

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Uniform Cover and Calendar Sheet

1. REPORT DATE: November 16, 2000	2. BUREAU AGENDA NO. NOV-2000-L-168* (REV)
3. BUREAU: Law	
4. SECTION(S):	5. PUBLIC MEETING DATE:
6. APPROVED BY: Director: B.R. Pankiw 7-5000 Supervisor: K.O. Moury 2-8883	November 21, 2000
7. PERSONS IN CHARGE: S. Brown 3-3968 A. Tubbs 7-2871	<div style="text-align: center;">  NOV 27 2000 </div>
8. DOCKET NO.: R-00005654	

- 9. (a) CAPTION (abbreviate if more than 4 lines)**
(b) Short summary of history & facts, documents & briefs
(c) Recommendation

DOCUMENT FOLDER

- (a) Pennsylvania Public Utility Commission, et al. v. Philadelphia Gas Works; Interim Rates Proceeding
- (b) On August 8, 2000, Philadelphia Gas Works (PGW) filed a Petition for Establishment of Interim Rate Procedures and for a Declaratory Order. By Order adopted on August 17, 2000, the Commission granted PGW's request for an expedited proceeding to establish interim rates subject to certain conditions. Various parties filed complaints and intervened in the interim rates proceeding. Following a prehearing conference, written testimony was submitted and evidentiary and public input hearings were held during September 2000. On October 3, 2000, the Office of Administrative Law Judge certified the record in this proceeding to the Commission for decision. Main Briefs, Reply Briefs and Supplemental Reply Briefs were filed by the parties.
- (c) The Law Bureau recommends that the Commission adopt the proposed Order addressing PGW's interim rate increase request.

10. MOTION BY: Commissioner Chm. Quain Commissioner Brownell - Yes
Commissioner Wilson - Yes
SECONDED: Commissioner Bloom Commissioner Fitzpatrick - Yes

CONTENTS OF MOTION:

1. Philadelphia Gas Works is authorized to submit a

CONTINUED

CONTENT OF MOTION:

Revised Tariff to increase its base rate revenues by the amount of \$11 million, to go into effect on one day's notice, in conjunction with or after the submission of a letter to the Secretary of the Commission indicating its acceptance of the conditions described in this Motion and as set forth in the paragraphs below:

- a. Philadelphia Gas Works will comply with the conditions precedent set forth in this Motion with respect to OCAs eight requests for action prior to a grant of interim rate relief, and further;
- b. The Company shall commit to take any and all actions necessary, by September 30, 2001, to retain independent, professional and experienced management for the Gas Works, pursuant to a long term (5 to 10 years) management agreement whereunder the manager shall have full managerial authority and control over all facilities, service, personnel, operating and maintenance expenses and all other expenditures of the Gas Works (except for payment of any surplus funds to the City by reason of its ownership of the Gas Works), including the responsibility and authority to prepare annual operating budgets, capital budgets and forecasts subject to the approval of appropriate officers of the City, and the responsibility to make recommendations in connection with proposed rates, financings (temporary and permanent) and capital projects to appropriate officers of the City. The manager's authority and control shall be subject to specific performance standards as set forth in such agreement. The manager shall be subject to removal for cause only;
- c. In addition to the Management Arrangements referred to in subparagraph b, above, PGW

CONTENT OF MOTION:

- 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, industry associations and comparable municipal organizations;
- d. In addition to the Management Arrangements referred to in subsection 2, above, Philadelphia Gas Works must commit to address and implement the management, operational, service and other improvement measures ultimately recommended in the Commission's management audit, unless otherwise directed by Commission order;
 - e. Philadelphia Gas Works will provide monthly progress reports to the Secretary of the Commission on each of the commitments made in the paragraphs above;
 - f. The interim rates approved in this Motion and subsequent implementing Order will be subject to immediate revocation if, upon recommendation of the Law Bureau, and in the Commission's judgment, Philadelphia Gas Works is not adhering to the above-referenced conditions and commitments to improve service to its customers;
2. Philadelphia Gas Works indicate by letter to the Secretary on or before the date of its tariff filing its acceptance of the conditions precedent set forth in this Motion;
 3. The Law Bureau is directed to prepare, on an expedited basis, an Order implementing all of the terms and conditions embodied in this Motion.



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

NOVEMBER 22, 2000

R-00005654

TO ALL PARTIES

Pennsylvania Public Utility Commission, et al.
V.
Philadelphia Gas Works

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on November 21, 2000 has adopted an Order in the above-entitled proceeding.

An Order has been enclosed for your records.

Very truly yours,

James J. McNulty
Secretary

Enclosure
Certified Mail
FG

DOCKETED
DEC 04 2000

See Attached Listing for Additional Parties of Record

**DOCUMENT
FOLDER**

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg PA 17105-3265**

Public Meeting held November 21, 2000

Commissioners Present:

John M. Quain, Chairman
Robert K. Bloom, Vice-Chairman
Nora Mead Brownell
Aaron Wilson, Jr.
Terrance J. Fitzpatrick

DOCKETED
DEC 04 2000

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET AL.

Docket No. R-00005654

v.

PHILADELPHIA GAS WORKS

ORDER

BY THE COMMISSION:

**DOCUMENT
FOLDER**

I. INTRODUCTION

This matter comes before the Pennsylvania Public Utility Commission (PUC or Commission) as a Petition for the Establishment of Interim Rates, and as a companion Petition for an Expedited Proceeding to consider Philadelphia Gas Works 2000-2001 Gas Cost Rate (GCR) filing (Docket No. R-00005619). The latter case is the subject of a separate Order.

From the outset, however, it is critical that the Commission's purpose in these Orders be plainly understood. We balance the statutory requirement of meeting debt servicing requirements incurred by the Philadelphia Gas Works (PGW) with our goal of affording just and reasonable rates to the consumers in the context of that statutory requirement. We do not enter either of these Orders lightly.

