

ORIGINAL

OSBA STATEMENT NO. 1

7/6/04
phila
FR

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

INVESTIGATION INTO FINANCIAL AND : DOCKET NOS. P-00042090
COLLECTION ISSUES REGARDING THE : R-00049157
PHILADELPHIA GAS WORKS : M-00021612
: P-00032061

DOCUMENT

DOCKETED

JUL 13 2004

DIRECT TESTIMONY OF
ROBERT D. KNECHT

ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

RECEIVED
2004 JUL 12 PM 10:43
SECRETARY'S BUREAU

Date Served: June 28, 2004

Date Submitted for the Record: _____

DIRECT TESTIMONY OF ROBERT D. KNECHT

1 **1 Witness Identification and Summary of Conclusions**

2 **Q. Please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I am a Principal and the Treasurer of Industrial
4 Economics, Incorporated ("IEc"), an economic consulting firm located at 2067
5 Massachusetts Avenue, Cambridge, MA 02140. I specialize in the economic analysis of
6 basic industries. As part of my consulting practice, I have prepared analyses and expert
7 testimony in the field of regulatory economics, focusing primarily on matters of cost
8 allocation, rate design and industry restructuring. I obtained a B.S. degree in Economics
9 from the Massachusetts Institute of Technology in 1978, and a M.S. degree in
10 Management from the Sloan School of Management at M.I.T. in 1982. I am appearing in
11 these proceedings on behalf of the Pennsylvania Office of Small Business Advocate
12 ("OSBA"). My résumé and schedule of appearances in regulatory proceedings is
13 attached.

14 **Q. Please describe your assignment.**

15 A. I was asked by the OSBA to review and evaluate the proposal of the Philadelphia Gas
16 Works ("PGW") regarding PGW's petition for a limited waiver of Chapter 56 rules and
17 the design and implications of PGW's Customer Responsibility Program (CRP).

18 **Q. Have you conducted a thorough review?**

19 A. No. The time allotted for discovery and independent analysis in this proceeding
20 precluded anything beyond a cursory review of the programs and proposals. Although the
21 OSBA submitted interrogatories in a timely manner, some responses have not been
22 received at this writing. Moreover, recognizing the constraints facing PGW in this
23 proceeding, the OSBA discovery did not attempt to obtain all the information necessary
24 to conduct a thorough review. My conclusions in this testimony are therefore based on
25 my previous analyses and my professional judgment. To the extent any additional
26 information that I obtain over the course of these proceedings impacts my conclusions, I
27 will submit supplementary testimony.

1 **Q. Mr. Knecht, PGW's universal service program was extensively reviewed in PGW's**
2 **restructuring proceeding, and the program was approved by the Commission.**
3 **However, neither you nor any other OSBA witness submitted testimony regarding**
4 **program design in that proceeding. Why are you presenting testimony now?**

5 A. For three reasons. First, it was and is the position of the OSBA that business customers
6 do not cause a utility to incur universal service costs, and therefore business customers
7 should not be required to pay for them. I filed testimony to that effect in the restructuring
8 proceeding.¹ As the OSBA did not believe that small business customers had an
9 obligation to pay for these programs, it saw no need to actively involve itself in program
10 design. However, because the Commission decided not to address the universal service
11 cost allocation issue in the restructuring proceeding, and because PGW is making every
12 effort to avoid filing a base rates case, Philadelphia businesses must continue to pay for
13 these programs. As such, the OSBA has an interest in ensuring that the ratepayers' money
14 is spent prudently. Second, by ordering the investigation, the Commission appears to
15 believe that a review of the program is warranted, particularly in light of sharp increases
16 in universal service costs and the increasing disparity between PGW's rates and those of
17 other Pennsylvania NGDC's. Finally, PGW itself recognizes the need for a review.

