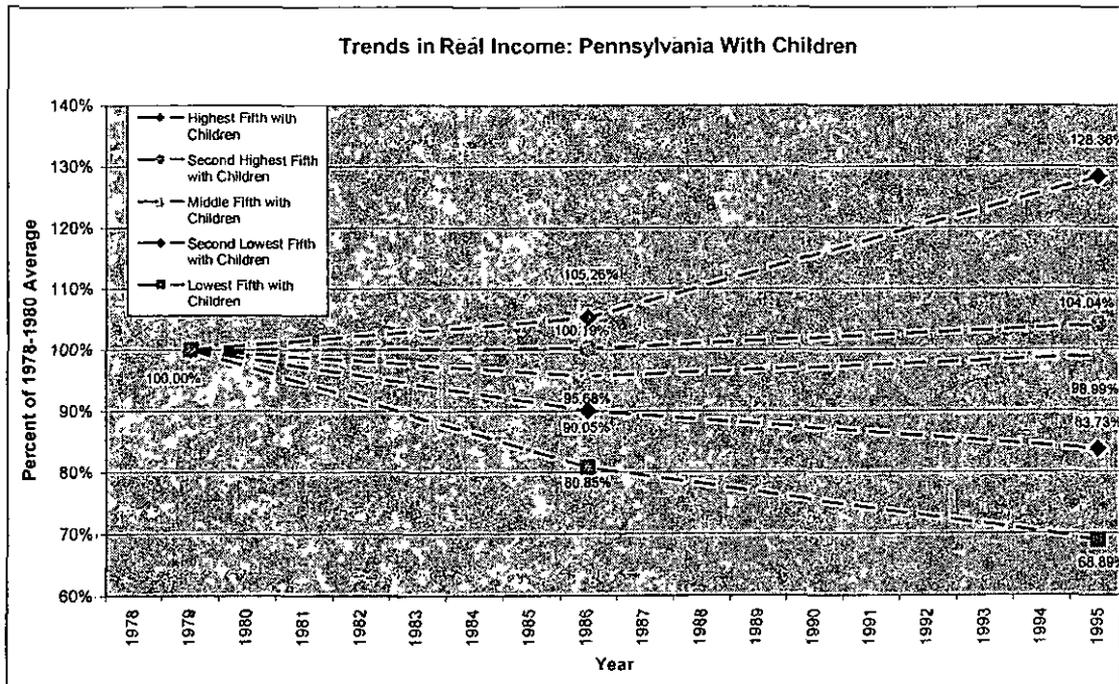
10  
11 The element introduced by the Warren & Tyagi study is the payment difficulties faced by  
12 two-income and single-income families with children. The existence of income problems  
13 for families with children is also shown in the following graph (Figure 3).<sup>6</sup>

14  

---

<sup>5</sup> Warren, Elizabeth and Amelia Warren Tyagi, *The Two-Income Trap, Why Middle-Class Mothers and Fathers are Going Broke*. New York: Basic Books, 2003, P. 3.

<sup>6</sup> Income graph constructed using data from the Center for Budget and Policy Priorities, collected by the Current Population Survey.



**Figure 2: Families with Children**

Warren & Tyagi go beyond the problems summarized by Figure 3 to document the problems experienced by two-income and single-income middle-income families with children, including civil service and professional families, in dealing with economic changes of the past 30 years.

Decreases in costs in many areas essential to family life (clothing, food, appliances, etc.) are more than offset by increases in other areas (housing, education, other costs of children) so that a typical two-income family with more joint income than a typical single-breadwinner family of a generation ago has *less discretionary income and lower savings*.

The situation is very difficult for single-income families with children. According to Warren & Tyagi, competition from two-income families bids up costs of necessary expenditures. The general situation of the middle class is one of high fixed costs, little ability to maneuver and susceptibility to any sudden change.

1 At the same time, nearly every institution in the corporate economy and extending  
2 to government and non-profit organizations is becoming more efficient. For much of the  
3 corporate service economy, this means transferring costs to customers and households so  
4 that the production unit appears more efficient. There are many academic studies of the  
5 “new economy,” and the erosion of economic infrastructure, the structure of jobs, and the  
6 social safety nets. All of these factors weaken the ability of middle class households to  
7 accommodate income or price shocks.<sup>7</sup>

8 **Q. IF MIDDLE-INCOME FAMILIES WITH CHILDREN ARE SUSCEPTIBLE TO**  
9 **SUDDEN CHANGES, IS THE SITUATION MORE DIFFICULT IN**  
10 **PHILADELPHIA?**

11 A. Yes. Results in Philadelphia are quite negative compared to the region and to the state in  
12 general. Philadelphia differs in that it is highly affected by payment problems because  
13 the steeply rising price curve is met by declining real income across all income groups.  
14 In my experience, Philadelphia’s situation is unique within Pennsylvania. In  
15 Philadelphia, approximately 50% or more of the customers have difficulty in paying  
16 today’s higher supply prices for gas.

17 In past and current work in Pittsburgh, I do not find this situation, nor have I  
18 found it in other utility service territories around the state. What is exceptional is that the  
19 problem is not limited to low income customers (only about 2/3 of whom are protected  
20 by Universal Service program participation, and about 1/3 of whom remain outside  
21 Universal Service). What is a low income problem elsewhere in the state occurs in  
22 Philadelphia up through the middle of the Philadelphia households by income.

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<sup>7</sup> See Goode, Judith & Jeff Maskovsky, eds., *The New Poverty Studies*. New York & London: New York University Press, 2001

1 Q. ARE YOU SAYING THAT PHILADELPHIA'S LOWER INCOME CUSTOMERS  
2 ARE GOING TO HAVE AN EVEN HARDER TIME PAYING THEIR GAS BILL  
3 NOW THAN THEY HAVE IN THE PAST?

4 A. Yes. But the point is that not only lower income customers are affected, but also the  
5 lower middle and middle-income Philadelphia households are finding themselves in the  
6 same position as low income customers. A working definition of poverty is being in a  
7 position where one can not consistently meet all one's financial obligations on a regular  
8 basis. In a year with high natural gas supply prices and during winter weather, many  
9 families and households are placed into moderate, major, or extreme payment difficulties.  
10 This is due both to the price of fuel and need to use high amounts of fuel due to winter,  
11 regardless of price. While energy prices have gone up to unprecedented levels, and have  
12 stayed up for unusually long times, Philadelphia residents have not experienced increase  
13 at any comparable level of income. They have, in fact lost real income [See Table 5,  
14 below].

15 The same problems that chronically confront low-income customers now, for a  
16 period of months, temporarily but severely confront households of lower-middle and  
17 middle income. Also, due to the long term decline in real income across income groups  
18 in Philadelphia, the definition of "temporary" may easily stretch into the summer months.  
19 Eventually, unless there is a reversal of price trend and a reversal in the continuing  
20 decline of real incomes, the lower middle and much of the middle income groups will be  
21 living with the chronic economic fear and chronic lack of ability to pay that in the past  
22 has been associated with low income households.

23 In addition, it is important to keep in mind that there are also many small business  
24 customers who are affected in exactly the same way as residential customers by high  
25 prices and winter usage patterns. Their income is typically derived from a small store,

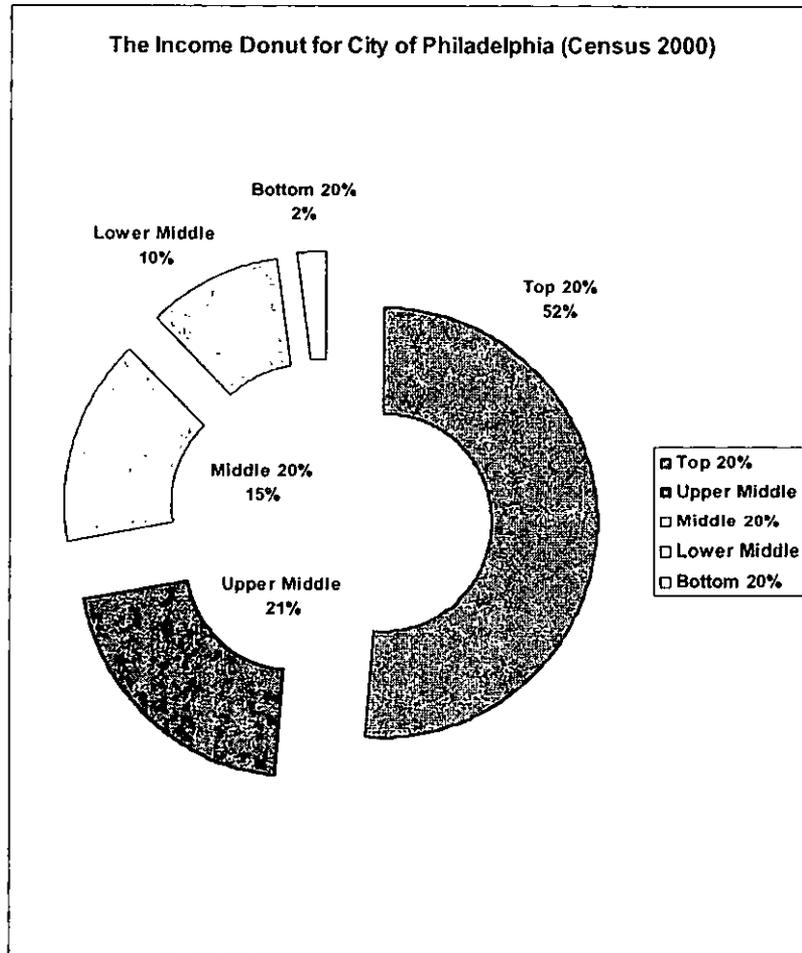
1 repair shop or similar establishment that produces modest income. That income must  
2 cover the expenses of the commercial operation, including heat, as well as the family's  
3 residential expenses. I will address the issue below.

4 **Q. ARE THESE FACTORS THAT WILL AFFECT PHILADELPHIA CUSTOMERS**  
5 **TO AN EVEN GREATER EXTENT THAN OTHER NATURAL GAS**  
6 **CUSTOMERS?**

7 A. Yes. Philadelphia's situation is particularly difficult. The "income donut" for  
8 Philadelphia County is shown below.<sup>8</sup> An income donut is a particular format for  
9 showing the income distribution of a city. The income donut is constructed by taking all  
10 of the household income of the city and then adding across the bottom 20% of  
11 households by income (the low-income households), the next 20% of households by  
12 income (lower-middle income households), the middle 20% (middle income households),  
13 and so on. Each segment of the donut contains 20% of city households. The size of each  
14 is proportional to the amount of household income received by the households within the  
15 segment. When Philadelphia households are broken out this way, the bottom 20% have  
16 incomes of \$10,000 or less, the lower-middle 20% have incomes above \$10,000 but less  
17 than \$25,000, the middle income 20% have incomes from \$25,000 and to less than  
18 \$40,000. The upper-middle income 20% has incomes of \$40,000 and to less than  
19 \$60,000. The upper income 20% in Philadelphia has incomes of \$60,000 or more.

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<sup>8</sup> Constructed from Table P52, Household Income in 1999, Census 2000 Summary File 3 - Sample Data.



**Figure 3: Income Donut for Philadelphia**

With this “snapshot” of income in Philadelphia, it is clear that lower-middle and middle income households can be expected to have difficulty with payment, while upper-middle and upper income households will probably be able to handle the combination of persistently higher prices and cold winter weather. Note that the bottom 20% of the City population (with 2% of the household income) and a portion of the next 20% (lower-middle, with 10% of household income) are eligible for existing programs (though, as set forth above, not all participate and are almost certain to be unable to pay because they simply do not have the resources to pay a general service residential bill).<sup>9</sup>

<sup>9</sup> These same factors affect small business customers.

**Table 4: Controller's Data on Loss of Real Income**

CHANGE IN AVERAGE REAL INCOME 1986-94 CITY VS. SUBURBS		
Quintile	City	Philadelphia Suburbs
Poorest Quintile	-54.2%	-42.5%
Middle Three Quintiles	-24.5%	-11.1%
Richest Quintile	-6.4%	+4.3%

Source: Table 7.1, P. 67, Jonathan A. Saidel, City Controller, 1997 Mid-Year Economic and Financial Report. Philadelphia: Office of the Controller, March 1997.

An independent calculation using the 1990 and 2000 federal census results for Philadelphia, and adjusting for the loss of population and to constant dollars confirms that this pattern is continuing, although the percentages are smaller for the more recent time period.

**Table 5: Loss of Real Income<sup>10</sup>**

Loss of Real Income by Philadelphia Households 1990 - 2000	
Low-Income 20%	-29.7%
Lower-Middle	-12.8%
Middle 20%	-7.7%
Upper-Middle	-9.2%
Upper 20%	-2.2%

The remainder of the lower-middle income households (with 10% of household income) and the middle income households (with 15% of household income) are not shielded.

<sup>10</sup> Data for 1990 are taken from Columns 1 & 2, Table P080, Household Income in 1989, Census 1990, Summary Table File 3 - Sample Data. Data for 2000 are taken from Columns 1 & 2, Table P52, Household Income in 1999, Census 2000 Summary File 3 - Sample Data. Data from 1990 and 2000 are adjusted to constant dollars using the CPI, Series ID CUURA102SA0, for Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD, for all items, Base Period 1982-1984 = 100. Results are not taken directly from the federal census, but are calculated based on census figures. Results are approximate.

1 Q. **BESIDES HAVING A GREATER PERCENTAGE OF POORER CITIZENS**  
2 **WHAT OTHER CIRCUMSTANCES CONTRIBUTE TO THIS INABILITY TO**  
3 **PAY?**

4 A. The other important factor is that Philadelphia citizens are continuing to lose income at  
5 alarming levels. As shown in Table 4, Philadelphia's middle three quintiles of  
6 households by income are losing income at a faster rate than suburban households.  
7 When families lose significant percentages of real income it becomes difficult to manage  
8 ordinary expenses. This is the situation of middle income families in Philadelphia an  
9 income grouping that is experiencing substantial loss of real income. The effects of a  
10 fuel crisis of the type that has occurred in 2003-2004 are then magnified for these  
11 households. A loss of about a quarter of real income (24.5%) across the lower-middle,  
12 middle, and upper-middle income groups means that any price crisis will be intensely  
13 magnified in its effects.

14 Q. **YOU HAVE DESCRIBED THE DEMOGRAPHIC PATTERNS OF PGW**  
15 **CUSTOMERS WITH REGARD TO INCOME. IS THIS PATTERN SEEN IN**  
16 **OTHER UTILITY SERVICE TERRITORIES IN PENNSYLVANIA?**

17 A. No. In Pennsylvania, each of the five income groups experienced a percentage increase  
18 in real (inflation adjusted) income from the late 1980s to the late 1990's.<sup>11</sup> In  
19 Philadelphia each of the five income groups experienced a percentage decrease in real  
20 income *In Philadelphia, all income groups are affected.*

---

<sup>11</sup> For Pennsylvania, the source is the "Pennsylvania Fact Sheet" in Economic Policy Institute/Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends, April 2002*. Figures in this study are based on averaging three year results from the Current Population Survey (1988 – 1990 as compared with 1998 – 2000). Note that the years included in the study are years of increasing economic expansion culminating in the collapse of the "bubble" and the healthcare, energy, and communications scandals that surfaced around the year 2000. Since 2000, poverty has increased in the US and the median income has declined.

Loss of Real Income by Philadelphia Households 1990-2000		Real Income as % of 1990
Low-Income 20%	-29.70%	70.30%
Lower-Middle	-12.80%	87.20%
Middle 20%	-7.70%	92.30%
Upper-Middle	-9.20%	90.80%
Upper 20%	-2.20%	97.80%
Increase in Real Income by Pennsylvania Households 1988-1990 v. 1998-2000		Real Income as % of '88-'90
Low-Income 20%	12.00%	112.00%
Lower-Middle	13.00%	113.00%
Middle 20%	15.00%	115.00%
Upper-Middle	18.00%	118.00%
Upper 20%	25.00%	125.00%

**Table 6: Contrast of Philadelphia to the State**

In Philadelphia, the situation is different from the state as a whole. The strong negative income effects extend to lower-middle and middle income groups. The loss of 24% of real income within the lower-middle, middle, and upper-middle income groups taken together is singular to the City. Even the upper-middle group is losing income and the top 20% is losing income. Philadelphia is experiencing a much more difficult situation than other utility service territories in Pennsylvania. The effect of this change is that, in Philadelphia, *lower-middle* and *middle income* customers are payment troubled, while in the rest of the State the designation applies to just the lower 20% of households by income.

**Q. ARE YOU FAMILIAR WITH OTHER UTILITY SERVICE AREAS IN PENNSYLVANIA?**

**A.** Yes. I have been working continuously in Pennsylvania from year to year since 1988 and have now completed studies that cover, when put together, most of the geography of

1 Pennsylvania. In addition to PGW, these studies have been for Duquesne Light,  
2 Allegheny Power, Equitable Gas, Columbia Gas of Pennsylvania, PECO Energy,  
3 People's Gas, Pennsylvania American Water Company, and currently Penn Power, Met  
4 Edison, and Pennsylvania Power. While effects for the low income group are similar  
5 around the state, I have not seen this problem throughout all the income groups  
6 elsewhere.

7 **Q. CAN YOU FURTHER CHARACTERIZE THIS DIFFERENCE?**

8 A. Yes. Philadelphia's loss is much deeper, and *spread throughout all economic groups*  
9 because of the City's transition from a regional financial and economic hub. Today, most  
10 of the primary national and regional functions previously headquartered in Philadelphia  
11 have been moved to other places. It is then, not just that manufacturing has left for other  
12 countries and regions but that the core business institutions of the cities have been  
13 transferred away, or, if some remain they are no longer headquartered here. The City  
14 Controller projects a continued "decline in the City's share of economic activity relative  
15 to the United States as a whole...." The Controller also forecasts the future economic  
16 activity of City as a reflection of the national economy (rather than driven primarily by  
17 economic factors belonging to the City).<sup>12</sup> It is becoming a smaller City in population  
18 and its dependency ratio is increasing as the population ages. Because of the loss of jobs,  
19 people in the prime working ages often have to leave the City to seek economic  
20 opportunities.

21 **Q. DO YOU OBSERVE SIMILAR SHIFTS IN PAYMENT PATTERNS FOR SMALL**  
22 **BUSINESS CUSTOMERS?**

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<sup>12</sup> Office of the City Controller, City of Philadelphia, *Philadelphia, A New Urban Direction*. Philadelphia: Saint Joseph's University Press, 1999, P. 15.



1 A. Yes. Small business customers in Philadelphia are affected by the same shifts in  
2 population and economic activity because their traditional sources of customers have left  
3 the City or have less money to spend on the products and services offered by small  
4 business. Small businesses within the City continue to lose customers due, in part, to the  
5 decline of City population caused by the lack of job opportunities for persons within the  
6 prime working ages. In addition, many of the traditional customers of small businesses  
7 have migrated to the large national chains such as Wal Mart, Sears, Circuit City, Jiffy  
8 Lube, etc. While some of those large chain stores are located within the City, most are on  
9 the periphery – in the suburbs, so customers and their dollars migrate out of the City, with  
10 many jobs, leaving less money circulating within the City economy, reducing the impact  
11 of the multiplier effect, and compounding the ability-to-pay problem for residential and  
12 small business customers. Even when the “big box” stores and their counterparts are  
13 located within the City, they tend to remove net job opportunities from the City. There is  
14 a large literature on this phenomenon: each big box store destroys and/or marginalizes  
15 many small businesses, displacing local small and middle sized entrepreneurs and  
16 reducing the total number of employees. Small and middle sized businesses that  
17 managed to remain are generally weakened by a loss of customer traffic. The “big box”  
18 stores offer quality goods at lower prices, in part, because they are of sufficient size to  
19 distort markets and are thus able to force prices lower from suppliers. They also tend to  
20 be involved in a succession of labor problems – offering low prices and high efficiency at  
21 the cost of City jobs and quality of life. At the same time, small businesses have to carry  
22 part of the weight of an increasing tax burden as the cost of City services is spread across  
23 a declining tax base, thus further weakening their ability to pay their gas bills.

1           The same effect exists for gas costs: as PGW loses customers, the fixed utility  
2 costs (the overhead) are spread over a declining base, leaving each remaining customer  
3 with a larger responsibility. For PGW that impact is further exaggerated by the loss of  
4 industrial customers (the old economy) that used substantial volumes of gas and paid  
5 their bills fully and on time. Those customers, who might have mitigated the impact of  
6 today's problems on PGW, are gone.

7 **Q. FOR BOTH RESIDENTIAL AND SMALL BUSINESS CUSTOMERS, DO YOU**  
8 **HAVE ANY REASON TO EXPECT THAT PGW'S UNCOLLECTIBLE**  
9 **EXPERIENCE WILL IMPROVE DRAMATICALLY IN THE SHORT TERM?**

10 A. I have been informed that PGW is trying to improve its results by increasing and  
11 improving collection activity and procedures, as described in the testimony of Mr. Gyory  
12 in this proceeding. While I understand that PGW is hopeful that these efforts will  
13 produce benefits during the near term, they will take several years to produce dramatic  
14 results, if they ever do. The natural gas cost jumps that have caused these decreases in  
15 payments didn't happen overnight and even if gas prices return gradually to pre-spike  
16 levels it will take many months for customers to see the effects of that mitigation in their  
17 retail bills and then pay off any balances accumulated during this period. Nonetheless, it  
18 would make sense to permit PGW to track its uncollectible experience in some special  
19 mechanism at least until there is consensus that the cost spikes have mitigated for the  
20 *foreseeable future.*

Table 7: Yearly Bill & % Receipts

Bill & Receipts	
Bill (Constant \$)	% Receipts
1031	93.6%
1196	89.6%
1277	87.7%
1443	83.7%
1600	80.0%
1800	75.2%
2000	70.5%

A regression using the PGW data of record from Table 1 yields the results shown in Table 7. If the residential heating rate bill is around \$1,031, the percentage of total receipts has historically been around 94%. As a projection, if the residential bill is in the range of \$1,400 to \$1,600, total receipts will run about 84%-80%**[is this figure correct?]**. This projection is based on a ten-year trend that has no realistic prospect of being reversed substantially. It does not take into account future loss of income by the Philadelphia middle class which will tend to hold receipts down further. The combined force of increase in real price of gas and declined of real incomes across the board in the City are strong forces driven by factors outside the City. A special mechanism, such as that proposed by PGW is required to deal with this problem. In my opinion, it will deal with it directly and effectively

**Q. ARE THERE OTHER FACTORS WHICH AFFECT THE COLLECTIBILITY OF A GAS UTILITY'S BILLINGS?**

**A.** Yes. As described briefly above, the so-called winter moratorium on service terminations has a strong affect on collectibility. I support the moratorium as good public policy which protects the most vulnerable customers, but it is clear that it has an impact on

1 payment patterns. From our fairly extensive survey work we have learned that  
2 Pennsylvanians work very hard at trying to pay their bills, and at certain times of year  
3 many families with scarce resources tend to prioritize the bills that they will pay at a  
4 particular time. When utility customers know that they will not be shut off during winter,  
5 they commonly allocate resources to some other bill, postponing until spring the  
6 reckoning.<sup>13</sup>

7 There are at least two unfortunate consequences of postponing payment that are  
8 relevant to this proceeding. First, fewer payments are made to PGW during the period  
9 December 1 through March 31 which is exactly the period when PGW has to pay for the  
10 winter gas volumes it must purchase to serve its customers. Second, when the customer  
11 has to make arrangements in spring and summer to pay off the bill that accumulated  
12 during the winter, those arrears are typically paid off, if they are paid, over an extended  
13 period of time. The impact on PGW is that it must wait even longer to be made whole for  
14 the expenditures it made during the winter, with direct negative implications for its cash  
15 flow.

16 **Q. ISN'T THIS PATTERN ONE THAT IS EXPERIENCED BY OTHER UTILITIES?**

17 A. Yes, it is experienced by other utilities, but the demographics of PGW's customers are  
18 such that makes this a much more serious problem for PGW than it would be for other  
19 utilities. As I described above, PGW has many more customers in income categories that  
20 experience this problem because they have difficulty paying. As a result, the impact on  
21 PGW, among all the utilities with which I am familiar, is unique.

22 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

---

<sup>13</sup> Note that ability to pay the gas bill is a matter separate from the inelasticity of demand for heating in cold weather. Heating is not a choice, so the heating bill will be incurred.

1 A. Yes it does.

2

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SUPPLEMENTAL TESTIMONY OF  
HUGH GILBERT PEACH, PH. D.

DOCUMENT

DOCKETED  
MAY 28 2004

ON BEHALF OF  
PHILADELPHIA GAS WORKS

DOCKET NOS. R-00049157  
P-00042090  
PF Phila  
S-VI-C4

Philadelphia Gas Works

Proposed CRRC

1 SUPPLEMENTAL PEACH TESTIMONY

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Hugh Gilbert Peach and my business address is 16232 NW Oakhills Dr.,  
4 Beaverton, Oregon, 97006.

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

6 A. Yes, I have. My prior testimony is Statement No. CRRC-4, filed on behalf of the  
7 Philadelphia Gas Works on March 1, 2004.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9 A. My purpose in filing this supplemental testimony is to update two charts and related  
10 calculations contained in CRRC-4. I base these updates on better information now  
11 available.

12 **Q. WHAT IS BETTER ABOUT THE INFORMATION NOW AVAILABLE TO**  
13 **YOU?**

14 A. When I prepared CRRC-4, the information available to me included the typical bill for a  
15 PGW customer; reflected the percentage receipts from the total company customer base;  
16 and did not align the years precisely with the data. The updated information contains the  
17 average bill for a residential customer; states the percentage receipts; and aligns the years  
18 more accurately with the data. Better data yields a more reliable analysis.

19 **Q. WHAT UPDATES DO YOU HAVE?**

20 A. There are two. First, I update Table 1 from page 7 of CRRC-4 and the associated  
21 calculations. Second, I update Table 7 from page 24 of CRRC-4 and the associated  
22 calculations.

23 **Q. PLEASE DESCRIBE YOUR CHANGES TO TABLE 1 AND THE ASSOCIATED**  
24 **CALCULATIONS.**

1 A. Certainly. In my original testimony in CRRC-4, Table 1 reflected a typical PGW bill and  
 2 the overall collection percentage for the company. Since that testimony was filed, I have  
 3 been provided with updated information, which now appears in Table 2 in PGW  
 4 responses to OSBA interrogatories Set 2-17. Using the new data, and applying the  
 5 existing CPI information, I have prepared a workpaper with a revised Table 1, which is  
 6 reproduced here (and which was also previously produced in discovery):

7 Revised Table 1

**Table 1: Typical Residential Bill & Overall Percentage Receipts**

Relation of Nominal Bill and Receipts			Relation of Real Bill and Receipts			
FY	Average Bill	OPB	FY	CPI Index	OPB	Average Bill (Constant \$)
1994	919	90.0%	1994	154.6	90.0%	1122
1995	756	97.8%	1995	158.7	97.8%	899
1996	869	92.9%	1996	162.8	92.9%	1034
1997	892	97.2%	1997	166.5	97.2%	1011
1998	940	98.0%	1998	168.2	98.0%	1055
1999	937	92.1%	1999	171.9	92.1%	1029
2000	817	92.9%	2000	176.5	92.9%	874
2001	1150	88.1%	2001	181.3	88.1%	1198
2002	870	97.6%	2002	184.9	97.6%	888
2003	1301	86.6%	2003	188.8	86.6%	1301
Pearson correlation: r = -76.0%			Pearson correlation: r = -77.9%			
R-Squared = 57.8%			R-Squared = 60.6%			

Source of Data for this Workpaper: Average Bill from Exhibit JRB-3; CRPB from Exhibit JRB-4; CPI from Series CUURA102SA0.

8

9 I now substitute this revised Table 1 for the prior Table 1 on page 7 of CRRC-4. The  
 10 revised Table 1 contains the average bill for residential customers, and the cash receipts  
 11 percentage billings on an overall basis (the only data available). With this more accurate

1 information, I re-ran the regression analyses to test the relationship between the typical  
2 bill and percentage of receipts. The corresponding relationship is of a very large size. I  
3 now substitute the words "of a very large size" for the words "of a medium size" on page  
4 6, line 14 of CRRC-4. I also now substitute the new correlation values, which are 0.76  
5 and 0.78, which replace the old correlation values of 0.36 and 0.39 on CRRC-4, page 6,  
6 lines 14 and 15 respectively.

7 **Q. PLEASE DESCRIBE YOUR CHANGES TO TABLE 7 AND THE ASSOCIATED**  
8 **CALCULATIONS.**

9 A. On page 24 of CRRC-4, Table 7 was derived from Table 1 on page 7 of that testimony.  
10 With the replacement of Table 1, I prepared a worksheet for a revised Table 7, and I now  
11 also replace Table 7 from CRRC-4 . The revised Table 7 as it appears from my  
12 worksheet is reproduced here:

13 Revised Table 7

<b>Bill &amp; Receipts</b>	
<b>Bill (Constant \$)</b>	<b>% Receipts</b>
1031	93.6%
1196	89.6%
1277	87.7%
1443	83.7%
1600	80.0%
1800	75.2%
2000	70.5%

14  
15 The value for percentage of total receipts contained on CRRC-4, page 24, line 6 changes  
16 from 93% to 94%. I also performed new regression analyses from this data. The

1 previous values of 88% - 89% contained in line 7 are now changed to 84% - 80% (and  
2 align with projected bills of \$1400 and \$1600 respectively).

3 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

4 **A.** Yes, it does.

OCA Statement No. 1

pf 5-11-04 Phila

**BEFORE THE PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
DOCKET NOS. R-00049157 and P-00042090**

**EXTRA  
COPY**

**IN THE MATTER OF THE FILING OF  
PHILADELPHIA GAS WORKS  
REGARDING ITS  
2004-2005 PURCHASED GAS COST RATE AND  
CASH RECEIPTS RECONCILIATION CLAUSE**

**DIRECT TESTIMONY OF  
RICHARD W. LELASH  
ON BEHALF OF THE  
OFFICE OF CONSUMER ADVOCATE**

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SECRETARY'S BUREAU

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APRIL, 2004

PHILADELPHIA GAS WORKS  
2004-2005 PGC AND CRRC  
TESTIMONY OF RICHARD W. LELASH

TABLE OF CONTENTS

	<u>PAGE</u>
I. STATEMENT OF QUALIFICATIONS .....	1
II. SCOPE AND PURPOSE OF TESTIMONY .....	4
III. ISSUES OVERVIEW AND FINDINGS .....	6
- Regulatory Policy Considerations .....	6
- Summary of Findings and Recommendations .....	8
IV. CASH RECEIPTS RECONCILIATION CLAUSE .....	13
V. PGC AND PROCUREMENT ISSUES .....	22
- Gas Price Considerations .....	22
- Estimated Gas Costs and Credits .....	25
- Gas Price Hedging .....	30
- Gas Capacity Issues .....	41
- Forward Sale of Gas Inventory .....	45
- Assessment of PGW Procurement .....	47
VI. RESTRUCTURING COST RECOVERY .....	50
VII. SUPPORTING SCHEDULES .....	56
VIII. APPENDIX: PRIOR R.W. LELASH TESTIMONIES	

1 I. STATEMENT OF QUALIFICATIONS

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

3 A. My name is Richard W. LeLash and my business address is 18 Seventy Acre Road,  
4 Redding, Connecticut.

5 Q. WHAT IS YOUR CURRENT BUSINESS AFFILIATION?

6 A. I am an independent financial and regulatory consultant working on behalf of several  
7 state public utility commissions and consumer advocates.

