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P R O C E E D I N G S

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2 ADMINISTRATIVE LAW JUDGE MARLANE R. CHESTNUT: This
3 is the hearing scheduled at Docket No. R-00005654.

4 For the record, let me state that I am
5 Administrative Law Judge Marlane R. Chestnut.

6 Have all Counsel signed the hearing report?

7 (No audible response.)

8 JUDGE CHESTNUT: Have all Counsel received copies
9 of the two orders that I issued concerning the motion to
10 strike and motion to compel?

11 (No audible response.)

12 JUDGE CHESTNUT: Okay. Rather than take the time
13 to have all of you stand up and introduce yourselves,
14 state your name, your address, your E-mail address and
15 your fax number and your telephone number, I am simply
16 going to go through the appearance sheet and make sure
17 you really are here. So when I call your name please
18 indicate where you are seated.

19 JUDGE CHESTNUT: Mr. Simms.

20 MR. SIMMS: Good morning, Your Honor.

21 JUDGE CHESTNUT: Ms. Burak.

22 MS. BURAK: Good morning, Your Honor.

23 JUDGE CHESTNUT: Mr. Doll.

24 MR. DOLL: Good morning, Your Honor.

25 JUDGE CHESTNUT: Ms. Jones.

1 MS. JONES: Good morning, Your Honor.

2 JUDGE CHESTNUT: Mr. Clearfield.

3 MR. CLEARFIELD: Yes, Your Honor.

4 JUDGE CHESTNUT: Mr. Gornish.

5 MR. GORNISH: Good morning.

6 JUDGE CHESTNUT: Ms. McCloskey.

7 MS. McCLOSKEY: Good morning, Your Honor.

8 JUDGE CHESTNUT: Mr. Keene.

9 MR. KEENE: Good morning, Your Honor.

10 JUDGE CHESTNUT: Mr. Mullins.

11 MR. MULLINS: Good morning, Your Honor.

12 JUDGE CHESTNUT: And Mr. Bertocci.

13 MR. BERTOCCI: Good morning, Your Honor.

14 JUDGE CHESTNUT: Is there anybody I missed?

15 (No audible response.)

16 JUDGE CHESTNUT: As I indicated, there were two
17 orders that I issued. I hope you understand I wrote them
18 very quickly. I wanted you to have them prior to this
19 hearing so that you would know my view of the scope of
20 this hearing and to keep that in mind in terms of your
21 questions and objections.

22 Does anybody have anything else of a preliminary
23 nature?

24 MR. CLEARFIELD: Your Honor, for the record, as we
25 have informed the parties, Mr. Knudsen has an obligation

1 this afternoon which cannot be avoided, unfortunately.
2 It is an appearance before City Council. And therefore
3 we have discussed with the other parties and I believe
4 have an agreement that Mr. Knudsen and Ms. Bisgaier will
5 be cross-examined today for PGW. I believe there are no
6 questions for Mr. White on his testimony. And that we
7 will start tomorrow with the witnesses for the opposing
8 parties who have filed testimony with cross-examination.

9 JUDGE CHESTNUT: That's fine.

10 MS. BURAK: Your Honor, we have spoken with
11 Mr. Clearfield and he has indicated that he has some
12 questions for our witness, Mr. Baudino. However, they
13 may be of a more limited nature. We raised the possible
14 issue of Mr. Baudino telephoning in for cross-examination
15 rather than appearing and coming from Atlanta.

16 JUDGE CHESTNUT: No. That might be a problem.

17 MS. BURAK: That's fine. Then he will be here
18 tomorrow.

19 JUDGE CHESTNUT: Just because the telephone line to
20 this hearing room is not operational at the moment.

21 MS. BURAK: Okay.

22 JUDGE CHESTNUT: I will check and see. I mean, if
23 we can do it, I will be glad to do it, especially if it
24 is going to be brief.

25 MR. CLEARFIELD: We would not be opposed to doing

1 it subsequently or in another room if necessary.

2 JUDGE CHESTNUT: In the meantime why don't you see
3 if you can stipulate to it and I will check and see what
4 can be done and let you know later this morning.

5 MS. BURAK: That would be great. Thank you, Your
6 Honor.

7 JUDGE CHESTNUT: So there is no cross-examination
8 for Mr. White.

9 I did not send out the customary witness grid
10 because I figured you folks had enough to do and not much
11 time to do it. So I am going to ask you now to give me
12 your estimate of the cross-examination time you have for
13 the witnesses. The key to this is you are supposed to
14 give me your answer as no cross or slight cross, which is
15 15 minutes or less, moderate cross, which is 15 to 60
16 minutes, and extensive cross, or I would say overdone
17 cross, would be more than 60 minutes. And be realistic.

18 We will ask about Mr. Knudsen and Ms. Bisgaier, I
19 guess.

20 Ms. McCloskey.

21 MS. McCLOSKEY: For Mr. Knudsen we have moderate,
22 probably approaching an hour, and for Ms. Bisgaier we
23 have the slight cross.

24 JUDGE CHESTNUT: Okay. Great.

25 Mr. Simms.

1 MR. SIMMS: I only have slight cross for
2 Mr. Knudsen.

3 JUDGE CHESTNUT: Okay.

4 Ms. Jones.

5 MS. JONES: Your Honor, we have no cross for both
6 witnesses.

7 JUDGE CHESTNUT: I would like to say great, but I
8 know that's not appropriate.

9 Mr. Bertocci, how about you?

10 MR. BERTOCCI: It somewhat depends on what OCA
11 does, but moderate cross for Mr. Knudsen and slight cross
12 for Ms. Bisgaier.

13 JUDGE CHESTNUT: Ms. Burak.

14 MS. BURAK: Slight cross for both, Your Honor.

15 JUDGE CHESTNUT: And Mr. Doll.

16 MR. DOLL: Yes, Your Honor. No cross for Mr.
17 Knudsen and moderate cross for Ms. Bisgaier.

18 JUDGE CHESTNUT: Well, keep in mind the time
19 constraints here. Given what you just indicated it seems
20 like we can accommodate these witnesses in the time frame
21 that we have. But if necessary, you know, I am going to
22 be tough about no breaks, no lunch, that kind of thing.

23 A couple of things about this hearing. As you
24 know, we ALJs all have our personal idiosyncrasies. I
25 don't know if your cell phone goes off during a hearing,

1 although I expect you not to talk but to go outside. But
2 what I don't like is for people to waste time on the
3 record.

4 Now, if you are cross-examining don't read their
5 testimony into the record as a foundation for your
6 question. Just refer them to it. That is a particular
7 thing that I don't like.

8 But keep in mind, please, that we don't have a lot
9 of time and I expect you to show your professionalism and
10 good faith here.

11 Anything else that anybody wants to raise before we
12 go to our first witness?

13 (No audible response.)

14 JUDGE CHESTNUT: Mr. Clearfield.

15 MR. CLEARFIELD: We would like to call Mr. Knudsen.
16 Whereupon,

17 THOMAS E. KNUDSEN

18 having been duly sworn, testified as follows:

19 JUDGE CHESTNUT: Please sit down and give and spell
20 your name for the record.

21 THE WITNESS: Thomas Knudsen, K-N-U-D-S-E-N.

22 JUDGE CHESTNUT: Go ahead, Mr. Clearfield.

23 DIRECT EXAMINATION

24 BY MR. CLEARFIELD:

25 Q. Mr. Knudsen, would you state your full name and

1 business address, please?

2 A. Thomas E. Knudsen. I am interim chief
3 financial officer of Philadelphia Gas Works. And our
4 headquarters are located at 9th and Montgomery in
5 Philadelphia.

6 Q. Mr. Knudsen, have you submitted direct
7 testimony and rebuttal testimony for the purposes of this
8 proceeding?

9 A. Yes, I have.

10 MR. CLEARFIELD: Your Honor, we have previously
11 distributed to all the parties and have provided to the
12 court reporter this morning copies of a multipaged
13 document which we have marked for identification as PGW
14 IR Statement 1.0. And we have also attached to that PGW
15 Exhibit IR 1.1 and PGW IR Exhibit 1.2. I would ask that
16 they be marked for identification.

17 JUDGE CHESTNUT: Don't you want to include his
18 rebuttal at the same time?

19 MR. CLEARFIELD: I was going to do them
20 sequentially, Your Honor.

21 JUDGE CHESTNUT: Why don't we just do them all at
22 once? In fact, why we just --

23 MR. CLEARFIELD: Do you want to stipulate?

24 JUDGE CHESTNUT: Yes. Why don't we do that.

25 MR. CLEARFIELD: Well, there are some additions and

1 corrections.

2 JUDGE CHESTNUT: Just ask if there are additions or
3 corrections. Identify it for the record, ask if there
4 are additions or corrections and then we will take it.

5 MR. CLEARFIELD: We have also distributed to the
6 parties Mr. Knudsen's rebuttal statement, which is PGW IR
7 Statement 1.1, and his rebuttal exhibit, which is PGW
8 Exhibit 1.3. And we would ask that all of those be
9 marked for identification.

10 JUDGE CHESTNUT: They will be so marked.

11 (Whereupon, the documents were marked as PGW
12 Statements Nos. IR 1.0 and IR 1.1 and Exhibits
13 Nos. IR 1.1, 1.2 and 1.3 for identification.)

14 BY MR. CLEARFIELD:

15 Q. Mr. Knudsen, have you before you what we have
16 marked and as I have explained for the record as your
17 direct and rebuttal testimony and associated exhibits?

18 A. I do.

19 Q. And were they prepared by you or under your --

20 JUDGE CHESTNUT: We can skip that. We are going to
21 assume that if its got his name on it that it was
22 prepared by him or under his supervision and that it
23 represents his testimony. Let's go straight to if he has
24 any additions or corrections.

25 BY MR. CLEARFIELD:

1 Q. Do you have any additions or corrections to
2 your direct testimony, starting with the direct?

3 A. Yes, I have several.

4 On the direct, page nine, line two, in order to be
5 consistent with the affidavit the figure on line two, 30
6 to 35 should read 35 to 40.

7 Page nine of the direct, the second line, 30 to 35
8 is 35 to 40.

9 And then on page ten, line 11, it is the same.

10 Q. The same correction?

11 A. The same correction. Thirty to 35 is 35 to 40.

12 And that is consistent with the affidavit that I filed.

13 Q. Are those the only corrections that you would
14 like to make to your direct?

15 A. Those are the only corrections to the direct.

16 And then with regard to the rebuttal testimony, on
17 page 21, line 18, the word regulate at the end of the
18 line should be negotiate.

19 Page 22, line 19, after the word moreover the
20 phrase should be injected, as to the sinking fund forward
21 purchase. Moreover, comma, as to the sinking fund
22 forward purchase, comma.

23 Page 23, lines one and two, delete the last
24 sentence completely.

25 And then finally, Your Honor, my Schedule 3 should

1 have had two more pages. As is referenced on page 16 of
2 the testimony, there is a reference in the footnote to a
3 \$3 million. It did not make it into the submission to
4 you as we were trying to get it to all the parties late
5 Monday night. And that has been distributed to the
6 parties and essentially all it does is it is the
7 complement to the schedule that is there. It essentially
8 presents our case in chief with \$70 million of additional
9 fuel costs.

10 MR. CLEARFIELD: Your Honor, the copies that I have
11 provided to the reporter that have those additional
12 schedules attached. And I provided copies to you as
13 well.

14 JUDGE CHESTNUT: I assume that the copies of the
15 testimony supplied are the corrected versions.

16 MR. CLEARFIELD: They will be, Your Honor.

17 JUDGE CHESTNUT: Fine.

18 THE WITNESS: Those are the all the corrections
19 that I have.

20 BY MR. CLEARFIELD:

21 Q. That is good because those are all the
22 corrections I have, too.

23 MR. CLEARFIELD: Your Honor, we have a couple of
24 other housekeeping matters.

25 JUDGE CHESTNUT: Why don't you move that in.

1 MR. CLEARFIELD: Fine. I move the admission of PGW
2 Statement 1 and Exhibits 1.1 and 1.2, and Statement 1.1
3 and Exhibit 1.3, subject to any timely filed motions to
4 strike that the parties may have.

5 JUDGE CHESTNUT: Any objection?

6 (No audible response.)

7 JUDGE CHESTNUT: The documents are admitted.

8 (Whereupon, the documents marked as PGW Statements
9 Nos. 1.0 and 1.1 and Exhibits Nos. 1.1, 1.2 and
10 1.3 were received in evidence.)

11 MR. CLEARFIELD: Your Honor, we have two other
12 housekeeping matters we would like to take care of
13 quickly.

14 As you and the other parties are probably aware,
15 the Public Utility Commission submitted a secretarial
16 letter to PGW and directed that we enter into the record
17 several portions of the bond ordinances and associated
18 closing documents associated with several of our
19 outstanding bonds. We have provided those in response to
20 the secretarial letter several weeks ago and we have
21 copies prepared to enter into the record.

22 We have provided two copies to the court reporter
23 and we have marked them as PGW Exhibit 1.4. Mr. Knudsen
24 will sponsor them with your permission. We would ask
25 that those be --

1 JUDGE CHESTNUT: Do I have a copy of that?

2 MR. CLEARFIELD: Yes.

3 JUDGE CHESTNUT: Or will I have a copy of that?

4 MR. GORNISH: Now you do.

5 MR. CLEARFIELD: We ask that those be moved into

6 the record subject to the Commission's secretarial

7 letter.