18 **Q. What are your conclusions regarding PGW's proposals regarding modification or**
19 **waiver of various Chapter 56 rules?**

20 A. I have not conducted a detailed review of the proposals. However, in the broadest
21 perspective, I believe that PGW is now addressing its most fundamental need -- that of
22 getting its customers to pay their bills. As a result of a variety of factors, some beyond
23 PGW's control but many self-inflicted, PGW's bill collections performance has been
24 abysmal, leading to a continuing financial "crisis." PGW's efforts to tax its way out of the
25 crisis by raising rates have failed. In my view, PGW is now addressing its fundamental

¹ See "Direct Testimony and Exhibit of Robert D. Knecht," September 25, 2002, OSBA Statement No. 1, Docket M-00021612. As detailed in my testimony in that proceeding, PGW's approach is not consistent with cost causation, and it is not consistent with recent Commission precedent. Moreover, PGW's argument that generic economic benefits to business customers should be considered in allocating universal service costs sets a poor and dangerous precedent for cost allocation in general. In addition, in my CRRC testimony, I noted that small business customers are already providing revenues significantly in excess of allocated costs. In the last cost of service study filed before the Commission, PGW's commercial customers exhibited an indexed rate of return of 268 percent, meaning that commercial customers provide PGW with a return that was 2.68 times that of the average customer.

1 problem, by aggressively pursuing improvements in bill collection rates. It has begun a
2 major collections initiative (the "CRI"), and that program appears to be bearing fruit.²
3 PGW is aggressively seeking alternative sources of funding for its universal service
4 programs. And further, PGW has now petitioned this Commission for relief from various
5 consumer-protection³ rules that it contends are particularly burdensome for operations in
6 an economically-disadvantaged urban service territory. In my view, PGW is now
7 addressing its real problem, albeit belatedly. I therefore offer guarded support to PGW's
8 proposals to reduce the institutional impediments to bill collection if they can be shown
9 to be either anachronistic or unduly constraining to an urban utility that is facing a critical
10 cash crisis. I encourage the Commission to carefully consider these proposals,
11 particularly in light of the already-high rates faced by PGW's paying customers as well as
12 PGW's need for working cash. Moreover, PGW's proposal to implement these changes as
13 a two-year pilot program will provide the opportunity for the Commission to evaluate
14 *both the efficacy of the changes and the need to extend the modifications, should PGW's*
15 *financial circumstances change.*

16 **Q. In its petition, PGW appears to try to re-litigate the CRRC proposal, characterizing**
17 **it as an "insurance policy" in case its collections efforts are not successful. Can you**
18 **respond?**

19 A. The CRRC is nothing of the kind. If PGW succeeds in its collections efforts, the CRRC
20 is not needed. If PGW fails in its collections efforts, imposing CRRC charges will simply
21 be another charge that many customers will refuse to pay. Even without Dr. Peach's
22 CRRC analysis, the reactions of both the public and the elected officials to the CRRC
23 proposal were clear indications that PGW cannot tax its way out of the problem. Rather
24 than being an insurance policy, the CRRC could give PGW the false impression that it is
25 insured for poor collections, it would reduce the incentives for PGW to collect its bills,

² PGW now forecasts its collection rate for fiscal year 2004 at 92 percent, a figure much closer to its historical average than the 86.6 percent rate for fiscal year 2003. Moreover, PGW was able to achieve this improvement despite the increase in average residential bills, which historically had caused collection rate decreases.

³ Because PGW is a cash-flow regulated utility, rules that limit a utility's ability to collect its legitimate bills may protect some customers, but they must be paid for by other customers.

1 and then it would provide no insurance at all since many customers would refuse to pay
2 it.

3 **Q. Let's turn to PGW's Customer Responsibility Program (CRP). From a utility rates
4 perspective, is this a well-designed program?**

5 A. No, though it is not alone in that regard. The design of many utility universal service
6 programs is economically flawed. However, because of PGW's particular circumstances,
7 these economic flaws are significantly exacerbated. In particular, the CRP has the
8 following problems:

- 9 • Universal service programs are funded through a tax on utility ratepayers. Because
10 energy expenditures are proportionately larger for low-income customers than for
11 higher income customers, universal service program funding is a *regressive* tax.⁴
12 Moreover, because a utility cannot tax individuals or businesses who do not consume
13 its services (such as fuel oil consumers), the tax burden is inequitably distributed.
- 14 • The regressivity problem of universal service programs is magnified for PGW in two
15 ways. First, because PGW serves a relatively low-income population, its universal
16 service costs tend to be relatively high. Second, because PGW can only recover these
17 costs from the rest of its own ratepayers within its service territory, who are also
18 relatively low income, its programs are more regressive than most. In the end, PGW
19 ends up imposing a relatively large tax on a relatively poor customer group.
- 20 • In contrast to the original program design, the level of rates charged to CRP customers
21 is not sufficient to recover even the short-run marginal costs of providing gas service.
22 When the wellhead price of gas was much lower than it is today, the CRP bills as a
23 percent of income were sufficient to cover the short-run marginal cost of upstream gas
24 supply. Under those conditions, it could potentially be argued that CRP customers
25 were not being subsidized by other ratepayers, and that retaining CRP customers was

⁴ In economic jargon, a "regressive" tax is one in which lower income individuals pay a higher percentage of their income than higher income individuals. It stands in contrast to "proportional" and "progressive" taxes, which are often deemed to be more equitable.

1 beneficial to all ratepayers.⁵ However, with the rise of wellhead gas prices, the CRP
2 payments are not sufficient to even pay for the commodity cost. As such, the CRP
3 violates one of the fundamental economic precepts for utility rates.

- 4 • CRP customers pay bills based strictly on a percentage of their income. If they
5 increase their consumption of gas, their bills do not change. If the price of gas
6 increases, their bills do not change. Thus, CRP customers have no economic
7 incentive to conserve gas, or to reduce consumption when gas prices are high. Such a
8 pricing policy leads to excessive consumption of gas, particularly during periods of
9 high prices. The cost for this excessive consumption is then passed on to the full-
10 payment customers through the USC reconciliation mechanism, often during periods
11 of high gas costs.

- 12 • In conjunction with other universal service programs, PGW's CRP program results in
13 a universal service and energy conservation surcharge (USC), now an eye-popping
14 \$1.61 per Mcf, that exacerbates PGW's already-high gas distribution rates.⁶ As PGW
15 recognizes, this high cost of service is detrimental to the business climate within the
16 city.

17 **Q.** **PGW witness Ms. Coltro states, "*While PGW is committed to continuing the [CRP]***
18 ***program, consistent with the Commission's universal service objectives, it is clear that***
19 ***review and revision of the program is appropriate. I do not believe, however, that such***
20 ***a complex task can be accomplished in the course of this proceeding. PGW intends to***
21 ***conduct a full review of the program and propose to this Commission a new design."***
22 **Do you agree with Ms. Coltro in this regard?**

⁵ Such economic development arguments, sometimes also made on behalf of businesses who want discounted rates, ignore the long-run marginal costs associated with increased load on the distribution system. These arguments are therefore more credible for short-term economic incentives (for either businesses or residences) than for customers who would be eligible for the discount for the long term.

⁶ See OSBA Statement No. 1 Docket R-00049157 and P-00042090, page 9. Even without the proposed CRRC and the recent runup in the USC, PGW's distribution rates were more than 50 percent higher than the second highest NGDC in Pennsylvania, and more than three times that of the low-cost NGDC's.

1 A. Yes, this proceeding is too abbreviated for any thorough review of the program,
2 particularly since significant changes to the program should be contemplated.
3 Unfortunately, PGW's proposal for the near term appears to be to do nothing about the
4 CRP, pending this future review. Further, based on informal discovery in this
5 proceeding, PGW has suggested that, as part of its collections initiative, it has been
6 aggressively encouraging all eligible customers to enroll in the CRP. If all eligible
7 customers were to enroll in the CRP, PGW's ratepayers would face a USC increase of
8 some \$30 million, or about 60 cents per Mcf. If PGW were to undertake an aggressive
9 program to enroll eligible customers, I would characterize the strategy as a "stealth rate
10 increase." Because CRP costs are already annually reconciled in the USC, PGW could
11 impose this kind of rate increase without explicit Commission approval. For the reasons
12 laid out in my CRRC testimony, raising rates to paying customers is not going to solve
13 the problem. While I recognize that it is a crude measure, I recommend that the
14 Commission impose a cap on CRP participation until such time as a full review can be
15 undertaken. Current CRP participation is already at some 64,000 customers, one of its
16 highest levels in the past nine years, though PGW forecasts the participation rate to
17 decline to 59,000 customers by the end of its fiscal year. I propose that PGW set a cap of
18 60,000 CRP customers to go into effect by fiscal year-end.

