

ORIGINAL 297

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

----- -Docket No.
Pennsylvania Public Utility Commission vs. :R-00049157
Philadelphia Gas Works. :P-00042090
Annual 1307 (f) filing. And Petition :
to establish a cash receipts reconciliation :
clause. :
Evidentiary Hearing. :

Pages 297 through 495

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Broad & Spring Garden Streets
Philadelphia, Pennsylvania

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Tuesday, May 11, 2004

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

Charles E. Rainey, Jr., Administrative Law Judge

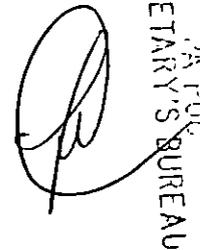
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P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE CHARLES E. RAINEY:

1
2
3 Good morning. My name is Charles Rainey, and I am an
4 Administrative Law Judge who has been assigned to these
5 matters. These are the matters of Pennsylvania Public Utility
6 Commission versus Philadelphia Gas Works at Docket R-00049157,
7 and also the Petition of Philadelphia Gas works to establish a
8 Cash Receipts Reconciliation Clause at Docket P00042090. I will
9 give the parties at this time an opportunity to introduce
10 themselves for the record. Why don't we start with Philadelphia
11 Gas Works.

12 MR. CLEARFIELD: Thank you, Your Honor. I am
13 Daniel Clearfield, along with me is William Mosca, from Wolf,
14 Block, Schorr, Solis and Cohen. We're representing PGW along
15 with Greg Stunder, who is in-house counsel for PGW.

16 JUDGE RAINEY: Okay. You mentioned Mr. Mosca,
17 Mr. Clearfield presented on the bench earlier and my
18 understanding is that the other parties have a copy of this
19 Motion for Admission Pro Hac Vice of Mr. Mosca. It's my
20 understanding that none of the parties have any objection to his
21 participation in this case. So the motion will be granted.

22 MR. CLEARFIELD: Thank you, Your Honor.

23 JUDGE RAINEY: Why don't we then move to the
24 Office of Trial Staff.

25 MR. SIMMS: Good morning. Johnnie Simms

1 appearing on behalf of the Office of Trial Staff.

2 JUDGE RAINEY: Thank you. Office of Consumer
3 Advocate.

4 MR. KEENE: Stephen Keene for the Office of
5 Consumer Advocate.

6 JUDGE RAINEY: Thank you. Office of Small
7 Business Advocate.

8 MR. GRAY: Steve Gray From OSBA.

9 JUDGE RAINEY: Thank you, Mr. Gray. Action
10 Alliance, et al.

11 MR. BERTOCCI: Philip Bertocci for Action Alliance
12 of Senior Citizens of Greater Philadelphia, Tenants Action Group
13 and ACORN. And with me is Laura Moskowitz. We are both
14 attorneys with Community Legal Services.

15 JUDGE RAINEY: Thank you. Philadelphia Industrial
16 and Commercial Users Group.

17 MS. MINICAVAGE: Good morning, Charas Minicavage
18 on behalf of Philadelphia Commercial Users Group.

19 JUDGE RAINEY: Thank you. Senator Fumo, et al.

20 MR. HICKS: Good morning. My name is Renardo
21 Hicks. I'm here on behalf of a number of Philadelphia Public
22 Officials that include Senator Vincent Fumo, City Council
23 President Anna Verna, Council members James Kenny, Frank
24 DiCicco, Michael Nutter, David Cohen, Joan Krajewski and Juan
25 Ramos as well as District Attorney Lynn Abraham.

1 JUDGE RAINEY: Thank you. Philadelphia Housing
2 Authority.

3 MR. BRIDGES: Good morning. Wes Bridges from Fox,
4 Rothchild on behalf of Philadelphia Housing Authority. With me
5 is Bill Hinerman, partner with Fox, Rotshchild, as well as
6 Jennifer Gina Wylbraski.

7 JUDGE RAINEY: Thank you, Mr. Bridges. I think
8 that covers everyone. It's my understanding that the parties
9 present here have arrived at a settlement with regard to the gas
10 costs rate portion of this case, and that that settlement also
11 includes the Universal Service Surcharge as well as the
12 Restructuring and Consumer Education Surcharge. I received a
13 fact sheet yesterday in regard to that settlement. And it's my
14 understanding that the parties now will endeavor to contact
15 those active parties who are not here in order to either get
16 their agreement or non-opposition, or otherwise to find out
17 where they stand with respect to the proposed settlement and
18 that the parties are looking to have a settlement document in my
19 hands by May 18, which is next week.

20 Is that correct, Mr. Clearfield?

21 MR. CLEARFIELD: Yes, Your Honor. We will
22 endeavor to do all of those things and give you a progress
23 report if there is any slippage.

24 JUDGE RAINEY: Very good. I did have some
25 questions with regard to the fact sheet and exhibits that were

1 submitted most recently in regard to my order requesting the
2 parties' calculations of their overall recommendations in this
3 particular case. It's my understanding that Mr. Clearfield,
4 that PGW will make Mr. Dybalski available for me to ask those
5 questions with regard to the GCR, correct?

6 MR. CLEARFIELD: Yes, we contacted him. He will
7 be in the courtroom as soon as possible.

8 JUDGE RAINEY: Okay. It's my understanding then
9 that the sole remaining issue for us to take up, that we will be
10 taking up here today is the Cash Receipts Reconciliation Clause
11 Surcharge. Is that correct?

12 MR. CLEARFIELD: Yes, Your Honor.

13 MR. BRIDGES: For the record, we have not
14 received nor reviewed the settlement stipulation. I would ask
15 to get a copy of that from someone.

16 JUDGE RAINEY: Okay. There is a fact sheet and
17 Mr. Clearfield, I would ask then that you make that available to
18 Mr. Bridges as soon as you can today so that he can review that
19 document.

20 MR. CLEARFIELD: PGW will do that, Your Honor.
21 Mr. Stunder will be responsible for interacting with PHA because
22 of a conflict issue with Wolf Block, we will recuse ourself from
23 that part.

24 JUDGE RAINEY: Very well. Mr. Stunder will take
25 care of getting that document in your hand, Mr. Bridges.

1 MR. BRIDGES: Thank you.

2 JUDGE RAINEY: It's my understanding also that the
3 parties have agreed to certain stipulations with regard to the
4 testimonies that have been prefiled. Who wants to address that?
5 Would that be you, Mr. Clearfield?

6 MR. CLEARFIELD: I can start out.

7 JUDGE RAINEY: Okay.

8 MR. CLEARFIELD: I believe that the parties have
9 agreed that the testimony for the CRRC consists of testimony of
10 Mr. Grory and Moser. And both of those witnesses have submitted
11 testimony in the CRRC but there are no questions for either of
12 those witnesses. So we would ask that that testimony be
13 stipulated into the record. There is also testimony from Mr.
14 Bogdonavage, Mr. Knudsen and Dr. Peach. Those witnesses are
15 present today. They will be appearing, I believe, there are
16 questions for both Mr. Bogdonavage and Mr. Knudsen. They will
17 also be presenting some short rejoinder and Dr. Peach will be
18 presenting some short rejoinder.

19 JUDGE RAINEY: Are there any objections? Hearing
20 none we will accept the stipulations.

21 MR. CLEARFIELD: Should we formally stipulate to
22 admission of all of the parties' CGR testimony now?

23 JUDGE RAINEY: We can do that. I wonder whether
24 we should do it specifically in terms of identification of those
25 specific documents, which we're agreeing to with regard to

1 stipulation to. As I understand it, the parties are then
2 stipulating to all of the testimony of Mr. Grory and Mr. Moser
3 at this time, is that correct?

4 MR. SIMMS: That's correct.

5 MR. KEENE: That's correct.

6 JUDGE RAINEY: So that in terms of Mr. Moser, then
7 that would be PGW Statement GCR-2, also PGW's Statement GCR-2R
8 and with respect to Mr. Grory that would be PGW Statement
9 CRRC-3.

10 MR. CLEARFIELD: Your Honor, Mr. Moser also has a
11 statement CRRC-2.

12 JUDGE RAINEY: Yes, he does. PGW Statement
13 CRRC-2.

14 MR. CLEARFIELD: Could we go off the record?

15 JUDGE RAINEY: Why don't we go off the record.

16 (Whereupon, a discussion was held off the record.)

17 JUDGE RAINEY: Let's go back on the record.

18 Mr. Simms.

19 MR. SIMMS: I will ask that Gary Yocca's testimony
20 identified as OTS Statement Number Two and a company exhibit
21 identified as OTS Exhibit Number Two be stipulated into and
22 admitted into the record.

23 JUDGE RAINEY: Any objections? Stipulation
24 accepted. Testimony will be admitted.

25 (Whereupon, aforementioned documentation was

1 admitted.)

2 JUDGE RAINEY: Also, admission of testimony
3 referred to with regard to Mr. Grory, Mr. Moser as well.

4 (Whereupon, aforementioned documentation was
5 admitted.)

6 JUDGE RAINEY: Anyone additionally? Mr. Bridges,
7 as I understand it there is currently, you're working on a
8 possible stipulation with regard to your witness; is that
9 correct?

10 MR. BRIDGES: That's correct.

11 JUDGE RAINEY: Your witness' name is?

12 MR. BRIDGES: Judith Mondre.

13 JUDGE RAINEY: M-O-N-D-R-E?

14 MR. BRIDGES: Yes.

15 JUDGE RAINEY: I think then that that takes care
16 of that. We did talk off the record with regard to a order of
17 witnesses to be taken up. It's my understanding that the
18 parties have agreed to that. So, that at this time then,
19 Mr. Clearfield, do you want to call your first witness?

20 MR. CLEARFIELD: Thank you. We will call
21 Mr. Bogdonavage.

22 MR. HICKS: One other preliminary matter.

23 JUDGE RAINEY: Mr. Hicks.

24 MR. HICKS: The parties would be willing to
25 stipulate to the authenticity of the testimony of witnesses

1 presented.

2 JUDGE RAINEY: Okay.

3 MR. HICKS: That is one that we would certainly
4 be willing to do.

5 JUDGE RAINEY: Any objections from any parties
6 with regard to that? Hearing none that is what we will do.

7 MR. CLEARFIELD: Thank you.

8 JUDGE RAINEY: Mr. Bogdonavage, let me swear you
9 in.

10 JOSEPH R. BOGDONAVAGE,
11 having been duly sworn, testified as follows:

12 JUDGE RAINEY: Please be seated, and provide your
13 full name for the record.

14 THE WITNESS: My name is Joseph R. Bogdonavage,
15 B-O-G-D-O-N-A-V-A-G-E. I am Senior Vice-President of Finance
16 for Philadelphia Gas works.

17 JUDGE RAINEY: Would you provide your address?

18 THE WITNESS: 800 West Montgomery Avenue,
19 Philadelphia, PA 19122.

20 JUDGE RAINEY: Please proceed, Mr. Clearfield.

21 MR. CLEARFIELD: Thank you.

22 DIRECT EXAMINATION

23 BY MR. CLEARFIELD:

24 Q. Mr. Bogdonavage, you have submitted for the record
25 statement number CRR-C1, company exhibits and Statement Number

1 CRR-C1R with accompanying exhibits; is that correct?

2 A. That's correct.

3 Q. Do you have any additions or corrections to either of
4 those pieces of testimony?

5 A. No, I do not at this time.

6 MR. CLEARFIELD: Based on our stipulation, Your
7 Honor, we would stipulate to authenticity and that the testimony
8 is true and correct to the best of his knowledge, information
9 and belief. Your Honor, we would move then at this point for
10 the admission of Statements, PGW Statements One, CRR-C1 and
11 CRR-C1 are subject to any appropriate motions to strike that the
12 parties might timely file during the proceeding.

13 JUDGE RAINEY: Any objections? Hearing none so
14 admitted.

15 (Whereupon, aforementioned documentation was
16 admitted.)

17 MR. CLEARFIELD: Thank you.

18 JUDGE RAINEY: Is Mr. Bogdonavage available for
19 cross-examination?

20 MR. CLEARFIELD: We have some short rejoinder.

21 JUDGE RAINEY: Go ahead.

22 BY MR. CLEARFIELD:

23 Q. Mr. Bogdonavage, I am going to ask you some questions
24 with respect to Mr. Lelash's surrebuttal and Mr. Weakley's
25 surrebuttal. With respect to Mr. Lelash's surrebuttal, Mr.

1 Bogdonavage, he states on page one that the company doesn't need
2 the CRRC because with improved collections projections and grant
3 back of the City fee, the company is projecting sufficient cash
4 working capital at year end. Is that correct?

5 A. No, he's not. I had provided in Exhibit PGW Rejoinder
6 Exhibit One, JRB. . .

7 MR. CLEARFIELD: Your Honor, may I have marked for
8 identification a one-page exhibit which we have already
9 distributed to the parties, to the court reporter we have
10 premarked as PGW Rejoinder Exhibit One JRB.

11 JUDGE RAINEY: So marked for identification.

12 (Whereupon, document marked PGW Rejoinder Exhibit
13 One JRB for identification.)

14 BY MR. CLEARFIELD:

15 Q. Do you have what we marked as PGW Rejoinder Exhibit JRB?

16 A. Yes, I do.

17 Q. Can you please explain what that shows?

18 A. The updated exhibit, as you can understand with the Gas
19 Works being about an \$800 million enterprise is a dynamic
20 document that changes almost daily. What we tried to do for
21 these hearings, to try to give the best information available at
22 the time. We have done continual updates of these documents as
23 seen fit. What I have presented before you here is a document
24 that has actual information through the end of March 31st of
25 this fiscal year with updates for the remaining five months of

1 the fiscal period. Basically what I wanted to explain here, in
2 the original document that was submitted with my rebuttal
3 testimony there was a gas deferral transaction contemplated by
4 PGW, which was going to provide in this fiscal period about \$30
5 million of deferred payments on natural gas until the winter
6 period.

7 What I have done in the updated exhibit, I have
8 removed a \$30 million transaction, and as a result of that
9 ending cash balance that PGW now projects for August with
10 payment of City fee of \$18 million would be a negative \$12
11 million dollars.

12 Q. Why would it be appropriate to remove the storage payment
13 deferral transaction. . .

14 A. Only because at this point in time it's strictly a
15 deferral. PGW is responsible for that obligation to be paid
16 back to the pipelines during the winter period when PGW would be
17 utilizing this natural gas storage for send out purposes.

18 Q. Does this exhibit also show the affect of the City's
19 representation to grant back the \$18 million City fee?

20 A. Yes, the column to the far right highlighted in the black
21 box shows with the City fee being granted back that the negative
22 \$12 million ending cash number becomes a positive \$6 million.

23 However, I would caution, move up four lines from
24 that line, you will see a cumulative cash flow for the fiscal
25 year, you will notice with the City fee being granted back at

1 \$18 million, and removing the deferral PGW basically broke even
2 during the year, which is to say that coming into the year we
3 had almost maxed out all of our short-term borrowing, and in the
4 end of the year we're in the same period with virtually no
5 liquidity to go into the winter period.

6 Q. Even if the gas storage arrangement is considered, from a
7 cash standpoint, in your opinion is the CRRC necessary from a
8 liquidity standpoint?

9 A. Absolutely necessary. What has ended up happening over
10 the course of the last 18 months is that the natural gas prices
11 have remained very high. We have had colder weather last year,
12 somewhat abated this year with warmer weather, put a lot of
13 pressure on our customers to make timely payments of gas bills.
14 As a result, we saw a slippage of almost six percentage points.

15 Just for the benefit of everyone, the company is
16 an \$800 million plus company, each percentage point of
17 collections is worth about \$8 million. This five to six point
18 detriment that we had last year resulted in about \$40 million
19 plus of possible working capital being removed from PGW's
20 liquidity, and right now what we're trying to do is provide the
21 CRRC as a hedge, so that when we go to financial markets they
22 can be assured that some of the risks associated with PGW as a
23 credit has been removed.

24 So what we're trying to do with CRRC is protect
25 ourselves and our access at reasonable rates to the capital

1 markets and also to provide necessary working capital to fund
2 the company on an ongoing basis.

3 Q. What happens if you can't access the financial market on
4 a reasonable basis?

5 A. Currently we're in the process of identifying a long-term
6 issue for capital purposes right now. PGW has started the
7 process with the City. Currently we're in the process of having
8 meetings to identify all of the parties who will be involved,
9 and also going to City Council for approval on the bond for
10 PGW. Now looking at about a \$125 to \$150 million transaction to
11 fund PGW's ongoing capital budget requirements for expenditures.

12 Without access to that marketplace at this time it
13 would put a lot of pressure on possible funding of PGW's capital
14 programs into the future. That would also then have the domino
15 affect of possibly putting some of our safety and reliability
16 requirements at risk if we're not able to maintain the system in
17 good operating condition.

18 Q. What would cause PGW to not be able to access the markets
19 at the level that you need?

20 A. As some of the parties and maybe Your Honor is aware, two
21 or three rating agencies have already downgraded PGW one notch.
22 We were two investment grades above, they have lowered us one
23 investment grade leaving us one notch above junk bond status.
24 That reduction has cost the company somewhere between 25 and 50
25 basis points in an interest rate to be paid sometime in the

1 future when bonds come to the market.

2 Continued erosion of PGW's credit-rating would
3 only increase cost of the borrowing for long-term capital
4 projections, and longer term also impact the customers because
5 the ultimate payer of the gas bills are rate payers. Their
6 costs would be going up as PGW's credit-rating were to erode.

7 Q. Would you be able to issue the same amount of bond if you
8 slip below investment grade?

9 A. If we slip below investment grade, there is always a
10 marketplace for bonds associated with some type of risk. These
11 would be junk bond status. However, PGW would be paying a
12 substantial premium, anywhere from either 100 to 200 basis
13 points. I think at that point in time it would be prudent as
14 financial managers of a company to scale back the size of that
15 issue until things were mitigated and stabilized in regard to
16 PGW's liquidity. So we may be only able to access the market
17 ballpark at \$50 million, or not even one year's capital spending
18 of PGW's fiscal year.

19 Q. Mr. Lelash says in pages 2 and 3 of surrebuttal he
20 believes it's unreasonable to expect rate payers to pay higher
21 rates through the CRRC just to maintain investment-grade bond
22 rating. Do you believe that is a correct conclusion?

23 A. I do not, no. First of all, the CRRC is not only tied to
24 PGW's bond rating, what we're trying to do is establish some
25 sort of benchmark of cash liquidity, during some of our base

1 rate case hearings and testimony, and even granted through PUC
2 orders we were looking for somewhere between \$30 and \$40 million
3 of liquidity, that evaporated last year when collection rates
4 declined from historical averages. What CRRC at this point
5 does, kind of guarantees at minimum we would be able to attain
6 our historical levels of collection and thereby provide some
7 sort of working capital requirement.

8 Q. Mr. Lelash points out that the CRRC if implemented will
9 not provide any added cash or liquidity for PGW until next
10 fiscal year starting September first; isn't that true?

11 A. If the Commission grants the CRRC it would not be
12 implemented until September first. I think more importantly
13 would be signal out to the financial community that PGW, just as
14 the weather normalization clause that was provided by the PUC
15 granted PGW basically an insurance policy that on a warmer
16 winter PGW's margins would not be eroded. This CRRC would have
17 the same impact. We would at least be able to guarantee to the
18 financial community, we would be able to attain our historical
19 collection revenue. That would mitigate the risk to prospective
20 bond holders.

21 Q. Turning to a slightly different subject. Mr. Lelash
22 stated in his surrebuttal that first your E-factor portion of
23 the CRRC that PGW has proposed constitutes retroactive rate
24 making, because it would adjust rates that are in place and
25 approved by the PUC today. Can you comment on that?

1 A. I don't agree with that assessment, only because as part
2 of most base rate proceedings, an allowance for bad debt is part
3 of the base rate case. Obviously most of the hearings that are
4 established under PUC go back and look at some sort of bad debt
5 expense on a retrospective position.

6 Obviously that's how rates are set. Obviously the
7 most important thing, when trying to set base rates is to look
8 at past history. Obviously if bad debt expense is based on
9 prior collection experience, I don't understand how it could
10 possibly be retroactive rate making.

11 Q. One short question with regard to Mr. Weakly's
12 surrebuttal. Mr. Weakly proposed a different mechanism to
13 address uncollectible changes due to high gas costs. Have you
14 reviewed Mr. Weakley's testimony?

15 A. Yes.

16 Q. Mr. Weakley has suggested a revision to the average cost
17 of gas from 2001 base rate proceeding that you had testified to
18 in your rebuttal. Have you had a chance to review that? Do you
19 have a comment on that revised --

20 A. We provided a revised number of what we thought the
21 number was for inclusion in the base rate case. Mr. Weakly has
22 a different number. Your Honor, not to burden this record, we
23 could straighten out the minor correction that needs to be made
24 in a compliance-type setting. I would not want to burden the
25 Court's time right now. I think it's a minor issue we can reach

1 settlement in another venue.

2 Q. If the Commission adopts, you would propose that it be
3 reviewed in a compliance filing. . .

4 A. That's correct.

5 MR. CLEARFIELD: That's all I have, Your Honor.

6 JUDGE RAINEY: Let me just follow up with some
7 questions I have. With regard to PGW Rejoinder Exhibit Number
8 One, Mr. Bogdonavage, and I'm referring to the bottom of the
9 page, you have in bold type, ending balance cash, you have a
10 \$6 million figure; is that correct?

11 THE WITNESS: That's correct.

12 JUDGE RAINEY: You have cash position net of TXCP
13 and City loan. Would you explain that again?

14 THE WITNESS: Your Honor, TXCP is acronym for tax
15 exempt commercial paper. PGW has an \$80 million letter of
16 credit established with a consortium of banks. As you can see,
17 we have all of the \$80 million outstanding. In addition to that
18 back in 2000, 2001 the City of Philadelphia provided PGW with a
19 \$45 million loan to get through purchases of natural gas in that
20 period. That loan is currently due to be repaid in August of
21 2006. We're proposing to have it extended two
22 more years to 2008. That \$45 million loan is also outstanding.

23 If you look at the combination of \$125 million of
24 short term borrowing, we're in a net position, \$119 million
25 negative at that point in time.

1 JUDGE RAINEY: You mentioned also the \$18 million
2 payment, annual payment to the City. Is that figured into your
3 calculations as well?

4 THE WITNESS: Yes it is. If you look on that
5 rejoinder exhibit under the month of June you will see
6 highlighted under disbursements, second line up from the bottom,
7 highlighted, \$18 million. That is per ordinance, PGW expects to
8 pay it per ordinance in June. We're asking the City to grant
9 that back to PGW as a working capital offset.

10 Also, the reason we're asking for this
11 technicality to be granted back is that revenues would be
12 counted as project revenues for PGW's bond covenants. The total
13 column preceding the \$18 million column shows without the grant
14 back of the City fee we're in a negative cash position. With
15 the grant back of the City fee we're on a positive \$6 million,
16 although all of our short term borrowing are fully outstanding.

17 JUDGE RAINEY: So your expectation is that \$18
18 million will be granted back?

19 THE WITNESS: It's our understanding, but that's
20 per City Administration and City Council.

21 JUDGE RAINEY: Cross-examination, Mr. Simms.

22 MR. CLEARFIELD: Before we start could I move for
23 admission of Rejoinder Exhibit One?

24 JUDGE RAINEY: Any objections to the admission
25 into evidence of PGW Rejoinder Exhibit One?

1 MR. HICKS: Subject to cross.

2 JUDGE RAINEY: Subject to cross. So admitted.

3 (Whereupon, document marked PGW Rejoinder Exhibit
4 One was received in evidence.)

5 CROSS-EXAMINATION

6 BY MR. SIMMS:

7 Q. Good morning, Mr. Bogdonavage. I want to refer you back.

8 You answered a question worded by Your Honor, in June PGW will
9 make an \$18 million payment to the City, correct?

10 A. It's our anticipated position at this time.

11 Q. That's by ordinance, correct?

12 A. That's correct.

13 Q. And you are requesting the City to grant back to you the
14 \$18 million. Correct?

15 A. That's correct.

16 Q. Has that been approved by the City yet?

17 A. We have, the City Administration is on board with this
18 transaction, but I think there is some City Council oversight
19 that is required to approve this.

20 Q. So that the record is clear, if in fact hypothetically or
21 if in fact City Council approves the grant back of \$18 million,
22 what will -- going forward, each June, PGW will make a payment
23 of \$18 million to the City and then the City will grant back \$18
24 million back to PGW?

25 A. That's correct. That is our understanding for the

1 reasons I just spoke of. We have bond covenant issues. We
2 would like to see the \$18 million as project revenue.

3 Q. Let me refer you to the new bond issue of approximately
4 \$125 million. That request, was that approved by the Gas
5 Commission or do you need Gas Commission approval?

6 A. Technically I think we need to have, obviously we need
7 City Council approval for the ordinance. PGW can't issue any
8 kind of debt without the City of Philadelphia's approval. We're
9 in the process of getting bond ordinances introduced into City
10 Council. We anticipate they will be approved. We will be
11 informing the Gas Commission of our plans to go forward at that
12 time. I am not necessarily aware of any formal approval that
13 the Gas Commission has to give.

14 Q. I think you may have answered my next question. I am
15 correct that you will need formal City Council approval to issue
16 bonds?

17 A. That's correct. Absolutely we need an ordinance approved
18 by City Council to issue any long-term debt in PGW's name.

19 Q. Let me refer you to page 13 of your rebuttal testimony.
20 Let me refer you to line eight of your testimony. You make a
21 reference, do you not, to extraordinary expenses approved by the
22 Commission in the past, correct?

23 A. That's correct.

24 Q. What extraordinary expenses? Could you give the Court
25 examples of what you're speaking of?

1 A. Obviously, one that comes to mind initially would be
2 surcharge that is now in place to recover restructuring and
3 customer education as a result of PUC's approval of PGW'S Gas
4 Choice. There are also some non-recurring expenses that PGW had
5 incurred, when it was under the Gas Commission, and then under
6 PUC where we had normalized these expenses for rate-making
7 purposes. In addition to that, back when we had an \$11 million
8 initial rate increase of PGW's proposed -- I think at the time
9 \$65 million increase -- there was a recovery of another \$7
10 million as an extraordinary item to allow PGW to get through the
11 fiscal year to recover additional bad debt expense.

12 Q. So when you make reference to extraordinary, you are
13 referring to those mechanisms that deal with PGW, correct?

14 A. Probably not only PGW. I think there is a basic rate
15 mechanism policy that non-recurring expenditures maybe spread
16 over many years to be amortized for rate-making purposes.

17 Q. So it's your testimony that the proposal that you made
18 here in this case is non-recurring?

19 A. Our proposal right now is to provide PGW the ability
20 through CRRC to recover anything that happens to be below
21 our 92 percent historical average. I wouldn't call it
22 non-recurring. The 2003 fiscal period had a plethora of
23 circumstances that combined to result in customers having an
24 extraordinary time paying their gas bills currently.

25 I think that PGW at the time, not saying it's

1 extraordinary, but we need to mitigate the risk going forward.
2 That's why we proposed the Cash Receipts Reconciliation Clause.

3 Q. I understand, but the answer to my question is no, it's
4 not non-recurring?

5 A. We don't feel it's non-recurring.

6 MR. SIMMS: Thank you. No further questions.

7 JUDGE RAINEY: Mr. Keene.

8 CROSS-EXAMINATION

9 BY MR. KEENE:

10 Q. Good morning, Mr. Bogdonavage.

11 A. Good morning.

12 Q. Could you refer to page 3 of your rebuttal testimony?

13 A. I have it.

14 Q. There you state that with the grant back of \$18 million
15 City payment and improved collection results from this fiscal
16 year, the company could end the fiscal year August 31st, 2004
17 with cash reserves of \$31 to \$36 million, isn't that correct?

18 A. That's correct.

19 Q. That's what two schedules that are attached to your
20 rebuttal testimony demonstrate JRB 10, page one, shows ending
21 cash balance \$31 million and JRB 10, page two of two shows
22 ending balance of cash balance \$36 million, isn't that correct?

23 A. That's correct.

24 Q. Looking at the listed assumption in the upper-left hand
25 corner of these two schedules, JRB 10, page one, this assumes a

1 collection rate of 90.5 percent, isn't that correct?

