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WolfBlock

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

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Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

SECRETARY'S BUREAU

April 1, 2004

Steven Gray, Esq.  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

DOCUMENT  
FOLDER

Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Small Business Advocate's Interrogatories, Set I, No. 6(a), (b), (d) and (e); and Set IV, No. 3. If you have any questions, please do not hesitate to contact me.

Very truly yours,



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

DC/lww

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

DSH:40304.4/PHI211-217982

Cherry Hill, NJ ■ Harrisburg, PA ■ New York, NY ■ Norristown, PA ■ Philadelphia, PA ■ Roseland, NJ ■ Wilmington, DE

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CERTIFICATE OF SERVICE

2004 APR -5 PM 12:19

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

**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

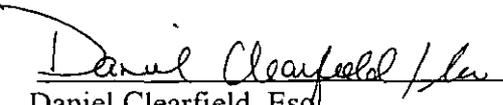
Dated: April 1, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

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Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 1, 2004

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Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

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2004 APR -5 PM 12:20  
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Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Trial Staff's Interrogatories, Nos. OTS-5, 14, 18, 26, 38, 41 & 42. Responses to outstanding interrogatories will be provided to you as soon as possible.

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

Very truly yours,

*Daniel Clearfield*  
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

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PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

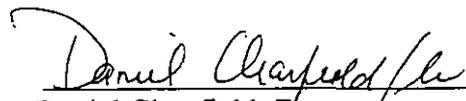
Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
rdk@indecon.com

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Daniel Clearfield, Esq.

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Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 6, 2004

**VIA E-MAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**DOCUMENT  
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SECRETARY'S BUREAU  
04 APR -7 AM 9:04

Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Trial Staff's Interrogatories, Nos. OTS-1(f), 44(f), 45(f), 46(f), 49-59. Also enclosed is a **Revised Response to OTS-18**. Responses to outstanding interrogatories will be provided to you as soon as possible.

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

Very truly yours,



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

DC/lww

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

DSH:40411.6/PHI211-217982

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PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Dated: April 6, 2004

DOCUMENT  
FOLDER

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

SECRETARY'S BUREAU

04 APR -7 AM 9:04

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

## DOCUMENT FOLDER

April 6, 2004

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APR 7 11 9:04  
PHILADELPHIA

Steven Gray, Esq.  
Office of Small Business Advocate  
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Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Small Business Advocate's Interrogatories, OSBA Set I-1; OSBA Set II-5(b, c, d and e), 19, 21 and 22; and OSBA Set IV-1, 2 and 6. If you have any questions, please do not hesitate to contact me.

Very truly yours,



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

DC/lww  
Enclosure

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

DSH:40304.6/PHI211-217982

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Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
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300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

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Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
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[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

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800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
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Philip Bertocci, Esq.  
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Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

Daniel Clearfield/lu  
Daniel Clearfield, Esq.

DOCUMENT  
FOLDER

SECRETARY'S BUREAU

04 APR -7 AM 9:04

1000000000

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 8, 2004

Steven Gray, Esq.  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

DOCUMENT  
FOLDER

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2004 APR -9 AM 1:26  
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Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Small Business Advocate's Interrogatories, OSBA Set II, No 16; Set III Nos. 2-7, 10, 13, 15, and 16; and Set IV No. 4. If you have any questions, please do not hesitate to contact me.

Very truly yours,



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

DC/lww

Enclosure

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James McNulty w/ Certificate of Service only

DSH:40304.7/PHI211-217982

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P.O. Box 3265  
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18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

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Industrial Economics Incorporated  
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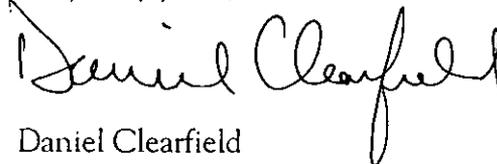
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Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Trial Staff's Interrogatories, Nos. OTS-27 and 29.

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

Very truly yours,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

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[Skeene@paoca.org](mailto:Skeene@paoca.org)

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Philadelphia Gas Works  
800 W. Montgomery Avenue  
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E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
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Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
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Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Small Business Advocate's Interrogatories, OSBA Set I-6(c); OSBA Set II-7 (revised), 12(c), 17, (corrected minor typos in paragraph c and d), and 20; and OSBA Set III-14. If you have any questions, please do not hesitate to contact me.

Very truly yours,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

Enclosure

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PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

Dated: April 8, 2004

  
Daniel Clearfield, Esq.

