

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, :
 :
 v. :
 :
 Philadelphia Gas Works :
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 :
 Petition of Philadelphia Gas Works to Establish a :
 Case Receipts Reconciliation Clause :

R-00049157

P-00042098

SECRETARY'S BUREAU

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MOTION FOR CONSOLIDATION

Pursuant to 52 Pa. Code §§ 5.81 and 5.101, Philadelphia Gas Works ("PGW") requests that its petition to establish a Cash Receipts Reconciliation Clause ("CRRC"), filed with and as a companion to PGW's 2004 Gas Cost Rate ("GCR") filing, be consolidated for hearing and disposition with its 2004 GCR proceeding because both proceedings involve common questions of law and fact.

In support of its request, PGW states as follows:

1. Section 5.81 of the Commission's regulations provides that the Commission may order proceedings involving a common question of law or fact to be consolidated.

2. The proposed CRRC and PGW's 2004 GCR proceeding involve common questions of law and fact.

(a) The proposed CRRC is directly related to and necessitated by the recent large increases in natural gas prices.

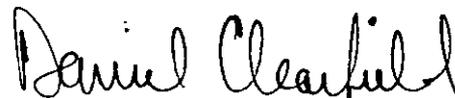
(b) The CRRC is being filed with PGW's 2004 GCR filing and is proposed as a companion to PGW's existing GCR.

(c) The proposed CRRC would track the GCR in most material respects, such as filing dates and time periods, and the use of historical and projected amounts of actual gas prices, sales, billings and receipts.

(d) Also, differences between projected and actual cash receipts with billed revenue would be reconciled in the same manner as the GCR.

Accordingly, PGW requests that its petition to establish the CRRC be consolidated with its 2004 GCR filing and assigned to the same Administrative Law Judge for hearing and disposition.

Respectfully submitted



Daniel Clearfield, Esq.
Wolf, Block, Schorr and Solis-Cohen LLP
212 Locust Street, Suite 300
Harrisburg, PA 17101
(717) 237-7173

OF COUNSEL:

Abby Pozefsky, Esq.
Greg Stunder, Esq.
Philadelphia Gas Works
800 West Montgomery Ave.
Philadelphia, PA 19122

Dated: March 1, 2004



ORIGINAL

OFFICE OF CONSUMER ADVOCATE

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IRWINA. POPOWSKY
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March 15, 2004

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
P.O. Box 3265
Harrisburg, PA 17120

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SECRETARY'S BUREAU

Re: Pa. Public Utility Commission
v. Philadelphia Gas Works
Docket No. R-00049157
Petition of Philadelphia Gas Works Regarding
Cash Receipts Reconciliation Clause
Docket No. P-00042090

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of the Answer to Philadelphia Gas Works' Motion for Consolidation of the Office of Consumer Advocate in the above-referenced proceeding.

Copies have been served on all parties as per the attached Certificate of Service.

~~DOCKETED~~
MAR 16 2004

Sincerely yours,

Stephen J. Keene
Senior Assistant Consumer Advocate

Enclosures

cc: All parties of record
78017

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

Pennsylvania Public Utility Commission

Docket No. R-00049157

v.

Docket No. P-00042090

Philadelphia Gas Works

OFFICE OF CONSUMER ADVOCATE'S
ANSWER TO PHILADELPHIA GAS WORKS'
MOTION FOR CONSOLIDATION

SECRETARY'S BUREAU

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I. INTRODUCTION

On March 1, 2004, Philadelphia Gas Works ("PGW" or "Company") submitted its annual Purchased Gas Cost ("PGC") in accordance with Section 1307(f) of the Public Utility Code, 66 Pa.C.S. §1307(f), and the regulations of the Public Utility Commission ("Commission" or "PUC") at 52 Pa.Code. §53.64 *et.seq.* Concurrently, PGW filed a *Petition to Establish a Cash Receipts Reconciliation Clause* ("CRRC Petition"). In its CRRC Petition, the Company seeks to establish a mechanism to reconcile actual uncollectible expense to the allowance for uncollectible expense that the Company recovers through base rates. Initially, PGW proposes that the CRRC recover \$47 million in additional revenues. Petition ¶22. The OCA opposes establishment of such a reconciliation mechanism and will file its Answer to the CRRC Petition in a timely manner, setting forth the reasons why such a proposal should be rejected. On the same date that it filed the CRRC Petition, the Company also filed a *Motion for Consolidation* ("Motion"), seeking to consolidate the CRRC Petition proceeding with this year's 1307(f) proceeding. For the reasons set forth below, the OCA submits that PGW's *Motion for Consolidation* should be denied.

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MAR 15 2004

II. ANSWER

In its *Motion for Consolidation*, the Company states that the CRRC Petition should be consolidated with the annual 1307(f) proceeding since it involves a common question of law or fact. Motion ¶1. In support of this contention, PGW claims that the proposed CRRC is directly related to and necessitated by the recent large increases in natural gas prices. Motion ¶2. The Company also cites to the fact that the CRRC Petition was filed with PGW's 2004 PGC filing and is proposed as a companion surcharge to PGW's existing PGC rate. Motion ¶2(b). Finally, PGW also claims that the proposed CRRC would operate similar to the PGC reconciliation in many respects. Motion ¶¶2(c) and (d).

The OCA submits that PGW's contention that its proposed CRRC and its annual reconciliation of gas costs pursuant to Section 1307(f) of the Public Utility Code involve common questions of law or fact is unsupported. PGW's annual reconciliation of gas costs is governed by Section 1307(f). That section provides for an annual review of a natural gas distribution company's purchased gas costs to ensure that they are consistent with Section 1318's least cost fuel procurement obligation. 66 Pa.C.S. §§1307(f), 1318. Section 1307(f) prescribes specific review and reconciliation periods. 66 Pa.C.S. §1307(f)(3). That section also requires the annual PGC investigation to be completed within a six-month period. 66 Pa.C.S. §1307(f)(1) and (2).

The expense that PGW proposes to reconcile—uncollectible expense—is traditionally recovered through a utility's base rates. It is not related to purchased gas cost procurement practices that are addressed in Section 1307(f) proceedings. Despite the fact that PGW claims that its uncollectible expense is directly related to increased gas costs, there are many other factors that also affect uncollectible expense that are not related to purchased gas costs. To isolate one of the causes

for increased uncollectible expense and use that as a basis for consolidation with the annual PGC proceeding is improper.

In addition, the Company's contention that this matter should be consolidated with the PGC proceeding since it was filed at the same time and is meant to be a companion surcharge to the PGC rate and operate similar to the PGC rate mechanism, does not provide a basis for consolidation. The Company unilaterally decided to file this Petition proposing the CRRC. It was the Company that chose the timing of the filing and the type of reconciliation mechanism to propose. None of the other stakeholders had any input into these decisions. The Company seeks to consolidate the CRRC Petition in order to fast-track its approval by the Commission on the expedited schedule provided for in 1307(f) proceedings. Section 1307(f) only requires that a natural gas utility's *PGC proceeding* be completed within six months of its filing. Nothing in the Public Utility Code requires expedited consideration of the CRRC Petition. PGW's proposed CRRC Petition seeks to recover an additional \$47 million in annual revenues from ratepayers that would ordinarily be addressed as part of a full base rate proceeding. Petition at 21. Such a proposal merits careful consideration and review. The parties should not be hamstrung by an expedited review of this proposal simply because the Company chose to file its Petition simultaneously with its annual PGC filing.

In addition, the annual PGC filing already includes various other charges that must be reviewed in the limited time afforded by Section 1307(f). For instance, both the Restructuring Surcharge and the Universal Service Surcharge are currently reconciled during the annual PGC proceeding. The parties must review and investigate the costs claimed in the Restructuring and Universal Service surcharges during the course of the PGC proceeding. This adds an increased

burden to the intervening parties during the annual review of PGW's purchased gas costs. All of this must be done in an expedited manner during the six-month PGC proceeding. To add an additional burden to this year's PGC proceeding would inhibit the abilities of the parties to fully and adequately investigate PGW's proposed CRRC surcharge.

Finally, the Administrative Law Judge in this proceeding has already issued Prehearing Order No. 1. Pursuant to that Order, the procedural schedule adopted in this proceeding must conclude with Reply Briefs being filed no later than June 1, 2004. Under this schedule parties must conduct a thorough investigation of PGW's purchased gas costs, Restructuring costs and Universal Service costs in a narrow time frame. To consolidate the CRRC Petition proceeding into this condensed schedule would make it impractical for the parties to conduct a meaningful investigation into the proposed CRRC. The OCA submits that a proposed \$47 million rate increase merits a more thorough review and investigation.

