

5. PGW forthwith shall file with this Commission for its review and approval, a revised operating budget for the fiscal year ending June 30, 1982 consistent with the provisions of this Order.

6. On or before April 30, 1982 PGW shall file with this Commission a Supplement for rates to be effective for the fiscal year commencing July 1, 1982, so that rates for the said fiscal year can be adequately, reasonably and fairly considered and timely established.

7. The complaint of Alfred E. Merklin is dismissed since the cost of making heating service available to him whether he uses any gas or not exceeds the monthly minimum charge.

8. The complaints, proposals and adjustments filed against the increase in the rates authorized to be charged by PGW are sustained insofar as they are consistent with this Order; and are otherwise denied.

9. PGW shall submit monthly to this Commission data as designated by the Commission, in order to be better able to monitor, review and oversee the operations

and financial results of PGW. To this end, the Commission hereby retains continuing jurisdiction in this matter.

PHILADELPHIA GAS COMMISSION

By: _____
Chairman

Dated: _____

Member

Member

Member

Member

CEPA, et al., filed a Petition for a Supersedeas Order which was rendered moot by our Stay Order. CEPA, et al., also filed a Petition for Reconsideration, which Petition also was rendered moot by our determination on our own Motion to reconsider the matter.

To assist us in our reconsideration, we directed counsel for all the parties to reargue the following matters which involve substantial amounts and an exercise of judgment about which reasonable persons can disagree:

- (i) Accounts Receivable
- (ii) Accounts Payable
- (iii) Cash at Year End
- (iv) Internally Generated Capital

We granted also CEPA's request for specific consideration of PGW's claim for fees for the following:

- (i) charge-for-service
- (ii) meter test
- (iii) customer requested shut-off and turn-off
- (iv) restoration of service
- (v) emergency gas
- (vi) unauthorized gas usage
- (vii) processing of returned check

We also directed PGW to present an explanatory statement regarding its proposed Levelized Gas Cost Rate Computations for the interim year 1981-82, and subsequent years.

Reargument was held on November 19, 1981 to give us the opportunity to take a fresh look at these matters, reconsider them and make a determination of what is just and reasonable under all the circumstances.

Before proceeding further, we wish to address certain supplemental issues, which are important, but which should not hold up the rate case determination. These are:

(i) We affirm that conservation is a matter of the highest concern and priority for all of us; this Commission, PGW and all gas consumers. We intend to review and, where desirable, implement the suggestions made in the course of the hearings. It may even be that a supplementary hearing devoted to this subject alone will be useful.

(ii) Regarding PGW's sales policy, PGW has furnished the Gas Commission with proposed criteria for exemption to the present moratorium on new gas load additions. The sales policy and the proposed criteria for exemption will be the subject of a special hearing in the near future.

(iii) PGW's collection practices are being considered and reviewed in the pending customer service hearings. It is anticipated that this proceeding will be completed in the near future.

II. DISCUSSION

We turn now to the reconsideration, mindful of certain applicable legal and other considerations.

CEPA, et al. urge that the Commission should recommend to the City Administration and the City Council that the City/PFMC Ordinance Agreement be amended, so that rates are set pursuant to a determination of what level of total net income is sufficient to provide a reasonable return on the City's investment. CEPA opposes a so-called "Guaranteed" fixed annual payment to the City.

Public Counsel, through witness Trawicki, argue, that while it may be useful to look at rate of return on investment in investor-owned utilities, in the case of a municipal utility, the Gas Commission should look primarily to debt service coverage. He, therefore, concludes that the rate of return on investment concept is of minimal value in the instant matter (Testimony of Donald J. Trawicki, p. 11, 12). Public Counsel, through witness Hagstrom, also maintain that the annual fixed payment to the City is reasonable as an operating expense, since if this were a privately owned utility, the City would generate property tax revenues and possibly other fees (Testimony of K. A. Hagstrom, Rev. Req. p. 15).

PGW argues that the cash flow method is the proper basis of setting rates under the City/PFMC Agreement, which requires that rates be set sufficient to cover the expenses of operation, depreciation, the City payment, debt service (including maturities), increases in working capital re-

quirements, and so much of fixed capital requirements as will not be financed from external sources (PFMC Agreement, Section VII, 1; PGW Brief, Vol. II, pp. 3, 4).

In determining what rates to approve, the standard to be applied by this Commission is whether the rates to be charged the customers of PGW are just and reasonable. A proper balance must be drawn, between the interests of consumers in receiving essential public utility services at the lowest possible rates, and the interest of the utility in receiving sufficient rates to meet its reasonable expense and capital needs. See F.P.C. v. Hope Natural Gas Co., 320 U.S. 591 (1944); F.P.C. v. Natural Gas Pipeline Co., 315 U.S. 575 (1942).

As stated in our Opinion and Order of November 9, 1981, this Commission is governed, in the first instance, by the City/PFMC Agreement, dated December 29, 1972 as amended, pursuant to Ordinances of City Council. We further conclude, as did the Court in Action Alliance of Senior Citizens of Greater Phila., Inc. v. PG. Comm. 406 A2d 1155 (1979) that,

" . . . the process of fixing rates described in Section VII (of the City/PFMC Agreement) - that is, by tailoring them to anticipated need for cash, including the preordained \$15,500,000 (now \$18,000,000) yearly payment to the City - is called the cash flow method." (pp. 1156, 1157) (parenthetic expressions supplied for clarity).

While the fair return on fair value method of establishing and testing the reasonableness of utility rates is required to be used with respect to the rates of utilities subject to Public Utility Commission regulation, and also to rates of municipal utilities not subject to PUC regulations when such rates are reviewed by Courts in Equity, we conclude, as did the Court in Action Alliance, supra at p. 1158 that PGW is not subject to PUC regulations, and that there is another consideration present with respect to the PGW;

". . . to wit, the fact that Philadelphia has Home Rule status by virtue of the First Class City Home Rule Act, Act of April 21, 1949, P.L. 665, as supplemented and amended, 53 P.S. §13101 et seq. Section 17 of the Act, 53 §13131, provides, subject to limitations not here pertinent, that a city accepting the Act 'and framing and adopting or amending its charter thereunder shall have and may exercise all powers and authority of local self-government and shall have complete powers of legislation and administration in relation to its municipal functions . . . [and] may enact ordinances, rules and regulations necessary and proper for carrying into execution the foregoing powers . . . ' Ordinances of the City of Philadelphia have the effect and force of an Act of Assembly. School District of Philadelphia v. Zoning Board of Adjustments, 417 Pa. 277, 207 A2d 864 (1965). The ordinance/agreement of December 29, 1972 therefore has statutory effect and effectively overrules the holding of Shirk v. Lancaster City, supra, as it might otherwise have applied to the rates of the Philadelphia Gas Works.

Section VII establishing the cash flow method therefore prevails" (emphasis supplied).

Since the Court, in Action Alliance, supra, has found the Ordinance/Agreement to have the effect of an Act of Assembly, and that the cash flow method, which includes, inter alia, the annual fixed payment to the City, prevails, we now conclude that the Commission is governed and bound by the terms of the said Ordinance/Agreement and that the cash flow method, comprised of all items contained in Section VII of said Ordinance/Agreement, is just and reasonable for rate-making purposes in this case. Accordingly, we reject all arguments to the contrary. Nevertheless, the proposals of complainants in this regard have been made known to the City Administration and City Council through their respective representatives on this Commission.

Moreover, we further conclude that the annual payment to the City is proper and reasonable and bears a rational relationship to the gas service supplied.

This rational relationship was clearly defined by City Witness G. Edward DeSeve, Director of Finance for the City of Philadelphia in his testimony (incorporated into the record at Tr. 1440). Mr. DeSeve explained that if the City equity in PGW were invested at a long-term Treasury Bond rate of 14.5%, the taxpayers (i.e., the City) would receive approximately \$23 million. Additionally, the gas consumers

enjoy certain other benefits because the PGW is a municipally owned facility, and therefore is not subject to federal income tax, Pennsylvania Capital Stock, State Public Utility Realty Tax, and State Utility Gross Receipts Tax. In addition, PGW, being municipally owned, receives the benefit of lower interest costs on debt issuances because the interest thereon in the hands of the holders is exempt from federal and Pennsylvania income taxes. The annual impact of all of these items results in savings to the gas consumers of approximately \$36 million per year.

We accept Mr. DeSeve's rationale, and, as aforesaid, conclude that a rational relationship does exist between the annual payment to the City and the value to the consumer of the gas service supplied by the municipally owned PGW.

Further, we find and accept that the principle of "normalization" of expenses and working capital requirements does not violate the Ordinance/Agreement, as PGW argues in its main brief at p. 38.

We also find and accept, as Public Counsel advocate, the principle that rates should be based upon normal costs of operation. (Public Counsel Brief, p. 2). Thus, within the framework of the Ordinance/Agreement, the level of costs must be "projected" for the fiscal year 1981-82, since no one could possibly know what the exact actual costs

of operation for PGW at the end of the year will be (see, e.g., Tr. 953, lines 12-20).

We, therefore, accept as just and reasonable, the fundamental and widely recognized principle of utility rate making, that rates should be based upon reasonable projections of normal costs of operation and that unusual events (whether increasing or decreasing costs of operation) should be factored out. Washington Utilities and Transportation Comm. v. Washington Natural Gas Co., 32 PUR 4th 530, 534 (1979); Re: Central Maine Power Co., 26 PUR 4th, 388, 413-414 (1978); Re: Mountain State Tel & Tel Co., 25 PUR 4th 547, 549 (1978); Pittsburgh v. Pa. PUC, 208 Pa. Super 260 (1966); unless, of course, there are compelling and extraordinary reasons for consideration thereof.

This Commission recognizes, as do all parties to this proceeding, that reasonable minds may and will differ in projecting expense levels and other items for rate making purposes, since there is no standard mathematical formula for the Commission to judge the evidence and arrive at a conclusion.

Thus, by reason of numerous variable factors, which may be affected by future economic and political considerations (state of economy, inflation, deregulation, cost of fuel, interest rates, fuel assistance programs, collections, etc.) together with such other factors as

potential savings to be achieved by improved management systems, operations and practices, "belt tightening", public perception of the PGW shut-off policy, coupled with the unpredictability of the weather, there may be areas or ranges of values within which any responsible projection may be deemed just and reasonable. This range or area is the so-called "zone of reasonableness".

The Commission, therefore, in making its findings, conclusions and Order within this zone of reasonableness, has attempted, with reasoned consistency, to balance the consumer interest in receiving vital public utility service at the lowest possible rates; with the interest of the utility, (a) in receiving reasonable and sufficient rates to meet all of its reasonable costs, including capital costs, (b) in maintaining its financial integrity, and (c) in raising additional capital at reasonable cost.

In this context, it must be noted that the ultimate test of utility rates is their future impact. The United States Supreme Court has clearly stated that:

Under the statutory standard "just and reasonable" it is the result reached, not the method employed, which is controlling. (citations omitted). It is not theory, but the impact of the rate order which counts. Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 602 (1944).

Following the above reasoning, the Commission has made appropriate adjustments explicitly to reflect normal-

ized conditions, revenues and cost trends the Company will encounter during the time the rates we establish will be in effect.

III. RECONSIDERATION

We turn now to the results of our reconsideration.

In the first instance, our Order entered November 9, 1981 is not changed in any respect regarding operating revenues and expenses. We desire, however, to expand the reasons for certain of our conclusions reached therein.

In projecting Revenues PGW employs a two step process: Development of an adjustment factor and a projection of the number of customers. PGW first looks to gas usage over the past five years and then develops a monthly adjustment factor to reflect significant increases or declines in the pattern of usage. It also employs a two step process in developing this monthly adjustment factor. It then applies the five year distribution to actual weather patterns occurring in the most recent year in which a final adjustment is made, refining the multiple year data to reflect the most recent actual sales results (PGW brief, Vol. II, p. 40). Utilizing this methodology, the Company alleges it has experienced a steady decline in sales over the past five years (Tr. 2237).

Public counsel, through their witness Mr. Hagstrom, criticize the last step of PGW's "adjusting" the adjustment factor to reproduce the sales of fiscal year 1979-1980. By doing this, states Mr. Hagstrom, the benefits of looking at the five years' data is taken away (Tr. 1979). Mr. Hagstrom recommends that the Company utilize the results of the five year analysis of data on the relationship of degree days to sales, rather than on the one year they tried to recreate. Mr. Hagstrom's position, therefore, is that the Company should have relied on the analysis done on the five years of data. We agree, as aforesaid, with the concept of normalization and, accordingly, conclude that a historic period should be used.

With respect to projection of the number of customers, PGW utilized the residential heating customers at the level of customers as of June 30, 1981, with some consideration for the timing of hook-ups of commitments made to new customers (Tr. 137). It is to be noted that the Company also assumed that customers who were being shut off would return before the heating season began (Tr. 138). Since there had been some 15,000 shutoffs at the time the testimony was filed (Tr. 1369), Mr. Hagstrom, in an effort to be conservative, argues that it is not reasonable to assume that all 15,000 will return. PGW also agrees (Senek Rebuttal Testimony, p. 6; Tr. 2183). Mr. Hagstrom projects a

reduction of 5,000 residential heating customers, but agrees that to the extent that less than 5,000 stay off the system there will be more revenues available to the Company than utilized in his testimony. By reason of the aforesaid two factors, i.e., number of customers and adjustment factor, Mr. Hagstrom proposes an increase in revenues under current rates of approximately \$2.6 million -- \$2.7 million.

In view of our acceptance of the concept of normalization and the uncertainty of the projections of number of customers, we find and conclude that it is reasonable to project an additional \$1 million in PGW total operating revenues for fiscal year 1981-1982. This is well within the zone or range of reasonableness.

With respect to natural gas costs, PGW budgeted lost and unaccounted for gas at a 4.8% level to reflect a steadily rising level of unaccounted for gas (PGW Exhibit 21). Mr. Hagstrom recommended the use of 4%, which is derived from the average of the amount experienced in the past five years (P.C. 8 of August 24, 1981). We accept a projection based upon historic experience, but recognize the steadily rising level in this item. Accordingly, we find and conclude that it is reasonable to make a reduction in PGW's projection by \$600,000. This is clearly within the zone or range of reasonableness.

With respect to labor expenses, PGW's budget projection reflects abnormally high levels of overtime based upon fiscal year 1981 experience. Consistent with the principle of normalization, we agree with Public Counsel that projections based upon an abnormal period should not be relied on for projections of the future. However, in order to balance the needs of the Company and the interests of the ratepayers, we have reduced PGW budgeted direct labor expenses by \$1.2 million, which is within the range or zone of reasonableness. Likewise, and for the same reasons, we reduced the \$600,000 PGW projected indirect labor expenses for pensions, payroll taxes and insurance.

We affirm our discussion and prior finding regarding write-off of uncollectible accounts. In this regard we found the testimony of Mr. Hagstrom to be credible and reduced this expense by \$5.1 million.

The items we have addressed in reconsideration are working capital increases and provision for internally generated capital for capital improvements.

As to Accounts Receivable:

PGW cites the rising gas prices, limitation on the period in which PGW may turn off gas, the transfer of some 7,000 accounts from the Philadelphia Housing Authority and other negative factors in support of its projection (PGW Reply Brief, pp. 31-32).

We believe that the elimination of the RMA clause and provision for a levelized monthly charge, coupled with a clear perception of our policy regarding shut-offs, plus continuing vigorous collection activities by PGW should produce more positive results [P.C.-1, Schedules 1 (revised), 19 (revised), 23 (revised), 25 and 26].¹

Moreover, at the reargument, Public Counsel stressed the propriety of using a broader historical base in making our judgment as to what these numbers are likely to be at June 30, 1982. In doing that we take into account the ratios between accounts receivable, expenses for bad debts and for sales. In considering the evidence presented as to these relationships over the period of the last three to five years, and, as Mr. Hagstrom testified, we do agree that it is more reasonable to use a broader historical base. Doing so applies the concept of normalization, which, is a widely accepted principle of rate making throughout this country. Therefore, taking all of this into consideration, we now conclude that the PGW projection of an increase of \$19 million should be reduced by \$10.5 million, thereby

1. Here we take notice of the pending State Plan for this year's low income energy assistance, under which, because of a change in formula, PGW will be receiving higher grant levels this coming year than last year even though the overall allocations to the State of Pennsylvania are lower than last year. (Reargument, N.T. 81-82).

resulting in a projected increase of \$8.5 million in Accounts Receivable at June 30, 1982.

We believe this judgment is well within the range of reasonableness in this area.

As to Accounts Payable:

PGW cites the absence of major construction projects with retainages and argues that gas tax refunds are fortuitous (Reargument, N.T. 97-98). PGW also contends that if it does not pay its bills when due, it will incur interest and lose prompt-payment discounts, which will add to the burden on customers ultimately.

Public Counsel, on the other hand, stressed that Mr. Hagstrom's recommendation was extremely conservative, based on a review of historical experience over the past three years. In this connection, it was noted that the number projected by PGW for June 30, 1982 was \$7 million lower than the actual figure for June 30, 1981. Moreover, it is lower than any balance actually experienced in the last three years. We were urged to reconsider our decision, which we have done. Upon the reconsideration, we have determined it is reasonable to adjust the PGW projection upwards by \$2 million.

We believe this judgment is well within the range of reasonableness in this area.

As to Cash Balance at Year End:

At the reargument, PGW contended that its projected cash balance at June 30, 1982, was required to meet its July, 1982 bills. PGW offered a chart prepared by W. T. Senek, its Vice President of Planning, which chart showed closing cash balances in each of the years 1977 through 1982. PGW argues from the chart that its closing cash budget of \$7.5 million is much more reasonable than anything proposed by Mr. Hagstrom.

Public Counsel continued to stress the absence of any showing by PGW of reasonable business needs for a large sum of cash on June 30, 1982, particularly when the consequence of doing so is to increase rates one dollar for every dollar of cash projected to be on hand. Viewed in this context, we are now inclined to agree that the equities in this situation should weigh more heavily in favor of the ratepayer. Accordingly, balancing the competing interests, we now conclude that it would be reasonable to provide \$2 million for Cash at Year End. The effect of this is to reduce by \$5.5 million the PGW projection of \$7.5 million to \$2 million at June 30, 1982.

We believe this judgment is well within the range of reasonableness in this area.

We have thus reconsidered working capital needs for Accounts Receivable, Accounts Payable, and Cash Balance

at Year End. We come now to a reconsideration of the matter of Internally Generated Capital.

At the reargument, PGW reiterated the three important purposes served by such funds, to wit: the reduction in external funding and consequent saving in interest expense, the improvement of the coverage of earnings which is helpful to PGW's goal of holding the A bond rating, and the reduction of future debt expenses. As we have noted in our prior Opinion, we agree with these goals.

Public Counsel stressed the necessity for the Commission to balance the company's interest against the reasonable interests of rate payers. Although PGW properly is concerned about possible adverse happenings, there are countervailing circumstances regarding the health, welfare and well being of PGW's customers that we must consider.

In our Opinion of November 9, 1981, we concluded that earnings producing interest coverages in the range of 1.75 to 2.00 times are reasonably likely to achieve the goal of retaining PGW's present bond rating. In that connection, Public Counsel offered a chart from which it was argued that a rate increase of \$52 million was higher than necessary to support that finding on coverage. Specifically, the chart reflected a Comparison of Indicated Rate Increases on a Cash Basis. From this it was argued that for a coverage rate of 1.75 a rate increase of \$37.7 million was reasonable and

that for a coverage of 2.00 a rate increase of \$41.1 million was reasonable. However, that chart did not take into account our allowance to PGW of some \$12 million for purchase of a preseason tanker of naphtha. That decision we made because of PGW's vigorous argument that the purchase was essential for public safety and convenience, against the possibility of a design winter. We concluded, and reiterate, that we cannot and will not lightly disregard serious contentions by PGW that public safety and convenience would be jeopardized.

When the subject of the purchase of the preseason tanker of naphtha was recalled to Public Counsel at the reargument, he acknowledged that this would make for an indicated rate increase somewhere between \$49.7 million and \$53.1 million (Reargument, N.T. 78). In this context, Public Counsel urged that the finding with respect to coverages has a logical connection with the ultimate exercise of judgment by the Commission with regard to the overall level that should be permitted in these areas.

In viewing the item of Internally Generated Capital, Public Counsel suggested that the proper way to do it was to look at it as the number that comes out after looking at all other items in the rate case. That is so, Public Counsel argued, because on this particular issue the connection with the coverages is most direct. If for some compel-

ling reason we have allowed greater amounts of rate payer-supplied capital for the naphtha purchase, we then have the greatest amount of discretion in considering Internally Generated Capital. To the extent we have provided working capital for purchase of naphtha, Accounts Receivable, or Accounts Payable, we have increased coverages. In considering Internally Generated Capital we will be adding further to the coverage and should not make it higher than what we have found to be just and reasonable.

All the considerations regarding coverage expressed in our Opinion of November 9, 1981, remain important. On balance, it now seems just and reasonable to us to adjust this figure to make it accord in a general way with our overall goals and objectives regarding coverage. That was Mr. Hagstrom's approach in testifying during the course of the hearing. Although he recommended a significantly smaller number than PGW, he recognized the desirability of providing a substantial amount of money for internally generated capital.

Having carefully considered all of this, we faced the question of what is just and reasonable in terms of overall earnings. We are now convinced that a provision of \$6 million is a just and reasonable balance among all the competing considerations. This means a reduction of \$8.0 million from PGW's request for \$14 million, so that in gen-

erating funds for capital improvements, of the total of \$50.4 million provided by PGW, \$6 million will be provided by the ratepayers as internally generated capital and the balance of \$44.4 million will have to be provided by capital improvement loans and/or other sources.

We have attached to our Supplemental Order a Cash Flow Analysis which sets forth the PGW projections, Mr. Hagstrom's projections, and the Commission's adjustments as contained in the Order entered November 9, 1981 and as modified herein. In sum, we have now provided for a rate increase of \$51.7 million.

At this point, no one can tell what this winter will bring. By next April 30, 1982 we will know in fact the results of the winter. Therefore, we have directed PGW to file with this Commission by April 30, 1982, all documentation necessary to evaluate what occurred, and to begin projecting revenue requirements for fiscal year 1982-83.

We will have this information two months before July 1, 1982. This will enable us to consider and timely establish just and reasonable rates for that fiscal year, in light of the actual experience this winter.

IV. LEVELIZED GAS COST RATE COMPUTATION

At the reargument, in accordance with our request, PGW presented an explanatory statement regarding its proposed Levelized Gas Cost Rate Computation for the interim year 1981-82, and subsequent years.

We see no need for an additional hearing in connection with the computation for the interim year 1981-82. The elements employed in that computation have already been reviewed in this hearing. What is important to note here is that PGW cannot make any changes in G.C.R. during the interim year without our prior approval.

For subsequent years we will have adequate opportunity when PGW submits its proposed computations, to question them, withhold our approval and stay the effectiveness thereof, if appropriate. We believe this procedure is consistent with Public Utility Commission procedure and will enable us to supervise and control the manner in which the computations are made in subsequent years.

V. PGW's CLAIM FOR FEES

CEPA, et al. have raised questions regarding PGW's claim for fees. Before dealing with these specifically, we note that in PGW's Summary of Present and Revised Tariff, the following is proposed:

"The customer will be responsible for contributing 25% of the total estimated cost of facilities to bring gas service to the premises."