8 Q. PRIOR TO YOUR WORK AS AN INDEPENDENT CONSULTANT, WHAT WAS  
9 YOUR BUSINESS AFFILIATION, AND WHAT WAS YOUR REGULATORY  
10 EXPERIENCE?

11 A. I was a principal with the Georgetown Consulting Group for twenty years. During my  
12 affiliation with Georgetown, and continuing to date, I testified on cost of service, rate  
13 of return, and regulatory policy issues in more than 260 regulatory proceedings.  
14 These testimonies were presented before the Philadelphia Gas Commission, the  
15 Federal Energy Regulatory Commission and in the following jurisdictions: Alabama,  
16 Arizona, Colorado, Delaware, District of Columbia, Georgia, Illinois, Kansas, Maine,

1 Maryland, Minnesota, Missouri, New Jersey, New Mexico, New York, Ohio,  
2 Oklahoma, Pennsylvania, Rhode Island, U.S. Virgin Islands, and Vermont.

3 Q. MR. LELASH, WHAT IS YOUR EDUCATIONAL BACKGROUND?

4 A. I graduated in 1967 from the Wharton School with a BS in Economics and in 1969  
5 from the Wharton Graduate School with an MBA.

6 Q. DURING THE COURSE OF YOUR REGULATORY WORK, WHAT HAS BEEN  
7 YOUR EXPERIENCE WITH GAS POLICY AND PROCUREMENT?

8 A. Since 1980, I have worked extensively on gas policy and procurement issues. In my  
9 Appendix there is a listing of the recent cases in which I have sponsored testimony.  
10 In addition to these cases, I have reviewed and analyzed many other gas policy filings  
11 which were resolved through stipulation. Among other issues, my testimonies have  
12 involved gas service unbundling, physical and economic bypass, gas supply  
13 incentives, gas plant remediation costs, gas price hedging, demand and capacity  
14 planning, gas storage options, gas price forecasting, and least cost gas standards. In  
15 addressing these issues, I have analyzed gas regulatory filings involving about 30  
16 different local distribution companies. During the past few years, I have worked on  
17 restructuring and unbundling matters for regulatory commissions or their staffs in

1 Georgia, Delaware, and Rhode Island and for consumer advocates in New Jersey and  
2 Pennsylvania.

3 Q. DO YOU HAVE ANY SPECIFIC EXPERIENCE WITH RESPECT TO THE  
4 OPERATIONS OF PGW?

5 A. I have participated and provided testimony on behalf of the Public Advocate in all of  
6 PGW's Purchased Gas Cost proceedings before the Philadelphia Gas Commission  
7 throughout the 1990s and in each of its subsequent proceedings before this  
8 Commission.

9 Q. DO YOU HAVE ANY SPECIFIC EXPERIENCE WITH RESPECT TO NATURAL  
10 GAS COST RECOVERY AND THE RESTRUCTURING OF NATURAL GAS  
11 DISTRIBUTION COMPANIES IN PENNSYLVANIA?

12 A. Yes, in the past I have worked on and testified on behalf of the Pennsylvania OCA on  
13 gas cost recovery concerning seven of the Pennsylvania gas distribution companies  
14 in about a dozen 1307(f) proceedings. I also analyzed and presented testimony for the  
15 OCA concerning the restructuring filings of Columbia, PECO Energy and PGW.

1 II. SCOPE AND PURPOSE OF TESTIMONY

2 Q. WOULD YOU PLEASE STATE THE SCOPE AND PURPOSE OF YOUR  
3 TESTIMONY IN THIS PROCEEDING?

4 A. I was hired by the Office of Consumer Advocate ("OCA") to review the Purchased  
5 Gas Cost ("PGC") and Cash Receipts Reconciliation Clause ("CRRC") filings made  
6 by the Philadelphia Gas Works ("PGW" or "Company") and evaluate them against  
7 established regulatory standards. My review focused on the gas costs, gas purchasing  
8 practices, and revenue recovery levels of the Company.

9 The purpose of my testimony is to present findings and recommendations to  
10 the Public Utility Commission ("PUC" or "Commission") concerning issues raised  
11 by the filings, PGW's gas procurement policy and practices, and the reasonableness  
12 of its proposed fiscal year 2004-2005 PGC factor and its implementation of the  
13 CRRC.

14 Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA SOURCES  
15 DID YOU UTILIZE?

16 A. My review and analysis encompassed the Company's related filings, responses to  
17 discovery requests, and information provided during an informal discovery meeting.  
18 I also utilized information provided in previous PGC proceedings, including those

1 before the Philadelphia Gas Commission, PGW's Restructuring Case, prior PGW  
2 Base Rate cases, and general data concerning gas procurement and related gas cost  
3 recovery issues.

4 Q. WERE THERE ANY LIMITATIONS PLACED ON YOUR REVIEW AND  
5 ANALYSIS OF THE COMPANY'S PGC AND CRRC FILINGS?

6 A. As of the time this testimony was prepared, there still were several discovery requests  
7 that had not been answered and certain data had not been updated. Accordingly, I  
8 would like to reserve the right to update and amend this testimony, upon receipt of  
9 that information, if necessary.

10 Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT  
11 SUPERVISION?

12 A. Yes, this testimony was prepared by me. However, in developing the analysis of  
13 several issues, I was assisted by Mr. Michael Bleiweis concerning certain accounting  
14 and regulatory matters. His work was done under my supervision and is incorporated  
15 into the testimony on that basis.

1 III. ISSUES OVERVIEW AND FINDINGS

2 Q. WHAT MAJOR ISSUES WILL YOU ADDRESS IN YOUR TESTIMONY IN THIS  
3 PROCEEDING?

4 A. Based on the Company's filings and the consolidation of the PGC and CRRC dockets,  
5 there are three major issues that should be addressed. The first involves operational  
6 issues and regulatory justification for the requested CRRC. The second relates to the  
7 reconciliation of gas costs, the review of PGW's procurement practices, and the  
8 setting of the prospective PGC factor. And the third involves the Company's  
9 restructuring cost recovery.

10 - Regulatory Policy Considerations

11 Q. WOULD YOU PLEASE BEGIN BY DISCUSSING THE CONTEXT FOR  
12 EVALUATING THESE ISSUES?

13 A. In a very real sense, all of these issues relate to the overall financial condition of  
14 PGW. Despite remedial efforts to improve various areas of its operation, PGW again  
15 claims to be facing a cash crisis. While the escalating level of wholesale gas prices  
16 has created added working capital requirements for all gas utilities, PGW appears to  
17 be least able to manage the situation because of its inadequate level of capital.

1           According to Mr. Bogdonavage, PGW's liquidity shortfall could reach crisis  
2 proportions at the end of the current fiscal year (Bogdonavage, page 1). While it is  
3 understood that PGW's liquidity problem relates to the demographics of its customers  
4 and their increasing inability to pay their gas bills, the imposition of additional costs  
5 through the CRRC will likely only exacerbate the Company's collection problems.  
6 As data provided by Mr. Peach shows, as the amount of a customer's gas bill  
7 increases, so does the level of uncollected revenues (Company's CRRC Response  
8 OCA-1-27).

9 Q.   OTHER THAN THE IMPACT OF HIGHER WHOLESALE NATURAL GAS  
10 PRICES, ARE THERE OTHER RELEVANT FACTORS THAT ARE  
11 CONTRIBUTING TO THE COMPANY'S IDENTIFIED PROBLEMS?

12 A.   Another major factor is the Company's lack of equity capital to fund its working  
13 capital requirements. With its debt capital restricted to capital expenditures, only the  
14 Company's short-term credit facility and City loan are available for working capital  
15 requirements, and they have consistently been utilized at their maximum limits.

16           It should also be noted that the Company's overall financial weakness has  
17 contributed to the high level of its gas bills. In that regard, the Company's forward  
18 sale of its gas inventory and its inability to fully utilize gas price hedging have

1 increased gas costs in recent months. These types of problems raise the issue of  
2 whether the Company is, in fact, following least cost gas procurement practices.

3 And finally, in this proceeding the Company is initiating the recovery of its  
4 claimed restructuring costs that add yet another cost recovery burden on PGW's  
5 customers. Accordingly, this proceeding should evaluate, in addition to the issues  
6 mentioned previously, whether the Company's resultant rates will be just and  
7 reasonable.

8 - Summary of Findings and Recommendations

9 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY CONCERNING THE  
10 COMPANY'S CRRC AND PGC FLINGS?

11 A. Based upon my review and analysis, I recommend that the Commission adopt the  
12 following findings and recommendations:

- 13 1. The Company's proposal for a CRRC should not be approved based on several  
14 considerations. A reconciliation mechanism for cash receipts has no precedent  
15 in Pennsylvania utility regulation. Furthermore, the proposed CRRC has a  
16 retroactive component that should not be subject to true-up. The measurement  
17 of uncollectible expenses is also a subjective estimate that is not subject to

1 precise measurement. As such, the expense does not readily lend itself to a  
2 reconciliation mechanism. Additionally, any rate relief associated with  
3 uncollectibles should only be authorized within the context of a full base rate  
4 investigation of all of the Company's revenues and expenses. The Company's  
5 base rates are set based on a "cash flow method" and therefore uncollectibles,  
6 which are a major element of cash flow, must be evaluated within a base rate  
7 proceeding. Since the Company's first identification of a cash flow problem  
8 in June 2003, the Company has had the ability to file a request for additional  
9 revenue. Its reluctance to do so should not be used as justification for ignoring  
10 precedent and allowing an automatic adjustment clause that is at variance with  
11 several regulatory principles.

- 12 2. If the Commission were to approve the proposed CRRC, two adjustments  
13 should be made to the recoverable amount. First, the amortization of  
14 uncollectible costs for the year ended August 31, 2004 should be eliminated  
15 because recovery of such costs would constitute retroactive ratemaking.  
16 Second, the recoverable amount should be reduced by the \$18 million City  
17 Payment. These two adjustments will reduce the proposed CRRC factor from  
18 \$0.7947 down to \$0.2908.

- 1           3.     The Company's derivation of its purchased gas costs and proposed recovery  
2           factor appear reasonable. However, the Company should be required to update  
3           its prior cost reconciliations and its forecasted gas costs in its September 1,  
4           2004 compliance filing, and that updated data should be the basis for any final  
5           recovery rates.
- 6           4.     The Company's gas price hedging has been constrained by its overall financial  
7           position. PGW is not authorized, and therefore does not use, financial hedges,  
8           and many of its hedged price positions were not taken over time in order to  
9           moderate the impact of spikes in the market price of gas. Prospectively, the  
10          Company should follow more specific hedging guidelines that would have a  
11          minimum hedged volume component and would require that hedge positions  
12          be established over a longer time horizon.
- 13          5.     The Company's on-going problems with its LNG Expander project need to be  
14          resolved. The delay in completing the project has resulted in shortfalls in  
15          available LNG inventory which have limited supply flexibility and lessened  
16          the Company's ability to make transactions in the secondary market. In  
17          addition to the problems with the LNG Expander, the Company also has  
18          experienced problems with its vaporization equipment's on-going capacity.

1           These problems are adversely affecting PGW's gas costs and the PGC rates  
2           paid by its customers.

3           6.     PGW's overall design day gas supply has between a 10% and 15% reserve.  
4           With the Company's stable demand requirements, this reserve margin is  
5           excessive, and the Company should be required to develop a program in order  
6           to make more transactions in the secondary market, or it should seek to realign  
7           its capacity closer to its forecasted demand, thereby reducing its overall fixed  
8           gas costs.

9           7.     During the past year, the Company entered into forward sales of its gas  
10          inventory. This transaction, along with previous inventory liquidations, was  
11          designed to obtain incremental working capital rather than to meet operational  
12          requirements or lower overall gas costs. While these transactions were  
13          required to address working capital shortfalls, they are not compatible with  
14          least cost procurement.

15          8.     Overall, because of several procurement-related problems or deficiencies, it  
16          cannot be concluded that the Company is fulfilling least cost gas procurement  
17          requirements. Its hedging limitations, inability to complete the Expander

1 project, lack of actions to gain incremental gas costs credits, and financing or  
2 conversion of gas inventories, when taken together, have led to higher than  
3 necessary gas costs.

4 9. Under the provisions of the Natural Gas Choice and Competition Act ("Act")  
5 in order to recover restructuring costs, the expenditures had to be incremental  
6 and be directly related to the restructuring requirements of the Act. In  
7 addition, such costs had to be shown to be reasonable, and resulting rates had  
8 to be just and reasonable. In its filing, the Company fails to show that such  
9 provisions were met. Indeed, the Company made no effort, beyond providing  
10 a listing of its expenditures and their claimed amounts, to show their  
11 qualification for recovery or their reasonableness. Accordingly, the  
12 Commission should maintain the current restructuring surcharge rate and defer  
13 the review of the restructuring activities until the next PGC proceeding. At  
14 that time, the Company should file a reconciliation of past costs and  
15 recoveries, detailed data on its restructuring costs, and justification for the  
16 recovery of such costs through the surcharge mechanism.

1 IV. CASH RECEIPTS RECONCILIATION CLAUSE

2 Q. WOULD YOU PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S  
3 CRRC PROPOSAL?

4 A. The Company, once again, is seeking an extraordinary regulatory response in order  
5 for it to be able to survive its "precarious financial position" (CRRC Petition, page 2).  
6 Its collection rate recently has been below 87%, and with the historically high  
7 wholesale natural gas prices, the Company claims that resultant customer bills have  
8 led to increased uncollectibles.

9 In order to address its problem, the Company proposes that its uncollectible  
10 expense should be capped at the level set in its last fully litigated base rate case and  
11 that it be allowed to bill for any receipts deficiency above that cap level. It contends  
12 that, in addition to effectively turning a specified level of uncollectibles into a  
13 regulatory asset, such a CRRC mechanism will ensure that its credit rating will remain  
14 stable and it will continue to be able to raise necessary additional debt.

15 Q. IS SUCH A CRRC PROPOSAL A REASONABLE WAY TO ADDRESS THE  
16 COMPANY'S UNCOLLECTIBLES AND ITS CASH FLOW DEFICIENCY?

17 A. No, it is not. As a first observation, the Company is regulated on a cash flow basis.  
18 As such, its base rates are set in order to meet its expenses and cash working

1 requirements under its bond covenants. Under such a regulatory framework, the  
2 logical and appropriate mechanism to address cash flow problems is in a base rate  
3 proceeding. Its cash flow method of setting base rates is not a framework that was  
4 imposed by the Commission upon the Company, rather it was sought and supported  
5 by the Company itself. As such, any cash flow deficiencies should be addressed  
6 within a base rate case context or its overall regulatory oversight will be negated.  
7 Cash flow deficiencies addressed outside the base rate setting process on an ad hoc  
8 basis disrupts the regulation of this Company given its cash flow method of setting  
9 rates.

10 In the current situation, the Company's proposed CRRC would begin to yield  
11 incremental revenues starting in September of this year. Had the Company sought a  
12 base rate increase when it first believed that it had a cash flow problem, it would have  
13 been able to receive any necessary rate relief well before the September timeframe.  
14 Thus, the Company failed to utilize its own advocated methodology of rate setting.

15 As past experience has shown, PGW has a history of avoiding necessary rate  
16 increases until such time as it precipitates what must be characterized as a financial  
17 crisis. At that point, the Company justifies the need for a rate increase on maintaining  
18 its bond rating and effectively transfers blame to the bond rating agencies and bond  
19 lenders. This pattern appears to be repeating itself in the current instance.

1 Q. FROM A REGULATORY PERSPECTIVE, WHAT PROBLEMS ARE  
2 ASSOCIATED WITH THE PROPOSED CRRC MECHANISM?

3 A. The proposed CRRC represents a material deviation from the long established  
4 precedent of providing for recovery of uncollectible expense through base rates. The  
5 proposed CRRC is to be “established as a non-bypassable clause to be charged to all  
6 firm transportation or sales customers as part of the distribution rate” (CRRC Petition,  
7 page 13). Thus, uncollectible expense will still be a component of base rates.  
8 However, under PGW’s CRRC proposal, the Company wants to carve out a single  
9 component of base rates – uncollectible expense – and make it subject to annual  
10 reconciliation. This is a clear departure from the way that base rates have historically  
11 been treated in Pennsylvania. The establishment of a CRRC constitutes “piecemeal”  
12 ratemaking which is not allowed within rate setting. Such automatic base rate  
13 expense adjustments should not be allowed.

14 Automatic adjustment clauses are also typically limited to specifically  
15 identified expenses that are not under the control of management, and therefore  
16 should be subject to a true up mechanism. In the case of the CRRC, neither of these  
17 conditions would be met. Uncollectible levels, while partially affected by variables  
18 such as wholesale gas price levels are still largely within the control of the Company.  
19 Additionally, the CRRC proposal, while providing for rate increases when collections

1 fall below the specified level, does not provide for rate decreases if collections were  
2 to be above the level.

3           Additionally, an automatic adjustment clause, such as the CRRC, can remove  
4 incentives for the Company to limit its level of uncollectibles. This is of a particular  
5 concern because PGW has had a history of poor performance when it comes to billing  
6 and collections. While the levels of wholesale natural gas prices are beyond the  
7 Company's control, better uncollectible recovery procedures, more effective gas price  
8 hedging strategies, and greater customer enrollment in budget billing plans and  
9 conservation programs can all effectively reduce uncollectibles as they do for other  
10 gas distribution utilities. A mechanism for automatic recovery of uncollectibles  
11 would remove much of the incentive to pursue such alternative courses of action.

12 Q. IN ITS PETITION AT PAGE 16, THE COMPANY STATES THAT "SEVERAL  
13 STATES HAVE ALREADY ESTABLISHED UNCOLLECTIBLE ADJUSTMENT  
14 TRACKERS FOR UTILITIES TO ADJUST THEIR UNCOLLECTIBLE OR BAD  
15 DEBT EXPENSE ALLOWANCE." DOES THIS INDICATE THAT  
16 REGULATORY COMMISSIONS ARE NOW AUTHORIZING METHODS LIKE  
17 THE CRRC?

18 A. No, it does not for several reasons. First, the mechanisms that have been authorized  
19 generally involve the operations of Atmos Energy or operations in Ohio. Second, the

1 mechanisms are not comparable concerning the scope of the recovery, their  
2 relationship to customer choice programs or percentage of income programs, and their  
3 associated true-up requirements. Third, the jurisdictions' definitions of recoverable  
4 fuel costs and the regulations involving such cost recovery differ between utilities and  
5 states, and it is unclear that they would be applicable in Pennsylvania. The long  
6 established precedent for the Philadelphia Gas Commission, the Pennsylvania PUC,  
7 and the vast majority of other state utility commissions is to set uncollectible and bad  
8 debt allowances within the context of base rate or budgeting proceedings.

9 Q. DO THE HIGH LEVELS OF WHOLESALE NATURAL GAS PRICES  
10 POTENTIALLY JUSTIFY THE USE OF MECHANISMS THAT WOULD  
11 OTHERWISE NOT CONFORM TO REGULATORY PRACTICE?

12 A. No. The current high wholesale gas prices and the overall gas price volatility are not  
13 new to the gas industry, nor will today's prices necessarily continue at this level.  
14 During the winter of 2000-2001 wholesale gas prices (as measured by Henry Hub  
15 monthly closing levels) were as high as \$9.79 per Dth. However, by October of 2001,  
16 wholesale prices were back down to \$1.89 per Dth and they averaged \$2.53 per Dth  
17 for the November 2001 to March 2002 period. Similarly, wholesale prices that  
18 reached \$9.28 per Dth in March of 2003 fell back to \$4.49 by November of that year.

1           While the demographics of PGW's customer base may show a  
2 "disproportionate number of lower income households and struggling small business"  
3 (CRRC Petition, page 3), yet another rate increase through a CRRC is clearly not the  
4 answer. The Company should be required to file with the Commission a  
5 comprehensive evaluation of other alternative ways to address its working capital  
6 problems. In recent proceedings: downgrading of the Company's bond rating was  
7 averted by provisions for a reduction in short-term borrowing; collection rates,  
8 uncollectibles and bad debt expenses were reviewed in detail; and a weather  
9 normalization clause was implemented to reduce or eliminate weather related revenue  
10 risk. And yet the Company's financial position is still in peril. Alternative actions  
11 must be evaluated before a potentially counter-productive CRRC is considered.

12           PGW's rates for gas service are already too high as evidenced by its historical  
13 92% collections percentage which is dramatically lower than the collection  
14 percentages for other gas distribution utilities. Adding yet another charge to the  
15 Company's distribution rate is only going to exacerbate the situation. If PGW's drop  
16 off in collections "can be associated with historically high natural gas rates" (Petition,  
17 page 2), it is highly unlikely that the addition of a CRRC will solve the collection  
18 problem. Even at current levels, a high percentage of PGW's customers cannot pay  
19 their gas bills even with the availability of various assistance programs, and PGW's

1 gas costs may not be as low as they could be if its hedging, supplemental gas supplies,  
2 and interstate pipeline resources (including storage) were utilized more effectively.

3 Q. ARE THERE OTHER ASPECTS OF THE CRRC THAT YOU BELIEVE  
4 INDICATE THE COMPANY'S PROPOSAL SHOULD NOT BE APPROVED?

5 A. Yes. In my opinion, the Company's proposed measurement of uncollectibles is  
6 flawed and is not a reasonable basis for any kind of surcharge. The Company's  
7 proposed charge is to be based on billings and receipts for a period. Such a  
8 measurement will reflect changes in the accounts receivable balance but not in  
9 uncollectibles. If billings were to exceed receipts, the impact would be an increase  
10 in receivables. Whether that increase would ultimately increase uncollectible amounts  
11 is not known. In effect the Company's proposed surcharge would be based on  
12 estimates and not upon actual changes in uncollectibles.

13 While the accounts receivable level is relevant to the Company's receipts and  
14 cash flow, it must be remembered that the CRRC is to reflect variation from a  
15 benchmark level of uncollectibles. Indeed, the very benchmark uncollectible  
16 proposed by the Company is, itself, not appropriate. Mr. Bogdonavage's direct  
17 testimony at page 11 states that "PGW in its most recent fully litigated base rate  
18 proceeding had a \$55.7 million uncollectible expense allowance incorporated in  
19 rates." However, since that fully litigated base rate case, PGW has been in for a

1 subsequent base rate case. The last base rate proceeding authorized an increase of  
2 \$36 million in total revenues. However, that amount was associated with a "black  
3 box" settlement that did not explicitly or implicitly set any level of uncollectible  
4 expense. Rather, the amount was based on numerous cost of service elements  
5 including requirements to refund short-term debt, cover pensions and a host of other  
6 expense estimates. To say that a \$55.7 million uncollectible allowance was approved  
7 in a fully litigated base rate proceeding two rate cases ago, and then to use it as a  
8 benchmark for an automatic adjustment clause, is totally inappropriate and  
9 unreasonable.

10 Q. DO YOU HAVE ANY OTHER COMMENTS WITH RESPECT TO THE CRRC?

11 A. It should be noted that, in the event the Commission were to approve the CRRC, the  
12 amount that was filed by the Company, \$47 million, would require adjustment. The  
13 Company's proposed recovery of a claimed receipts shortfall for the 12 months  
14 ending August 31, 2004 would constitute retroactive ratemaking. Therefore, the  
15 Company's calculated \$34.3 million amount and its three year amortization of \$11.4  
16 million should be excluded from any authorized CRRC.

17 Also, on April 1, the Philadelphia City Council passed a resolution concerning  
18 the proposed CRRC. In addition to stating its opposition to the CRRC, the City  
19 Council stated that "should the PUC approve PGW's CRRC petition despite Council's

1 opposition, Council requests the PUC to require that, in calculating the approved  
2 CRRC surcharge amount to be assessed to customers in any fiscal year, the dollar  
3 amount of the annual payment to the City by PGW be deducted from the otherwise  
4 applicable 'Total Recovery Amount' under the CRRC for that fiscal year . . ." It is  
5 my understanding that the City has now agreed not to collect its \$18 million payment  
6 for the next five years. Accordingly, it is recommended that were the CRRC to be  
7 adopted, the calculated recovery amount should be reduced by \$18 million, and the  
8 City's equity amount should be increased by a similar amount.

9 On Schedule 1, the derivation of the Company's CRRC is shown along with  
10 an adjusted derivation. Excluding the amortization of any 2003-2004 shortfall  
11 reduces the net CRRC amount from \$46.7 million down to \$35.2 million. A second  
12 adjustment to reflect a credit for the City Payment of \$18.0 million further reduces the  
13 CRRC amount down to \$17.2 million. Using the Company's volume estimate then  
14 yields a surcharge of \$0.2908 rather than the Company's requested \$0.7947.

15 Nevertheless, I would reiterate my basic position that, even with these  
16 modifications, the CRRC should not be accepted. In my view, the CRRC should be  
17 rejected in its entirety.

1 V. PGC AND PROCUREMENT ISSUES

2 - Gas Price Considerations

3 Q. DURING RECENT MONTHS GAS PRICES HAVE BEEN ESCALATING TO  
4 HISTORICALLY HIGH LEVELS. WHAT EFFECT DOES SUCH ESCALATION  
5 HAVE ON UTILITIES' GAS PROCUREMENT?

6 A. Based on the Henry Hub benchmark prices, there has been a 138% increase in prices  
7 from 1999 to 2004. Currently, the NYMEX futures has an average price of \$5.66 per  
8 Dth for the full year 2004, as shown on page 1 of Schedule 2. Given this price  
9 escalation, along with the associated extreme price volatility, most gas utilities are  
10 reassessing their procurement objectives and strategies.

11 The gas price movement has also affected the availability of lower cost gas  
12 supplies for summer injections into storage. While historically storage gas supplies  
13 provided a hedge against high winter prices, the narrowing, or elimination, of the peak  
14 vs. non-peak price differentials may be reflecting a major shift in the pricing structure  
15 of natural gas. In 1999, the Henry Hub average monthly pricing for the storage  
16 injection period of April through October was \$2.40 per Dth. For the same period  
17 during 2003, the average pricing was \$5.28 per Dth. These 2003 price levels show

1 that summer, or off-peak, wholesale gas prices are currently as high and as volatile  
2 as those for the peak winter period.

3 Q. HAVE YOU ANALYZED ANY DATA WHICH SHOWS THE EXTENT OF THE  
4 INCREASE IN WHOLESALE NATURAL GAS PRICES?

5 A. Page 2 of Schedule 2 shows the comparative monthly prices for natural gas at the  
6 Henry Hub. This is the pricing basis for the futures and options which are traded on  
7 the New York Mercantile Exchange (NYMEX). As the data illustrates, the five year  
8 average annual wholesale gas prices ranged between \$2.27 and \$5.40 per Dth during  
9 the period.

10 However, the data shown on this schedule also illustrates several pricing  
11 related issues that have to be considered when seeking to forecast gas prices and  
12 utilize price hedging. While wholesale gas prices have reached historically high  
13 levels, their volatility represents an even more significant risk to gas utilities and their  
14 customers. By way of illustration, the prices during February and March, for the last  
15 three years, highlight the risk. In 2001, these prices averaged \$6.02 per Dth. In 2002,  
16 they averaged \$2.23 per Dth, and in 2003 their average was \$7.39 per Dth.

17 Based on this data, hedge positions taken during 2002, for gas to be purchased  
18 in 2003, saved customers substantial gas costs. However, the same cannot be said  
19 about hedge positions taken in early 2001, for gas to be purchased in 2002. Even with

1 hindsight, it is difficult to discern the factors that are controlling the wholesale gas  
2 prices. While industry storage levels, gas demand, and weather are major factors,  
3 there are other less obvious supply and demand factors as well as speculation that  
4 make price forecasting extremely difficult.

5 Q. WHAT HAS BEEN THE IMPACT OF ESCALATING WHOLESAL NATURAL  
6 GAS PRICES ON GAS UTILITIES SUCH AS PGW?

7 A. Over the past three to four years the gas price trend has increased both gas expenses  
8 and the amount of working capital that is required to finance storage inventories and  
9 accounts receivable. It has also made it far more difficult to hedge gas prices in an  
10 effective and economical way.

11 By way of example, it is useful to look at PGW's fuel expenses over the past  
12 four years. Because of changes related to the Company's restructuring and the impact  
13 of the CRP and conservation programs, the Company's annual estimated fuel expense  
14 over time gives the best indicator of the impact of wholesale natural gas price levels.  
15 As of the second quarter of 2000, PGW's fuel costs were estimated at \$226 million.  
16 By the second quarter of 2001 the cost had increased to \$415 million, but then it  
17 declined to \$315 million during the second quarter of 2002 reflecting a temporary  
18 decline in wholesale gas prices.

1 In last year's PGC filing the Company's fuel expense had again increased to  
2 \$362 million, and in the current filing the estimated amount has grown to \$445  
3 million. Thus, over the four year period the fuel expense increased by \$219 million  
4 which represents a change of 97%. This increase in gas costs, not surprisingly, is  
5 linked to several issues that need to be addressed in this proceeding. Specifically, the  
6 Company's gas price hedging activities, its forward sale of gas inventory, and, of  
7 course, its pending proposal for a CRRC.

8 - Estimated Gas Costs and Credits

9 Q. IN YOUR REVIEW, DID YOU EVALUATE THE ESTIMATED COSTS THAT  
10 ARE INCLUDED FOR RECOVERY IN THE 2004-2005 PGC, AND WHAT ARE  
11 YOUR FINDINGS?

12 A. For the most part, the Company's overall gas cost estimates appear reasonable.  
13 However, it should be noted that, with wholesale gas prices being as volatile as they  
14 are and given the fact that the Company has not yet hedged any of its price risk, there  
15 could be considerable variation in the actual costs incurred. Nothing in my review  
16 indicated that the gas cost estimates were unreasonable given the current NYMEX  
17 strip prices through August 2005. Nonetheless, the final PGC rate should be updated  
18 based on pricing closer to the September 1 implementation date taking into

1 consideration any hedge positions that the Company may take during the spring and  
2 summer.