III. CONCLUSION

For the reasons set forth above, the OCA respectfully requests that the PGW Motion for Consolidation be denied.

Respectfully submitted,



Stephen J. Keene
Senior Assistant Consumer Advocate
Aron J. Beatty
Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
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(717) 783-5048

DATED: March 15, 2004

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SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00049157

Petition of Philadelphia Gas Works Regarding
Cash Receipts Reconciliation Clause
Docket No. P-00042090

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I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Answer to Philadelphia Gas Works' Motion for Consolidation, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 15th day of March, 2004.

SERVICE BY E-MAIL, FACSIMILE and INTEROFFICE MAIL

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Pennsylvania Public Utility Commission
Office of Trial Staff
P.O. Box 3265
Harrisburg, PA 17105-3265

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Philadelphia, PA 19103

Janet Parrish, Esq.
Philadelphia Gas Commission
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Philadelphia, PA 19102

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

MAR 15 2004

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Pennsylvania Public Utility
Commission, et al. :
Complainants :
v. :
Philadelphia Gas Works :
Respondent :

R-00049157

P-00042090

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ANSWER
FORMAL COMPLAINT

1. The Complainants are four membership consumer organizations, Action Alliance of Senior Citizens of Greater Philadelphia ("Action Alliance"), the Association of Community Organizations for Reform Now ("ACORN"), the Tenants' Action Group ("TAG") and the Consumers Education and Protective Association ("CEPA") (hereinafter collectively "Action Alliance et al.") who advocate on behalf of low and moderate income residential customers and consumers of the utility services of the Philadelphia Gas Works.

2. The names and address of the Complainants' attorneys are:

Philip A. Bertocci, Esquire
Laura Moskowitz, Esquire
COMMUNITY LEGAL SERVICES, INC.
1424 Chestnut Street, 4th Floor
Philadelphia, PA 19102-2505
Telephone: (215) 981-3702
Fax: (215) 981-0435

112

3. The Respondent utility is:

PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

4. On March 1, 2004, the Philadelphia Gas Works ("PGW") made its Gas Cost Rate ("GCR") filing with the Pennsylvania Public Utility Commission ("PUC"). The filing also includes a request for costs associated with PGW's Universal Service Fund and Energy Conservation Surcharge. Additionally, in conjunction with its Gas Cost Rate Filing, PGW filed a Petition of Philadelphia Gas Works to Establish a Cash Receipts Reconciliation Clause (Docket No. P-00042090) and a Motion to Consolidate consideration of that Petition with the Gas Cost Rate Filing (Docket No. R-00049157).

5. Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) is a registered non-profit corporation and membership organization with offices at 1201 Chestnut Street, Philadelphia, PA 19107. The mission of Action Alliance is to advocate on behalf of senior citizens, many of whom are low and moderate income, in a wide range of matters including PGW management, rates, consumer protections and quality of customer service.

6. The Association of Community Organizations for Reform Now (ACORN) is a registered non-profit corporation and membership organization with offices at 846 N. Broad Street, Philadelphia, PA 19130. ACORN's mission is to advocate on behalf of the economic well being of low income people, particularly with respect to such fundamental

necessities of life as utility service, housing, healthcare and jobs.

7. The Tenants' Action Group (TAG) is a registered non-profit organization with offices at 21 S. 12th Street, 12th Floor, Philadelphia, PA 19107. The mission of TAG is advocate on behalf of low and moderate income tenants.

8. Complainant Consumers Education and Protective Association (CEPA) is a nonprofit corporation with an office at 6048 Ogontz Avenue, Philadelphia, PA. CEPA is composed of mostly low and moderate income members, who have come together to address a variety of community and consumer issues, including PGW's management, rates, consumer protections and quality of customer service.

9. In addition to their organizational missions to advocate on behalf of low and moderate income consumers, Action Alliance et al. count among their members many low and moderate income PGW customers. For these two reasons, they therefore have an interest in this proceeding not adequately represented by any other party of record.

10. Action Alliance et al. have conducted an initial review of PGW's GCR filing. Action Alliance et al. intend to oppose this request to the extent that the rate to be proposed is not just and reasonable, including whether PGW has followed a least cost procurement policy.

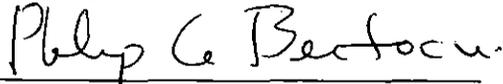
11. Action Alliance opposes PGW's Petition to Establish a Cash Receipt Reconciliation Clause on the grounds, inter alia, that such a clause is not authorized by the Public Utility Code, that PGW and its owner the City of Philadelphia have alternative

means of addressing PGW's alleged cash receipts problems and that the rate resulting from such a surcharge would not be just and reasonable.

Wherefore, Action Alliance et al. respectfully request that the Pennsylvania Public Utility Commission:

- (1) accept this Complaint and allow Complainants to intervene in this proceeding as an active party;
- (2) require PGW at hearing to adduce evidence in justification of its proposed Gas Cost Rate, in support of its proposed Cash Receipts Reconciliation Clause and in support of other claims contained in its filings and that Complainants be accorded full opportunity to cross-examine PGW's witnesses, present evidence and offer argument.
- (3) grant such other relief as is just and appropriate.

Respectfully submitted,



PHILIP A. BERTOCCI, ESQUIRE
LAURA MOSKOWITZ, ESQUIRE

Attorneys for Action Alliance et al.

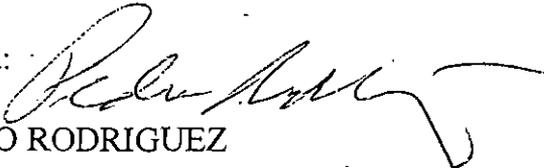
COMMUNITY LEGAL SERVICES, INC.
1424 Chestnut Street, 4th Floor
Philadelphia, PA 19102-2505
Tel.: 215-981-3702
FAX: 215-981-0435

March 15, 2004

VERIFICATION

I, Pedro Rodriguez hereby state that I am authorized to make this verification, that the facts contained in the foregoing pleading are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).

Signed:


PEDRO RODRIGUEZ

Executive Director
Action Alliance of Senior Citizens
of Greater Philadelphia

Date:

3/15/04

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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MAR 15 2004

Pennsylvania Public Utility
Commission, et al. :

Complainants :

v. :

Philadelphia Gas Works
Respondent :

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

R-00049157
P-00042090

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ANSWER OF ACTION ALLIANCE et al. TO PGW'S MOTION
FOR CONSOLIDATION

Action Alliance of Senior Citizens of Greater Philadelphia, the Association of Community Organizations for Reform Now and the Tenants' Action Group (hereinafter collectively "Action Alliance et al."), through counsel, hereby submit this Answer to the Motion for Consolidation filed by PGW seeking consolidation of the hearing of its March 1, 2004 Petition to Establish a Cash Receipts Reconciliation Clause ("CRRC") with the review of its Gas Cost Rate. In support of this Answer, they aver as follows:

1. Admitted.

2. Denied. It is denied that the proposed CRRC and PGW's 2004 GCR Gas Cost Rate filing involve common questions of law and fact:

(a) Denied. To the contrary, the proposed CRRC is not necessary, and is not required by the increased natural gas prices. The proposed CRRC is the product of a

choice made by PGW to shift the costs of its historical collections failures onto customers, so that it may continue to pay its owner the City of Philadelphia \$18 million per year regardless of the performance of the utility.

(b) Denied. The CRRC is not the logical companion to PGW's existing GCR. To the contrary, in contrast with the GCR, it proposes a surcharge which is unprecedented in Pennsylvania and which is based on estimates of bad debt expense which may never be reconciled with the same certainty as gas costs. In addition, the determination of PGW's GCR is not dependent on any characteristic of the proposed CRRC.

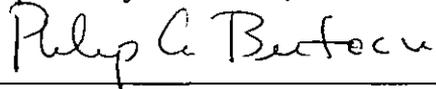
(c) Denied as irrelevant. To the contrary, the fact that PGW's proposed CRRC would only "track" the GCR demonstrates that whether there should even be a CRRC should be considered independently of the amount of the Gas Cost Rate.

