

**Philadelphia Gas Works**



800 W. Montgomery Avenue, Philadelphia, PA 19122  
Telephone: (215) 236-0500

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FEB 13 2002

February 13, 2002

James McNulty, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg., 2nd Fl.  
Harrisburg, PA 17120

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works  
Docket No. R-00005654

Dear Secretary McNulty,

In accordance with the PUC's February 22, 2001 Order approving the Joint Petition for Full Settlement in the above-referenced proceeding,<sup>1</sup> enclosed is PGW's "Monthly Progress Report" for January 2002 concerning implementation of the unmodified conditions imposed by the Commission in PGW's Interim Rates proceeding. The report is being served on all parties of record.

If the Commission requires further clarification on this report, please contact me immediately or contact PGW counsel Margaret Flores.

Very truly yours,

Craig E. White  
Interim Chief Operating Officer for:  
Philadelphia Gas Works

**DOCUMENT  
FOLDER**

cc: As per Certificate of Service  
Veronica Smith, Esq., Executive Director  
Karen Moury, Esq., Law Bureau  
Robert Rosenthal, Bureau of Fixed Utility Services  
Mitch Miller, Bureau of Consumer Services  
Glenn Bartron, Bureau of Audits  
Joe Farley, Bureau of Consumer Services

<sup>1</sup> "[T]he Commission's approval of the terms and conditions set forth in the Joint Petition is expressly conditioned upon PGW's acceptance of the unmodified conditions in the November 22, 2000 Order." February 22, 2001 Order at Ordering ¶1.

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FEB 13 2002

# **Philadelphia Gas Works**

PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

## **Monthly Progress Report to the Pennsylvania Public Utility Commission**

**Docket No. R-00005654**

**DOCUMENT  
FOLDER**

**DOCKETED**  
FEB 27 2002

**FEBRUARY 13, 2002**

## **PGW Commitment #1<sup>1</sup>**

“PGW will commit to its "Transition to Excellence" plan for improvement and make a demonstration throughout the interim rate period that it is providing safe and adequate service.”

### **RESPONSE:**

#### **January 2002**

The “Transition to Excellence” program has elements that have been completed as set forth in the prior reports. Other ongoing elements are described below:

#### **Regulatory**

On December 12, 2001, PGW submitted its informational filing and request to retain the Interim Settlement reserve fund. The Office of Consumer Advocate ("OCA"), Consumer's Education and Protective Association ("CEPA") and Office of Small Business Advocate ("OSBA") filed comments, and the Office of Trial Staff ("OTS") filed a letter response. In addition, the OCA filed a Petition for Enforcement of Settlements (Interim Settlement and the 2001-2002 GCR Settlement) and the OTS filed a formal complaint concerning the Gas Cost Rate ("GCR") Settlement.

On December 13, 2001, PGW filed an Answer and Motion to Dismiss the OCA Petition for Enforcement of Settlements, as well as a Reply to the Comments/Exceptions of CEPA to PGW's December Quarterly GCR Update. On December 19, 2001, PGW filed a response to the OCA's and CEPA's comments to its informational filing. PGW filed a response to the comments of the OSBA on December 21, 2001. On January 8, 2002, PGW filed its Answer to the OTS formal complaint.

On December 26, 2001, the PUC issued a Secretarial Letter stating that PGW would be permitted to retain the \$10.6 million overcollection in the reserve fund. The PUC did not permit PGW to retain the additional \$7 million non-gas cost that was also in the reserve fund. The Commission deferred the issues of the timing and mechanism by which PGW would remove the \$7 million from its 2002 GCR.

On January 7, 2002, PGW filed its Compliance Filing in accordance with the PUC's December 6, 2001 Order in PGW's base rate case, Docket No. R-00006042. On January 22, 2002, the OTS, OCA, and OSBA filed their Exceptions and the OTS filed its Comments to the Compliance Filing. On January 30, 2002, PGW filed its Reply Exceptions.

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<sup>1</sup> Unmodified condition of Ordering Paragraph #4, 11/22/00 Order.

## Regulatory (continued)

Customer Service Oversight is ongoing with a comprehensive Customer Service Initiative (CSI) Program that began on June 25, 2001. PGW last met with the PUC's Bureau of Consumer Services staff on January 9, 2002, and provided an update on its efforts. PGW's Call Center has met the 80/30 standard for four of the last five months.

Nearly 375 interrogatories have been received from the hearing examiner and the Philadelphia Public Advocate concerning PGW's FY 2002 Operating and Capital Budgets filed with the Philadelphia Gas Commission. PGW has responded to these data requests.

The Philadelphia Gas Commission held hearings on PGW's Operating and Capital Budgets on November 8, 9, 14, and 15, 2001. Briefs by the parties were filed and recommended decisions by the Hearing Examiners on PGW's FY 2002 Operating and Capital Budgets were issued on December 18, 2001.