3 Q. WITH RESPECT TO THE VARIOUS NON-FUEL COMPONENTS, WERE  
4 THOSE ESTIMATES EQUALLY REASONABLE?

5 A. Within the Company's filing it has utilized an unaccounted for gas percentage of  
6 4.0% based on the five PGC periods ending August 2003. While it could be argued  
7 that the inclusion of 1999-2000 data, which shows a 6.3% unaccounted for gas level,  
8 distorts the five year average, the end result still appears reasonable. This is true  
9 because the 6.3% was associated with the billing system problems and was, in large  
10 part, offset by the 2.5% in the subsequent year. Thus, billings which were not made  
11 in 1999-2000 may have been "made up" during the next year.

12 Q. WHAT OTHER ISSUES HAVE YOU IDENTIFIED ASSOCIATED WITH THE  
13 COMPANY'S DETERMINATION OF ITS PGC FACTOR?

14 A. Within the PGC rate determination, the Company is required to offset forecasted gas  
15 costs with the margins received from capacity release, off-system sales, and  
16 interruptible sales. Historically, the Company omitted the off-system sales margins  
17 on the basis that they are speculative, and it had not included interruptible margins

1 because they were credited to base rates. In the prior PGC proceeding the  
2 Commission Order stated:

3 PGW shall calculate credits for capacity release and gross off-system  
4 sales using a three year rolling average beginning in the 2005-2006  
5 GCR period. Lesser periods will be used during the preceding GCR  
6 periods until three years of data exists beginning with data from the  
7 2002-2003 GCR period.

8 On Schedule 3, the data for the three sources of margin is shown for preceding  
9 years including the actual/estimated amounts for 2003-2004. According to the  
10 Commission's Order, the last two actual/estimated amounts (or updated actuals when  
11 available) should be the basis for the 2004-2005 estimates.

12 Q. HOW DID THE COMPANY FORECAST THE THREE MARGIN AND CREDIT  
13 AMOUNTS?

14 A. The Company has forecasted capacity release credits and off-system sales margins  
15 based on the average of the 2002-2003 and 2003-2004 amounts. However, the  
16 Company's supporting schedules need an explanation of how the numbers were  
17 derived. On Schedule 4 of its filing, the Company has combined the off-system sales  
18 margins with the capacity release credits. With respect to the Interruptible Revenue  
19 Credit ("IRC"), in its filed Schedule 1, the \$3.337 million credit does not match the  
20 prior year amount. The difference stems from the fact that in the prior year

1 reconciliation filing, Schedule 6, the Company shows an IRC amount of \$5.138  
2 million vs. its current actual/estimated forecast of \$4.237 million. The difference of  
3 \$0.901 million is the amount of the expected shortfall in the IRC expected for the  
4 year. This forecast, and the underlying methodology is accurate, but the Company  
5 should show actual IRC recoveries on its final reconciliation and not make any  
6 adjustment to that number for its forecast since the difference would be reflected in  
7 the final over/under recovery balance.

8 Q. IN THIS FILING THE COMPANY HAS ALSO MADE CHANGES TO ITS  
9 DISTRIBUTION RATE FOR THE UNIVERSAL SERVICE AND ENERGY  
10 CONSERVATION CLAUSE. WOULD YOU PLEASE DISCUSS THE FORECAST  
11 FOR THIS SURCHARGE?

12 A. The Universal Service and Energy Conservation Clause contains three components  
13 plus a reconciliation amount for any over or under collection from the prior year. The  
14 first component is the Conservation Works Program estimate of \$2.000 million. This  
15 amount is compatible with the average for the three prior years of \$2.004 million and  
16 therefore is considered to be reasonable.

17 The second component is the Customer Responsibility Program ("CRP")  
18 which is estimated to be \$51.888 million for 2004-2005. In order to check the current  
19 forecast, a comparison was made, on Schedule 4, between the data for the last two

1 years. Only these two years are comparable because within the restructuring  
2 proceeding the formula for the CRP discounts was changed. As the data shows, the  
3 Company has forecasted an increase in CRP discounts (before LIHEAP deductions)  
4 from \$54.442 million to \$57.965 million in the upcoming year.

5 This increase appears to be small (6.5%) when contrasted to the year-to-year  
6 forecasted gas costs of \$362 million for 2003-2004 vs. \$445 million for 2004-2005,  
7 or an increase of 22.9%. In addition, the forecasted decrease in discounts for Tier 1  
8 customers and the increase of Tier 3 customers from one year to the next does not  
9 appear to be internally consistent.

10 The last component of the Universal Service and Energy Conservation Clause  
11 is the Senior Citizen Discount. This discount is forecasted to be \$18.7 million in  
12 2003-2004 and is forecasted to decrease to \$17.9 million in 2004-2005 despite the  
13 increase in gas costs. Again, the decline does not appear to be consistent with the gas  
14 cost trend, but it may reflect the modifications made to the Senior Citizen program  
15 and the Company's efforts to verify customer eligibility.

16 Q. BASED ON YOUR ANALYSIS, SHOULD THE COMMISSION MODIFY THE  
17 OVERALL LEVEL OF THE UNIVERSAL SERVICE AND ENERGY  
18 CONSERVATION CLAUSE SURCHARGE FROM THE LEVEL PROPOSED BY  
19 THE COMPANY?

1 A. Not at this time. It should be remembered that the 2003-2004 costs are only actual  
2 through December 2003 and therefore the data still has eight months of estimated  
3 amounts. Taking this into consideration, the Commission should base the forecasted  
4 Universal Service and Energy Conservation Surcharge on updated data at least  
5 through the end of June. With such data the trends in CRP and Senior Citizen  
6 discounts should be more apparent and revised estimates may be appropriate.

7 - Gas Price Hedging

8 Q. WOULD YOU BEGIN BY DESCRIBING THE LEVEL OF HEDGING THAT HAS  
9 BEEN DONE BY PGW DURING THE MOST RECENT TWO YEARS?

10 A. Schedule 5 provides data on the Company's purchased gas volumes, the volumes that  
11 were price hedged, and the percentage of hedged purchases. As shown, during FY  
12 2002-2003 the Company claims that about 60% of its purchases were price hedged.  
13 For FY 2003-2004 the Company claims that slightly higher volumes were hedged  
14 during the first half of the year (72%), while in the second half only about 35% were  
15 hedged.

1 Q. WHAT WERE THE OVERALL RESULTS OF THE HEDGING ACTIVITY IF THE  
2 POSITIONS' WEIGHTED AVERAGE COST OF GAS WAS COMPARED TO THE  
3 MARKED TO MARKET COST?

4 A. The monthly gains and losses on the hedged positions between November 2002 and  
5 January 2004 are shown on Schedule 6. For the 14 months, the Company saved \$13.6  
6 million, however, those total savings can be attributed to March 2003. All of the  
7 other months combined had a total loss of \$6.7 million. These results show the  
8 protection afforded to the Company by hedging for months when there may be a  
9 significant price spike in wholesale natural gas prices. It also illustrates the fact that  
10 because of changing gas price trends, hedged positions can yield significant and  
11 frequent losses.

12 Q. BASED ON THE COMPANY'S HEDGING TRANSACTIONS AND THE  
13 RESULTANT OVERALL COST SAVINGS, HOW WOULD YOU EVALUATE  
14 THE CURRENT PROGRAM?

15 A. Obviously the gas cost savings for ratepayers was a positive element in the  
16 Company's recent hedging activities. However, my review did identify several  
17 weaknesses in the Company's overall hedging program. First, and perhaps foremost,  
18 the Company acknowledges that its current financial position limits its ability to  
19 utilize financial hedges. In addition, the Company has yet to seek approval from

1 either the Philadelphia City Council or the Philadelphia Gas Commission in order to  
2 be able to utilize financial hedge positions.

3 The lack of financial hedging limits the Company's ability to use price caps,  
4 no cost collars, and secondary hedge positions. For example, if the Company has  
5 locked in prices for physical purchases and the wholesale market prices begin to  
6 decrease, a certain portion of price risk can be eliminated by taking a secondary  
7 position against the physical price commitment. Such secondary positions are  
8 typically taken with the use of financial positions.

9 A second weakness is that the Company is really not price hedging the volumes  
10 that are shown on Schedule 5. Rather than taking hedge positions over a longer  
11 period of time to obtain an average market rate for its gas, the Company has "hedged"  
12 significant volumes just before the month of use. For example, all of its hedge  
13 positions for April 2003 were taken less than 20 days before the end of March.  
14 Similarly, the hedge positions for July 2003 were all taken between June 10 and June  
15 26. These transactions should not be considered to be price hedges in the traditional  
16 sense. It should also be noted that such "last minute" hedges were not limited to the  
17 non-peak purchase requirements. For its January 2003 purchases 1.7 million Dth  
18 were hedged during the last three weeks of December 2002.

19 A third weakness in the Company's hedging program relates to the fact that it  
20 is continuing to take the vast majority of its hedge positions during the second and

1 third quarters of the year. By taking hedge positions during a limited time period,  
2 these positions will not reflect the longer term average market prices. This is a  
3 particular weakness given that wholesale gas prices appear to be establishing a trend  
4 for sustained high levels during those two quarters of the year.

5 Q. OVERALL, WHAT DO THESE HEDGING CHARACTERISTICS INDICATE  
6 CONCERNING THE COMPANY'S CURRENT HEDGING PROGRAM?

7 A. Based on my review, the Company's hedging strategy has to be modified in order to  
8 better reflect the current gas demand and supply relationship and wholesale gas price  
9 trends. In addition, the Company should not be allowed to let its overall financial  
10 condition adversely affect its procurement function and ultimately the price its  
11 customers have to pay for gas.

12 Q. GIVEN THE UNCERTAINTIES CONCERNING PROSPECTIVE CONDITIONS  
13 IN THE NATURAL GAS MARKET, WHAT CHANGES SHOULD BE MADE TO  
14 PGW'S EXISTING HEDGING PROGRAM?

15 A. Based upon the wholesale gas price volatility that has been experienced during the  
16 past three years, it is appropriate that PGW's gas price hedging program be  
17 reevaluated and, in some respects, be modified. The consideration of hedging  
18 changes, while impacted by the price volatility, is driven also by the apparent

1 mismatch between natural gas supply and demand, the current level of wholesale gas  
2 prices, and the volatility in price differentials between winter and summer gas prices.

3 These factors have caused other gas utilities to redefine their hedging objectives and  
4 strategies and, it is believed, that a similar reevaluation is timely for PGW.

5 In order to address the more current trends in wholesale gas supply and prices,  
6 it is proposed that the Company adopt a revised hedging strategy that incorporates the  
7 following three equal program components:

8 1. A non-discretionary component of hedging which would be taken on a dollar  
9 cost averaging basis and would constitute the minimum level of hedging which  
10 would be taken for any period. This component would pro rate the hedging for  
11 purchase requirements over a 12 to 18 month period and would be taken  
12 without regard to anticipated price trends. It would be used for approximately  
13 one-third of the Company's purchase requirements.

14 2. A second component of hedging would be done on a discretionary basis using  
15 some potential triggering guidelines. For this component, the timing and the  
16 amount of the hedge positions would be at the Company's discretion based on  
17 its evaluation of price trends and other considerations. However, it is  
18 suggested that the expected PGC commodity cost could be utilized to

1 determine when, and in what volume amounts, discretionary hedge positions  
2 would be taken. Thus, while it is envisioned that the discretionary hedging  
3 would be set at one-third of the Company's defined purchase requirements,  
4 prevailing commodity cost levels could be used to determine how much of the  
5 one-third would be ultimately hedged. Were wholesale commodity costs  
6 relatively low, then 33% of volume might be hedged while a lesser volume  
7 percentage might be hedged were gas prices relatively high.

- 8 3. The last component of the hedging would follow a stated policy of having  
9 approximately one-third of the Company's purchases made at market rates,  
10 most likely at first of the month index. This component would, in effect,  
11 hedge the remainder of the hedging program. During periods of falling  
12 wholesale natural gas prices, this component would help stabilize the  
13 Company's overall weighted average cost of gas and offset hedge positions  
14 that might have been taken at higher prices.

15 Q. WHY DO YOU BELIEVE THAT SUCH A REVISED HEDGING STRATEGY  
16 WOULD BE BENEFICIAL FOR THE COMPANY'S CUSTOMERS?

17 A. It is anticipated that such an overall hedging strategy would be effective in stabilizing  
18 gas costs charged to customers and would temper the impact of sharp price

1 movements. Assuming that equal proportions are used for the three components, the  
2 resulting gas prices should approximate market rates over time with a considerable  
3 dampening of impact from unexpected price movements. This strategy is not  
4 intended to, nor would it seek to, obtain lower than market rates over time.

5 The proposed strategy would address several of the more recent trends in gas  
6 pricing. Specifically, it would cover gas that is injected into storage, thereby  
7 maintaining the natural hedging characteristic of storage inventories. It would also  
8 extend the hedging horizon so that resultant gas costs would reflect market prices over  
9 more than a two year period. In effect the strategy would be responsive to any market  
10 price trend. With rising gas prices, the hedged components would lessen purchases  
11 at higher levels, while the non-hedged component would lower purchase gas costs  
12 during periods of falling prices.

13 Furthermore, PGW claims that one of the factors driving its uncollectible  
14 expense is volatile gas prices. By implementing a proper hedging strategy, PGW will  
15 remove some of the volatility in its PGC rate and thus help to stabilize customers'  
16 monthly bills. This will enable households to better budget utility expenses during  
17 this period of high natural gas costs.

1 Q. IS GAS PROCUREMENT AT "MARKET RATES" APPROPRIATE FOR GAS  
2 UTILITIES WITH ON-GOING OBLIGATIONS TO PROVIDE ESSENTIAL GAS  
3 SUPPLY SERVICE?

4 A. With increasing competition in the gas supply market, it is necessary that the sales  
5 customers of gas utilities not be harmed by the existence of volatility in the wholesale  
6 gas market. Under competition, non-regulated firms routinely utilize some price  
7 hedging if their businesses rely on the purchase of commodities. While utilities have  
8 not historically done the same, the competitive natural gas market requires that they  
9 do so now. While wholesale gas prices are set at the market rate, the timing of the  
10 purchases is critical to the reasonableness of the procurement transactions.  
11 Prospectively, gas utilities cannot rely solely on indexed supply or physical hedges for  
12 gas and have the presumption that such purchases are prudent.

13 Q. IN REVISING PGW'S SPECIFIC GAS PURCHASING PROGRAM, WHAT ARE  
14 THE ASSOCIATED REGULATORY IMPLICATIONS?

15 A. A revision of any gas price hedging program has implications for both the  
16 Commission and the Company. From the Commission's perspective, specification  
17 of any program does not constitute pre-approval of procurement or hedging activities.  
18 Rather, a gas purchasing program provides a framework for the Company's  
19 procurement.

1           From the Company's perspective, the framework provides specification of  
2           *objectives and strategies for procurement along with reduced risk associated with*  
3           regulatory review. Consequently, a utility should not be punished for following the  
4           non-discretionary component of an approved hedging plan. The prudence of  
5           purchases made in accordance with the plan, however, is still subject to review.

6 Q.    ARE THERE ANY OTHER ASPECTS OF YOUR PROPOSED REVISION TO  
7        THE COMPANY'S HEDGING PROGRAM?

8 A.    With respect to the non-discretionary component of the hedging, there are several  
9        associated provisions. *The hedging of 33% of purchases should be a mandatory*  
10       minimum for hedging, and it should be done during at least the 18 months prior to the  
11       month of use. Subject to there being sufficient liquidity in the market, the Company  
12       would fix the price each month for 1/18 of the purchase requirements for each of the  
13       succeeding 18 months. In this way, the total non-discretionary hedges for each month  
14       would reflect the average market rate for the preceding 18 months. If hedging for any  
15       given month was not possible, then the subsequent monthly purchases would be  
16       adjusted accordingly in order to achieve the 33% level over the remaining months.

17           As for the discretionary component of the hedging, it would be the objective  
18       that these transactions would be based on the Company's assessment of future prices  
19       and would not be subject to any specified mechanism or limitation beyond the 33%

1 of purchases limit. From a regulatory review perspective, the Company may wish to  
2 establish some specific triggering benchmarks that could be used for setting the  
3 positions and could be used as a reference point for any regulatory oversight or  
4 review.

5 Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING THE COMPANY'S  
6 HEDGING PROGRAM?

7 A. Yes, it is appropriate to briefly discuss the use of financial vs. physical hedges within  
8 PGW's program. Most gas utilities utilize financial hedges as part of an overall  
9 hedging program. However, in last year's Settlement, it was stated that, "PGW will  
10 not participate in financial hedging until it has been approved by the Philadelphia  
11 Facilities Management Corporation and the City of Philadelphia." While it is  
12 understood that such approvals are a prerequisite for the utilization of financial  
13 hedging, the Company has failed to seek the necessary approval for several years. At  
14 this time, the Company should be directed to pursue the necessary approval from  
15 PFMC and the City of Philadelphia.

16 Q. WHY IS PGW'S LACK OF FINANCIAL HEDGING A PROBLEM IF IT  
17 CONTINUES TO UTILIZE PHYSICAL HEDGES?

1 A. As a general matter, financial hedges offer more versatility to a hedging program  
2 since they can be taken separate and apart from physical procurement. For example,  
3 if the Company had locked in the price on some of its physical supply and then there  
4 was a decrease in the futures prices, the Company would be able to use financial  
5 hedges for secondary transactions that would bring the overall hedge positions down  
6 to the lower market prices.

7 Financial hedges are also utilized to cap future pricing by the use of call  
8 options or collar transactions. In instances when protection against price spikes is  
9 indicated, out of the money call options or no cost collars can be utilized to gain price  
10 protection at a relatively low cost. At a minimum, financial hedges add flexibility to  
11 the hedging process and, given the current very high price volatility, are an effective  
12 hedging alternative.

13 For these reasons, PGW should seek to obtain the necessary approvals for the  
14 use of financial hedges with the understanding that specific limits may be placed on  
15 such authorization. Then, at least under such conditions, PGW would be able to  
16 utilize some financial hedges as part of its overall program.

1        - Gas Capacity Issues

2    Q.    WHAT IS THE CURRENT STATUS OF THE LNG EXPANDER PROJECT, AND  
3        WHAT IMPACT HAS IT HAD ON AVAILABLE GAS SUPPLY?

4    A.    According to the Company, the modified Expander began testing as of March 1 of this  
5        year after additional repairs had been performed by the contractor. If this testing is  
6        not successful, then the contractor would need to make further modifications and  
7        successful testing would have to be done by December 15, 2004 (Company Response  
8        OCA-1-11).

9                The Expander project, which initially was scheduled to be in-service as of  
10        March 2002, has been delayed for more than two years. Beyond the issue of contract  
11        performance and possible litigation, there are also issues concerning the operation of  
12        the LNG facility and its impact on overall gas costs. At the current time, the faulty  
13        Expander and its on-going testing and modification, as well as identified problems  
14        with the older heaters used for vaporization, are adversely affecting PGW's gas costs  
15        and the rates its customers have to pay for gas.

16                As acknowledged by the Company, the testing for the Expander has not  
17        allowed the Company to fill the LNG tanks at Richmond prior to the start of the  
18        heating season. As shown on page 1 of Schedule 7, the November levels of LNG  
19        storage in 2002 and 2003 were 10% to 15% below the level for 2001. Using 2003 as

1 an example, at the end of the injection period LNG storage was planned to be 4.360  
2 million Mcf vs. the actual level of 3.775 reached in December 2003 (Company  
3 Response OCA-1-36 from Docket No. R-00038173). The shortfall of 585,000 Mcf  
4 reduced the Company's gas resources and/or eliminated possible margins from off-  
5 system gas supply transactions. In either event, potential gas cost savings or cost  
6 offsets to reduce customers' gas bills were lost.

7 Additionally, the Company's inability to finish the Expander project and have  
8 the facility work at required capacity has gone beyond reasonable limits. The  
9 Expander project was undertaken in order to allow PGW to be able to inject into LNG  
10 storage throughout the winter season. This injection capability would add to the  
11 Company's operational flexibility and would allow potential gas supply transactions  
12 that would have previously not been possible. Instead, the Company has spent the last  
13 two years trying to bring on line what should have been a relatively straight forward  
14 equipment replacement.

15 Q. WITH RESPECT TO THE COMPANY'S OVERALL GAS DEMAND AND  
16 SUPPLY, ARE ITS CAPACITY CONTRACTS PROPERLY MATCHED AGAINST  
17 ITS ESTIMATED DESIGN DEMAND REQUIREMENTS?

18 A. Based on an analysis of the Company's demand and supply estimates, the Company  
19 currently has excess capacity. Page 2 of Schedule 7 provides data on the Company's

1 supply resources relative to its forecast design day gas requirements. The major  
2 variable in the schedule relates to the LNG capacity that was 434 MMcf in 2003, will  
3 be 406 MMcf during 2004 because of the downgrading of the Richmond heater  
4 capacity and will increase up to 455 MMcf in 2005 with the installation of a new  
5 heater.

6 As the schedule shows, PGW has had, and will have at the end of this year,  
7 11.5% to 13.6% excess design day capacity. While less than 5% of excess capacity  
8 is the norm in the industry, PGW, with its no growth service territory, continues to  
9 carry more than 10% excess design day gas supply resources. This is capacity that  
10 should be utilized to obtain gas cost offsets or be managed to lower overall fixed  
11 capacity costs.

12 Q. WHAT ACTIONS SHOULD THE COMPANY TAKE IN ORDER TO ADDRESS  
13 ITS CAPACITY RELATED ISSUES?

14 A. First, and foremost, the Company has to resolve its problems with its Expander  
15 project. The Company's LNG capacity has historically been viewed as its "crown  
16 jewel", and its value should be maintained by resolving this long standing problem.  
17 Certainly, the Expander project and problems associated with vaporization equipment  
18 must be fixed before the planned second phase of the LNG upgrade is undertaken or  
19 there is planning for any LNG shipping or barging initiative.

1           Second, the Company should investigate the potential of entering into a  
2 capacity management agreement or, at least, a collaborative effort with a gas trading  
3 firm in order to maximize its capacity release, off-system sales, and storage arbitrage  
4 margins. Typically, greater value can be obtained from capacity resources if they are  
5 managed within the context of a larger capacity pool. The Company's off-system  
6 sales volumes have been very low, and it has yet to obtain meaningful revenues from  
7 its LNG capacity. If the current capacity is to be retained, and, in the case of the  
8 LNG, enhanced, then PGW needs to become far more proactive in its activities in the  
9 secondary market.

10           Third, absent such secondary market activity, the Company should seek to  
11 reduce the cost of its fixed capacity resources by better tailoring its capacity to its  
12 demand requirements. With an enhanced LNG facility, the Company should be able  
13 to reconfigure its pipeline transportation and storage contracts.

14           In order to evaluate and implement these types of capacity related alternatives,  
15 the Company needs to successfully complete its LNG upgrade, develop a capacity  
16 utilization strategic plan, and then present such a plan to its regulators for input and  
17 approval.

1 - Forward Sale of Gas Inventory

2 Q. WOULD YOU PLEASE DESCRIBE WHAT HAS BEEN REFERRED TO AS A  
3 FORWARD SALE OF GAS INVENTORY?

4 A. During 2003, the Company entered into a storage arrangement in which the Company  
5 sold 3 million Dth of storage gas to a third party for \$15 million and agreed to make  
6 five monthly payments beginning in December 2003 for 600,000 Dth at a rate of  
7 \$5.42 per Dth. This effectively was a sale and repurchase of Company gas that was  
8 entered into in order to alleviate the Company's cash flow shortfall.

9 According to the Company's response to OCA-3-11, the transaction had a net  
10 cost of \$390,000. As part of the transaction, PGW realized a loss on the sale of  
11 \$2,040,000 due to the fact that the cost of the storage gas was \$5.68 per Dth vs. the  
12 sales price of \$5.00 per Dth. The derivation of both the claimed transaction-cost and  
13 the loss on the initial sale are shown on Schedule 8.

14 Q. WAS THIS STORAGE ARRANGEMENT OR TRANSACTION APPROVED BY  
15 EITHER THE PHILADELPHIA GAS COMMISSION OR THE PHILADELPHIA  
16 CITY COUNCIL?

1 A. It is my understanding, from the record in the Company's 2004 Consolidated Budget  
2 Review, that the Company did not seek approval from either the Philadelphia Gas  
3 Commission or the City Council for this transaction.

4 Q. WERE YOU ABLE TO VERIFY THE COSTS ASSOCIATED WITH THE  
5 REFERENCED STORAGE TRANSACTION?

6 A. No, it is unclear from the Company's Response OCA-3-11 whether PGW was  
7 required to repurchase inventory at first of the month index instead of at the \$5.42 per  
8 Dth rate. The discovery response states, "Additionally, PGW agreed to allow the third  
9 party to sell PGW natural gas at Station 65 based on first of the month pricing on any  
10 given day during the 5 month period . . . (A volume of 15,000 Dth/day)."

11 Also, according to the Hearing Examiner's Recommended Decision in the  
12 Company's 2004 Consolidated Budget Review, the Company has indicated that while  
13 the \$390,000 of interest on this transaction would not be recovered through PGW's  
14 Gas Cost Rate, the Company did intend to take the \$2.040 million loss on the sale of  
15 inventory as an under recovery in its Gas Cost Rate (Recommended Decision, page  
16 10, footnotes 10 and 11).

17 Q. BASED ON YOUR REVIEW, WHAT IS THE SIGNIFICANCE OF THIS  
18 FORWARD SALE OF GAS INVENTORY?

1 A. Transactions, such as this forward sale, that are made to address cash flow  
2 considerations rather than achieve least cost procurement, should not be allowed to  
3 increase the cost of gas within the PGC mechanism. Accordingly, the Company  
4 should be required to fully document all costs associated with the forward sale, as  
5 well as the rate treatment for such costs, and if “financing costs” have been included  
6 within the PGC recovery, they should be disallowed.

7 - Assessment of PGW Procurement

8 Q. BASED ON YOUR REVIEW OF PGW’S GAS PROCUREMENT, DOES THE  
9 COMPANY FULFILL THE PERFORMANCE CRITERIA WHICH ARE  
10 GENERALLY APPLICABLE FOR GAS PROCUREMENT?

11 A. Generally, the Company has taken several steps to maintain or improve its overall gas  
12 procurement. It was one of the first gas utilities in the Commonwealth to begin  
13 utilizing gas price hedging to lessen the effects of wholesale gas price volatility,  
14 although, as noted earlier, the Company’s hedging program needs to be modified to  
15 be more effective. It has also managed its gas portfolio and procurement in order to  
16 ensure on-going gas supply reliability.

17 The Company is not affiliated with any pipeline or gas supply operation, nor  
18 does it have any contracts for local production. Accordingly, the Company is not

1 able, in the traditional sense, to withhold from the market any gas supplies which  
2 should be part of a least cost gas procurement program. In the one context where  
3 PGW does have discretion concerning supply utilization, that being its use of storage  
4 inventories, it has not historically withheld storage gas from use.

5 Additionally, PGW has typically represented its ratepayers in proceedings at  
6 the FERC. Its Federal Regulatory Affairs Department has monitored FERC  
7 proceedings and has intervened in several cases where the litigation might affect  
8 PGW's ratepayer interests. In the past, the Company has intervened and filed  
9 comments in Transco, Texas Eastern, ANR, CNG, and Equitrans matters and has also  
10 participated in some rulemaking proceedings, and on occasion it has filed Petitions  
11 for Review to challenge certain FERC Opinions and Orders.

12 However, at this time it cannot be said that the Company has fulfilled all of the  
13 requirements of least cost gas procurement. Presumably, because of its continuing  
14 financial problems, the Company has taken procurement related actions that have not  
15 been compatible with least cost procurement. The forward sale of gas inventories,  
16 *limitations on price hedging, failure to optimize its LNG resources, inadequate*  
17 *capacity management and/or capacity marketing in the secondary market, and*  
18 *instances of storage utilization based on cash flow rather than gas cost considerations*  
19 *have all led to higher than necessary gas costs.*

1 All of these procurement problems have, in turn, compounded the Company's  
2 underlying financial problems by making its gas supplies increasingly unaffordable  
3 to a significant portion of its customers. From purely a gas procurement perspective,  
4 the Company needs to do a better job and it must be emphasized by the Commission  
5 that financial limitations are not valid grounds for a waiver from established  
6 procurement standards.

1 VI. RESTRUCTURING COST RECOVERY

2 Q. PLEASE DESCRIBE THE NATURE AND AMOUNT OF THE COMPANY'S  
3 CLAIM FOR RECOVERY OF ITS RESTRUCTURING COSTS.

4 A. On Schedule 14 of its filing, the Company provided a summary of the restructuring  
5 and FOI costs for which it seeks recovery. The total of both the expenses and capital  
6 costs for FY 2003 and 2004 is estimated to be \$14.1 million. When amortized over  
7 varying periods, the proposed recovery of costs equals approximately \$3.7 million per  
8 year.

9 Unfortunatly, only \$1.4 million of this amount is based on actual  
10 expenditures, while \$2.3 million are actual/estimated amounts for the current year.  
11 This schedule also contains estimates of future expenditures through August 31, 2008  
12 of an additional \$5.8 million. With respect to descriptions of the amounts, the  
13 Company on Schedule 14 provided general descriptions of the entities paid or the  
14 identification of the expenditure type.

15 Because of the limited information provided on Schedule 14 and the fact there  
16 was no testimony provided to discuss the nature of the activities, a discovery request  
17 was submitted which stated, "With respect to the Restructuring Costs shown on  
18 Schedule 14, please provide supporting documentation for the costs that comprise the  
19 basis for the Fiscal Year 2004 surcharge. The response should provide a description

1 of the underlying tasks that were performed and their relationship to the restructuring  
2 effort. The response should be sufficiently detailed to demonstrate the reasonableness  
3 of each item of restructuring cost claimed for recovery in Fiscal Year 2004.”

4 The Company’s response to this request was a one page attachment (see  
5 Schedule 9) which provided a one sentence description of the general nature of each  
6 activity. For example, \$4.6 million of expenditures were described as “Billing system  
7 enhancements to PGW’s BCCS system in support of PGW’s restructuring effort.” In  
8 my opinion, this answer did not show whether the expenditures were reasonable,  
9 necessary or incremental.