II. CASE HISTORY

On August 8, 2000, Philadelphia Gas Works ("PGW" or "the Company"), pursuant to 52 Pa. Code §§5.41 and 5.42 and 66 Pa. C.S. §§331(f), 2212(d) and (e), and Chapter 13 of the Public Utility Code ("Code"), filed a Petition for Establishment of Interim Rate Procedures and for a Declaratory Order ("Petition"). As will be discussed in more detail, below, this filing and request for relief should have been accomplished sooner, and before the Philadelphia Gas Commission prior to our assumption of jurisdiction on July 1, 2000. We believe that one of the main reasons for the prospective impact of the rates we must approve is the lack of diligence on the part of PGW in managing its affairs.

In its Petition, PGW requested the Commission to establish an expedited hearing schedule which would culminate in a Commission decision no later than the Public Meeting of November 8, 2000, to establish interim rates for PGW effective no later than November 15, 2000. That demand for expedited treatment is reflective of a perceived crisis of PGW's own making. PGW's Petition also sought a declaratory order limiting the scope of the expedited proceeding. Petition at 1-2.

Pursuant to 52 Pa. Code § 5.42, on August 8, 2000, a copy of the Petition was served upon the Office of Consumer Advocate ("OCA"), the Office of Trial Staff ("OTS"), the Office of Small Business Advocate ("OSBA"), the Philadelphia Gas

Commission, Community Legal Services, and other persons whom the PGW believed would be affected by the Petition.

On August 9, 2000, the Commission issued a Secretarial Letter which directed that Answers to the Petition be filed by Noon on August 15, 2000, to enable possible consideration of the Petition at the Public Meeting of August 17, 2000.¹

On August 14, 2000, the OCA filed an Answer to PGW's Petition. In its Answer, the OCA noted that the emergency with which PGW confronts the Commission is substantially of PGW's own making. In this regard, the OCA asserted that in contrast to PGW's recent Gas Rate filing, which was primarily the result of unanticipated spikes in natural gas prices on a national basis, PGW has had years to address the base rate concerns that it is now giving the Commission less than three months to resolve.² We agree.

As to PGW's request for a declaratory order, the OCA asserted that PGW's request to limit the scope of the interim rate proceeding should not be so narrowly construed so as to preclude the Commission from imposing conditions or requirements that may be necessary during the interim period and assuring that customer service is adequate during this period. OCA's Answer at 5-6. We also agree with this proposition as will be more fully explained, below.

On August 14, 2000, the Consumers Education and Protective Association, the Association of Community Organizations for Reform Now, the Action Alliance of Senior

¹ PGW had requested that Answers be filed on or before August 14, 2000, however, to afford interested parties as much time as possible before the August 17, 2000 public meeting, the Commission established the date of August 15, 2000.

Citizens of Greater Philadelphia and the Tenants' Action Group ("CEPA"), collectively filed an Answer to the Petition. In its Answer, CEPA stated that in light of the fact that the projected gas cost adjustment is likely to increase residential rates in Philadelphia by 20% beginning September 1, 2000, it opposes granting PGW interim rate relief until the fall of 2001.

On August 15, 2000, the Answer of the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") was filed with the Commission. In its Answer, PICGUG opposed PGW's request for an expedited hearing essentially because PGW has waited until the last minute to submit this filing. According to PICGUG, although PGW had adequate notice that the Company would come under the jurisdiction of the PUC on July 1, 2000, PGW waited until one month after the shift in jurisdiction, and almost two months after the Company's initial filing with the Gas Commission, to submit this interim request to the PUC.

On August 17, 2000, the Commission entered an Order ("August 17, 2000 Order") which granted PGW's request for an expedited proceeding to establish interim rates subject to certain conditions. Specifically, the Commission's August 17, 2000 Order expressly conditioned approval of the expedited schedule on the following: (1) PGW's filing with the Commission a full base rate case on or before January 1, 2001; (2) PGW's firm commitment that any interim rates ultimately granted by the Commission are subject to refund at the conclusion of a full base rate case if the Commission determines that a lower level of rates is just and reasonable; (3) PGW's firm commitment that it will not seek to recoup additional revenues from ratepayers if the Commission ultimately determines that a higher level of rates is just and reasonable; and (4) PGW's firm commitment to its "Transitioning to Excellence" plan for improvement and a

² The OCA points out that PGW has not filed a base rate increase request since 1992, even though the Company says that "the financial condition of the Company has eroded very significantly since then because of

demonstration throughout the interim rate period that it is providing safe and adequate service. Although the Commission granted, subject to the aforementioned conditions, PGW's request for an expedited proceeding to establish interim rates, the Commission rejected PGW's request for a declaratory order limiting the scope of the expedited proceeding. August 17, 2000 Order at 8.

On August 22, 2000, the OTS and the OSBA both filed a Notice of Intervention and the OCA filed a formal complaint in the expedited proceeding. On August 24, 2000, PICGUG, CEPA, and the Apartment Association of Greater Philadelphia ("AAGP") filed Petitions to Intervene in the proceeding and PGW submitted testimony and information in support of its request for an interim rate increase of \$52 million.

A Prehearing Conference was held before Administrative Law Judge ("ALJ") Marlane R. Chestnut in Philadelphia on August 25, 2000. Pursuant to the procedural schedule established at the Prehearing Conference, direct testimony was submitted by the OCA, OTS, OSBA and PICGUG on September 18, 2000 and PGW submitted rebuttal testimony on September 25, 2000. Public Input Hearings were held in Philadelphia on September 26 and 29, 2000, and Evidentiary Hearings were held on September 27-28, 2000. By order dated October 3, 2000, ALJ Chestnut certified the record in this proceeding to the Commission for decision.

On October 13, 2000, Main Briefs were filed by PGW, OCA, OTS, PICGUG, AAGP and CEPA and the OSBA filed a letter in lieu of a Main Brief. Reply Briefs were filed by PGW, OCA, OTS, PICGUG and CEPA on October 20, 2000.

On October 18, 2000, PGW filed a Motion to Take Official Notice or, in the Alternative, to Reopen the Record. On October 19, 2000, OCA and OTS filed a Joint

inflation, three consecutive warm winters and a dramatic increase in the level of long-term debt." Petition at 11 - 12.

