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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

**THOMAS E. KNUDSEN**

ON BEHALF OF  
PHILADELPHIA GAS WORKS

RECEIVED  
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SECRETARY'S BUREAU

RE: PHILADELPHIA GAS WORKS  
BASE RATE PROCEEDING

DOCKET NO. R-00006042

JANUARY, 2001

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Thomas E. Knudsen. My business address is 800 West  
3 Montgomery Avenue, Philadelphia, PA 19122.

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

5 A. I am employed by the Philadelphia Gas Works ("PGW" or "the Gas Works"  
6 or "the company") as its Interim Chief Financial Officer.

7 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

8 A. My formal responsibilities include the oversight of the following functions:  
9 budgeting, treasury, information technology, risk management, customer  
10 affairs, regulatory affairs and accounting, among other areas.

11 However, in my capacity as a member of the transitional management  
12 team appointed last March, my responsibilities also include the formulation  
13 of strategies, policies and procedures that address the needs of the entire  
14 organization.

15 **Q. PLEASE SUMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
16 **WORK EXPERIENCE.**

17 A. I received a Bachelor of Arts Degree with a major in economics from  
18 Northwestern University in 1964 and a Master's Degree in Business  
19 Administration from Columbia University in 1968. During the period of  
20 1964-66, I served as a supply officer in the United States Navy. From  
21 1968-1970, I was Assistant to the Finance Administrator of the City of New  
22 York. From 1971-78, I was employed in the Management Services  
23 Division of Touche Ross & Co., specializing in government, health care  
24 and utility regulatory consulting. From 1978 until February, 2000, I was a

1 founding principal in the Woodside Group, Inc., a utility regulatory  
2 consulting firm. In March, 2000, I was appointed to my present position.

3 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY TO THE**  
4 **PENNSYLVANIA PUBLIC UTILITY COMMISSION?**

5 A. Yes, I testified on behalf of PGW in its interim rate proceeding (R-  
6 00005654). Previous to that, I appeared before the Pennsylvania Public  
7 Utility Commission ("the Commission") as an independent consultant and  
8 expert witness in various base rate and other proceedings over the course  
9 of the last several decades. I have also appeared before numerous other  
10 regulatory commissions on regulatory and rate issues, as detailed in  
11 Appendix A to my testimony.

12 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

13 A. My testimony presents PGW's position on several issues. First, I will  
14 explain how this base rate filing fits within a context of an on-going  
15 financial crisis at PGW. I present that context and explain the company's  
16 revenue requirement presentation that demonstrates a need for a total of  
17 \$65 million in annual base rates to take effect late in FY 2001. This  
18 presentation is based on a fully forecasted test/budget year but, unlike  
19 past practice, will likely not take effect for any substantial portion of the  
20 budget period but will be applied to future fiscal years. This circumstance  
21 causes a crisis that requires some form of base rate relief well before the  
22 end of PGW's current fiscal period, August 31, 2001. I will explain the  
23 specifics of this immediate crisis and support the company's position that  
24 immediate rate relief is necessary if PGW is going to be able to continue  
25 its planned construction and service improvement plans, or more

1 basically, even continue to serve customers at minimally adequate levels.  
2 Second, I will again present the basis on which PGW's revenue  
3 requirement has always been determined – the Cash Flow Method. Based  
4 on the preliminary conclusions of a study we had commissioned, this  
5 approach, in addition to being legally required (as I am advised), is  
6 actually more economical for ratepayers than if PGW were investor owned  
7 and its revenue requirement were determined as an investor owned utility.  
8 Finally, I will provide the Commission and the parties with an update on  
9 PGW's efforts to improve its service and increase efficiency as well as  
10 report on the progress made to fulfill the "Transition to Excellence"  
11 program to which we are committed. While progress is being made, these  
12 efforts have been slowed by PGW's massive financial crisis that threatens  
13 the Company's ability to even maintain its present levels of service  
14 through the rest of the fiscal year.

15 **B. Base Rate Filing Overview**

16 **Q. PLEASE PROVIDE AN OVERVIEW OF PGW'S BASE RATE FILING.**

17 **A. PGW is submitting its base rate increase request for \$65 million**  
18 **substantially on the same basis and with the same type of supporting data**  
19 **as it submitted to justify its \$52 million interim increase, and, before that,**  
20 **its proposed FY 2000-2001 operating and capital budgets to the**  
21 **Philadelphia Gas Commission.**

22 The testimony of Mr. Joseph Bogdonavage's, Senior Vice President for  
23 Finance, (PGW Statement 3) explains the specific structure of PGW's fully

1 forecasted budget on which the company's going-forward revenue  
2 requirement has been calculated. He also explains the specific changes  
3 in assumptions between the interim filing and this submission.

4 Mr. Bogdonavage also presents analyses of the current fiscal period  
5 financial needs, on an actual and projected actual basis, supporting  
6 PGW's position that without immediate rate relief sufficient to allow PGW  
7 to sell long term bonds in May 2001, PGW will not survive the year. The  
8 results show that, without a bond sale the company cannot meet its  
9 fiduciary requirement to comply with certain terms of its \$100 million  
10 commercial paper instrument. Were that program to fail, the obligation for  
11 the payment of that then-taxable loan would fall to the City's General  
12 Fund. However, the City has already committed all that it can in working  
13 capital, a total of \$63 million. PGW has no option, now, but to turn to its  
14 owner/customers for the funds that it needs to operate.

15 Ms. Barbara Bisgaier, the Company's financial advisor, submits testimony  
16 (PGW Statement 2) that updates the Commission on the present standing  
17 of PGW with its lenders and the rating agencies and explains what must  
18 happen for PGW to avoid a financial "meltdown." She also repeats  
19 evidence she presented in the interim case explaining the requirements of  
20 PGW's bond indenture.

21 In addition, Mr. Craig White, PGW Senior Vice President for Gas Supply  
22 and Marketing, submits testimony (PGW Statement 4) on projected gas  
23 sales levels and also presents PGW's proposal to allocate the proposed

1 rate change by increasing the customer charge for each rate class and to  
2 make certain other rate structure modifications affecting interruptible  
3 customers. He also presents PGW's position with respect to the recovery  
4 of non-gas costs in the GCR.

5 Mr. Howard Gorman, R. J. Rudden Associates, presents a fully allocated  
6 cost of service study for PGW and shows the results that justify the  
7 increases to the customer charge that the company is proposing (PGW  
8 Statement 5 and Vol. III of the base rate filing).

9 Finally, Mr. Lukens of Lukens Energy Group, Inc. will present an analysis  
10 (PGW Statement 6) showing that PGW ratepayers would be required to  
11 pay significantly higher rates if PGW were not a municipally owned utility.  
12 It is my hope that this testimony will assist the parties in understanding the  
13 inherent differences between traditional rate making for privately owned  
14 utilities and the Cash Flow Method required for PGW as a municipal utility  
15 with unique legal requirements.

16 C. **Background of Base Rate Case Filing and Report on Present**  
17 **Financial Status**

18 Q. **PLEASE EXPLAIN THE BACKGROUND FOR PGW'S BASE RATE**  
19 **FILING AT THIS TIME.**

20 A. This base rate filing is part of PGW's plan to return to financial stability, a  
21 key element of its "Transition to Excellence" program. Management  
22 presented this plan to the PUC and the parties shortly after the PUC  
23 obtained jurisdiction over the rate making aspects of the Gas Works in the  
24 summer of 2000. The planning at that time included obtaining needed

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1 interim relief from the Commission in order to assure that we would have  
2 sufficient revenues to get us through the winter heating season and to  
3 satisfy our financial obligations in the May 2001 through October-  
4 November 2001 time period. As I have explained previously, these were  
5 obligations that, under our existing rate structure, could only be satisfied  
6 by PGW billing and collecting the 65% of its revenues that it books over  
7 the four month period from December through March.