10 Subsequently, in response to OSBA discovery requests, the Company provided  
11 a comparison of restructuring costs as submitted in the restructuring case vs. those  
12 contained in the current filing. It also stated that PGW personnel review vendor  
13 invoices, and that a sampling of pertinent invoices could be compiled or billing  
14 records and vendor invoices could be made available for inspection at PGW’s  
15 headquarters. But the Company still has not provided a specific breakdown of costs  
16 to demonstrate that they are restructuring related and incremental to costs already  
17 being recovered in rates.

1 Q. IN THE RESTRUCTURING PROCEEDING, WHAT WERE THE GUIDELINES  
2 THAT WERE IDENTIFIED FOR THE RECOVERY OF RESTRUCTURING  
3 COSTS?

4 A. It was recognized that the recovery of restructuring costs was specified within the  
5 Natural Gas Choice and Competition Act ("Act"). Section 2212(h) of the Act  
6 specifically addresses the recovery of restructuring costs for a city natural gas  
7 distribution operation such as PGW. In addition, Section 2211(b) of the Act provides  
8 that the Company may seek recovery of incremental costs associated with the  
9 requirements of the Act from ratepayers. These two sections of the Act, therefore,  
10 require that restructuring related costs should be incremental and be directly related  
11 to the restructuring requirements of the Act. They also require that such claimed costs  
12 be reasonable and that resulting rates are just and reasonable.

13 Within that proceeding it was stated that some procedure needed to be adopted  
14 in order to provide a reconciliation concerning any surcharge levels that may be  
15 implemented and the procedure should provide for periodic review of the nature,  
16 amount and reasonableness of costs claimed for recovery through the surcharge. A  
17 question was also raised as to whether the Act authorizes the recovery of restructuring  
18 costs, which are on-going in nature, through the Restructuring Surcharge for an  
19 indefinite period in the future. It was also stated that the Commission should require  
20 annual reviews of expenditures related to the restructuring and USC surcharges.

1 These reviews would provide a venue to ensure that all claimed costs are appropriate  
2 for recovery, reasonable, and are reconciled with surcharge revenues.

3 And finally, it was noted that the use of a Restructuring Surcharge was a  
4 departure from traditional rate recovery. As a reconcilable recovery mechanism, any  
5 associated activities are not subject to the same inherent incentives which are  
6 associated with base rate recovery. Conceptually, with a surcharge mechanism the  
7 Company has an incentive to include as many costs as possible, thereby increasing its  
8 income derived from base rates. For this reason, it is necessary to insure that no  
9 "business as usual" costs involving such claimed activities as advertising, legal and  
10 consulting fees, or information systems, are recovered through the surcharge. Given  
11 the magnitude of on-going, as well as restructuring and PUC compliance activities  
12 and costs, the Commission should specifically assign the burden of proof to the  
13 Company to demonstrate that all costs recovered through the surcharge are  
14 incremental and solely the result of restructuring and compliance requirements.

15 Q. BASED ON THE ACT'S PROVISIONS AND THE ISSUES RAISED IN THE  
16 RESTRUCTURING PROCEEDING, DO YOU BELIEVE THAT THE COMPANY  
17 HAS PROVIDED SUFFICIENT EVIDENCE TO SHOW THE  
18 REASONABLENESS OF ITS CLAIMED RESTRUCTURING COSTS? ..

1 A. No, I do not. There is no practical way to determine whether the claimed expenses  
2 were incurred solely for restructuring activities, there was no evidence provided as to  
3 whether various contractors were hired based on competitive bids, and there is no way  
4 to determine whether on-going costs are truly incremental to the Company.

5 It certainly was envisioned, at the time of the restructuring proceeding, that the  
6 Company would meet its burden of proof by providing fairly detailed documentation  
7 on its restructuring costs. Based on the material provided in this proceeding, there  
8 really is no way to determine if the envisioned restructuring cost recovery criteria  
9 have been satisfied.

10 Q. GIVEN THE SITUATION, WHAT DO YOU RECOMMEND CONCERNING THE  
11 RECOVERY OF RESTRUCTURING COSTS?

12 A. At this time, it is recommended that the Restructuring Surcharge be maintained at its  
13 current level and that the rate and the reconciliation of prior expenditures and  
14 recoveries be deferred until next year's PGC proceeding. At that time, there will be  
15 actual data for the 12 months ended August 31, 2004 and a full reconciliation of  
16 recoveries and a more accurate forecast of prospective expenses will be possible. It  
17 is also my understanding that the timing of restructuring related activities may be  
18 delayed, and therefore, far better information will be available next spring to set the  
19 surcharge prospectively. Accordingly, the Commission should specify that the

1 Company should file complete supporting documentation on both past and future  
2 restructuring related costs so that the parties have a meaningful opportunity to  
3 evaluate the underlying activities and the appropriateness of the recovery of  
4 associated costs through the surcharge. The Commission should also reserve the  
5 parties' rights to challenge all restructuring and FOI expenditures in next year's PGC  
6 proceeding.

7 Q. MR. LELASH, DOES THIS CONCLUDE YOUR TESTIMONY IN THIS  
8 MATTER?

9 A. Yes, it does.

\*78814

VII. SUPPORTING SCHEDULES

Philadelphia Gas Works  
CRRC Calculation  
(\$ millions)

	<u>Company</u>	<u>Adjusted</u>
<u>2004-2005 Forecast</u>		
Gas Billings	\$ 826.0	\$ 826.0
Projected Receipts (89.0% of Billings)	<u>735.1</u>	<u>735.1</u>
Receipts Shortfall	\$ 90.9	\$ 90.9
Less: Base Rate Allowance	<u>55.7</u>	<u>55.7</u>
Net Receipts Shortfall	\$ 35.2	\$ 35.2
<u>2003-2004 Estimate</u>		
Gas Billings	\$ 818.4	\$ 0
Projected Receipts (89.0% of Billings)	<u>728.4</u>	<u>0</u>
Receipts Shortfall	\$ 90.0	\$ 0
Less: Base Rate Allowance	<u>55.7</u>	<u>0</u>
Net Receipts Shortfall	\$ 34.3	\$ 0
Three Year Amortization	<u>11.4</u>	<u>0</u>
<u>Proposed CRRC Amount</u>	\$ 46.7	\$ 35.2
Less: City Payment Offset	<u>-</u>	<u>18.0</u>
Net CRRC Amount	\$ 46.7	\$ 17.2
Firm Volumes	59,145	59,145
Surcharge Factor	\$0.7947	\$0.2908

SOURCE: Bogdonavage Testimony, pages 11 and 12 and PGC Filing, Schedule 10.

Philadelphia Gas Works  
Future vs. Prior 5 Year Prices  
(dollars per Dth)

	<u>5 Prior Years</u>	<u>2004</u>	<u>Difference</u>
January	\$4.29	\$6.15	\$1.86
February	3.78	5.78	2.00
March	4.21	5.15	0.94
April	3.73	5.40	1.67
May	3.85	5.50	1.65
June	4.03	5.57	1.54
July	3.76	5.62	1.86
August	3.46	5.65	2.19
September	3.69	5.62	1.93
October	3.65	5.64	1.99
November	4.09	5.82	1.73
December	4.79	5.99	1.20
Average	\$3.94	\$5.66	\$1.72

SOURCES: Schedule 1, page 2 and INO.com NYMEX quotes, March 29, 2004.

Philadelphia Gas Works  
Henry Hub - 3 Day Close  
(dollars per Dth)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	\$1.80	\$2.34	\$9.79	\$2.68	\$4.86
February	1.81	2.60	6.94	2.07	5.50
March	1.64	2.68	5.09	2.38	9.28
April	1.88	2.83	5.44	3.42	5.10
May	2.35	3.11	4.86	3.57	5.36
June	2.23	4.37	4.35	3.35	5.84
July	2.28	4.54	3.34	3.38	5.25
August	2.62	3.79	3.27	2.94	4.70
September	2.90	4.64	2.42	3.46	5.02
October	2.55	5.30	1.89	3.77	4.72
November	3.06	6.32	2.45	4.11	4.49
December	2.14	9.79	3.06	4.22	4.73
Averages	\$2.27	\$4.36	\$4.41	\$3.28	\$5.40

SOURCE: Standard & Poor's DRI, Monthly Natural Gas Price Outlook and Global Insight, Natural Gas Monthly (various editions).

Philadelphia Gas Works  
Comparable Gas Cost Credits  
(\$000's)

	<u>Capacity Release</u>	<u>Off-System</u>	<u>Interruptible</u>	<u>Total</u>
1999-2000	\$2,310	\$ 282	\$ -	\$2,592
2000-2001	2,030	1,580	-	3,610
2001-2002	3,348	20	-	3,368
2002-2003	2,711	1,237	-	3,948
2003-2004 A/E	2,361	0	4,237	6,598
Commission Methodology	\$2,536	\$ 619	\$4,237	\$7,392
2004-2005 Forecast	\$2,536	\$ 619	\$4,237	\$7,392
Prior Year Margin Shortfall	<u>-</u>	<u>-</u>	<u>(901)</u>	<u>(901)</u>
Adjusted 2004-2005 Forecast	\$2,536	\$ 619	\$3,336	\$6,491

SOURCES: PGC Filings Schedules 1, 4, 6 and 13.

Philadelphia Gas Works  
CRP Actuals and Estimates  
(000's)

	<u>Customers</u>	<u>CRP Revenue</u>	<u>GS Rates</u>	<u>Discounts</u>	<u>Discount Per Customer</u>
<u>Actual-Estimated for 2003-2004</u>					
Tier 1 - 8% of Income	178	\$ 6,793	\$ 32,603	\$ 25,810	\$1,740
Tier 2 - 9% of Income	355	26,301	52,985	26,684	902
Tier 3 - 105 of Income	<u>150</u>	<u>16,727</u>	<u>18,676</u>	<u>1,949</u>	<u>156</u>
Total Discounts	683	\$49,821	\$104,264	\$ 54,442	\$ 956
LIHEAP Grants				<u>(6,879)</u>	<u>(121)</u>
Net CRP Cost				\$ 47,563	\$ 835
 <u>Actual-Estimated for 2004-2005</u>					
Tier 1 - 8% of Income	182	\$ 7,093	\$ 27,588	\$ 20,495	\$1,351
Tier 2 - 9% of Income	364	27,281	55,717	28,436	937
Tier 3 - 105 of Income	<u>154</u>	<u>15,851</u>	<u>24,883</u>	<u>9,032</u>	<u>704</u>
Total Discounts	700	\$50,224	\$108,189	\$ 57,965	\$ 993
LIHEAP Grants				<u>(6,078)</u>	<u>(104)</u>
Net CRP Cost				\$ 51,887	\$ 889

SOURCE: Company Response to PGC OCA-2-2, Revised Attachment.

Philadelphia Gas Works  
Hedged Gas Purchases - 2002-2003  
(000's Dth)

	<u>Purchases</u>	<u>Hedged</u>	<u>Hedged % Purchases</u>
September, 2002	4,563	2,940	64.4%
October	6,346	3,043	48.0
November	8,060	3,750	46.5
December	8,425	3,875	46.0
January, 2003	8,314	5,611	67.5
February	<u>7,924</u>	<u>5,488</u>	69.3
Sub-Total	46,632	24,707	56.6%
March, 2003	7,956	3,875	48.7%
April	5,880	3,030	51.1
May	6,610	3,658	55.3
June	5,249	3,750	71.4
July	2,168	1,860	85.8
August	<u>4,708</u>	<u>3,565</u>	75.7
Sub-Total	32,571	19,738	60.6%
Totals	76,203	44,445	58.3%

SOURCES: Company's Response to PGC Request OCA-1-1.

Philadelphia Gas Works  
Hedged Gas Purchases - 2003/2004  
(000's Dth)

	<u>Purchases</u>	<u>Hedged</u>	<u>Hedged % Purchases</u>
September, 2003	5,399	4,350	80.5%
October	6,248	5,115	81.9
November	7,115	4,947	69.5
December	9,038	6,140	67.4
January, 2004	9,777	6,140	62.8
February	<u>6,526</u>	<u>5,019</u>	76.9
Sub-Total	44,103	31,711	71.9%
March, 2004	7,576	4,342	57.3%
April	7,097	1,980	27.9
May	6,350	2,046	32.2
June	4,970	1,980	39.8
July	4,938	2,046	41.4
August	<u>4,970</u>	<u>-</u>	0.0
Sub-Total	35,901	12,394	34.5%
Totals	80,004	44,105	55.1%

SOURCES: Company's Response to PGC Request OCA-1-1.

Philadelphia Gas Works  
Hedging Gains and Losses  
(000's)

	<u>Dth Volume</u>	<u>Per Dth</u>	<u>Gain or (Loss)</u>
November 2002	3,750	\$ 0.38	\$ 1,410
December	3,875	0.18	695
January, 2003	5,611	(0.69)	(3,853)
February	5,488	1.18	6,485
March	3,875	5.25	20,347
April	3,030	(0.46)	(1,389)
May	3,658	(0.38)	(1,391)
June	3,750	-	(10)
July	1,860	(0.70)	(1,299)
August	3,565	(0.24)	(849)
September	4,350	(0.06)	(270)
October	5,115	(0.65)	(3,331)
November	4,947	(0.57)	(2,832)
December	6,140	(0.57)	(3,483)
January 2004	<u>6,140</u>	0.55	<u>(3,404)</u>
Totals	65,154	-	13,634

SOURCE: Company Response OCA-1-3.

Philadelphia Gas Works  
LNG Storage Volumes  
(000's Mcf)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	2,550	3,969	1,343
February	2,257	3,771	986
March	1,350	3,572	875
April	1,234	3,507	1,053
May	1,156	3,445	1,554
June	1,777	3,386	1,939
July	2,250	3,319	2,344
August	2,836	3,260	2,666
September	3,409	3,260	3,151
October	3,907	3,647	3,630
November	4,216	3,629	3,738
December	4,145	2,950	3,775

SOURCES: Company Response OCA-1-22 and Response OCA 1-3 (Docket No. R-00038173).

Philadelphia Gas Works  
Design Day Capacity  
(MMcf)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Transco	219.0	219.0	219.0
Texas Eastern	<u>227.3</u>	<u>227.3</u>	<u>222.4</u>
Total Pipeline	446.3	446.3	441.4
LNG	<u>434.0</u>	<u>406.0</u>	<u>455.0</u>
Total Supply	880.3	852.3	896.4
Firm Demand	789.2	789.2	789.2
Supply Reserve	91.1	63.1	107.2
Reserve Percentage	11.5%	8.0%	13.6%
LNG Design Requirement	342.9	342.9	342.9
LNG % of Capacity	79.0%	84.5%	75.4%

SOURCE: Company Responses PGC OCA-1-11, PGC OCA-3-9, and OTS-1-34 (Docket No. R-00038173)

Philadelphia Gas Works  
Forward Sale of Gas Inventory

	<u>Amounts</u>	<u>Calculation</u>
1. August Sale of Inventory Volume (Dth 000's)	3,000	-
2. Sale Price Per Dth	\$ 5.00	-
3. Proceeds From Inventory Sale (\$000's)	\$15,000	L1xL2
4. Inventory Cost Per Dth	\$ 5.68	-
5. Cost of Gas Sold (\$000's)	\$17,040	L1xL4
6. Loss on Sale of Inventory	\$ 2,040	L3-L5
7. Repurchase Cost per Dth	\$ 5.42	-
8. Repurchase Cost of Gas (\$000's)	\$16,260	L1xL7
9. Repurchase Premium	\$ 1,260	L8-L3
10. Claimed Repurchase Discount per Dth	\$ 0.29	-
11. Claimed Repurchase Discount	\$ 870	L1xL10
12. Net Repurchase Premium	\$ 390	L9-L11

SOURCES: Company Response OCA-3-11, and the Recommended Decision in PGW's 2004 Consolidated Budget Review Before the Philadelphia Gas Commission, page 10, footnote 11.

**RESPONSE TO OFFICE OF CONSUMER ADVOCATE DATA REQUEST**  
**REGARDING PGW'S ANNUAL GCR FILING (1307f)**  
**DOCKET NO. R-00049157**

**Question OCA-Set 2-6:** With respect to the Restructuring Costs shown on Schedule 14, please provide supporting documentation for the costs that comprise the basis for the Fiscal Year 2004 surcharge. The response should provide a description of the underlying tasks that were performed and their relationship to the restructuring effort. The response should be sufficiently detailed to demonstrate the reasonableness of each item of restructuring cost claimed for recovery in Fiscal Year 2004.

**Response Provided By:** Joseph R. Bogdonavage, Senior Vice President - Finance

**Response:** Please see the attached schedule OCA Set 2 - 6 attachment.

**PHILADELPHIA GAS WORKS**  
**RESTRUCTURING COSTS**

<u>General Start-Up</u> <u>Operating Costs</u>	<u>Expenditures</u> <u>Through 8/31/03</u>	<u>Description</u>
<b>Legal:</b>		
Wolf Block	\$ 382,171.00	Legal representation, preparation and filing of documentation re. PGW's restructuring filing with the PaPUC.
<b>Consulting:</b>		
RJ Rudden	113,882.00	Preparation and documentation of Cost of Service Study re. PGW's restructuring filing.
Pinkerton	153,887.00	Review of PGW's IT workflows and systems in support of PGW's restructuring effort including JAD sessions.
Gil Peach	136,200.00	Review of PGW's Low Income Program with recommendations in support of PGW's restructuring effort.
Deloitte Consulting	28,172.00	Review PGW's Accounting and Cost Allocation Systems with recommendations in support of PGW's restructuring effort.
New Energy	194,853.00	Perpetual licensing and annual maintenance fee for software applications and expenses in support of PGW's restructuring effort.
Accenture	1,864,156.00	Assistance in development, design and implementation of PGW's Gas Choice pilot and full Choice programs and the FOI.
EPOS Corp.	23,600.00	Development of IVR application for release of customer information re. Gas Choice.
Total	<u>2,514,750.00</u>	
<b>Advertising:</b>	64,132.00	Customer Gas Choice advertising, printing, radio and cable.
<b>PGW Gas Choice Training</b>		
Incremental Labor	169,440.00	Incremental overtime requirements for CSR personnel training re. Customer Gas Choice.
<b>Customer Education &amp; Postage</b>	139,334.00	Development of brochures, bill inserts and outreach for describing customer Gas Choice and postage costs.
<b>Safety Training / Operator Qualification Training</b>	810,311.00	Includes \$78,000 start up costs and \$794,000 first year costs. Ongoing costs estimated at \$600,000 annually.
<b>Miscellaneous:</b>	504.00	
Total	<u>\$ 4,080,642.00</u>	
3 Year Amortization	<u>\$ 1,360,214.00</u>	
<b><u>General Start-Up</u></b>	<b><u>Expenditures</u></b>	
<b><u>Capital Costs</u></b>	<b><u>Through 8/31/04</u></b>	
<b># 792082 - \$1.0 M</b>		
Web Site Design / EBB	\$ 1,068,096.00	Development of Web Site and EBB software applications and equipment hardware re. PGW's restructuring effort.
<b># 787101 - \$1.3 M</b>		
BCCS Phase 1 Gas Choice / Enhancements	1,810,940.00	Billing system enhancements to PGW's BCCS system in support of PGW's restructuring effort.
<b># 787102 - \$2.3 M</b>		
BCCS Phase 2 Gas Choice / Enhancements	2,332,502.00	Billing system enhancements to PGW's BCCS system in support of PGW's restructuring effort.
<b># 787103 - \$.5 M</b>		
BCCS PUC Compliance Consolidated Bill	500,000.00	Billing system enhancements to PGW's BCCS system in support of PGW's restructuring effort.
Total	<u>\$ 5,711,538.00</u>	
5 Year Amortization	<u>\$ 1,142,307.60</u>	

The Field Operations Initiative costs projected for FY 2004 are associated with PGW's street and field operations and the impact of compliance with PUC regulations as part of PGW's overall approved restructuring filing. These costs are only the component associated with compliance with PUC regulations and not the full cost of the Initiative.

VIII. APPENDIX: PRIOR R.W. LELASH TESTIMONIES

R. W. LELASH'S REGULATORY TESTIMONIES  
(1999 to Present)

212. Georgia, Cumberland Pipeline Investigation (Docket No. 10064-U) Regulatory Policy Testimony for East Tennessee Natural Gas Company (March, 1999).
213. New Jersey, Generic Unbundling Proceeding (Docket No. GX99030121) Gas Policy Testimony for the New Jersey Division of the Ratepayer Advocate (July, 1999).
214. New Jersey, Public Service Electric & Gas Company (Docket No. GO99030124) Gas Unbundling Testimony for the New Jersey Division of the Ratepayer Advocate (July, 1999).
215. Philadelphia Gas Commission, Philadelphia Gas Works (2000 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (September, 1999).
216. New Jersey, Generic Unbundling Proceeding (Docket No. GX99030121) Gas Policy Surrebuttal Testimony for the New Jersey Division of the Ratepayer Advocate (September, 1999).
217. New Jersey, Public Service Electric & Gas Company (Docket No. GO99030124) Gas Unbundling Surrebuttal Testimony for the New Jersey Division of the Ratepayer Advocate (September, 1999).
218. Pennsylvania, Columbia Gas of Pennsylvania, Inc. (Docket No. R-00994781) Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (October, 1999).
219. Pennsylvania, Columbia Gas of Pennsylvania, Inc. (Docket No. R-00994781) Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (October, 1999).
220. Rhode Island, Narragansett Electric Company et al. (Docket No. 2930) Merger Policy Testimony for the Rhode Island Department of Attorney General (November, 1999).
221. Delaware, Delmarva Power & Light Company (Docket No. 99-425F) Evaluation of Price Hedging Testimony for the Delaware Public Service Commission (December, 1999).
222. Rhode Island, Narragansett Electric Company et al. (Docket No. D-99-12) Merger Policy Testimony for the Rhode Island Department of Attorney General (December, 1999).
223. Pennsylvania, PECO Energy Company (Docket No. R-00994787) Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (January, 2000).
224. Pennsylvania, PECO Energy Company (Docket No. R-00994787) Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (February, 2000).
225. Rhode Island, Providence Gas Company and Southern Union (Docket No. D-00-3) Merger Policy Testimony for the Rhode Island Division of Public Utilities and Department of Attorney General (May, 2000).
226. Philadelphia Gas Commission, Philadelphia Gas Works (2001 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (August, 2000).
227. Rhode Island, Providence Gas Company (Docket No. 1673) Price Stability Plan Testimony for the Rhode Island Division of Public Utilities (September, 2000).

228. Pennsylvania, Philadelphia Gas Works (Docket No. R-00005654) Interim Base Rate Testimony for the Pennsylvania Office of Consumer Advocate (September, 2000).
229. Pennsylvania, Philadelphia Gas Works (Docket No. R-00005619) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (September, 2000).
230. New Jersey, Public Service Electric & Gas Company (Docket No. GR00070491) Levelized Gas Adjustment Clause Testimony for the New Jersey Division of the Ratepayer Advocate (November, 2000).
231. New Jersey, Generic Provisional Rate Proceeding (Docket Nos. GR00070491, et al.) Provisional Rate, Flexible Pricing, and Price Hedging Testimony for the New Jersey Division of the Ratepayer Advocate (December, 2000).
232. Rhode Island, Providence and Valley Gas Companies (Docket Nos. 1673 and 1736) Gas Price Mitigation Testimony for the Rhode Island Division of Public Utilities (January, 2001).
233. Delaware, Delmarva Power & Light Company (Docket No. 00-463F) Gas Price Hedging Testimony for the Delaware Public Service Commission (February, 2001).
234. Pennsylvania, Philadelphia Gas Works (Docket No. R-00006042) Base Rate and Policy Testimony for the Pennsylvania Office of Consumer Advocate (April, 2001).
235. Pennsylvania, Philadelphia Gas Works (Docket No. R-00006042) Base Rate and Policy Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (May, 2001).
236. New Jersey, Public Service Electric & Gas Company (Docket No. GM00080564) Capacity Contract Transfer Testimony for the New Jersey Division of the Ratepayer Advocate (June, 2001).
237. Vermont, Vermont Gas Systems (Docket No. 6495) Rate Stabilization Plan Testimony for the Vermont Department of Public Service (June, 2001).
238. Pennsylvania, Philadelphia Gas Works (Docket No. R-00016378) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (July, 2001).
239. Pennsylvania, PECO Energy Company (Docket No. R-00016366) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (July, 2001).
240. Pennsylvania, Philadelphia Gas Works (Docket No. R-00016378) Gas Cost Rate Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (August, 2001).
241. Vermont, Vermont Gas Systems (Docket No. 6495) Rate Stabilization Plan Rebuttal Testimony for the Vermont Department of Public Service (August, 2001)
242. Georgia, Atlanta Gas Light Company (Docket No. 14060-U) Procurement and Capacity Plan Testimony for the Georgia Public Service Commission (August, 2001).
243. Rhode Island, New England Gas Company (Docket No. 3401) Earnings Sharing and Gas Policy Testimony for the Rhode Island Division of Public Utilities (March, 2002).
244. Pennsylvania, Philadelphia Gas Works (Docket No. R00017034F002) Extraordinary Rate Relief Testimony for the Pennsylvania Office of Consumer Advocate (March, 2002).

245. New Jersey, Public Service Electric & Gas Company (Docket No. GR01110773) Remediation Adjustment Clause Testimony for the New Jersey Division of the Ratepayer Advocate (April, 2002).
246. Rhode Island, New England Gas Company (Docket No. 3401) Earnings Sharing and Gas Policy Surrebuttal Testimony for the Rhode Island Division of Public Utilities (April, 2002).
247. Pennsylvania, Philadelphia Gas Works (Docket No. R-00027133) Gas Cost Rate Testimony for the Pennsylvania Office of Consumer Advocate (April, 2002).
248. Pennsylvania, Philadelphia Gas Works (Docket No. R-00017034) Base Rate Testimony for the Pennsylvania Office of Consumer Advocate (May, 2002).
249. Georgia, Atlanta Gas Light Company (Docket No. 15527-U) Lost and Unaccounted For Gas Testimony for the Georgia Public Service Commission (July, 2002).
250. Pennsylvania, PECO Energy Company (Docket No. R-00027391) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (July, 2002).
251. Georgia, Atlanta Gas Light Company (Docket No. 15527-U) Lost and Unaccounted For Gas Rebuttal Testimony for the Georgia Public Service Commission (August, 2002).
252. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (September, 2002).
253. Georgia, EDC Generic Rulemaking (Docket No. 15295-U) Service Quality Standards Testimony for the Georgia Public Service Commission (October, 2002).
254. Georgia, Marketer Generic Rulemaking (Docket No. 15296-U) Service Quality Standards Testimony for the Georgia Public Service Commission (October, 2002).
255. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Rebuttal Testimony for the Pennsylvania Office of Consumer Advocate (October, 2002).
256. Pennsylvania, Philadelphia Gas Works (Docket No. M-00021612) Gas Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (November, 2002).
257. Georgia, EDC Generic Rulemaking (Docket No. 15295-U) Service Quality Standards Rebuttal Testimony for the Georgia Public Service Commission (November, 2002).
258. Georgia, Marketer Generic Rulemaking (Docket No. 15296-U) Service Quality Standards Rebuttal Testimony for the Georgia Public Service Commission (November, 2002).
259. Rhode Island, New England Gas Company (Docket No. 3476) Service Quality Testimony for the Division of Public Utilities (November, 2002).
260. New Jersey, Jersey Central Power and Light Company (Docket No. ER02030173) Recovery of Deferred Remediation Cost Testimony for the New Jersey Division of the Ratepayer Advocate (December, 2002).
261. Rhode Island, New England Gas Company (Docket No. 3476) Service Quality Surrebuttal Testimony for the Division of Public Utilities (February, 2003).

262. Pennsylvania, Philadelphia Gas Works (Docket No. R-00038173) Gas Procurement and Policy Testimony for the Pennsylvania Office of Consumer Advocate (April, 2003).
263. New Jersey, Elizabethtown Gas Company (Docket No. GA02020099) Comments Concerning Affiliate Audit for the New Jersey Division of the Ratepayer Advocate (June, 2003).
264. Maine, Northern Utilities (Docket No. 2002-140) Management Audit and Service Quality Report for the Maine Public Utilities Commission (June, 2003).
265. New Jersey, Public Service Electric & Gas Company (Docket No. GR03050400) Pipeline Refund Allocation Testimony for the New Jersey Division of the Ratepayer Advocate (August, 2003).
266. Ohio, Vectren Energy Delivery of Ohio (Case No. 02-220-GA-GCR) Gas Procurement and Policy Testimony for the Ohio Consumers' Counsel (November, 2003).
267. Delaware, Delmarva Power & Light Company (Docket No. 03-378F) Evaluation of Gas Procurement and Price Hedging Testimony for the Staff of the Delaware Public Service Commission (February, 2004).

OCA Statement No. 1S

5-11-04 PF Philadelphia

**BEFORE THE PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
DOCKET NOS. R-00049157 AND P-00042090**

**EXTRA  
COP**

**IN THE MATTER OF THE FILING OF  
PHILADELPHIA GAS WORKS  
REGARDING ITS  
2004-2005 PURCHASED GAS COST RATE AND  
CASH RECEIPTS RECONCILIATION CLAUSE**

**SURREBUTTAL TESTIMONY OF  
RICHARD W. LELASH  
ON BEHALF OF THE  
OFFICE OF CONSUMER ADVOCATE**

**MAY, 2004**

**RECEIVED**  
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1 Q. WOULD YOU PLEASE STATE YOUR NAME FOR THE RECORD?

2 A. My name is Richard W. LeLash and I am testifying on behalf of the Office of the Consumer  
3 Advocate.

4 Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS  
5 PROCEEDING?

6 A. Yes, my direct testimony was filed in April.

7 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

8 A. I will address various issues raised by the witnesses appearing on behalf of the Philadelphia  
9 Gas Works ("PGW" or "Company"). These issues involve both the Company's Purchased  
10 Gas Cost ("PGC") Rate and its proposed Cash Receipts Reconciliation Clause ("CRRC").

11 Q. HAS ANY OF THE REBUTTAL TESTIMONY SUBMITTED BY PGW CHANGED  
12 YOUR MIND ABOUT THE NECESSITY OF A CRRC?

13 A. No. I do not believe that it is necessary for PGW to increase rates through a proposed CRRC  
14 given recent information about improved collection projections for the current year and the  
15 City's commitment to grant back the \$18 million City Payment. The Company's own  
16 witness, Mr. Bogdonavage, projects a year end cash balance of \$31-36 million. Therefore,  
17 an increase in rates is not warranted at this time. To the extent that the Company perceives  
18 a need to address its cash working capital situation or uncollectible expense, it can do so in  
19 a future base rate proceeding where all of the Company's expenses can be examined. For

1 the reasons set forth in my Direct Testimony, I continue to believe that the CRRC is  
2 improper single-issue, retro-active ratemaking.