Answer to PGW's Motion and PICGUG and CEPA filed Letters in Support of OCA and OTS Joint Answer. On October 25, 2000, OCA and CEPA filed Supplemental Reply Briefs.

III. STANDARD OF REVIEW

On July 1, 2000, the Commission assumed jurisdiction over the public utility services being furnished by PGW within the City of Philadelphia. 66 Pa. C.S. §2212. Prior to the passage of the "Gas Choice Act",³ PGW's rates, terms and conditions of service, were exempt from the jurisdiction, regulation and control of the Commission. Instead, PGW was regulated by the Gas Commission, a local agency of the City of Philadelphia provided for by the Philadelphia Home Rule Charter §§3-100, 3-909 and 5-902, 351 Pa. Code §§3.3-100, 3.3-909 and 5.5-902.

The standard of review in this case is clear. We are to assess the request before us in the context of the, "just and reasonable standard," keeping in mind our statutory obligation to provide minimal debt service coverage as required by Section 2212 of the Public Utility Code.

PGW contends that the Commission is required by Section 2212(e) of the Gas Choice Act to adhere to the "cash flow" methodology contained in the Management Agreement between the City of Philadelphia and Philadelphia Facilities Management Corporation dated December 29, 1972 and adopted on that date as an ordinance of the City. PGW M.B. at 7-12 We do not accept that contention.

³ The Natural Gas Choice and Competition Act ("Gas Choice Act") is Section 3 of the Act of June 22, 1999 (P.L. 122, No. 1999-21), 66 Pa. C.S. §§2201-2212.

Using this method to calculate its revenue requirements, PGW requests interim rate relief of \$52 million that would provide a \$35-40 million cushion of cash at the end of the fiscal year. PGW M.B. at 3-8. In particular, PGW claims that this relief is necessary to ensure that it has sufficient liquidity at the end of the 2000-2001 fiscal year to “meet its bond indentures as well as to go into the next fiscal year at minimal levels of financial adequacy.” PGW-1R, St. 1.0 at 9.

Several intervenors maintain that the Commission should not utilize the cash flow method described in the Management Agreement to determine the proper level of interim rate relief in this proceeding. Advocating for the application of a stricter standard of review, those parties note the expedited and unique nature of this proceeding and refer to language in the Commission’s August 17, 2000 Order, which established a process for PGW to seek interim rate relief. Specifically, the intervenors urge the Commission to consider awarding only that amount of interim rate relief that is necessary to afford PGW the opportunity to maintain a sufficient level of financial health required to fund operations and meet debt service requirements through the winter heating season. The OCA argues that strict application of “the cash flow method would have this Commission set rates to ensure the fulfillment of PGW’s bond covenants, underwrite a dividend payment to its owner, the City, and finally relieve its owner of any responsibility to ensure the adequate financing of the operation.” OCA M.B. at 39.

Emphasizing that PGW’s overall revenue requirements and rate levels will be fully examined in the context of a subsequent base rate proceeding, the intervenors maintain that the Commission should not seek to fashion a solution for long-term financial problems faced by PGW. These parties contend that the Commission should not be concerned at this time with the level of PGW’s liquidity at the end of the fiscal year. Rather, the Commission should focus on what is needed over the next several months until a base rate review can be completed. See, OCA M.B. at 9-11, OTS M.B. at 10,

PICGUG M.B. at 3; CEPA M.B. at 27; AAGP M.B. at 6. Moreover, the intervenors urge the Commission to consider other mitigating factors in determining just and reasonable rates on an interim basis, including PGW's failure to previously address financial concerns, the role of a City contribution toward maintaining PGW's financial health, and the combined impact on ratepayers of a significant Gas Cost Rate ("GCR") increase along with any interim increase in base rates. In short, the intervenors contend that ratepayers should not be saddled with the entire burden of immediately correcting all of PGW's financial problems. See OCA M.B. at 14-16, 19-20; PICGUG M.B. at 4-9; CEPA M.B. at 25.

Using these criteria, several intervenors agree that some interim rate relief is warranted, but assert that \$52 million is excessive.

We agree with the Intervenors that use of PGW's cash flow methodology is not appropriate for this expedited proceeding which was explicitly established by the Commission for the sole purpose of determining "a minimal, adequate level of financial health required to fund [PGW's] operations and meet debt service requirements through the winter heating season until the Commission can conduct and rule on a full base rate proceeding." August 17, 2000 Order at 7. In providing for an interim rate process, the Commission sought to afford PGW an opportunity to maintain a sufficient level of financial health during the upcoming winter months. It was not our intention to immediately resolve all of PGW's financial problems or to ensure a certain level of liquidity at the end of the fiscal year. Rather, PGW must file a base rate case on or before January 1, 2001, so that its overall revenue requirements could be thoroughly evaluated before final rates and charges are established to replace any interim levels approved here.

We are not persuaded by PGW's argument that use of PGW's cash flow approach is legally required in this proceeding. Section 2212(e) provides that in determining

PGW's revenue requirement and approving overall rates and charges, the Commission "shall follow the same ratemaking methodology and requirements that were applicable" to PGW before the Commission assumed jurisdiction over its operations.

Given the unique nature of this interim rate proceeding, the only legally required standard to which the Commission is bound is that the resulting rates must be "just and reasonable." See, Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 602, 64 S.Ct. 281, 288 (1944); 66 Pa. C.S. §1301. This is consistent with Section 2212. As explained by CEPA, the standard set forth in the Management Agreement and followed by the Philadelphia Gas Commission in prior base rate proceedings is consistent with the "just and reasonable" analysis. For instance, a stated objective of the Management Agreement is to "provide quality gas services to its citizens at reasonable rates." PGW M.B at Appendix C, Tab 5 (Management Agreement, page 1). Additionally, in reviewing Philadelphia Gas Commission decisions, the Pennsylvania appellate courts have recognized that PGW rates are subject to the constitutional requirement that rates be just and reasonable. See, e.g., Public Advocate v. Philadelphia Gas Commission, 674 A.2d 1056 (Pa. Cmwlth.1996); Action Alliance v. Philadelphia Gas Commission, 406 A.2d 1155 (Pa. Cmwlth.1979).