8 JUDGE CHESTNUT: Any objection?

9 (No audible response.)

10 JUDGE CHESTNUT: The documents are admitted.

11 (Whereupon, the document was marked as PGW

12 Exhibit No. 1.4 for identification, and was

13 received in evidence.)

14 MR. CLEARFIELD: Finally, Your Honor, as you may
15 recall, in the order of the Commission permitting this
16 interim rate proceeding to go forward it indicated to PGW
17 that it was conditional on PGW accepting four conditions,
18 if you will, or four requirement that were set forth in
19 paragraph two of its order.

20 The Philadelphia Facilities Management Corporation,
21 which is the board that oversees PGW, has entered a
22 resolution in which it has committed to adhering to those
23 requirements. I have provided copies to the court
24 reporter and to Your Honor and I ask that it be marked as
25 PGW IR Exhibit 1.5 and that it be entered into the

1 record.

2 JUDGE CHESTNUT: Any objection?

3 (No audible response.)

4 JUDGE CHESTNUT: The document will be marked and
5 admitted.

6 (Whereupon, the document was marked as PGW
7 IR Exhibit No. 1.5 for identification, and was
8 received in evidence.)

9 MR. CLEARFIELD: Thank you. That is all the
10 housekeeping matters I have, Your Honor. Mr. Knudsen
11 would be available for cross-examination.

12 JUDGE CHESTNUT: Okay. Is there a particular order
13 that you guys want to go in?

14 MS. McCLOSKEY: I think since I have the most cross
15 maybe it would be beneficial if I go first.

16 JUDGE CHESTNUT: Fine.

17 MS. McCLOSKEY: Thank you, Your Honor. I will try
18 to do it from here.

19 JUDGE CHESTNUT: Do you want to rearrange
20 yourselves a little?

21 MS. McCLOSKEY: If I could sit where Mr. Doll is,
22 then I could at least face Mr. Knudsen. That would be
23 helpful.

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CROSS-EXAMINATION

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BY MS. McCLOSKEY:

Q. Good morning, Mr. Knudsen.

A. Good morning.

Q. My name is Tanya McCloskey and I represent the Office of Consumer Advocate.

I would like to start off today looking at your direct testimony and I believe it is also in your affidavit on page three.

A. This is three of the testimony?

Q. Page three of the testimony. It also appears on page three of the affidavit.

JUDGE CHESTNUT: Excuse me. The direct testimony?

MS. McCLOSKEY: The direct testimony.

BY MS. McCLOSKEY:

Q. Here you are discussing that one element of PGW's current financial position was the warmer than normal winter of the year 1999 to 2000.

A. Yes.

Q. What portion of the \$52 million rate request is related to the cashflow deficiencies from the warmer than normal winter weather as opposed to your bond coverage requirements?

A. I'm not sure I understand the question. The 52 million is based on a forecast of fiscal 2001. We carry

1 over a deficiency, certainly, into -- a cash deficiency
2 -- into fiscal 2001 but the 52 million stands on its
3 own.

4 Q. How much of the cash deficiency are you
5 carrying over into fiscal year 2001?

6 A. Well, according to the positions that we have
7 taken, that I have taken, we should have ended the year
8 with something on the order of 35 to \$40 million in cash
9 or comparables which would have been the ability to draw
10 on short-term debt. We ended the year with \$2 million or
11 so.

12 Q. So you have an approximately \$33 million of
13 cash deficiency going into the next year?

14 A. We have a deficiency of cash, that's correct.

15 Q. Now --

16 A. That is not tied directly to the 52. The 52,
17 we deal with a forecast test year here that stands on its
18 own.

19 Q. But part of the 52 is because you are not in
20 the cash position that you feel you need to be in
21 beginning the fiscal year, isn't that correct?

22 A. Well, we need the 52 in order to meet certain
23 of our covenant requirements. So we are meeting our
24 legal requirements, both of our ordinance and of our bond
25 requirements, with the 52 million.

1 Q. But if you had ended the year with 35 million
2 in cash as you anticipated your 52 million would not be a
3 \$52 million request, isn't that correct?

4 A. Well --

5 Q. Assuming all else is equal to your base case.

6 A. The 52 million actually ends up being less than
7 we might have requested formally. Since we filed for
8 this amount originally with our budget hearings at the
9 gas commission we anticipated that we would only have
10 about \$47 million -- \$42 million -- of fuel costs. We
11 are now in a situation where that amount has doubled and
12 we are looking at an additional \$50 million. So that the
13 52 million is understated right now.

14 Q. That was not my question, Mr. Knudsen. My
15 question was all else being held equal, if you were
16 ending the year in the cash position of 35 million as you
17 had planned if the winter had not been warmer than
18 normal, how much of the 52, then, would not have been
19 necessary, all else being held equal?

20 MR. CLEARFIELD: I'm sorry. I have to object for
21 clarity. Are we talking about the year that just ended
22 or are we talking about the year 2000-2001?

23 MS. McCLOSKEY: The year that just ended.

24 BY MS. McCLOSKEY:

25 Q. The fiscal year that just ended, you ended with

1 a cash deficiency and one of those reasons was the warmer
2 than normal weather in the winter of your fiscal year
3 2000. All else being held equal, if you had not ended
4 the year with that cash deficiency how much of the 52
5 million would be necessary?

6 A. The issue is that the 52 million as, I'm sure,
7 other questions will get to, the 52 million essentially
8 tees up the end of the year. We have to get through the
9 winter with the required level of cash and earnings. The
10 52 million was designed according to the original budget
11 protections so that we would end fiscal 2001 with 30 to
12 35 million.

13 Q. When you designed the original, however, you
14 assumed that you would have less cash than 35 million,
15 isn't that correct?

16 A. No. We designed --

17 Q. At the end of fiscal year 2000.

18 A. We understood that is where we were. But the
19 design of the 52 million was to get us to 35 to 40
20 million at the end of fiscal 2001. We need that money in
21 order to position ourselves to go into the subsequent
22 four months. We need that cash in August of 2001 to have
23 available in September, October, November, December.
24 That is how the 52 was structured.

25 MR. CLEARFIELD: I'm sorry. When you say fiscal

1 2001 you mean the 12 months ending August, 2001?

2 THE WITNESS: That's correct.

3 BY MS. McCLOSKEY:

4 Q. Let me try it another way, Mr. Knudsen, and see
5 if you can answer the question this way. If on August
6 31, 2000, PGW had \$35 million in cash rather than \$2
7 million in cash would your interim rate request have been
8 affected by having \$35 million in cash in August of 2000,
9 all else being equal as your base case?

10 A. As filed on June 9?

11 Q. As filed on June 9 or June 19. I'm not sure
12 which date.

13 A. Whatever it was. We would have had more
14 flexibility in the amount. I will admit that.

15 Q. That is the question.

16 A. Okay.

17 Q. Now, am I correct that PGW experienced warmer
18 than normal winters for the last three fiscal years?

19 A. That's correct.

20 Q. And these warmer than normal winters have
21 contributed, then, to these depressed earnings or the
22 reduction in available cash?

23 A. Correct.

24 Q. And I believe what you are testifying to today
25 is that these past earnings deficiencies or past cash

1 deficiencies have created or led to the cash liquidity
2 crisis that you are in at this point?

3 A. That and other factors.

4 Q. But weather is one of those factors?

5 A. Weather is probably the major factor, but there
6 were others.

7 Q. Now, PGW -- Philadelphia Gas Works -- we will
8 refer to it in my cross as PGW -- did not seek base rate
9 relief from the Philadelphia Gas Commission in any of
10 those three years, did it?

11 A. That's correct.

12 Q. And would you agree with me, Mr. Knudsen, that
13 PGW was aware since the passage of the Natural Gas Choice
14 Act that jurisdiction over PGW was being transferred to
15 the Public Utility Commission?

16 A. As of July 1st of this year, that's correct.

17 Q. Now, you filed, and I believe we just discussed
18 the date, your interim -- you filed a base rate request
19 before the Philadelphia Gas Commission on approximately
20 June 19?

21 A. That's correct.

22 Q. And then when did you file your request for an
23 interim rate proceeding with the Pennsylvania Public
24 Utility Commission?

25 A. The first week of August.

1 MR. CLEARFIELD: I think it was August 7.

2 THE WITNESS: August 7.

3 JUDGE CHESTNUT: Excuse me, Mr. Clearfield. I
4 don't think we need clarifications from you at this
5 point.

6 BY MS. McCLOSKEY:

7 Q. Now, also on page three of your affidavit and
8 on your direct testimony you note that the interim base
9 rate increase is to allow the company to build up
10 internally generated funds.

11 A. Yes.

12 Q. And would you agree with me that the PUC in its
13 order setting this proceeding identified the question
14 here as maintaining a minimum adequate level of financial
15 health through the winter heating season?

16 A. That is what the language says.

17 MR. CLEARFIELD: Your Honor, I object. First of
18 all, the order speaks for itself. Second of all, that is
19 not a complete quote of the order.

20 JUDGE CHESTNUT: Yes. The order does speak for
21 itself. If you want to ask him his understanding of the
22 order, that is appropriate.

23 MS. McCLOSKEY: Let me just move on. We all have a
24 copy of the order.

25 BY MS. McCLOSKEY:

1 Q. In this case, though, in this interim case, you
2 are asking ratepayers to put the company in the position
3 of meeting the bond covenants for fiscal year 2001 and to
4 have about \$35 million in cash at the end of fiscal year
5 2001, if I understand your testimony.

6 A. That is correct. That was the base case. That
7 was our filing in August.

8 Q. And you would agree with me that this case, the
9 evidence in this case is not that of a full base rate
10 case review, that you are going to file that full base
11 rate case subsequently, is that correct?

12 MR. CLEARFIELD: Your Honor, I object. First of
13 all, it's a compound question.

14 JUDGE CHESTNUT: I understand that. To the extent
15 that it incorporates a legal conclusion, obviously that
16 is not permitted. But I think Mr. Knudsen can understand
17 the thrust of the question there.

18 A. We will be filing a base rate case for
19 permanent rate recognition as soon as we can following
20 the decision on the part of the Commission in this
21 matter.

22 BY MS. McCLOSKEY:

23 Q. And you are aware that the Pennsylvania Public
24 Utility Commission is conducting an audit of the company?

25 A. I certainly am.

1 Q. And is that audit complete?

2 A. It is not complete. We will be getting the
3 first reports from them in a two week period. I think
4 they are intending to be finished somewhere in the first
5 week of December or thereabouts.

6 Q. Now, also in your affidavit and testimony you
7 indicate that a significant contributing factor to the
8 cashflow problem that you're experiencing is the increase
9 in gas costs that we are now experiencing.

10 A. That's correct.

11 Q. Have you reviewed the testimony in the gas cost
12 rate proceeding of all the parties?

13 A. Yes.

14 Q. And would you agree with me that there is
15 substantial support for recovery of these gas costs in
16 that testimony of the parties?

17 A. Yes.

18 Q. But if I understand your rebuttal testimony,
19 you are testifying that recovery of these costs will not
20 resolve the cashflow problems for fiscal year 2001?

21 A. That's correct.

22 Q. Now, if we could look at your rebuttal
23 testimony, page eight, here you are discussing the issue
24 of cash working capital and you make the statement that
25 the management agreement requires ratepayers to provide a

1 reasonable level of cash working capital.

2 A. Yes.

3 Q. Mr. Knudsen, is it your testimony here that
4 cash working capital is an expense for PGW?

5 A. No. It is a requirement. That's all.

6 Q. Would you agree with me that in general the
7 rate setting process provides for rates to recover the
8 cost of capital but does not require ratepayers to
9 provide capital?

10 MR. CLEARFIELD: Objection, Your Honor.

11 JUDGE CHESTNUT: Yes.

12 MR. CLEARFIELD: The rate setting process --

13 JUDGE CHESTNUT: Well, first off, obviously that is
14 a legal question and Mr. Knudsen is not competent to
15 answer that.

16 MS. McCLOSKEY: Your Honor, I think it goes to his
17 technical understanding of the general rate setting
18 process.

19 JUDGE CHESTNUT: Well, I am not sure that the
20 general rate setting process is relevant here.

21 MR. CLEARFIELD: I agree. First, it is a legal
22 conclusion. Second of all, the general rate setting
23 process before the PGC, as Mr. Knudsen has testified, is
24 not consistent with her characterization.

25 JUDGE CHESTNUT: I mean, if you want to draw a

1 contrast between the ratemaking methodology of PGW and
2 other utilities regulated by the Commission, that is
3 something you can do in your own testimony or someplace
4 else.

5 MS. McCLOSKEY: That is the thrust of what we are
6 trying to establish here, the general rate setting
7 process before the Commission versus the rate setting
8 process as Mr. Knudsen testifies to before the PGC.

9 JUDGE CHESTNUT: I don't see that you really need
10 testimony from Mr. Knudsen about that, though.

11 MS. McCLOSKEY: Okay.

12 JUDGE CHESTNUT: Do you have a lot of questions on
13 this line?

14 MS. McCLOSKEY: No. I only had two.

15 JUDGE CHESTNUT: Go ahead.

16 BY MS. McCLOSKEY:

17 Q. Now, Mr. Knudsen, you also, I think, testified
18 in your direct testimony and your affidavit that a third
19 contributing factor to the cash deficiencies that you're
20 experiencing has been problems that you have experienced
21 with your billing and collection system?