3 Testimony of Mr. Bogdonavage

4 Q. WOULD YOU PLEASE BEGIN BY ADDRESSING THE TESTIMONY SUBMITTED BY  
5 MR. BOGDONAVAGE?

6 A. Yes. On page 2 of his rebuttal testimony, Mr. Bogdonavage states “as of April 2004, PGW’s  
7 cumulative percentage receipts compared to billings is 7.0% better than PGW’s experience  
8 last year . . . If this improvement continues through this fiscal year, PGW’s collections  
9 experience could be 93%.” Indeed, in an April 19, 2004 presentation to the Philadelphia Gas  
10 Commission the Company stated that FY 2004 receipts as a percentage of billings are  
11 currently projected at 94%.

12 Based on these projections, the Commission might well ask why the Company is  
13 seeking what amounts to an extraordinary recovery mechanism by proposing a CRRC. Mr.  
14 Bogdonavage answers this question on page 3 of his testimony when he states, “Even if  
15 PGW were able to improve its collections performance to those levels, it will not have  
16 sufficient end of year cash to maintain an investment grade bond rating . . .” The issue is not  
17 really about cash receipts, it is about PGW’s bond ratings and financial profile. Even with  
18 a projected year end cash balance of \$31-36 million, Mr. Bogdonavage is of the opinion that  
19 the rating agencies are looking for about \$60 million in end of year liquidity. Mr.  
20 Bogdonavage fails to mention though that the CRRC will not provide any added liquidity in

1 the current fiscal year, since the proposed mechanism would not start to collect the surcharge  
2 until September 1, 2004 – the beginning of the *next* fiscal year. Rather, with the current year  
3 end cash balance, Mr. Bogdonavage characterizes the CRRC as a “back stop” or “fail safe”  
4 for PGW.

5 It is unreasonable to expect ratepayers to pay higher rates through the proposed  
6 CRRC when the Company’s own projections indicate that it will finish this fiscal year with  
7 a year end cash balance of \$31-36 million.

8 Q. MR. BOGDONAVAGE ALSO DISMISSES YOUR POSITION THAT CASH FLOW  
9 ISSUES SHOULD ONLY BE ADDRESSED IN A BASE RATE PROCEEDING. DO YOU  
10 HAVE ANY COMMENT?

11 A. Under Mr. Bogdonavage’s reasoning, PGW should be allowed to raise its gas rates at any  
12 time its cash flow does not meet PGW’s expectations. Such a position simply cannot prevail.  
13 PGW’s ratepayers are also entitled to some form of back stop against ever increasing rates  
14 based solely on the views and inherent interest of the rating agencies. In regulation, that back  
15 stop is a base rate proceeding in which all factors of a utility’s cost of service and capital  
16 sufficiency are investigated. Absent such a base rate safeguard, there would be no effective  
17 limit to continuous rate increases regardless of how the utility is operated or financed.

18 The use of an automatic adjustment clause, such as the CRRC, effectively provides  
19 PGW with a blank check that ultimately nullifies the necessary regulatory oversight by the  
20 PUC. In the case of PGW, the PUC has already stated its objective to maintain the financial  
21 integrity of the Company’s operation by providing necessary base rates. This commitment

1 is effectuated through base rate proceedings, and it should be adequate to address any valid  
2 concerns of the rating agencies.

3 Q. ON PAGE 10 OF HIS REBUTTAL TESTIMONY, MR. BOGDONAVAGE ADDRESSES  
4 THE ISSUE OF RETROACTIVE RATEMAKING. WOULD YOU PLEASE COMMENT  
5 ON HIS POSITION?

6 A. Mr. Bogdonavage fails to recognize that rates paid by PGW's customers are collected under  
7 tariff provisions. Ratepayers, during fiscal year 2004, are not subject to any CRRC charges.  
8 And until such charges are authorized by the PUC, they are not recoverable and obviously  
9 are not subject to "reconciliation." This principle has been followed routinely by PGW  
10 when, for example, it implements a rate change on a service rendered vs. bills rendered basis.  
11 Ratepayers are entitled to notice, and they are entitled to pay only authorized rates effective  
12 from the date they are approved. If, indeed, the CRRC is intended to placate bond rating  
13 agencies prospectively, it is not only unreasonable to impose CRRC rates retroactively, but  
14 it should also be unnecessary.

15 Q. AND FINALLY WITH RESPECT TO THE CRRC, MR. BOGDONAVAGE ARGUES  
16 THAT THE DOLLAR AMOUNT OF ANY GRANT BACK OF THE CITY PAYMENT  
17 SHOULD NOT BE USED AS AN OFFSET TO THE CRRC RECOVERY. IS HIS  
18 POSITION VALID?

19 A. First of all, the grant back of the City Payment is not a loan as implied by Mr. Bogdonavage's  
20 example. In its filing, the Company proposed a CRRC recovery amount of \$46.7 million.

1 This recovery would begin in September of 2004 and the initial \$46.7 million would be  
2 recovered during FY 2005. Subsequently, a commitment has been made by the City of  
3 Philadelphia that it would forego such City Payments for the next five years. Therefore, if  
4 PGW had a cash shortfall that was adequately addressed by \$46.7 million, it now should  
5 have only a need for \$28.7 million. No matter what illustrative example is used, the action  
6 by the City provides PGW with an incremental \$18.0 million for each of the next five years  
7 and effectively should shift that level of cash responsibility from the ratepayers to the City.  
8 If PGW were to receive the \$18.0 million from both the City and its ratepayers, it would  
9 double recover on that portion of its claimed cash shortfall.

10 Q. MR. BOGDONAVAGE ALSO DISAGREED WITH YOUR ASSESSMENT OF  
11 RESTRUCTURING COSTS. WOULD YOU PLEASE DISCUSS HIS POSITION ON  
12 THESE COSTS?

13 A. On page 15 of his rebuttal testimony, Mr. Bogdonavage states, "Considering the previous  
14 explanations and opportunities for investigation, and the fact that no party has ever  
15 challenged any of these categories, PGW believed that the explanation provided in the FY  
16 2005 filing was adequate." This is somewhat misleading given the OCA Testimony in the  
17 restructuring case. At that time it was stated,

18 The Act does not make any provision for the recovery of costs solely on the  
19 basis that they began to be incurred during the time period of the  
20 restructuring. Likewise, it is unclear that the Act authorizes the recovery of  
21 restructuring costs, which are on-going in nature, through the Restructuring  
22 Surcharge for an indefinite period in the future.

1 It should be remembered that the use of a Restructuring Surcharge is a  
2 departure from traditional rate recovery. As a reconcilable recovery  
3 mechanism, any associated activities are not subject to the same inherent  
4 incentives which are associated with base rate recovery. For this reason, it  
5 is necessary to insure that no "business as usual" costs involving such  
6 claimed activities as advertising, legal and consulting fees, or information  
7 systems, are recovered through the surcharge. Given the magnitude of on-  
8 going, as well as restructuring and PUC compliance activities and costs, the  
9 Commission should specifically assign the burden of proof to the Company  
10 to demonstrate that all costs recovered through the surcharge are incremental  
11 and solely the result of restructuring and compliance requirements.

12 (OCA Testimony, pages 15-16, Docket No. M-00021612)

13 In its current filing, substantial expenditures that are claimed for recovery are still  
14 estimates rather than actuals. Accordingly, it is premature to attempt an evaluation of such  
15 costs for FY 2004. Additionally, the Company's data provided for restructuring costs is not  
16 sufficient to evaluate the types of issues identified in the restructuring proceeding. The one  
17 page filing of costs by category, with no associated discussion of relevant issues in the  
18 testimony simply does not meet the envisioned burden of proof.

19 Testimony of Mr. Knudsen

20 Q. WOULD YOU NOW ADDRESS MR. KNUDSEN'S TESTIMONY CONCERNING THE  
21 PROPOSED CRRC?

22 A. Mr. Knudsen's overall testimony is well summarized by his statement on page 2 that he is  
23 "disappointed in the response of OCA and OSBA to the Company's attempt to structure a  
24 very focused method of dealing with just one aspect of PGW's overall financial crisis." He

1 goes on to state on page 4 that, as in the case with GPU's TMI nuclear accident, the need for  
2 a "commitment to work collectively to find solutions to PGW's financial crisis is essential  
3 or the results will be catastrophic for this Company, its employees and, most importantly, its  
4 customers."

5 From these statements, it is clear that the CRRC is just one aspect of PGW's financial  
6 crisis, and what is really needed are various solutions to address PGW's long-standing  
7 financial limitations. The CRRC, was proposed to address PGW's liquidity problems, but  
8 increasingly the Company appears to be saying that collections should be returned to a more  
9 manageable level of 94% in the near future. Given this fact, the recent City action to forego  
10 its \$18.0 million dividend from PGW, the Company's gas supply financing, and potential  
11 refinancing savings, the appropriate action is for a comprehensive effort to address PGW's  
12 overall financial situation. As Mr. Knudsen has acknowledged, "PGW has made significant  
13 improvements in service and operation in the last few years and has been granted rate relief  
14 by the Commission and has received other support from the PUC and the public parties . .  
15 ."

16 It is well understood that PGW must operate within constraints imposed by many  
17 stakeholders including this Commission, the Philadelphia Gas Commission, PFMC, the  
18 Philadelphia City Council, and various interveners, but the fact remains that recent crises  
19 have all been precipitated by the bond rating agencies. This is unfortunate since such  
20 agencies represent only one of many diverse parties at interest. Increasingly, the regulation  
21 of PGW has been reduced to satisfying the concerns of the rating agencies. This is equally

1 true in the case of PGW's perceived need to have a CRRC in order to appease the bond  
2 rating agencies' concern for a greater working capital cushion.

3 Q. WOULD THE APPROVAL OF SOME FORM OF THE CRRC SOLVE THE  
4 COMPANY'S PROBLEMS?

5 A. At page 8 of his testimony, Mr. Knudsen states that the City's actions, with respect to its loan  
6 and the suspension of the City Payments, and even the Commission approval of the CRRC  
7 have been discounted in the rating agencies' actions already taken. He goes on to state, "The  
8 rating agencies clearly want more." This suggests an untenable situation for PGW's  
9 ratepayers. Even with the City's actions and the CRRC's guarantee of historical cash  
10 receipts, the rating agencies want, apparently, even more revenues from ratepayers.  
11 However, it is the Commission that has authority to set PGW's rates. The Commission has  
12 in the past set rates that ensure that PGW meets its bond coverages and recovers all  
13 reasonable and necessary operating expenses.

14 In addition, it would also be beneficial if PGW would provide details concerning its  
15 efforts "to seek out and develop additional federal and state funding sources." Given that the  
16 City has agreed to extend its loan and forego dividends and that PGW's customers have  
17 seemingly reached the limit of their capability to pay their gas bills, such outside funding  
18 sources need to be actively pursued.

19 If PGW thought it needed increased revenues as a result of its collections problems,  
20 it could have sought potential relief in October 2003, when the collection issue became  
21 apparent. A permanent financial solution would be difficult to put in place prior to the

1 planned issue of long-term bonds this Fall. As has been apparent all along, the proposed  
2 CRRC can only address receipts during FY 2005 (commencing September 1, 2004) and will  
3 not have any effect on PGW's year end cash position at August 31, 2004. Additionally, if  
4 the Company does achieve its 94% collectibility target this year, the CRRC would not be a  
5 material factor in addressing PGW's liquidity.

6 Testimony of Dr. Peach

7 Q. DO YOU HAVE ANY COMMENTS CONCERNING THE REBUTTAL TESTIMONY OF  
8 DR. PEACH?

9 A. Yes. Dr. Peach addresses my statement that PGW's "rates are already too high, and that  
10 raising rates through a surcharge mechanism will only exacerbate the uncollectible problem."  
11 On page 4 of his rebuttal testimony he goes on to state that this opinion is flawed.

12 The fact that PGW's rates are already too high would appear to be self evident given  
13 the demographics of a high percentage of PGW's customers and Dr. Peach's extensive data  
14 in his direct testimony. As to whether rate increases will exacerbate PGW's collection  
15 problems, I relied in part on basic economic theory and on Dr. Peach's Table 7. As the level  
16 of the annual bill increases, the percentage of receipts decreases. Thus, an increase to a  
17 ratepayer's total annual bill will, *all other things being equal*, increase the Company's  
18 receivables and ultimately its uncollectibles. This is even more likely if customers incomes  
19 do not increase or even decrease.

1           Testimony of Mr. Dybalski

2    Q.    WHAT ISSUES FROM YOUR TESTIMONY WERE ADDRESSED BY MR. DYBALSKI?

3           Mr. Dybalski seems to imply that I question the data underlying PGW's interruptible revenue  
4           credit and its calculation of capacity release and off-system credits. A review of my  
5           Schedule 3 will show that this is not the case. I did note that the Company had combined  
6           off-system sales with capacity release credits which made the derivation of its amounts  
7           somewhat unclear. I also noted that if 2003-2004 actual interruptible credits were  
8           incorporated in the Company's over/under reconciliation, then the \$901,000 adjustment  
9           would be a duplication.

10           Mr. Dybalski also stated that there appears to be some discrepancy in my data shown  
11           on page 2 of Schedule 2. As he states, we had a discussion concerning that data in which  
12           I confirmed to him that the data was accurately sourced from page 3 of Global Insights  
13           Natural Gas Monthly Report dated December 19, 2001. Accordingly, any discrepancy with  
14           the data should be attributed to Global Insights.

15           Testimony of Mr. Moser

16    Q.    MR. MOSER BEGINS HIS REBUTTAL TESTIMONY BY TAKING ISSUE WITH YOUR  
17           STATEMENT THAT THE EXPANDER PROJECT "SHOULD HAVE BEEN A  
18           RELATIVELY STRAIGHT FORWARD EQUIPMENT REPLACEMENT." WHAT WAS  
19           THE BASIS FOR YOUR STATEMENT?

1 A. The Expander project was to be completed in March 2002. As of today, the project has no  
2 definite completion date. The term relatively straight forward was intended to mean that the  
3 project should have taken less than three years to complete.

4 Q. MR. MOSER ALSO ADDRESSES YOUR ANALYSIS OF CAPACITY RELATED  
5 ISSUES. DO YOU HAVE ANY COMMENTS CONCERNING HIS REBUTTAL  
6 TESTIMONY ON THOSE ISSUES?

7 A. Yes. Mr. Moser begins by stating that my conclusion concerning excess capacity is overly  
8 simplistic and is misplaced because PGW's capacity is not solely based on delivery for a  
9 design day. In saying this, Mr. Moser appears to have ignored my response to PGW's  
10 Interrogatory Request 13. In that response I stated, "The Company's gas supply capacity is  
11 in excess of its current daily, seasonal, and annual demand requirements. Absent a showing  
12 that it has a demand hour constraint, it should have reduced its capacity entitlements and its  
13 capacity costs."

14 Q. HAS THE COMPANY EVER PREVIOUSLY CLAIMED A DESIGN HOUR  
15 CONSTRAINT OR PROVIDED DATA ON SUCH A CAPACITY DESIGN  
16 CONSIDERATION?

17 A. To the best of my knowledge, the Company has never made reference to a design hour  
18 capacity constraint. Likewise, in its Annual Resource Planning Report the Company neither  
19 discusses nor presents any data on hourly capacity or any associated constraints. This despite

1 the fact that the report contains a section on PGW's Overall Approach to Integrated Resource  
2 Planning.

3 As stated in my data response, absent a showing that it has a demand hour constraint,  
4 PGW has excess capacity. If the Company wishes to make such a showing, it should do so  
5 in its Annual Resource Planning Report.

6 Q. MR. MOSER GOES ON TO STATE THAT PGW'S CAPACITY/ DELIVERABILITY  
7 MUST ALSO SUPPORT THE SYSTEM IN THE EVENT THERE IS A FAILURE OF  
8 SPECIFIC INDIVIDUAL COMPONENTS. DID YOU CONSIDER SUCH FAILURES?

9 A. Mr. Moser failed to mention that PGW's capacity volumes are well below full deliverability  
10 since it already makes allowance for substantial supply failure by reducing its planned LNG  
11 deliverability in its base supply capacity estimates.

12 Q. ON PAGE 3, MR. MOSER SAYS YOU INCORRECTLY CONCLUDE THAT  
13 OFF-SYSTEM SALES HAVE BEEN VERY LOW AND STATES THAT EXCESS  
14 CAPACITY DOES NOT EXIST TO SELL. DO YOU AGREE WITH HIS POSITIONS?

15 A. As shown on my Schedule 3, the Company's off-system credits were \$282,000 in 1999-2000,  
16 \$20,000 in 2001-2002, and zero in 2003-2004. This despite the fact that in two of the past  
17 five years it did have credits in excess of \$1.2 million per year and there is no apparent  
18 correlation between off-system sales and experienced HDD levels. In the end analysis, zero  
19 off-system sales appear to be very low.

1           With respect to Mr. Moser's contention that excess capacity does not exist to sell,  
2 even assuming that PGW does not have excess capacity in the winter, it certainly has excess  
3 capacity during the shoulder and non-peak periods when off-system sales can be made.

4 Q.    ON PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. MOSER STATES THAT THE  
5 ONLY ENHANCEMENT THAT WOULD PERMIT PGW TO REDUCE CAPACITY  
6 WOULD BE ADDITIONAL LNG STORAGE SPACE. IS HE CORRECT?

7 A.    No. The Expansion project, if it is ever completed, will effectively increase the Company's  
8 ability to utilize its storage to increase its effective capacity. Additionally, retention of the  
9 current cascade liquefaction system and replacement of the old heaters could also permit  
10 some potential pipeline capacity reductions.

11 Q.   MR. MOSER ALSO ADDRESSES YOUR TESTIMONY CONCERNING THE  
12 FORWARD SALE OF GAS INVENTORY. DO YOU AGREE WITH HIS REBUTTAL  
13 TESTIMONY?

14 A.    No, I do not. Mr. Moser mis-characterizes much of my testimony, and as such, his criticisms  
15 are effectively a strawman. Mr. Moser should have addressed the cost impact of the put  
16 option provided to the third party rather than stating that sales under the option were  
17 completely separate requirements. It is likely that this put option resulted in excess gas costs  
18 for PGW and Mr. Moser should provide data to the Commission if that is not the case.

1           As for the \$390,000 repurchase premium being “not included for recovery in the  
2           GCR,” under the cash flow method of rate setting, let there be no mistake that ratepayers will  
3           end up paying for that premium.

4   Q.    FINALLY, MR. MOSER DISAGREES WITH YOUR STATEMENT THAT MOST GAS  
5           UTILITIES UTILIZE FINANCIAL HEDGES AS PART OF AN OVERALL HEDGING  
6           PROGRAM. ARE HIS CONCLUSIONS CORRECT?

7   A.    Mr. Moser’s conclusions are based on an informal survey of seven Pennsylvania gas utilities.  
8           My statement was based on an AGA study of LDC Supply Portfolio Management for the  
9           2002-2003 winter heating season. In that study, which covered 65 LDCs, there was data  
10          which contradicts Mr. Moser’s position. Of the 32 Eastern LDCs that had hedging programs,  
11          24, or 75%, utilized futures, options, or swaps. This data would confirm the statement made  
12          in my direct testimony.

13   Q.    MR. LELASH, DOES THAT COMPLETE YOUR SURREBUTTAL TESTIMONY IN  
14          THIS MATTER?

15   A.    Yes, it does.

\*79116

OTS Exhibit 1-SR  
5-11-04 Philadelphia

PHILADELPHIA GAS WORKS  
DOCKET NOS. R-00049157 AND P-00042090

OFFICE OF TRIAL STAFF  
RESPONSE TO ALJ RAINEY

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PGW 1307(f) filing

OTS Statement No. 2 recommends two adjustments to PGW's 1307(f). Specifically, these adjustments are Off-System and Capacity Release credits. For 1307(f) filing purposes, PGW combines these two credits. PGW's claim in this proceeding is \$3, 155,165. OTS recommends that PGW's combined claim be increased by \$526,510. This adjustment increases these two credits which in turn, will decrease the cost of gas (C-factor) by \$526,510 and reduces the 1307(f) rate by \$0.0088 / Mcf.

Please note that the interest calculation change recommended in OTS Statement No. 1, has no monetary effect.

CRRC Petition

OTS has presented an alternative mechanism to PGW's CRRC Surcharge.

The revised OTS proposal, based on PGW's 1307(f) second quarterly report filed March 1, 2004 is:

PGW's 1307(f) rate	\$7.9254
Less: base fuel rate	<u>\$5.5643</u>
Gas costs not in base rates	\$2.3611
Times write-off ratio	<u>0.07616</u>
OTS rate / Mcf	<u>\$ 0.1798</u>

This will produce an overall annual revenue increase of \$10,747,219. The additional revenue is calculated by multiplying the OTS rate times the firm sales volumes (\$0.1798 x 59,773,185).

PHILADELPHIA GAS WORKS  
DOCKET NOS. R-00049157 AND P-00042090

OFFICE OF TRIAL STAFF  
RESPONSE TO ALJ RAINEY

Net Impact of OTS's adjustments for both the 1307(f) and the CRRC

	Dollars	\$/ Mcf
1307(f)*	(\$526,510)	(\$0.0088)
CRRC	<u>\$10,747,219</u>	<u>\$0.1798</u>
Net Increase	\$10,220,709	\$0.1710

- \* Please note that within the context of a 1307(f) proceeding, the total revenue requirement is fluid in nature. Every update on gas pricing and every quarterly PGC filing that occurs during the hearing process, impacts the total revenue requirement. OTS has presented its proposed adjustments in total dollar value and the impact on the rate per Mcf, as these values will remain constant.

**DOCUMENT**

00042090  
R - 00049157  
**OSBA EXHIBIT NO. 2**  
PF 5-11-01 philg

**IN RESPONSE TO JUDGE RAINEY'S MAY 5, 2004**

**"ORDER REGARDING THE SUBMISSION BY PARTIES OF A PRE-FILED EXHIBIT SHOWING THE CALCULATION OF THEIR RECOMMENDED OVERALL ANNUAL REVENUE INCREASE OR DECREASE FOR PHILADELPHIA GAS WORKS"**

*Volumes*

PGW forecasts firm sales volume for FY 2005 of 59,773,185 Mcf.

Included in that figure is 20 percent of Senior Citizen Discount sales volumes that are exempt from the rate changes at 1,275,076 Mcf.

Also included in the firm sales volume figure are CRP sales volumes. Because CRP customers pay bills on a percentage of income basis, changes in rates do not affect revenues from these customers. The CRP volumes are estimated at 7,668,244 Mcf (OSBA-II-4(d)).

Net sales volumes that are affected by rate changes are therefore 50,829,865 Mcf.

The OSBA takes no position on the accuracy of PGW's volume forecasts.

*Gas Cost Rate (GCR)*

PGW proposes to set its GCR at \$7.4216 per Mcf. At the last annual review, PGW's GCR was \$7.8670. Relative to last year's GCR, and applied to net sales volumes for regular customers, PGW proposes a revenue decrease of approximately \$22,639,622.

The OSBA takes no position on this revenue change.

*Universal Service and Energy Conservation Surcharge (USC)*

PGW's current USC is \$1.2564 per Mcf, and it proposes to increase the USC to \$1.3030 per Mcf. Applied to net volumes specified above, PGW proposes an annual revenue increase of approximately \$2,368,672.

PGW's proposal for the USC includes costs associated with its proposed CRRC mechanism. The OSBA recommends that the CRRC mechanism be rejected. PGW includes \$7,099,224 in CRRC-related costs in the USC. (See OSBA-II-4(d).) The OSBA recommends that this revenue increase be rejected.

The OSBA takes no position on any other aspect of the USC revenue requirement.

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***Restructuring and Consumer Education Surcharge (R&CE)***

PGW's current R&CE is \$0.0675 per Mcf. PGW proposes to increase that charge to \$0.0683 per Mcf, a revenue increase of \$40,664.

The OSBA takes no position on this revenue change.

***Cash Receipts Reconciliation Surcharge (CRRC)***

Based on estimates in its filing, PGW proposes to implement a CRRC effective 1 September 2004 at \$0.7947 per Mcf. Applied to net volumes, this charge will produce revenues of approximately \$40,394,494.

The OSBA recommends that the CRRC mechanism be rejected.

***Overall***

For the issues on which the OSBA takes a position, namely the CRRC and its impact on the USC, the OSBA recommends that PGW's filed revenues be reduced by approximately \$47,493,718.

**Dated: May 10, 2004**

P 00047090  
R-00049157  
TEK - 2  
PF 5-11-04  
Philadelphia

April 23, 2004 02:40 PM US Eastern Timezone

# Fitch Lowers Philadelphia Gas Works Revs to 'BBB-'/ 'BB+'; Outlook to Negative

WASHINGTON--(BUSINESS WIRE)--April 23, 2004--Fitch Ratings downgrades to 'BBB-' from 'BBB+' its rating on Philadelphia Gas Works' (PGW) approximately \$371.6 million outstanding gas works revenue bonds (1975 ordinance) and \$594.0 million of outstanding gas works revenue bonds (senior 1998 ordinance). The rating on approximately \$16.7 million of outstanding subordinate 1998 ordinance bonds is lowered to 'BB+' from 'BBB-'. The Rating Outlook on all outstanding revenue bonds is revised to Negative from 'Stable'.

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The rating actions primarily reflect PGW's sharply deteriorated liquidity position and the limited ability of its owner, the city of Philadelphia, to provide cash flow support beyond current levels. PGW can not currently generate sufficient cash from operations to meet all of its financial commitments, including debt service, and has become heavily reliant on external sources for liquidity. While the city appears committed to PGW's success, as evidenced by a planned repayment date extension of its \$45 million loan given in 2000 and a proposal to grant back its annual \$18 million payment from PGW in each of the next five years, the city's ability to support the utility's cash flow is more limited than in recent years given its own financial difficulties. Fitch rates the city's general obligation bonds 'A-' with a Negative Outlook. Philadelphia closed fiscal 2003 with an accumulated general fund deficit of \$8 million. For PGW, regaining a Stable Outlook could be achieved by the successful implementation of planned improvements to revenue collection procedures and/or a strengthening of the city's weakened financial position.

A major contributor to PGW's current financial difficulties is a dramatic rise in accounts receivable. Net receivables in fiscal 2003 totaled \$93 million, a 39% increase over fiscal 2002. PGW officials largely attribute the increase to pass-through of rising commodity prices that make monthly bills unaffordable for a large proportion of ratepayers. Required modifications to the billing system related to implementation of the commonwealth's gas choice law requiring PGW to unbundle the cost of gas and delivery also contributed to collection delays. These modifications are substantially complete.

PGW has implemented an aggressive program to collect outstanding bills, including an unprecedented effort to shut off gas to severely delinquent customers during the non-heating season. Under current rules, the utility is prohibited from shutting off gas during the winter months. Further, PGW has asked the state Public Utility Commission (PUC) to approve a surcharge, equal to \$80 per year for the average customer, to offset cash flow problems resulting from delinquent customers. The surcharge would only take effect if collections dropped below the historical average of 92% of billed charges. Adoption of the surcharge and other proposed changes to shut off and payment plan rules would improve PGW's collections, but required PUC approval is not expected until this summer at the earliest.

Debt service coverage showed modest improvement in fiscal 2003 compared to very slim margins in the preceding five years. Aggregate coverage, inclusive of all long-term debt, was 1.28 times (x) in 2003 and PGW was in compliance with all applicable rate covenants under its 1975 and 1998 ordinances. Combined coverage in fiscal 2004 is estimated to be 1.29x, assuming successful implementation of the enhanced collections program. Fitch notes that coverage using the ordinance methodology is based on billed charges, or consumption, not on actual cash received. Fitch calculates that cash generated from operations, reflecting the sizable increase in receivables, provided slightly less than 1.0x coverage of all debt service obligations.

PGW expects to renew its \$80 million letter-of-credit backed commercial paper line over the next few weeks. Fitch believes that the upcoming winter 2004 heating season will present critical cash flow challenges to PGW and the successful engagement of external sources of liquidity will be crucial to ongoing operations. The utility expects to sell \$125 million of revenue bonds later this year to finance

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normal capital expenditures.

Contacts

Fitch Ratings

Joseph D. Mason, 703-245-3068

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Amy R. Laskey, 212-908-0558

James Jockle, 212-908-0547 (Media Relations)



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R-00049157

O C A

Exhibit KSD-2

PI-5-11-04

Philadelphia

**Overall Annual Revenue Increase (Decrease)  
Compared to December 1, 2004 GCR Rate**

<b>Revenue Impact Before Application of CRRC</b>		
GCR - Schedule 1 in Tab 1 of the March 1, 2004 1307(f) Filing	\$ 7.4216	(a)
USC before application of CRRC	\$ 1.1816	
Revenue Decrease before application of CRRC	\$ (15,600,000)	
<b>Revenue Impact Applying CRRC with a 93% Collection Factor</b>		
CRRC Surcharge at 93% collection factor per JRB-9, p. 1	\$ 0.0370	
USC - Recalculated	\$ 1.1873	
Rate Decrease before application of CRRC	\$ (15,600,000)	
CRRC Revenue Impact		
- Projected CRRC Recovery	\$ 2,191,000	
- Projected USC Increase	\$ 330,929	
Overall Rate Decrease	\$ (13,078,071)	(b)
<b>Revenue Impact Applying CRRC with a 90.5% Collection Factor</b>		
CRRC Surcharge at 90.5% collection factor per JRB-9, p. 1	\$ 0.4987	
USC - Recalculated	\$ 1.2578	
Rate Decrease before application of CRRC	\$ (15,600,000)	
CRRC Revenue Impact		
- Projected CRRC Recovery	\$ 29,498,000	
- Projected USC Increase	\$ 4,455,382	
Overall Rate Increase	\$ 18,353,382	(b)

(a) Actual rate will be subject to 4th Quarter update of 2003-04 1307(f) rate (filed September 1, 2004).

(b) Actual CRRC rate will be actually realized collections factor for 2003-04.

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**Philadelphia Gas Works**  
**Fiscal Year 2003-2004 1307F Filing**  
**UNIVERSAL SERVICE & ENERGY CONSERVATION SURCHARGE**  
**without \$47,000,00 CRRC**

	<u>Expenses in</u> <u>the Surcharge</u>	
Conservation Works Program (CWP)	\$	2,000,000
Customer Responsibility Program (CRP) Discount	\$	45,793,564
Senior Citizen Discount	\$	16,849,104 *
August 04 under collection	\$	<u>4,480,881</u>
Total \$ to be Recovered	\$	69,123,549
Applicable Sales Volume	Mcf	58,498,108
<b>Universal Service &amp; Energy Conservation Surcharge</b>	<b>\$</b>	<b>1.1816</b>

\* This is the Senior Citizen Discount on the Delivery Charge, GCR and Restructuring Surcharge which is used to calculate the Universal Services Surcharge.