8 In return for the PUC's consideration of our request for an interim  
9 increase, PGW offered to file a base rate proceeding immediately after the  
10 interim case was finished. We believed that the Commission and the  
11 interested parties could undertake a more in-depth review of PGW's  
12 accounting, financial and other data and determine whether the interim  
13 increase had been fully justified. The base rate case also appeared to be  
14 the most appropriate place to assess PGW's service issues and to work  
15 together to refine PGW's improvement plan. The PUC's August 17, 2000  
16 order granting an expedited proceeding to consider its revenue needs  
17 required PGW to agree to file a base rate case on or around January 1,  
18 2001 and, by this filing, PGW, as permitted, is meeting that commitment.

19 Because of the PUC's decision in the interim rate case, however, this filing  
20 has taken on a different importance to the Company and its customers.  
21 As the Commission and the parties are aware, the Commission did not  
22 accept PGW's revenue requirement claims. Instead it offered to permit  
23 PGW to raise its base rates by only \$11 million annually, or just 21% of  
24 PGW's interim request of \$52 million. Unfortunately even that offer was

1 contingent upon PGW accepting certain conditions, to which PGW  
2 concluded it could not legally agree.<sup>1</sup> The result is that, at the present  
3 time, PGW has not been able to put into effect any base rate increase and  
4 has appealed the PUC's order to Commonwealth Court.

5 **Q. HOW HAVE THESE FACTS AFFECTED PGW'S PRESENTATION OF**  
6 **ITS REVENUE REQUIREMENT NEEDS HERE?**

7 A. PGW was not able to accomplish any of its goals in the interim case.  
8 Those goals were; (1) to stabilize the Company by ameliorating the cash  
9 and earnings shortfalls that PGW was projecting for Fiscal Year 2001 and  
10 (2) in this base rate case, to allow the PUC, the Company and the parties,  
11 collectively, to reach consensus on the priorities and steps that PGW  
12 needed to implement on a going forward basis to prepare for restructuring  
13 and achieve permanent financial stability. PGW has lost a<sup>1</sup>-year in its  
14 financial recovery efforts. PGW is essentially back where it was last  
15 summer-early fall with respect to its financial predicament with one huge  
16 difference — things have gotten much worse. With the unprecedented run  
17 up in gas costs and without timely and adequate relief in the interim  
18 proceeding as requested, we are forced to ask both for further

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<sup>1</sup>The conditions that PGW could not agree to included an agreement that PGW would agree to install permanent management that would be acceptable to the PUC, in accordance with a PUC-approved process, and that PGW would agree to implement all of the recommendations of the PUC's management audit. The management audit recommendations have not even today been finalized and PGW has not had an opportunity to completely review those that it has been shown. At any rate both of these conditions would require or potentially require PGW to agree to basic changes in its governance and management structure, and in its operating and construction budget that under City of Philadelphia ordinances, require the approval of the Philadelphia Gas Commission or City Council, or both.

1 consideration of the interim needs for FY 2001 and for a larger amount for  
2 the permanent needs going forward in FY 2002.

3 **Q. HOW ARE PGW'S PROJECTED FISCAL YEAR RESULTS AFFECTED**  
4 **BY THESE DEVELOPMENTS?**

5 A. Mr. Bogdonavage's schedules for base rate relief (part 2 of Vol. II) show  
6 the Company's projected results for the fiscal year on a fully forecasted or  
7 normalized basis with the requested permanent base rate increase  
8 superimposed.

9  
10 It is important to note that these fully forecasted results do not include the  
11 most recent higher gas costs or the associated provision for uncollectibles.  
12 The company has not included the full amount in the fully forecasted  
13 presentation opting instead to use a total of \$150 million of additional cost  
14 (over original budget). This gas cost level is projected to be more  
15 representative of future periods. This level incorporates both the recent  
16 \$97 million increase approved in November and an additional \$53 million,  
17 rather than the full \$133 million increase that PGW recently submitted.

18 Using this lower level of gas costs reduces the projected bad debt  
19 expense as well as the cash working capital needs when compared to the  
20 projected actual needs we are anticipating in FY 2001. What the parties  
21 have failed to fully appreciate is the impact on PGW's bottom line of any  
22 change in gas costs, up or down. Where one can assume a pass through  
23 of gas costs for other utilities that have a low bad debt expense of 1-3%,  
24 PGW's experience is 8% under normal circumstances and anticipated to  
25 be much higher (9%-12%) as bills increase and more people are not able  
26 to pay the full charge. This single relationship between gas costs and

1 uncollectible expense creates the major variant in the several filings we  
2 have prepared.

3 Moreover, the fully forecasted results only show the company operating  
4 with acceptable levels of earnings and liquidity if it were able to collect the  
5 full \$65 million for an entire year (and particularly during the winter heating  
6 season). Because we are now in January 2001 without adequate rate  
7 relief, PGW's actual projected results are considerably worse than its  
8 budgeted position. Moreover, PGW's ability to gain timely benefit from a  
9 permanent base rate case will be eliminated if this case concludes  
10 according to a traditional PUC – general base rate case schedule. Such a  
11 schedule would not end until after the fiscal year is over. Accordingly,  
12 unless some action is taken in FY 2000-01, PGW is presently projected to  
13 experience financial results that will put it in a virtual bankruptcy situation  
14 (virtual because as an instrumentality of the City, PGW is not legally able  
15 to declare bankruptcy according to our legal advisors).

16 **Q. WHAT MATERIAL CHANGES IN PGW'S FINANCIAL PROJECTIONS**  
17 **HAVE OCCURRED SINCE THE END OF THE INTERIM RATE**  
18 **PROCEEDING WHICH HAVE CAUSED A DETERIORATION IN PGW'S**  
19 **FINANCIAL CONDITION?**

20 A. As noted above, there are two major items. First, and most importantly,  
21 wholesale natural gas costs have not only risen as most of us were  
22 projecting in the interim case, they have gone up to a much greater extent  
23 and threaten to keep rising. On December 29, 2000 PGW filed its first  
24 quarterly revision to its GCR factor which took account of increased  
25 natural gas price projections available as of late December 2000. The  
26 result was a further increase in GCR revenues of \$133 million. This

1 amount, added to the \$97 million previously approved by the PUC, brings  
2 the total increases in anticipated gas costs for the fiscal year to \$230  
3 million. This is more than twice what PGW was projecting in the interim  
4 rate case. Again, these higher gas costs increase PGW's bad debt  
5 expense and its cash working capital needs.

6 The permanent base rate projection also assumes PGW's more historical  
7 billing/collection relationship that we were expecting at the time of the  
8 interim case. The most recent evidence, however, accumulated even  
9 before we started to bill the most recent GCR increase, is that customers  
10 are already exhibiting a no pay/slow pay pattern that is more pronounced  
11 than we have experienced heretofore. If this pattern continues, or is  
12 exacerbated once the January 2001 GCR increase is reflected in bills,  
13 PGW's earnings shortfall could be substantially greater than Mr.  
14 Bogdanovage is projecting. This combination of higher bills and slower  
15 pay is having a devastating effect on the company in the short term. If the  
16 slow pay customers turn to no pay, we are faced with a potential disaster.

17 These most recent projections for FY2001 mean that, as of this writing,  
18 there is a high probability that PGW will not be able to successfully sell a  
19 long term bond in the spring of 2001, even if it were able to begin to collect  
20 the \$11 million interim award. Most directly, coverage ratio forecasts will  
21 be so depressed as to give little comfort to those who buy bonds that  
22 PGW can sustain acceptable earnings support over time. Moreover,  
23 PGW's projected cash needs will not be covered by available revenue. It  
24 must be noted that for PGW to sell bonds there must be an independent

1 engineering report supporting projections of required coverages and  
2 adequate financial condition. If the condition of the company is projected  
3 to be such that, by the early spring, PGW is not anticipated to make its  
4 coverages and the PUC has not acted to support PGW, an objective  
5 observer would have to assume that such coverage requirements will not  
6 be met either in the short or long term. Which leads us to the second part  
7 of PGW's immediate crisis – the cash crisis.

8 **Q. PLEASE EXPLAIN.**

9 A. Without the access to cash from a long term bond, PGW will have no  
10 ability to meet its obligation in June 2001 to pay down for at least 5 days  
11 its entire outstanding balance of its commercial paper balance of \$97  
12 million. If PGW fails that requirement, PGW's commercial paper program  
13 will collapse with calamitous results for the Company and its customers.  
14 Ms. Bisgaier's testimony here repeats her testimony from the interim case  
15 about the extreme negative consequences of PGW not being able to  
16 satisfy its commercial paper requirements.