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 8, 2004

VIA E-MAIL AND FIRST CLASS MAIL

Tanya McCloskey, Esq.  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place Building  
Harrisburg, PA 17101

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Re: Philadelphia Gas Works Annual GCR Filing 1307(f)  
Docket No. R-00049157

Dear Tanya:

On behalf of Philadelphia Gas Works, enclosed please find responses to OCA Set II No. 7; and Set III Nos., 3 and 11. PGW will respond to the remaining interrogatories as soon as possible. If you have any questions, please do not hesitate to contact me.

Sincerely,



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

DC/lww

Enclosure

cc: Attached Certificate of Service w/enc.  
James McNulty, w/ Cert. of Service only

DSH:40112.7/PHI211-217982

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**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

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Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

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Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

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Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
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Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
\_\_\_\_\_  
Daniel Clearfield, Esq.

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212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 8, 2004

VIA E-MAIL AND FIRST CLASS MAIL

Tanya McCloskey, Esq.  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place Building  
Harrisburg, PA 17101

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04 APR 12 AM 8:53

PHILADELPHIA

Re: Philadelphia Gas Works Annual GCR Filing 1307(f)  
Docket No. R-00049157

Dear Tanya:

On behalf of Philadelphia Gas Works, enclosed please find responses to OCA Set II Nos. 17 and 18; and Set III No. 14. PGW will respond to the remaining interrogatories as soon as possible. If you have any questions, please do not hesitate to contact me.

Sincerely,



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

DC/lww

Enclosure

cc: Attached Certificate of Service w/enc.  
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**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

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Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Dated: April 8, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
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Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

SECRETARY'S BUREAU  
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1100

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 9, 2004

Steven Gray, Esq.  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

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Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its response to Office of Small Business Advocate's Interrogatories, **OSBA Set II-6 (revised)**. If you have any questions, please do not hesitate to contact me.

Very truly yours,



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

DC/lww  
Enclosure

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

DSH:40304.9/PHI211-217982

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**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

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Office of Consumer Advocate  
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[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Dated: April 9, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
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100 Pine Street  
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Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

04 APR 12 AM 9:00  
SECRETARY'S BUREAU

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 9, 2004

VIA E-MAIL AND FIRST CLASS MAIL

Tanya McCloskey, Esq.  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place Building  
Harrisburg, PA 17101

DOCUMENT  
FOLDER

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04 APR 12 AM 8:59

Re: Philadelphia Gas Works Annual GCR Filing 1307(f)  
Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Tanya:

On behalf of Philadelphia Gas Works, enclosed please find revised responses to OCA Set I-18 (GCR) and Set I-5 (CRRC) with regard to the above referenced matter.

Sincerely,

*Daniel Clearfield/lw*  
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww  
Enclosure

cc: Attached Certificate of Service w/enc.  
James McNulty, w/ Cert. of Service only

DSH:40112.9/PHI211-217982

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**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
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[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

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Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
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Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
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Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

SECRETARY'S BUREAU  
APR 12 AM 8:59

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 9, 2004

**VIA E-MAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

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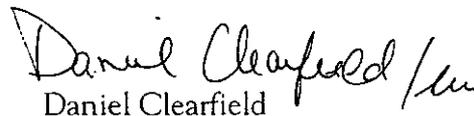
Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Trial Staff's Interrogatories, Nos. OTS-2, 3, 4, 6, 7, 8, and 10.

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

Very truly yours,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

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Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
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18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

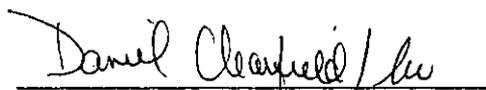
Dated: April 9, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
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Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

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SECRETARY'S OFFICE

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WolfBlock

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 □ Fax: (717) 237-7161 □ www.WolfBlock.com

April 9, 2004

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James McNulty, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg., 2nd Floor,  
400 North Street P.O. Box 3265  
Harrisburg, PA 17105-3265

Re: Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works ("PGW") enclosed for filing please find and original and three copies of Supplemental Statement No. CRRC-4 (Peach) and an original and three copies of Revised Statement No. CRRC-4 (Peach) with regard to the above referenced matter. The changes made to the Revised Statement are delineated in the Supplemental Statement.

Very truly yours,

Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

cc: Hon. Charles Rainey w/enc.  
Parties of Record w/enc.

DSH:40612.1/PHI211-217982

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97

**ORIGINAL**

Statement No. CRRC-4-Supp.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SUPPLEMENTAL TESTIMONY OF  
HUGH GILBERT PEACH, PH. D.

ON BEHALF OF

**DOCKETED**  
MAY 11 2004

PHILADELPHIA GAS WORKS

DOCKET NOS. R-00049157  
P-00042090

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Philadelphia Gas Works

Proposed CRRC

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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.

