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<u>WITNESS</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
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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 further hearing at Docket Number R-00005654.

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

6 I will note the following appearances for the
7 record: Johnnie Simms representing the Office of Trial
8 Staff, Angela Jones representing the Office of Small
9 Business Advocate, Charis Burak representing PICGUG,
10 Tanya McCloskey, James Mullins and Stephen Keene
11 representing OCA, and Dan Clearfield and Gerald Gornish
12 representing PGW.

13 Is there any Counsel present who has not signed the
14 appearance sheet?

15 MS. WEINBERG: Barbara Weinberg representing PGW.

16 JUDGE CHESTNUT: During a break why don't you add
17 your name.

18 MS. WEINBERG: Thank you.

19 MR. BERTOCCI: That is today's appearance sheet?

20 JUDGE CHESTNUT: Yes. I just realized you are not
21 on there.

22 MR. BERTOCCI: No. I'm sorry. I didn't know I had
23 to do it again.

24 JUDGE CHESTNUT: Are there any preliminary matters
25 before we go to the first witness?

1 (No audible response.)

2 JUDGE CHESTNUT: Have you determined an order in
3 which you want to present your witnesses?

4 MS. McCLOSKEY: Yes. We have talked amongst
5 ourself and because of travel arrangements Mr. Baudino
6 will be on the stand first.

7 MR. CLEARFIELD: We don't want Mr. Baudino first.
8 You didn't ask us.

9 MS. McCLOSKEY: No, I did not talk to
10 Mr. Clearfield.

11 JUDGE CHESTNUT: Is that okay with you?

12 MR. CLEARFIELD: Okay.

13 JUDGE CHESTNUT: You have about an hour?

14 MR. CLEARFIELD: Hour-and-a-half.

15 JUDGE CHESTNUT: And no cross for Mr. Kalcic?
16 Nobody has any cross for him, right?

17 (No audible response.)

18 JUDGE CHESTNUT: Mr. Weakley?

19 MR. CLEARFIELD: About ten minutes.

20 JUDGE CHESTNUT: Anybody else? I should actually
21 ask is anybody else intending to cross?

22 (No audible response.)

23 JUDGE CHESTNUT: Mr. O'Donnell?

24 MR. CLEARFIELD: About five minutes.

25 JUDGE CHESTNUT: Mr. Metro?

1 MR. CLEARFIELD: Five minutes.

2 JUDGE CHESTNUT: And Mr. Baudino?

3 MR. CLEARFIELD: Fifteen, 20 minutes.

4 JUDGE CHESTNUT: Well, I guess we don't have a
5 problem, then, in terms of accomplishing everything
6 today. We don't have to worry about that.

7 Nobody has any cross for any of these other
8 witnesses, right?

9 (No audible response.)

10 JUDGE CHESTNUT: Do you want to go with Mr. LeLash
11 first?

12 MR. CLEARFIELD: I would prefer it.

13 JUDGE CHESTNUT: Is that okay? I'm sure we will
14 still be able to accommodate Mr. Baudino's schedule.
15 What time is his flight?

16 MS. BURAK: Late afternoon.

17 JUDGE CHESTNUT: Okay. Why don't we call
18 Mr. LeLash first, then.

19 MS. McCLOSKEY: Thank you, Your Honor. The Office
20 of Consumer Advocate would call Richard W. LeLash.
21 Whereupon,

22 RICHARD W. LELASH
23 having been duly sworn, testified as follows:

24 JUDGE CHESTNUT: Please sit down and give and spell
25 your name for the court reporter when you are ready.

1 THE WITNESS: My name is Richard W. LeLash. My
2 business address is Reading, Connecticut.

3 MS. McCLOSKEY: Your Honor, I guess we are waiving
4 the usual questions, but in light of the rebuttal
5 testimony filed by Mr. Knudsen, Mr. LeLash would like to
6 provide some information to update his recommendation.

7 JUDGE CHESTNUT: Before you do that, do you have
8 any changes, additions or corrections to your prepared
9 direct testimony?

10 THE WITNESS: Only those that Counsel is referring
11 to.

12 JUDGE CHESTNUT: That's fine.

13 MS. McCLOSKEY: Thank you.

14 DIRECT EXAMINATION

15 BY MS. McCLOSKEY:

16 Q. Mr. LeLash, have you reviewed the rebuttal
17 testimony filed by PGW Witness Knudsen?

18 A. Yes, I have.

19 Q. And based on that testimony do you have an
20 update to your recommendation?

21 A. Yes. Based on both Mr. Knudsen's rebuttal
22 testimony and in some part the cross-examination from
23 yesterday, as well as information that was obtained
24 during the City Council meeting yesterday, I would like
25 to make two modifications to my recommendation in this

1 proceeding.

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

10 And second, I would suggest that the Commission
11 also might wish to look for an adjustment on the revenue
12 requirement up to four to five million dollars for the
13 uncertainties associated with the cost savings that the
14 company has built into its base revenue requirement plan
15 and which for a variety of factors, some of which I
16 discussed in my direct testimony, might make it difficult
17 to achieve the full level of the savings that they have
18 factored into the base case. Accordingly, I believe that
19 a revenue allowance by the Commission in the neighborhood
20 -- somewhere up to \$25 million would be reasonable at
21 this time, given the uncertainties and financial
22 condition and also the uncertainties on several of the
23 major expense factors such as uncollectibles.

24 So that would be my revised recommendation to the
25 Commission.

1 Q. I believe you testified you are reflecting
2 uncertainties. Is it still your recommendation that
3 whatever increase may be granted by the Commission be
4 subject to refund as the Commission had previously
5 ordered?

6 A. Yes. I am making that recommendation
7 specifically with that understanding, that whatever would
8 be determined in the final rate proceeding would be
9 controlling on whether or not a refund would be granted
10 to the ratepayers. So that flexibility, up to \$25
11 million, I think is an appropriate flexibility for the
12 Commission to address some of the issues that have become
13 a little bit more known during these proceedings but,
14 again, subject to a refund provision.

15 MS. McCLOSKEY: Thank you, Mr. LeLash.

16 Your Honor, that concludes our update. I would
17 move for the admission of OCA Statement No. 1 and the
18 accompanying schedules and appendix.

19 JUDGE CHESTNUT: That is Schedules 1 through 3?

20 MS. McCLOSKEY: Schedules 1 through 3 and an
21 appendix which is the prior LeLash testimonies.

22 JUDGE CHESTNUT: Any objection?

23 (No audible response.)

24 JUDGE CHESTNUT: The document is admitted.

25 (Whereupon, the document was marked as OCA

1 Statement No. 1 for identification, and was
2 received in evidence.)

3 JUDGE CHESTNUT: Mr. Clearfield, are you going to
4 be doing the cross of this witness?

5 MR. CLEARFIELD: Yes, Your Honor, I have some
6 cross-examination

7 CROSS-EXAMINATION

8 BY MR. CLEARFIELD:

9 Q. Good morning, Mr. LeLash.

10 A. Good morning.

11 Q. First let me say we appreciate your
12 reconsideration of your testimony. If you had told me
13 last night you might have saved me a little more sleep,
14 but that's the way it goes.

15 I think probably the best thing for the clarity of
16 the record is why don't I ask you some questions about
17 that update now so that we can make sure we understand
18 it.

19 You are recommending up to \$25 million. Are you
20 still using -- based on my understanding of your
21 testimony you are focusing on a level of revenue
22 requirement that would allow PGW to just make its bond
23 ordinance debt service coverage requirements. That was
24 in your direct testimony, is that right?

25 A. That was the basis for the original \$7.5

1 million recommendation. I believe that the
2 recommendation now with allowance up to 25 million more
3 than covers the -- or covers adequately -- the times
4 interest test that is in the bond covenants.

5 Q. If you are recognizing these additional -- you
6 recognize two additional expenses in comparison to your
7 earlier schedules, that is, an additional amount of bad
8 debt expense, is that right?

9 A. That is correct.

10 Q. And the second is you recognize at least that a
11 portion of the company's goal of reducing expenses by
12 some \$14 million, I assume, will not actually be realized
13 in the period of time that we are examining?

14 A. Yes. But, again, with the understanding if the
15 record is looked at yesterday Mr. Knudsen reaffirmed the
16 14 as the target and it is a possibility. So
17 conceptually I look to those two things. Whether the
18 increase will solely be or will proportion between them
19 is unknown. I tried to take an estimate for each of the
20 two components where there was uncertainty and I felt
21 that an increase to 25 million would be appropriate, as
22 much for both as for each individual one.

23 Q. Let me ask you. Maybe I can get at it this
24 way. If you were to calculate to produce another
25 scenario similar to the ones that you presented attached

1 to your direct testimony and you adjusted for these two
2 items, and then you included the \$25 million in revenue
3 requirement, do you know what the debt service coverage
4 results would be?

5 A. The debt service coverage if in fact we make
6 the assumptions that the company's embedded estimates
7 turn out to be indeed commensurate now with the changes
8 that I have made there would be essentially no major
9 change in the coverage.

10 Q. So for the 1998 bond ordinance the revenue
11 requirement that you are recommending would produce an
12 1.5 times coverage?

13 A. Well, I would like to make sure we understand
14 something here. These recommendations were made in
15 concert with the actions being taken currently by the
16 city and it is my understanding that even through last
17 night's hearing it does appear that both the credit line,
18 if you will, the 45 million, and the potential of
19 projecting back project revenues to the company, and as
20 Mr. Knudsen clarified yesterday, which still appear to be
21 the full 18 million not the 13 million lower figure, my
22 coverage calculation did not take that into account. I
23 firmly believe the city will in fact give these project
24 revenues back given the severity of the situation and in
25 that case the coverages would be more than adequate

1 coverages.

2 Q. I think I understand your answer. Let me see
3 if I do.

4 You are saying that -- let's say it this way: let's
5 put the potential line of credit and grant back of the
6 \$18 million from the city aside for just a moment. Now,
7 just looking at your calculations and your new
8 recommendations, those recommendations with the revisions
9 you have made to these couple of items would still
10 produce the coverages that you show in your alternative
11 one, I believe, which is 1.5 times?

12 A. As you attorneys say, asked and answered. I
13 have already said that is correct.

14 Q. I apologize. It takes me a while to catch up on
15 this stuff.

16 So you are saying that if the city's credit line
17 that has been hoped for materializes and the potential to
18 waive or grant back the \$18 million materializes, that in
19 fact if those two things do actually happen they will
20 affect -- they will positively affect the coverages?

21 A. Yes. And it is in that consideration that the
22 feeling is that were the Commission to grant up to \$25
23 million and with the city actions it is felt that that
24 would communicate to the investment community that the
25 process, the regulatory process, is indeed supportive of

1 PGW and is paying attention to their requirements as to
2 bond covenants and to their concerns on working capital.

3 Q. And, please, don't misunderstand. We
4 appreciate your recognition of those factors. But with
5 respect to your recommendation, if everything worked out
6 as you had anticipated and as you had projected, and
7 again putting aside the city's line of credit, we will
8 still be right at the margin with respect to our debt
9 service coverage for 1998. We would have no room for a
10 mistake, if you will.

11 A. Actually, it is interesting that you brought
12 that up. There are, which I did not go into detail, I
13 believe some upsides to the company's forecast as well,
14 such as the fact that, as Mr. Knudsen stated during the
15 meeting with City Council yesterday, the company has
16 currently underbudgeted headcount by a substantial amount
17 such as the pension amounts, the pension reserves that
18 the company has that Mr. Knudsen himself in late 1999
19 stated were potentially as high as \$78 million. So I
20 believe that there are -- there is some latitude on the
21 part of the company to improve over the levels that I
22 have factored into the revenue requirement. There was
23 not an intent here to make this an absolute bare minimum.

24 So in light of some flexibility that the company
25 still retains on how it will show its earnings, and in

1 light of the actions that are contemplated by the city, I
2 would not say that it is a bare bones. I think the
3 recommendation would give the company sufficient latitude
4 given the circumstances.

5 Q. Just a few other questions just to make sure
6 the record is clear.

7 With respect to the employee count, those are
8 savings that the company could realize that would be
9 accounted for, if you will, in the \$10 million of
10 projected or expense savings that you have left in the
11 calculation of the company's --

12 A. Yes, but if I had done that I wouldn't have
13 made my \$5 million adjustment for that category.

14 Q. But you are still assuming that the company is
15 going to make \$10 million of expense savings that we
16 haven't been able to identify?

17 A. As the record stands now, not by my testimony
18 but my Mr. Knudsen's the company will achieve \$14 million
19 of expense savings and indeed part of that is probably
20 going to be predicated on the lower than budgeted
21 headcount. But that would indicate, then, that perhaps
22 my five million allowance is somewhat liberal.

23 Q. We will let the record speak for itself. But
24 Mr. Knudsen also said he couldn't say when those expense
25 savings would be realized.

1 A. Well, if you are 60 to 80 positions below the
2 budgeted amount you are accruing as we speak savings
3 against the budgeted labor expense.

4 Q. By, what, a couple million dollars a year on a
5 pro forma basis?

6 A. Depended on your assumption per employee --
7 let's take 50,000 per employee. There would certainly
8 be three or four million dollars in just that kind of low
9 budget headcount.

10 Q. That is not 14, though?

11 A. I didn't say it was 14.

12 Q. Let me just see if I have any other questions
13 about your recommendation.

14 I'm not sure you indicated, the increase in the bad
15 debt expense that you testified should be recognized is
16 associated with the additional gas cost increases that
17 Mr. Metro has testified to and I don't know if you have
18 had a chance to review Mr. White's testimony but that
19 Mr. White has identified as well as likely to occur in
20 this physical period.