19 **Q. If the Commission does not approve your recommendation to put a cap on the**
20 **number of CRP participants, do you have an alternative proposal?**

21 A. To the extent that the Commission does not approve a cap for CRP participation, I
22 recommend that any cost incurred by PGW above that associated with 60,000 participants
23 be recovered in a separate "CRPA" charge, that applies only to residential customers.
24 Such an approach would make the assignment of incremental costs consistent with cost
25 causation, and it would be consistent with the treatment of incremental universal service
26 costs at other Pennsylvania NGDC's.

27 **Q. PGW's filing also addresses its proposal for implementing a means-tested senior**
28 **citizen discount (SCD). The OSBA entered into a settlement in the first round of**
29 **that proceeding. Do you have any comments regarding the SCD proposal?**

1 A. Generally, no. In its review of the means-tested SCD proposal, the OSBA concluded that
2 the benefits of the settlement (particularly PGW's agreement to conduct an audit of the
3 *overall* SCD program) outweighed the near-term costs for small business customers. The
4 OSBA therefore agreed not to oppose the means-tested SCD in the settlement, though the
5 OSBA did not offer any opinion regarding the merits of the program. Since that time, the
6 first stage of PGW's audit of the program identified 11,000 of SCD customers as
7 deceased. Therefore, the OSBA believes that its conclusion was correct,⁷ and the OSBA
8 intends to adhere to its agreement. In the appropriate forum, of course, the OSBA will
9 argue that imposing SCD-related costs on small business customers is not consistent with
10 cost causation, as small business customers are not eligible for the SCD.

11 **Q. Have you prepared any analysis of the other issues in this proceeding, namely the**
12 **payment of liens and judgments to restore service and the residential field charge?**

13 A. No. As with the Chapter 56 waiver proposals, I encourage the Commission to recognize
14 the specific circumstances facing both PGW and its paying ratepayers when considering
15 these issues.

16 **Q. Does this conclude your direct testimony?**

17 A. Yes it does, subject to the possibility of supplementary testimony discussed above.

⁷ Even if only half of the current SCD customers identified as deceased are improperly receiving the discount, the net reduction in SCD costs will be about \$1.5 million, compared to a first-year incremental cost of the means-tested SCD of about \$365,000.

ROBERT D. KNECHT

Robert D. Knecht specializes in the practical application of economics, finance and management theory to issues facing public and private sector clients. Mr. Knecht has more than twenty years of consulting experience, focusing primarily on the energy, metals, and mining industries. He has consulted to industry, law firms, and government clients, both in the U.S. and internationally. He has participated in strategic and business planning studies, project evaluations, litigation and regulatory proceedings and policy analyses. As Treasurer of IEc, Mr. Knecht is responsible for the firm's accounting, finance and tax planning, as well as administration of the firm's retirement plans. Mr. Knecht's recent consulting assignments include the following projects:

- For the Pennsylvania Office of Small Business Advocate, Mr. Knecht provides analysis and expert testimony in industry restructuring, base rates and purchased energy cost proceedings involving electric, steam and natural gas distribution utilities. Mr. Knecht has analyzed the economics and financial issues of electric industry restructuring, stranded cost determination, *industry economics, cost allocation methods and rate design issues*.
- For the New Jersey Board of Public Utilities, Mr. Knecht audited the cost and rate unbundling, cost allocation and rate design aspects of the industry restructuring filing of an investor-owned electric utility.
- For the U.S. Department of Justice, Mr. Knecht participated in an evaluation of the economic damage claims of a large forest products concern, in a breach of contract lawsuit. Mr. Knecht's analysis included a review of the economic claims of the plaintiff, and an evaluation of settlement alternatives.
- For the Independent Power Producers Society of Alberta and the Senior Petroleum Producers Association, Mr. Knecht provides analysis and recommendations regarding electric industry restructuring strategies. Mr. Knecht also provided expert testimony with respect to industry restructuring, cost allocation, rate unbundling methodologies and rate design.
- For a major South American iron ore mining company, Mr. Knecht assembled and managed an international team of consultants to review and evaluate the company's strategic plan. Mr. Knecht oversaw the development of recommendations in the areas of markets, the resource base, development of the resource, processing operations and finance.