17 There is also another, more immediate effect of the higher gas costs and  
18 related uncollectible expense; namely, the lack of cash to pay supplier and  
19 pipeline bills throughout the winter and into the spring. Even if the  
20 Company had been able to put in place the PUC's proffered \$11 million  
21 base rate increase, that level of increase is inadequate to give PGW the  
22 cash it has needed to make its gas supplier and debt service payments as  
23 they have come due and are coming due this winter. Instead, PGW has  
24 had to use, or projects that it will use, virtually all of its available

1 contingency sources to meet its obligations in order to be able to continue  
2 to supply gas to customers. These include the following:

- 3 • Using the entire \$45 million line of credit loan offered by the City  
4 Administration;
- 5 • Obtaining a "pre-payment" of the remaining annual natural gas bills  
6 to the City, the Philadelphia Housing Authority and the Board of  
7 Education;
- 8 • Obtaining an advance from PGW's pension plan of the amount that  
9 PGW will ultimately have to pay in FY 2000 to pensioners from  
10 operating funds;
- 11 • Seeking pipeline and supplier deferral of demand charge  
12 obligations;
- 13 • Deferring payment of the City fee;
- 14 • Repeating a forward purchase of earnings on the Debt Service  
15 Reserve Fund for a period of 5 to 7 years (similar to what PGW did  
16 in 1995 to avoid an immediate rate increase but which was very  
17 costly to the Company in the long run); and
- 18 • Selling and repurchasing our gas inventories at usurious rates of  
19 interest
- 20 • Seeking pipeline and supplier deferral of commodity charge  
21 obligations;

22 By using all but the last three of these sources of cash, PGW projects that  
23 it will just squeak through March. But these analyses are based on  
24 "normal weather" and assume our present projections for gas costs. Even  
25 with the use of all of these contingencies, if gas costs continue to escalate

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1 and/or if the weather continues at "design" conditions (which means that  
2 PGW must purchase more gas at current market conditions to be ready to  
3 meet much colder than normal weather conditions), PGW could not have  
4 enough cash to survive March. And, none of this addresses the looming  
5 crises in June to protect the commercial paper program and begin to  
6 purchase gas to inject into storage for next winter or at the beginning of  
7 the next fiscal year to permit PGW to accumulate cash to make its first  
8 debt service payment in January 2002. Present projections leave PGW  
9 tens of millions of dollars short of the amount it needs at year end to meet  
10 its obligations.

11 In light of all of this, PGW is undertaking an extensive media campaign to  
12 exhort its customers to conserve gas, to pay their bills as they come due  
13 and to seek low income assistance if the bills get beyond their capability to  
14 pay. If it is determined in early January that payment patterns are not  
15 meeting PGW's anticipated needs, management will ask the Mayor and  
16 City Council for their support for a city-wide, comprehensive appeal for  
17 appropriate customer actions as well as to take other steps.

18 **Q. WHAT ARE THE CONSEQUENCES FOR THE COMPANY AND**  
19 **CUSTOMERS OF A FAILURE OF PGW TO MEET ITS FINANCIAL**  
20 **OBLIGATIONS?**

21 A. The financial consequences of a failure of the commercial paper  
22 obligations, a failure to issue additional long-term debt or an inability to  
23 pay gas bills will obviously have enormously negative consequences both  
24 on a short and long-term basis. There is no question that PGW would  
25 have to stop its construction and service improvement program. In

1 addition, even if these service interruptions were avoided, as Ms. Bisgaier  
2 details, the increased financial costs imposed on the Company would be  
3 substantial and would be felt by every customer. I fail to understand how  
4 any customer or customer representative would not want to avoid these  
5 contingencies.

6 **Q. IN YOUR OPINION, WHAT CONCLUSIONS MUST THE COMMISSION**  
7 **DRAW FROM THESE FACTS?**

8 A. First, as indicated, PGW has presented its financial support for an  
9 additional \$65 million base rate increase, on a fully normalized or fully  
10 forecasted basis. This means that it has used levels of gas costs and bad  
11 debt expense that we believe are representative for the period in which  
12 the rates will be in effect. However, any rate adjustment will be of little or  
13 no assistance in extricating PGW from its looming financial crisis in this  
14 fiscal year.

15 Second, PGW must obtain additional dollars immediately to cover its  
16 higher bad debt expense in FY 2000-2001 and to have sufficient liquidity  
17 to meet its cash obligations in the spring and at the end of the fiscal year  
18 in preparation for substantial disbursements next fall and early winter. An  
19 increase in September or October simply will not provide the necessary  
20 assistance soon enough.

21 This means that one (or a combination) of several things must happen.  
22 Either there must be a revision to the previous determination of PGW's  
23 "interim" rate increase request (the case that is on appeal to the  
24 Commonwealth Court) by either the PUC or the Court. Or, alternatively,

1 there must be put in place an emergency or temporary increase that would  
2 allow us sufficient earnings and cash in this fiscal year to meet our bond  
3 ordinance obligations and our cash requirements. Or, finally, this  
4 permanent base rate case must be completed quickly enough so that  
5 some form of non-commodity based increase, possibly in combination with  
6 an interim base rate increase, could be put in place in time to allow PGW  
7 to project that it will meet its bond ordinance covenants and its summer/fall  
8 2001 cash obligations. The difficulty is persuading the financial markets to  
9 stay with the company in the next few months and allow us to raise the  
10 requisite capital.

11 **Q. IS THERE A LEVEL OF INTERIM RATE RELIEF THAT MIGHT**  
12 **ADDRESS YOUR CONCERNS?**

13 **A. Mr. Bogdonavage's schedules projecting various potential results for FY**  
14 **2001 show analyses based on no rate relief and \$11 million of annual rate**  
15 **relief. With no rate relief or with only \$11 million of rate relief the company**  
16 **cannot meet its obligations and is essentially bankrupt.**

17  
18 As Ms. Bisgaier has indicated in her testimony, it is essential that the PUC  
19 be perceived as granting a substantial enough amount of money to make  
20 a difference and signal its commitment to PGW's workout. I can not  
21 stipulate a specific level at this time. It is essential that the parties meet to  
22 resolve the interim situation.

23  
24 There is one additional consideration in this matter. PGW is presently  
25 seeking guidance from bond counsel regarding the obligation to notify

1 investors of our situation. I am advised that when it is clear to  
2 management that there is a reasonable possibility of our not being able to  
3 satisfy the provisions of our indenture we must issue a "Material Event  
4 Notice" so stating. Therefore, we are assembling the information  
5 necessary to prepare and file such a notice should the situation further  
6 deteriorate. (Cite: SEC Rule 15c2 – 12)

7 **Q. WHAT OTHER LESSONS CAN BE LEARNED FROM PGW'S PRESENT**  
8 **FINANCIAL PREDICAMENT?**

9 A. The PUC and the parties need to recognize that PGW simply is not an  
10 investor-owned utility with cash and borrowing reserves and investors that  
11 can help them through these kinds of crises. Accordingly, PGW's rate  
12 allowances must not only be sufficient on a "going forward" or  
13 "representative" basis but also must assure that PGW's actual results  
14 satisfy the minimum financing requirements imposed by PGW's bond  
15 ordinances and its Management Agreement. I will explain below how  
16 these two goals might be satisfied. PGW's permanent rate award must be  
17 set at levels that will avoid a repeat of this present crisis and allow PGW to  
18 begin to work out of the difficulties the company is in.