21 A. No. Intrinsically my adjustment actually is an
22 adjustment that had previously been made by the company.
23 It is my understanding that at the time the GCR costs
24 were taken up from 42 million to 97 million an adjustment
25 was made to the uncollectibles as was an adjustment to

1 the underlying bad debt percentage that the company had
2 assumed, and that resulted in a \$11 million increase to
3 the company's base case, if you will. That, however,
4 obviously, at that time did not have -- the company did
5 not concomitantly take its 52 million up to a \$63 million
6 request.

7 The adjustment that I am suggesting would bring the
8 level up, to in the company's terms as it measures, it
9 would bring it up to that level with the company adjusted
10 and indeed is the company's number as of this date.

11 Just to put that, then, into perspective, however,
12 I did note that this would make the amount comparable to
13 Mr. Weakley's number, which as I understand it was
14 derived for the anticipated full GCR revenues which
15 Mr. Metro had recommended.

16 Q. Which includes the next --

17 A. Which includes arguably the potential next
18 increase that might be reflected or might not. And I
19 would note at this time that still is up in the air.

20 Q. Did you have occasion to calculate the cashflow
21 effects of your revised recommendation on the company,
22 particularly the level of cash that the company will
23 experience -- may I characterize it as a \$25 million
24 recommendation -- at the end of the year?

25 A. As long as we don't really fall in love with

1 that. It is up to \$25 million and the discretion is to
2 the Commission to determine based on the record where
3 along that continuum.

4 Q. Yes.

5 A. But, no, I did not specifically redo it because
6 if you look at it you could take my scenario two, which
7 had ample cashflow residuals, and indeed you could add to
8 that potentially \$25 million more if in fact the full 45
9 million line from the city is allowed. I was comfortable
10 with the results in scenario two, which was the third
11 schedule, and presumably with the city's proposal that is
12 currently pending that would even add to the amounts
13 available.

14 JUDGE CHESTNUT: Excuse me. Ms. McCloskey, it
15 seems to me that it would be helpful for the Commission
16 to have an updated schedule reflecting the revised
17 testimony.

18 MS. McCLOSKEY: Yes, Your Honor.

19 THE WITNESS: That would be fine. We can provide
20 that.

21 MS. McCLOSKEY: We can produce that and provide
22 that.

23 MR. CLEARFIELD: We would want to at least ask for
24 the right to ask some additional questions about that if
25 we saw it, Your Honor. I am not objecting to providing

1 it, I'm just reserving --

2 JUDGE CHESTNUT: Well, we will have to see. This
3 is the last day of hearings scheduled. And I understand
4 that that is a last minute change.

5 MR. CLEARFIELD: We could file a motion to reopen
6 the record and ask --

7 JUDGE CHESTNUT: Why don't you do it and see if you
8 feel it necessary to ask additional questions. Maybe you
9 could just do it through interrogatories or stipulations.

10 THE WITNESS: Very simply, just so that there is no
11 confusion, based on my scenario two cashflow the
12 appropriate adjustment would be the assumption of an
13 additional \$25 million of cashflow above and beyond what
14 is in there. So that is a very simple shortcut to where
15 we are.

16 And the reason for that is, as I say, the changes
17 that I am making, if they are predicated on assumptions
18 that expenses and revenues will be less favorable to the
19 company, I have merely balanced those out. But the true
20 incremental to the cashflow would be the fact that the
21 city might give 45 million as opposed to the 20 million
22 which was subsumed in that case, in the scenario two.

23 BY MR. CLEARFIELD:

24 Q. The alternative two?

25 A. Yes.

1 Q. And that shows a \$21.2 million ending cash
2 balance?

3 A. Correct.

4 Q. But that includes a \$20 million loan and a
5 grant back of the full \$18 million?

6 A. Yes. And the only thing difference from that
7 is -- what I am saying is to adjust that to reflect my
8 current recommendations you would just add 25 million to
9 it.

10 Q. Mr. Knudsen, let's talk about cash and then go
11 back to coverages -- I'm sorry. Mr. LeLash. I knew I
12 was going to do that at least once.

13 You agree, don't you, that the company needs a
14 level of liquidity at the end of this fiscal year going
15 into the next fiscal year so that it can pay its bills
16 and pay its short-term debt obligations in the beginning
17 of the next fiscal year?

18 A. Yes.

19 Q. And Mr. Knudsen testified that that level of
20 liquidity should be at the minimum \$35 million to \$40
21 million. Do you recall that testimony?

22 A. Yes.

23 Q. Do you have any reason to dispute the
24 reasonableness of that number?

25 A. I think there are adjustments and, as I say,

1 there are some potentially upsides. But a number in that
2 order of magnitude certainly will be beneficial to the
3 company. Whether you absolutely need that full level is
4 a little bit more difficult to say. But as we have just
5 gone through, my ending -- the cashflow from my scenario
6 as adjusted for the changes we have made here would be
7 indeed about \$40 million.

8 Q. And that would be about \$21 million from cash,
9 from operations and these loans and grant backs, and
10 another \$21 million from, in essence, borrowing from the
11 long-term debt that the company is hoping to be able to
12 place in the spring of this fiscal year, is that right?

13 A. Well, yes. It would depend on how the City
14 Council structures it. I understand that they might
15 structure it in a variety of ways.

16 Q. I am not going to quibble about the timing.

17 A. It was reflecting the potentially increase of
18 \$25 million of utilization of city funds.

19 Q. You would agree that if we didn't have those
20 funds that your ending cash balance would not only not be
21 positive by 21 but would in fact be negative, wouldn't
22 it?

23 A. Well, you are saying both the loans and the
24 grant back on project revenues?

25 Q. Yes. Put those aside for a moment.

1 A. If you took both of those out? No. Under your
2 hypothetical of 40 million requirements there would not
3 be that excess.

4 Q. And if we can just try to get an indication of
5 the level, Mr. Knudsen did submit a schedule in his
6 rebuttal that indeed tried to model your original
7 seven-and-a-half million dollars recommendation and did
8 not include the loan or the grant back and it produced an
9 end of year cash balance of negative \$29.8 million. Do
10 you recall that?

11 A. Well, Mr. Knudsen's schedule, I believe, if I
12 am correct on this, also included the increase in the GCR
13 expense which has not yet been, quote, factored into what
14 we are generally talking about here. So there is a
15 little bit of an apples and orange comparison.

16 There is no incremental GCR expense on the table.
17 The company's does not have it in this case. They do not
18 have it in their GCR case. There has been discussion
19 that it may have to be adjusted to that, but that has not
20 been adopted yet.

21 Q. Well, you agree that they are going to have to
22 increase the GCR?

23 A. I think it is highly likely. The amount that
24 will presumably be determined in the GCR may not be as
25 much as Mr. Knudsen factored in. I think he factored in

1 \$58 million.

2 Q. \$70 million.

3 A. \$70 million. In fact, it would be my
4 recommendation that increment would be less than that.

5 Q. Let's just take it step by step. Have you had
6 a chance to review Mr. White's calculation of the
7 increase in gas costs?

8 A. I have looked at his testimony but I have not
9 gotten into his numbers in any detail.

10 Q. Would you be willing to accept for the purposes
11 of this discussion that he has calculated that the GCR
12 would have to be increased by \$75 million in order to
13 account for the most recent gas cost projections that he
14 presented in his testimony?

15 A. I will accept your representation. But as I
16 said, I have not looked at it to test it for
17 reasonableness.

18 Q. So if that recommendation was adopted or if
19 that calculation was adopted and reflected in the GCR in
20 fact Mr. Knudsen's schedule which shows \$70 million of
21 additional gas costs would actually be slightly
22 conservative?

23 A. Yes, but Mr. White always exaggerates his
24 costs, as we all know.

25 (Laughter.)

1 A. So predicated on --

2 MR. CLEARFIELD: Your Honor, I would ask that that
3 be stricken.

4 JUDGE CHESTNUT: I think we can understand the
5 context.

6 A. Predicated on your assumptions, that is
7 correct.

8 BY MR. CLEARFIELD:

9 Q. Your testimony is simply that to get to the
10 level of cash that the company needs at the end of the
11 year under this scenario that Mr. Knudsen showed, the
12 seven-and-a-half million, the company would have to rely
13 on the loans from the city to get to the positive level
14 of cash, isn't that right?

15 A. Appropriately so.

16 Q. That's fine.

17 Now, you would agree, wouldn't you, that if in fact
18 Mr. Knudsen is optimistic and you are optimistic and the
19 company does not produce the \$14 million -- well, you
20 agree that there is \$14 million of expense saving goals
21 in the company's earnings and cashflow calculation, do
22 you not?

23 A. Yes.

24 Q. And you have recognized that four or five
25 million of them will not be realized, right?

1 A. That's correct.

2 Q. Let's assume that the rest of that 14 million
3 isn't realized just for the purposes of testing, you
4 know, the results. That is going to both reduce the
5 company's earnings, its actual earnings at the end of the
6 fiscal year, and it is going to affect its cashflow
7 negatively, isn't it?

8 A. Yes, it would.

9 Q. Just so we can illustrate that we have
10 prepared a scenario to try to illustrate the effect of
11 those.

12 MR. CLEARFIELD: I would ask that this multipage
13 document be marked as PGW Cross Exhibit 1

14 JUDGE CHESTNUT: So marked.

15 (Whereupon, the document was marked as PGW

16 Cross-Exam. Exhibit No. 1 for identification.)

17 BY MR. CLEARFIELD:

18 Q. Have you had a chance to examine just the front
19 page there?

20 A. I've gotten about halfway through the front
21 page.

22 Q. If you could just peruse the rest of the
23 document. And while you are doing it, I will ask a
24 question about your calculation.

25 Your calculation is essentially started from the

1 company's income statement and cashflow analysis and then
2 made adjustments to that, is that right?

3 A. That's correct.

4 Q. So to the extent that we have tried to follow
5 that same pattern this would be a reasonable way of
6 testing certain other scenarios, would it not, in
7 relation to your recommendation?

8 A. Yes.

9 Q. Now, we have prepared this alternative case one
10 to examine what would happen under some alternative
11 scenarios. First of all, let me make it clear that none
12 of the city's potential line of credit or grant back of
13 the 18 million is included in this scenario. So we can
14 put that aside for the moment.

15 Now, with respect to the other assumptions, what we
16 have done is we have kept weather at the normal level,
17 4,600 degree days. We have assumed a seven-and-a-half
18 million dollar rate increase, which predates your
19 testimony this morning but I think we can still make the
20 analysis. And we have increased the gas cost by the \$70
21 million that Mr. Knudsen showed this in his Schedule 3.
22 Do you see that?

23 A. Yes.

24 Q. And the bad debt expense has been increased to
25 \$61.7 million to reflect the additional bad debt that is

1 associated with the additional gas cost. Do you see
2 that?

3 A. Yes.

4 Q. Now, we have also done one more thing. We have
5 assumed that the company despite its best efforts and its
6 goals will not realize the expense savings that it has
7 projected in its earnings. Do you see that?

8 A. Yes.

9 Q. Now, just look at the cashflow result of that
10 for a moment, which is the third page in. Would you turn
11 to that?

12 A. Yes.

13 Q. Now, that shows that based on those
14 calculations that the company would have a negative \$49.2
15 million balance at the end of the year. Do you see that?

16 A. That is what it shows.

17 Q. Mr. LeLash, assuming that the 75 -- and I
18 understand that we have added some revenue requirement --
19 where would the company get that amount?

20 A. You are making an assumption that your -- bad
21 choice of words. This alternative case one is making
22 certain assumptions that I do not necessary believe are
23 accurate and I have no way here at this time to tell you
24 whether your cashflow that you have put together is
25 accurate. So I am not going to give an opinion as to the

1 validity of this.

2 I will give you one example -- well, if we persist
3 in this line I will ask you for clarifications on several
4 items that you have listed here that I am not sure
5 exactly what you are doing. But just using the cost
6 savings amount, your witness yesterday in this hearing
7 stated that they could attain, PGW would attain, the \$14
8 million.

9 Q. Mr. LeLash --

10 A. I am just telling you that is what he said.

11 Q. I understand that is your understanding. I am
12 not disputing that one way or the other. I am asking if
13 that does not happen.

14 Let's go back a second. The \$14 million is a goal.
15 Do we agree to that? It has not happened yet, has it?

16 A. It is underway.

17 Q. But that would mean that it hasn't -- that we
18 have not realized \$14 million.

19 A. Well, of necessity for fiscal year 2001 you
20 have not incurred your gas costs. None of these things
21 have happened yet.

22 Q. And you testified that a significant portion of
23 the savings are associated with the labor contract,
24 haven't you?

25 A. Yes.

1 Q. And when does the labor contract renew? Isn't
2 it in May?

3 A. Yes.

4 Q. In May of 2001?

5 A. That's correct.

6 Q. So until we get to May we won't see any of the
7 savings associated with revising the labor contract,
8 isn't that right?

9 A. That is correct.

10 Q. Now, what if the labor contract doesn't get
11 revised in the way that the company is hoping it gets
12 revised? The saving won't occur, will they?

13 A. Depending on the basis -- and there was not a
14 lot of documentation provided by the company for the
15 derivation of the \$14 million. Assuming that there were
16 labor savings subsumed in that estimate associated with
17 reductions in the union contract, then no, that would be
18 a shortfall.

19 JUDGE CHESTNUT: Mr. Clearfield and Mr. LeLash, can
20 we move on from this? I think we all understand that the
21 \$14 million is a target that the company hopes to
22 achieve. You yourself recognized that it may not be
23 possible to achieve it. However, this is a hypothetical
24 that Mr. Clearfield has given to you and you don't have
25 to agree with the assumptions. That is not necessary.

1 He gets to pick them and then he can ask you questions
2 based on that, recognizing that you may not agree with
3 them and that you have already stated your basis for
4 that. Isn't that your understanding of this?

5 THE WITNESS: Yes, Your Honor. I really did not
6 want to argue with him on assumptions. But I do want it
7 understood that I am not here and now going to even
8 suggest the accuracy of these statements.