2 A. What schedule do you have?

3 Q. JRB 10, page one.

4 A. I don't think I have that in front of me.

5 MR. CLEARFIELD: May I approach?

6 JUDGE RAINEY: Yes.

7 THE WITNESS: Subject to check, I believe that's
8 what it was.

9 BY MR. KEENE:

10 Q. This is the one, cash balance is \$31 million at the end
11 of the year?

12 A. That's correct.

13 Q. That's premised upon the 90.5 percent collection rate?

14 A. At that point, yes.

15 Q. On page two of JRB 10, which is a schedule that shows an
16 ending cash balance of \$36 million, the assumption in this one,
17 is the collection rate is 93 percent, correct?

18 A. That's correct.

19 Q. Would you agree with me, Mr. Bogdonavage, if PGW's
20 collection rate for fiscal year 2004 was better than 93 percent,
21 with all other things remaining equal, then PGW finished the
22 year with something more than \$36 million in cash?

23 A. That would be a true statement. If I could just clarify
24 that somewhat. The reason I put out my rejoinder exhibit,
25 included a \$30 million transaction in this fiscal year for gas

1 deferral deal, in totality would be about \$50 million over the
2 course of five months that we're looking at, but only \$30
3 million of that would affect this fiscal year.

4 Again, that is a liability that PGW does have to
5 repay during the winter when the gas is utilized for its send
6 out purposes. What I tried to explain, even though we may have
7 \$36 million in one scenario, if in fact our collection factors
8 improve above that, it could be even higher, \$30 million of that
9 is really tied up as a liability to be repaid.

10 Again, we would be down somewhere just north of \$6
11 million if the City fee is granted back.

12 Q. In fact, the company has already entered into an
13 agreement to do the natural gas payment deferral again this
14 year; isn't that correct?

15 A. My understanding, they have a finalized agreement,
16 correct.

17 Q. Just to make it clear, under the company's proposed CRRC,
18 the surcharge mechanism doesn't go into effect until September
19 first, 2004, isn't that correct?

20 A. If approved by PUC, correct.

21 Q. So even if the PUC approves the CRRC, the company won't
22 collect any dollars prior to August 31st, 2004, and the CRRC
23 will have no impact on this cash flow analysis that you
24 presented here, isn't it correct?

25 A. All things being equal, that's correct.

1 Q. Under the company's proposed CRRC mechanism you utilize
2 \$55.7 million as a baseline uncollectible expense offset that's
3 included in the current rate when you calculate how much to flow
4 through the CRRC, is that correct?

5 A. That's correct.

6 Q. That's the level of uncollectible expense that was
7 established in PGW's last fully-litigated base rate case, Docket
8 Number R0000060042, which was decided October 2001, correct?

9 A. Subject to check, I do not know the Docket number but I
10 believe it to be factual.

11 Q. Since then, there has been another PGW base rate case
12 that's been resolved through a Black Box Settlement approved by
13 the Commission in August 2002, isn't that correct?

14 A. That's correct.

15 Q. As is the case with any Black Box Settlement, there was
16 no specific level of uncollectible expense established in that
17 settlement, isn't that correct?

18 A. That's my understanding.

19 Q. In fact, in developing your proposal in the CRRC
20 mechanism, you didn't think it was appropriate to speculate or
21 assume as to what level of uncollectible expenses included in
22 current base rates coming out of that Black Box Settlement,
23 isn't that correct?

24 A. That's exactly PGW's position, yes.

25 Q. Could you turn to page ten of your rebuttal testimony

1 please?

2 A. Okay.

3 Q. Lines 15 through 18. You state in any event, "assuming
4 that some portion of the \$36 million settlement rate increase
5 was attributable to uncollectible expense allowance, would at
6 most increase the base rate recovery in the clause by about \$2.7
7 million." The \$36 million settlement rate increase you
8 reference, that's the Black Box Settlement from the 2002 case,
9 isn't that correct?

10 A. That's correct.

11 Q. How did you come up with the \$2.7 million figure that you
12 reference there?

13 A. Basically what we did, in the case, although \$55.7
14 million, I think the actual number was a 7.6 percent average bad
15 debt expense. Ballpark historical collection factors had been
16 92 percent with eight percent being uncollectible. I just
17 applied eight percent bad debt expense to \$36 million and it
18 results in approximately \$2.7 million of that would be
19 associated with the \$36 million rate increase.

20 Q. Turning to your rejoinder testimony that you just
21 provided. You talked about setting uncollectible expenses in
22 the context of base rate case, and that in setting a level of
23 uncollectible expense you would look back at some historical
24 level. Isn't it true that uncollectible expense is then set on
25 a prospective basis?

1 A. My understanding of the way the rates would be set is
2 that we would make a claim for what we expected our bad debt
3 expense would be, during that base rate proceeding, and as I had
4 mentioned in some of the rejoinder testimony presented, the most
5 historical number would be the most accurate number I think
6 going forward, which I think most people would consider to be an
7 appropriate number, that the past is a good harbinger of the
8 future. I would not want to go out and speculate in the
9 marketplace of what some of our customers may or may not be able
10 to afford.

11 I think what we would do is come up with a pro
12 forma amount in our base rates if we had filed for a base rate
13 case and then looking at our most recent experience, come up
14 with a bad debt expense. And that would probably be in excess
15 of what was granted in the last fully-litigated case.

16 Q. But the uncollectible expense that would be included in
17 rates, that is a prospective number, isn't it correct? There is
18 no true up for prior years in a base rate proceeding, is there?

19 A. I think that is correct. Yes.

20 MR. KEENE: That's all I have.

21 JUDGE RAINEY: Thank you, Mr. Keene.

22 CROSS-EXAMINATION

23 BY MR. GRAY:

24 Q. Can we turn back to your Rejoinder Exhibit Number One?

25 A. Yes.

1 Q. The upper left hand corner that you have some boldened
2 text. On the fourth line, at the end it says "estimates of a
3 collection factor of 93.0 percent." Do you see that?

4 A. Correct.

5 Q. Now if we turn back to your rebuttal testimony, I believe
6 page two, you were asked a question about what the CRRC would
7 result in if you attained a collection rate of 93.0 percent, am
8 I correct in that?

9 A. That's correct.

10 Q. So, I realize as you said, this is snapshot that you took
11 for the purposes of this hearing. So, your conclusion in your
12 rebuttal was if you had a 93.0 percent collection rate, CRRC
13 would contribute \$2 million, correct?

14 A. I think that was the calculation, is that correct?

15 Q. Looking back in lower, down lower right-hand corner, that
16 \$6 million would bump up to \$8 million roughly, given the
17 limitation of this snapshot, correct?

18 A. Considering that the rates wouldn't be affected in this
19 period.

20 Q. Yes, absolutely.

21 A. Correct.

22 Q. When you said, you used the term in your rejoinder, and I
23 hadn't heard before in this case, that was a hedge. It sounds
24 like the CRRC mechanism, given a collection rate of 93 percent
25 would really function as a hedge for PGW, correct?

1 A. That's the way we're contemplating it, we would mitigate
2 some of the risks going forward for PGW two-fold: One, because
3 we need to access capital markets, second to make sure that we
4 have reasonable levels of working capital.

5 Q. To make sure I understand your comment about accessing
6 the capital market by having that additional hedge in place, the
7 external financial market looks at PGW with more favor if that
8 CRRP mechanism is there?

9 A. I wouldn't refer to it as favor. I would think it
10 mitigates some of the risk that PGW's credit may have at the
11 current time.

12 MR. GRAY: That's all I have.

13 JUDGE RAINEY: Thank you. Mr. Bertocci.

14 CROSS-EXAMINATION

15 BY MR. BERTOCCI:

16 Q. Good morning.

17 A. Good morning.

18 Q. I would like you to reference CRRC-1, your direct
19 testimony page seven, lines 12 to 16.

20 A. If I may, Your Honor. I don't have my original testimony
21 with me.

22 JUDGE RAINEY: Okay.

23 BY MR. BERTOCCI:

24 Q. You say there under cash flow method, "PGW obtains all
25 its cash working capital from customers through rates it charges

1 for gas service." Isn't it true that PGW also obtains cash
2 working capital from tax exempt commercial paper in the amount
3 of \$80 million dollars?

4 A. That's correct. All of the costs of that program are
5 borne by rate payers.

6 Q. Ultimately?

7 A. Yes.

8 Q. But there is cash working capital that comes from a line
9 of credit?

10 A. That's correct.

11 Q. I think that \$79.8 million is what you can drive down.
12 You can't drive down the \$200,000?

13 A. We can't have outstanding more than next month's interest
14 payment. So, \$79.8 million at the current rate is all we can
15 access of the \$80 million.

16 Q. You get cash working capital from the \$45 million City
17 advance, right?

18 A. The \$45 million loan provided by the City of Philadelphia
19 still did provide working capital, as you can see over the past
20 18 to 20 months, it has become fully outstanding. It has
21 become embedded into short term borrowing.

22 Q. If the City grants back the \$18 million City payment for
23 the next five years, this would also be a source of cash working
24 capital, wouldn't it?

25 A. Absolutely.

1 Q. I would like you to reference also line 16 of the same
2 page, page seven line 16, you say "In the past proceedings, PGW
3 documented that it needed \$35 to \$40 million in liquidity, that
4 is cash and available short-term borrowing at the end of the
5 fiscal year to provide funding for working capital
6 requirements."

7 Isn't it true that the PUC never explicitly
8 acknowledged in any rate order or opinion that PGW had such a
9 need?

10 A. They may not have granted that level of working capital,
11 but I think our working assumption, knowing our working capital
12 requirements from the September to January timeframe of each
13 fiscal year that at minimum is what we need. I think that was
14 borne out by rating agencies' actions over the past month where
15 they looked at our working capital, looked at our cash balances,
16 looked at short-term debt that was not sufficient to maintain an
17 investment grade rating for the company.

18 Q. The question that PUC explicitly acknowledged or didn't,
19 right?

20 A. That's correct.

21 Q. Isn't it true that PGW's year-end liquidity has usually
22 been much less than \$35 million from cash and cash equivalents?

23 A. In the recent past, that's correct.

24 MR. BERTOCCI: I am going to show you what has been
25 marked Action Alliance Cross-Examination Exhibit One.

1 (Whereupon, document marked Action Alliance CE-Exhibit
2 No. One for identification.)

3 JUDGE RAINEY: So marked for identification.

4 BY MR. BERTOCCI:

5 Q. Mr. Bogdonavage, you're familiar with these documents,
6 right?

7 A. Yes, I am.

8 MR. CLEARFIELD: Your Honor, I don't know where
9 they come from.

10 MR. BERTOCCI: Let's go through them quickly.

11 BY MR. BERTOCCI:

12 Q. JRB 10, page one of two, that is just a repetition of
13 what was in your surrebuttal testimony, is that right?

14 A. Right.

15 Q. Budget of cash receipts?

16 A. That's correct.

17 Q. Second one, marked JRB 10, page two, right?

18 A. Also correct.

19 Q. Also from your rebuttal testimony?

20 A. Yes.

21 Q. Third one is Exhibit JRB 5, which was from your direct
22 testimony, is that right?

23 A. That's correct.

24 Q. JRB 5, page two, fourth one is Exhibit JRB 5, page one
25 also from the same direct testimony?

1 A. You're referring to the actual 2003 fiscal period?

2 Q. Yes. The first three schedules really dealt with various
3 projections for fiscal year 2004. In JRB 5, page one, for
4 estimate of cash receipts disbursements for fiscal year 2003,
5 which ended August 31st, 2003, is that right?

6 A. Yes.

7 Q. The next one, that was provided in discovery to OCA set
8 1-15. That is actual for receipts and disbursements year-ending
9 August 31st, 2002?

10 A. That's correct.

11 Q. The next one after that is in the same format for the
12 year, actual for year-ending August 31st, 2001. And the final
13 one, one which is, you provided in response to a request for
14 actual, seems to be actual and budgeted seven month's actual,
15 five month's budgeting for year 2000, is that right?

16 A. That's correct. If this, I can verify the factual nature
17 of it. That's probably all actual.

18 Q. Okay.

19 A. Headings are probably incorrect.

20 Q. As we went through here for fiscal 2003, for year end
21 2003, subject to check, would you say that, looking, focusing on
22 right-hand bottom quadrant of the schedule. But for fiscal 2003,
23 cash equivalent, PGW's year-end was about \$5.9 million, would
24 that be right?

25 A. That's correct. If I may just again qualify that, that

1 also included a deferral, natural gas storage deferral
2 transaction that was probably worth about \$12 million in that
3 timeframe. It was \$15 million in totality. Without that gas
4 deferral transaction in the months of June, July, August, that
5 cash number would have been substantially negative.

6 Q. On the basis of that starting, you started the fiscal
7 year 2004 with about \$5.9 million, you had to pick up in fiscal
8 2004 some deferred payments that had been made previously; is
9 that right?

10 A. Transaction was worth \$15 million in totality.

11 Q. Turning the page one more page focusing on lower
12 right-hand quadrant.

13 MR. CLEARFIELD: What is the designation?

14 MR. BERTOCCI: Looking back at budget of cash
15 receipts disbursements for the year ending August 31, 2002.

16 Next page.

17 THE WITNESS: Actual I think he means.

18 BY MR. BERTOCCI:

19 Q. That would be year-ending, would be, subject to check
20 \$12.5 million, is that right, year-ending cash and cash
21 equivalents?

22 A. That's correct.

23 Q. You get that for those that are curious by adding the \$6
24 million and \$6.5 million left of City advance, is that right?

25 A. That's correct.

1 Q. Going to the next page back for actuals for fiscal 2001,
2 again subject to check, \$2.5 million, you get that by \$1.7
3 million in cash, and then you had the \$78 million of your
4 tax-exempt commercial paper that was outstanding. So you could
5 have drawn down \$1.8 million more of that, it gets you to \$2.5
6 million at end of 2001?

7 A. It would be \$3.5 million, but that's correct, \$3.5
8 million.

9 Q. Okay. I stand corrected. For the year 2000 again,
10 that's the last page, the number's \$8.4 million, and although it
11 says budgeted and actual, you believe \$8.4 million is accurate,
12 is the amount of cash you have at that end of the year?

13 A. I believe so.

14 Q. Now we have had a number of estimates concerning your
15 collections rate in fiscal 2004. Sometimes they have been 90.5
16 percent of billings, 93 percent of billings, isn't that right?
17 Strike that. You've stated that 90.5 percent is based on 12
18 years -- 12 months rolling results for, through March, from
19 March 2003 through March 2004, isn't that right?

20 A. That's correct.

21 Q. If you go just on the basis of the performance in fiscal
22 year 2004, currently, through March your projections are 93
23 percent of ratio of collections to billings, is that right?

24 A. With one correction to that statement. We're now trying
25 to project year-end August collections for the full fiscal

1 year. I think currently we have rolling 12-month average at the
2 end of March, April 90 and a half percent. We're assuming based
3 on our projections if we stay on plan with collection renewal
4 initiative, there is a very good possibility we will exceed our
5 historical 92 percent. They are not the same number. 12-month
6 rolling average is just what it is, a 12-month snapshot at the
7 time. We're taking eight months of current fiscal period then
8 the remaining four to come up with a projection for year-ending
9 fiscal 2004 collection factor.

10 Q. Isn't it true that the collection factor has been -- is
11 it volatile?

12 A. To say the least.

13 Q. You can make a projection one day, using the same method
14 several days later, the projection could be somewhat different?

15 A. Again, based on historical, most recent actual
16 information, almost on a daily basis we're redoing our cash
17 projections.

18 Q. And isn't it true in a report that you filed with or
19 presented to Philadelphia Gas Commission on April 19th that you
20 were projecting at that time a 94 percent collection factor, is
21 that right?

22 A. It could be subject to check. With again the caveat that
23 those schedules were dynamic. The last two months have been
24 much warmer than normal. As a result of the billings going
25 down, all things being equal, if we made the same projections on

1 our collection pattern when receipts are static and billings
2 drop we would have an increase in the collection factor.

3 Q. Now the projections that were presented as part of JRB
4 10, which going back to Cross Exhibit Action Alliance -- Cross
5 Exhibit One are the first two pages, estimate of 90.5, other
6 estimate, which was 93. Both of those you make reference to
7 natural gas payment deferral, \$53.4 million. That deal has been
8 finalized, right?

9 A. A variation of that deal has been finalized. I think as
10 a result of the commodity market increasing over the last few
11 weeks, I think total of that transaction is now a little bit
12 higher than \$53 million. But it's ballpark?

13 Q. The affect of that essentially, PGW has made its
14 purchases, the purchases that it needs to make following the
15 standard for procuring gas, but made agreement to pay for them
16 at a later time, is that right?

17 A. That's correct.

18 Q. Now as for grant back of fiscal 2004, annual \$18 million
19 payment to the City, the commitment on the part of the City to
20 pay back that \$18 million, that has been made has it not?

21 A. If City Administration is on board that they would be
22 granting back \$18 million, I think there is City Council needing
23 to weigh in on that transaction.

24 Q. Isn't it true in other years that the City has testified
25 that they didn't need City Council approval at least

1 technically?

2 A. In my recent memory, obviously there is an existing city
3 ordinance that says \$18 million has to be paid. Our projections
4 show we will do. There were considerations by City
5 Administration to actually change that ordinance for one year at
6 the time and forgive it. I think I already spoke to, we have
7 been in touch with City Administration, more importantly,
8 Finance Director explaining to her why the technicality of it
9 being granted back is a more attractive transaction to PGW since
10 it would be project revenues for our bond covenants.

11 In the past, PGW has always paid \$18 million, per
12 ordinance, although not always on time but in the fiscal period.

13 Q. If PGW did not pay its \$18 million, PGW has it within its
14 power not to pay the \$8 million, doesn't it?

15 A. As a prudent financial manager, I would not want to not
16 pay my legal commitments, which is the ordinance.

17 Q. Is there any doubt in your mind that bond-rating agencies
18 understand that an \$18 million city payment for this year and
19 for four or five years going forward will be granted back?

20 A. With the caveat that City Council would have to approve
21 that, plus maybe extending, not maybe but asking to extend,
22 repay on a \$45 million loan. If I may embellish the answer, we
23 had made a presentation in New York to Standard and Poor's back
24 in February of our liquidity and financial projections. We made
25 them aware of the possibility of \$18 million of gas deferral

1 commitment on the transaction.

2 Also, we were about to file with the PUC this cash
3 reconciliation clause. We found out after they took all of that
4 information in, they still were going to downgrade PGW about 45
5 days later. I think they have discounted some of those. I
6 think the one thing that City Administration did, which showed a
7 real commitment to the company, they went out and said they
8 would grant back City fees for the next four years cumulatively
9 \$90 million, asked City Council's permission to extend the
10 loan.

11 We think as a result of City Administration's
12 position supplying PGW with a needed working capital injection,
13 that was what possibly saved PGW from being downgraded to junk
14 bond status.

15 Q. The extension of time for \$45 million city loan was to
16 the end of fiscal year 2008?

17 A. Yes, we're asking a ordinance change to be put through to
18 move that, which had been August of 2006, move it back two years
19 to 2008. It would require City Council action.

20 MR. BERTOCCI: Thank you. That's all I have.

21 JUDGE RAINEY: Let me follow up, Mr. Bogdonavage.
22 With regard to the amount of the natural gas payment deferral,
23 would you provide that amount again?

24 THE WITNESS: I can give you the approximate value
25 of the transaction. The only reason I say approximation, some

1 of the pricing on a monthly basis is based on the beginning of
2 the month's natural gas price index, into the future. But at
3 current rates, that deal probably is going to increase from
4 \$53.4 million to about \$56 million. That would result in an
5 \$11.2 million reduction in payments over the course of the five
6 months when this transaction will be in place.

7 JUDGE RAINEY: Go ahead, Mr. Bertocci.

8 MR. BERTOCCI: I would like to move into evidence
9 Action Alliance Cross-Examination Exhibit Number One.

10 JUDGE RAINEY: Any objections?

11 MR. CLEARFIELD: No objection except for the note
12 that the first four pages are already in the record.

13 JUDGE RAINEY: So admitted. Ms. Minicavage.

14 MS. MINICAVAGE: I have nothing. Thank you.

15 JUDGE RAINEY: Mr. Hicks.

16 MR. HICKS: Thank you.

17 BY MR. HICKS:

18 Q. Good morning, Mr. Bogdonavage. My name is Renardo
19 Hicks. I represent a number of City Public Officials,
20 effectively Senator Fumo and seven City Council members and
21 District Attorney Abraham. How long have you been Senior
22 Vice-President of Finance at PGW?

23 A. About 3-1/2 half years.

24 Q. Would it be accurate to say that as Senior Vice-President
25 of Finance, you're responsible for managing the financial health

1 of PGW?

2 A. That's one of my primary responsibilities, correct.

3 Q. In that capacity, you actually communicate with
4 bondholders?

5 A. Not necessarily with bondholders, but rating agencies and
6 investment bankers. Not necessarily with particular
7 bondholders.

8 Q. You're the front-man, so to speak in communications with
9 Standard and Poor's, for example?

10 A. Myself, the controller and chief executive officer.

11 Q. You mentioned a few minutes ago a presentation in New
12 York. Did you actually make the presentation?

13 A. Yes.

14 Q. I want to get this very clear. None of the rating
15 agencies have asked PGW to implement the CRRC, have they?

16 A. I don't think they have any standing in that, but we have
17 brought forth a proposal that we would be filing a surcharge,
18 cash reconciliation clause. They haven't asked, no they have
19 not.

20 Q. Am I correct that PGW is actually wholly-owned by the
21 City of Philadelphia?

22 A. My understanding, that's correct.

23 Q. So it's not a department of Philadelphia City Government.
24 However, it's owned by the City of Philadelphia; is that right?

25 A. That's my understanding.

1 Q. PGW is actually governed by a board and executive
2 management team which you're a part of as well; is that right?

3 A. There is Philadelphia Facilities Management Corporation,
4 which has seven members appointed by the Mayor as board of
5 directors. They have the responsibility of having three
6 appointed positions, again with the Gas Commission's approval of
7 Chief Executive Operating and Financial Officer.

8 Q. Philadelphia Facilities Management Corporation is a
9 non-profit Corporation; is that correct?

10 A. That's correct.

11 Q. Just to be crystal clear on this, unlike all other gas
12 companies in the Commonwealth of Pennsylvania, PGW is not an
13 investor-owned utility; isn't that correct?

14 A. I think that is pretty factual. I think there may be one
15 other small municipally gas-owned utility. But PGW dwarfs it in
16 comparison.

17 Q. Which other gas utilities are you referring to?

18 A. I think Chambersburg.

19 MR. CLEARFIELD: I think there is Chambersburg,
20 and a gas company. I don't know if it's regulated by the PUC.

21 BY MR. HICKS:

22 Q. Equitable, UGI, PECO, Columbia, People's, PGF, North
23 Penn, FGD, PG Energy, TW Phillips. Those are all investor-owned
24 gas companies, is that right?

25 A. My understanding, that's correct.

1 Q. And are you aware, of all of those gas companies, I have
2 named PGW as having the highest estimated average monthly cost
3 within the Commonwealth of Pennsylvania?

4 A. I'm aware of that. . .

5 MR. CLEARFIELD: I'm not sure I understand the
6 term cost, you mean rates.

7 MR. HICKS: Estimated average monthly cost per
8 MCF.

9 THE WITNESS: Yes.

10 MR. HICKS: I was asking if he was aware or not.

11 BY MR HICKS:

12 Q. Are you also aware that the City of Philadelphia has the
13 highest percentage of residents in poverty in the Commonwealth
14 of Pennsylvania?

15 A. I am not personally aware, but I have been made apprised
16 of that on numerous occasions, yes.

17 Q. You testified that the \$18 million give back payment was
18 still subject to some action by the City Council of
19 Philadelphia. Is that an affirmative vote by the City Council
20 of Philadelphia?

21 MR. CLEARFIELD: Your Honor, I would just make a
22 statement, actual legal requirement, obviously is what it is. I
23 would be concerned that Mr. Bogdonavage's answer be taken as a
24 legal statement from PGW as to what is required. He can answer.

25 MR. HICKS: If he knows, he can say.

1 JUDGE RAINEY: Let me say this: There have been
2 a number of questions with regard to the ordinance, and Mr.
3 Bogdonavage can answer to the extent that he knows. He can
4 state the level of his certainty or uncertainty with regard to
5 that.

6 MR. HICKS: Understood, Your Honor.

7 THE WITNESS: If I may, my understanding is that
8 there is an existing city ordinance that requires \$18 million to
9 be paid. We plan to make that payment. We're aware that under
10 Finance Director's approval and Mayor or City Administration,
11 that can be granted back to PGW. However, there may be a
12 technicality of spending authorization, while City Council is
13 out of session during the summer. I think that is the legal
14 requirement that must be met.

15 BY MR. HICKS:

16 Q. Is it your expectation that City Council has to take some
17 action to make it happen?

18 A. I can't speak to that. I don't know the legal
19 ramifications of that.

20 Q. Are you aware seven City Council members that I represent
21 all oppose this CRRC proposal of PGW?

22 A. I am not aware of that.

23 Q. Are you aware of any City Council members that support
24 PGW'S proposed CRRC?

25 A. I can't say one way or the other. I don't know their

1 position on gas company's CRRC other than what I read in the
2 newspaper.

3 Q. You have also testified in response to questions from two
4 counsel at this table that the, that you have in fact, PGW has
5 in fact signed an agreement for gas deferral payment in excess
6 of \$53.4 million?

7 A. Yes.

8 Q. How much in excess?

9 A. I think I just gave the number, about \$56 million in
10 total. So about \$2.4 million higher or \$2.6 million higher.

11 Q. You have indicated that despite that agreement that PGW
12 has elected to make that payment in 2004?

13 A. Elected to make which payment?

14 Q. I'm not sure. Are you going to make that deferred
15 payment in 2004?

16 A. The transaction is natural gas will be put into PGW's
17 storage and a payment will be made in December through April,
18 December 2004 through April 2005 timeframe. We will not make
19 any payments that I'm aware of during fiscal year 2004, which
20 ends in August.

21 Q. That helps. I understand. Are you aware that public
22 hearings were held in this proceeding last week?

23 MR. CLEARFIELD: Public Input Hearings?

24 MR. HICKS: Yes.

25 THE WITNESS: Yes.

1 BY MR. HICKS:

2 Q. Are you aware we had one in the Northeast, and two at the
3 Philadelphia Community College?

4 A. Yes.

5 Q. You may or may not be aware we had approximately 70
6 people who testified. Do you know that?

7 A. I know there was a substantial presence at the hearing.

8 Q. Are you aware that everyone who testified opposed PGW's
9 proposed CRRC?

10 MR. CLEARFIELD: Your Honor, I object. I don't
11 understand the relevance of this to evidentiary record. It is
12 what it is.

13 JUDGE RAINEY: Do you have a response to the
14 objection?

15 MR. HICKS: I withdraw the question. I am
16 finished.

17 JUDGE RAINEY: Does PHA have any questions?

18 MR. HINERMAN: My name is Philip Hinerman.

19 MR. CLEARFIELD: Can we take a pause? I need to
20 get Mr. Stunder.

21 JUDGE RAINEY: Sure.

22 (A brief break was taken.)

23 JUDGE RAINEY: Let's go back on.

24 CROSS-EXAMINATION

25 BY MR. HINERMAN:

1 Q. In your financial analysis of the CRRC, did you consider
2 the Philadelphia Housing Authority's payment under PHA tariff
3 rate?

4 A. They were part of the billings that were considered.

5 Q. Did you specifically consider those as far as impact on
6 how CRRC would be structured?

7 A. They are a tariff billing, part of gas billings
8 considered as part of mechanism.

9 Q. Did you make a separate analysis of what impact that had
10 on CRRC?

11 A. No, I did not.

12 MR. HINERMAN: That's all. Thank you.

13 JUDGE RAINEY: Any redirect? Why don't we take a
14 five-minute break.

15 (Whereupon, a recess was taken.)

16 JUDGE RAINEY: Let's go back on the record.

17 REDIRECT EXAMINATION

18 BY MR. CLEARFIELD:

19 Q. Mr. Bogdonavage, would you explain what you showed on
20 rejoinder exhibit, the gas deferral deal back out and cash flow
21 effect? There were several questions on cross about that deal.