Under the present Rule, the percentage of the total cost paid for by the customer decreases as the quantity of gas to be taken increases. PGW cited the Stone & Webster recommendation that this Rule be modified to avoid

penalizing builders who add conservation devices to their structures. Based on considerations of practicality, PGW proposes that customers pay a fixed 25% of the cost of extending service.

CEPA witness Proul objected to this revision, but offered no specifics as to how her proposal should be implemented or what effect, if any, it would have upon cost. Nor did she address the substantial administrative difficulty and expense in carrying out her proposal. We agree with PGW that the record does not contain sufficient evidence for us to adopt Ms. Proul's suggestion. Therefore, we approve this proposed revision by PGW.

Now, we deal with CEPA's questions seriatim:

1. Charge-for-Service

PGW has proposed a revised policy on customer service calls. Effective January 4, 1982 customers requesting service on their piping or equipment would be charged \$5 per service call. PGW would exempt from this service charge policy calls on leaks, other odor complaints, meter problems or other circumstances determined to be the company's responsibility. We believe this language clearly manifests PGW's intention not to charge for any service if the cause is attributable to PGW and not to the customer.

In reviewing this proposal, the Commission is very much concerned that no one should under any circumstances

refrain from contacting PGW if a leak or other danger is suspected. The proposed revision seeks to deal with this by exempting such calls from the service charge. However, in order to be certain, and on an experimental basis only, we are directing PGW to provide up to three free calls per year for this category, and to so provide in its Compliance Tariff. We will review this matter again promptly after April 30, 1982 and take whatever further action, if any, may then seem appropriate.

2. Meter Tests

PGW proposed to charge \$25 for meter tests. This charge is not opposed by CEPA (letter dated November 23, 1981 from CEPA's counsel). We find it to be reasonable. However, the fee should be returned to the customer if the test establishes that the meter is fast or slow beyond the existing allowed tolerance.

It has been suggested that this area may be one for further consideration in evaluating the possibility of joint meter readings for PGW and the City Water Department. This remains for future consideration.

3. Customer Requested Shut-Off and Turn-On

This deals with temporary discontinuance of gas service at the customer's request. Here we approve PGW's proposed revision from a present charge of \$20 to a revised charge of \$55. Where possible, PGW should seek to inform

customers regarding safety and cost savings in having service shut-off and turned-on, so that customers may determine if the savings realized would exceed the charge.

4. Turn-On Charge

PGW has proposed an increase over the present charge from \$10 to \$30, for restoration of service to a customer after a shut-off for nonpayment and a repayment agreement or some other agreement has been reached with the customer. In order to make it possible for customers in such situations to comply with their agreements, we find that this increase should be limited to \$20.²

5. Processing of Returned-Check-Fee

PGW proposed to charge \$5 for a returned check to reimburse PGW for the cost of handling and administration. We believe this to be reasonable and so find.

VI. LBS-L RATE

Several of PGW's interruptable customers are able to burn either gas or fuel oil to meet their energy needs. For these customers, PGW's Tariff contains a special rate which prices the gas supplied to these customers based on a certain maximum discount (currently 20%), related to the

2. At this point we clarify our reference to turn-offs and "applicable state law". State law does not mandate the conditions under which PGW does or does not turn-off, except for Tenants Act problems. PGW is governed by the existing regulations regarding turn-offs. (Reargument, N.T. 115-116).

posted price of No. 6 fuel oil. PGW states that this flexible pricing approach allows it to compete with oil suppliers for these important sales. By keeping these customers, PGW increases its revenue and thereby reduces the need for rate relief from other customers.

CEPA witness, Dr. Schwartz, objected to this discount but did not analyze PGW's particular situation. We believe the justifications for this discount are reasonable, and we approve it. (PGW Init. Brief, Vol. II, pp. 91-93).

VII. SUPPLEMENTAL ORDER

AND NOW, this ____ day of November, 1981, upon a careful reconsideration of the record, including the matters argued by counsel on November 19, 1981, IT IS ORDERED that:

1. Philadelphia Gas Works is hereby authorized and directed to increase its rates, consistent with this Supplemental Opinion and Order to produce \$51.7 million in additional revenue during fiscal 1981-82. This increase shall be allocated on a volumetric basis, and shall become effective upon the filing by PGW with this Commission of a revised Tariff complying in all respects with this Supplemental Opinion and Order.

2. The rates authorized by this Order shall remain in effect until further Order of this Commission.

3. PGW forthwith shall file with this Commission for its review and approval a revised Tariff complying in all respects with this Supplemental Opinion and Order.

4. PGW forthwith shall file with this Commission for its review and approval, a Tariff and Proof of Revenue complying in all respects with this Supplemental Opinion and Order, establishing a Gas Cost Rate (GCR) to replace the present Raw Material Adjustment charge. The GCR for the balance of fiscal year 1982 shall become effective upon the filing by PGW with this Commission of such Tariff.

5. PGW forthwith shall file with this Commission for its review and approval, a revised operating budget for the fiscal year ending June 30, 1982 consistent with the provisions of this Supplemental Opinion and Order.

6. PGW is hereby authorized and directed to file a Tariff for Fees for Services consistent with the provisions of this Supplemental Opinion and Order.

7. The complaints, proposals and adjustments filed against the increase in the rates authorized to be charged by PGW are sustained insofar as they are consistent with this Supplemental Opinion and Order; and are otherwise denied.

8. Except as modified herein, our Order entered

November 9, 1981 remains in full force and effect.

PHILADELPHIA GAS COMMISSION

By: _____ Chairman

_____ Member

_____ Member

_____ Member

_____ Member

Philadelphia Gas Works Rate Increase Request
Cash Flow Analysis
(Amounts in millions of dollars)

	P.G.W. Request	Consultant Recommendation	Commission Adjustments	Commission Allowance (1 - 3)
	(1)	(2)	(3)	(4)
	\$	\$	\$	\$
REVENUES				
Current Rates	470.2	472.8	1.0	471.2
Proposed Rate Increase ...	<u>86.2</u>	<u>26.0</u>	<u>(34.5)</u>	<u>51.7</u>
Total Revenues	<u>556.4</u>	<u>498.8</u>	<u>(33.5)</u>	<u>522.9</u>
EXPENSES				
Natural Gas	304.5	303.3	(0.6)	303.9
Raw Materials	19.6	18.0	-	19.6
Labor	56.2	53.8	(1.2)	55.0
Pensions	15.5	15.0	(0.3)	15.2
Other	49.0	43.1	(5.4) ^a	43.6
Total Expenses	<u>444.8</u>	<u>433.2</u>	<u>(7.5)</u>	<u>437.3</u>
NET FUNDS	111.6	65.6	(26.0)	85.6
OTHER SOURCES OF FUNDS				
Capital Improvement Loans .	36.4	45.3	8.0	44.4
Working Capital Loans ...	20.0	-	-	20.0
Other Income	21.8	19.8	-	21.8
Beginning Working Cash ..	.1	-	-	.1
Total Funds Available .	<u>189.9</u>	<u>130.7</u>	<u>(18.0)</u>	<u>171.9</u>
FUNDS APPLIED				
Capital Improvements	50.4	50.4	-	50.4
Debt Service	37.5	44.1 ^c	-	37.5
Working Capital Loans ...	48.4	22.5 ^d	-	48.4
Inventory Requirements ..	8.6	(3.4) ^d	-	8.6
Other Working Capital Require- ments	18.8	(1.3) ^d	(12.5) ^b	6.3
Payment to City	18.7	18.0	-	18.7
Total Funds Applied ..	<u>182.4</u>	<u>130.3</u>	<u>(12.5)</u>	<u>169.9</u>
ENDING WORKING CASH	<u>7.5</u>	<u>.4^d</u>	<u>(5.5)</u>	<u>2.0</u>

Source: Column 1 - Initial Brief of P.G.W., Volume II, page iii
Column 2 - Exhibit PC-1 Schedule 1 Revised. Note: Funds Applied Section restated to conform to P.G.W. format

^aAdjustment consists of \$5.1 for appropriation for uncollectible accounts and \$0.3 for indirect labor expense

^bAdjustment consists of \$10.5 Accounts Receivable balance decrease and \$2.0 Accounts Payable increase

^cConsultant allowed: Interest expense \$31.6
Funded debt reduction 12.5
\$44.1

^dConsultant allowed \$18.2 million for all working capital increases. Based on P.G.W. format, this would be as follows:

Working Capital Loans	\$22.5
Inventory decrease	(3.4)
Other Working Capital Requirements:	
Accounts Receivable increase	\$2.2
Other working capital charges	(3.5)
Ending Working Cash	<u>.4</u>
	<u>\$18.2</u>

hearings. In addition, three citizens' organizations; Consumer Education and Protective Association, Association of Community Organizations for Reform Now and Action Alliance of Senior Citizens appeared and were represented by counsel.

The Commission, pursuant to due public notice, scheduled a pre-hearing conference on May 19, 1982 which was attended by all parties. Provision was made for pre-hearing discovery. Thereafter, a total of 15 days of hearings were held in Philadelphia, including a public session on July 15, 1982, at which PGW's ratepayers and other interested members of the public presented their views and comments on the proposed increase.

During the course of the proceeding, PGW introduced the written and oral testimony of eight witnesses and submitted 68 exhibits. Opposing parties presented four witnesses, 69 exhibits and various schedules. In addition, City of Philadelphia Finance Director Rodney L. Johnson, appeared on July 23, 1982 as a Commission witness. The record was officially closed on July 28, 1982, and Briefs and Reply Briefs were filed by the parties.

Oral Argument before the Commission en banc was held on August 23, 1982, and, in addition, a PGW witness presented further testimony as to PGW's Gas Cost Rate submission. The complete record, now before the Commission, consists of 2654 pages of transcript.

After hearing oral argument for almost a full day, and analyzing and considering this voluminous transcript of testimony, the exhibits and briefs, the Commission is now confronted with a most difficult and onerous task. We must fairly resolve the very serious and complex issues raised by the parties, in order to determine just and reasonable rates.

Over a number of days, this Commission has spent many hours considering, and, indeed, agonizing over the logic of stubborn facts and the emotional but sincere presentations made at the Hearings by ratepayers, associations and other interested parties who appeared and presented their views. Although their prime concern was the proposed rate increase, a number of witnesses also stressed the need for energy conservation.¹ We were truly impressed with the plight of these witnesses. However, in exercising our duty, both the Commission and public are confronted with the inescapable fact that gas bills are reflecting the huge increase in the cost of natural gas in recent years under the process of deregulation initiated in 1978. Indeed, the cost of natural gas represents more than 60 percent of

1. The Commission has made clear its view that energy conservation is a matter of the highest priority for everyone. Anticipating that this Rate Case would be completed early in September 1982, the Commission has already scheduled public hearings on the subject of conservation for September 13 and 14, 1982.

PGW's expenses. We reiterate that neither the Commission, nor the Mayor, nor the City Council has any direct control over the price of natural gas. Gas consumers and their representatives should be expressing their concern to the President and Congress in Washington, D.C. who do have the power and authority to control the price of natural gas.

We do, however, have the power and the duty to require PGW to tighten its belt, adopt cost-cutting measures, freeze manpower expense levels, improve collection of delinquent accounts receivables, operate on a more efficient basis, set achievable operating goals, manage its funds more prudently; while at the same time providing adequate, safe, reliable service to the public at the lowest possible cost; and, in addition, to allow the Company to achieve sufficient earnings to meet its obligations, attract capital and provide sufficient and adequate debt service coverage to maintain its bond rating.

In adopting this approach, the Commission specifically recognizes that there are many customers who honestly desire to pay their gas bills, but, who, by reason of legitimate economic reasons, are unable to do so. The majority of ratepayers who conscientiously pay their bills, should not be saddled with excessive rates to cover the delinquencies of those who can not or will not.

Appropriate remedial social assistance must be afforded for those who truly are unable to pay. At the same time, appropriate remedial action by way of strengthened customer service regulations must be adopted to deal with those who are able, but unwilling to pay for their gas usage.

This Commission further recognizes that while there is a need to keep gas rates from unjust and unreasonable escalation, the financial integrity of PGW must be maintained. This is essential in order to preserve the "A" ratings of PGW bonds by providing for sufficient earnings, by taking effective steps to increase collections, by setting management goals and objectives, and by prudent and efficient money management; all designed to satisfy the rating agencies that the interests of bondholders are being adequately protected.

II. STANDARD TO BE APPLIED IN SETTING RATES

PGW maintains that the method by which rates are to be set is established in Section VII of the PFMC/City Agreement, and is the so-called "cash flow" method. PGW cites the prior Commission Order dated November 27, 1981, pp. 7-8; and Action Alliance of Senior Citizens v. Philadelphia Gas Commission, 45 Pa. Cmlth. 234, 390 A.2d 1155 (1979), to support its position.

Section VII, paragraph 1 of the Agreement requires, inter alia, that the Commission fix and regulate rates and charges for supplying gas to customers which will in each fiscal year produce revenues, at a minimum:

- (1) Sufficient to pay all of the operation and maintenance costs and expenses of conducting the Gas Works Enterprise and to pay the interest and amortization becoming due in each fiscal year on debt incurred for the Gas Works.
- (2) Sufficient also to make base payments to the City.
- (3) To provide appropriations for prepayment of debt and for capital additions which have been determined by the Gas Commission to be reasonable and which have been approved by City Council; and
- (4) To provide cash, or equivalent for working capital in such reasonable amounts as may be determined by Company to be necessary and as shall be approved by the Gas Commission.

Public Counsel concedes that the Management Agreement requires that PGW revenues be sufficient to cover the aforesaid items, and acknowledges that a serious cash flow problem exists (PC Brief, p. 8). However, Public Counsel suggests that an alternative approach to the cash flow method of accounting be utilized (PC Brief, Sections II, III and IV).

Thus, there is no dispute between PGW and Public Counsel as to the existence of a cash flow problem (PC Brief, p. 8). However, there is a substantial dispute about how to resolve it.

PGW insists on a literal cash-flow methodology to establish a revenue requirement, while Public Counsel maintains that it is more appropriate to establish rates by the accrual method. Public Counsel suggests that an appropriate level of earnings be established for PGW which should, under normal conditions provide sufficient cash flow to meet PGW's needs, and the requirements of the Management Agreement (PC Brief, p. 25).

Public Counsel argues that PGW's method provides excessive coverages and earnings to solve the problem and is the least equitable solution, and that a more balanced approach is possible which will moderate the rate increase but which will be just as effective in resolving the cash flow problem (PC Brief, p. 14).

PGW argues that Public Counsel Witness' methodology is complicated, confusing (PGW Initial Brief, p. 3) and indeed contravenes the Management Agreement (PGW Initial Brief, p. 2; and PGW Reply Brief, pp. 12-14).

In the final analysis, PGW sets its rates by determining its revenue requirement on the cash-flow method. It then tests the projected revenues to determine whether

they provide adequate debt service coverage (Katz, Schedule XXII). Public Counsel witnesses, on the other hand, set rates by determining PGW's revenue requirement based on a debt service coverage recommendation (Belmont, Schedule 1) and, then, tests whether those earnings provide adequate cash-flow to PGW, to cover all requirements of the Management Agreement (Hagstrom, Schedule 2) (PC Brief, pp. 26, 27), utilizing an accrual method of accounting (PC Brief, pp. 27-30).

This Commission, in determining what rates to approve, both in the past and in the present case, has applied and continues to apply the standard that the rates to be charged the customers of PGW must be just and reasonable. This Commission will not be deterred in its duty by the application of labels. In this context, we find it unnecessary to be strictly bound by technical accounting terminology. We have examined each and every projected item of expenditure to determine its prudence, and whether such projection falls within the so-called zone of reasonableness, which hereinafter we discuss more fully. Just and reasonable rates require the establishment by this Commission of a proper balance between the interests of the consumers in receiving essential public utility gas service at the lowest possible rates, and the interest of the utility in receiving sufficient rates to meet its reasonable ex-

penses and capital needs. F.P.C. v. Hope Natural Gas Co., 320 U.S. 591 (1944); F.P.C. v. Natural Gas Pipeline Co., 315 U.S. 575 (1942).

We recognize that we are governed by the requirements of the Management Agreement that the rates we establish must be sufficient to produce revenues to cover all of the items contained in Section VII thereof reasonably projected and, indeed, the revenue level herein established is reasonably designed to do so.

Further, we reiterate our acceptance of the principle of "normalization" and find that this does not violate the Management Agreement. Thus, the level of costs must be estimated for the fiscal year 1982-83, since no one can know now exactly what the actual costs of PGW's operation will be at the end of the year.

We, therefore, accept as just and reasonable, the fundamental and widely recognized principle of utility rate making, that rates should be based upon reasonable projections of normal costs of operation and that unusual events (whether increasing or decreasing costs of operation) should be factored out. Washington Utilities and Transportation Comm. v. Washington Natural Gas Co., 32 PUR 4th 530, 534 (1979); Re: Central Maine Power Co., 26 PUR 4th 547, 549 (1978); Pittsburgh v. Pa. PUC, 208 Pa. Super 260 (1966); unless, of course, there are compelling and extraordinary reasons for consideration thereof.

This Commission recognizes, as do all parties to this proceeding, that reasonable minds may and will differ in projecting expense levels and other items for rate making purposes. There is no precise mathematical formula for the Commission to employ in judging the evidence and arriving at a reasonable conclusion.

Thus, by reason of numerous variable factors, which may be affected by future economic and political considerations (state of economy, inflation, deregulation, cost of fuel, interest rates, fuel assistance programs, improved collections, etc.) together with such other factors as potential savings to be achieved by improved management systems, operations and practices, "belt tightening," public perception of the proposed strengthening of Customer Service Regulations to reduce delinquencies and accounts receivable, coupled with the unpredictability of the weather, there may be ranges of values within which responsible projections may be made and deemed just and reasonable. This range is the so-called "zone of reasonableness".

The Commission, therefore, in making its findings, conclusions and Order within this zone of reasonableness, has attempted, with reasoned consistency, to balance the consumer interest in receiving vital public utility service at the lowest possible rates, with the interest of the utility, (a) in receiving reasonable and sufficient rates to

meet all of its reasonable costs, including capital costs, (b) in maintaining its financial integrity, (c) in raising additional capital at reasonable cost, and (d) in maintaining its bond rating. Federal Power Comm. v. Hope Natural Gas, 320 U.S. 591, 602 (1944).

In this context, it must be noted that the ultimate test of utility rates is their future impact. The United States Supreme Court has clearly stated that:

Under the statutory standard "just and reasonable" it is the result reached, not the method employed, which is controlling. (citations omitted). It is not theory, but the impact of the rate order which counts. Federal Power Commission v. Hope Natural Gas Co., supra.

Following the above reasoning, the Commission has mandated and made appropriate adjustments to reflect more prudent money management, a labor expense freeze, normalized costs of operations, revenues and cost trends and projected improved collections of delinquent accounts receivables. These adjustments involve essentially discrete items which we will consider seriatim.

III. OPERATING EXPENSES

A. Labor and Fringe Costs

PGW has projected Labor and Fringe Costs for fiscal 1983 at \$94.4 million dollars which includes pension expenses, payroll taxes, insurance expenses and the estimated effects of an assumed 8% wage increase as a result of

labor contract negotiations scheduled for Spring 1983.

These PGW projections are based upon an estimated average labor force of 2828 employees in fiscal 1983 which represents an increase over the average of 2693 employees during fiscal 1982 (PGW Initial Brief, pp. 45-53, and PGW Exhibits C-3, C-4, C-5 and Knight Testimony, p. 12).

PGW asserts that this increase is necessary to (1) expand the Company's energy conservation program, (2) more effectively collect accounts receivable, (3) reduce the theft of gas, and (4) provide expanded information to the Gas Commission and PGW's customers (PGW Exh. JMD-6, p.1 and PGW Initial Brief, p. 46). PGW introduced various detailed exhibits to explain and justify its need (PGW Exhibits JMD-2a to JMD-2(i)).

Public counsel argues that such a manpower increase is entirely inconsistent with PGW's historical level of manpower over the last several years (Hagstrom, Schedule 21), and disregards the economic realities facing PGW and its customers (PC Brief, p. 57). Public Counsel further maintains that increases in labor expenses cannot be justified in a period where PGW is facing cash flow problems due in part to dramatic increases in the price of gas at the source, which are reflected in increased collection problems, and a lower trend in sales and customer growth (PC-13, 14 and Tr. 121 et seq.; PC Main Brief 58-59). Accordingly,

Public Counsel urges this Commission to require that PGW budget labor expense in fiscal 1982-1983 at a level equal to the historical actual, average of 2693 employees experienced during the 1981-1982 fiscal year period. (Hagstrom, Sch. 21; Test. V-9, 10). To this end, Public Counsel recommends an adjustment of \$4.522 million dollars to the labor expense, together with related reductions of \$1.067 million dollars in pension expense, \$237,000 in payroll taxes, and \$411,000 in insurance expenses; aggregating a total reduction of \$6.237 million dollars in projected Labor and Fringe Cost expenses.

In our Order of November 10, 1981, pp. 18-19, we articulated "a commitment by this Commission and the management of PGW to do all that is required - including 'belt tightening' and even austerity measures where appropriate - to achieve the desired level of earnings on a consistent basis in the future without putting an undue burden on ratepayers."

A review of the testimony and exhibits leads us to the inescapable conclusion and finding that although productivity in certain departments may be improving (TR 267-68; 274), the measure utilized by the Public Counsel witness indicates that gross productivity is not. (PC-13).

We conclude and find that there is a present compelling need to impose austerity and belt tightening

measures in this area of expense. PGW must recognize economic realities. Costs of operation must be controlled. A cap must be placed upon manpower expenditures. General wage increases of the magnitude suggested by PGW are inconsistent with the current economic climate and the recent city labor contracts. Overtime expenses must be closely monitored, tightly controlled, and eliminated where possible. The significance of this approach is dramatically evident when we see that this Commission's interim Order freezing manpower at an average level of 2725 employees during the July and August 1982 period, already has saved \$442,000, which PGW acknowledges. Additional annual savings are now mandated.

Public Counsel has recommended reduction of \$6.2 million dollars in labor and related expenses. We have concluded that a reduction of \$5.5 million dollars is appropriate. We have spared from the proposed cut \$700,000 because we want PGW to collect its accounts receivable more vigorously and effectively, and we want PGW to expand its energy conservation program. Therefore, we direct that this \$700,000 sum is authorized to be expended for those two activities only.

In practical effect, we have frozen PGW's Labor and Fringe Cost expense at the 1981-82 average payroll cost per employee, but allowed \$700,000 for collection and conservation efforts.

It is our considered judgment that this adjustment will provide PGW with the ability to furnish adequate service to its customers, to continue with existing as well as implementing new conservation programs; and vigorously to improve collections of delinquent accounts receivable. We reiterate, however, PGW, like its customers, must live within its authorized budget.

B. Appropriations for Uncollectible Accounts

Although this is an operating expense, we defer discussion of this item to our consideration of Working Capital requirements, hereinafter more fully set forth.