9 JUDGE CHESTNUT: We understand that.

10 BY MR. CLEARFIELD:

11 Q. Mr. LeLash, I didn't intend to ask you to do
12 that.

13 A. Okay.

14 Q. Assuming the assumptions in this scenario occur
15 would you accept subject to your more careful revision,
16 assuming those assumptions occur the company would end up
17 with a negative almost \$50 million balance?

18 MS. McCLOSKEY: Your Honor, I think I have to
19 object at this point. I believe Mr. LeLash has already
20 stated that he has received this just now, he cannot
21 confirm some of these assumptions and has pointed to some
22 things that he thought were problematic. If this is the
23 company's case I am not sure why this was not presented
24 in the rebuttal testimony which was to be filed on
25 Monday. This is reflecting Mr. LeLash's direct testimony

1 and his statement.

2 JUDGE CHESTNUT: It is perfectly appropriate to
3 cross-examine him using this document. Now, I think
4 Mr. LeLash is familiar enough with the factors involved
5 in this company and with the format that is used in this
6 that he should be able to answer questions. And if he
7 can't, he can't.

8 A. I will meet you halfway. There is no question
9 if some of the assumptions that you are showing here come
10 to reality there would be a detriment to the cash
11 position that I have shown and it will be negative. As
12 to the precise amount I really would want to check it.
13 But, yes, that is true.

14 BY MR. CLEARFIELD:

15 Q. And to reach the positive cash goal that we
16 talked about earlier I assume you would suggest that the
17 company go to the city and ask -- rely on that line of
18 credit?

19 A. That is part of the package that I believe
20 would give the company adequate earnings and cash to
21 proceed.

22 MR. CLEARFIELD: Your Honor, I have one more and
23 then we will be off this line.

24 BY MR. CLEARFIELD:

25 Q. Before we move on, I just want to focus on the

1 coverages that would be produced on this scenario. Would
2 you just turn to the last page? Do you see that last
3 page?

4 A. Yes.

5 Q. And you see the coverages on the 1999 ordinance
6 bonds, again assuming that the assumptions that are
7 contained in here take place?

8 A. Yes.

9 Q. That is .8?

10 A. Yes.

11 Q. And that is supposed to be 1.5 at a bare
12 minimum, is that right?

13 A. Again, subject to the fact that I have not
14 checked this, obviously if it is indeed .8 it would be
15 well below the coverage requirement.

16 Q. And the company would be able to obtain dollars
17 to backstop that or to avoid a technical default on its
18 bonds from the city?

19 A. In part. And in part obviously from the
20 approximately \$20 million more that I am suggesting the
21 Commission grant them.

22 Q. One more scenario, if you will.

23 MR. CLEARFIELD: Your Honor, can we have this
24 marked as PGW Cross-Examination Exhibit 2?

25 JUDGE CHESTNUT: Certainly.

1 (Whereupon, the document was marked as PGW
2 Cross-Exam. Exhibit No. 2 for identification.)

3 BY MR. CLEARFIELD:

4 Q. While you are perusing it let me just state for
5 the record that it is the same case. Everything is the
6 same except for one thing. Now we have modeled the
7 effects of a warmer than normal winter. Do you see that?

8 A. This has or does not have still the company's
9 \$4 million adjustment already --

10 Q. It has it and then it incrementally adds to
11 that to come up to the 12-and-a-half percent normal
12 level. So it's not on top of that?

13 A. You are saying it is not a double dip?

14 Q. It is not a double dip.

15 A. Okay. And one other clarification. When you
16 said that the 18 million was not in, which was your
17 statement for the first case and I assume the second
18 case, does that mean that the company makes the payment
19 and does not receive project revenues back or that the
20 company neither makes the payment or gets project
21 revenues back?

22 Q. Pardon me. I apologize for the impreciseness
23 of my statement. The former. The assumption is that the
24 company is making its \$18 million payment.

25 A. But not getting money back?

1 Q. But not getting money back. So that we can put
2 that aside and analyze the sources of additional fund
3 that the company might have to meet contingencies. Do
4 you understand?

5 A. I understand.

6 Q. Just quickly take a look at the cashflow
7 numbers that are produced if this coming winter is
8 12-and-a-half percent warmer than normal. By the way,
9 before we do that, 12-and-a-half percent warmer than
10 normal would be a little less than what the company
11 experienced last winter, wouldn't it?

12 A. I am not sure exactly how the year ended up on
13 the weather as far as percentage.

14 Q. Would you accept subject to check it was 14 to
15 15 percent warmer than normal last winter?

16 A. Yes, I will accept that.

17 Q. And in the cashflow numbers we now have a
18 balance of negative \$58 million at the end of the fiscal
19 year. Do you see that?

20 A. I haven't looked for that -- all right. Yes,
21 indeed, I see that.

22 Q. Now, again, we are trying to hit a bogey, if
23 you will, of cash from operations of somewhere between
24 positive \$13 million and \$18 million based on
25 Mr. Knudsen's testimony and our earlier discussion. Do

1 you recall that?

2 A. Yes.

3 Q. Where does the company get the money under this
4 scenario?

5 A. Well, again, not being able to verify your
6 calculations but understanding that they may be in that
7 order of magnitude, again your assumptions are
8 unrealistic, first. And second I wonder why these
9 scheduled weren't presented to City Council yesterday.

10 MR. CLEARFIELD: Your Honor --

11 JUDGE CHESTNUT: Mr. LeLash, please confine
12 yourself to --

13 THE WITNESS: Excuse me, Your Honor. They are
14 making assumptions --

15 JUDGE CHESTNUT: That is very inappropriate and I
16 hope your Counsel will advise you to not say such things.
17 So please just answer the questions. Thank you.

18 BY MR. CLEARFIELD:

19 Q. We are trying to get the Commission an
20 understanding of the effects of certain assumptions.
21 That's all we are trying to do. And some of the
22 parameters that we are working under.

23 If these assumptions occur, it's 12-and-a-half
24 percent warmer than normal, the company is going to be in
25 a position where it is going to have to find 58 plus \$13

1 million just to go into the next fiscal year, isn't that
2 right? Again, with all the assumptions.

3 A. Based on your assumptions and your calculations
4 that is what this schedule says.

5 Q. And that is \$71 million?

6 A. Yes.

7 Q. And the total amount of loans and grant back
8 from the city that had been discussed at City Council, et
9 cetera, is \$63 million, isn't it?

10 A. That is correct.

11 Q. Where does it get the rest of the money,
12 Mr. LeLash?

13 A. I mean, that is --

14 Q. That's the \$64 million question.

15 A. Predicated on your assumptions that is the
16 answer. I do not agree with your assumptions.

17 Q. With respect to your testimony and your
18 discussion about coverage levels, you are aware that Ms.
19 Bisgaier has indicated that a technical default in the
20 company's bond ordinance covenants would likely result in
21 a downgrading to below investment grade?

22 A. Yes, I believe that was her testimony.

23 Q. So can we agree that both the company and you
24 would like to take steps to avoid that contingency?

25 A. I stated that in my direct testimony.

1 Q. It would not be good for anybody for the
2 company's bonds to be downgraded to that level, would it?

3 A. I stated that in my direct testimony.

4 Q. Mr. LeLash, putting aside your interest in the
5 level of increase that ratepayers can bear and some of
6 the other issues that you raise in your testimony, if you
7 were the manager of PGW, which of course under the
8 present circumstances isn't that great a stretch, you
9 would want to go into this coming winter heating season
10 with a cushion so that you could be relatively sure that
11 you were going to be able to make your bond ordinance
12 covenants, wouldn't you?

13 A. Yes. It would always be prudent for the
14 company to have some measure of cushion against the
15 minimum requirements that they need. But I cannot set
16 aside something that you premised in your question, and
17 that is in these conditions the amount of that cushion
18 has to reflect the significant burden that is going to be
19 placed on ratepayers with the GCR increases that are
20 attendant to these rate settings. And so, yes, there
21 needs to be a cushion but under the current circumstances
22 it has to be the minimum cushion possible.

23 Q. And with respect to the level of cashflow the
24 company needs, there are negative consequences if it
25 fails to have the appropriate level of cashflow as well,

1 aren't there? For ratepayers.

2 A. Cash will have a direct bearing, for example,
3 on a rollover of the commercial paper line and other such
4 things which also, setting aside the default issue, are
5 requirements that the company needs to be an ongoing
6 concern.

7 MR. CLEARFIELD: Your Honor, if I could have this
8 next document marked as PGW Cross-Examination Exhibit 3
9 for identification.

10 JUDGE CHESTNUT: So marked.

11 (Whereupon, the document was marked as PGW
12 Cross-Exam. Exhibit No. 3 for identification.)

13 BY MR. CLEARFIELD:

14 Q. Mr. LeLash, did you have a chance to review
15 what we have marked PGW Cross-Examination Exhibit 3?

16 A. Yes.

17 Q. And this is, just for the record, a letter that
18 PGW received just recently from one of its gas suppliers.
19 Does that comport with your review of it?

20 A. That is what it appears to be.

21 Q. And it appears to indicate that this supplier
22 is insisting that PGW produce a letter of credit for
23 prepayment for the gas purchases that it makes from this
24 particular gas supplier. Will you agree with that?

25 A. That, again, is what this letter says.

1 Q. And would you agree that these kind of
2 requirements, a letter of credit or prepayment, are going
3 to cause the company to incur additional costs if they
4 indeed follow through with this request? Or this demand.
5 I'm not sure which it is.

6 A. Based on my understanding of the gas supply
7 market I think the company has adequate alternatives from
8 suppliers that would not make this requirement.

9 Q. I understand your testimony. But if gas
10 suppliers -- would you agree that the reason a gas
11 supplier might demand this kind of letter of credit or
12 prepayment is because of some perceived lack of ability
13 by PGW to pay its bills on time or at all?

14 MS. McCLOSKEY: Objection, Your Honor. It calls
15 for Mr. LeLash to speculate as to what might have been in
16 the mind of a gas executive.

17 JUDGE CHESTNUT: Your objection is overruled.
18 Mr. LeLash is an expert and I think he can answer that
19 type of question.

20 A. There is the possibility that some suppliers
21 would seek terms similar to these. Some. And obviously
22 as the financial position of the company deteriorated
23 certainly from where it is now, these would become more
24 common. So, yes, this is one mechanism that a vendor
25 would potentially apply to a company that would be, if

1 you would call it, financially challenged.

2 BY MR. CLEARFIELD:

3 Q. And those are going to cause the company to
4 incur even more costs to come up with the line of credit
5 or to make the prepayment?

6 A. Yes.

7 Q. So all other things being equal, it would be
8 beneficial to both the company and ratepayers if it can
9 attain a level of financial stability for PGW that would
10 cause these kinds of measures not to be needed or
11 requested by suppliers? Would you agree with that?

12 A. That is a corollary of my statement that they
13 do need to have financial improvement.

14 Q. I appreciate that.

15 MR. CLEARFIELD: We can break now, Your Honor.

16 JUDGE CHESTNUT: Why don't we take a five minute
17 break.

18 (Recess.)

19 JUDGE CHESTNUT: Mr. Clearfield.

20 BY MR. CLEARFIELD:

21 Q. Mr. LeLash, let me return to PGW
22 Cross-Examination Exhibits 1 and 2 just for a minute.

23 We understand that you have updated your
24 recommendation for a rate increases from seven-and-a-half
25 million to 25, approximately. In terms of the cashflow

1 effect of that, am I right that in both cases what you
2 have done is you have recognized that in fact the company
3 is not going to be collecting revenues that you had
4 initially assumed it would collect?

5 A. Yes. It would have a zero impact on cashflow,
6 if that is where you are go.

7 Q. That is where I am going. Thank you.

8 And the same on the actual earnings for the fiscal
9 year 2001, wouldn't it?

10 A. Yes.

11 And if I may just do a little housekeeping myself?

12 Q. Well, tell me what you are going to say and
13 then maybe -- no.

14 A. I just wanted to point out that there were some
15 internally inconsistent assumptions, for example, in your
16 case two --

17 JUDGE CHESTNUT: No, no, no. If you are going to
18 criticize his scenario you can do that on redirect.

19 THE WITNESS: Okay.

20 JUDGE CHESTNUT: Unless you want him to do it now.

21 MR. CLEARFIELD: Not really. He may forget.

22 BY MR. CLEARFIELD:

23 Q. Let me see if we can just discuss some of the
24 other points that you made in your testimony. For
25 example, on page 18 of your testimony you talk about the

1 management agreement and the responsibilities of the
2 Philadelphia Facilities Management Corporation. Do you
3 see that?

4 A. Yes.

5 Q. And you mention that one of the
6 responsibilities of the PFMC is to competently manage the
7 gas works, is that right?

8 A. Yes.

9 Q. You have reviewed the management agreement,
10 correct?

11 A. Yes.

12 Q. If you have a copy of it it might be helpful.
13 Or I can just ask you the question. You may not need to
14 refer to it.

15 You would agree that the management agreement also
16 charges the company to take all reasonable steps to
17 ensure that the gas works can meet the maximum
18 requirements of gas users in the City of Philadelphia?

19 A. Yes.

20 Q. And you have studied the operations of PGW for
21 many years, haven't you?

22 A. Yes.

23 Q. Can we agree that PGW has and continues to do a
24 relatively good job in satisfying that obligation?

25 A. No.

1 Q. We can't?

2 A. No.

3 Q. All right. Let's talk about some of the
4 issues.

5 With respect to delivering gas to customers do you
6 have any indication that PGW has let's just say in the
7 last five years ever failed to deliver gas to customers
8 other than times of extremity when all gas companies were
9 experiencing shortages or failings?

10 A. It has failed to uphold its delivery
11 requirements in some instances to third parties. But to
12 customers, no. It has given the gas.