22 A. Yes.

23 Q. Now, again, could you identify for us how much
24 of the \$52 million increase that you are requesting in
25 base rates is related to the necessity to make

1 corrections to the billing and collection system, which
2 is referred to as BCCS?

3 A. Well, that goes to your first question, how
4 much flexibility have we built into the 52. The point at
5 issue here is that we are where we are at the end of
6 fiscal '99, at the end of August. We have forecast what
7 we need. We have assumed within that forecast a
8 traditional receipt of funds from our customers. We have
9 a much higher write-off percentage than the rest of the
10 state. But these numbers reflect a historical effort to
11 collect the funds from our customers. So my answer to
12 you is what it was before. Were we not in this situation
13 that we are in, essentially from warm weather, there
14 would be greater flexibility at the end of the fiscal
15 period. But I can't remake the past. I can only go
16 forward.

17 Q. Now, I believe you testified that the company
18 has been taking steps and it is part of your Transition
19 to Excellence plan to correct and bring the BCCS system
20 up to an appropriate level. Can you give us an update
21 either here or provide for the record an update on the
22 status of the various projects and their completion or
23 their completion dates?

24 A. Well, I think best to handle that with a
25 response because it is quite extensive. I think there

1 are five things that the parties will be interested in.
2 The most important and the most time consuming and the
3 most difficult was to correct the system in order to
4 allow what we are estimating now to be 35,000 to 40,000
5 bills that did not bill sometime during the fiscal period
6 fiscal '99 -- I'm sorry, fiscal 2000 -- that did not bill
7 to be billed starting in August and going over to
8 September.

9 We are for all intents and purposes, according to
10 best industry average, billing virtually all of our
11 customers. That would be one.

12 There was a parts and labor plan, which is a major
13 accommodation we have for our customers. That has been
14 corrected.

15 We are moving to put in place the corrections to
16 the budget billing program.

17 And there was a fourth element, which dealt with
18 the dispatch of our repair people into the field. There
19 was a great deal of confusion, as we heard last night
20 from some of the witnesses. That problem is being
21 rectified.

22 So those were the four major thrusts that
23 management undertook between May and August to correct,
24 and those have been corrected. Now, there is a two page
25 list of additional considerations that are being

1 addressed that essentially then become refinements, minor
2 -- corrections of more minor problems.

3 Q. Is the budget billing segment -- I'm sorry, I'm
4 not clear from your answer -- is the budget billing
5 segment corrected so that the company can issue or place
6 customers on budget billing?

7 A. There were three elements of the correction.
8 Two of them, I think, are correct as of now and will go
9 into production. We still have a third to go. If you
10 are going to ask me what the three are, I'm not sure I
11 can tell you. But there are three.

12 MR. CLEARFIELD: Excuse me, Your Honor.

13 Do you still want an on the record data request
14 response to that?

15 JUDGE CHESTNUT: We are not going to have on the
16 record data requests, not given the time constraints.

17 THE WITNESS: Well, Your Honor, we do have
18 responses prepared for the other proceeding. We could
19 make those available to the parties today.

20 JUDGE CHESTNUT: Well, if you can make it available
21 today so she can cross you on it, fine.

22 MS. McCLOSKEY: Actually, Your Honor, I do have one
23 of those -- I believe I have -- and maybe it would more
24 efficient to mark for the record that as an OCA hearing
25 exhibit. That was a response in the budget proceeding

1 that listed the BCCS fixes and the target dates.

2 JUDGE CHESTNUT: That's fine. Do you want to make
3 that Cross-Examination Exhibit 1?

4 MS. McCLOSKEY: Yes.

5 JUDGE CHESTNUT: Okay. And how did you identify
6 that?

7 MS. McCLOSKEY: This would be OCA Cross-Examination
8 Exhibit 1.

9 JUDGE CHESTNUT: And it is what?

10 MS. McCLOSKEY: The response to informal discovery
11 before the Philadelphia Gas Commission.

12 JUDGE CHESTNUT: Okay.

13 MS. McCLOSKEY: And it is BCCS fixes.

14 JUDGE CHESTNUT: Do you have copies of that to
15 distribute?

16 MS. McCLOSKEY: Yes.

17 (Whereupon, the document was marked as OCA
18 Cross-Exam. Exhibit No. 1 for identification.)

19 BY MS. McCLOSKEY:

20 Q. Mr. Knudsen, is this the list of BCCS fixes
21 with target completion dates that you referred to just a
22 moment ago?

23 A. Well, it is a list, yes.

24 Q. It is a list?

25 A. There is a list that goes beyond the framework

1 of these repairs to the BCCS system.

2 MS. McCLOSKEY: Your Honor, I guess at this time so
3 I don't forget I would like to have admitted OCA
4 Cross-Examination Exhibit No. 1.

5 JUDGE CHESTNUT: Any objection?

6 (No audible response.)

7 JUDGE CHESTNUT: The document is admitted.

8 (Whereupon, the document marked as OCA
9 Cross-Exam. Exhibit No. 1 was received in
10 evidence.)

11 BY MS. McCLOSKEY:

12 Q. Now, Mr. Knudsen --

13 A. Can I raise one question? Is this dated? Is
14 there a date you could put on this? This reflects a
15 certain dynamic and you will have to know when this was
16 cut, in other words.

17 MR. CLEARFIELD: Your Honor, may I ask -- I will
18 ask -- is this a document that was prepared by PGW?

19 MS. McCLOSKEY: Yes. This is a document prepared
20 by PGW for the Philadelphia Gas Commission proceeding.

21 THE WITNESS: All I need to know is the submission
22 date so I am clear.

23 MS. McCLOSKEY: There was no submission date on the
24 document.

25 THE WITNESS: We can provide that.

1 JUDGE CHESTNUT: Do you know when it was provided?

2 MR. CLEARFIELD: We will try to find that out.

3 JUDGE CHESTNUT: I assume it was after June.

4 THE WITNESS: It would have been July.

5 MR. BERTOCCHI: July or August.

6 BY MS. McCLOSKEY:

7 Q. Now, if we could turn to your rebuttal
8 testimony. On Schedule 3, I believe that is the one you
9 have now provided two additional pages, the two others
10 for it. To be clear, the premise of Schedule 3, page
11 one, is that based upon a \$7.5 million rate increase?

12 A. Yes. That is all -- and 20 million of a loan
13 with an additional 70 million of costs beyond the 97 of
14 gas costs.

15 (Pause.)

16 A. And no bond sale.

17 Q. Okay. Let me run through each of these
18 elements a little bit more clearly. You are saying that
19 you increase the gas cost by 70 million above the 97
20 million?

21 A. Correct.

22 Q. Did you reflect any recovery of that 70 million
23 or did you hold the GCR at 97 million?

24 A. No. This would have reflected recovery of that
25 money.

1 Q. And I believe you --

2 A. Let me be clear. The billings, then, are
3 billed. These reflect the cash collections on that
4 additional amount of money. We don't -- we will not
5 receive \$70 million.

6 Q. This does, though, reflect the billings for the
7 \$70 million?

8 A. That's correct.

9 Q. And I believe you stated a moment ago it does
10 not include a \$20 million temporary advance or temporary
11 loan, is that correct?

12 A. That's correct.

13 Q. Now, in your rebuttal you discuss a possible
14 \$45 million temporary advance from the city. That is
15 also not reflected in this schedule?

16 A. That's correct.

17 (Pause.)

18 A. Well, the 45 would have been -- the way I was
19 viewing it, the 45 would have been inclusive of the 20
20 that the OCA witnesses -- or witness -- had included.

21 Q. Right.

22 A. I mean, it would not be 20 plus 45. The 45
23 would include the 20.

24 Q. Now, as I am reading this schedule, if you are
25 looking at the total year end, you are showing a negative

1 \$29.8 million, is that correct?

2 A. Correct.

3 Q. But if in fact you included the \$45 million
4 advance it would be a positive \$15 million at that point?

5 A. I want to be real clear about the \$45 million.
6 The answer to your question is yes. The question is
7 whether including the 45 is possible. The \$45 million
8 from the city is intended as a working capital loan. To
9 put it into this context of sliding it into place at the
10 end of the year essentially starts to put it into a
11 quasi-permanent aspect of our capitalization. That will
12 not be allowed by the City Council.

13 Some people are going to attend the session this
14 afternoon. It is very clear that we have to demonstrate
15 how that money will be paid back. If it falls in and is
16 used in this way we can't look forward and say to the
17 City Council how we are going to pay the money back.

18 But the answer to your question is yes, if you add
19 the 45 you come up to a positive 15.

20 Q. Now, the opening balance here -- this also
21 includes this \$18 million payment to the city, is that
22 correct?

23 A. That's correct.

24 Q. It does not reflect any waiver of the \$18
25 million payment?

1 A. That's correct.

2 Q. Now, you showed the opening balance of two
3 million, which is the cash balance at August 31, 2000.
4 And I believe you referenced that number earlier. Was
5 that the actual cash balance at August 31?

6 A. No. The all cash balance was higher but we
7 had moved some of these items from advance -- as shown
8 here we had moved them forward in time from the October
9 and November timeframe to the end of August. So that --
10 it gets complicated, but for purposes of presentation the
11 cashflow over the period is the same. We have simply
12 moved some items forward to the end of the period, the
13 end of August.

14 Q. And what was the actual cash balance at the end
15 of August prior to moving the items forward, if you know?

16 A. It was either six or eight million. I don't
17 recall it specifically.

18 Q. Now, as I understand Schedule 3 as well, you
19 are really premising this on OCA Witness LeLash's \$7.5
20 million rate increase scenario?

21 A. That's right.

22 Q. And, again, Mr. LeLash's \$7.5 million rate
23 increase scenario is a scenario that does not include
24 waiver of the \$18 million city payment or a return of the
25 city payment as project revenues. Is that your

1 understanding?

2 A. That's correct.

3 Q. Now, on page 14 of your testimony, your
4 rebuttal testimony, and I believe you went through and
5 made a parallel change in your direct, you are seeking
6 \$35 million to \$40 million in cash by the end of the
7 fiscal year 2001?

8 A. That's correct.

9 Q. Now, if you could reference appendix B of your
10 testimony, page one.

11 MR. CLEARFIELD: Is that the --

12 MS. McCLOSKEY: I'm sorry. I think that is your
13 direct.

14 JUDGE CHESTNUT: A particular page?

15 MS. McCLOSKEY: Page one.

16 BY MS. McCLOSKEY:

17 Q. For fiscal year 1999 and 2000, which I believe
18 is your column two.

19 A. Yes.

20 Q. The company ended that year, if you look at the
21 net income column, with \$2.9 million in cash, is that
22 correct?

23 A. I have 2.5.

24 Q. 2.5. I think ours -- the revised estimate says
25 2.9 on our schedule.

1 MR. CLEARFIELD: I'm sorry. Are we looking at
2 appendix B, page two of five?

3 MS. McCLOSKEY: Page one of five.

4 A. That is the net income, 2.9. The cash balance
5 at the end of the year is 2.486.

6 BY MS. McCLOSKEY:

7 Q. And then in column one for 1998-99 you ended
8 with a cash balance of 16 million?

9 A. Correct.

10 Q. But a net income of negative 2.2 million?

11 A. Negative 2.2 is correct.

12 Q. I would like to turn to page 14 of your
13 rebuttal. I think we were just there. Here again you
14 are discussing the seasonal nature of PGW's revenue
15 collection?

16 A. Yes.

17 Q. And the need for rate relief so that it could
18 be billed during the winter heating season. The company
19 has been aware of the seasonal nature of its billing,
20 isn't that correct, for some time?

21 A. Oh, I think forever.

22 Q. And when did the company reach the limit on its
23 commercial paper credit line?

24 A. We went the last four or five million sometime
25 in the late spring, if memory serves. I will check that.

1 If it is wrong I can give you the proper time. But it
2 would be in that timeframe.

3 Q. If the company had filed for a rate increase in
4 the fall of 1999 before the Philadelphia Gas Commission
5 could the company have averted at least a portion of the
6 current financial crisis?

7 A. Sure.

8 MR. CLEARFIELD: Your Honor, objection. I assume
9 that means if they filed and received a rate increase.

10 MS. McCLOSKEY: Filed and received.

11 BY MS. McCLOSKEY:

12 Q. Now, at page 15, line two, of your rebuttal
13 testimony you mention the anticipated bond issuance in
14 July of 2001?

15 A. Yes.

16 Q. What amount of bonds are incorporated into your
17 cashflow?

18 A. 75 million.

19 (Pause.)

20 A. We think it will have to be higher but that was
21 the last set of numbers that was reflected.

22 Q. Now, also, Mr. Knudsen, in your rebuttal
23 testimony where you discuss the expense savings and
24 productivity improvements that you projected, you seem to
25 be suggesting in your rebuttal that the company could not

1 achieve the expense savings or should not achieve the
2 expense savings and productivity improvements that you
3 projected. Is the company still committed to achieving
4 these savings and improvements?

