

OCA Statement No. 1

9/28/00

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BEFORE THE PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
DOCKET NO. R-00005654

**DOCKETED**  
OCT 10 2000

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IN THE MATTER OF THE FILING OF  
PHILADELPHIA GAS WORKS  
CONCERNING AN  
INTERIM BASE RATE INCREASE

DIRECT TESTIMONY OF  
RICHARD W. LELASH  
ON BEHALF OF THE  
OFFICE OF CONSUMER ADVOCATE

DOCUMENT  
FOLDER

SEPTEMBER, 2000

PHILADELPHIA GAS WORKS  
DOCKET NO. R-00005654  
TESTIMONY OF RICHARD W. LELASH

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1 I. STATEMENT OF QUALIFICATIONS

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE  
3 RECORD.

4 A. My name is Richard W. LeLash and my business address is 18 Seventy Acre Road,  
5 Redding, Connecticut.

6 Q. WHAT IS YOUR CURRENT BUSINESS AFFILIATION?

7 A. I am an independent financial and regulatory consultant working on behalf of several  
8 state public utility commissions and consumer advocates.

9 Q. PRIOR TO YOUR WORK AS AN INDEPENDENT CONSULTANT, WHAT WAS  
10 YOUR BUSINESS AFFILIATION, AND WHAT WAS YOUR REGULATORY  
11 EXPERIENCE?

12 A. I was a principal with the Georgetown Consulting Group for twenty years. While  
13 working with Georgetown, I testified on cost of service, rate of return, and regulatory  
14 policy issues in more than 200 regulatory proceedings. These testimonies were  
15 presented before the Philadelphia Gas Commission, the Federal Energy Regulatory  
16 Commission and in the following jurisdictions: Alabama, Arizona, Colorado,  
17 Delaware, District of Columbia, Georgia, Illinois, Kansas, Maine, Maryland,

1 Minnesota, Missouri, New Jersey, New Mexico, New York, Ohio, Oklahoma,  
2 Pennsylvania, Rhode Island, U.S. Virgin Islands, and Vermont. Details concerning  
3 my recent testimonies are included in the Appendix section of this testimony.

4 Q. PRIOR TO JOINING GEORGETOWN, WHAT WAS YOUR BUSINESS  
5 EXPERIENCE?

6 A. For approximately five years I was employed by PepsiCo, Inc. in a series of  
7 positions. I began work as a Senior Business Planner on the corporate staff and then  
8 transferred to the Pepsi-Cola Company where I was Manager of Financial Services  
9 and later Director of Financial Services. I also served as Director of Financial  
10 Planning and Analysis for the Pepsi-Cola Bottling Group and as Vice-President of  
11 Finance for the Pepsi-Cola Equipment Corp.

12 Q. COULD YOU BRIEFLY DESCRIBE SOME OF THE DUTIES ASSOCIATED  
13 WITH THESE VARIOUS POSITIONS?

14 A. As a member of the corporate staff I was responsible for evaluating the performance  
15 of PepsiCo's *Transportation Division*. My work also included evaluating and  
16 negotiating company acquisitions.

17 My positions in finance with various Pepsi-Cola operations involved capital  
18 expenditure evaluation and budgeting, financial analysis, profit planning, financial

1 reporting, and strategic planning. As Vice-President of Finance, I was responsible  
2 for all financial operations of the Pepsi-Cola Equipment Corp., a subsidiary of  
3 PepsiCo, Inc. My responsibilities as Vice-President included all accounting and data  
4 processing functions as well as portfolio management.

5 Q. PRIOR TO JOINING PEPSICO, WHAT WAS YOUR WORK EXPERIENCE?

6 A. For five years I was employed by Touche Ross & Co. in its Management Services  
7 Division. While at Touche Ross & Co. I was a Project Manager and worked on a  
8 broad range of consulting engagements. In addition to general financial and  
9 accounting engagements, I was involved to a considerable degree in utility  
10 regulation.

11 Q. COULD YOU SUMMARIZE SOME OF YOUR REGULATORY WORK WHILE  
12 AT TOUCHE ROSS?

13 A. While with Touche Ross, I analyzed utility filings and assisted in preparing testimony  
14 in approximately twelve state jurisdictions. I also worked for five city regulatory  
15 authorities, the Civil Aeronautics Board, and the Federal Communications  
16 Commission. In total, I was involved in about 40 rate investigations involving water,  
17 electric, bus transit, sewer, gas, telephone, airline, and cable utilities. My work

1 involved rate of return, accounting, and tariff design for the majority of these utility  
2 groups.

3 Q. MR. LELASH, WHAT IS YOUR EDUCATIONAL BACKGROUND?

4 A. I graduated in 1967 from the Wharton School with a BS in Economics and in 1969  
5 from the Wharton Graduate School with an MBA.

6 Q. HAVE YOU WORKED WITH ANY PROFESSIONAL GROUPS OR  
7 ORGANIZATIONS?

8 A. Yes. During the past thirty years I have been a member of and have worked with  
9 various professional and trade organizations. I have conducted lectures and seminars  
10 involving economic, financial, regulatory, and accounting topics such as return on  
11 investment, cash forecasting, planning, cost accounting, project and cost control, and  
12 accounting systems. Additionally, I serve as the President and Trustee of a private  
13 foundation where my responsibilities include managing the foundation's overall  
14 operations.

15 Q. DO YOU HAVE ANY SPECIFIC EXPERIENCE WITH RESPECT TO THE  
16 OPERATIONS OF PGW?

1 A. Yes, I have participated and provided testimony for the Public Advocate in all of  
2 PGW's Gas Cost Rate (GCR) proceedings and in other related matters since 1990.

3 Q. DO YOU HAVE ANY SPECIFIC EXPERIENCE WITH RESPECT TO NATURAL  
4 GAS COST RECOVERY AND THE RESTRUCTURING OF NATURAL GAS  
5 DISTRIBUTION COMPANIES IN PENNSYLVANIA?

6 A. Yes, I have worked on and testified on behalf of the Pennsylvania Office of  
7 Consumer Advocate concerning gas cost recovery for seven of the Pennsylvania gas  
8 distribution companies in about a dozen 1307(f) proceedings. I also analyzed and  
9 presented testimony concerning the restructuring filings of Columbia and PECO  
10 Energy.

1 II. SCOPE AND PURPOSE OF TESTIMONY

2 Q. WOULD YOU PLEASE STATE THE SCOPE AND PURPOSE OF YOUR  
3 TESTIMONY IN THIS PROCEEDING?

4 A. I was hired by the Office of Consumer Advocate ("OCA") to review the Interim Base  
5 Rate filing made by the Philadelphia Gas Works ("PGW" or "Company") and  
6 evaluate the requested rate increase in the context of established regulatory standards.

7 The purpose of my testimony is to present findings and recommendations to  
8 the Public Utility Commission ("PUC" or "Commission") concerning rate issues  
9 raised by the filing, PGW's on-going level of service, and the appropriate rate setting  
10 standards which should be followed in this interim proceeding.

11 Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA SOURCES  
12 DID YOU UTILIZE?

13 A. My review and analysis encompassed the Company's filing, responses to discovery  
14 requests, and information provided during discovery meetings. I also utilized  
15 information provided in previous proceedings before the Philadelphia Gas  
16 Commission ("PGC") and general data concerning the operations and financial  
17 condition of PGW.

1 Q. WERE THERE ANY LIMITATIONS PLACED ON THE CONDUCT OF YOUR  
2 REVIEW?

3 A. It should be recognized that because of billing problems, there were certain  
4 limitations associated with the Company's revenue reporting. In all instances, my  
5 review utilized the data provided by the Company and no attempt was made to verify  
6 or validate the accuracy of the underlying data or estimates given the expedited  
7 nature of this proceeding. Also, with the passage of Natural Gas Choice and  
8 Competition Act, there are several rate related issues which are subject to legal  
9 interpretation. My testimony addresses such issues based on regulatory practice  
10 rather than from a legal perspective, and where necessary, legal conclusions were  
11 developed through consultation with counsel.

12 Q. WHAT IS YOUR UNDERSTANDING OF THE STANDARD TO BE APPLIED  
13 FOR DETERMINING RATE RELIEF IN THIS PROCEEDING?

14 A. I have been advised by Counsel that this is a unique proceeding and that the  
15 appropriate standard should be that which was contained in the Commission's  
16 August 17, 2000 Order Establishing Interim Rate Proceedings, Docket No.  
17 P-00001831:

18 " . . . PGW must present substantial evidence to support its assertion  
19 that an interim rate increase is necessary to maintain a minimal,  
20 adequate level of financial health required to fund operations and meet  
21 debt service requirements through the winter heating season until the  
22 Commission can conduct and rule on a full base rate proceeding. In  
23 particular, PGW must present substantial evidence to support its  
24 assertion that an interim rate increase is necessary for PGW to comply  
25 with its covenants to the holders of any approved bonds."

1 III. SUMMARY OF FINDINGS AND RECOMMENDATIONS

2 Q. BASED ON YOUR INVESTIGATION CONCERNING THE INTERIM RATE  
3 REQUEST FOR PGW, WHAT ARE YOUR FINDINGS AND  
4 RECOMMENDATIONS IN THIS PROCEEDING?

5 A. As a result of my review and analysis, I submit the following findings and  
6 recommendations:

7 1. To a large degree, PGW's current financial position can be attributed to the  
8 milder than normal weather experienced during the past three winters. As a  
9 result of this weather, PGW did not fully recover its fixed costs, and that has  
10 led to more debt financing and working capital shortages. While the weather  
11 clearly has been beyond the Company's control, the Company and its owner's  
12 failure to acknowledge PGW's deteriorating financial condition has not. To  
13 the degree there is a current financial crisis, it is of PGW's own making.  
14 Established regulatory remedies were available, and the Company, for as yet  
15 unspecified reasons, did not seek rate adjustments.

16 2. What also has not been beyond the Company's control has been the level of  
17 service being provided to its customers. Recent studies have shown that the

1 Company's customer service levels, its internal accounting and management  
2 systems, and the maintenance of its distribution system have been inadequate.  
3 Thus, regardless of any showing of a revenue deficiency by the Company, the  
4 Commission must assess whether or not increased rates are warranted under  
5 the provisions of Section 526 of the Public Utility Code. With the established  
6 regulatory benchmark that utilities must provide safe and adequate service,  
7 and with the corollary that rates appropriately follow service, any PGW rate  
8 request, whether interim or permanent, could be denied based on existing  
9 service deficiencies.

10 3. The Company has cited the cash flow method of rate setting as the underlying  
11 foundation of its revenue deficiency claim. Given that this is a hybrid  
12 proceeding to establish interim rates, it is unclear whether a cash flow rate  
13 setting method is required, or for that matter, even justified. By progressive  
14 steps the cash flow method would have this Commission set rates to ensure  
15 the fulfillment of PGW's bond covenants, underwrite a dividend payment to  
16 its owner, the City of Philadelphia ("City"), and finally, relieve its owner of  
17 any responsibility to ensure the adequate financing of the operation. The  
18 Commission should not accept the Company's reliance on the cash flow  
19 method of rate setting in this interim proceeding, but rather, it should consider

1 the interests of PGW's ratepayers, the owner's failure to effectively manage  
2 the operation for many years, and the current inadequate service being  
3 provided when it determines the level, if any, of rate relief.

4 4. With respect to the requested \$52.0 million rate increase, the Company has not  
5 meaningfully considered other alternatives which would implicitly take into  
6 account the fact that PGW ratepayers already are facing the prospect of almost  
7 a \$100.0 million rate increase as a result of the escalating cost of gas. Such  
8 alternatives would include obtaining a temporary cash advance from the City  
9 which is provided for under the Management Agreement and seeking a waiver  
10 by the City to forego this year's annual payment of \$18.0 million or, absent  
11 that, having the City pledge to provide up to \$18.0 million in project revenues.  
12 Likewise, the Company could investigate the feasibility of improving its  
13 financial position by identifying any overfunding of pension liabilities, cash  
14 flow flexibility associated with its sinking funds, or working capital  
15 reductions associated with asset management contracts for its gas storage  
16 requirements.

17 5. At this time, any interim rate increase authorized should follow the standards  
18 set forth in the Commission Order in Docket No. P-00001831. These

1 standards may provide additional revenues to allow the maintenance of  
2 PGW's bond covenants. The Commission may also conclude that it must  
3 allow the payment of the City's annual payment. If the Commission decides  
4 to meet these two requirements, it should also specify that any further  
5 financial assistance made available to the Company should be provided,  
6 facilitated, or guaranteed by the City. Simply stated, the City should not be  
7 allowed to abrogate its ownership responsibilities by requiring PGW  
8 customers to pay ever increasing rates to obtain decreasing levels of service.

- 9 6. In making any interim rate determination, the Commission should reject the  
10 Company's claims for a weather adjustment for the potential of warmer than  
11 normal winter conditions and its adjustment for a prospective moratorium on  
12 the senior citizen discount program. The weather adjustment, which would  
13 lower expected operating revenues prospectively, is neither known nor  
14 definite. Indeed, there is an equal probability that Philadelphia will  
15 experience a colder than normal winter and would therefore have greater than  
16 estimated operating revenues. As for the senior citizen discount, any such  
17 change is uncertain in that it would have to be approved by the Philadelphia  
18 City Council ("City Council").

1           7.     If the Commission determines that PGW's service has been inadequate, or if  
2           it rejects the position that PGW's interim rates should be determined based on  
3           the cash flow method of rate setting as presented by the Company, then no  
4           interim rates should be authorized. Alternatively, if the Commission decides  
5           that the bond covenants and the City payment must be met, or the ratepayer  
6           interest warrants it, an interim rate increase of \$7.5 million should be  
7           approved subject to all conditions set forth in the Commission's August 17<sup>th</sup>  
8           Order. Under either of these alternatives, adequate earnings, coverage, and  
9           cash flow will be achieved if the City provides a temporary advance and  
10          necessary project revenue to PGW. Equally important, the Commission, in  
11          granting any interim rate relief, should make such relief contingent on a  
12          meaningful commitment and plan by PGW to remedy its inadequate service,  
13          and return its operation to acceptable operating standards.

1 IV. INTRODUCTION

2 Q. WOULD YOU PLEASE PROVIDE AN OVERVIEW OF PGW'S INTERIM  
3 FILING AND DESCRIBE HOW IT SHOULD BE ADDRESSED IN THIS  
4 PROCEEDING?

5 A. At a time when PGW is at a turning point in its operation, its ratepayers face the  
6 prospect of an unprecedented increase in their cost of service. The newly passed  
7 Natural Gas Choice and Competition Act (Act) has modified the Company's  
8 regulatory oversight and will require a restructuring of its operations and tariffs.  
9 Additionally, there is a management transition underway within PGW which seeks  
10 to reverse a downward trend which has brought the operation very close to financial  
11 peril. Unfortunately, at the same time, the competitive forces within the gas market  
12 have brought about a demand and supply imbalance which has dramatically increased  
13 the level and volatility of gas commodity costs.

14 As a result of these events, the regulation of PGW has become far more  
15 complex and problematical. The potential need for a revenue increase by way of an  
16 interim base rate increase or other means is directly affected by the need to recover  
17 far higher gas commodity costs. Thus, there is a very real regulatory paradox where  
18 increased rates are requested to improve service at a time when ratepayers,  
19 appropriately, believe they are already paying far too much for the service which now

1 is being provided. As a result, a fundamental regulatory principle is at issue. Do  
2 rates follow service or should service follow rates?

3 The regulatory process has consistently followed the principle that a utility  
4 operation is only entitled to rate increases if its service is adequate and reasonable.  
5 Such a principle enforces the requirement that, in providing a monopoly service,  
6 utility owners have a responsibility to maintain and operate the utility in the most  
7 efficient and reasonable manner possible. By statute, failure to fulfill these  
8 requirements can result in the withholding of rate relief. In effect, regulation requires  
9 that utility owners provide sufficient capital to fulfill the on-going obligation to serve.

10 Unfortunately, in the current case, PGW is seeking to transfer ownership  
11 obligations to the Company's ratepayers. While the City of Philadelphia is the direct  
12 owner and manager of the Company, its customers are being asked to provide needed  
13 "capital" to remedy a cash flow deficiency. Under traditional regulation, ratepayers  
14 are solely responsible for providing revenues to cover the cost of capital, not the  
15 capital itself. This then places the responsibility on the City either to provide capital  
16 or to facilitate the acquisition of additional debt.

17 Q. FROM A REGULATORY PERSPECTIVE, WHAT ACTIONS NEED TO BE  
18 TAKEN IN ORDER TO ENSURE THAT PGW OPERATES EFFICIENTLY IN  
19 THE FUTURE?

1 A. The utility's owner has already taken a major step in replacing senior management  
2 and providing direction to the new interim management to fix major deficiencies and  
3 restore PGW's financial integrity. To this end, the Company is now seeking an  
4 "interim" rate increase in order to meet its on-going budgeted expenditures and to  
5 stabilize its financial condition. As stated, in the case of an investor owned utility,  
6 it is probable that equity owners would expect to receive reduced dividends and to  
7 infuse additional capital into the operation if the utility were precluded from pursuing  
8 additional debt financing.

9           However, in light of provisions within the Act, the Company argues that  
10 regulatory authority in this interim proceeding may be constrained by two major  
11 limitations. First, it may be required that PGW be allowed "to impose, charge or  
12 collect rates and charges as necessary" to permit it to pay its owner, the City, an  
13 annual amount as specified by applicable city ordinances or agreements. Thus, the  
14 current \$18 million annual payment may be required unless waived by the City of  
15 Philadelphia. The second limitation involves the potential requirement that PGW be  
16 given the authority "to charge or collect rates or charges necessary . . . to comply with  
17 its covenants to the holders of any approved bonds."

18           Based on these provisions, the Company seeks to place revenue and cash flow  
19 responsibility solely on the Company's ratepayers. Accordingly, how base rates are  
20 set prospectively will be dependent upon how the Commission interprets the Act's

1 requirements with respect to interim rates at issue here, and in the longer term, for  
2 permanent base rates both before and after the Company's restructuring filing.

3 Q. GIVEN THE FACT THAT CURRENT GAS PRICES WILL REQUIRE MUCH  
4 HIGHER GAS COST RATE (GCR) CHARGES, IS THERE A NEED TO HOLD  
5 BASE RATES AS LOW AS POSSIBLE TO LESSEN THE OVERALL IMPACT  
6 ON CUSTOMERS?

7 A. Yes. However, there always is a need to maintain the lowest possible level of base  
8 rates and, indeed, "safe and adequate service at the lowest reasonable cost" is the  
9 traditional benchmark of regulatory oversight. As a result, the allocation of revenue  
10 and capital responsibility between the ratepayers and the City of Philadelphia must  
11 be thoroughly examined.

12 As will also be discussed later in this testimony, PGW needs to consider  
13 whether there are any alternatives to a rate increase that can be utilized to lessen the  
14 Company's overall revenue requirement while, at the same time, strengthening its  
15 financial position. For example, can the Company utilize asset management contracts  
16 to reduce its working capital requirements? In the past, the Company has used  
17 storage management agreements to obtain lower gas prices and reduce gas storage  
18 investment. To the degree the Company is facing a financial crisis, it also needs to  
19 evaluate other sources of short-term working capital funds. Such funds could be

1 linked to overfunding of pension liabilities, flexibility in using sinking fund balances,  
2 and tighter controls on receivables and payables management.

3 Q. FROM A BROADER PERSPECTIVE, ARE THERE ANY LESSONS WHICH  
4 SHOULD BE LEARNED FROM PGW'S PAST OPERATION WHICH CAN GIVE  
5 GUIDANCE FOR SETTING RATES IN THIS PROCEEDING?

6 A. Yes, there are. Apparently, for a variety of reasons, PGW's past management and the  
7 City failed to recognize the serious deterioration in the operation of the Company and  
8 the level of service being provided to its captive ratepayers. The consequences of  
9 this failure are not appropriately borne by ratepayers.

10 The City, however, has not to this point voluntarily sought to remedy the  
11 anticipated financial problems in any significant manner. Thus, despite its ownership  
12 and control over PGW, the City's inaction suggests that the solution to the financial  
13 problems must come through higher rates for the Company's customers. This  
14 position was further emphasized by the City's Director of Finance during the PGC  
15 hearings.

16 Therefore, the guidance to be gained, is that the responsibilities of PGW's  
17 ratepayers must be defined and hopefully limited. While ratepayers are responsible  
18 for paying all just and reasonable costs, they must not be held responsible to provide  
19 PGW's capital. There seems to be no supportable basis for ratepayers being

1 responsible for the provision of capital itself as opposed to a return on capital.

2 Should this demarcation not be established, then the City will be able to abrogate any  
3 real responsibility and the deficiencies of the past will, more than likely, continue.

4 Q. THE COMPANY HAS CLAIMED THAT RATES FOR PGW SHOULD BE SET  
5 BASED ON THE CASH FLOW METHOD OF RATE SETTING. IS THIS  
6 POSITION VALID?

7 A. This Company position appears to be based on certain provisions within the Act and  
8 reliance on the assumption that the Management Agreement (“Agreement”) between  
9 the Philadelphia Facilities Management Corporation (PFMC) and the City, as the  
10 owner of PGW, is the controlling precedent for regulating PGW. Setting aside the  
11 validity of the Company’s assumption and the legal arguments which will be made  
12 in Briefs, there still is an issue concerning the applicability of the Agreement to rate  
13 setting and the question as to its applicability in this particular interim proceeding.

14 The Agreement, in addition to spelling out PGW responsibilities, also provides  
15 that PFMC’s “primary obligation shall be to apply the highest standards of  
16 management practice and diligence to the operation of the Gas Works” (Agreement,  
17 page 2). It was to do this so that the City could “provide quality gas services to its  
18 citizens at reasonable rates” (Agreement, page 1). Additionally, PFMC was to

1 provide management personnel for the operation of the Gas Works (Agreement, page 3).

2           Given PGW's performance during the past several years, it would appear that  
3 a case could be made for the fact that PFMC has not met its contractual obligations  
4 for several years. Results would indicate that the highest standards of management  
5 practice and diligence were not applied. And certainly, PFMC did not provide  
6 adequate management personnel given that PGW went without a chief executive  
7 officer for several years. Accordingly, it may not be proper to base a PGW rate  
8 increase, particularly an interim rate increase, solely on the terms of the Agreement,  
9 when the requirements of the same Agreement that were intended to benefit  
10 ratepayers have not been met.

1 V. INTERIM RATE JUSTIFICATION

2 Q. PLEASE DISCUSS THE BASIC COMPONENTS OF THE COMPANY'S  
3 INTERIM RATE REQUEST.

4 A. PGW has filed a request that includes a \$52 million rate increase in addition to a  
5 \$97 million increase in its Gas Cost Rate (GCR). Within the proposed rate increase  
6 are major adjustments for weather, the senior citizens discount, personnel cost  
7 reductions and cost savings linked to productivity improvements.

8 In order to put the Company's requested revenue increase into perspective, it  
9 is instructive to first review why the Company believes a \$52 million increase is  
10 "essential" (PGW St.-1, p. 8) and then to examine the Company's major justifications  
11 for its request.

12 Q. WHAT ARE THE COMPANY'S STATED OBJECTIVES IN FILING FOR THE  
13 RATE INCREASE?

14 A. Mr. Knudsen states that there are three objectives for the Company's rate increase:  
15 first, to provide sufficient operating funds for the coming fall and winter; second, to  
16 reduce the short-term debt position; and third, to be able to fund the capital program  
17 from internal generation and depend to a lesser degree on long-term capital financing.

1 All of these objectives are important but only the first needs to be addressed  
2 in this interim proceeding. Additionally, what is not discussed, and is equally  
3 important, is what alternatives besides an interim rate increase were and are available  
4 to the Company to meet its financial needs.

5 Q. IN ORDER TO PLACE THE COMPANY'S CURRENT FINANCIAL STATUS  
6 INTO PERSPECTIVE, PLEASE DISCUSS THE COMPANY'S FINANCIAL  
7 PERFORMANCE SINCE ITS LAST RATE INCREASE.

8 A. It has been eight years since the Company's last rate increase in 1992. During that  
9 period of time, the Company's net earnings were never greater than \$17 million and  
10 in FY1998 and FY1999 earnings were negative. In this proceeding, if granted the  
11 \$52 million interim request, net earnings are projected to be \$26 million in FY 2001.

12 Q. WHAT HAS BEEN THE RECENT HISTORY OF DEBT SERVICE COVERAGE?

13 A. Over the past eight years, debt coverage was never higher than 1.67x and in several  
14 cases it approached the bond covenant minimum of 1.50x. In this proceeding, debt  
15 coverage is projected to be 2.73x on 1975 bonds and 2.76x on 1998 bonds.  
16 Moreover, due to the 1998 Bond Ordinance, PGW's coverage requirements are less  
17 stringent than they were under the 1975 Bond Ordinance.

1 Q. PLEASE COMMENT UPON THE COMPANY'S FINANCIAL STRATEGY  
2 SINCE THE LAST RATE INCREASE.

3 A. For a significant portion of time since 1992, PGW has appeared to lack any financial  
4 or operational strategy. This was never more apparent then during the past three  
5 years when revenue shortfalls associated with milder than normal weather did not  
6 allow the Company full recovery of its fixed costs. While milder than normal  
7 weather was clearly not under the Company's control, PGW cannot be excused for  
8 failing to seek adequate rate relief to avoid the current financial situation. During this  
9 three year period, PGW did not acknowledge or seek to remedy its deteriorating  
10 financial condition and its deteriorating service and operational effectiveness.

11 Without reasonable financial and operational plans, the Company apparently  
12 did not fully understand its worsening financial position despite the fact that cash  
13 flow constraints were forcing curtailment of necessary expenditures such as those for  
14 main replacement. Had the Company requested timely rate relief during the last three  
15 years, ratepayers would not now be facing what can only be termed catch up or  
16 retroactive rate recovery.

17 Q. THE COMPANY CONSIDERS CASH FLOW TO BE THE FOCUS OF THIS  
18 PROCEEDING. PLEASE DISCUSS PGW'S CASH BALANCES AND ITS  
19 FOCUS ON CASH SUFFICIENCY.

1 A. During informal discovery, the Company stated that one of its goals was to have a  
2 year-end cash balance at the end of August 2001 of approximately \$50 million.  
3 However, since FY1992, year-end cash has only exceeded \$50 million twice, in  
4 FY1994 and FY1995. While it is understood that PGW's major focus must be on  
5 cash requirements, both at year end and on a month to month basis, the Commission  
6 should not allow cash flow and working capital to be the basis for any rate relief.

7 Q. WHAT INSIGHTS SHOULD BE GAINED FROM THESE FINANCIAL  
8 COMPARISONS?

9 A. Unfortunately, these comparisons show there is nothing unusual about the financial  
10 measures PGW is forecasting in this proceeding to justify a 10% base rate increase  
11 in addition to the requested 20% increase in GCR rates. Rather, the proposed interim  
12 rate request apparently reflects the fact that the Company has reached its maximum  
13 short-term borrowing limit, and the City has not volunteered to provide necessary  
14 working capital or permanent capital to cover the financial shortfall.

15 Q. THE REQUEST FOR ADDITIONAL REVENUES IS NOT DRIVEN, AS HAS  
16 BEEN THE CASE IN THE PAST, BY DEBT SERVICE COVERAGE. WHAT,  
17 THEREFORE, SHOULD BE THE CRITERIA IN EVALUATING PGW'S  
18 REQUEST?

1 A. As I stated previously, the regulatory process follows the principle that rate increases  
2 are only warranted if and when utility service is safe and adequate and its pricing is  
3 reasonable. Accordingly, utilities such as PGW have a responsibility to maintain and  
4 operate their operations in a safe and efficient manner. In the present case, the  
5 Commission should therefore not only consider PGW's revenue requirement, but also  
6 its level of service when establishing interim rates. As recent studies by PGW's  
7 consultants have described in detail, PGW's present service level is not adequate.

8 Q. WHAT DO YOU BELIEVE SHOULD BE THE FOCUS OF THIS PROCEEDING?

9 A. Despite its emphasis on the immediate cash crisis, the Company has admitted that its  
10 \$52 million rate request seeks to address longer term objectives. As stated in  
11 response to discovery request PA-20 before the PGC, the \$52.0 million request "was  
12 a number determined by management and PFMC to permit PGW to rebuild its  
13 liquidity in the short-term and to rebuild its longer term financial viability in four  
14 years."

15 However, I do not believe that the focus of this proceeding should be over  
16 such a long time period. Rather, the focus should be on the short-term, that is, 9 to  
17 12 months or, more specifically, until this Commission and the other parties have an  
18 opportunity to fully evaluate the Company and all rate related issues in the context  
19 of a full base rate case.