13 Q. And to the same extent as any other IOU in
14 Pennsylvania -- I'm sorry -- any other local distribution
15 gas company in Pennsylvania?

16 A. With the exception that they typically don't
17 renege on intercompany transactions, yes.

18 Q. Is that what you were referring to in the
19 previous answer, a wholesale transaction?

20 A. Yes. It was a banking transaction with Public
21 Service.

22 Q. It also requires the gas company to procure gas
23 and to use good practices in its procurement policies,
24 doesn't it? The management agreement.

25 A. Yes, it does.

1 Q. In fact, PGW does a good job of procuring gas
2 at the lowest possible price, doesn't it?

3 A. As a general matter. However, again, in the
4 recent past they have had lapses in certain categories.
5 But as a general matter, yes.

6 Q. I don't want to really get into great detail
7 here, Mr. LeLash. Are those lapses the kind that are
8 unique to PGW or are they the kinds of things that
9 occasionally occur with other gas distribution companies
10 as well?

11 A. They are unique to PGW.

12 Q. It never happened to any other gas company that
13 you're aware of?

14 A. No. The specific instance that I am thinking
15 of, PGW blew out LNG inventory in November or December of
16 the year before the cold season started in order to
17 liquidate the inventory. That is not done in the
18 business.

19 Q. Is that the one instance that you have in mind
20 to differentiate --

21 A. That is the one that comes immediately to mind.
22 And I said as a general matter their procurement is
23 commensurate with other utilities.

24 Q. In terms of its safety record in maintaining
25 the gas distribution system do you have any evidence that

1 indicates that their safety record is significantly worse
2 than any other gas distribution company in Pennsylvania?

3 A. Yes. I used the example, and certainly that is
4 a major one, of the company's disregard for system safety
5 in pulling back on its mains replacement program despite
6 the fact that the company itself acknowledged that they
7 should be doing one percent replacement.

8 Q. Mr. LeLash, what I was asking you was in terms
9 of actual record of safety, in terms of actual accidents
10 or actual events, do you have any information that would
11 indicate where PGW stands vis-a-vis other LDCs?

12 A. Mr. Clearfield, you are suggesting until we
13 have an explosion that the company does not have a
14 problem. It is not replacing their mains --

15 JUDGE CHESTNUT: Now, Mr. LeLash, just answer the
16 question.

17 BY MR. CLEARFIELD:

18 Q. I am really not trying to do that. I'm just
19 trying to break it down into pieces.

20 Do you have any evidence that indicates that in
21 terms of its actual record of safety it is any worse than
22 any of the other LDCs?

23 A. No.

24 Q. While we are on the management agreement, you
25 indicated on a couple of occasions that there may be some

1 evidence or some reason to think that the agreement has
2 not been -- provisions of the agreement have not been
3 maintained by the PFMC. Do you recall that testimony?

4 A. Yes.

5 Q. There isn't any specific provision in the
6 management agreement that indicates that the
7 establishment of revenues for PGW is contingent on any of
8 those factors, is there?

9 A. I thought that it was PGW's statement that the
10 management agreement was the controlling document in the
11 setting of rates.

12 Q. Yes. We agree with that.

13 A. Then I would assume that everything in the
14 management agreement has bearing on rates.

15 Q. What I was asking, Mr. LeLash, is if we examine
16 the provisions that instruct the regulatory authority as
17 to the level of revenues that have to be allowed is there
18 any provision in that section that you can recall that
19 makes that allowance contingent on any other events, such
20 as the level of service, adequacy?

21 A. I would assume if you are going to enforce one
22 provision of the agreement you have to enforce all of
23 them.

24 JUDGE CHESTNUT: Mr. LeLash, you have to answer the
25 question. You are being too evasive here.

1 A. There is a provision that says that the PFMC
2 has to provide, for example, management continuity. It
3 has failed to do that.

4 JUDGE CHESTNUT: Mr. LeLash, that is not the
5 question, okay? Just answer the question. I understood
6 the question so I would assume you did too.

7 THE WITNESS: Can you please have the question read
8 back?

9 BY MR. CLEARFIELD:

10 Q. The rate setting provisions for the gas works
11 is set forth in Section 7 of the management agreement.
12 Would you agree with that?

13 A. Page number?

14 Q. Sixteen.

15 MR. CLEARFIELD: Your Honor, for the record, this
16 is in the record as Exhibit B to PGW IR Exhibit 1.1.

17 JUDGE CHESTNUT: Okay.

18 A. Yes. Section 7 that you have cited does
19 specifically go to the mechanics of setting rates.

20 BY MR. CLEARFIELD:

21 Q. And my question is a very simple one. Is there
22 anything in that section that indicates that the
23 ratemaking requirements that are imposed on the
24 regulatory authority for PGW is contingent on PGW doing
25 anything other than operating the gas company?

1 A. In that specific section, no, I do not believe
2 there is reference.

3 Q. Again, as I recall from your testimony you
4 testified before the PGC, the Philadelphia Gas
5 Commission, for many, many years with respect to the
6 Philadelphia Gas Works, is that right?

7 A. Yes, that's correct.

8 Q. Can we agree that during that time when the PGC
9 set rates for PGW it used a cashflow mechanism to
10 determine the level of revenue requirement for the
11 company?

12 A. Over the recent years my work has principally
13 been on the GCR and I would not have an opinion on that.

14 Q. So you don't know the methodology by which the
15 Commission, the PGC, set rates for PGW?

16 A. I understand that it has been represented that
17 they do that. But as I say, I wasn't involved in the
18 operating budget, capital budget, proceedings directly so
19 I really would not be able to definitively tell you.

20 Q. You participated in the current PGW proceeding
21 that is ongoing?

22 A. Yes.

23 Q. And did Mr. Bleiweis also participate in that
24 proceeding?

25 A. Yes.

1 Q. He is an associate of yours, is he not?

2 A. I do work with Mr. Bleiweis, yes.

3 Q. Do you know whether he submitted testimony in
4 the PGC proceeding with respect to the appropriate level
5 of revenue requirement for PGW?

6 A. I believe he did.

7 Q. And would you agree with me -- did you examine
8 that testimony?

9 A. To some degree, yes.

10 Q. Would you agree that in that testimony
11 Mr. Bleiweis analyzed the company's revenue requirement
12 using the cashflow method in determining the level of
13 rates that the company should be awarded?

14 A. I would say that Mr. Bleiweis looked at
15 cashflow as part of his analysis. I do not personally
16 believe that he, quote, followed the cashflow method.

17 Q. What method did he use?

18 A. You should ask him.

19 Q. I don't recall that he has been presented as a
20 witness here, Mr. LeLash. I am just asking you if you
21 know.

22 A. I told you. I said I don't know for certain
23 but I believe that he looked at both coverage tests and
24 he looked at cashflow implications of those coverage
25 tests. If you wish to characterize that as being a

1 cashflow method, you're welcome to do so.

2 Q. He did look at the level of cash that the
3 company needed to fund its operations?

4 A. I said that three times.

5 Q. Just a few clarifying questions. On page, I
6 believe, 17 -- I apologize, Mr. LeLash. Let me strike
7 that and when I find the reference we will go back to
8 that.

9 On page 21 of your testimony you discuss the
10 company's past history of earnings and coverages. Do you
11 see that?

12 A. Yes.

13 Q. Now, you would agree, wouldn't you, with
14 respect to coverages that the coverage calculation that
15 is used for its '98 bond changed in 1998?

16 A. Yes.

17 Q. And so to the extent that you are comparing
18 coverages from periods prior to 1998 that would be in
19 essence an apples to oranges comparison, wouldn't it?

20 A. I think in order of magnitude it would be quite
21 similar. But, yes, there has been a change between them.

22 Q. Did you have occasion to review Mr. Knudsen's
23 testimony, his direct testimony, and specifically his
24 appendix D in which he calculated the coverages that
25 would be produced by PGW's \$52 million recommendation if

1 the 1975 debt service coverage calculation methodology
2 were used?

3 A. Not specifically.

4 Q. Would you accept that the calculation showed
5 that at \$52 million the company would have 1.74 coverage
6 of its debt service using the 1975 methodology?

7 A. I will accept your representation.

8 Q. And that is in the range of the coverage levels
9 that you have referenced here on page 21?

10 A. I believe so.

11 Q. Do you know what your \$25 million
12 recommendation today would produce in terms of coverages
13 using the 1975 coverage calculation?

14 A. I do not.

15 Q. Let's turn to your discussion about the BCCS
16 system and the other studies that you have referenced in
17 the end of your testimony, beginning on page 46 for
18 example.

19 Let me ask a general question. With respect to
20 your discussion of the BCCS system and the call center,
21 is it the purpose of that testimony to indicate to the
22 Commission that these are areas they should focus on in
23 trying to improve PGW's service?

24 A. In part, yes.

25 Q. Are you suggesting that these issues should be

1 considered as conditions if an interim rate increase is
2 granted, that is, that improvement in these areas should
3 be required?

4 A. Yes. I believe that the Commission should take
5 into account both the pros and cons of the company's
6 current performance in areas such as the BCCS.

7 Q. You don't believe that the company needs an
8 additional incentive to improve its BCCS system, do you?

9 A. They need something. But, no. No. I believe
10 that the company is making every possible step right now
11 to rectify the problems in BCCS. Certainly they have
12 represented that.

13 Q. Now, on page 49 you discuss both the BCCS
14 system and certain reports that reflect performance of
15 the company's customer service operations. Now, are you
16 aware that those reports were draft reports?

17 A. Yes, I am.

18 Q. Do think of those reports have a conclusion in
19 them that the company is providing inadequate service
20 based on any standard that the PUC has adopted?

21 A. I believe looking at those reports and taking
22 into account a rather extensive dialogue that we had with
23 the company during the proceedings before the City Gas
24 Commission that there is no question that the performance
25 is less than adequate.

1 Q. Mr. LeLash, my question is a little more
2 precise than that. You recognize that the PUC has
3 certain minimum standards of performance for gas
4 distribution companies in these areas?

5 A. I will accept that representation.

6 Q. Have you made any attempt to compare the
7 results that were in these reports with those minimum
8 standards are established by the Public Utility
9 Commission?

10 A. No. I'm merely suggesting that the Commission
11 should compare them itself because evaluations on service
12 are typically left to commissions.

13 Q. Would it be fair to characterize these reports
14 as indicating that PGW is not performing at levels in
15 comparison to other companies, similar companies or other
16 LDCs?

17 A. I don't know whether the reports -- in some
18 instances they did speak to industry standards, but I
19 think they were looking pretty much at PGW itself and
20 pointing out deficiencies.

21 Q. But do you know whether the report in any
22 instance references a minimum standard of the PUC and
23 makes any conclusion with respect to that minimum
24 standard?

25 A. No, they did not.

1 Q. With respect to the problems with the call
2 center, do you have any idea what portion of a customer's
3 bill is represented by the cost of the call center?

4 A. Directly or indirectly?

5 Q. Let's try directly.

6 A. No.

7 Q. How about indirectly?

8 A. No.

9 Q. I'm so glad I asked.

10 Hypothetically, then, a customer could be receiving
11 completely adequate service from PGW, gets his gas when
12 he needs it, everything works fine, the customer makes
13 one call to the call center to inquire about a billing
14 problem, does not get through in a reasonable time. Do I
15 understand that you are suggesting that the Commission on
16 that basis would deny the company's entire interim rate
17 relief?

18 A. Three responses to that.

19 Q. How about a yes or no first and then you can
20 respond?

21 A. You'd better repeat it.

22 Q. Isn't it a fair characterization of your
23 testimony that you are suggesting to the Commission that
24 it could deny the entire interim rate relief that the
25 company has requested because of an inadequate ability of

1 PGW to provide call center service, even if the customers
2 are otherwise receiving perfectly adequate gas service?

3 A. That is not my testimony.

4 Q. What is your testimony?

5 A. I suggest, number one, that the Commission has
6 the discretion if they find service to be inadequate to
7 alter a revenue allowance, not necessarily eliminate but
8 alter it. And I suggest that when taken together that
9 there are a number of deficiencies in PGW's operation
10 which may or may not reach the threshold level such that
11 the Commission would seek to modify the rate relief
12 grant.

13 Q. So you are not making -- you are not providing
14 an opinion as to whether it reaches that level -- those
15 levels?

16 A. My testimony is that in my belief the company's
17 service is inadequate in several respects. I do not put
18 an opinion as to whether that meets the threshold level
19 which the Commission believes is sufficient to warrant
20 altering a revenue requirement on that basis.

21 Q. Mr. LeLash, you mentioned earlier in your
22 testimony about the main replacement program. Do you
23 recall that?

24 A. Yes.

25 Q. And essentially your recommendation to the

1 company is that it maintain its main replacement program
2 at the levels that have been recommended by its outside
3 consultants?

4 A. That it begin to fulfill the one percent, which
5 it has not fulfilled in the recent past.

6 Q. And a corollary to that recommendation would be
7 that the company needs the capital to make those
8 replacements, doesn't it?

9 A. Yes. And the company's base case and my two
10 alternatives explicitly included cash for those
11 requirements.

12 Q. Doesn't the same general circumstance apply
13 with respect to these other issues that you have raised,
14 Mr. LeLash, that is, for the company to improve its
15 billing system it's going to need money to replace
16 defective programs and to train employees in the use of
17 the new system? Isn't that right?

18 A. And those are all budgeted and subsumed within
19 the 52 million requirement.

20 Q. Let's assume there are additional requirements
21 that the Commission would impose. You would agree that
22 it would be easier for the company to undertake those
23 kinds of additional improvements if it received adequate
24 rate relief in this case, wouldn't you?

25 A. As a general matter, yes.

1 Q. All other things being equal, if the company is
2 in very difficult financial straits it is going to be
3 very difficult as well for it to improve its service to
4 the level that we are all striving to obtain, isn't that
5 a fair statement?