(d) Denied as irrelevant. To the contrary, the fact that there would be a reconciliation process for projected and actual cash receipts does not alter the fact that projected bad debt expense and actual bad debt expense are not known and measurable to the same extent as projected and actual cash receipts, and therefore are unsuitable for recovery through a clause similar to a Gas Cost Rate clause.

3. By way of further answer, Action Alliance et al. hereby incorporate by reference the Answers opposing consolidation filed by the Office of Trial Staff, the Office of Consumer Advocate, and the Office of Small Business Advocate.

WHEREFORE, Action Alliance et al. request that the Commission deny PGW's Motion for Consolidation of the Petition to Petition to Establish a Cash Receipts Reconciliation Clause ("CRRC") with the current Gas Cost Rate filing.

Respectfully submitted,



PHILIP A. BERTOCCI, ESQUIRE
LAURA MOSKOWITZ, ESQUIRE

Attorneys for Action Alliance et al.

COMMUNITY LEGAL SERVICES, INC.
1424 Chestnut Street, 4th Floor
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March 15, 2004



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OFFICE OF CONSUMER ADVOCATE

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March 22, 2004

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
P.O. Box 3265
Harrisburg, PA 17120

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SECRETARY'S BUREAU

Re: Pa. Public Utility Commission
v. Philadelphia Gas Works
Docket No. R-00049157
Petition of Philadelphia Gas Works Regarding
Cash Receipts Reconciliation Clause
Docket No. P-00042090

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of the Office of Consumer Advocate's Answer to the Petition of Philadelphia Gas Works' to Establish a Cash Receipts Reconciliation Clause in the above-referenced proceeding.

Copies have been served on all parties as per the attached Certificate of Service.

Sincerely yours,

Stephen J. Keene
Senior Assistant Consumer Advocate

Enclosures

cc: All parties of record
78017

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 : Docket No. R-00049157
 v. :
 : Docket No. P-00042090
 Philadelphia Gas Works :

OFFICE OF CONSUMER ADVOCATE'S ANSWER TO
THE PETITION OF PHILADELPHIA GAS WORKS' TO
ESTABLISH A CASH RECEIPTS RECONCILIATION CLAUSE

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I. INTRODUCTION

On March 1, 2004, Philadelphia Gas Works ("PGW" or "Company") submitted its annual Purchased Gas Cost ("PGC") in accordance with Section 1307(f) of the Public Utility Code, 66 Pa.C.S. §1307(f), and the regulations of the Public Utility Commission ("Commission" or "PUC") at 52 Pa.Code. §53.64 *et.seq.* Concurrently, PGW filed a *Petition to Establish a Cash Receipts Reconciliation Clause* ("CRRC Petition"). In its CRRC Petition, the Company seeks to establish a mechanism to reconcile actual uncollectible expense to the allowance for uncollectible expense that the Company claims that it recovers through base rates. Initially, PGW proposes that the CRRC recover \$47 million in additional revenues. Petition ¶22. The \$47 million dollars is made up of two components: (1) \$35.2 million for a projected shortfall in cash receipts for FY2005 and (2) \$11.4 million representing a three-year amortization of a \$34.3 million claimed shortfall in cash receipts for FY2004. The total of these two components equals an intitial proposed CRRC of \$46.7 million. PGW St. CRRC-1 at 11-12.

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On the same date that it filed the CRRC Petition, the Company also filed a *Motion for Consolidation* (“Motion”), seeking to consolidate the CRRC Petition proceeding with this year’s 1307(f) proceeding. The OCA filed an Answer to the Motion opposing consolidation of the Petition proceeding. At the Prehearing Conference on March 16, 2004, the Motion for Consolidation was granted by Administrative Law Judge Charles E. Rainey, Jr. (“ALJ”). The OCA herein files its Answer to the CRRC Petition. The OCA opposes establishment of such a reconciliation mechanism and, for the reasons set forth below, the OCA submits that PGW’s CRRC Petition should be denied.

II. ANSWER

Through its CRRC Petition, PGW seeks to implement a first of its kind mechanism in Pennsylvania to reconcile uncollectible expense. The OCA submits that this proposal is unjust and unreasonable in that it seeks to change the way that uncollectible expense has been traditionally treated by the Commission and by the Philadelphia Gas Commission. The proposed CRRC represents a material deviation from the long established precedent for PGW and all Pennsylvania utilities of recovering bad debt expense through base rates.¹ The establishment of a CRRC would constitute impermissible, single-issue ratemaking. Automatic base rate expense adjustments should not be allowed since they fail to recognize the myriad of other expense decreases or revenue increases that may also occur in between base rate cases.

¹ Despite the Petition’s statement in Paragraph 31 that “several states have already established uncollectible adjustment trackers for utilities to adjust their uncollectible or bad debt expense allowance” the Petition cites but one jurisdiction – a recent order from the Ohio Public Utilities Commission. However, the long established precedent for the Philadelphia Gas Commission, the Pennsylvania Public Utility Commission and other state regulatory commissions is to set uncollectible and bad debt levels within the context of a base rate proceeding.

Moreover, such an automatic adjustment clause removes incentives for the Company to limit its level of bad debt expense or pursue proper credit and collection activities. Better uncollectible recovery procedures, more effective gas price hedging strategies, and greater education and enrollment for budget billing plans can all effectively reduce bad debt expense as they do for other gas distribution companies. The OCA does not dispute that PGW faces challenges in its service territory as gas prices rise and PGW's rates become less affordable for the citizens of Philadelphia. But, imposition of this clause does nothing to incentivize the Company to manage other aspects of its costs and collections. It simply compounds the unaffordability of PGW's rates.

The OCA also submits that a CRRC such as proposed by the Company is speculative and subject to manipulation. For instance, in developing a claim for uncollectible expense in a base rate case, PGW sets an allowance for uncollectibles based on a collectibility study. Thus, bad debt expense is a forward-looking estimate determined by the collectibility study. Since it is an estimate, bad debt expense is not a reconcilable amount. Reconciliation mechanisms do not lend themselves to reconciling an estimate with a later estimate. Generally, reconciliation mechanisms reconcile estimated costs with actual, experienced costs. The OCA submits that it would be improper to reconcile one estimate with another estimate. Furthermore, the baseline uncollectible expense allowance that PGW proposes using for calculating its CRRC is from PGW's 2001 base rate proceeding at Docket No. R-00006042. Petition ¶¶6, 22. However, since that case, PGW has been in for another base rate proceeding – done in conjunction with its filing for Extraordinary Rate Relief – in which it was authorized to increase its base rate revenues by \$36 million and was granted a Weather Normalization Adjustment (“WNA”). The Settlement in that 2002 base rate proceeding specifically stated that:

The \$36 million settlement award is the result of a compromise and does not reflect or constitute the recovery of any individual expense claim or revenue assumption contained in PGW's pro forma test year filing.

Joint Petition for Settlement of Philadelphia Gas Works' Base Rate Proceeding §III.1, Docket No. R-00017034 (Order entered August 8, 2002). Therefore, it is impossible to determine exactly what the rate allowance is for uncollectible expense in PGW's current rates. To use the uncollectible allowance from the 2001 base rate proceeding to form the baseline, as PGW does in its CRRC filing, assumes that none of the rate increase authorized in the 2002 base rate case was attributed to increased uncollectible expense. The OCA submits that this is unreasonable.

In addition, the Company attributes its uncollectibles problem to increased gas costs, yet its proposal reconciles all of the Company's uncollectible expense – not just that portion of uncollectibles associated with gas costs. Furthermore, the Company's proposal is inequitable in that the mechanism will allow the Company to recover uncollectible expenses that are purportedly greater than the uncollectible allowance in current rates; however, if experienced uncollectible expenses fall below the rate allowance amount, there would be no refund of excess uncollectible expense to ratepayers.

PGW's attempt to recover \$34.3 million in uncollectible expense for FY2004 through a three-year amortization would constitute impermissible retroactive ratemaking. It is nothing more than an attempt by the Company to reach back in time to recover accounts receivables that it did not collect in the past.

PGW also claims in its Petition that the proposed CRRC mechanism "is justified and critically needed to provide sufficient cash working capital to the Company in order to stabilize

PGW's financial position." Petition ¶31. PGW's insufficient capital position has been a long standing problem, and while wholesale gas prices have increased, other budget actions could have been initiated to forestall yet another claimed "capital crisis."