C. General Materials Expense

PGW has budgeted General Materials Expense of \$8,452,000 for fiscal year 1983, which is an 0.5% increase over fiscal 1982 (PGW Exh. C-5). This projection is based upon the level of expense incurred for the 12 months ending June 30, 1982, adjusted for inflation at an annual rate of 9.86 percent for the fourteen month period ending August 31, 1983, less a \$900,000 adjustment to reflect a change in accounting procedure. PGW explained that due to the change of fiscal year, inflation adjustments must reflect the 14 months period from June 30, 1982 to August 31, 1983. PGW therefore used an 11.5 percent factor for the 14 month period, which PGW alleges reflects an annual inflation rate of 9.86 percent (PGW Knight Test. pp. 9-10).

Public Counsel recommended that these expenses be reduced because the 11.5 percent inflation factor employed by PGW is too high. Public Counsel pointed out that this inflation factor is greater than actually experienced in 1981-1982 and is much too high to reflect the current lower inflationary expectations (Hagstrom Test. V-11-13). Accordingly, he recommended a reduction of \$673,000 in this expense based upon an inflation factor of 50 percent of the 1982 actual inflation experience. (Hagstrom-Schedule 18).

PGW responds that the maximum adjustment supported by Public Counsel's assumptions is only \$277,280.

This Commission concludes that a reduction in General Materials Expense in the amount of \$350,000 is reasonable because of the reduced rate of inflation, general economic conditions and the Commission's mandate to PGW that expenditures in all areas of operations must be tightly controlled.

IV. OTHER SOURCES OF FUNDS

A. Other Income

1. Interest Income on Capital Improvement Fund

PGW projected interest income from its capital improvement fund in the amount of \$3.7 million dollars. Public Counsel initially increased this projected interest income by \$525,000 to reflect the additional interest income to be received by PGW as a result of its decision not to

withdraw some \$22.5 million dollars from the fund.

(Hagstrom-Schedule. 6).

In addition, the Public Counsel also proposed an additional \$103,000 increase in interest income from this fund to reflect the assumption that all available interest income on the fund is withdrawn. PGW has not opposed this latter adjustment (PGW Initial Brief, p. 56). However, PGW continues to press its objection to the initial adjustment of \$525,000, claiming that if the \$22.5 million dollars is not withdrawn from the fund, PGW must obtain its funds from another source, which will require it to incur additional interest expense. In this regard, however, PGW presented no convincing evidence on the projected cost of this alleged additional interest expense. Nevertheless, the Commission in a conservative approach and certainly within the zone of reasonableness, finds that in the aggregate an adjustment of \$300,000 is reasonable.

2. Interest on Temporary Investments

Initially, Public Counsel recommended a reduction in interest income on temporary investments by \$500,000, to reflect the differential between PGW's rate increase request of \$58 million dollars and the witness Hagstrom's recommendation of \$15 million dollars (Hagstrom Direct, p. V-12).

When Hagstrom increased his rate recommendation to \$23.9 million dollars, he eliminated entirely any reduction. PGW claims this was erroneous (PGW Initial Brief, pp. 56-57).

The Commission accepts Public Counsel's contention that the additional revenues provided for in Hagstrom's final rate recommendation, if invested at the assumed interest rate and time, will yield earnings to approximately offset the original downward adjustment (PC Reply Brief, p. 12; Tr. p. 2185). PGW presented no convincing evidence to the contrary.

Accordingly, the Commission makes no adjustment in this item.

3. Sinking Fund Withdrawal

PGW budgeted withdrawals of earnings on Revenue Bond Sinking Fund Reserve during fiscal year ending August 31, 1983 at \$6.9 million dollars (PGW Exh. D-3). This does not represent all earnings projected for this fiscal period.

Public Counsel proposes an upward adjustment of \$1.2 million dollars representing the additional draw down of all earnings on the Fund (Hagstrom-Schedule 7; and Hagstrom Direct p. V-13).

PGW contends that the recommended adjustment fails to recognize the fact that the level of funds required in the sinking fund reserve varies with the present market value of the bonds in the fund. Thus, PGW argues that if interest rates rise, the market value of the bonds will fall, and certain earnings will have to remain in the fund (PGW Initial Brief, p. 57).

This Commission, as well as all parties to this proceeding, have recognized that these matters, especially relating to predictions of interest rates, are largely judgmental in nature; and, if interest rates may rise (as PGW contends), so may they fall. Indeed, administrative notice may be taken of that very phenomenon at this time.

The Commission concludes that in the interest of the ratepayer, as much as can be prudently withdrawn, and we emphasize the word "prudently", from the earnings on this fund, should be withdrawn, recognizing at the same time, that some reasonable provision should be made for market fluctuations in interest and bond values.

Accordingly, we adjust upwards the sinking fund withdrawals by \$600,000, thereby reducing the need for rate relief by this amount. We find this adjustment to be clearly within the zone of reasonableness.

4. Beginning Working Cash

When PGW filed its rate request on May 4, 1982, it projected Beginning Working Cash for its new fiscal year commencing September 1, 1982 at \$3.1 million dollars.

During the stub period of July and August 1982, created by the change in PGW's fiscal year which previously ended June 30, 1982, PGW proposed to hire some 103 new employees.

To emphasize the need for a tighter control on expenditures, this Commission entered an Interim Order on June 1982, freezing employment at an average level of 2725 employees during the stub period, and pending the final decision in this case. This freeze order has already resulted in savings to PGW of \$400,000 (Hagstrom-Schedule 9) which all parties recognize.

Accordingly, we hereby adjust upward by \$400,000 the Beginning Working Cash of PGW from \$3.1 million dollars to \$3.5 million dollars, thereby reducing the need for rate relief by that amount.

V. WORKING CAPITAL

This aspect of the rate case involves the two largest items in dispute; namely, Inventory Requirements and Accounts Receivable. We shall consider each separately.

A. Inventory Requirements

PGW obtains natural gas under long-term flowing gas contracts with Transcontinental Pipeline Company (Transco) and Texas Eastern Transmission Company (Tetco). These long-term contracts, according to PGW, constitute its least expensive source of firm supply, and the contract amounts are available each day of the year. Under the contracts, PGW must pay a penalty for takes in excess of the daily contract amount, and must pay a minimum charge if a designated percentage of the gas available is not taken, in some

cases monthly and in others over the course of the contract year. To gain the full benefit of this relatively low cost supply, PGW has entered into gas storage contracts, whereby pipeline gas which is available under the supply contracts, but which is not needed during the summer months, is injected into storage and withdrawn in the winter to meet the heating load more economically. This permits PGW to depend less on more costly supplemental gases, such as SNG and LPG during the winter. PGW contends that in order to keep rates as low as possible, it attempts to fill all available storage prior to the beginning of the winter heating season (PGW Initial Brief, pp. 17, 18; Senek Direct, p. 10; PGW Exh. WTS-9).

PGW further explained that pipeline gas is available to PGW for storage only when it is not required to meet current supply needs. When the weather becomes colder in the fall, less is available for storage since more is required for the then current demand. Thus, in order to ensure that storage injections are not hampered or prevented by abnormally cold weather, they must begin as early as possible in the off-peak season, and be limited only by the maximum contractual allowances, or current sendout requirements (PGW Exh. WTS-9). PGW contends that this is prudent and responsible planning and results in maximum economic benefit.

Payment for the bulk of the storage gas is made by PGW at the time of injection, but payment from customers is not received by PGW until after the gas is withdrawn and consumed. Therefore, PGW requires working capital to finance these inventory additions.

PGW contends that the increase in inventories and working capital requirements from year to year must be funded from rates so that PGW can balance its budget in accordance with PFMC Ordinance Agreement (PGW Initial Brief, pp. 18-19; PGW Exh. A, line 20; Exh. E-2).

For fiscal 1983, PGW projects a growth in this inventory/working capital requirement in the amount of \$11.260 million dollars which includes natural gas inventories and other raw materials (PGW Exh. E-2). PGW attributes the magnitude of the increase largely to price escalations for pipeline gas, which are beyond its control (PGW Initial Brief, p. 19).

Public Counsel recommends a two-fold modification to PGW's gas inventory management, which is designed to reduce inventory working capital requirements and have a cash flow impact of \$17.4 million in fiscal 1982-83 (Hagstrom Direct, pp. V-2 to V-7 and Sch. 11). In addition, this is calculated to produce in savings to ratepayers of \$6.297 million dollars in natural gas expense (Hagstrom Sch. 1, line 1 and Schedule 20).

First, Public Counsel suggests that PGW delay injections into storage in order to conserve cash, as was done by PGW in the current fiscal year (Tr. 37, 1173, 1662 and Hagstrom Direct p. V-2). This recommendation, according to Public Counsel will reduce and defer costs, while still protecting the needs of PGW's customers (P.C. Brief, p. 73b).

Second, Public Counsel suggests that PGW utilize its WSS storage gas, which was paid for in prior years. Public Counsel points out that PGW's present plan, under normal and design winters (PC-23) assumes almost no usage of this WSS gas, while it makes current purchases of gas to serve customers. If PGW would utilize this WSS gas, it would be able to avoid purchasing equivalent amounts of CD-3 gas at continuing escalating costs, and save almost \$5 per mdt for every mdt not purchased in the current year. In addition, since the accrued expense charged for the WSS storage gas is at a lower average inventory value than the costs that would be incurred by purchasing new gas, there is a significant expense reduction as well. (PC Brief, p. 73b). The aggregate natural gas expense reduction would be \$6,297 million dollars. This would lower the GCR for fiscal 1983. We will discuss the GCR in greater detail in the GCR section of this Adjudication.

PGW urges this Commission to reject the delayed injection and WSS gas utilization proposal. PGW contends that the proposal will be much more costly for ratepayers in fiscal 1984, since any delayed injections in fiscal 1983 would require PGW to purchase higher priced gas in fiscal 1984 at an additional cost of approximately \$1 million dollars. In addition, it would result in a loss of an estimated \$1.3 million dollars of LBS sales because PGW would be required to run its LNG plant later in the Fall (PGW Initial Brief 21-23; PGW Exh. JMD-8; Tr. 1541-42). It would also hinder the transfer of personnel from the LNG to the SNG plant and prevent the proper training of SNG personnel (Tr. 1540-41).

Public Counsel responds that PGW has done no in-depth study, projection, plan or model to determine fiscal 1984 gas needs. All that is known, argues Public Counsel, is that demand will drop as a result of increasing prices, while gas availability appears to be increasing (PC Brief, p.73f and Reply Brief, pp. 13-14). In any event, PGW's projected increased costs after September, 1983 constitutes an improper out of period adjustment. With regard to the LNG plant operation, Public Counsel contends that PGW offers no operational reason not to delay LNG liquefaction as long as possible, but only that it will require more careful planning and personnel management (PC Brief, pp. 73e-73f).

PGW next argues that the delayed injection proposal directly conflicts with and violates Transco's gas supply tariff, with respect to injection rates (PGW Initial Brief, p. 22; TR 1542-3); and withdrawal constraints (PGW Initial Brief, p. 24); and in addition, that Transco projects supply curtailments for the period November 1983 to October 1984, so that PGW's ability to fill its storage for the 1983-1984 winter would be jeopardized (PGW Initial Brief pp. 22-23; Tr. 1542-43).

Public Counsel replies that his proposal assumes an injection rate at least as low as PGW's plan or model. (TR. 2206), and thus, there will be no violation of permissible tariff injection rates. Moreover, there will be no tariff violation on withdrawals if the gas is withdrawn over 85.6 days instead of the 70 originally assumed in Public Counsel's proposal. That is, PGW could merely begin withdrawals earlier and continue longer, and achieve the same savings and cash flow impact. (PC Reply Brief pp. 16017). With respect to alleged Transco supply curtailments (WTS-8) Public Counsel argues that PGW predictions concerning Transco 1983-1984 curtailments are not firm, and that a forecast for planning purposes will not come until next winter. (PC Reply Brief, p. 15; Tr. 1670 Senek).

PGW avers that by not fully replacing the drawn down WSS storage gas, the risk of inadequate storage supply

for the 1983-84 winter is intensified (PGW Initial Brief 23; Hagstrom Direct, pp. V-4 to V-6 and Senek Tr. 1548). Public Counsel replies that PGW itself would only use 65 percent of WSS capacity, and would refill WSS to over 40 percent, and that the immediate expense savings and cash flow advantages clearly outweigh the small risk to gas supply two years from now. (PC Reply Brief 15-16).

PGW next offers objections based on weather conditions, which, it avers, may hamper the ability to reinject gas into storage during the fall of 1983. (PGW Exh. WTS-5 and WTS-6).

Public Counsel responds that the record indicates that virtually all September injections can take place (TR. 1683); and that for October and November, the likelihood of full injection is 78 percent and 44 percent respectively (Tr. 1684, 1685); thereby allowing PGW to fill storage to high levels. In addition, argues Public Counsel, this type of speculation about 1983-84 ignores the likelihood of lower demand, higher availability and additional contracts such as the existing one with Consolidated Natural Gas. (PC Reply Brief p. 17).

Finally, PGW asserts that Public Counsel's proposal is a "one time thing" and conflicts with the principle of "normalized" ratemaking. (PGW Initial Brief, p. 25). Public Counsel responds that "In this cash-flow arena, the

delay of purchases has an immediate positive impact on the rates of customers which is not lost in the future", and ". . . by again delaying injection in subsequent years, the process will be repeated." (PC Reply Brief, p. 18).

The issues and differences in position are clear and this Commission is now called upon to direct PGW's course of action with respect to inventory additions and working capital requirements which substantially affect the rate request in this case.

All parties concede that the amount of the projected reduction in inventory working capital requirements and natural gas expense savings is clearly within the Commission's judgment and discretion to adjust. For fiscal 1982-1983, no gas supply or safety considerations are involved, but certain issues regarding gas supply curtailments and injection capability have been raised concerning fiscal 1983-1984.

We have previously discussed our belief that such adjustments are largely judgmental in nature, and must fall within the zone of reasonableness. The balancing of interests must be fairly and equitably accomplished. It is this Commission's finding and mandate that PGW should more prudently manage its inventory additions and working capital requirements. While we may be faced with increased costs in fiscal 1984, even PGW cannot accurately and definitively

project those increases for gas in fiscal 1983 as evidenced by PGW's substantial downward revision in its current GCR computation. In any event, this Commission and the ratepayers would always be faced with the PGW argument concerning the use of WSS gas at any time its utilization was called for in the future.

We conclude that the PGW projections regarding gas supply curtailments, injection capabilities and possible weather limitations cannot be accepted in toto. They must be viewed, among other things, in light of declining usage, conservation efforts, the high cost of gas, the projected percentage of WSS refill storage, and the availability of supplemental gas contracts such as the one with Consolidated Natural Gas. It is the Commission's reasoned judgment that the interest of the ratepayers in keeping rates as low as possible must be given recognition.

We further conclude that PGW has offered no valid operational reason not to delay LNG liquefaction for a period of time, and further that PGW can and should more carefully plan its personnel training to attempt to achieve in some measure, the proposal's objectives of cash flow benefits and natural gas cost savings.

We also conclude that the fiscal adjustment for delayed injections in the revised amount as hereinafter adopted, will not violate Transco's gas supply tariff,

injection rates and/or withdrawal constraints since the proposal's injection rate is at least as low as PGW's plan; and the withdrawals can be accomplished over a longer period of time.

We further perceive no conflict between this rate order, insofar as it recognizes a cash flow benefit in modified amount, and the principle of normalization previously enunciated since prudent inventory management planning can achieve such benefits in the future.

Accordingly, balancing the interests of the rate-payers in keeping rates and rate increases as low as possible, against the concerns of the Company in having adequate and sufficient gas supplies and storage to meet consumer demand, we conclude that a reduction in working capital inventory requirements in fiscal 1983 in the amount of \$8 million dollars is well within PGW's capabilities, just and reasonable and within the zone of reasonableness.

In order to determine how reductions should be allocated, the Commission convened a conference with all counsel on August 31, 1982. PGW's counsel informed the Commission of the reductive effects of various inventory reductions.

To confirm this information, a letter dated August 31, 1982 was submitted by PGW's counsel and a letter dated September 1, 1982 was submitted by Public Counsel's

witness, Hagstrom. These letters have been filed by the Commission with the transcript of the conference held on August 31, 1982 and thereby incorporated into the record.

Based on the foregoing information, the Commission has allocated the inventory reduction of \$8 million dollars by reducing working capital in the amount of \$2.4 million dollars, GCR costs in the amount of \$5.6 million dollars and by increasing Accounts Payable by \$300,000. We have incorporated these allocations in our adjustments.

B. Accounts Receivable

This is the largest single issue in this proceeding. PGW has projected its net accounts receivable balance at the end of fiscal 1983 at \$83,177,000 (PGW Exhibit E-3). This projection represents an increase of \$11,601,000 in net accounts receivables over the net accounts receivable of \$71,576,000 at the end of fiscal 1982. The projected increase of \$11,601,000 was reduced by PGW to \$11,453,000 when PGW lowered its GCR request.

PGW contends (PGW Initial Brief, pp. 28-31) that its projections are reliable because

- (1) they are based upon an historical analysis;
- (2) they were independently reviewed and tested (Cappalonga - Direct, 25,27);
- (3) the projected 15% increase in receivables is a proper effect of

the current case, and the higher gas costs due to phased deregulation;

- (4) PGW's methodology used in the current projection is the same as utilized in last year's rate case, and the actual results were within 2% of PGW's last year's estimates;
- (5) PGW has assumed payment by PHA of its present \$13 million dollars arrearage, and therefore its projection is optimistic;
- (6) the February 1982 new Customer Service Regulations were too liberal and hampered PGW's ability to reduce Accounts Receivable;
- (7) PGW's most recent data demonstrates that the collection problem continues to grow (PGW Exh. AJE-2);
- (8) economic conditions are not improving.

Public Counsel witness Hagstrom proposed a \$22,871,000 reduction to PGW's projection (Hagstrom-Sch. 19 (7/28 revision). This projection was based on the recommendations of Public Counsel witness LeLash (Exh. PC-43). LeLash proposed a reduction of \$15 to \$20 million dollars in Accounts Receivable (Tr. 2114) by reason of collection improvements in place (\$3 million dollars); improved economic conditions (\$2 million dollars); the impact of recommended changes in customer service regulations in Fall 1982 (referred to as Phase I Regulations (\$2 million dollars); the impact of recommended changes in customer service regulations in Summer 1983 (referred to as Phase II regulation)

(\$7 million dollars); and PHA Scattered Site Collections (\$1 million dollars).

PGW asserts that the proposed \$22,871,000 adjustment is incorrect because

- (1) it assumes a 27%-30% improvement in payment patterns (PGW Initial Brief, pp. 31, 32);
- (2) adjustment for non-gas accounts receivables in the sum of 3,725,000 must be made since these receivables will not be affected by changes in customer service regulations, and August 31, 1983 billings of \$22,832,000 which are not delinquent cannot reasonably be collected in fiscal 1983. (PGW Initial Brief p. 32).

PGW further asserts that the basis of the \$22,871,000 proposed adjustment outlined above (LeLash, Exh. PC 43) is overstated in that:

- (1) the effects of collection improvements in place, estimated at \$3 million dollars, has already been considered by PGW in its projections (TR. 874; Knight Direct p. 34; PGW Initial Brief pp. 33-34);
- (2) the additional \$2 million dollar adjustment from more favorable economic conditions is based on national forecasts (Exh. PC 35 and 36) and do not accurately portray economic conditions in Philadelphia which reflect a 12% unemployment rate and many plant closings (PGW Initial Brief, p. 35);
- (3) HUD has not agreed to pay PHA an increased utility allowance and the \$1 million dollar adjustment attrib-

utable to scattered site collections is unrealistic (PGW Initial Brief, p. 35);

- (4) the effects of the proposed Fall 1982 and Summer 1983 Regulation changes, projected to increase collections by \$9 million dollars (Fall, 1982 \$2 million dollars and Summer, 1983 - \$7 million dollars) will not significantly impact until the 1983-1984 heating season. (PGW Initial Brief, pp. 35-40).
- (5) the proposed customer service regulation changes have not yet been adopted, and by assuming their adoption, the Commission would be prejudging the outcome of the customer service regulation proceeding constituting a denial of due process (PGW Initial Brief, p. 41);
- (6) any reduction in projected accounts receivable based on speculative adjustments would be viewed unfavorably by bond rating agencies and would threaten PGW's split A/A-bond rating (PGW Initial Brief, p. 41, 42);
- (7) judicial decisions have held that ratemaking adjustments must be based upon known charges - not speculation on future possibilities (PGW Initial Brief p. 42).

Public Counsel replies that PGW's position is inconsistent, i.e., the collection problem is improving but the present regulations are hindering collections; the Commission should change the regulations but make no adjustments based thereon even though the customer service regulation proceeding is in process. Moreover, Public Counsel

points out that PGW itself, is therefore, assuming that no new regulations tightening collection procedures at least in some measure, will be adopted; a continued failing economy; and collection business-as-usual (PC Reply Brief, p. 20).

This Commission will not tolerate "business as usual". The customer service regulations will be strengthened and PGW mandated to implement them with full vigor. The Commission quickly recognized in the course of the rate case that such new strengthened regulations are necessary. Accordingly, without waiting for the conclusion of the rate case, the Commission directed PGW to file tariffs in two phases to initiate customer service hearings on the proposed amendments.

On August 31, 1982, the Commission held a prehearing conference on Phase I. Hearings will begin on that Phase on September 23, 1982. PGW has been directed to file the Phase II Tariff on September 20, 1982 and a prehearing conference is scheduled for October 6, 1982.

While obviously the Commission has not prejudged the proposed modifications, our avowed purpose is to strengthen the customer service regulations dealing with PGW's collection practices. Moreover, we have announced this publicly and directed PGW to inform its customers by inserts in the gas bills. We mean to do what we have to do, to wit, to give PGW all the tools it needs to achieve improved collec-

tions as soon as possible. This purpose has been widely proclaimed and should be known to all.

In this context, we reiterate the statement of the Chairman cited in CEPA's Brief at p. 13:

. . . we don't in any way minimize the enormous social problem that exists, even if there's no rate increase, that is going to be intensified if there is any rate increase, but this is going to focus the effort where it ought to be focused, that some agency of City government must face up to the social problem. But you cannot cure a social problem on a rate base. No one can argue that. (TR. 1903-04.)

Having taken the foregoing actions, we conclude that it is reasonable to make some accounts receivable adjustment because of this announced program.

We will give PGW all the tools it needs to effect improved collections in fiscal 1983, and we find it reasonable to give some measure of effect thereto. We will hold management accountable if it does not achieve satisfactory results.

Thus, in a conservative approach, this Commission expects to see a reasonable improvement in collections of accounts receivable due to collection improvements already in place, improved economic conditions, the impact of Phase I and Phase II Customer Service Regulation changes, and improved PHA Scattered Site collections. Accordingly, we conclude that it is just and reasonable to adjust downward

PGW's projected accounts receivable at the end of fiscal 1983 by \$11,000,000. This adjustment is well within the zone of reasonableness.

C. Appropriation for Uncollectibles

By reason of our adjustment downward of PGW's fiscal 1983 year end projected level of accounts receivable by \$11,000,000, it becomes necessary to consider the appropriation for uncollectibles. This appropriation constitutes the best estimate of what portion of those year end receivables will be uncollectible during the following year. Since the Company makes write-offs against its reserve for uncollectibles, an appropriation to it must be made to cover those estimated uncollectibles.