6 A. The company's financial position could be a
7 constraint on what they can and cannot do, that is
8 correct.

9 Q. Well, it is likely to be a constraint, isn't
10 it, in these circumstances?

11 A. Well, we have to establish a predicate. Under
12 the company's assumption that it is, you know, in a cash
13 management crisis, yes, there may be additional
14 constraints.

15 Q. I'm sorry. I thought that you at least to some
16 extent agreed with the company that there was a cash
17 management crisis?

18 A. A cash management crisis?

19 Q. Well, that is what you said?

20 A. Then I misspoke. Just a cash crisis. We will
21 set aside the management of the cash crisis for now.

22 Q. Isn't it a fair characterization of your
23 testimony this morning that you at least to some extent
24 agree with the company that there is a cash crisis?

25 A. There could be. The company is operating

1 right, as I understand it, and in fact is spending items
2 for these incremental fixes and things and it's still
3 financially viable. The company paints a scenario
4 principally because of higher gas costs over the ensuing
5 12 month period that its condition will deteriorate. I
6 think that that is possible. However, I have clearly
7 suggested that there are means by which that envisioned
8 cash crisis will be averted.

9 Q. So your qualification is that they are
10 projecting a cash crisis as opposed to one existing right
11 this moment?

12 A. Well, with Mr. Knudsen's update we may have
13 reached finally the threshold of a cash crisis. But my
14 point being obviously, yes, cash constraints could
15 constrain the company in turn from doing some programs
16 that are necessary. It is therefore necessary to try to
17 get the balance between what needs to be provided to the
18 company in resources to effect some of the changes. But
19 as I say, I believe that the combination of things that
20 have been envisioned to happen will probably -- and I
21 believe will -- enable the company to continue its
22 efforts.

23 Q. Mr. Knudsen, at some point in your testimony --

24 A. LeLash.

25 Q. Mr. LeLash. I'm sorry.

1 At some point in your testimony you reference the
2 fact that you viewed at some point the company's interim
3 rate request as addressing both short-term and long-term
4 financial needs of the company. Do you remember that?

5 A. Certainly as to a proposal which is identical
6 to this one that was presented to the city commission
7 that was the company's position.

8 Q. But that is not the case anymore, would you
9 agree?

10 A. Well, but the request is still the same.

11 Q. Well, that doesn't mean that the purpose for
12 the proposal would be the same, does it?

13 A. I understand that the company now claims that
14 that same request is only intended as a bridge from now
15 to, let's say, next fall.

16 Q. Well, the company claims it and that is true,
17 isn't that right?

18 A. I have responded to my view on that.

19 Q. Mr. LeLash, in your testimony you talk about
20 the fact that the longer term nature of the company's
21 request was to, I think, both meet current operation
22 needs -- that would be the short-term part -- and to
23 reduce the company's dependence on short-term borrowing
24 and to reduce the level of long-term debt outstanding.
25 Do you remember that?

1 A. I believe that --

2 Q. That was the original request?

3 A. Yes. That was my attempt at somewhat
4 paraphrasing what the company had represented before the
5 city commission with its budget.

6 Q. You would agree, wouldn't you, that with
7 respect to the present circumstances and its present
8 request it's not projecting or suggesting that it is
9 going to reduce its dependence on short-term borrowing?

10 A. That is correct.

11 Q. And it is also not suggesting that it is going
12 to be able to reduce the level of long-term debt
13 outstanding since it is absolutely dependent on an
14 issuance of long-term debt in the spring of this year?

15 A. Yes, but it still is predicated on the same
16 budget.

17 Q. The same number, isn't that right? The same
18 amount of revenue requirement?

19 A. It may be a legal issue, but the same operating
20 budget is going to be -- it is semantical. I understand
21 that the company now asserts that the 52 million is a
22 requirement for the interim period that was directed by
23 the Commission.

24 Q. And it is not, unfortunately, going to be able
25 to address these longer term needs?

1 A. Well, if you exit the current year with \$40
2 million that implicitly is reflective of your ability to
3 go forward after this period. So you don't want to cut
4 it off. I understand what you are saying, but hopefully
5 it will leave them in a stable position going into the
6 subsequent year.

7 Q. One final question on this line. With respect
8 to going into the next fiscal year, you agree, don't you,
9 that the company collects somewhere approximately 65
10 percent of all of its revenues during the winter heating
11 season?

12 A. Bills.

13 Q. It bills 65 percent of its total sales in the
14 winter heating season, would you agree with that?

15 A. Maybe not if it's 12 percent milder than
16 normal. But under normal conditions, yes.

17 Q. Well, that's the problem, Mr. LeLash. But if
18 that is the case you would also agree that in order to
19 produce the levels of cash that we have already talked
20 about that the company needs at the end of the fiscal
21 year and going into the next fiscal year it has to
22 collect the dollars this winter?

23 A. Yes. I mean, the winter season is always a
24 major determinant of the performance of the company.

25 Q. So those end of the year and the beginning of

1 the next fiscal year requirements are part of its winter
2 heating season revenue requirement, isn't that correct?

3 A. They are the results of hopefully acceptable
4 performance during this winter.

5 MR. CLEARFIELD: If I could just have a moment,
6 Your Honor.

7 (Pause.)

8 BY MR. CLEARFIELD:

9 Q. Mr. LeLash, a few other questions, just to tie
10 a few loose ends up.

11 You mentioned a blow out of the LNG inventory.
12 Would you agree that the company in that period undertook
13 this step to produce additional cash?

14 A. That is my understanding, yes.

15 Q. And if they have other adequate cash sources
16 you would not expect that they would take such a step,
17 would you?

18 A. I do not think they would.

19 Q. With respect to the problems with the billing
20 system, you would agree, wouldn't you, that the reports
21 that were indicated I believe reference the fact that
22 other investor-owned utilities, other utilities regulated
23 by the PUC, have had similar problems with converting to
24 new billing systems?

25 A. We would be getting into a question of order of

1 magnitude. I think these are -- there are some. I deal
2 with other utilities that have had problems with system
3 conversions.

4 Q. PPL has had some problems? Not to pick on
5 them.

6 A. They have had problems. But the severity here
7 of really not knowing whether the bills are accurate and
8 dumping budget billing customers is more severe than I
9 have seen. But, no, other utilities have indeed had
10 conversion problems.

11 MR. CLEARFIELD: That completes my
12 cross-examination, Your Honor.

13 JUDGE CHESTNUT: I have a question for you,
14 Mr. LeLash. Those three consultant studies, do you
15 anywhere identify them in your testimony as being drafts?

16 THE WITNESS: I do not believe that I do. But you
17 are correct and it should be noted on the record they are
18 indeed drafts.

19 JUDGE CHESTNUT: Do you want to do redirect, then,
20 Ms. McCloskey?

21 MS. McCLOSKEY: Yes, Your Honor. I have just some
22 minimal redirect.

23 REDIRECT EXAMINATION

24 BY MS. McCLOSKEY:

25 Q. Mr. LeLash, I would like to go back to PGC

1 Cross-Examination Exhibits 1 and 2. Let's focus
2 particularly on PGW Cross-Examination Exhibit 2.

3 I believe you testified in response to
4 Mr. Clearfield in your answer that you had some concern
5 with the assumptions that were contained in the
6 alternative case number II. What is your concern with
7 the assumptions that produced alternative case number II?

8 A. Yes. I would just note upon at break looking
9 at this I noticed that that contains, for example, a 12.5
10 warmer than normal weather which would obviously have
11 offsetting impacts on both the cost of gas and the bad
12 debt expense that the company is suggesting. So there
13 may be lack of internal consistency in some of the
14 assumptions. But I also just reaffirmed that I do not
15 believe that this is a realistic set of assumptions for
16 looking forward for the company.

17 Q. As to PGW Cross-Examination Exhibit 1, do you
18 believe that this presents a realistic set of assumptions
19 looking forward for the company?

20 A. No, I do not.

21 Q. Now, I would like to direct your attention to
22 PGW Cross-Examination Exhibit No. 3. That is a letter
23 from Superior Natural Gas Corporation. Do you know the
24 size of the Superior Natural Gas Corporation?

25 A. Superior, to my knowledge, is not a large

1 company, nor is it a major supplier to the company. I
2 would be far more impressed if this was coming from what
3 I would consider to be major vendors.

4 But as I say, there are ample companies out there
5 that given the company's current condition continue to
6 sell on a, if you will, cash basis to them without the
7 need for letters of credit.

8 Q. And I believe that you had a lengthy discourse
9 with Mr. Clearfield on the management agreement.

10 A. Yes.

11 Q. And Mr. Clearfield had you focus on Section 7
12 regarding gas rates.

13 A. That's correct.

14 Q. In your opinion are there other provisions of
15 the management agreement that should also be considered?

16 A. Yes.

17 Q. And what additional sections?

18 A. Well, there are certain responsibilities set
19 out in the agreement. I would use one example which I
20 think is indicative, and that is there is a provision for
21 management continuity, that PFMC is required to provide
22 executive and senior executive and various positions to
23 the company. The reason I note this is that we heard
24 testimony from the company's witness yesterday that in
25 fact the last bond downgrade was specifically pegged or

1 tied to in part the lack of management continuity within
2 the company. So there is a third party, an important
3 third party, the bond rating agencies, that took into
4 account the failure of PFMC to do things that they under
5 this agreement are required to do.

6 Q. I would like to direct your attention to the
7 whereas provisions of the management agreement.

8 A. Would you give me a page on that?

9 Q. Page one.

10 A. Yes.

11 Q. You recognize there that under the whereas
12 clause the city enters into this agreement because of its
13 desire to provide quality gas service to its citizens at
14 reasonable rates?

15 A. Yes, that is clearly a provision.

16 MS. McCLOSKEY: Thank you, Your Honor. I have no
17 further redirect.

18 JUDGE CHESTNUT: Is there any further
19 cross-examination based on the redirect?

20 MR. CLEARFIELD: Yes.

21 RE-CROSS-EXAMINATION

22 BY MR. CLEARFIELD:

23 Q. With respect to alternative I on
24 Cross-Examination Exhibits 1 and 2, Mr. LeLash, just to
25 clarify the record, if you look at the assumptions that

1 are on the front there you see that alternative case I
2 has normal weather and has \$61.7 million worth of bad
3 debt expense?

4 A. Yes.

5 Q. And a lesser amount in alternative case II to
6 reflect the warmer than normal?

7 A. I cannot tie it.

8 Q. But it is a lesser number, though?

9 A. It is a lesser number.

10 Q. And would you accept subject to your check and
11 your discussing it with the PGC personnel that helped us
12 to prepare this that alternative II does in fact reduce
13 gas revenues to reflect the warmer than normal --

14 A. Item three on this says gas costs increased by
15 70 million and the exact same 70 million is in your
16 alternative case II, which is 12-and-a-half percent
17 warmer. I find that inconsistent.

18 Q. Well, if you examine the revenue and gas
19 numbers on the next page --

20 A. I am just pointing out the inconsistency. I
21 have not looked at the schedules.

22 JUDGE CHESTNUT: Well, look at it now, though,
23 okay?

24 BY MR. CLEARFIELD:

25 Q. If you compare the revenue and gas numbers on

1 page one and those are lower than the alternative case I,
2 that would indicate that the calculations did take into
3 account the reduced level of sales as a result of the
4 warmer than normal weather, wouldn't it?

5 A. If they are done appropriately.

6 Q. You raised the issue of the changes in
7 management and PFMC's obligation to provide stable
8 management. You are not suggesting that PFMC should have
9 kept certain managers in their position just so that
10 stability would be maintained even if those managers were
11 not viewed as performing adequately?

12 A. One of the things I had in mind was the fact
13 that they had no chief executive officer in the company
14 for a number of years. None. Forget continuity. There
15 was no chief executive. And indeed as we speak today
16 there is no chief executive officer.

17 Q. There is no permanent.

18 A. Permanent. There are acting. So -- well, you
19 don't need my opinion. Bond rating agencies evaluated
20 that this was a serious problem for the company and in
21 fact in their last downgrading cited that as a problem.

22 Q. And the conclusion the PUC should draw based on
23 your opinion is that it should insist the company improve
24 in this area? Would that be fair?

25 A. That would certainly be one aspect of it. The

1 other might be to draw the conclusion that service and
2 the provision of gas at reasonable cost has been put in
3 jeopardy by a failure to perform on the part of the PFMC.

4 Q. Well, the gas at reasonable cost, you also
5 mentioned in your testimony that the company in some
6 sense under the prior management had caused the need for
7 this interim rate increase because it had not filed for
8 rate increases in the past. Do you remember that
9 testimony?

10 A. That is the testimony of your own witness.

11 Q. But, Mr. LeLash, I am just struggling with
12 that. If PGW had filed and received a \$50 million rate
13 increase three years ago ratepayers would have paid \$150
14 million more, more or less, or at least been billed \$150
15 million, than they are today, wouldn't they?

16 A. You are making an assumption as to amount.

17 Q. Well, yes.

18 A. There is no question that had the company filed
19 for on a timely base and had the city gas commission
20 decided that it was appropriate, they would have had
21 presumably an improved financial position today and we
22 would not be needing to take an increase at a time period
23 when the ratepayers are burdened with an enormous
24 increase in the GCR.

25 Q. I understand that. But they would also not

1 have paid \$150 million, or been billed \$150 million, over
2 the last three years. They would have save --

3 A. Well, I don't know where your \$150 million is
4 coming from, but some amount of money.

5 Q. Well, just assume that PGW had asked for a \$52
6 million increase three years ago. I am just using that
7 on an annual basis.

8 A. Well, they may very well not have gotten \$50
9 million. But I understand your premise and I am saying
10 yes, to the degree they asked for and received during
11 that time period ratepayers would have paid it. But the
12 corollary would be that that would have been responsible
13 financial management to recognize that there was a
14 revenue deficiency during that period and resolve it.
15 This management -- or the past management -- did not even
16 choose to do that.