---

<b><u>Pro-Forma</u></b>			
2004-2005 Gas Billings	\$ 826,800	\$ 826,800	
Cash Receipts Percentage	93.00%		
Cash Receipts	768,924	(768,924)	
Gas Billings less Cash Receipts	57,876		
Uncollectible Expense Recovered in Base Rates	(55,700)		
Pro-Forma Recovery Amount	2,176		\$ 2,176
<b><u>"E" Factor</u></b>			
2003-2004 Gas Billings	796,377	796,377	
Cash Receipts Percentage	93.00%		
Cash Receipts	740,631	(740,631)	
Gas Billings less Cash Receipts	55,746		
Uncollectible Expense Recovered in Base Rates	(55,700)		
E Factor Recovery Amount	46		\$ 46
E Factor Amortization Period			3
Amortized E Factor Recovery Amount			15
Total Recovery Amount			\$ 2,191

**March 1, 2004 1307(f) Filing - Tab 1, Schedule 10:**

		<u>50% of</u> <u>September</u>	<u>11.5 Months</u>	<u>Total</u>
Firm Sales	Mcf	628,566	59,144,619	59,773,185
CASH RECEIPTS RECOVERY CLAUSE SURCHARGE		-	\$ 0.0370	
Total Projected Recovery		\$ -	\$ 2,191,000	\$ 2,191,000

**Philadelphia Gas Works**  
**Fiscal Year 2003-2004 1307F Filing**  
**UNIVERSAL SERVICE & ENERGY CONSERVATION SURCHARGE**  
**with 93% Collections Rate**

	<u>Expenses in the Surcharge</u>	
Conservation Works Program (CWP)	\$	2,000,000
Customer Responsibility Program (CRP) Discount	\$	46,077,632
Senior Citizen Discount	\$	16,895,964 *
August 04 under collection	\$	<u>4,480,881</u>
Total \$ to be Recovered	\$	69,454,477
Applicable Sales Volume	Mcf	58,498,108
<b>Universal Service &amp; Energy Conservation Surcharge</b>	<b>\$</b>	<b>1.1873</b>

\* This is the Senior Citizen Discount on the Delivery Charge, GCR and Restructuring Surcharge which is used to calculate the Universal Services Surcharge.

**CASH RECEIPTS RECONCILIATION CLAUSE SURCHARGE**

		<u>50% of September</u>	<u>11.5 Months</u>	<u>Total</u>
Firm Sales	Mcf	628,566	59,144,619	59,773,185
CASH RECEIPTS RECOVERY CLAUSE SURCHARGE		-	\$ 0.0370	
Total Projected Recovery		\$ -	\$ 2,191,000	\$ 2,191,000

Format used in OSBA Set 2 - 4 (d)

	<u>50% of September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Total</u>
CRP Sales	62,689	204,638	540,130	975,413	1,639,540	1,430,037	1,217,730	782,966	345,896	189,595	142,932	136,679	7,668,244
Senior Citizen Discount Sales	10,108	33,758	91,460	164,261	273,095	233,946	197,215	128,053	57,177	30,407	23,048	22,441	1,264,969
CRRC Rate	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370	\$ 0.0370
Increase in CRP Discount	\$ 2,322	\$ 7,581	\$ 20,009	\$ 36,134	\$ 60,736	\$ 52,975	\$ 45,111	\$ 29,005	\$ 12,814	\$ 7,024	\$ 5,295	\$ 5,063	284,068
Increase in Senior Cit. Discount	\$ 374	\$ 1,251	\$ 3,388	\$ 6,085	\$ 10,117	\$ 8,666	\$ 7,306	\$ 4,744	\$ 2,118	\$ 1,126	\$ 854	\$ 831	46,860
Increase due to CRRC	\$ 2,697	\$ 8,831	\$ 23,397	\$ 42,219	\$ 70,853	\$ 61,642	\$ 52,416	\$ 33,749	\$ 14,932	\$ 8,150	\$ 6,149	\$ 5,895	\$ 330,929

<b><u>Pro-Forma</u></b>			
2004-2005 Gas Billings	\$ 826,800	\$ 826,800	
Cash Receipts Percentage	<u>90.50%</u>		
Cash Receipts	748,254	(748,254)	
Gas Billings less Cash Receipts	78,546		
Uncollectible Expense Recovered in Base Rates	<u>(55,700)</u>		
Pro-Forma Recovery Amount	<u>22,846</u>		\$ 22,846
<b><u>"E" Factor</u></b>			
2003-2004 Gas Billings	796,377	796,377	
Cash Receipts Percentage	<u>90.50%</u>		
Cash Receipts	720,721	(720,721)	
Gas Billings less Cash Receipts	75,656		
Uncollectible Expense Recovered in Base Rates	<u>(55,700)</u>		
E Factor Recovery Amount	<u>19,956</u>	\$ 19,956	
E Factor Amortization Period			<u>3</u>
Amortized E Factor Recovery Amount			<u>6,652</u> 6,652
Total Recovery Amount			<u>\$ 29,498</u>

**March 1, 2004 1307(f) Filing - Tab 1, Schedule 10:**

		<u>50% of September</u>	<u>11.5 Months</u>	<u>Total</u>
Firm Sales	Mcf	628,566	59,144,619	59,773,185
<b>CASH RECEIPTS RECOVERY CLAUSE SURCHARGE</b>		-	\$ 0.4987	
<b>Total Projected Recovery</b>		\$ -	\$29,498,000	\$29,498,000

**Philadelphia Gas Works**  
**Fiscal Year 2003-2004 1307F Filing**  
**UNIVERSAL SERVICE & ENERGY CONSERVATION SURCHARGE**  
**with 90.5% Collections Rate**

	<u>Expenses in</u> <u>the Surcharge</u>	
Conservation Works Program (CWP)	\$	2,000,000
Customer Responsibility Program (CRP) Discount	\$	49,618,051
Senior Citizen Discount	\$	17,479,999 *
August 04 under collection	\$	<u>4,480,881</u>
Total \$ to be Recovered	\$	73,578,931
Applicable Sales Volume	Mcf	58,498,108
<b>Universal Service &amp; Energy Conservation Surcharge</b>	<b>\$</b>	<b>1.2578</b>

\* This is the Senior Citizen Discount on the Delivery Charge, GCR and Restructuring Surcharge which is used to calculate the Universal Services Surcharge.

**CASH RECEIPTS RECONCILIATION CLAUSE SURCHARGE**

		<u>50% of September</u>	<u>11.5 Months</u>	<u>Total</u>
Firm Sales	Mcf	628,566	59,144.619	59,773,185
CASH RECEIPTS RECOVERY CLAUSE SURCHARGE		-	\$ 0.4987	
Total Projected Recovery		\$ -	\$ 29,498,000	\$ 29,498,000

Format used in OSBA Set 2 - 4 (d)

	<u>50% of September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>	<u>Total</u>
CRP Sales	62,689	204,638	540,130	975,413	1,639,540	1,430,037	1,217,730	782,966	345,896	189,595	142,932	136,679	7,668,244
Senior Citizen Discount Sales	10,108	33,758	91,460	164,261	273,095	233,946	197,215	128,053	57,177	30,407	23,048	22,441	1,264,969
CRRC Rate	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	\$ 0.4987	
Increase in CRP Discount	\$ 31,266	\$ 102,062	\$ 269,387	\$ 486,481	\$ 817,710	\$ 713,222	\$ 607,335	\$ 390,499	\$ 172,513	\$ 94,559	\$ 71,286	\$ 68,168	3,824,487
Increase in Senior Cit. Discount	\$ 5,041	\$ 16,837	\$ 45,615	\$ 81,924	\$ 136,204	\$ 116,679	\$ 98,360	\$ 63,866	\$ 28,517	\$ 15,165	\$ 11,495	\$ 11,192	630,895
Increase due to CRRC	\$ 36,307	\$ 118,898	\$ 315,002	\$ 568,405	\$ 953,914	\$ 829,901	\$ 705,695	\$ 454,365	\$ 201,030	\$ 109,724	\$ 82,782	\$ 79,360	\$ 4,455,382

R-00049157

OCA

Exhibit KSD-3  
PF 5-11-04  
Philadelphia

<u>Gas Cost Rate</u>			
	<u>12/1/03</u>	<u>9/1/04</u>	<u>Increase (Decrease)</u>
Rate per Mcf	7.6313	7.4216	(0.2097)
Total Revenue	459,549,929	443,926,814	(15,623,115)
<b>USC - before application of CRRC</b>			
	<u>12/1/03</u>	<u>9/1/04</u>	<u>Increase (Decrease)</u>
Rate per Mcf	1.0765	1.1816	0.1051
Total Revenue	63,182,639	69,123,549	5,940,910
<b>Restructuring/Consumer Ed Surcharge</b>			
	<u>12/1/03</u>	<u>9/1/04</u>	<u>Increase (Decrease)</u>
Rate per Mcf	0.0675	0.0683	0.0008
Total Revenue	4,062,780	4,082,855	20,075

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MAY 28 2004

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works, 1307(f)

Docket No. R-00041957

Petition of Philadelphia Gas Works

Regarding Cash Receipts Reconciliation Clause

Docket No. P-00042090

OCA Cross Examination Exhibit No. 1

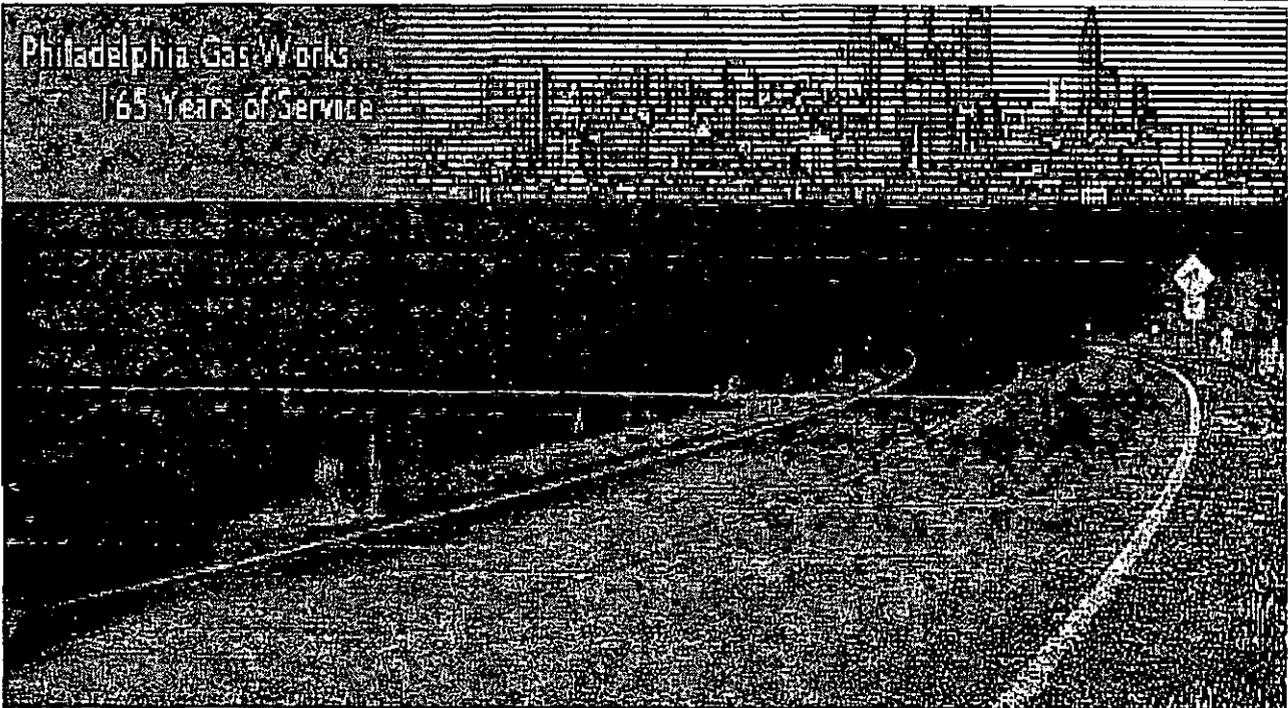
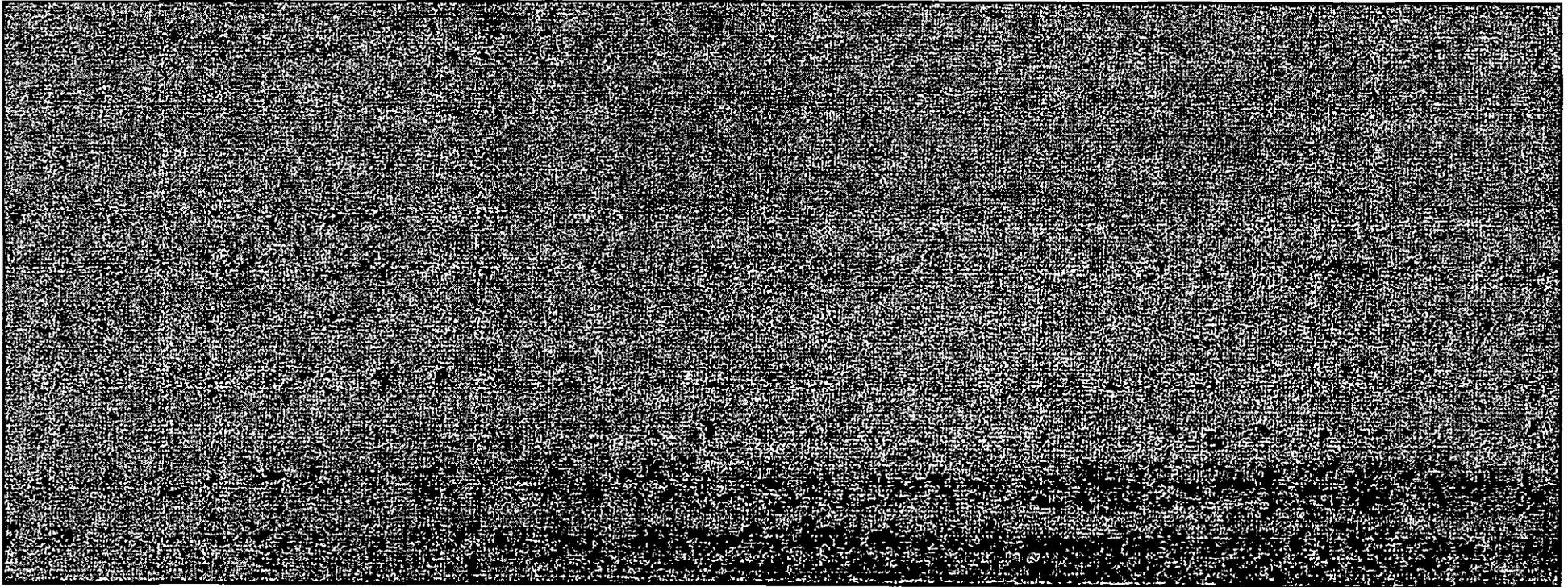
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RF Philadelphia

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## PGC Report

April 19<sup>th</sup>, 2004

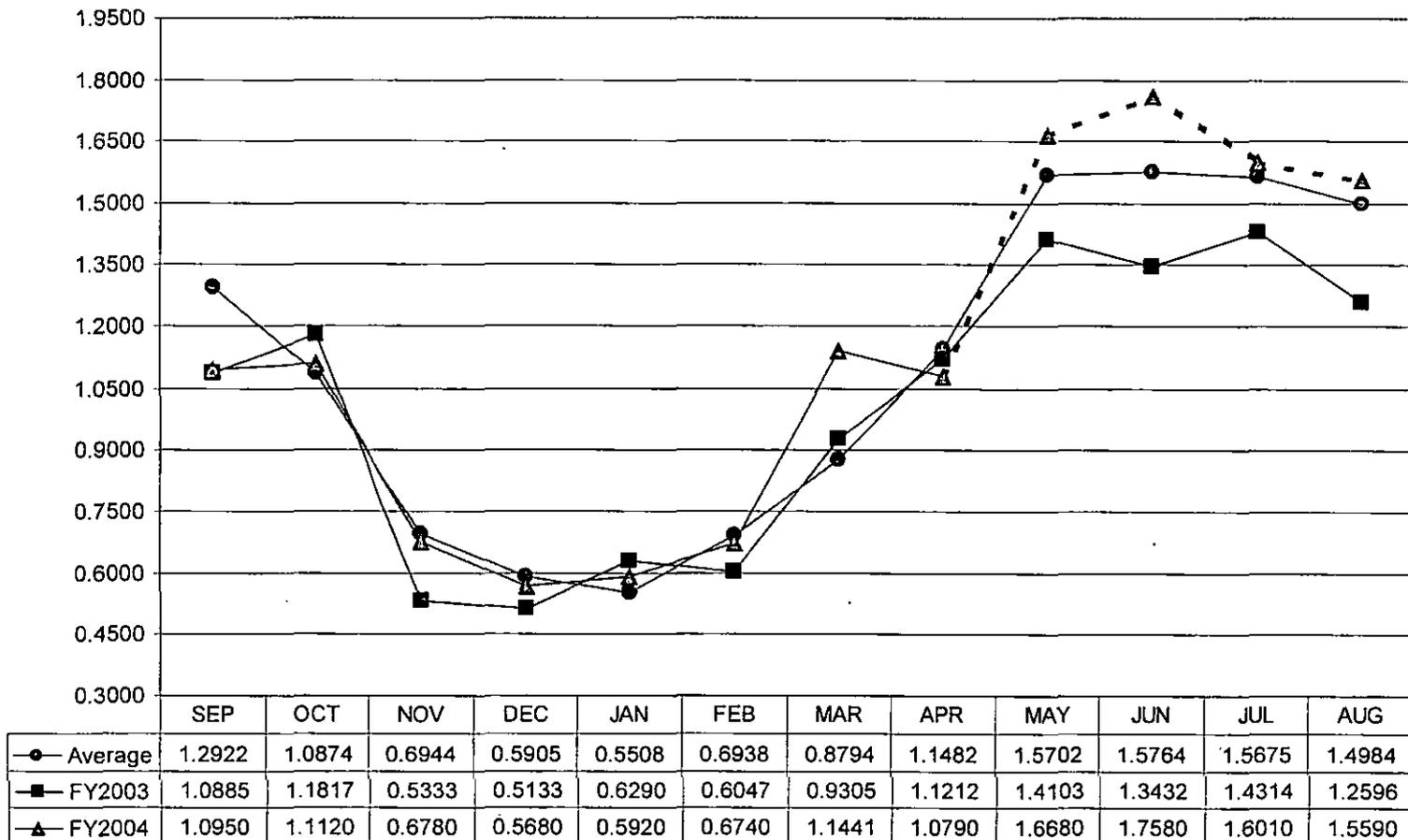
## Collections Renewal Initiative Summary (CRI)

- Rate of Collection
- Campaign Highlights
- Customer Segmentation
  - Collectibility Summary
  - A/R Summary
  - Unprotected/Late Payers
- Next Steps

**Conclusion: FY04 Receipts as a % of Billings are currently projected at 94%.**

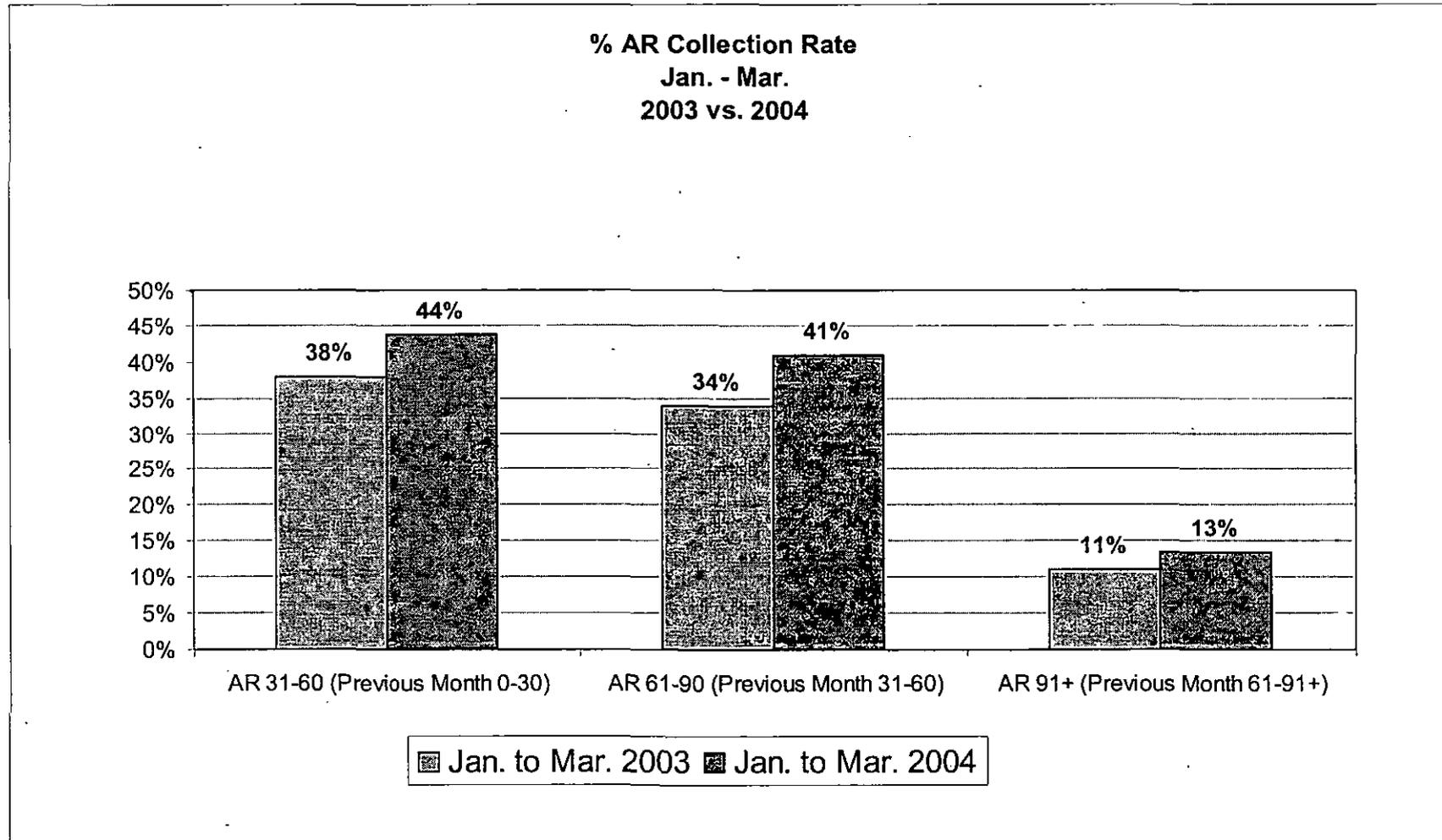
PHILADELPHIA GAS WORKS

**GAS RECEIPTS AS PERCENTAGE OF GAS BILLINGS  
9 YEAR AVERAGE  
WEATHER NORMALIZED BASIS**



91.7%  
86.7%  
94.0%

**Conclusion: Concentrated efforts on early payments have translated into an increase of \$20.6M in AR\$ collected over '03 activity.**



\* Data charts on following slides

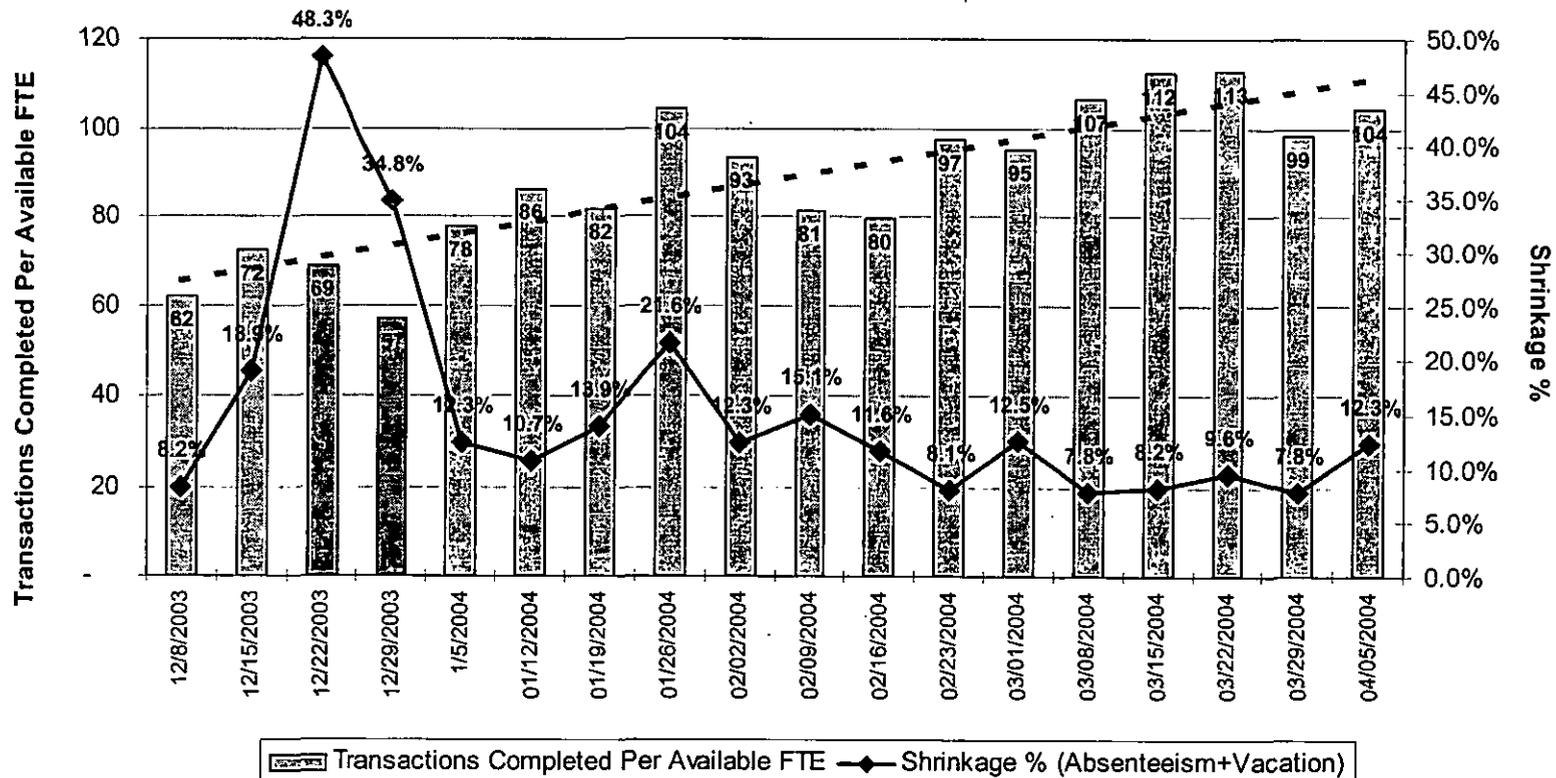
- \*1. CSR Productivity Index: increased 68% since December '03
- \*2. Call Volume: Inbound calls answered increased by 2.6x and outbound calls successful increased by 13.6x
- \*3. Field Collections: \$4.9M for Jan. thru Mar. '04, up 7% (\$329K) over '03 activity
- \*4. Intel-A-Check Activity: \$2.7M for Jan. thru Mar. '04, up 77% (\$2.5M) over '03 activity
- \*5. Payment Arrangements: 30,574 for Jan. thru Mar. '04, up 76% over '03 activity
- \*6. Commercial Accounts: AR\$ collection rate increase of 17% (\$7.5M) YTD '04.
- \*7. Tenant Landlords currently represent an outstanding AR\$ 31+ of \$3.0 M and 2,500 accounts (Mar-04)
- \*8. Zipcode Pilot Analysis
- 9. Credit Reporting will be performed on all account activities.
- 10. Agency One-Time Placement of \$200M has resulted in 3.9% total recovery (Apr.-04)

Type	Amt Placed	Recovery
Final Accounts	\$61.0M	4.3%
FY 2003 W/off	\$49.5M	1.5%
Prior W/Off	\$89.4M	0.6%

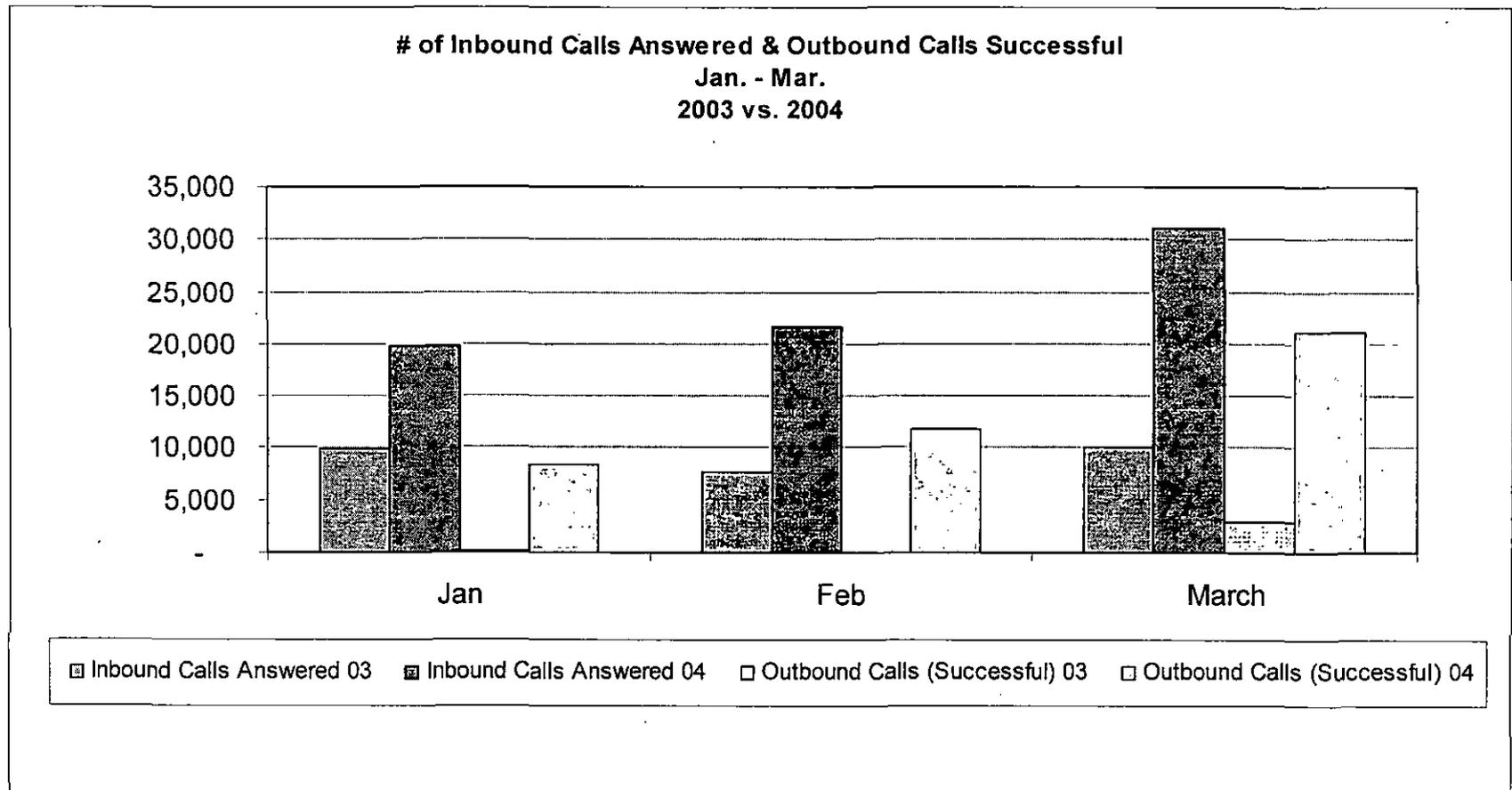
- 11. Agency Current Placement of \$39M/20,461 accounts (Apr.-04)
- 12. Data for Post Moratorium 10 Day Notices, Shut-offs, Broken Contracts and BPTO's will be compiled as we move through the collection season. 130K Post Moratorium Notices are estimated for the period (March 25 to May 15).
- 13. Implemented a Vacant Account Program to monitor unauthorized AMR meter readings and identify unsafe usage. If usage is found the account will be dispatched to the field for immediate investigation and/or termination