**ORIGINAL**

Revised Statement No. CRRC-4

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF  
HUGH GILBERT PEACH, PH. D.

ON BEHALF OF  
PHILADELPHIA GAS WORKS

DOCKET NOS. R-00049157  
P-00042090

**DOCKETED**  
MAY 11 2004

Philadelphia Gas Works  
Proposed CRRC

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March 1, 2004

**DOCUMENT  
FOLDER**

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%

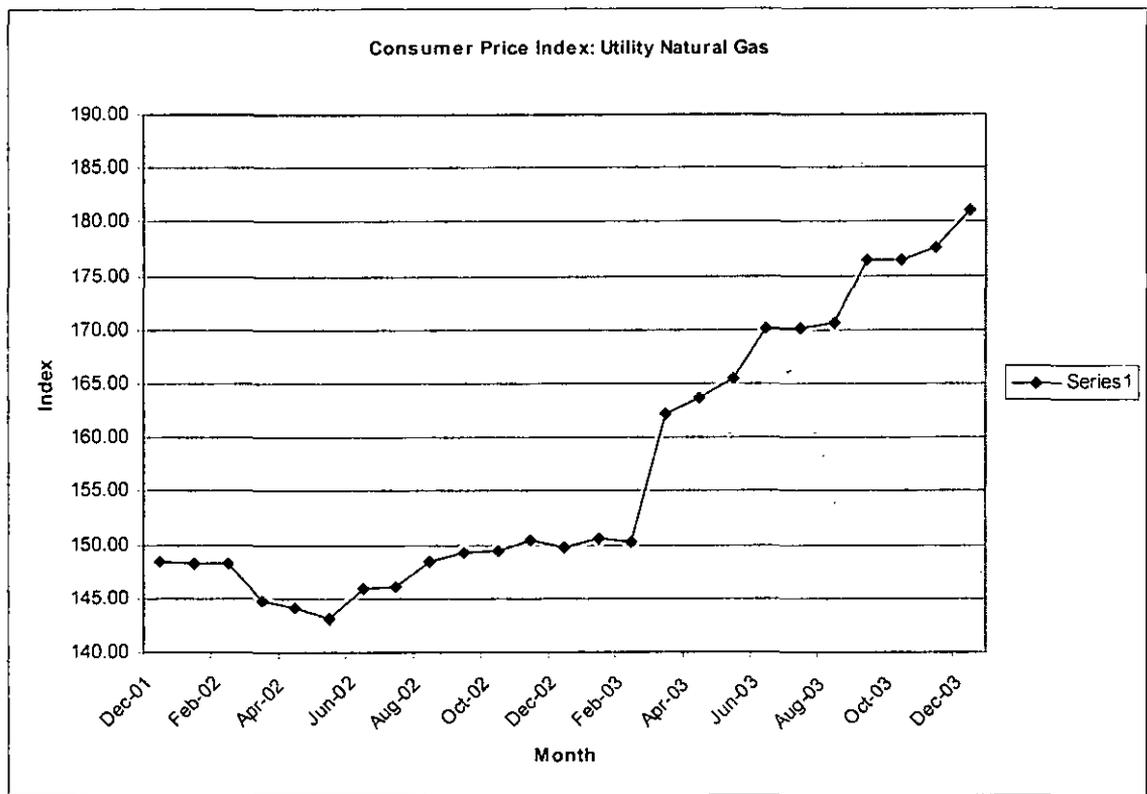
Source: US Bureau of Labor Statistics  
Mid-Atlantic Office Consumer Price Index Ann  
<http://www.bls.gov/ro3/#inflation>