Exceptions by the parties were filed on January 3, 2002. The Philadelphia Gas Commission approved PGW's FY 2002 Operating Budget on January 23, 2002; a compliance filing is due within 10 days.

PGW's FY 2002 Capital Budget is anticipated to have a favorable recommendation for approval by the Philadelphia Gas Commission with a transmittal in February 2002 to the Philadelphia City Council. Final approval of PGW's FY 2002 Capital Budget by the Philadelphia City Council is expected in late spring.

## Strategy and Planning

PGW filed its updated Three-Year Financial and Management Plan (previously reported as Strategic Plan & Financial Forecast) with the Philadelphia Gas Commission in September 2001 as required. In November 2001, public hearings were held before the Philadelphia Gas Commission.

The Philadelphia Gas Commission did not act on the Three-Year Financial and Management Plan at its meeting held on January 23, 2002. Disposition may occur at the reconvened hearing in the FY 2002 Consolidated Budget Proceedings, scheduled on February 20 and 21, 2002.

Regulatory (continued)

Stabilization

Programming changes have been implemented or are currently in testing for all the improvements previously identified in the Billing System stabilization project plan. PGW expects that implementation of the new Payment Arrangement module will be completed in February 2002. Additionally, PGW continues to review business processes to identify system and training issues that must be addressed to realize additional efficiencies. Any system issues identified are reviewed and, if viable, are scheduled for future implementation.

Call Center

PGW has made major strides in improving the productivity and efficiency in its Call Center. PGW has been consistently meeting the 80/30 standard on a daily basis for the last month and has met the standard four of the last five months. Every week at the PGW website ([www.pgworks.com](http://www.pgworks.com)), new information will be posted on the number of calls received, the number of calls answered, and the average waiting time. These numbers will be displayed on graphs, which will also show the goals that have been set by PGW and the PUC so that visitors to the site can easily see what's being done to make dealing with PGW a fast and more pleasant experience.

**PGW Commitment #2<sup>2</sup>**

“PGW must achieve a 1% replacement rate in its mains replacement program, as provided for in the Company’s base case capital budget.”

**RESPONSE:**

**January 2002**

PGW is proceeding with the above project and is on schedule to reduce its inventory of cast iron pipe by the 1% rate. The Distribution Department continues to develop and review a list of prioritized targeted main replacements, based on the determinants of the Navigant Study. With the assistance of the Engineering Department, appropriate designs are being completed and construction plans drawn.

To date, PGW and Outside Contractor crews have replaced, abandoned or rehabilitated approximately eight (8) miles of cast iron main. Forty-four percent (44%) of the total project is complete. PGW anticipates successful project completion by the end of Fiscal Year 2002.

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<sup>2</sup> Unmodified condition of Ordering Paragraph #5, 11/22/00 Order.

**PGW Commitment #3**<sup>3</sup>

“PGW must commit to correcting the problems with its BCCS system, particularly the need to rectify the budget billing problems, providing quarterly reports to the PUC's Bureau of Consumer Services, on the progress it is making in correcting its BCCS problems.”

**RESPONSE:**

**January 2002**

The fourth quarterly report is due April 2, 2002. PGW will report on its BCCS system corrections for the months of January – March 2002 in that report.

---

<sup>3</sup> Unmodified condition of Ordering Paragraph #6, 11/22/00 Order.

**PGW Commitment #4<sup>4</sup>**

"PGW must proceed with its LNG Liquefaction Replacement Program to ensure supply and reliability are maintained."

**RESPONSE:**

**January 2002**

Fabrication and erection of structural steel for pipe racks and cable trays is near completion. Installation of fabricated pipe spools, cable trays, conduit, and power wiring has continued through the month. The three large vessels for the water and CO2 removal system have been delivered and placed on their foundations. Total project is approximately 83% complete with plant construction near 70% complete. Plant start-up is scheduled for Spring 2002.

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<sup>4</sup> Unmodified condition of Ordering Paragraph #7, 11/22/00 Order.

**PGW Commitment #5<sup>5</sup>**

"PGW must show improvements in its customer service functions and report on its progress to the Commission on a quarterly basis. Such reports should include: monthly call center access reports for customer service and collection call centers (to include average speed of answer, average abandonment time, number of abandoned calls, average delay in queue and the percentage of calls answered); monthly consumer dispute reports (to include number of customer disputes filed, number and percentage of disputes responded to in under thirty days, and the average response time), the number and percentage of residential bills which PGW failed to render during the relevant billing cycles; the number and percentage of residential meters for which PGW has failed to obtain actual or customer supplied readings during the prior six months; and monthly reports showing the number and percentage of missed customer service appointments.