17 Q. I understand. But looking at ratepayers'
18 interests, they have because of the management's decision
19 not to ask for that increase have avoided having to pay
20 significant additional amounts over that period of time?

21 A. Yes, and they are now being asked to pay it
22 now.

23 Q. And that is what you characterize as
24 responsible management action?

25 A. No. I call that retroactive ratemaking.

1 Q. Well, you just said that the company should
2 have acted responsibly three years ago and recognized its
3 difficult financial circumstances and asked for a rate
4 increase. Didn't you say that?

5 A. That is exactly my testimony.

6 Q. And that is exactly what they are doing now,
7 aren't they?

8 A. Yes.

9 MR. CLEARFIELD: No more questions.

10 JUDGE CHESTNUT: Thank you very much, Mr. LeLash.
11 You are excused.

12 (Witness excused.)

13 JUDGE CHESTNUT: Do you want to move in your
14 exhibits, Mr. Clearfield?

15 MR. CLEARFIELD: Your Honor, I would like to move
16 them.

17 JUDGE CHESTNUT: Any objection?

18 MS. McCLOSKEY: I would state my objection for the
19 record, Your Honor, that these were handed out today,
20 there was not a company witness who prepared them that
21 testified and we had some questions about the
22 assumptions. But they have been -- we have put our
23 concerns with the assumptions on the record.

24 JUDGE CHESTNUT: They are admitted.

25

1 (Whereupon, the documents marked as PGW
2 Cross-Exam. Exhibits Nos. 1 - 3 were received in
3 evidence.)

4 JUDGE CHESTNUT: Why don't we take a five or ten
5 minute break, then, before we resume with Mr. Baudino.

6 (Recess.)

7 Whereupon,

8 RICHARD A. BAUDINO
9 having been duly sworn, testified as follows:

10 JUDGE CHESTNUT: Please sit down. Give and spell
11 your name for the record.

12 DIRECT EXAMINATION

13 BY MS. BURAK:

14 Q. Mr. Baudino, can you state your full name and
15 address, please?

16 A. My name is Richard Baudino and my business
17 address is J. Kennedy & Associates, Incorporated, 570
18 Colonial Park Drive, Suite 305, Roswell, Georgia.

19 Q. Do you have any corrections or modifications
20 with respect to your testimony?

21 A. I do not.

22 MS. BURAK: Your Honor, at this point in time I
23 would move PICGUG Statement No. 1, including Exhibits
24 RAB-1 and RAB-2, into the record subject to
25 cross-examination.

1 JUDGE CHESTNUT: Any objection?

2 (No audible response.)

3 JUDGE CHESTNUT: The documents are so admitted.

4 (Whereupon, the document was marked as PICGUG
5 Statement No. 1 for identification, and was
6 received in evidence.)

7 JUDGE CHESTNUT: Mr. Clearfield or Mr. Gornish?

8 MR. CLEARFIELD: Mr. Gornish will be conducting the
9 cross.

10 CROSS-EXAMINATION

11 BY MR. GORNISH:

12 Q. Mr. Baudino, good morning.

13 A. Good morning.

14 Q. I am Gerald Gornish representing the
15 Philadelphia Gas Works in this matter. I have a few
16 questions for you about your testimony.

17 Would you take a look at page five, lines one
18 through three of your testimony?

19 A. I have that.

20 Q. Where you say that prudent management should
21 have addressed the situation before it reached its
22 current crisis proportion, does that mean that it should
23 have been addressed two to three years ago by management?

24 A. It could have been addressed, yes. It could
25 have been addressed two to three years ago by management.

1 It could have been addressed earlier in the year.

2 Q. Earlier this year?

3 A. Yes.

4 Q. Are you aware that the PUC assumed jurisdiction
5 over PGW on July 1?

6 A. Yes.

7 Q. What you're saying is if it was addressed. I
8 assume what you mean is that PGW should have sought and
9 obtained rate increases prior to this time?

10 A. It could have, yes. That would have been an
11 option.

12 Q. How else should management have addressed the
13 crisis that you are talking about?

14 A. Do you mean other than by seeking and obtain
15 rate increases?

16 Q. Yes.

17 A. That is what I was referring to here.

18 Q. And if PGW's management had sought and obtained
19 higher rates prior to this time, this means that the
20 ratepayers would have been paying those higher rates
21 prior to this time as well, is that correct?

22 A. Yes.

23 Q. If you can turn to page six, line 22, I just
24 wanted to make sure I understood something. You talk
25 about PGW's new management team declaring a sudden

1 crisis. You are not saying there is not a crisis, are
2 you?

3 A. There is -- I would say yes and no depending on
4 how you look at it. There is a crisis in terms of if the
5 company does not get a GCR increase it would not be able
6 to cover its prudent gas costs. That would be a financial
7 crisis and a financial disaster for the company.

8 With respect to the amount of interim rate relief
9 the company is seeking, if you assume that the company is
10 granted a GCR increase to cover those increased costs of
11 its purchased gas, that relieves the crisis and I don't
12 know if you would still call it a crisis at this point.
13 I would say there is a challenge for the company in terms
14 of its cash management going forward into the next fiscal
15 year 2001.

16 Q. Are you saying, then, that all the company
17 needs is to have its GCR increased and it won't be in a
18 financial crisis situation?

19 A. No. I think that the company needs to have the
20 GCR increased as well as some reasonable level of interim
21 rate relief as well.

22 Q. When you used the words sudden crisis, that
23 they have declared a sudden crisis, what you are saying
24 is you believe it is a crisis but it's not a sudden
25 crisis? It's a non-sudden crisis? Is that what you're

1 saying?

2 A. I am saying that the company declared that. I
3 did not declare that.

4 Q. Well, on page five, line two, you use the words
5 the situation has reached its current crisis proportion.

6 A. Yes.

7 Q. That is your words?

8 A. Right. And that has to do with both the GCR
9 and the interim rate increase that the company is
10 seeking. You have to take those two together.

11 Q. You are not suggesting that PGW's current
12 management should have done nothing to address this
13 situation by seeking rate relief before the PUC, are you?

14 A. Can you please repeat the question?

15 Q. Well, when you say PGW's new management has
16 declared a sudden crisis, you are not suggesting that
17 they shouldn't have sought rate relief before the PUC,
18 are you?

19 A. No, I am not suggesting that.

20 Q. On page seven, lines three through 17.

21 A. I have that.

22 Q. You identify four major financial concerns of
23 PGW, don't you?

24 A. Yes.

25 Q. And I just would like to make sure I

1 understand. The first one is a negative cash position by
2 the end of the fiscal year 2001, which would be the end
3 of August 31, 2001?

4 A. Yes.

5 Q. And you say that should the negative cash
6 position materialize --

7 JUDGE CHESTNUT: Excuse me. You don't have to read
8 it. Why don't you just paraphrase it and ask your
9 question.

10 MR. GORNISH: I'm sorry. Okay.

11 BY MR. GORNISH:

12 Q. If there is a warmer than -- if the weather is
13 warmer than expected that would even give them less
14 flexibility, you say there?

15 A. Yes, under that circumstance.

16 Q. And then the second one is the inability to
17 invest in ongoing system expansion?

18 A. Yes.

19 Q. And the third one is the fact that they have a
20 need to make debt payments as well as issue new debt?

21 A. That is a reasonable paraphrasing of the third
22 point, yes.

23 Q. And fourth, the fact that they have borrowed up
24 to the limit of the commercial paper program?

25 A. Right.

1 Q. Now, do you agree that the standard that the
2 Commission should use in considering PGW's request for
3 interim rate relief is whether the relief addresses each
4 of these financial concerns?

5 A. Yes. That would be part of it.

6 Q. What is the other part?

7 A. The other part, as I mentioned later in my
8 testimony, is the overall rate impact on the customers
9 with the combined GCR and the interim rate relief that
10 the company is seeking. Continuing on page seven,
11 beginning on line 18, I discuss some circumstances that
12 might mitigate some of these concerns that we went over.

13 Q. I would like to turn to one of those. We have
14 heard from Mr. LeLash about the city, but I would like to
15 talk about the one that you mention page eight, lines 11
16 through 16.

17 A. Yes, I have that.

18 Q. Where you talk about PGW should consider the
19 short-term deferral of construction expenditures.

20 A. Yes.

21 Q. And the amount shown is \$62.3 million.

22 A. Yes.

23 Q. Have you analyzed what those expenditures are
24 for?

25 A. It is my understanding it is for main

1 replacements and so forth, system improvements and system
2 extensions.

3 Q. Are you saying that they should be deferring
4 main replacements?

5 A. I not suggesting anything of the kind. I am
6 suggesting that the company review that to make sure that
7 all of those dollars are absolutely necessary for the
8 provision of service as one more tool to try and reduce
9 as much as possible the interim rate relief that it is
10 seeking. And I don't believe Mr. Knudsen addressed that
11 in his rebuttal testimony, if I recall.

12 Q. Do you have any evidence that they have not
13 addressed that issue and made a bare bones construction
14 budget?

15 A. No. Given my charge in this proceeding and the
16 accelerated nature I have not had a chance to make a
17 thorough audit to make sure those are all reasonable or
18 if there is anything that is unreasonable.

19 MR. GORNISH: Your Honor, I would like to have this
20 marked as PGW Cross-Examination Exhibit No. 4.

21 JUDGE CHESTNUT: It will be so marked.

22 (Whereupon, the document was marked as PGW
23 Cross-Exam. Exhibit No. 4 for identification.)

24 MR. GORNISH: That is the exhibit that shows what
25 the \$62.3 million is being spent for -- spent on.

1 BY MR. GORNISH:

2 Q. Have you had a chance to take a look at that,
3 sir?

4 A. Yes, I have. Thanks.

5 Q. If you take a look at them, the first one is
6 gas processing.

7 A. Yes.

8 Q. Do you know what that would include?

9 A. I have not looked at the items that are
10 included.

11 Q. Would you accept subject to check that it
12 includes -- well, the majority of that is for the
13 liquified natural gas plant of PGW?

14 A. I would accept that subject to check.

15 Q. And this is for the refurbishment of that
16 plant?

17 A. I would accept that subject to check.

18 Q. Do you agree that the LNG plant is very
19 important to PGW?

20 A. Yes, it is.

21 Q. Would you also accept subject to check that
22 this represents 27 percent of the budget?

23 A. Yes. I will accept that.

24 Q. And the next one is distribution. Would you
25 accept subject to check that this includes main and

1 service replacements?

2 A. Yes. And I think extensions also for new
3 service. Yes.

4 Q. And you heard Mr. LeLash testify today how
5 important main replacement was?

6 A. Yes.

7 Q. Do you agree with that?

8 A. Yes.

9 Q. Would you accept subject to check that this
10 represents 57 percent of the budget?

11 A. It looks like it is over half, yes.

12 Q. And finally field services, which is the next
13 one, that includes replacement of meters?

14 A. Again, I will accept your statement. I haven't
15 analyzed all the dollars or all the projects that are
16 included in that number.

17 Q. And that would be seven percent of the budget,
18 subject to check?

19 A. Subject to check I will accept seven percent.

20 Q. So the total of those is 91 percent of the
21 budget, subject to check?

22 A. It is over 90 percent.

23 Q. And would you agree that these are all items
24 that are necessary for reliability and safety in
25 providing services to the public?

1 A. No. I haven't reviewed that. I know the
2 company has made that representation.

3 My point with respect to the \$62.3 million that I
4 made in my testimony is I think the company should review
5 that and since this is included in the company's cashflow
6 projection it should prove to the Commission that those
7 projects are reasonable and necessary.

8 Q. If these 90 or 91 percent of the budget are for
9 items that are safety and reliability oriented you would
10 not want to defer them, would you?

11 A. I would say no if those projects are all
12 subsumed under the assumption in your question, which is
13 that they are all for safety and reliability purposes and
14 that the company has made a showing that they are all,
15 you know, prudent expenditures.

16 Q. Now, if we can move to page ten of your
17 testimony.

18 A. I have that.

19 Q. On line ten I believe you disagree with
20 Ms. Bisgaier's testimony regarding a downgrade of PGW's
21 bonds if no relief, no rate relief, is given and a
22 technical default occurs. Am I correct?

23 A. Yes.

24 Q. And I believe on page 11, line 22, you cite
25 Mr. Knudsen's forecast that the coverage for the 1998

1 bonds would be only 1.26 times if there was no relief
2 granted, is that correct?

3 A. Yes. That is what I cite. I cite
4 Mr. Knudsen's calculations.

5 Q. Right. And do I understand that you state that
6 a ratio of 1.26 would not automatically cause a
7 downgrade?

8 A. That's correct. That is my testimony.

9 Q. Are you aware that the debt coverage required
10 in the various ordinances is 1.5 times?

11 A. I am aware of that.

12 Q. And so you are saying that if there were a
13 failure to meet that 1.5 times debt coverage there would
14 be no downgrade? Is that what you are saying?

15 A. That is not what I am saying at all. I felt my
16 testimony was pretty clear on page ten, beginning on line
17 13. I don't think that either Ms. Bisgaier nor myself
18 can absolutely predict with certainty what a bond rating
19 agency would do. It has been my experience in 17 years
20 of regulatory practice that companies can and sometimes
21 do fail to meet the quantitative standards with respect
22 to coverages and still maintain a bond rating if -- if --
23 there is the possibility in the future for additional
24 rate relief or something that would improve the coverages
25 in the future. So that is what I am saying. It is not

1 only -- my understanding of the way bond rating agencies
2 evaluate companies, whether a company should be
3 downgraded or not or maintain its bond rating, is not
4 only current quantitative results but expectations of the
5 future.