5 A. I hope I didn't give that impression. What we
6 are doing is essentially suggesting that Mr. LeLash had
7 said that we would have a hard time making them and that
8 he made no adjustment for the fact that he felt we would
9 not get the \$14 million. We are going very assiduously
10 forward to capture that \$14 million. We understand very
11 clearly that as part of this effort we must deliver on
12 the 14 million and we have progressed down that path to
13 some extent already even though we are not even a month
14 into the process.

15 Q. I would like to ask a few questions on your bad
16 debt expense from your rebuttal testimony. In your
17 rebuttal, again, you are saying that the bad debt expense
18 is expected to climb by another \$11 million. Is that
19 primarily related to the additional increase in gas
20 costs?

21 A. Well, between the initial filing in June --
22 let's turn it around. In the initial filing in June we
23 assumed as part of an effort to collect more cash that we
24 would advance our or improve upon our collection ratio
25 moving from eight percent to something closer to six

1 percent. When the \$50 million addition came along we
2 felt that that was no longer a viable assumption. We had
3 to move it back to the eight percent or so.

4 So in that first correction the bad debt goes up
5 more than one might expect because we are not only
6 picking up the bad debt on the incremental \$50 million
7 but we are also picking up an additional two percent on
8 all the rest.

9 We are very concerned about the elasticity of
10 demand effect on this company right now. We understand
11 it very clearly, that we are in serious shape and
12 particularly if the additional \$70 million is required.

13 Q. So in other words, the 11 million isn't solely
14 or just from the 50?

15 A. That's correct. It's a combination.

16 Q. It really is a combination of the two bad debt
17 expenses?

18 A. That's correct.

19 Q. Now, if you could look at your Schedule 2, were
20 you present a history of the bad debt expense.

21 A. Yes.

22 Q. And that is Schedule 2 in your rebuttal
23 testimony. I think we see there that the bad debt
24 expense level as a percentage of revenue was as high as
25 about 5.5 percent, and that was in 1982?

1 A. Yes.

2 Q. Okay.

3 A. The purpose of this was really to suggest --
4 and here we got to be real careful -- Philadelphia is a
5 different town 20 years later than it was in 1979, '80
6 and '81. What we are suggesting is that the percentage
7 increase in the bad debt growth as a result of an
8 increase in our costs or our rates is indicative of what
9 kind of problems we are likely to experience now and we
10 use this as simply an indicator to the parties that when
11 this last occurred, which was during the energy crisis of
12 the late 1990's -- late 1970s and early 1980's -- when
13 that occurred this was the experience that the company
14 had.

15 Q. And this historic presentation is really
16 reflecting a time in which gas rates and energy rates
17 were increasing somewhat comparable to what we are seeing
18 today?

19 A. That's correct.

20 Q. So now, though, you are using a figure of about
21 eight percent. But what specific data did you use to
22 estimate the bad debt expense percentage of eight
23 percent?

24 A. That is a recent historic level.

25 Q. Over how many years?

1 A. I am not totally clear in my own mind on that,
2 but certainly three or four.

3 Q. Is that an average of the last three or four
4 years experience?

5 A. I would expect so. I would have to -- if you
6 want I will clarify that for you.

7 Q. Perhaps we could get a clarification in a break
8 on that.

9 A. That would be fine.

10 Q. Mr. Knudsen, based on your current estimate of
11 projected gas costs to a level of about \$197 million that
12 you presented in your rebuttal testimony, the percentage
13 increase to ratepayers from the gas cost increase alone
14 is about 30 percent, is that correct?

15 A. I think we put 10 on 70, didn't we? I think it
16 is about 15 percent. I think we increased the --

17 Q. The total. The 97 plus the additional 70 to
18 100 million.

19 A. All right. Fair enough. Our analysis only
20 assumed the 70 for purposes of presentation.

21 Q. Okay. And with the 70 plus the 97, which is
22 approximately 167 million?

23 A. That's correct.

24 Q. And what percentage increase is that to PGW
25 ratepayers from the gas cost?

1 A. Well, that would be an additional 10-plus
2 percent.

3 Q. For a total -- the total 167 million is what
4 percentage?

5 A. Of gas cost, about 30 percent, 30-plus percent.

6 Q. And would you agree with me that this increase
7 will place an extraordinary financial burden on PGW's
8 ratepayers?

9 A. There is no question that these increases will
10 place such a burden. I would only say, as I was about to
11 say last night in the hearings, that it is our intention
12 as management and the city to conduct as strenuous an
13 effort as we can to enroll people in energy assistance
14 programs to mitigate the effects of these requirements.

15 Q. Now, page four of your rebuttal you state your
16 opinion that it is shortsighted to reject all or
17 substantially all of PGW's interim rate increase. Given
18 the extraordinary increase in gas costs, do you think it
19 is shortsighted to minimize the burden of a base rate
20 increase to ratepayers?

21 A. It is certainly preferred. But I think
22 reasonable people have to look at the financial condition
23 of this company and say if we don't do this then what.
24 If we don't do this and we were to, A, not have our paper
25 reviewed, B, not be able to sell bonds at a reasonable

1 price in the market, C, not be able to finance next
2 fall's operations, what does that mean to the customers
3 in the long-term?

4 I am very empathetic and very sympathetic with the
5 situation of our customers right now. And this is a
6 marginal increase going from 30 -- if in fact we
7 experience the additional 70 million of costs, going an
8 additional whatever amount is clear a burden. But my
9 suggestion to the parties is that if we don't do that the
10 costs may be astronomical. If this company fails, and
11 there is a very real possibility that if we don't see the
12 right indicators from this proceeding we might have
13 severe problems, that cost could be much greater than any
14 of us want to contemplate right now.

15 Q. But you would agree with me that given the
16 extraordinary increase in gas prices the goal is to try
17 and meet those goals by placing the minimal amount of
18 burden on ratepayers as possible?

19 A. Well, minimum burden on ratepayers in what
20 context? You have a context of the short-term, the next
21 three or four or five months. My context is six, seven,
22 eight, nine, ten and twelve months plus the next year.
23 We do not want this company to fail. It will have a
24 enormously detrimental effect on this economy and on the
25 city finances. Understand, PGW is not a separate

1 corporation. It cannot be bankrupted. We are part of a
2 whole and we are vulnerable right now.

3 Q. Mr. Knudsen, I don't think anyone is suggesting
4 that. But what I am saying is to achieve those goals in
5 a manner that minimizes the burden on ratepayers, would
6 you agree that that is the goal?

7 A. Yes. As I said, ideally that is exactly where
8 we want to go, to minimize. The irony of all this is
9 that nobody gives a thought to the fact that an
10 additional \$50 million of gas costs has to be absorbed,
11 right? It is there. It is there to be dealt with. What
12 is to say that having not had a rate increase for ten
13 years that the base rate portion of rates can't be viewed
14 somewhat the same way? That is my position.

15 MS. McCLOSKEY: Thank you, Your Honor. I have no
16 further questions.

17 JUDGE CHESTNUT: Okay. Mr. Bertocci, did you want
18 to pick up the cross here?

19 MR. BERTOCCHI: Yes, Your Honor.

20 CROSS-EXAMINATION

21 BY MR. BERTOCCHI:

22 Q. Good morning, Mr. Knudsen.

23 A. Good morning, Mr. Bertocci.

24 Q. Since we were on the subject of budget billing
25 why don't we start with that.

1 A. Yes.

2 Q. Because your recent testimony was that the
3 company would do everything it could to mitigate the
4 effects of the increase, the run-up in natural gas costs
5 and of course the size of the base rate increase that
6 you're seeking.

7 You are aware that PGW has a provision in its
8 tariff, as does the PUC in Chapter 56, which says that
9 you must provide budget billing for customers, that is,
10 to paraphrase, an equalized monthly bill over a 12 year
11 period with the possibility of -- in fact, the obligation
12 -- of readjusting at four months intervals?

13 A. Exactly.

14 JUDGE CHESTNUT: Excuse me. You said 12 years.
15 Did you mean 12 months?

16 MR. BERTOCCI: Twelve months. I'm sorry. Twelve
17 months.

18 THE WITNESS: The reality may be 12 years.

19 BY MR. BERTOCCI:

20 Q. And the purpose of this for customers is on the
21 one hand to spread out their gas payments over the whole
22 year so that recognizing the seasonal nature for heating
23 customers that a customer who has high bills in the
24 winter, high gas usage in the winter and lower usage in
25 the summer, that they will be able to pay a little bit

1 more in the summer and pay less in the winter, isn't that
2 right?

3 A. That's correct. That is the intent.

4 Q. And in the past PGW has had a system under its
5 old billing system by which it implemented that system of
6 budget billing, isn't that right?

7 A. That's correct.

8 Q. And there are approximately 135,000 customers
9 that take advantage of budget billing at the present
10 time?

11 A. No. It is less than that.

12 Q. Less than that?

13 A. It is about 100,000 -- well, it is about
14 120,000.

15 Q. Maybe with CRP. Leaving CRP aside, 120,000 is
16 fine.

17 A. I will accept that subject to check.

18 Q. Would you anticipate with the kinds of
19 increases that we are talking about that there would be
20 more more people that would want to enroll in the budget
21 billing program?

22 A. I am sure that is the case. And in fact one of
23 my major concerns is to the extent that people do enroll
24 heavily it puts an additional cash requirement on the
25 company in the critical winter months.

1 Q. That's right. And at the present time under
2 the new BCCS system does the company have the capacity to
3 implement the budget billing program according to its
4 tariff?

5 A. No.

6 Q. And that is because?

7 A. It is because -- well, are we are working on
8 the problem right now. Right now we don't have the
9 capability. We can set it for the year but we do not
10 have the ability to do the four and the eight month right
11 now. We are working on that. We are investigating -- we
12 have gone down this path have run into substantial
13 problems on the computer programming side.

14 Q. So if someone that is presently on the budget
15 billing program is getting a budget bill based upon
16 pre-rate change -- last year's rates, basically,
17 combining GCR and base rates -- and if that person is on
18 a 12 month cycle which started in, say, June, June of
19 2000, then the rate that they are paying at the present
20 time would be the rate that they would continue to pay
21 throughout the next -- until June of 2001?

22 A. What we are looking at right now is the ability
23 to change at one time during the year. What I was
24 responding to you is four and eight months.

25 Q. I understand.

1 A. We are going to try to do that. It is
2 different from our tariff and we are going to have to
3 come back to the Commission and explain that situation.

4 The answer to your question is, yes, theoretically
5 people would just follow through with whatever they had
6 until their agreement terminated and then of course we
7 would have this enormous accrual that we then have to
8 roll forward plus whatever else the cost of gas increases
9 may require of us.

10 Q. That's right. So a customer that is on the
11 budget billing now and say their cycle runs from June to
12 June, if there was not an adjustment to their bill before
13 June, I mean, they would pay less during the winter but
14 but in June they would have a huge bill to pay?

15 A. A huge increase. And that is what we are
16 trying to avoid.

17 Q. And that is not what the purpose of budget
18 billing is?

19 A. That's correct.

20 Q. And for the person that enrolled now or
21 enrolled --

22 A. Soon.

23 Q. -- soon, before the rate increase, they would
24 be in the same situation?

25 A. Before the rate increase that would be the

1 same. That's right.

2 Q. And for someone that enrolls slightly after the
3 rate increase --

4 A. That would be a different story.

5 Q. -- then their budget bill would be established
6 on the basis of the increased GCR and whatever base rate
7 increase there might be?

8 A. That's correct.

9 Q. And then if gas costs substantially moderated
10 in the spring where they would be in a position to have
11 an adjustment in their budget bill, that would not take
12 place under what you believe is the most likely
13 eventuality?

14 A. I can't say that. I mean, we are not able to
15 do it at four and eight months. If we have sufficient
16 time between setting it up initially and then six months
17 or so were the markets to mitigate we might be able to do
18 that. That is what we are looking at right now, exactly
19 how we can best do that. It is not a simple -- it is a
20 very complex programming issue for us given the
21 configuration of the programs that we have.

22 Q. And the BCCS system was put in in July of the
23 year...?

24 A. 1999.

25 Q. 1999. So this is a problem that we are dealing

1 with now 15 months after the implementation of the BCCS
2 system?

3 A. That's correct.

4 Q. While we are on this type of issue, are you
5 aware that the Philadelphia Gas Commission issued an
6 order in June requiring PGW to essentially --

7 A. Amortize.

8 Q. I want to say refurbish, but I want to say get
9 its customer responsibility program, its low income
10 program, back on track. The problem in very few words
11 was that many low income people have not been billed once
12 or many times in the previous 12 months. The effort was
13 to reestablish where they stood on their CRP agreements,
14 establish what their arrearage was and then recognizing
15 that those people were paying on the basis of
16 affordability a percentage of their income that they
17 couldn't catch up five months of arrears which were due
18 at least in part to not receiving bills. They couldn't
19 catch that up or be expected to catch that up in one
20 month, two months, three months or even four months.

21 A. That's correct.

22 Q. But, rather, should catch it up over a 12 to 24
23 month period depending on the circumstances.

24 A. That's correct.

25 Q. Is that a fair paraphrase?

1 A. That's correct.

2 Q. And the initial step of that process was that
3 in July they all were supposed to receive bills which
4 announced to them in the please pay amount essentially
5 what their past month's bill was plus the CRP arrears, is
6 that right?