19 **Q. TURNING SPECIFICALLY TO THE \$65 MILLION BASE RATE**  
20 **INCREASE. WHAT ARE THE LONG TERM GOALS OF THE FILING?**

21 A. As indicated above, assuming that PGW somehow gets through this  
22 present crisis, a big assumption, PGW's base rate request has the same  
23 longer term goals that it was hoping to realize before gas costs started to  
24 escalate in July and August 2000 and it determined that it needed  
25 immediate rate relief. The longer term portion of PGW's base rate case is

1 designed to gradually allow the company to return to a position of financial  
2 well being over the next five years as demonstrated in the five year  
3 projections discussed by Mr. Bogdonavage. The objectives are to further  
4 ameliorate the company's financial situation by establishing a level of  
5 earnings and monthly and end-of-year cash that will:

- 6 1) allow PGW to satisfy its bond ordinance covenants;
- 7 2) have sufficient cash each month to make its projected debt  
8 service and gas and other obligation payments;
- 9 3) reduce its level of dependence on short term (commercial  
10 paper) borrowing; and, in turn,
- 11 4) reduce the amount of long term debt that the Company  
12 needs to issue;
- 13 5) put the Company in the position of not only continuing with  
14 its current service improvement plan but to enhance those  
15 efforts to respond to the consensus views of the PUC and  
16 stakeholders;
- 17 6) put the Company in the position that it will be able to  
18 successfully complete its restructuring/unbundling process in  
19 2002-2003 with the goal of increasing choice and quality of  
20 service for all customers.

21 **Q. MR. KNUDSEN, THE MAJOR VARIABLE IN ALL OF YOUR**  
22 **DISCUSSION HAS BEEN THE UNCOLLECTIBLE EXPENSE. THE \$65**  
23 **MILLION FIGURE YOU PROPOSE HAS A PROVISION FOR**  
24 **UNCOLLECTIBLES ASSOCIATED WITH A \$153 MILLION INCREASE**  
25 **IN GAS COSTS. AREN'T YOU LOCKING IN YOUR BASE RATE A**  
26 **SUBSTANTIAL PROVISION FOR THESE EXPENSES WHICH IS TOO**  
27 **MUCH IN THE EVENT THAT GAS COSTS FALL BELOW THE**  
28 **ASSUMED LEVEL?**

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1 A. First, I want to emphasize that we are planning that these rates will be in  
2 effect for a period of two years, or until the mandated restructuring  
3 proceeding, at which-time they can be adjusted. If gas costs were to  
4 decline, and with them the level of bad debt expense, the company would  
5 use those funds to pay down the short term debt position a year or so  
6 earlier than forecasted. This would not only reduce our borrowing costs  
7 but also provide PGW with a desperately needed short term borrowing  
8 cushion.

9 Q. **YOU HAVE JUST RECENTLY FILED FOR A TOTAL INCREASE IN**  
10 **GAS COSTS OF \$230 MILLION. WHAT IF GAS COSTS STAY AT**  
11 **THESE LEVELS OR GO UP FURTHER?**

12 A. Unfortunately, in that circumstance we might need to adjust rates if the  
13 increase jeopardizes our situation.

14 Q. **HOW MIGHT THAT BE ACCOMPLISHED?**

15 A. Our proposal is that PGW will prepare a forward projection of year end  
16 financial conditions by April 15 of each of the next two years, after the  
17 winter sales experience is clear. If management determines that, based  
18 on its projections, it will not meet its required bond ordinance covenants or  
19 end-of-year cash requirements at levels previously agreed to by the PUC,  
20 it would propose an adjustment to rates in an accelerated proceeding that  
21 would be concluded by June 1. In that case, there would be three months  
22 available, prior to the end of the fiscal year, to recover the incremental  
23 amount needed. Obviously, this situation applies only if there is  
24 substantial volatility in gas prices and/or gas prices stay well in excess of  
25 the \$153 million reflected in a \$65 million base rate allowance.

1 I need to emphasize again that none of these goals will be able to be  
2 realized if PGW's current financial crisis is not successfully addressed.

3 **C. Ratemaking Methodology and Requirements.**

4 **Q. YOU HAVE MADE REFERENCE IN YOUR TESTIMONY TO THE**  
5 **IMPORTANCE OF USING THE "CASH FLOW METHOD" OF RATE**  
6 **MAKING. COULD EXPLAIN YOUR POSITION IN MORE DETAIL AND**  
7 **WHY THE PUC SHOULD EMPLOY THIS METHOD?**

8 A. The "Cash Flow Method," as I have testified in the interim rate proceeding,  
9 has traditionally been used by the PGC when regulating PGW to  
10 recognize that it is a municipally owned gas distribution company and that  
11 it does not have equity investors who contribute capital to operate the  
12 business in the hope of earning attractive returns. I am providing the  
13 portion of my testimony in that previous proceeding as an attachment to  
14 my testimony here to support my contentions about the Cash Flow Method  
15 (Exhibit TEK-1).

16 In addition to being advised by counsel that this method is required by law  
17 and therefore the appropriate approach for use by the PUC as well, the  
18 Cash Flow Method is also the least costly and most reasonable method of  
19 setting rates for a municipal utility. The Cash Flow Method asks  
20 ratepayers to supply revenues that essentially do two things: First, the  
21 revenues must cover all of the company's expenses so that the remaining  
22 amount available to pay debt service is at least 1.5 times the required  
23 capital and interest payments for all senior securities. (As noted, this must  
24 be the actual projected level of such costs, not some idealized level or the

1 debt service requirements will not be met.) The specifics of PGW's debt  
2 service coverage requirement in its bond covenants were also the subject  
3 of Ms. Bisgaier's testimony in the interim case and she is incorporating  
4 that previous evidence into the testimony that she is presenting here.

5 Second, and just as important, the Cash Flow Method requires that rates  
6 be set so that on a month-to-month basis PGW's actual cash receipts will  
7 be sufficient to pay its obligations in that month (after accounting for  
8 available short and long term borrowing). This is mandated by the PGW  
9 Management Agreement Ordinance, a copy of which I am submitting with  
10 this testimony (TEK-2). PGW has shown this requirement in monthly cash  
11 flow statements that are included in our supporting schedules. As  
12 indicated, PGW needs \$35-40 million in positive cash at the end of the  
13 fiscal year made up from a combination of cash from operations and  
14 recoupment from the Construction Fund of disbursements for capital  
15 projects. PGW needs this level of cash to be able to meet its gas  
16 purchasing and debt service obligations during the fall and following  
17 winter. This is because PGW generates no substantial earnings or cash  
18 flow from September to December each year (PGW books approximately  
19 65% of all of its revenues under its present rate structure in the winter  
20 months of December through March). Not only must PGW have sufficient  
21 earnings to make debt services payments but it must also have the  
22 necessary liquidity with which to operate.

23 **Q. DOES YOUR BASE RATE INCREASE REQUEST SATISFY THESE**  
24 **REQUIREMENTS?**

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1 A. Yes, the granting of the full request would allow us to make our debt  
2 service obligations, have sufficient liquidity each month and sufficient cash  
3 at the end of the year, again on a normalized or pro forma basis. But,  
4 given the timing of the permanent rate proceeding, a granting of our  
5 request this fall does not address at all the financial crisis that PGW is  
6 projecting during FY 2000-2001.

7 **Q. SOME PARTIES IN THE INTERIM PROCEEDING OBJECTED TO**  
8 **PGW'S REQUESTING REVENUES TO SATISFY ITS PROJECTED**  
9 **CASH WORKING CAPITAL REQUIREMENTS, CLAIMING THAT CASH**  
10 **WORKING CAPITAL SHOULD COME FROM INVESTORS — NOT**  
11 **FROM RATEPAYERS. WERE THEY CORRECT IN THEIR**  
12 **CONTENTIONS?**

13 A. No. I believe that what these parties failed to appreciate is that the Cash  
14 Flow Method is the least cost method of setting rates for a non-investor  
15 owned utility. It asks customer/owners to supply only the amount of cash  
16 working capital that the company projects it actually needs to pay its bills –  
17 nothing more. It requests no "return" on these amounts for the owners of  
18 the company or a return on the entire base rate. The only payment that  
19 the "owner" of this municipal utility receives is the \$18 million that is  
20 mandated by the PGW Management Agreement and now by the Public  
21 Utility Code. Moreover, our cash requirements are driven entirely by  
22 PGW's operating expense requirements and revenue sources, all of which  
23 can be monitored and reviewed by the parties and the PUC.