**RESPONSE:**

**January 2002**

The fourth quarterly report is due April 2, 2002. PGW will report on its progress in improving its customer service functions for the months of January – March 2002 in that report.

---

<sup>5</sup> Unmodified condition of Ordering Paragraph #8, 11/22/00 Order.

## PGW Commitment #6<sup>1</sup>

"In addition to the management arrangements referred to above, PGW shall convene a "best practices" working group. The purpose of the working group is to solicit cost cutting steps from other entities such as natural gas distribution companies (NGDCs), industry associations and comparable municipal organizations."

### **RESPONSE:**

#### January 2002

To date the following groups are collecting data or have association relationships as follows:

Customer Affairs: PGW has received the final report of the PA Benchmarking 2001 "Customer Services Best Practices Survey." PGW has been reviewing the report to determine where its performance falls short of meeting industry standards. The report will also be used to review areas in which PGW was unable to provide statistical analysis. Finally, PGW will determine if statistical measurement in those areas would be useful in providing information enabling PGW to provide improved customer service in a more cost effective manner.

Distribution: Various Distribution Department employees are active members of the following industry related organizations to keep informed of current industry standards and best practices:

- AGA – Distribution Best Practices Group
- AGA - Plastics Material Committee - Currently serve as 1st Vice Chairman
- AGA - Corrosion Control Committee
- AGA - Distribution & Transmission Engineering Committee
- National Association of Corrosion Engineers (NACE)
- Pennsylvania One Call System, Inc

Fleet Operations: Chatham Consulting Group Benchmarking Survey - triennial. A field visit to SEPTA's transportation operations center is scheduled in February by the Fleet Operations working group. The purpose of this visit is to review SEPTA's fleet management operating system and shop work processes. Information gathered during this visit will be utilized to aid in launching a new fleet operations work management operating system at PGW in 2002.

PGW reviews the recommendations provided and, when practical, implements those that improve productivity, efficiency and cost control. PGW also evaluates newly introduced products and services to ascertain their applicability to improving PGW's Operations.

---

<sup>1</sup> Unmodified condition of Ordering Paragraph #11, 11/22/00 Order.

**PGW Commitment #7<sup>2</sup>**

“In addition to the management arrangements referred to above, PGW must commit to address and implement the management, operational, service and other improvement measures ultimately recommended in the management audit, unless otherwise directed by the Commission.”

**RESPONSE:**

**January 2002**

PGW department heads were asked to provide draft updates concerning progress toward implementing the recommendations contained in the Management Audit Implementation Plan Progress Report to the Interim President and CEO. After final review by senior management, the report will be filed with the PUC on or before April 1, 2002.

---

<sup>2</sup> Unmodified condition of Ordering Paragraph #12, 11/22/00 Order.

**CERTIFICATE OF SERVICE**

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

**VIA FIRST CLASS MAIL**

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Dated: February 13, 2002

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FEB 13 2002  
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\_\_\_\_\_  
Margaret Flores, Esquire  
Counsel for Philadelphia Gas Works

**Philadelphia Gas Works**

Craig White  
Acting Chief Operating Officer



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Email: [Craig.White@pgworks.com](mailto:Craig.White@pgworks.com)

ORIGINAL

March 13, 2002

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
2nd Floor, Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17102

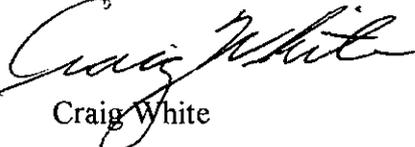
Re: **Pennsylvania Public Utility Commission v. Philadelphia Gas Works**  
Docket No. R-00005654

Dear Secretary McNulty:

In accordance with the PUC's February 22, 2001 Order approving the Joint Petition for Full Settlement in the above-referenced proceeding,<sup>1</sup> enclosed is PGW's "Monthly Progress Report" for February 2002 concerning implementation of the unmodified conditions imposed by the Commission in PGW's Interim Rates proceeding. The report is being served on all parties of record.

If the Commission requires further clarification on this report, please contact me immediately or contact PGW counsel Margaret Flores at 215-684-6631.

Very truly yours,

  
Craig White

- cc: As per Certificate of Service
- Veronica Smith, Esq., Executive Director
- Karen Moury, Esq., Law Bureau
- Robert Rosenthal, Bureau of Fixed Utility Services
- Mitch Miller, Bureau of Consumer Services
- Glenn Bartron, Bureau of Audits
- Joe Farley, Bureau of Consumer Services

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<sup>1</sup> "[T]he Commission's approval of the terms and conditions set forth in the Joint Petition is expressly conditioned upon PGW's acceptance of the unmodified conditions in the November 22, 2000 Order." February 22, 2001 Order at Ordering ¶1.