7 MR. CLEARFIELD: Your Honor, I am going to object
8 at this point. I fail to understand how this relates to
9 the interim rate request and the testimony that was
10 submitted. This is not the process by which we are going
11 to develop a record on every issue that everyone has a
12 concern about with respect to PGW. If we do that, we are
13 going to be here for weeks. This also puts the company
14 in a unfair position.

15 JUDGE CHESTNUT: Are you tying this into the
16 company's financial position somehow? Or are you just
17 going into it as an issue?

18 MR. BERTOCCI: Well, it is not just an issue. It
19 is an issue of service. It is an issue of whether or not
20 in the interim period the service which is being provided
21 with PGW can comply with applicable tariffs and
22 Commission orders.

23 JUDGE CHESTNUT: Well, I don't really see how that
24 is within the scope of this proceeding.

25 MR. CLEARFIELD: It is irrelevant, Your Honor,

1 because it can be addressed in a permanent rate case if
2 it is an issue that has to be addressed.

3 JUDGE CHESTNUT: The orders that I issued this
4 morning made it clear that I was not making a
5 determination that adequacy of service per se is outside
6 the copy of this proceeding. Obviously to some extent it
7 has been raised in a very generalized manner. But if you
8 are going to spend a lot of team going into this issue
9 that is not a productive use of our time and I'm not
10 going to let you do it.

11 MR. BERTOCCI: Your Honor, I only have a few
12 questions on that. My understanding was your ruling was
13 to ask about all the expert's reports would be a
14 violation of due process because things were not -- there
15 had not been an opportunity to develop a full assessment
16 of those expert's reports. And I don't have a problem
17 with that. But what I am asking about now --

18 JUDGE CHESTNUT: That is the same thing here,
19 Mr. Bertocci. You are going into detail on issues which
20 were not addressed at the corresponding level of detail
21 in Mr. Knudsen's testimony. Don't you see that's a
22 problem here? You are doing cross-examination on a much
23 more detailed level than Mr. Knudsen is ever going to be
24 able to respond to.

25 MR. BERTOCCI: He's responding very well on these

1 issues.

2 JUDGE CHESTNUT: Why don't you give it up, then?

3 MS. McCLOSKEY: Your Honor, may I say something?

4 JUDGE CHESTNUT: Sure.

5 MS. McCLOSKEY: Just for a point of clarity, I
6 believe what Mr. Bertocci -- and, again, I'm not going to
7 get into the level of detail -- is probing here is the
8 Commission order specifically says that the company needs
9 to show that it can provide safe and adequate service
10 during the interim rate period. I believe what he was
11 trying to probe was that period of time and whether the
12 company could come through on that commitment.

13 JUDGE CHESTNUT: Well, I don't agree that that is
14 what was done.

15 But I have expressed my concern, Mr. Bertocci. I
16 am not going to cut you off completely but I expect you
17 to wrap it up and to take my comments in mind.

18 MR. BERTOCCI: That is fair, Your Honor. I will.

19 BY MR. BERTOCCI:

20 Q. In August of this year the company was supposed
21 to, by the Commission order, deliver CRP customers bills
22 in which the pay by amount --

23 JUDGE CHESTNUT: When you say commission, I think
24 you have to identify which commission you're talking
25 about.

1 MR. BERTOCCI: The Philadelphia Gas Commission.

2 BY MR. BERTOCCI:

3 Q. Was supposed to deliver bills to CRP customers
4 which would be essentially the normal bills and would
5 incorporate in them the terms of the settlement
6 agreement, that is, that they would pay their normal bill
7 plus a certain fraction on the catch-up on the arrears,
8 is that right?

9 A. That's correct.

10 Q. Was the company able to do that in August?

11 A. I think we were shooting for September for that
12 amortization and we have, as you are aware, with
13 negotiations and discussions back and forth with the gas
14 commission, we have postponed that to October. But we do
15 expect to be ready to go with those amortization billings
16 on the first cycle of October.

17 Q. Of October?

18 A. Yes.

19 Q. Thank you very much.

20 Turning to your rebuttal testimony, page five, line
21 six, you say the administration has taken the
22 unprecedented step of indicating its willingness to
23 voluntarily waive or grant back the \$18 million mandatory
24 payment on a one-time basis --

25 JUDGE CHESTNUT: Excuse me. You don't have to read

1 it. Just refer him to the line number.

2 MR. BERTOCCI: Okay.

3 BY MR. BERTOCCI:

4 Q. Do you see that on lines six to ten?

5 A. On page what?

6 Q. On page five.

7 (Witness perusing document.)

8 A. The sentence begins a portion of five million?

9 Q. No. On line six it starts talking about the
10 unprecedented step of essentially being willing to put
11 the \$18 million city payment in play --

12 A. Oh, I'm sorry.

13 MR. BERTOCCI: Am I giving him a misdirection?

14 MR. CLEARFIELD: No. He's there now.

15 MR. BERTOCCI: Okay.

16 BY MR. BERTOCCI:

17 Q. And it would be there as, quote, an one-time
18 basis as an additional backstop that would be available
19 to assist PGW to deal with contingencies and satisfy all
20 bond requirements?

21 A. Yes.

22 Q. Now, isn't it true that if the rate request is
23 of a certain level, 52 million, it is likely that this
24 18 million will never have to be used as a backstop?
25 Isn't that right?

1 A. No, I don't think that is the case. This is a
2 very difficult process for us and I think for the parties
3 as well because it is so dynamic. We are in a difficult
4 position here because the 52, as I indicated in my
5 opening responses, is from our perspective in the context
6 of these increases of gas costs not adequate. To the
7 extent that that is the case we may in fact have to call
8 on this 18 million.

9 And particularly, and I have to emphasize this, all
10 of this modeling has assumed normal weather. If we were
11 to experience yet a fourth winter and experience
12 something on the order such as '99, which was 22 million
13 of losses, last year, which we preliminary have estimated
14 at 15 million in losses, if we were to go through that
15 again then this is not adequate. And that 18 is sitting
16 there I think both as a contingency for the present
17 situation but certainly as a contingency if this is a
18 warmer than normal winter.

19 The problem is that if we don't get it in interim
20 rates and we have to wait until the spring we don't have
21 enough time to bill the customers for the necessary
22 amounts in the amount of time that we would have left in
23 the fiscal period. That is the conundrum we are in.

24 Q. But starting with your base case, not the
25 additional problems that you have raised in your rebuttal

1 testimony but on the basis of the figures that were
2 initially made available to the parties, isn't it correct
3 that if you got the 52 million that the 18 million would
4 not -- it is unlikely that the \$18 million would have to
5 be paid by the city?

6 A. If the circumstances applied as applied on June
7 19, the \$18 million, and we assumed normal weather, it is
8 likely that the \$18 million would not have been called
9 upon in the same way. Remember, we have already spoken
10 for -- the administration is already considering and will
11 consider in its discussions with City Council the fact
12 that we are looking at this fiscal period as well. And
13 so they are looking -- this isn't only next year, it is
14 this year as well, this just completed fiscal period.
15 Such that we don't think it will be necessary this year
16 and the full amount would be available next year. But
17 that is also a dynamic with which we are struggling. But
18 we won't know that most likely until probably late
19 October or early November.

20 Q. You also say that the \$18 million would be
21 available to help satisfy all applicable bond ordinance
22 and rate covenants. Does this mean that it would be
23 available, that the city is making this money available
24 not only to backstop the coverage covenants, what has
25 been referred to I think by Ms. Bisgaier as the coverage

1 covenants, but also the rate covenants, assuming that
2 that is a proper? Leaving the legal issues aside as to
3 whether or not that is a proper interpretation of the
4 bonds, the management agreement.

5 A. Yes. The city would make the 18 million
6 available to meet all of our legal and fiduciary
7 requirements.

8 Q. So that would mean that the \$18 million could
9 be available to cover, from the city's point of view,
10 cash for operating expenses?

11 A. If the circumstance were to be such, yes. I
12 don't anticipate that, but yes. For whatever purposes,
13 it is there.

14 Q. Now, from a ratepayer perspective as opposed to
15 a company perspective wouldn't you say that from a
16 ratepayer perspective it would be better for the
17 18 million to be used in the coming fiscal year rather
18 than drawing down on the 45 million city advance? From a
19 ratepayer perspective.

20 A. You mean that the cash would then be available
21 from the 18 before the 45?

22 Q. That the cash be spent in one form or other
23 rather than 18 of the 45 be borrowed from the city.

24 A. I think the question is what is the purpose of
25 doing that. If in fact the city is making cash available

1 through the \$45 million loan what does the \$18 million
2 represent in your context? And in that context it
3 represents some kind of a retribution and punitive action
4 or whatever. You are basically saying we want the city
5 to give up its \$18 million in deference to alone. Why do
6 you do that? Because from the customers' perspective,
7 and I certainly understand the arguments that have been
8 made in this jurisdiction in the past, that the city
9 should participate in some way.

10 Q. It's not a matter of punitive, it's not a
11 matter of reparations. It is simply a matter of just
12 looking at it from the point of view of what the company
13 has said, that they recognize the size of this rate
14 increase and they want to do everything that they can,
15 the city wants to do everything it can to minimize the
16 pressure on ratepayers. What I am asking you is wouldn't
17 the pressure on ratepayers be minimized more if by the
18 end of fiscal 2001 this \$18 million had actually been
19 spent, had been spent on whatever, whether it be spent
20 for coverage purposes or whether it be spent for cash
21 operating purposes?

22 A. I think the customers, certain groups of
23 customers, view that as it would be desirable. My only
24 response is that if you do that and we get in trouble we
25 have no backstop, we have no alternatives, we have

1 nowhere to go. The city is very clear that in proffering
2 the 18 million and the 45 that is it, that is as far as
3 we can go. To the extent that we would use the 18 and
4 they were not available for coverages, for coverage
5 purposes, we have no alternatives.

6 Q. Now, when we say the city is very clear, the
7 city is now speaking as the owner of PGW, is that right?

8 A. Well, I have to be -- I have to correct myself.
9 We are in the process of this discussion with the city
10 because the city is made up of numerous parties,
11 obviously. This afternoon there will be a discussion.
12 We have presented this option, the administration has
13 presented this option, this possibility, to the City
14 Council. But the City Council has to reach its own
15 conclusions.

16 Q. I understand that. There are many decision
17 makers and when the city acts it acts as a result of
18 interaction. You would agree with me on that?

19 A. Absolutely.

20 Q. But when you say that this is the only backstop
21 that we, that is, the city has --

22 A. To offer us.

23 Q. -- to offer you, and that backstop, really,
24 from the city's point of view, the city would break even,
25 wouldn't they? If they turned over the 18 million to PGW

1 or to PGW's ratepayers in some form in this fiscal year
2 isn't it true that at that point the city would have
3 broken even? They would have received nothing from PGW
4 but they wouldn't have put out anything from their own
5 resources, isn't that right? The city.

6 A. But the 18 million is considered a part of the
7 receipts to the city general fund. So they are counting
8 on spending those funds in various ways.

9 Q. So from that perspective the city -- the
10 18 million belongs to the city before they have even
11 earned it? Is that right? Is that what you are saying?

12 A. The 18 million by ordinance and now by law
13 belongs to the city before they earn it, that is correct.
14 It is a payment that has to be made. Now, the city can
15 voluntarily forego receiving it, which is what they are
16 presenting or proposing at the present time.

17 Q. But supposing -- so getting back to this issue
18 of the city being -- this our only available backstop,
19 the 18 million, supposing an eventuality where the city
20 actually did put the 18 million on the table
21 unequivocally, unconditionally. Eighteen million is
22 spent and more is needed. Are you saying that the City
23 of Philadelphia with a budget of the size of the City of
24 Philadelphia's would have no other resources that they
25 could put into this utility?

1 A. I can't answer that. The finance director has
2 indicated to us that this is what she can afford.
3 Understand, one of the concerns that she would have --
4 and she clearly has to have this concern -- is is the 45
5 million repayable. Because if it isn't then that is a
6 further draw on the general fund. So she is looking at a
7 total picture of 63 million and saying I've got some in
8 loan, I've got some in granting back money if we do it
9 that but I've got to look at my total exposure as the
10 financial director of the City of Philadelphia.

11 Q. We switched to the 45 million but I wanted to
12 stay for a second more on the 18 million.

13 A. No, because you can't not connect them because
14 if you are going to use 18 million as a cash alternative
15 you yourself introduced it as 18 before the 45. So
16 you've got to look at the total picture together.

17 Q. Well, then let's look at the 45. The 45 is a
18 loan, isn't that right?

19 A. The 45 is a loan, that's correct.

20 Q. And it is repayable in quite a short time?

21 A. The terms that are being considered right now,
22 and that would be consistent with the management
23 agreement would be 24 months.

24 Q. And you say it is a, quote, substantial
25 contribution, right?

1 A. I think you would have to look at it as a
2 substantial effort on the part of the city to address
3 some of the problems at PGW.

4 Q. But it really defers costs for customers,
5 doesn't it?

6 A. Defers costs? I don't understand.

7 Q. A loan. The effect of borrowing money from the
8 city. It defers costs for customers. The customers will
9 pay that 45 million back in the end, won't they?

10 A. Yes, assuming that the provisions of the
11 resolution of this proceeding allow us to pay it back.
12 That's correct.