24  
25 The alternative for the City would be to either sell or arrange for an  
26 investor owned utility to provide gas service to the City and have the  
27 company's rates determined on a traditional, rate of return/rate base

1 basis. The result would be that ratepayers would no longer have to  
2 provide the cash working capital needed to run the enterprise, only a  
3 return on the cash working capital. But, they would also have to provide a  
4 return on all investment supplied by investors including a return on equity.  
5 In addition, PGW ratepayers would also have to pay income and other  
6 taxes that a municipal utility avoids and which would be passed along to  
7 ratepayers.

8  
9 Based on preliminary results of an analysis that PGW commissioned from  
10 Lukens Energy Group, Inc., the annual revenue requirement associated  
11 with such an "IOU owned" PGW would be tens of millions of dollars higher  
12 than the amount that PGW is claiming here (to say nothing of the one-time  
13 tax and other financial consequences of converting PGW to an IOU status  
14 if an actual transfer occurred). Accordingly, PGW's present rates,  
15 established on a "Cash Flow Method" basis, are certainly reasonable  
16 when seen in the context of the other available alternatives.

17  
18 Finally, even if there were to develop a consensus that PGW should be  
19 subject to the same rate making methodology that IOUs are subject to  
20 (and even if such a switch were legal), the Commission can not fairly  
21 switch to such a new approach without permitting PGW a transition period.  
22 The initial refusal in the interim case of some parties and the PUC to  
23 recognize that for the last 100 years or so, PGW's cash flow requirements  
24 were supplied by customers and not by "investors" is one of the main  
25 contributing factors to PGW's present financial crisis.

1  
2 **D. Progress Report on PGW Service Issues and "Transition to**  
3 **Excellence"**

4  
5 **Q. TURNING THEN TO CHANGES WHICH MANAGEMENT HAS**  
6 **UNDERTAKEN, CAN YOU ADDRESS WHERE YOU HAD HOPED TO**  
7 **BE AFTER NINE MONTHS AS INTERIM MANAGEMENT AND WHAT**  
8 **IMPEDIMENTS OR BARRIERS THERE ARE TO FUTURE SUCCESS?**

9 **A.** Yes. As I indicated initially, Mr. Kishinchand and I were appointed by the  
10 Mayor in March 2000. At that time we articulated six goals which we  
11 intended to attain in the six months of our management term. These  
12 included:

- 13 • Stabilizing the financial condition of PGW;
- 14 • Stabilizing the operating condition of PGW;
- 15 • Addressing human resources development;
- 16 • Targeting capital spending;
- 17 • Facilitating the regulatory transition from the Gas Commission to
- 18 the Pa PUC;
- 19 • Facilitating the movement to permanent management.

20  
21 **Q. HOW WOULD YOU SUMMARIZE YOUR ACCOMPLISHMENTS WITH**  
22 **REGARD TO FINANCIAL STABILITY?**

23 **A.** In stabilizing the financial condition of PGW we needed to proceed on  
24 several fronts at once. First, one has to understand the condition of PGW  
25 when we arrived. To be succinct, the billing system was in total disarray,  
26 no financial statements were being generated that could be relied on and  
27 the only two documents in which we could place any faith were the  
28 monthly bank statements and the gas throughput calculations telling us  
29 how much gas we were delivering to customers.

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1  
2 The first requirement was to get the billing system to a state that I refer to  
3 as "minimally functional." In other words, we needed to bill everyone,  
4 including the 40,000 customers who had not received any bill since the  
5 conversion of the system in July 1999 and we needed to do so as  
6 accurately as possible. A corollary need was to develop a set of financial  
7 statements which drew from the billing system that could withstand an  
8 independent audit. We needed to demonstrate financial accountability in  
9 order to maintain our bond ratings and to be able to sell bonds in 2001.

10  
11 We are now generating accurate monthly financial statements and will  
12 have an independently audited result shortly. To do this it was necessary  
13 to review and reconcile all of the financial transactions for the entire year  
14 starting in August and moving back in time to the conversion. To do this  
15 also it was necessary to develop a whole set of subsidiary reports that  
16 most businesses take for granted and we could not.

17  
18 We are also now billing our accounts albeit we still have some problems  
19 with accuracy and completeness. As we have peeled away and dealt with  
20 major problem areas, we have exposed issues that were smaller but in  
21 equal need of correction.

22  
23 A critical requirement through all of this effort was to keep our creditors,  
24 banks and the rating agencies apprised of our developments and

1 progress. Although we were placed on credit watch in June by Standard  
2 and Poors, we have maintained our prior ratings through this entire time.

3  
4 Obviously it was essential that we also determine what level of rate relief  
5 was needed. That started in June and has proved difficult as the shift of  
6 regulatory venue and the unprecedented change in the commodity  
7 markets have made specificity difficult.

8  
9 Last, we committed to an aggressive level of cost reduction that our  
10 monthly statements indicate we are attaining. We have reduced spending  
11 in all areas and, with the installation of a fully automated material and  
12 accounts payable system, we have a level of control on expenditures that  
13 has heretofore not existed. However, the effort is incomplete. It has only  
14 been recently with the generation of monthly statements that we are able  
15 to compare actual results to budgets and begin to aggressively manage  
16 financial performance and target specific reductions in a systematic way.

17  
18  
19 **Q. OF WHAT DID THE STABILIZING OF THE OPERATIONS OF PGW**  
20 **CONSIST?**

21 **A.** There were principally two components to this effort. The first dealt with  
22 control of the billing system, specifically, and information technology  
23 issues, in general. The second was targeted at improving customer  
24 service both in the call center and in the field. Other efforts included such  
25 changes as reorganizing the company and reforming the compensation  
26 system.

1       **Q.   WHAT STEPS HAVE BEEN TAKEN TO CORRENT THE BILLING**  
2       **SYSTEM PROBLEMS?**

3       A.   The correction of the billing system proved to be a challenge. Having  
4       bēgun from as low a point as one can imagine, the company created the  
5       Project Management Office (PMO) for the sole purpose of achieving two  
6       initial goals: getting all customers billed and qualifying for an audited  
7       financial report. The PMO drew talent from across the company and  
8       concentrated the efforts of these personnel for maximum effectiveness.

9  
10       The mission of the PMO since it's inception in June 2000 has been to  
11       increase the functionality of the Billing, Collections and Customer Service  
12       (BCCS) system. This was accomplished by effective project management  
13       and adherence to a strict priority of issues. The first several months were  
14       spent developing the system metrics and assessing system backlogs in  
15       order to identify and prioritize those issues. The following are the original  
16       problems identified and the progress to date:

17       **Billing Exceptions** – There were over 55,000 billing exceptions (billing  
18       errors) in June 2000. This included the entire backlog from when the  
19       system went live in July 1999. The number of exceptions has been  
20       reduced to less than 300 per day and these are corrected on an on-going  
21       basis. This was accomplished through a CRP cancel and rebilling  
22       process and by systematically addressing the exceptions with personnel  
23       from the Customer Affairs Department and Call Center.

1           **Cash Posting Errors** -- Over 18,000 accounts had payments that were  
2 not posted. The PMO directed the effort to have these posted  
3 appropriately. 6000 errors were systematically corrected and the  
4 remainder was manually corrected. This resulted in the proper posting of  
5 over \$3,000,000.

6           **Budget Billing** – Problems associated with new or renewing budget  
7 billing customers or those receiving a zero bill the first month after renewal  
8 have been corrected. All budget billing customers had their budgets  
9 adjusted on December 1 to reflect the November 22 GCR change and  
10 again on January 1 to reflect the GCR quarterly update. The 20,000  
11 customers who were removed from the program at the time of conversion  
12 were placed back on the budget in the month of December.

13           **PLP Solicitation/PLP creation** -- Solicitation files for this year's Parts  
14 and Labor Plan had to be created. Cash remittance problems that led to  
15 the incorrect posting of some of last years PLP's were corrected. These  
16 changes have eliminated almost all errors that had been associated with  
17 last year's plan. To date over 103,000 customers have signed up for the  
18 plan resulting in over \$8.9 million of receipts. Additional functionality in the  
19 mobile software is enabling the accurate tracking of costs that will assist in  
20 the evaluation of the program.