**Productivity gains have continued and have increased 68% since Dec-03**

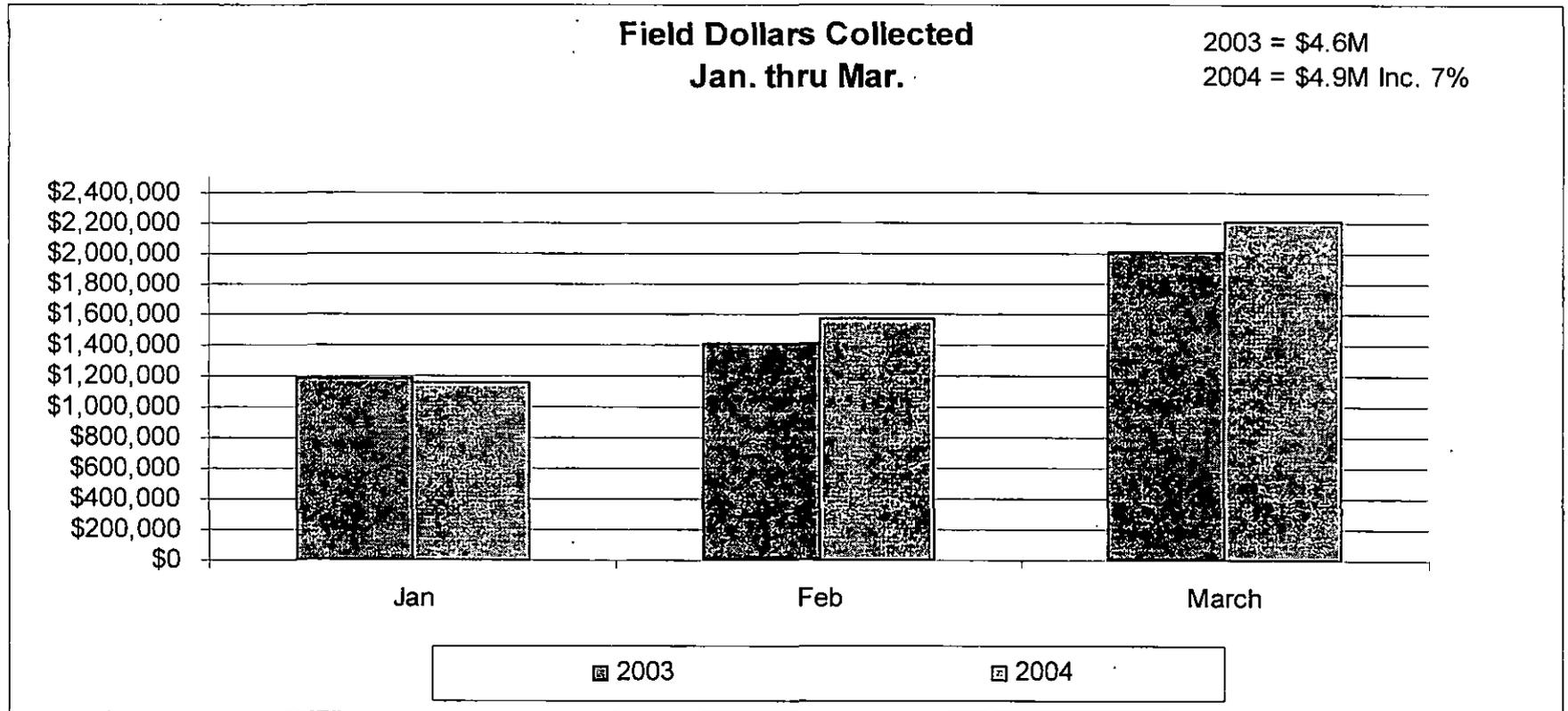
Collections Daily Work Plan Activity vs. Shrinkage %  
12-8-03 to Present



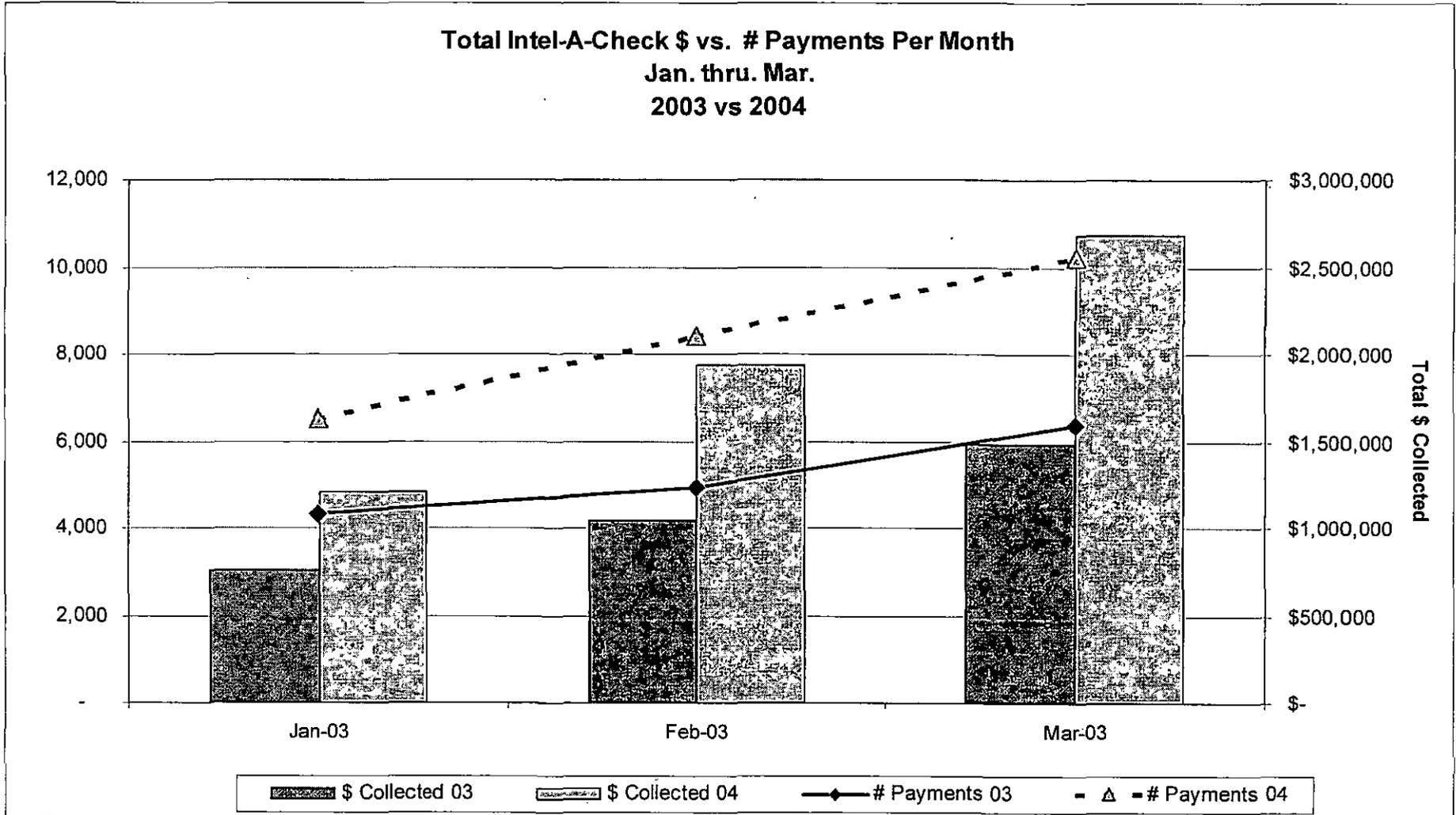
**Call Volume: Inbound calls answered increased by 2.6x and outbound calls successful increased by 13.6x for Jan. thru Mar. '04, over '03 activity.**



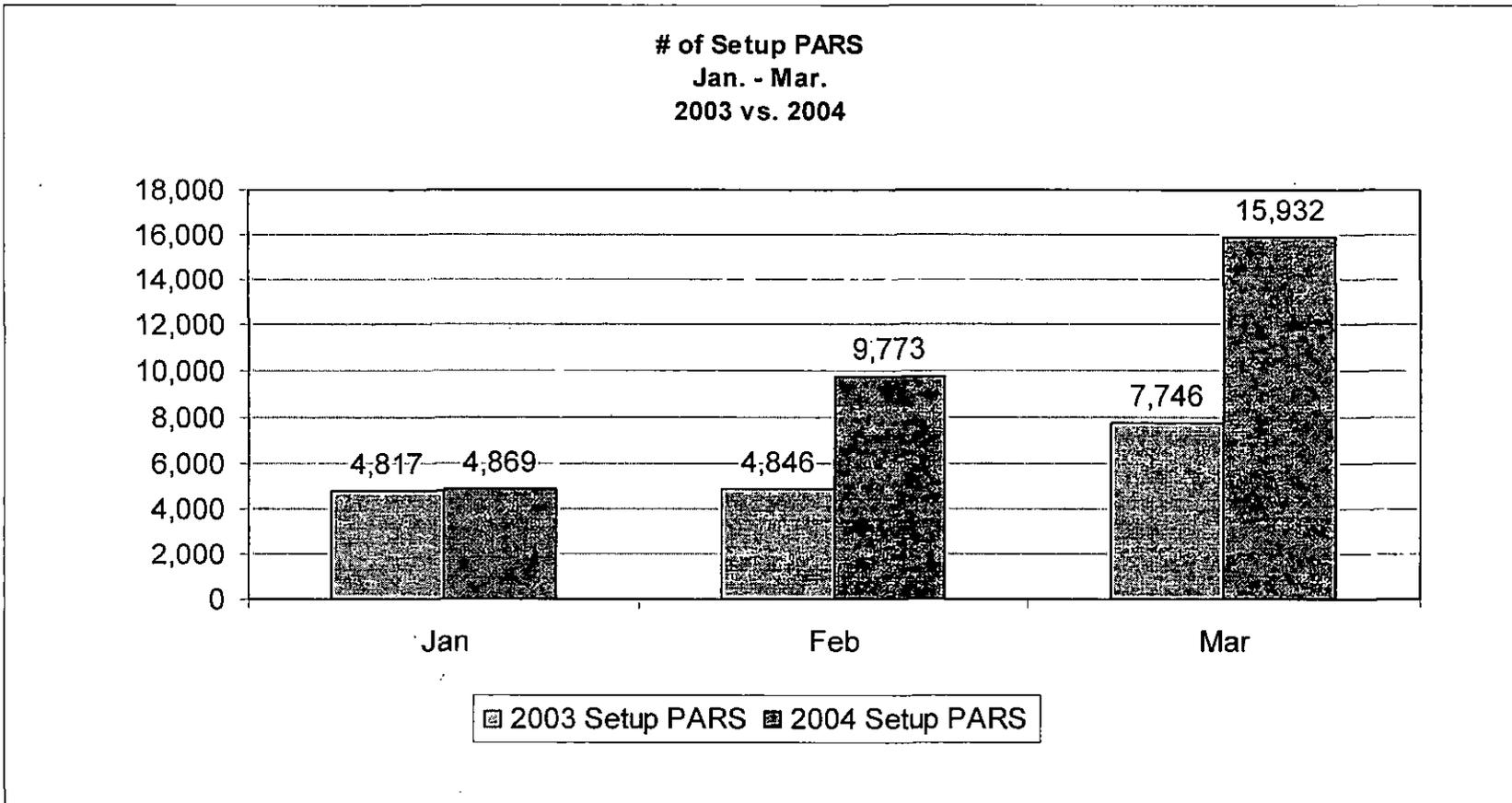
**Field Collections: \$4.9M for Jan. thru Mar. '04, up 7% (\$329K) over '03 activity**



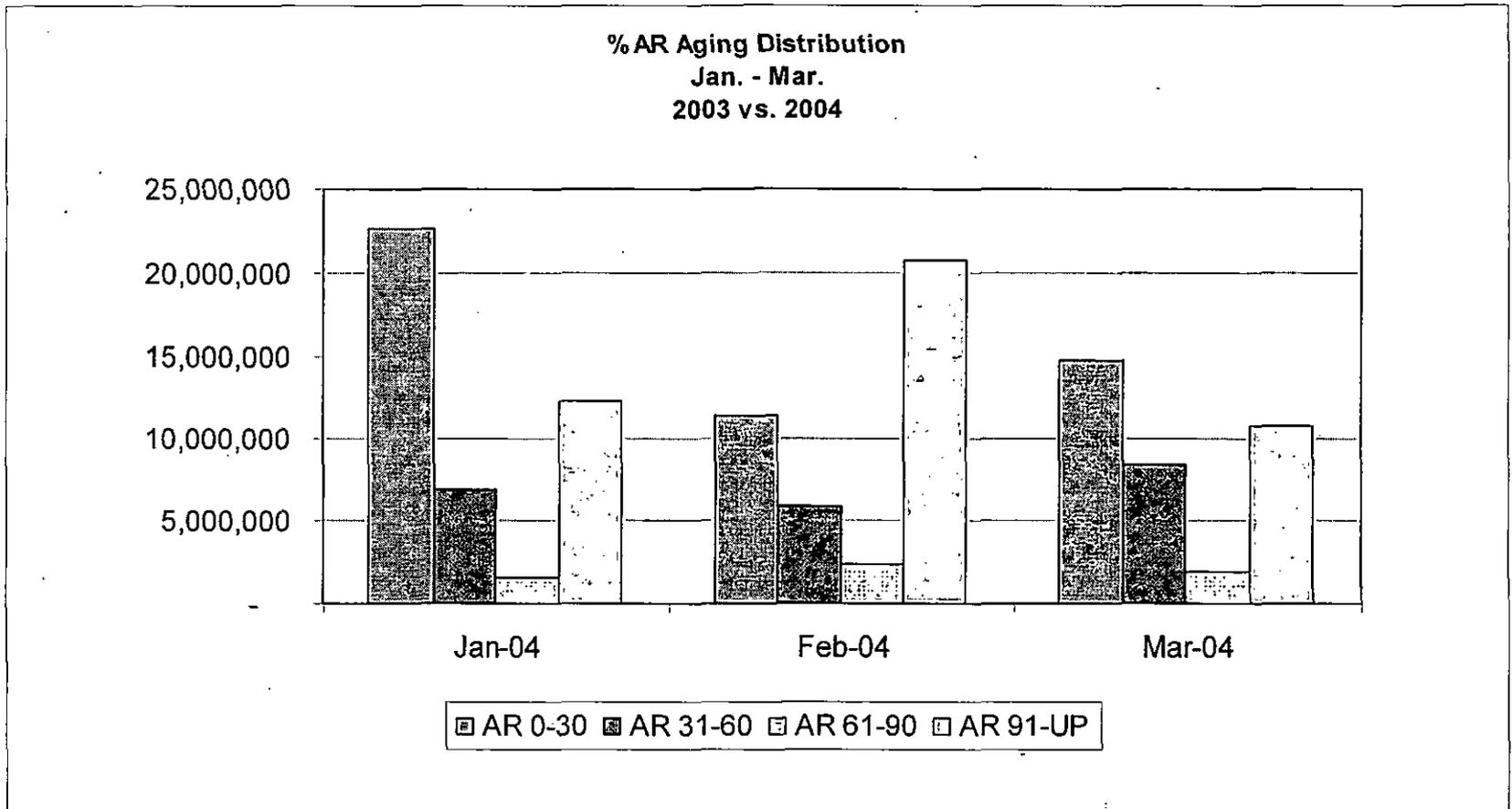
**Intel-A-Check Activity: \$2.7M for Jan. thru Mar. '04, up 77% (\$2.5M) over '03 activity**



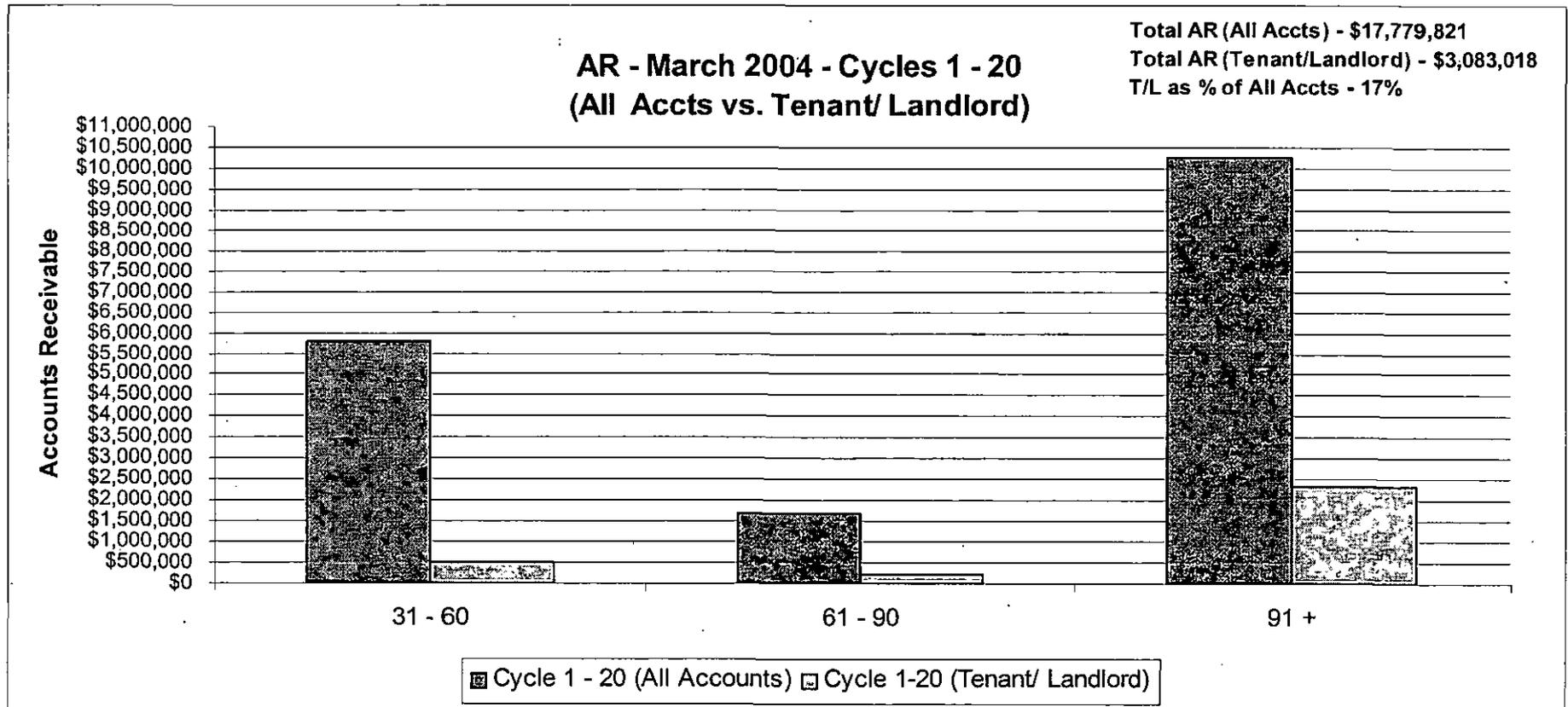
**Payment Arrangements: 30,574 for Jan. thru Mar. '04, up 76% over '03 activity**



**Collection efforts on commercial accounts have resulted in an AR\$ collection rate increase of 17% (\$7.5M) YTD '04**



**Tenant Landlords currently represent an outstanding AR\$ 31+ of \$3.0 M and 2,500 accounts (Mar-04)**



*A/R continues to present collectibility challenges.*

	Segments	Balance 9-1-03	Increase in Recovery	Collections through February 29, 2004			Balance 9-1-03 work as of 4-1-04	% Change 9-1-03 to 4-1-04	Actual 3-31-2004 Balance - Collectibility Study
				Gross	Commissions	Net			
1	Regular Paying Customers								
2	Finals	\$1,719,365	15%	\$2,607,161	\$ 651,790	\$1,955,371		\$ 55,791,523	
3	Write-offs	\$138,907,833	15%	\$1,304,518	127,357	\$ 853,770		\$ 35,214,789	
4	Unprotected / Collectible Accounts	\$76,376,242	15%				\$ 69,280,239	-9%	\$ 75,992,655
5	CRP	\$6,065,928	N/A				\$ 5,814,204	-4%	\$ 8,622,168
6	Easyway	\$7,922,043	10%				\$ 18,497,007	133%	\$ 18,846,276
7	Payment Arrangements	\$31,352,560	15%				\$ 47,104,641	50%	\$ 63,878,981
8	Non-CRP Low-Income Customers	\$9,109,356	5%				11,843,949	30%	9,348,726
9	Non-Payment / Shut-offs	\$57,856,446	25%				\$ 14,608,217	-75%	\$ 27,639,473
10	Disputes and Holds (blocker)	\$11,542,355	10%				\$ 8,538,499	-26%	\$ 16,104,873
11	Bankruptcies	\$13,660,046	2%	\$ -	\$ -	\$ -	\$ 1,980,698	-86%	\$ 14,426,422
	<b>Subtotal</b>	<b>\$354,512,174</b>		<b>\$3,911,679</b>	<b>\$ 779,147</b>	<b>\$2,809,141</b>	<b>\$ 177,667,454</b>		<b>\$ 325,865,886</b>
	<b>Subtotal less Finals and Write-offs</b>	<b>\$213,884,976</b>					<b>\$ 177,667,454</b>	<b>-17%</b>	

\*Refer to A/R Customer Segment table for updated A/R values (next slide)



***Next Steps Include:***

- Manage 04-01 field collections campaign via daily work-planning
- Benchmark field collection results through daily work-planning
- Track and benchmark collection agency results placement or write-off accounts

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility  
Commission, et al.

Complainants

v.

Philadelphia Gas Works

Respondent

DOCUMENT

R-00049157

P-00042090

DOCKETED

MAY 28 2004

ACTION ALLIANCE ET-AL.'S  
CROSS EXAMINATION EXHIBIT 1

PF Philadelphia 5-11-04

PHILIP A. BERTOCCI  
LAURA MOSKOWITZ

Attorneys for Action Alliance, et al.

COMMUNITY LEGAL SERVICES, INC.  
1424 Chestnut Street, 4<sup>th</sup> Floor  
Philadelphia, PA 19102  
215-981-3702

2004 MAY 19 PM 2:41  
PA. PUB.  
SECRETARY'S BUREAU

RECEIVED

Actual/Estimate Weather 4.375 degree days  
 City Loan \$45.0 MM Fully Outstanding @ 8/31/04  
 TXCP \$80.0 MM with \$79.8 MM Outstanding @ 8/31/04  
 Original Collection Factor 94.5% / Estimate 90.5%  
 City Fee Deferral \$18.0 M until 6/04/ Grant Back 8/31  
 Natural Gas Pymt. Deferral \$53.4 M @ 9.2 Bcf May-Sept  
 FY 2004 Impact \$10.0 M per Month June-Aug  
 4/29/04

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2004

	(Millions of Dollars)												TOTAL	No \$18.0 M TOTAL
	ACTUAL Sep	ACTUAL Oct	ACTUAL Nov	ACTUAL Dec	ACTUAL Jan	ACTUAL Feb	ACTUAL Mar	ESTIMATE Apr	FORECAST May	FORECAST June	FORECAST July	FORECAST Aug		
OPENING BALANCE - CASH INCLUDES \$74.0 TXCP RECEIPTS	\$0.1	(\$2.5)	(\$1.3)	(\$0.6)	\$3.5	\$0.3	\$1.8	\$0.0	\$1.8	(\$4.1)	\$35.9	\$10.9	\$0.1	\$0.1
Gas	34.0	42.3	39.3	58.9	77.8	84.4	118.7	83.0	70.0	55.0	45.0	42.0	758.2	758.2
Other	2.2	1.7	0.1	0.4	2.8	0.4	0.3	0.5	0.5	0.5	0.5	1.9	11.8	11.8
Drawn from Capital Funds - Principal (\$94.2MM)	18.6	9.8	12.4	4.3	33.5	(0.1)	(10.5)	0.0	1.0	8.0	0.0	(10.8)	66.0	68.0
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.4
Drawn from Lease Funds - Principal (\$X.XMM)	0.0	1.2	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	4.4	4.4
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Pension Draw	0.8	2.2	1.5	1.8	1.6	1.6	1.8	1.8	1.6	1.8	1.8	1.6	18.9	18.9
City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>55.6</b>	<b>57.0</b>	<b>53.3</b>	<b>65.2</b>	<b>115.5</b>	<b>98.3</b>	<b>108.1</b>	<b>88.4</b>	<b>73.1</b>	<b>65.1</b>	<b>47.1</b>	<b>36.1</b>	<b>860.8</b>	<b>880.8</b>
<b>TOTAL</b>	<b>55.7</b>	<b>54.5</b>	<b>52.0</b>	<b>64.6</b>	<b>119.0</b>	<b>98.6</b>	<b>109.9</b>	<b>88.4</b>	<b>74.9</b>	<b>61.0</b>	<b>83.0</b>	<b>47.0</b>	<b>860.9</b>	<b>880.9</b>
DISBURSEMENTS														
Labor	10.4	12.2	10.8	11.4	12.2	11.9	10.8	11.8	11.0	11.2	11.2	11.2	136.1	136.1
Natural Gas	28.7	32.5	35.7	41.4	55.9	83.2	51.2	39.6	40.9	28.1	21.6	21.4	460.2	460.2
Debt Service	0.0	2.0	0.0	0.0	23.3	8.4	0.0	2.0	4.6	0.0	39.0	15.0	84.3	94.3
TXCP: Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.2	1.9	1.9
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	1.5	1.5
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.1	0.0	0.0	18.1	0.1
Other Disbursements	15.5	11.1	10.2	10.2	10.4	12.2	13.8	12.0	11.8	11.3	11.1	11.0	141.6	141.6
<b>TOTAL DISBURSEMENTS</b>	<b>55.7</b>	<b>57.9</b>	<b>56.8</b>	<b>63.1</b>	<b>101.9</b>	<b>95.8</b>	<b>75.9</b>	<b>65.6</b>	<b>70.0</b>	<b>69.1</b>	<b>83.1</b>	<b>58.8</b>	<b>853.7</b>	<b>835.7</b>
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	13.6	0.5	32.2	22.8	3.1	(4.0)	(36.0)	(22.7)	7.1	25.1
CUMULATIVE CASH FLOW	(0.1)	(1.0)	(4.5)	(2.4)	11.2	11.7	43.9	66.7	69.8	65.8	29.8	7.1		
OPENING TXCP	74.0	71.5	73.8	77.8	79.8	83.0	84.0	30.0	9.0	0.0	44.0	55.0	74.0	74.0
TXCP ISSUED DURING MONTH	0.0	2.1	4.2	2.0	0.0	1.0	0.0	0.0	0.0	44.0	11.0	24.8	89.1	89.1
TXCP ISSUED PAID DOWN DURING MONTH	2.5	0.0	0.0	0.0	16.8	0.0	34.0	21.0	9.0	0.0	0.0	0.0	83.3	83.3
ENDING TXCP	71.5	73.8	77.8	79.8	83.0	84.0	30.0	9.0	0.0	44.0	55.0	79.8	79.8	79.8
OPENING BALANCE - CASH	0.1	(2.5)	(1.3)	(0.6)	3.5	0.3	1.8	0.0	1.8	(4.1)	35.9	10.9	0.1	0.1
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	13.6	0.5	32.2	22.8	3.1	(4.0)	(36.0)	(22.7)	7.1	25.1
NET TXCP ACTIVITY MONTHLY	(2.5)	2.1	4.2	2.0	(16.8)	1.0	(34.0)	(21.0)	(9.0)	44.0	11.0	24.8	5.8	5.8
ENDING BALANCE - CASH	(2.5)	(1.3)	(0.6)	3.5	0.3	1.8	0.0	1.8	(4.1)	35.9	10.9	13.0	13.0	31.0
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(119.0)	(119.9)	(123.4)	(121.3)	(107.7)	(107.2)	(75.0)	(52.2)	(49.1)	(53.1)	(89.1)	(111.8)	(93.8)	(93.8)

Note: 1) Natural Gas Storage Payment Deferral on-going negotiations for \$53.4 Million (9.2 Bcf), June-Aug benefit \$10.0 M per month with balance in FY 2005.