6 Q. You were not here yesterday to hear
7 Ms. Bisgaier's testimony, were you?

8 A. No.

9 Q. Was any of it reported to you?

10 A. A little bit. I talked with Counsel a little
11 bit about it.

12 Q. Was it reported to you that she testified about
13 a water department technical failure several years ago
14 that caused an immediate bond downgrade? The
15 Philadelphia Water Department.

16 A. I don't recall that we discussed that.

17 Q. Okay. Well, the record will show that. Do you
18 have any reason to disagree with that statement?

19 A. I am really not familiar with that personally.
20 I would not want to agree or disagree with it.

21 Q. Was it reported to you that she testified --

22 MS. BURAK: Your Honor, my discussions with
23 Mr. Baudino are protected by attorney/client privilege.

24 JUDGE CHESTNUT: I think he is not going to the
25 substance of your discussions with him. But I think he

1 is probing to see what Mr. Baudino's understanding of the
2 testimony given was so that he can see whether he has the
3 foundation to ask him a question.

4 MS. BURAK: Mr. Baudino was not present in the
5 courtroom yesterday.

6 JUDGE CHESTNUT: Why don't you just reword your
7 question?

8 BY MR. GORNISH:

9 Q. Are you aware or would you accept subject to
10 check that Ms. Bisgaier also testified that she is not
11 aware that PGW ever failed to meet its debt coverage?

12 A. If I can make sure I understand your question,
13 does the question go to my understanding that
14 Ms. Bisgaier testified that PGW never failed to meet its
15 bond requirements in the past?

16 Q. Yes.

17 A. I don't know if she testified to that or not.

18 Q. Would you accept subject to check that that is
19 what she testified?

20 JUDGE CHESTNUT: Why don't you just ask him if he
21 knows that it has happened?

22 BY MR. GORNISH:

23 Q. Do you have any reason to disagree with that?

24 A. That the company did not ever --

25 Q. Yes.

1 A. I don't know if the company has never failed to
2 meet its requirements. What I do know is that in
3 Ms. Bisgaier's testimony, or attached to it, is a bond
4 rating report which indicates that the company has been
5 able to in the past make some sort of one-time
6 adjustments to meet its coverage ratios.

7 Q. Well, good. I would like to just turn to that
8 if we could.

9 A. If I may continue with my answer?

10 Q. Oh, I'm sorry.

11 A. Something just occurred to me. It was
12 interesting to me that the bond rating report mentioned
13 that they were one-time adjustments that the company had
14 to make, one-time sort of short-term adjustments, in
15 order to meet those technical coverages. Nevertheless
16 Standard & Poor's still noted that the company suffered
17 from historically weak interest coverages, presumably
18 based on itself own calculations.

19 Q. Is it your testimony that Standard & Poor's was
20 accepting coverages less than 1.5?

21 A. May I have a moment to check that, please?

22 Q. Yes. In fact, I would like to you to look at,
23 if you have that, the Standard & Poor's report that you
24 are referring to.

25 A. Okay. I will get that.

1 (Witness perusing document.)

2 A. I can respond to your question.

3 If you look at the second page of the Standard &
4 Poor's report there are some actual debt service coverage
5 ratios reported, actual debt service coverage ratios
6 reported that are less than 1.5, if that is what you are
7 referring to.

8 Now, I think your question was was Standard &
9 Poor's accepting it. I don't know if they accepted it.
10 They did report it. For example, the report notes debt
11 service coverage in fiscal 1999 of all revenue bonds as
12 1.11 times with estimated fiscal 2000 results generating
13 1.31 times debt service coverage. And it goes on to
14 include coverage of all fixed payments and so forth.
15 Coverage of all if fixed payments, minimal, 1.01 times
16 for '99, fiscal 2000, 1.2 times.

17 Q. Right. If you look at the top of that page,
18 about the fourth line down, starting with the fourth line
19 down, isn't Standard & Poor's calculating these coverages
20 after the 18 million transfer to the city?

21 A. I am looking at the fourth line.

22 Q. It says while 1.5 coverage is sound. Do you
23 see that?

24 A. Yes. Okay. Starting there?

25 Q. Right.

1 (Witness perusing document.)

2 A. Yes.

3 Q. And would you agree that the method set forth
4 in the bond ordinances is exclusive, the 1.5 coverage is
5 exclusive of the 18 million transfer to the city?

6 A. Yes. I think the important point here is what
7 we are talking about is bond rating agency requirements
8 and how they rate the bonds. You know, what they are
9 looking at may well be different from the technical
10 requirements of the covenant that you are referring to.

11 Q. But Ms. Bisgaier's testimony goes to the fact
12 that it would be detrimental, very detrimental, to the
13 company if it did not meet its bond covenants in the
14 ordinance, isn't that correct?

15 A. It is my understanding that is her opinion.

16 Q. And you disagree with that?

17 A. I think -- no, I don't necessarily. I don't
18 think it would be viewed positively by the rating
19 agencies. What I disagree with is that it would
20 automatically trigger a bond downgrading. I don't think
21 anybody knows that. It may well not for the reasons I
22 said earlier.

23 This Commission has required -- this Commission is
24 looking at the gas cost recovery mechanism. Assuming
25 that the Commission grants -- finds a level of gas cost

1 that is prudent, I have every reason to expect that the
2 Commission will grant that in full. Then looking at
3 2001, the Commission has required that the company come
4 in for a permanent base rate increase. I am assuming
5 that the company is going to comply with that and do
6 that. And my point is that Standard & Poor's, Moody's,
7 any agency you want to look at, again, not only looks at
8 current data, it looks at prospects for improvement in
9 the future. And I think one positive thing is if the
10 company files a base rate case it has got at least on the
11 table an opportunity to address through permanent rates
12 an increase and improvement in its coverages that way.

13 Q. In that long speech you mentioned the GCR case.
14 Will that have any impact on bond coverage?

15 A. It will not have any impact on bond coverage.

16 Q. And just one other question. Have you ever
17 acted as a bond advisor to a utility?

18 A. No. But I have been involved in many cases on
19 behalf of our firm regarding rate of return on equity and
20 on the issues associated with that. One of the big
21 issues, of course, is debt coverage and what bond rating
22 agencies require both in terms of qualitative and
23 quantitative requirements. So I have had a lot of
24 experience with that.

25 Q. And I take it if you have not been a bond

1 advisor to a utility you haven't been a bond advisor to a
2 municipal utility?

3 A. No.

4 Q. Your prior experience was with respect to
5 municipal utilities?

6 A. No. Investor owned.

7 Q. Page 12.

8 A. I have that.

9 Q. Lines four to six.

10 A. Yes.

11 Q. If I understand what you are saying there, it
12 is that a loan from the city or a temporary deferral of
13 the \$18 million payment would prevent a downgrade?

14 A. No, that is not correct. That is not what my
15 testimony is.

16 Q. That is not what you are saying?

17 A. No.

18 MR. GORNISH: Thank you. I have no further
19 questions.

20 JUDGE CHESTNUT: Thank you.

21 Do you have any redirect?

22 MS. BURAK: Could I have a moment, Your Honor?

23 JUDGE CHESTNUT: Sure.

24 MS. BURAK: Thank you.

25 (Pause.)

1 MS. BURAK: Your Honor, I just have short redirect.

2 REDIRECT EXAMINATION

3 BY MS. BURAK:

4 Q. Mr. Baudino, would you agree with me that the
5 requirements for an investor-owned utility are sometimes
6 less stringent than those for a municipal utility?

7 A. I think it is the other way around. I have not
8 had -- as Counsel brought out, I have not had experience
9 with municipal utilities in really evaluating bond rating
10 reports with respect to municipal utilities. But I have
11 had a lot of experience reviewing bond reports and credit
12 reports for investor owned utility companies. One thing
13 I noticed with respect to the report for Standard &
14 Poor's is that really the requirement to maintain a BBB
15 rating is less stringent in terms of debt service
16 coverage than it would be for an investor owned company
17 based on my experience. That would be the only thing. I
18 mean, they seem to accept lower coverages.

19 As I noted, as this bond rating agency report
20 notes, in the past these coverages have been below 1.5
21 times when you factor in all of the aspects of debt
22 service coverage. And based on my experience that would
23 be something like an 1.1 rating, 1.1 times coverage
24 ratio, 1.3 times coverage ratio, 1.2 coverage ratio, will
25 not in most cases be sufficient to support a BBB rating

1 for an investor owned gas company or an investor owned
2 electric company.

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

4 JUDGE CHESTNUT: Any recross?

5 MR. GORNISH: No, Your Honor.

6 JUDGE CHESTNUT: Thank you.

7 Thank you very much, Mr. Baudino. You are excused.

8 (Witness excused.)

9 MR. GORNISH: Your Honor, may I move into evidence
10 PGW Cross-Examination Exhibit No. 4?

11 JUDGE CHESTNUT: Any objection?

12 (No audible response.)

13 JUDGE CHESTNUT: The document is admitted.

14 (Whereupon, the document marked as PGW
15 Cross-Exam. Exhibit No. 4 was received in
16 evidence.)

17 JUDGE CHESTNUT: That takes us to Mr. Weakley.

18 MR. SIMMS: If it pleases Your Honor, I was going
19 to have Mr. Metro testify first.

20 JUDGE CHESTNUT: Okay.

21 Whereupon,

22 PAUL METRO

23 having been duly sworn, testified as follows:.

24 JUDGE CHESTNUT: Please sit down and state and
25 spell your name for the record.

1 THE WITNESS: My name is Paul Metro, M-E-T-R-O.

2 MR. SIMMS: Your Honor, at this time I will ask
3 that Mr. Metro's direct testimony be marked for
4 identification as OTS Statement No. 2.

5 JUDGE CHESTNUT: Okay. Does he have any changes?

6 MR. SIMMS: I was going to make one change.

7 JUDGE CHESTNUT: Okay.

8 MR. SIMMS: On the prefiled copy his exhibit should
9 be marked for identification as OTS Exhibit No. 2.

10 JUDGE CHESTNUT: Okay.

11 DIRECT EXAMINATION

12 BY MR. SIMMS:

13 Q. Mr. Metro, do you have any corrections or
14 additions to make to your exhibits or your direct
15 testimony?

16 A. Yes, I do have one modification. It is on page
17 ten, beginning on line five. The sentence beginning
18 second should be eliminated. And subsequent to that on
19 line two the words for two reasons eliminated. And the
20 next word first should be eliminated.

21 And then on Exhibit No. 2 there are three schedules
22 and each schedule should say Exhibit No. 2 on the top.

23 That is all I have.

24 MR. SIMMS: Your Honor, with the noted corrections
25 I ask that OTS Statement No. 2 and OTS Exhibit No. 2 be

1 admitted into the record subject to cross-examination.

2 JUDGE CHESTNUT: Any objection?

3 (No audible response.)

4 JUDGE CHESTNUT: The documents are admitted.

5 (Whereupon, the documents were marked as OTS
6 Statement No. 2 and Exhibit No. 2 for
7 identification, and were received in evidence.)

8 JUDGE CHESTNUT: Mr. Clearfield or Mr. Gornish?

9 MR. CLEARFIELD: Thank you, Your Honor. I will ask
10 Mr. Metro a few questions.

11 CROSS-EXAMINATION

12 BY MR. CLEARFIELD:

13 Q. Good morning, Mr. Metro.

14 A. Good morning.

15 Q. Mr. Metro, if I understand your testimony
16 correctly you recommend to the Commission that it
17 consider in determining the level of interim rate relief
18 for PGW your projected additional increase in gas
19 commodity costs that you have testified to in your
20 testimony here and also in the GCR proceeding, is that
21 right?

22 A. That's correct.

23 Q. And at the time that you testified it was \$62
24 million, I believe?

25 A. Yes, 62,721,752.

1 Q. And because of that number, that formed the
2 basis or it contributed to the OTS I think in
3 Mr. Weakley's recommendation of an interim rate increase
4 because of the cashflow implications of that additional
5 gas cost?

6 A. That's correct. Mr. Weakley used the
7 additional \$62 million in his cashflow analysis.

8 Q. Have you had occasion to review PGW Witness
9 White's rebuttal testimony that he filed yesterday in the
10 GCR case?

11 A. No, I have not.

12 Q. Would you accept subject to check that his
13 calculation using slightly more current data for NYMEX
14 shows that the gas costs need to be increased by \$79
15 million to reflect current projections?

16 A. I hate to agree to anything on subject to
17 check. I have run some gas cost projections when I was
18 at my office on Monday and 79 would be in the ballpark.

19 Q. My question is really fairly simple. Would I
20 be correct in concluding that it is your testimony that
21 whatever those levels turn out to be that are in fact
22 reflected in the GCR it is those levels that the
23 Commission should consider in determining the interim
24 rate increase that the company should be awarded?

25 A. Yes. It is my testimony that the gas costs

1 should be updated by the close of the record and whatever
2 those levels are, they are.

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

4 JUDGE CHESTNUT: Any redirect?

5 MR. SIMMS: No, Your Honor.

6 JUDGE CHESTNUT: Thank you very much, Mr. Metro.

7 You are excused.

8 THE WITNESS: Thank you.

9 (Witness excused.)

10 MR. SIMMS: At this time OTS calls to the witness
11 stand Charles Weakley.

12 Whereupon,

13 CHARLES WEAKLEY

14 having been duly sworn, testified as follows:

15 JUDGE CHESTNUT: Please sit down and give and spell
16 your name for the record -- can we take a short break for
17 two or three minutes?

18 (Recess.)

19 JUDGE CHESTNUT: Can we resume here?

20 MR. SIMMS: Your Honor, at this time I ask that
21 Mr. Weakley's direct testimony be marked for
22 identification as OTS Statement No. 1 and his exhibit be
23 marked for identification as OTS Exhibit No. 1.