13 Q. So they will be paying that just as they are
14 paying for the forward purchase agreement, I guess, what,
15 in 1996, right? And they will be paying for that just as
16 they are paying for the --

17 MR. CLEARFIELD: Your Honor, I object. There is no
18 evidence on the record about the detail --

19 JUDGE CHESTNUT: That's right. Why don't you move
20 on, Mr. Bertocci.

21 MR. CLEARFIELD: -- enough to form the basis of
22 that question.

23 JUDGE CHESTNUT: I already ruled.

24 BY MR. BERTOCCI:

25 Q. So after the city has borrowed 45 million and

1 after it has forgone the 18 million payment, the city's
2 position is although we are the owner there is nothing
3 more we can do?

4 A. I can't speak for the city on this issue.
5 Ms. Davis has spoken. She has certainly indicated to
6 management that this is a very generous position on the
7 part of the city right now given where -- given the
8 problems that the City of Philadelphia is facing and her
9 assumptions that economic conditions will continue to be
10 favorable and she's got a whole series of other potential
11 draws on the general fund that are probably equally
12 compelling to other interests as this is to us, that is
13 what she is saying.

14 Q. One of the things you said about this \$45
15 million loan is that City Council must be, quote -- on
16 page six -- assured that the advances will be repaid and
17 they have to be assured of that at the time the loan is
18 made. That is one of the justifications which you
19 present for a higher rather than lower base rate
20 increase, isn't that right?

21 JUDGE CHESTNUT: Excuse me. What line are you
22 referring to there on page six?

23 THE WITNESS: Nineteen and 20.

24 JUDGE CHESTNUT: Are we talking about your rebuttal
25 testimony?

1 THE WITNESS: Yes.

2 MR. BERTOCCI: I thought I had the right page.

3 THE WITNESS: You do.

4 MR. BERTOCCI: Do I?

5 THE WITNESS: Page five at the bottom and coming
6 over to the top of page six.

7 JUDGE CHESTNUT: Okay.

8 MR. BERTOCCI: That's right. I'm sorry. It's at
9 the top of page six.

10 BY MR. BERTOCCI:

11 Q. Now, in terms of the rates which would pay this
12 back, those rates aren't at issue in this proceeding, are
13 they?

14 A. But they are. Again, let's be real clear, this
15 winter is really speaking to the entire year. If we
16 don't get what we need for the 65 percent of our sales
17 that occur between December and March, if we don't get
18 what we need, we are in trouble for the entire year. So
19 the definition of winter to us is broader, I suspect,
20 than it is to the other parties here.

21 Q. But this is an interim rate proceeding, isn't
22 that right?

23 A. I understand that.

24 Q. As an interim rate proceeding, it has been
25 specifically stipulated that if a higher amount was

1 granted in the interim proceeding than the PUC ultimately
2 thought the company merited that in fact customers would
3 be entitled to refunds, isn't that right?

4 A. That is what the order says, yes.

5 Q. And under those circumstances, then, City
6 Council -- how can City Council be in a position to know,
7 to be assured, that they will get this money back that is
8 being advanced?

9 A. Because if they look at our financial
10 projections that are in Schedule 3, page two, you see
11 that at the end of the year we have retained our .97. We
12 have issued long-term debt. We do end the year -- this
13 shows a balance of three but we add to that the recovery
14 or the recapturing of the capital costs for 21. So we
15 end the year with \$33 million of cash. In the normal
16 flow and if we get the money back from our customers for
17 the cashflow -- I mean for the sales over the winter
18 period -- we will be in a position to repay the money
19 going forward.

20 Q. But it depends on the PUC approving not only a
21 level of interim rates but also a level of rates in a
22 base rate case equal or above what is in interim rates,
23 isn't that right?

24 A. That is the problem. That is, again, the
25 conflict we have in the dynamic circumstance.

1 Q. I had a question about uncollectibles.

2 JUDGE CHESTNUT: Excuse me, Mr. Bertocci. Is this
3 a convenient time to take a short break?

4 MR. BERTOCCI: Actually, I am just about done.

5 JUDGE CHESTNUT: Okay. Why don't you finish, then.

6 MR. BERTOCCI: I just really have one more
7 question.

8 JUDGE CHESTNUT: Sure.

9 BY MR. BERTOCCI:

10 Q. We talked about the bad debt expense which was
11 thought to increase with increasing rates, especially
12 increasing rates of this magnitude. And with that bad
13 debt, sort of bringing it down to the customer level, can
14 you give us an estimate of how many people you believe
15 will become delinquent on their bills due to this rate
16 increase that is being contemplated?

17 MR. CLEARFIELD: Your Honor, again, I'm not sure
18 what this has to do with the interim rate request.

19 JUDGE CHESTNUT: Well, I think Mr. Knudsen does
20 address it in his rebuttal testimony responding to OTS
21 using a historical average.

22 If are able to answer it, answer it. If you can't,
23 you can't.

24 THE WITNESS: If I could look at it over the break.
25 It involves a certain amount of calculation. Would that

1 be all right?

2 MR. BERTOCCI: That's fine. Thank you very much.

3 JUDGE CHESTNUT: Why don't we take a short break.

4 How about ten minutes?

5 (Recess.)

6 JUDGE CHESTNUT: Shall we resume?

7 Mr. Bertocci finished his cross-examination.

8 Mr. Simms, did you want to be the next to go?

9 MR. SIMMS: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. SIMMS:

12 Q. Good morning, Mr. Knudsen.

13 A. Good morning.

14 Q. I would like to refer you to Schedule 2 of your
15 rebuttal testimony.

16 A. Yes.

17 Q. Under cross-examination from Ms. McCloskey you
18 indicated that the time period of 6/30/78 through 8/31/84
19 were different times for the city, did you not? Do you
20 recall that?

21 A. Yes, that's correct.

22 Q. And you would agree, would you not, that those
23 different times, at least from an economic standpoint,
24 were the fact that you had high inflation, high
25 unemployment, at least one or two recessions during that

1 time period? Do you agree with that?

2 MR. CLEARFIELD: Your Honor, can we --

3 JUDGE CHESTNUT: I think that is really outside the
4 scope of his testimony. Maybe you can make a generalized
5 statement.

6 MR. SIMMS: Well, Your Honor, the purpose of my
7 cross-examination is that he used Schedule 2 to reflect
8 the percentage of increase in bad debt and compare and
9 contrast that with the time period used by Mr. Weakley.
10 One of the factors he used for the bad debt was gas cost.
11 My question goes to the other factors that contributed to
12 this time period that he used in his schedule with
13 respect to people's ability or lack of ability --

14 JUDGE CHESTNUT: Okay, you convinced me.

15 Go ahead, Mr. Knudsen. Do you remember the
16 question?

17 THE WITNESS: Yes.

18 I think that is a fair observation. I think the
19 issue -- I view it slightly differently. I mean, we have
20 lost a lot of people from Philadelphia over the last 20
21 years, substantial numbers of people, many of whom could
22 pay their bills and did pay their bills. And they simply
23 left the city for other locales in the neighborhood or in
24 the area.

25 That being said, if you look at this period of

1 almost seven years or six years, incrementally, when you
2 get to the end we were certainly not in recessions in
3 those periods in the '80's and we still were then
4 maintaining a substantially higher level of write-offs
5 percentage of bad debt to accounts receivable. In other
6 words, it had ratcheted up and stayed.

7 And that is my concern now. Understand that we
8 have a lot of low income people in this city, as many now
9 as ever were. And you heard Mr. Bertocci's cross of me,
10 that their ability to pay -- or the cross-examination
11 last night -- their ability to pay is very limited. So I
12 am looking with great care at our projections and with
13 concern that not only will this be repeated but actually
14 may be even worse.

15 BY MR. SIMMS:

16 Q. But you do agree with my underlying statement
17 that --

18 A. Other factors were at play, that is correct.

19 Q. And those other factor are not in play during
20 the time period used by Mr. Weakley?

21 A. I don't think you can say that. I think you
22 have to be really careful about -- as a general statement
23 that is right. But I think if you look at the population
24 makeup of Philadelphia we have many more seniors
25 proportionately than we did then. Yes, unemployment is

1 down somewhat, but underemployment is still there. These
2 people are not wealthy or are not even -- sometimes are
3 simply making it marginally. And this represents an
4 enormous to the poor and the low income people of this
5 town. So I think you have to be care how you cut the
6 population and how you talk about it.

7 Q. The purpose of this interim rate relief is to
8 satisfy PGW's requirements for the fiscal year ending
9 August 31, 2001, would that not be correct?

10 A. I'm sorry?

11 Q. The purpose of this interim rate relief that
12 you are seeking is to satisfy the company's requirements
13 for the fiscal year ending August 31, 2001?

14 A. That's correct.

15 Q. Would it also not be correct that there will be
16 a lag time between when the customer is billed and when
17 the bad debt is realized?

18 A. Yes, that's correct.

19 Q. Is it your testimony that the bad debt would be
20 realized during this fiscal year?

21 A. Yes. By late August it will be fairly clear to
22 us who of those billed over the winter period are able to
23 pay or not able to pay their bills accumulated over that
24 period.

25 Q. And I believe your testimony was that the

1 company intends to or is exercising great care in trying
2 to enter certain low income customers into special
3 payment arrangements or programs?

4 A. That's correct.

5 Q. Let me refer you to page 20 of your rebuttal
6 testimony. I am looking at specifically lines 19 through
7 22. Just for clarity of the record, at least for me, is
8 your intent there to suggest that Mr. Weakley did not
9 take into consideration Mr. Metro's recommendations?

10 A. No, no. I think he intended to.

11 MR. SIMMS: That concludes my cross-examine, Your
12 Honor.

13 JUDGE CHESTNUT: Thank you.

14 Ms. Burak, do you have any questions for this
15 witness?

16 MS. BURAK: Your Honor, all of my issues have been
17 covered, so I have no questions at this time.

18 JUDGE CHESTNUT: Thank you.

19 I think that does it in terms of cross -- I'm
20 sorry. Mr. Doll.

21 MR. DOLL: I have no cross-examination of this
22 witness.

23 JUDGE CHESTNUT: Do you want to do redirect?

24 MR. CLEARFIELD: Yes, Your Honor.

25 JUDGE CHESTNUT: Okay.

1 REDIRECT EXAMINATION

2 BY MR. CLEARFIELD:

3 Q. Mr. Knudsen, let's just go over some items from
4 prior to the break. Were you able to consider the number
5 of delinquent customers that would be created, the
6 incremental number of delinquent customers, as a result
7 of the additional hikes in gas costs that we have
8 projected in your rebuttal testimony?

9 A. Yes. I think trying to be consistent with the
10 other assumptions that we have made we would look to --
11 well, let me phrase this. We identified 24,000 or so
12 additional through the March -- I'm sorry -- through the
13 June 19 period filing. We would say there is probably
14 another 15,000 or 16,000, 17,000, we would add to that
15 incrementally from where we are this year as a result of
16 the increased amount of gas costs.

17 Q. With respect to your Schedule 3 in your
18 rebuttal testimony, I believe in answer to a question
19 from Ms. McCloskey you may have characterized this as
20 billings. Was that a correct characterization?

21 A. No, it was not. In fact, there are two aspects
22 of it that I misspoke. One, these are collections or
23 receipts and disbursements. And the three, I said, if
24 you added the recovery of the capital costs of \$21
25 million got you to 33. It gets you to 24. So you still

1 have, even under our projections, you would have a \$10
2 million to \$15 million shortfall from our objective and
3 the only way that you can get that would be in this
4 instance the 45 million loan from the city.

5 Q. And where is that \$3 million shown?

6 A. That is at the lower right-hand corner of
7 Schedule 3, page two.

8 Q. There was some discussion with Mr. Bertocci
9 about the relative merits of the city committing the \$18
10 million payment versus providing the \$45 million loan.
11 Is there a difference between those two sources of funds?

12 A. Yes. To say that we used the 18 first and then
13 the 45, if in fact the 18 is used for cash in those
14 instances, then we -- the 18 is available or could be
15 available for coverage purposes. The \$45 million it's
16 not.

17 Q. You were asked some questions about the
18 derivation of the bad debt expense factor that we used at
19 least initially and the time period that was examined.
20 Could you provide a more complete answer?

21 A. The write-off factor that we were using of
22 about 8.4 when we were assuming sort of a normal
23 performance was based on our recent experience of the
24 last two to three years.

25 Q. And just so it is clear, are we still using

1 that factor?

2 A. No, because obviously we think that is going to
3 be affected by these substantial increases in costs and
4 we will see a substantial increase in that write-off
5 factor.

6 Q. And, again, just for clarity, your Schedule 2,
7 which shows the bad debt expense percentages from a
8 historical period, '78, are we proposing to use these
9 factors specifically? What are we trying to show?

10 A. We are trying to show that the rate of increase
11 in those periods is indicative of the kinds of issues
12 that will arise if in fact gas prices escalate and then
13 taper particularly.

14 Q. You were asked some questions about the \$14
15 million of expense savings that are contained or that
16 were assumed when you determined the level of interim
17 rate request we were going to request and you commented
18 about the potential for realizing those. Do you expect
19 to be able to realize those \$14 million of expense
20 savings immediately?

21 A. We will not generate those \$14 million of
22 savings immediately. It's going to take us a period of
23 time, certainly in this fiscal period, maybe beyond, but
24 we are shooting for this fiscal period. It is, again,
25 one of these uncertainties. We are committed but we

1 cannot guarantee the delivery of that. But we are
2 looking at that very closely for this fiscal period.