The current high wholesale gas prices and the overall gas price volatility are not unprecedented. During the winter of 2000/2001 wholesale gas prices (as measured by Henry Hub monthly closing levels) were as high as \$9.79 per Dth. However, by October of 2001, wholesale prices were back down to \$1.89 per Dth and they averaged \$2.53 per Dth for the November 2001 to March 2002 period. Similarly, wholesale prices that reached \$9.28 per Dth in March of 2003 fell back to \$4.49 by November 2003. The better solution is for PGW to recognize this volatility in the gas markets and take aggressive steps to hedge its exposure to such volatility, stabilize rates and thereby reduce its uncollectibles problems.

The OCA submits that PGW's rates for gas service are already too high as evidenced by its historical 92% collections percentage which is dramatically lower than the collection percentages for other gas distribution utilities. Adding yet another charge to the Company's distribution rate is only going to exacerbate the situation. If PGW's drop off in collections is associated with high natural gas rates, as the Company claims, then it is highly unlikely that the addition of a CRRC will improve the collection problem. Indeed, increased charges, such as the CRRC, will only lead to a commensurate further drop off in collections.

While the demographics of PGW's customer base may show a disproportionate number of lower income households and struggling small businesses, the OCA submits that another rate increase through the proposed CRRC is clearly not the answer. The Company should be required to file with the Commission a comprehensive evaluation of other alternative ways to address

its working capital problems. In recent proceedings, downgrading of the Company's bond rating was averted by provisions for the reduction in short-term borrowing; collection rates, uncollectibles and bad debt expenses were reviewed in detail; and a weather normalization clause was implemented to reduce or eliminate weather related revenue risk. Despite these actions, the Company still claims that its financial position is in peril. Alternative actions must be evaluated before the Commission considers implementing something as drastic as an uncollectible expense reconciliation mechanism.

The OCA submits that the Company's rates have reached a level at which a large number of its customers cannot pay them, even with the availability of various low-income assistance programs. Rather than compound the problem by increasing rates further, a better solution would be to address PGW's gas cost volatility through a practical hedging program and more effective utilization of gas supplies and interstate pipeline resources. The OCA submits that to address PGW's current financial situation by simply increasing rates by \$47 million through the proposed CRRC will solve nothing. Only a comprehensive plan to address PGW's ongoing working capital problems and gas cost volatility can put PGW back on solid footing without inflicting great harm upon its ratepayers.

III. CONCLUSION

For the reasons set forth above, the OCA respectfully requests that the *Petition of Philadelphia Gas Works to Establish a Cash Receipts Reconciliation Clause* be denied.

Respectfully submitted,



Stephen J. Keene
Senior Assistant Consumer Advocate
Aron J. Beatty
Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

DATED: March 22, 2004

*78514

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works
Docket No. R-00049157

Petition of Philadelphia Gas Works Regarding
Cash Receipts Reconciliation Clause
Docket No. P-00042090

I hereby certify that I have this day served a true copy of the foregoing document,
Office of Consumer Advocate's Answer to the Petition of Philadelphia Gas Works
to Establish a Cash Receipts Reconciliation Clause, upon parties of record in this proceeding in
accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in
the manner and upon the persons listed below:

Dated this 22nd day of March, 2004.

SERVICE BY E-MAIL and INTEROFFICE MAIL

Johnnie E. Simms, Esquire
Pennsylvania Public Utility Commission
Office of Trial Staff
P.O. Box 3265
Harrisburg, PA 17105-3265

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

Daniel Clearfield, Esquire
Alan C. Kohler, Esquire
Wolf, Block, Schorr and Solis-Cohen LLP
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Harrisburg, PA 17101

Gregory J. Stunder, Esquire
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

Brian Kalcic
Excel Consulting
225 S. Meramec Avenue, Suite 720-T
St. Louis, MO 63105

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Charis Mincavgage, Esquire
McNees, Wallace & Nurick LLC
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Philip A. Bertocci, Esq.
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Office of General Counsel
2130 Arch Street, 5th Floor
Philadelphia, PA 19103



Stephen J. Keene
Senior Assistant Consumer Advocate
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(717) 783-5048
78018

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

R-00049157

v. :

Philadelphia Gas Works :

DOCKETED

MAR 31 2004

Petition of Philadelphia Gas Works to :
Establish a Case Receipts Reconciliation Clause:

P-00042090

DOCUMENT

**PREHEARING MEMORANDUM
OF
THE OFFICE OF TRIAL STAFF**

SECRETARY'S BUREAU

2004 MAR 22 PM 2:00

RECEIVED

Presiding Administrative Law Judge Charles E. Rainey, Jr.

The Office of Trial Staff ("OTS") hereby submits the following Prehearing Memorandum.

I. INTRODUCTION

The above-captioned proceeding at docket number R-00049157 involves the annual purchased gas cost filing by Philadelphia Gas Works ("PGW") under Section 1307(f) of the Public Utility Code ("Supplement No. 3 to Gas Service

Tariff Pa. PUC No. 2). Pursuant to Pennsylvania Public Utility Commission (the "Commission") rules, PGW filed advance information concerning its purchased gas costs on January 30, 2004. On March 1, 2004, PGW filed Supplement No. 3 to PGW's Gas Service Tariff Pa. PUC No. 2, proposing certain rate and tariff changes. Accompanying this filing, PGW included certain statements showing the calculation of the proposed changes in rates and supporting written direct testimony of PGW's witnesses.

In addition to the 1307(f) filing, PGW also filed a motion to consolidate a Petition to Establish Cash Receipts Reconciliation Clause with the 1307(f) proceeding.

On March 2, 2004, the Commission notified the parties that the Filing had been assigned to Administrative Law Judge Charles E. Rainey, Jr. and that a prehearing conference on these matters is scheduled for March 15, 2004. In a Prehearing Conference Order dated March 3, 2004 by Administrative Law Judge ("ALJ") Rainey requesting that all parties prepare a prehearing conference memorandum to be filed on or before March 11, 2003.

II. STATEMENT OF ISSUES

In this proceeding, as in every proceeding under Section 1307(f) of the Public Utility Code, the primary issue is the justness and reasonableness of the rates proposed. In determining this question, the Commission is required to investigate whether the utility is pursuing "a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate and reliable

service to its customers.” The additional issues that OTS may address in the 1307(f) proceeding is as follows, however we reserve the right to address additional issues after we have concluded discovery:

1. The forward sale of gas inventory impact on the current 1307(f) filing.
2. Review of the LNG “arrangements and the margins.
3. Review of the capacity release credits.
4. Review of the off-system sales credits.
5. Review of the damage done to PGW’s distribution lines by outside parties and/or entities and the impact on the 1307(f).
6. Review of the discounts to customers (both firm and transportation) and the impact of 1307(f).
7. Review of the 1307(f) E-Factor.

By letter dated March 5, 2004, ALJ Rainey advised the parties that the PreHearing Conference Order dated March 3, 2004 applied to the Petition of Philadelphia Gas Works to Establish a Cash Receipts Reconciliation Clause, at P-00042090. Accordingly, OTS present the following potential issues, however, the issues that may be addressed has not been fully developed as of this prehearing memorandum, and OTS reserves the right to address additional issues as we conclude discovery:¹

1. The impact that the Company’s Weather Normalization Adjustment Clause may have on the receipt of revenues.

¹ OTS’s listing of issues for the Company’s proposed Cash Receipts Reconciliation Clause should not be viewed as in agreement with PGW’s Motion to consolidate the 1307(f) filing with the Petition.

2. The reconciliation of the cash shortfall for Fiscal Year 2003-2004.
3. The results of the "make whole" mechanism.
4. Whether this proposal is a single rate case issue.
5. Is the proposal retroactive ratemaking.

III. WITNESSES

OTS anticipates filing testimony from the following witnesses:

1. Charles Weakley
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pa. 17105
2. Gary Yocca
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pa. 17105

Mr. Weakley will be addressing E-Factor issues in the 1307(f), and Mr. Yocca will be addressing the distribution and transportation related issues. With respect to the Petition, OTS has not finalized as to how the issues will be addressed by the witnesses. OTS reserves the right to produce additional witnesses, if the development of the issues so require.

IV. PROPOSED SCHEDULE

OTS will work with the Parties to establish a mutually agreeable schedule in accordance with Your Honor instructions.