In addition to the lack of any legal requirement to apply PGW's cash flow method in this proceeding, the Commission also agrees with OCA's position that it is fundamentally unreasonable to expect ratepayers to provide PGW's cash working capital as well as meet revenue requirements in this proceeding. OCA M.B. at 36. Specifically, it would not be appropriate to provide the Company with a \$35-40 million surplus of cash at the end of the fiscal year, before the Commission's management audit has been completed and a full base rate review examining all expenditures has been conducted.

It is noteworthy that the Company's requested \$52 million interim rate increase would place PGW in a better position with respect to debt service coverage and net earnings than at any time in the last eight years. If the Company's \$52 million interim rate increase is granted, its net earnings will rise to \$26 million in fiscal year 2001. Similarly, as to debt service coverage, it was never higher than 1.67x over the past eight years and even approached the bond covenant minimum of 1.50x. However, according to OCA's expert witness, if the Company's \$52 million interim rate increase is approved, the bond coverages are projected to be 2.73x on the 1975 bonds and 2.67x on the 1998 bonds. OCA St. 1 at 21-22.

Clearly, the Commission's objectives in approving a process by which PGW could seek interim rate relief did not include a desire to produce these levels of net earnings or debt coverage ratios. We emphasized in our August 17, 2000 Order and we continue to adhere to the view that this proceeding was designed for the limited purpose of averting a short-term financial crisis, pending a full review of PGW's expenditures and revenue requirements.

We agree with the intervenors who observe that it is important to recognize in this proceeding that PGW's current financial situation is largely one of its own making and that it is unfair to saddle ratepayers with the entire burden of immediately correcting those problems. As the OCA notes, "[i]n contrast to PGW's recent GCR filing, which was primarily the result of unanticipated spikes in natural gas prices on a national basis, PGW has had years to address the base rate concerns that it is now giving the Commission less than three months to resolve." OCA M.B. at 15. In particular, the OCA indicates that "PGW has not filed for a base rate case since 1992 despite its own claim that the financial condition of the Company has eroded significantly since then, due to inflation, three consecutive warm winters and a dramatic increase in the level of long-term debt." OCA M.B. at 3. In fact, the Company admitted that if it had filed a base rate case in 1999, it

would have had more cash on hand at the end of the fiscal year on August 31, 2000, would have more flexibility with its finances, and would not be facing the financial crisis that it faces today. Tr. at 138, 156.

Also, PICGUG refers to testimony of PGW witness Knudsen who explained that the current situation was discovered upon the appointment of interim management on March 17, 2000. Yet, as PICGUG observes, even the interim management team did not seek rate relief from the Philadelphia Gas Commission until June 19, 2000, less than two weeks prior to the date on which this Commission assumed regulatory jurisdiction over PGW. PICGUG M.B. at 4-5. Subsequently, no filing was made with the Commission until August 8, 2000 when this interim rate proceeding was initiated. Therefore, although PGW was fully aware of its financial crisis long before August 8, 2000, its failure to take action resulted in the need for an interim proceeding to be conducted on an expedited basis.

Because PGW failed to timely address its financial concerns, resulting in the parties and the Commission having limited opportunity to review the Company's filing, it is both appropriate and necessary to limit the scope of this proceeding to only that level of interim relief that is required to ensure PGW's ability to provide adequate service during the 2000-2001 winter heating period. We agree with PICGUG that to look beyond that limited purpose would effectively deny the parties to this proceeding "the opportunity to fully examine, and if necessary, refute PGW'S financial and managerial claims." PICGUG M.B. at 5.

Although we do not approve the interim level of rates advocated by PGW, which would produce a \$35-40 million cash balance at the end of the fiscal year, we utilize a cash flow analysis so that the interim rates approved by this Order should yield sufficient cash for PGW to pay its operational expenses and meet its debt service requirements,

provided that PGW does what it has told us it can and will do with respect to cost savings and revenue retention. With regard to its long-term financial concerns, we are satisfied that PGW will be afforded ample opportunity to pursue those issues in the context of a full base rate review. For purposes of this proceeding, however, we view interim rate relief solely as a means of enabling PGW to meet its operational needs for this heating season and to honor its bond covenants until we can complete our management audit and conduct a full base rate review.

IV. DEBT SERVICE COVERAGE REQUIREMENTS

We are satisfied that the \$11 million in rate relief granted by this Order will avoid a technical default of the coverage requirements under PGW's debt ordinances. As noted previously, the Commission is required by Section 2212(e) of the Act not to take an action that would adversely affect the debt service coverage of the Company's bonds. This requirement has the effect of imposing a statutory floor that the Commission has carefully considered in adjudicating this matter. We note, however, that the Commission is not the guarantor of debt service coverage, and we will approve only such amounts as are needed to meet debt service coverage and no more. The financial community should note that the measure we take is solely in the context of an interim rate proceeding, and given a more fully developed record in the context of the base rate case to be filed no later than January 1, 2001, and the outcome of the PUC's management audit, we will revisit our action in this interim determination.

To determine an appropriate level of interim rate relief, the Commission had to ascertain an adequate level of financial health to fund PGW's operations and meet debt service requirements through the winter heating season. Our determination will enable PGW to maintain sufficient financial resources until a full base rate case can be conducted and the management audit is concluded.

PGW asks that it be awarded \$52 million as an interim grant of base rate relief, in addition to a \$120 million GCR increase. We note that the latter request was, at one point in the GCR proceeding at Docket No. R-00005619, a figure potentially as high as \$172 million.

As we have clearly stated from the onset of this proceeding, any grant of interim rate relief is intended to provide PGW with adequate funding to meet its financial and operational needs during the impending winter heating season and which meets its bond covenants. PGW's attempt to generate a cushion of \$35-40 million in cash at the end of the fiscal year is far beyond the scope of this interim rate proceeding. Tr. at 141.