**ORIGINAL**

# **Philadelphia Gas Works**

## **Monthly Progress Report to the Pennsylvania Public Utility Commission**

**Docket No. R-00005654**

**DOCKETED**  
JUN 15 2002

**March 13, 2002**

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SECRETARY'S BUREAU

**PGW Commitment #1**<sup>1</sup>

“PGW will commit to its "Transition to Excellence" plan for improvement and make a demonstration throughout the interim rate period that it is providing safe and adequate service.”

**RESPONSE:**

**February 2002**

The “Transition to Excellence” program has elements that have been completed as set forth in the prior reports. Other ongoing elements are described below:

Regulatory

On February 12, 2002, the Commission entered an Order resolving the issues surrounding PGW’s Compliance Filing which was intended to implement the base rate increase awarded by the Commission’s December 6, 2001 Order. The February 12, 2002 Order directed PGW to file a tariff supplement reflecting a rate increase of \$22,558,000 which the Commission determined became effective December 6, 2001. PGW was then directed to refund to its customers the difference in rate awards charged by PGW between December 6, 2001 and March 1, 2002. The negative surcharge will be in place for a six month period. This Order closed the proceedings docketed at R-00006042.

On February 12, 2002, PGW received notice that Standard & Poors had issued a press notice indicating that, unless PGW realized immediate, permanent improvement in its cash flow, its credit rating would be lowered. On February 25, 2002, PGW filed a request with the Commission for a general base rate increase of \$60 million. In addition, in response to Standard & Poors’ notice, PGW filed a Petition for Extraordinary Rate Relief, pursuant to Section 1308(e) of the Public Utility Code, requesting that \$44 million of the \$60 million be authorized as extraordinary rates. PGW has requested a decision on the Petition for Extraordinary Rate Relief by mid-April 2002.

Customer Service Oversight is ongoing with a comprehensive Customer Service Initiative (CSI) Program that began on June 25, 2001. PGW last met with the PUC's Bureau of Consumer Services staff on February 8, 2002, and provided an update on its efforts. PGW's Call Center has met the 80/30 standard for the last four months.

Nearly 375 interrogatories have been received from the hearing examiner and the Philadelphia Public Advocate concerning PGW's FY 2002 Operating and Capital Budgets filed with the Philadelphia Gas Commission. PGW has responded to these data requests.

<sup>1</sup> Unmodified condition of Ordering Paragraph #4, 11/22/00 Order.

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## Regulatory (continued)

The Philadelphia Gas Commission held hearings on PGW's Operating and Capital Budgets on November 8, 9, 14, and 15, 2001. Briefs by the parties were filed and recommended decisions by the Hearing Examiners on PGW's FY 2002 Operating and Capital Budgets were issued on December 18, 2001.

Exceptions by the parties were filed on January 3, 2002. The Philadelphia Gas Commission approved PGW's FY 2002 Operating Budget on January 23, 2002. A compliance filing was submitted on February 4, 2002.

PGW's FY 2002 Capital Budget is anticipated to have a favorable recommendation for approval by the Philadelphia Gas Commission with a transmittal in February 2002 to the Philadelphia City Council. Final approval of PGW's FY 2002 Capital Budget by the Philadelphia City Council is expected in late spring.

## Strategy and Planning

PGW filed its updated Three-Year Financial and Management Plan (previously reported as Strategic Plan & Financial Forecast) with the Philadelphia Gas Commission in September 2001 as required. In November 2001, public hearings were held before the Philadelphia Gas Commission.

The Philadelphia Gas Commission did not act on the Three-Year Financial and Management Plan during the month of February 2002. Disposition is anticipated in April 2002.

## Stabilization

Programming changes have been implemented or are currently in testing for all the improvements previously identified in the Billing System stabilization project plan. PGW expects that implementation of the new Payment Arrangement module will be completed in March 2002. Additionally, PGW continues to review business processes to identify system and training issues that must be addressed to realize additional efficiencies. Any system issues identified are reviewed and, if viable, are scheduled for future implementation.

Regulatory (continued)

Call Center

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**February 2002**

PGW is proceeding with the above project and is on schedule to reduce its inventory of cast iron pipe by the 1% rate. The Distribution Department continues to develop and review a list of prioritized targeted main replacements, based on the determinants of the Navigant Study. With the assistance of the Engineering Department, appropriate designs are being completed and construction plans drawn.

To date, PGW and Outside Contractor crews have replaced, abandoned or rehabilitated almost nine (8.9) miles of cast iron main. Forty-nine percent (49%) of the total project is complete. PGW anticipates successful project completion by the end of Fiscal Year 2002.

---

<sup>2</sup> Unmodified condition of Ordering Paragraph #5, 11/22/00 Order.

**PGW Commitment #3<sup>3</sup>**

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**RESPONSE:**

**February 2002**

The fourth quarterly report is due April 2, 2002. PGW will report on its BCCS system corrections for the months of January – March 2002 in that report.