In our conference with counsel on August 31, 1982, the Commission asked also about the approximate impact of various accounts receivable reductions on PGW's revenue requirements. From the information supplied by Public Counsel witness, Hagstrom, we have calculated that our accounts receivable reduction in the amount of \$11 million dollars calls for a corresponding appropriation of \$2.8 million dollars for uncollectibles, and we so find.

D. Accounts Payable

As we mentioned earlier, in the information received from PGW's counsel, we have calculated that our inventory adjustment downward of \$8 million dollars produces

a corresponding increase in accounts payable of \$300,000, and we so find.

VI. CHARGE FOR SERVICES

The Commission had before it a PGW proposal for a \$5.00 charge for service calls unrelated to safety. This proposal was not opposed by Public Counsel, but was opposed by CEPA. However, it has become unnecessary for the Commission to consider this further because PGW has withdrawn the proposal. The letter confirming the withdrawal will be filed as part of the record.

VII. DEBT SERVICE COVERAGE

This Commission emphasizes and reiterates its avowed policy to require prudent, efficient management and to provide PGW with all the tools needed to earn sufficient revenues so that it will have reasonable access to the capital markets.

Implicit in our policy, are the essential goals of the retention of PGW's present bond rating.

This policy further represents the continued commitment of the Commission to do all that is necessary and required to achieve those goals, without putting an undue burden on ratepayers. No party to the proceeding has challenged these goals.

PGW produced several experienced and qualified witnesses to present their opinions as to the debt service

coverage requirements of the financial community, particularly as it relates to bond ratings and the bond rating process.

This bond rating process is important because it ranks public debt issues, setting the terms and pricing for borrowers (PGW Initial Brief, p. 63). Bond investors use ratings to determine what they will buy. For example, municipal bond funds are virtually all prohibited from investing in securities with a rating of BBB or lower (PGW - Margolies Direct, p. 11). Thus, an issuer that drops below an A-minus rating simply loses access to this portion of the bond market. (PGW Initial Brief, p. 63). It is axiomatic that lower bond ratings lead to higher interest costs for the borrower, which ultimately must be borne by the rate payers. The rating agencies, therefore, are said to be carefully watching the outcome of this case to determine, inter alia, whether PGW's cash flow position will cover its current expenses and service its debt properly. (PGW - Margolies Direct pp. 5-9). To those agencies, we emphatically reassert that there should be no doubt that this Commission has provided PGW with sufficient revenues to conduct operations and to repay its debts. We have made provision for repayment of cash borrowings from the City; new short term borrowings in fiscal 1983 are proposed to be paid during that fiscal period and are not assumed to in-

crease; we have instituted a companion proceeding and notified the public of our intention to strengthen customer service regulations to achieve increased collections, and we have granted sufficient and adequate rate relief in the instant proceeding. We are confident that these actions will afford both cash-flow sufficiency and rate stability, thus providing PGW with a strong capacity to pay interest and repay principal.

PGW witnesses recommended that the combined coverage of debt service payments on revenue and general obligation bonds should be set in the rate of 2.25 to 2.50 times in order to demonstrate the reasonableness of retaining PGW's current bond ratings. (Katz, Direct pp..29-30).

City Finance Director Rodney Johnson also testified forcefully that the Gas Works should have a coverage ratio "in the neighborhood of 2 1/2 . . . on Revenue and the outstanding General Obligation debt . . . [I]f you combine all debt . . . something in the neighborhood of two, I think, or a little better would be an acceptable number (Tr. 2030). These coverage ratios, argues PGW, will enable it also to issue tax exempt commercial paper ("TXCP") at an interest cost of approximately 1/2 the prime rate, resulting in savings and arbitrage income. If PGW's credit rating drops, the TXCP program cannot be expected to succeed (Tr. 1514-15; Tr. 1479-80) and higher interest costs to PGW will surely ensue (Katz Direct 16-18).

Public Counsel's witness, Dr. Belmont, also with impressive qualifications, testified that in his opinion, earnings producing coverages in the range of 1.75 to 2.00 times will achieve the cash flow requirements of PGW, and will enable it to maintain its current bond rating, and that excessive coverages will exacerbate the problems confronting PGW, i.e., increase arrearages and uncollectible problems and impact on load growth.

As explained hereinbefore, the Commission has exercised its best judgment in resolving the many difficult issues. We desire to avoid a further downgrade in PGW's bond rate, yet we do not want to burden the ratepayers unduly. Attached hereto is a schedule which summarizes the PGW Requests, the Commission's Revisions, and the Commission's Allowances. The adjustments we have made, based on the evidence of record, provide debt service coverage of 2.37 times. When this is coupled with our provisions for adequate cash flow, and our stated determination to strengthen the regulations, improve collections and reduce accounts receivable, it is our considered judgment that our overall actions in this proceeding are in the public interest and will serve to maintain the bond rating.

It is our strongly held opinion that any lesser provisions either in cash flow or coverage, will seriously risk a further downgrading of PGW bonds. This would trigger

enormous harm and would result in additional expense to the ratepayers. What we have done here, is intended to, and in our judgment will, avoid those consequences.

VIII. RATE DESIGN

PGW proposes, with two exceptions, to allocate the base rate increase on a volumetric basis. Rate BPS (Boiler and Power Plant Service) is to be priced at the projected cost of No. 2 fuel oil, less a discount, initially set at 7 percent. Rate LVI (Large Volume Industrial) is to receive a 10 percent increase. This rate design will assist PGW in retaining industrial sales to the ultimate benefit of all customers. PGW's proposed rate design is uncontested by the parties and is reasonable and non-discriminatory. It is therefore approved.

IX. GAS COST RATE

The Gas Cost Rate contemplates a separate proceeding and accounting for fuel costs which represent over 60 percent of PGW's total costs charged to customers through rates. It provides a running tally of over and under collections, picks up refunds from suppliers, and assures a periodic audit to verify that charges to customers are in line with costs (Senek Rebuttal - Tr. 1551-54).

Public Counsel argues that the GCR should be merged with base rates since they are set at the same time under cash flow ratemaking, and that such merger would

afford greater opportunity to fully explore the GCR projections.

PGW supports retention of the GCR as a separate proceeding for the reasons outlined above. In addition, PGW argues that when base rates are in balance with costs of service, adjustments in the GCR either by way of refunds or increases, can be made without the necessity of a full blown rate case. Moreover, PGW asserts that the financial community views the GCR in a favorable light (PGW Exh. SPK-6).

The GCR was adopted in 1981, on our initiative, to replace the much resented RMA. As a result, customer complaints concerning the monthly RMA fluctuating charges have been eliminated.

We therefore conclude that the GCR should be retained and continued in effect, but we will continue to monitor what occurs.

Finally, PGW has projected the GCR at \$53,489 for fiscal 1983. Public Counsel, through its witness, has recommended a downward adjustment of \$7.9 million dollars in GCR attributable to lower gas and raw material expense, a normalized level of interest on natural gas refunds and the savings from the Consolidated Gas contract. (Hagstrom Schedule 1 and Schedule 6).

We have referred previously to the information submitted by counsel in connection with our conference on

August 31, 1982. Using the Inventory Adjustment Table supplied by PGW's counsel, our inventory reduction of \$8 million dollars produces a corresponding reduction of \$5.6 million dollars in natural gas and raw material costs, which are reflected in the GCR revision.

At the same time, we reviewed the issue of Interest on Natural Gas Refunds, for which PGW made no provision, but Public Counsel provided \$1.6 million dollars. This is another area in which a wide range exists for judgment. We conclude it is sound judgment to provide \$800,000 as the projection for such interest. This provision is reflected in Other Sources of Funds, as well as in the GCR.

X. RESERVATION OF JURISDICTION

We firmly believe that with the adjustments we have made herein, PGW will have adequate cash flow in fiscal 1983. There is a paramount need to increase collections and reduce accounts receivable. We believe that with the tools we intend to give it, PGW will be able to achieve these goals. We will monitor developments closely. To this end,

the Commission hereby retains continuing jurisdiction in this matter.

PHILADELPHIA GAS COMMISSION

By: *D. B. ...*
Chairman

[Signature]
Member

Dated: September 9th, 1982

[Signature]
Member

[Signature]
Member

Member

O R D E R

NOW, this 15th day of September, 1982, the Philadelphia Gas Commission orders as follows:

1. PGW is granted a base rate increase designed to produce \$44 million dollars of additional revenue during the fiscal year beginning September 1, 1982 and ending August 31, 1983. Said increase shall be allocated on a volumetric basis, except for Rates BPS and LVI. Rate BPS shall be set at 7 percent below the projected cost of No. 2 fuel oil. Rate LVI shall receive a 10 percent increase. The effective date of this increase shall be September 15, 1982.

2. PGW is granted a Gas Cost Rate designed to produce \$47.089 million dollars for the fiscal year September 1, 1982 to August 31, 1983. The effective date of this increase shall be September 15, 1982.

3. PGW forthwith shall file with this Commission for its review and approval a revised Tariff complying in all respects with this Order.

4. PGW forthwith shall file with this Commission for its review and approval, a revised operating budget for the fiscal year ending August 31, 1983, consistent with the provisions of this Order.

5. All complaints, proposals and adjustments filed which are consistent with our Adjudication and this Order, are sustained; all other complaints, proposals and adjustments filed are denied.

6. PGW shall report to this Commission on March 1, 1983 with respect to (a) the progress of its collection efforts and the status of accounts receivable, and (b) any over collections or under collections in the GCR for adjustment, if necessary, for the remainder of the fiscal year.

7. The Commission hereby retains continuing jurisdiction in this matter.

PHILADELPHIA GAS COMMISSION

By: *[Signature]*
Chairman

[Signature]
Member

[Signature]
Member

[Signature]
Member

Member

Dated: September 29th, 1982

NO.		(Revised GCR)	REVISIONS	Allowance
<u>REVENUES</u>				
1	Current Rate	\$496,432		\$496,432
2	Proposed GCR (See Line 5 for adjustments)	53,489	- 6,400	47,089
3	Proposed Base Rate Increase (Net of Lines 6 to 30 for any adjustments)	<u>58,000</u>	<u>-14,000</u>	<u>44,000</u>
4	Total Revenue	<u>607,921</u>	<u>-20,400</u>	<u>587,521</u>
<u>EXPENSES</u>				
5	Natural Gas & Raw Material (include any adjustment on Line 2)	377,279	- 5,600	371,679
6	Labor and Fringe Costs	94,406	- 5,500	88,906
7	Appropriations for Uncollectible Accounts (include any adjustment on Line 25)	20,289	- 2,800	17,489
8	General Material	8,452	- 350	8,102
9	Other	<u>19,287</u>		<u>19,287</u>
10	Total Expenses	<u>519,713</u>	<u>-14,250</u>	<u>505,463</u>
11	NET FUNDS	88,208	- 6,150	82,058
<u>OTHER SOURCES OF FUNDS</u>				
12	Other Income:			
13	Capital Improvement Withdrawal	3,734	+ 300	4,034
14	Sinking Fund Withdrawal	6,891	+ 600	7,491
15	Interest on Natural Gas Refunds	-	+ 800	800
16	Other	19,238		19,238
17	Beginning Working Cash	<u>3,100</u>	<u>+ 400</u>	<u>3,500</u>
18	Total Funds Available	<u>121,171</u>	<u>- 4,050</u>	<u>117,121</u>
<u>FUNDS APPLIED</u>				
19	Capital Improvements Net	6,198		6,198
20	Debt Service	45,974		45,974
Working Capital Loans Net:				
21	City Loan	22,500)	+12,450	44,300
22	Interest & Other	9,350)		
23	Inventory Requirements	11,260	- 8,000	3,260
Other Working Capital Requirements:				
24	Accounts Receivable	11,453	-11,000	453
25	Reserve of Uncollectible Accounts (See Line 7 for adjustments - Change sign)	2,075(-)	+ 2,800	725
26	Accounts Payable	6,756(-)	- 300	-7,056
27	Other	484		484
28	Payment to City	<u>18,683</u>		<u>18,683</u>
29	Total Funds Applied	<u>117,071</u>	<u>- 4,050</u>	<u>113,021</u>
30	Ending Working Cash	<u>\$ 4,100</u>		<u>4,100</u>



C I T Y O F P H I L A D E L P H I A

OFFICE OF THE CONTROLLER
1230 MUNICIPAL SERVICES BUILDING
PHILADELPHIA, PENNSYLVANIA 19107
MU 6-6580

THOMAS A. LEONARD
CITY CONTROLLER

DISSENT

I respectfully decline to join the majority opinion in the matter of the proposed rate increase for the Philadelphia Gas Works.

The rate increase of \$44 million is, in my judgment, too steep, and imposes too great a burden upon the ratepayers.

A rate increase of \$39 million is more than adequate to meet all the reasonable needs of the Philadelphia Gas Works and still protect its bond rating. It would also encourage the management at Philadelphia Gas Works to tighten its belt, adopt cost-cutting measures, freeze manpower expense levels, improve collection of delinquent accounts receivables, operate on a more efficient basis, and manage its funds more prudently.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas A. Leonard".

THOMAS A. LEONARD

September 3, 1982



PHILADELPHIA GAS COMMISSION

1401 ARCH STREET, PHILADELPHIA, PENNSYLVANIA 19102 • (215) 563-6928

March 19, 1992

TO ALL PARTICIPATING PARTIES:

RE: PHILADELPHIA GAS WORKS'
PROPOSED BASE RATE INCREASE
FOR FISCAL YEAR 1991-1992

Dear Participating Parties:

Attached please find a copy of the Memorandum Opinion and Order of the Philadelphia Gas Commission relating to the above-mentioned rate case, which was properly signed and executed as of this date.

Very truly yours,

Bernice Moshinski

Attachments

Bernice Moshinski
Administrative Assistant

cc: All Philadelphia Gas Commissioners
Philadelphia Gas Commission Staff
Thurman R. Bullock, Deputy City Controller
Attached Service List
Josephine Hayes, Coordinator-Regulatory Affairs-PGW

GAS COMMISSION

BEFORE THE

PHILADELPHIA GAS COMMISSION

In the Matter of a Proposed	:	Filing Dates by PGW:
Base Rate Increase by the	:	July 16, 1991
Philadelphia Gas Works for	:	August 9, 12, 1991
Fiscal Year 1991-1992	:	

MEMORANDUM OPINION
AND ORDER

I. PROCEDURAL HISTORY.

On July 16, 1991, the Philadelphia Gas Works ("PGW") filed with the Philadelphia Gas Commission (the "Commission") a Proposed Base Rate Increase ("PRI") for Fiscal Year 1991-1992. The increase was designed to produce \$ 31 million dollars in additional revenue for PGW.

On August 5, 1991, the Commission commenced formal proceedings on the proposed base rate increase with a Pre-hearing conference. The Commission adopted a series of pre-hearing orders (collectively "Order") directing certain adjustments to PGW's base rate filing. The Order prohibited PGW from calling witnesses until such time as PGW had complied with the Order and filed with the Commission the information requested.

Attached hereto and made a part hereof as Exhibit A is the Order issued by the Commission which details the composition of the hearing committee, the hearing schedule and discovery procedures.

On August 9, 1991, PGW filed an amendment to its PRI which reduced the PRI to \$28 million dollars. This change was primarily due to a change in PGW's fuel cost estimate.

In response to the Commission's Order, PGW filed a series of schedules to place it in compliance with existing Commission orders.

The PRI filing document Volume I, included: (a) Statement of Reasons for Rate Increase; (b) Exhibits numbered A-I through JHC-II; (c) written direct testimony and exhibits of three employees and one consultant to PGW. Volumes II through V included supporting documentation for the 1991-1992 Operating Budget. Revised Volumes I through V were filed on August 9, 1991.

Notice of the Proposed Base Rate Increase for Fiscal Year 1991- 1992 was advertised pursuant to Philadelphia Gas Commission Regulation Number 1.

Community Legal Services, Inc. served as the Public Advocate ("Advocate") to represent the residential gas customers in the rate hearings. Active participants included PGW, the Advocate, the City of Philadelphia ("City") and the Philadelphian Owners' Association (the "Association") which is an association of the owners of the 776 condominium units housed in the Philadelphian. The Association was permitted to participate for the limited purpose of considering their request for a special tariff based on No. 4 fuel oil.

For discovery purposes, the Commission adopted the same discovery procedures that were used in the Philadelphia Gas Works' Proposed Base Rate Increase for Fiscal Year 1990-1991. Discovery generally followed the procedures of the Pennsylvania

Public Utility Commission and the Philadelphia Court of Common Pleas.

The Commission sitting as a Committee of the Whole commenced formal hearings on September 16, 1991 and ended the hearings on November 6, 1991. These hearings were held over 13 days and produced over 2350 pages of transcript, 82 exhibits and 6 prepared statements. A list of the exhibits and statements presented is attached hereto as Exhibit B.

The Commission also held eight community input sessions in various locations throughout the City of Philadelphia between November 14, 1991 and November 25, 1991. These sessions produced an additional 318 pages of transcript.

Main briefs and reply briefs were filed by PGW, the Public Advocate, and the City. A letter in lieu of a brief was also submitted by the Association. The main and reply briefs of the parties are incorporated herein by reference.

On December 4, 1991, by agreement, the parties waived the necessity for a Recommended Decision of the Committee of the Whole and also waived their rights to file exceptions to a Recommended Decision.

On December 19, 1991 at 10:00 a.m., the Commission, pursuant to appropriate legal notice, held a Special Commission Meeting for the purpose of rendering a final decision on the PRI request of PGW. The meeting was attended by Chairman Laurence W. Reaves, Vice Chairman Jonathan A. Saidel, Commissioners Ann J. Land and David M. Boonin. The vote on the final decision to increase base

rates was three in favor and one opposed.¹

In summary, the Commission decided that:

- . consumer base rates be increased by \$15,032,000; and
- . debt service coverage of approximately 1.80x is reasonable for budgetary purposes; and
- . the customer charge be increased for each class of customers who had a customer charge.

The Commission further ordered PGW to file a number of documents, reports and a new tariff schedule which reflected the new rates ("Rate Order"). The Commission stated its intention to issue a complete detailed Memorandum Opinion further explaining the Commission's December 19, 1991 decision. The Rate Order adopted by the Commission is attached hereto as Exhibit C. Specific detail of the Commission's decision is articulated in Section III herein.

II. LEGAL STANDARDS FOR THE SETTING OF UTILITY RATES.

Two legal standards apply to the setting of gas rates by the Commission, one statutory and the other common law. The relevant statutory provision is found in the Philadelphia Facilities Management Corporation Agreement ("Agreement") between the City of Philadelphia and the Philadelphia Facilities Management Corporation ("PFMC"), which was adopted by an ordinance passed by the Philadelphia City Council on December 29, 1972. The ordinance has statutory effect. School District of Philadelphia

¹Vice Chairman Saidel opposed the increase.

v. Zoning Board of Adjustment, 417 Pa. 277, 207 A.2d 864 (1965). While the state Public Utility Code (66 Pa.C.S. Sections 101 3312), which governs the setting of utility rates by state regulators, is inapplicable to municipally-owned utilities such as PGW, the courts of this Commonwealth have held that the establishment of such rates must be "just and reasonable." Action Alliance v. Philadelphia Gas Commission, 45 Pa. Commw. 234,406 A.2d 1155 (1979); Pennsylvania Electric Company v. Pennsylvania Public Utility Commission, 509 Pa. 324, 502 A.2d 130 (1985).

The Commission satisfied this "just and reasonable" requirement through the careful and deliberate exercise of its discretion, the review of all evidence properly presented and the utilization of its expertise in applying the standards for rate setting as set forth in Section VII of the Agreement.

Paragraph 1 of Section VII requires, inter alia, that the "Commission fix and regulate rates and charges for supplying gas to customers ... which... will in each fiscal year, produce revenues" that are:

1. Sufficient to pay operation and maintenance costs and expenses of conducting PGW and to pay the interest and amortization due in each fiscal year on the debt incurred for PGW. Such costs and expenses include:

- a) charges for depreciation;
- b) charges for employees' retirement costs;
- c) the payment of a management fee to PFMC equal to

the actual costs to PFMC of managing PGW, but not to exceed \$300,000 annually;

- d) expenses of the Commission; and
- e) expenses associated with the issuance by PGW of Revenue Bonds including sinking fund payments and debt service coverage.

2. Sufficient to make base payments to the City of Philadelphia in the amount of \$18,000,000.

3. Appropriate for prepayment of debt and for capital additions which have been determined by the Commission to be reasonable and which have been approved by City Council.

4. To provide cash or equivalent for working capital in such reasonable amounts as determined by PFMC to be necessary and as shall be approved by the Commission.

In its determination of rate schedules for gas, the Commission "must establish and apply non-discriminatory rates based on suitable and reasonable classification of the services provided, taking into consideration the preparation of such schedules, the nature and purpose of the use, the quantity used, the time of year when used, the available supply of gas and other competing fuels, the maximum demand, and such other factors, including state, and federal laws, regulations or guidelines, as may be appropriate to the economics of the purchase, manufacture, distribution and sale of gas and consistent with the intent and purpose of this ordinance and/or Agreement." Section VII, paragraph 5 of the Agreement.

III. RATE DECISION

This Memorandum Opinion and Order, as well as the attached Findings of Fact, will address the issues raised in the PRI proceeding and give a detailed explanation of the Commission's decision for its Order adopted on December 19, 1991. Any request not specifically addressed in this Opinion is specifically denied by the Commission.

This Memorandum Opinion and Order is based on a careful review of all petitions, filings, testimony, statements, transcripts, exhibits, briefs and reply briefs. The rates set and adjustments made are "just and reasonable" and are more than sufficient to satisfy the revenue requirements of the Agreement.

A. Base Rate Adjustments

1. Labor

PGW budgeted an increase in labor and fringe costs including an increase in the number of employees from 2458, the number authorized by the Commission, to 2477. In this Fiscal Year as in the last, PGW has not demonstrated a need for additional personnel.

A second labor issue was raised by the budgeting by PGW of salaries for the vacant positions of Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") of the company. These positions have been vacant for some time and the functions that would be served by persons in those positions are being met by existing staff.

The final issue which impacted on labor was the

discussion of the automation of the management accounting process and savings associated therewith covered by MAAP 33.

Based upon the above discussion, the Commission orders reduction in PGW's labor expenses by \$1,037,000 which includes: a \$669,000 savings on salaries, fringe benefits and wages for a reduction in staff to 2458; a \$248,000 savings related to budgeted costs of salaries for the positions of CEO and COO; and \$120,000 of savings related to MAAP #33.

2. Pensions

The evidence presented during the base rate proceeding showed that other utilities maintain a Pension Fund Investment Earnings Rate (PFIER) within the range of 8.0%. In addition, the evidence indicated that for the past three years, PGW's PFIER has been 9.866%.

While the Commission recognizes the fact that the determination of the PFIER is made by the Sinking Fund Commission, the record in this rate proceeding reflects the fact that PGW does impact on the Sinking Fund Commission's decision-making process. (See Transcript, pp. 272, 279-280).

In light of the findings, the Commission orders a reduction in PGW expenses of \$2,600,000 to reflect the changes in the PFIER to 8.0%. The Commission will also recommend to the Sinking Fund Commission that it review its fund managers.

3. Insurance

PGW's original budget included \$2,375,000 for \$500,000

of Self insurance coverage. In its brief, however, PGW budgeted a \$1,000,000 self retention at a cost of \$2,074,000. A savings of \$301,000 would be realized by the change in retention levels.