Again, the Commission is cognizant of its statutory duty to meet PGW's imperative financial requirements by allowing it to recover sufficient revenues to meet its debt service coverage requirements. This Commission has considered debt service coverage in evaluating returns to be allowed to both municipal corporations and public utilities. PGW's ability to meet its debt service requirements is an important consideration of this proceeding. The PGW bond covenants are contained in two principal documents, commonly referred to as the 1975 Bond Ordinance and the 1998 Bond Ordinance, which authorized the issuance of Senior and Subordinate series of bonds. The debt service coverage requirements under these ordinances are 1.5x on the Bonds issued under the 1975 Ordinance, 1.5x on the Senior Bonds issued under the 1998 Ordinance and 1.0x on the 1998 Subordinate Bonds.

Our analysis of the rate relief granted by this order indicates that PGW's debt service coverage requirements will be satisfied. In his rebuttal testimony, PGW witness Knudsen sets forth debt service coverage estimates, as of September 26, 2000, for the fiscal year 2001 on the basis of PGW's requested relief. PGW-IR-EXH. 1.3. When those

calculations are adjusted to reflect the adjustments made and the revenues allowed by this Order, debt service coverages for the fiscal year 2001 will be approximately 2.01x for the Bonds issued under the 1975 Ordinance and approximately 1.5x for the Senior Bonds issued under the 1998 Ordinance. Furthermore, coverage for the Subordinate Bonds issued under the 1998 Ordinance will be more than adequate.

These estimated debt service coverages are reasonably attainable given the rate relief granted herein and in our order addressing PGW's GCR. Our analysis incorporates the same assumptions made by witness Knudsen in his rebuttal testimony, with adjustments consistent with this Order and the increase allowed by Order in the GCR proceeding. Furthermore, our analysis does not consider the proposed \$18 million dollar grant back of the annual payment by the City, which as "project revenues," would further improve the fiscal year 2001 debt service coverages from those estimated above. See Knudsen's Rebuttal Testimony; PGW-I.R.-St. 1, at 5.

For these reasons, the Commission grants PGW an interim rate increase of \$11 million subject to the conditions set forth below. Moreover, the interim rates, as set forth in our August 17, 2000 order are subject to reconciliation but not recoupment.

V. WEATHER NORMALIZATION

PGW recommended an adjustment to reduce its projected annual revenues by \$4 million (2.7%) based upon the possibility of warmer than normal winter weather. Specifically, whereas PGW's projected annual revenues are based upon 4600 heating degree-days, PGW seeks to adjust those revenues to reflect its expectation that warmer than normal weather will be experienced this winter. PGW explains that it is not proposing to formulate a degree day revision in this case, but is simply trying to project a normal level of consumption for the interim period.

The OCA opposes the proposed adjustment, arguing that it does not reflect any “known and measurable” standard employed by the Commission. The OCA notes that PGW’s proposed 2.7% adjustment is the equivalent of a 125 degree day adjustment, which is not supported by the average degree day history over the past 40 years in PGW’s service territory.

The OTS argues that it could not determine the calculation of PGW’s adjustment and asserts that PGW did not provide any supporting calculations for its adjustment. Further, the OTS contends that the determination of rate relief in this proceeding should be based upon normal weather, consistent with the Commission’s traditional approach. OTS M.B. at 11.

Upon our review of the positions of the parties, we conclude that PGW’s proposed weather normalization adjustment is not supported by evidence of record. Further, we agree that it is not appropriate to adjust PGW’s projected revenues on the basis of three years of warmer than normal winter weather. The Commission has traditionally utilized a 30-year average number of heating degree days in computing a weather normalization adjustment. See, Pa P.U.C. v. National Fuel Gas Distribution Company, 83 Pa. PUC 286 (1994). Since the 30-year data for PGW’s service territory does not support the adjustment proposed by PGW, we will not adopt it. Rather, we will utilize PGW’s projected revenues based upon the Company’s historic 4600 degree day standard.

VI. UNCOLLECTIBLE EXPENSES

PGW has an ongoing problem with uncollectible accounts which are serving as a tremendous drag on the Company’s financial health. Uncollectible accounts are accounts receivable that are determined to be uncollectible in whole or in part because the debtors

cannot pay or because the creditor believes it is impracticable to enforce payment. PGW makes a claim for uncollectible accounts expense of \$57 million. The proposed level of \$57 million represents an increase of \$18 over the historic fiscal year, or \$39 million. OTS M.B. at 12. PGW's claim is based upon its projection that 8.4 percent of total gas billings will be uncollectible. Arguing that its levels of uncollectible accounts will be directly affected by the large rate increase that its customers are likely to experience, PGW contends that it is not realistic to use a bad debt percentage based upon a historic period without recognizing its most recent experience.

The OTS argues that the amount of uncollectible expense should be reduced from \$57 to \$52 million and contends that PGW provided no support for its proposed level. The OTS adjustment is based upon an uncollectible percentage of 7.3922 percent, calculated as a five-year average ratio of uncollectible accounts (or bad debts) to total billed gas revenue. The OTS points out that when the 7.3922 percent is applied to projected gas revenues of \$705 million, the amount of uncollectible accounts expense is \$52 million. OTS M.B. at 13.

The OCA recommends an uncollectible level of \$51.5 million, which is a \$12.5 million increase to PGW's historic amount. The OCA position is set forth by its witness, Mr. Lelash, who testified as follows:

I believe that at this time the Commission can consider an increase to the bad debt allowance of up to 12-and-a-half million dollars. This would take into account some of the uncertainty that was discussed in Mr. Knudsen's testimony and during his cross-examination. It also parenthetically places my uncollectible or bad debt allowance quite close to the OTS staff Weakley's recommendation.

Tr. at 230.

Based upon the evidence before us, we shall adopt the position of the OTS and base PGW's uncollectible accounts expense upon the application of the recommended bad debts percentage of 7.3922 percent. We arrive at this conclusion for a number of reasons. First, we find the OTS method of determining the bad debt percentage to be reasonable and consistent with the Commission's policy of allowing *known and measurable* adjustments. We are mindful that the purpose of an adjustment such as this is to determine a normal level of expense by levelizing fluctuations in this expenses such as: write off or collection activities by PGW, economic conditions, or increased consumption due to weather. We are also of the opinion that the five-year period chosen by the OTS is of sufficient length to achieve that purpose. Further, we find the PGW bad debt percentage of 8.4% to be speculative in nature in that it has submitted no calculations to support the reasonableness of this proposal.