V. DISCOVERY

OTS respectfully requests that the Commission's discovery rules be modified as follows:

1. Answers to written interrogatories are shall be served in hand within eight (8) business days of service.
2. Objections to interrogatories shall be communicated orally within three (3) days of service; unresolved objections to be served on the Administrative Law Judge in writing within five (5) days of service of interrogatories.
3. Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) days of service of written objections.
4. Answers to motions to dismiss objections and/or direct the answering of interrogatories be filed within three (3) days of service of such motions.
5. Rulings on such motions will be issued if possible within seven (7) days of filing of the motion.
6. Responses to requests for document production, entry for inspection, or other purposes be served in hand within eight (8) business days.
7. Requests for admission be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service.
8. Answers to on-the-record data requests shall be served in hand within seven (7) calendar days of the request.

Please note that all of the above paragraphs timeline, with the exception of paragraphs one (1) and two (2), are to be calendar days. Paragraphs one (1) and two (2) are to be complied with in business days.

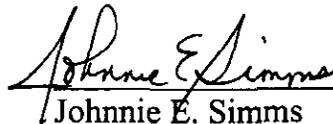
VI. POSSIBILITY OF SETTLEMENT

OTS views settlement in this case and all cases a possibility and we are willing to discuss with the respective parties any potential settlement of the issues.

VII. CONCLUSION

The Office of Trial Staff will be filing answers to both PGW's Motion to Consolidate and Petition to Establish Cash Receipts Reconciliation Clause before the expiration of the Commission's prescribed time period for answers.

Respectfully submitted,
THE OFFICE OF TRIAL STAFF



Johnnie E. Simms
Senior Prosecutor
PA. Public Utility Commission
P.O. Box 3265
Harrisburg, PA. 17105
(717) 787-1976
josimms@state.pa.us

Dated: March 11, 2004

DOCKETED
MAR 31 2004

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

Petition of Philadelphia Gas Works to
Establish a Cash Receipts Reconciliation
Clause

Docket Nos.: ~~R-00049157~~

P-00042090

SECRETARY'S BUREAU

2004 MAR 22 PM 2:00

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DOCUMENT

PREHEARING MEMORANDUM OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. §333, and in response to Administrative Law Judge Charles E. Rainey, Jr.'s Prehearing Conference Order issued in the above-captioned matter on March 3, 2004, the Office of Consumer Advocate ("OCA") provides the following information:

I. INTRODUCTION

On March 1, 2004, Philadelphia Gas Works ("PGW" or "Company") submitted its purchased gas cost (PGC) filing pursuant to Section 1307(f) of the Public Utility Code. PGW's filing indicates a proposed decrease in purchased gas cost rates for retail sales service from the current rate effective March 1, 2004 of \$7.9254/Mcf to a rate of \$7.4216/Mcf, a reduction of \$0.5038/Mcf.

The Public Utility Code provides that no rates of a natural gas distribution utility shall be deemed just and reasonable unless the Commission finds that the utility is pursuing a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate and reliable service to customers. 66 Pa. C.S. § 1318. The Commission must find, among other things, that the utility has (1) fully and vigorously represented ratepayer interests before the Federal Energy Regulatory Commission, (2) taken all prudent steps to negotiate favorable gas supply contracts and to relieve its obligations under contracts that may be adverse to ratepayer interests, (3) taken all reasonable steps to obtain lower cost gas supplies, and (4) not withheld or caused to be withheld gas supplies that should have been utilized as part of a least cost fuel procurement policy.

On March 1, 2004, PGW also filed a Petition to Establish a Cash Receipts Reconciliation Clause ("CRRC Surcharge"). The Company claims that the level of collected customer receipts is down from the level accounted for in base rates. The CRRC Surcharge would be included in the distribution rates of PGW customers in an effort to bring uncollectible expenses fixed at the level established in PGW's last base rate proceeding. In the event that the Company's uncollectible levels drop below the level set in base rates, the CRRC Surcharge would be set at zero. Initially, the Company proposes that the CRRC Surcharge be established at \$47 million. The Company has also filed a Motion to Consolidate the CRRC Surcharge Petition proceeding with this year's 1307(f) proceeding. The OCA is opposed to the proposed CRRC Surcharge, and to the consolidation of the Petition proceeding with the Company's 1307(f) proceeding and will be filing Answers to the Petition and Motion for Consolidation in a timely manner.

II ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of PGW's purchased gas cost pre-filing of February 1, 2004 and its definitive filing of March 1, 2004, the OCA has compiled a list of issues and sub-issues which it anticipates will be included in its investigation of the Company's proposed rate changes and CRRC Surcharge. It is anticipated that other issues may arise and may be pursued once the OCA has completed discovery and all of the answers to OCA's interrogatories have been received and analyzed.

The OCA has served two sets of interrogatories to date and will be serving additional discovery as soon as it has completed its evaluation of the Company's filings and discovery responses. Once the discovery process has been completed, the OCA will file direct testimony which will set forth the specific issues to be addressed in this proceeding. At that time, the OCA will also be able to make and to quantify its specific recommendations.

The following list sets forth issues the OCA anticipates it may raise in the 1307(f) proceeding:

- (1) Reasonableness and prudence of historic period purchased gas costs, and assessment of compliance with Commission Orders in previous 1307(f) cases;
- (2) Reasonableness and accuracy of estimating gas costs during the interim and prospective periods;
- (3) Reasonableness and prudence of the Company's gas supply mix, including purchases of local gas supplies and the use of LNG;
- (4) Reasonableness and prudence of the Company's mix of demand entitlements,

storage, and local production, to include an assessment of the reasonableness of the Company's estimate of design day requirements;

(5) Reasonableness and prudence of contracts with pipelines and suppliers and, in particular, long-term contracts that provide for special reservation charges, minimum take commitments, or other fixed contract requirements, especially in light of the potentially changing regulatory framework;

(6) Reasonableness of the Company's allocation of purchased gas costs between customer classes and assessment of any other subsidies or unreasonable discrimination between customer classes;

(7) Reasonableness and prudence of the Company's use of capacity release, off-system sales, and interruptible sales and the crediting of such revenues to PGC ratepayers;

(8) Assessment of the value of any purchased gas cost incentive mechanisms as components of a least cost fuel procurement policy. These may include incentive mechanisms for things such as off-system sales, spot market purchases, and hedging;

(9) Reasonableness of sales volumes projections; and

(10) Technical issues pertaining to the gas cost recovery mechanism, including computation of quarterly adjustments to purchased gas costs, treatment of supplier refunds, provision of carrying costs associated with gas in storage, interest on gas cost overcollections, and proper computation of the E-Factor and migration riders.

(11) Reasonableness of hedging transactions and strategies entered into under the terms of previous PGC settlements.

The following list sets forth issues the OCA anticipates it may raise in the

CRRC Surcharge proceeding:

(1) The legal implications of using a surcharge to determine a single element that has traditionally been included in base rates.

(2) The speculative and subjective nature of the CRRC Surcharge and the *implementation of its terms*

(3) The negative effect that the CRRC Surcharge will have on the Company's incentives to reduce bad debt expense.

The OCA reserves the right to raise additional issues as discovery proceeds and its investigation of the proposed CRRC Surcharge takes place.

III. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of Richard LeLash in this proceeding. He will present testimony in written form and will also attach various exhibits, documents, and explanatory information which will assist in the presentation of OCA's case. In order to expedite the resolution of this proceeding, the OCA requests that copies of all interrogatories, testimony, and answers to interrogatories be mailed directly to Mr. LeLash, as well as mailing a copy to counsel for the OCA.

Richard LeLash
18 Seventy Acre Road
Redding, CT 06896
Telephone: 203-438-4659
Fax: 203-431-9625
Email: lelash@sprintmail.com

The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case, all parties of record will be notified.

IV. SERVICE ON THE OCA

The OCA will be represented in this case by Senior Assistant Consumer Advocate Stephen J. Keene and Assistant Consumer Advocate Aron J. Beatty. Two copies of all documents should be served on the OCA as follows:

Stephen J. Keene
Senior Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Telephone: (717) 783-5048
Telecopier: (717) 783-7152
e-mail: skeene@paoca.org

V. PROPOSED SCHEDULE

At this time, the OCA proposes the following schedule:

Prehearing Conference	March 15, 2004
Direct Testimony (excluding PGW)	April 13, 2004
Rebuttal Testimony	April 29, 2004
Surrebuttal Testimony (in writing)	May 6, 2004
Hearings	May 11 & 12, 2004
Close of Record	May 12, 2004
Main Briefs	May 24, 2004
Reply Briefs	June 1, 2004
Suspension Ends	September 1, 2004

VI. PUBLIC INPUT HEARINGS

At present, it is not certain whether there is sufficient public interest to establish that a public input hearing in this proceeding is necessary. If sufficient consumer interest arises, the OCA will make prompt notification to the ALJ and the parties and request that public input hearings be scheduled.