22 A. What I tried to do is present for all of the parties and
23 to the PUC in particular that there is no guarantee with PGW's
24 liquidity and credit-rating that any pipeline or suppliers would
25 be willing to continue to do this into the future. As a result

1 of that, since there are no guarantees, although we did finalize
2 this year contract. If we were to look into 2005 as Mr.
3 Bertocci pointed out, these payments will be made in the
4 subsequent period, which would be just deferral, a liability
5 going into the future, no guarantee at the end of '05, that we
6 would have the ability to do again another gas deferral deal to
7 improve liquidity.

8 Q. Were there any credit concerns raised by Oxy with respect
9 to the deal --

10 A. Not to get into specifics of the proprietary
11 information of the deal, but their biggest concern obviously was
12 the credit risk of PGW and liquidity issues. They saw the
13 downgrade of two of the rating agencies and they needed a little
14 more collateral to do the transaction.

15 Q. With regard to Action Alliance, et al Cross-Examination
16 Exhibit Number One, did you have a clarification you wanted to
17 make with respect to the level of short-term commercial paper
18 that is available during this period displayed on these
19 schedules?

20 A. If I go back and look at exhibits that were put into the
21 record going back to 2000, for fiscal year 2000, 2001, 2002,
22 PGW's letter of credit was at \$100 million. Subsequent to that,
23 it's been renewed only at \$80 million. So we lost \$20 million
24 of liquidity, which is one of the considerations we need to look
25 into to somehow get back that liquidity. That's why we're

1 looking at the base rate increase that was approved 2002 and
2 also CRRC to hedge the risk that we will not have cash balances
3 insufficient to pay our liabilities going into the future.

4 Q. When you look at year-end cash flow depicted on these
5 various cash flow schedules, starting fiscal year ending August
6 31st, 2000, you see amount of total liquidity cash flow about
7 the same as what you have shown on your rejoinder exhibit; would
8 that be fair?

9 A. That's correct.

10 Q. What do you conclude from that?

11 A. I think what the conclusion is, if I May, in 2002, even
12 though we showed give or take \$12.5 million, you have to
13 remember that that was one of the warmest winters on record.
14 PGW did again a one-time financial transaction with our Sinking
15 Fund Reserve, and received \$20 million in a net present value
16 payment. Absent \$20 million, PGW would have had negative cash
17 in 2002.

18 More importantly this points out, rating agencies
19 are looking at liquidity issues going forward, I think what was
20 shown over the last four or five years, the company is at
21 razor's edge. We have no liquidity reserves as an IOU may have,
22 and just looking at past history and looking at higher natural
23 gas prices, customers having trouble paying bills, I think they
24 were looking to see a substantial increase in liquidity before
25 they would even consider taking negative outlook off of PGW's

1 credit-rating.

2 MR. CLEARFIELD: Thank you, One other question.

3 BY MR. CLEARFIELD:

4 Q. With respect to -- you were asked questions with respect
5 to uncollectibles and, I am sorry CRRC, and E-factor whether the
6 CRRC was recurring or non-recurring. Do you recall those
7 questions?

8 A. Yes.

9 Q. Is there a portion of the CRRC plan that we believe is
10 properly characterized as non-recurring?

11 A. I think what I missed in my original answer, initiation
12 of the E-factor, current year, obviously that would never be
13 recurring again. That's part of the non-recurring. We were
14 looking to amortize that over a three-year period. That's the
15 reference I had to non-recurring expenditure.

16 MR. CLEARFIELD: Thank you.

17 JUDGE RAINEY: Any recross?

18 RE CROSS EXAMINATION

19 BY MR. BERTOCCI:

20 Q. You're not changing your testimony as to amount of cash
21 that was available at the end of 2001, August 31st 2001, are
22 you?

23 A. No, I am not.

24 MR. BERTOCCI: Thank you.

25 JUDGE RAINEY: Mr. Bogdonavage, you may stand

1 down.

2 THE WITNESS: Thank you.

3 JUDGE RAINEY: Do you want to call your next
4 witness?

5 MR. CLEARFIELD: Mr. Knudsen.

6 THOMAS KNUDSEN,

7 having been duly sworn, testified as follows:

8 JUDGE RAINEY: Please provide you full name and
9 spell it.

10 THE WITNESS: Thomas E. Knudsen, K-N-U-D-S-E-N.
11 My office is at 800 West Montgomery Avenue, Philadelphia, PA
12 19144.

13 JUDGE RAINEY: By whom are you employed? What is
14 your business title?

15 THE WITNESS: Employed by Philadelphia Gas Works.
16 I am its Chief Executive Officer.

17 DIRECT EXAMINATION

18 BY MR. CLEARFIELD:

19 Q. Mr. Knudsen, do you have your direct testimony that you
20 presented -- excuse me -- rebuttal testimony that you presented?

21 A. I do.

22 Q. That is PGW Statement Five, correct?

23 A. That's correct.

24 Q. Do you have any additions or corrections?

25 A. I do not.

1 MR. CLEARFIELD: Subject to timely motions to
2 strike, I would move for the admission of PGW Statement Five.

3 JUDGE RAINEY: Any objections? Yes, Mr. Bertocci.

4 MR. BERTOCCI: Did we complete arrangements having
5 to do with exhibit. . .

6 MR. CLEARFIELD: Yes.

7 MR. BERTOCCI: Was it on the record?

8 JUDGE RAINEY: What are we referring to?

9 MR. BERTOCCI: Substitution.

10 JUDGE RAINEY: What was left on the bench, TEK-2?

11 MR. BERTOCCI: I wanted to be sure it was on the
12 record.

13 JUDGE RAINEY: Go ahead, Mr. Clearfield.

14 MR. CLEARFIELD: For the record, copies that were
15 submitted to the court reporter had a revised version of TEK-2,
16 Fitch Statement concerning debt bond downgrade. The copy that
17 was distributed to the parties prior to today had either a
18 copying problem or a downloading problem. There were a few
19 words left off. The copies for the record are accurate.

20 JUDGE RAINEY: Okay. The record so reflects.

21 BY MR. CLEARFIELD:

22 Q. Mr. Knudsen, I will ask you a few questions on rejoinder.

23 A. Yes.

24 Q. Mr. Knudsen, looking at Mr. Knecht's surrebuttal, he
25 contends because collection efforts have improved currently, he

1 sees no reason why a regulator should jeopardize improvement by
2 providing automatic rate protection for poor collection. Are
3 the recent positive collection results a reason in your mind not
4 to implement CRRC?

5 A. No, I think there are several reasons why the CRRC is
6 essential. I think the -- it first goes to problems of
7 collecting money at PGW. There are no guarantees at this
8 juncture, nor were there in March when we filed that we could
9 exceed our historical rates-to-date, which is through the end of
10 April, were we to continue to collect at the same level that we
11 collected in the past for the entire fiscal period. It looks as
12 if we might make 94 percent, there are no guarantees.

13 Herein lies the rub. If you look at statistics
14 for last year where PGW lost ground, where amount of agreements
15 that we had made coming out of the winter moratorium were
16 broken, people did not make payments. We lost about \$30 million
17 in a three-month period, June, July, August. So we must
18 overcome that historic barrier in order to hold to 93 percent.
19 We're optimistic, but there is no guarantee.

20 So to suggest that there is recent improvement,
21 yes, there is. We have worked very hard. We have probably a
22 third of the company, in one way or another focusing on getting
23 the money into our coffers, but it's very hard. Part of the
24 restraints on us that we're being asked to live within the BCS,
25 Bureau of Consumer Services, guidelines for dealing with these

1 kind of folks.

2 Let me give you an example of the complexity of
3 this. The fact that BCS rules doesn't work very well for PGW.
4 We have 130,000 customers coming out of the winter moratorium
5 who qualify for turn off. In the months of February and March,
6 we went to the press and said we have this problem, please pay
7 your bill or you will be shut off.

8 The truth of the matter, we can't process more
9 than about 3,500, 4,000 of these accounts per day. We can only
10 turn people off four days out of the week. What that suggests,
11 we can't get through the first round of dealing with a volume of
12 shut-offs that are potentially before us until after May. And
13 if one looks at the likelihood of agreements that we will make
14 in the interim being broken, having to go back after these folks
15 again, it will be well into June or July until we complete our
16 first round of reviews. It's a terrible signal to send to those
17 who chose not to pay their bills over the winter period.

18 Coming back to the point of improvement. This is
19 a cultural shift we're undertaking with PGW. If we don't make
20 this happen, then 93 percent will fall. So, that's point one.
21 Point two, CRRC, is not a specific amount of money in my mind.
22 It's not the \$47 million that has been bandied about in the
23 press. We had to file for a specific number on the basis of
24 what we knew in March. Obviously, we're filing for a
25 mechanism. We're filing for a process. We're filing for an

1 insurance policy. Much like we filed several years ago for
2 weather adjustment clause to protect our operating statement,
3 our bottom line our coverage ratio from deterioration relative
4 to weather.

5 Here we have a much more difficult problem. It
6 relates to the balance sheet. We have customers whose bills
7 have gone up 60 percent in a two-year period and are strapped to
8 pay their bills. We must have some resource to those who pay
9 their bills in Philadelphia, in order to do nothing more than to
10 maintain ourselves above water, keep our cash flow at a minimum
11 level and demonstrate at a marginal -- on a marginal basis we
12 have the wherewithal to keep operating as a going concern and
13 make ourselves attractive enough to financial markets that we
14 can continue to sell bonds.

15 If we don't do that, if we don't maintain some
16 viability in terms of our cash flow, then we will not sell bonds
17 or sell at such a premium that the customer will be hurt. Our
18 issuance costs have gone up 1,500 percent over a 4-year period.
19 IN 1999, our issuance costs were \$2.5 million for issuance of
20 \$125 million. In 2001, they were approximately \$5.7 million.
21 And our latest issuance last year \$10.7 million. Those are
22 issuance prices on \$225 million bond. I do not know what
23 issuance costs are going to be, but what happens, the customer
24 gets lost.

25 Q. Mr. Knecht states even with the CRRC, PGW's rebuttal

1 suggests a base rate proceeding will be virtually a requirement
2 anyway, is he right?

3 A. No, he's not right. There has been no decision to make
4 relative to a base rate increase. Part of the decision not to
5 go for a base rate increase is exactly for the reasons that
6 counsel represented over here. We have the highest right now in
7 the state. How in God's world do you lay an additional
8 requirement on folks who are struggling to pay their bills? The
9 CRRC is a protection that we need in order not to have to file
10 for a base rate increase.

11 I will tell you that management and I struggle a
12 great deal with regard to this question, ultimately decided that
13 a base rate increase was not appropriate for three reasons.
14 One, if gas costs came down again and rates were affordable, we
15 would have a higher collection factor from our customers. Right
16 now, the gas costs we don't think will come down for a couple of
17 years. So be it. They may come down, in which case a base rate
18 increase would not be reversible, the clause would be.

19 Secondly, we would have the opportunity with
20 development in Washington to obtain a higher level of LIHEAP
21 funding. Something on the order of an additional \$10 to \$15
22 million. So we have these kinds of things in the offing that
23 would directly affect PGW's ability to continue operations
24 without raising its base rates. That was the option that we
25 chose, CRRC. It's a baseline. It's a base requirement to keep

1 us out of a base rate increase.

2 If we don't get it and we have to run the risk
3 that we will not be able to raise sufficient funds to go to the
4 market on a regular basis, then there has to be a base rate
5 increase. But I am not there yet.

6 Q. Mr. Knecht states that the CRRC insulates PGW from poor
7 collections performance; is he correct?

8 A. No, I don't know how you can look at these numbers and
9 say that. 92 percent gave us these set of figures that we have
10 been looking at. We have every reason in the world to keep
11 looking for collections, to improve our collections with
12 customers. If we get one percent more on regular layer basis 92
13 to 93 just for discussion today, that's \$8 million more. All
14 things being constant in PGW, it will take us ten years to pay
15 down short-term debt issuance. It will take another seven years
16 to pay off the City loan. Is it the intent of regulation to put
17 PGW in a position where it takes 17 years to pay off its
18 short-term position? I will tell you that is unacceptable to
19 management. We will look for every opportunity to collect in
20 excess of 92 percent.

21 Q. Does the CRRC as an incentive have to do with keeping
22 your bond rating at present level as well?

23 A. Yes I think, I know there was cross-examination of Mr.
24 Bogdonavage on the \$80 million and \$45 million being cash
25 working capital. In effect, we don't have cash working capital

1 for new sources except \$18 million. The \$18 million does
2 represent incremental working capital but certainly doesn't
3 address our problems, short term debt, \$45 million are simply
4 permanent, part of capital structure, unless we collect more
5 money, they will stay in that position.

6 That money as cash working capital is long spent.
7 It was spent in the 90's to cover deficits created by warm
8 weather, when there was no weather normalization clause and no
9 appropriate base rate relief at the time. I will stop there.

10 Q. If the CRRC is designed to try to preserve PGW's existing
11 bond rating, isn't it elevating the concerns of Wall Street over
12 the concerns of, the interests of customers?

13 A. I don't see how one could make that statement. Wall
14 Street is a mirror. It reflects the realities that it is
15 looking at. Wall Street is a misnomer. What the agencies do,
16 they speak for investors. We have thousands of investors in our
17 securities who are entitled both prospectively for those who
18 would invest, for those who have invested for a fair shake. The
19 CRRC is a way of protecting, in a sense, their interest by
20 assuring them, and particularly for the investors that we need
21 to come into the market, that there will be a minimum amount of
22 cash flow available to them to cover the operations of the
23 company and meet its obligations.

24 Q. How would it affect consumers if the bond rating was
25 downgraded to junk?

1 A. The cost to the consumer is sort of a barrier and for the
2 cost of issuance, as Mr. Bogdonavage talked in terms of 2 or 300
3 basis points extra, I would hope it would be as little as it
4 would be, but you're talking not only bond, talking
5 substantially, \$2 or \$3, \$4 million more a year interest
6 charges, debt service coverage requirements, a substantial
7 increase.

8 MR. CLEARFIELD: That's all I have.

9 JUDGE RAINEY: I will ask the parties for your
10 indulgence. I will be right back.

11 (Whereupon, a brief recess was taken.)

12 JUDGE RAINEY: Let's go back on the record. I
13 had some questions that I wanted to start out with. Mr. Knudsen,
14 you referred to in effect being hamstrung to some extent by BCS
15 regulations. And I was going to ask you to be more specific
16 with regard to what it is you're referring to.

17 THE WITNESS: I'm not impuning the BCS rules. I
18 am saying rules, when you apply them to a circumstance like PGW,
19 where you have clearly a third of your customers who haven't
20 paid their bills over the winter period, and you have to
21 implement the BCS requirements, simply the mechanics of going
22 through that -- let me give you an example.

23 We give a notice of shut-off on day one. On day
24 seven we must then phone the appropriate person or customer
25 making an a.m. and p.m. call in order to make contact. That is

1 assuming they have a phone, if not, then we must make a visit.
2 On day ten, on day seven, this is a 72-hour notice, on day ten
3 we must appear for shut-off. If they're not at home or if there
4 is not a responsible adult at the residence then we post another
5 48-hour notice for shut-off. From the beginning of the process
6 until the end of process, I will assure you this is most of our
7 experience, there are two phone calls, and the potential for at
8 least two visits, a 12-day lapsed time.

9 For utilities that have just a few folks in this
10 condition or a few thousands folks if this condition these
11 regulations are a possibility and they work, we assume. When
12 you have 130,000 customers that you have to take immediate
13 action on, according to the regs, and you can't take that action
14 for 10, 12, 14 weeks, it seems to me it vitiates the regulations
15 completely and it makes us all look foolish, because we can't
16 execute these things fast enough.

17 It would cost us millions of dollars more in
18 hiring people, training them for this collection effort. We're
19 not prepared to do it. We're prepared to take the people that
20 we have as well as some of our field forces, substantial number
21 of our field forces, and throw everybody against this problem.
22 We have on the front of it 150 people devoted right now only
23 doing this work, and probably another 150 behind them doing the
24 work partially.

25 That's my concern about the regulation. There are

1 other concerns. I could give you other examples if you so wish.

2 JUDGE RAINEY: With regard to that concern you're
3 stating that the number of notices as well as the timing of
4 those notices is a problem for PGW?

5 THE WITNESS: Absolutely. In New York State they
6 make a distinction, they have parallel rules for fall, winter
7 and early spring, but the summer requirements are much more
8 simple, you give a notice then you go shut-off. If we could do
9 it we could get through this inventory of 130,000. But we can't
10 do it and live within the strictures of the BCS guidelines and
11 rules.

12 JUDGE RAINEY: I will ask you with regard to the
13 Cash Receipts Reconciliation Clause Mechanism that you referred
14 to in your testimony, in regard to what you stated, \$47 million
15 being bandied around. That is the amount, to my understanding,
16 that is in PGW's filing and its exhibit, and you stated that
17 that particular number is a misnomer. I will ask you to provide
18 for the record what it is that PGW is in fact requesting in
19 terms of the CRRC and how that amount is calculated.

20 MR. CLEARFIELD: Your Honor. I believe that's
21 what we attempted to do in Exhibit KSD-2. We showed the CRRC at
22 the two estimates that Mr. Bogdonavage had put into the rebuttal
23 testimony. We finished the year with a collection level of 93
24 percent, we finished the year with a collection level of 90.5
25 percent. Mr. Dybalski could answer some technical questions to

1 show you how exactly it has shown up.

2 JUDGE RAINEY: Okay.

3 MR CLEARFIELD: The mechanism is designed to take
4 what we experienced at the end of fiscal year August 31st, to
5 use that as a factor for going forward.

6 JUDGE RAINEY: I want to be clear, what PGW is
7 requesting the Commission to approve is a mechanism as compared
8 to a number.

9 THE WITNESS: That's correct.

10 JUDGE RAINEY: So you're stating then that based
11 on your actual collection figures, August 31st, 2004, at that
12 point in time you would calculate then what the Cash Receipts
13 Reconciliation Surcharge would be.

14 THE WITNESS: Yes, much like a fuel clause, you
15 don't know what fuel costs until you make the filing.

16 JUDGE RAINEY: As you stated, you do have
17 projections?

18 THE WITNESS: They are a part of the record, yes.

19 JUDGE RAINEY: You have projections that are part
20 of the record. I guess what I need to know, what is your best
21 guess in terms of your projections? You provided a couple of
22 different numbers and figures, which Mr. Clearfield has referred
23 to, and one is at the 93 percent collection factor, and the
24 other is at a 90.5 cash receipts percentage or collection
25 factor. What is your best guess, your best guesstimate or

1 estimate projection as to what it would be?

2 THE WITNESS: I think given the uncertainties that
3 we have right now going into what is the most dangerous part of
4 the year for us in terms of collections, I think something on
5 90 to 91 percent performance level would be an acceptable
6 guesstimate at this time using your terms. It's an \$18 million
7 overall requirement down from the \$47 million, as I have
8 testified at City Council, this was a potential result. This is
9 where we are now.

10 JUDGE RAINEY: So you're recommending with regard
11 to Cash Receipts Reconciliation Clause Annual Recovery amount,
12 an \$18 million figure.

13 THE WITNESS: Again, Your Honor, we're asking for
14 a mechanism. If you're asking me what I think we might file for
15 the first week of September, I would guess right now that we
16 will do no better than 90 to 91 percent, in which case the
17 number will be on the \$18 million level.

18 MR. CLEARFIELD: Your Honor, Mr. Dybalski can run
19 you through the actual calculations which produce CRRC that will
20 be different with all elements than \$18 million. He can go
21 through that because we have already submitted.

22 JUDGE RAINEY: I just want to be clear. So you're
23 asking right now for the Commission to approve a mechanism, and
24 then on September first, that would you be filing an actual rate
25 for approval by the Commission.

1 THE WITNESS: That's correct.

2 JUDGE RAINEY: Mr. Simms.

3 CROSS-EXAMINATION

4 BY MR. SIMMS:

5 Q. Mr. Knudsen, I want to refer you to your rejoinder
6 testimony. Last week I had an opportunity to attend three
7 public inputs. You didn't have the opportunity to attend.
8 I believe one of the witnesses was looking for you.

9 A. I'm sure he was.

10 Q. Mr. Hicks in a question to Mr. Bogdonavage indicated that
11 about 70 people testified. I haven't had an opportunity to
12 review the transcript. But I believe everyone in attendance,
13 one of the words that most of the witnesses, maybe all of the
14 witnesses indicated or testified about was termination.

15 Now, on rejoinder I believe under cross-examination
16 from Your Honor you indicated that you have been restricted by
17 the BCS rules and regulations, correct?

18 A. As we must apply them to our situation they are very
19 onerous, that's correct.

20 Q. With that in mind, have you made a request to the BCS or
21 Commission to have those rules and regulations waived, at least
22 during the summer period for PGW?

23 A. That is in formulation right now. We're considering
24 doing so.

25 JUDGE RAINEY: Was that with regard to the winter

1 moratorium?

2 MR. SIMMS: Summer.

3 THE WITNESS: Suspending some of BCS regulations
4 in the summer to facilitate some of the processes.

5 JUDGE RAINEY: Let me just stop you because that
6 sparks a question. Part of your testimony went to the winter
7 moratorium period. Was it your testimony that the inability to
8 shut people off during winter moratorium, is that a problem for
9 PGW?

10 THE WITNESS: Absolutely.

11 JUDGE RAINEY: Has PGW made any request for waiver
12 of the Commission's rules with regard to that?

13 THE WITNESS: As I was indicating to Mr. Simms,
14 we're in the process of doing some of that now. I don't think
15 we appreciated completely how difficult it would be to work
16 through our own systems and with resources that we had to get to
17 people in a timely way.

18 JUDGE RAINEY: So for the summer you're in the
19 process of looking to -- actually my question goes to during the
20 actual winter period of time. Has PGW made any request of the
21 Commission with regard to waiver of the Commission's rules with
22 regard to the inability to terminate service during the winter
23 moratorium period?

24 THE WITNESS: We didn't do that last year. That's
25 also part of consideration at this time. We do this very

1 reluctantly, but the pure burden of managing half of our
2 customers, a full 50 percent of our customers who do not pay
3 their bills in a timely way, there is a good reason why we have
4 the highest rate in the state. We have to administer what has
5 been under extraordinary burdensome circumstances.

6 JUDGE RAINEY: Go ahead.

7 BY MR. SIMMS:

8 Q. Are you in consideration to do it or are you going to do
9 it?

10 A. It's in consideration. There are a lot of issues
11 surrounding. . .

12 Q. Is consideration, sorry if I'm repeating the Judge,
13 solely for summer or consideration for the entire process?

14 A. If we're going to address the needs of the company and be
15 equitable with 250,000 payments-troubled customers that we have,
16 we have to move to a year-round collection approach. And as
17 such we're looking to, we're proposing or considering proposing
18 looking at a number of the BCS requirements that would inhibit
19 our keeping the customers on notice and keeping them paying
20 their money on a regular basis. There are requirements that
21 stand in the way of our doing that. It's a year-round process
22 is what we're looking at as a possibility.

23 Q. This leads to my final question, page 18, as you know
24 Mr. Weakly, proposed use of a collaborative to look at problems
25 associated with PGW. Is the company committed to or willing to

1 engage in such a process?

2 A. Yes.

3 MR. SIMMS: That concludes my cross-examination.

4 JUDGE RAINEY: Thank you, Mr. Simms. Mr. Keene.

5 CROSS-EXAMINATION

6 BY MR. KEENE:

7 Q. Good afternoon, Mr. Knudsen.

8 A. Good afternoon.

9 Q. I assume you got a report back from counsel and PGW
10 personnel that were at the Public Input about some of the
11 testimony there?

12 A. I did.

13 Q. And were you aware there were a significant number of
14 people that testified if you impose the CRRC they simply will
15 stop paying their bills?

16 A. I understand that was part of the testimony, yes.

17 Q. If that occurred that would be catastrophic for the
18 company, wouldn't it?

19 A. Well, it would be, yes. I wasn't clear they weren't
20 going to pay all of their bill or the surcharge portion. Be
21 that as it may it would certainly damage us. The unfortunate
22 part that customers need to understand, we're highly automated
23 now and within a very short period of time they will be
24 receiving turn-off notices.

25 MR. CLEARFIELD: If they don't pay their bills.

1 THE WITNESS: If they don't pay their bills.

2 BY MR. KEENE:

3 Q. I want to turn to the rating analysis, which is TK-2
4 attached to your rebuttal.

5 A. Right.

6 Q. There is no specific reference or requirement in either
7 of those announcements that the PUC must approve the CRRC or PGW
8 will be downgraded, isn't that correct?

9 A. It isn't explicit. Particularly in S and P, if you look
10 at the outlook statement critically, it presumes that certain
11 things have happened, and then says you still have to collect
12 more money. They are looking at, they are not seeing any
13 liquidity in our balance sheet. They are seeing liabilities.
14 That's where they are on this. They are saying, yes, get \$18
15 million, but that does not do it. Get the CRRC, give yourself a
16 base, but what we know is where you are right now. Remember a
17 conversation took place in February, am I right, Mr.
18 Bogdonavage?

19 JUDGE RAINEY: You have to answer only what you
20 know.

21 THE WITNESS: Late January or early February.

22 What we knew at the time, and what they knew at the time, they
23 were looking at all of the problems that we were facing at that
24 juncture and saying Mr. Knudsen, you have charmed us before.

25 We're just not going to be charmed anymore. We kept in front of

1 them the progress that the company was making. I emphasized to
2 them in the conversation in February, were it not for increase
3 in gas costs last year we were on target. We were going to be
4 paying off short term position, paying off \$45 million, throwing
5 off some money for the construction programming.

6 So to answer your question it's not in there
7 explicitly but it's discounted. They had assumed we would get
8 some kind of accommodation.

9 BY MR. KEENE:

10 Q. And during that February meeting, your collections
11 initiative was not yet underway, was it?

12 A. It was underway. It started, it started in earnest in
13 September and it was underway by that time. Of course the
14 problem we had was, and now we know, there were 130,000 people
15 who were not paying their bills in the January timeframe. They
16 were aware of that, we were aware of that.

17 The initiative doesn't come full flower until the
18 end of March, first of April when we can unleash all of our
19 rights and privileges and go after the people in a serious way.
20 Only then to wait until June before we can complete the
21 process.

22 That's what they knew and what we knew. I am very
23 forthright with these folks. There's no misrepresentations.
24 They know what they know.

25 Q. When you met with them, you didn't tell them you were

1 going to achieve a 94 percent collection rate, did you?

2 MR. CLEARFIELD: Objection. There is no evidence
3 that he's going to achieve a 94 percent.

4 JUDGE RAINEY: Mr. Keene. . .

5 MR. CLEARFIELD: He testified that his best
6 determination is that it will be 91 percent.

7 MR. KEENE: I would like to have marked as OCA
8 Cross-Examination Exhibit Number One, a report made to the
9 Philadelphia Gas Commission in April.

10 (Whereupon, document marked OCA CE Exhibit Number
11 One for identification.)

12 JUDGE RAINEY: So marked for identification.

13 BY MR. KEENE:

14 Q. Are you familiar with this report, Mr. Knudsen?

15 A. I have seen this document before, yes.

16 Q. I would like to turn to page two, which is titled
17 conclusion, "FY '04 receipts as a percent of billings are
18 currently projected at 94 percent."

19 MR. CLEARFIELD: Your Honor, I would object.
20 This doesn't say anything about he's projecting 94 percent.
21 As of April 19th, in his report, it projects 94 percent. But
22 he just testified under oath, his projection, assumption of
23 what it will be at the end of this year is different.

24 JUDGE RAINEY: Restate your question.

25 MR. KEENE: I will withdraw the prior question.

1 I would like to ask Mr. Knudsen a few questions about this
2 exhibit.

3 JUDGE RAINEY: Go ahead.

4 THE WITNESS: I will answer the question. The 94
5 percent was a compliance budget forecast in the fall. That was
6 what we hoped to get. What you see in this exhibit is the --
7 you don't have color coding to this. The dots are the nine year
8 average, the squares are what we ran into last year. If you
9 look at May, June, July, August you will see them substantially
10 under, the squares are under the dots. That's where we lost
11 most ground. It came very fast at the end of the year.