VII. SENIOR CITIZEN DISCOUNT AND PRODUCTIVITY SAVINGS

PGW proposes an upward adjustment to projected revenues in the amount of \$1.5 million that is attributable to an anticipated reduction of the senior citizen discount for any PGW customer who was not already receiving it, or who turned 65 after June 30, 2000. This contention, first presented in Appendix B of the Direct Testimony of Thomas E. Knudsen on behalf of PGW means, in essence, that PGW will fix this customer class at the level of its present membership. Additionally, PGW includes an upward \$12.5 million revenue adjustment, including \$2.5 million in projected personnel cost reductions and \$10 million in cost savings and productivity improvements it expects to achieve in the next year.

We accept PGW's original projections of additional revenues in the amount of \$14 million for these items. Specifically, we will consider additional revenues of \$1.5 million flowing from what amounts to the elimination by PGW of the senior citizen discount for

certain customers on a going forward basis, as well as the \$12.5 million of projected productivity cost savings, which includes \$2.5 million in projected personnel cost reductions. Additionally, we provide for debt service coverage at the 1.5 ratio level rather than the 1.6 level suggested by the staff for the 1998 ordinance bonds, which equates to an additional reduction of \$2.5 million. We firmly believe that PGW should be held to the expectations it expressed at the time of making its interim filing. As a result, we will use its original calculations in determining a proper level of interim rate relief.

As to the anticipated increase in revenues resulting from the elimination of the senior citizen discount program, we expect PGW to take all of the necessary steps, including, among other things, the amendment of its existing Tariff to realize this additional revenue. Given that PGW is considering cost savings to be realized with respect to this discount, we also recommend that PGW consider the imposition of a “means test” for those who remain subject to the discount.

Regarding PGW’s level of anticipated productivity savings, we emphasize that PGW originally projected \$10 million in savings due to planned productivity measures. Again, we fully expect PGW to take the necessary steps to ensure that these cost savings materialize, or suffer the financial consequences of its failure to do so. In fact, we note that PGW’s witness, Mr. Knudsen, testified that the Company was committed to achieving those savings and had already begun progressing down the path toward that goal. Tr. at 157. Therefore, we will not reduce PGW’s \$10 million adjustment for projected productivity savings.

VIII. VARIABLE LINE ITEM ADJUSTMENTS

The OTS presented evidence regarding the effects a revenue increase would have on those items included in PGW's financial statements for which the dollar amounts

change at various levels of base rate increases. According to the OTS, these items include operating revenues, an unbilled revenue adjustment, and other income and that each of these items should be recalculated to reflect any change in revenue approved by the Commission. OTS M.B.at 16; OTS Exhibit No. 1, Schedules 1-3.

After a review of the record, we are not convinced that the recalculations described by the OTS need to be made in this interim rate proceeding. The evidence submitted by the OTS indicates that these proposed adjustments would have a *de minimus* effect on the overall level of interim rate relief that is necessary to ensure sufficient revenues to fund PGW's operations and meet debt service requirements through this winter heating season.

IX. ADEQUACY OF SERVICE

Both OCA and CEPA have raised the issue of adequacy of service in the context of PGW's interim rate relief request. For example, OCA states that the public input testimony and the studies relating to PGW's "Transition to Excellence" plan have identified several significant concerns about the state of PGW's billing system ("BCCS"), PGW's Call Center and PGW's Human Resources functions. Citing Section 526(a) of the Public Utility Code, OCA asserts that in determining whether this interim rate request is just and reasonable, the Commission must consider this evidence as it relates to the quality of service provided by PGW. On this point, OCA submits that Pennsylvania law is clear that the Commission has the discretion to withhold, limit or condition rate relief on the quality of service. See, National Utilities, Inc., v. Pa.P.U.C., 709 A.2d 972 (Pa. Cmwlth. 1998).

In contrast to OCA's position of conditioning interim rate relief on the quality of service, CEPA concludes that the Commission should deny the entire interim rate request on the basis of service inadequacy. According to CEPA, the proposed interim rate request

is not just and reasonable because PGW has failed to provide, and is currently failing to provide adequate, efficient and reasonable service that is in compliance with the budget billing requirements of its own tariff and the PUC's regulations regarding billing practices for residential utility service. Both the Company's tariff and Chapter 56 of the Commission's regulations require PGW to offer budget billing. Tariff at 3.35; 52 Pa. Code §56.12(7). According to CEPA, PGW cannot offer budget billing at the present time because the Company's new BCCS system is unable to do the four and eight month adjustments. Tr. at 166-167.

CEPA also asserts that the evidence of the inadequate performance of PGW's call center, which was presented at the Public Input Hearings, as well as the conclusions of the three consultants engaged by PGW to analyze and suggest strategies for improving PGW's customer service, collectively provide authoritative evidence of the vast deficiencies in the service that is currently being provided to PGW customers. Moreover, according to CEPA, PGW customers have had to endure this inadequate service for quite some time. CEPA M.B. at 10-14.

In response, PGW argues that service quality evaluations are not a component of PGW's, "traditional ratemaking methodology" and thus cannot be considered by the Commission in this or any other proceeding involving PGW. PGW also argues that if the Commission determines to exercise its discretion under Section 526, it would preclude recovery of legitimate operating costs and working capital and would go beyond constitutional limitations. Finally, PGW asserts that the cases cited by OCA and CEPA clearly involved a service inadequacy issue of a far greater dimension than this case, where according to PGW there is no substantial claim of total inadequacy of gas service to customers. PGW M.B. at 51-56.

While we find the evidence of service inadequacies to be pervasive, we do not believe that it would be appropriate for the Commission to deny the interim rate request in its entirety based upon Section 526 of the Code. However, the evidence of record in this proceeding clearly demonstrates that any interim rate relief granted must be subject to certain conditions in addition to the conditions specified in the August 17, 2000 Order. Those conditions, and the reasons for their imposition, will be discussed, below.