1 Q. WHY SHOULD THE FOCUS BE ON THE SHORT- TERM?

2 A. First, because this year, ratepayers should not reasonably be expected to absorb any  
3 more than the 20% increase that will result from the increase in the GCR rate from  
4 \$1.10 per Mcf to approximately \$2.80 per Mcf.

5 Second, ratepayers should not be asked to pay for even an interim rate increase  
6 before the Company has given guarantees that the current level of service is actually  
7 being improved, PGW's information systems are fully supporting business operation  
8 and that measures to improve productivity, including but not limited to greater  
9 workforce flexibility, are in place.

10 The emphasis of this proceeding should not be to build up enough cash in the  
11 interim period to ensure financial health in the long-term. Rather, the emphasis  
12 should be on what rates the Company absolutely requires to get through its present  
13 financial situation for the winter heating season.

14 Q. HOW, THEN, SHOULD THE COMMISSION DETERMINE WHAT ARE THE  
15 COMPANY'S INCREMENTAL REVENUE NEEDS?

16 A. Fundamentally, the revenue requirements issue is dependent upon the Commission's  
17 interpretation of the standards it should apply as they relate to this extraordinary,  
18 interim request. The Commission set forth the standard it sought to apply in its Order  
19 establishing these procedures. There, the Commission stated:

1 PGW must present substantial evidence to support its assertion  
2 that an interim rate increase is necessary to maintain a minimal,  
3 adequate level of financial health required to fund operations  
4 and meet debt service requirements through the winter heating  
5 season until the Commission can conduct and rule on a full base  
6 rate proceeding. In particular, PGW must present substantial  
7 evidence to support its assertion that an interim rate increase is  
8 necessary for PGW to comply with its covenants to the holders  
9 of any approved bonds.

10 Commission Order at 7-8.

11 Therefore, the rates should be set subject to the covenant provisions of PGW's  
12 bonds and subject to service considerations. This would prevent a technical default  
13 on the bonds which is not in the ratepayers' interests. I have presented analyses  
14 which meet this standard.

15 In addition, a question still exists for the Commission as to whether the \$18.0  
16 million annual payment to the City is a necessary component of funding operations  
17 for the winter heating season in this interim base rate proceeding. If the City is  
18 unwilling to waive the \$18 million payment and the Commission determines that it  
19 is required to include this \$18 million annual payment, there is still a question as to  
20 whether the City will be willing to make all or part of the \$18.0 million available to  
21 PGW in the form of project revenues. If the Commission allows the \$18 million,  
22 PGW must be directed to aggressively pursue this alternative. I have presented an  
23 analysis which meets the Commission's standard but includes the \$18 million annual

1 payment, with the assumption that the \$18 million is then made available to PGW as  
2 project revenues.

3 Finally, the Company argues that the Natural Gas Choice and Competition  
4 Act, even in this extraordinary interim rate proceeding, requires the cash flow method  
5 of rate setting. The Company's definition or application of this method has rates  
6 provide PGW's capital as well as meeting its revenue requirements. From a  
7 regulatory perspective, this interpretation of the Act and the cash flow method is  
8 fundamentally unreasonable. If it is followed, it would have the effect of absolving  
9 the City from any of its ownership responsibilities. In effect, the City would always  
10 be able to say that any PGW deficiencies were the result of insufficient revenues for  
11 costs and capital. Failure to rectify Billing, Collections and Customer Service System  
12 (BCCS) problems, lack of adequate mains replacement, unreasonable levels of  
13 customer service could always be explained away by inadequate rate allowances. In  
14 effect, the cash flow method of setting rates as espoused by the Company would  
15 allow service to follow rates. I do not recommend that the Company's application  
16 of the cash flow method be adopted.

17 Q. YOU STATED THAT BEFORE RATEPAYERS ARE ASKED TO FUND AN  
18 INTERIM RATE INCREASE PGW SHOULD EXHAUST ALL REASONABLE

1 ALTERNATIVES. WOULD YOU GIVE EXAMPLES OF SOME OF THOSE  
2 ALTERNATIVES?

3 A. First, if the Company believes that the \$18 million City Payment is required by the  
4 Act, the Company should seek a waiver from the City. Such a waiver has been  
5 discussed for many years in various proceedings and it is understood that only the  
6 City can make the decision to forego the payment. However, the Company should  
7 aggressively pursue this option.

8 Janice Davis, the City Finance Director and a member of the PFMC Board,  
9 has stated that the City is committed to grant PGW revenue to assure that it meets  
10 debt service coverage for FY2000. As the major stockholder of PGW, the City  
11 should likewise stand behind the Company during this interim period to address the  
12 financial problems. It can do so by pledging back to PGW part or all of the \$18.0  
13 million payment in order to stabilize PGW's cash position in lieu of trying to make  
14 ratepayers have to address what should be an owner's responsibility.

15 The Commission should also note Ms. Davis' acknowledgment in the hearings  
16 before the Philadelphia Gas Commission that an additional 24,000 families would  
17 fall behind in their payments if the requested rate increase were to be granted (PGC  
18 FY 2001 Transcript, page 489) and that the cost of providing social services to these  
19 families could approach, if not exceed, the amount of the City payment (PGC  
20 FY 2001 Transcript, pages 552-553).

1           Second, PGW should also request the City to provide short-term advances  
2 during the interim period to address cash flow problems. The Management  
3 Agreement foresees this possibility in Section IV (3) which provides, "The Gas  
4 Works may also receive temporary advances from the City in anticipation of revenues  
5 which are anticipated to be received by the Gas Works provided that such advances  
6 do not exceed twenty million dollars in amount or twenty-four months in duration."  
7 Thus, the Company could use this temporary advance to help it get over a period  
8 when cash is needed and then repay the advance when cash is less critical.

9           Third, the Company must strictly control expenditures. It is a common  
10 business practice to prioritize operating expenditures so that especially in those  
11 months of low cash balances, only those expenses deemed absolutely essential to  
12 provide service and assure safety, such as the LNG upgrades and mains replacement  
13 project, be paid while others are deferred to months when cash balances are higher.

14           And finally, the Company needs to explore options which may identify  
15 additional working capital sources from such things as storage management  
16 agreements, potential overfunding of pension liabilities, and cash flexibility  
17 associated with the Company's bond sinking funds.

1 VI. RATE INCREASE ALTERNATIVES

2 Q. HAVE YOU DEVELOPED SOME SCENARIOS THAT SHOW THE COVERAGE  
3 AND CASH RESULTS OF SOME OF THE RATE INCREASE ALTERNATIVES  
4 THAT SHOULD BE CONSIDERED BY THE COMMISSION?

5 A. Yes. I have developed financial scenarios utilizing PGW's monthly FY2001 Budget  
6 of Cash Receipts and Disbursements schedule, that was filed as Appendix B, page  
7 4 of Mr. Knudsen's Direct Testimony (PGW-IR ST. 1.0) and which has been  
8 reproduced as Schedule 1, page 2. At the time of the writing of this testimony, this  
9 was the latest information which was available. Therefore, I reserve the right to  
10 amend my testimony if this information is subsequently revised.

11 Q. WHAT IS THE BASIC PREMISE BEHIND YOUR FINANCIAL SCENARIOS?

12 A. The basic premise is that PGW does not have to receive the full amount of its  
13 requested \$52 million interim rate increase in order for the Company to meet the  
14 1.50x coverage required by its bond covenants and to provide funds for capital  
15 projects. In fact, PGW may not need to receive any rate increase at all because in its  
16 filing, the Company has not reflected various financial options which could be  
17 utilized over the next 12 months for coverage purposes and as sources of needed  
18 cash.

1 Q. WHAT ASSUMPTIONS WERE UTILIZED AS A BASE CASE FOR YOUR  
2 RATE INCREASE ALTERNATIVES?

3 A. The basic assumptions underlying the data on page 2 of Schedule 1 are those which  
4 were utilized by the Company to demonstrate its interim rate requirement:

- 5 - No assumed rate increase
- 6 - \$97 million GCR effective November 10
- 7 - An \$18 million payment to the City
- 8 - No temporary advance from the City
- 9 - No project revenues from the City
- 10 - \$10 million of productivity savings
- 11 - \$4 million less revenues due to weather adjustment
- 12 - \$1.5 million additional revenues due to limitation of senior citizen discount
- 13 - Includes allowances for planned capital expenditures

14 Utilizing the above assumptions, the second page of Schedule 1 shows a fiscal  
15 year-end cash balance of negative \$25.1 million and other months when cash  
16 balances are negative. The third page of this schedule shows that this base case  
17 results in a coverage of 1.87x on 1975 bonds and 1.25x on 1998 bonds. This

1 schedule simply replicates the Company's base case and calculates the bond  
2 coverages for use as the starting point to consider further alternatives.

3 Q. YOU STATED THAT YOU CALCULATED THE DEBT SERVICE COVERAGE.  
4 HOW IS THE DEBT SERVICE COVERAGE DETERMINED?

5 A. Debt service coverage is a fiscal year-end mathematical calculation (as illustrated  
6 using Schedule 1, page 3) which divides funds available to cover debt service (line  
7 13) by the debt service itself (line 14). The funds available are basically a  
8 determination of billed revenues minus certain itemized expenses excluding non-cash  
9 expenses such as depreciation. Debt service is the total of the interest and principal  
10 on bonds to be paid over a twelve-month period. For PGW, the Fiscal Year ends in  
11 August and the calculation is made on August 31.

12 As shown on Schedule 1, page 3, since 1998, the coverage on PGW bonds has  
13 been determined in three parts: for 1975 ordinance revenue bonds, for 1998  
14 ordinance revenue bonds and for 1998 ordinance subordinate bonds. Before 1998,  
15 coverages were calculated the same way for all bonds.

16 Q. HOW DOES THE COVERAGE CALCULATION DIFFER FOR THE VARIOUS  
17 BONDS?

1 A. The 1998 ordinance did not change the method of calculating coverage for bonds  
2 issued under the 1975 ordinance, that is, revenues minus cash expenses divided by  
3 debt service on 1975 bonds. However, coverage on 1998 ordinance bonds is  
4 calculated (again using Schedule 1, page 3) by subtracting the funds available to  
5 cover 1975 bonds (line 14) from the total funds available ( line 13) and then applying  
6 the net amount (line 18) to debt service on 1998 bonds (line 19). Thus, for 1998  
7 bonds, the total funds available for debt coverage are first applied to 1975 ordinance  
8 bonds and the net funds available are then applied to 1998 ordinance bonds.

9 Q. WHAT IS YOUR FIRST RATE INCREASE ALTERNATIVE?

10 A. It should be first mentioned that there are numerous alternatives that could be  
11 presented. However, my goal is to show some possible scenarios that would allow  
12 the Company to meet its debt coverage on both the 1975 and 1998 bonds without  
13 increasing rates by \$52 million for this interim period.

14 Accordingly, my first alternative, which is attached as Schedule 2, shows  
15 PGW's month and year-end cash balances and coverages based upon the same  
16 assumptions as shown above for the base case except the following:

- 17 - An assumed \$7.46 million interim rate increase
- 18 - A temporary advance of \$20 million from the City

- 1       –     No weather adjustment
- 2       –     No senior citizen adjustment.

3               Under this alternative, the fiscal year-end cash balance is \$3.0 million and  
4     unlike the base scenario, in no month during the fiscal year does PGW have a  
5     negative cash balance. Also under this scenario, the \$18 million payment was made  
6     to the City as in the base case. Even with this payment, and no return of the \$18  
7     million as project revenues, the Company has a year-end positive cash balance.

8   Q.   WHAT WOULD BE THE EFFECT ON COVERAGES FOR THIS FIRST  
9        ALTERNATIVE SCENARIO?

10  A.   As shown on page 3 of Schedule 2, this alternative results in 2.01x coverage on 1975  
11   revenue bonds and 1.50x coverage on 1998 bonds, the minimum coverage required  
12   by each of the bond covenants. Thus, with only a \$7.46 million rate increase, and no  
13   granting of project revenues by the City, coverages on both series bonds would be  
14   met. It should be noted that the \$18 million payment does not enter into the bond  
15   coverage calculation, but, of course, does affect cash.

1 Q. DID YOU ALSO DEVELOP A SECOND ALTERNATIVE THAT UTILIZES THE  
2 SAME ASSUMPTIONS AS THE FIRST ALTERNATIVE BUT INCLUDES THE  
3 CITY GRANTING \$18 MILLION AS PROJECT REVENUE?

4 A. Yes. Schedule 3, page 2, shows that if the \$18 million City fee was paid in June (it  
5 is normally paid in four payments) and granted back to the Company as project  
6 revenue (zero is shown for the City fee), then cash flow would increase to \$21.2  
7 million at fiscal year-end. As shown on Schedule 3, page 3, the additional project  
8 revenue between Alternative 1 and 2 results in an increase in coverage on 1975 bonds  
9 from 2.01x to 2.36x and an increase in coverage on 1998 bonds from 1.50x to 2.11x,  
10 providing a considerable cushion over required minimum coverage.

11 Q. WHAT DO YOU MEAN BY THE TERM "PROJECT REVENUES"?

12 A. As used in the second alternative, project revenues represent funds supplied by the  
13 City, in this case the return of the \$18 million payment, that qualifies for inclusion  
14 as above-the-line operating revenue in the coverage calculation. As mentioned  
15 above, normally the \$18 million payment does not enter into the coverage calculation.

16 Q. YOU STATED ABOVE THAT IT WAS POSSIBLE FOR NO RATE INCREASE  
17 TO BE GRANTED AND THAT COVERAGES WOULD STILL BE MET.  
18 PLEASE EXPLAIN THIS SCENARIO.

1 A. As demonstrated by Alternative 1, all that is needed for coverages to be met is \$7.46  
2 million of incremental revenue, and such revenue can be obtained from ratepayers or  
3 from the City.

4 The schedules also demonstrate that revenues received from both a \$7.46  
5 million rate increase and an \$18 million project revenue grant from the City more  
6 than adequately meet coverage requirements.

7 However, if PGW were to pay the City fee and the City was to grant PGW  
8 \$7.46 million in project revenues in order for minimum coverages to be met, no rate  
9 increase would, conceptually, be necessary. The City has already stated that it would  
10 grant any necessary project revenues to PGW in fiscal year 2000 in order to meet  
11 coverages. For the reasons stated above, there is no reason why such revenue support  
12 could not also be granted in fiscal year 2001.

13 Q. WHAT CONCLUSIONS SHOULD BE DRAWN FROM THESE ANALYSES?

14 A. The major conclusion to be gained from these alternatives is that PGW does not need  
15 its full requested \$52 million rate increase in order to meet its coverages, be in a  
16 positive cash position at fiscal-year end 2001, avoid being in a negative cash position  
17 at any month-end during the fiscal year and still be able to have sufficient funds to  
18 support capital expenditures for the LNG expander and cast iron main replacement  
19 programs. Effectively, all that is needed is help from the City. If the City refuses to

1 forego the \$18 million payment, then either a small rate increase would be necessary  
2 or, if project revenues are granted, no rate increase would be required.

3 Q. WHAT WOULD BE THE RAMIFICATION IF THE CITY DOES NOT PROVIDE  
4 FINANCIAL ASSISTANCE TO PGW?

5 A. Continued disregard for the problems of PGW by the City would not be productive  
6 and would not serve the interests of PGW's ratepayers. It must be remembered that  
7 ratepayers are already being asked to provide about \$97 million for gas cost  
8 increases, and PGW itself has committed to aggressive productivity savings of \$10  
9 million. In this context, the City's support through a temporary advance and by  
10 pledging project revenues of up to \$18 million cannot, and should not, be viewed as  
11 being unreasonable.

1 VII. REVENUE REQUIREMENT ADJUSTMENTS

2 - Weather Adjustment for Revenues

3 Q. DO YOU AGREE WITH PGW'S \$4 MILLION DOWNWARD ADJUSTMENT TO  
4 REVENUES BASED ON THE POSSIBILITY OF WARMER THAN NORMAL  
5 WINTER WEATHER?

6 A. No. PGW's management is concerned about projecting revenues based upon the  
7 traditional 4600 heating degree days (HDD) because of the recent warm winters.  
8 Though "there is no assertion at this time of any formulaic change to the method in  
9 which basic sales are computed" (PGW St.-1, p. 4), the Company, nevertheless, has  
10 included a \$4 million, or approximately 2.7% (125 degree days), downward  
11 adjustment for marginal revenue loss due to weather.

12 Q. IN ORDER TO DETERMINE THE VALIDITY OF THIS ADJUSTMENT,  
13 PLEASE PROVIDE THE AVERAGE HEATING DEGREE DAY HISTORY IN  
14 THE COMPANY'S SERVICE AREA?

15 A. The response to PA-14 before the PGC provided such data, and it can be summarized  
16 as follows:

	<u>Time Period</u>	<u>Degree Days</u>	<u>% Variation</u>
1			
2	40 years	4,628	0.6
3	30 years	4,569	(0.7)
4	20 years	4,521	(1.7)
5	10 years	4,418	(4.0)

6            Thus, only over the past 10 years has degree day variation even approached  
7 the Company's proposed 125 degree day or 2.7% adjustment, and this was the result  
8 of the abnormal winters during the past three years.

9 Q.    IS IT APPROPRIATE TO PRESENT SUCH AN ADJUSTMENT BASED UPON  
10 SUCH A SHORT TIME PERIOD?

11 A.    No. For example, the National Weather Service (NWS) utilizes a 30-year time period  
12 to determine normal temperatures and degree days. This methodology is utilized so  
13 that short-term fluctuations in weather will be averaged out over time. It is not more  
14 probable that weather this year will be warmer than normal just because degree days  
15 over the past three years have been warmer than the 30-year standard. Budgets  
16 should be based upon the norm, not upon the abnormal, especially as here, when any  
17 rate relief granted is only applicable for the interim period.

18 Q.    HAS THE COMPANY STATED WHY IT CHOSE 125 HDD FOR ITS  
19 ADJUSTMENT?

1 A. No. PGW did not give a clear answer either in interrogatories or in informal  
2 discovery as to specifically why this number of HDD was chosen. There are no  
3 workpapers supporting this adjustment, and therefore, it is speculative.

4 Q. LAST YEAR, IN ORDER TO MITIGATE THE POTENTIAL EFFECTS OF  
5 WARM WINTER, THE COMPANY PURCHASED WEATHER INSURANCE.  
6 DOES THE COMPANY PLAN TO PURCHASE SUCH INSURANCE THIS  
7 YEAR?

8 A. No, weather insurance has not been purchased this year. Last year \$950,000 was  
9 spent on weather insurance and, despite the mild winter, only \$725,000 was received  
10 in return.

11 Q. WHAT DO YOU RECOMMEND?

12 A. In this proceeding, the Company has not presented any evidence support that such an  
13 adjustment meets the regulatory "known and measurable" standard. Therefore, I  
14 recommend that the Commission increase the measurement of forecasted gas  
15 revenues by \$4.0 million.

1           - Senior Citizen Discount

2 Q.    WHY DO YOUR ALTERNATIVE SCENARIOS REFLECT A REDUCTION IN  
3        REVENUES OF \$1.5 MILLION ATTRIBUTABLE TO THE SENIOR CITIZEN  
4        DISCOUNT?

5 A.    In its forecast, PGW included an upward adjustment to revenues of \$1.5 million,  
6        representing the elimination of the Senior Citizen Discount for any PGW customer  
7        who was not already receiving it or who turned 65 after June 30, 2000. The \$1.5  
8        million apparently is an annualized figure, and does not reflect the fact that the  
9        increased revenues from such an elimination would be realized progressively from  
10       month to month throughout the year. Therefore, even if one assumes that PGW is  
11       correct concerning the number of seniors who might be precluded from obtaining the  
12       discount by the end of FY2001 (5,000-6000), the additional revenues derived from  
13       this tariff change in FY2001 would have been only \$750,000.

14                In the end analysis, however, base case revenues should be decreased \$1.5  
15        million because there is no basis to believe that the Senior Citizen Discount will be  
16        amended for the interim period. In the absence of an amendment to the existing  
17        Tariff, it is not appropriate to set rates based on a speculative assumption.

1           - Personnel and Productivity Impacts

2 Q.     PGW HAS INCLUDED A \$2.5 MILLION ADJUSTMENT FOR PERSONNEL  
3 COST REDUCTIONS AND A \$10 MILLION ADJUSTMENT FOR COST  
4 SAVINGS AND PRODUCTIVITY IMPROVEMENTS. ARE SUCH  
5 ADJUSTMENTS REASONABLE?

6 A.     While there are undoubtedly ample opportunities for cost savings and productivity  
7 increases within PGW, these adjustments could also be considered speculative. The  
8 Company has a long history of "business as usual" and new management will be  
9 challenged to achieve this magnitude of cost savings during the interim period. The  
10 level of savings will also be uncertain until the union negotiations which will take  
11 place in the spring of 2001 are completed. If the identified savings, and others, can  
12 be achieved, there is some question as to their timing within the interim period.

13 Q.     ON THAT BASIS, IS IT RECOMMENDED THAT COST REDUCTIONS AND  
14 PRODUCTIVITY GAINS BE ELIMINATED FROM THE REVENUE  
15 REQUIREMENT DETERMINATION?

16 A.     Under the current circumstances, the adjustments should be left in place, with certain  
17 caveats. First, with PGW's ratepayers making contributions to address the current  
18 financial problems and my recommendation that the City also make a contribution,

1 it would be reasonable to require the Company itself to make some contribution.  
2 Accordingly, the assumed cost savings have the effect of formalizing a commitment  
3 by the Company and its employees.

4 Second, there are several areas of potential cost reductions and underspending  
5 of budgeted items which were not directly factored into the revenue requirement  
6 analyses since this is not a full base case review. With the Company's forecasted  
7 cash position, it is quite likely that there will be on-going constraints even in the case  
8 of budgeted expenditures. Therefore, on balance, it is believed that the total cost  
9 savings can be achieved, even though they may be realized from a variety of different  
10 cost control initiatives.

11 Realistically, it is difficult, if not impossible in this timeframe, for someone  
12 outside the Company to fully assess how the forecasted savings can be achieved and  
13 to quantify their precise level. Therefore, it is recommended that the Company's  
14 estimate be utilized unless the Company itself proposes and documents an alternative  
15 quantification.

1 VIII. ADEQUACY OF SERVICE

2 - Main Replacement Program

3 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROGRAM  
4 CONCERNING THE REPLACEMENT OF ITS CAST IRON MAINS?

5 A. PGW's cast iron mains replacement program offers perhaps the best example of the  
6 interrelationship between management, cash flow and service. During the period  
7 between 1989 and 1994, PGW annually replaced, on average, 18.2 miles of its  
8 existing mains. This represented a replacement rate of about 1% per year which is  
9 typical for an LDC of PGW's size.

10 However, beginning in 1995 and continuing through the present, the Company  
11 allowed the average replacement to fall to 9.0 miles per year. Based on a  
12 Replacement Study developed this year by Navigant Consulting ("Navigant"), a  
13 replacement rate of 1%, or about 18 miles per year for PGW, is necessary to reduce  
14 the risk of main breaks and incidents. Incidents are defined to be events where there  
15 is significant physical damage or injury from the escape of gas, such as an explosion  
16 from a gas leak.

17 It is apparent from these statistics that, as cash flow increasingly became a  
18 problem for PGW, mains replacement became a discretionary item. What was to be

1 a temporary reduction in the annual replacement rate became an on-going policy that  
2 raises serious concerns about the safety of the Company's facilities. These concerns  
3 were also addressed in the September 13, 2000 Statement of Chairman John Quain  
4 which required immediate actions to address any deficiencies in PGW's gas  
5 distribution system.

6 Q. WHAT WILL BE THE IMPACT OF CONTINUING THE COMPANY'S  
7 PRESENT MAINS REPLACEMENT RATE?

8 A. A low level of replacement increases the prospect for increased breaks and incidents.  
9 While breaks have averaged between 350 and 400 per year, the system has benefitted  
10 from the recent mild winters. As noted by Navigant, "Since severe weather tends to  
11 cause breaks, and breaks tend to cause incidents, severe weather tends to cause  
12 incidents."

13 With the prospect of up to 800 breaks per year if Philadelphia experiences a  
14 colder than normal winter, the Company's replacement rate at the 0.56 percent level,  
15 which it has averaged during the recent past, is seriously deficient. An elevation in  
16 the average number of breaks will increase the number of experienced incidents. In  
17 prior cold winters such as 1977-1978 and 1993-1994 there were sharp increases in  
18 breaks (over 1,100 in 1977-1978) and a corresponding increase in the number of  
19 incidents. Since the definition of a utility's performance benchmark is safe and

1 adequate service, it is vital that the 1% replacement rate is achieved and maintained.  
2 The Commission, as a follow-up to Chairman Quain's Statement, should determine  
3 whether PGW's replacement program has been unreasonable and as a prerequisite to  
4 any interim rate increase should require PGW to commit to actually achieving a 1%  
5 replacement rate. The costs to achieve a 1% replacement rate have already been  
6 provided for in the Company's base case capital budget and its cash flow  
7 requirements and in my two alternative scenarios which utilize this base case.

8 - BCCS Systems

9 Q. PLEASE COMMENT UPON MANAGEMENT'S ASSUMPTION THAT "THE  
10 BASIC COMPONENTS OF THE NEW BILLING AND COLLECTION SYSTEM  
11 WOULD BE ADEQUATELY REPAIRED BY THE FALL SO AS TO PERMIT  
12 THE ASSUMPTION OF NORMAL OPERATIONS AND ACTIVITIES." (PGW  
13 ST.-1, P. 5)

14 A. Management is assuming "acceptable on-going performance" for these systems.  
15 However, the Billing, Collections and Customer Service (BCCS) system has been in  
16 operation for over one year and still does not generate basic information needed to  
17 run the Company effectively and provide reliable customer service. There is no  
18 evidence presented at this point by the Company that it will, in fact, be repaired by

1 this fall. Currently, \$22.7 million is projected to be spent on a system that was  
2 approved for \$9.7 million. These amounts do not include approximately \$5.5 million  
3 that was expensed on the Company's books nor the "nearly \$4.0 million [spent]  
4 during the 1999-2000 period in consulting costs to remediate the problems that have  
5 been experienced with the implementation of the billing system."

6 The Commission should be extremely aware of the cascading effect on cash  
7 which stems from not having the BCCS system on-line. For example, if bills are not  
8 sent out, then customers have no bills to pay and the Company does not have the cash  
9 flow which is so critical. If PGW does not have cash flow, then it must seek a rate  
10 increase so it can bill even higher rates on bills which hopefully will eventually be  
11 sent out. If BCCS cannot keep track of bills, then accounts receivable cannot be  
12 accurately determined, bad debt cannot be accurately calculated and the Company  
13 cannot know what amounts are due.

14 However, I see the greatest financial concern being that PGW does not know  
15 what its billings have been on a daily basis. Apparently, the legacy system was able  
16 to generate daily billing summaries which were used to determine many aspects of  
17 the Company's financial condition. The BCCS system has not been able to generate  
18 this data, and it is necessary that it be able to consistently do so soon.

19 Q. ARE THERE OTHER CONCERNS ASSOCIATED WITH BCCS?

1 A. Yes. In this proceeding, customers are being asked to support an interim rate  
2 increase for an amount which is more than necessary to address immediate cash flow  
3 needs while PGW is not yet in a position to present a creditable plan for longer term  
4 reform. To be able to do that, PGW's information systems must be fully functional  
5 and capable of supporting serious planning and decision making.

6 - Customer Service

7 Q. IS PGW CURRENTLY OPERATING AT A LEVEL THAT IS COMPARABLE  
8 TO OTHER UTILITIES IN PERFORMANCE, COST, OR LEVEL OF SERVICE?

9 A. No. The new interim management team, which took over at PGW in mid-March of  
10 this year, acknowledges that the crisis associated with the "failed implementation"  
11 of the BCCS system in July 1999 still exists. The failed BCCS implementation also  
12 was only the final element in a deterioration in operations extending back over  
13 several years which undermined the Company's financial and management flexibility  
14 to respond to new problems, or as Mr. Knudsen says, "to deploy resources in  
15 response to need." PGW St.-1, at 18.

16 The financial deterioration has been dramatically quantified in the Exhibits  
17 attached to Mr. Knudsen's direct testimony. However, the deterioration in the  
18 performance of the Company, in its ability to gather and organize basic business

1 information about itself and its customers, its ability to maintain its systems of mains  
2 in an efficient and cost effective manner, and its ability to perform customer service  
3 and billing functions does not lend itself to such quantification.