24 JUDGE CHESTNUT: That will be so marked.

25 (Whereupon, the documents were marked as OTS

1 Statement No. 1 and Exhibit No. 1 for
2 identification.)

3 DIRECT EXAMINATION

4 BY MR. SIMMS:

5 Q. Mr. Weakley, do you have any corrections or
6 additions to make now either to your direct testimony or
7 to your exhibits?

8 A. Yes, I do.

9 Q. Please proceed.

10 A. On page seven of the direct testimony, line 12,
11 the word write-off should be stricken and substituted bad
12 debt.

13 On line 13 strike actual net write-offs to gross
14 revenue and insert bad debt expense to build gas revenue.

15 On the same line, strike write-off and insert bad
16 debt.

17 And also on line 16 strike write-off and insert bad
18 debt.

19 That's all the corrections.

20 MR. SIMMS: Your Honor, with the noted corrections
21 I would ask for the admission of OTS Statement No. 1 and
22 OTS Exhibit No. 1 into the record subject to
23 cross-examination.

24 JUDGE CHESTNUT: Any objection?

25 (No audible response.)

1 JUDGE CHESTNUT: The documents are admitted.

2 (Whereupon, the documents marked as OTS

3 Statement No. 1 and Exhibit No. 1 were received
4 in evidence.)

5 JUDGE CHESTNUT: And when you give your statements
6 and exhibits to the court reporter make sure they are
7 corrected.

8 Mr. Clearfield.

9 MR. CLEARFIELD: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. CLEARFIELD:

12 Q. Good morning, Mr. Weakley.

13 A. Good morning.

14 Q. Mr. Weakley, you have recommended that the PUC
15 award PGW an interim rate increase of \$27.5 million, I
16 believe?

17 A. That's correct.

18 Q. And your schedules attached to your testimony
19 show the coverages that are produced by your
20 recommendation?

21 A. That is Schedule 3.

22 Q. I was just going to say that. Schedule 3.

23 That shows for the 1975 ordinances a coverage of
24 2.5 times and for the 1998 a coverage of 2.38 times. Do
25 you see that?

1 A. That's correct.

2 Q. That is higher than the minimum coverages that
3 are required under the ordinances, isn't it?

4 A. Yes, it is.

5 Q. So do I take it from that that you believe it
6 appropriate that the interim rate increase be set at a
7 level to provide for somewhat of a cushion?

8 A. It turns out to be a slight cushion.

9 Q. And that is appropriate?

10 A. In my opinion, yes.

11 Q. Your testimony on the bad debt expense, you
12 recommend, I believe, a 7.3 percent factor -- 7.4 rounded
13 -- and that was based on the last five years of
14 experience for PGW, is that right?

15 A. It was based on the period 1994 through 1998.

16 Q. So it wasn't the last five years? It was a
17 historic period?

18 A. Yes. I eliminated 1999 and 2000 due to the
19 company's billing problems.

20 JUDGE CHESTNUT: I'm sorry. Due to the company's
21 what?

22 THE WITNESS: Billing problems.

23 BY MR. CLEARFIELD:

24 Q. With respect to that period you would agree,
25 wouldn't you, that that was a period of relatively stable

1 gas rates for the company?

2 A. Yes.

3 Q. And unfortunately we are going to be in a
4 period now where gas rates are going to be increasing
5 rather dramatically, isn't that right?

6 A. Yes.

7 Q. Would you also agree that in periods when
8 utility rates, gas rates particularly, are increasing the
9 percentage of uncollectibles does in fact tend to grow?

10 A. I have seen a slight growth in the expense,
11 yes.

12 Q. So that in terms of this incremental increase
13 it would not surprise you to see a bad debt expense as a
14 percentage of the revenue that would be greater than this
15 average that you used? Would that be fair?

16 (Pause.)

17 Q. Or to the extent that you have seen the same
18 kind of growth in periods of extensive rate increases?

19 A. When I talk about a slight increase, I am only
20 talking hundredths of a percentage. So it would not vary
21 that much.

22 Q. What data have you examined just generally that
23 led you to that conclusion?

24 A. It is based on my experience and review of
25 approximately 100 base rate cases.

1 Q. Did you have occasion to review Schedule 2 of
2 Exhibit 1.3 that Mr. Knudsen submitted in his rebuttal
3 testimony?

4 (Pause.)

5 Q. Just to refresh your recollection, that is the
6 schedule that showed PGW's experience with respect to bad
7 debts in the period 1978 to 1984.

8 A. I have that.

9 Q. And can we agree that this in fact is a period
10 in which customers experienced rapidly increasing gas
11 rates generally?

12 A. There was an increase in gas rates along with
13 do you believe digit inflation. If you are going to
14 compare this period with the current day, you can't do
15 that.

16 Q. Why not?

17 A. Because it was a different environment. You
18 have a different set of ratepayers. It would not be an
19 accurate comparison.

20 Q. Fair enough, Mr. Weakley. But the increase
21 there that you see is going to be greater than a basis
22 point or two, isn't it? The increase in the bad debt as
23 a percentage of revenue, it goes from 2.17 to 4.85. That
24 is some 250 basis points.

25 A. For that period, yes. You don't see those kind

1 of increases in recent years.

2 Q. You don't see 30 percent increases very often?

3 A. No.

4 Q. But we have a potential 30 percent increase
5 facing us in the PGC case now?

6 A. But there is not a linear correlation between
7 bad debt and increases.

8 Q. You think there is some increase, you just
9 don't think it is as big as what Mr. Knudsen testified
10 to?

11 A. That's correct. In his rebuttal he estimates
12 uncollectibles to increase by 40 percent and I don't
13 agree with that.

14 Q. Increase 20 percent? I'm sorry. I didn't hear
15 that.

16 A. Forty percent. \$20 million.

17 Q. From the prior calculation?

18 A. Yes.

19 Q. Let's go to another issue. When you calculated
20 the increase that would produce the coverages that you
21 show on your Schedule 3 you used the company's
22 calculation -- you started with the company's calculation
23 of net income, didn't you?

24 A. Yes, I did.

25 Q. And that includes the company's projection of a

1 goal to decrease expenses by some \$14 million, doesn't
2 it?

3 A. Yes, it does.

4 Q. Now, again, we don't want to belabor the point
5 but if in fact one concluded that those expense savings
6 were not going to occur, were not going to occur to the
7 same degree that the company included in their earnings
8 projection, all other things being equal your net
9 earnings would be lower, wouldn't they?

10 A. Under that scenario they would be.

11 Q. And the coverages would be lower that you
12 calculated as well?

13 A. Yes.

14 Q. So, again, all other things being equal you
15 would have to recommend an additional amount over the
16 \$27.5 million just to maintain those coverage goals, if
17 you will?

18 A. Under the hypothetical, that's correct.

19 Q. Mr. Weakley, did you test your results, that
20 is, the recommendation of \$27.5 million increase, on a
21 cashflow basis to determine the level of cash that would
22 be produced by that recommendation?

23 A. On a monthly basis?

24 Q. Or on the basis that Mr. Knudsen and Mr. LeLash
25 have discussed and submitted in their testimony, that is,

1 a monthly basis for the fiscal year and it shows the end
2 year as well.

3 A. On Schedule 2 it shows the sources and uses for
4 the year ending August 31, 2001.

5 Q. And your recommendation, I think, shows that
6 you would have about a two-and-a-half million dollar
7 ending balance?

8 A. Ending cash balance.

9 Q. And do you believe that that is an appropriate
10 factor for the Commission to consider when it is
11 determining the level of interim rates that the company
12 should be awarded?

13 A. For purposes of this proceeding, yes.

14 Q. Have you had occasion to compare the
15 demographics of PGW to other utilities that are regulated
16 by the PUC? That is, the number of residential
17 customers, the number of customers who fall below the
18 poverty level, those kinds of issues.

19 A. No, I have not done such a study.

20 Q. Would you agree that they would have an effect
21 on the percentage of uncollectibles, bad debt expense,
22 that a utility would experience?

23 A. There may be some effect. I have not done a
24 study.

25 Q. Well, for example, you would expect that a

1 company that has more residential customers would likely
2 have more bad debt expense, wouldn't you?

3 (Pause.)

4 Q. Not sure?

5 A. I don't know.

6 Q. How about a company that has a greater
7 percentage of low income customers?

8 A. Just the fact that they are low income does not
9 mean they don't pay their bills.

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

11 JUDGE CHESTNUT: Any redirect?

12 MR. SIMMS: No, Your Honor.

13 JUDGE CHESTNUT: Thank you very much, Mr. Weakley.
14 You are excused.

15 (Witness excused.)

16 MR. SIMMS: Your Honor, at this time OTS calls to
17 the witness stand Andrew O'Donnell.

18 Whereupon,

19 ANDREW O'DONNELL

20 having been duly sworn, testified as follows:

21 JUDGE CHESTNUT: Please sit down and state and
22 spell your name for the record.

23 THE WITNESS: My name is Andrew O'Donnell,
24 O-'-D-O-N-N-E-L-L.

25 MR. SIMMS: Your Honor, at this time I ask that Mr.

1 O'Donnell's direct testimony be marked for identification
2 as OTS Statement No. 3 and that his exhibit be marked for
3 identification as OTS Exhibit No. 3.

4 JUDGE CHESTNUT: It will be so marked.

5 (Whereupon, the documents were marked as OTS
6 Statement No. 3 and Exhibit No. 3 for
7 identification.)

8 DIRECT EXAMINATION

9 BY MR. SIMMS:

10 Q. Mr. O'Donnell, do you have any corrections to
11 either your direct testimony or your exhibit?

12 A. No.

13 MR. SIMMS: Your Honor, at this time I move into
14 evidence OTS Statement No. 3 and OTS Exhibit No. 3
15 subject to cross-examination.

16 JUDGE CHESTNUT: Any objection?

17 (No audible response.)

18 JUDGE CHESTNUT: The documents are admitted.

19 (Whereupon, the documents marked as OTS
20 Statement Nol 3 and Exhibit No. 3 were received
21 in evidence.)

22 JUDGE CHESTNUT: Mr. Clearfield?

23 MR. CLEARFIELD: No questions, Your Honor.

24 JUDGE CHESTNUT: Okay. Thank you very much,

25 Mr. O'Donnell.

1 (Witness excused.)

2 JUDGE CHESTNUT: That brings us to Ms. Jones.

3 MS. JONES: Your Honor, the parties have stipulated
4 to the testimony of OSBA Witness Brian Kalcic. It should
5 be filed and marked as OSBA Statement No. 1 as well as
6 OSBA Exhibit No. 1, and we would move those documents to
7 be admitted into the record.

8 JUDGE CHESTNUT: They are admitted.

9 (Whereupon, the documents were marked as OSBA
10 Statement No. 1 and Exhibit No. 1 for
11 identification, and were received in evidence.)

12 JUDGE CHESTNUT: Is there anything else, then, in
13 terms of today?

14 MR. SIMMS: Yes, Your Honor. With the Court's
15 indulge I would like to make the corrections to the
16 copies that were given to the court reporter.

17 JUDGE CHESTNUT: Okay. Just make sure you give him
18 the corrected copies.

19 I guess that wraps it up, then, in terms of the
20 hearings at this docket. I will be issuing a
21 certification order probably Monday or Tuesday next week
22 once I get the transcripts so I know how many pages to
23 plug into the order. That contains a history of the
24 proceedings, a listing of the testimony and statements
25 and certifies the record to the Commission. What I will

1 do is I will E-mail that testimony listing to all of you
2 so if there are any changes or corrections to be made
3 please let me know.

4 I think I told you about the briefing requirements
5 in one of my prehearing orders. I suggest that you also
6 review the Commission's regulations relating to filing of
7 briefs and contents because they also apply even if they
8 were not specifically identified.

9 I am not going to issue a separate briefing order
10 but probably the certification order just to be obsessive
11 I will repeat the filing requirements for the briefs in
12 case anybody has lost their prior order or didn't read
13 it.

14 Is there anything else, then? I guess we will
15 adjourn until tomorrow for the Public Input Hearing
16 scheduled to be held here at 11 o'clock.

17 I think you all notified me who is going to attend.
18 Mr. Simms, you are going to be here.

19 MR. SIMMS: Mr. Hoffman has agreed to do that.

20 JUDGE CHESTNUT: Mr. Bertocci, you are going to be
21 here?

22 MR. BERTOCCI: Yes.

23 JUDGE CHESTNUT: Ms. Jones?

24 MS. JONES: Myself and the Small Business Advocate,
25 Mr. Ryan.

1 JUDGE CHESTNUT: Okay.

2 Ms. McCloskey?

3 MS. McCLOSKEY: Mr. Keene and the Consumer
4 Advocate, Sonny Popowsky, will be here.

5 JUDGE CHESTNUT: And for the company?

6 MR. CLEARFIELD: I will be attending, Your Honor.

7 JUDGE CHESTNUT: And?

8 MR. CLEARFIELD: And Mr. Fyock. And I'm just not
9 sure about Mr. Knudsen. And several people from our
10 consumer services bureau. I will give you their names.

11 JUDGE CHESTNUT: Okay. If you want to talk to me
12 about that in terms of the logistics and setting up that
13 would be fine.

14 Thank you very much. This hearing is adjourned
15 until tomorrow.

16 (Whereupon, at 12:02 p.m., the hearing was
17 adjourned, to be reconvened at 11:00 a.m., on Friday,
18 September 29, 2000, in Philadelphia, Pennsylvania.)

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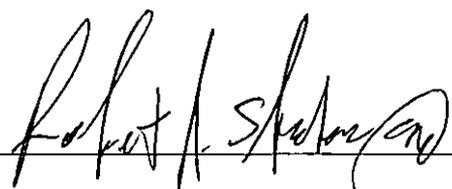
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C E R T I F I C A T E

1
2 I hereby certify, as the stenographic reporter,
3 that the foregoing proceedings were taken
4 stenographically by me and thereafter reduced to
5 typewriting by me or under my direction; and that this
6 transcript is a true and accurate record to the best of
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