Mr. Knecht holds a M.S. in Management from the Sloan School of Management at M.I.T., with concentrations in applied economics and finance. He also holds a B.S. in Economics from M.I.T. Prior to joining Industrial Economics as a principal in 1989, Mr. Knecht worked for seven years as an economic and management consultant at Marshall Bartlett, Incorporated. He also worked for two years as an economist in the Energy Group of Data Resources, Incorporated.

ROBERT D. KNECHT

Regulatory Economics

Mr. Knecht consults and provides expert testimony in the field of regulatory economics, focusing primarily on issues of industry restructuring, cost allocation and rate design. His clients include both utilities and the consumers, competitors, and regulators of public utilities. Representative assignments are listed below.

- For the Independent Power Producers Society of Alberta and the Senior Petroleum Producers Association, in a variety of regulatory proceedings, analysis and expert testimony regarding electric industry restructuring, market power mitigation, stranded cost determination, cost allocation, rate unbundling and tariff design for transmission and distribution utilities.
- Participation in an audit of the electric industry restructuring filing of the Atlantic City Electric Company, for the NJ Board of Public Utilities, evaluating the company's rate unbundling filing.
- For the Pennsylvania OSBA, evaluation of all aspects of the electric industry restructuring filings of Pennsylvania Power & Light and West Penn Power, focusing on impacts to customers in general and small businesses in particular.
- Analysis and expert testimony regarding system expansion and related customer contribution requirements of Centra Gas Manitoba, for a large industrial customer.
- For the Industrial Gas Users Association, analysis and expert testimony of the cost unbundling methods of Gaz Metropolitan.
- Analysis and expert testimony of cost allocation and rate design practices of the three major Ontario natural gas distribution utilities over several years, on behalf of the Ontario Energy Board staff and the Canadian Independent Gas Marketing Association.
- Cost allocation and rate design study and expert testimony for a small Ontario gas distribution utility.
- Analysis and litigation support regarding accounting, financial and capacity planning procedures of New Brunswick Power Corporation, and presentation of expert testimony on cost allocation and rate design, in a series of generic regulatory hearings, on behalf of a group of large industrial customers.
- Analysis of the cost allocation and rate design procedures of Consumers' Gas, Ltd., for the Canadian Independent Gas Marketing Association.
- Analysis of the cost allocation and rate design procedures of the three major Ontario natural gas utilities, for the staff of the Ontario Energy Board.
- Economic analysis and modeling of U.S. Postal Service proposals for allocation of peak load labor and equipment costs in 1987 and 1990, for the American Newspaper Publishers Association.
- Evaluation of the cost allocation and cost recovery procedures of a domestic telecommunications firm providing aircraft to ground data communications.
- Assessment of alternative methodologies for defining the electric rate classes of Maritime Electric Corporation, for the Prince Edward Island Ministry of Energy and Forestry.

ROBERT D. KNECHT

Regulatory Economics (continued)

- Evaluation of the cost allocation and rate design procedures of the Nova Scotia Power Corporation, for a group of interruptible electricity consumers, and in a later proceeding, for a large industrial customer.
- Assessment of a proposed class-specific, risk-adjusted rate of return methodology for natural gas distribution utilities, for the staff of the Ontario Energy Board.
- Preparation of rebuttal analysis regarding management prudence in the construction of the River Bend Nuclear Generating Station, for Gulf States Utilities.

Economic Consulting

Mr. Knecht's practice includes the application of economics, finance and decision analysis theory to practical problems facing businesses, law firms and government. His assignments include industry and company planning, market forecasting, policy analysis and economic damage assessment. Representative assignments are listed below.