1           **CRP Relief Loan** – New CRP loans were created as directed by the Gas  
2 Commission. This allowed all monies owed by a customer to be billed  
3 over a varying multiple of the number of months unbilled.

4           **Estimated and Unbilled Accounts** – The PMO identified and corrected  
5 over 70,000 accounts which were estimated in error and which were being  
6 billed for zero usage in recent months. This resulted in a manual meter  
7 reading effort of the accounts falling into this category which did not have  
8 an AMR. The effort resulted in additional billings of \$2.9 million for the  
9 month of October. A systematic correction was instituted to estimate the  
10 accounts for which we were unable to read the meters. An additional  
11 meter reading uploading problem was identified for over 23,000 accounts.  
12 The uploading error was identified and corrected, resulting in the these  
13 accounts being billed on the actual meter reading as opposed to the  
14 estimated bill they had been receiving.

15  
16           The PMO will continue to direct its efforts to the completion of the  
17 following items in the short term. It will be necessary for the PMO to  
18 continue for a minimum of six (6) months to effectively increase the  
19 functionality of the system and to begin to evaluate the capability of the  
20 system to provide the necessary functionality in a deregulated market.

21           The remaining major projects include:

1           **Payment Arrangements** – There are issues with a number of Payment  
2           Arrangements due to inadequate training and system design questions. A  
3           large number of errors are being produced during the nightly bill  
4           calculation process. This problem results in customers not being billed  
5           correctly. A solution has been identified and the design is currently being  
6           worked on. Business policies and practices will be reviewed to insure that  
7           there are adequate controls in place to monitor this process.

8           **Financial Reports** – Over the last six months the PMO and IT  
9           Departments have worked to create key financial and statistical reports  
10          that are tailored to PGW's needs. The next step is to more fully develop  
11          our understanding of the capacity of the CIS Plus system to provide  
12          information for the conduct of our business.

13          **Account Write Off issues** – This process is being reviewed to insure that  
14          the original design will meet all business criteria. This process is critical  
15          for PGW conducting effective collection activities and ensuring that our  
16          financial reporting is accurate.

17          **Modifications of CIS for Service Order Completion** – Management has  
18          determined that greater flexibility is required to permit a dispatcher to  
19          generate same day orders which is not a feature of the existing software.  
20          Solutions to this problem are being investigated.

21          **Complete the Backlog of Bankruptcy Pro Rates** – Until recently,  
22          bankruptcy pro rates had not been worked since the system conversion.

1 That is, customers who have filed for bankruptcy have been receiving bills  
2 that did not reflect the effects of their bankruptcy arrangements. A  
3 program is now being managed to reduce the backlog while keeping  
4 current with bankruptcy pro rates received on a daily basis.

5 **Continue to Debug System** - Basic daily maintenance of the system is  
6 required. There are system and data related issues still to be resolved.

7 **Work Flow Issues** - We have instituted a system to review lists and  
8 tracking reports which when addressed will reduce errors in the system.

9 **BCCS Training** – Comprehensive training will begin this month. This  
10 training will be directed to enabling personnel to effectively access the  
11 system and complete the work flow and exception reports in BCCS. All  
12 training since this summer has been general instruction on the use of the  
13 system and resolution of specific problems which have arisen in the  
14 process of error correction or phone center operations.

15 **Sales Tax Audit** – Every three years there is a sales tax audit. The PMO  
16 is developing reports to be utilized by the state and to investigate and  
17 confirm the appropriate numbers of customers receiving sales tax  
18 exemptions.

19  
20 **Q. PLEASE DESCRIBE THE CHANGES TO THE CALL CENTER**  
21 **OPERATIONS THAT WERE PART OF THE OPERATIONS**  
22 **STABILIZATION PROCESS.**  
23

1           A.     The substance of Call Center activity is a function of the types of issues it  
2           is required handle. Management's directive was to first address the core  
3           problems that were driving customers' complaints and inquiries and in so  
4           doing attempt to clear the field for the appropriate requests of scheduling  
5           service and clarifying legitimate customer concerns. The approach then  
6           involved looking first to correct the billing system and then to address  
7           issues of field service delivery. If we could do those things first, then fixing  
8           the organizational and technical issues at the Center had meaning.

9  
10           Prior to October 2000 it was necessary to use call center personnel both  
11           to answer 'phones as well as to work extensive overtime in the correction  
12           of errors generated by the new computer system. One of the issues  
13           confronting the company both past and future is the paucity of personnel  
14           capable of operating both the legacy and BCCS systems. Most of the  
15           talent to effect the changes we needed was found in Customer Accounting  
16           and in the Call Center. Thus, even had we wanted to do more, there were  
17           these limitations of too few qualified people.

18  
19           A factor complicating our efforts to move more quickly with our  
20           improvements was the resignation of the Vice President for Customer  
21           Service in July that necessitated a search that took several months. In  
22           early October PGW retained the services of professional call center

1 experts to serve as interim management. These individuals brought not  
2 only their credentials but also an understanding of how powerful a  
3 technology PGW has in its Call Center. In starting to unlock that power  
4 we have begun to see gains of 15-20% in productivity of staff and even  
5 more marked improvements in call center performance metrics.

6  
7 On the following two pages are listings of current and present or proposed  
8 changes to Call Center operations which give a sense of the types of  
9 improvements effected to date or planned. As important as technical  
10 change is the change in the attitude and performance of representatives,  
11 who understand the complexity of center operations, in response to  
12 people. The approach has been to provide customers more options in  
13 their efforts to reach PGW and to hold employees accountable for their  
14 activity.

15  
16 The task before us is to further increase productivity of staff by improving  
17 the information on and accessibility to the computer systems, train more  
18 personnel in the new system, and assure that personnel are attentive to  
19 their tasks. We know from a recent study that if we can address these  
20 three concerns, there is no reason we cannot reach industry standards of  
21 performance.

## CALL CENTER OPERATIONAL CHANGES

### PRIOR

### PRESENT

Multiple numbers -  
source Interactive Voice  
Response (IVR)

"DID" used to connect directly to single  
single source (IVR) agents

Caller forced to IVR prior  
to access to agent

Initial access to agents only if wait is  
less than 15 minutes

No estimated wait times given

Estimated wait time given once in queue

Queue sizes artificially set

Queue size determined by length of  
expected wait.

Limited service offering  
(7am to 7:30pm)

Expanded service offering to 7am to  
midnight 7 days a week.

No "breathing room"  
between calls

5 seconds "breathing room" between  
all calls for representatives

Limited training

Continuous training

Poor rapport with labor union

Building rapport with labor union

Lengthy probing to gain  
access to account

Manual use of caller ID to retrieve  
account immediately

Customers disconnected  
after long hold

Allow customer to wait on hold a  
reasonable time and offer self service  
prior to disconnect

Agents used in specialized  
groups (6)

Consolidated into two large groups  
for more efficient processing of calls

Limited information on  
why customers call

Computerized customer survey

Poor CRM with FSD

Improved CRM with FSD by establishing  
a procedure to call missed appointments  
and call to verify next day appointments.

Internal disputes handled  
in haphazard manner

Formed Dispute Resolution Unit to  
centralize handling of internal disputes  
and deal with special inquiries

FUTURE ANTICIPATED IMPROVEMENTS

PRESENT CONDITION

PROPOSED CHANGE

Manual use of ANI to access accounts	Gather information while on hold; CTI- screen pops
Call handling based upon multiple skill sets	Consolidated call handling based on day/hour arrival pattern (one stop shopping)
Semi-manual scheduling of employees	Forecast modeling to determine schedules
Management organization ineffective	Reorganize department to insure employee success (training manager, quality assurance manager, systems administrator etc.)
No visible supervision on floor	Two hours of supervisor coaching/counseling for each employee each week

1  
2 **Q. WHAT CHANGES HAVE YOU EFFECTED IN THE HUMAN**  
3 **RESOURCES DEPARTMENT?**

4 A. We have proceeded to implement the changes proposed by the Hay study  
5 last June. The major initiatives specific to the department have been to  
6 properly staff the department and to initiate the development of the Human  
7 Resources Information System. It was essential that PGW move beyond  
8 the stage of 3x5 cards both in automation and in HR's role as central to  
9 the planning of PGW's future.