The Commission found PGW's analysis of the retention issue inconclusive in this case. The Commission had recommended a \$2,000,000 self retention level in the 1990-1991 base rate case. During this year's proceeding the City advocated for the continuation of liability coverage while the Advocate questioned the necessity of such coverage. The fact that PGW's status for purposes of the Political Subdivision Tort Claims Act is unclear and the fact that there are risks associated with potential environmental claims, leads the Commission to order a reduction in expenses of \$420,000 which reflects the maintenance of a minimum of \$2,000,000 in coverage.

4. Legal Expenses

While PGW has increased its internal legal staff by two persons, it budgeted an increase in outside counsel fees of \$262,000. PGW has not justified this increase. Therefore the Commission orders a reduction in PGW expenses of \$262,000.

5. Injuries and Damages

PGW is attempting to recover \$653,000 from its insurance carrier for damages resulting from an environmental claim. (Total damages were \$1,353,000. With a \$500,000 self retention level and the insurer's offer to pay \$200,000, the disputed amount is \$653,000). The insurance carrier has agreed to pay a portion of the claim and PGW has not demonstrated why the

carrier will not cover its insured. Therefore, PGW has not presented any reasons why consumers should pay this cost while negotiations continue. Accordingly, the Commission orders the reduction of PGW expenses by \$653,000.

6. Other Income

PGW made a calculation error in determining interest income associated with the Capital Improvement Fund. PGW has since adjusted its revised budget in the area of other income. The Commission orders an increase of \$791,000.

7. Conservation Expenses

Last year, this Commission approved a PGW base rate budget which included conservation expenses of \$1,000,000 and allowed PGW to spend up to an additional \$600,000 of low-income conservation expenses which if spent would be recovered through the GCR. Last year, PGW only managed to spend \$900,000 in this area, but PGW has entered into contracts to spend an additional \$600,000.

This year PGW has included the \$600,000 from last year's contracted but not spent dollars in its base rate budget while inserting another \$1,600,000 in its GCR filing.

The Advocate contends that PGW has not demonstrated the ability to spend \$2.2 million on conservation expenses this year and that the \$600,000 in base rates be eliminated subject to future recovery through the GCR if PGW actually expends dollars in excess of the \$1,600,000 currently in the GCR.

It should be noted that even if PGW had spent the \$600,000 last year, recovery would have been limited to \$500,000 as PGW only spent \$900,000 of the \$1,000,000 budgeted in base rates.

The Commission should encourage PGW to spend the entire \$2,200,000 providing for current recovery through the GCR of the first \$1,600,000 and deferring any other recovery until it is shown that the dollars will be spent. The Commission recognizes that there may be a small carrying cost associated with this approach of about \$6,000.

It is ordered that base rates be reduced by \$600,000 and that these dollars be eligible for recovery through the GCR if actually spent. It is also ordered that Other Operating Income be reduced by \$6,000.

8. \$18,000,000 Payment to the City of Philadelphia.

As discussed in Section II, herein, the Agreement requires that the Commission fix and regulate rates and charges for supplying gas which will produce enough revenues to make base payments to the City of Philadelphia in an amount of \$18,000,000.

The Advocate has once again argued that this payment is illegal as a payment in lieu of taxes. The City argued that the payment represents a distribution of equity -- a recovery by the City of the value associated with employing City assets in a risky business. (See City brief, page 11). Legal counsel has reviewed the legality of this payment under the provisions of the Agreement and the Commission concludes that the payment is proper and is

required by law. Accordingly, the Commission accepts the position that the \$18 million payment is legal until such time as the issue has been judicially determined to the contrary.

9. Appropriation for Uncollectible Expense.

The issue of uncollectible expenses was extensively discussed during the 1991-1992 base rate proceedings. PGW budgeted \$36.7 million for this item in its original budget. At the time of the filings, PGW estimated its appropriation for Fiscal Year 1990-1991 to be \$24,091,000 (consistent with Fiscal Year 1989-1990 of \$24,137,000 and the 1990-1991 compliance budget of \$22,323,000).

a. Change in the Accounts Receivable Factor

The Advocate asserts that an adjustment needs to be made to the appropriation expense based upon PGW's use of a 20.75% accounts receivable factor rather than the 20% which has been consistently used in the past. The proposed adjustment for this item is \$1,600,000.

PGW has failed to demonstrate why this factor should be increased.

PGW's poor track record in estimating its receivables is also demonstrated by its tendency to over estimate this account as shown on Transcript Request-35.

This Commission also questions the reliability of PGW's study as it possibly over counts the impact that 5&2 customers have on receivables through PGW's current accounting practices.

It is ordered that the appropriation set forth in PGW's original budget be reduced by \$1,600,000.

b. Retrospective Study

The Public Advocate asserts that PGW should eliminate its "roll-forward" of collectibility factors and utilize instead the collectibility factors included in PGW's own collectibility study. This adjusts PGW's uncollectible expense estimate by approximately \$600,000. While the Public Advocate does not accept the accuracy of the retrospective study, at least this method is the result of PGW's own study. In contrast, the "roll-forward" method superimposes a result which has no factual support on the record. The Commission adopts the Public Advocate's position and therefore orders a reduction of \$600,000.

c. Energy Assurance Program (EAP)

PGW has stated that the rise in the appropriation expense has been due in part to the EAP Program (Transcript Request-37). According to PGW, of the \$12.8 million increase in appropriation presented by PGW during the hearings between this year and last year, \$4.9 million was attributable to the EAP program. This was subdivided into two parts: a) \$1.4 million dealing with current bill discounts and b) \$3.5 million dealing with the uncollectibility of all arrears in excess of the \$144 per participant.

Regarding the first issue, PGW currently records the revenues anticipated from EAP customers at the same rate as it does for non-EAP customers, although it actually charges EAP customers a discounted rate. To complete its record keeping, PGW then

establishes a reserve expense in the amount of the discount. Although this has no impact on the bottom line, it inflates PGW's uncollectibles which PGW asserts has a negative impact on rating agencies and bond investors. It is recommended that the current bill discounts be entered as a rate discount rather than as an appropriation for uncollectibles. This revised accounting method is consistent with the way PGW currently enters discounts for senior citizens and interruptible customers.

The second portion (arrears) was calculated by starting with the total arrearage of EAP customers when they entered the program, subtracting from it the applicable grants and the \$144 per participant (based upon 36 months at \$4 per month). This residual of \$3.5 million was then included as a current appropriation for uncollectibles.

This method places the entire burden of this arrearage forgiveness in this budget year rather than over the three years it could in reality be earned. This calculated expense is therefore being front loaded into this budget year.

It is ordered that two-thirds of PGW's claim be rejected, a reduction to the appropriation expense of \$2,333,000. This allows only the forgiveness that could be earned in a year to be included in rates. This should not be considered a normalization expense but rather a rejection of an expense that even under PGW's assumptions will not be earned until the subsequent years have lapsed.

Further, the Commission recognizes that PGW has assumed many costs and few savings associated with EAP and that the question of EAP's cost-effectiveness and appropriateness remains an outstanding issue. (See Transcript Request No. 42).

10. Strategic Options Study.

In its 1990-1991 budget, the Commission budgeted for PGW to perform a Strategic Options Study. The estimated cost of \$400,000 was to be spread over three years, an average of \$133,000 per year. The study has not been performed to date.

Last year, there was some confusion as to the responsibility for the study. To alleviate this problem, the Commission has started to develop a request for proposals for the study and the Commission will conduct the study under its direction.

The Advocate argued that since the money for the study was budgeted last year, no additional dollars should be budgeted for this year. However, only a portion of the funds were actually budgeted last year and there is no evidence that PGW's 1991-1992 budget contains an amount for this purpose. Therefore, the Commission orders that the budget be increased by \$133,000 to provide funds to conduct this study.

11. Uncollectible Study.

The presentation on this topic during the rate proceedings showed that very little is clear. There is doubt as to the accuracy with which PGW projects accounts receivable and the method chosen to treat EAP arrearages and discounts. The Public

Advocate added nothing more than a recommendation that further study be performed.

The Commission therefore orders that a study of accounting practice be performed and that PGW expenses be increased by \$50,000 to accommodate the cost of the study.

12. Lease v. Purchase Study.

No evidence was presented during the rate proceedings to indicate that PGW was not making reasonable lease-purchase decisions. The Advocate's recommendation that PGW be required to submit to the Commission and all parties "a formal cost-benefit analysis for each proposed major vehicle or equipment purchase during Fiscal Year 1992" is denied. This Commission would expect to see a more rigorous analysis of this issue before ordering studies or making unspecified adjustments.

13. Liquified Natural Gas Capacity and Marketing Study.

PGW has shown that it has made some attempts to market its LNG capacity through both wholesale and retail arrangements. Insufficient evidence was presented by the Advocate to warrant the Commission to order a study on this issue at this time. This is an issue which may more appropriately be considered in the Strategic Options Study.

Except as it may be considered in the Strategic Options Study, the Advocate's position is denied.

14. Customer Charge

The Advocate recommended that the Commission leave the customer charge at its present level. The current charge for

residential customers is \$2.50 per month. PGW and the City recommend raising this charge to \$4.00 per month for residential customers. Similar increases were proposed for other classes of customers who have customer charges.

PGW's residential customer charge has been shown to be low as compared to other regional utilities. The Advocate has offered no expert testimony on this issue in the rate proceeding. It has relied on its belief that although a cost of service study may support PGW's proposal that it would cause widespread consumer misunderstanding and opposition.

Although the Commission is sensitive to these issues, there is also a concern about non-heating customers being subsidized by heating customers. The Advocate should expend additional efforts in the area of consumer education to help explain the customer charge to its clients.

An increase in this charge will raise \$9.3 million in revenues for PGW which are not weather sensitive. (See PGW Exhibit B-5). It will also place a small portion of the rate increase on interruptible customers. The \$9.3 million would be part of the total recommended rate increase which would otherwise be collected through the commodity charge loans.

It is ordered that the customer charge be increased for each of the listed tariffs. See Exhibit D for a list of all tariff increases.

15. BPS Pricing.

The Philadelphian Owners' Association requested two separate changes to PGW's BPS tariff. The first would have PGW base its BPS rate on daily or weekly oil prices rather than monthly and the second would offer a pricing option based on #4 oil for customers whose alternate fuel is #4 oil.

It is ordered that this request be denied without prejudice and that PGW submit an analysis to the Commission within 60 days on the #4 oil potential of its BPS customers and its plans to provide metering to interruptible customers which will allow PGW to have a better understanding of customer behavior and to have better access to rates on a more time sensitive basis.

16. Miscellaneous Adjustments.

It is ordered that a reduction of approximately \$987,000 be made to Appropriation for Uncollectible Expenses to reflect the overall decrease in rates contained in the Rate Order. It is also ordered that Other Operating Income and Unbilled Gas be decreased by approximately \$54,000 and \$232,000 respectively to reflect the overall reduction in rates contained in the Rate Order.

17. Management Audit Action Plans (MAAPs).

The argument on MAAPs is two fold. The first issue is of the appropriateness of any adjustment regarding MAAPs and the second is of whether the specific adjustments which are made are reasonable and accurate.

Regarding the first issue, PGW claims that the MAAP calculations are "only projections or predictions of potential

savings, if manipulated as suggested by the Public Advocate, become 'phantom income'..." (See PGW Brief, 37). The Advocate contends that PGW has failed to comply with Commission orders regarding the MAAPs and has therefore failed to achieve the savings anticipated by the implementation of the findings of the Management Audit.

In the Commission's Memorandum and Opinion dated April 25, 1991, it is stated that "unless specifically stated to the contrary, PGW will be held accountable for the approved MAAPs". (See Memorandum, 13). As of December 1991, all fifty-seven MAAPs have been approved by this Commission. Since the April, 1991 Memorandum was adopted, nothing has occurred which releases PGW from its responsibilities to implement the cost saving measures identified in the Management Audit and adopted by this Commission. The Commission will therefore continue to consider adjustments based upon this premise.

The savings referred to in the MAAPs are recurring in nature and should be accounted for annually. Further, PGW erroneously assumes that the Commission accepted the Advocate's position in last year's rate case which dealt with a normalization approach.

The Advocate has identified several MAAPs which, in their view, require expense or revenue adjustments. These are MAAPs 2 and 8 (considered jointly), MAAP 7, MAAP 21, MAAP 24 , and MAAP 33. PGW claims that even if MAAP adjustments are to be made, the Advocate's proposed adjustments are inaccurate. In its reply

brief, PGW raises the issue of MAAP 34. A detailed review of the MAAPs adjustments is provided below.

a) MAAPS 2 and 8

MAAP 2 deals with an organizational study, while MAAP 8 focuses on work force management. The Advocate accurately represents that PGW has failed to include in its budget the \$1 million in anticipated savings set forth in these MAAPs. (See Transcript Request 20 and approved MAAPs).

PGW claims that inclusion of this adjustment is inappropriate as it double counts the labor savings and double counts savings that were made last year.

The double counting issues can best be resolved by looking at the budgeted number of employees when the Management Audit was performed and the number of employees currently being requested in this budget. PGW claims that by making both MAAP and labor adjustments, double counting occurs. As shown in the transcript at pages 2076-2077, the budgeted number of employees when Schumaker developed its recommendations was 2454 (the Commission allowed the addition of 4 employees in last year's rate case to be consistent with MAAP implementation). The budgeted number of employees included in this case is 2477. Since Schumaker's starting point for making its assessment was at a budgeted employment level less than the proposed level it would not be inappropriate to include an adjustment to bring employment levels to the original level and then to make adjustments as recommended by the audit. (This holds true for all related MAAP

adjustments).

PGW had not included any savings related to MAAPs 2 and 8 in its proposed operating budget.

For all the above reasons, the Commission accepts the Advocate's position and a reduction of \$1,000,000 is ordered to be made to PGW's miscellaneous expenses (the adjustments for MAAP compliance are being made to miscellaneous expenses for ease of tracking).

b) MAAP 7

This MAAP deals with work force management at the LNG plants. The Advocate is correct in that the Commission approved MAAPs call for savings of \$420,000 from this MAAP which have not been included in PGW's proposed budget.

The argument set forth by PGW was that this MAAP was not to be completed until December 31, 1991, therefore only a partial year's savings could be anticipated. Review of the Commission approved MAAP supports this completion date. It is therefore appropriate to eliminate one-third of the proposed adjustment.

It is ordered that PGW's miscellaneous expenses be reduced by \$280,000.

c) MAAP 21

This MAAP addresses the issue of marketing. The \$680,000 adjustment proposed by the Advocate does not appear to be based upon the latest approved MAAP. Further, PGW claims that it has included "incremental revenues" from its marketing efforts in this year's budget.

The Advocate bases its claim that further savings should be included in the budget based on the fact that PGW has not moved forward with its own self-generation project.

It is ordered that PGW accelerate the implementation of self-generation but that no adjustment to revenues be made.

d) MAAP 25

This MAAP deals with the reorganization of the transportation department. The Advocate correctly identifies \$300,000 in savings which were set forth in the Commission approved MAAPs but are not included in PGW's budget. PGW's assumption that these savings were partially included in last year's rate case is inaccurate.

The Advocate's position is adopted and the Commission orders a \$300,000 reduction to miscellaneous expenses be made.

e) MAAP 33

This MAAP deals with automation of the accounting process. The benefits in the Commission approved MAAPs are not quantified, but Transcript Request 16 does quantify the targeted benefit. The adjustment is discussed in the labor section herein.

f) MAAP 34

This MAAP deals with the potential savings from the implementation of a financial automation system. PGW is correct when it asserts in its reply brief that this MAAP includes a cost of \$300,000. It is also stated in that MAAP that the savings are uncertain. It can only be assumed that if PGW is now recommending that the cost for this project be included in its

budget that it must have determined that the benefits exceed the cost. These savings would also need to be budgeted, but no such offsetting adjustment has been proposed.

The Commission orders PGW to actively pursue MAAP 34. Costs and savings are to be viewed as offsetting and no adjustment should be made.

g) MAAP SUMMARY.

It is ordered that an adjustment to miscellaneous expenses totaling \$1,580,000 be made to PGW's proposed budget.

IV. CONCLUSION

The Commission hereby incorporates by reference the Rate Order issued December 19, 1991 in its entirety including but not limited to any and all requirements that PGW submit additional documentation, information tariffs, and Rule and Regulation modifications to this Commission.

This rate decision continues the mandate established by this Commission to provide stability in costs to PGW rate-payers. This stability is provided to consumers while at the same time allowing PGW to cover any necessary increase in expenses and to budget revenues which will allow it to maintain its operations in a safe, responsible and fiscally sound manner.

PGW requested a \$28 million base rate increase. Over the course of the Commission's inquiry and hearings, PGW evidenced a need for additional revenues. While this Commission will continue to require PGW to pare excess from its budget, it cannot ignore PGW's need for revenue with which to maintain safe and adequate service.

FINDINGS OF FACT

Based on all the evidence submitted on the record, the testimony of the witnesses, the statements made at the community input sessions, the exhibits admitted into evidence, the briefs and reply briefs, arguments of the participants, the existing law, and for the reasons set forth in the Memorandum Opinion, good cause has been shown for the Philadelphia Gas Commission to issue the following Findings of Fact.

1. The rates for the Philadelphia Gas Works for Fiscal Year 1991-92 are increased by \$15,032,000 million.

2. For ratemaking purposes, the recommended targeted debt coverage for PGW in Fiscal Year 1991-92 shall be 1.80x, an immaterial variance due to accounting interactions shall be acceptable.

3. The specific adjustments to PGW's revenues as set forth in the Memorandum Opinion are just and reasonable.

4. Any issue, proposed adjustment or recommendation not specifically covered by the Memorandum Opinion is specifically denied.

5. The revised operating budget for Fiscal Year 1991-92 increases revenues and reduces expenses from the operating budget proposed on August 9, 1991 by approximately \$12,968,000, and therefore base rates for Fiscal Year 1991-92 are increased by approximately \$15,032,000 million.

ORDER

For the reasons set forth in this Memorandum Opinion, the Philadelphia Gas Commission enters the following Order:

1. The Rate Order of December 19, 1991 of the Philadelphia Gas Commission is hereby reaffirmed and incorporated as the order of the Commission in this rate proceeding (See Exhibit C).

2. There shall be an increase in the base rate to consumers for Fiscal Year 1991-1992. The changes in the customer and commodity charges are set forth at Exhibit D.

3. The debt service coverage for Fiscal Year 1991-92 shall be consistent with this Memorandum Opinion.

4. Notice was submitted to the Philadelphia City Council on January 7, 1992 of the Commission's actions of December 19, 1991.

5. All issues, proposed adjustments, and recommendations not particularly addressed in this Memorandum Opinion are hereby specifically denied.

The Philadelphia Gas Commission hereby retains jurisdiction over this matter.

Philadelphia Gas Commission

By Laurence W. Reaves
Laurence W. Reaves, Chairman

Date Issued: March 19, 1992

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT SERVICE OF THE FORE-GOING DOCUMENTS
WAS MADE BY FIRST CLASS, U.S. MAIL, TO ALL PARTICIPANTS
AT THEIR ADDRESSES LISTED ON THE ATTACHED SERVICE LIST.

DATE:

March 19, 1992

Bernice Moshinski
BERNICE MOSHINSKI

SERVICE LIST

ACTIVE PARTICIPANTS

1. LANCE S. HAVER, EXECUTIVE DIRECTOR
6048 OGONTZ AVENUE
PHILADELPHIA, PENNSYLVANIA 19141
424-1441
REPRESENTING CEPA

2. GUILLERMO L. BOSCH, ESQUIRE
801 ARCH STREET, 6TH FLOOR
PHILADELPHIA, PENNSYLVANIA 19107
928-0859
REPRESENTING CITY OF PHILADELPHIA

3. ANDRE DASENT, ESQUIRE
900 THE BOURSE BUILDING
PHILADELPHIA, PENNSYLVANIA 19106
625-0555
REPRESENTING CITY OF PHILADELPHIA

4. PETER MEADOWS ADELS, ESQUIRE
COMMUNITY LEGAL SERVICES, INC.
1324 LOCUST STREET
PHILADELPHIA, PENNSYLVANIA 19107
893-5372
PUBLIC ADVOCATE

5. ~~LESLAY~~ BROWN, ESQUIRE
COMMUNITY LEGAL SERVICES, INC.
1324 LOCUST STREET
PHILADELPHIA, PENNSYLVANIA 19107
893-5311
PUBLIC ADVOCATE

6. STEVEN P. HERSHEY, ESQUIRE
COMMUNITY LEGAL SERVICES, INC.
1324 LOCUST STREET
PHILADELPHIA, PENNSYLVANIA 19107
893-5377
PUBLIC ADVOCATE

7. STEVEN L. FRIEDMAN, ESQUIRE
DILWORTH, PAXSON, KALISH & KAUFFMAN
2600 THE FIDELITY BUILDING
123 SOUTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19109-1094
875-7140
REPRESENTING THE PHILADELPHIA GAS WORKS

8. OLIVER M. JOHNSON, II, ESQUIRE
DILWORTH, PAXSON, KALISH & KAUFFMAN
2600 THE FIDELITY BUILDING
123 SOUTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19109-1094
875-7064
REPRESENTING THE PHILADELPHIA GAS WORKS

9. MARC BRESLOW, ECONOMIC ANALYST
TELLUS INSTITUTE
89 BROAD STREET
BOSTON, MA 02110
617-426-5844

10. HYDIE MILLER, ECONOMIC ANALYST
ROOM 564-CITY HALL
PHILADELPHIA, PENNSYLVANIA 19107
686-2286

11. SYDNEY M. AVENT, ESQUIRE-SR. V.P. & GENERAL COUNSEL
800 WEST MONTGOMERY AVENUE
PHILADELPHIA, PENNSYLVANIA 19122
PHILADELPHIA GAS WORKS

12. LAURETO A. FARINAS, ESQUIRE
800 WEST MONTGOMERY AVENUE
684-6982
PHILADELPHIA GAS WORKS

13. KATHLEEN C. JACKSON, ESQUIRE-ASSISTANT GENERAL COUNSEL
800 WEST MONTGOMERY AVENUE
PHILADELPHIA, PENNSYLVANIA 19122
684-6630
PHILADELPHIA GAS WORKS

PAGE THREE

14. VALORIA L. CHEEK, ESQUIRE
SINGLEY & ASSOCIATES
SECOND FLOOR-230 SOUTH BROAD STREET
PHILADELPHIA, PENNSYLVANIA 19102
875-0609

15. L. G. SPIELVOGEL
203 HUGHES ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406
687-5900

16. LOUIS J. CARTER, ESQUIRE
7300 CITY LINE AVENUE
PHILADELPHIA, PENNSYLVANIA 19151
879-8665

REVISED 1/92

PHILADELPHIA GAS COMMISSION

NOTICE

THIS NOTICE IS TO INFORM THE PUBLIC THAT THE PHILADELPHIA GAS COMMISSION, AT ITS PUBLIC MEETING HELD ON DECEMBER 19, 1991, HAS AUTHORIZED AN INCREASE IN THE BASE RATES, AND THE GAS COST RATE (GCR) OF THE PHILADELPHIA GAS WORKS. THE NEW BASE RATES, DETAILED BELOW, WILL BE APPLICABLE TO ALL GAS CONSUMED ON/OR AFTER SEPTEMBER 1, 1991*. THE NEW GCR HAS BEEN AUTHORIZED AT A LEVEL OF 3.565 CENTS PER ONE HUNDRED CUBIC FEET, AND BECAME EFFECTIVE DECEMBER 19, 1991.