4 Unfortunately, historical evidence, while providing insights about how the  
5 Company functions, can be misleading. This year we have a more reliable basis for  
6 judgment. In late May and early June, three consultant studies concerning the present  
7 state of the BCCS system, PGW's call center and PGW's Human Resources function  
8 were issued. These studies, performed by teams which spent weeks at PGW  
9 interviewing Company employees, observing operations, and reviewing records,  
10 provide telling assessments of the present state of customer service at PGW.

11 These reports demonstrate more clearly than any previous information the  
12 inadequate level of PGW's service and confirm the total lack of long-term planning  
13 and direction which underlies the deficiencies.

14 Q. ON THE BASIS OF THESE REPORTS, DOES IT APPEAR THAT THE  
15 CUSTOMER INFORMATION SYSTEM, ITSELF, IS THE MAJOR PROBLEM?

16 A. No. Andersen Consulting ("Andersen"), which did a study on the BCCS system,  
17 states that the issue is not "fundamentally the hardware and basic interfaces."  
18 Andersen Report, p. 4. Vanguard Communications ("Vanguard"), which did the  
19 study on PGW's Call Center, states that PGW has a "solid technology structure to

1 build on,” which is “as good or better than most utilities.” Vanguard Report, p. 3, 4.  
2 To be sure, Vanguard recognizes problems with the BCCS “application,” but implies  
3 that such problems are not insurmountable, over a reasonable period of time going  
4 forward.

5 Q. IS THE BCCS SYSTEM CURRENTLY CAPABLE OF GENERATING THE  
6 REPORTS AND INFORMATION NECESSARY TO SUPPORT LONG-TERM  
7 PLANNING IN THE FUTURE?

8 A. No. First, the transition to BCCS has to a significant degree impacted the continuity  
9 of PGW customer records, especially because of thousands of failed billings which  
10 have occurred since July, 1999. PGW does not have current access to data which it  
11 traditionally has used for making its collectibility assessments.

12 Second, even as of August 2000, there are still 15,000 to 20,000 accounts  
13 which are not being billed due to problems with the BCCS application. PGW is  
14 working to reduce this number to levels where problems can be dealt with effectively  
15 on a manual basis, but the Company has not yet indicated whether or when it will  
16 achieve this objective.

17 Third, Andersen indicates that the BCCS system is still not providing the real  
18 time financial reports to the Financial Accounting System (FAMIS) on which the  
19 company must rely for financial planning. “BCCS reports lack credibility, mapping

1 to FAMIS is suspect.” Andersen Report, p. 18. “BCCS Reports lack credibility;  
2 PGW unable to close books.” Andersen Report, pp. 4, 10. Moreover, as of late May  
3 2000, the problems were of sufficient magnitude that Andersen was not able to  
4 establish a target date to remedy the problem. Andersen Report, p. 8.

5 Q. THE BCCS WAS TO ALLOW SERVICE REPRESENTATIVES TO FUNCTION  
6 AS A SINGLE POINT OF CONTACT FOR EACH CUSTOMER CONCERNING  
7 CUSTOMER AND ACCOUNT HISTORY, SERVICE REQUESTS, ORDER  
8 PROCESSING, FIELD SERVICES INFORMATION, AND PROBLEM  
9 TRACKING AND STATUS. HAS BCCS FULFILLED THESE  
10 EXPECTATIONS?

11 A. No. The truth is that PGW was totally unprepared for the new system when it was  
12 introduced, without adequate testing, and in an incomplete form, in July 1999.  
13 Andersen reported that “BCCS training was inadequate.” Andersen Report, p. 10.  
14 A full 11 months after conversion to BCCS, Andersen stated: “Personnel not  
15 proficient with system work flows. Limited PGW personnel with basic understanding  
16 of the SPL code and underlying products.” Andersen Report, p. 15. Andersen  
17 further stated: “Limited knowledge of BCCS capabilities, data models and  
18 workflows; severe gaps in training and user help support.” Andersen Report, p. 4.

1 Q. WHAT HAS BEEN THE IMPACT OF THIS LACK OF TRAINING FOR THE  
2 FUNCTIONING OF THE PGW CALL CENTER?

3 A. This lack of training has been a factor which, when combined with other problems  
4 associated with the Call Center, has produced today's situation, where, substantial  
5 numbers of customers believe that you just cannot get through to PGW.

6 Q. IS THERE ANY DATA ON HOW UNRESPONSIVE THE CALL CENTER IS?

7 A. Yes. Vanguard reported in early June that the industry standard for utilities was that  
8 80% of incoming calls should be answered within 30 seconds. PGW meets that  
9 standard only for emergency calls. As for service calls, Vanguard reports that the  
10 average service call by a customer is answered in 3 to 6 minutes; the average call for  
11 billing information is answered in 15 to 30 minutes. Vanguard Report, pp. 11, 36.  
12 Not surprisingly, 20% to 30% of PGW service calls by customers are abandoned, in  
13 contrast with the industry standard of 4%-5%. And 70% to 85% of calls for billing  
14 information by customers are abandoned, in contrast with the industry standard of  
15 4%-5%. Vanguard Report, p. 11. Andersen confirms that the Call Center provides  
16 a "seriously low...service level." Andersen Report, p. 10.

1 Q. YOU HAVE SUGGESTED THAT "OTHER FACTORS" PLAY AN IMPORTANT  
2 ROLE IN THE LOW LEVEL OF SERVICE PROVIDED BY THE CALL  
3 CENTER. PLEASE EXPLAIN.

4 A. The import of the Vanguard report is that the Call Center's problems are not merely  
5 linked to the transition to BCCS which generated greater volumes of calls for  
6 personnel untrained and unfamiliar with a new system which itself was not  
7 functioning very well. To improve the performance of the Call Center, Vanguard  
8 states that a broader approach is required, a "full plan for organization, operational,  
9 and technical changes, and ongoing reinforcement." Vanguard Report, p. 4.  
10 Vanguard further states that the dominant culture in the "call center" is not "typical,"  
11 i.e., what is necessary to provide high standards of service, but is yet to be instilled.  
12 Vanguard Report, p. 3. The consultants add that a "totally different mindset is  
13 required . . . that is focused on the customer, and [which] permeates from the highest  
14 levels of leadership . . ." Vanguard Report, p. 4. Clearly, Vanguard believes this  
15 customer oriented mindset does not exist in the Call Center or in the Company at the  
16 present time.

17 And the Hay Group supports Andersen's observation that PGW must focus  
18 on developing a service orientation, the "desire and focus to personally 'do whatever  
19 it takes' to meet a customer's needs, be they a gas customer, regulator, vendor or  
20 another department." Hay Group Report, p. 27.

1 Q. SHOULD THE FINDINGS OF THESE CONSULTANTS' REPORTS BE  
2 CONSIDERED IN DETERMINING THE PROPRIETY OF PGW'S RATE  
3 REQUEST?

4 A. Yes. As stated above, rates should follow service. The long-term inadequacy of  
5 PGW's service to its customers and future progress to improve service should be a  
6 primary determinant as to whether or not customers should have to pay higher rates  
7 on either an interim or permanent basis.

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS PROCEEDING?

9 A. Yes, it does, subject to possible revision based on additional information which may  
10 be provided by the Company.

IX. SUPPORTING SCHEDULES

**Philadelphia Gas Works**  
**Base Case**

<u>Assumptions:</u>	Rate Increase:	No
	\$18 million Payment to City:	Yes
	\$20 million Temporary Advance:	No
	Project Revenues From City:	No
	Revenue Reduction - 2.7% Warmer Weather	Yes
	Senior Citizen Moratorium	Yes
	\$10 million Productivity Savings	Yes
	GCR Costs of \$97 million	Yes

Philadelphia Gas Works  
FY2001 Cash Flows and Balances  
Base Case- \$millions

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	TOTAL
Opening Balance- cash includes 97.0 TXCP	2.0	0.6	1.0	-0.9	3.6	-12.8	-4.8	20.8	39.9	48.8	25.6	-4.9	2.0
<b>Receipts</b>													
Gas	25.8	27.2	37.0	48.2	59.6	68.8	76.8	72.6	60.1	44.2	38.3	35.5	594.1
Other	6.7	8.7	1.4	1.0	1.3	1.4	1.4	1.6	1.6	1.6	1.5	3.9	32.1
Drawn from Capital Funds-Principal \$34.8	12.6	14.6	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.8
Drawn from Capital Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds-Principal \$10.3	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0
Drawn from Lease Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Withdrawal	0.6	3.0	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	13.6	0.0	22.7
Rate Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL RECEIPTS</b>	<b>45.7</b>	<b>53.5</b>	<b>46.0</b>	<b>54.7</b>	<b>66.9</b>	<b>70.2</b>	<b>78.2</b>	<b>74.2</b>	<b>61.7</b>	<b>45.8</b>	<b>53.4</b>	<b>39.4</b>	<b>689.7</b>
<b>TOTAL</b>	<b>47.7</b>	<b>54.1</b>	<b>47.0</b>	<b>53.8</b>	<b>70.5</b>	<b>57.4</b>	<b>73.4</b>	<b>95.0</b>	<b>101.6</b>	<b>94.6</b>	<b>79.0</b>	<b>34.5</b>	<b>691.7</b>
<b>Disbursements</b>													
Labor	11.5	12.0	13.1	13.2	10.8	10.7	11.2	10.1	11.3	11.0	10.6	11.3	136.8
Natural Gas	25.8	27.2	24.7	26.6	34.9	37.6	30.8	30.6	29.7	28.7	25.8	25.4	347.8
Debt Service	0.0	3.9	0.0	0.1	25.9	2.7	0.0	4.0	1.7	1.4	37.9	13.3	90.9
TXCP Interest	0.0	0.1	0.0	0.1	0.2	0.4	0.2	0.6	0.4	0.2	0.0	0.0	2.2
<b>City Fee</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>18.2</b>	<b>0.0</b>	<b>0.0</b>	<b>18.2</b>
Other Disbursements	9.8	9.9	10.1	10.2	11.5	10.8	10.4	9.8	9.7	9.5	9.6	9.6	120.9
<b>TOTAL DISBURSEMENTS</b>	<b>47.1</b>	<b>53.1</b>	<b>47.9</b>	<b>50.2</b>	<b>83.3</b>	<b>62.2</b>	<b>52.6</b>	<b>55.1</b>	<b>52.8</b>	<b>69.0</b>	<b>83.9</b>	<b>59.6</b>	<b>716.8</b>
Monthly Cash Flow	-1.4	0.4	-1.9	4.5	-16.4	8.0	25.6	19.1	8.9	-23.2	-30.5	-20.2	-27.1
Cumulative Cash Flow	-1.4	-1.0	-2.9	1.6	-14.8	-6.8	18.8	37.9	46.8	23.6	-6.9	-27.1	
Opening TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
TXCP Issued During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TXCP Issued Paid Down During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
Opening Balance-Cash	2.0	0.6	1.0	-0.9	3.6	-12.8	-4.8	20.8	39.9	48.8	25.6	-4.9	2.0
Monthly Cash Flow	-1.4	0.4	-1.9	4.5	-16.4	8.0	25.6	19.1	8.9	-23.2	-30.5	-20.2	-27.1
Net TXCP Activity Monthly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance-Cash</b>	<b>0.6</b>	<b>1.0</b>	<b>-0.9</b>	<b>3.6</b>	<b>-12.8</b>	<b>-4.8</b>	<b>20.8</b>	<b>39.9</b>	<b>48.8</b>	<b>25.6</b>	<b>-4.9</b>	<b>-25.1</b>	<b>-25.1</b>
Cash Position Net of TXCP	-96.4	-96.0	-97.9	-93.4	-109.8	-101.8	-76.2	-57.1	-48.2	-71.4	-101.9	-122.1	-122.1

PHILADELPHIA GAS WORKS  
DEBT SERVICE COVERAGE  
BASE CASE- \$000's

<u>FUNDS PROVIDED</u>		
1	Operating Revenues	\$644,876
2	Other Income	4,524
3	City Operating Grant	0
4	AFUDC (Interest)	355
5	1 thru 4 TOTAL FUNDS PROVIDED	<u>649,755</u>
<u>FUNDS APPLIED</u>		
6	Operating Expenses	591,022
7	\$20.1M Capital Lease Cost	3,980
8	\$23M Capital Lease Cost	3,997
9	Less: Non-Cash Expenses	37,569
10	6 thru 9 TOTAL FUNDS APPLIED	<u>561,430</u>
<u>FUNDS AVAILABLE TO COVER</u>		
11	5-10 Revenue Bond Funds Available	88,325
12	7+8 Add-Back Lease Costs	7,977
13	11+12 FUNDS AVAILABLE EXCLUDING LEASE COSTS	<u>96,302</u>
<u>FUNDS APPLIED TO DEBT SERV</u>		
14	1975 Ordinance Bonds Debt Service	\$51,611
15	13/14 Debt Service Coverage 1975 Bonds	<u>1.87</u>
16	13-14 Net Available After Prior Debt Service	\$44,691
17	7+8 PMA & Other Capital Leases	7,977
18	16-17 Net Available After Prior Capital Leases	<u>\$36,714</u>
19	1998 Ordinance Bonds Debt Service	\$29,449
20	18/19 Debt Service Coverage 1998 Bonds	<u>1.25</u>
21	18-19 Net Available After 1998 Debt Service	\$7,265
22	1998 Ordinance Subordinate Bond Debt Service	\$1,990
23	21/22 Debt Service Coverage Subordinate Bond	<u>3.65</u>

**Philadelphia Gas Works**  
**Alternative One**

<u>Assumptions:</u>	Rate Increase:	Yes
	\$18 million Payment to City:	Yes
	\$20 million Temporary Advance:	Yes
	Project Revenues From City:	No
	Revenue Reduction - 2.7% Warmer Weather	No
	Senior Citizen Moratorium	No
	\$10 million Productivity Savings	Yes
	GCR Costs of \$97 million	Yes

Philadelphia Gas Works  
FY2001 Cash Flows and Balances  
Alternative 1- \$millions

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	TOTAL
Opening Balance- cash includes 97.0 TXCP	2.0	0.8	1.3	19.6	24.3	8.9	18.0	44.7	65.0	74.9	52.4	22.5	2.0
<b>Receipts</b>													
Gas	25.8	27.2	37.0	48.2	59.6	68.8	76.8	72.6	60.1	44.2	38.3	35.5	594.1
Marginal Revenue-Weather @ \$4,000,000	0.2	0.2	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.3	0.2	4.0
Senior Citizens Discount @ \$1,500,000	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-1.5
Other	6.7	8.7	1.4	1.0	1.3	1.4	1.4	1.6	1.6	1.6	1.5	3.9	32.1
Drawn from Capital Funds-Principal \$34.8	12.6	14.6	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.8
Drawn from Capital Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds-Principal \$10.3	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0
Drawn from Lease Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Withdrawal	0.6	3.0	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	13.6	0.0	22.7
Temporary Advance from City	0.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0
Rate Increase	0.0	0.0	0.0	0.0	0.7	0.8	0.9	0.9	0.7	0.6	0.5	0.5	5.6
<b>TOTAL RECEIPTS</b>	<b>45.9</b>	<b>53.6</b>	<b>66.2</b>	<b>54.9</b>	<b>67.9</b>	<b>71.3</b>	<b>79.3</b>	<b>75.4</b>	<b>62.6</b>	<b>46.5</b>	<b>54.0</b>	<b>40.0</b>	<b>717.8</b>
<b>TOTAL</b>	<b>47.9</b>	<b>54.4</b>	<b>67.5</b>	<b>74.5</b>	<b>92.2</b>	<b>80.2</b>	<b>97.3</b>	<b>120.1</b>	<b>127.7</b>	<b>121.4</b>	<b>106.4</b>	<b>62.6</b>	<b>719.8</b>
<b>Disbursements</b>													
Labor	11.5	12.0	13.1	13.2	10.8	10.7	11.2	10.1	11.3	11.0	10.6	11.3	136.8
Natural Gas	25.8	27.2	24.7	26.6	34.9	37.6	30.8	30.6	29.7	28.7	25.8	25.4	347.8
Debt Service	0.0	3.9	0.0	0.1	25.9	2.7	0.0	4.0	1.7	1.4	37.9	13.3	90.9
TXCP Interest	0.0	0.1	0.0	0.1	0.2	0.4	0.2	0.6	0.4	0.2	0.0	0.0	2.2
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.2	0.0	0.0	18.2
Other Disbursements	9.8	9.9	10.1	10.2	11.5	10.8	10.4	9.8	9.7	9.5	9.6	9.6	120.9
<b>TOTAL DISBURSEMENTS</b>	<b>47.1</b>	<b>53.1</b>	<b>47.9</b>	<b>50.2</b>	<b>83.3</b>	<b>62.2</b>	<b>52.6</b>	<b>55.1</b>	<b>52.8</b>	<b>69.0</b>	<b>83.9</b>	<b>59.6</b>	<b>716.8</b>
Monthly Cash Flow	-1.2	0.5	18.3	4.7	-15.4	9.1	26.7	20.3	9.8	-22.5	-29.9	-19.6	1.0
Cumulative Cash Flow	-1.2	-0.7	17.6	22.3	6.9	16.0	42.7	63.0	72.9	50.4	20.5	1.0	
Opening TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
TXCP Issued During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TXCP Issued Paid Down During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
Opening Balance-Cash	2.0	0.8	1.3	19.6	24.3	8.9	18.0	44.7	65.0	74.9	52.4	22.5	2.0
Monthly Cash Flow	-1.2	0.5	18.3	4.7	-15.4	9.1	26.7	20.3	9.8	-22.5	-29.9	-19.6	1.0
Net TXCP Activity Monthly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance-Cash</b>	<b>0.8</b>	<b>1.3</b>	<b>19.6</b>	<b>24.3</b>	<b>8.9</b>	<b>18.0</b>	<b>44.7</b>	<b>65.0</b>	<b>74.9</b>	<b>52.4</b>	<b>22.5</b>	<b>3.0</b>	<b>3.0</b>
Cash Position Net of TXCP	-96.2	-95.7	-77.4	-72.7	-88.1	-79.0	-52.3	-32.0	-22.1	-44.6	-74.5	-94.0	-94.0

PHILADELPHIA GAS WORKS  
DEBT SERVICE COVERAGE  
ALTERNATIVE 1- \$000's

		<u>BASE</u>	<u>+/-</u>	<u>ALTERNATIVE 1</u>
	<u>FUNDS PROVIDED</u>	<u>CASE</u>		
1	Operating Revenues	\$644,876	\$7,460	\$652,336
2	Other Income	4,524	0	4,524
3	City Operating Grant	0	0	0
4	AFUDC (Interest)	355	0	355
5	1 thru 4 TOTAL FUNDS PROVIDED	649,755	7,460	657,215
	<u>FUNDS APPLIED</u>			
6	Operating Expenses	591,022	0	591,022
7	\$20.1M Capital Lease Cost	3,980	0	3,980
8	\$23M Capital Lease Cost	3,997	0	3,997
9	Less: Non-Cash Expenses	37,569	0	37,569
10	6 thru 9 TOTAL FUNDS APPLIED	561,430	0	561,430
	<u>FUNDS AVAILABLE TO COVER</u>			
11	5-10 Revenue Bond Funds Available	88,325	7,460	95,785
12	7+8 Add-Back Lease Costs	7,977	0	7,977
13	11+12 FUNDS AVAILABLE EXCLUDING LEASE COSTS	96,302	7,460	103,762
	<u>FUNDS APPLIED TO DEBT SERV</u>			
14	1975 Ordinance Bonds Debt Service	\$51,611	\$0	\$51,611
15	13/14 Debt Service Coverage 1975 Bonds	1.87	0.14	2.01
16	13-14 Net Available After Prior Debt Service	\$44,691	\$7,460	\$52,151
17	7+8 PMA & Other Capital Leases	7,977	0	7,977
18	16-17 Net Available After Prior Capital Leases	\$36,714	\$7,460	\$44,174
19	1998 Ordinance Bonds Debt Service	\$29,449	\$0	\$29,449
20	18/19 Debt Service Coverage 1998 Bonds	1.25	0.25	1.50
21	18-19 Net Available After 1998 Debt Service	\$7,265	\$7,460	\$14,725
22	1998 Ordinance Subordinate Bond Debt Service	\$1,990	\$0	\$1,990
23	21/22 Debt Service Coverage Subordinate Bond	3.65	3.75	7.40

**Philadelphia Gas Works**  
**Alternative Two**

<u>Assumptions:</u>	Rate Increase:	Yes
	\$18 million Payment to City:	Yes
	\$20 million Temporary Advance:	Yes
	Project Revenues From City:	Yes
	Revenue Reduction - 2.7% Warmer Weather	No
	Senior Citizen Moratorium	No
	\$10 million Productivity Savings	Yes
	GCR Costs of \$97 million	Yes

Philadelphia Gas Works  
FY2001 Cash Flows and Balances  
Alternative 2- \$millions

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	TOTAL
Opening Balance- cash includes 97.0 TXCP	2.0	0.8	1.3	19.6	24.3	8.9	18.0	44.7	65.0	74.9	70.6	40.7	2.0
<b>Receipts</b>													
Gas	25.8	27.2	37.0	48.2	59.6	68.8	76.8	72.6	60.1	44.2	38.3	35.5	594.1
Marginal Revenue-Weather @ \$4,000,000	0.2	0.2	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.3	0.2	4.0
Senior Citizens Discount @ \$1,500,000	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-1.5
Other	6.7	8.7	1.4	1.0	1.3	1.4	1.4	1.6	1.6	1.6	1.5	3.9	32.1
Drawn from Capital Funds-Principal \$34.8	12.6	14.6	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.8
Drawn from Capital Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds-Principal \$10.3	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0
Drawn from Lease Funds-Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Withdrawal	0.6	3.0	0.0	5.5	0.0	0.0	0.0	0.0	0.0	0.0	13.6	0.0	22.7
Temporary Advance from City	0.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0
Rate Increase	0.0	0.0	0.0	0.0	0.7	0.8	0.9	0.9	0.7	0.6	0.5	0.5	5.6
<b>TOTAL RECEIPTS</b>	<b>45.9</b>	<b>53.6</b>	<b>66.2</b>	<b>54.9</b>	<b>67.9</b>	<b>71.3</b>	<b>79.3</b>	<b>75.4</b>	<b>62.6</b>	<b>46.5</b>	<b>54.0</b>	<b>40.0</b>	<b>717.8</b>
<b>TOTAL</b>	<b>47.9</b>	<b>54.4</b>	<b>67.5</b>	<b>74.5</b>	<b>92.2</b>	<b>80.2</b>	<b>97.3</b>	<b>120.1</b>	<b>127.7</b>	<b>121.4</b>	<b>124.6</b>	<b>80.8</b>	<b>719.8</b>
<b>Disbursements</b>													
Labor	11.5	12.0	13.1	13.2	10.8	10.7	11.2	10.1	11.3	11.0	10.6	11.3	136.8
Natural Gas	25.8	27.2	24.7	26.6	34.9	37.6	30.8	30.6	29.7	28.7	25.8	25.4	347.8
Debt Service	0.0	3.9	0.0	0.1	25.9	2.7	0.0	4.0	1.7	1.4	37.9	13.3	90.9
TXCP Interest	0.0	0.1	0.0	0.1	0.2	0.4	0.2	0.6	0.4	0.2	0.0	0.0	2.2
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Disbursements	9.8	9.9	10.1	10.2	11.5	10.8	10.4	9.8	9.7	9.5	9.6	9.6	120.9
<b>TOTAL DISBURSEMENTS</b>	<b>47.1</b>	<b>53.1</b>	<b>47.9</b>	<b>50.2</b>	<b>83.3</b>	<b>62.2</b>	<b>52.6</b>	<b>55.1</b>	<b>52.8</b>	<b>50.8</b>	<b>83.9</b>	<b>59.6</b>	<b>698.6</b>
Monthly Cash Flow	-1.2	0.5	18.3	4.7	-15.4	9.1	26.7	20.3	9.8	-4.3	-29.9	-19.6	19.2
Cumulative Cash Flow	-1.2	-0.7	17.6	22.3	6.9	16.0	42.7	63.0	72.9	68.6	38.7	19.2	
Opening TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
TXCP Issued During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TXCP Issued Paid Down During Month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending TXCP	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
Opening Balance-Cash	2.0	0.8	1.3	19.6	24.3	8.9	18.0	44.7	65.0	74.9	70.6	40.7	2.0
Monthly Cash Flow	-1.2	0.5	18.3	4.7	-15.4	9.1	26.7	20.3	9.8	-4.3	-29.9	-19.6	19.2
Net TXCP Activity Monthly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance-Cash</b>	<b>0.8</b>	<b>1.3</b>	<b>19.6</b>	<b>24.3</b>	<b>8.9</b>	<b>18.0</b>	<b>44.7</b>	<b>65.0</b>	<b>74.9</b>	<b>70.6</b>	<b>40.7</b>	<b>21.2</b>	<b>21.2</b>
Cash Position Net of TXCP	-96.2	-95.7	-77.4	-72.7	-88.1	-79.0	-52.3	-32.0	-22.1	-26.4	-56.3	-75.8	-75.8

PHILADELPHIA GAS WORKS  
DEBT SERVICE COVERAGE  
ALTERNATIVE 2- \$000's

		<u>ALTERNATIVE 1</u>	<u>+/-</u>	<u>ALTERNATIVE 2</u>
	<b><u>FUNDS PROVIDED</u></b>			
1	Operating Revenues	\$652,336	\$0	\$652,336
2	Other Income	4,524	0	4,524
3	City Operating Grant	0	18,000	18,000
4	AFUDC (Interest)	355	0	355
5	1 thru 4 TOTAL FUNDS PROVIDED	<u>657,215</u>	<u>18,000</u>	<u>675,215</u>
	<b><u>FUNDS APPLIED</u></b>			
6	Operating Expenses	591,022	0	591,022
7	\$20.1M Capital Lease Cost	3,980	0	3,980
8	\$23M Capital Lease Cost	3,997	0	3,997
9	Less: Non-Cash Expenses	37,569	0	37,569
10	6 thru 9 TOTAL FUNDS APPLIED	<u>561,430</u>	<u>0</u>	<u>561,430</u>
	<b><u>FUNDS AVAILABLE TO COVER</u></b>			
11	5-10 Revenue Bond Funds Available	95,785	18,000	113,785
12	7+8 Add-Back Lease Costs	7,977	0	7,977
13	11+12 FUNDS AVAILABLE EXCLUDING LEASE COSTS	<u>103,762</u>	<u>18,000</u>	<u>121,762</u>
	<b><u>FUNDS APPLIED TO DEBT SERV</u></b>			
14	1975 Ordinance Bonds Debt Service	\$51,611	\$0	\$51,611
15	13/14 Debt Service Coverage 1975 Bonds	<u>2.01</u>	<u>0.35</u>	<u>2.36</u>
16	13-14 Net Available After Prior Debt Service	\$52,151	\$18,000	\$70,151
17	7+8 PMA & Other Capital Leases	7,977	0	7,977
18	16-17 Net Available After Prior Capital Leases	<u>\$44,174</u>	<u>\$18,000</u>	<u>\$62,174</u>
19	1998 Ordinance Bonds Debt Service	\$29,449	\$0	\$29,449
20	18/19 Debt Service Coverage 1998 Bonds	<u>1.50</u>	<u>0.61</u>	<u>2.11</u>
21	18-19 Net Available After 1998 Debt Service	\$14,725	\$18,000	\$32,725
22	1998 Ordinance Subordinate Bond Debt Service	\$1,990	\$0	\$1,990
23	21/22 Debt Service Coverage Subordinate Bond	<u>7.40</u>	<u>9.05</u>	<u>16.44</u>

X. APPENDIX: PRIOR R.W. LELASH TESTIMONIES

R. W. LELASH'S REGULATORY TESTIMONIES  
(1995 to Present)

188. Vermont, Green Mountain Power Company (Docket No. 5780) Gas Plant Remediation Testimony for the Vermont Department of Public Service (January, 1995).
189. New Mexico, U S West Communications, Inc. (Docket No. 94-323-TC) Sales of Local Exchanges Testimony for the New Mexico Attorney General (May, 1995)
190. Delaware, Chesapeake Utilities Corporation (Docket No. 95-73) Rate of Return and Gas Remediation Cost Recovery Testimony for the Delaware Public Service Commission (July 1995).
191. Delaware, Delmarva Power & Light Company (Docket No. 95-44) Testimony in Support of Gas Tariff Restructuring for the Delaware Public Service Commission (August, 1995).
192. Philadelphia Gas Commission, Philadelphia Gas Works (1996 Gas Cost Rate Filing) Gas Procurement and Policy Testimony for the Public Advocate (September, 1995).
193. New Jersey, United Water New Jersey (Docket No. WR950780303) Rate of Return Testimony for the New Jersey Division of the Ratepayer Advocate (December, 1995).
194. Vermont, Green Mountain Power Corporation (Docket No. 5857) Rate of Return and Gas Remediation Recovery Testimony for the Vermont Department of Public Services (January, 1996).
195. Rhode Island, Providence Gas Company, (Docket No. 2374) Gas Tariff Restructuring Testimony for the Rhode Island Division of Public Utilities (February, 1996).
196. Rhode Island, Providence Gas Company (Docket No. 1673) Gas Price Hedging Testimony for the Rhode Island Division of Public Utilities (August, 1996).
197. Philadelphia Gas Commission, Philadelphia Gas Works (1997 Gas Cost Rate Filing) Gas Procurement and Policy Testimony for the Public Advocate (September, 1996).
198. Georgia, Atlanta Gas Light (Docket No. 6717-U) Gas Service Unbundling Testimony for the Georgia Public Service Commission (January, 1997).
199. FERC, Cleveland Electric and Toledo Edison (Docket No. ER97-529-000, Consolidated) Rate of Return Rebuttal Testimony for Centerior Energy (April, 1997).
200. Rhode Island, Providence Gas Company (Docket No. 2581) Price Stabilization Plan Testimony for the Rhode Island Division of Public Utilities (August, 1997).
201. New Jersey, New Jersey Natural Gas Company (Docket No. GT96070524) Gas Policy Testimony for the New Jersey Division of the Ratepayer Advocate (August, 1997).
202. Vermont, Green Mountain Power Corporation (Docket No. 5983) Gas Remediation Recovery Testimony for the Vermont Department of Public Service (October, 1997).
203. Philadelphia Gas Commission, Philadelphia Gas Works (1998 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (December, 1997).