10  
11 The more general recommendations contained in the Hay report have  
12 also been addressed. We are in the process of completing a strategic  
13 planning process linking performance to compensation, reorganizing the  
14 company along more appropriate lines and reforming a compensation  
15 system which Mr. Kishinchand and I had found completely unworkable.

16 **Q. WHAT ACTIONS DID YOU TAKE RELATIVE TO THE CAPITAL**  
17 **BUDGET?**

18  
19 A. This was an easier requirement. We have restricted the capital  
20 improvements in the present year to two major projects: the refurbishment  
21 of the LNG liquefaction facilities and the replacement of cast iron mains  
22 and related services. We have kept to a minimum other types of  
23 expenditures.

24 **Q. IS THERE ANYTHING YOU CAN SAY ABOUT THE CHANGE IN**  
25 **GOVERNANCE, THE TOPIC OF YOUR FIFTH GOAL?**

26  
27 A. The best that can be said is that it has been a challenge. The requirement  
28 on management has been to assert the short, intermediate and long term

1 interests of PGW's customers and employees when we appear before the  
2 various groups involved with our oversight or regulation.

3  
4 **Q. CAN YOU SAY ANYTHING ABOUT PERMANENT MANAGEMENT?**

5 A. It is my understanding that it is the intent of both the Mayor and the Gas  
6 Commission to initiate shortly a formal search for permanent management  
7 that would result in selection of appropriate leadership by late summer or  
8 early fall.

9  
10 **Q. MR. KNUDSEN, YOU AND MR. KISHINCHAND HAVE BEEN AT PGW  
11 FOR NINE MONTHS AND, JUDGING FROM THE PRIOR RESPONSE,  
12 YOU WILL BE HERE FOR SOME TIME MORE. CAN YOU TELL THE  
13 PARTIES WHAT YOUR OBJECTIVES ARE FOR THE NEXT SIX TO  
14 NINE MONTHS?**

15 A. The objectives for the next six to nine months are: (1) to continue to  
16 stabilize the finances of PGW through timely rate relief, the creation and/or  
17 reinstatement of all tools needed by the credit and collection department  
18 with aggressive implementation of collection policies and tariff provisions;  
19 and aggressive cost control efforts; (2) to fully uncover and then move to  
20 develop the capabilities of the new computer systems; (3) to implement  
21 the work measurement and productivity-related initiatives presently  
22 underway; (4) to address Human Resources issues including hiring  
23 practices, succession planning, training and HR Information System  
24 implementation; (5) to refine programs to enhance customer service and  
25 quality assurance; (6) to structure the effort and begin the work required  
26 for deregulation and restructuring; and (7) to successfully negotiate the  
27 labor agreement to address the future needs of the company.  
28

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1  
2 **Progress Report on the "Transition to Excellence" Program**  
3

4 **Q. COULD YOU BRIEFLY DESCRIBE YOUR EFFORTS WITH EACH OF**  
5 **THE VARIOUS PROJECTS WHICH YOU UNDERTOOK AS PART OF**  
6 **THE "TRANSITION TO EXCELLENCE" EFFORT?**  
7

8 **A. Yes. There were seven major categories as initially set forth in May.**  
9

10 Under the "Regulatory" heading the following has been accomplished:  
11

12 **PUC Audit** The work began in June. Management is  
13 meeting with the PUC staff and the consulting  
14 team shortly to resolve outstanding issues  
15 before the report is officially given to us for  
16 comment.  
17

18 **PGC Budget Proceedings** The hearings on the Operating Budget were  
19 suspended following the July proceedings  
20 awaiting completion of several major tasks and  
21 reports thereon. The reports have been  
22 submitted to the Gas Commission. It is  
23 anticipated that hearings will recommence  
24 shortly with a decision to follow. The Capital  
25 Budget process is awaiting decision by the Gas  
26 Commission.  
27

28 **PUC Base Rate Proc'd'g** The interim proceeding is completed pending  
29 further action. This filing initiates the  
30 proceedings for the permanent rate case.  
31

32 **PUC Gas Cost Proc'd'g** Two GCR adjustments have been made to  
33 date.  
34

35 **PUC Cust. Ser. Overs'gh't** PGW is working with the PUC staff in  
36 conformance with the MOU and facilitating the  
37 ability of the PUC to monitor our performance.  
38

39 **PGC IT Audit** The audit was completed in December.  
40

41 Under the "Strategy and Planning" heading the following has been  
42 accomplished:  
43  
44

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<b>Strategic Plan</b>	The Strategic Plan is in the process of being completed with the goals, objectives and performance measures being required of departments and within departments being extended to staff and tied to compensation.
<b>Organization Plan</b>	Completed in November
<b>Position Evaluation</b>	Completed in November
<b>Comp. Restructuring</b>	Completed in November
<b>Labor Task Force</b>	Counsel and management are proceeding as planned.
Under the "Stabilization" heading the following has been accomplished:	
<b>KPMG Control Study</b>	This effort was postponed awaiting completion of the PUC audit to better focus our concerns.
<b>Project M'g'm't Office</b>	The Project Management Office has met all of the objectives established for it through 2000 and is poised to continue as discussed above.
<b>IT Systems Improv'm'ts</b>	SPL, the BCCS vendor, is working effectively with management to correct the problems associated with the new system implementation.
<b>Financial Controls</b>	All elements of the financial accounting system are in place. Deloitte & Touche will issue an audited report for FY 2000 shortly.
<b>Financial Reports</b>	The key financial reports have been completed and are in production. Several additional reports are complete and ready for production.
<b>Governance</b>	This matter is presently being addressed by the Mayor and City Council
<b>New Management</b>	This matter is presently being addressed by the Mayor and the Philadelphia Gas Commission.

1 Cash Collection The Collection Department has been  
2 restructured and required reports and other  
3 tools that were discontinued at the time of the  
4 system conversion in July 1999 have been  
5 replaced. Collections are the principal focus of  
6 management for the next four to five months.  
7  
8

9 Under the "Call Center" heading the following has been accomplished:

10 Vanguard Study The implementation of the recommendations of  
11 Vanguard have been subsumed within a  
12 broader effort being undertaken by our interim  
13 call center management with extensive  
14 industry experience.  
15

16 Interim VP Retained in October  
17

18 New Hires Program changed to a continuous hiring  
19 program to exceed 30 positions added to date.  
20 Instead of the call center serving as a career  
21 terminus for employees, it is now serving as an  
22 entry port for people coming to PGW.  
23

24 Staff Reorganization This effort will be complete in February.  
25

26 Training The training modules for BCCS have been  
27 written with comprehensive efforts to start this  
28 month.  
29

30 Customer Attitude Study Completed in June  
31

32 Under the "Human Resources" heading the following has been  
33 accomplished:  
34

35 Hay Study Implement'n On-going but principally completed by  
36 November  
37

38 HRIS Specifications complete. Vendor selection this  
39 month.  
40

41 Staffing Changes Three positions still to fill  
42  
43

1 Under the "Information Technology" heading the following has been  
2 accomplished:

3  
4 Reorganization Completed in November

5  
6 Under the "Corporate Planning & Process Control" heading the following  
7 has been accomplished:

8  
9 New Department Set Up in November

10  
11 Staffing Director in place, three positions to fill.

12  
13 Under the "Marketing Department" heading the following has been  
14 accomplished:

15  
16 Reorganization Completed in November

17  
18 Under the "Risk Management" heading the following has been  
19 accomplished:

20  
21 Risk Evaluation Completed in June

22  
23 Reorganization Completed in July

24  
25 **Q. DOES THAT COMPLETE YOUR TESTIMONY?**

26  
27  
28 **A. Yes.**  
29  
30

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JUN 6 2001

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

EXHIBIT TEK-1

DOCKET NO. R-00006042

DOCKETED  
JUN 7 2001

DOCUMENT  
FOLDER

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

**THOMAS E. KNUDSEN**

ON BEHALF OF  
PHILADELPHIA GAS WORKS

DOCKET NOS. P-00001831  
R-00005654

RE: PETITION OF PHILADELPHIA GAS WORKS  
FOR ESTABLISHMENT OF INTERIM RATE  
PROCEDURES AND FOR A DECLARATORY ORDER

AUGUST, 2000

2 create these problems. One crucially important sign of our progress is our work to  
3 stabilize the IT systems. This work has resulted in a substantial decline in the number of  
4 billing "exceptions" or errors in our computer system as it attempts to send out bills. We  
5 expect that by the end of this month we will have billed every customer for the first time  
6 in a year. Sending out accurate bills will, after an initial increase in calls, reduce the  
7 number of calls coming to our call center so that customers who do call will actually be  
8 able to reach a customer service representative within a reasonable time.