3 Q. We haven't changed our interim rate -- the
4 level of interim rate request. What is the significance,
5 then, of the timing of realizing the \$14 million in
6 expense savings?

7 A. The fact that were we not to get to that 14 we
8 have an additional requirement.

9 Q. Ms. McCloskey entered into the record as OCA
10 Cross 1 an informal data request from the PGC, the
11 Philadelphia Gas Commission, proceeding ID-9. Were you
12 able to check the period of time in which this was
13 prepared?

14 A. Yes. I perused the schedule and by and large
15 most of those items have been addressed and we have
16 complied with the target dates that are there. We still
17 have -- I think they are still indicating late September
18 and early October items and those in fact are pending
19 now.

20 Q. And the date when it was prepared?

21 A. I don't have the specific date but it would
22 have been late July or early August.

23 MR. CLEARFIELD: If I could just have a moment,
24 Your Honor.

25 (Pause.)

1 MR. CLEARFIELD: That completes my redirect
2 examination.

3 JUDGE CHESTNUT: Does anybody have
4 recross-examination.

5 Ms. McCloskey?

6 MS. McCLOSKEY: Yes. Thank you, Your Honor. I
7 just have two questions.

8 RECCROSS-EXAMINATION

9 BY MS. McCLOSKEY:

10 Q. On the number of delinquent customers, I'm
11 sorry. I was a little confused. You used the term
12 additional. The 24,000 customers --

13 A. That was a number --

14 Q. -- was that the total number in the June 19th
15 filing or was that an additional number added to the June
16 19 filing?

17 A. No. There was a question asked at the budget
18 hearings to identify that same factor and we said 24.
19 And Mr. Bertocci's comment then goes how many beyond --
20 as I interpreted what he said -- how many beyond as a
21 result of recent changes, and we are saying probably
22 another 16,000. So we are looking at probably 40,000
23 people.

24 Q. Total?

25 A. Yes.

1 Q. On the \$14 million of expense savings, you
2 testified here that it can't be realized immediately,
3 there is a timing. Do you have an estimate of how much
4 you expect to realize in fiscal year 2001?

5 A. Well, I would like to realize it all. But I
6 recognize that Mr. LeLash has picked up on this. We have
7 a major task in front of us and to the extent that we
8 don't get there then we have an additional problem in
9 terms of rate relief that is required.

10 MS. McCLOSKEY: Thank you, Your Honor.

11 JUDGE CHESTNUT: Anybody else?

12 Mr. Bertocci?

13 MR. BERTOCCI: I just have one question.

14 RE-CROSS-EXAMINATION

15 BY MR. BERTOCCI:

16 Q. Coming back to the question of the 18 million
17 and the difference between 18 million as a grant which
18 would be project revenues, right, for coverage purposes?

19 A. Yes.

20 Q. Whereas a loan would not be helpful for
21 coverage at all because it is not project revenues, is
22 that right?

23 A. That's correct.

24 Q. If the grant was delivered in November of
25 fiscal 2001 isn't it true that that would count for

1 coverage just as much as if it was delivered in August --
2 if the grant was delivered in November of the year 2000
3 isn't it true that it would count for coverage purposes
4 just as much as if it was delivered in August of 2001?

5 A. Yes. That is theoretically correct. The
6 problem that you have with that is that we don't --
7 essentially we don't recognize the city payment issues
8 until effectively they are earned. And the payments are
9 scheduled for February, March, April and May in equal
10 installations. So that in effect the grant isn't
11 available until later on in the fiscal period and that is
12 one of the issues as well.

13 Q. That is presupposing that the grant would have
14 to follow the city payments?

15 A. That the grants would be coincident with what
16 might be the city payments -- well, in effect it's not a
17 grant. Until we collect that money, pay it back to the
18 city and they grant it back, it doesn't count. And that
19 won't be until sometime in the summertime next year were
20 we to follow that process. So they don't have the 18
21 million to give us now. It will be sometime near the end
22 of their fiscal period, which is June 30.

23 Q. So you are saying that one of the conditions
24 upon the city providing the 18 million as a grant is that
25 it would come only after the company had made its \$18

1 million city payment?

2 A. Yes. That is the way it is being viewed and I
3 think it is the appropriate way to view it.

4 MR. BERTOCCI: Thank you.

5 JUDGE CHESTNUT: Anybody else?

6 (No audible response.)

7 JUDGE CHESTNUT: Thank you very much, Mr. Knudsen.

8 THE WITNESS: Thank you, Your Honor.

9 JUDGE CHESTNUT: You are excused.

10 (Witness excused.)

11 JUDGE CHESTNUT: We can go to Ms. Bisgaier.

12 MR. CLEARFIELD: We can go to Ms. Bisgaier. We do
13 have Mr. White's.

14 JUDGE CHESTNUT: I though we could do her so she
15 could leave and then we could do Mr. White's testimony.
16 But I don't care.

17 Whereupon,

18 BARBARA BISGAIER

19 having been duly sworn, testified as follows:

20 JUDGE CHESTNUT: Please sit down and give and spell
21 your name for the record.

22 THE WITNESS: It is Barbara Bisgaier,
23 B-I-S-G-A-I-E-R.

24 JUDGE CHESTNUT: Go ahead, Mr. Clearfield.

25 MR. CLEARFIELD: Your Honor, Ms. Bisgaier has

1 submitted one piece of testimony, which is PGW IR
2 Statement 2, which contains an appendix, appendix A. And
3 I understand that we are stipulating to the authenticity
4 and the truthfulness and correctness of the testimony.

5 BY MR. CLEARFIELD:

6 Q. I would ask Ms. Bisgaier if she has any
7 additions or corrections that you would like to make at
8 this time?

9 A. I do not.

10 MR. CLEARFIELD: With that, I would move Statement
11 2 and appendix 2 into the record.

12 JUDGE CHESTNUT: Any objection?

13 (No audible response.)

14 JUDGE CHESTNUT: The document is admitted.

15 (Whereupon, the document was marked as PGW
16 Statement No. 2 for identification, and was
17 received in evidence.)

18 MR. CLEARFIELD: It is appendix A.

19 JUDGE CHESTNUT: Yes, it is appendix A.

20 Now, the parties who indicated -- I guess,
21 Mr. Doll, you indicated you had the most cross so why
22 don't you go first?

23 MR. DOLL: Thank you.

24

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CROSS-EXAMINATION

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BY MR. DOLL:

Q. Good afternoon.

A. Good afternoon.

Q. My name is Craig Doll and I represent the Apartment Association of Greater Philadelphia.

Ms. Bisgaier, am I correct that you served as the bond advisor to Philadelphia Gas Works and for the city for various bond issuances?

A. Yes.

Q. And that you were serving in that capacity during 1999 when a bond issuance comprising about 62 million -- let me break that down. You were in that capacity in 1999, were you not?

A. Yes.

Q. Did you review a bond issuance and provide advice on the 16th series bonds under the 1975 ordinance for about 62 million and for the gas works revenues bonds '98 ordinance, second series, of approximately \$114 million?

A. I did.

Q. Now, are you aware in your review and in your advisory capacity, were you aware that around February of 1999 that Moody's had downgraded PGW's senior revenue bonds to a Baa-2 and the subordinate bonds to a Baa-3?

1 A. I don't remember the specific date but, yes, in
2 that timeframe.

3 Q. Could you recall why that downgrade happened?

4 A. Not off-hand. I don't remember their report.

5 MR. DOLL: If I may approach the witness, Your
6 Honor?

7 JUDGE CHESTNUT: Certainly.

8 MR. DOLL: I don't intend to enter this as an
9 exhibit. I just would like to use this to refresh the
10 witness' recollection.

11 BY MR. DOLL:

12 Q. Have you ever seen this document?

13 (Document handed to witness.)

14 A. Yes.

15 Q. And if you would take a moment to review that
16 document.

17 (Witness perusing document.)

18 MR. CLEARFIELD: May I approach the witness, Your
19 Honor?

20 JUDGE CHESTNUT: Is there a particular place you
21 want her to focus on?

22 BY MR. DOLL:

23 Q. Am I correct that one of the principal reasons
24 that Moody's downgraded was because of the, for lack of a
25 better word, the instability of management of PGW?

1 A. That is what they specifically say in here,
2 yes.

3 Q. Now, again, getting back to the \$176 million
4 bond issuance, would you agree with me that that was
5 issued around June 1st of 1999?

6 A. Yes.

7 Q. And despite the downgrading by Moody's in fact
8 this bond issuance went forward?

9 A. Yes.

10 Q. And the market accepted, for lack of a better
11 word, this bond issuance? It sold in the market?

12 A. That's correct.

13 Q. Now, in connection with that same bond
14 issuance, did you have an opportunity to review a report
15 by Stone & Webster Management Consultants, Inc.?

16 A. Yes.

17 MR. DOLL: Your Honor, the Stone & Webster report
18 is part of PGW Exhibit IR-1.4 at tab six. In order to
19 conduct the cross-examination, however --

20 JUDGE CHESTNUT: Wait. What is 1.4?

21 MR. DOLL: Volume three.

22 JUDGE CHESTNUT: That is this one?

23 MR. DOLL: Your Honor, in order to make things
24 easier we have taken pages from that so that we don't
25 have to go through the whole report. If I could, I would

1 like this marked as AAGP Cross-Examination Exhibit No. 1.

2 JUDGE CHESTNUT: I'm hesitant to do that because it
3 is already in the record but I will because it is a
4 different format.

5 (Whereupon, the document was marked as AAGP
6 Cross-Exam. Exhibit No. 1 for identification.)

7 BY MR. DOLL:

8 Q. Now, in preparing this financial analysis by
9 Stone & Webster, and I would point to pages 32 and 33,
10 would you agree with me that Stone & Webster did consider
11 the warmer than normal weather in coming up with its
12 report?

13 A. The warmer than normal weather that was being
14 experienced in that particular winter?

15 Q. That's correct.

16 A. Yes.

17 Q. And that in reviewing the revenues or income to
18 PGW and hence the bond coverage, would you agree that
19 that was taken into consideration when they did their
20 bond coverage analysis?

21 A. Yes.

22 MR. DOLL: Your Honor, attached to the last three
23 pages of that exhibit are three tables and I would
24 represent that the reason that table 15a, 15b and 15c
25 were introduced into the record is because they were

1 attached to this exhibit because they were all referenced
2 in that particular point in this portion of the report.

3 JUDGE CHESTNUT: Excuse me, Mr. Doll. What was the
4 date of that report?

5 MR. DOLL: May, 1999.

6 JUDGE CHESTNUT: Thank you.

7 BY MR. DOLL:

8 Q. Would you agree with me -- turning to those
9 three tables, 15a, b and c, do you recall which of those
10 three scenarios actually occurred?

11 MR. CLEARFIELD: Your Honor, I object. Are these
12 tables from the Stone & Webster report?

13 MR. DOLL: Yes, they are.

14 MR. CLEARFIELD: Then I will object because
15 Ms. Bisgaier cannot testify as to what scenarios occurred
16 for PGW.

17 JUDGE CHESTNUT: Well, she can know what
18 actually --

19 THE WITNESS: The --

20 JUDGE CHESTNUT: Go ahead.

21 THE WITNESS: The scenario with regard to which
22 bonds were issued?

23 MR. DOLL: Yes.

24 MR. CLEARFIELD: I'm sorry. I misunderstood the
25 question.

1 THE WITNESS: It's table 15a.

2 MR. DOLL: Thank you.

3 BY MR. DOLL:

4 Q. Now, at that time, and you said you reviewed
5 the report, did you agree with the conclusions of Stone &
6 Webster? At that time?

7 A. I didn't make an independent judgement of
8 those. That is not part of my work.

9 Q. As a general proposition is it customary with
10 respect to bond issuances that there are various
11 disclosure requirements?

12 A. Yes.

13 Q. And would you agree that it is customary for
14 the issuer of the bonds to be required to notify either
15 the holders of the bonds or the market itself of any
16 material event which would affect the bonds?

17 A. Yes.

18 Q. Now, would you consider a projected failure to
19 meet the bond coverage to be a material event which would
20 require disclosure?

21 A. Not necessarily. I would consider it to be
22 something that had to be disclosed when you knew for
23 certain it was going to happen. When it was in the
24 speculative stage or when there were still ways that it
25 could be remedied, potentially remedied, and steps were

1 being taken to achieve those remedies, I think it would
2 be inappropriate to notify the bond holders and not
3 required.

4 Q. Are you under a continuing obligation to the
5 rating services to provide financial information which
6 would show a deteriorating picture or a changing picture?

7 A. Yes.

8 Q. So you would be furnishing these reports but
9 you wouldn't be coming out and saying, my God, we are in
10 trouble? Is that it?

11 A. There are two different levels of disclosure in
12 the question that you asked. One is to the rating
13 agencies where what is said to them is often confidential
14 and you can say either this is going to happen or that is
15 going to happen. You are allowed to say, for example, we
16 may not make coverage this year unless things three
17 things happen, we are going to take the followings step
18 to make sure that happens, but we want you to know we are
19 aware there is a problem and we are working on it. That
20 is said to them. They won't publish that. They will be
21 aware of it. They are watching it. That fulfills the
22 issuer's obligation to the rating agencies.

23 That is not something that you publish under your
24 continuing disclosure obligation to bondholders. You
25 can't speculate in the market about, well, we may do this

1 or we may do that.