NEW BASE RATES:

(GS) GENERAL SERVICE RATE

Commodity Charge 71.20¢ per 100 c.f.

Plus

Customer Charge: \$ 4.00 per month for Residential
\$ 10.00 per month for Commercial
\$ 20.00 per month for Industrial

(MS) MUNICIPAL SERVICE RATE 64.13¢ per 100 c.f.
(City Council Approval Required)

(PHA) PHILADELPHIA HOUSING

AUTHORITY SERVICE RATE 71.26¢ per 100 c.f.

(BPS) BOILER & POWER PLANT SERVICE RATE:

Commodity Charge: Same as Existing Tariff.

Plus

Customer Charge:

	<u>Customer's</u> <u>Annual Consumption</u> (1 Mcf=1000 c.f.)
\$ 35 per month. . . .	Below 10,000 Mcf
\$ 75 per month. . . .	Between 10,000 Mcf and 100,000 Mcf
\$150 per month. . . .	Over 100,000 Mcf

(LBS-L) LOAD BALANCING SERVICE-LARGE RATE:

Commodity Charge: Same as Existing Tariff.

Plus

Customer Charge: \$175 per month.

(LBS-S) LOAD BALANCING SERVICE-SMALL RATE:

Commodity Charge: Same as Existing Tariff.

Plus

Customer Charge: \$100 per month.

*TO REFLECT THE APPLICATION OF THE NEW BASE RATES TO CUSTOMER'S USAGE ON/OR AFTER SEPTEMBER 1, 1991, ADJUSTMENTS WILL BE MADE TO CUSTOMER'S BILLS IN FOUR EQUAL MONTHLY INSTALLMENTS BEGINNING IN APRIL 1992, SUBJECT TO FINAL COMMISSION REVIEW AND APPROVAL AT ITS NEXT REGULARLY SCHEDULED MEETING.

LAURENCE W. REAVES, CHAIRMAN
PHILADELPHIA GAS COMMISSION

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

CITY OF PHILADELPHIA - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
COP-1	171	RESPONSE TO RR-48, OFFICE AGGREGATION;
COP-2	355	PFMC AGREEMENT;
COP-3	355	PGW'S 1990 ANNUAL REPORT;
COP-4	355	13TH SERIES PROSPECTUS FOR GAS WORKS REVENUE BONDS;
COP-5	357	OFFICE AGGREGATION STUDY-CUSTOMER RELATIONS DEPARTMENT;
COP-6	544	RESPONSE TO TR-13, DOWNGRADE BY MOODY ON THE INTEREST EXPENSE FOR MOST RECENT BOND ISSUE.
STATEMENT		
#1		DIRECT TESTIMONY OF DAVID W. BRENNER, FINANCE DIRECTOR DATED OCTOBER 15, 1991.

RE: PHILADELPHIA GAS WORKS* PROPOSED BASE RATE
INCREASE FOR FISCAL YEAR 1991-1992

PHILADELPHIA GAS COMMISSION - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PGC-1	7	PGW'S RATE FILING-VOLUMES I THROUGH V, DATED 7/16/91 & 8/9 AND 8/12/91, IN- CLUDING REVISED VOLUMES;
PGC-2	7	PRE-HEARING CONFERENCE ORDER;
PGC-3	11	PHILADELPHIAN OWNERS' ASSOCIATION REQUEST FOR SPECIAL TARIFF BASED ON #4 FUEL OIL, DATED JULY 10, 1991;
PGC-4	990	GOALS OF EAP PILOT PROGRAM (FEBRUARY 1990 FINAL PARTICIPANT SELECTION EAP REPORT- D. CARROLL).
PGC-5	1079	1991 EAP REPORT 1ST AND 2ND QUARTERS;
PGC-6	1165	PGW'S RESPONSE-H.A. CONNELLY'S LETTER DATED 9/26/91 RE: PHILADELPHIAN OWNERS' ASSO- CIATION'S REQUEST;
PGC-7	2343	EXHIBITS WHICH START WITH COMMISSION ENDORSED FILING. (ALSO TRANSCRIPT REQUEST #51, AND PGW EXHIBITS 16 AND 16A. REVISED A-1, A-2 AND A-3 AND STATEMENT OF INCOME ADJUSTMENTS).

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PHILADELPHIA GAS WORKS - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PGW-1	8	A.P.DEGEN'S RESPONSES TO COMMISSION INQUIRIES OF 9/4/91 RE: PUBLIC LIABILITY INSURANCE RETENTION LEVELS;
PGW-2	124	A.P.DEGEN'S LETTER DATED 8/21/91 RE: WYATT ANALYSIS;
PGW-3	445	RESPONSE TO RR-8, QUANTIFY AND IDENTIFY BY ACCOUNT THE EXPENDITURES DEFERRED FROM FY 91 TO BUDGET '91-'92;
PGW-4		H.A.CONNELLY'S LETTER DATED 9/26/91 RE: PHILADELPHIAN OWNERS' ASSOCIATION;
PGW-5	1211	ENTIRE TRANSCRIPT OF 10/22/91-CROSS- EXAMINATION OF LELASH'S TESTIMONY- GCR PROCEEDING, INCLUDING EXHIBITS;
PGW-6	1212	A.P.DEGEN'S LETTER DATED 9/23/91 RE: BELL BEVERAGE;
PGW-6A		OCTOBER 1, 1991 TRANSCRIPT RE: BELL BEVERAGE;
PGW-7	1227	PGC MAAP #21 (MARKETING ACTION PLAN);
PGW-8	1229	EXCERPT FROM REVISED FILING OF 8/9/91, EXHIBITS B-1-2, B-1-3;
PGW-9	1259	PGC MAAP #9 (WORK FORCE MANAGEMENT PROGRAM);
PGW-10	1260	RESPONSE TO TR-27 (BUDGETED COSTS RELATED TO EXECUTIVE LEVEL POSITIONS);
PGW-11	1647	HISTORY OF P.O.A.'S CONSUMPTION UNDER RATE BPS, 1984 - 1988;
PGW-12	1655	P.O.A.'S CONSUMPTION WHEN RATE BPS WAS HIGHER THAN NO. 4 OIL;
PGW-13	1740	POTENTIAL PEAK WINTER SUPPORT REMAINING -DEKATHERMS;

PAGE TWO

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PHILADELPHIA GAS WORKS - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PGW-14	1740	SUPPLY/DEMAND BALANCES-DEKATHERMS;
PGW-15	1961	PGW MANAGEMENT AUDIT ACTION PLANS SAVINGS (JRB R-1);
PGW-16	1967	PGW STATEMENT OF INCOME (DOLLARS IN THOUSANDS) 1991-1992 (JRB R-2);
PGW-16A	1968	STATEMENT OF INCOME ADJUSTMENTS (JRB R-3);
PGW-17	2095	CALLAN REPORT (TR 13-A);
PGW-18	2113	RESPONSE TO TR 29 (PARK PLAZA PROPOSED SALES VOLUME);
PGW-19	2114	RESPONSE TO TR-7 (PROVIDE MODIFIED "A" EXHIBITS);
PGW-20	2150	PGW RATE BPS CLASS DATA.

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PHILADELPHIAN OWNERS' ASSOCIATION - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
POA-1	1647	RATE BPS INTERRUPTIBLE HISTORY;
POA-2	1655	MONTHLY BPS RATE CALCULATIONS;
POA-3	1740	PGW STUDY OF POTENTIAL #4 OIL CONVERSION;
POA-4	1740	LARGEST 20 RATE BPS CUSTOMERS;
POA-5	2304	COGENERATION PARTNERS' AGREEMENT (REFERENCE APPENDIX WAS NOT SUBMITTED).
STATEMENT #1		DIRECT TESTIMONY OF MARVIN B. LEVY DATED OCTOBER 15, 1991.

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PUBLIC ADVOCATE - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PA-1	87	A.P. DEGEN'S LETTER DATED 9/9/91 RE: MAAPS #2, #8, #20, #41 AND #42;
PA-2	87	SCHUMAKER MAAPS (#34 OF 1990-1991 RATE CASE) DATED 1/26/90;
PA-3	88	PHILADELPHIA GAS WORKS' MAAPS (#35 OF 1990-1991 RATE CASE DATED 6/21/90);
PA-4	110	RESPONSE TO RR-32, MAAP #24, GOVERNMENT IMMUNITIES ACT;
PA-5	159	RESPONSE TO G-9; STREET PAVING AND BONDS' INSURANCE COVERAGE;
PA-6	229	RESPONSE TO RR-1(g)(ii), LEGAL EXPENSES BY FIRM AND CATEGORY OF WORK;
PA-7	231	RESPONSE TO RR-53, MAAP #27, LEGAL REORGANIZATION;
PA-8	240	\$28M FILING--NORMALIZED EXPENSES;
PA-9	255	RESPONSE TO RR-73 REGARDING RR-53, PENSION INVESTMENT PORTFOLIO;
PA-10	261	RESPONSE TO RR-1(i), PENSION EXPENSE;
PA-11	297	RESPONSE TO RR-1(f), RENTAL/LEASE EXPENSE;
PA-12	299	RESPONSE TO RR-31, DEPT. GOALS FOR CORPORATE PLANNING;
PA-13	387	REVISED PGC SCHEDULES & EXHIBITS DATED 9/5/91;
PA-14	397	RESPONSE TO RR-1A, SUBSTANTIATION FOR EXPENSE ENTRIES IN VOLUME V OF FILING;
PA-15	403	RESPONSE TO RR-38, INVENTORY DOLLAR VALUE;

PAGE TWO

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PUBLIC ADVOCATE - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PA-16	404	RESPONSE TO RR-9, SCHEDULE SHOWING EXPENDITURES FOR REVIEWS AND RECOMMENDATIONS BY CONSULTING FIRMS FOR 1990-1992 AND 1991-1992;
PA-17	405	RESPONSE TO RR-58, INCREASED AUTOMATION IN THE MANAGERIAL ACCOUNTING AREA;
PA-18	410	RESPONSE TO RR-51, PURCHASING FUNCTION;
PA-19	414	RESPONSE TO RR-1(c), HEALTH CARE COST CONTAINMENT COMMITTEE, RISK MANAGEMENT AND LIABILITY RETENTION LEVEL;
PA-20	415	RESPONSE TO RR-76, ALTERNATIVE METHODS OF HEALTH COVERAGE FOR NON-UNION EMPLOYEES;
PA-21	434	RESPONSE TO RR-83, TORT CLAIMS ACT;
PA-22	434	RESPONSE TO RR-84, TORT CLAIMS ACT;
PA-23	434	RESPONSE TO RR-88, OUTSIDE LEGAL COUNSEL;
PA-24	434	RESPONSE TO RR-90, ANALYSIS OF LEASE/ PURCHASE QUESTIONS;
PA-25	434	RESPONSE TO TR-14, OUTSIDE LEGAL COUNSEL;
PA-26	435	RESPONSE TO RR-92, PENSION EARNINGS RATE;
PA-27	435	RESPONSE TO TR-8, LEGAL REORGANIZATION;
PA-28	435	RESPONSE TO TR-3, LIABILITY INSURANCE PREMIUMS;
PA-29	435	RESPONSE TO TR-4, LIABILITY INSURANCE;
PA-30	437	RESPONSE TO TR-16, RE: MAAP #33 AND MAAP #58;

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PUBLIC ADVOCATE - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PA-31	533	RESPONSE TO TR-1, STRATEGIC OPTIONS STUDY;
PA-32	533	RESPONSE TO TR-11, PENSION EARNINGS RATE;
PA-33	533	RESPONSE TO TR-15, ANNUAL BUDGET COST FOR CEO & COO;
PA-34	533	RESPONSE TO TR-17, HEALTH CARE INSURANCE FOR MANAGEMENT EMPLOYEES;
PA-35	576	MARKETING PLAN FOR FY 1991-1992;
PA-36	794	RESPONSES TO A-1 AND A-16, STATEMENT OF PGW'S WRITE-OFF POLICIES;
PA-37	815	RESPONSES TO A-23 AND A-24, BREAKDOWN OF REACTIVATED ACCOUNTS;
PA-38	841	RESPONSE TO A-13, "T" ACCOUNT ANALYSIS OF AN INDIVIDUAL 5 & 2 CUSTOMER;
PA-39	875	REVISED (PGW) SCHEDULES FILED 9/23/91 EXHIBIT A-1;
PA-40	891	RESPONSE TO A-28, CHANGES IN ACCOUNTS RECEIVABLE;
PA-41	1053	RESPONSE TO PGC-70 & TR-84 FROM 1990-1991 RATE CASE -- WHAT AN EAP CUSTOMER MUST PAY IN ORDER TO COVER THE VARIABLE COST OF PROVIDING SERVICE;
PA-42A	1551	PHASE I OF D&T ORGANIZATIONAL STUDY;
PA-42B	1551	PHASE II OF D&T ORGANIZATIONAL STUDY;
PA-42C	1616	PHASE III OF D&T ORGANIZATIONAL STUDY;
PA-43	1569	RFP FOR D&T ORGANIZATIONAL STUDY (ALSO TR-51);

PAGE FOUR

RE: PHILADELPHIA GAS WORKS' PROPOSED BASE
RATE INCREASE FOR FISCAL YEAR 1991-1992

PUBLIC ADVOCATE - EXHIBITS & STATEMENTS

<u>EXHIBIT NUMBER</u>	<u>TRANS. REF. PG. #</u>	<u>DESCRIPTION:</u>
PA-44	1569	D&T RESPONSE TO RFP-ORGANIZATIONAL STUDY;

STATEMENT
NUMBER:

1	1193	DIRECT TESTIMONY OF THOMAS E. KNUDSEN DATED 10/15/91;
1A	1193	SUPPLEMENTAL DIRECT TESTIMONY OF THOMAS E. KNUDSEN DATED 10/15/91;
2	1450	DIRECT TESTIMONY OF RICHARD GIBSON, CPA, DATED 10/15/91;
3	2130	SUR-REBUTTAL TESTIMONY OF RICHARD GIBSON DATED 11/5/91;
4	2134	SUR-REBUTTAL TESTIMONY OF THOMAS E. KNUDSEN DATED 11/5/91.



MEMO from Josephine Hayes

Phone: (215) 884-8400

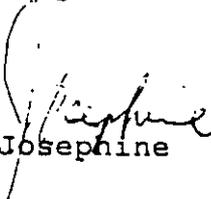


3/20/92

To: Members of the Management
Committee

Re: Memorandum Opinion and Order
PGW's Proposed Base Rate
Increase for FY 1991-92

FYI. The subject document was
signed and properly executed on
March 19, 1992.


Josephine

Attachment

cc: J.R. Bogdonavage
A. Dean
L.A. Farinas
K.C. Jackson

BEFORE THE
PHILADELPHIA GAS COMMISSION

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

ORDER AND RESOLUTION

On July 16, 1991, the Philadelphia Gas Works ("PGW") filed with the Philadelphia Gas Commission ("Commission") a request for a \$31 million Base Rate Increase for Fiscal Year 1991-1992.

On August 5, 1991, the Commission commenced formal proceedings on the Proposed Base Rate Increase with a Pre-Hearing Conference. The Commission adopted a Pre-Hearing Order directing PGW to make certain adjustments to their filing and prohibiting PGW from calling witnesses until the information ordered by the Commission had been filed. The Pre-Hearing Order also set out the schedule for the hearings.

On August 9, 1991, PGW filed an amendment to their Proposed Operating Budget and Base Rate Increase which reduced the proposed requested Base Rate Increase to \$28 million. This change was primarily as a result of a change in PGW's fuel cost estimate.

In response to the Commission's Pre-Hearing Order, PGW filed a series of budgets to place it in compliance with existing Commission Orders.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

The Commission also consolidated in this rate case a Petition dealing with the BPS Rate proposed by the Philadelphian Owners' Association.

Formal hearings began on September 17, 1991 and ended on November 12, 1991. The Commission also held eight community input sessions in various locations throughout the City of Philadelphia between November 14, 1991 and November 25, 1991.

Written Briefs and Reply Briefs were filed with the Commission by the Philadelphia Gas Works, the Public Advocate and the City of Philadelphia. In addition, a lawyer for the Philadelphian Owners' Association submitted a letter in lieu of a brief on November 14, 1991.

On December 4, 1991, by agreement, the parties waived the necessity for a Recommended Decision of the Committee of the Whole and also waived their rights to file Exceptions to a Recommended Decision.

On December 19, 1991 at 10:00 A.M., the Commission, after giving legal notice, held a Special Commission Meeting for the purpose of rendering a decision on PGW's Proposed Base Rate Increase and Gas Cost Rate ("GCR") Adjustments request.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

Present at the Special Meeting were:

Chairman Laurence Reaves, Vice Chairman Jonathan Saidel,
Commissioner Ann Land and Commissioner David Boonin.¹

WHEREFORE, upon reviewing all of the testimony,
statements, transcripts, exhibits, Briefs and Reply Briefs,
the Commission now renders its decision on PGW's Proposed
\$28 million Base Rate Increase for Fiscal Year 1991-1992.²

A Memorandum & Opinion will be issued shortly by the
Commission further explaining the Commission's December 19, 1991
Decision.

It is hereby ordered that the following adjustments
be made to PGW's Proposed Operating Budget for Fiscal
Year 1991-1992:

- 1.) Accept the Public Advocate's position regarding MAAPs 2
and 8 and reduce expenses by \$1,000,000.

¹ The vote taken on the motion concerning the rate
increase was as follows: Yea's : 3 Nay's: 1

Vice Chairman Saidel dissented.

² When a change is proposed to PGW's budget,
reference is being made to PGW's August 9, 1991
filing, as amended by the GCR Stipulation.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 2.) Accept the Public Advocate's position regarding MAAP 7 adjusted for the 12/31/91 completion date set forth in the approved MAAP and reduce expenses by \$280,000.
- 3.) Reject the Public Advocate's adjustment regarding MAAP 21 but order PGW to accelerate the implementation of its self-generation project.
- 4.) Reject the Public Advocate's adjustment regarding MAAP 24 as not being included on the record.
- 5.) Accept the Public Advocate's position regarding MAAP 25 and reduce expenses by \$300,000.
- 6.) In regard to MAAP 34, acknowledge the additional cost cited by PGW but also acknowledge that proceeding with this project should mean that there are offsetting savings. No budgetary adjustment is ordered for this MAAP, but PGW is ordered to comply with MAAP 34.
- 7.) Accept the Public Advocate's position regarding the Pension Fund Investment Earnings Rate and reduce expenses by \$2,600,000. Accept the Public Advocate's position that this Commission should recommend to the Sinking Fund Commission that it review its fund managers.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 8.) Continue the Commission's current position regarding insurance and risk retention at a minimum of \$2,000,000 and reduce expenses by \$420,000.
- 9.) Accept the Public Advocate's position of reducing the budgeted number of employees by 19 and reduce expenses by \$669,000.
- 10.) Accept the Public Advocate's position and reduce expenses by \$248,000 related to the budgeted cost of a CEO and a COO.
- 11.) Accept the Public Advocate's recommendation regarding MAAP 33 as quantified at Transcript Request #16 and reduce expenses by \$120,000.
- 12.) Accept the Public Advocate's recommendation concerning Other Income and increase budgeted income by \$791,000.
- 13.) Accept the Public Advocate's position on legal expenses and reduce expenses by \$262,000.
- 14.) Accept the Public Advocate's position regarding Injuries and Damages appropriation and reduce expenses by \$653,000.
- 15.) Accept the Public Advocate's adjustment regarding conservation expenses and reduce the base rates by \$600,000 but allow for recovery through the GCR if these dollars are

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

actually spent. This adjustment could cause a minor cash flow issue and thus an additional \$6,000 in interest expense is budgeted. The Commission shall take all steps possible to encourage PGW to spend these dollars on meaningful projects this fiscal year.

16.) Reject the Public Advocate's position regarding the \$18 million dollar payment to the City and accept the City's and PGW's position.

17.) Accept the Public Advocate's position on the Accounts Receivable Factor and reduce expenses by \$1,600,000.

18.) Accept the Public Advocate's position on the Retrospective Study and reduce expenses by \$600,000.

19.) Reduce the Appropriation for Uncollectibles by \$2,333,000 to reflect the front loading of expenses by PGW in its calculation of appropriations related to the Energy Assurance Program (EAP). This represents one year's arrearage forgiveness versus the three year's claimed by PGW.

20.) Direct PGW to change its accounting method for the dollars not collected from EAP customers when they meet their personal current obligations under the plan such that it appears as a decrease in revenues rather than an increase in uncollectibles.

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 21.) Reduce expenses for Appropriations for Uncollectibles by approximately \$987,000 to reflect the overall decrease in rates ordered herein.
- 22.) Decrease Other Operating Income and Unbilled Gas by approximately \$54,000 and \$232,000 respectively to reflect the overall reduction in rates included herein.
- 23.) Increase expenses by \$183,000 to fund the studies recommended by the Public Advocate and discussed below.
- 24.) Reject all adjustments proposed by any party made after the close of the formal hearing process as being inadmissible evidence.
- 25.) Accept the Public Advocate's position that a Strategic Options Study should be conducted by this Commission, but include \$133,000 in this budget as a partial funding of this project.
- 26.) Accept the Public Advocate's recommendation on an Uncollectible Study and include \$50,000 in the budget per the Public Advocate's recommendation.
- 27.) Reject the Public Advocate's recommendation concerning lease versus purchases due to insufficient evidence.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

28.) Reject the Public Advocate's position that the LNG Capacity and Marketing Study be performed, except as it may be an issue in the Strategic Options Study.

29.) Accept PGW's request to change the customer charge.

30.) Reject without prejudice the two proposals of the Philadelphian Owners' Association, but order PGW to report to this Commission within 60 days: a) it's plans to provide metering to interruptible customers which will allow PGW to have a better understanding of customer behavior and customers to have a better access to rates on a more time sensitive basis and b) an analysis of the #4 oil potential of its BPS customers.

31.) Accept an effective date for the base rate changes of 9/1/91 and order PGW to submit a plan for the collection of these revenues in its compliance filing.

32.) Reject \$12,968,000 of PGW's proposed \$28,000,000 rate increase request and grant an increase of \$15,032,000.

IT IF FURTHER ORDERED THAT:

33.) City Council be notified of this change in base rates and in the Gas Cost Rate and that these changes be recommended to City Council for its approval for the Municipal Service Rate.

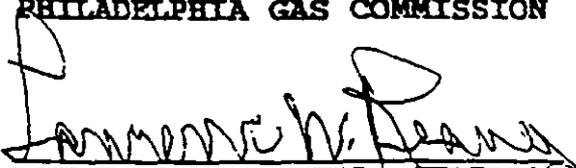
PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

34.) All necessary orders and advertisements reflecting the
Commission's decision be prepared.