---

<sup>3</sup> Unmodified condition of Ordering Paragraph #6, 11/22/00 Order.

**PGW Commitment #4<sup>4</sup>**

"PGW must proceed with its LNG Liquefaction Replacement Program to ensure supply and reliability are maintained."

**RESPONSE:**

**February 2002**

Installation of piping, instrument conduit and cable, power wiring, and junction boxes has continued through the month. The tie-in piping from the old plant to the new plant battery limits has been completed for the feed gas, the nitrogen supply, and the low pressure line to the boiloff system. Also, the power supply from the main plant Motor Control Center has been completed. Total project is approximately 88% complete with plant construction near 82% complete. Plant start-up is scheduled for Spring 2002.

---

<sup>4</sup> Unmodified condition of Ordering Paragraph #7, 11/22/00 Order.

**PGW Commitment #5<sup>5</sup>**

"PGW must show improvements in its customer service functions and report on its progress to the Commission on a quarterly basis. Such reports should include: monthly call center access reports for customer service and collection call centers (to include average speed of answer, average abandonment time, number of abandoned calls, average delay in queue and the percentage of calls answered); monthly consumer dispute reports (to include number of customer disputes filed, number and percentage of disputes responded to in under thirty days, and the average response time), the number and percentage of residential bills which PGW failed to render during the relevant billing cycles; the number and percentage of residential meters for which PGW has failed to obtain actual or customer supplied readings during the prior six months; and monthly reports showing the number and percentage of missed customer service appointments.

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<sup>5</sup> Unmodified condition of Ordering Paragraph #8, 11/22/00 Order.

**PGW Commitment #6<sup>1</sup>**

“In addition to the management arrangements referred to above, PGW shall convene a "best practices" working group. The purpose of the working group is to solicit cost cutting steps from other entities such as natural gas distribution companies (NGDCs), industry associations and comparable municipal organizations.”

**RESPONSE:**

**February 2002**

To date the following groups are collecting data or have association relationships as follows:

Customer Affairs: PGW has received the final report of the PA Benchmarking 2001 "Customer Services Best Practices Survey." PGW has been reviewing the report to determine where its performance falls short of meeting industry standards. The report will also be used to review areas in which PGW was unable to provide statistical analysis. Finally, PGW will determine if statistical measurement in those areas would be useful in providing information enabling PGW to provide improved customer service in a more cost effective manner.

Distribution: Various Distribution Department employees are active members of the following industry related organizations to keep informed of current industry standards and best practices:  
AGA – Distribution Best Practices Group  
AGA - Plastics Material Committee - Currently serve as 1st Vice Chairman  
AGA - Corrosion Control Committee  
AGA - Distribution & Transmission Engineering Committee  
National Association of Corrosion Engineers (NACE)  
Pennsylvania One Call System, Inc

Fleet Operations: The Chatham Consulting Group Benchmarking Survey – triennial, is being used by Fleet Operations to evaluate and improve PGW’s operation. The PGW Fleet Operations working group visited the SEPTA transportation operations center in February. SEPTA’s fleet management operating system and shop work processes were reviewed. Information gathered during this visit will be utilized to aid in launching a new Fleet Operations work management operating system at PGW in 2002.

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<sup>1</sup> Unmodified condition of Ordering Paragraph #11, 11/22/00 Order.

**February 2002 Response (continued)**

Gas Processing: Gas Processing Department personnel participate in the LNG Consortium, an annual meeting of LNG plant operators to share and discuss experiences and best practices. \*

Current member of the AGA Operating Section -- Supplemental Gas Committee.

Participation in Best Practices for the Supplemental Gas Committee.

Engineering: Personnel in the Engineering Department participate in the LNG Consortium.

Current member of the AGA Operating Section - Automation & Telecommunications Committee

Field Services: Current member of the following AGA Operating Section Committees:  
Building Codes and Energy Standards Committee  
Customer Service & Utilization Committee  
Distribution Measurement Committee

Environmental: Current member of the AGA Operating Section -- Environmental Matters Committee

PGW reviews the recommendations provided and, when practical, implements those that improve productivity, efficiency and cost control. PGW also evaluates newly introduced products and services to ascertain their applicability to improving PGW's Operations.

\* - Due to February 25, 2002 Extraordinary Rate Case Filing, attendance at the LNG Consortium will be based on adequacy of financial resources as determined by the disposition of the request.

**PGW Commitment #7<sup>2</sup>**

“In addition to the management arrangements referred to above, PGW must commit to address and implement the management, operational, service and other improvement measures ultimately recommended in the management audit, unless otherwise directed by the Commission.”