2 So that is the difference between telling the
3 rating agencies and telling the public. At a point where
4 there was no hope that remedies could be taken sufficient
5 to achieve coverage, for example, then I believe there
6 would be a continuing disclosure obligation to make a
7 formal notification to the bondholder.

8 Q. So there two separate types of notification.
9 Okay.

10 I take it, based upon your testimony, that you now
11 believe that the Stone & Webster report showing adequate
12 bond coverages was incorrect?

13 A. I believe that it was correct as of the date
14 they made it. And they believed it to be correct. I
15 believe different circumstances have occurred since then.

16 Q. And if we look at your testimony, the
17 attachment, appendix A, page one of three, the letter
18 from Standard & Poor's, I take it from that letter those
19 circumstances that you are speaking about are the warm
20 winters, the receivables and the billing system? They
21 are three of those changed circumstances which would
22 cause a downgrading?

23 A. That is cited by Standard & Poor's in this
24 appendix as the reasons for placing PGW on credit watch
25 with negative implications.

1 Q. And with the exception of the winter, the high
2 receivables problem and the faulty implementation of the
3 billing system, those are both situations that are within
4 the direct -- that are within the control of PGW to
5 address?

6 MR. CLEARFIELD: Objection. That is outside the
7 scope of Ms. Bisgaier's testimony. She is not here as an
8 operations witness for PGW. She does not know which part
9 of those failures were controlable by PGW and which
10 weren't.

11 MR. DOLL: I will withdraw the question.

12 BY MR. DOLL:

13 Q. To your knowledge, in addition to the rate
14 requests that have been filed with the Public Utility
15 Commission has PGW undertaken steps to address the issues
16 raised by Standard & Poor's?

17 A. I am not equipped to answer those questions.

18 Q. Thank you.

19 Now, have you been made aware that any revenues
20 that are granted as a result of this proceeding are
21 subject to total refund by the Commission once it reaches
22 an ultimate decision after the base rate case?

23 A. Yes.

24 Q. Does that in your opinion constitute the
25 permanent rate relief that you speak of that would

1 satisfy the bond market?

2 A. It certainly does not satisfy the need for
3 permanent rate relief but I believe it would be evidence
4 to the bond market, to the rating agencies and to Morgan
5 Guaranty of the intention of the PUC to make sure that
6 PGW was able to meet its rate covenants. So that
7 recognizing the time exigencies that PGW is facing, they
8 would accept that as a first and acceptable step in this
9 process.

10 Q. And you would agree with me that that feeling,
11 that warm and fussy feeling of the bond markets, could in
12 fact be extremely temporary and we could be facing this
13 situation again after the base rate is filed?

14 A. Absolutely.

15 MR. DOLL: I have nothing further, Your Honor.

16 JUDGE CHESTNUT: Do you want to move in your
17 cross-examination exhibit?

18 MR. DOLL: Yes, I will move it in, although it
19 already is in the record.

20 JUDGE CHESTNUT: Well, it has been marked so let's
21 clean up the loose ends.

22 You don't have any objection, do you?

23 MR. CLEARFIELD: I can't very well object to an
24 exhibit I already moved in.

25 JUDGE CHESTNUT: Thank you, Mr. Doll. That

1 document is admitted.

2 (Whereupon, the document marked as AAGP
3 Cross-Exam. Exhibit No. 1 was received in
4 evidence.)

5 JUDGE CHESTNUT: I forget who else they indicated
6 they had cross for this witness.

7 Ms. Burak, do you have anything?

8 MS. BURAK: At this point, I have nothing.

9 JUDGE CHESTNUT: Ms. McCloskey, do you have
10 anything?

11 MS. McCLOSKEY: Yes. I just have a few questions.

12 CROSS-EXAMINATION

13 BY MS. McCLOSKEY:

14 Q. Good afternoon, Ms. Bisgaier. My name is Tanya
15 McCloskey. I represent the Office of Consumer Advocate.
16 I would like to look at page 12 of your testimony,
17 lines 20 to 21.

18 JUDGE CHESTNUT: I'm sorry. What page was that?

19 MS. McCLOSKEY: Page 12, lines 20 to 21.

20 BY MS. McCLOSKEY:

21 Q. There you are discussing that if the company
22 gets the requested GCR increase and no interim rate
23 relief the company would still be approximately 17
24 million short of covering its expenses. Now, would you
25 agree with me -- first of all, I believe you are basing

1 that \$17 million number on Mr. Knudsen's schedule?

2 A. That's correct.

3 Q. Appendix B, page one, I believe it was, of his
4 direct testimony.

5 (Witness perusing document.)

6 Q. That would be column four?

7 A. Yes.

8 Q. Now, would you agree with me that that 17
9 million shortfall that you discuss is after the company
10 makes the \$18 million payment to the city?

11 A. Yes.

12 Q. And before the payment, if you look just
13 slightly above that, they have a positive net income of
14 about 598,000 at the end of the fiscal year?

15 A. Correct.

16 Q. Would you agree that the \$18 million payment to
17 the city does not enter into the definition of a
18 technical default of the bond coverage?

19 A. I would agree, yes.

20 Q. And the \$18 million payment does not enter into
21 the calculation of the bond coverage, isn't that correct?

22 A. That's correct.

23 Q. I believe you responded to Mr. Doll that you
24 have been working for PGW for a number of years. To the
25 best of your knowledge has PGW been in a technical

1 default of its bonds in any of the past five years?

2 A. No.

3 MS. McCLOSKEY: That is all I have, Your Honor.

4 JUDGE CHESTNUT: Anybody else?

5 (No audible response.)

6 JUDGE CHESTNUT: Redirect, Mr. Clearfield?

7 MR. CLEARFIELD: May I take a moment to confer with

8 Ms. Bisgaier?

9 JUDGE CHESTNUT: Certainly.

10 (Pause.)

11 JUDGE CHESTNUT: Ready?

12 MR. CLEARFIELD: Yes.

13 REDIRECT EXAMINATION

14 BY MR. CLEARFIELD:

15 Q. During your cross-examination by Ms. McCloskey
16 you were asked whether PGW had in the last five years
17 ever technically defaulted on any of its rate covenants.
18 Has PGW ever technically defaulted on any of its rate
19 covenants?

20 A. Not to my knowledge.

21 Q. You were also asked questions by Mr. Doll about
22 the issuance of, I think, the 16th series and the second
23 series in 1999, which occurred around the same time that
24 PGW's bonds had been downgraded. And you also talked
25 about the potential for a downgrade now. Would those

1 circumstances be comparable in any respect?

2 A. No. Not at all comparable because the
3 downgrade by Moody's in the spring of 1999 was from Baa-1
4 to Baa-2. That is still an investment grade rating. Baa
5 is the lowest category of investment grade rating.
6 Within that 1 is the highest subcategory, 1, 2, 3 being
7 the lowest. So PGW was downgraded from the highest to
8 the middle category but still investment grade.

9 By being investment grade those bonds could have
10 been sold in the market by themselves. There would have
11 been a market available for them. But in order to reduce
12 the interest rate and the ongoing expense as of the
13 interest to PGW, PGW obtained bond issues which had the
14 effect of making those bonds AAA rated. PGW was able to
15 obtain that bond insurance because they had an investment
16 grade rating.

17 The bond insurers will not insure bonds that are
18 not investment grade because that impacts on their own
19 credit rating and they are not willing to carry
20 non-investment grade bonds from issuance. So if PGW were
21 downgraded below investment grade they would not have the
22 same market access, either on their own credit or with
23 bond insurance that they did in 1999.

24 I was also going to say you might ask whether a
25 downgrade would go from a Baa-2 to a Baa-3 still within

1 the investment grade category. And the answer is when
2 bad things happen it's not unusual for multi-step
3 downgrades to occur at once. The City of Philadelphia
4 was downgraded multiple steps in one downgrade. When the
5 Philadelphia Water Department in 1991 had a technical
6 default because it missed its bond coverage it was
7 downgrade the several steps to below investment grade in
8 one action of the rating agencies.

9 Q. Just sticking with the rating agencies and our
10 interaction with them, Ms. Bisgaier, there were some
11 questions about the obligation of PGW to make them aware
12 of the present projections and to provide additional
13 information about the financial status of the company.
14 To your knowledge has PGW been in the process of those
15 kinds of meetings?

16 A. Yes. PGW has always maintained an active
17 information flow with the rating agencies generally.
18 Specifically the senior staff at PGW, Mr. Knudsen, Mr.
19 Kishinchand, Janice Davis from the City of Philadelphia
20 and in two of the three instances Mayor Street and I met
21 with the rating agencies, each of them the principal
22 rating agencies, in May. We exchanged a lot of
23 information at that time.

24 Subsequent to that both at my initiation and at
25 theirs I have had conversations on PGW's behalf with them

1 to keep them apprised of the daily events that occur, not
2 quite daily, but quite frequent events that occur and the
3 status and the progress of the various rate cases.

4 Q. Are you providing the kinds of projections that
5 Mr. Knudsen has presented in this proceeding to the
6 rating agencies?

7 A. The rating agencies have, as expressed in these
8 reports, a number of concerns. Obviously coverage and
9 the ability to make coverage is one of them. They are
10 extremely concerned about cashflow. And they have asked
11 on a number of occasions for projections of cashflows for
12 the current fiscal year, for the fiscal year that just
13 ended, for the current fiscal year and indeed going on
14 beyond that. And that has been provided frequently to
15 them and to Morgan Guaranty, who also is deeply concerned
16 about the cashflows, as recently as yesterday.

17 Q. I just want to make sure that the record is
18 clear because this is an important point. Do you know or
19 can you testify whether the projections that Mr. Knudsen
20 has presented in this case or the equivalents have been
21 shown to the rating agencies?

22 A. Yes, absolutely.

23 Q. Are there any other meetings scheduled with the
24 agencies?

25 A. We have a meeting scheduled next week with

1 Morgan Guaranty, again, specifically to discuss -- they
2 have asked for two pieces of information specifically.
3 One is the status of the cashflows and the second is to
4 discuss how PGW will be in a position to deal with
5 escalating gas costs.

6 MR. CLEARFIELD: That is all I have, Your Honor.

7 JUDGE CHESTNUT: Is there any recross-examination?

8 MR. DOLL: I have a couple of questions.

9 RE CROSS-EXAMINATION

10 BY MR. DOLL:

11 Q. Taking the last one first, Morgan Guaranty --
12 the meeting that you were just talking about -- Morgan
13 Guaranty, is that a rating agency?

14 A. No. They were one of PGW's lenders.

15 Q. And is it your redirect testimony that if the
16 bond rating falls below investment grade, whether by
17 Moody's or Standard & Poor's, that bond insurance is
18 totally unavailable?

19 A. There is one company called ACA that is a
20 potential insurer of the bonds. They have as a business
21 practice insuring distressed credits. They are not AAA
22 rated the way the others are. They are an A rating. In
23 my judgement, although they are a potential, it is
24 unlikely that they would be willing to do this. It is a
25 little bit of a reach for them in size and complexity.

1 Q. But if in fact that insurance would be
2 available it would take -- it would be assigned a higher
3 bond rating? I believe that is what you said. Possibly
4 an A rating?

5 A. That's right.

6 Q. Now, you also spoke about multiple step
7 downgrading. And you would agree with me at this point
8 in time that a multiple step downgrade, although
9 possible, is speculation? Has there been any indication
10 from Standard & Poor's or Moody's that they in fact would
11 do a multi-step?

12 A. No. But it is my opinion that a downgrade from
13 Baa-2 to Baa-3 is a mere slap on the wrist of a minor
14 sort and a failure to make your rate covenant warrants
15 more than a slap on the wrist.

16 MR. DOLL: I have nothing further, Your Honor.

17 JUDGE CHESTNUT: Thank you very much. You are
18 excused, Ms. Bisgaier.

19 (Witness excused.)

20 JUDGE CHESTNUT: That takes us to the absent
21 Mr. White.

22 MR. CLEARFIELD: Yes, Your Honor. That is I guess
23 the last task we have on the agenda for today.

24 Mr. White's testimony was submitted several weeks
25 ago. It is marked as PGW IR Statement 3.0 and it

1 contains an exhibit, PGW IR Exhibit 3.1. Again, it has
2 been stipulated to with respect to authenticity.

3 JUDGE CHESTNUT: Are there any changes to it.

4 MR. CLEARFIELD: No, there are no changes to it.

5 JUDGE CHESTNUT: Any objection?

6 (No audible response.)

7 JUDGE CHESTNUT: It is admitted.

8 (Whereupon, the documents were marked as PGW
9 Statement No. IR 3.0 and Exhibit No. IR 3.0 for
10 identification, and was received in evidence.)

11 JUDGE CHESTNUT: Anything further, then, before we
12 adjourn until nine o'clock tomorrow?

13 (No audible response.)

14 JUDGE CHESTNUT: Thank you very much.

15 MR. CLEARFIELD: Thank you, Your Honor.

16 (Whereupon, at 12:45 p.m., the hearing was
17 adjourned, to be reconvened at 9:00 a.m. on Thursday,
18 September 28, 2000, in Philadelphia, Pennsylvania.)

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C E R T I F I C A T E

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2 I hereby certify, as the stenographic reporter,
3 that the foregoing proceedings were taken
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