VII. DISCOVERY

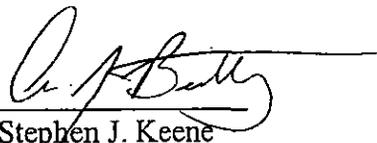
Because the time period for discovery and preparation of testimony is limited, the OCA supports a shortened discovery response time in this proceeding. The OCA, therefore, requests the following modifications to the discovery regulations:

- A. Answers to written interrogatories be served in-hand within ten (10) calendar days of service.
- B. Objections to interrogatories be communicated orally within three (3) days of service; unresolved objections be served to the ALJ in writing within five (5) days of service of interrogatories.
- C. Motions to dismiss objections and/or direct the answering of interrogatories be filed within three (3) days of service of written objections.
- D. Answers to motions to dismiss objections and/or direct the answering of interrogatories be filed within three (3) days of service of such motions.
- E. Rulings over such motions be issued, if possible, within seven (7) days of filing of the motion.
- F. Responses to requests for document production, entry for inspection, or other purposes be served in-hand within ten (10) calendar days.
- G. Requests for admission be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service
- H. Answers to on-the-record data requests be served in-hand within seven (7) calendar days of the request.

VIII. SETTLEMENT DISCUSSIONS

At present, settlement discussions have not been scheduled. The OCA will fully participate in any proposed settlement discussions throughout the course of this proceeding.

Respectfully submitted,



Stephen J. Keene
Senior Assistant Consumer Advocate
Aron J. Beatty
Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

DATED: March 11, 2004

00078348.WPD

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works
Docket No. R-00049157

Petition of Philadelphia Gas Works Regarding
Cash Receipts Reconciliation Clause
Docket No. P-00042090

I hereby certify that I have this day served a true copy of the foregoing document, Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 11th day of March, 2004.

SERVICE BY E-MAIL and INTEROFFICE MAIL

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Pennsylvania Public Utility Commission
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Harrisburg, PA 17105-3265

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

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Alan C. Kohler, Esquire
Wolf, Block, Schorr and Solis-Cohen LLP
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Gregory J. Stunder, Esquire
Philadelphia Gas Works
800 West Montgomery Avenue
Philadelphia, PA 19122

David M. Kleppinger, Esquire
Charis Mincavage, Esquire
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Aron J. Beatty
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Tel: (717) 237-7160 ■ Fax: (717) 237-7161 ■ www.WolfBlock.com

Daniel Clearfield
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E-mail: dclearfield@wolfblock.com

April 7, 2004

VIA E-MAIL AND FIRST CLASS MAIL

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

DOCUMENT FOLDER

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2004 APR -8 AM 11:05
SECRETARY'S BUREAU

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

Dear Johnnie:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Office of Trial Staff's Interrogatories, Nos. OTS-1, 11, 16, 21, 25, 28, 30, 31, 32, 33, 34, 44(a-e), 45(a-e), 46(a-e), 47, 48. Also enclosed is a Revised Response to OTS-59. Responses to outstanding interrogatories will be provided to you as soon as possible.

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

Very truly yours,



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

DC/lww

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

DSH:40411.7/PHI211-217982

CERTIFICATE OF SERVICE

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

VIA EMAIL AND FIRST CLASS MAIL

Johnnie Simms, Esq.
Richard A. Kanaskie, Esq.
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PA Public Utility Commission
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James Mullins, Esq.
Steve Keene, Esq.
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Skeene@paoca.org

Richard Lelash
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Redding, CT 06896
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Dated: April 7, 2004

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Daniel Clearfield, Esq.

SECRETARY'S BUREAU

2004 APR -8 AM 11:05

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E-mail: dclearfield@wolfblock.com

May 10, 2004

VIA E-MAIL AND FIRST CLASS MAIL

Philip A. Bertocci, Esq.
Community Legal Services Inc.
1424 Chestnut Street
Philadelphia, PA 19102-2505

**DOCUMENT
FOLDER**

RECORDED
04 MAY 11 AM 9:23
FBI/DOJ
SECRETARY'S BUREAU

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

Dear Phil:

On behalf of Philadelphia Gas Works, enclosed please find its responses to Action Alliance, et. al's Interrogatories, Set I, Nos. 4, 5, 6 & 7. If you have any questions, please do not hesitate to contact me.

Very truly yours,


Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

Enclosure

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

BTL

DSH:40976.1/PHI211-217982

CERTIFICATE OF SERVICE

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

VIA EMAIL AND FIRST CLASS MAIL

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E-mail: rdk@indecon.com

Christopher Craig, Esq.
Senator Fumo's Office
Main Capital
Room B48
Harrisburg, PA 17120
E-Mail: ccraig@fumo.com

04 MAY 11 AM 9:23
SECRETARY'S BUREAU
PA.P.U.C.

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Anderson Gulotta & Hicks, PC
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Daniel Clearfield, Esq.

Dated: May 10, 2004



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PLEASE DOCKET

Office Of Administrative Law Judge
P.O. Box 3265, Harrisburg, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

May 13, 2004

In Re: R-00049157 & P-00042090

(TO ALL PARTIES)

R-00049157

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

Annual 1307(f) Filing.

DOCUMENT
FOLDER

P-00042090

Petition of Philadelphia Gas Works

To Establish a Cash Receipts Reconciliation Clause

PUBLIC INPUT HEARING NOTICE

This is to inform you that a Public Input Hearing on the above-captioned case will be held as follows:

Type: Public Input Hearing

Date: Thursday, May 20, 2004

Time: 7:00 PM

Location: George Washington High School
School Auditorium
10175 Bustleton Avenue and Veree Street
Philadelphia, PA 19116

Presiding: Administrative Law Judge Charles E. Rainey, Jr.
1302 Philadelphia State Office Building
1400 West Spring Garden Street
Philadelphia, PA 19130
Telephone: (215) 560-2105
Fax: (215) 560-3133

DOCKETED
AUG 05 2004

If you are a person with a disability, and you wish to attend the hearing(s), we may be able to make arrangements for your special needs. Please call the scheduling office at the Public Utility Commission:

- Scheduling Office: (717) 787-1399.
- AT&T Relay Service number for persons who are deaf or hearing-impaired: 1-800-654-5988.

pc: Judge Rainey
June Perry - LA, Keystone 3NW
Eric Levis - BPL, Keystone 3NE
Office of Trial Staff (2)
Consumer Advocate
Small Business Advocate
Elizabeth L. Plantz, Scheduling Officer
Beth Plantz
Docket Section
Calendar File

✓ JOHNNIE SIMMS ESQUIRE ✓
PA PUBLIC UTILITY COMMISSION
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C0004

C0005

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C0017

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C0018

C0019

C0020

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C0022

C0023

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C0024

C0025

C0026

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MONDRE ENERGY INC
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C0027

C0028

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C0032

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C0034

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C0035

C0036

C0037

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C0038

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C0040

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C0041

C0042

C0043

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C0044

C0045

C0046

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C0047

C0048

C0049

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C0050

C0051

C0052

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C0053

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C0056

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C0059

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C0062

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C0065

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C0068

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C0071

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C0060

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C0063

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C0069

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C0072

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C0055

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C0058

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C0061

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C0064

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C0067

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C0070

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C0073

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DONNA IMPERATO
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PHILADELPHIA PA 19116

ANNA BARONETT
5424 HERMIT TRAIL
PHILADELPHIA PA 19128

KENNETH GOLD
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COLLEEN CORCORAN
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6427 PALMETTO STREET
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C0080

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C0086

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C0089

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C0092

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C0101

C0102

C0103

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C0104

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C0107

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C0128

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C0137

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C0141

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C0144

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C0147

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ORIGINAL

Senate of Pennsylvania



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Chairman

PAUL S. DLUGOLECKI
Executive Director

Senate Post Office
The State Capitol
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DEMOCRATIC COMMITTEE ON APPROPRIATIONS

May 14, 2004

Via Hand Delivery or Overnight Mail

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
2nd Floor North
Commonwealth Keystone Office Building
Harrisburg, Pennsylvania 17105

Re: In petition of Philadelphia Gas Work to Establish a Cash Receipts Reconciliation Clause, PUC Dkt. No. P-00042090; R-00049157

Dr. Mr. McNulty:

Attached for your consideration and filing is an original and two (2) copies of the Application For Leave To Intervene of Senators Michael J. Stack and Anthony H. Williams in the above captioned matters. A copy has been sent to all counsel of record, as well as to Administrative Law Judge Rainey.