X. CONDITIONS PRECEDENT TO APPROVAL OF THE \$11 MILLION INTERIM BASE RATE INCREASE

The Courts and this Commission have long held that service is an essential consideration in determining just and reasonable rates. See, D.C. Transit System, Inc. v. Washington Metropolitan Area Transit Commission, 466 F.2d 394, 422 (D.C. Cir.1972), cert. denied, 409 U.S. 1086. See also, Pa. PUC v Pa. Gas and Water Co., 68 Pa. PUC 191, 197 (1988). The constitutional standard of just and reasonable rates, which also governs the setting of PGW's rates, as well as the Public Utility Code, requires that service be safe, adequate and efficient. 66 Pa.C.S. §1501. Contrary to PGW, there is nothing in Section 2212 or in the Management Agreement between PGW and the Philadelphia Facilities Management Corporation that would justify a different standard for PGW.

In addition to the conditions set forth in our August 17, 2000, Order, OCA suggests that certain other conditions should be satisfied to ensure that PGW is able to provide safe and adequate service during the interim period. First, OCA asserts that PGW should be required to achieve a 1% replacement rate in its mains replacement program, as provided for in the Company's base case capital budget. Second, OCA asserts that PGW should commit to correcting the problems with its BCCS system, particularly the need to rectify the budget billing problems, and provide periodic reports to BCS on the progress it

is making correcting the BCCS system problems. Third, OCA suggests that PGW should be directed to proceed with its LNG Liquefaction Replacement Program to ensure system supply and reliability are maintained. Finally, OCA suggests that PGW must show improvements in its customer service functions and report on its progress to the Commission. OCA M.B. at 56-57.

As to the first four conditions which were imposed by the Commission's August 17 Order, the Company retorts that it has already agreed to these conditions by way of a formal resolution by PGW's governing board. PGW-IR Exh. 1.5. With respect to the above four conditions proposed by the OCA, PGW asserts that it is already committed to each of the four conditions.

Based upon the public input testimony and the record developed in this proceeding, it is imperative for the Commission to place specific conditions upon our grant of interim rate relief to PGW. This Commission would clearly be remiss if we ignored the substantial public input testimony about the billing problems, poor call center performance, and inefficient dispatch of Company employees. These identified problems are largely attributable to PGW's implementation of the BCCS system which has now been in operation for over a year but still does not generate the basic information needed for PGW to operate effectively and provide adequate customer service.

PGW's rate of replacement of mains has been reduced over the last five years to a level of approximately 0.5% or 9 miles per year. OCA St. 1 at 44. As recognized by the Commission in Gas Safety Plan for Philadelphia Gas Works, Docket No. A-125042 (Order entered September 13, 2000), sufficient main replacement rates are critical to the safe operation of PGW's facilities.

Even beyond the conditions requested by OCA, this Commission must address what is clear as an ongoing pattern of inadequate management of PGW. Both quality of service and justice to the consumers demands that the Commission act, affirmatively, to require that PGW reform its management and operations. Given the record in this proceeding and the manifest problems of PGW, we require, as a condition precedent, that the Company shall commit to take any and all actions necessary, by September 30, 2001, to retain independent, professional and experienced management for the Gas Works, pursuant to a long term (5 to 10 years) management agreement whereunder the manager shall have full managerial authority and control over all facilities, service, personnel, operating and maintenance expenses and all other expenditures of the Gas Works (except for payment of any surplus funds to the City by reason of its ownership of the Gas Works), including the responsibility and authority to prepare annual operating budgets, capital budgets and forecasts subject to the approval of appropriate officers of the City, and the responsibility to make recommendations in connection with proposed rates, financings (temporary and permanent) and capital projects to appropriate officers of the City. The manager's authority and control shall be subject to specific performance standards as set forth in such agreement. The manager shall be subject to removal for cause only.

The management agreement described above shall be subject to Commission review and approval. The selection process shall be open, objective and fair. This condition, like the others set forth in this Motion, is a condition precedent which must be accepted by PGW prior to the filing of a Revised Tariff implementing the interim base rate increase conditionally allowed by this Order. We do not take this step lightly, but if PGW is truly to meet the law's requirement of standing before us like any other utility, then the Company must take this step to assure its independence and to define its accountability.

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 NGDCs, industry associations and comparable municipal organizations.

PGW must also commit to address and implement the management, operational, service and other improvement measures ultimately recommended in the Management Audit now under way, unless otherwise directed by the Commission.

PGW will provide monthly progress reports to the Secretary of the Commission on each of the commitments made in the paragraphs, above.

PGW is put on notice that the interim rates approved in this Order will be subject to immediate revocation if, upon report of the Law Bureau, and in the Commission's judgment, PGW is not adhering to the above-referenced conditions and commitments to improve service to its customers.

Based upon the above, the Commission's grant of interim rate relief shall be subject to the following conditions which PGW must agree to accept upon filing a Revised tariff in conjunction with or after the submission of a letter to the Secretary of the Commission, indicating acceptance of the conditions:

1. PGW must file a full base rate case on or before January 1, 2001;
2. The interim rates granted by the Commission are subject to refund at the conclusion of a full base rate case if the Commission determines that a lower level of rates is just and reasonable;

3. PGW will not seek to recoup additional revenues from ratepayers if the Commission ultimately determines that a higher level of base rates is just and reasonable;
4. 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;
5. PGW must achieve a 1% replacement rate in its mains replacement program, as provided for in the Company's base case capital budget;
6. 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 correcting its BCCS problems;
7. PGW must proceed with its LNG Liquefaction Replacement Program to ensure system supply and reliability are maintained;
8. PGW must show improvement 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 customer dispute reports (to include the number of customer disputes filed, the 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.
9. The Company shall commit to take any and all actions necessary, by September 30, 2001, to retain independent, professional and experienced management for the Gas Works, pursuant to a long term (5 to 10 years) management agreement whereunder the manager shall have full managerial authority and control over all facilities, service, personnel, operating and maintenance expenses and all other expenditures of the Gas Works (except for payment of any surplus

funds to the City by reason of its ownership of the Gas Works), including the responsibility and authority to prepare annual operating budgets, capital budgets and forecasts subject to the approval of appropriate officers of the City, and the responsibility to make recommendations in connection with proposed rates, financings (temporary and permanent) and capital projects to appropriate officers of the City. The manager's authority and control shall be subject to specific performance standards as set forth in such agreement. The manager shall be subject to removal for cause only.