12 BY MR. KEENE:

13 Q. That's for fiscal year 2003?

14 A. 2003. And then the dotted part of it starts from April.
15 Obviously we don't know what the future is going to hold. In
16 conformance with the compliance budget that was formulated last
17 fall that was what, that's what our collection pattern would
18 have to look like relative to the ten-year average, relative to
19 2003, in order for us to get to 94 percent.

20 Q. In other words, this is not a projection at all, those
21 estimated months?

22 A. It was a projection last fall. This is a combination of
23 actual through April, and what we would need to get in place in
24 order to be in compliance with our budget as forecast last year.
25 It does not have a particular meaning. It is there because,

1 you're looking at January, February, March, we don't know what
2 the future will hold.

3 Whoever prepared this, I think Mr. Grory probably
4 took budget numbers, and Mr. Bogdonavage took budget numbers,
5 and said if we're going to get there this is what it has to look
6 like.

7 Q. Why wouldn't you use what your projected collections are
8 going to be for the remainder of the year?

9 A. I don't know. I did not prepare this. If it had been I,
10 I might not have shown 94 percent for sure. I had no -- in
11 March of this year, I didn't have any thought we would get to
12 94. I still don't.

13 Q. I would like to turn to page eight of this exhibit. This
14 is a report on Intella check activity. Could you briefly
15 explain what Intella check activity is?

16 A. I am not the best witness.

17 Q. Your understanding.

18 A. What we're doing now, we now have software, essentially
19 take payments by check over the phone. That's what this is
20 about. It's one of the reasons why we're ahead of the game as
21 it were so far, is that during the winter, we were constantly
22 reaching out to people to pay bills before they slipped beyond
23 30 days. Bills are due after 20. In that 10-day period, between
24 20 and when the next bill would be issued the following month,
25 we try to reach the people to get them to pay.

1 That is what a lot of this activity shows. Some
2 are good-paying customers. They are part of the 250 who are
3 with us every month. Some of these are troubled customers.

4 Q. You would expect if you're able to increase the number
5 of payments made by Intella check that it is going to help
6 collections?

7 A. No question.

8 Q. On the next page, page nine of this exhibit this shows in
9 March you had more than double the number of payment
10 arrangements than last March, is that correct?

11 A. Correct.

12 Q. Again, the more people you're able to move into payment
13 arrangements, that should improve your collections?

14 A. Yes, but you're making the assumption if people go into
15 payment arrangements during the February or March time period
16 they will stay with you during the summer. That's my fear. We
17 have three major groups of customers. We have 60,000 of our
18 customers in CRP with a relatively little defection rate, 8 to
19 10 percent.

20 Coming out of March, we have another 50,000
21 payment agreements, and with the history of payment agreements,
22 they break, they want to get back on, they break, they get back
23 on. We have more because we had the benefits of the initiative
24 at work. I think in this exhibit also there are productivity
25 measures, maybe they're not, that show performance of groups.

1 Yes, on page five you see the productivity going from 62
2 transactions per FD per day 113, 104. That's why we had more
3 agreements.

4 So just to recap, we had 60,000 CRP, 50,000 active
5 agreements coming out of winter. Then 130,000 customers who are
6 unprotected, they weren't either of those two categories, were
7 not paying bills, were more than 30 days in arrears coming out
8 of March 31st. 240,000 customers require active intervention by
9 the Phone Group, by the Collections Group, by our back office
10 people to keep them paying their bills in a timely way. That's
11 the massive aspect of this thing that no one has gotten the
12 message on.

13 Here is my worry. They stay off in the summer, a
14 great percentage of these people leave us after having gotten
15 turned off tail end of winter. Now it's June, with no heat
16 requirement, will switch over to electric or whatever it takes
17 to cook food, and come October we have exactly the same problem.
18 October, November when there is a rush to turn people on.

19 We have one day to turn them back on. That's what
20 the regs say. It takes three days with a new customer, a new
21 customer can't, you're allowed not to have to turn on for three
22 days. If someone has been off six or eight months, they come in
23 and put down a payment, five percent of what they owe, maybe if
24 we're lucky they get the privilege of being turned on the next
25 day.

1 Take that Your Honor of an example of another
2 regulation of what I have little fondness. Go ahead.

3 Q. Staying on page nine. Do you attribute the increase in
4 number of payment arrangements this year over last year to the
5 collection initiative?

6 A. Yes.

7 MR. KEENE: That's all I have.

8 JUDGE RAINEY: Thank you. Mr. Gray?

9 MR. KEENE: I would like to move for admission of
10 OCA Cross Exhibit Number One.

11 JUDGE RAINEY: Any objection?

12 MR. CLEARFIELD: I'm a little concerned. We only
13 had questions on a couple of these pages. If the rest of it
14 comes in the record, I'm concerned other pages could be used in
15 brief or other places without appropriate explanation. Could we
16 move in the pages that were discussed?

17 MR. KEENE: That's fine.

18 JUDGE RAINEY: Those were what pages?

19 MR. KEENE: We should include the cover page,
20 because it has the title of the report and the date. Page two,
21 page five, because Mr. Knudsen referenced it, pages 8 and 9.

22 JUDGE RAINEY: Is that acceptable, Mr. Clearfield?

23 MR. CLEARFIELD: Yes.

24 JUDGE RAINEY: Any objections? Hearing none, so
25 admitted.

1 (Whereupon, document marked as CE OCA Exhibit for
2 identification was received in evidence.)

3 JUDGE RAINEY: Mr. Gray, any cross?

4 MR. GRAY: No.

5 JUDGE RAINEY: Mr. Bertocci.

6 CROSS-EXAMINATION

7 BY MR. BERTOCCI:

8 Q. Good afternoon.

9 A. Good afternoon.

10 Q. Referencing your surrebuttal testimony, page 11, you say
11 that, page 11, volume 17, excuse me, line 17, you say that "PGW
12 management recently negotiated a one-year extension of the
13 existing collective bargaining agreement." That collective
14 bargaining agreement was to expire this month, wasn't it?

15 A. Yes.

16 Q. Isn't it true when this filing was made for the CRRC that
17 that agreement had not yet been reached?

18 A. Correct.

19 Q. With regard to the \$18 million payment at the time that
20 the CRRC filing was made the City hadn't committed to,
21 City Administration hadn't committed to the granting back of the
22 \$18 million for a year?

23 A. There were two conversations that were going on. I
24 would have to check with Mr. Bogdonavage, and I will correct the
25 record if I'm wrong. But there were discussions with the

1 Finance Director about one year earlier before we got to the
2 whole issue of four or five years. I'm not sure exactly when
3 those conversations took place.

4 Q. Okay.

5 A. So they may have been in or around this time, maybe
6 later, but I want to make it clear.

7 Q. You made some comments about your difficulties with
8 customers that made payment agreements, in your experience in
9 fiscal 2003, customers made payment agreements, I guess coming
10 out of winter and in response to termination of service or
11 threatened termination in cooler April, May timeframe, then
12 promptly broke those payment agreements and were not heard of
13 until the fall.

14 Isn't it true that since that time the PUC has
15 clarified, the Bureau of Consumer service and PUC, in the Frayne
16 decision have clarified their policy concerning people that seek
17 second payment agreements?

18 JUDGE RAINEY: You said Frayne?

19 MR. BERTOCCHI: F-R-A-Y-N-E.

20 MR. CLEARFIELD: Your Honor, I object. That calls
21 for legal conclusion. The decision speaks for itself.

22 JUDGE RAINEY: I will overrule. Mr. Knudsen can
23 answer to the extent he knows.

24 THE WITNESS: Mr. Bertocci, you and I both
25 attended the hearings in Harrisburg. The condition of the

1 Frayne order, which essentially did stipulate one agreement, per
2 customer, maximum, two were all initiated in my mind by
3 definitions of -- help me out?

4 MR. BERTOCCI: Change of circumstance.

5 THE WITNESS: Change of circumstance. What I
6 thought was a really excellent move on the part of the PUC to
7 restrict the number of agreements that people could hold, it was
8 subject to change of circumstance, in interpretation which you
9 remember from the meeting, was anything.

10 If income changed, a death in the family, a child,
11 whatever, then it was, the burden was on the company to prove
12 the change of circumstance. That again goes to this
13 unworkability of some of these regulations with regard to PGW.

14 60 to 70 percent of our agreements are broken
15 historically. How do you then deal with documenting a change of
16 circumstances on that order of magnitude? Impossible.

17 BY MR. BERTOCCI:

18 Q. You would agree that the PUC gave some clarification on
19 the -- made clear that if a payment agreement is broken a
20 customer may obtain a second payment agreement only by showing a
21 material change of circumstances, that would you agree to?

22 A. I would agree.

23 Q. That's a statement of standard?

24 A. That's a statement of standard.

25 Q. You would agree if a customer broke a payment agreement

1 and came to PGW and PGW said no, it's your second agreement and
2 the customer appealed to the PUC, the customer would have the
3 burden of showing the change of circumstances to the PUC? Would
4 the customer have the burden?

5 A. I'm not sure because of what goes to the PUC is the
6 customer's own representation of what is true. If you recall
7 the conversation that went on at the meeting we attended, it's
8 only when they have a repeat of the same person that they then
9 get into logistics of requiring more documentation. But on the
10 first blush, I would be corrected, but I don't think I'm wrong,
11 they take as we're doing, they take the customer representation
12 of their financial position?

13 Q. PGW does have the ability to present the PUC with what
14 their record of the customer's payment history is at the time a
15 customer that has appealed to the BCS, right?

16 A. The Bureau of Consumer service has access to read the
17 payment histories of customers that make appeals, correct.

18 Q. They would be aware that a customer had a prior payment
19 agreement would they not, the BCS?

20 A. Yes.

21 Q. In terms of the application of the Frayne rule, the
22 Frayne rule went into effect for practical purpose, for PGW,
23 April first, 2004, is that right?

24 A. Yes.

25 MR. BERTOCCI: Nothing further.

1 JUDGE RAINEY: Thank you. Ms. Minicavage?

2 MS. MINICAVAGE: Nothing, Your Honor.

3 JUDGE RAINEY: Mr. Hicks.

4 MR. HICKS: Yes.

5 CROSS-EXAMINATION

6 BY MR. HICKS:

7 Q. Good afternoon.

8 A. Good afternoon.

9 Q. You are actually the president and CEO of PGW?

10 A. That's correct.

11 Q. Would it be accurate to describe your responsibility as
12 management of "the whole Enchilada" to speak?

13 A. We have not been characterized as "an Enchilada" before,
14 but--

15 Q. You are operational manager for the whole company?

16 A. Chief Executive Officer.

17 Q. And you have already indicated in response to questions
18 from other counsel that you have had questions for some time
19 about application of BCS rules to the collection process and
20 other processes at PGW?

21 A. Right.

22 Q. You testified in hearings before City Council twice in
23 March and that was one of the subjects you talked about there,
24 isn't that right?

25 A. That's correct.

1 Q. In those hearings you talked about exploring relaxation
2 of those rules with the Public Utility Commission, is that
3 right?

4 A. I think that would be a reasonable interpretation of the
5 exchange that occurred between me and several other counsel
6 people.

7 Q. These are not new problems for PGW, are they?

8 A. They are new in one respect, that up through September
9 first, we operated under a, a looser set of guidelines that were
10 a compromise between what we were operating under with regard to
11 the rules that the Gas Commission had set and where we were
12 heading as of September first of last year with the PUC.

13 From July first or so of 2000, through September
14 of 2003 we had more flexibility. So to the extent that you ask
15 the question, yes.

16 Q. I understand you're saying they are new since PGW has
17 been regulated by the Public Utility Commission?

18 A. Fully regulated as of September first, and then the
19 strictures were presented to us, and we then have tried very
20 hard to live within--

21 MR. CLEARFIELD: September first of what year?

22 THE WITNESS: 2003.

23 BY MR. HICKS:

24 Q. I am unclear what your intention is with respect to
25 efforts to make a filing at the PUC with regard to those

1 regulations. Do you intend to make a filing with the Public
2 Utility Commission for relaxation of some of those rules?

3 A. Mr. Hicks, I'm not a free agent. I operate in a
4 political environment.

5 Q. It does not surprise me at all.

6 A. Right. And these conversations have a number of
7 ramifications. Conversations about this have not been
8 completed.

9 Q. So you don't know, is that right?

10 A. I don't know.

11 Q. In response to questions from Judge Rainey, you indicated
12 that it's PGW's desire to get approval of implementation of CRRC
13 in this proceeding and to subsequently seek approval on a
14 particular amount, is that right?

15 A. Seek approval of mechanism here and amount when we file,
16 that's right.

17 Q. Is it your intention to seek approval of that amount from
18 Philadelphia City Council as well?

19 A. No, because I think the law is quite clear there is a
20 separation of duties and responsibilities.

21 Q. Is it your intention to consult with Philadelphia City
22 Council regarding the amount?

23 A. I think I tried to notify and have conversations with
24 them.

25 Q. I want to understand the operation of the CRRC as you

1 perceive it, Mr. Knudsen. Am I correct that this CRRC is
2 really, let me back up. I have read in various places that this
3 was your idea; is that right?

4 MR. CLEARFIELD: Objection. I don't know what
5 relevance that has.

6 JUDGE RAINEY: Mr. Hicks.

7 MR. HICKS: Mr. Knudsen in his written testimony,
8 in surrebuttal testimony indicated he has had experience as a
9 witness on behalf of Office of Consumer Advocate. He has also
10 indicated now presently overall manager.

11 JUDGE RAINEY: I will overrule the objection.

12 BY MR. HICKS:

13 Q. Was this your idea, Mr. Knudsen?

14 A. Effectively, yes. Although there were a number of
15 management meetings where we were actively considering
16 alternatives, including base rate increase. In conversations,
17 examples of this type of thing, I know Mr. Knecht was very
18 critical, it wasn't the same, it didn't appear anywhere else in
19 the country, when you start one of these they never appear
20 anywhere else in the country.

21 Q. Do you participate in meetings with Standard and Poor's,
22 those other reporting agencies?

23 A. Yes.

24 Q. Am I correct that none of them suggested to you the CRRC?

25 A. No, let's be clear. They would not prescribe something

1 like that. What they prescribe, get money in the door.

2 Q. I understand that. I want to be clear on my question.

3 They didn't ask you to do this, did they?

4 A. No, I think Mr. Bogdonavage testified the same.

5 Q. Understood. You've indicated also in your testimony that

6 one of the opportunities available to PGW, is a greater LIHEAP

7 recovery, is that correct?

8 A. Yes.

9 Q. That is not in any way contingent on the CRRC being

10 approved, is it?

11 A. No, that would be a bonus. The difficulty I have with

12 that, it was originally part of the energy bill. Now it has

13 been separated from that, it's being dealt with on a separate

14 track. It's not even clear now that it will succeed. So we're

15 vulnerable.

16 Q. If you did get increased LIHEAP, it would increase cash

17 reserves of PGW?

18 A. It would increase cash flow.

19 Q. Cash flow. If the CRRC were approved and implemented

20 that would increase PGW's rates, wouldn't it?

21 A. Approved, not necessarily.

22 Q. I said both parts.

23 A. Implemented to what extent?

24 Q. Interesting point.

25 A. It could be implemented to a dollar, it would be

1 immaterial, to \$47 million and people have the response they do
2 now.

3 Q. Not a problem. Let's take it a piece at a time. If it
4 were approved by the PUC and implemented at a dollar, that
5 dollar would have to go someplace?

6 A. That's correct.

7 Q. Are you saying the dollar wouldn't necessarily go to
8 customer rate?

9 A. It would go to customer rate.

10 Q. So it would increase the rates?

11 A. Yes.

12 Q. So if it were approved and implemented it would increase
13 customer rates?

14 A. Correct.

15 Q. The CRRC is not really a guarantee that PGW will improve
16 its collections though, is it?

17 A. It's a guarantee we would improve our cash receipts.

18 Q. It's not a guarantee that it will improve its collection,
19 is it?

20 A. Collections? I am struggling with your definition.

21 Q. Collection results.

22 A. Well we would, CRRC funding we would collect at best, at
23 least according to our history 92 percent of those incremental
24 dollars that we would bill under CRRC. That would improve our
25 cash position. Now if you're talking about underneath this our

1 collections initiative would it necessarily improve that. No
2 it's up to us to do.

3 Q. Understood.

4 A. Although CRRC money would come through collections
5 initiative we would have to do well with that as well.

6 Q. If the Commission did not approve PGW's CRRC proposal,
7 aren't there other ways in which PGW can increase its cash on
8 hand?

9 A. I think Mr. Hicks you hit the nub of the conversation.
10 If we don't get something and nothing else changes then what do
11 I have left but a base rate increase, which I find that
12 immoral. If I have to add, if I have to go from something
13 between zero and 47 in this filing -- and Mr. Bogdonavage and I
14 have put together a number -- at a minimum we would ask \$70 to
15 \$90 million at a base rate, I think is wrong.

16 We're willing to take the risk of accepting no
17 more than 92 cents on the dollar. And we will carry the ball
18 farther than that. It's my intent to pay off debt and keep the
19 company viable. My problem with the City Council discussion was
20 exactly that. They would damn CRRC and put nothing in its
21 stead.

22 All I have heard in this conversation here is
23 exactly a parallel conversation which is to provide nothing more
24 except for a base rate increase which I find unacceptable.

25 Q. I'm willing to talk about each piece, but I would like a

1 specific response to a specific question. If the CRRC were
2 disapproved by the Commission there are alternatives for PGW to
3 increase its cash, aren't there?

4 A. There are.

5 Q. One of those alternatives is a base rate proceeding?

6 A. That's one.

7 Q. In a base rate proceeding, PGW would have to reflect its
8 entire base rate and have those all reviewed, wouldn't they?

9 A. Correct.

10 Q. In the process of reviewing its entire base rate filing
11 the Commission would have an opportunity to look at what PGW is
12 doing well and what PGW is not doing so well?

13 A. Absolutely.

14 Q. In fact PGW's request, let's assume it were \$70 million,
15 could in fact be reduced by the Commission significantly,
16 couldn't it?

17 A. It could.

18 Q. I would not surmise it would be increased by the
19 Commission, but what PGW requested in a base rate increase
20 wouldn't necessarily be what resulted from a Commission
21 proceeding, would it?

22 A. No.

23 Q. PGW's current collection practices would be a part of the
24 base rate proceeding, wouldn't it?

25 A. Correct.

1 Q. One of the reasons why PGW's current collection record
2 has increased over historic numbers, you testified before City
3 Council was because of more aggressive collection activity, is
4 that right?

5 A. Yes.

6 Q. In fact, you used an example of those ten-day calls that
7 you mentioned today and said over a period of several weeks
8 something in the neighborhood of 125,000 calls were made, which
9 resulted in improved collections, is that right?

10 A. Yes, marginal improvement in that period of time. That's
11 exactly right.

12 Q. Is that a practice that PGW continues today?

13 A. Yes. Let me go back. I offered you three populations,
14 60,000 CRP, 50,000 agreements, 130,000 new problems we actively
15 manage as best we can. Those 60,000 CRP, 50,000 on agreements
16 to make sure they stay with us. We go after the 130,000.

17 Q. A very specific question. I preface it this way: If
18 PGW's CRRC proposal were denied by the Commission and PGW
19 managed to continue and increase its collection activity beyond
20 historic numbers, wouldn't PGW be in a significantly improved
21 cash position?

22 A. Let's put some numbers there. If we were to exceed--

23 Q. 95 percent?

24 A. Let me be clear. The conversation that is occurring
25 publically about PGW is the fact that there is transference from

1 those who do not pay to those who do.

2 Q. Right.

3 A. That number is something on the order of \$140 million.
4 That's what the concern is here. The CRRC is viewed as
5 something on top of that, which it would be. Help me out, ask
6 the question again.

7 Q. One of things I'm trying to understand, the objective of
8 the CRRC is to improve PGW's cash position.

9 A. For each percentage point we would go above 93 it's \$8
10 million.

11 Q. Understood.

12 A. If I get to 93 percent it's \$8 million against what? I
13 have \$80 million of short-term debt that hasn't been affected in
14 seven or eight years, \$45 million outstanding debt that hasn't
15 been affected in 3 years. If all I do is generate an additional
16 \$8 million at the margin, I used that example with the Judge
17 before, 17 years to pay off not long-term, not made a dent in
18 that, paying off short-term position.

19 We have to do better than that. We have to get
20 well up into 95, 96 percent. Here is the other aspect. . .

21 Q. May I stop you?

22 A. Yes.

23 Q. Is 95, 96 percent the number at which PGW's cash position
24 improves sufficiently so as not to require a CRRC?

25 A. Two answers. An absolute, yes. I think if we were able

1 to get another \$35 million out of cash collections we would be
2 up in the 95, 96 range. It would obviate the need for CRRC.

3 However, my great fear, two-fold: One, gas costs
4 keep rising. If that is the case then we lose ground, and we
5 have nowhere to go. We will be in the same position in 2005 as
6 we were in 2003. Then the downgrade comes. If you read the
7 outlook from S and P you have six months, Knudsen, to make it
8 happen or we will seriously look at a downgrade because our
9 annual review is in February.

10 One of my concerns is doing the best that we can
11 with all of the tools available to us and if we can arrange to
12 have some loosening of the strictures at BCS, all the better,
13 in order to get into the range of the 95 and 96 percent.

14 Understand that with that would come an
15 enormous amount of pain.

16 Q. You talked about outstanding debt and inability of lower
17 than the 95, 96 percent number to really begin to address that.
18 Wouldn't a base rate case put you in a position to address those
19 issues directly?

20 A. Well, there is something called elasticity, where now you
21 add onto something beyond people's reach, the more they will not
22 pay. That's the concern I have with a base rate increase. If
23 we think we're not collecting eight or ten or twelve percent
24 right now, what if I add \$100 million on top, rates are \$1650 a
25 family. Let's say we did it in the next year, 100 percent

1 increase in a three-year period. It's unacceptable, untenable,
2 not going to happen.

3 First of all, your clients would not allow it.

4 Q. PUC as opposed to City Council approves base rate
5 increases.

6 A. Mr. Hicks, you and I both know PGW lives in its own world
7 in more ways than one.

8 Q. There is no doubt in my mind there is a role for City
9 Council in connection with the administration of PGW. However,
10 is it your view that PGW is wholly-owned by the City of
11 Philadelphia?

12 A. It is the City of Philadelphia. It's a, here is the
13 definition. It's an aggregation of assets belonging to the City
14 of Philadelphia.

15 Q. Let me try my question. Is PGW wholly-owned by the City
16 of Philadelphia?

17 MR. CLEARFIELD: Your Honor, I would object. He's
18 asking for a legal conclusion.

19 MR. HICKS: To the extent he knows he can answer.

20 JUDGE RAINEY: I will overrule.

21 THE WITNESS: Yes.

22 BY MR. HICKS:

23 Q. You agreed to that in City Council hearings, correct?

24 A. I agreed to the definition. Someone used the proper
25 definition in City Council proceedings.

1 MR. HICKS: No further questions, Your Honor.

2 JUDGE RAINEY: Mr. Bridges or Hinerman?

3 MR. HINERMAN: No.

4 JUDGE RAINEY: Any redirect, Mr. Clearfield?

5 MR. CLEARFIELD: Would it be possible to take a
6 moment?

7 JUDGE RAINEY: Why don't we take a couple of
8 minutes.

9 (Whereupon, a brief break was taken.)

10 REDIRECT EXAMINATION

11 BY MR. CLEARFIELD:

12 Q. In answer to some questions from Mr. Hicks, you
13 commented that if the CRRC was approved and implemented, it
14 would result in a rate increase. Is that correct?

15 A. Basically semantics, if approved no impact, if
16 implemented to say it stands on the books as a privilege that we
17 would have, it would have no rate of increase. It's only if
18 implemented in the sense of an actual requirement plugged into
19 the formula that it would result in a rate increase.

20 Q. Are there circumstances where it could be implemented and
21 no resulting rate increase would occur?

22 A. If we hit our forecast right on the nose, it would be
23 implemented but no rate increase.

24 Q. You had questions with respect to the S and P bond rating.
25 I think you said that the CRRC was implicitly considered by

1 rating agencies. Have you had a chance to look at the S and P
2 actual statement?

3 A. Yes.

4 Q. Was it implicitly just considered?

5 A. It specifically mentioned as an activity that we're
6 entering into, PGW has contemplated gas storage deferral
7 contracts, is seeking cash receipts-related rate relief from
8 Pennsylvania Public Utility Commission. So it is specifically
9 identified there. But going to the point of the question, they
10 have discounted that in their calculations. They assumed we
11 were going to get something. They still said we want you to
12 generate additional cash beyond that.

13 Q. You were asked whether any of the rating agencies
14 specifically asked you or directed you to file the CRRC. Do
15 they ever direct or ask you to do anything?

16 A. No, they judge our position and then express that
17 judgement in letter form. It's up to us to present them with
18 our program and options.

19 MR. CLEARFIELD: That's all I have.

20 MR. KEENE: Could I ask one clarifying question?

21 JUDGE RAINEY: Yes.

22 RE-CROSS-EXAMINATION

23 BY MR. KEENE:

24 Q. Mr. Knudsen, you just stated if you hit your collections
25 target, CRRC would be zero. Isn't it true for the first three

1 years of the CCRC, there would be a collection of \$11 million,
2 which is three-year amortization of retroactive
3 under-collections?

4 A. Yes, were there to be an E-factor.

5 Q. At least for --

6 A. There would be an E-factor. I think that is the point.
7 If we hit whatever, don't hold me to numbers, if we hit what
8 we're allowed in rates under the structure of CRRC as presented,
9 we don't have an E-factor for a period, so there is no increase.

10 Q. But your proposal in this case is to recover over three
11 years an amortization of?

12 A. Of the three.

13 Q. Of the last years. . .

14 A. You're right.

15 Q. . . short fall?

16 A. It would be that.

17 Q. So then at least for the first three years CRRC would be
18 positive?

19 A. I'm over my head. I will admit that. Mr. Dybalski is
20 here and can clarify these issues. I'm not an expert on
21 calculations.

22 JUDGE RAINEY: Any other recross? You may stand
23 down. Let's go off record.

24 (Whereupon, a luncheon recess was taken from 1:30
25 until 2:00 p.m.)

1 JUDGE RAINEY: Why don't we go back on the
2 record. We're back on the record. Mr. Clearfield, do you want
3 to call your next witness?

4 MR. CLEARFIELD: Your Honor, PGW calling Kenneth
5 Dybalski.

6 JUDGE RAINEY: Mr. Dybalski, let me swear you in.

7 KENNETH DYBALSKI,
8 having been duly sworn, testified as follows:

9 JUDGE RAINEY: Please be seated, state your full
10 name and spell your last name for the record.

11 THE WITNESS: My name is Kenneth S.
12 D-Y-B-A-L-S-K-I.

13 JUDGE RAINEY: Mr. Dybalski by whom are you
14 employed?

15 THE WITNESS: PGW.

16 JUDGE RAINEY: What is your business title?

17 THE WITNESS: Manager of Gas Planning.

18 JUDGE RAINEY: What is your business address?

19 THE WITNESS: 800 West Montgomery Avenue,
20 Philadelphia, PA 19122.

21 JUDGE RAINEY: Mr. Clearfield.

22 MR. CLEARFIELD: Mr. Dybalski is sponsoring the
23 summary schedule that Your Honor requested in order to make
24 Exhibit KS D-2 and a second summary that we distributed to the
25 parties and the court reporter KS D-3, prepared direct testimony

1 is in the GCR portion of case that would be stipulated in with
2 the rest of the GCR testimony. Mr. Dybalski is available to
3 answer questions about this. I had just one question that has
4 been referred to Mr. Knudsen.

5 DIRECT EXAMINATION

6 BY MR. CLEARFIELD:

7 Q. Mr. Dybalski, would you just explain what circumstances
8 where there would be no E-Factor in the first year of the CRRC
9 assuming it was approved and therefore no amortized amount to be
10 collected from the customer?