Thank you for your assistance in this matter. Please do not hesitate to contact me if I may be able to provide any additional information.

Sincerely,

Christopher B. Craig
Counsel

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2004 MAY 14 PM 3:59
SECRETARY'S BUREAU

DOCUMENT
FOLDER

02

ORIGINAL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**In re Petition of Philadelphia Gas Works for
Special Permission to Depart from Certain
Requirements of 52 Pa.Code §§ 53.45(b),
53.64(c) and 53.68(a) Concerning the Provisions
of Public Notice**

R-00049157

**In re Petition of Philadelphia Gas Works to
Establish a Cash Receipts Reconciliation Clause**

P-00042090

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PUBLIC UTILITY
COMMISSION
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**APPLICATION FOR LEAVE TO INTERVENE
OF PENNSYLVANIA STATE SENATORS
MICHAEL J. STACK AND ANTHONY H. WILLIAMS**

Pennsylvania State Senators Michael J. Stack and Anthony H. Williams, individually, as utility ratepayers and in their official capacity as duly elected members of the Pennsylvania State Senate by and through their undersigned counsel, hereby file this Application for Leave to Intervene pursuant to 52 Pa.Code §§ 5.71 - 5.74, requesting this Commission to approve their intervention in the above-captioned proceedings initiated by the Philadelphia Gas Works (hereinafter "PGW") and to be included among the group of Philadelphia Public Officials who filed an Application for Leave to Intervene in this proceeding in April. *See*, Application for Leave to Intervene of Senator Fumo, *et al.*, (April 14, 2004) and Application for Leave to Intervene of Philadelphia District Attorney Lynne Abraham, (April 20, 2004).

Like the Philadelphia Public Officials, the primary focus of State Senators Michael J.

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MAY 26 2004

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**DOCUMENT
FOLDER**

Stack and Anthony H. Williams is to oppose the request of PGW to establish a Cash Receipts Reconciliation Clause (hereinafter "CRRC") and to propose greater regulatory oversight of the implementation of PGW's bill collection program improvements. In support thereof, Senators Stack and Williams aver the following:

1. Michael J. Stack is an adult individual, business PGW customer, and a duly elected member of the Pennsylvania State Senate representing the voters of the Fifth Senatorial District. As a business customer, through the Senate of Pennsylvania, Senator Stack, receives and pays for natural gas service from PGW for heating of his Legislative District Office.

2. Anthony H. Williams is an adult individual, residential PGW customer, business PGW customer, and a duly elected member of the Pennsylvania State Senate representing the voters of the Eighth Senatorial District. As a residential customer, Senator Williams receives and pays for natural gas service from PGW for heating and cooking purposes at his residential address in the City of Philadelphia. As a business customer, Senator Williams through the Senate of Pennsylvania, receives and pays for natural gas service from PGW for heating of his Legislative District Office.

3. Pursuant to 52 Pa.Code § 5.72(b), both Senators Stack and Williams possess standing to bring this action before this Honorable Commission in both their official capacity and as ratepayers and have interests which may be directly affected, which are not adequately represented by existing participants, and as to which may be bound by the action of the Commission in this proceeding.

4. Senators Stack and Williams have already taken an active role in testifying against PGW's proposed rate hike including the PUC Public Input Hearings on PGW's CRRC and Rate Hike Request held in Philadelphia on May 5, 2004 and May 6, 2004. The Senators' testimony focused on their opposition to the CRRC and the need for enhanced regulatory oversight of PGW's bill collection procedures. *See*, Public Input Testimony Sen. Mike Stack (May 5, 2004) and Public Input Testimony Sen. Anthony Williams (May 6, 2004).

5. In addition to their rights and interests as customers of PGW, Senators Stack and Williams have a direct and distinct interest as duly elected member of the Pennsylvania General Assembly, to ensure that the statutory mandates of the legislature are appropriately executed by administrative agencies, including the interpretation and application of the "just and reasonable" standard as set forth in the Public Utility Code, 66 Pa.C.S.A. §§ 1301, *et seq.*

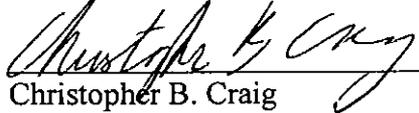
6. Senators Stack and Williams have a direct and distinct interest as residential and business gas service ratepayers; approval of PGW's rate request may result in a substantial increase in gas service costs to PGW customers, impact other rates and service in a manner that is not beneficial to the public or consistent with the public interest, undermine the development of efficient business practices for bill collection, and further delay management efficiencies.

7. Paragraphs 10 through 16 and 21 through 23 of the Application for Leave to Intervene of Pennsylvania State Senator Vincent J. Fumo, *et al.*, are hereby incorporated herein as if set forth at length.

8. Similar requests to intervene by Senator Fumo, *et. al.* and Philadelphia District Attorney Abraham have been approved by Administrative Law Judge Rainey. *See*, Order Granting Petition to Intervene of State Senator Vincent J. Fumo, *et. al.* (May 4, 2004), and Oder Granting Petition to Intervene of Philadelphia District Attorney Lynne Abraham, (May 4, 2004).

WHEREFORE, Senator Stack respectfully request that this Honorable Commission grant this Application for Leave to Intervene in the above captioned matter.

Respectfully Submitted,



Christopher B. Craig

Attorney No. 65203

Counsel, Senate Democratic Appropriations Committee

Room 545, Main Capitol Building

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(Tel) 717.787.5662

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Email ccraig@fumo.com

Counsel for Senators Stack and Williams

Dated: May 14, 2004

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**In re Petition of Philadelphia Gas Works for
Special Permission to Depart from Certain
Requirements of 52 Pa.Code §§ 53.45(b),
53.64(c) and 53.68(a) Concerning the Provisions
of Public Notice**

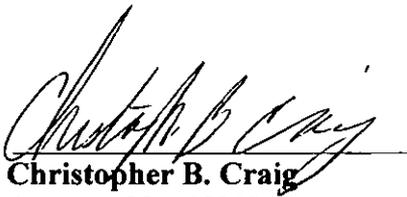
R-00049157

**In re Petition of Philadelphia Gas Works to
Establish a Cash Receipts Reconciliation Clause**

P-00042090

VERIFICATION

I, Christopher B. Craig, hereby depose and state that I am authorized to execute this Verification on behalf of the Petitioner. The facts set forth in the foregoing are true and correct to the best of my knowledge, information and belief. I understand that this Verification is made pursuant to the penalties of 18 Pa.C.S.A. § 4904 relating to unsworn falsification to authorities.



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Counsel for Senators Stack and Williams

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**In re Petition of Philadelphia Gas Works for
Special Permission to Depart from Certain
Requirements of 52 Pa.Code §§ 53.45(b),
53.64(c) and 53.68(a) Concerning the Provisions
of Public Notice**

R-00049157

**In re Petition of Philadelphia Gas Works to
Establish a Cash Receipts Reconciliation Clause**

P-00042090

CERTIFICATION OF SERVICE

I, Christopher B. Craig, attorney for Senators Michael J. Stack and Anthony H. Williams, hereby certify that a copy of the foregoing document has been served in person or by first class mail at the addresses indicated below. I further certify that the manner of service satisfies the requirements of 52 Pa.Code §§ 5.75 and 1.54.

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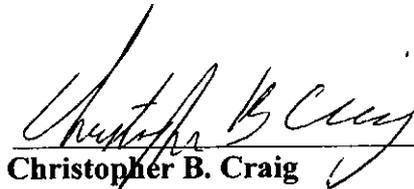
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ORIGINAL

June 11, 2004

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

**DOCUMENT
FOLDER**

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JUN 11 2004

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Philadelphia Gas Works 2004-2005 Gas Cost Rate Filing;
Docket No. R-00049157 & P-00042090

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of Philadelphia Gas Works' Statement in Support of the Unopposed Joint Petition for Complete Settlement of Its 2004-2005 Purchased Gas Cost Proceeding that was originally filed on May 28, 2004.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder".