204. Vermont, Green Mountain Power Corporation (Docket No. 5983) Gas Remediation Surrebuttal Testimony for the Vermont Department of Public Service (December, 1997).
205. Delaware, Delmarva Power & Light Company (Docket No. 97-293F) Gas Price Hedging Testimony for the Delaware Public Service Commission (January, 1998).
206. Delaware, Artesian Water Company (Docket No. 97-340) Rate of Return Testimony for the Delaware Public Service Commission (February, 1998).
207. Georgia, Atlanta Gas Light Company (Docket No. 8390-U) Regulatory Policy Testimony for the Energy Service Providers Association (March, 1998).
208. New Jersey, Public Service Electric & Gas Company (Docket No. GR97110839) Gas Procurement and Policy Direct Testimony for the New Jersey Division of the Ratepayer Advocate (April, 1998).
209. New Jersey, Public Service Electric & Gas Company (Docket No. GR97110839) Gas Procurement and Policy Surrebuttal Testimony for the New Jersey Division of the Ratepayer Advocate (April, 1998).
210. Philadelphia Gas Commission, Philadelphia Gas Works (1998 GCR Proceeding) Gas Price Hedging Position Statement for the Public Advocate (May, 1998).
211. Philadelphia Gas Commission, Philadelphia Gas Works (1999 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (October, 1998).
212. Georgia, Cumberland Pipeline Investigation (Docket No. 10064-U) Regulatory Policy Testimony for East Tennessee Natural Gas Company (March, 1999).
213. New Jersey, Generic Unbundling Proceeding (Docket No. GX99030121) Gas Policy Testimony for the New Jersey Division of the Ratepayer Advocate (July, 1999).
214. New Jersey, Public Service Electric & Gas Company (Docket No. GO99030124) Gas Unbundling Testimony for the New Jersey Division of the Ratepayer Advocate (July, 1999).
215. Philadelphia Gas Commission, Philadelphia Gas Works (2000 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (September, 1999).
216. New Jersey, Generic Unbundling Proceeding (Docket No. GX99030121) Gas Policy Surrebuttal Testimony for the New Jersey Division of the Ratepayer Advocate (September, 1999).
217. New Jersey, Public Service Electric and Gas Company (Docket No. GO99030124) Gas Unbundling Surrebuttal Testimony for the New Jersey Division of the Ratepayer Advocate (September, 1999).
218. Pennsylvania, Columbia Gas of Pennsylvania, Inc. (Docket No. R-00994781) Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (October, 1999).
219. Pennsylvania, Columbia Gas of Pennsylvania, Inc. (Docket No. R-00994781) Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (October, 1999).
220. Rhode Island, Narragansett Electric Company et al. (Docket No. 2930) Merger Policy Testimony for the Rhode Island Department of Attorney General (November, 1999).

221. Delaware, Delmarva Power & Light Company (Docket No. 99-425F) Evaluation of Price Hedging Testimony for the Delaware Public Service Commission (December, 1999).
222. Rhode Island, Narragansett Electric Company et al. (Docket No. D-99-12) Merger Policy Testimony for the Rhode Island Department of Attorney General (December, 1999).
223. Pennsylvania, PECO Energy Company (Docket No. R-00994787) Restructuring Testimony for the Pennsylvania Office of Consumer Advocate (January, 2000).
224. Pennsylvania, PECO Energy Company (Docket No. R-00994787) Restructuring Surrebuttal Testimony for the Pennsylvania Office of Consumer Advocate (February, 2000).
225. Rhode Island, Providence Gas Company and Southern Union (Docket No. D-00-3) Merger Policy Testimony for the Rhode Island Division of Public Utilities and Department of Attorney General (May, 2000).
226. Philadelphia Gas Commission, Philadelphia Gas Works (2001 GCR Proceeding) Gas Procurement and Policy Testimony for the Public Advocate (August, 2000).

DOCUMENT  
FOLDER

PICGUG Statement No. 1

9/28/00

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Phil, DD

MS

PENNSYLVANIA PUBLIC  
UTILITY COMMISSION

v.

Docket No. R-00005654

PHILADELPHIA GAS WORKS

**DOCKETED**  
OCT 10 2000

PA.P.U.C.  
SECRETARY'S BUREAU

00 OCT -6 PM 12:52

RECEIVED

DIRECT TESTIMONY  
AND EXHIBITS  
OF  
RICHARD A. BAUDINO

ON BEHALF OF THE  
PHILADELPHIA INDUSTRIAL AND COMMERCIAL  
GAS USERS GROUP

ISSUE ADDRESSED:  
REASONABLENESS OF PGW'S REQUEST FOR INTERIM RELIEF

J. KENNEDY AND ASSOCIATES, INC.  
ROSWELL, GEORGIA

SEPTEMBER 18, 2000

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC  
UTILITY COMMISSION

v.

PHILADELPHIA GAS WORKS

:  
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Docket No. R-00005654

**DIRECT TESTIMONY OF RICHARD A. BAUDINO**

1 **Q. Please state your name and business address.**

2 A. Richard A. Baudino, J. Kennedy and Associates, Inc. ("Kennedy and Associates"),  
3 570 Colonial Park Drive, Suite 305, Roswell, Georgia.

4 **Q. What is your occupation and who employs you?**

5 A. I am a utility rate and economic consultant holding the position of Director of  
6 Consulting with the firm of Kennedy and Associates.

7 **Q. Please describe your education and professional background.**

8 A. I received my Master of Arts degree with a major in Economics and a minor in  
9 Statistics from New Mexico State University in 1982. I also received my Bachelor  
10 of Arts degree with majors in Economics and English from New Mexico State in  
11 1979.

12 I began my professional career with the New Mexico Public Service Commission  
13 Staff in October of 1982 and was employed there as a Utility Economist. During my  
14 employment with the Staff, my responsibilities included the analysis of a broad range  
15 of issues in the ratemaking field. Areas in which I testified included cost of service,  
16 rate of return, rate design, revenue requirements, analysis of sale/leasebacks of  
17 generating plants, utility finance issues, and generating plant phase-ins.

18

1 In October 1989 I joined the utility consulting firm of Kennedy and Associates as a  
2 Senior Consultant where my duties and responsibilities covered substantially the  
3 same areas as those during my tenure with the New Mexico Public Service  
4 Commission Staff. I became Manager in July 1992 and was named to my current  
5 position in January 1995.

6 Exhibit \_\_\_(RAB-1) summarizes my expert testimony experience.

7 **Q. On whose behalf are you testifying in this proceeding?**

8 A. I am testifying on behalf of the Philadelphia Industrial and Commercial Gas Users  
9 Group.

10 **Q. What is the purpose of your direct testimony?**

11 A. The purpose of my direct testimony is to address the reasonableness of Philadelphia  
12 Gas Works' ("PGW" or "Company") request for interim rate relief. My direct  
13 testimony will respond to the prefiled direct testimonies of PGW witnesses Thomas  
14 Knudsen and Barbara Bisgaier who support the Company's request for interim rate  
15 relief.

16 **Q. Please summarize PGW's request to the Pennsylvania Public Utility  
17 Commission ("PUC" or "Commission") in this proceeding.**

18 A. According to PGW's Petition in this proceeding, the Company asks that the  
19 Commission:

- 20 1. Establish an expedited hearing schedule to consider the Company's interim  
21 rate request.
- 22 2. Establish an interim rate level that would allow the Company "to maintain a

1 minimal, adequate level of financial health required to fund operations and  
2 meet debt service requirements through the winter heating season until the  
3 *Commission can conduct and rule on a full base rate proceeding.*"

4 3. Declare that the only issue to be considered at the interim rate hearing is the  
5 level of interim rates that should be reasonably allowed.

6 4. Declare that the Commission will utilize the ratemaking methodology used  
7 by the Philadelphia Gas Commission.

8 5. Waive any and all provisions of the Code or Commission regulations that are  
9 inconsistent with this request.

10 **Q. What was the Commission's response to the Company's Petition?**

11 A. The Commission issued an Order Establishing Interim Rate Procedures on August  
12 17, 2000. The Commission's Order established a procedure whereby the Company's  
13 request for interim rates would be considered in an expedited manner. However, the  
14 Commission did not limit the scope of the interim rate proceeding. The Commission  
15 also placed several important conditions on its approval of the expedited hearing  
16 schedule, namely:

17 1. PGW must file a base rate case on or before January 1, 2001.

18 2. PGW must commit that any interim relief would be fully subject to refund  
19 based on the outcome of the base rate proceeding.

20 3. PGW must commit that it will not seek to recoup additional revenues from  
21 ratepayers if the Commission determines that a higher level of permanent  
22 rates should be granted.

1           4.     PGW must commit to its "Transition to Excellence" plan and must prove that  
2                   it is providing safe and adequate service to customers.

3     **Q.     Has the Company committed to the four conditions that the Commission set**  
4           **forth in its Order?**

5     A.     I believe it has. Mr. Knudsen's testimony indicates that the Company will comply  
6           with the Commission's conditions.

7     **Q.     Have you fully reviewed the Company's request for interim rate relief?**

8     A.     Yes. I have conducted a detailed review of the direct testimonies filed by Mr.  
9           Knudsen and Ms. Bisgaier.

10    **Q.     Based on your review of the Company's interim rate request, should the**  
11        **Commission grant the interim relief requested by the Company?**

12    A.     In my opinion, it would be reasonable for the Commission to grant the minimum  
13        level of interim relief to PGW necessary to maintain service until next year, when the  
14        Commission can conduct a full base rate proceeding. However, there are several  
15        very important and unresolved issues relating to PGW's request for rate relief.  
16        Because of these issues, I believe that the Commission has a great deal of latitude in  
17        deciding how much relief to grant to PGW in this interim rate proceeding.

18    **Q.     Please summarize the unresolved issues relating to PGW's request for interim**  
19        **relief.**

20    A.     The issues that I recommend the Commission consider are as follows:

21        1.     The Company's current financial situation appears to be of its own making  
22           and has been known to the Company for some time.

1           2.     Prudent management should have addressed the Company's financial  
2           situation before it reached its current crisis proportion. This would have  
3           averted the need for interim rate relief.

4           3.     The parties have not had adequate time and opportunity to conduct discovery  
5           to determine the reasonableness of PGW's request.

6           4.     According to documents filed by the Company, PGW has experienced weak  
7           debt coverage in the past, yet continued to meet its obligations and provide  
8           service to customers.

9     **Q.     Please explain the basis for your statement that the Company has known about**  
10    **its financial situation for some time.**

11    A.     Appendix B, page 1 of 5 attached to Mr. Knudsen's testimony indicates that PGW  
12    experienced losses for the last two fiscal years – a \$20.25 million loss in 1999 and a  
13    \$15.08 million loss in fiscal year 2000. Thus, the Company's management obviously  
14    knew for at least two years that it was not adequately covering its ongoing expenses  
15    and payment to the City of Philadelphia.

16    The financial community also knew of PGW's weak financial condition. Appendix  
17    A attached to Ms. Bisgaier's testimony contains a report from Standard and Poor's  
18    that evaluated the Company's bond rating and financial status. The report noted the  
19    following:

20           Over the past three years, including estimates for fiscal 2000,  
21           operating expenses have exceeded operating revenues, reducing  
22           reserves and cash balances. In fiscal 2000, no excess revenues were  
23           generated to contribute to ongoing and long-term capital needs. The  
24           revised five-year fiscal 2002-2006 capital program totals \$266.4  
25           million – a \$91 million decline from the previous program. While

1 current management believes this program is better targeted to  
2 address immediate needs, it is unclear that the ongoing investment has been  
3 adequately made in the system.  
4

5 Mr. Knudsen filed candid direct testimony regarding PGW's problems before the  
6 PGC in June 2000. I have included pages 8 through 17 of that testimony in Exhibit  
7 \_\_\_\_ (RAB-2). Mr. Knudsen noted the following serious problems and challenges  
8 faced by his new management team:

- 9 1. The team "inherited an enterprise in decline". (page 8).
- 10 2. Mr. Knudsen noted: "The degree of difficulty into which PGW was allowed  
11 to slide is what has alarmed most thoughtful people. The very idea that PGW  
12 would be forced to borrow to the limit of its letter of credit of \$100 million  
13 would have been unthinkable just a few years ago". (page 13).
- 14 3. Prior management enacted a series of "stopgap" measures to allow PGW to  
15 comply with its coverage requirements. These measures forestalled rate  
16 increases in the short-term but apparently had the effect of reducing the  
17 Company's cash reserves. (page 14)
- 18 4. PGW lacked a strategic vision for the future. (page 16)

19 The facts show that both PGW's management and the financial community were well  
20 aware of PGW's weakened financial condition for several years. Yet, PGW's  
21 management failed to seek timely rate relief from the Philadelphia Gas Commission  
22 ("PGC"). Now, PGW's new management team has declared a sudden crisis and took  
23 the extraordinary step of seeking interim rate relief from the PUC.  
24

1 Q. Are there areas of legitimate concern regarding the Company's current  
2 financial status?

3 A. Yes. First, PGW forecasts a negative cash position of \$25 million by the end of  
4 fiscal year 2001. Should this negative cash position actually materialize, it gives the  
5 Company very little, if any, financial flexibility to meet contingencies that may arise,  
6 such as warmer than expected weather.

7 Second, the Company needs to continue to invest in ongoing system expansion and  
8 improvements. Based on the data submitted by the Company, its current level of  
9 rates appears to restrict its ability to continue these necessary investments.

10 Third, PGW needs to make debt payments as well as issue new debt some time next  
11 year. Given the losses sustained by the Company over the last three years and the  
12 forecast of continued losses into 2001, the Company's future financing ability could  
13 be put under pressure.

14 Fourth, PGW has borrowed to the \$100 million limit of its commercial paper  
15 program in order to fund ongoing operations. PGW now faces the possibility that the  
16 banks that underwrote this program in the past will not continue to do so in the  
17 future, putting the program at risk.

18 Q. Based on your review of PGW's interim rate request filing, are there  
19 circumstances that mitigate the Company's need for rate relief at this time?

20 A. Yes. First, Mr. Knudsen testified that the City of Philadelphia stands ready to  
21 provide PGW a short-term loan to assist the Company in meeting a monthly cash  
22 deficiency and to provide a "limited backstop" if the Company cannot make its

1 coverage requirements. See Direct Testimony of Thomas Knudsen, p. 11, lines 17-  
2 22. Although such a short-term loan would most likely not eliminate the need for a  
3 permanent rate increase, it could certainly lessen the Company's need for an interim  
4 increase.

5 Second, PGW and the City of Philadelphia could consider a short-term deferral of the  
6 Company's \$18 million yearly payment to the City. Mr. Knudsen's testimony  
7 indicates that the City has been flexible with respect to how and when this payment  
8 has been made in the past. I am currently not suggesting forgiveness of the payment,  
9 only a deferral if such deferral would ease the Company's cash situation next year.  
10 In my opinion, PGW and the City should consider this option seriously.

11 Third, PGW should consider the short-term deferral of construction expenditures.  
12 Mr. Knudsen's cash flow projection provided on page 2 of Appendix B shows  
13 expected net construction expenditures of \$62.3 million. Given the short-term cash  
14 problems facing the Company, PGW should review this projection carefully to  
15 determine whether the projects included in the construction forecast may be deferred  
16 until the next fiscal year.

17 **Q. Do you have any concerns with respect to the cash flow projections you**  
18 **mentioned?**

19 **A.** Yes. There are a number of issues that relate to Mr. Knudsen's cash flow projections  
20 that should be considered. First and foremost, the parties have not had an adequate  
21 opportunity to review the Company's cash flow projections for reasonableness. A  
22 more thorough review could allow revisions or corrections to the Company's

1 projections that would show a much different financial picture.

2 Second, a closer review of the Company's monthly cash flow projections shows a  
3 different scenario from the dire picture painted by Mr. Knudsen and Ms. Bisgaier.  
4 Page 4 of Mr. Knudsen's Appendix B presents a monthly cash flow projection for  
5 PGW under the assumption of no base rate increase, a Gas Cost Recovery ("GCR")  
6 increase effective October 15, 2000, and a productivity savings of \$10 million. The  
7 forecast shows that PGW's cumulative cash flow does not turn permanently negative  
8 until July 2001 (-\$6.9 million) and ends the fiscal year at -\$27.1 million. If the City  
9 allowed PGW to defer its \$18 million payment and provided a short-term bridge  
10 loan, the Company could well break even on a cash basis for the entire fiscal year of  
11 2001.

12 **Q. If the City of Philadelphia provided a short-term bridge loan and allowed PGW**  
13 **to defer its \$18 million payment until permanent rates were granted by the**  
14 **PUC, could this reduce the need for an interim increase?**

15 **A. Yes. These two actions would reduce the need for part or all of the \$52 million**  
16 **interim increase sought by PGW.**

17 **Q. On page 4, line 22 through page 5, line 1 of Ms. Bisgaier's direct testimony, she**  
18 **states that if PGW is not granted increases in both its GCR and base rates that**  
19 **there is a "substantial probability" that PGW will be in default of its bond**  
20 **covenants. Do you agree with her assessment?**

21 **A. I have not reviewed the Company's GCR case to determine the reasonableness of the**  
22 **Company's projected gas costs. However, only if the Company utilizes least cost gas**

1 procurement practices that are reasonable and correct, as determined by the  
2 Commission, can I agree with Ms. Bisgaier's assessment of the Company's financial  
3 situation. PGW would not be able to cover its substantial increases in the cost of gas  
4 without immediate relief from the Commission.

5 However, assuming the PUC grants PGW's requested increase in the GCR, the  
6 Company's forecasted financial situation improves tremendously. And although the  
7 Commission may determine that the Company should be granted an increase in its  
8 permanent base rate proceeding, I do not believe that a denial of the Company's \$52  
9 million interim rate request would necessarily result in a downgrading of its bonds.

10 **Q. On page 13, lines 9 through 15, Ms. Bisgaier opined that if PGW did not receive**  
11 **rate relief in November of this year, the Company's bonds would be**  
12 **downgraded. Do you agree with her assessment?**

13 **A.** No. I interpret Ms. Bisgaier's testimony in this regard to mean that a downgrade will  
14 happen if the Commission does not grant the Company's request for interim rate  
15 relief. I assert that neither Ms. Bisgaier nor myself can predict what absolutely will  
16 happen to the Company's bond rating if interim relief is not granted. My reading of  
17 the Standard and Poor's evaluation of PGW is that the agency believes that the  
18 Company needs some form of rate relief. However, whether that relief comes now  
19 in the form of an interim increase or later in the form of a permanent rate increase is  
20 not specifically stated. My past experience in reviewing bond rating reports is that  
21 the agencies look at both the present and expected future circumstances of a company  
22 in determining their bond ratings. It has been my experience that a company can fall

1 short of the quantitative requirements for a particular rating and still not be  
2 downgraded if the agencies believe that the subject company will obtain relief in the  
3 future.

4 It should also be noted that Standard and Poor's discussion of PGW noted  
5 historically weak interest coverage. Specifically, as noted in Appendix A of Ms.  
6 Bisgaier's testimony, the report stated:

7 *Minimal coverage has been a historic problem. PGW implemented*  
8 *non-recurring actions in fiscals 1995, 1998, and 1999 to meet its rate*  
9 *covenant. Steps were not needed in fiscal 2000, because the*  
10 *calculation of the rate covenant was liberalized under the provisions*  
11 *of the 1998 indenture. Debt service coverage in fiscal 1999 of all*  
12 *revenue bonds was 1.11 times (x), with estimated fiscal 2000 results*  
13 *generating 1.31x DSC. However, when coverage of all fixed*  
14 *payments – including lease payments – is calculated, fiscal 1999 DSC*  
15 *was a minimal 1.01x, and fiscal 2000 DSC is 1.20x.*  
16

17 Standard and Poor's also noted that debt service coverage of all obligations after the  
18 \$18 million transfer to the City was less than 1.0 times in fiscal years 1998 and 1999.  
19 Despite these low historical coverage ratios, PGW maintains a BBB rating.

20 **Q. What are the interest coverage ratios that Mr. Knudsen forecasted assuming no**  
21 **interim rate relief and a GCR increase?**

22 **A.** On page 3 of Appendix B, Mr. Knudsen forecasted coverage ratios of 1.87 for the  
23 1975 Ordinance Bonds, 1.26 for the 1998 Ordinance Bonds, and 3.65 for the 1998  
24 Ordinance Subordinate Bonds.

25 **Q. In your opinion, would these ratios result in an automatic downgrade of PGW's**  
26 **bonds?**

27 **A.** Not necessarily. Although the rating agencies would obviously view an interim

1 increase favorably, I do not believe there is sufficient evidence that the agencies  
2 would automatically downgrade PGW's debt if an interim increase were denied.  
3 There are other factors that could be considered, such as the City's willingness to  
4 provide a bridge loan, whether the City would allow PGW to defer its \$18 million  
5 payment temporarily, and the ultimate outcome of the Company's case for permanent  
6 rates.

7 **Q. On pages 8 and 9 of her direct testimony, Ms. Bisgaier describes the situation**  
8 **relating to the extension of PGW's letter of credit with Morgan Guaranty and**  
9 **the potential effect on the Company's commercial paper program. Does Ms.**  
10 **Bisgaier's testimony raise valid concerns for the Commission?**

11 **A.** Yes. The cash flow scenarios presented by Mr. Knudsen all assume that the  
12 Company's commercial paper program continues through 2001. However, if PGW  
13 cannot find a bank to underwrite the program through a letter of credit, the effect on  
14 the Company could be quite serious. This is because PGW has apparently relied on  
15 its commercial paper program as a source of financing for the last several years. The  
16 Company has issued up to the maximum amount allowed - \$97 million - during that  
17 time and Mr. Knudsen forecasts the same amount going forward into fiscal 2001.  
18 It should be noted that Ms. Bisgaier stated that Morgan Guaranty advised her that the  
19 search for new participants in the letter of credit could be delayed until November or  
20 December 2000 "in anticipation that the GCR and base rate increases will have been  
21 granted". Assuming that the PUC grants the Company its requested GCR relief, the  
22 Commission will have addressed a substantial amount of uncertainty surrounding the

1 Company's financial future. This may make it easier for Morgan to find other  
2 participants to participate in the letter of credit and allow the Company to continue  
3 its commercial paper program through 2002.

4 **Q. Based on your analysis of PGW's interim rate request, what is your conclusion**  
5 **with respect to the amount of interim increase that the PUC should grant to the**  
6 **Company?**

7 A. My conclusion is that the Commission has substantial latitude in the amount of rate  
8 relief that it grants in this proceeding. In my opinion, the Commission could  
9 reasonably and substantially reduce the Company's request. For example, the  
10 Commission could consider granting 30%, or \$15.6 million, of the Company's  
11 requested interim relief. This level of relief would improve the financial indicators  
12 presented by Mr. Knudsen in the "no interim relief" scenario and would cushion the  
13 rate impact on PGW's customers. Moreover, PGW has not provided any justification  
14 that the full \$52 million rate increase request is necessary to maintain the Company's  
15 financial health until next year's base rate proceeding.

16 There are good reasons why the Commission should substantially reduce PGW's  
17 requested interim revenue increase. First, if the PUC grants the Company its  
18 requested GCR increase, a substantial amount of financial uncertainty will be  
19 relieved and a financial disaster will be averted. Second, the City of Philadelphia  
20 could relieve additional cash flow pressure on the Company by offering a short-term  
21 bridge loan and by allowing PGW to temporarily defer its \$18 million payment.  
22 These two actions alone could enable the Company to reasonably operate next year

1 without an interim increase. Third, it is unclear whether PGW's bonds would be  
2 downgraded without an interim revenue increase. In my opinion, the level of  
3 permanent revenue increase will be of more importance to the bond rating agencies  
4 with respect to the Company's future bond rating.

5 Finally, it is important to consider the effect on PGW's ratepayers of the combined  
6 effect of the Company's proposed GCR and interim base rate increases. PGW stated  
7 on page 10, paragraph 12 of its Petition in this proceeding that it is seeking an  
8 additional \$97 million in GCR costs as well as a \$52 million interim base revenue  
9 increase, resulting in a total revenue increase of approximately \$149 million. This  
10 is a substantial increase to say the least. The Commission may wish to consider this  
11 significant combined effect and reduce the Company's requested interim increase to  
12 cushion the effect of rate shock on PGW's customers.

13 **Q. Have you identified other issues for the Commission to consider in determining**  
14 **the amount of interim increase to grant to PGW in this proceeding?**

15 A. Yes. Customer service quality and reliability are important concerns for PGW. On  
16 page 14, line 7 and continuing through page 15, line 14 of his direct testimony in this  
17 proceeding, Mr. Knudsen touched on some of PGW's past problems relating to  
18 customer service and the IT system. He also noted the "ten years of neglect and bad  
19 decisions" that created PGW's present problems and confirmed the Company's  
20 commitment to its Transition to Excellence program.

21 In its Order Establishing Interim Rate Procedures, the Commission ordered that the  
22 Company continue its commitment to its Transition to Excellence program and that

1           it demonstrate throughout the interim rate period that it is providing safe and  
2           adequate service to ratepayers. I recommend that if the Commission grants any  
3           interim relief in this proceeding, PGW should be required as a condition of any such  
4           increase to continue its Transition to Excellence program and demonstrate to the  
5           Commission and the parties that it is providing safe and reliable service to customers.

6   **Q.   Should any interim increase granted by the Commission be refundable?**

7   A.   Yes. As a condition of granting an interim increase to PGW, the Commission should  
8           make any such increase fully refundable pending the outcome of the proceeding on  
9           permanent rates for the Company.

10 **Q.   Does this conclude your direct testimony?**

11 A.   Yes.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC  
UTILITY COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No. R-00005654

**EXHIBITS**

**OF**

**RICHARD A. BAUDINO**

**ON BEHALF OF THE  
PHILADELPHIA INDUSTRIAL AND COMMERCIAL  
GAS USERS GROUP**

**J. KENNEDY AND ASSOCIATES, INC.  
ROSWELL, GEORGIA**

**SEPTEMBER 18, 2000**

## RESUME OF RICHARD A. BAUDINO, DIRECTOR OF CONSULTING

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### EDUCATION

New Mexico State University, M.A.  
Major in Economics  
Minor in Statistics

New Mexico State University, B.A.  
Economics  
English

Seventeen years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins and rate design. Has designed revenue requirement and rate design analysis programs.

### REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Electric and Gas Utility Rate Design  
Cost of Capital for Electric, Gas and Water Companies  
Ratemaking Treatment of Generating Plant Sale/Leasebacks  
Electric and Gas Utility Cost of Service  
Revenue Requirements  
Gas industry restructuring and competition

## RESUME OF RICHARD A. BAUDINO, DIRECTOR OF CONSULTING

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### EXPERIENCE

1989 to

**Present:** Kennedy and Associates: **Director of Consulting** - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to

**1989:** New Mexico Public Service Commission Staff: **Utility Economist** - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

### CLIENTS SERVED

#### Regulatory Commissions

Louisiana Public Service Commission

#### Industrial Groups

Ad Hoc Committee for a Competitive  
Electric Supply System  
Air Products and Chemicals, Inc.  
Arkansas Electric Energy Consumers  
Arkansas Gas Consumers  
Armco Steel Company, L.P.  
Association of Business Advocating  
Tariff Equity  
General Electric Company  
Industrial Energy Consumers

Kentucky Industrial Utility Consumers  
Large Electric Consumers Organization  
Newport Steel  
Northwest Arkansas Gas Consumers  
Maryland Industrial Group  
Occidental Chemical  
PSI Industrial Group  
Taconite Intervenors (Minnesota)  
Tyson Foods

Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000

Date	Case	Jurisdic.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/84	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/88	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.

**Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000**

Date	Case	Jurisdic.	Party	Utility	Subject
06/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.

Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000

Date	Case	Jurisdic.	Party	Utility	Subject
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035-E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.

**Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000**

Date	Case	Jurisdct.	Party	Utility	Subject
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343-000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042-000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.

**Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000**

Date	Case	Jurisdct.	Party	Utility	Subject
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania- American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro- Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.

Expert Testimony Appearances  
of  
Richard A. Baudino  
As of September 2000

Date	Case	Jurisdiction	Party	Utility	Subject
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
1/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.
1/00	8829	MD	Maryland Industrial Gr. & United States Gypsum Company	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
5/00	U-17735	LA	Louisiana Public Service Commission	Louisiana Electric Cooperative	Rate restructuring.
7/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.

1 have on PGW's competitive position. Management has not determined  
2 the elasticity of demand relating to an increase in rates; i.e., how much  
3 less people will consume because of the increase in price. However, we  
4 have raised the provision for uncollectible accounts and have assumed  
5 an aggressive effort at collecting funds to offset this potential effect. To  
6 the extent the effects of elasticity are more than our estimates, the  
7 adjustments above may prove conservative.

8  
9 It is the position of PGW/PFMC management that having inherited an  
10 enterprise in decline, having committed the organization to a stringent  
11 program of cost reduction and being faced with the absolute need to bring  
12 PGW back from the brink of financial disaster as quickly as is feasible, a  
13 9% increase in rates or \$52 million is essential. To implement this  
14 increase we are proposing a change in the customer charge from \$8 to  
15 \$15 per residential customer and similar changes for firm commercial and  
16 industrial customers, as well. There was no alternative to potentially  
17 angering customers or of compromising PGW's gains in its pricing  
18 posture.

19  
20 As will be demonstrated, the rationale for this action has three  
21 components:

- 22 1. For FY2001, the objectives are (1) to immediately provide PGW  
23 with sufficient funds to operate PGW this fall so as to meet the

1 obligation to fund operations and satisfy fiduciary responsibilities to  
2 bondholders and the City, (2) to begin the process of offsetting the  
3 effects of warm weather on earnings and cash flow through the  
4 change in the customer charge and, (3) last, to be in a position to  
5 sell long term securities next spring. Note that the Construction  
6 Fund is anticipated to be depleted by December.

7  
8 2. For FY2001 and FY2002, the objective is to immediately reduce  
9 the short term debt position to more acceptable historic levels and  
10 to build up more acceptable fund balances.

11  
12 3. For FY2002 and FY2003, the objective is to move in a direction  
13 which will allow PGW to fund a substantial portion of the capital  
14 program from internal generation. Accomplishing this would, in  
15 turn, have the threefold effect of (1) reducing the company's sole  
16 reliance on long term debt as the source of funds to make capital  
17 expenditures, as has been the case over the last 5 years, (2)  
18 increasing the equity to debt ratio with the objective of seeking an  
19 upgrade in our bond ratings and (3) reducing the cost of borrowing.  
20 Toward the end, the budget assumes only a \$75 million issuance in  
21 FY2001 compared to the two prior issues of \$100 million each.

22

1 The monthly cash flow statements attached as Exhibit TEK-2a and 2b  
2 show the stark difference in our experience with and without rate relief  
3 which is assumed to be granted in September. Even with the assumption  
4 of the successful implementation of productivity gains and costs savings  
5 and with normal weather, the cash balances are not substantial. A  
6 warmer than normal winter or an inability to deliver immediately on cost  
7 reductions will leave the company vulnerable. With rate relief, the  
8 balances are at more normal levels.

9  
10 With the submission of the five year projections, there will be additional  
11 forecasts of the out year cash conditions under varying assumptions.

12  
13 In the long term we must bring our prices more in alignment with our  
14 competition both on an mcf and a btu basis for certain. The reality is  
15 bearing down on PGW that the world has changed for gas distribution  
16 companies. PGW is no longer an adjunct of City operations. Nor is it a  
17 vehicle for providing employment – management or labor – without  
18 reference to the effects on staffing levels and methods of operating and  
19 on the rates we charge customers or the service we provide them. We  
20 must learn to compete effectively. For PGW that means (1) providing an  
21 uncompromisingly high level of service to recapture and then hold  
22 customer allegiance in the face of competition and (2) participating in the  
23 rebuilding of the City and garnering as large a share of the Philadelphia

1 energy market as is possible. In a world where retail customers are  
2 increasingly no longer the primary focus of utility management, PGW can  
3 create a substantial competitive advantage.

4  
5 **Q. You discuss the need for a base rate increase and present a budget**  
6 **requiring additional revenues of \$52 million. In light of the fact that,**  
7 **as of July 1, 2000 certain regulatory authority over PGW has been**  
8 **transferred to the PUC, please explain why PGW has submitted a**  
9 **rate increase as well as an operating budget for review by the PGC.**

10  
11 **A.** While it is true that, in several specified areas, regulatory authority over  
12 PGW will be transferred to the PUC as of July 1, 2000, PGW has  
13 submitted its rate relief needs to the PGC for its review and decision for  
14 two important reasons. First, our PUC counsel has advised me that a  
15 ruling from the PGC on the appropriate revenue requirement and rates for  
16 PGW may have special legal significance, in light of the fact that PGW's  
17 filings are being made prior to July 1 and the proposed tariff effective date  
18 is retroactive to the filing, June 19, 2000. Our counsel is continuing to  
19 explore this from a legal standpoint and we will present our view to the  
20 PUC at the appropriate time.

21  
22 Second, regardless of its legal significance, the PGC's view of the  
23 appropriate level of rates will be very important in informing the PUC

1 about the level of rates that it must establish for PGW. Regulatory  
2 counsel has indicated that, once it obtains jurisdiction, the Pennsylvania  
3 Public Utility Code requires the PUC to utilize the ratemaking  
4 methodology and requirements used by the PGC. Thus, the PGC's  
5 budget approval and advice on the appropriate level of rates for PGW will  
6 be highly probative information when the PUC considers the issue of the  
7 appropriate rate level for PGW.

8  
9 **Q. Could you please explain how PGW structured this case and which**  
10 **witnesses will appear for what purpose?**

11 **A.** *Yes. Because of the critical nature of this proceeding, our intention is to*  
12 *give the Commission as much information as we can for it to reach an*  
13 *informed conclusion with regard to PGW operations. It is also important*  
14 *to state that with the dynamics that are occurring at PGW, a thorough and*  
15 *constructive review of our numbers over the next few months will be very*  
16 *valuable. We welcome the opportunity of parties to challenge our*  
17 *program definitions and redefinition's in the face of numerous evaluations*  
18 *we have just completed and the imminent management audit. PGW at*  
19 *this moment is a work in progress. We value the insight and assistance*  
20 *we will get from interested and concerned parties.*

21  
22 To that end we are providing testimonies as follows:

1 Thomas E. Knudsen – Corporate Policy

2 Joseph R. Bogdonavage – Financial Report and Accounting Adjustments

3 Thomas Smyth - Accounts Receivable, Bad Debt and Depreciation

4 Dennis Stinson – Capital Budget

5 Howard Gormam, R. J. Rudden Associates – Cost of Service Study;

6 Rate Design

7 Colbert Narcisse of Merrill Lynch – Financial Planning; Capital Structure

8 Craig White – Marketing and Sales

9 Craig White – Gas Cost Recovery

10

11 **Q. Please return to your statement of purpose. What is your**  
12 **understanding of the origins of the current financial difficulties?**

13 **A.** *The present situation is not unexpected. Both the need for basic reforms*  
14 *and an accompanying need for rate relief have long been anticipated.*  
15 *For those of us who were watching the direction of the company closely*  
16 *over the last five years, the need for action was obvious, even before the*  
17 *warmer than normal weather began to be routine starting in 1997.*

18

19 *The degree of difficulty into which PGW was allowed to slide is what has*  
20 *alarmed most thoughtful people. The very idea that PGW would be*  
21 *forced to borrow to the limit of its letter of credit of \$100 million would*  
22 *have been unthinkable just a few years ago.*

1

2

The last administration and prior management was able to effectively finesse the situation with a series of stop gap measures which allowed PGW to make its required coverage ratios. Those measures included a forward purchase agreement in 1995 which granted back to PGW future earnings on the bond sinking fund reserve which technically belonged to the City but which had been allowed to remain with PGW. This move provided the company with \$21.5 million in additional revenues to make its bond coverage that year but denied PGW a similar amount of income over the last five years. That \$21.5 million could be well-used right now.

11

12

A second bit of opportunistic maneuvering was to recast the indenture agreement in 1998 to permit funds available from operations to be used twice in the coverage calculation; first to cover the requirements of the 1975 bond indenture and then reused, in part, for the 1998 bond indenture computation. This change had the effect of drying up desperately needed cash over the last three years. It also avoided a rate increase when it was, in reality, sorely required.

18

19

20

These actions were deemed necessary because the fundamentals of the utility had deteriorated badly after the rate increase in 1992. As shown in Exhibit TEK-3, the pattern of compliance budgets over the past 10 years has been that of a steady decline in earnings and internal generation.

22

23

1 The reality is even more stark, as shown in Exhibit TEK-4, when actual  
2 weather patterns (as opposed to normal weather) are considered and  
3 other factors come into play. The earnings picture becomes dismal.  
4

5 This deterioration is actually the net effect of both positive and negative  
6 movement. On the positive side, there were significant benefits from the  
7 decline in capital costs throughout this period which allowed PGW to  
8 finance a 50% build up in plant investment and still keep a level interest  
9 expense. During this period, the exceptional performance of financial  
10 markets increased the value of the pension fund and allowed PGW to  
11 reduce its annual pension contribution by \$18 million. During this time,  
12 the cost of operating the LNG facility declined by \$12 million. On the  
13 negative side, the company lost margin on sales as residential customers  
14 used less gas and industrial users either sought their own gas supplies  
15 under deregulation or switched, when economic, to oil. There was also  
16 the effect of inflation on the non-gas, non-labor portion of costs. What is  
17 worth noting is that even though the number of employees declined by  
18 one third over the last 12 years (from 2,750 to 1,800), the wage bill  
19 remained the same as the average age and wage of employees steadily  
20 increased. Last, the increase in the principal payments associated with  
21 the added long term debt generated a higher debt service requirement.  
22

1 When these changes were combined with three years of warmer than  
2 normal weather, the results were disastrous. But the story is not only a  
3 matter of numbers. There are other considerations as well. The company  
4 has been subjected to a decade of turmoil at the top. We are the sixth  
5 management group in six years. Also, throughout this period, PGW was  
6 never given a seat at the table when major projects were in development  
7 by the City or economic initiatives were underway. Valuable sales  
8 opportunities were either bartered away by City executives who favored  
9 electricity over gas or PGW was ignored completely.

10  
11 Next, for all intents and purposes there was never a strategic vision that  
12 was either in place for long nor really acted upon. One initiative after  
13 another faltered serving only to demoralize the staff. The whole balance  
14 between management and labor became skewed. And most critically,  
15 throughout most of this period PGW experienced indifference from the  
16 owner which allowed a series of abuses to occur which only served to  
17 give the utility a black eye.

18  
19 The challenge to the organization is to quickly move beyond these  
20 problems and build on the strengths at PGW which include a long history  
21 of safe and reliable gas service provided by the field and distribution  
22 departments, a gas purchasing function which is recognized as one of the

1 best in the state and a capable finance and accounting group who have  
2 kept PGW focused and functioning over the last years.

3  
4 **Q. Please discuss the policies which underlie the FY2001 Operating and  
5 Capital Budgets and the request for an increase in base rates.**

6 **A.** The core policies underlying the FY2001 budget are three: (1) that the  
7 company must be returned to a position of basic financial viability quickly,  
8 (2) that the process of basic reform at PGW must be started in earnest  
9 and (3) that all reforms must inure to the benefit of the customers.

10  
11 *First, the PGW/PFMC management has sought, since its appointment on  
12 March 17, to restrict spending to essential levels to conserve funds and  
13 limit spending. That process will continue as Mr. Bogdonavage discusses  
14 in his testimony.*

15  
16 *Second, on the topic of basic reforms, reference has already been made  
17 to the phasing out of the Senior Citizen Discount. Also, we have begun to  
18 explore ways in which the cost of retiree benefits can be dealt with fairly  
19 and with sensitivity. At a minimum, management intends to ask retirees to  
20 move from an indemnity base to managed care and increase co-pay  
21 requirements thereby reducing the expense for over 1900 retirees of their  
22 health care by one third or \$3 million.*

OTS Statement No. 1  
Witness: Charles T. Weakley, III  
Date: September 18, 2000

DOCUMENT  
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9/28/00

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Gas Works

Docket No. R-00005654

**DOCKETED**  
OCT 10 2000

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Direct Testimony

Of

Charles T. Weakley, III

Office of Trial Staff

Concerning: Interim Rate Filing

1 **Q. STATE YOUR FULL NAME, EMPLOYER AND BUSINESS**  
2 **ADDRESS.**

3 A. Charles T. Weakley, III. I am employed by the Pennsylvania Public Utility  
4 Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

5  
6 **Q. WHAT IS YOUR POSITION WITH THE PENNSYLVANIA PUBLIC**  
7 **UTILITY COMMISSION?**

8 A. I am a Fixed Utility Financial Analyst in the Office of Trial Staff (OTS).

9  
10 **Q. WHAT ARE YOUR DUTIES AS AN ANALYST IN OTS?**

11 A. My duties as an OTS analyst include participation in formal base rate  
12 proceedings as an expert witness, with responsibility for the preparation  
13 and presentation of OTS exhibits, schedules and testimony. My education  
14 and professional background are set forth in Appendix A, which is  
15 attached.

16  
17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. The purpose of this testimony is to recommend several changes to the  
19 Interim Rate Filing of the Philadelphia Gas Works (PGW or Company).  
20 Specifically, I will address the base rate increase and the recommended  
21 adjustments to the supporting financial statements.

22

1 **Q. WHAT IS THE PHILADELPHIA GAS WORKS RATE REQUEST**  
2 **IN THIS PROCEEDING?**

3 A. The Philadelphia Gas Works has requested an across-the-board \$52 million  
4 increase in base rates.

5

6 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED BASE RATE**  
7 **INCREASE.**

8 A. OTS recommends that PGW's base rate increase be limited to \$27.5  
9 million. After adjustments, this increase provides sufficient revenues for  
10 the \$18 million City Payment, net earnings of \$16.1 million, positive cash  
11 flow for the year ended August 31, 2001 and adequate debt service  
12 coverage.

13

14 **Q. DID YOU INCORPORATE MR. METRO'S RECOMMENDED**  
15 **INCREASE IN PURCHASE GAS COSTS INTO YOUR**  
16 **RECOMMENDED \$27.5 INCREASE?**

17 A. Yes. I increased both revenues and purchased gas costs by \$53.2 million  
18 since gas cost are recovered on a dollar-for-dollar basis.

19

20 **Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING IN THIS**  
21 **PROCEEDING?**

1 A. I am recommending three adjustments. I am recommending that the  
2 *Company's marginal revenue loss-weather adjustment be eliminated.* Next,  
3 I am recommending an adjustment to the Company's bad debt expense  
4 claim based on historical trends. Finally, I have adjusted various variable  
5 line items found in the Income Statement, the Cash Flow Statement and the  
6 Statement of Debt Service Coverage that change at various rate increase  
7 level allowances.

8

9 **Q. WHAT ARE THE PRIMARY EXHIBITS THAT YOU RELIED ON**  
10 **TO DEVELOP YOUR POSITION?**

11 A. In developing my position, I started with PGW's August 2000 filing,  
12 supporting schedules and the Company's responses to data requests. The  
13 financial schedules included in OTS Exhibit No. 1 are based PGW-IR ST.  
14 1.0 APPENDIX B which is the latest update to include gas costs based on  
15 Standards and Poors Data Resources Inc.'s July 2000 projections of gas  
16 prices. The Company's budget projections are based on normal weather.

17

18 **Marginal Revenue Loss-Weather**

19

20 **Q. HOW DID THE COMPANY DETERMINE ITS BUDGETED**  
21 **OPERATING REVENUES?**

1 A. The Company calculated its operating revenues based on normal weather  
2 using 4,600 degree days. Then, the Company included a \$4 million  
3 reduction to revenues based on the fact that the last three years were  
4 warmer than normal.

5

6 **Q. HOW DID THE COMPANY DETERMINE THE 4,600 DEGREE**  
7 **DAYS?**

8 A. The 4,600 degree-days were based on average actual degree-days of two  
9 ten-year periods from 1949-1958 and 1959-1968. The average heating  
10 degree days for the ten year period 1949-1958 was 4,425. . The average  
11 heating degree days for the ten-year period 1959-1968 was 4,767. The  
12 average of the two ten-year periods is 4,600 degree days.

13

14 **Q. DO YOU AGREE WITH THE 4,600 DEGREE DAYS?**

15 A. No. The 4,600 degree days is based on out-dated information, however,  
16 due to the lack of time and since these rates are subject to refund, I will  
17 accept the Company's degree days for purposes of this case. The  
18 Commission typically uses a NOAA 30-year degree days for base rate  
19 purposes.

20

21 **Q. HOW WAS THE \$4 MILLION ADJUSTMENT CALCULATED?**

1 A. The August filing did not include the supporting schedules for the \$4  
2 million revenue adjustment and I was not able to determine how this  
3 adjustment was calculated.

4

5 **Q. DO YOU AGREE WITH THIS ADJUSTMENT?**

6 A. No. The determination of rate relief in this case should be based on normal  
7 weather.

8

9 **Q. WHAT IS YOUR RECOMMENDATION?**

10 A. I recommend that this marginal revenue loss-weather adjustment be  
11 eliminated.

12

13 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

14 A. In determining base rate increases, this Commission requires gas revenues  
15 to be based on normal weather. The Company's adjustment proposes to  
16 base revenues on a short term (3 year weather normalization) basis instead  
17 of the Company's 4,600 degree days standard.

18

19 **BAD DEBT EXPENSE**

20

21 **Q. IN THIS PROCEEDING THE COMPANY HAS MADE A CLAIM**  
22 **FOR UNCOLLECTIBLE ACCOUNTS EXPENSE. WOULD YOU**

1       **BRIEFLY DEFINE WHAT IS MEANT BY UNCOLLECTIBLE**  
2       **ACCOUNTS?**

3       **A.**     Uncollectible accounts or what PGW refers to as bad debts are specific  
4       receivables that are determined to be uncollectible in whole or in part, either  
5       because the debtors cannot pay or because the creditor finds it impracticable  
6       to enforce payment. Those accounts deemed uncollectible are charged  
7       against income.

8  
9       **Q.     HOW DO UTILITIES GENERALLY RECOGNIZE**  
10       **UNCOLLECTIBLE ACCOUNTS FOR RATEMAKING PURPOSES?**

11       **A.**     Generally, for ratemaking purposes, utilities compute uncollectible accounts  
12       expense on an annual prospective basis. While the uncollectible accounts  
13       expense is a prospective claim, the proper calculation begins with an historic  
14       analysis of actual net write-offs to gross revenues to develop an historic write-  
15       off ratio. Net write-offs are gross write-offs less recoveries of amounts  
16       previously written off. This ratio is then applied to projected revenues to  
17       determine the proper prospective allowance.

18  
19       **Q.     WHAT IS THE COMPANY CLAIM FOR UNCOLLECTIBLE**  
20       **ACCOUNTS EXPENSE IN THIS PROCEEDING?**

21       **A.**     The Company's revised claim for bad debt expense is \$57 million. This  
22       represents an increase of \$9 million over the original filing and an increase

1 of \$18 million over the historic fiscal year. Bad Debt expense will change  
2 with any change in total gas revenues.

3

4 **Q. HOW WAS THE COMPANY'S CLAIM FOR UNCOLLECTIBLE**  
5 **ACCOUNTS EXPENSE DEVELOPED?**

6 **A.** The Company revised its claim to \$57 million in its August filing but none of  
7 the supporting schedules were included.

8

9 **Q. WHAT DO YOU RECOMMEND AS THE APPROPRIATE**  
10 **ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS EXPENSE?**

11 **A.** OTS Exhibit No. 1, Schedule 4, details my proposed allowance of \$52  
12 million. I recommend a <sup>bad debt</sup> ~~write-off~~ percentage of 7.3922% based on a five-year  
13 average of <sup>bad debt expense to billed gas revenue.</sup> ~~actual net write-offs to gross revenues.~~ <sup>bad debt</sup> ~~write-off~~  
14 percentage is applied to projected total future test year sales revenues of \$705  
15 million the result is an allowance of \$52 million.

16 I also recommend that the write-off ratio of 7.3922% be employed to  
17 determine the additional uncollectible accounts expense attributable to the  
18 final base rate increase to be determined in this proceeding.

19

20 **Q. WHAT IS YOUR SUPPORTING RATIONALE FOR BASING A**  
21 **PROSPECTIVE UNCOLLECTIBLE ACCOUNTS ALLOWANCE**  
22 **ON AN HISTORIC ANALYSIS?**

1 A. OTS proposes the use of a five-year analysis of prior years uncollectible  
2 accounts expense. A five-year historic analysis is current enough to reflect  
3 present customer payment tendencies and sufficiently long enough to  
4 levelize any fluctuation in write-off activity by the Company. Normally,  
5 OTS uses a three-year analysis but with the Company's billing and  
6 collection problems, I am recommending use of the five-analysis shown on  
7 OTS Exhibit No. 1, Schedule 4.

8  
9 **VARIABLE LINE ITEM ADJUSTMENTS**

10  
11 **Q. WHAT ARE VARIABLE LINE ITEMS?**

12 A. Variable line items refer to those items included in the financial statements  
13 whose dollar amounts change at various levels of base rate increases.  
14 These items from the income statement include other operating revenues,  
15 unbilled revenue adjustment and other income.

16  
17 **Q. HOW DID YOU ADJUST THESE ITEMS?**

18 A. OTS Exhibit No. 1, Schedule 6 is PGW's Income Statement that lists a  
19 number of scenarios including rate increases of \$20 million and \$30  
20 million. For example, under 'Other Operating Revenues' the Company  
21 projects they will receive \$11.4 million under the \$20 million scenario and  
22 \$11.6 under the \$30 million rate increase scenario. Since my

1 recommendation of \$27.5 million falls between these two scenarios, I took  
2 the three-quarters of the difference in the range and added it back to the \$20  
3 million scenario in order to project the 'Other Operating Revenues' for a  
4 rate increase of \$27.5 million. I have highlighted these changes in OTS  
5 Exhibit No. 1, Schedules 1, 2 and 3. It should be noted that each of these  
6 items must be recalculated with any change to the revenue increase  
7 approved by the Commission.

8

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A. Yes.**

## APPENDIX A

### Professional and Educational Background of Charles T. Weakley, III

#### **Education:**

A.A. in Accounting, Harrisburg Area Community College, 1973.

B.B.A. in Administration, Pennsylvania State University, 1975.

Graduate Studies in Operations Management, Pennsylvania State University, 1977.

#### **Employment:**

Prior to accepting my position with the PUC, in the Bureau of Rates in February 1984, I was a Corporation Tax Officer with the Pennsylvania Department of Revenue.

I am a Certified Public Accountant, however, my license is currently inactive, since I am no longer in public practice. In addition, I am a Member of the Pennsylvania Institute of Certified Public Accountants and have three years of public accounting experience.

#### **Testimony:**

I have testified and/or submitted testimony in the following proceedings:

PECO Rate Case, R-842590, R-850152 and R-891364

Penn Power Rate Case, R-842740, R-850267 and R-870732

Met-Ed Rate Case, R-842770 and R-00922314

Penelec Rate Case, R-842771

Duquesne Light Rate Case, R-850021, R-860378 and R-870651

PECO - Gas Operations Rate Case, R-870629

Philadelphia Suburban Water Company Rate Case, R-870860 and R-891270

Peoples Natural Gas Rate Case, R-880961

Equitable Gas Rate Case, R-880971, R-901595 and R-912164

PECO-PGC No. 6, 1307(f) Proceeding, R-891290

T.W. Phillips Gas and Oil Co. PGC-90, R-891572

T.W. Phillips Gas and Oil Co. Rate Case, R-891566

Arrowhead Public Service Corporation Rate Case, R-891557

Peoples Natural Gas - PGC-90, 1307(f) Proceeding, R-901640

Peoples Natural Gas - PGC-91, 1307(f) Proceeding, R-911919

PECO-PGC No. 8, 1307(f) Proceeding, R-911976

West Penn Power - Petitions (CAAA, 1990) P-910511 and R-910512

Borough of Phoenixville - Rate Case, R-912038

Shenango Valley Water Company - R-912060 and R-00932798

Dallas Water Company, Inc. - R-00922326

Harvey's Lake Water Company, Inc. - R-00922327

Noxen Water Company, Inc. - R-00922328

Shavertown Water Company, Inc. - R-00922329

Pennsylvania Gas and Water Company (Spring Brook/Crystal Lake) R-00922404

Pennsylvania-American Water Company - R-00922428

Pennsylvania Gas and Water Company (Scranton) R-00922482

National Fuel Gas Distribution Corporation - R-00932548

Lemont Water Company, Rate Case, R-00932673

The Peoples Natural Gas Company, Rate Case, R-00932866

The Peoples Natural Gas Company, 1994-1307(f), R-00943028, C-945601

Equitable Gas Company - R-00943246

Pennsylvania Power & Light Company - R-00943271

The Peoples Natural Gas Company, 1996-1307(f), R-00963563

The Peoples Natural Gas Company, 1997-1307(f), R-00973896, R-00973928, A-122250F0007

Peco Energy Company - R-00973877, R-00973953

Pennsylvania Electric Company - R-00974009

Metropolitan Edison Company - R-00974008

Bell/ GTE Merger - A-310200F0002, A-310222F0002, A-310291F0003,  
A-311350F0002

The Peoples Natural Gas Company - Rate Restructuring - R-00994782

Equitable Gas Company - Rate Restructuring - R-00994784

UGI Utilities, Inc. - Rate Restructuring - R-00994786

PECO Energy Company - Rate Restructuring – R-00994787

National Fuel Gas Distribution Corporation – 1307(f) – R-00994898

UGI Utilities, Inc. – 1307(f) – R-00005281

Exhibit  
OTS Statement No. 1  
Witness: Charles T. Weakley, III  
Date: September 18, 2000

9/28/00

Chas. Weakley, III

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Gas Works

Docket No. R-00005654

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Exhibits To Accompany

The

Direct Testimony

Of

Charles T. Weakley, III

Office of Trial Staff

DOCKETED  
OCT 10 2000

Concerning: Interim Rate Filing

**PHILADELPHIA GAS WORKS  
 INCOME STATEMENT  
FISCAL YEAR ENDING AUGUST 31,2001**

8/8/00 Volume 11/10  
Revised Budget 2000-01  
 (Dollars in Thousands)

**OPERATING REVENUES**

Non-Heating	\$112,544
Gas Transport Service	3,656
Heating	505,101
Proposed Base Rate Increase	<b>27,500</b>
Marginal Revenue Loss Weather	0
Change in Senior Citizen Discount	1,500
<b>Unbilled Adjustment</b>	<b>2,025</b>
Increase in PGC Revenues	<u>53,210</u>
<b>Total Gas Revenues</b>	<b>\$705,536</b>

Appliance Repair & Bill Paid Turn-Ons	13,233
<b>Other Operating Revenues</b>	<u>11,549</u>

Total Other Operating Revenues	<u>24,782</u>
<b>Total Operating Revenues</b>	<b>\$730,318</b>