11 A. Cash receipt percentage, if that rate became high enough,
12 that uncollected portion was \$55.7 million, there would be no
13 E-Factor. From the third page of Exhibit KS D-2, JRB-9, page
14 one, if you look down, middle of the page, there is 93 percent
15 cash receipts percentage. If that were raised 100th of a
16 percent if it became 93.01, there would be no \$46,000 E-recovery
17 amount in the E-Factor. That percentage would become high,
18 there would be no E-Factor.

19 Q. The amount that we're proposing, PGW's proposing to
20 collect in the first year E-Factor are based on actual
21 collections for what period?

22 A. Actual collections for '03, '04.

23 MR. CLEARFIELD: That was the clarifying question.

24 JUDGE RAINEY: I will ask you Mr. Dybalski again
25 to go over I believe you were referring to Mr. Bogdonavage

1 Exhibit JRB-9 in your clarification with regard to the E-Factor
2 and when the CRRC would not go into effect. Would you review
3 that again?

4 THE WITNESS: As far as E-Factor as you can see
5 JRB-19 page one, it's shown at 93 percent, which would as a
6 result E-Factor \$46,000, small amount of money which we amortize
7 over 3 years. If cash receipt percentage were raised 93.01
8 percent, \$46,000 would be a negative number, obviously there
9 would be no E-Factor. Your question also into '04, '05 year, in
10 which gas bills were higher, approximately \$30 million higher,
11 that 93 percent if that were raised half a percent less than
12 half a percent, then \$2,176,000 would be negative number, there
13 would be no CRRC at all. So, if the cash receipt percentage
14 '03, '04 were 93, 95 percent, there would be no, a little less
15 than that. But there would be no CRRC.

16 MR. CLEARFIELD: No CRRC charge.

17 THE WITNESS: Charge.

18 JUDGE RAINEY: That would even be for period
19 September first, 2003 through August 31st, 2004?

20 THE WITNESS: That's correct.

21 JUDGE RAINEY: You're saying if those things came
22 about. I'm going to let parties follow up on that. Let me get
23 my questions out with regard to the GCR and parties will be able
24 to also ask Mr. Dybalski any questions that they have. Mr.
25 Dybalski this goes to my understanding of the parties present

1 having reached an agreement or settlement with regard to gas
2 costs rate portion of this case. My understanding that they
3 have also reached an agreement or settlement with regard to the
4 Universal Service Surcharge as well as the Restructuring and
5 Consumer Education Surcharges as well, is that correct?

6 THE WITNESS: I have not been informed by my
7 counsel. I assume that's correct.

8 MR. CLEARFIELD: That is correct. To be absolutely
9 precise there has been an agreement on those two sort of
10 residual charges assuming level of BCR charge, 1307F charge has
11 been agreed to. The UCS charge specifically will change if
12 there is an additional rate increase for the CRRC, looking at
13 the GCR agreement with the GCR there has been agreement on
14 elements and the level. Hearing no opposition, I assume. . .

15 JUDGE RAINEY: Okay. My questions Mr. Dybalski,
16 are in regard to the fact sheet, settlement agreement fact sheet
17 that I received yesterday as well as exhibit KS D-2, and KS
18 D-3. Now with respect to KS D-3, referencing that, why don't
19 you state for the record what KS D-3 reflects.

20 THE WITNESS: KS D-3 comparison of PGW's rates as
21 of December one, '03 and proposed 1307F rates as of 9-1-04.
22 GCR, UCS and restructuring surcharge.

23 JUDGE RAINEY: So it's my understanding that the
24 proposed settlement as reflected on KS D-3, would provide for a
25 decrease in the gas cost rate of \$15,623,115, is that correct?

1 THE WITNESS: That's correct.

2 JUDGE RAINEY: With regard to the Universal
3 Service Surcharge, it reflects increases of \$4,940,910, is that
4 correct?

5 THE WITNESS: That's correct.

6 JUDGE RAINEY: With regard to the restructuring
7 and consumer education surcharge it reflects an increase of
8 \$20,075, is that correct?

9 THE WITNESS: That's correct.

10 JUDGE RAINEY: What is the amount taking all of
11 these three components together, what is the amount of overall
12 decrease associated with the settlement of gas cost rate, UCS,
13 and restructuring surcharges, all taken together?

14 THE WITNESS: Your Honor, you would have to add
15 negative \$15 million plus \$5,900,000 plus \$20,000. So, looking
16 at approximately decreases of about 9 million, six...
17 \$9,600,000. I could give you an exact number.

18 JUDGE RAINEY: Why don't you do that.

19 THE WITNESS: \$9,662,130.

20 JUDGE RAINEY: That calculation is not otherwise
21 shown in any exhibit that has been presented, is that correct?

22 THE WITNESS: That's correct.

23 JUDGE RAINEY: Mr. Simms, do you have any
24 questions?

25 MR. SIMMS: No questions.

1 JUDGE RAINEY: Mr. Keene?

2 MR. KEENE: No questions.

3 JUDGE RAINEY: Mr. Gray?

4 MR. GRAY: No questions.

5 JUDGE RAINEY: Mr. Bertocci?

6 CROSS-EXAMINATION

7 BY MR. BERTOCCI:

8 Q. Now, the number that you have given for the gas cost rate
9 as of 9-1-04, that rate would be subject to an update even
10 before it takes effect, right?

11 A. What has happened in the past, we would make a filing
12 September one with the new gas cost in there.

13 Q. Do you anticipate there will be anything different this
14 year than in the past?

15 A. No.

16 MR. BERTOCCI: Thank you.

17 MR. CLEARFIELD: Your Honor, I want to make sure
18 you understand. There will be a fourth quarter update of that
19 number that will put in the last actuals for this year's GCR.
20 So the numbers we show here are our best estimate today,
21 unlikely to actually go into effect except by complete
22 coincidence.

23 JUDGE RAINEY: Ms. Minicavage.

24 MS. MINICAVAGE: Nothing, Your Honor.

25 JUDGE RAINEY: Mr. Hicks.

1 MR. HICKS: Nothing, Your Honor.

2 JUDGE RAINEY: Anybody here from PHA? Did you
3 have anything based on my questions?

4 MR. CLEARFIELD: No. I don't believe I moved
5 these into the record.

6 JUDGE RAINEY: Do you want to do it now?

7 MR. CLEARFIELD: I would move KS D-2 and KS D-3
8 into the record.

9 JUDGE RAINEY: Any objection? Hearing none so
10 admit.

11 (Whereupon, documents marked KS D-2 and KS D-3 for
12 identification were received.)

13 JUDGE RAINEY: Mr. Dybalski, you may stand down.
14 Thank you.

15 MR. CLEARFIELD: I believe the main witness for
16 PGW remaining is Dr. Peach.

17 JUDGE RAINEY: Dr. Peach.

18 HUGH GILBERT PEACH,
19 having affirmed, testified as follows:

20 JUDGE RAINEY: Please be seated, provide your
21 full name for the record.

22 THE WITNESS: Hugh Gilbert Peach. My business
23 address is 16232, North West Oak Hill Drive, Beaverton, Oregon
24 97006. My company is H. Gil Peach and Associates, LLC, part of
25 Scan America Group. My title is Principal.

1 JUDGE RAINEY: Thank you. Please proceed,
2 Mr. Clearfield.

3 DIRECT EXAMINATION

4 BY MR. CLEARFIELD:

5 Q. Dr. Peach, you prepared as part of the proceedings, and
6 it has been stipulated to that it's authentic, CRRC-4, Statement
7 CRRC-4 Sup, and Revised CRRC-4, which reflects changes that were
8 described in the supplemental statement, then CRRC-4R, correct?

9 A. That's correct.

10 Q. Do you have any additions or corrections you would like
11 to make?

12 A. I have a correction on page 3.

13 Q. Of?

14 A. Of CRRC-4R. It's line 18.

15 JUDGE RAINEY: What page?

16 THE WITNESS: Page 3, line 18, there is at that
17 point a number in that line, right now it's 90,146 percent, it
18 should be 90 percent.

19 MR. CLEARFIELD: Is that the only correction?

20 THE WITNESS: That is the only correction.

21 MR. CLEARFIELD: I would move for the admission of
22 CRRC-4, CRRC-4 Supplemental, and CRRC, revised CRRC-4, as well
23 as CRRC-4R, subject to any timely motions of any parties.

24 JUDGE RAINEY: Any objections? Hearing none so
25 admitted.

1 MR. CLEARFIELD: I have three questions on
2 rejoinder.

3 JUDGE RAINEY: Go right ahead.

4 BY MR. CLEARFIELD:

5 Q. This is as to the testimony, surrebuttal testimony
6 of Mr. Knecht. Dr. Peach, on page five of his surrebuttal
7 testimony, Mr. Knecht states that you have revised and abandoned
8 your earlier testimony concerning payment projections. Does he
9 correctly summarize your position?

10 A. No, he does not. I stand by that testimony, in fact all
11 of my prior testimony. There is nothing to change. I prepared
12 a model that showed customer payment of bills response to size
13 of bills. If the price that someone has given one month on a
14 bill is higher, they will pay a little bit less. That's the
15 conclusion of the model. I'm using models the way a manager or
16 someone who has a practical orientation would use a model. It
17 gives you one bit of information.

18 So, in any month or any year the data may not
19 behave exactly the way the model says but the model is still
20 true.

21 Q. Do you stand by your original conclusions?

22 A. I do.

23 Q. Mr. Knecht restated in his surrebuttal, based on the
24 recent improved performance of collections that PGW does have
25 significant control over collection. Do you have a comment on

1 whether that statement is true?

2 A. PGW has very little control over its collection rates.
3 There are two factors which have been throughout my testimony
4 that I think are the hard drivers of the collection rate. One,
5 incomes in Philadelphia have been declining. This is for all
6 income groups. It's over the last thirty years. And there is
7 nothing in the future that I can see that will turn it around.

8 So, that's one factor that must be taken into
9 account. The other is that gas costs are rising. I'm active in
10 this industry. Anyplace I go people are talking about rising
11 gas costs.

12 So, I think that those two things together are the
13 hard drivers of in the end what becomes the collection rate.
14 The company can work very hard and put resources into a campaign
15 to build the collection rate, but my fear is you can't do that
16 in an organization but for a certain amount of time, you will
17 have burnout. The overall conditions are there that must be
18 worked with to solve the problem of providing gas to all people
19 and keeping the company viable.

20 I just want to call attention to Mr. Knudsen's
21 testimony, I think it makes the point, I did an income doughnut,
22 I did some regressions and other analyses. I think this simpler
23 analysis tells the story. It's the one that I would like to
24 emphasize, that's from Statement CRRC-5.

25 Q. What page?

1 A. Page 16. The table, lines five through seventeen. This
2 is the table of customers who are outside of the CRP not in
3 payment agreements. What they owe, \$137 million owed here.
4 Almost all of it, all but five percent is from families with
5 incomes less than \$40,000 and more than half from families with
6 incomes less than \$30,000. This is the reality with which
7 parties must deal. It's an income-related problem, beyond the
8 control of the company. I think this is what we have to solve
9 in order to deal with the problem.

10 Q. Turning to another part of Mr. Knecht's testimony. On
11 page eight of his surrebuttal he provides a charge that he lists
12 as a comparison, Pennsylvania NGEN residential writeoff rates.
13 He shows the writeoff rates for a number of companies in
14 Pennsylvania. He shows PGW and lists their writeoff rate as
15 16.7 percent. Do you recall that testimony?

16 A. Yes.

17 Q. Would you comment on the validity of the representation
18 that PGW has a writeoff rate of 16.7 percent?

19 A. Yes. That number is wrong. The table that Mr. Knecht
20 reproduces is based on two numbers that I provided in my
21 rebuttal testimony, which I cited in the BCS report, it's called
22 the report on 2002 Universal Service Program and Collection
23 Performance. It's more to the title but that will identify it.
24 The table that Mr. Knecht reproduces and then adds, he feels is
25 Philadelphia's results too, page 24 of this report, it's called

1 the Gross Writeoff Ratio Residential Natural Gas Customer.

2 I showed only Dominion and Equitable from this
3 table because of the class of which the Gas Works should be
4 compared is urban companies with urban inner city service
5 territory. When you try to compare to other companies that
6 don't have that kind of service territory it's an unfair
7 comparison, it's not a class it should be compared with.

8 He included these other numbers in his table for
9 completeness but I think it's a bit misleading. What you want
10 to do is narrow the focus to comparable companies. So that's
11 part of it. Then he added a number of 16, a little over 16
12 percent, which is another kind of number. This number as
13 specified by BCS, all other numbers in the table are given as a
14 measure calculated by dividing annual total gross dollars
15 written off for residential accounts by total annual dollars of
16 residential billings.

17 When I do that calculation for the Gas Works, I
18 get between 8.5 and 9.1 percent, not the 16 percent.

19 Q. What is the overall rate for PGW for gross writeoffs?

20 A. The overall rate for gross writeoffs is about 6.72
21 percent. I think both of those put it well within what you
22 would expect for a large number and a great city with a
23 completely urban inner city service territory. I think it's
24 right in the pack.

25 MR. CLEARFIELD: That's all the rejoinder I have.

1 JUDGE RAINEY: When you used Columbia and
2 Equitable, you were using what you considered a comparable urban
3 area of Pittsburgh, is that correct?

4 THE WITNESS: I used Equitable and Dominion
5 Peoples in Pittsburgh. I called both companies to verify their
6 numbers were correct as reported, and they agreed with those
7 numbers. I picked those because I have worked for both of those
8 companies. I have done BCS studies as required by the BCS for
9 those companies. I know those companies. I did not include
10 Columbia. I studied Columbia for a BCS evaluation study.
11 They include a lot of territory outside of the city that changes
12 their numbers. They only have a small piece of city.

13 JUDGE RAINEY: What was gross writeoffs you came
14 up with for those companies, and what period of time as compared
15 to the 6.72 percent gross writeoffs for PGW?

16 THE WITNESS: I didn't do gross writeoffs for
17 those companies. All I did, all I have for the companies as far
18 as writeoffs is what is in the BCS report.

19 JUDGE RAINEY: Which is what?

20 THE WITNESS: Residential writeoff, gross
21 residential writeoff, 7.7 percent for Dominion Peoples, and 6.82
22 percent for Equitable Gas.

23 JUDGE RAINEY: What period of time is that?

24 THE WITNESS: 2002 performance as submitted to the
25 BCS under the reporting requirement of the BCS.

1 JUDGE RAINEY: Cross-examination for this witness,
2 Mr. Simms?

3 MR. SIMMS: No questions.

4 JUDGE RAINEY: Mr. Keene.

5 CROSS-EXAMINATION

6 BY MR. KEENE:

7 Q. Good afternoon Dr. Peach.

8 A. Good afternoon.

9 Q. Do you believe PGW has done an effective job of
10 collections over the past six years?

11 A. I think there are obvious problems when the billing system
12 wasn't working during that time. But I think what I see under
13 new leadership, what to me is new leadership, Mr. Knudsen, is a
14 very diligent and faithful attempt to do collections. The
15 problem is it has to serve all the people and yet stay solvent.
16 I know it's a problem that everybody is struggling with but I
17 think they are making a good faith.

18 Q. Are you encouraged by the early results from the
19 collection initiative?

20 A. No. because I'm a sociologist and I study large
21 organizations, study many utility organizations. I think the
22 problem when you do a heavy campaign like this it's like working
23 against the tide. My overall analysis says that they have two
24 factors, rising price of gas, which I don't expect to change at
25 least four or five years. I am not an expert in the area, just

1 Q. Let's go to Table S1, you talked about in Mr. Knecht's
2 surrebuttal testimony.

3 A. Yes.

4 Q. At the bottom there it says "PGW cash basis," then it has
5 16.7 percent. We will agree, certainly heard it many times over
6 the last few years, PGW is regulated on a cash flow basis?

7 A. That's correct.

8 Q. The other seven NGDC's, those are not cash flow basis
9 utilities is that correct?

10 A. That's correct.

11 Q. Second question, CRRC mechanism itself as designed, that
12 is also going to be a cash flow mechanism, correct?

13 A. That's correct. Cash flow mechanism.

14 Q. For other NGDC's, since they are not cash flow utilities,
15 they handle uncollectibles in a methodology different from cash
16 flow, is that correct?

17 A. That's correct.

18 Mr. GRAY: Thank you. That's all I have.

19 REDIRECT EXAMINATION

20 BY MR. CLEARFIELD:

21 Q. Does PGW handle uncollectibles in a manner different than
22 other companies?

23 A. Uncollectibles, no, uncollectibles have to be handled
24 according to BCS regulations.

25 Q. PGW has a gross writeoff factor?

1 A. Yes.

2 Q. Did Mr. Knecht use the gross writeoff factor that
3 everybody used for all the other companies?

4 A. No, when I looked at a table that has a very explicit
5 definition from the BCS about how to do calculations, I don't
6 think you can put a cash basis sort of ad hoc with assumptions,
7 number in the middle of this table. You have to do it the same
8 methodology as recommended by BCS in order to have a number that
9 you can compare with these other numbers.

10 MR. CLEARFIELD: Thank you.

11 JUDGE RAINEY: I want to be clear, Mr. Gray, the
12 table that you were referring to in your question.

13 MR. GRAY: Table S1, page eight of the surrebuttal
14 of Robert Knecht OSBA Statement Number Three.

15 JUDGE RAINEY: Did you have any recross,
16 Mr. Gray?

17 MR. GRAY: No, I do not.

18 JUDGE RAINEY: You may stand down, Dr. Peach.

19 MR. CLEARFIELD: That completes PGW's witnesses.

20 JUDGE RAINEY: Why don't we go off the record.

21 (Whereupon, a discussion was held off the record.)

22 JUDGE RAINEY: Back on the record.

23 CHARLES WEAKLEY,

24 having been duly sworn, testified as follows:

25 JUDGE RAINEY: Please be seated provide full name

1 I will ask you to spell your last name.

2 THE WITNESS: Charles Weakley, W-E-A-K-L-E-Y.

3 JUDGE RAINEY: You may be seated, Mr. Weakley.

4 Mr. Weakley by whom are you employed?

5 THE WITNESS: Pennsylvania Public Utility
6 Commission.

7 JUDGE RAINEY: What is your business title?

8 THE WITNESS: My Business title is financial
9 analyst.

10 JUDGE RAINEY: What is your business address?

11 THE WITNESS: P.O. Box 3265 Harrisburg, PA 17105.

12 JUDGE RAINEY: Go ahead, Mr. Simms.

13 MR. SIMMS: Your Honor, at this time I would ask
14 that the testimony of Mr. Weakley be marked for identification
15 as OTS Statement Number One, OTS Statement 1-SR, may it be so
16 identified.

17 JUDGE RAINEY: So identified.

18 (Whereupon, aforementioned documentation was
19 marked for identification.)

20 DIRECT EXAMINATION

21 BY MR. SIMMS:

22 Q. Pursuant to the stipulation, Mr. Weakley, do you have any
23 corrections to make to either your statement or OTS Exhibit
24 1-SR?

25 THE WITNESS: Yes, I have two corrections, first

1 one, OTS Statement Number One, direct testimony.

2 JUDGE RAINEY: Mr. Weakley, keep your voice up if
3 you can.

4 THE WITNESS: OTS Statement Number One, page
5 five, first question, answer, runs from line one to line 13,
6 I would like deleted. Second correction, page 14, beginning
7 sentence, 3 through five, starting on line 3, I would like the
8 following words deleted at the end of line 3, "as a non-
9 bypassable surcharge. Transportation and."

10 JUDGE RAINEY: Those are all the words to be
11 deleted?

12 THE WITNESS: Yes, sir.

13 MR. SIMMS: Does that conclude your corrections,
14 Mr. Weakley?

15 THE WITNESS: Yes.

16 MR. SIMMS: I would move into the record, subject
17 to any motions, cross-examination OTS Statement Number One and
18 OTS Statement 1-SR and OTS Exhibit 1-SR.

19 JUDGE RAINEY: Any objection? Hearing none so
20 admitted.

21 (Whereupon, the aforementioned documentation was
22 received in evidence.)

23 JUDGE RAINEY: Mr. Weakley, I will start by
24 asking you some questions. In reference to OTS Exhibit 1-SR,
25 would you summarize OTS's position with regard to the Cash

1 Receipts Reconciliation Clause Petition.

2 THE WITNESS: OTS mechanism is an adjustment to
3 uncollectible amounts that varies with the rise and fall of
4 gas costs. The calculation starts with a quarterly PGC rate,
5 subtracts the base fuel rate and produces increase in costs, not
6 base rates. Then I took the writeoff ratio times the costs of
7 non-base rates to come up with rate per MCF.

8 JUDGE RAINEY: OTS is recommending then an overall
9 revenue increase of \$10,747,219 with regard to the Cash Receipts
10 Reconciliation Clause?

11 THE WITNESS: That's correct.

12 JUDGE RAINEY: Mr. Clearfield. Do you have any
13 questions?

14 MR CLEARFIELD: Mr. Mosca.

15 MR. MOSCA: Good afternoon. My name is Bill Mosca.
16 I also represent the Gas Works.

17 CROSS-EXAMINATION

18 BY MR. MOSCA:

19 Q. Could you just turn to the correction you made on page 14
20 and read back on how the sentence would actually read now?

21 A. "OTS proposes that surcharge be established to be charged
22 to all firm sales customers as part of distribution rate."

23 Q. Just a general question on the OTS proposal, sir. OTS
24 agrees that PGW needs a flexible automatic adjustment mechanism
25 to account for uncollectible account expenses that rise with

1 increases in gas cost rate. Is that correct?

2 A. That's correct.

3 Q. So whether we call it Cash Receipts Reconciliation Clause
4 or some other name, OTS still supports this concept?

5 A. Yes.

6 Q. On page ten of your direct testimony I believe, sir, you
7 state there that PGW is undercompensated for uncollectible
8 accounts expense when gas costs increase.

9 JUDGE RAINEY: Mr. Mosca, what lines are you
10 referring to?

11 MR. MOSCA: I believe it's line 16 where it speaks
12 that the company would be undercompensated.

13 BY MR. MOSCA:

14 Q. I will rephrase the question. If you look on page ten
15 with that question and answer that begins line eleven, you state
16 that PGW is undercompensated for uncollectible accounts expense
17 when the gas costs increase above base rate levels, is that
18 correct?

19 A. That's correct.

20 Q. In other words PGW's cash receipts worsened when gas
21 costs rise above base rate levels, correct?

22 A. Yes.

23 Q. It is OTS' position that the equitable approach here is
24 to permit PGW to recover any uncollectible accounts expense cash
25 shortfalls through this new adjustment clause that we have been

1 discussing, is that correct?

2 A. Yes. Uncollectibles will increase or decrease according
3 to increase or decrease in gas costs rate.

4 Q. All right. Now you just confirmed that the figure that
5 OTS has put in at \$10,747,219, and that would be for fiscal year
6 2005?

7 A. Yes, it would go in effect September one, 2004.

8 Q. Yes. Then it would go through August 31st, 2005, which
9 would be fiscal year 2005?

10 A. Yes.

11 Q. Mr. Weakley, would you agree that PGW is currently
12 undercompensated for uncollectible accounts expense for fiscal
13 year 2004?

14 A. Yes, that is what my adjustment shows.

15 Q. So, the gas costs for fiscal year 2004 have exceeded the
16 gas costs rates established in the last fully litigated base
17 rate case, correct?

18 A. Yes.

19 Q. PGW's current cash receipt shortfall, in your opinion,
20 would be explained, at least in part, by current uncollectible
21 account expense under-recovery; is that correct?

22 A. In part, yes.

23 Q. Now the same above base rate gas cost that will drive
24 PGW's uncollectible accounts expense under-recovery in fiscal
25 year 2005, is the same mechanism that is causing PGW's current

1 uncollectible account expense to be under-recovered, is that
2 correct, sir?

3 A. I'm sorry I missed something? Could you repeat?

4 Q. Sure. It's above rate gas costs -- let me repeat it.
5 It would be the above base rate gas costs in fiscal year 2005
6 that will drive PGW's uncollectible accounts expense under
7 recovery, that you have testified to, is that correct, sir?

8 A. Yes.

9 Q. That very same mechanism in fiscal year 2004, is
10 currently causing PGW an under-recovery of its uncollectibles
11 expense accounts, is that correct?

12 A. That's correct.

13 Q. Those mechanisms are identical?

14 A. Yes.

15 Q. Mr. Weakley, I believe, correct me if I'm wrong, are you
16 familiar in general with what has gone on in the Ohio Commission
17 in its decision establishing uncollectible accounts expense
18 recovery mechanism?

19 A. No, I am not.

20 Q. Sir, are you familiar with previous decisions of this
21 Commission that in the interest of justice and equity have
22 permitted companies to collect these uncollectible account
23 expenses amortized over a series of future years?

24 A. No, I am not.

25 Q. Columbia Gas Proceeding, back in the early 90's. Does

1 that jog your memory at all?

2 A. No.

3 Q. Let me ask you this, Mr. Weakley. Let's suppose that
4 the Commission should adopt the flexible automatic adjustment
5 clause that has been described in this case, and further, let's
6 suppose that it decides to grant regulatory asset treatment to
7 the current under-recovery of uncollectible expense with a
8 three-year amortization...

9 MR. SIMMS: You Honor, I would object. There
10 is no evidence backed by the Commission of granting regulatory
11 assets. I don't know what mechanism he's talking about, OTS
12 mechanism or company mechanism.

13 MR. MOSCA: Your Honor, I'm being very
14 straight-forward. We know what OTS has said what it would like
15 to put in 2005 fiscal year for uncollectible accounts. What I'm
16 asking Mr. Weakley, if the E-Factor were accepted by the
17 Commission such that 2004 fiscal year shortfall could be
18 recovered in amortized fashion, as PGW has described it, what
19 would be that figure, for the three years? What would it be
20 starting 2005 when recovered, then recovered in two years after
21 that, what would the extra figure be?

22 JUDGE RAINEY: Are you referring to PGW's proposal
23 or referring to OTS'?

24 MR. MOSCA: I'm referring to the OTS proposal,
25 Your Honor. If the OTS proposal were adopted with E-Factor,

1 however the Commission feels there should an E-Factor, what
2 would the new OTS figure be? We know about fiscal year 2005
3 relating to the going-forward piece. I'm wondering what
4 the E-Factor would be.

5 JUDGE RAINEY: Mr. Simms, do you still have an
6 objection?

7 MR. SIMMS: My objection, I don't know if Mr.
8 Weakley can do that calculation. If they wanted a calculation
9 they had Mr. Weakley's direct testimony.

10 JUDGE RAINEY: We will see what he can do with
11 that.

12 THE WITNESS: My mechanism does not include
13 reconciliation.

14 BY MR. MOSCA:

15 Q. If your mechanism were to put in E-Factor, what would
16 that amount be?

17 MR. SIMMS: I would object. The mechanism does
18 not include E-Factor. You can't take our mechanism and devise
19 what it does not include.

20 JUDGE RAINEY: He doesn't have that calculation.
21 It appears you're engaging in some discovery that could have
22 been done earlier.

23 MR. MOSCA: I withdraw the question, Your Honor.

24 BY MR. MOSCA:

25 Q. Now irrespective of any E-Factor sir, do you have a

1 calculation that shows currently what PGW's accounts receivables
2 under-collection rate is?

3 MR. SIMMS: Objection. If the company wanted
4 that done they should have asked for that interrogatories. They
5 submitted interrogatories, and we did reply, but that wasn't one
6 of the questions. He doesn't have that calculation.

7 JUDGE RAINEY: We'll allow Mr. Weakley to answer
8 the question. If he doesn't have it, he can say he doesn't have
9 it.

10 THE WITNESS: I haven't made that calculation.

11 MR. MOSCA: I will move on.

12 BY MR. MOSCA:

13 Q. With respect to 7.616 percent that you use, Mr. Weakley,
14 now OTS' proposal uses PGW's historic write-off ratio --

15 JUDGE RAINEY: Just one moment. You can start
16 again.

17 BY MR. MOSCA:

18 Q. The 7.616 percent that OTS uses, Mr. Weakley, was that
19 figure established in the last fully-litigated base rate case?

20 A. I believe it was the case before that.

21 Q. It was established by the Commission.

22 A. By the Commission.

23 Q. Perhaps it was -- whether it was the case you just
24 referenced or the last fully-litigated base rate case, the
25 Commission established PGW's uncollectible accounts expense

1 allowance at \$55.7 million, correct?