- For the US Department of Justice Civil Division, analysis of economic damages and participation in settlement negotiations associated with alleged breach of contract involving long-term timber supply contracts between the U.S. government and a large forest products company in Southeast Alaska.
- For the Electric Power Research Institute, analysis and adaptation of models that compute the economic costs of environmental externalities associated with electric generating stations.
- Economic, market and cost analysis for a team of international consultants preparing a restructuring study of the Polish steel industry, in conjunction with the World Bank.
- Economic and policy analysis for a U.S. engineering firm preparing a strategic planning study for the state-owned steel company in Venezuela.
- For the U.S. Environmental Protection Agency, evaluation of the impact of Clean Air Act amendments on major industrial facilities that are closing or are threatened with closure.
- Econometric analysis of world steel consumption patterns for a major international iron ore producer.
- Litigation support services relating to the business planning activities of a major West Coast construction and fabrication concern, in a fraudulent conveyance lawsuit.
- Review and analysis of direct and rebuttal evidence regarding economic damages to recreational activities, for the U.S. Department of Justice.
- Decision analysis and calculation of economic damages in an ERISA discrimination lawsuit, for a major domestic manufacturing company.
- Financial, econometric and strategic planning analyses for an international engineering firm, engaged in the preparation of a strategic plan for the steel industry of Nigeria.

ROBERT D. KNECHT

Economic Consulting (continued)

- Economic analysis and econometric modeling of import behavior in the domestic carbon steel and wire rope markets, for hearings before the U.S. International Trade Commission.
- Financial analysis and damage assessment for a major domestic law firm, in support of a major anti-trust suit involving the potential construction of a coal slurry pipeline.
- Economic analysis of imports of iron ore pellets into the U.S., for a major international iron ore producer.
- Construction of an economic model of domestic metallurgical coke demand, for the U.S. Environmental Protection Agency.
- Econometric analysis of energy demand, by energy type, region and sector, and management of a sectoral supply-demand model of energy production and use.

Management Consulting

Mr. Knecht has also provided management consulting services to various basic industrial clients, focusing primarily on planning and decision-making. Representative assignments are listed below.

- Competitive dynamics analysis of the world iron ore industry and preparation of strategic recommendations for a major South American mining company.
- Task leader in a management audit of a New Jersey natural gas local distribution company.
- Development of a strategic plan and various business plans for a domestic specialized producer of carbon and alloy steel bars.
- Economic analysis and financial modeling of labor and employee benefits costs for a large integrated steel producer. Preparation of recommendations for labor relations and bargaining strategies.
- Analysis for the restructuring of the marketing function of a large domestic manufacturing company, including market segmentation analysis, field interviews and competitor comparisons.
- Market survey and analysis of the domestic hot finished seamless steel tube markets, for a U.S. producer.
- Strategic and business plan development for a major Polish steel producer.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-049108	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2004	Pennsylvania Office of Small Business Advocate	Uncollectible cost responsibility for standby charges
Application 1306819	Alberta Energy and Utilities Board	ENMAX Power Corporation	January 2004	Calgary Industrial Group Calgary Building Owners	T&D cost allocation, rate design, ratepayer equity funding
R-3492-2002 Phase 2	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2003	AQCIE, CIFQ	Rate policy, cross-subsidization
R-038168	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	July 2003	Pennsylvania Office of Small Business Advocate	Cost allocation, deficiency assignment, rate design
R-3492-2002 Phase 1	Régie de l'Énergie, Québec	Hydro Québec Distribution	January 2003	AQCIE, AIFQ	Cost allocation; maintenance of historical cross-subsidization
M-021612	Pennsylvania Public Utility Commission	Philadelphia Gas Works	September 2002	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, cost allocation, rate unbundling
R-027385	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms.
1250932	Alberta Energy and Utilities Board	Aquila Networks Canada (Alberta) Ltd.	July 2002	Senior Petroleum Producers Association	Distribution plant and cost allocation, rate design.
R-027204	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2002	Pennsylvania Office of Small Business Advocate	Purchased gas cost incentive mechanisms, rate design
R-3477-2001	Régie de l'Énergie, Québec	Hydro Québec Distribution	May 2002	AQCIE, AIFQ	Classification/allocation of generation costs, subject to constant unit cost constraint.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
1248859	Alberta Energy and Utilities Board	ESBI Alberta Limited	March 2002	IPPSA	Transmission congestion management principles
R-016378	Pennsylvania Public Utility Commission	Philadelphia Gas Works	August 2001	Pennsylvania Office of Small Business Advocate	Cost of gas; commodity price forecasting
R-016179	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2001	Pennsylvania Office of Small Business Advocate	Recovery of CAP costs; PGC treatment of pipeline credits
R-005277	Pennsylvania Public Utility Commission	PFG Gas Inc. and North Penn Gas Company	November 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design.
R-3443-2000	Régie de l'Énergie, Québec	Société en commandite Gaz Métropolitain	November 2000	Industrial Gas Users Association (ACIG)	Tariff unbundling
990005	Alberta Energy and Utilities Board	ESBI Alberta Limited	November 2000	IPPSA	Location-based credits for transmission rates
R-005119	Pennsylvania Public Utility Commission	PG Energy (Southern Union)	July 2000	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design, weather normalization
R-994788	Pennsylvania Public Utility Commission	PFG Gas, Inc. and North Penn Gas Company	February 2000	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994785	Pennsylvania Public Utility Commission	National Fuel Gas Distribution Corp.	December 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
R-994783	Pennsylvania Public Utility Commission	PG Energy, Inc.	November 1999	Pennsylvania Office of Small Business Advocate	Natural gas restructuring, retail access, tariff design
99005	Alberta Energy and Utilities Board	ESBI Alberta Limited (Transmission Administrator)	September 1999	IPPSA	Transmission tariff cost allocation, rate design, industry restructuring