**RESPONSE:**

**February 2002**

PGW department heads were asked to provide draft updates concerning progress toward implementing the recommendations contained in the Management Audit Implementation Plan Progress Report to the Interim President and CEO. After final review by senior management, the report will be filed with the PUC on or before April 1, 2002.

---

<sup>2</sup> Unmodified condition of Ordering Paragraph #12, 11/22/00 Order.

**CERTIFICATE OF SERVICE**

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

**VIA FIRST CLASS MAIL**

Tanya McCloskey, Esq.  
Steve Keene, Esq.  
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Harrisburg, PA 17108-1166

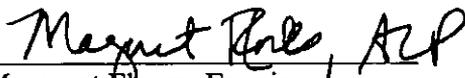
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Margaret Flores, Esquire  
Counsel for Philadelphia Gas Works

Dated: March 13, 2002

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April 9, 2002

**VIA HAND DELIVERY**

James J. McNulty, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street, 2nd Floor  
P.O. Box 3265  
Harrisburg, PA 17102

DOCUMENT

SECRETARY'S BUREAU

02 APR -9 PM 3:58

Re: Pa. Public Utility Commission v. Philadelphia Gas Works;  
Docket No. R-00005654

Dear Secretary McNulty:

Attached, please find correspondence from Joyce S. Wilkerson, Esquire, Chief of Staff to the Mayor of the City of Philadelphia, evidencing the appointment of permanent management for Philadelphia Gas Works ("PGW"). Philadelphia Gas Works submits this correspondence consistent with Attachment A to the Joint Petition for Full Settlement of PGW's Petition for the Establishment of Interim Rates and Related Appeal, filed in the above-referenced matter, and approved by Order of the Commission dated February 22, 2001.

If you have any questions, please contact me.

Very truly yours,



Mark S. Stewart

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

MSS/jlg

Enclosure

- cc: Chairman Glen Thomas, w/enc.
- Vice Chairman Robert K. Bloom, w/enc.
- Commissioner Aaron Wilson, Jr., w/enc.
- Commissioner Terrance J. Fitzpatrick, w/enc.
- Commissioner Kim Pizzingrilli, w/enc.
- Kirk House, OSA w/enc.
- Karen Moury, Law Bureau, w/enc.
- Certificate of Service w/enc.

DSH:31786.1/PHI211-150657



# CITY OF PHILADELPHIA

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JOYCE S. WILKERSON, ESQUIRE  
CHIEF OF STAFF

April 9, 2002

**DOCKETED**

JUN 01 2002

Glen R. Thomas, Chairman  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
3<sup>rd</sup> Floor, Room N-304  
Harrisburg, Pennsylvania 17120

**DOCUMENT**

SECRETARY'S BUREAU

02 APR - 9 PM 3:58

RECORDED

Dear Chairman Thomas,

I write this letter to advise you of the status of the City's search for permanent management for the Philadelphia Gas Works. Last year, the City retained the nationally recognized search firm of Heidrick & Struggles to identify CEO candidates to fill the position. As discussed below, the City conducted a very comprehensive search and for myriad reasons proposes to recommend the appointment of Mr. Tom Knudsen to the position on a permanent basis.

Under the City's direction, Heidrick & Struggles identified more than 15 candidates for City consideration. (A copy of the job description developed by the firm is attached.) Virtually all candidates had vast experience in the natural gas industry. All of the candidates had served successfully as chief executive officers at some point in their careers. The list of initial candidates was culled to 10 by a City search committee comprised of representatives of the administration, City Council, PPMC, and the business community. Those candidates were interviewed by the committee, 5 candidates were called back for second interviews.

All of the candidates viewed PGW as a very high-risk undertaking. While the condition of the company, the pending deregulation and potential sale were factors, the complicated web of regulatory and political oversight, and the intense media scrutiny were also considered formidable challenges. The risk, in turn, was reflected in the compensation demands that ranged from a base salary of \$240,000 plus a bonus of \$75,000, to a base salary of \$300,000 (and up), plus an annual bonus ranging between 50% and 100% of the base salary, plus an opportunity to participate in any profit in the event of a sale of the company. Candidates that had successfully managed distressed natural gas companies had even higher

Chairman Thomas  
April 9, 2001  
Page 2

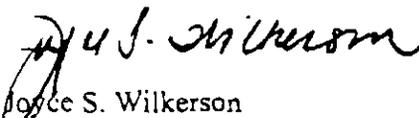
salary demands. If the City were to sell PGW in the near term it would have to spend in excess of a half a million dollars simply to buy out the balance of the CEO contract.