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

---

<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>

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

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

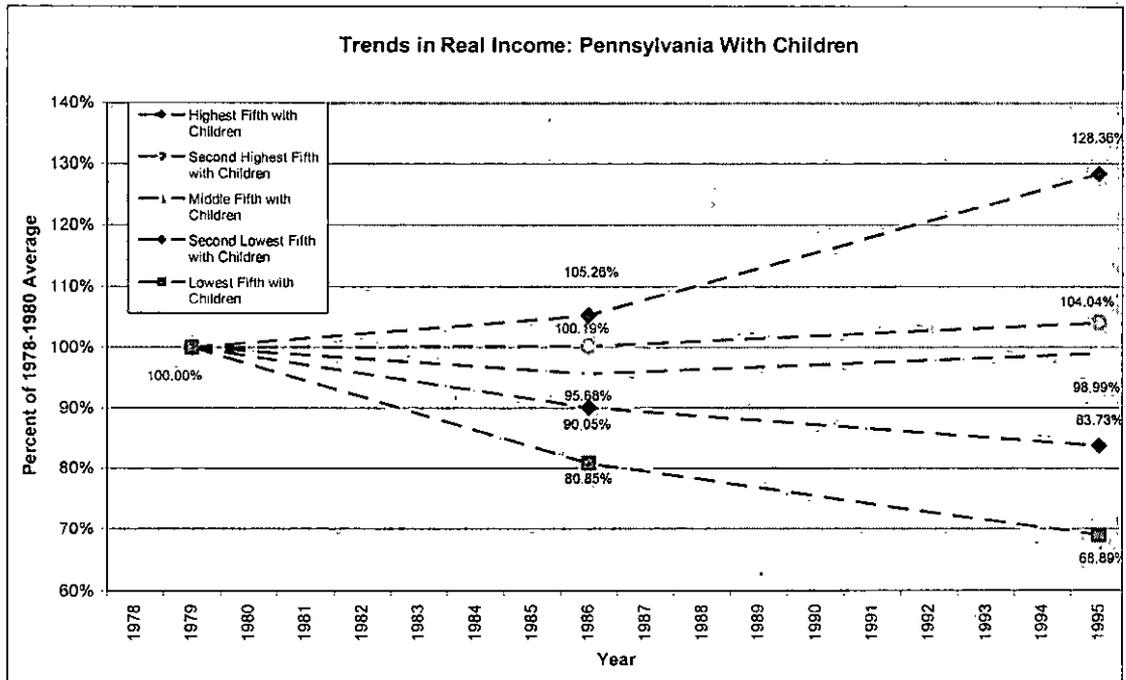


Figure 2: Families with Children

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,

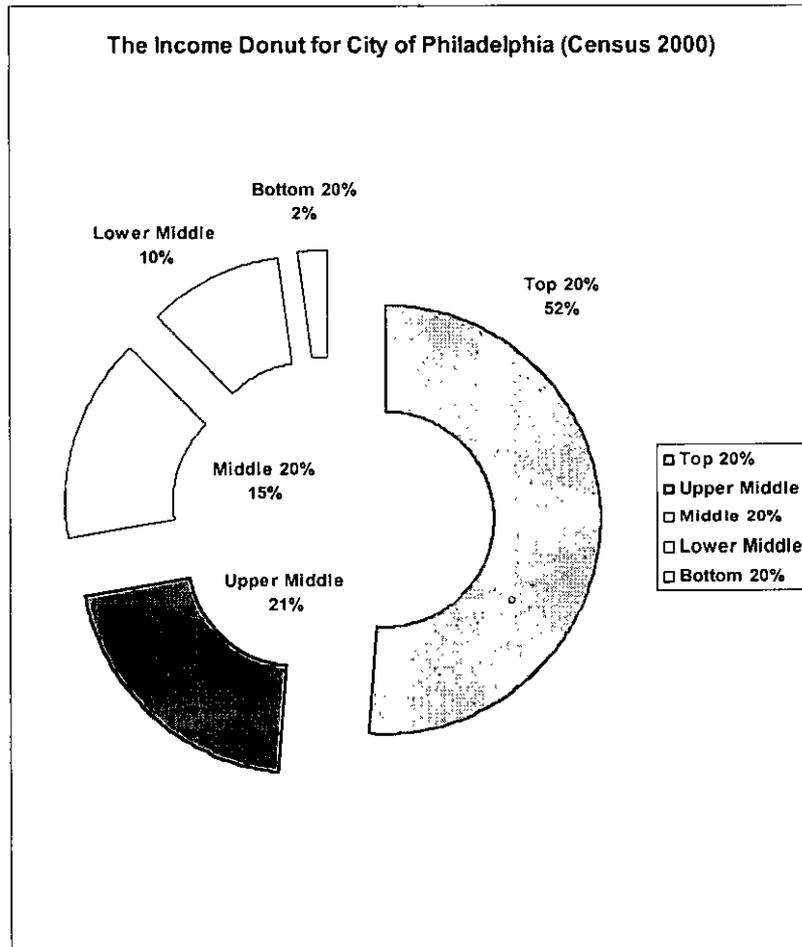
1 repair shop or similar establishment that produces modest income. That income must  
2 cover the expenses of the commercial operation, including heat, as well as the family's  
3 residential expenses. I will address the issue below.

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.

1

**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 <i>Mid-Year Economic and Financial Report</i> . Philadelphia: Office of the Controller, March 1997.		