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
RE95080	Alberta Energy and Utilities Board	Alberta Power Limited	December 1998	Independent Power Producers Society of Alberta and SPPA	Electric industry restructuring, rate unbundling, cost allocation and rate design.
RE95081	Alberta Energy and Utilities Board	TransAlta Utilities Corporation	November 1998	IPPSA and Senior Petroleum Producers Assn.	Industry restructuring, cost allocation, rate design.
Expansion Feasibility Test	Public Utilities Board of Manitoba	Centra Gas Manitoba	August 1998	Simplot Canada Limited	Expansion feasibility and customer contribution methodology
R-984280	Pennsylvania Public Utility Commission	PG Energy, Inc.	August 1998	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue deficiency assignment, rate design
EO97070455	New Jersey Board of Public Utilities	Atlantic City Electric Company	February 1998	New Jersey Board of Public Utilities	Industry restructuring, audit of unbundled rates
R-973981	Pennsylvania Public Utility Commission	Allegheny Power (West Penn Power)	January 1998	Pennsylvania Office of Small Business Advocate	Industry restructuring, cost unbundling, cost allocation, and rate design.
R-973954	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	August 1997	Pennsylvania Office of Small Business Advocate	Restructuring, stranded costs, market price forecasting, cost allocation, and rate design.
1996 Electric Utility Tariff Applications	Alberta Energy & Utilities Board	TransAlta Utilities Alberta Power Edmonton Power Grid Company of Alberta	October 1996	Independent Power Producers Society of Alberta (IPPSA)	Industry restructuring; transmission cost allocation and rate design.
R-963612	Pennsylvania Public Utility Commission	PG Energy, Inc.	October 1996	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
R-953444	Pennsylvania Public Utility Commission	Trigen-Philadelphia Energy Corp.	November 1995	Pennsylvania Office of Small Business Advocate	Steam energy cost rate -- direct and rebuttal.
R-953406	Pennsylvania Public Utility Commission	T.W. Phillips Gas & Oil Company	October 1995	Pennsylvania Office of Small Business Advocate	Weather normalization, cost allocation and rate design.
R-953297	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Gas Division)	May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and surrebuttal.
R-943271	Pennsylvania Public Utility Commission	Pennsylvania Power & Light	April/May 1995	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct and rebuttal
EBRO 488	Ontario Energy Board	Natural Resource Gas Limited	November 1994	Natural Resource Gas Limited	Customer classification, cost allocation and rate design.
RE92071	Alberta Public Utilities Board	Alberta Power Limited	November 1994	Independent Power Producers Society of Alberta	Cost allocation and rate design for export transmission service.
R-942986	Pennsylvania Public Utility Commission	West Penn Power Company	August 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design.
R-932862	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Electric Division)	March 1994	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design -- direct, rebuttal and surrebuttal.
EBRO 485, and Generic Direct Purchase Hearings	Ontario Energy Board	Consumers' Gas Company, Ltd.	August 1993, September 1993.	Canadian Independent Gas Marketing Association	Classification and allocation of marketing and administrative costs.
Hearings for Cost of Service and Rate Design	Nova Scotia Utility and Review Board	Nova Scotia Power, Inc.	May 1993	Bowater Mersey Paper Company, Ltd.	Classification of bulk power costs, rate design for interruptible service and other rate design issues.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN UTILITY REGULATORY PROCEEDINGS