2 A. Approximately.

3 Q. Has any Commission decision ever changed that \$55.7
4 million figure?

5 A. Well, since the last fully-litigated case there was a
6 settlement.

7 Q. There was a settlement sir, and it was a Black Box
8 Settlement, is that correct?

9 A. That's correct.

10 Q. Did the Commission issue findings as a result of the
11 Black Box Settlement that changed the \$55.7 million figure?

12 A. They didn't specifically identify the uncollectible
13 account expense in the settlement. However, the \$36 million
14 increase that was granted in the settlement would have a direct
15 affect on uncollectible accounts, through the iteration process
16 putting the schedules together.

17 Q. By how much would that have increased the \$55.7 million
18 figure in your opinion, sir, approximately?

19 A. I thought I responded to that, approximately 2.7.

20 Q. Mr. Weakley, hypothetical situation here, let's suppose
21 PGW somehow manages in fiscal year 2004 to improve its actual
22 uncollectible account expense to the sum of \$50.7 million.
23 Let's further suppose that the Commission's expense allowance--

24 A. Could you stop please? Could you repeat that first
25 sentence? It didn't make sense.

1 Q. Certainly. For fiscal year 2004, let's suppose that PGW
2 is able to reduce uncollectible accounts expense to \$50.7
3 million.

4 A. Its actual financial expense, not the rate-making
5 allowance?

6 Q. Correct, actual financial expense. Let's further assume
7 that the rate-making allowance is \$55.7 million. My question,
8 what would happen to the \$5 million difference between PGW's
9 allowed and actual uncollectible accounts expense?

10 A. The \$55 million is built into rates. It doesn't change.

11 Q. So PGW would be entitled under Pennsylvania law to retain
12 this \$5 million difference and add that to its cash working
13 capital, is that correct?

14 A. Theoretically, yes.

15 Q. Having this addition to cash working capital would
16 benefit customers because it would reduce the need for PGW to
17 bring a base rate case, correct?

18 A. I don't know that.

19 Q. There would be a contribution toward PGW's cash receipts?

20 A. That's correct.

21 Q. But the OTS proposal in this case would require PGW under
22 my hypothetical to essentially forfeit \$5 million, and not add
23 it to its cash working capital, is that correct?

24 A. In your hypothetical, yes, but in reality several of the
25 PGW's witnesses testified that gas costs will remain at the same

1 level they are today. If that holds true, my short-term
2 mechanism, which is only proposed for two years, will never hit
3 the credit level.

4 MR. MOSCA: Thank you very much, Mr. Weakley. I
5 have no further questions.

6 JUDGE RAINEY: Mr. Keene.

7 CROSS-EXAMINATION

8 BY MR. KEENE:

9 Q. Good afternoon.

10 A. Good afternoon.

11 Q. Is it your testimony that this mechanism is necessary for
12 PGW because they are a cash flow regulated company, and that it
13 wouldn't be appropriate for an investor-owned utility regulated
14 under rate base rate of return?

15 A. That's correct.

16 Q. Would you agree with me that cash working capital for a
17 company like PGW is also affected by a change in gas costs?

18 A. Yes.

19 Q. Do you think that a cash flow company should have an
20 automatic adjustment mechanism for cash working capital?

21 A. No.

22 Q. I want to turn to your surrebuttal for a moment. Page
23 four, in your mechanism you use the base fuel rate of \$5.56.
24 That was the base fuel rate at the time of the last
25 fully-litigated rate case, isn't that correct?

1 A. What was the number?

2 Q. \$5.5643.

3 JUDGE RAINEY: Referring to page four.

4 BY MR. KEENE:

5 Q. Page four of your surrebuttal.

6 A. Actually the rate was \$6.097, which is shown on line two
7 of that page.

8 Q. Then you backed out the CRP costs.

9 A. Yes.

10 Q. You came up with a base fuel cost of \$5.56, right?

11 A. Right.

12 Q. That is what you used to compare to base fuel costs
13 today, right?

14 A. To the 1307F Rate.

15 Q. Now I think as you had a discussion with counsel your
16 mechanism works both ways. If PGW's PGC rate, base fuel cost in
17 that PGC rate went below \$5.56, they would have to reduce base
18 rates, wouldn't they?

19 A. Yes.

20 Q. Do you think that would act as an incentive for the
21 company not to procure lower cost gas?

22 A. No, they are required under Commission regulations for
23 least cost procurement.

24 Q. I also want to ask about use of the base fuel rate at the
25 time of the last fully-litigated case. Why did you choose that

1 time? Let me rephrase it. Since then PGW has had a base rate
2 case that resulted in a settlement, correct?

3 A. Yes.

4 Q. Presumably the settlement rates provided for an adequate
5 level of uncollectible expense, isn't that correct?

6 MR. CLEARFIELD: Objection. It calls for--

7 JUDGE RAINEY: Why don't you repeat your question,
8 Mr. Keene.

9 By Mr. Keene:

10 Q. Presumably, the settlement rate in the last rate case
11 provided for an adequate level of uncollectible expense.

12 MR. CLEARFIELD: I'm going to object. It calls
13 for a conclusion. The interpretation of settlement, it speaks
14 for itself.

15 MR. KEENE: I think he can answer a question like
16 that. Obviously, we gave the company a revenue requirement that
17 met their costs of services including uncollectibles.

18 MR. CLEARFIELD: It's not true. It was a Black
19 Box settlement. . .

20 JUDGE RAINEY: I am going to overrule the
21 objection.

22 THE WITNESS: Well, I don't know what level of
23 uncollectible account expense was built in the rates, during
24 that settlement.

25 BY MR. KEENE:

1 Q. This gets back to my original question. Why would you
2 not use the base fuel rate at the time of the last base rate
3 settlement, instead of going back to one rate case prior to
4 that? Your mechanism doesn't depend on the level of
5 uncollectible expenses being stated like the company's CRRC
6 mechanism.

7 MR. SIMMS: Objection. We had a settlement and
8 what rates are you talking about? What rates are you talking
9 about? The last case was settled.

10 MR. KEENE: I am talking about why does Mr.
11 Weakley's mechanism not utilize base fuel rate at the time of
12 the last rate case settlement rather than going back to a case
13 prior to that.

14 THE WITNESS: Because it's unknown. You had to go
15 back to the last litigated case which had a stated amount built
16 in the base rates.

17 BY MR. KEENE:

18 Q. But the base fuel rate you can calculate from company's
19 quarterly updates, can't you?

20 A. Not the amount that was rolled in.

21 Q. The amount that was rolled in was \$3.18, isn't that
22 correct? That's what the company always had in its base rate
23 for fuel costs.

24 A. Not since --

25 Q. Restructuring occurred?

1 A. Restructuring.

2 Q. But that occurred after the settlement of the last base
3 rate case?

4 A. Right.

5 Q. At the time of the last base rate case that included
6 \$3.18 of fuel costs, correct?

7 JUDGE RAINEY: Are you referring to settlement
8 base rate?

9 MR. KEENE: Settlement of the last base rate case,
10 yes.

11 THE WITNESS: It included a base component of
12 1307, \$3.18, what was rolled in base rates was 6097.

13 BY MR. KEENE:

14 Q. That was at the time of the last fully-litigated case,
15 I am talking about the last rate case which was settled.

16 MR. SIMMS: Objection. What was rolled in from
17 the last base rate case was settled. What was rolled into from
18 was 6097.

19 JUDGE RAINEY: What was rolled into the litigated
20 case?

21 MR. SIMMS: Yes, last litigated case.

22 JUDGE RAINEY: Mr. Keene.

23 MR. KEENE: Maybe I can ask a real straightforward
24 question and either Mr. Weakley can answer it or not.

25 BY MR. KEENE:

1 Q. Would you be able to calculate or tell what the base fuel
2 rate was at the time of the settlement of the last base rate
3 case?

4 MR. SIMMS: Objection. What is the point? We had
5 a Black Box settlement.

6 JUDGE RAINEY: I will overrule the objection.
7 Mr. Weakley, can you answer the question?

8 THE WITNESS: I could estimate, I could not give
9 exact. I could use a quarterly filing, which does not exactly
10 line up with the date of settlement.

11 BY MR. KEENE:

12 Q. You would look at what whatever rate was in effect at the
13 time of the settlement, whatever PGC rate that was in effect,
14 correct?

15 A. You could do that to estimate.

16 MR. KEENE. That's all I have, Your Honor.

17 JUDGE RAINEY: Mr. Gray.

18 MR. GRAY: No questions.

19 JUDGE RAINEY: Mr. Bertocci.

20 CROSS-EXAMINATION

21 BY MR. BERTOCCHI:

22 Q. Good afternoon.

23 A. Good afternoon.

24 Q. I would like you to take a look OTS Statement Number One,
25 page 15, looking at pages 19 to 22.

1 JUDGE RAINEY: I'm sorry, what pages?

2 MR. BERTOCCI: Page 15, I'm sorry, lines 19 to
3 22.

4 BY MR. BERTOCCI:

5 Q. There you state: "Senior Citizens Discount proposal
6 pending before the Commission has the potential to increase
7 customers rates higher as more non-senior customers above 150
8 percent of the federal poverty level are challenged to pay their
9 bills."

10 My question, are you aware PGW has projected that
11 the incremental cost to other customers of providing a
12 means-tested senior citizen's discount for the next year, if it
13 went into effect for the year period from the time it went into
14 effect, would be in total in the \$320,000, \$370,000 range.
15 That's 60 or 70 cents for non-senior residential customers for
16 the whole year, that would be the cost. Are you aware of that?

17 A. No, I don't recall the exact number. What I did here, I
18 put the section in to illustrate a filing that would decrease
19 the company's cash working capital as opposed to the company's
20 CRRC, which increases the cash receipts cash flow.

21 Q. Are you saying that the senior citizens discount, that
22 not adopting the proposed Senior Citizen Discount somehow
23 increases PGW's cash flow?

24 A. No, by adopting the Senior Citizen Discount it would
25 decrease the company's cash flow.

1 Q. Do you recognize that the Senior Citizen Discount only
2 changes the distribution of the revenue requirement between PGW
3 customers?

4 A. Are you referring to the settlement?

5 Q. I'm talking about, yes, referring to the Senior Citizen
6 Discount settlement for the means-tested portion of the Senior
7 Citizen Discount, which was then proposed to the PUC, then has
8 been currently remanded to the Administrative Law Judge.

9 A. I have not reviewed the settlement.

10 Q. So are you saying you're not familiar?

11 A. I'm not familiar with the settlement, what went into the
12 settlement. All I did was put this in as an illustration to
13 show that there have been filings requesting increases in rates
14 and decreases in rates, and just to show that it's time that the
15 Commission and other parties get together and try to solve some
16 of these problems through a collaborative.

17 Because all of the filings over the past four
18 years have been pulling, it's like a tug of war, PGW back and
19 forth.

20 JUDGE RAINEY: For clarification of the record,
21 Mr. Weakley, why don't you state what the proposed settlement is
22 with regard to the Senior Citizen Discount, which I understand
23 now is back before the ALJ on remand from the Commission. Can
24 you do that, or Mr. Bertocci, can you summarize what the
25 proposal, settlement, proposed settlement is with regard to the

1 Senior Citizen Discount?

2 THE WITNESS: I wasn't a party to that.

3 JUDGE RAINEY: Why don't you clarify the record
4 with regard to that, Mr. Bertocci.

5 MR. BERTOCCI: On lines 14 to 18, he pretty much
6 summarizes a 20 percent discount would be available for
7 newly-applying seniors 65 years or older of household incomes
8 regardless of family size, which doesn't exceed 250 percent of
9 the federal poverty level of a two-person family, \$30,300.
10 That's a good summary. I accept that's what he knows about the
11 Senior Citizen Discount.

12 JUDGE RAINEY: Let me be clear with regard to the
13 testimony. It's your testimony, Mr. Weakley, that that proposed
14 settlement of the Senior Citizen Discount for PGW would in fact
15 increase uncollectibles of PGW?

16 THE WITNESS: No, what I was saying it would
17 reduce the cash flow for the company.

18 JUDGE RAINEY: The company would have less of a
19 cash flow than it had under existing or the prior 20 percent
20 discount which applied to all senior citizens?

21 THE WITNESS: I'm sorry, Your Honor, could you
22 repeat that?

23 JUDGE RAINEY: Is it your testimony that the
24 proposed settlement of the Senior Citizen Discount where there
25 would be a means-test in order to be eligible for a 20 percent

1 discount that that would increase or decrease the company's cash
2 flow as compared to the Senior Citizen Discount which exists for
3 all senior citizens?

4 MR. SIMMS: Your Honor, if I may, Mr. Weakley
5 is not talking about the settlement. What occurred, PGW made a
6 filing, at the restructuring case PGW had made a filing to
7 eliminate the Senior Citizen Discount, going forward after
8 September one. It subsequently made a filing to have the Senior
9 Citizen Discount continue for those individuals who turned 65
10 after September one '03 if they go up to 250 percent of the
11 poverty line.

12 The Office of Trial Staff was initially in the
13 case. We withdrew from the case and then the parties, remaining
14 parties then submitted a settlement to Administrative Law Judge
15 Allison Turner, who presumably submitted a recommended decision
16 to the Commission. It's my understanding that the Commission
17 remanded that settlement agreement back to ALJ Turner and the
18 Office of Trial Staff has now entered an appearance in that
19 portion of the proceeding.

20 What Mr. Weakley is talking about, is the initial
21 filing. In terms of settlement agreement I don't know --

22 JUDGE RAINEY: Let me be clear with regard to the
23 present status of the Senior Citizen Discount. Are you stating
24 as of September first, 2003 the Senior Citizen Discount is not
25 in effect for any senior citizens?

1 MR. SIMMS: That's correct. Those senior citizens
2 prior to September one, 2003 were grandfathered in. Those
3 senior citizens after September one, 2003 don't receive a
4 discount. The petition by PGW was to include those senior
5 citizens who turned 65 after September one, 2003 up to 250
6 percent of the poverty line

7 JUDGE RAINEY: I withdraw my question. Did you
8 have anything further?

9 MR. BERTOCCI: A couple more.

10 BY MR. BERTOCCI:

11 Q. You said that you weren't aware of the estimate that the
12 incremental cost of the Senior Citizen Discount would be 60 to
13 70 cents a year for non-senior residential customers going
14 forward, and I can accept that. The question that I'm asking
15 you now is, assuming that PGW is correct in its estimate that
16 that's the order of magnitude of the incremental cost for the
17 next year of the modified Senior Citizen Discount, not the
18 grandfathered costs, grandfathered cost is there, but the
19 modified Senior Citizen Discount. Would you say that's really
20 relevant in your statement that this type of cost continues the
21 "death spiral" associated with PGW's cash flow problem?

22 A. That sentence regarding the "death spiral" just reflects
23 the fact that there have been certain filings drawing on PGW's
24 cash flow that should be eliminated.

25 Q. But you recognize that any Senior Citizen Discount that

1 is granted is recoverable through the Universal Service Fund
2 charge, is that right?

3 JUDGE RAINEY: If you know.

4 THE WITNESS: I'm not sure.

5 MR. BERTOCCI: Nothing further.

6 JUDGE RAINEY: Mr. Hicks.

7 CROSS-EXAMINATION

8 BY MR. HICKS:

9 Q. I have just a few questions, Mr. Weakley. You were
10 present in the hearing room earlier this morning when I examined
11 witnesses from PGW, weren't you?

12 A. Yes.

13 Q. Do you recall me inquiring about collectibles progressing
14 significantly enough to the point of 93 percent or more yielding
15 no need for a reconciliation mechanism, do you recall that?

16 A. I recall that as it applies to the CRRC.

17 Q. You have put forth a mechanism that's different from the
18 CRRC?

19 A. Yes.

20 Q. With a lessor recovery amount, and a smaller period of
21 effectiveness? Are both of those true?

22 A. Yes.

23 Q. With respect to your mechanism, if PGW progressed to the
24 point of improving collections to the level of 93 percent or
25 more, would you still think it necessary to have an automatic

1 recovery mechanism?

2 A. Yes, because PGW would still be under-collecting their
3 uncollectible accounts expense due to the higher cost of gas.

4 Q. If PGW were to file a base rate case, would a base rate
5 case account for their uncollectible expense sufficient to give
6 them adequate recovery?

7 A. A base rate case would restate an allowance for
8 uncollectible accounts.

9 Q. Therefore a recovery mechanism would no longer be
10 necessary?

11 A. The mechanism would have to be revised. I still think it
12 would be necessary.

13 Q. I want to make sure I understand. If they were to put
14 their cash receipts problem and their uncollectible expense into
15 a base rate proceeding, it's your testimony that those issues
16 would be resolved in that base rate proceeding, is that
17 correct?

18 A. The Commission would set a new level for uncollectible
19 accounts expense, and the mechanism would be revised to reflect
20 that fact.

21 Q. I think you're making an assumption in the question that
22 I'm not making. I will try to be clear. Assuming for a moment
23 that the Commission denied both your mechanism and PGW's
24 mechanism request and PGW filed a base rate case, would the
25 concerns that you had, which caused you to recreate your

1 mechanism, be resolved in a base rate proceeding?

2 A. Yes.

3 Q. There would be no need for the mechanism you're now
4 proposing, would it?

5 A. The mechanism I am proposing would be reset at zero and
6 continue from there.

7 Q. Only assuming the mechanism were implemented?

8 A. Yes.

9 Q. If a base rate proceeding addressed those concerns there
10 would be no need for an automatic mechanism of the kind that you
11 proposed; am I correct?

12 A. No, I still think there would be a need for a mechanism.

13 Q. Last question. The practical effect of the mechanism
14 you've proposed would be an increase in rates to the PGW
15 customer, wouldn't it?

16 A. Yes.

17 MR. HICKS: I have nothing further.

18 JUDGE RAINEY: Just to follow-up, Mr. Weakley, is
19 it your testimony that you would be making this recommendation
20 with regard to your proposed mechanism in a base rate case?

21 THE WITNESS: I would look at it in a base rate
22 case. The cash flow company is a lot different than a base
23 rate, rate of return company, and there are certain items that
24 have to be handled differently. I would review it and make a
25 recommendation.

1 JUDGE RAINEY: So you may or may not in a base
2 rate case make the recommended mechanism that you are
3 recommending in this case?

4 THE WITNESS: As I stated earlier, the mechanism
5 would be reset at zero in a base rate case and carried forward.

6 JUDGE RAINEY: Would you still be recommending a
7 mechanism in a base rate case?

8 THE WITNESS: In a base rate case, yes.

9 JUDGE RAINEY: Any redirect, Mr. Simms?

10 MR. SIMMS: May I have a moment, Your Honor?

11 (Whereupon, a brief recess was taken.)

12 JUDGE RAINEY: Let's go back on the record.

13 Mr. Lelash, let me swear you in.

14 RICHARD W. LELASH,

15 having been duly sworn, testified as follows:

16 JUDGE RAINEY: I will ask you to provide your full
17 name for the record and spell your last name.

18 THE WITNESS: Richard W. Lelash, L-E-L-A-S-H.

19 JUDGE RAINEY: Mr. Lelash, can you tell us who you
20 work for and what your title is, what your business address is.

21 THE WITNESS: I'm an independent consultant. I'm
22 working for the OCA in this proceeding. My business address is
23 1878 Grove, in Reading, Connecticut.

24 JUDGE RAINEY: Go ahead, Mr. Keene.

25 MR. KEENE: Your Honor. We previously distributed

1 to the parties and to Your Honor what has been marked as OCA
2 Statement Number One Direct Testimony of Richard W. Lelash on
3 behalf of the OCA. Attached to that are schedules one through
4 nine, appendix with Mr. Lelash's qualifications. We've also
5 previously distributed to the parties and to Your Honor what has
6 been marked OCA Statement Number 1S, surrebuttal testimony of
7 Richard W. Lelash on behalf of OCA. We provided two copies to
8 the court reporter.

9 DIRECT EXAMINATION

10 BY MR. KEENE:

11 Q. Good afternoon, Mr. Lelash, do you have copy of what has
12 been marked OCA Statement Number One OCA Statement 1R?

13 A. Right.

14 MR. KEENE: Pursuant to the stipulation we would
15 move for admission of Statement Number One, with the attached
16 schedules and Statement 1-S, subject to any timely motions and
17 cross. Mr. Lelash is ready for cross.

18 JUDGE RAINEY: Any objections? Hearing none so
19 admit.

20 (Whereupon, documentation marked OCA Statement No.
21 1 and OCA Statement No. 1s was received in evidence.)

22 JUDGE RAINEY: I'm going to start Mr. Lelash,
23 by asking you to, why don't you summarize the Office of Consumer
24 Advocates' position with regard to the Cash Receipts
25 Reconciliation Clause?

1 THE WITNESS: My testimony fundamentally opposes
2 the imposition of the CRRC mechanism, for a variety of reasons.
3 There are technical infirmities to the methodology as proposed
4 by company. More importantly, it's my belief that it's unclear
5 that the company in fact needs this type of mechanism at this
6 point in time. The company is a cash-flow regulated company and
7 I believe that the adoption of the CRRC mechanism would distort
8 and to some degree impair the Commission's oversight that it
9 exerts in a base rate proceeding if this type of mechanism were
10 to be adopted.

11 JUDGE RAINEY: Does the OCA also present a
12 proposal in the event that the Commission does adopt the CRRC
13 recommendation?

14 THE WITNESS: There was a calculation put in
15 testimony that did two things. It responded to a statement by
16 Philadelphia City Council that in charging back the \$18 million
17 or in paying back to the utility the \$18 million city payment it
18 would like to have that amount applied against the CRRC amount.
19 So used as an offset.

20 Second correction was made in that calculation to
21 remove the one-third estimate of the adjustment the company
22 proposed for fiscal year 2004. So, while I certainly am not
23 suggesting that the CRRC should be adopted, were it to be
24 adopted those two adjustments would properly be made.

25 JUDGE RAINEY: Mr. Clearfield.

1 MR. CLEARFIELD: Thank you.

2 CROSS-EXAMINATION

3 BY MR. CLEARFIELD:

4 Q. Good afternoon, Mr. Lelash.

5 A. Good afternoon, Mr. Clearfield.

6 Q. Let's start with identifying areas that we can agree on.
7 First, can we agree that PGW has a right to recover in its rate
8 what it charges to customers, reasonably incurred expenses and a
9 reasonable level of cash working capital necessary to provide
10 safe and reliable service?

11 A. As a general matter but not necessarily on an ongoing
12 basis. When base rates are set they should be set with that
13 purpose in mind. It's understood, however, that as you go
14 forward from the setting of a base rate there may be a surplus
15 or deficiency in those rates.

16 Q. You would agree also that a reasonable level of
17 uncollectible expense is one of those items that PGW, in fact
18 all utilities, has a right to include in its rate it charges to
19 customers?

20 A. As a general matter, yes.

21 Q. Uncollectible or bad debt expense is simply a mechanism
22 that passes on the cost to the customers, to the remaining
23 customers the costs of those who fail to pay their bills. Is
24 that fair?

25 A. As a general matter, yes.

1 Q. On pages six and seven, I think, of your direct you
2 acknowledge that, on those pages, escalating levels of gas
3 prices have provided adding working capital requirements --

4 A. Yes.

5 Q. Would you agree with that?

6 A. That's correct.

7 Q. This is not a problem unique to PGW?

8 A. Well, I would be careful with the word "problem." It's a
9 circumstance that is facing all utilities.

10 Q. Pages 6 and 7 you indicate, you acknowledge that PGW's
11 liquidity problem relates to demographics of customers and
12 increasing inability to pay gas bills. Do you see that?

13 A. In part.

14 Q. Page seven?

15 A. In part.

16 Q. So you're not disputing, I take it, that it's harder to
17 collect from a customer base that's generally lower income than
18 it is from one that has a higher average income, all things
19 being equal?

20 A. We have a number of programs, including CRP, that seeks
21 to address that, as a general matter. Obviously, if the
22 demographics of a utility have a lower income, customers without
23 any type of assistance, they would be less likely to pay than
24 more affluent constituents.

25 Q. The difficulty that PGW is experiencing, stemming from

1 higher bills, is attributable to a colder winter weather in the
2 last year or two, would that be a factor you would consider?

3 A. Not in the last year. The weather on the East Coast for
4 the last year was somewhat colder than normal, but very little I
5 think, three or four percent. It wasn't considered to be a
6 particularly cold winter.

7 Q. But the demographics of the service territory is not
8 something over which PGW has control, agreed?

9 A. Other than its social programs, such as Senior Citizen
10 Discount and CRP, where it attempts to assist those customers
11 and in essence level the playing field.

12 Q. But demographics is not something that PGW can control?

13 A. They don't control demographics. They have the ability
14 to address demographics.

15 Q. Obviously, colder than normal weather and warmer than
16 normal weather isn't anything over which PGW has control?

17 A. Well it does actually, because it has a weather clause.
18 I'm sorry, what you said is wrong. It has a weather clause that
19 adjusts revenues depending on the weather.

20 Q. I was asking can they control the weather. They cannot
21 make it warmer or colder?

22 A. I'm sorry, they do not control the weather, but they
23 control some degree of the impact of the weather.

24 Q. Natural gas costs or levels, they are largely outside of
25 control of a NGDC like PGW?

1 JUDGE RAINEY: I'm sorry, Mr. Clearfield, would
2 you repeat yourself?

3 BY MR. CLEARFIELD:

4 Q. Natural gas costs, they are level largely outside of the
5 control of an NGDC -- natural gas distribution cost?

6 A. The level itself is outside of their control.

7 Q. By the way, the WNA you mentioned, does it affect the
8 level of the GCR?

9 A. No, it affects the total bill.

10 Q. If it's colder than normal and a customer uses more MCF's
11 because it's colder than normal, and pay more because the GCR is
12 higher, WNA has no affect?

13 A. Not on the GCR rate, but they would be getting credit on
14 the bill for the colder weather.

15 Q. Do you see any evidence in the record that indicates that
16 PGW's current liquidity issues are due to indifference or lack
17 of effort of PGW's management to seek to collect all of its
18 customer bills?

19 A. I really have not done any studies. I would be -- I
20 preface my statements with that. I think the company has
21 initiated, in fact, has gone into an initiative on collections.
22 From what I understand, that's a relatively well-designed
23 program and should reap rewards prospectively. I think it's a
24 little early to have a full impact yet. But if that program as
25 it's envisioned is up and running, that will help them

1 considerably and would be certainly a reasonable type of program
2 addressing the problem.

3 Q. You reviewed testimony of PGW witnesses that indicated
4 that major factors that contributed to its lower collections
5 rate, lower than historically, has been the higher than normal
6 or very high level of rates that it has had to charge its
7 customer?

8 A. It seems to be a major element.

9 Q. That relationship, as rates go up, gas and collections
10 tend to go down. You're not disputing that, are you?

11 A. As rates go up, the receipts go up as well, uncollectible
12 goes up also.

13 Q. The percentage of the receipts appears to be affected as
14 well?

15 A. Collectibility of revenue of the company is usually
16 adversely impacted.

17 Q. You used sort of a general term. That's not a phenomenon
18 that is unique to PGW, is it?

19 A. The elasticity, the amount of impact is greater for PGW
20 than it is typically for other utilities.

21 Q. But implicit in your answer is that other utilities are
22 also affected?

23 A. But on a much lesser scale.

24 Q. Do you know of any utility decision that has denied a
25 rate increase to a utility because if the utility commission

1 allowed the increase in rates, it would have an effect of
2 incrementally adding to the company to realize uncollectible
3 expense?

4 A. You better give me that again.

5 Q. Are you aware of any utility decision -- you testify in a
6 number of jurisdictions, don't you?

7 A. Yes.

8 Q. Are you aware of any utility decision that you can think
9 of where a utility commission denied a rate increase because it,
10 noting this demand/elasticity affect, indicated if you raised
11 rates that a certain portion would not be collected because of
12 this effect on cash receipts?