**OPERATING EXPENSES**

Natural Gas	\$402,278
Other Raw Material	<u>10</u>
Sub-Total Fuel	\$402,288

Contribution Margins	\$343,606
----------------------	-----------

Gas Processing	13,825
Field Services	33,061
Distribution	13,601
Customer Affairs	31,208
Bad Debt Expense	52,154
Marketing & Point of Sale Expenses	6,713
Administrative & General	43,830
Health Insurance	25,290
Capitalized Fringe Benefits	(5,333)
Capitalized Administrative Charges	(6,815)
Regulatory Asset Amortization	3,750
Amortization of Restructuring Costs	965
Year 2000 & Deregulation Amortization	888
Pensions	1,376
Taxes	6,548
Amortization of Non-Recurring IT Costs	0
Personnel Reductions/Retirements	(2,500)
Cost Savings/Productivity Improvements	<u>(10,000)</u>

Sub-Total Other Oper. & Maintenance	\$208,561
-------------------------------------	-----------

**PHILADELPHIA GAS WORKS**  
**INCOME STATEMENT**  
**FISCAL YEAR ENDING AUGUST 31,2001**

Depreciation	\$33,381
Cost of Removal	2,500
To Clearing Accounts	<u>(3,344)</u>
	\$32,537
<b>TOTAL OPERATING EXPENSES</b>	<b>\$643,386</b>
<b>OPERATING INCOME</b>	<b>\$86,932</b>
<b><i>Other Income</i></b>	<u>4,791</u>
Income Before Interest	\$91,723
Interest	
Long-Term Debt	47,871
<b><i>Other</i></b>	5,929
AFUDC	(355)
Loss From Extinguishment of Debt	<u>4,162</u>
Total Interest	\$57,607
<b>NET INCOME</b>	<b>\$34,116</b>
City Payment	<u>18,000</u>
<b>Net Earnings</b>	<b><u>\$16,116</u></b>

**PHILADELPHIA GAS WORKS  
CASH FLOW STATEMENT  
FISCAL YEAR ENDING AUGUST 31,2001**

**8/8/00 Volume 11/10  
Revised Budget 2000-01  
(Dollars in Thousands)**

**SOURCES**

Net Income	\$34,116
Depreciation and Amortization	42,827
Earnings on Restricted Funds	
Impact of Refunded Debt Service	
Increased/(Decreased) Other Liabilities	<u>2,833</u>
Available From Operations	\$79,776
Funds Required for Capital	34,820
Capital Leasing	6,000
Temporary Financing	<u>0</u>
<b>TOTAL SOURCES</b>	<b>\$120,596</b>

**USES**

Net Construction Expenditures	\$62,293
Funded Debt Reduction:	
Revenue Bonds	34,192
PMA Leases/Subordinate Debt	1,065
Capital Leases	6,901
Temporary Financing	0
Notes Payable- CNG Acquisition	59
Temporary Financing Repayment	
Distribution of Earnings	18,000
<i>Additions To (Reductions of) Non-Cash Working Capital</i>	<i>(1,965)</i>
Cash Needs	120,545
Cash Surplus (Shortfall)	<u>51</u>
<b>TOTAL USES</b>	<b>\$120,596</b>

Cash- Beginning of Period	\$2,486
Cash- Surplus (Shortfall)	<u>51</u>
<b>ENDING CASH</b>	<b>\$2,537</b>

Internally Generated Funds	21,473
Outstanding Commercial Paper	97,000

**PHILADELPHIA GAS WORKS  
DEBT SERVICE COVERAGE  
FISCAL YEAR ENDING AUGUST 31,2001**

**DEBT SERVICE COVERAGE**

**8/8/00 Volume 11/10  
Revised Budget 2000-01  
(Dollars in Thousands)**

**FUNDS PROVIDED**

Total Gas Revenues	\$705,536
<i>Other Operating Revenues</i>	<u>24,782</u>
Total Operating Revenues	730,318
<i>Other Income Less Restricted Funds</i>	4,791
AFUDC (Interest)	<u>355</u>
<b>TOTAL FUNDS PROVIDED</b>	<b>\$735,464</b>

**FUNDS APPLIED**

Fuel Costs	\$402,288
Other Operating Costs	<u>241,098</u>
Total Operating Expenses	643,386
PMA Lease Cost	0
\$20.1M Capital Lease Cost	3,980
\$23M Capital Lease Cost	3,997
Less: Non-Cash Expense	<u>37,569</u>
<b>TOTAL FUNDS APPLIED</b>	<b>\$613,794</b>

Funds Available to Cover Debt Service	121,670
Add-back Lease Costs	7,977
Funds Available Excluding Lease Costs	129,647

1975 Ordinance Bonds Debt Service	51,611
Debt Service Coverage 1975 Bonds	2.51

Net Available after Prior Debt Service	78,036
PMA & Other Capital Leases	<u>7,977</u>
Net Available after Prior Capital Leases	70,059

1998 Ordinance Bonds Debt Service	29,449
Debt Service Coverage New Bonds	2.38

Net Available after New Debt Service	40,610
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1998 Ordinance Subordinate Bond Debt Service	1,990
Debt Service Coverage Subordinate Bond	20.41

**PHILADELPHIA GAS WORKS**  
**OTS CALCULATION OF BAD DEBT EXPENSE**  
**FISCAL YEAR ENDED AUGUST 31, 2001**  
**(Dollars in Thousands)**

<u>YEAR</u>	<u>BILLED GAS REVENUES</u> (1)	<u>BAD DEBT EXPENSE</u> (2)	<u>BAD DEBT % OF SALES</u> (3) = (2) / (1)
1994	\$554,212	\$43,401	7.8311%
1995	\$477,601	\$43,276	9.0611%
1996	\$539,119	\$38,340	7.1116%
1997	\$548,455	\$33,474	6.1033%
1998	\$497,985	\$34,130	<u>6.8536%</u>
		AVERAGE	<u><u>7.3922%</u></u>
OTS ADJUSTED TOTAL GAS REVENUES			\$705,536
AVERAGE BAD DEBT % OF SALES			<u>7.3922%</u>
OTS RECOMMEND BAD DEBT EXPENSE			<u><u>\$52,154</u></u>

**RESPONSE TO PUBLIC ADVOCATE'S DATA REQUESTS**  
**REGARDING FY 2001 CONSOLIDATED BUDGET PROCEEDING**

Question PA-66: Please provide a schedule similar to "A/R and Reserve" for each FY 1994-FY1998.

Response:

The attached schedule "Accounts Receivable, Reserve for Bad Debt, Write-Off Expenses, Delinquent Customers and Reserve Statistics" was prepared for discussion and review with Deloitte and Touche during the FY 1999 year-end audit. Years 1994 to 1998 are shown.

**PHILADELPHIA GAS WORKS**  
**ACCOUNTS RECEIVABLE, RESERVE FOR BAD DEBT, WRITE-OFF**  
**EXPENSES, DELINQUENT CUSTOMERS AND REVENUE STATISTICS**  
*(Dollars in Thousands)*

	<b><u>1994</u></b>	<b><u>1995</u></b>	<b><u>1996</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
Billed Gas Revenues During the Year *	\$554,212	\$477,601	\$539,119	\$548,455	\$497,985
Accounts Receivable at August 31, **	171,730	140,002	143,303	132,560	110,790
Reserve for Bad Debt	73,772	79,195	83,214	77,100	64,724
Net Accounts Receivable at August 31,	97,958	60,807	60,089	55,460	46,066
Reserve for Bad Debt as a Percentage of Accounts Receivable	43.0%	56.6%	58.1%	58.2%	58.4%
Net Write-Offs during the Year	\$23,927	\$37,518	\$33,975	\$39,149	\$45,973
Receivable as a Percentage of Billed Gas Revenues	31.0%	29.3%	26.6%	24.2%	22.2%
Delinquent Customers (Annual Average)	143,613	112,712	119,806	120,901	117,394
Delinquent Customers at August 31,	121,317	114,179	115,618	118,925	107,750
Bad Debt	\$43,401	\$43,276	\$38,340	\$33,474	\$34,130
Bad Debt % of Sales	7.83%	9.06%	7.11%	6.10%	6.85%
Bad Debt % of A/R	25.27%	30.91%	26.75%	25.25%	30.81%

**RESPONSE TO INFORMAL DISCOVERY DATA REQUEST**  
**REGARDING FY 2001 CONSOLIDATED BUDGET PROCEEDING**

**QUESTION ID-19a:** Update the response to PA-20b&c based on current assumptions.

**RESPONSE:** See the attached schedules PA-20. C revised 8/9/2000.

**PHILADELPHIA GAS WORKS**  
**STATEMENT OF INCOME**  
(Dollars in Thousands)

	\$46.3M Rate Inc Volume 11/10 Budget	\$30M Rate Inc Volume 11/10 Budget	\$20M Rate Inc Volume 11/10 Budget	\$62M Rate Inc Forecast	\$30M Rate Inc Forecast	\$20M Rate Inc Forecast	\$62M Rate Inc Forecast	\$30M Rate Inc Forecast	\$20M Rate Inc Forecast
	2000-01	2000-01	2000-01	2001-02	2001-02	2001-02	2002-03	2002-03	2002-03
<b>OPERATING REVENUES</b>									
Non-Heating	\$112,544	\$112,544	\$112,544	\$105,015	\$105,015	\$105,015	\$102,780	\$102,780	\$102,780
Gas Transport Service	3,656	3,656	3,656	3,503	3,503	3,503	4,407	4,407	4,407
Heating	505,101	505,101	505,101	510,184	510,184	510,184	511,018	511,018	511,018
Proposed Base Rate Increase	46,335	30,000	20,000	52,000	30,000	20,000	52,000	30,000	20,000
Marginal Revenue Loss Weather	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Marginal Revenue Loss Customer Utilization	-	-	-	(2,000)	(2,000)	(2,000)	(3,000)	(3,000)	(3,000)
Change in Senior Citizen Discount	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Unbilled Adjustment	2,400	2,100	1,950	(200)	(250)	(250)	(50)	(50)	(50)
Total Gas Revenues	667,536	650,901	640,751	666,002	643,952	633,952	664,655	642,655	632,655
Appliance Repair & Bri Paid Turn-Ons	13,233	13,233	13,233	13,559	13,559	13,559	13,893	13,893	13,893
Other Operating Revenues	11,815	11,593	11,416	13,414	12,974	12,774	13,404	12,984	12,764
Total Other Operating Revenues	25,148	24,826	24,649	26,973	26,533	26,333	27,297	26,877	26,657
Total Operating Revenues	\$692,684	\$675,727	\$665,400	\$692,975	\$670,485	\$660,285	\$691,952	\$669,512	\$659,312
<b>OPERATING EXPENSES</b>									
Natural Gas	\$349,068	\$349,068	\$349,068	\$343,817	\$343,817	\$343,817	\$344,407	\$344,407	\$344,407
Other Raw Material	10	10	10	10	10	10	10	10	10
Sub-Total Fuel	349,078	349,078	349,078	343,827	343,827	343,827	344,417	344,417	344,417
<b>CONTRIBUTION MARGINS</b>	\$343,606	\$326,649	\$316,322	\$349,148	\$326,658	\$316,458	\$347,535	\$325,095	\$314,895
Gas Processing	13,825	13,825	13,825	13,897	13,897	13,897	14,071	14,071	14,071
Field Services	33,061	33,061	33,061	33,176	33,176	33,176	33,840	33,840	33,840
Distribution	13,601	13,601	13,601	13,782	13,782	13,782	14,056	14,056	14,056
Customer Affairs	31,208	31,208	31,208	31,832	31,832	31,832	32,470	32,470	32,470
Bad Debt Expense*	57,000	56,439	56,097	51,353	50,357	49,829	49,405	48,016	47,312
Marketing & Point-of-Sale Expenses	6,713	6,713	6,713	6,874	6,874	6,874	7,039	7,039	7,039
Administrative & General	43,830	43,830	43,830	40,580	40,580	40,580	40,996	40,996	40,996
Health Insurance	25,290	25,290	25,290	27,188	27,188	27,188	29,227	29,227	29,227
Capitalized Fringe Benefits	(5,333)	(5,333)	(5,333)	(5,642)	(5,642)	(5,642)	(5,933)	(5,933)	(5,933)
Capitalized Administrative Charges	(6,815)	(6,815)	(6,815)	(7,630)	(7,630)	(7,630)	(7,369)	(7,369)	(7,369)
Regulatory Asset Amortization	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750
Amortization of Restructuring Costs	965	965	965	965	965	965	965	965	965
Year 2000 & Deregulation Amortization	888	888	888	-	-	-	-	-	-
Pensions	1,376	1,376	1,376	1,645	1,645	1,645	1,905	1,905	1,905
Taxes	6,548	6,548	6,548	6,575	6,575	6,575	6,600	6,600	6,600
Personnel Reductions/Retirements	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
Cost Savings/Productivity Improvements	(10,000)	(10,000)	(10,000)	(15,000)	(15,000)	(15,000)	(21,000)	(21,000)	(21,000)
Sub-Total Other Oper. & Maintenance	213,407	212,848	212,504	200,645	199,649	199,121	197,524	196,135	195,431
Depreciation	33,381	33,381	33,381	34,704	34,704	34,704	36,046	36,046	36,046
Cost of Removal	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
To Clearing Accounts	(3,344)	(3,344)	(3,344)	(2,921)	(2,921)	(2,921)	(2,499)	(2,499)	(2,499)
Total Other Oper. & Maintenance	32,537	32,537	32,537	34,283	34,283	34,283	36,047	36,047	36,047
<b>TOTAL OPERATING EXPENSES</b>	\$595,022	\$594,481	\$594,119	\$578,755	\$577,759	\$577,231	\$577,988	\$576,599	\$575,895
<b>OPERATING INCOME</b>	97,662	81,268	71,281	114,220	92,726	83,054	113,964	92,913	83,417
Other Income	5,274	5,353	5,098	8,203	8,206	7,684	10,696	10,614	9,814
<b>INCOME BEFORE INTEREST</b>	\$102,936	\$86,619	\$76,379	\$122,423	\$100,932	\$90,738	\$124,660	\$103,527	\$93,231
<b>INTEREST</b>									
Long-Term Debt	\$47,871	\$47,871	\$47,871	\$49,600	\$49,600	\$49,600	\$47,134	\$47,134	\$47,134
Other	6,102	6,102	6,102	6,130	6,130	6,130	6,047	6,047	6,047
AFUDC	(355)	(355)	(355)	(383)	(383)	(383)	(197)	(197)	(197)
Loss From Extinguishment of Debt	4,162	4,162	4,162	3,976	3,976	3,976	3,789	3,789	3,789
Total Interest	57,780	57,780	57,780	59,323	59,323	59,323	56,773	56,773	56,773
<b>NET INCOME</b>	45,156	28,839	18,599	63,100	41,609	31,415	67,887	46,754	36,458
City Payment	18,000	-	-	18,000	-	-	18,000	-	-
<b>Net Earnings</b>	\$27,156	\$28,839	\$18,599	\$45,100	\$41,609	\$31,415	\$49,887	\$46,754	\$36,458

**PHILADELPHIA GAS WORKS  
CASHFLOW STATEMENT  
(Dollars in Thousands)**

	<b>\$46.3M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$30M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$20M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$62M Rate Inc Forecast 2001-02</b>	<b>\$30M Rate Inc Forecast 2001-02</b>	<b>\$20M Rate Inc Forecast 2001-02</b>	<b>\$52M Rate Inc Forecast 2002-03</b>	<b>\$30M Rate Inc Forecast 2002-03</b>	<b>\$20M Rate Inc Forecast 2002-03</b>
<b>SOURCES</b>									
Net Income	\$45,156	\$28,839	\$18,599	\$63,100	\$41,609	\$31,415	\$67,887	\$46,754	\$36,458
Depreciation & Amortization	42,827	42,827	42,827	44,853	44,853	44,853	45,926	45,926	45,926
Earnings on Restricted Funds	0	0	0	0	0	0	0	0	0
Impact of Refunded Debt Service	0	0	0	0	0	0	0	0	0
Increased/(Decreased) Other Liabilities	2,833	2,833	2,833	1,828	1,828	1,828	(860)	(860)	(860)
Available From Operations	<u>90,816</u>	<u>74,499</u>	<u>64,259</u>	<u>109,781</u>	<u>88,290</u>	<u>78,096</u>	<u>112,953</u>	<u>91,820</u>	<u>81,524</u>
Funds Required for Capital	34,820	34,820	34,820	32,000	32,000	32,000	18,560	18,560	18,560
Capital Leasing	6,000	6,000	6,000	4,142	4,142	4,142	0	0	0
Temporary Financing	0	0	0	0	0	0	0	0	0
<b>TOTAL SOURCES</b>	<u>\$131,636</u>	<u>\$115,319</u>	<u>\$105,079</u>	<u>\$145,923</u>	<u>\$124,432</u>	<u>\$114,238</u>	<u>\$131,513</u>	<u>\$110,380</u>	<u>\$100,084</u>
<b>USES</b>									
Net Construction Expenditures	\$62,293	\$62,293	\$62,293	\$62,069	\$62,069	\$62,069	\$58,476	\$58,476	\$58,476
Funded Debt Reduction:									
Revenue Bonds	34,192	34,192	34,192	33,977	33,977	33,977	32,414	32,414	32,414
PMA Lease/Subordinate Debt	1,065	1,065	1,065	1,105	1,105	1,105	1,155	1,155	1,155
Capital Lease	6,901	6,901	6,901	5,273	5,273	5,273	3,554	3,554	3,554
Notes Payable - CNG Acquisition	59	59	59						
Temporary Financing Repayment									
Distribution of Earnings	18,000	0	0	18,000	0	0	18,000	0	0
Additions To (Reductions of)									
Non-Cash Working Capital	(520)	(1,781)	(2,517)	2,023	1,377	1,182	(8,858)	(8,833)	(8,749)
Cash Needs	121,990	102,729	101,993	122,447	103,801	103,606	104,741	86,766	86,850
Cash Surplus (Shortfall)	9,646	12,590	3,086	23,476	20,631	10,632	26,772	23,614	13,234
<b>TOTAL USES</b>	<u>\$131,636</u>	<u>\$115,319</u>	<u>\$105,079</u>	<u>\$145,923</u>	<u>\$124,432</u>	<u>\$114,238</u>	<u>\$131,513</u>	<u>\$110,380</u>	<u>\$100,084</u>
Cash - Beginning of Period	\$2,488	\$2,488	\$2,488	\$12,132	\$15,076	\$5,572	\$35,608	\$35,707	\$16,204
Cash - Surplus (Shortfall)	9,646	12,590	3,086	23,476	20,631	10,632	26,772	23,614	13,234
<b>ENDING CASH</b>	<u>\$12,132</u>	<u>\$15,076</u>	<u>\$5,572</u>	<u>\$35,608</u>	<u>\$35,707</u>	<u>\$16,204</u>	<u>\$62,380</u>	<u>\$59,321</u>	<u>\$29,438</u>
Internally Generated Funds	\$21,473	\$21,473	\$21,473	\$25,927	\$25,927	\$25,927	\$39,916	\$39,916	\$39,916
Outstanding Commercial Paper	\$97,000	\$97,000	\$97,000	\$97,000	\$97,000	\$97,000	\$97,000	\$97,000	\$97,000
Cash Position Net of Commercial Paper	(\$84,868)	(\$81,924)	(\$91,428)	(\$61,392)	(\$61,293)	(\$80,796)	(\$34,620)	(\$37,679)	(\$67,562)

**PHILADELPHIA GAS WORKS  
DEBT SERVICE COVERAGE  
( Dollars in Thousands )**

	<b>\$48.3M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$30M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$20M Rate Inc Volume 11/10 Budget 2000-01</b>	<b>\$52M Rate Inc Forecast 2001-02</b>	<b>\$30M Rate Inc Forecast 2001-02</b>	<b>\$20M Rate Inc Forecast 2001-02</b>	<b>\$52M Rate Inc Forecast 2002-03</b>	<b>\$30M Rate Inc Forecast 2002-03</b>	<b>\$20M Rate Inc Forecast 2002-03</b>
<b>FUNDS PROVIDED</b>									
Total Gas Revenues	\$667,538	\$650,901	\$640,751	\$666,002	\$643,952	\$633,952	\$664,655	\$642,655	\$632,655
Other Operating Revenues	25,148	24,826	24,649	26,973	26,533	26,333	27,297	26,857	26,657
<b>Total Operating Revenues</b>	<b>692,684</b>	<b>675,727</b>	<b>665,400</b>	<b>692,975</b>	<b>670,485</b>	<b>660,285</b>	<b>691,952</b>	<b>669,512</b>	<b>659,312</b>
Other Income Less Restricted Funds	5,274	5,353	5,098	8,203	6,206	7,684	10,696	10,814	9,814
AFUDC (Interest)	355	355	355	383	383	383	197	197	197
<b>TOTAL FUNDS PROVIDED</b>	<b>\$698,313</b>	<b>\$681,435</b>	<b>\$670,853</b>	<b>\$701,561</b>	<b>\$679,074</b>	<b>\$668,352</b>	<b>\$702,845</b>	<b>\$680,323</b>	<b>\$669,323</b>
<b>FUNDS APPLIED</b>									
Fuel Costs	349,078	349,078	349,078	343,827	343,827	343,827	344,417	344,417	344,417
Other Operating Costs	245,944	245,383	245,041	234,928	233,932	233,404	233,571	232,182	231,478
<b>Total Operating Expenses</b>	<b>595,022</b>	<b>594,461</b>	<b>594,119</b>	<b>578,755</b>	<b>577,759</b>	<b>577,231</b>	<b>577,988</b>	<b>576,599</b>	<b>575,895</b>
PMA Lease Cost	-	-	-	-	-	-	-	-	-
\$20.1M Capital Lease Cost	3,980	3,980	3,980	1,957	1,957	1,957	0	0	0
\$23M Capital Lease Cost	3,997	3,997	3,997	3,997	3,997	3,997	3,997	3,997	3,997
Less: Non-Cash Expenses	37,569	37,569	37,569	39,006	39,006	39,006	40,465	40,465	40,465
<b>TOTAL FUNDS APPLIED</b>	<b>\$565,430</b>	<b>\$564,869</b>	<b>\$564,527</b>	<b>\$545,703</b>	<b>\$544,707</b>	<b>\$544,179</b>	<b>\$541,520</b>	<b>\$540,131</b>	<b>\$539,427</b>
Funds Available to Cover Debt Service	\$132,883	\$116,566	\$106,326	\$155,858	\$134,367	\$124,173	\$161,325	\$140,192	\$129,896
Add-back Lease Costs	7,977	7,977	7,977	5,954	5,954	5,954	3,997	3,997	3,997
<b>Funds Available Excluding Lease Costs</b>	<b>\$140,860</b>	<b>\$124,543</b>	<b>\$114,303</b>	<b>\$161,812</b>	<b>\$140,321</b>	<b>\$130,127</b>	<b>\$165,322</b>	<b>\$144,189</b>	<b>\$133,893</b>
1975 Ordinance Bonds Debt Service	\$51,611	\$51,611	\$51,611	\$55,528	\$55,528	\$55,528	\$47,292	\$47,292	\$47,292
Debt Service Coverage 1975 Bonds	2.73	2.41	2.21	2.91	2.63	2.34	3.60	3.05	2.83
Net Available after Prior Debt Service	\$89,249	\$72,932	\$62,692	\$106,284	\$84,793	\$74,599	\$118,030	\$96,897	\$86,601
PMA & Other Capital Leases	7,977	7,977	7,977	5,954	5,954	5,954	3,997	3,997	3,997
<b>Net Available after Prior Capital Leases</b>	<b>\$81,272</b>	<b>\$64,955</b>	<b>\$54,715</b>	<b>\$100,330</b>	<b>\$78,839</b>	<b>\$68,645</b>	<b>\$114,033</b>	<b>\$92,900</b>	<b>\$82,604</b>
1998 Ordinance Bonds Debt Service	\$29,449	\$29,449	\$29,449	\$28,988	\$28,988	\$28,988	\$35,863	\$35,863	\$35,863
Debt Service Coverage New Bonds	2.76	2.21	1.86	3.46	2.72	2.37	3.18	2.59	2.30
<b>Net Available after New Debt Service</b>	<b>\$51,823</b>	<b>\$35,508</b>	<b>\$25,266</b>	<b>\$71,342</b>	<b>\$49,851</b>	<b>\$39,657</b>	<b>\$78,170</b>	<b>\$57,037</b>	<b>\$46,741</b>
1998 Ordinance Subordinate Bond Debt Ser	\$1,990	\$1,990	\$1,990	\$1,986	\$1,986	\$1,986	\$1,988	\$1,988	\$1,988
Debt Service Coverage Subordinate Bond	26.04	17.84	12.70	36.92	25.10	19.97	39.32	28.69	23.61

**DOCKETED**  
OCT 10 2000

OTS Statement No. 2  
Witness: Paul J. Metro  
Date: September 18, 2000

9/28/00

9/28, PD

PCS

DOCUMENT  
FOLDER

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**Philadelphia Gas Works  
Interim Rate Increase Filing  
R-00005654**

**RECEIVED**  
00 OCT -6 PM 12:50  
PA.P.U.C.  
SECRETARY'S BUREAU

**Direct Testimony**

of

**Paul J. Metro**

**Office of Trial Staff**

**Issues Concerning:**

**Gas Cost Issues**

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**Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

A. My name is Paul J. Metro. My business address is P.O. Box 3265, Harrisburg, Pennsylvania, 17105-3265.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Pennsylvania Public Utility Commission in the Office of Trial Staff as a Fixed Utility Valuation Engineer.

**Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

A. I am a 1982 graduate of The Pennsylvania State University, University Park, Pennsylvania, where I earned a Bachelor of Science Degree in Mineral Economics. Immediately subsequent to graduation, I attended The Pennsylvania State University and met the requirements for a Bachelor of Science Degree in Industrial Engineering. I am also a graduate of The Pennsylvania State University with a Masters of Engineering Degree, majoring in Engineering Science with an emphasis on Industrial Engineering/Operations Research. I have been employed by the Pennsylvania Public Utility Commission since May of 1985. Attached to

1 this testimony, as Appendix A is a statement that more fully describes my  
2 educational background and employment experience.

3

4 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

5 A. The purpose of my testimony is address gas cost issues in the context of  
6 cash flow analysis presented by the Philadelphia Gas Works (PGW,  
7 Company).

8

9 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

10 A. My testimony is organized by the following sections: (1) Gas Cost Update;  
11 and (2) Quarterly filings.

12

13

14

### **Background**

15

16 **Q. MR. METRO, HAS PGW FILED WITH THIS COMMISSION A**  
17 **GAS COST RATE FILING?**

18 A. PGW has filed a gas cost rate (GCR) filing with this Commission for its  
19 review of PGW's gas costs. See Docket No. R-00005619.

20

1 **Q. IS PGW'S GCR FILING SIMILAR TO A §1307(f) FILING?**

2 A. Yes and no. PGW filed information relating to its projected gas costs, but  
3 did not file information relating to its historic gas costs. PGW did not  
4 follow the Commission's 1307(f) filing requirements in its GCR filing.  
5 However, PGW did attempt to provide available data that responded to the  
6 PUC's §1307(f) filing requirements.

7

8 **Q. MR. METRO, DID YOU PERFORM A NORMAL §1307(f) REVIEW**  
9 **OF THIS FILING?**

10 A. No. I did not review this GCR filing for historic imprudence.

11

12 **Q. PLEASE GIVE A GENERAL DESCRIPTION OF PGW'S GAS**  
13 **COST RATE.**

14 A. The rates charged to PGW's customers include two elements. The first  
15 element is the base rate that is published in the PGW Tariff. Included  
16 within the base rate is a portion of natural gas and raw material expense.  
17 According to PGW's tariff approximately 90% of the gas costs are to be  
18 included within base rates. The second element of the customer's rate is  
19 the Gas Cost Rate or GCR factor. This charge is a mechanism that recovers  
20 the remaining 10% of gas costs. In essence, the GCR tracks the increases  
21 and decreases in the natural gas market. I would note that PGW's GCR  
22 includes costs not related to fuel costs.

1

2 **Q. WHAT NON-FUEL COSTS ARE INCLUDED WITHIN PGW'S GCR**  
3 **FACTOR?**

4 A. PGW's tariff specifically authorizes PGW to include non-gas costs in the  
5 GCR factor. Historically, PGW has included: (1) the cost of its low-income  
6 conservation programs, (2) the revenue shortfall associated with PGW's  
7 Customer Responsibility Program (CRP), and (3) the Senior Citizen  
8 Discount. These non-gas costs represent the amounts that PGW projects as  
9 its costs for these programs and, in the case of the discounts, only the  
10 amount it would collect from the CRP customers and seniors if these  
11 discounts were not provided (See PGW-GCR St. 1.0, page 4). PGW avers  
12 that the advantage of including these non-gas cost elements within the GCR  
13 is that it assures that PGW recovers the discounts on a dollar-for-dollar  
14 basis only (Ibid.).