Docket #	Regulator	Utility	Date of Testimony	Client	Topic of Testimony
Generic Hearing #4	Board of Commissioners of Public Utilities, Province of New Brunswick	New Brunswick Power Corporation	November 1991	Large Power Users Group	Review of cost allocation and rate design.
EBRO-473	Ontario Energy Board	Consumers' Gas Company, Ltd.	October 1991	Ontario Energy Board Staff	Cost allocation and rate design
EBRO-470	Ontario Energy Board	Union Gas, Ltd.	February 1991	Ontario Energy Board Staff	Cost allocation and rate design; evaluation of load shifting study.
Rate Area Boundaries Hearings	Prince Edward Island Public Utilities Commission	Maritime Electric Co., Ltd.	February 1991	Prince Edward Island Department of Energy and Forestry	Customer classification by geographical area.
EBRO-467	Ontario Energy Board	Centra Gas, Ltd.	January 1991	Ontario Energy Board Staff	Cost allocation and rate design for technology, cogen and bypass.
Arbitration Hearings	Arbitrator	ARINC, Inc.	July 1990	ARINC Inc.	Cost allocation and rate design for aircraft to ground data communications service.
EBRO-462	Ontario Energy Board	Union Gas, Ltd.	January 1990	Ontario Energy Board Staff	Seasonal cost allocation study, and allocation of costs to export markets.
NSPC-857	Nova Scotia Board of Commissioners of Public Utilities	Nova Scotia Power Corp.	February 1989	Interruptible industrial customers	Cost allocation and rate design of interruptible electric service.

March 2004

**RESPONSE TO OFFICE OF SMALL BUSINESS ADVOCATE DATA REQUEST
INVESTIGATION INTO PGW's FINANCIAL and COLLECTION ISSUES
DOCKET NOS. P-00042090/R-00049157 and M-00021612/P-00032061**

Question OSBA-Set 2-1: Reference Appendix A to the Petition, pages 4-5:

- a. Please explain fully why PGW proposes to exclude Level 1 and Level 2 customers whose service has been terminated from being required to pay their bills for reconnection.
- b. Please state the specific payment requirement for reconnection that PGW proposes for Level 1 and Level 2 customers who have had their service terminated.
- c. If a Level 1 or Level 2 customer has "broken" a payment arrangement, and had his service terminated, what is the minimum payment requirement that PGW proposes for that customer to be reconnected

RECEIVED
2004 JUL 12 PM 10:43
SECRETARY'S BUREAU

Response Provided By: Randy Gyory, Vice President of Customer Affairs

Response:

a. Customers who qualify as a level 1 or 2, less than 150% FPL, most likely find it difficult to pay their monthly gas bill. Most of these customers should be on CRP unless they are a non-heating rate customer or are at the high end of Level 2. Accordingly, PGW believes that the added collections that could be achieved by eliminating the winter shut-off moratorium for Level 1 and 2 customers would likely be more than offset by the costs of ability to pay complaints and reconnecting these customers once they apply as CRP customers. Instead of eliminating the moratorium for these low income customers, PGW intends aggressively to identify customers who qualify for CRP and to move them in to that program.

b. PGW will follow the BCS guidelines when asking for payment for reconnection.

c. PGW will expect that the customers pays the full catch up amount that will bring the payment arrangement up to date. Full payment of the bill will be required if the customer has had two broken arrangements or a prior informal or formal complaint payment arrangement,

DOCUMENT

DOCKETED

JUL 13 2004