The City, however, in selecting Mr. Knudsen has not been guided primarily by the compensation issue. PGW has made significant progress during Mr. Knudsen's tenure as interim CEO. During Mr. Knudsen's tenure, the company dramatically improved its call center operation and negotiated a reform labor-agreement with its union that allows the company to restore important management rights, control labor costs and achieve efficiencies through appropriate out-sourcing. The company navigated through an unprecedented run-up in gas costs, reduced its account receivables and reformed its appliance repair and parts and labor programs. During the last winter PGW was able to increase its LIHEAP collections from \$7 million to \$31 million by increasing substantially the number of subscribers. The company has maintained its bond rating and adjusted its gas cost rate representing a 28% reduction. Billing errors have been greatly reduced and the company's customer service meets or exceeds all industry standards. Mr. Knudsen made important contributions to the efforts that led to these achievements. In addition, the company faces many difficult and immediate challenges (particularly restructuring and the possibility of sale) which make it difficult to change the CEO and enter into a long-term contract with a new CEO, at this time.

As the city moves through this period of restructuring the company and possibly selling it, the city and the company benefit from Mr. Knudsen's experience. Mr. Knudsen has experience with the company, the customers, the PUC, the Philadelphia Gas Commission and the city government. This experience gives Mr. Knudsen a decided advantage over other candidates. The transition the company faces will make it difficult for a new CEO to gain the experience needed to guide decision-making in the near term. And the uncertainty of the company's future prevented the company from providing some candidates with a compensation and contract term that would allow them to leave lucrative positions and relocate. Thus, at this time, Mr. Knudsen's continued stewardship provides the best opportunity for the company to successfully manage through this period of transition.

I am available to discuss this matter with you in greater detail.

Sincerely,



Joyce S. Wilkerson  
Chief of Staff

cc: David Hyman, PFMC Board Chair  
Hon. Marion Tasco, PGC Chair

## CONFIDENTIAL POSITION SPECIFICATION

### Philadelphia Gas Works

#### THE ORGANIZATION

*Client:* Philadelphia Gas Works

*Location:* Philadelphia, PA

*Products/Services:* The Philadelphia Gas Works (PGW) is a municipally owned gas utility that is used for the acquisition, storage, processing, and distribution of gas within the City of Philadelphia. PGW currently maintains a distribution system of approximately 6,000 miles of gas mains and service pipes serving approximately 500,000 customers, employs approximately 1,800 people, and has annual revenues of \$800 million. Additionally, PGW provides the City \$18 million a year pursuant to its management agreement.

PGW's operations are managed by a non-profit corporation, the Philadelphia Facilities Management Corporation (PFMC). The Board of PFMC is appointed by the Mayor and its responsibilities, as set forth in a Management Agreement between the City and PFMC, include operating PGW through an executive management team including a chief executive officer, a chief operating officer, and a chief financial officer.

PGW is regulated by the Pennsylvania Public Utility Commission (PUC). The Philadelphia Gas Commission is responsible for overseeing the operation of PGW by PFMC and review of PGW's capital and operating budgets. The Gas Commission has five members: the City Controller, two mayoral appointees, and two City Council appointees.

*PGW History:* The Philadelphia Gas Works, built pursuant to ordinance dated March 21, 1835, was administered by a board of twelve Trustees elected by City Council for three-year terms. Upon the consolidation of the City and County in 1854 the Trustees were authorized to purchase and administer all other gas works within the County. Under the terms of the Bullitt Bill, the Trustees were abolished in 1887. The operation of the Works was transferred to the Bureau of Gas, created in 1854, within the Department of Public Works.

In 1897 the City contracted with the United Gas Improvement company for the Administration of the Works, the Bureau of Gas retaining inspectorial duties over UGI's performance. At the renewal of the contract in 1927 a Gas Commission of three members was appointed to four-year terms (by the Mayor and UGI) to oversee the company's performance.

In 1937 the Gas Works lease was transferred to the Philadelphia Gas Works Company, and the Gas Commission's composition was changed to include two members of City Council, one mayoral and one Company appointee, and the City Controller. With the adoption of the City Charter of 1951 the Gas Commission was made a departmental board of the Department of Public Property. When the agreement of 1937 was superseded by one of 1961 with the United Gas Improvement Company, a new Gas Commission was created composed of the City Controller and four members two of whom were appointed by City Council and two by the Mayor for terms of four years.

CONFIDENTIAL POSITION SPECIFICATION  
PHILADELPHIA GAS WORKS  
Chief Executive Officer

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THE POSITION

Chief Executive Officer (CEO)

*Duties:*

The Chief Executive Officer will play a critical role interacting with city government and must perform effectively in a very high profile and sensitive position. The CEO is exempt from civil service, and will be appointed by the PFMC, with the concurrence of the mayor and confirmation by the Philadelphia Gas Commission. The CEO reports to the PFMC board. Duties will include but not be limited to:

- Providing visionary and strategic direction designed to prepare the company for a competitive environment, both short-term and long-term
- Rebuilding the operation of the organization and guide the organization through 2002 restructuring
- Rebuilding the reputation, public image and brand of the company
- Insuring a proper organizational structure is in place to most effectively address issues of competition and cost efficiencies
- Insuring that a talented, highly skilled senior executive team is in place and functioning optimally
- Recruiting/retaining a COO and CFO whose skills are complementary to the CEO to round out a highly skilled senior management team
- Managing a unionized work force and leading contract negotiations
- Developing and executing, specific business strategies to achieve desired results
- Communicating appropriately and effectively with the Public Utility Commission, Gas Commission, PFMC, City Council, and the Mayor's Office
- Representing the company to all external stakeholders including legislators, councils, industry groups, citizens, etc. and advocating for the utility with city agencies
- Representing PGW in various rate and tariff proceedings
- Overseeing the negotiation of long term gas sales agreements
- Overseeing the management of engineering, gas supply and distribution, fuel procurement, field operations, meter reading, construction and storage assets
- Developing, establishing and preparing precautionary action steps for potential gas price volatility
- Re-establishing and strengthening external and internal communications with media, government officials, analysts, regulators and employees

CONFIDENTIAL POSITION SPECIFICATION  
PHILADELPHIA GAS WORKS  
Chief Executive Officer

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*Critical  
Challenges:*

The Chief Executive Officer will steward a number of critical challenges facing the company in 2001 and beyond:

- Building an effective senior and middle management team.
- Regulatory Issues/Deregulation. Due to recent changes in Pennsylvania's Public Utility Code, the company is newly subject to the jurisdiction of the PUC. Rate restructuring will occur in 2002, and relationships with regulators are evolving.
- Financing/Asset Management. The company is confronting cash flow and leveraging issues at the current time.
- Labor. PGW's current collective bargaining agreement expires in August 2001. Work rules and benefits will be under scrutiny.
- Customer Service/Customer Needs. PGW is in the process of rebuilding its troubled customer service function.
- Information Technology. PGW is programming its computer support services that failed in the last 2 years and will have to expand its information technology capabilities to accommodate deregulation.
- Capital Programs. PGW is in the process of replacing its cast iron distribution system, rehabilitating its LNG facilities, and assessing the need to undertake environmental remediation of its former gas manufacturing plant sites.
- Fuels Procurement. Transition to a more competitive market combined with the impact of high gas costs on both the utility and its customers over the last twelve months requires a reexamination and restructuring of PGW's natural gas procurement program.

THE PERSON

*Education:*

Bachelors Degree in engineering, business, public administration, or a field directly relevant to the management of a gas utility is required and a master's degree in engineering, finance, or business is preferred.

*Minimum  
Experience:*

Fifteen (15) years of progressive general management experience in engineering, operations, and/or business including: management experience in a regulated industry, experience managing a unionized work force, and experience within the government sector.

*Other  
Characteristics:*

The successful candidate will be a top level professional with unquestionable ethical standards. He/she will be technically proficient, an independent thinker, strong negotiator and a confident and mature manager. This person must have highly developed communication skills and be able to advocate for and represent the company effectively to multiple constituents. He/she will understand the importance of communication to and education of rate paying citizens. The successful candidate will be able to function effectively in complex political environments, without being overly sensitive to politics.

**CONFIDENTIAL POSITION SPECIFICATION  
PHILADELPHIA GAS WORKS  
Chief Executive Officer**

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A team player by nature, this individual must influence rather than dictate, be creative, and possess a strong set of personal business values that coincide with that of the company. This person should be a strong leader with an open and direct style, one who practices participative management and team building. Good common sense and the ability to relate to and consult with senior management will be imperative. This person must be determined, innovative, flexible and have a strong work ethic. A person having a sense of urgency, a willingness to make tough decisions and ability to strategically manage turnaround situations.

The successful candidate will have served in a senior management role in a large company, preferably in a regulated industry with complex infrastructure challenges. The ideal candidate would have experience and demonstrated success in a regulated gas, water or electric utility during his/her career, and have significant experience in finance and state/local politics and regulation. If this is not the case, the candidate should have an understanding of the issues facing gas supply, distribution, and deregulation and a demonstrable ability to learn quickly. Turnaround experience is highly desirable. Past experience and success in municipal and/or private utility encompassing the management and development of people is also desirable. An impeccable track record of success is a must.

**CONTACT INFORMATION**

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Partner  
Heidrick & Struggles  
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pbenson@h-s.com

*Heidrick & Struggles undertakes our assignments without restrictions as to race, color, national origin, sex, sexual orientation, religious preferences, age or other unlawful factors. We will look broadly in the marketplace to identify available candidates who appear to meet the performance related criteria of this assignment.*

**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).

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Dated: April 9, 2002



Mark S. Stewart, Esquire

10:00:00 AM

02 APR -9 PM 3:53

SECRETARY'S BUREAU