15

16

17

### **Issue I – Projected Gas Costs**

18

#### **Company Position**

19

20 **Q. WHAT IS PGW'S CURRENT TOTAL NET APPLICABLE RAW**  
21 **MATERIAL (NATURAL GAS, PURCHASED ELECTRIC, AND**  
22 **NON-FUEL) EXPENSE?**

1 A. The Company's current total net applicable raw material expense, upon  
2 which the current GCR is based, is \$245,211,882 (See PGW Schedule 1,  
3 GCR filing).

4

5 **Q. WHAT IS PGW'S PROJECTED TOTAL NET APPLICABLE RAW**  
6 **MATERIAL EXPENSE?**

7 A. The Company' projected total net applicable raw material expense is  
8 \$340,726,942. This represents a proposed increase of \$95,515,060 (See  
9 PGW Schedule 1, GCR filing).

10

11 **Q. HOW IS THE \$340,726,942 PROJECTED TOTAL NET RAW**  
12 **MATERIAL EXPENSE DERIVED?**

13 A. Adding the fuel expenses with the non-fuel expenses and then combining  
14 the E factor component derives the \$340,726,942 projected total net raw  
15 material expense. OTS Exhibit No. 1, Schedule 1 shows the itemized  
16 calculation of the total net raw material expense. In summary the  
17 \$340,726,942 total net raw material expense is itemized as follows:

18	Fuel Expense	\$306,622,751
19	Non-Fuel Expense	\$ 30,441,631
20	E Factor	\$ (3,662,560)

21

22 **Q. REGARDING FUEL EXPENSE, WHAT ITEMS ARE INCLUDED IN**  
23 **THE \$306,622,751 NET PROJECTED EXPENSE.**

1 A. Total fuel costs are comprised of the following elements:

2	Total Natural Gas Costs Incurred	\$346,799,046
3	Less: LBS Credit	\$43,410,182
4	Plus: Net Storage	(\$1,604,431)
5	Plus: Net LNG Storage	\$3,873,318
6	Plus: Purchased Electric	<u>\$965,000</u>
7		
8	Total Fuel	\$306,622,751

9  
10 Reference: PGW Schedule GCR 5

11

12 **Q. WHAT IS THE LBS CREDIT?**

13 A. The LBS Credit is a credit related to gas costs attributable to interruptible  
14 customers. PGW removes the gas costs associated with interruptible  
15 customers from the total gas costs so that its GCR only includes gas costs  
16 attributable to firm customers (See PGW General Statement, page 3).

17

18 **Q. WHAT IS THE ITEMIZATION OF THE \$346,799,046 IN NATURAL**  
19 **GAS COSTS BETWEEN DEMAND AND COMMODITY COSTS?**

20 A. As can be seen in OTS Exhibit 1, Schedule 1, the total commodity costs are  
21 \$277,664,858 and the total demand costs are \$67,822,514. There is an  
22 additional "other" fuel cost of \$1,311,674. The combination of these three  
23 costs equates to the \$346,799,046 of total natural gas costs. See PGW  
24 Volume 2 – PGW Cost to CFM Transfer Report.

25

1 **Q. HOW DID PGW PROJECT THE COMMODITY COST OF**  
2 **NATURAL GAS?**

3 A. PGW utilized forecasted pricing data produced specifically for PGW by  
4 Standard and Poor's Fuel Price Service. This filing included price  
5 projections based on July 2000 Standard and Poor's publication. PGW  
6 Schedule 7 (PGW General Statement) shows a comparison of city gate  
7 prices for natural gas. PGW avers that this schedule highlights a significant  
8 increase in natural gas prices (See PGW General Statement, page 8).

9

10 **Q. WHAT ITEMS COMPRISE THE NON-FUEL EXPENSES**  
11 **CLAIMED BY PGW?**

12 A. Adding the conservation program (\$2,200,000) and the CRP discount  
13 (\$28,241,631) derived the non-fuel expense. This total applicable non-fuel  
14 expense is projected to be \$30,441,631.

15

16 **Q. WHAT IS THE GCR PERIOD USED IN THIS FILING?**

17 A. The GCR period used in this filing is September 1, 2000 through August  
18 31, 2001.

19

20 **Q. WHAT IS THE PRESENT LEVEL, ON A PER MCF BASIS, OF THE**  
21 **CURRENT GCR FACTOR?**

22 A. Currently, the present GCR factor is \$1.0982 per Mcf.

1

2 **Q. WHAT IS THE PROPOSED GCR FACTOR, ON A PER MCF**  
3 **BASIS?**

4 A. PGW is proposing a GCR factor portion of \$2.7941 per Mcf.

5

6 **Q. WHAT IS THE TOTAL PROPOSED GCR LEVEL?**

7 A. The total proposed GCR is calculated by adding \$3.18 per Mcf (base rate  
8 portion) plus \$2.7941 (GCR factor portion) for a total proposed GCR of  
9 \$5.9741 per Mcf.

10

11 **Q. HOW MUCH OF THE \$5.9741 PER MCF PROPOSED GCR IS**  
12 **COMPRISED OF SOCIAL COSTS?**

13 A. The \$5.9741 per Mcf is comprised of social program costs of 71.43 cents  
14 per Mcf. (See PGW General Statement, page 4)

15

16

17

### **OTS Position**

18

### Gas Cost Projections

19

20 **Q. MR. METRO, PLEASE EXPLAIN YOUR CONCERN WITH PGW'S**  
21 **UNDER PROJECTION OF NATURAL GAS COSTS?**

1 A. PGW utilized forecasted pricing data produced specifically for PGW by  
2 Standard and Poor's Fuel Price Service. This filing included price  
3 projections based on the July 2000 Standard and Poor's publication.  
4 However, recent natural gas forecasts show natural gas prices higher than  
5 the prices forecasted by PGW in July. OTS Exhibit 2, Schedule 2, shows a  
6 comparison of PGW's DRI forecasts from July with the most recent data  
7 available at the time of the writing of this testimony. Schedule 2 shows the  
8 DRI forecasts for the 12 months ending August 2001. I utilized the  
9 NYMEX Natural Gas Futures from NGI (*Natural Gas Intelligence*). As  
10 can be seen in Schedule 2, the Company under projected their natural gas  
11 commodity costs by approximately \$ 62,721,752.

12  
13 **Q. WHAT IS YOUR RECOMMENDATION RELATING TO PGW'S**  
14 **UNDER PROJECTED COMMODITY COSTS?**

15 A. I recommend that PGW update their commodity cost projections before the  
16 record is closed in this proceeding. Even though updating PGW's  
17 commodity costs will increase the natural gas costs paid by PGW's  
18 customers, the projections should be current so as not to place PGW into a  
19 cash flow bind.

20

1 **Q. WHY SHOULD PGW PROJECT HIGHER GAS COSTS?**

2 A. PGW should reflect the current increase to natural gas costs ~~for two~~  
3 ~~reasons.~~ First, there is little room to error in projecting gas costs for PGW.  
4 A large under collection would push PGW into default of its debt service  
5 because of its alleged cash flow problems. ~~Second, pushing an increase off~~  
6 ~~until later could make gas costs more expensive for the ratepayer if the~~  
7 ~~interest is calculated on under collections.~~

8

9 **Q. MR METRO, HOW CERTAIN ARE YOU THAT THE CURRENT**  
10 **TREND IN GAS COSTS WILL CONTINUE.**

11 A. No one knows whether the current trend for gas costs will continue.  
12 However, at the time of the writing of this testimony, gas costs continue to  
13 increase. It appears that there are two major factors for the increased  
14 prices. First, there has been an early start to the heating season in the New  
15 England states and second, warmer than normal temperatures in the  
16 Southwest. The above normal temperatures in the Southwest are increasing  
17 the demand for natural gas that is used for electric generation.

18

19 **Q. MR. METRO, IF THE COMMISSION WERE TO AGREE WITH**  
20 **YOUR RECOMMENDATION, WOULD UPDATING THE GCR**  
21 **FOR CURRENT GAS COST INCREASES AFFECT PGW'S CASH**  
22 **FLOW?**

1 A. Yes. If the proposed GCR were not updated to reflect the current increase  
2 to natural gas costs, PGW's cash flow would deteriorate. An increase to  
3 gas cost expense without revenue recovery would place PGW into a deeper  
4 cash flow slide.

5  
6  
7 **Issue 2 – Quarterly Filings**

8 **Company Position**

9  
10  
11 **Q. MR. METRO, IS PGW PERMITTED TO MAKE INTERIM GCR**  
12 **FILINGS?**

13 A. Yes. According to the following tariff (Section 11.2) language PGW is  
14 permitted to make interim GCR filings:

15 **“...Each Gas Cost Rate so computed shall be applied to**  
16 **Customers’ bills for twelve monthly billing periods**  
17 **commencing with September; provided, however, that**  
18 **such rate may be revised on an interim basis subject to**  
19 **approval of the Commission upon determination that the**  
20 **effective rate will result in over billing or under billings in**  
21 **excess of five percent (5%) of Factor “C” if not revised.**  
22 **Such interim revised rate shall become effective thirty**  
23 **(30) days from the date of filing unless otherwise denied**  
24 **or modified by the Commission.”**  
25

26  
27 **OTS Position**

1 Q. MR. METRO, WHAT IS YOUR POSITION RELATING TO  
2 INTERIM GCR RATE CHANGES?

3 A. I recommend that PGW's tariff be modified to permit PGW to follow the  
4 Title 52 Chapter 53, Section 64, paragraph (b). This section pertains to  
5 interim changes in gas costs. In particular, it states:

6 **“(b)... if there is a known and measurable change in**  
7 **gas costs during the effective period of an annual**  
8 **levelized rate previously approved by the**  
9 **Commission and the change, if reflected in a**  
10 **natural gas utility's tariffs, would result in an**  
11 **increase or decrease in its gas cost rate tariffs of**  
12 **2% or more, the natural gas utility shall file a**  
13 **proposed tariff incorporating the recalculated rate**  
14 **in accordance with the quarterly filing provisions of**  
15 **subsection (i)(5).”**  
16

17 Q. MR. METRO, WHY IS YOUR RECOMMENDATION TO CHANGE  
18 THE INTERIM THRESHOLD FROM 5% TO 2% NECESSARY?

19 A. In my opinion, PGW should not be as restricted in filing for natural gas cost  
20 changes that are known and measurable. In addition, it is evident that PGW  
21 has a cash flow problem. If PGW has the ability to file for natural gas cost  
22 increases on a less restrictive basis, they will be able to alleviate some of  
23 their cash flow problems.

24  
25 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

26  
27 A. Yes, it does.

## **APPENDIX A**

### **Professional and Educational Experience of Paul J. Metro**

#### **Education**

The Pennsylvania State University, University Park, Bachelor of Science, Mineral Economics, 1982

Earned additional credits in Industrial Engineering from 1982-1984, The Pennsylvania State University, University Park

The Pennsylvania State University, Capitol Campus, Master of Engineering Science, Industrial Engineering/Operations Research Emphasis, 1992.

#### **Professional Experience**

April 1996 to Present: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer in the Office of Trial Staff - Participates in the review and prosecution of gas, electric, telecommunications, water, and sewer rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

March 1994 to March 1996: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Rate Structure/Engineering Section, Energy Division, Office of Trial Staff. Participates in the review and prosecution of natural gas and electric rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

December 1987 to March 1994: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Engineering Section, Engineering and Rate Design Division, Office of Trial Staff. Participates in the review and prosecution of gas, electric, telecommunications, water, and sewer rate filings in the areas of valuation, depreciation, rate base, rate structure, and purchased gas.

September 1986 to December 1987: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Engineering Section, Rate Design Division, Office of Trial Staff. Participated in the review and prosecution of gas, electric, telecommunications, and water rate filings in the areas of cost of service and tariff rules and regulations.

May 1985 to September 1986: Pennsylvania Public Utility Commission, Fixed Utility Valuation Engineer - Valuation Section, Gas Division, Bureau of Rates. Participated in the review and prosecution of gas rate filings in the areas of valuation, depreciation, rate structure, purchased gas, and cost of service.

### **Professional Affiliations**

Engineers Society of Pennsylvania

### **Testimony Presented Before The Pennsylvania Public Utility Commission**

Equitable Gas Company, Transportation Investigation, R-870666

UGI Corporation - Gas Division, Transportation Investigation, R-870665

National Fuel Gas Distribution Corporation, General Rate Case, R-870719

Equitable Gas Company, 1307(f) Proceeding, R-880932

Pennsylvania Gas & Water Company, 1307(f) Proceeding, R-880958

Equitable Gas - Energy Company, General Rate Case, R-880941

Equitable Gas Company, General Rate Case, R-880971

Equitable Gas Company, 1307(f) Proceeding, R-891238

Lake Latonka Water Company, General Rate Case, R-891257

Philadelphia Electric Company, General Rate Case, R-891364

Equitable Gas Company, 1307(f) Proceeding, R-901645

Roaring Creek Water Company, General Rate Case, R-901625

Equitable Gas Company, General Rate Case, R-901595

West Penn Power Company, General Rate Case, R-901609

Pennsylvania Gas & Water Company, 1307(f) Proceeding, R-901699

Western Utilities, Inc., General Rate Case, A-210017

T.W. Phillips Gas & Oil Co., 1307(f) Proceeding, R-911889

Columbia Gas of Pennsylvania, Inc., General Rate Case, R-901873

Columbia Gas of Pennsylvania, Inc., 1307(f) Proceeding, R-911921

Pennsylvania Gas & Water Company, 1307(f) Remand Proceeding, R-901699

Olwen Heights Water Company, General Rate Case, R-891226

Peoples Natural Gas Company, General Rate Case, R-922180

Pennsylvania Gas & Water Company, Transportation Tariff Filing, R-922169

Pennsylvania Gas & Water Company, 1307(f) Filing, R-922324

West Penn Power, General Rate Case, R-922378

Peoples Natural Gas Company, 1307(f) Filing, R-932598

Equitable Gas Company, 1307(f) Filing, R-932599

National Fuel Gas Distribution Company, General Rate Case, R-932548

Pennsylvania Gas & Water Company, Transportation Tariff Filing, R-932655

Allied Gas Company ET AL, Transportation Tariff Filing, R-932662

Peoples Natural Gas Company, General Rate Case, R-932866, R-932915

Peoples Natural Gas Company, 1307(f) Filing, R-943028

Columbia Gas of Pennsylvania, 1307(f) Filing, R-943029

Equitable Gas Company, 1307(f) Filing, R-943022

Pennsylvania Gas & Water Company, Tariff Filing, R-943078

Pennsylvania Power & Light Company, General Rate Case, R-943271

Equitable Gas Company, Transportation Filing, R-943272

UGI Utilities, Inc., General Rate Case, R-953297

Equitable Gas Company, 1307(f) Filing, R-953320

National Fuel Gas Distribution Corporation, 1307(f), R-953487

Equitable Gas Company, 1307(f) Filing, R-963576

PFG Gas, Inc. and North Penn Gas Co., General Rate Case, R-963524

PECO Energy Company, Electric Securitization Filing, R-973877

PECO Energy Company, Restructuring, R-973953

Peoples Natural Gas Company, 1307(f) Filing, R-973896

Equitable Gas Company, General Rate Case, R-963858

West Penn Power Company, Restructuring, R-973981

Duquesne Light Company, Restructuring, R-974104

DQE, Inc., Allegheny Power, System, Inc. And AYP Sub, Inc., Merger,  
A-110150F0015

Metropolitan Edison Company, Restructuring, R-974008

Pennsylvania Electric Company, Restructuring, R-974009

Pennsylvania Power Company, Restructuring, R-974149

The Peoples Natural Gas Company, 1307(f), R-984281/A-122250

PG Energy, General Rate Case, R-984280

Bell/GTE Merger, A-310200

Peoples Natural Gas Company, 1307(f), R-994600

Pittsburgh Thermal, LTD, Base Rate Case, R-994641

Peoples Natural Gas Company, Restructuring, R-994782

National Fuel Gas Distribution Corporation, Restructuring, R-994785

PECO Energy Company, Restructuring, R-994787

National Fuel Gas Distribution Corporation, 1307(f), R-994898

Peoples Natural Gas Company, 1307(f), R-05068

PECO Energy Company, Merger, A-110550F0147

**DOCKETED**  
OCT 10 2000

Exhibit  
OTS Statement No. 2  
Witness: Paul J. Metro  
Date: September 18, 2000

9/28/00

Phls PB

PM

DOCUMENT  
FOLDER PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**Philadelphia Gas Works  
Interim Rate Increase Filing  
R-00005654**

**Exhibits to Accompany**

**the**

**Direct Testimony**

**of**

**Paul J. Metro**

**Office of Trial Staff**

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**Issues Concerning:**

**Gas Cost Issues**

**Natural Gas Cost Calculation**

	Company Position	OTS Adjustment	OTS Position
<b>Fuel</b>			
Commodity	\$277,664,858	\$ 62,721,752 Increased Commodity Costs \$ (218,404) Off System Sales Credit	\$340,168,206
Demand	\$ 67,822,514	\$ (952,146) Additional Capacity Release Credit	66,870,368.0
Other	\$ 1,311,674		\$ 1,311,674
<b>Total Natural Gas Costs</b>	<u>\$346,799,046</u>	<b>\$ 61,551,202</b>	<b>\$408,350,248</b>
Less: Gas Costs Associated With Interruptible Customers	\$ 43,410,182		\$ 43,410,182
<b>Subtotal</b>	<u>\$303,388,864</u>		<u>\$364,940,066</u>
Plus: Net Natural Gas Storage	\$ (1,604,431)		\$ (1,604,431)
Plus: Net LNG Storage	\$ 3,873,318		\$ 3,873,318
<b>Subtotal</b>	<u>\$305,657,751</u>		<u>\$367,208,953</u>
Plus: Purchased Electric Expense	\$ 965,000		\$ 965,000
<b>Total Applicable Fuel Expense</b>	<u>\$306,622,751</u>		<u>\$368,173,953</u>
<b>Non-Fuel</b>			
Plus: Conservation Programs	\$ 2,200,000		\$ 2,200,000
Plus: CRP Discounts	\$ 28,241,631		\$ 28,241,631
<b>Total Applicable Non-Fuel Expense</b>	<u>\$ 30,441,631</u>		<u>\$ 30,441,631</u>
<b>C Factor</b>			
Fuel	\$306,622,751		\$368,173,953
Non-Fuel	\$ 30,441,631		\$ 30,441,631
<b>Total Applicable Raw Material Expense</b>	<u>\$337,064,382</u>		<u>\$398,615,584</u>
<b>E Factor</b>			
Prior Year Reconciliation	\$ (3,662,560)		\$ (3,662,560)
<b>C-E Factor</b>			
<b>Net Applicable Raw Material Expense</b>	<u>\$340,726,942</u>		<u>\$402,278,144</u>

Reference: PGW Schedule 1  
 GCR 5  
 Volume 2 - PGW Cost to CFM Transfer Report

Philadelphia Gas Works  
Project Purchased Gas Costs  
OTS

OTS Exhibit No. 12  
Schedule 2

Company Projection

Month	Transco 30				Transco 65				Tetco ELA				Tetco WLA				Tetco MI				Tetco STX				Tetco ETX			
	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	
Sep-00	\$ 3.78	285,148	\$ 1,077,859	\$ 3.85	3,703,537	\$ 14,258,617	\$ 3.76	1,535,392	\$ 5,773,074	\$ 3.76	\$ -	\$ -	\$ 3.86	\$ -	\$ -	\$ 3.77	\$ -	\$ -	\$ 3.77	\$ -	\$ -	\$ 3.77	\$ -	\$ -	\$ 3.77	\$ -	\$ -	
Oct-00	\$ 3.85	\$ -	\$ -	\$ 3.92	4,379,134	\$ 17,166,205	\$ 3.85	407,831	\$ 1,570,149	\$ 3.85	\$ -	\$ -	\$ 3.95	\$ -	\$ -	\$ 3.84	\$ -	\$ -	\$ 3.83	\$ -	\$ -	\$ 3.83	\$ -	\$ -	\$ 3.83	\$ -	\$ -	
Nov-00	\$ 3.93	\$ -	\$ -	\$ 4.00	3,209,752	\$ 12,839,008	\$ 3.95	376,219	\$ 1,486,065	\$ 3.95	280,772	\$ 1,109,049	\$ 4.05	961,658	\$ 3,894,715	\$ 3.92	168,210	\$ 659,383	\$ 3.89	78,740	\$ 306,299	\$ 3.89	78,740	\$ 306,299	\$ 3.89	78,740	\$ 306,299	
Dec-00	\$ 3.96	\$ -	\$ -	\$ 4.03	4,209,909	\$ 16,965,933	\$ 3.97	1,061,546	\$ 4,214,338	\$ 3.97	332,410	\$ 1,319,668	\$ 4.07	1,083,229	\$ 4,408,742	\$ 3.94	227,183	\$ 895,101	\$ 3.91	141,428	\$ 552,983	\$ 3.91	141,428	\$ 552,983	\$ 3.91	141,428	\$ 552,983	
Jan-01	\$ 3.91	\$ -	\$ -	\$ 3.98	4,509,483	\$ 17,947,742	\$ 3.95	1,416,367	\$ 5,594,650	\$ 3.95	343,490	\$ 1,356,786	\$ 4.05	1,016,972	\$ 4,118,737	\$ 3.91	259,544	\$ 1,013,519	\$ 3.86	238,486	\$ 920,556	\$ 3.86	238,486	\$ 920,556	\$ 3.86	238,486	\$ 920,556	
Feb-01	\$ 3.82	\$ -	\$ -	\$ 3.89	4,020,742	\$ 15,640,686	\$ 3.85	930,178	\$ 3,581,185	\$ 3.85	310,249	\$ 1,194,459	\$ 3.95	663,883	\$ 2,622,338	\$ 3.81	202,219	\$ 769,443	\$ 3.76	133,529	\$ 502,069	\$ 3.76	133,529	\$ 502,069	\$ 3.76	133,529	\$ 502,069	
Mar-01	\$ 3.11	\$ -	\$ -	\$ 3.17	4,754,493	\$ 15,071,743	\$ 3.14	934,452	\$ 2,934,179	\$ 3.14	332,410	\$ 1,043,767	\$ 3.24	1,087,108	\$ 3,522,230	\$ 3.11	269,075	\$ 835,478	\$ 3.07	218,724	\$ 671,483	\$ 3.07	218,724	\$ 671,483	\$ 3.07	218,724	\$ 671,483	
Apr-01	\$ 3.06	400,505	\$ 1,225,545	\$ 3.12	4,773,651	\$ 14,893,791	\$ 3.08	2,379,413	\$ 7,328,592	\$ 3.08	\$ -	\$ -	\$ 3.18	\$ -	\$ -	\$ 3.06	79,080	\$ 241,983	\$ 3.04	\$ -	\$ -	\$ 3.04	\$ -	\$ -	\$ 3.04	\$ -	\$ -	
May-01	\$ 3.14	591,222	\$ 1,856,437	\$ 3.20	4,453,211	\$ 14,250,275	\$ 3.15	1,996,692	\$ 6,289,580	\$ 3.15	\$ -	\$ -	\$ 3.25	\$ -	\$ -	\$ 3.14	81,716	\$ 256,180	\$ 3.12	\$ -	\$ -	\$ 3.12	\$ -	\$ -	\$ 3.12	\$ -	\$ -	
Jun-01	\$ 3.22	572,150	\$ 1,842,323	\$ 3.27	3,602,262	\$ 11,779,397	\$ 3.22	1,878,226	\$ 6,047,888	\$ 3.22	\$ -	\$ -	\$ 3.32	\$ -	\$ -	\$ 3.21	79,080	\$ 253,451	\$ 3.19	\$ -	\$ -	\$ 3.19	\$ -	\$ -	\$ 3.19	\$ -	\$ -	
Jul-01	\$ 3.15	521,518	\$ 1,642,782	\$ 3.20	3,688,701	\$ 11,803,843	\$ 3.14	1,926,167	\$ 6,048,164	\$ 3.14	\$ -	\$ -	\$ 3.24	\$ -	\$ -	\$ 3.13	\$ -	\$ -	\$ 3.12	\$ -	\$ -	\$ 3.12	\$ -	\$ -	\$ 3.12	\$ -	\$ -	
Aug-01	\$ 3.07	497,274	\$ 1,526,631	\$ 3.13	3,688,584	\$ 11,545,268	\$ 3.07	1,926,167	\$ 5,913,333	\$ 3.07	\$ -	\$ -	\$ 3.17	\$ -	\$ -	\$ 3.06	\$ -	\$ -	\$ 3.05	\$ -	\$ -	\$ 3.05	\$ -	\$ -	\$ 3.05	\$ -	\$ -	
Total		2,867,817	\$ 9,171,578		48,993,459	\$ 174,162,510		16,768,650	\$ 56,781,197		1,599,331	\$ 6,023,729		4,812,850	\$ 18,566,761		1,366,107	\$ 4,924,541		810,907	\$ 2,953,390		810,907	\$ 2,953,390		810,907	\$ 2,953,390	

OTS Projection  
(Based on September 12,2000 Prices)

Month	Transco 30				Transco 65				Tetco ELA				Tetco WLA				Tetco MI				Tetco STX				Tetco ETX			
	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	DRI	Associated Volumes Dth	Cost	
Sep-00	\$ 4.52	285,148	\$ 1,288,869	\$ 4.59	3,703,537	\$ 16,999,235	\$ 4.50	1,535,392	\$ 6,909,264	\$ 4.50	\$ -	\$ -	\$ 4.60	\$ -	\$ -	\$ 4.51	\$ -	\$ -	\$ 4.50	\$ -	\$ -	\$ 4.50	\$ -	\$ -	\$ 4.50	\$ -	\$ -	
Oct-00	\$ 5.01	\$ -	\$ -	\$ 5.08	4,379,134	\$ 22,246,001	\$ 5.01	407,831	\$ 2,043,233	\$ 5.01	\$ -	\$ -	\$ 5.11	\$ -	\$ -	\$ 5.00	\$ -	\$ -	\$ 4.99	\$ -	\$ -	\$ 4.99	\$ -	\$ -	\$ 4.99	\$ -	\$ -	
Nov-00	\$ 5.14	\$ -	\$ -	\$ 5.21	3,209,752	\$ 16,706,759	\$ 5.16	376,219	\$ 1,939,409	\$ 5.16	280,772	\$ 1,447,380	\$ 5.26	961,658	\$ 5,053,513	\$ 5.13	168,210	\$ 862,076	\$ 5.09	78,740	\$ 400,393	\$ 5.09	78,740	\$ 400,393	\$ 5.09	78,740	\$ 400,393	
Dec-00	\$ 5.24	\$ -	\$ -	\$ 5.31	4,209,909	\$ 22,333,567	\$ 5.25	1,061,546	\$ 5,567,809	\$ 5.25	332,410	\$ 1,743,490	\$ 5.35	1,083,229	\$ 5,789,859	\$ 5.22	227,183	\$ 1,184,759	\$ 5.19	141,428	\$ 733,304	\$ 5.19	141,428	\$ 733,304	\$ 5.19	141,428	\$ 733,304	
Jan-01	\$ 5.20	\$ -	\$ -	\$ 5.27	4,509,483	\$ 23,778,504	\$ 5.24	1,416,367	\$ 7,426,012	\$ 5.24	343,490	\$ 1,800,918	\$ 5.34	1,016,972	\$ 5,433,681	\$ 5.20	259,544	\$ 1,350,407	\$ 5.15	238,486	\$ 1,228,918	\$ 5.15	238,486	\$ 1,228,918	\$ 5.15	238,486	\$ 1,228,918	
Feb-01	\$ 4.94	\$ -	\$ -	\$ 5.01	4,020,742	\$ 20,135,876	\$ 4.97	930,178	\$ 4,621,124	\$ 4.97	310,249	\$ 1,541,317	\$ 5.07	663,883	\$ 3,364,559	\$ 4.93	202,219	\$ 996,535	\$ 4.88	133,529	\$ 651,354	\$ 4.88	133,529	\$ 651,354	\$ 4.88	133,529	\$ 651,354	
Mar-01	\$ 4.66	\$ -	\$ -	\$ 4.73	4,754,493	\$ 22,493,506	\$ 4.69	934,452	\$ 4,383,514	\$ 4.69	332,410	\$ 1,539,335	\$ 4.79	1,087,108	\$ 5,208,334	\$ 4.66	269,075	\$ 1,254,159	\$ 4.62	218,724	\$ 1,010,724	\$ 4.62	218,724	\$ 1,010,724	\$ 4.62	218,724	\$ 1,010,724	
Apr-01	\$ 4.37	400,505	\$ 1,750,607	\$ 4.44	4,773,651	\$ 21,199,784	\$ 4.39	2,379,413	\$ 10,448,002	\$ 4.39	\$ -	\$ -	\$ 4.49	\$ -	\$ -	\$ 4.37	79,080	\$ 345,659	\$ 4.35	\$ -	\$ -	\$ 4.35	\$ -	\$ -	\$ 4.35	\$ -	\$ -	
May-01	\$ 4.28	591,222	\$ 2,527,474	\$ 4.35	4,453,211	\$ 19,349,202	\$ 4.29	1,996,692	\$ 8,555,825	\$ 4.29	\$ -	\$ -	\$ 4.39	\$ -	\$ -	\$ 4.28	81,716	\$ 349,336	\$ 4.26	\$ -	\$ -	\$ 4.26	\$ -	\$ -	\$ 4.26	\$ -	\$ -	
Jun-01	\$ 4.26	572,150	\$ 2,439,075	\$ 4.33	3,602,262	\$ 15,608,601	\$ 4.26	1,878,226	\$ 8,006,877	\$ 4.26	\$ -	\$ -	\$ 4.36	\$ -	\$ -	\$ 4.25	79,080	\$ 336,327	\$ 4.23	\$ -	\$ -	\$ 4.23	\$ -	\$ -	\$ 4.23	\$ -	\$ -	
Jul-01	\$ 4.25	521,518	\$ 2,215,408	\$ 4.32	3,688,701	\$ 15,927,811	\$ 4.24	1,926,167	\$ 8,163,096	\$ 4.24	\$ -	\$ -	\$ 4.34	\$ -	\$ -	\$ 4.23	\$ -	\$ -	\$ 4.22	\$ -	\$ -	\$ 4.22	\$ -	\$ -	\$ 4.22	\$ -	\$ -	
Aug-01	\$ 4.24	497,274	\$ 2,109,934	\$ 4.31	3,688,584	\$ 15,908,863	\$ 4.24	1,926,167	\$ 8,172,727	\$ 4.24	\$ -	\$ -	\$ 4.34	\$ -	\$ -	\$ 4.23	\$ -	\$ -	\$ 4.22	\$ -	\$ -	\$ 4.22	\$ -	\$ -	\$ 4.22	\$ -	\$ -	
Total	\$ 4.68	2,867,817	\$ 12,331,368		48,993,459	\$ 232,687,709		16,768,650	\$ 76,236,893		1,599,331	\$ 8,092,441		4,812,850	\$ 24,849,947		1,366,107	\$ 6,679,259		810,907	\$ 4,024,694		810,907	\$ 4,024,694		810,907	\$ 4,024,694	

Total DRI \$ 272,583,704  
Total Volumes 77,219,121  
Total NYMEX 364,902,309  
Rate Differential \$ 1.20

Natural Gas Utilized 52,463,082  
Rate Differential \$ 1.20 per Dth

Increased Gas Costs per GCR 862,721,752

Question OTS-34 Provide a schedule showing the monthly DRI Forecasts included in this filing. Provide the monthly volumes that are associated with each month's forecasted rate.