PHILADELPHIA GAS COMMISSION

By:


LAURENCE W. REAVES, CHAIRMAN

ORDER ADOPTED: DECEMBER 19, 1991

ORDER ENTERED: JANUARY 7, 1992



PHILADELPHIA GAS COMMISSION

1401 ARCH STREET, PHILADELPHIA, PENNSYLVANIA 19102 · (215) 563-6928

January 7, 1992

Community Legal Services, Inc.
1324 Locust Street, Suite 201
Philadelphia, Pennsylvania 19107

Attention: Steven P. Hershey, Esquire

Dilworth, Paxson, Kalish & Kauffman
2600 The Fidelity Building
123 South Broad Street
Philadelphia, Pennsylvania 19109-1094

Attention: Oliver M. Johnson, II, Esquire

**RE: PHILADELPHIA GAS WORKS' PROPOSED BASE RATE
INCREASE FOR FISCAL YEAR 1991-1992**

Dear Counsel:

Attached please find a copy of the Order and Resolution, properly signed and executed, which was adopted at the December 19, 1991 Commission Meeting, pertaining to the above-captioned matter.

Very truly yours, .

Bernice T. Moshinski
BERNICE T. MOSHINSKI
ADMINISTRATIVE ASSISTANT

Attachment

cc: All Philadelphia Gas Commissioners
Alfred P. Degen, Executive Vice President
Joseph G. Horan, Senior Vice President
Harry A. Connelly, Vice President, Rates & Regulatory Affairs
Sydney M. Avent, Senior V.P. & General Counsel
Kathleen C. Jackson, Assistant General Counsel
Laureto A. Farinas, Esquire
Terri M. Maloney, Vice President, Customer Activities
Josephine Hayes, Coordinator, Regulatory Affairs
Hydie Miller, Economic Analyst
Julio J. Lastra, Esquire
David M. Boonin, Executive Director
Oscar G. Turner, Staff Director
See attached service list.

BEFORE THE
PHILADELPHIA GAS COMMISSION

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

ORDER AND RESOLUTION

On July 16, 1991, the Philadelphia Gas Works ("PGW") filed with the Philadelphia Gas Commission ("Commission") a request for a \$31 million Base Rate Increase for Fiscal Year 1991-1992.

On August 5, 1991, the Commission commenced formal proceedings on the Proposed Base Rate Increase with a Pre-Hearing Conference. The Commission adopted a Pre-Hearing Order directing PGW to make certain adjustments to their filing and prohibiting PGW from calling witnesses until the information ordered by the Commission had been filed. The Pre-Hearing Order also set out the schedule for the hearings.

On August 9, 1991, PGW filed an amendment to their Proposed Operating Budget and Base Rate Increase which reduced the proposed requested Base Rate Increase to \$28 million. This change was primarily as a result of a change in PGW's fuel cost estimate.

In response to the Commission's Pre-Hearing Order, PGW filed a series of budgets to place it in compliance with existing Commission Orders.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

The Commission also consolidated in this rate case a Petition dealing with the BPS Rate proposed by the Philadelphian Owners' Association.

Formal hearings began on September 17, 1991 and ended on November 12, 1991. The Commission also held eight community input sessions in various locations throughout the City of Philadelphia between November 14, 1991 and November 25, 1991.

Written Briefs and Reply Briefs were filed with the Commission by the Philadelphia Gas Works, the Public Advocate and the City of Philadelphia. In addition, a lawyer for the Philadelphian Owners' Association submitted a letter in lieu of a brief on November 14, 1991.

On December 4, 1991, by agreement, the parties waived the necessity for a Recommended Decision of the Committee of the Whole and also waived their rights to file Exceptions to a Recommended Decision.

On December 19, 1991 at 10:00 A.M., the Commission, after giving legal notice, held a Special Commission Meeting for the purpose of rendering a decision on PGW's Proposed Base Rate Increase and Gas Cost Rate ("GCR") Adjustments request.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

Present at the Special Meeting were:

Chairman Laurence Reaves, Vice Chairman Jonathan Saidel,
Commissioner Ann Land and Commissioner David Boonin.¹

WHEREFORE, upon reviewing all of the testimony,
statements, transcripts, exhibits, Briefs and Reply Briefs,
the Commission now renders its decision on PGW's Proposed
\$28 million Base Rate Increase for Fiscal Year 1991-1992.²

A Memorandum & Opinion will be issued shortly by the
Commission further explaining the Commission's December 19, 1991
Decision.

It is hereby ordered that the following adjustments
be made to PGW's Proposed Operating Budget for Fiscal
Year 1991-1992:

- 1.) Accept the Public Advocate's position regarding MAAPs 2
and 8 and reduce expenses by \$1,000,000.

¹ The vote taken on the motion concerning the rate
increase was as follows: Yea's : 3 Nay's: 1

Vice Chairman Saidel dissented.

² When a change is proposed to PGW's budget,
reference is being made to PGW's August 9, 1991
filing, as amended by the GCR Stipulation.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 2.) Accept the Public Advocate's position regarding MAAP 7 adjusted for the 12/31/91 completion date set forth in the approved MAAP and reduce expenses by \$280,000.
- 3.) Reject the Public Advocate's adjustment regarding MAAP 21 but order PGW to accelerate the implementation of its self-generation project.
- 4.) Reject the Public Advocate's adjustment regarding MAAP 24 as not being included on the record.
- 5.) Accept the Public Advocate's position regarding MAAP 25 and reduce expenses by \$300,000.
- 6.) In regard to MAAP 34, acknowledge the additional cost cited by PGW but also acknowledge that proceeding with this project should mean that there are offsetting savings. No budgetary adjustment is ordered for this MAAP, but PGW is ordered to comply with MAAP 34.
- 7.) Accept the Public Advocate's position regarding the Pension Fund Investment Earnings Rate and reduce expenses by \$2,600,000. Accept the Public Advocate's position that this Commission should recommend to the Sinking Fund Commission that it review its fund managers.

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 8.) Continue the Commission's current position regarding insurance and risk retention at a minimum of \$2,000,000 and reduce expenses by \$420,000.
- 9.) Accept the Public Advocate's position of reducing the budgeted number of employees by 19 and reduce expenses by \$669,000.
- 10.) Accept the Public Advocate's position and reduce expenses by \$248,000 related to the budgeted cost of a CEO and a COO.
- 11.) Accept the Public Advocate's recommendation regarding MAAP 33 as quantified at Transcript Request #16 and reduce expenses by \$120,000.
- 12.) Accept the Public Advocate's recommendation concerning Other Income and increase budgeted income by \$791,000.
- 13.) Accept the Public Advocate's position on legal expenses and reduce expenses by \$262,000.
- 14.) Accept the Public Advocate's position regarding Injuries and Damages appropriation and reduce expenses by \$653,000.
- 15.) Accept the Public Advocate's adjustment regarding conservation expenses and reduce the base rates by \$600,000 but allow for recovery through the GCR if these dollars are

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

actually spent. This adjustment could cause a minor cash flow issue and thus an additional \$6,000 in interest expense is budgeted. The Commission shall take all steps possible to encourage PGW to spend these dollars on meaningful projects this fiscal year.

16.) Reject the Public Advocate's position regarding the \$18 million dollar payment to the City and accept the City's and PGW's position.

17.) Accept the Public Advocate's position on the Accounts Receivable Factor and reduce expenses by \$1,600,000.

18.) Accept the Public Advocate's position on the Retrospective Study and reduce expenses by \$600,000.

19.) Reduce the Appropriation for Uncollectibles by \$2,333,000 to reflect the front loading of expenses by PGW in its calculation of appropriations related to the Energy Assurance Program (EAP). This represents one year's arrearage forgiveness versus the three year's claimed by PGW.

20.) Direct PGW to change its accounting method for the dollars not collected from EAP customers when they meet their personal current obligations under the plan such that it appears as a decrease in revenues rather than an increase in uncollectibles.

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

- 21.) Reduce expenses for Appropriations for Uncollectibles by approximately \$987,000 to reflect the overall decrease in rates ordered herein.
- 22.) Decrease Other Operating Income and Unbilled Gas by approximately \$54,000 and \$232,000 respectively to reflect the overall reduction in rates included herein.
- 23.) Increase expenses by \$183,000 to fund the studies recommended by the Public Advocate and discussed below.
- 24.) Reject all adjustments proposed by any party made after the close of the formal hearing process as being inadmissible evidence.
- 25.) Accept the Public Advocate's position that a Strategic Options Study should be conducted by this Commission, but include \$133,000 in this budget as a partial funding of this project.
- 26.) Accept the Public Advocate's recommendation on an Uncollectible Study and include \$50,000 in the budget per the Public Advocate's recommendation.
- 27.) Reject the Public Advocate's recommendation concerning lease versus purchases due to insufficient evidence.

PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

28.) Reject the Public Advocate's position that the LNG Capacity and Marketing Study be performed, except as it may be an issue in the Strategic Options Study.

29.) Accept PGW's request to change the customer charge.

30.) Reject without prejudice the two proposals of the Philadelphian Owners' Association, but order PGW to report to this Commission within 60 days: a) it's plans to provide metering to interruptible customers which will allow PGW to have a better understanding of customer behavior and customers to have a better access to rates on a more time sensitive basis and b) an analysis of the #4 oil potential of its BPS customers.

31.) Accept an effective date for the base rate changes of 9/1/91 and order PGW to submit a plan for the collection of these revenues in its compliance filing.

32.) Reject \$12,968,000 of PGW's proposed \$28,000,000 rate increase request and grant an increase of \$15,032,000.

IT IF FURTHER ORDERED THAT:

33.) City Council be notified of this change in base rates and in the Gas Cost Rate and that these changes be recommended to City Council for its approval for the Municipal Service Rate.

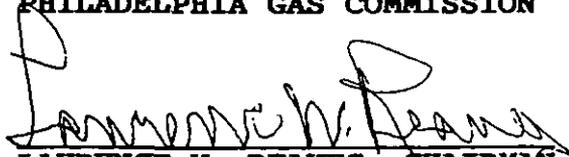
PUBLIC MEETING HELD: DECEMBER 19, 1991

IN RE: PHILADELPHIA GAS WORKS' PROPOSED
BASE RATE INCREASE FOR FY 1991-1992

34.) All necessary orders and advertisements reflecting the
Commission's decision be prepared.

PHILADELPHIA GAS COMMISSION

By:


LAURENCE W. REAVES, CHAIRMAN

ORDER ADOPTED: DECEMBER 19, 1991

ORDER ENTERED: JANUARY 7, 1992

AGREEMENT

Between

THE CITY OF PHILADELPHIA

AND

THE PHILADELPHIA FACILITIES
MANAGEMENT CORPORATION

FOR THE MANAGEMENT AND OPERATION
OF THE PHILADELPHIA GAS WORKS

PRINTING DATE: January, 1996
Original Agreement Dated December 29, 1972
Includes Amendments Through December 31, 1995

Original Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation was executed on December 29, 1972, for the management and operation of the Philadelphia Gas Works, pursuant to an Ordinance of City Council, approved December 29, 1972 (Bill #455), and to Resolutions of the Board of Directors of the Corporation adopted at a meeting held on December 13, 1972.

Agreement amended, pursuant to an Ordinance of City Council, approved December 14, 1973 (Bill #1021), relating to gas rate discount for Senior Citizens.

Agreement amended, pursuant to an Ordinance of City Council, approved May 30, 1975 (Bill #1870), relating to Gas Works Revenue Bonds.

Agreement amended, pursuant to an Ordinance of City Council, approved November 1, 1976 (Bill #396), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved June 22, 1978 (Bill #1410), relating to Temporary financing.

Agreement amended, pursuant to an Ordinance of City Council, approved April 10, 1979 (Bill #1874), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved June 11, 1979 (Bill #1948), relating to Management personnel provided by company; production purchase and delivery of gas; paving requirements; natural gas standards; heating value standards; attendance at meetings; classification of service; definitions and indemnifications.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #319), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #320), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #321), relating to Gas Works Temporary Loan Notes.

Agreement amended, pursuant to an Ordinance of City Council, approved June 23, 1981 (Bill #750), relating to Temporary Financing.

Agreement amended, pursuant to an Ordinance of City Council, approved September 22, 1982 (Bill #1315), relating to change in fiscal year basis.

Agreement amended, pursuant to an Ordinance of City Council, approved December 3, 1982 (Bill #1314), relating to Temporary Financing.

Agreement amended, pursuant to an Ordinance of City Council approved April 11, 1990 (Bill #737), relating to compensation.

Agreement amended, pursuant to an Ordinance of City Council approved December 28, 1995 (Bill #1256), relating to Company's management fee.

Marginal notes are not part of the agreement, but are provided for convenience of use.

AGREEMENT made this 29th day of December, 1972,
by and between the CITY OF PHILADELPHIA (hereinafter
called "City"), and PHILADELPHIA FACILITIES
MANAGEMENT CORPORATION, a corporation organized
and existing under the laws of the State of Pennsylvania
(hereinafter called "Company").

Parties and dates

WITNESSETH:

WHEREAS, the City is the owner of a group of real
and personal assets known as the Philadelphia Gas Works
("Gas Works"); and

WHEREAS, the City desires to provide quality gas
services to its citizens at reasonable rates; and

WHEREAS, the Company is a non-profit corporation
organized for the specific purpose of operating the
Philadelphia Gas Works.

NOW, THEREFORE, the parties to this Agreement,
intending to be legally bound, agree as follows:

SECTION I

General

1. The City hereby authorizes Company on the
terms and conditions herein set forth to manage and
operate all the property, real and personal, collectively
known as the Gas Works, for the sole and exclusive benefit
of City; provided, however, City may retrieve from the Gas
Works any property or equipment which City determines to
be unnecessary to the efficient and economic operation of
the Gas Works.

*Authority to
manage and operate
PGW property*

*City may retrieve
surplus property or
equipment*

2. City, to the extent that it has or shall have the authority or power so to do, authorizes and empowers Company to maintain, change, alter, replace, repair and operate the Gas Works and appurtenances along and beneath the surfaces of the highways, streets, avenues, lanes, alleys, ways and public places in City, for the supply and distribution of gas, subject to provisions hereinafter set forth. For these purposes Company may enter upon, occupy and open all said highways, streets, avenues, lanes, alleys, ways and public places, and supply and distribute gas through pipes laid therein.

Right to enter highways

3. During the term of this Agreement, Company will maintain the Gas Works for the sole and exclusive benefit of the City, including all additions, extensions, betterments, and improvements made thereto, in good order and efficient operating condition. Upon termination of this Agreement by expiration of the term or by any other means, City, its agents, servants, or employees shall be entitled without further payment to Company to use all processes established at the Gas Works for the manufacture or distribution of gas of any type or kind. To the extent that use of any such process is authorized by a contract with a third party, City may at its option either continue the use of such process in accordance with the terms of such contract or may discontinue use of such process.

Company to maintain Gas Works

City's use of processes upon termination

4. Company shall not assign or subcontract this Agreement or any rights hereunder to any person or corporation, nor delegate any duties hereunder.

Agreement not assignable

5. Company's primary obligation shall be to apply the highest standards of management practice and diligence to the operation of the Gas Works.

Highest management standards -

"Recommendations" in the Ordinance.

6. Company shall provide the following personnel for the operation of the Gas Works:

*Management
personnel provided
by Company*

- (a) a chief executive officer;
- (b) a chief operating officer;
- (c) a chief financial officer; and
- (d) such other personnel as deemed appropriate by Company.

All such personnel shall be subject to the approval of the Gas Commission, which approval shall not be unreasonably withheld. In the event the Gas Commission fails to approve any such personnel they shall be replaced by approved personnel forthwith.

*Personnel subject to
Gas Commission
approval*

7. Company shall file semi-annual reports with the Gas Commission setting forth all salaries, fringe benefits, expenses and costs incurred by Company in carrying out its duties and responsibilities under the terms and conditions of this Agreement.

*Company to file
semi-annual reports*

SECTION II

Production, Purchase and Delivery of Gas

1. The Company shall take all reasonable steps to insure that the capacity of the Gas Works to manufacture, provide and distribute gas is at all times sufficient for the estimated maximum requirements of gas users in the City of Philadelphia.

*Capacity shall
meet requirements*

2. Company may purchase natural gas or other gas from other parties pursuant to contracts and agreements for such purchases which are first submitted to the Gas Commission for its recommendations and approved by City Council; except that in temporary or emergency situations, Company may purchase natural or other gas from other parties and then seek the approval for such purchase or purchases from the Gas Commission and City Council within 30 days after the initiation of such purchase. In the event such temporary purchase shall be disapproved such supply if continuing shall immediately terminate. Company shall have the right to contract with others for the distribution and/or transmission of such gas to the Gas Works or its facilities which are ancillary, attendant or related in any manner to purchase of gas after such contracts are first submitted to the Gas Commission for its recommendations and approved by City council.

Approval of purchase of gas

Approval of natural gas delivery facilities

3. Company, to the extent permitted by the lawfully constituted authorities, may enlarge or extend the facilities for the distribution of gas to an agreed-upon customer meter location as may be necessary to meet the demand for gas. In any situation where such enlargement or extension of the Gas Works' facilities will place an unreasonable financial burden upon the then existing customers, in view of the anticipated revenues to be expected from such enlargement or extension Company shall make reasonable charges for the same as defined from time to time in Company regulations which are approved by the Gas Commission.

Charges to customers for extensions

4. The intention of this Agreement is that all changes, additions, extensions, betterments, improvements, alterations and replacements in the Gas Works and in the mains, pipes and appurtenances thereof, and in the property needed to meet the demands for gas as herein provided, shall be made in such a way and manner as shall maintain the Gas Works in good order and condition with the best and most economical processes in use that are customary in the best regulated gas works, to the extent permitted by funds available for said purposes.

Company shall maintain Gas Works in good order

5. All openings, excavations and repaving shall be made subject to such general rules, regulations, specifications, ordinances and such Acts of Assembly as may apply, as from time to time shall be in force concerning the opening, excavation and repaving of streets and the protection of travel along the same, and the trenches shall be refilled and repaved with the same material and character of paving as before they were opened, unless otherwise ordered by the Streets Commissioner. Refilling and making opening safe for traffic shall be completed by Company within five (5) days after the pipe, services, or mains have been laid, and said repaving shall be completed, weather permitting, within sixty (60) days thereafter.

Paving requirements

6. All ordinances, rules and regulations of City regulating the safety of the piping and fixtures of houses or buildings shall be binding upon Company.

Safety regulations

SECTION III

Standards of Gas

1. *General*

Company may supply straight natural gas in accordance with the standards provided for in the General Terms and Conditions of the supplier Company's Tariffs on file with the Federal Energy Regulatory Commission and incorporated by reference in the Agreements for the purchase of natural gas, to which the Company, City and Supplier companies are parties. Also for supplemental purposes, the Company may, as necessary, supply other gases interchangeable and compatible with natural gas.

Natural gas standards

Interchangeable supplemental gases

2. *Testing--Facilities and Inspection*

Adequate facilities for testing the heating value and purity of the gas shall be provided at the Gas Works' expense and equipped with calorimeters for continuously determining the heating value of the gas, apparatus for determining presence of sulphureted hydrogen in the gas, apparatus for determining total sulphur content, apparatus for determining total ammonia content, apparatus for determining specific gravity of the gas and such other apparatus customary and necessary for such purposes, or which will be found to improve the rapidity and accuracy of such testing.

Plant testing facilities

The location of testing facilities shall be selected by Company, and approved by Gas Commission.

Location of testing facilities

The design and accuracy of all testing apparatus when desired by City, Gas Commission or Company shall be certified by the United States Bureau of Standards.

Certification of test equipment

Standards and tests specified herein may be changed and altered from time to time as recommended by Company and approved by Gas Commission.

Change in standards and tests

City and Gas Commission shall have the right at all times by its proper officers, during the term of this Agreement, to test the quality and pressure of gas. Full facilities for these purposes shall be afforded by Company. All such tests shall be made in the presence of a representative of Company. Accurate written records of such test shall be maintained by Company.

City and Gas Commission have right to inspect

3. *Heating Value--Requirements And Determination*

The monthly average total heating value of the gas, when determined as provided below, shall not be less than 950 British Thermal Units per cubic foot, measured at a temperature of 60° Fahrenheit and a pressure of 30 inches of mercury.

Heating value standards

The daily average total heating value shall not differ from the monthly average total heating value to such extent as to interfere with the satisfactory functioning of consumer appliances.

The total heating value of the gas shall be continuously recorded daily unless prevented by circumstances beyond the Company's control.

Daily recording

The monthly average total heating value of the gas shall be the average of the daily averages of the total heating value for that month.

Average monthly value

The daily average total heating value shall be the average of 24-hourly readings.

Average daily value

4. *Purity--Requirements and Determination*

Sulphureted Hydrogen--The gas shall contain not more than a trace of sulphureted hydrogen. The gas shall be considered to contain not more than a trace of sulphurated hydrogen if a strip of white filter paper moistened with a solution containing five per cent by weight of lead acetate is not distinctly darker than a second paper freshly moistened in the same solution after the first paper has been exposed to the gas for one and one-half minutes in an apparatus of approved form through which the gas is flowing at the rate of approximately 5 cubic feet per hour, the gas not impinging directly from a jet upon the test paper.

Sulphureted hydrogen

Total sulphur--The gas shall contain in each 100 cubic feet not more than 30 grains of total sulphur.

Sulphur

Ammonia--The gas shall contain in each 100 cubic feet not more than 5 grains of ammonia.

Ammonia -

5. *Pressure Regulations*

Company shall maintain pressures throughout the City within limits compatible with the satisfactory utilization of gas and as more fully defined in the Rules and Regulations* of the Company's Tariff and as approved from time to time by the Gas Commission.

Gas pressure requirements

Company shall take pressure readings continuously in representative locations throughout the City, which readings shall be available to representatives of City and the Gas Commission upon request for a period of one year prior to the date of such request, or in compliance with the rules issued from time to time by the Gas Commission.

Pressure readings

Gas Commission may order Company by written notice to adjust pressures to acceptable limits for satisfactory utilization of gas, and due diligence shall be employed by Company to adjust pressures at such points to within such acceptable limits. If compliance with the order of the Gas Commission shall require the installation of new apparatus or mains, Company shall be allowed six (6) months, after the necessary financing has been secured to obtain permits for opening of streets and for the laying of the mains and the installation of the necessary apparatus.

Adjustments of pressures

Delay in compliance

SECTION IV

Accounting Methods; Operating Budget and Forecast; Capital Budget and Forecast; Temporary Financing and Financial Statements

1. *Accounting Methods*

(a) *In General*

The accounts and reporting shall be on the accrual methods in which the accounting for depreciation shall be as described in subsection 1(b) herein.

Accounting to be on accrual method

The Gas Works revenues and expenses shall be operated and accounted for an extended period basis from July 1, 1981 to August 31, 1981, and on a fiscal year basis commencing September 1, 1982 and terminating August 31, 1983 and from September 1 to August 31 from year to year thereafter. Accounting shall be employed to show separately the operating accounts and the capital accounts. Operating and capital accounts shall follow generally the classifications specified by the Public Utility Commission of Pennsylvania, expanded or altered, as required by the Director of Finance to portray the special charges and special accounting prescribed in this agreement.

*Fiscal year
September 1 to
August 31*

*Accounting to follow
PUC*

(b) Depreciation

There shall be established and maintained a reserve for depreciation reasonably estimated to be adequate to care for the retirement (due to exhaustion, wear and tear and obsolescence) of property at original cost. The amount necessary to be credited to the reserve each year for such purposes shall be charged to operations.