13 A. That factor had been considered by the PGC a number of
14 years ago, because of the elasticity effect. Other than the
15 PUC, I don't know of any Commission--

16 JUDGE RAINEY: PGC, Philadelphia Gas Commission?

17 THE WITNESS: Yes.

18 BY MR. CLEARFIELD:

19 Q. Was the rate increase denied on that basis?

20 A. I think there was consideration on whether it was going
21 to take hold. I think it was put into effect. And in fact
22 going back a ways, but I believe that actually revenue dropped
23 after increase.

24 Q. Are you familiar with any instances in which the
25 Commission is asked to make an adjustment to account for

1 the elasticity affect when they establish the rates that go
2 into effect, that is to allow rates to go up slightly to take
3 into account of that fact?

4 A. No, typically in the industry that has not been a
5 consideration. Although we're in new territory now with pricing
6 that we see for natural gas. So it may be possible to look at
7 it prospectively. But historically, no, those type of
8 adjustments are not made.

9 Q. You read testimony of Mr. Knudsen and you heard him
10 today?

11 A. Yes.

12 Q. He indicated PGW is struggling to maintain
13 investment-grade bonds. Are you familiar with that?

14 A. Yes.

15 Q. Do you agree that a loss of PGW's investment-grade bond
16 rating would have serious negative consequences for PGW and its
17 customers?

18 A. Yes, it would have serious impacts.

19 Q. It would be well then to try to take steps to avoid that
20 impact, if possible.

21 A. Well, the issue would be the economics of avoiding it or
22 not.

23 Q. Cost benefit--

24 A. If you told me it would cost \$100 million to do it, it
25 would be just as well to have junk bond but as a general matter,

1 companies clearly try to avoid junk status.

2 Q. All things being equal, junk status would make it harder
3 for PGW to access capital markets?

4 A. That's unclear. It would certainly affect the cost of
5 access. But it's hard to say. I have another utility that is
6 currently at junk status and surprisngly they were able to get a
7 large amount of financing into the company even though they were
8 junk. It will cost more for sure. Whether you would be
9 precluded from access, I'm not sure.

10 Q. You have another utility?

11 A. Not that I own. That I'm working on.

12 Q. You also heard Mr. Bogdonavage's rejoinder testimony
13 that indicated that PGW's end-of-year cash liquidity, backing
14 out the one-time cash gas deferral arrangement, would be \$6
15 million at the end of 2004 FY, even including the grant-back of
16 the company of the City fee. Do you remember that testimony?

17 A. I did listen with interest to statement.

18 Q. I noted in your credentials you have considerable
19 business experience outside of the public utility forum.

20 A. Yes.

21 Q. Do you know of any company that has revenues of over \$800
22 million that would consider it prudent to have \$6 million of
23 cash in the bank at the end of the year?

24 A. Well, it would depend on the nature of the business. But
25 as a general rule, companies would certainly want more liquidity

1 and working capital resources than that level.

2 Q. So is your main complaint that PGW's filing, in your
3 opinion, a request for additional cash working capital, higher
4 uncollectible expenses, should come at a base rate case not in
5 the context of an automatic adjustment clause? Is that the
6 principal reason you oppose this?

7 A. There are two issues. One, it would be useful to get a
8 good measurement of where the company will be at the end of its
9 fiscal year. And second, it would also be very useful to have a
10 fairly comprehensive review of what options might potentially be
11 available that address the problem. And those are the types of
12 issues that are typically looked at in a base rate proceeding.

13 Q. They don't have to exclusively be products of a base rate
14 proceeding, do they? They could be as part of an investigation
15 of a Commission or some other party --

16 A. I could envision a number of mechanisms. I think those
17 two, looking at both what is the need and what are the potential
18 solutions, I would suggest probably haven't been as exhaustively
19 investigated as they should or should not.

20 Q. Is there anything inherently wrong with trying to avoid a
21 base rate increase on PGW's customers as long as possible, in
22 your view?

23 A. Once again you raise the issue, avoiding something has
24 consequences. You have to weigh avoidance versus alternative.
25 Without a comprehensive review, particularly given this utility

1 had a Black Box Settlement in the last base rate proceeding,
2 we're a little adrift as what its requirements are. There have
3 been some quite favorable events over the last couple of months
4 actually with the City apparently looking to grant-back the City
5 payments for five years, with the extension of potential future
6 extensions, \$45 million note between the City, those are
7 favorable.

8 There is much debate -- I understand no one has an
9 exact number. But it does look like the collection initiative
10 is beginning to bite. The company has, as you suggest, addressed
11 it. So, it's unclear whether those types of actions, those 3
12 things I discussed, and a couple of others might be sufficient
13 to address the problem. I understand the company's position.
14 They're looking for insurance or back stop to it. The problem
15 is that back stop is a difficult recommendation to follow now
16 when in fact the customers are having so much trouble paying
17 their bills. It's entitled -- I can see how the company can
18 come up with that, but there couldn't be a worst time to be
19 considering the implementation of something like that.

20 As Public hearings have shown, there is a
21 considerable chance that you might get, were the Commission to
22 put the CRRC in, you might get a rate payer backlash and end up
23 collecting less than you're collecting now.

24 Q. Is the CRRC going to be explicitly a line item on the
25 bill, if you know?

1 A. From what I understand, I got this third-party, from what
2 I understand, there was a great amount of resistance by
3 customers who are currently paying their bills to the concept of
4 paying for those who don't pay their bills. I think if they
5 were to be told through media or whatever that the CRRC was
6 implemented. I think there is a chance that you will get a
7 relatively severe customer backlash.

8 Q. This is just speculation?

9 A. Well. . .

10 Q. Just yes or no.

11 A. Based on a number of people that came out to these public
12 input sessions. . .

13 Q. There have been less than 100 people that testified.

14 A. I think more that showed up.

15 Q. Again, just so I understand, since rates were established
16 for public utilities, customers have always been paying for
17 other people that don't pay their bills, isn't that true?

18 A. Yes, apparently in base rates there is a component for
19 that.

20 Q. People still pay their bills even though they pay for
21 other people's non-payment?

22 A. Maybe they weren't aware that's the way the rates are set
23 up. Now they are.

24 Q. Let's go back to the base rate issue. You mentioned
25 factors that -- well, if we had filed a base rate and the

1 record had closed prior to the things that occurred, the
2 Commission went and set our base, revenue requirement in a base
3 rate proceeding without considering those, all things being
4 equal, \$18 million, our rate increase would be \$18 million
5 higher if they had not considered the grant-back of the City,
6 right?

7 A. I thought -- are you talking hypothetically?

8 Q. Hypothetically the record closes, a base rate proceeding,
9 new positive factors --

10 A. Rate, \$18 million too high.

11 Q. They would be higher until the Commission would come back
12 and either through affirmative action or action on a complaint
13 change them and reduce them, isn't that right?

14 A. I have a feeling that the company would oppose the
15 change.

16 Q. Whether we did or not, CRRC's granted, automatically
17 account for those kinds of changes, it's periodically adjusted
18 based on the company's actual realized collection.

19 A. No, because it's not a true-up.

20 Q. It's automatically adjusted for actual collection rate on
21 a going-forward basis?

22 A. No, if you collect better than standard, that's adopted
23 under your proposal. It doesn't correct for that.

24 Q. Those dollars go where, back to the company for cash
25 working capital?

1 A. The company keeps them.

2 Q. But sooner or later the customer gets the benefit or
3 burden of any cost or charges that the company incurs or
4 additional cash working capital that it enjoys?

5 A. It's the sooner or later that bothers me.

6 Q. You in your surrebuttal, when you talk about a forward
7 purchase agreement that even though the company took out
8 interest from the forward purchase, page 14 of your surrebuttal,
9 \$390,000, you said it cannot include it in GCR under cash flow?

10 A. Right.

11 Q. Make no mistake, rate payers will pay for that premium.

12 A. Yes.

13 Q. The reverse is true as well?

14 A. Yes.

15 Q. If there is cash working capital, additional rate payers
16 will receive the benefits ultimately?

17 A. Assuming that regulatory framework remains what it is,
18 yes.

19 Q. We continue to have rates set on a cash flow basis is
20 that what you mean?

21 A. Yes.

22 Q. Now getting back again to Mr. Bogdonavage's schedule.
23 Let's assume you reviewed the schedule, assured yourself that
24 the company, PGW, would in fact end the year with just six
25 million in liquidity and was doing everything prudent to collect

1 revenue from its customer, wouldn't you agree it would justify
2 allowance for additional cash working capital?

3 A. Let's first establish, talking hypothetically.

4 Q. Hypothetically.

5 A. That schedule is correct?

6 Q. Absolutely.

7 A. As Mr. Bertocci raised earlier today, the company has
8 been able to get by with relatively low working capital
9 allowances at year end. Year end is a tough time. You have
10 bond payments in July. It would be a two-fold issue, \$6
11 million level would also be, it would be necessary to look at
12 what is going to happen over certainly the next 6 to 12 months,
13 6 might be adequate. It might not. A lot would depend on what
14 kind of payments are scheduled and series of other factors.

15 Q. If we presented this schedule as pro forma cash working
16 capital. . .

17 JUDGE RAINEY: Which schedule?

18 MR. CLEARFIELD: PGW Rejoinder Exhibit Number One.

19 JUDGE RAINEY: Go ahead.

20 BY MR. CLEARFIELD:

21 Q. Hypothetically, if we presented this as a pro forma
22 end-of-year cash calculation for a base rate case, we showed \$6
23 million of liquidity at the end of the year and we claimed that
24 we needed, just going level \$35 to \$40 million at the end of the
25 year, and requested the difference, \$40 million minus \$6

1 million, you would oppose or you would support it?

2 A. I would have to have more information to be able to
3 really appropriately address whether it's adequate or
4 inadequate. Obviously, on the face of it, it's a relatively
5 small number. In isolation, I can't tell you that that is
6 incorrect, that that is inadequate. As I said that, the
7 schedule is incorrect.

8 Q. It's hypothetical.

9 A. Well, but using the \$6 million figure, which is not
10 correct.

11 Q. So, you're testifying to the Commission that it should
12 reject the CRRC, telling the company CRRC should be rejected and
13 it should file a base rate case. But you're not prepared to say
14 that the company should have \$40 million at end-of-year if
15 hypothetically it showed it had \$6 million at the end of the
16 year? That's your testimony?

17 A. I'm saying a couple of things. I'm not suggesting that
18 the company go seek a base rate. It has a right to seek a base
19 rate case. At this point in time, based on factors we have been
20 told, it's not clear that they would need a base rate.

21 Q. That's your testimony in surrebuttal that shows the
22 company has \$36 million in cash.

23 A. Yes.

24 Q. If you include \$18 million grant-back and the \$55 million
25 or so natural gas storage payment deferral.

1 A. \$56 million, yes.

2 Q. You're right. That's what you're referring to on that
3 basis?

4 A. That's correct.

5 Q. You're including the grant-back as a source of cash
6 working capital in that answer?

7 A. So does Mr. Bogdonavage.

8 Q. In the past, haven't you testified that PGW's owner, the
9 City of Philadelphia, should make equity infusions into the
10 company to pay down short-term debt?

11 A. Looking at the \$18 million grant-back--

12 Q. With the \$18 million cash working capital, you reduce the
13 amount \$18 million that the city grants back, it doesn't get any
14 more cash working capital than it would have had before?

15 A. No, it does because before it would pay \$18 million and
16 not get anything back.

17 Q. If the company were going to the Commission to get \$18
18 million of rate relief to improve their cash working capital and
19 \$18 million from the City was granted back, it could presumably
20 use the \$18 million to pay down short-term debt; is that right?

21 A. Even without any Commission action, it could always use
22 any available cash to pay down debt if it felt it was prudent to
23 do so.

24 Q. If it has \$18 million at the end of the fiscal year, it
25 will not be able to pay down debt, would it?

1 A. I would not expect.

2 Q. Every year?

3 A. It's a revolving line. It would be applied presumably
4 against the tax-exempt paper but might turn around two weeks
5 later and be utilized for something else.

6 (Whereupon, a brief break was taken.)

7 JUDGE RAINEY: Let's go back on the record.

8 BY MR. CLEARFIELD:

9 Q. If you turn to page seven of your surrebuttal, lines nine
10 through twelve. You reference a number of things that have
11 happened. This is comparable to your answer. You mentioned a
12 number of positive things, the City's action to forgo its \$18
13 million dividend from PGW, the company's gas supply, and
14 potential refinancing savings. Do you see that?

15 A. Yes.

16 Q. Are you referring to the storage deferral arrangement
17 discussed by Mr. Bogdonavage, \$56 million deferral arrangement?

18 A. Yes.

19 Q. Is it your testimony that that was the appropriate action
20 for PGW to take, to husband its cash working capital?

21 A. From a cash flow or cash management point of view,
22 I don't know the terms of it, but such an action would be
23 reasonable. It does, however, have some issues on its impact on
24 the cost of gas basically.

25 Q. Do you know how much it will cost the company overall?

1 A. No.

2 Q. You also mentioned potential refinancing savings?

3 A. Yes.

4 Q. What do you mean?

5 A. The company indicated they had the ability or the
6 potential to do some refinancing.

7 Q. So, you have the company taking actions to try to husband
8 cash working capital by gas storage deferral, attempts to
9 refinance and obtain savings that way. You indicated you think
10 the company is doing what it can in terms of trying to collect
11 from customers.

12 Let me ask you this about gas costs: Are you
13 aware, Mr. Lelash, that PGW presently has the second-lowest gas
14 cost in the Commonwealth based on CGR, PCG filings?

15 A. GCR basis or all ends?

16 Q. GCR basis.

17 A. I did see schedules that indicated it wasn't the worst.

18 Q. Would you accept it, subject to check?

19 A. It's in the record. I forget what the ranking was but
20 the data was there. It was neither the best nor the worst.

21 Q. If we've done all of these things and still have a
22 liquidity shortfall because of an inability to get cash
23 collections up to historical levels, what else are we supposed
24 to do other than turn to rate payers?

25 A. I don't know that we've gotten the full impact of these

1 things. Let's take for the moment, not an assumption of my
2 opinion, but the initial estimate that the company will end the
3 year somewhere between \$30, \$31, \$36 million dollars. Given
4 what is anticipated over the next 12 months, you will get, as I
5 understand, another \$18 million grant-back this year. You would
6 hopefully, albeit expensive, have issued \$125 million of debt,
7 according to Mr. Knudsen, you're going to seek to get and
8 hopefully will get, albeit expensive, long-term financing.

9 That long-term financing will in essence, as the
10 company has shown in the past, given its considerable working
11 capital flexibility between the start of the year and end of the
12 year for fiscal year 2005.

13 Q. Those are dollars that have to be paid back by the end of
14 the year, or used for construction purposes?

15 A. I understand, but the company has been able to use that
16 in the past as a bridge for working capital, as I point out,
17 they will in fact get another \$18 million in August of 2005.

18 Q. If the company is not able to issue bonds at that level
19 or issue them at all, then that construction fund won't be
20 available; isn't that right?

21 A. I think.

22 Q. That's true, they're not going to have construction funds
23 if they don't have bonds?

24 A. From what I have been told. I have not seen a capital
25 budget or anything updated. But certainly, without incremental

1 financing capital expenditure programs would cease. You would
2 lose interim flexibility with those funds to use as working
3 capital.

4 Q. Again, we're hopeful, we're projecting we will reach
5 levels of 93 percent, but if the bottom falls out, we realize 86
6 percent, 86.7, as occurred FY '03, that will create a huge
7 liquidity shortfall, won't it?

8 A. If your assumption is correct, it will exacerbate the
9 situation.

10 Q. Where do we get the money if we don't go to rate payers?

11 A. You're now laying hypothetical on top of hypothetical.
12 Right now, the company's own numbers are showing it will have
13 adequate working capital through end of FY 2004.

14 JUDGE RAINEY: I'm sorry, FY 2005?

15 THE WITNESS: 2004.

16 BY MR. CLEARFIELD:

17 Q. I understand, but those numbers are based on an assumption
18 of a 90.5 collection rate or 93 collection rate at the end of
19 the year; isn't that right?

20 A. That's what -- it scares me when you say two different
21 collections, and end up at the same point, but, yes.

22 Q. If it's 86 percent, we're hoping it doesn't happen, that
23 will create a huge liquidity issue? However you want to
24 describe it, it will increase the company's liquidity shortfall
25 by some \$30 million approximately, wouldn't it?

1 A. As I suggest to you, there are some fall-back options
2 available. You're taking the -- look, if the company leaves
3 \$100 million on the table, they will have serious problems. The
4 issue, the best estimate, they will get better control over the
5 uncollectible percentage. They have some resources at year-end,
6 namely, somewhere in the low thirties as a cash reserve.

7 And I'm pretty confident that the company will be
8 able to go out and finance between \$125 and \$150 million, that
9 will certainly, were it to be closed this fall, as suggested by
10 the company, would give them more than adequate short-term
11 liquidity to get through the next winter.

12 Q. I understand your testimony, but if some of those things
13 don't happen, particularly collections rate, we end up with an
14 86 percent level, we don't have \$30 million in the bank, cash or
15 liquidity at the end of the year, we have zero, we only have
16 limited choices. We can go to rate payers in this kind of a
17 proceeding or ask for a base rate increase.

18 A. You keep ignoring something.

19 Q. Which is what?

20 A. If you finance \$150 million in August of this year, you
21 will not have a working capital problem in the winter of next
22 year.

23 Q. Mr. Lelash, has that construction fund ever been used
24 as a substitute for the need for an adequate amount of cash
25 working capital at the end of the year for PGW in any cases the

1 PUC decided?

2 A. It's been used to address extraordinary situations
3 where incremental working capital is needed, such as in the
4 hypothetical that you're suggesting, back to 84 percent
5 collectibility. If that's the case, I could reasonably assure
6 you, you will see new management in the company.

7 Q. That's not the question, the question is, ultimately the
8 only place PGW can go if those things happen, it does not feel
9 or does not have construction funds available, is to go and ask
10 either the Commission to raise its rates either in the context
11 of a base rate or some other mechanism. That's all I'm asking.

12 A. Having exhausted the things we've discussed, having
13 fallen down to 84 percent collectibility, the company would at
14 that point need to look to its owner for additional capital or
15 the Commission for additional rates.

16 Q. How long does it take to get base rate decisions from the
17 Commission? Isn't it a year from the time--

18 A. No, talking about circumstances that would be an
19 emergency, which already the company has availed itself of once
20 before. Certainly if there was a true indication of -- if all
21 of the things that you're suggesting, solutions were not present
22 and collections were extremely low, my guess is that under an
23 emergency type of format it would be less than a year.

24 Q. So now you're saying we can file an emergency rate
25 request? Is that what you're saying?

1 A. You're now four issues into the hypothetical, collections
2 will drop, nothing else is going to work, and we've gotten into
3 your hypothetical, what if we really need it. I'm suggesting
4 you could file an emergency rate -- I'm not saying you should,
5 but you could, and you would get rates quicker than one year.

6 That's all I said. It's your hypothetical.

7 MR. CLEARFIELD: That's all I have.

8 JUDGE RAINEY: Mr. Simms?

9 MR. SIMMS: No questions.

10 JUDGE RAINEY: Mr. Gray?

11 MR. GRAY: No questions.

12 JUDGE RAINEY: Mr. Bertocci?

13 MR. BERTOCCI: No questions.

14 JUDGE RAINEY: Mr. Hicks?

15 MR. HICKS: No questions.

16 JUDGE RAINEY: Anyone else? Thank you, Mr. Lelash,
17 you may stand down.

18 MR. KEENE: Your Honor, could I have a moment?

19 JUDGE RAINEY: Certainly.

20 MR. KEENE: That's all I have. I believed I
21 overlooked moving OCA Exhibit One into the record when I moved
22 for admission of Mr. Lelash's testimony. I would move in OCA
23 Exhibit One.

24 JUDGE RAINEY: Any objections? Hearing none, it's
25 so admitted.

1 (Whereupon, the document marked OCA Exhibit One
2 was received into evidence.)

3 JUDGE RAINEY: Let me swear you in, Mr. Knecht.

4 ROBERT D. KNECHT,

5 having been duly sworn, testified as follows:

6 JUDGE RAINEY: Provide your full name and spell
7 your last name for the record.

8 THE WITNESS: Robert D. Knecht, K-N-E-C-H-T.

9 JUDGE RAINEY: Mr. Knecht, by whom are you
10 employed?

11 THE WITNESS: Employed by the firm of Industrial
12 Economics, principal and treasurer of the firm. My business
13 address is 2067 Massachusetts, Cambridge, Massachusetts.

14 JUDGE RAINEY: Please proceed, Mr. Gray.

15 MR. GRAY: Your Honor, the OSBA has previously
16 distributed four separate documents, first document Direct
17 Testimony Exhibit of Robert D. Knecht is titled OSBA Statement
18 One, and included in that is OSBA Exhibit Number One. The next
19 document is OSBA Statement Number Two Rebuttal Testimony of
20 Robert D. Knecht. Third document OSBA Statement Number Three
21 Surrebuttal Testimony of Robert D. Knecht.

22 Per Judge's order, we distributed yesterday OSBA
23 Exhibit Number two, which was created by Robert D. Knecht in
24 response to your May fifth order.

25 DIRECT EXAMINATION

1 BY MR. GRAY:

2 Q. First question, do you have any additions or corrections
3 to any of these four documents?

4 A. I have three corrections that I would like to make. Let
5 me start with OSBA Statement Number One, page four, line ten.
6 The last time I checked, \$90 million minus \$55.7 million should
7 be \$34.3 million. OSBA Statement Number Three, my surrebuttal
8 testimony, on page eight, line eight, consistent with what I
9 said elsewhere in this testimony it should say, beginning at the
10 end of line seven, "PGW's historical poor performance, however,
11 is not due" -- primarily, add the word "primarily" -- "to local
12 economics and household income problems."

13 Staying with OSBA Statement Number Three, page
14 eleven, line two, the words "combined with" should be deleted
15 and the word "before" should be entered. The sentence reads as
16 corrected, beginning line one, "Mr. Bogdonavage also testifies
17 that improved collections performance before the City's
18 grant-back of \$18 million city payment will result in year-end
19 cash balance of \$13 to \$18 million." Those are my corrections.

20 MR. GRAY: Pursuant to stipulation, we would like
21 to move OSBA Statement Number One, Two, Three and OSBA Exhibit
22 Number Two into the record at this time.

23 JUDGE RAINEY: Subject to any timely objections,
24 any objections at this time? If not, so admitted.

25 (Whereupon, aforementioned documentation was

1 marked for identification and received in evidence.)

2 MR. GRAY: Mr. Knecht is available for cross.

3 JUDGE RAINEY: With regard to the exhibits under
4 OSBA Statement Number One I believe, Mr. Gray, you referred to
5 RDK Number One, it's my understanding it's also RDK-2, 3 and 4
6 as a part of the exhibits in that package as well?

7 MR. GRAY: Yes.

8 JUDGE RAINEY: Let me ask you at this point,
9 Mr. Knecht, to summarize the OSBA's position in this case with
10 regard to the CRRC?

11 THE WITNESS: My direct testimony, I laid out two
12 general areas of concern about the CRRC proposal. One was based
13 on the statistical analysis that Dr. Peach had done and I had
14 corrected, we worked out to our mutual satisfaction numerically,
15 is that when PGW's rates go up its collections rates go down.

16 In fact, when you run through the numbers, the
17 effect is quite significant, such that any kind of a rate
18 increase, whether it's related to gas costs or CRRC or a base
19 rate increase, or anything like that, unless PGW can change the
20 historic cycle of this falling collections rate when rates go up
21 is that it's going to collect something on the order of 50 to 60
22 cents on the dollar of every dollar of rate increase that they
23 try to impose. And that looking at the magnitude of the numbers
24 as presented in the original filing, we were looking at a huge
25 increase of rates to take into account that once you put this in

1 once, you were going to have to come back to do it again.

2 So, I was very concerned that any kind of rate
3 increase wasn't going to fix the problem, all it was going to do
4 is have this rate payer reaction, payments would go down, and
5 net gain would be a relatively small fraction of the increase.

6 I then went to part two of it, which said if the
7 Commission decides a rate increase is the way to go that I did
8 not believe the CRRC was a reasonable mechanism for imposing
9 that increase. There were a set of reasons that I laid out in
10 my direct testimony, including that it had a retroactive
11 rate-making aspect, and it had a single issue rate-making
12 impact, it created a disincentive, this is probably the most
13 important conclusion, that the CRRC creates a disincentive for
14 PGW to keep working on improving its collection rates.

15 A second important issue was that it's unfair to
16 small business and regular business classes in that they are not
17 the ones who are causing the problem or at least not primarily
18 causing the problem associated with poor collections.

19 There were a few other technical areas that I
20 included in there, and they are listed in my testimony.

21 JUDGE RAINEY: Mr. Clearfield.

22 MR. CLEARFIELD: Thank you.

23 CROSS-EXAMINATION

24 BY MR. CLEARFIELD:

25 Q. Good afternoon, Mr. Knecht. Let's start with page 11 of

1 your direct, lines one through four. You indicate in essence
2 that PGW should try to find alternative sources of funding for
3 the extensive public assistance programs that are currently
4 provided by PGW's paying customers. Do you see that?

5 A. Yes.

6 Q. Were you making that comment because you believe those
7 existing public assistance programs add to PGW's uncollectible
8 and cash receipts shortfall, uncollectible level and cash
9 receipts shortfall?

10 A. Certainly.

11 Q. A yes or no, then explain.

12 A. Yes, I do believe that because these programs cause the
13 rates for regular paying customers to go up. That's the measure
14 that we used, both Dr. Peach and I, in our statistical analysis
15 to evaluate how much impact on the collections rate.

16 Q. I'm confused. The senior discount is a 20 percent
17 discount for seniors that are currently receiving or are
18 grandfathered, is that right?

19 A. Yes.

20 Q. That means that if you bill for every dollar charged to
21 that customer, twenty cents is waived for that customer?

22 A. Twenty cents is waived for that customer and added into
23 the Universal Service Charge for regular customers.

24 Q. So the company charges a general body of rate payers an
25 additional twenty cents, you're saying that has the affect of

1 perhaps reducing cash receipts and increasing uncollectibles;
2 is that right?

3 A. Based on statistical analysis of historical behavior that
4 PGW experienced in the past, yes, that was the measure that we
5 were using, what regular residential rate payers were paying.
6 When those rates went up, related to a Universal Service Charge
7 increase going up, the collection rates fell.

8 Q. Doesn't it work in reverse, too, when you reduce rates to
9 seniors, doesn't it mean that the cash, the receipts level, for
10 those customers actually goes up because they're paying less?

11 A. I have not seen any analysis to that effect.

12 Q. Did you do an analysis to that effect before you put it
13 in your testimony?

14 A. No, because the analysis I put in my testimony is based
15 on what regular rate payers are paying. When these rates keep
16 going up collection rates keep falling.

17 Q. I'm trying to understand. You're saying you have not
18 determined at all whether in fact the rates go down, phenomenon
19 occurs in reverse, demand elasticity would actually increase our
20 receipts--

21 A. Perhaps I misunderstood your question. It sounds like a
22 different question. No, I believe I noted in here that this
23 mechanism does in fact work in reverse. That would be the great
24 benefit of being able to reduce costs or get alternative sources
25 of funding for these programs, which would allow basically a

1 multiplier affect on savings.

2 Because not only would you get cash which is
3 associated with alternative sources, but because you were able
4 to lower rates, based on historical behavior, you would get an
5 increase in collections rate.

6 Q. You have an increase over here, a decrease over here at
7 the exact same amount, isn't it a wash? Isn't it going to have
8 no effect on the company's cash working capital needs?

9 A. Associated with getting cash in from an alternative
10 source?

11 Q. You have a 20 percent discount for a group of customers,
12 they will pay less, and 20 percent increase for another group of
13 customers, if you have reduction for one group -- reduction in
14 receipts, increase in uncollectibles for customers that are
15 receiving increase, aren't you going to have a corresponding
16 decrease, dollar for dollar, for the customers receiving a
17 decrease?

18 A. I don't know that to be the case. In the specific case
19 of the Senior Citizens Discount, I don't know what the
20 collection rates look like.

21 Q. If that were the case, wouldn't that mean eliminating the
22 senior discount would have no effect on the company's overall
23 cash working capital and uncollectibles?