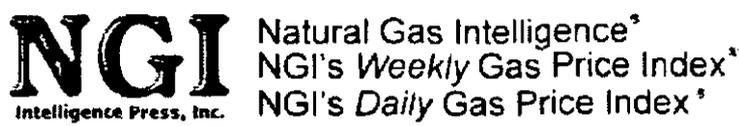
Response:

Month	Transco 30		Transco 65		Tetco ELA		Tetco WLA		Tetco M1*		Tetco STX**		Tetco ETX		Total
	DRI	Associated Volumes	DRI	Associated Volumes	DRI	Associated Volumes	DRI	Associated Volumes	DRI	Associated Volumes	DRI	Associated Volumes	DRI	Associated Volumes	
		(Dth)		(Dth)		(Dth)		(Dth)		(Dth)		(Dth)		(Dth)	
Sep-00	\$ 3.78	285,148	3.85	3,703,537	\$ 3.76	1,535,392	\$ 3.76	-	\$ 3.86	-	\$ 3.765	-	\$ 3.77	-	5,524,077
Oct-00	\$ 3.85	-	3.92	4,379,134	\$ 3.85	407,831	\$ 3.85	-	\$ 3.95	-	\$ 3.840	-	\$ 3.83	-	4,786,965
Nov-00	\$ 3.93	-	4.00	3,209,752	\$ 3.95	376,219	\$ 3.95	280,772	\$ 4.05	961,658	\$ 3.920	168,210	\$ 3.89	78,740	5,075,352
Dec-00	\$ 3.96	-	4.03	4,209,909	\$ 3.97	1,061,546	\$ 3.97	332,410	\$ 4.07	1,083,229	\$ 3.940	227,183	\$ 3.91	141,428	7,055,705
Jan-01	\$ 3.91	-	3.98	4,509,483	\$ 3.95	1,416,367	\$ 3.95	343,490	\$ 4.05	1,016,972	\$ 3.905	259,544	\$ 3.86	238,486	7,784,342
Feb-01	\$ 3.82	-	3.89	4,020,742	\$ 3.85	930,178	\$ 3.85	310,249	\$ 3.95	663,883	\$ 3.805	202,219	\$ 3.76	133,529	6,260,800
Mar-01	\$ 3.11	-	3.17	4,754,493	\$ 3.14	934,452	\$ 3.14	332,410	\$ 3.24	1,087,108	\$ 3.105	269,075	\$ 3.07	218,724	7,596,262
Apr-01	\$ 3.06	400,505	3.12	4,773,651	\$ 3.08	2,379,413	\$ 3.08	-	\$ 3.18	-	\$ 3.060	79,080	\$ 3.04	-	7,632,650
May-01	\$ 3.14	591,222	3.20	4,453,211	\$ 3.15	1,996,692	\$ 3.15	-	\$ 3.25	-	\$ 3.135	81,716	\$ 3.12	-	7,122,841
Jun-01	\$ 3.22	572,150	3.27	3,602,262	\$ 3.22	1,878,226	\$ 3.22	-	\$ 3.32	-	\$ 3.205	79,080	\$ 3.19	-	6,131,718
Jul-01	\$ 3.15	521,518	3.20	3,688,701	\$ 3.14	1,926,167	\$ 3.14	-	\$ 3.24	-	\$ 3.130	-	\$ 3.12	-	6,136,386
Aug-01	\$ 3.07	497,274	3.13	3,688,584	\$ 3.07	1,926,167	\$ 3.07	-	\$ 3.17	-	\$ 3.060	-	\$ 3.05	-	6,112,025
Total		2,867,818		48,993,458		16,768,652		1,599,331		4,812,650		1,366,107		810,907	77,219,123

\* M1 price based on the Louisiana DRI plus the avg. historical 2 yr variance between the point and the First of Month M1 Bidweek price listed in the National Gas Weekly publication.

\*\* STX DRI reflects the average of Texas and Louisiana.

NOTE: For the months of November through March 40,000 Dth on Transco and 35,000 Dth on Tetco were locked with a basis ranging from plus \$0.0075 to plus \$0.0175.



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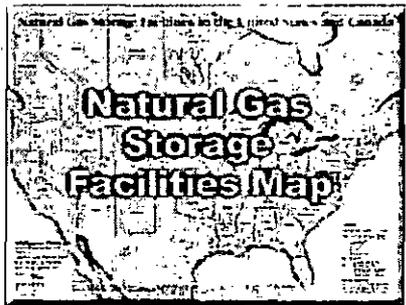
**NYMEX Natural Gas Futures 2000-09-11**

[NGI's Daily Gas Price Index](#)

[NGI's Weekly Gas Price Index](#)

[NGI's Bidweek Survey](#)

[Natural Gas Intelligence, the weekly gas market newsletter](#)



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[Commitments of Traders Reports from the Commodity Futures Trading Commission](#)

[NYMEX Natural Gas - charts and graphs.](#)

[Graph Historical Daily, Weekly or Bidweek spot market prices](#)

Month	Open	High	Low	Close	Change
Oct2000	4.910	5.095	4.900	5.011	+0.131
Nov	5.040	5.210	5.030	5.135	+0.136
Dec	5.140	5.300	5.135	5.235	+0.135
Jan2001	5.120	5.270	5.110	5.203	+0.133
Feb	4.860	5.000	4.860	4.938	+0.123
Mar	4.580	4.720	4.580	4.661	+0.121
Apr	4.315	4.430	4.315	4.371	+0.111
May	4.240	4.310	4.240	4.275	+0.105
Jun	n/a	4.300	4.250	4.263	+0.101
Jul	4.205	4.300	4.205	4.248	+0.101
Aug	4.205	4.275	4.205	4.243	+0.101
Sep	4.250	4.265	4.220	4.220	+0.101
Oct	4.240	4.240	4.208	4.208	+0.101
Nov	4.340	4.340	4.322	4.322	+0.101
Dec	4.370	4.440	4.370	4.411	+0.101
Jan2002	4.310	4.420	4.310	4.381	+0.101
Feb	4.200	4.200	4.167	4.167	+0.096
Mar	4.000	4.000	3.974	3.974	+0.093
Apr	3.785	3.790	3.749	3.749	+0.084
May	3.700	3.700	3.658	3.658	+0.081
Jun	3.690	3.690	3.636	3.636	+0.081
Jul	3.675	3.675	3.634	3.634	+0.081
Aug	n/a	3.639	3.639	3.639	+0.081
Sep	n/a	3.634	3.634	3.634	+0.081
Oct	n/a	3.649	3.649	3.649	+0.081
Nov	n/a	3.741	3.741	3.741	+0.081
Dec	n/a	3.817	3.817	3.817	+0.075
Jan2003	n/a	3.800	3.800	3.800	+0.070
Feb	n/a	3.658	3.658	3.658	+0.070
Mar	3.508	3.508	3.488	3.488	+0.070
Apr	n/a	3.310	3.310	3.310	+0.070
May	3.270	3.290	3.270	3.290	+0.070
Jun	3.290	3.310	3.290	3.310	+0.070
Jul	n/a	3.332	3.332	3.332	+0.070
Aug	n/a	3.353	3.353	3.353	+3.353
Sep	n/a	3.343	3.343	3.343	+3.343

NGI's Rankings of North American  
 Natural Gas and Power Marketers

The most popular news stories from  
**NGI's Daily Gas Price Index** over the  
 previous week, month and quarter.

The most popular news stories from  
**Natural Gas Intelligence** over the  
 previous month and quarter.

Editors Choice of Top 10 Energy  
 Stories of the Past Quarter

Baker Hughes Rotary Rig Count

Special Report : Electric Reliability

**About Intelligence Press**

Price Methodology

Who We Are

Contact Information

**Daily Cash Market Prices**

NGPL S. TX	4.81	+ .11
Henry Hub	4.86	+ .12
Panhandle Eastern	4.83	+ .10
El Paso non-Bondad	4.48	+ .16
Northwest Domestic	4.25	+ .14
Transco Zone 6 NY	5.33	+ .18

**Note:** Gas traded on Monday Sep 11 for  
 Sep 12 delivery. A full listing of  
Daily, Weekly, Bidweek spot market  
 Prices are also available for subscribers.

**Futures Market Prices**

**NYMEX Natural Gas  
 September 11th Settlement  
 Prices**

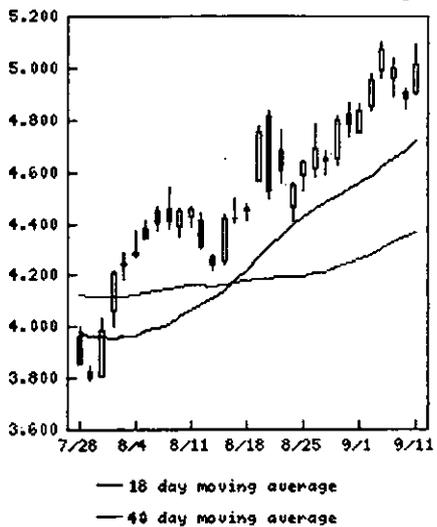
Oct 2000	5.011	+ .131
Nov	5.135	+ .136
Dec	5.235	+ .135
Jan 2001	5.203	+ .133
Feb	4.938	+ .123
Mar	4.661	+ .121
Apr	4.371	+ .111
May	4.275	+ .105
Jun	4.263	+ .101
Jul	4.248	+ .101
Aug	4.243	+ .101
Sep	4.220	+ .101

full listing, charts and graphs

OTS Exhibit No. 92  
Schedule 2, Page 5 of 6  
Witness: PJ Metro

### Nymex Natural Gas

October 2000 Delivery



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Contact Information

**Daily Cash Market Prices**

NGPL S. TX	4.68 +.18
Henry Hub	4.78 +.19
Panhandle Eastern	4.70 +.23
El Paso non-Bondad	3.67 +.13
Northwest Domestic	3.60 +.12
Transco Zone 6 NY	5.08 +.22

Note: Gas traded on Tuesday Aug 22 for Aug 23 delivery. A full listing of Daily, Weekly, Bidweek spot market Prices are also available for subscribers.

**Futures Market Prices**

**NYMEX Natural Gas  
 August 22nd Settlement  
 Prices**

Sep 2000	4.520	-.227
Oct	4.530	-.222
Nov	4.590	-.210
Dec	4.665	-.197
Jan 2001	4.625	-.185
Feb	4.368	-.172
Mar	4.110	-.157
Apr	3.860	-.132
May	3.755	-.127
Jun	3.730	-.132
Jul	3.715	-.127
Aug	3.715	-.127

full listing, charts and graphs

OTS Statement No. 3  
Witness: Andrew R. O'Donnell  
Date: September 18, 2000

**DOCKETED**  
OCT 10 2000

9/28/00  
Phila PD  
RGS

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

v.

**Philadelphia Gas Works**

**Docket No. R-00005654**

DOCUMENT  
FOLDER

**Direct Testimony**

**Of**

**Andrew R. O'Donnell**

**Office of Trial Staff**

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**Concerning: Interim Rate Filing**

1 **Q. WOULD YOU PLEASE STATE YOUR NAME, EMPLOYER AND**  
2 **BUSINESS ADDRESS?**

3 A. My name is Andrew R. O'Donnell. I am employed by the Pennsylvania  
4 Public Utility Commission, Office of Trial Staff. My business address is  
5 P.O. Box 3265, Harrisburg, PA 17105-3265.

6

7 **Q. WHAT IS YOUR CURRENT POSITION AND PRIMARY AREAS OF**  
8 **RESPONSIBILITY?**

9 A. I am a Fixed Utility Financial Analyst Supervisor assigned to the Technical  
10 Division of the Office of Trial Staff. My primary areas of responsibility  
11 include the supervision of a group of financial analysts who are responsible  
12 for the analysis and presentation of testimony regarding the cost of capital,  
13 operating and maintenance expenses, income taxes, purchased gas cost e-  
14 factors, and financial issues related to utility restructuring. I am also  
15 responsible for the investigation of excess earnings.

16

17 **Q. BRIEFLY, WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**  
18 **BACKGROUND?**

19 A. I received a Bachelor of Science degree in Accounting from Elizabethtown  
20 College, Elizabethtown, Pennsylvania in 1973. I also completed a graduate  
21 course in Financial Policy at Shippensburg University in 1980. From 1973

1 to 1976, I held accounting positions in corporate, partnership and  
2 governmental accounting. In 1976, I began working for the Commission's  
3 Bureau of Rates and Research in the Rate of Return Section. When the  
4 Pennsylvania Legislature reorganized the PUC in 1986, the Rate of Return  
5 Section became part of the Office of Trial Staff (OTS). In April 1992, I  
6 assumed the supervision of the Rate of Return Section. The Rate of Return  
7 Section was renamed the Finance Section as the result of a March 1994  
8 reorganization and I assumed supervision of that section. A Commission  
9 reorganization in March 1996 resulted in a single OTS Technical Division in  
10 which my supervisory responsibilities were expanded to include operating  
11 and maintenance expenses and financial matters related to utility  
12 restructuring.

13  
14 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE**  
15 **THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?**

16 **A.** Yes. I have presented testimony concerning rate of return in several utility  
17 rate proceedings before the Pennsylvania Public Utility Commission since  
18 1977.

19  
20 **Q. HAVE YOU PROVIDED AN APPENDIX TO THIS TESTIMONY**  
21 **THAT DESCRIBES YOUR CREDENTIALS IN GREATER DETAIL?**

1 A. Yes. Appendix A describes my education, experience and responsibilities of  
2 my current position in greater detail. Included is a list of cases, by docket  
3 number, in which I have presented testimony.

4

5 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

6 A. The purpose of this testimony is to address PGW's debt service coverage  
7 requirements and discuss the Company's financial crisis. I will also  
8 summarize the steps that OTS is recommending to remedy PGW's financial  
9 dilemma.

10

11 **Q. HAVE YOU PREPARED AN EXHIBIT THAT PRESENTS**  
12 **SUPPORTING DOCUMENTATION WITH RESPECT TO DEBT**  
13 **SERVICE COVERAGE REQUIREMENTS?**

14 A. Yes. OTS Exhibit No. 3 presents a compilation of PGW's debt service  
15 payments for all issues from the issuance date through maturity date. I have  
16 also reproduced the entire copies of each ordinance which fully describes  
17 PGW's debt service requirements and related information.

18

19 **Q. PLEASE DEFINE DEBT SERVICE.**

20 A. Debt service is the annual amount of principal and interest due on an  
21 outstanding loan.

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**Q. WHAT IS MEANT BY DEBT SERVICE COVERAGE?**

A. Debt service coverage is a ratio of annual funds available to cover annual debt service divided by the annual debt service requirement (principal and interest). The ratio is usually required in bond indentures to be greater than 1.0 times so that adequate financial protection exists to avoid default on outstanding loans (see OTS Exhibit No. 3).

**Q. WHAT IS PGW'S SPECIFIC DEBT SERVICE COVERAGE REQUIREMENT?**

A. The Rate Covenant set forth in Article IV, Section 403 of its 1975 and 1998 Bond Ordinances requires PGW to maintain minimum debt service coverage of 1.5 times for the 1975 Ordinance Revenue Bonds and 1998 Ordinance Senior Revenue Bonds and 1.0 times for 1998 Ordinance Subordinate Revenue Bonds.

**Q. HAVE YOU REVIEWED THE TESTIMONY OF BARBARA C. BISGAIER WITH RESPECT TO PGW'S FINANCIAL CRISIS?**

A. Yes.

1 **Q. WHAT IS MS. BISGAIER'S POSITION REGARDING PGW'S**  
2 **FINANCIAL SITUATION?**

3 A. Ms. Bisgaier's testimony essentially states if both an increase in the PGC  
4 and base rates are not granted by November 2000, PGW will likely fail to  
5 meet its bond covenants, the commercial paper program will collapse and  
6 such occurrences will result in a downgrading of PGW's credit rating to  
7 junk bond status. The consequence of such a credit downgrade would be an  
8 inability to access capital markets until PGW improves its financial  
9 condition and when the credit rating is restored to investment grade, the  
10 cost rate of newly issued bonds will be significantly higher than if the  
11 financial condition were improved through rate relief.

12  
13 **Q. WHAT IS MS. BISGAIER'S POSITION REGARDING A**  
14 **POTENTIAL TECHNICAL DEFAULT OF THE BOND**  
15 **COVENANTS?**

16 A. On page 5 of her Direct Testimony, Ms. Bisgaier stated the following:

17 If PGW is not granted increases in both its GCR and base  
18 rates, there is a substantial probability that PGW will be in  
19 default of one or more of the bond covenants. In its various  
20 bond resolutions, PGW has essentially committed to its  
21 bondholders to set rates that are sufficient to pay for the costs  
22 of operating and maintaining PGW and to pay principal and  
23 interest on its outstanding debt (as well as provide for a  
24 minimum of 1.5x debt service coverage on all long-term  
25 debt). Failure of PGW to generate revenues to pay all of its

1 expenses or to meet the 1.5x debt service coverage test, even  
2 if debt service payments are timely made, will result in a  
3 technical default under those bond covenants. In my opinion,  
4 and in the present circumstances, this technical default (and  
5 the implications of such an eventuality) will immediately  
6 result in the downgrading to below investment-grade of  
7 PGW's long-term debt credit rating by each of the three  
8 municipal credit rating agencies.  
9

10  
11 **Q. WOULD YOU PLEASE SUMMARIZE MS. BISGAIER'S OPINION**  
12 **REGARDING THE POTENTIAL COLLAPSE OF PGW'S**  
13 **COMMERCIAL PAPER PROGRAM?**

14 A. Ms. Bisgaier's stated that she believes that the most immediate concern  
15 regarding default of the rate covenant is the absolute collapse of the  
16 commercial paper program. Commercial paper is traditionally used to meet  
17 monthly operating cash peaks and valleys and for several years it has  
18 effectively become part of the permanent capitalization. Currently and  
19 prospectively, PGW has no ability to pay down its outstanding commercial  
20 paper. Morgan Guaranty is waiting until November or December of this  
21 year to see whether the PUC will grant a GCR and base rate increase. If  
22 not, it will not grant a letter of credit greater than \$50 million beyond the  
23 end of the fiscal year. If this occurs, it is unlikely that PGW will find a  
24 replacement letter.  
25

1 **Q. IS MS. BISGAIER CORRECT THAT PGW WILL LIKELY**  
2 **EXPERIENCE A DOWNGRADE IN ITS CREDIT RATING IF**  
3 **RELIEF IS NOT GRANTED IN THE GCR AND INTERIM BASE**  
4 **RATE PROCEEDING?**

5 A. Unfortunately, yes. On July 20, 2000, Standard & Poor's sent PGW a letter  
6 which informed the Company that they "have placed the rating of 'BBB' on  
7 CreditWatch with negative implications due to PGW's very weak cash  
8 flows arising from a convergence of budgeting that did not reflect the trend  
9 toward warmer winters; historic ongoing problems with high revenue  
10 receivables; and the faulty implementation of a new billing system."  
11 Moreover, in its July 2000 "Infrastructure Finance" report, Standard &  
12 Poor's opined: "To preserve its ratings, PGW will need to obtain rate relief  
13 and implement the projected productivity savings ranging between 5% to  
14 10% annually."

15  
16 **Q. IF THE COMMISSION ADOPTS THE OTS POSITION IN THE PGC**  
17 **AND THE INTERIM RATE RELIEF FILINGS, WILL PGW'S**  
18 **FINANCIAL SITUATION IMPROVE SUFFICIENTLY TO**  
19 **PRESERVE THE CREDIT RATING?**

20 A. Yes. First, Mr. Metro has made a reasonable attempt to recommend  
21 positive changes in PGW's GCR process to reflect current and prospective

1 increases in gas costs and to revise the Company's tariff for the threshold  
2 for quarterly updating of those costs. In addition to Mr. Metro's  
3 recommendations, Mr. Weakley reflected the increase in revenues resulting  
4 from Mr. Metro's recommendation and recommended an additional interim  
5 increase in base rates of \$27.5 million necessary to provide PGW with  
6 positive cash flow for the fiscal year-ended August 31, 2001 such that all  
7 operating and maintenance expenses and debt service will be paid. As a  
8 result of our recommendations, PGW's debt service coverage will be  
9 greater than minimum required levels. Through these recommendations,  
10 OTS has made a reasonable attempt to enable PGW to address the imminent  
11 financial crisis so that a technical default will not occur and the soundness  
12 of its credit rating will be preserved.

13

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 **A. Yes.**

## APPENDIX A

### Education and Professional Background of Andrew R. O'Donnell

**Current:** Fixed Utility Financial Analyst Supervisor, Office of Trial Staff, Pennsylvania Public Utility Commission. Responsible for the supervising of employees and the presentation and review of testimony in fixed utility rate proceedings regarding finance and cost analysis. I have worked at the Commission in a ratemaking capacity since March, 1976.

**Previous:** Accountant, Pennsylvania Department of Agriculture, 1974-1976.

Accountant, Modjeski and Masters, Consulting Engineers, 194.

Assistant Controller, Harrisburg Dairies, Inc. and subsidiaries, 1973.

Administrative Specialist, U.S. Air Force, 1966-1969

#### Education:

Bachelor of Science, Major in Accounting, Elizabethtown College, Elizabethtown, Pennsylvania, 1973.

Associate in Science, Business Administration, Harrisburg Area Community College, Harrisburg, Pennsylvania, 1971.

#### Other Education:

Pennsylvania State University, Management Academy, 1996.

Commonwealth of Pa., Pa. P.U.C., Harrisburg, PA Telecommunications Training for Policy Makers and Public Advocates, 1993.

Michigan State University, Graduate School of Business Administration, Advanced Regulatory Studies Program, Williamsburg Conference, 1986.

Shippensburg University, Graduate School of Business Administration, Managerial Finance, 1980. Studies focused primarily on the use of the Capital Asset Pricing Model in the formation of financial policy.

Pennsylvania State University, Continuing Education Program, Report Writing Seminar, 1979.

University of Toronto, Graduate School of Business Administration, Workshop in Public Utility Management, 1978; Course Director: Myron J. Gordon.

Studies included the DCF Theory and the use of the Capital Asset Pricing Model in the determination of required rate of return.

Michigan State University, Graduate School of Business Administration, Annual Regulatory Studies Program, 1976.

Pennsylvania State University, Continuing Education Program, Regulatory Studies Program, 1976.

Franklin and Marshall College, Lancaster, Pennsylvania, various Accounting, Finance and Management courses, 1972.

**Testimony Presented Before the Pennsylvania Public Utility Commission:**

R-78010545	Peoples Natural Gas Company
R-78040598	Equitable Gas Company
R-78120724	Columbia Gas Company of Pennsylvania, Inc.
R-79030781	Philadelphia Electric Co., Gas Operation
R-79040785	Philadelphia Electric Co., Steam Heat Operations
R-79100972	Apollo Gas Company
R-79100981	Carnegie Natural Gas Company

R-79090956	National Fuel Gas Distribution Corporation
R-80041169	Equitable Gas Company
R-80061221	Western Pennsylvania Water Co., Pittsburgh Suburban District
R-80061743	South Penn Gas Company, Shippensburg District
R-80111375	North Penn Gas Company
R-811488	UGI Corporation - Gas Utility Division
R-811615	T.W. Phillips Gas and Oil Company
R-821966	Chartiers Natural Gas Company, Inc.
R-821906	Peoples Natural Gas Company
R-822133	Equitable Gas Company
R-822169	Pennsylvania Power & Light Company
R-832315	Peoples Natural Gas Company
R-832409	Pennsylvania Power Company
R-832448	South Penn Gas Company, Oxford District
R-832449	South Penn Gas Company, Waynesboro District
R-832450	South Penn Gas Company, Emmitsburg District
R-842651	Pennsylvania Power & Light Company
R-842632	West Penn Power Company
R-850021	Duquesne Light Company
R-850152	Philadelphia Electric Company

R-850287	National Fuel Gas Distribution Corporation
R-870769	York Water Company
R-870832	Columbia Gas of Pennsylvania, Inc.
R-870854	Bloomsburg Water Company
R-880916	Pennsylvania-American Water Company
R-880961	The Peoples Natural Gas Company
R-891208	Pennsylvania-American Water Company
R-891270	Philadelphia Suburban Water Company
R-891259	Bloomsburg Water Company
R-891473	Pennsylvania Water Company - Sayre Division
R-901609	West Penn Power Company
R-901667	Philadelphia Suburban Water Company
R-901726	Pennsylvania Gas and Water Company - Water Division
R-911892	Philadelphia Suburban Water Company
R-911918	Clean Treatment Sewerage Company
R-911963	Roaring Creek Water Company
R-912064	Bloomsburg Water Company
R-912060	Shenango Valley Water Company
R-912023	Sunshine Hills Water Company
R-912150	Media Borough

R-922314	Metropolitan Edison Company
R-922378	West Penn Power Company
R-932604	Dauphin Consolidated Water Supply Company and General Water Works of Pennsylvania, Inc.
P-930715	Bell Atlantic - Pennsylvania, Inc. Petition and Plan for Alternative Form of Regulation Under Chapter 30
R-932828	National Utilities, Inc.
R-943986	West Penn Power Company
R-953297	UGI Utilities, Inc. - Gas Division
R-953300	Citizens Utilities Water Company of PA, Inc.
R-963858	Equitable Gas Company
R-973947	United Water Pennsylvania, Inc.
R-005212	Pa. American Water Co.-Wastewater Operations