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Charles E. Rainey, Jr.

CERTIFICATE OF SERVICE

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

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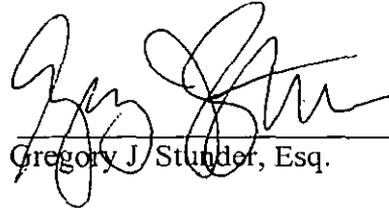
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JUN 11 2004

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Gregory J. Stunder, Esq.

Dated: June 11, 2004

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.

v.

PHILADELPHIA GAS WORKS

Docket Nos. R-00049157
R-00049157C0001-C0145
P-00042090

**PHILADELPHIA GAS WORKS' STATEMENT IN SUPPORT
OF THE UNOPPOSED JOINT PETITION FOR COMPLETE SETTLEMENT
OF ITS 2004-2005 PURCHASED GAS COST PROCEEDING**

The Philadelphia Gas Works ("PGW") submits this Statement in Support of the Unopposed Joint Petition for Complete Settlement of PGW's 2004-2005 Purchased Gas Cost (PGC) Proceeding and respectfully requests that Administrative Law Judge Charles E. Rainey, Jr. and the Pennsylvania Public Utility Commission (Commission) approve the Joint Petition, make the findings required by Public Utility Code, 66 Pa. S.C. §§ 1317 and 1318, and deem this settlement in the public interest.

DOCKETED
SEP 22 2004

I. BACKGROUND

On February 1, 2004, PGW filed at the above docket number the information required by 66 Pa. C.S. § 1307 and 52 Pa. Code § 53.64 to be submitted in advance of its annual PGC filing. Then on March 1, 2004, PGW submitted its annual PGC filing for the year 2004-2005 consistent with the above provisions and Commission regulations which establish procedures for evaluating and determining an appropriate level of gas costs.

The Office of Trial Staff (OTS), Office of the Consumer Advocate (OCA), Office of Small Business Advocate (OSBA), the Association of Community Organizations for Reform

**DOCUMENT
FOLDER**

now (ACORN), the Tenant's Action Group (TAG) and Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) (hereinafter collectively Action Alliance, et al.), Philadelphia Industrial and Commercial Users Group (PICGUG), Philadelphia Housing Authority ("PHA"), Senator Vincent Fumo, Philadelphia City Council President Anna Verna, Philadelphia City Council Members: James Kenney, Frank DiCicco, Michael Nutter, David Cohen, Joan Krajewski, Juan Ramos, and Philadelphia District Attorney Lynne Abraham have all intervened, entered an appearance or filed a complaint in the matter.

A Prehearing Conference was held before ALJ Rainey on March 15, 2004 and on March 17, 2004, ALJ Rainey issued a Prehearing Order which established the schedule and the procedures applicable to this proceeding.

The parties participated in a discovery process with OTS, OCA and OSBA submitting numerous interrogatories to PGW. In addition to participation in the discovery process, the parties also conducted settlement discussions and negotiations. These discussions resulted in resolution of all matters.¹ The attached Joint Petition for Complete Settlement of Philadelphia Gas Works' 2003-2004 PGC embodies the terms of the Settlement.

II. PGW IS PURSUING A LEAST COST FUEL PROCUREMENT POLICY CONSISTENT WITH PGW'S OBLIGATION TO PROVIDE SAFE, ADEQUATE AND RELIABLE SERVICE TO ITS CUSTOMERS

Currently, PGW pursues a least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service by among other things: 1) using a

¹ Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), the Office of Small Business Advocate ("OSBA"), Philadelphia Housing Authority ("PHA"), Senator Vincent Fumo, Philadelphia City Council President Anna Verna, Philadelphia City Council Members: James Kenney, Frank DiCicco, Michael Nutter, David Cohen, Joan Krajewski, Juan Ramos, and Philadelphia District Attorney Lynne Abraham are not participating in this Settlement but have reviewed the Settlement and have informed the Settling Parties that they do not oppose the Settlement.

portfolio approach in contract structure and pricing; and 2) utilizing capacity release & off system sales and interruptible revenue credits to offset the cost of the PGC.

The proposed settlement advances the above goal by 1) further defining gas purchasing programs that increases the program to include purchasing for both the 2004-2005 and 2005-2006 PGC periods; and 2) incorporating a rolling three year average credit for gross capacity release & off system sales and interruptible sales.

The aforementioned portfolio approach utilizes a mix of first of the month index pricing, storage and winter only supply contracts to protect ratepayers from some of the risk of natural gas market volatility. The Gas Purchasing Program submitted with this settlement is intended to further reduce PGW's ratepayers exposure to price volatility by hedging some portion of the company's firm requirements against significant swings in the price of natural gas and establish agreed to standards governing PGW's gas procurement practices. The settlement agreement of the parties recognizes that PGW will also submit quarterly adjustments to the PGC factor in order to account for changes in forecasted price and demand. Also as part of this settlement, PGW has agreed to incorporate credits into the PGC factor for gross capacity release & off system sales and interruptible sales.

Therefore, the above settlement terms certainly meet the Commission's goal in ensuring the least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service.

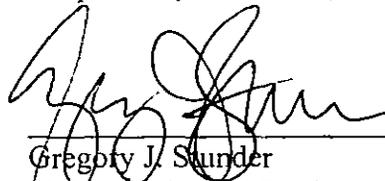
III. APPROVAL OF THE JOINT PETITION IS IN THE PUBLIC INTEREST

The Joint Petition is in the public interest because it fairly and reasonably resolves a number of significant issues affecting PGW and its customers for the reasons stated above.

All of the facts necessary to approve the settlement are included in the record of the proceeding through either the filing and supporting data itself, the testimony of PGW, OCA, OTS, or OSBA or the attachments to the settlement agreement and additional schedules submitted to the Administrative Law Judge through stipulation of the parties.

Having found that PGW pursues a least cost procurement policy consistent with PGW's obligation to provide safe, adequate and reliable service, that this settlement satisfies the Commission's requirements at Sections 1317 and 1318 and is in the public interest, PGW supports the Joint Petition and urges the Administrative Law Judge and the Commission to approve it in its entirety.

Respectfully submitted,



Gregory J. Stunder
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Attorney for Philadelphia Gas Works

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Alan Kohler, Esq.
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Dated: June 11, 2004

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ORIGINAL
June 11, 2004

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

DOCUMENT
FOLDER

Re: Philadelphia Gas Works 2004-2005 Gas Cost Rate Filing;
Docket No. R-00049157 & P-00042090

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of a corrected page 10 for Philadelphia Gas Works' ("PGW") Joint Petition for Settlement that was originally filed on May 28, 2004. The enclosed corrects a reference in paragraph V.1.a.i. which originally incorrectly referenced Section III, paragraph 11 of the Petition. The enclosed now contains the corrected reference as Section III, paragraph 8.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder".

Gregory J. Stunder

cc: Parties of record
Administrative Law Judge Charles E. Rainey, Jr.

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JUN 11 2004

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

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

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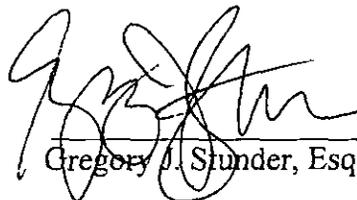
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Gregory J. Stunder, Esq.

Dated: June 11, 2004

i. PGW met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers (except for the condition set forth in Section III, paragraph 8 of this agreement); and

ii. PGW met the requirements of Section 1318(b) of the Public Utility Code relating to purchases from and services provided by affiliates.

2. Interim and Projected Period Findings

a. With respect to the eight-month interim period beginning on January 1, 2004, and with respect to the twelve-month period beginning September 1, 2004, when rates contained in this Settlement will be in effect, it is requested that the Commission find, based upon information presently available and based upon evidence of record in this proceeding concerning PGW's projected purchases and purchasing policies, that the rates to be adopted by the Commission result from PGW's compliance with the provisions of Section 1318 of the Public Utility Code, including Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3), 66 Pa.C.S. §§ 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3).

b. The Settling Parties agree, based upon evidence of record in this proceeding concerning PGW's projected gas purchases and gas purchasing policies, that PGW's projected gas purchases and projected gas purchasing policies may comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that this Section of the Settlement is made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and further review in an appropriate future proceeding. This Section of the Settlement is not

**DOCUMENT
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DOCKETED
SEP 22 2004