24 A. If we assume it has no impact. Yes, it has no impact.

25 Q. What I'm saying if in fact -- well if you reduce the rate

1 by 20 cents. why wouldn't you have corresponding increase in the
2 cash receipts level for the company? Isn't that your testimony,
3 there is a correlation between those two things?

4 A. There is a correlation between the regular rates and the
5 collection rates. That is the analysis that's in my testimony.

6 Q. Okay.

7 A. It's certainly possible that if all you have done is
8 shift costs from the senior citizens to other customers that you
9 would have an offsetting effect.

10 Q. Maybe you don't have an opinion, generally what I heard,
11 seniors are the best-paying customers, they actually pay their
12 bills the most.

13 A. That is why I like this example the best, if you raise
14 the rates for senior citizens, they pay the increase and if you
15 lower the rates for everyone else that would help the collection
16 rates. This would be the example that is best for demonstrating
17 that reducing that benefit might help PGW's cash working
18 capital.

19 Q. If we can find some other source of funding for seniors?

20 A. No, under the hypothesis that you put, senior citizens
21 are better payers, now you only say give a 15 percent discount,
22 senior citizens pay all of the increase, and you can pass it on
23 to other rate payers in the form of a rate decrease, you get the
24 benefit from senior citizens paying, plus you get the benefit
25 from the other rate payers increasing collection rates.

1 Q. You would agree as it stands now the fact that giving a
2 discount to certain customers at 20 percent, increasing other
3 rates 20 percent, all being equal, will not have an effect on
4 cash working capital and uncollectibles?

5 A. When you assume all things being equal and wave the
6 problem away, that's correct.

7 Q. I'm not waving the problem away. I'm saying having the
8 same affect on one group of customers, an increase, we have a
9 corresponding effect on the other group of customers, they are
10 balancing each other out; isn't it right?

11 A. It's possible. There is no analysis to that effect.

12 Q. Let's look at CRP.

13 A. Yes.

14 Q. What is that?

15 A. Customer Responsibility Program.

16 Q. Those are customers who pay, instead of the actual gas
17 bill, they pay based on a percentage of their income, is that
18 right?

19 A. Yes.

20 Q. Where does the difference between the amount that they
21 pay and the amount of their actual bill, where does that come
22 from, to compensate the company for the amount of charges that
23 they are billing the customers?

24 A. Could you ask the question again?

25 Q. Where does the subsidy that's provided to low-income

1 customers through the CRP program come from?

2 A. It's included in the calculation of the UCS.

3 Q. So that's another example of raising rates for a general
4 body of customers, but lowering rates for a specific group of
5 customers, low-income customers, who couldn't otherwise afford
6 gas service, isn't that right?

7 A. Yes. There is no change in the overall company revenue
8 requirement.

9 Q. No change as a result--

10 A. With shifting.

11 JUDGE RAINEY: Let me interject, because you're
12 obviously now aggravating the court reporter and that is not
13 good. Why don't we do this? Mr. Clearfield, if you will repeat
14 your question and then give Mr. Knecht full opportunity to
15 answer the question.

16 MR. CLEARFIELD: I will. Your Honor, if you will
17 allow me, I apologize for aggravating the court reporter.

18 BY MR. CLEARFIELD:

19 Q. Mr. Knecht, isn't it true, we're in the same situation,
20 increasing one group of customer rates, decreasing another group
21 of customer rates, it shouldn't have any net effect on the
22 company's overall cash working capital or uncollectible level,
23 isn't that right?

24 A. That will depend, I believe, on the relative collection
25 rates for those two groups of customers.

1 Q. When you made your statement in your testimony, did you
2 examine the relative collection rates for those two groups of
3 customers?

4 A. I did not.

5 Q. Let's turn to a statement you made in your surrebuttal
6 where you chastise PGW for indicating that the social programs
7 that they're providing are in many respects outside of their
8 control in terms of providing programs. Do you remember that
9 testimony, page nine?

10 JUDGE RAINEY: Do you have a line?

11 MR. CLEARFIELD: It's in the middle.

12 THE WITNESS: I have it, Mr. Clearfield.

13 JUDGE RAINEY: Go ahead.

14 THE WITNESS: I'm not sure that chastising the
15 company would be the way I would describe what I have stated
16 here.

17 MR. CLEARFIELD: Maybe it's the way--

18 JUDGE RAINEY: Let's not get into this again.

19 Mr. Clearfield, don't step on his answer. Let him fully answer.
20 Then you can ask the next question. Have you finished your
21 answer, Mr. Knecht?

22 THE WITNESS: Yes.

23 JUDGE RAINEY: Ask your question, Mr. Clearfield.

24 BY MR. CLEARFIELD:

25 Q. Mr. Knecht, are you aware of how legally the Senior

1 Citizen Discount that's provided to customers that are receiving
2 the discount as of September first, 2003 could change?

3 A. Yes, generally.

4 Q. And how, if the company wanted to have that changed or
5 eliminated, who would have to approve the change, if you know?

6 A. My understanding, that that needs to be approved by the
7 City under the Restructuring Act.

8 Q. Who in the City or what entity?

9 A. You have gone beyond what I'm willing to comment on.
10 I don't know.

11 Q. You heard that Mr. Hicks, who represents Philadelphia
12 City Council, did you hear him indicate that earlier?

13 A. Yes.

14 Q. Is City Council the same as the City, in your mind?

15 A. I don't know.

16 Q. So when you said here we're trying to have it both ways,
17 because we suggested that Senior Citizen Discount would only be
18 eliminated if City Council approved it, you didn't know whether
19 the City Council or the City were the same thing?

20 A. I don't know all the dynamics. However, trying to
21 separate utility from its owner, in some areas and then claim
22 that you're entitled to special treatment as a municipally-owned
23 utility seems to me, from my non-legal perspective, to be
24 wanting to have it both ways.

25 Q. From your non-legal perspective, do you think PGW could

1 instruct City Council to eliminate the grandfathered Senior
2 Citizen Discount?

3 A. I'm struggling -- do I think?

4 Q. Could we force them to do that?

5 A. When you say PGW, I'm not sure who you mean.

6 Q. Well, I don't mean me. The company, Philadelphia Gas
7 Works, do they have the power to instruct or induce or force
8 Philadelphia City Council to vote to eliminate the Senior
9 Citizen Discount for grandfathered seniors?

10 A. I don't believe that the executive management of the
11 Philadelphia Gas Works could do that. When you say PGW, to me
12 that means the City.

13 Q. Who in the City could instruct or force City Council to
14 do that?

15 A. Presumably, I will take your representation it's City
16 Council that has authority to do that, City Council could do it.

17 Q. So only City Council could do it?

18 A. Which owns PGW. It's the owner of PGW.

19 Q. City Council owns PGW?

20 A. The City owns PGW. It has the authority to act as the
21 shareholder.

22 Q. So it's the City Council who owns PGW, and they have the
23 authority to do away with the Senior Citizen Discount? That's
24 your testimony?

25 A. Well, no, I was accepting your representation that City

1 Council could do it. Under that representation, the City
2 Council could take the Senior Citizen Discount away.

3 Q. Let's turn to the CRP. Is the CRP consistent with PUC
4 requirements; if you know?

5 A. My understanding --

6 Q. A big sigh?

7 A. A sigh for the record. My understanding is that the CRP
8 is consistent with the Commission's requirements with respect to
9 customer assistance programs. My understanding, also based on
10 PGW evidence that I have seen in the past, that it's much more
11 extensive, much more expansive, has much greater participation
12 rates than the customer assistance programs at other utilities.

13 So that is it consistent with the Commission's
14 regulations, yes? Is it large and expensive and expansive
15 compared to other utilities, yes?

16 Q. It has more participants, that's one thing you mentioned,
17 than other gas companies, true or not true?

18 A. I believe that to be true.

19 Q. What specific respect is it more extensive?

20 A. My understanding is that the participation rates of
21 low-income customers is relatively high in PGW's programs
22 compared to other programs.

23 Q. It gets to the size of the program. Other than size of
24 the program, are there more program benefits provided under
25 PGW'S program than programs recommended or authorized by PUC

1 guidelines, if you know?

2 A. Well while I disagree with that characterization it only
3 goes to size of the program, I don't know whether there is any
4 difference in the relative value of benefits of PGW's program
5 per customer.

6 Q. Do you know--

7 A. Than any other NGDC program.

8 Q. Do you know whether for PGW to eliminate or substantially
9 reduce the program it would need PUC approval?

10 A. Again, speaking from a non-legal perspective but
11 recognizing provisions of the program were adopted in the
12 Restructuring Proceeding, I would assume you would need PUC
13 approval.

14 Q. Let's turn back to your direct testimony, page 20, on
15 actually page 19. You make the statement, lines 5 through 10,
16 that "While it is probably more difficult to collect utility
17 bills in lower income areas than higher income areas,
18 nevertheless it's unlikely that the primary reason that PGW is
19 unable to achieve reasonable collection rates is due to lower
20 household incomes." Do you see that?

21 A. Yes.

22 Q. You repeated a statement of a similar nature in your
23 surrebuttal.

24 A. I did.

25 Q. Am I right that that statement is based primarily on your

1 comparison of the median incomes and uncollectible levels for
2 Philadelphia, PGW, and Erie that you show on page 20?

3 A. When this particular statement was written, it was based
4 on a general understanding of what uncollectible rates are at
5 other NGDCs as a percentage of revenues, based on the specific
6 experience with national fuel gas. It was also compared to,
7 when I wrote this, the collection rate of 80 to 84 percent that
8 appears in Dr. Peach's supplemental testimony as what he
9 expected the collection rate to be at PGW.

10 So we were comparing a rate that Dr. Peach
11 testified he felt that they had very little potential to
12 improve, somewhere in the 80 to 84 percent range. When I
13 compared that to what is going on at other utilities it seemed
14 to me that a problem of that magnitude was much greater than
15 would be explained only by income differentials.

16 Subsequent to that, and the note in my surrebuttal
17 testimony recognizes that since that time through the collection
18 efforts that PGW has undertaken rather, come out at 80 to 84.
19 Mr. Bogdonavage is forecasting 93 percent, and Mr. Knudsen is
20 forecasting 90 or 91 percent, which to me is a huge improvement
21 and validation that the business as usual scenario that I was
22 looking at at the time, and in Dr. Peach's testimony was not
23 reasonable, and that PGW could in fact make significant progress
24 by undertaking collections efforts.

25 Q. I understand your testimony. Let's go back, I think you

1 mentioned NFD somewhere in that answer, you had a Table RDK-1,
2 where you compared Erie and Philadelphia, do you remember that,
3 a key comparison was 1999 median income, you discussed in your
4 testimony, in your opinion that Philadelphia median income was
5 actually higher than the income in Erie based on census data.
6 Isn't that what you testified?

7 A. I would say key number in table RDK-1.

8 JUDGE RAINEY: Let me note for the record you're
9 referring to page 20 of direct testimony; is that correct?

10 MR. CLEARFIELD: Yes.

11 THE WITNESS: Yes, thank you. Rather than
12 describe household income as the key criteria, key important
13 figure, I would say cost per customer of uncollectible is the
14 key number in that table.

15 BY MR. CLEARFIELD:

16 Q. But you indicate that the comparison is valid on page
17 12, line 12, median household incomes are lower in Erie than
18 Philadelphia. Do you see that?

19 A. Yes.

20 Q. Those numbers are not adjusted for cost of living?

21 A. No, they aren't.

22 Q. If you adjusted per cost of living, wouldn't you agree
23 median household income on a real basis adjusted for cost of
24 living would be approximately \$6,000 lower in Philadelphia than
25 in Erie?

1 A. I understand that that's Dr. Peach's calculation. I was
2 unable to verify those cost of living numbers independently,
3 but I don't have any evidence to offer you in cross-examination
4 that is counter to that.

5 Q. So--

6 A. So it's the evidence on the record.

7 Q. --if that in fact is the case, a customer in Erie will
8 have \$6,000 more in income to pay its bills, including utility
9 bills, than a customer, a comparably situated customer, earning
10 a median income in Philadelphia; isn't that right?

11 A. I don't recall.

12 Q. Well, subject to check, you can check that afterward.

13 A. Well why don't we look at it.

14 Q. Okay. I think it's page six.

15 A. Thank you.

16 JUDGE RAINEY: What are we referring to?

17 THE WITNESS: We're looking at Dr. Peach's
18 rebuttal testimony, which is Statement CRRC-4R. We're on page
19 six, Footnote Four.

20 JUDGE RAINEY: Is there an outstanding question?

21 MR. CLEARFIELD: I'm allowing Mr. Knecht to review
22 the footnote. I would ask if he would agree based on Dr. Peach's
23 testimony, real Philadelphia income adjusted for cost of living
24 increase is approximately 21 point \$7,000, compared to the Erie
25 median income of 28 point \$3,000?

1 THE WITNESS: I will try to shorten this on a hot
2 afternoon. Let me say I don't know that calculations have been
3 done exactly right. The magnitude of the difference in real
4 income is on the order of 20 percent, that it's likely that the
5 cost of living adjusted incomes in Philadelphia are lower than
6 the cost of living adjusted incomes in Erie by some magnitude.
7 I am not sure what it is.

8 BY MR. CLEARFIELD:

9 Q. Isn't that a factor you should have taken into account
10 when you made this comparison?

11 A. If I were to do the calculation again, and do this, and
12 try to do a fair comparison with other cities, I believe that I
13 would try to make a cost of living adjustment. I don't believe
14 it's going to make any difference, at least in respect of the
15 Erie comparison to the overall impact, which is that magnitude
16 of uncollectibles of PGW are substantially higher than in Erie.

17 If I had done this exhibit on a cash basis, which
18 I probably should have, because PGW is a cash-flow regulated
19 utility, I believe it would be worse.

20 Q. What is NFG's cash receipts or collections factors for
21 Erie?

22 A. For Erie, in particular, as I said in here, this is an
23 estimate, it's a rough estimate at best.

24 Q. It says uncollectibles on your chart. Aren't
25 uncollectibles and cash receipts percentages the same thing in

1 your mind?

2 A. In making this comparison and comparison in Table S1,
3 surrebuttal testimony, I tried to compare things on a comparable
4 basis. NFG when it appears before the Public Utility Commission
5 asks for uncollectible allowance, uncollectible allowance is
6 what is appropriate for a rate-of-return regulated utility.
7 It's what appears on accrual books as an expense.

8 PGW is a cash-flow regulated utility and therefore
9 its cash under-collections is the amount that appears in its
10 rate. So what I'm comparing here, costs that are being assigned
11 to rate payers for PGW and costs that are being assigned to rate
12 payers for NPG.

13 Q. Are you testifying that in any PGW proceeding at the
14 PUC, the PUC gave PGW an allowance recognizing a cash receipts
15 shortfall; if you know?

16 A. I don't know of any specific allowances built that way.
17 However, when push comes to shove and we started looking at the
18 cash working capital balance that PGW needs it must necessarily
19 reflect the cash collections rate, whether or not that's picked
20 up separately from what the uncollectible number is doesn't
21 matter at all. The issue is how much of its revenue PGW
22 actually collects in determining that number in the bottom right
23 hand corner of Mr. Bogdonavage's exhibits.

24 Q. Has PGW received uncollectible expense allowances from
25 the PUC in its rates; if you know?

1 A. My understanding based, on Mr. Weakley's testimony, yes,
2 that it has. In its last fully litigated base rate there was a
3 number that related to uncollectibles. However, I wasn't a
4 participant in that proceeding. I don't know how the bottom
5 line number for need for cash working capital was determined.

6 On a hypothesis it was done based on cash flow
7 statement, it must have reflected cash receipts percentage.

8 Q. Would you know whether it would have anything to do with
9 write-offs or historical levels of write-offs for the company?
10 Do you know if PGW has a writeoff either gross or net write-off
11 percentage? Strike the first question.

12 A. It certainly calculated a write-off percentage for PGW.
13 When you say write-offs we need to be careful to decide whether
14 we're talking about uncollectible expenses or actually writing
15 off receivables that have previously been like uncollectible and
16 have now been deemed to have no hope of being paid and are being
17 written off.

18 Q. Did you make any investigation of whether PGW had such a
19 write-off level either for a total company or for residential
20 company before you prepared your direct or rebuttal testimony?

21 A. No, nor did I think that was necessary for a cash flow
22 regulated utility.

23 Q. Did you hear the testimony of Dr. Peach when he indicated
24 that PGW's residential gross write-off level was in the
25 neighborhood of eight and a half to nine percent?

1 A. I did hear it.

2 Q. Is that a level that you would find consistent with a gas
3 company that operates in a solely urban environment, with a
4 large number of low income customers, to find themselves in
5 arrears, if you know? If you don't have an opinion you can just
6 say so.

7 A. The first, the number.

8 Q. Okay.

9 A. May very well be correct. I have no way to validate it
10 one way or another. It seemed low for me for PGW when I looked
11 at PGW's overall level of uncollectibles, which seemed to be on
12 the order of seven or eight percent for the company as a whole,
13 and therefore I would have expected that ratio to be somewhat
14 higher when applied only to residential class. I don't know how
15 Dr. Peach calculated that number. It seems low to me.

16 So, overall would a uncollectibles rate of seven
17 or eight percent seem reasonable for a urban utility with a high
18 low-income population, I don't really know. It still seems high
19 to me.

20 Q. Were you involved in the 2001 base rate case for PGW, if
21 you remember?

22 A. The one resolved by Black Box Settlement?

23 Q. No.

24 A. The one before that, no, I was not.

25 Q. You mentioned in your summary this afternoon, also in

1 direct testimony, your primary opposition to the CRRC, to the
2 extent that CRRC raises rates it will increase our -- decrease
3 our collections rate.

4 I guess in a sense it's a, I hate to use self-
5 fulfilling prophecy, I think in surrebuttal, so on and so on,
6 each time we raise rates, we're going to lose a little bit of
7 collections. Is that a fair summary?

8 A. If we went to the crux of it, which I think you're
9 driving at, that's my biggest concern, a CRRC mechanism, which
10 if the company's collections rates fall below 55.7 million is
11 going to provide a dollar per dollar end rate relief, it's going
12 to take away the incentive that PGW has to go after the problem
13 which it has to collect its bills.

14 If I had to put my finger on the most important
15 concern it would be that it's going to deflect Mr. Knudsen's
16 what sounds like Herculean efforts to solve this problem, and
17 that he's looking at a lot of things that are extremely
18 aggressive, including going after Bureau of Consumer Services
19 rules in order to address this huge problem.

20 My biggest concern that this would be, that this
21 would take away incentive both on the part of Mr. Knudsen and
22 executive staff as well as the people in the government of
23 Philadelphia who have some influence over it to fix this
24 problem.

25 Q. Mr. Knecht, you heard the testimony Mr. Knudsen, did you

1 have any doubt that he was sincere in his statement that he was
2 making about attempting to do everything possible to collect
3 every dollar that was possible?

4 A. No, I do not doubt at all that he's sincere. I wish he
5 had started sooner.

6 Q. That's a fair point. Is there any -- can you honestly
7 say that was not one of the most incented people that you ever
8 heard testify? Do you have any doubt -- didn't he express an
9 absolute need and requirement to increase collections beyond
10 historical levels in order to have the company survive? Isn't
11 that a fair statement of his testimony?

12 A. I will skip the first question. Go to the second one.

13 Q. That's fair.

14 A. Yes, he sounds like he's aggressive, sounds like he's
15 doing all of the things that he needs to have done. What I
16 would hate to have happen is to take away the incentive that he
17 has, and everyone else involved in decision making with PGW, has
18 as a result of the current crisis.

19 Q. You believe if PUC grants this CRRC mechanism all that
20 incentive will disappear notwithstanding his testimony?

21 A. It's not my testimony all of it would disappear. Some of
22 it would likely disappear the way the mechanism is structured,
23 speaking from hard number perspectiv, not impassioned speech of
24 Mr. Knudsen.

25 If cash under-collections get greater than 55.7

1 million every dollar that PGW earns by going out and collecting
2 its bills serves only to reduce the CRRC, they don't really gain
3 anything by trying to improve collections as a result of that
4 mechanism.

5 Q. Now I'm confused. You disagree that to extent that PGW
6 is able to achieve a collection rate that exceeds the target
7 level in the CRRC that those dollars will go to the company to
8 add to its cash working capital, available cash working capital?

9 A. As the proposal is structured improving the collections
10 rate such that the under-collections are less than 55.7 million
11 the difference would be retained by PGW.

12 How PGW would use that amount is beyond anything
13 that I can opine on. But remember my example or what I said in
14 the prior answer, which was if collection rates are such that
15 under-collections are greater than 55.7 million there is very
16 little cash incentive or a much smaller cash incentive to
17 improve collections rates than there would be if there were no
18 such mechanism or would be if there would be a base rates
19 increase or even if Mr. Weakley's mechanism were in place.

20 Q. If the company provided assurances that any dollars over
21 the 55.7 target level would be used to pay down short-term debt
22 would that change your opinion about the fairness of the
23 clause?

24 A. No. Let me explain. First, not related to fairness, my
25 big concern would be loss of incentive to improve collections

1 rates. Second when it turns to fairness because of the way the
2 mechanism is implemented I believe it's unfair to the business
3 classes because it's denying them an opportunity to come in
4 before the PUC and try to rectify a historical--

5 Q. Have they been so successful in the past?

6 MR. CLEARFIELD: Strike that, no further questions.

7 JUDGE RAINEY: Mr. Simms?

8 MR. SIMMS: No questions.

9 JUDGE RAINEY: Mr. Keene?

10 MR. KEENE: No questions.

11 JUDGE RAINEY: Mr. Hicks?

12 MR. HICKS: No questions.

13 JUDGE RAINEY: Mr. Bertocci?

14 MR. BERTOCCI: No questions.

15 JUDGE RAINEY: Anyone else have any questions?

16 Redirect, Mr. Gray?

17 MR. GRAY: Could you give us a moment?

18 (Whereupon, a discussion was held off the record.)

19 MR. GRAY: Thank you. No redirect.

20 JUDGE RAINEY: With that, Mr. Knecht, you may
21 stand down. I guess that concludes the witnesses to be taken up
22 here today. What is the status of the matter with Mr. Bridges
23 and Mr. Hinerman for Philadelphia Housing Authority?

24 MR. STUNDER: We came to a stipulation. They have
25 not returned. They may be thinking the hearing is going on

1 until tomorrow.

2 JUDGE RAINEY: All right.

3 MR. STUNDER: I can only guess. I don't have the
4 stipulation. I gave it to them to type up. I would not object
5 if they provide it to Your Honor tomorrow, and put it on the
6 record. It depends on the other parties. I have not seen it.
7 I don't know how you want to handle it.

8 JUDGE RAINEY: As it stands now they still
9 anticipate putting on a witness?

10 MR. STUNDER: We came to a stipulation. I'm sorry
11 I did not make it clear.

12 JUDGE RAINEY: So, you came to a stipulation?
13 They have agreed to that?

14 MR. STUNDER: I left it with them. We were
15 handwriting it. I left it with them to word process it, they
16 said they would be back at the end of the day or tomorrow
17 morning.

18 JUDGE RAINEY: Then they will be providing me
19 with written testimony that has been stipulated to by PGW and
20 the other parties?

21 MR. KEENE: We have not seen it.

22 MR. STUNDER: It's a stipulation that PHA wanted.

23 JUDGE RAINEY: Let me ask you this: Does it
24 require that the parties come back here tomorrow?

25 MR. STUNDER: Not at all. If parties would like

1 to see it via E-mail or fax. It has to be at their option.

2 MR. HICKS: May I suggest since you guys have
3 worked on it, may I suggest you E-mail it to us?

4 MR. STUNDER: I wanted to make it clear, it's
5 something PHA wanted. We were accommodating PHA. It's not
6 something that PGW, PGW feels any different about it, let's put
7 it that way. So, if we want to take care of it that way the
8 parties agree to that, that's fine.

9 MR. HICKS: I would be willing to agree to the
10 extent that the record needs to be left open sufficiently
11 however long to get the statement in the record, we would be
12 willing to agree to it.

13 JUDGE RAINEY: And the other parties as well
14 consent to that?

15 MR. KEENE: That's fine.

16 MS. MINICAVAGE: That's fine.

17 MR. KEENE: We would reserve our right to
18 cross-examine the witness.

19 JUDGE RAINEY: So there may be a need to come back
20 to the hearing room in order to cross the witness?

21 MR. STUNDER: I would suggest, Your Honor, maybe
22 by telephone since many of the parties are in Harrisburg.

23 JUDGE RAINEY: I would hope the parties can work
24 with PHA. It's unfortunate the other parties did not have an
25 opportunity to be in on the stipulation so they could work on

1 the document, so the document is agreeable to them as well.

2 I am hoping if it's not agreeable to the parties
3 the parties can work with PHA and attorneys in order to get the
4 document in a manner which is acceptable to everyone, and we
5 don't have to come back to this in terms of cross-examining a
6 witness since we had established both today and tomorrow in
7 order to do that. So I am hopeful that will be the case.

8 I understand Mr. Stunder, you will circulate that
9 document to all of the parties. I would ask that the parties if
10 they are not agreeable, work with PHA to get it to the point
11 where they are agreement with it so it can be submitted into the
12 record without the need to have to come back here or by
13 telephone to conduct cross-examination. Is that agreeable?

14 MR. HICKS: That's fine.

15 MR. KEENE: That's fine.

16 JUDGE RAINEY: Now with respect to other matters,
17 it's my understanding then that by next Tuesday, the 18th, I
18 will have a GCR settlement document in hand or at least some
19 update with regard to where we are with regard to that. The
20 parties also will have to check with those active parties who
21 are not here today to get either their agreement or
22 non-opposition or get their particular position with regard to
23 the GCR settlement.

24 Now with respect to the fact that an outstanding
25 Public Input Hearing is to be held in the Northeast, I'm

1 concerned about timing and notice, Mr. Keene, for such Public
2 Input. Since talking about doing that at some point next week
3 I would ask that you would be in contact with Representative
4 Kenny's office tomorrow, and to the extent that you're able to
5 get some kind of understanding with him as to where that Public
6 Input hearing will be held, time and date for that, and also be
7 in contact with the other parties, then to be in contact with me
8 by Thursday of this week, that's the 13th, and update me as to
9 where we are with regard to the Public Input Hearing.

10 MR. KEENE: Yes.

11 JUDGE RAINEY: I want to make sure that the ball
12 is not dropped with respect that. With respect to briefs in
13 this case, I did address briefs in the prehearing order that's
14 dated March 17th, 1004. The parties are to refer to that.
15 Let me briefly recite from that. It states that briefs, main
16 briefs, in this case are due in hand to the Presiding Officer
17 and parties by May 24th, 2004, and that reply briefs are due in
18 hand to the Presiding Officer, and served on the parties by June
19 first, 2004.

20 Briefs must follow the content and form for briefs
21 as set forth in 52 PA Code Section 5.501. Briefs must include
22 proposed findings of fact, conclusions of law and ordering
23 paragraphs. Briefs shall be as concise as possible, and shall
24 be limited to 60 pages. Any unpublished opinions, decisions and
25 policies cited in the brief must be attached to the brief.

1 MR. CLEARFIELD: Your Honor, off the record?

2 (Whereupon, a discussion was held off the record.)

3 JUDGE RAINEY: Let's go back on the record.

4 It was suggested that the proposed findings of fact or proposed
5 conclusions of law, proposed ordering paragraphs be an appendix
6 to the briefs. That's fine. Again, I stress that the parties
7 be as concise as possible with respect to their briefs.

8 I think that takes care of the matters that I
9 wanted to bring up at this particular point. Are there any
10 other matters which we need to go over at this time?

11 Mr. Clearfield?

12 MR. CLEARFIELD: I don't believe so.

13 JUDGE RAINEY: Mr. Simms? Mr. Gray?

14 MR. SIMMS: No.

15 MR. GRAY: No.

16 JUDGE RAINEY: Then we know what we need to do
17 from here. If there is nothing further, then this hearing is
18 adjourned.

19 MR. HICKS: Thank you.

20 MR. CLEARFIELD: Thank you.

21 MR. BERTOCCI: Thank you.

22 MR. SIMMS: Thank you.

23 (Whereupon, at 5:15 p.m. the hearing was
24 adjourned.)

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