Actual/Estimate Weather 4,375 degree days  
 City Loan \$45.0 MM Fully Outstanding @ 8/31/04  
 TXCP \$80.0 MM with \$79.8 MM Outstanding @ 8/31/04  
 Original Collection Factor 94.5% / Estimate 93.0%  
 City Fee Deferral \$18.0 M until 6/04/ Grant Back 8/31  
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 FY 2004 Impact \$10.0 M per Month June-Aug  
 4/30/04

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2004  
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE	FORECAST	FORECAST	FORECAST	FORECAST	TOTAL	No \$18.0 M
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL	TOTAL
OPENING BALANCE - CASH INCLUDES \$74.0 TXCP RECEIPTS	\$0.1	(\$2.5)	(\$1.3)	(\$0.8)	\$3.5	-\$0.3	\$1.8	\$0.0	\$0.8	(\$2.1)	\$39.9	\$14.9	\$0.1	\$0.1
Gas	34.0	42.3	39.3	58.9	77.6	94.4	116.7	82.0	73.0	57.0	45.0	43.0	783.2	783.2
Other	2.2	1.7	0.1	0.4	2.8	0.4	0.3	0.5	0.5	0.5	0.5	1.9	11.8	11.8
Drawn from Capital Funds - Principal (\$94.2MM)	18.8	9.8	12.4	4.3	33.5	(0.1)	(10.5)	0.0	1.0	8.0	0.0	(10.8)	66.0	66.0
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.4
Drawn from Lease Funds - Principal (\$X.XMM)	0.0	1.2	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	4.4	4.4
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Pension Draw	0.8	2.2	1.5	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	18.9	18.9
City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>55.6</b>	<b>57.0</b>	<b>53.3</b>	<b>65.2</b>	<b>115.5</b>	<b>96.3</b>	<b>108.1</b>	<b>87.4</b>	<b>76.1</b>	<b>67.1</b>	<b>47.1</b>	<b>37.1</b>	<b>865.8</b>	<b>865.8</b>
<b>TOTAL</b>	<b>55.7</b>	<b>54.6</b>	<b>52.0</b>	<b>64.6</b>	<b>119.0</b>	<b>98.8</b>	<b>109.9</b>	<b>87.4</b>	<b>76.9</b>	<b>65.0</b>	<b>87.0</b>	<b>52.0</b>	<b>865.9</b>	<b>865.9</b>
<b>DISBURSEMENTS</b>														
Labor	10.4	12.2	10.8	11.4	12.2	11.9	10.8	11.8	11.0	11.2	11.2	11.2	136.1	136.1
Natural Gas	28.7	32.5	35.7	41.4	55.9	63.2	51.2	39.6	40.9	28.1	21.6	21.4	460.2	460.2
Debt Service	0.0	2.0	0.0	0.0	23.3	8.4	0.0	2.0	4.6	0.0	39.0	15.0	94.3	94.3
TXCP: Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.2	1.9	1.9
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	1.5	1.5
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.1	0.0	0.0	18.1	0.1
Other Disbursements	16.5	11.1	10.2	10.2	10.4	12.2	13.8	12.0	11.8	11.3	11.1	11.0	141.6	141.6
<b>TOTAL DISBURSEMENTS</b>	<b>55.7</b>	<b>57.9</b>	<b>56.8</b>	<b>63.1</b>	<b>101.9</b>	<b>95.8</b>	<b>75.9</b>	<b>65.6</b>	<b>70.0</b>	<b>69.1</b>	<b>83.1</b>	<b>56.8</b>	<b>853.7</b>	<b>835.7</b>
<b>MONTHLY CASH FLOW</b>	<b>(0.1)</b>	<b>(0.9)</b>	<b>(3.5)</b>	<b>2.1</b>	<b>13.6</b>	<b>0.5</b>	<b>32.2</b>	<b>21.8</b>	<b>6.1</b>	<b>(2.0)</b>	<b>(36.0)</b>	<b>(21.7)</b>	<b>12.1</b>	<b>30.1</b>
<b>CUMULATIVE CASH FLOW</b>	<b>(0.1)</b>	<b>(1.0)</b>	<b>(4.5)</b>	<b>(2.4)</b>	<b>11.2</b>	<b>11.7</b>	<b>43.9</b>	<b>65.7</b>	<b>71.8</b>	<b>69.8</b>	<b>33.8</b>	<b>12.1</b>		
OPENING TXCP	74.0	74.0	71.5	73.6	77.8	79.8	63.0	64.0	30.0	9.0	0.0	44.0	55.0	74.0
TXCP ISSUED DURING MONTH	0.0	2.1	4.2	2.0	0.0	1.0	0.0	0.0	0.0	44.0	11.0	24.8	89.1	89.1
TXCP ISSUED PAID DOWN DURING MONTH	2.5	0.0	0.0	0.0	16.8	0.0	34.0	21.0	9.0	0.0	0.0	0.0	83.3	83.3
ENDING TXCP	71.5	73.6	77.8	79.8	63.0	64.0	30.0	9.0	0.0	44.0	55.0	79.8	79.8	79.8
OPENING BALANCE - CASH	0.1	(2.5)	(1.3)	(0.6)	3.5	0.3	1.8	0.0	0.8	(2.1)	39.9	14.9	0.1	0.1
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	13.6	0.5	32.2	21.8	6.1	(2.0)	(36.0)	(21.7)	12.1	30.1
NET TXCP ACTIVITY MONTHLY	(2.5)	2.1	4.2	2.0	(16.8)	1.0	(34.0)	(21.0)	(9.0)	44.0	11.0	24.8	5.8	5.8
ENDING BALANCE - CASH	(2.5)	(1.3)	(0.6)	3.5	0.3	1.8	0.0	0.8	(2.1)	39.9	14.9	18.0	18.0	36.0
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(119.0)	(119.8)	(123.4)	(121.3)	(107.7)	(107.2)	(75.0)	(53.2)	(47.1)	(49.1)	(85.1)	(106.8)		(86.8)

Note: 1) Natural Gas Storage Payment Deferral on-going negotiations for \$53.4 Million (9.2 Bcf), June-Aug benefit \$10.0 M per month with balance in FY 2005.

Actual/Estimate Weather 4,490 degree days  
 City Loan \$45.0 MM Fully Outstanding @ 8/31/04  
 TXCP \$80.0 MM with \$79.8 MM Outstanding @ 8/31/04  
 Original Collection Factor 94.5% / Estimate 89.0%  
 City Fee Deferral \$18.0 M-Nat. Gas Storage Deferral \$10.0M  
 Natural Gas Pymt. Deferral \$24.5 M @ 4.59 Bcf May-Sept  
 FY 2004 Impact \$4.9 M per Month June-Aug  
 2/25/04

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2004  
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	TOTAL
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES \$74.0 TXCP RECEIPTS	(\$0.1)	(\$2.7)	(\$1.5)	(\$0.8)	\$3.3	\$13.4	\$7.8	\$14.0	\$14.5	\$4.3	\$41.3	\$15.1	(\$0.1)
Gas	34.0	42.3	39.3	58.9	77.5	96.0	99.0	91.0	77.0	60.0	47.0	44.7	766.7
Other	2.2	1.7	0.1	0.4	3.4	0.1	0.1	0.6	0.6	0.6	0.6	1.9	12.3
Drawn from Capital Funds - Principal (\$94.2MM)	18.6	9.6	12.4	4.3	31.0	0.0	0.0	0.0	18.1	0.0	0.0	(27.4)	66.6
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	1.4
Drawn from Lease Funds - Principal (\$X.XMM)	0.0	1.2	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	4.4
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Pension Draw	0.8	2.2	1.5	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	18.8
City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>55.6</b>	<b>57.0</b>	<b>53.3</b>	<b>65.2</b>	<b>113.4</b>	<b>97.7</b>	<b>100.7</b>	<b>96.5</b>	<b>97.3</b>	<b>62.2</b>	<b>49.2</b>	<b>22.2</b>	<b>870.3</b>
<b>TOTAL</b>	<b>55.5</b>	<b>54.3</b>	<b>51.8</b>	<b>64.4</b>	<b>116.7</b>	<b>111.1</b>	<b>108.5</b>	<b>110.5</b>	<b>111.8</b>	<b>66.5</b>	<b>90.5</b>	<b>37.3</b>	<b>870.2</b>
<b>DISBURSEMENTS</b>													
Labor	10.4	12.2	10.8	11.4	12.3	11.4	12.3	11.9	11.0	11.3	11.4	11.4	137.8
Natural Gas	28.7	32.5	35.7	41.4	55.5	63.5	49.2	52.8	41.9	29.2	26.7	26.5	483.6
Debt Service	0.0	2.0	0.0	0.0	23.3	8.4	0.0	2.0	4.6	0.0	39.0	15.0	94.3
TXCP: Interest	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.2	2.2
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	1.5
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	16.5	11.1	10.2	10.2	12.0	12.8	12.8	12.6	12.0	11.3	11.1	11.0	143.6
<b>TOTAL DISBURSEMENTS</b>	<b>55.7</b>	<b>57.9</b>	<b>56.8</b>	<b>63.1</b>	<b>103.3</b>	<b>96.3</b>	<b>74.5</b>	<b>81.0</b>	<b>69.7</b>	<b>70.2</b>	<b>88.4</b>	<b>64.1</b>	<b>881.0</b>
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	10.1	1.4	26.2	15.5	27.6	(8.0)	(39.2)	(41.9)	(10.7)
CUMULATIVE CASH FLOW	(0.1)	(1.0)	(4.5)	(2.4)	7.7	9.1	35.3	50.8	78.4	70.4	31.2	(10.7)	
OPENING TXCP	74.0	71.5	73.6	77.8	79.8	79.8	72.8	52.8	37.8	0.0	45.0	58.0	74.0
TXCP ISSUED DURING MONTH	0.0	2.1	4.2	2.0	0.0	0.0	0.0	0.0	0.0	45.0	13.0	21.8	88.1
TXCP ISSUED PAID DOWN DURING MONTH	2.5	0.0	0.0	0.0	0.0	7.0	20.0	15.0	37.8	0.0	0.0	0.0	82.3
ENDING TXCP	71.5	73.6	77.8	79.8	79.8	72.8	52.8	37.8	0.0	45.0	58.0	79.8	79.8
OPENING BALANCE - CASH	(0.1)	(2.7)	(1.5)	(0.8)	3.3	13.4	7.8	14.0	14.5	4.3	41.3	15.1	(0.1)
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	10.1	1.4	26.2	15.5	27.6	(8.0)	(39.2)	(41.9)	(10.7)
NET TXCP ACTIVITY MONTHLY	(2.5)	2.1	4.2	2.0	0.0	(7.0)	(20.0)	(15.0)	(37.8)	45.0	13.0	21.8	5.8
ENDING BALANCE - CASH	(2.7)	(1.5)	(0.8)	3.3	13.4	7.8	14.0	14.5	4.3	41.3	15.1	(5.0)	(5.0)
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(119.2)	(120.1)	(123.6)	(121.5)	(111.4)	(110.0)	(83.8)	(68.3)	(40.7)	(48.7)	(87.9)	(129.8)	

Actual Weather 4,794 degree days 5.25%  
 City Loan \$45.0 MM Fully Outstanding @ 8/31/03  
 \$69.6M Annualized Rate Increase  
 TXCP \$80.0 M with \$74.0 MM Outstanding @ 8/31/03  
 New Bond Sale \$125.0 MM 12/2002  
 WNA Customer Credit \$10.0 MM

ESTIMATE OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2003  
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	TOTAL
9/17/03	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES \$78.0 TXCP RECEIPTS	\$11.4	(\$0.7)	\$0.8	\$6.0	\$6.2	\$8.0	\$3.1	\$10.1	\$13.8	\$2.2	\$2.0	(\$1.0)	\$11.4
Gas	28.5	37.7	31.6	49.9	77.6	76.3	102.9	85.4	68.8	50.5	44.6	36.7	690.5
Other	1.1	0.4	6.0	0.2	0.3	0.1	0.5	0.5	0.4	0.3	0.6	15.3	25.7
Drawn from Capital Funds - Principal	0.0	6.0	17.0	11.4	20.7	0.0	0.0	0.0	15.4	1.2	(3.1)	(7.6)	61.0
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.4	0.8	1.7
Drawn from Lease Funds - Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw	0.0	3.6	1.5	1.0	2.6	0.0	2.6	1.8	0.8	0.8	0.8	1.7	17.2
City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rate Relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL RECEIPTS	29.6	47.7	56.1	62.5	101.7	76.4	106.0	87.7	85.4	52.8	43.3	46.9	796.1
TOTAL	41.0	47.0	56.9	68.5	107.9	84.4	109.2	97.8	99.2	55.0	45.3	45.9	807.5
DISBURSEMENTS													
Labor	10.7	10.3	12.6	11.4	12.4	12.2	11.7	12.4	12.3	9.8	12.5	11.5	139.8
Natural Gas	19.0	21.6	28.8	38.4	41.2	44.5	45.1	59.3	37.8	41.4	37.0	17.5	431.6
Debt Service	0.0	2.0	0.0	0.0	24.7	5.4	0.0	2.0	4.7	0.0	38.2	13.3	90.3
TXCP: Interest	0.0	0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.4	0.0	0.1	1.1
Repayment of City Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee	0.0	0.0	0.0	0.0	0.0	4.5	4.5	4.5	4.5	0.0	0.0	0.0	18.0
Other Disbursements	12.0	9.2	10.5	10.2	9.5	8.8	12.2	9.8	10.2	9.4	11.1	7.9	120.8
TOTAL DISBURSEMENTS	41.7	43.2	51.9	60.2	87.9	75.5	73.6	88.0	69.5	61.0	98.8	50.3	801.6
MONTHLY CASH FLOW	(12.1)	4.5	4.2	2.3	13.8	0.9	32.4	(0.3)	15.9	(8.2)	(55.5)	(3.4)	(5.5)
CUMULATIVE CASH FLOW	(12.1)	(7.6)	(3.4)	(1.1)	12.7	13.6	46.0	45.7	61.6	53.4	(2.1)	(5.5)	
OPENING TXCP	79.8	79.8	76.8	77.8	75.7	63.7	58.0	32.5	36.5	9.0	17.0	69.5	79.8
TXCP ISSUED DURING MONTH	0.0	0.0	1.0	0.0	0.0	0.0	0.0	4.0	0.0	8.0	52.5	4.5	70.0
TXCP ISSUED PAID DOWN DURING MONTH	0.0	3.0	0.0	2.1	12.0	5.8	25.5	0.0	27.5	0.0	0.0	0.0	75.9
ENDING TXCP	79.8	76.8	77.8	75.7	63.7	58.0	32.5	36.5	9.0	17.0	69.5	74.0	74.0
OPENING BALANCE - CASH	11.4	(0.7)	0.8	6.0	6.2	8.0	3.1	10.1	13.8	2.2	2.0	(1.0)	11.4
MONTHLY CASH FLOW	(12.1)	4.5	4.2	2.3	13.8	0.9	32.4	(0.3)	15.9	(8.2)	(55.5)	(3.4)	(5.5)
NET TXCP ACTIVITY MONTHLY	0.0	(3.0)	1.0	(2.1)	(12.0)	(5.8)	(25.5)	4.0	(27.5)	8.0	52.5	4.5	(5.8)
ENDING BALANCE - CASH	(0.7)	0.8	6.0	6.2	8.0	3.1	10.1	13.8	2.2	2.0	(1.0)	0.1	0.1
CITY LOAN AVAILABLE - END OF MONTH	6.5	2.3	1.3	0.0	5.1	0.0	0.8	6.6	11.5	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	38.5	42.7	43.7	45.0	39.9	45.0	44.2	38.4	33.5	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(123.2)	(119.7)	(116.8)	(109.4)	(100.7)	(99.0)	(60.8)	(56.2)	(51.8)	(60.0)	(115.5)	(118.9)	

Estimated weather 3550 degree days.  
 City Loan \$45 MM With \$38.5 MM Outstanding @ 8/31/02  
 \$36.6M Rate Increase-Extraordinary \$36.0 Effective 4/12/02  
 TXCP \$100.0 M with \$79.8 M Outstanding @ 8/31/02  
 Reduced expenses per union contract settlement  
 Forward Purchase Agreement - August 2002 \$20.15M

OCA Set 1-15

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2002  
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	TOTAL
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES 97.0 TXCP RECEIPTS	\$1.7	\$0.7	\$3.7	\$4.3	\$3.9	\$1.1	\$2.2	\$6.3	\$3.1	\$0.4	\$0.2	\$0.6	\$1.7
Gas	32.2	40.9	42.9	41.5	63.1	64.6	66.2	72.1	51.2	34.5	33.4	32.9	575.5
Other	0.7	0.6	0.3	1.6	0.6	0.2	0.2	0.1	0.2	0.3	6.6	21.1	32.5
Drawn from Capital Funds - Principal (\$80.9MM)	12.9	20.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	52.9
Drawn from Capital Funds - Interest	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.1	1.4
Drawn from Lease Funds - Principal (\$3.8MM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw	0.0	0.0	0.0	9.2	6.5	0.0	0.0	0.0	5.8	0.0	0.0	0.0	21.5
City Loan	11.9	32.2	22.5	47.4	22.5	36.4	24.7	20.2	35.7	14.9	15.1	25.6	309.1
Grant Back of City Payment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rate Relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>57.7</b>	<b>93.7</b>	<b>65.9</b>	<b>119.7</b>	<b>92.7</b>	<b>101.2</b>	<b>91.1</b>	<b>92.4</b>	<b>92.9</b>	<b>49.7</b>	<b>56.2</b>	<b>79.7</b>	<b>992.9</b>
<b>TOTAL</b>	<b>59.4</b>	<b>94.4</b>	<b>69.6</b>	<b>124.0</b>	<b>96.6</b>	<b>102.3</b>	<b>93.3</b>	<b>98.7</b>	<b>96.0</b>	<b>50.1</b>	<b>56.4</b>	<b>80.3</b>	<b>994.6</b>
DISBURSEMENTS													
Labor	10.3	11.1	11.9	10.9	10.6	10.3	10.0	11.8	11.4	10.2	10.6	11.6	130.7
Natural Gas	26.3	27.8	28.9	33.3	36.0	36.2	22.4	23.3	15.3	22.7	22.2	22.2	316.6
Debt Service	0.0	4.0	0.0	0.0	25.5	6.1	0.0	1.9	1.7	0.0	42.1	13.0	94.3
TXCP: Interest	0.1	0.2	0.2	0.1	0.0	0.2	0.1	0.0	0.1	0.0	0.0	0.1	1.1
Repayment of City Loan	14.5	36.7	17.2	68.1	15.5	26.7	24.1	26.7	25.3	16.4	21.6	22.8	315.6
Union/Management Reductions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	7.5	7.9	10.6	10.2	10.9	8.6	9.9	12.6	9.6	7.6	9.3	9.4	114.1
<b>TOTAL DISBURSEMENTS</b>	<b>58.7</b>	<b>87.7</b>	<b>68.8</b>	<b>122.6</b>	<b>98.5</b>	<b>88.1</b>	<b>66.5</b>	<b>76.3</b>	<b>63.4</b>	<b>74.9</b>	<b>105.8</b>	<b>79.1</b>	<b>990.4</b>
MONTHLY CASH FLOW	(1.0)	6.0	(2.9)	(2.9)	(5.8)	13.1	24.6	16.1	29.5	(25.2)	(49.6)	0.6	2.5
CUMULATIVE CASH FLOW	(1.0)	5.0	2.1	(0.8)	(6.6)	6.5	31.1	47.2	76.7	51.5	1.9	2.5	
OPENING TXCP	78.0	78.0	75.0	78.5	81.0	84.0	72.0	51.5	32.2	0.0	25.0	75.0	78.0
TXCP ISSUED DURING MONTH	0.0	0.0	3.5	2.5	3.0	0.0	0.0	0.0	0.0	25.0	50.0	4.8	88.8
TXCP ISSUED PAID DOWN DURING MONTH	0.0	3.0	0.0	0.0	0.0	12.0	20.5	19.3	32.2	0.0	0.0	0.0	87.0
ENDING TXCP	78.0	75.0	78.5	81.0	84.0	72.0	51.5	32.2	0.0	25.0	75.0	79.8	79.8
OPENING BALANCE - CASH	1.7	0.7	3.7	4.3	3.9	1.1	2.2	6.3	3.1	0.4	0.2	0.6	1.7
MONTHLY CASH FLOW	(1.0)	6.0	(2.9)	(2.9)	(5.8)	13.1	24.6	16.1	29.5	(25.2)	(49.6)	0.6	2.5
NET TXCP ACTIVITY MONTHLY	0.0	(3.0)	3.5	2.5	3.0	(12.0)	(20.5)	(19.3)	(32.2)	25.0	50.0	4.8	1.8
ENDING BALANCE - CASH	0.7	3.7	4.3	3.9	1.1	2.2	6.3	3.1	0.4	0.2	0.6	6.0	6.0
CITY LOAN AVAILABLE - END OF MONTH	0.0	2.6	7.1	1.8	22.5	15.5	5.8	5.2	11.7	1.3	9.3	6.5	6.5
CITY LOAN UTILIZED - END OF MONTH	45.0	42.4	37.9	43.2	22.5	29.5	39.2	39.8	43.7	42.2	35.7	38.5	38.5
CASH POSITION NET OF TXCP AND CITY LOAN	(119.7)	(109.2)	(117.4)	(99.6)	(112.4)	(109.0)	(85.0)	(62.4)	(43.3)	(67.0)	(110.1)	(112.3)	

Normal weather 4600 degree days

Rate Increase -\$11.0 MM Interim - Cust Charge 3/01/01, \$7.0 MM GCR 3/01/01

Productivity/cost savings \$10.0 MM

GCR \$97.0 MM Billed / Nat. Gas Costs \$150.0 MM

City Loan \$45.0 MM Utilized / \$100.0 MM Bond Sale

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
FISCAL YEAR ENDING AUGUST 31, 2001

OCA Sel 1-15

(Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	TOTAL
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES 97.0 TXCP RECEIPTS	\$8.7	\$21.8	\$15.2	\$3.0	\$5.2	\$0.2	\$0.1	\$0.1	\$3.3	\$28.6	\$0.4	\$0.1	\$8.7
Gas	29.4	31.1	32.5	40.3	77.0	86.6	82.9	83.8	73.5	53.4	43.6	43.3	677.4
Other	0.6	1.1	4.2	0.5	1.3	0.3	1.9	0.3	1.2	0.6	1.0	4.4	17.4
Drawn from Capital Funds - Principal \$34.8	26.9	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.6	0.0	0.0	59.5
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Principal \$10.3	0.0	0.0	0.0	3.5	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	4.4
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Withdrawal	0.0	4.4	2.2	8.8	0.0	0.0	6.6	0.0	0.0	3.9	0.0	0.0	25.9
City Loan				7.9	63.8	54.1	36.4	6.0	0.0	45.0	24.3	24.5	262.0
Rate Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>56.9</b>	<b>43.6</b>	<b>38.9</b>	<b>61.0</b>	<b>142.1</b>	<b>141.0</b>	<b>128.7</b>	<b>90.1</b>	<b>74.7</b>	<b>128.5</b>	<b>68.9</b>	<b>72.2</b>	<b>1,046.6</b>
<b>TOTAL</b>	<b>65.6</b>	<b>65.4</b>	<b>54.1</b>	<b>64.0</b>	<b>147.3</b>	<b>141.2</b>	<b>128.8</b>	<b>90.2</b>	<b>78.0</b>	<b>157.1</b>	<b>69.3</b>	<b>72.3</b>	<b>1,055.3</b>
<b>DISBURSEMENTS</b>													
Labor	10.3	11.2	12.4	11.2	13.2	10.8	12.2	11.7	11.8	10.7	11.0	11.8	138.3
Natural Gas	23.6	25.3	32.0	31.8	60.0	74.2	49.1	38.4	26.2	26.2	30.1	28.7	445.6
Debt Service	0.0	3.7	0.0	0.1	25.9	2.7	0.0	3.7	1.7	1.4	37.9	13.4	90.5
TXCP: Interest	0.4	0.5	0.0	0.4	0.3	0.0	1.1	0.1	0.7	0.2	0.0	0.2	3.9
Repayment of City Loan				7.9	35.4	44.7	59.2	21.0	0.0	0.0	26.8	22.0	217.0
Capital Fund Repayment												9.0	9.0
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	9.5	9.5	6.7	7.4	12.3	8.7	7.1	12.0	9.0	9.7	8.9	11.5	112.3
<b>TOTAL DISBURSEMENTS</b>	<b>43.8</b>	<b>50.2</b>	<b>51.1</b>	<b>58.8</b>	<b>147.1</b>	<b>141.1</b>	<b>128.7</b>	<b>86.9</b>	<b>49.4</b>	<b>66.2</b>	<b>114.7</b>	<b>96.6</b>	<b>1034.6</b>
MONTHLY CASH FLOW	13.1	(6.6)	(12.2)	2.2	(5.0)	(0.1)	0.0	3.2	25.3	62.3	(45.8)	(24.4)	12.0
CUMULATIVE CASH FLOW	13.1	6.5	(5.7)	(3.5)	(8.5)	(8.6)	(8.6)	(5.4)	19.9	82.2	36.4	12.0	
OPENING TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	6.5	52.0	97.0
TXCP ISSUED DURING MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.5	45.5	26.0	78.0
TXCP ISSUED PAID DOWN DURING MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	97.0	0.0	0.0	97.0
ENDING TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	6.5	52.0	78.0	78.0
OPENING BALANCE - CASH	8.7	21.8	15.2	3.0	5.2	0.2	0.1	0.1	3.3	28.6	0.4	0.1	8.7
MONTHLY CASH FLOW	13.1	(6.6)	(12.2)	2.2	(5.0)	(0.1)	0.0	3.2	25.3	62.3	(45.8)	(24.4)	12.0
NET TXCP ACTIVITY MONTHLY	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(90.5)	45.5	26.0	(19.0)
ENDING BALANCE - CASH	21.8	15.2	3.0	5.2	0.2	0.1	0.1	3.3	28.6	0.4	0.1	1.7	1.7
CITY LOAN AVAILABLE - END OF MONTH	45.0			18.5	16.6	7.2	30.0	45.0	45.0	(0.0)	2.5	(0.0)	(0.0)
CITY LOAN UTILIZED - END OF MONTH	0.0	0.0	0.0	0.0	28.4	37.8	15.0	0.0	0.0	45.0	42.5	45.0	45.0
CASH POSITION NET OF TXCP & CITY LOAN	(75.2)	(81.8)	(94.0)	(91.8)	(125.2)	(134.7)	(111.9)	(93.7)	(68.4)	(51.1)	(94.4)	(121.3)	(121.3)

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS  
 FISCAL YEAR ENDING AUGUST 31, 2000  
 (Millions of Dollars)

	ACTUAL	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL	
OPENING BALANCE - CASH INCLUDES 75.0 TXCP RECEIPTS	\$15.3	\$22.5	\$6.5	\$4.8	\$26.8	\$15.4	\$36.3	\$57.5	\$68.5	\$27.4	\$105.2	\$59.5	\$15.3	
Gas	27.4	22.6	29.3	34.4	41.3	60.9	68.0	49.8	50.0	40.4	23.7	27.4	475.2	
Other	0.9	0.8	1.2	0.6	0.4	0.6	1.0	1.0	2.2	0.8	1.7	6.5	17.5	
Drawn from Capital Funds - Principal \$103.1	13.5	0.0	0.0	12.3	9.4	5.3	2.4	4.4	0.0	7.1	0.0	14.9	69.3	
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Drawn from Capital Funds - Pncipal \$12.5	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	45.0	0.0	0.0	(45.0)	0.0	
Pension Draw	0.0	0.0	0.0	13.3	0.0	0.0	0.0	0.0	6.6	1.7	5.0	4.5	31.1	
Swap	0.0	0.0	0.0	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.6	
TOTAL RECEIPTS	41.8	26.6	30.5	69.2	51.1	66.8	71.4	55.2	103.8	49.8	30.4	8.3	603.9	
TOTAL	57.1	48.1	37.0	74.0	77.8	82.2	107.7	112.7	172.3	77.2	135.6	67.8	619.2	
DISBURSEMENTS														
Labor	10.7	11.2	12.5	12.6	10.9	11.1	13.1	10.7	10.9	11.8	11.0	11.8	138.3	
Natural Gas	19.6	19.0	19.2	24.2	25.0	23.0	26.9	21.1	25.3	24.1	24.7	26.3	278.4	
Debt Service	0.0	3.7	0.1	0.1	26.6	3.0	0.0	3.7	1.7	1.4	31.7	18.7	90.6	
TXCP: Interest	0.0	0.1	0.0	0.1	0.8	0.4	0.4	0.2	0.6	0.0	0.0	0.0	2.6	
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.2	0.0	0.0	18.2	
Other Disbursements	12.3	7.6	7.4	10.2	6.3	8.4	9.8	8.5	9.4	6.5	8.7	9.6	104.7	
TOTAL DISBURSEMENTS	42.6	41.6	39.2	47.2	69.5	45.9	50.2	44.2	47.9	62.0	76.1	66.4	632.8	
MONTHLY CASH FLOW	(0.8)	(16.0)	(8.7)	22.0	(18.4)	20.9	21.2	11.0	55.9	(12.2)	(45.7)	(58.1)	(28.9)	
CUMULATIVE CASH FLOW	(0.8)	(16.8)	(25.5)	(3.5)	(21.9)	(1.0)	20.2	31.2	87.1	74.9	29.2	(28.9)		
OPENING TXCP	75.0	75.0	83.0	83.0	90.0	90.0	97.0	97.0	97.0	97.0	0.0	90.0	90.0	75.0
TXCP ISSUED DURING MONTH	8.0	0.0	7.0	0.0	7.0	0.0	0.0	0.0	0.0	90.0	0.0	7.0	119.0	
TXCP ISSUED PAID DOWN DURING MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	97.0	0.0	0.0	0.0	97.0	
ENDING TXCP	83.0	83.0	90.0	90.0	97.0	97.0	97.0	97.0	0.0	90.0	90.0	97.0	97.0	
OPENING BALANCE - CASH	15.3	22.5	6.5	4.8	26.8	15.4	36.3	57.5	68.5	27.4	105.2	59.5	15.3	
MONTHLY CASH FLOW	(0.8)	(16.0)	(8.7)	22.0	(18.4)	20.9	21.2	11.0	55.9	(12.2)	(45.7)	(58.1)	(28.9)	
NET TXCP ACTIVITY MONTHLY	8.0	0.0	7.0	0.0	7.0	0.0	0.0	0.0	(97.0)	90.0	0.0	7.0	22.0	
ENDING BALANCE - CASH	22.5	6.5	4.8	26.8	15.4	36.3	57.5	68.5	27.4	105.2	59.5	8.4	8.4	
EST CASH POSITION NET OF TXCP (PEAK DAY)														
CASH POSITION NET OF TXCP	(60.5)	(76.5)	(65.2)	(63.2)	(81.6)	(60.7)	(39.5)	(28.5)	27.4	15.2	(30.5)	(88.6)	(88.6)	

**END**