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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%

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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.*

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<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?**

---

<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.

21

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?**

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<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

**CERTIFICATE OF SERVICE**

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

**VIA EMAIL AND FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Dated: April 9, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

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SECRETARY'S BUREAU

ORIGINAL

WolfBlock

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 12, 2004

VIA HAND DELIVERY

Steven Gray, Esq.  
Office of Small Business Advocate  
Suite 1102, Commerce Building  
300 North Second Street  
Harrisburg, PA 17101

DOCUMENT  
FOLDER

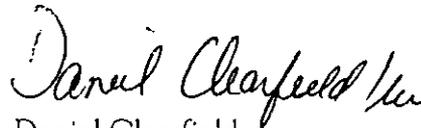
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Re: Philadelphia Gas Works Cash Receipts Reconciliation  
Clause, Docket No. R-00049157  
Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Steve:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Small Business Advocate's Interrogatories, Nos. OTS-8 and 9. The attachments to OTS- 8 are numbered consecutively from 1 – 485. Pages 15 – 72 are not included in your packet. These attachments contained customer specific account data which is confidential and will not be provided. If you have any questions, please do not hesitate to contact me.

Very truly yours,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww  
Enclosure

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

DSH:40304.10/PHI211-217982

Cherry Hill, NJ ■ Harrisburg, PA ■ New York, NY ■ Norristown, PA ■ Philadelphia, PA ■ Roseland, NJ ■ Wilmington, DE

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**VIA EMAIL, HAND DELIVERY  
AND/OR FIRST CLASS MAIL**

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [lelash@sprintmail.com](mailto:lelash@sprintmail.com)

Dated: April 12, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
Daniel Clearfield, Esq.

SECRETARY'S BUREAU

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RECEIVED

ORIGINAL

WolfBlock

212 Locust Street, Suite 300, Harrisburg, Pennsylvania 17101  
Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield  
Direct Dial: (717) 237-7173  
Direct Fax: (717) 237-7161  
E-mail: dclearfield@wolfblock.com

April 12, 2004

VIA E-MAIL AND FIRST CLASS MAIL

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

DOCUMENT  
FOLDER

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Re: Philadelphia Gas Works Cash Receipts Reconciliation  
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Petition of Philadelphia Gas Works to Establish a Cash  
Receipts Reconciliation Clause, Docket No. P-00042090

Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its revised response to Office of Trial Staff's Interrogatories, Nos. OTS-10.

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

Very truly yours,

  
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

cc: Parties of Record w/enc  
James McNulty w/ Certificate of Service only

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Cherry Hill, NJ ■ Harrisburg, PA ■ New York, NY ■ Norristown, PA ■ Philadelphia, PA ■ Roseland, NJ ■ Wilmington, DE

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### VIA EMAIL AND FIRST CLASS MAIL

Johnnie Simms, Esq.  
Richard A. Kanaskie, Esq.  
Office of Trial Staff  
PA Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265  
E-mail: [josimms@state.pa.us](mailto:josimms@state.pa.us)

Stephen Gray, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North 2nd Street  
Harrisburg, PA 17101  
E-mail: [sgray@state.pa.us](mailto:sgray@state.pa.us)

Tanya McCloskey, Esq.  
James Mullins, Esq.  
Steve Keene, Esq.  
Office of Consumer Advocate  
5th Floor, Forum Place Bldg.  
555 Walnut Street  
Harrisburg, PA 17101-1921  
E-mail: [TmcCloskey@paoca.org](mailto:TmcCloskey@paoca.org)  
[Skeene@paoca.org](mailto:Skeene@paoca.org)

Richard Lelash  
18 Seventy Acre Road  
Redding, CT 06896  
E-mail: [l lash@sprintmail.com](mailto:l lash@sprintmail.com)

Dated: April 12, 2004

Greg Stunder, Esquire  
Philadelphia Gas Works  
800 W. Montgomery Avenue  
Philadelphia, PA 19122  
E-mail: [greg.stunder@pgworks.com](mailto:greg.stunder@pgworks.com)

Charis Mincavage, Esquire  
McNEES, WALLACE, NURICK  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
E-mail: [Cmincavage@mwn.com](mailto:Cmincavage@mwn.com)

Philip Bertocci, Esq.  
Edward A. McCool, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102  
Fax: (215) 981-0434  
E-mail: [pbertocci@clsphila.org](mailto:pbertocci@clsphila.org)

Robert D. Kecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
[rdk@indecon.com](mailto:rdk@indecon.com)

  
\_\_\_\_\_  
Daniel Clearfield, Esq.

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