*Depreciation on
original cost*

(c) Employee Retirement Costs

There shall be provided for and charged to operations annually retirement cost for retired employees and employees still in service on the following basis:

For retired employees, the amount necessary to meet current payments to them under their retirement schedules.

Retired employees

An additional amount, as determined by the Director of Finance, shall be placed in a retirement fund to be held and invested by the Sinking Fund Commission. Such additional amount shall be determined by the Director of Finance after taking into consideration the current payrolls, the retirement schedules then in effect applicable to various classes of employees and the extent to which it appears desirable and reasonable to build up such fund in current and future years.

Pension fund

To this end, the Director of Finance at appropriate times shall obtain competent actuarial advice and shall have available at all times a report made within the immediately preceding five (5) years by a competent actuary based upon an actuarial investigation of the pertinent factors with the costs to be paid by the Gas Works. Payment out of such funds shall be subject to the approval of the Director of Finance as to amounts and when and how payable.

Any proposed change in the retirement plan, schedule or system recommended by Company first shall be transmitted to the Director of Finance for his approval and then transmitted to City Council for its approval, for which purpose there shall be made available to the City Council an appropriate actuarial report prepared under the direction of the Director of Finance.

Retirement plan changes

No employee of Company shall be entitled to be paid a retirement or separation allowance unless and until he can establish his direct and immediate and exclusive connection as such employee with the Gas Works whether under the present operator or former operator.

Employee eligibility for pensions

All such retirement and separation allowances which are paid during the continuance of this agreement and the terms of which, as so approved, require their continued payment after its termination, shall be thereafter paid by City, or City shall cause the same to be paid by any person succeeding to the operation of the Gas Works.

Obligation of City to continue to pay pensions

2. Budgets

(a) Operating Budget and Forecast

There shall be prepared annually an operating budget for the ensuing year and an operating forecast for four (4) years comprising the ensuing year and the three (3) years next following.

Operating budget

Such budget and forecast shall be prepared by Company with the aid of the Director of Finance; shall be consistent with the accounting methods prescribed in Section IV (1); and in general shall be in form and extent satisfactory to the Director of Finance and Gas Commission. The operating budget and forecast shall be subject to the approval of the Gas Commission.

Approval of operating budget by Gas Commission

(b) Capital Budget and Forecast

There shall be prepared annually a proposed capital budget for the ensuing year and a forecast for six (6) years comprising the ensuing year and the five (5) years next following. Such budget and forecast shall be prepared by Company; shall be consistent with the accounting methods prescribed in Section IV (1); and in general be in form and extent satisfactory to the Director of Finance and the Gas Commission.

Capital budget

The proposed budget and forecast first shall be transmitted to the Director of Finance and the Gas Commission for their recommendations thereon. The Director of Finance and Gas Commission shall transmit such budget and forecast together with their recommendations thereon to City Council for its approval. The submission of the proposed budget and forecast to the Director of Finance and Gas Commission by Company shall be made in sufficient time for their review and for the Director of Finance and Gas Commission in turn to submit the said budget and forecast together with their recommendations thereon to City Council no later than the middle of the fourth month preceding the beginning of the Gas Works' fiscal year, so that City Council may act on it at least thirty (30) days prior to the next ensuing fiscal year.

Approval of capital budget by City Council

The capital budget and forecast shall include a showing of the nature of the proposed capital additions and replacements, the amounts needed therefor and how the funds required are to be supplied as between--

Nature of capital items

(i) funds generated within the business through charges to customers or otherwise; and

(ii) funds to be obtained through capital loans.

Capital loans

At any time during the fiscal year, or before the budget accounts are closed for the year, the division between (i) and (ii) above may, if conditions so warrant, be changed or the total thereof increased upon recommendation of the Director of Finance and the Gas Commission and upon approval by City Council.

Approval of changes

In the event that capital loans are required in any year under (ii) above, plans therefor shall be submitted to the Director of Finance for approval of the amount of loan and the method of effecting it, and then transmitted to City Council for its approval.

Approval of capital loans

(c) Expenditures Pursuant to Budgets

All expenditure and commitments therefor shall be made pursuant to such approved budgets and subject to rules and regulations, if any, promulgated by the Gas Commission in connection therewith.

Gas Commission rules regulate expenditures

3. Temporary Financing

Short-term loans not exceeding twenty million dollars in amount or twelve months in duration may be negotiated in anticipation of revenues, except that short-term loans exceeding twenty million dollars but not exceeding forty-five million dollars in amount may be negotiated in anticipation of revenues for Fiscal Year 1982 of the Gas Works and may be outstanding during the period July 1, 1981 through June 30, 1982. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of amount of loan. The amount of any such loan shall also be subject to the approval by resolution or by ordinance of City Council.

Approval of short term loans

The Gas Works may also receive temporary advances from the City in anticipation of revenues which are anticipated to be received by the Gas Works provided that such advances do not exceed twenty million dollars in amount or twenty-four months in duration; provided further, however, that during the period June 30, 1981 through June 30, 1983, such advances may exceed twenty million dollars but shall not exceed forty-five million dollars in amount. The amount of each such advance shall be subject to the prior approval of the Director of Finance and the Gas Commission and to the approval by resolution or by ordinance of City Council.

In addition to the foregoing authorized borrowings, loans not exceeding one hundred million dollars in aggregate principal amount at any time outstanding may be incurred for financing accounts receivable and the purchase of inventory for the Gas Works, as authorized by applicable law. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of the aggregate principal amount of such loans which may be outstanding at any single time. Such aggregate principal amount shall also be subject to approval by resolution or by ordinance of City Council.

4. Financial Statements

Company shall within a reasonable time after the close of the Gas Works' fiscal year furnish to the Mayor, the Gas Commission, the City Controller, the City Solicitor, the Director of Finance and City Council a financial statement of such year in form and extent satisfactory to the Director of Finance and Gas Commission. Such financial statement shall be audited by a certified public accountant in accordance with generally accepted accounting principles.

*Furnishing of
financial
statements by
Company*

*CPA to audit
financial statement*

All books, records and accounts of the Gas Works shall be kept separate and apart from all other books, records and accounts of Company. The City Controller and the Director of Finance and Gas Commission may examine or cause to be examined the books, records and accounts of Gas Works for the purpose of auditing and reporting upon

*Books, records and
accounts of PGW to
be kept separate*

such financial statement to the Mayor, the Gas Commission, the City Council, the City Solicitor and the Director of Finance; and the Director of Finance, Gas Commission and the City Controller shall at all times hereafter, for such purpose or for the purpose of ascertaining any facts in relation to the operation of the Gas Works and the performance of the obligations of Company, have full and free access at all reasonable hours to the related books, records and accounts of Gas Works.

*City controller,
Director of Finance
and Gas Commission
may audit books*

Company shall furnish the Mayor, the Gas Commission, the City Controller, the City Solicitor, the Director of Finance and City Council with copies of regular interim financial or operating reports, prepared for periods within the fiscal year, which any such parties may reasonably request.

*Furnishings of
regular interim
reports by company*

SECTION V

Insurance; Eminent Domain

1. Insurance

Company shall insure against loss the buildings, machinery, and equipment and other property of the Gas Works and other risks to the Gas Works, all of which shall be insured to the extent that such property and risks of gas companies are usually insured except that the Gas Commission may provide otherwise in its discretion.

*Adequate insurance
to be provided*

2. Eminent Domain

In the event that Company shall be lawfully required to remove or reconstruct any portion of the Gas Works, or to acquire additional land or property therefor, in consequence of the taking of any of the land or property of the said Gas Works by the United States, the State of Pennsylvania or the City of Philadelphia, in the exercise of the right of eminent domain, or for any other reason whatsoever, the cost and expense thereof shall be accorded appropriate accounting treatment.

*Exercise of right of
eminent domain*

SECTION VI

Gas Commission

1. The Gas Commission as it is presently constituted shall be retained.

Retained

2. The Gas Commission shall consist of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

Membership

3. The members of the Gas Commission appointed by the Mayor shall be designated for four year terms to hold office until their successors are appointed and qualified. The City Controller shall hold office during his incumbency and until his successor has been elected and qualified. The members of the Gas Commission appointed by City Council shall be designated for four year terms, to hold office until their successors are appointed and qualified. The terms of all members of the Gas Commission shall terminate if this agreement is terminated by either party prior to the expiration of their respective terms.

Terms of office

4. Members of the Gas Commission shall receive compensation as fixed by City Council from time to time.

Compensation

5. The Gas Commission shall have the power and authority to obtain such professional services and to employ experts, consultants and such other personnel as in its judgment shall be deemed necessary, their compensation and expenses to be considered an operating expense of the Gas Works.

Power to hire experts

6. A statement of the expenses of the Gas Commission shall be filed annually by the Gas Commission with the City Controller and copies thereof transmitted to the Mayor, the City Solicitor, the Director of Finance and City Council.

Statement of expenses to be filed annually

7. Company shall keep the Gas Commission fully informed of its plans for operation, improvement, extension and betterment of the Gas Works.

Company to keep Gas Commission fully informed

8. The Gas Commission shall hold regular meetings and shall conduct all Commission business thereat. The City Solicitor and the Director of Finance or their designates or deputies shall and the Chief Executive Officer of the Gas Works or his designates may attend all such meetings of the Gas Commission.

Regular meetings

9. The Gas Commission shall have the responsibility for the overseeing of the operation of the Gas Works by the Company. All power not specifically granted to the Company shall reside in the Gas Commission.

Responsibility, powers, and duties

SECTION VII

Gas Rates

1. The Gas Commission shall fix and regulate rates and charges for supplying gas to customers, other than the City and the Board of Education, without further authorization of City Council, which (together with revenues for gas supplied to the City and to the Board of Education and other revenues of the Gas Works qualifying as "project revenues" as such term is defined in Section 2 of The First Class City Revenue Bond Act) will, in each fiscal year produce revenues, at a minimum:

Gas commission shall fix rates

"Project Revenues"

First Class City Revenue Bond Act

(a) Sufficient to pay all of the operation and maintenance costs and expenses of conducting the Gas Works enterprise and to pay the interest and amortization becoming due in such fiscal year on debt incurred for the Gas Works, including, but not limited to:

*Rates to include
Operating and
maintenance costs
Interest and
amortization on
debt*

(i) Charges for depreciation as prescribed in Section IV 1. (b);

Depreciation

(ii) Charges for employees' retirement costs as prescribed in Section IV 1. (c);

Retirement costs

(iii) A management fee to Company equal to the actual cost to Company of managing the Gas Works but not to exceed the sum of:

Management Fee

(A) The amount needed to pay or provide for the payment of base salaries for the Chief Executive Officer, chief Operating Officer and Chief financial Officer and to pay the other expenses of the Company, not to exceed the following amounts for the specified fiscal years:

Salaries

FY1996	\$700,000
FY1997	\$725,000
FY1998	\$750,000
FY1999	\$775,000
FY2000	\$800,000

FY2001 and thereafter The prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumer (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance on March 1 of each such fiscal year; and

(B) Incentive compensation, if any, awarded to Company management at the discretion of Company's Board of Directors, in total amount not to exceed \$150,000 per annum and in an amount per employee not to exceed \$75,000 per annum. Incentive compensation shall be payable only pursuant to performance standards established, and performance measured against such standards, by the Board of Directors of the Company. The performance standards shall include standards which the Board of Directors determines, from time to time, to be important for the improved operations of the Gas Works such as the achievement of the Gas Works' financial plan, customer service, billing and collection efficiencies and development of new revenues (other than from general rate increases).

*Incentive
compensation*

The Gas Works shall reimburse Company against vouchers on the first day of each calendar month for monies expended for the operation of the Gas Works in the previous calendar month.

(iv) Expenses of the Gas Commission; and

*Gas Commission
expenses*

(v) All sinking fund charges payable in respect of principal and interest on all obligations of the City issued for or with respect to the Gas Works and, with respect to Gas Works Revenue Bonds issued pursuant to The First Class City Revenue Bond Act, such additional amount as may be required to comply with any rate covenant and sinking fund reserve requirement approved by ordinance of City Council in connection with the authorization or issuance of Gas Works Revenue Bonds.

*Sinking fund
charges in
connection with Gas
Works Revenue
Bonds*

(b) Sufficient also (together with the excess on a cumulative basis of internally generated funds available for the purposes set forth below in this subparagraph (b) of prior years beginning after June 30, 1974, to the extent that such excess shall not have been applied to such purposes and shall be available for the payment of general expenses of such fiscal year and, subject and subordinate to the payment or provision for payment of all operation and maintenance costs and all sinking fund and sinking fund reserve

General expenses

requirements as set forth in subparagraph (a) of this subsection 1., together with the excess funds provided by revenues of such fiscal year not required for such purposes):

(i) To make base payments to the City in the aggregate annual *principal* amount of \$13,000,000 payable in the amount of \$4,500,000 on each February 1, March 1, April 1 and May 1, provided that the Gas Works may defer this payment to any time between said due date and June 30 of each year in which event it shall be assessed interest on the principal amount of prevailing rates, to be determined by the Director of Finance and the Gas Works, from the said due date of the date of payment or such different amounts at such different times, not greater in annual aggregate principal amount, as City Council shall prescribe;

Payments to City

(ii) To provide appropriations, to the extent not otherwise provided, for prepayment of debt and for capital additions which have been determined by the Gas Commission to be reasonable and which have been approved by City Council; and

Debt reduction and capital additions

(iii) To provide cash, or equivalent, for working capital in such reasonable amounts as may be determined by Company to be necessary and as shall be approved by the Gas Commission.

Working capital

(c) Anything to the contrary herein contained notwithstanding, Company may continue to budget and report revenues and expenses in the form and by the methods heretofore used and the Gas Works shall continue to pay out of its revenues all of the expenses set forth in this subsection 1, and all other expenses necessary and proper to the operation of the Gas Works, excepting only the Company's own personnel and administrative costs which are payable out of the management fee.

Non-cash expenses included in estimates of revenue requirements

For the purposes of clauses (a) and (b) of this subsection 1., to the extent that operating expenses do not represent an actual outflow of funds (e.g., depreciation) such amount may be included in ascertaining whether revenues are sufficient to meet other costs, expenses and requirements of said clauses (a) and (b). Company shall at all times to the extent of its authority observe and comply with all terms, covenants and provisions of all ordinances enacted by City Council relating to the Gas Works including without limitation, ordinances enacted pursuant to The First Class City Revenue Bond Act authorizing Gas Works Revenue Bonds.

Company to comply with terms of City Council ordinances

2. Upon any change in the rates for gas, the Gas Commission, at least thirty (30) days prior to the effective date thereof, shall notify City Council and give public notice by advertisement once in one or more daily newspapers having a circulation of at least 10,000 published in the City of Philadelphia, of the rates for gas to be charged.

Public notice of rate change

3. Company shall furnish to the City and the Board of Education, delivered in their various public buildings along the lines of its mains, such amounts of gas as may be required by the City or the said Board. Rates for gas for such public purposes shall be established from time to time by the Gas Commission upon the recommendations of Company and subject to approval by City Council.

Gas Rates for municipal purposes

4. In connection with any gas rate study or matter related thereto, Company shall furnish the Gas Commission such data as may reasonably be required therefor.

Company to furnish rate data to Gas Commission

5. In the determination of rate schedules for gas, the Gas Commission shall establish and apply non-discriminatory rates based on suitable and reasonable classification of the services provided, taking into consideration the preparation of such schedules, the nature and purpose of the use, the quantity* used, the time of year when used, the available supply of gas and other competing fuels, the maximum demand, and such other factors, including state, and federal laws, regulations or guide lines,

Non-discriminatory rates

Classification of service

* "quantity" in the Ordinance

as may be appropriate to the economics of the purchase, manufacture, distribution and sale of gas and consistent with the intent and purpose of this ordinance and/or Agreement. Such rates may provide for sufficient revenue to stabilize them over a reasonable number of years.

6. If conditions warrant, the Company shall pay to the City, but only from any excess described in clause (b) of subsection 1. of this Section VII, such amounts, in addition to those set forth in clause (b) (i) of subsection 1. of this Section VII, as may be determined and agreed upon by the Gas Commission and City Council.

Additional city payments

7. The Gas Commission is authorized to establish rates for gas users authorizing a reduction in gas rates, in the amount of 20% of charges for non-heating and heating purposes to his residence, for any individual 65 years of age or older, residing in the City of Philadelphia, who directly makes payment to the operator of the Gas Works for gas services at his residence. In order to qualify for any rate reduction a person must first apply to the Philadelphia Gas Works for a rate reduction at least thirty days before the next scheduled meter reading. The reduction shall then take effect at the start of the succeeding billing period.

Senior Citizen rate

8. Notwithstanding any provisions to the contrary contained herein, no payments will be made to the City under subparagraph (b) of Paragraph 1 or under Paragraph 6 of this Section VII until the \$20,000,000 Gas Works Temporary Loan Note, Series of 1980, of the City has been paid in full with interest.

Temporary Loan Notes

SECTION VIII

Purchases and Sales of Non-Gas Items

1. Except in the purchase of unique articles or articles which for any other reason cannot be obtained in the open market, competitive bids shall be secured, pursuant to

procurement standards adopted and promulgated by the Gas Commission, before any purchase, by contract or otherwise, is made or before any contract is awarded for material and supplies, construction, alterations, repairs or maintenance or for rendering any services to Company other than professional services or for the purchase of any other item, thing or service, and the purchase shall be made from or the contract shall be awarded to the lowest responsible bidder.

Purchases to be made by competitive bids

Gas Commission to set purchasing standards

2. All residuals and by-products from operations, unserviceable property or equipment shall be sold to the highest responsible bidder pursuant to standards adopted and promulgated by the Gas Commission in a manner similar to that required for awards of contracts for the purchase of goods and services.

Residuals to be sold to highest responsible bidder

3. All acquisitions, sales and leases of real estate proposed by or for the Gas Works by Company shall be submitted to the Gas Commission for its action and approval, and shall be submitted to City Council for its approval by ordinance.

Real estate transactions to be approved by Gas Commission and City Council

SECTION IX

Legal Services

The Law Department of the City of Philadelphia shall be the legal advisor for the Gas Commission and the Gas Works. It shall supervise, direct, and control all of the law work of the Gas Commission and the Gas Works including, but not limited to, litigation or other legal representation, investigation, and drafting of documents including contracts, bonds and all other legal instruments for the Gas Commission and the Gas Works.

Law Department legal advisor for Gas Commission and PGW

Duties of Law Department

The City Solicitor shall determine whether legal services for the Gas Works shall be performed by other counsel, and in such event he shall designate such counsel and the compensation therefor in his sole discretion.

City Solicitor shall designate other counsel

All legal services rendered, by the Law Department and by other special legal counsel, to the Gas Commission and to the Gas Works shall be billed to the Gas Works and shall be payable out of gas revenues.

PGW shall pay for legal services

SECTION X

Company's Obligations During Disputes

No disputes between City and Company concerning any of the terms or provisions of this Agreement shall release Company from its obligations to manufacture, provide and supply gas in accordance with the terms and provisions hereof during the existence of this Agreement.

Disputes between City and Company

SECTION XI

Definitions

The following terms are defined for purposes of this Agreement as set forth below:

1. *Director of Finance* - The Director of Finance of the City of Philadelphia.
2. *City Solicitor* - The City Solicitor of the City of Philadelphia.
3. *City Controller* - The City Controller of the City of Philadelphia.
4. *Mayor* - The Mayor of the City of Philadelphia.

5. *City Council* - The City Council of the City of Philadelphia.

6. *Streets Commissioner* - The Commissioner of the Department of Streets of the City of Philadelphia.

7. *Gas Works* - All of the property, both personal and real, including mains and pipes, which together constitute the plant and equipment of the Philadelphia Gas Works.

8. *Non-Gas Items* - Non-gas items include but are not limited to every tangible or intangible article, item or thing except natural gas and substitute natural gas.

SECTION XII

Term

The term of this Agreement shall be for a period of two (2) years commencing January 1, 1973. Said term shall be subject to cancellation by City at any time, or upon the expiration of said two (2) years, upon ninety (90) days notice. No such cancellation shall be effective unless and until such cancellation shall have been approved by resolution or ordinance of City Council. In the absence of such notice, the term shall be extended for further two (2) year periods upon the terms and conditions herein.

Two year term

Termination by City

SECTION XIII

Other Agreements

1. Unless approved by the Gas Commission, no contract or agreement with a third party, including without limitation any union contract covering Gas Works personnel, entered into by Company or at its direction on behalf of the Gas Works during the term of this Agreement shall provide by its terms that it shall terminate or expire in the event that this Agreement between City and Company shall terminate or expire.

Contracts shall not terminate with this

2. The City agrees and hereby does, indemnify and hold harmless the Directors, the officers and the employees of Company, individually and collectively, while acting within the scope of their employment, against and from any and all personal liability, actions, causes of action, and any and all claims made against them whatever in their capacities as Directors, Officers or employees of Company with regard to this Agreement.

SECTION XIV

Counterparts

This Agreement may be executed in counterparts, all of which taken together shall constitute one document.

SECTION XV

Effectiveness

This Agreement shall not be effective or binding upon the parties unless it has been approved by an effective ordinance of City Council and has been ratified by the Board of Directors of Company.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, the corporate seal of the City of Philadelphia has been duly affixed by the Mayor of said City, and the corporate seal of the Philadelphia Facilities Management Corporation has been duly affixed by an authorized officer thereof, the day and year first above written.

CITY OF PHILADELPHIA

Attest:(s) Pace Reich
Deputy to the City Solicitor

By: (s) Frank L. Rizzo
Mayor

By: (s) William A. Costello
Commissioner of Public Property

PHILADELPHIA FACILITIES MANAGEMENT CORPORATION

Attest: (s) Stephen S. Gardner
Secretary

By: (s) F. Eugene Dixon, Jr.
President

Approved for the City of Philadelphia
as to correctness and form:

(s) Martin Weinberg
City Solicitor

CERTIFICATE OF SERVICE

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

VIA HAND DELIVERY, FEDERAL EXPRESS AND/OR E-MAIL

Tanya McCloskey, Esq.
Steve Keene, Esq.
Office of Consumer Advocate
5th Floor, Forum Place Bldg.
555 Walnut Street
Harrisburg, PA 17101-1921

Angela Jones, Esq.
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North 2nd Street
Harrisburg, PA 17101

Jackie Sparkman, Esquire
School District of Philadelphia
Office of General Counsel
2130 Arch Street, 5th Floor
Philadelphia, PA 19103

Johnnie Simms, Esq.
Office of Trial Staff
PA Public Utility Commission
901 N. 7th Street, Rear
P.O. Box 3265
Harrisburg, PA 17105-3265

Charis M. Burak, Esquire
McNEES, WALLACE, NURICK
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Lance Haver
6048 Ogontz Avenue
Philadelphia, PA 19141

Philip Bertocci, Esq.
Community Legal Services
1424 Chestnut Street
Philadelphia, PA 19102

Richard Lelash
Financial and Regulatory Consultant
18 Seventy Acre Road
Redding, CT 06896

Craig A. Doll, Esq.
25 North Front St., 2nd Floor
Harrisburg, PA 17101-1606

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

RECEIVED
00 OCT 13 PM 3:41
PA.P.U.C.
SECRETARY'S BUREAU


Daniel Clearfield, Esq.

Dated: October 13, 2000