10. The management agreement described above shall be subject to Commission review and approval. The selection process shall be open, objective and fair. This condition, like the others set forth in this Order, is a condition precedent which must be accepted by PGW prior to the filing of a Revised Tariff implementing the interim base rate increase conditionally allowed by this Order. We do not take this step lightly, but if PGW is truly to meet the law's requirement of standing before us like any other utility, then the Company must take this step to assure its independence and to define its accountability.
11. 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.
12. 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.
13. PGW will provide monthly progress reports to the Secretary of the Commission on each of the commitments made in the paragraphs, above.
14. The interim rates approved herein are subject to immediate revocation if, in the Commission's judgment, PGW is not adhering to the above-referenced conditions and commitments to improve service to its customers.

XI. EFFECT OF ORDER

For the reasons previously stated in this Order, the Commission grants PGW an interim rate increase of \$11 million subject to the conditions set forth herein. Moreover, as set forth in our August 17, 2000, Order, these rates are subject to reconciliation but not recoupment. We are satisfied that with an \$11 million interim increase to base rates, PGW's ratepayers will have reasonably contributed to managing PGW's financial crisis for this winter heating season.

In determining to award PGW the amount of \$11 million in interim rate relief, subject to the fulfillment of various conditions, we have performed the necessary calculations and cash flow analysis to ensure that PGW will have the opportunity to maintain a sufficient level of financial health required to fund operations and meet debt service and coverage requirements through the winter heating season. Specifically, we have calculated that the interim base rate and GCR rate relief approved today will produce debt service coverage of 2.01x for Bonds issued under the 1975 Ordinance and 1.5x for the Senior Bonds issued under the 1998 Ordinance.⁴ These ratios meet the minimum debt service coverage requirements of 1.50x under these ordinances and are clearly sufficient for PGW to avoid a technical default of the coverage requirements.

As to PGW's desire for a cash balance and a cushion of financial assurance above the minimum debt service coverage requirements, we do not believe it is reasonable or appropriate to require ratepayers to make any additional financial contributions for those purposes within the context of this limited, interim rates proceeding. Rather, we are of the view that it is particularly important to refrain from imposing any further burdens on ratepayers, given the facts that PGW's current situation is largely one of its own making

⁴ In arriving at these debt ratios, we utilized Schedule 3 attached to Mr. Knudsen's rebuttal testimony, PGW IR St. 1.1. Specifically, after reflecting our adjustments for the uncollectibles expense and weather normalization, we replaced Mr. Knudsen's \$52 million interim rate increase with our approved \$11 million interim rate increase to produce debt service coverage of 2.01 on the 1975 Bonds and 1.5 on the 1998 Senior Bonds.

and ratepayers are already being called upon to pay significant GCR increases due to rising gas costs.

THEREFORE, IT IS ORDERED: That PGW is authorized to submit a Revised Tariff to increase its annual base rate revenues by the amount of \$11 million, to go into effect on one day's notice, in conjunction with or after the submission of a letter to the Secretary of the Commission indicating its acceptance of the conditions described in this Order and set forth in the paragraphs below:

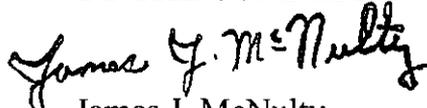
1. PGW must file a full base rate case on or before January 1, 2001;
2. The interim rates granted by the Commission are subject to refund at the conclusion of a full base rate case if the Commission determines that a lower level of rates is just and reasonable;
3. PGW must not seek to recoup additional revenues from ratepayers if the Commission ultimately determines that a higher level of base rates is just and reasonable;
4. PGW must 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;
5. PGW must achieve a 1% replacement rate in its mains replacement program, as provided for in the Company's base case capital budget;
6. 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 correcting its BCCS system problems;
7. PGW must proceed with its LNG Liquefaction Replacement Program to ensure system supply and reliability are maintained;

8. PGW must show improvement 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 customer dispute reports (to include the number of customer disputes filed, the 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.
9. The Company shall commit to take any and all actions necessary, by September 30, 2001, to retain independent, professional and experienced management for the Gas Works, pursuant to a long term (5 to 10 years) management agreement whereunder the manager shall have full managerial authority and control over all facilities, service, personnel, operating and maintenance expenses and all other expenditures of the Gas Works (except for payment of any surplus funds to the City by reason of its ownership of the Gas Works), including the responsibility and authority to prepare annual operating budgets, capital budgets and forecasts subject to the approval of appropriate officers of the City, and the responsibility to make recommendations in connection with proposed rates, financings (temporary and permanent) and capital projects to appropriate officers of the City. The manager's authority and control shall be subject to specific performance standards as set forth in such agreement. The manager shall be subject to removal for cause only.
10. The management agreement described above shall be subject to Commission review and approval. The selection process shall be open, objective and fair. This condition, like the others set forth in this Order, is a condition precedent which must be accepted by PGW prior to the filing of a Revised Tariff implementing the interim base rate increase conditionally allowed by this Order. We do not take this step lightly, but if PGW is truly to meet the law's requirement of

standing before us like any other utility, then the Company must take this step to assure its independence and to define its accountability.

11. 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.
12. 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.
13. PGW will provide monthly progress reports to the Secretary of the Commission on each of the commitments made in the paragraphs, above.
14. The interim rates approved herein are subject to immediate revocation if, in the Commission's judgment, PGW is not adhering to the above-referenced conditions and commitments to improve service to its customers.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: November 21, 2000

ORDER ENTERED: **NOV 22 2000**

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