9 As I stated earlier, PGW's problems are complex and more difficult than I had  
10 believed before I was appointed by the Mayor on March 17. They cannot be resolved in  
11 six months or even a year and they cannot be resolved without assistance from the City  
12 and our regulators. The City has already been of enormous help and I expect the help to  
13 continue. We are firmly committed to carrying through with our Transition to Excellence  
14 plan, but we are here asking this Commission to allow us to put another part of the  
15 solution in place.

### 15 **III. RATEMAKING METHODOLOGY**

16 **Q. ARE YOU FAMILIAR WITH THE PROCESS FOLLOWED BY THE**  
17 **PHILADELPHIA GAS COMMISSION WHEN THAT COMMISSION REVIEWS**  
18 **A REQUEST BY PGW FOR A RATE INCREASE?**

19 **A. Yes, I am. I testified at the Gas Commission on behalf of the Public Advocate in the last**  
20 **four PGW rate cases – in 1986, 1988, 1990 and 1991. In 1991, there were two cases: an**  
21 **emergency, expedited rate case and a base rate case which followed the full process. I**  
22 **will address the full base rate process first and then the emergency, expedited proceeding**  
23 **in 1991.**

Q. **PLEASE EXPLAIN THE PROCESS.**

2 A. Each case commenced with the filing of PGW's request, usually in May or early June.  
3 The request was set forth in written testimony, accompanied by exhibits which provided  
4 financial data to supplement the written testimony. The filing consisted of our operating  
5 and capital budget for the forthcoming (fully forecasted) budget period: September 1st to  
6 August 31st of the following calendar year. PGW's filing was followed by a pre-hearing  
7 conference after public notice and then formal and informal discovery. Intervenors pre-  
8 filed written testimony and all witnesses appeared for cross-examination at a hearing on  
9 the record. In every case, the hearings were followed by briefs from the parties. When a  
10 hearing examiner conducted the hearings there was a recommended decision with  
11 exceptions from the parties prior to the final Commission decision. The recommendation  
for the capital budget portion of the proceeding was then forwarded to the City Council.  
13 The City Council then established the capital budget as an ordinance.

14 Q. **HOW LONG DID THE ENTIRE PROCESS TAKE?**

15 A. The four full base rate cases took an average of just over 5 months from date of initial  
16 filing until the date that the Commission announced its final decision.

17 Q. **YOU MENTIONED THE 1991 EMERGENCY RATE PROCEEDING, HOW WAS**  
18 **THAT DIFFERENT FROM THE OTHER PROCEEDINGS THAT YOU HAVE**  
19 **DESCRIBED?**

20 A. First, it was much shorter. The entire case took approximately one month from filing to  
21 final Commission decision. Second, there was no hearing examiner, no recommended  
22 decision and no briefs. Discovery was very informal and abbreviated and the Public  
23 Advocate did not have the opportunity to submit pre-filed testimony. There was

1 testimony on the record, some cross-examination of PGW witnesses and oral testimony  
2 from the Public Advocate witness.

3 **Q. PLEASE EXPLAIN THE SUBSTANTIVE RATE MAKING METHODOLOGY**  
4 **EMPLOYED AT THE GAS COMMISSION.**

5  
6 **A.** The rate making standards and methodology are set forth in the Management Agreement,  
7 which was adopted by ordinance by City Council (and which is included as Exhibit B to  
8 my Interim Rate Affidavit). Section VII of the Management Agreement requires that the  
9 rates shall be sufficient to produce revenues which are, in summary, sufficient to pay all  
10 operation and maintenance costs and expenses of conducting the Gas Works enterprise, as  
11 well as to pay the debt service including depreciation, employee retirement costs, a  
12 management fee to PFMC (the managing board of PGW, appointed by the Mayor),  
13 expenses of the Gas Commission, all sinking fund charges, general expenses, the \$18  
14 million payment to the City plus interest if the payment is delayed, funds to provide 1.5x  
15 the annual debt service requirement and a reasonable amount of cash to serve as cash  
16 working capital.

17 The Gas Commission's rate making has also required a fully-forecasted test year  
18 as the basis for budgets and rate requests. In addition to permitting rates that cover all of  
19 these projected expenses and cash needs, the Gas Commission has, in the past, focused on  
20 appropriate financial goals for the company in order to keep its costs of borrowing at the  
21 most reasonable levels possible. In 1991, the proceeding in which PGW's base rates  
22 were last changed, the PGC stated that its goal in setting rates was to permit PGW a level  
23 of revenues that would permit it to realize debt service coverage levels in the range of  
24 1.7x - 1.9x for the indenture as it existed at that time. In 1998, the indenture coverage  
25 calculation methodology changed. Using the method of coverage calculation that was in

2 place when the PGC established the 1.7x - 1.9x coverage goal, PGW's proposed, interim  
3 base rate increase would give PGW a coverage level of just 1.74 times, at the lower end  
4 of the "target" range that the PGC had established as an appropriate ongoing level of  
5 revenue (see, Appendix D, attached). This below "target" coverage is additional evidence  
6 of the reasonableness of PGW's interim base rate request.

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

8 **A. Yes.**

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JUN 6 2001

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

EXHIBIT TEK-2

DOCKET NO. R-00006042

DOCKETED  
JUN 7 2001

DOCUMENT  
FOLDER

**AGREEMENT**

**Between**

**THE CITY OF PHILADELPHIA**

**AND**

**THE PHILADELPHIA FACILITIES  
MANAGEMENT CORPORATION**

**FOR THE MANAGEMENT AND OPERATION  
OF THE PHILADELPHIA GAS WORKS**

**PRINTING DATE: January, 1996  
Original Agreement Dated December 29, 1972  
Includes Amendments Through December 31, 1995**

Original Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation was executed on December 29, 1972, for the management and operation of the Philadelphia Gas Works, pursuant to an Ordinance of City Council, approved December 29, 1972 (Bill #455), and to Resolutions of the Board of Directors of the Corporation adopted at a meeting held on December 13, 1972.

Agreement amended, pursuant to an Ordinance of City Council, approved December 14, 1973 (Bill #1021), relating to gas rate discount for Senior Citizens.

Agreement amended, pursuant to an Ordinance of City Council, approved May 30, 1973 (Bill #1870), relating to Gas Works Revenue Bonds.

Agreement amended, pursuant to an Ordinance of City Council, approved November 1, 1976 (Bill #396), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved June 22, 1978 (Bill #1410), relating to Temporary financing.

Agreement amended, pursuant to an Ordinance of City Council, approved April 10, 1979 (Bill #1874), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved June 11, 1979 (Bill #1948), relating to Management personnel provided by company; production purchase and delivery of gas; paving requirements; natural gas standards; heating value standards; attendance at meetings; classification of service; definitions and indemnifications.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #319), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #320), relating to Company's management fee.

Agreement amended, pursuant to an Ordinance of City Council, approved September 5, 1980 (Bill #321), relating to Gas Works Temporary Loan Notes.

Agreement amended, pursuant to an Ordinance of City Council, approved June 23, 1981 (Bill #750), relating to Temporary Financing.

Agreement amended, pursuant to an Ordinance of City Council, approved September 22, 1982 (Bill #1315), relating to change in fiscal year basis.

Agreement amended, pursuant to an Ordinance of City Council, approved December 3, 1982 (Bill #1314), relating to Temporary Financing.

Agreement amended, pursuant to an Ordinance of City Council approved April 11, 1990 (Bill #787), relating to compensation.

Agreement amended, pursuant to an Ordinance of City Council approved December 28, 1995 (Bill #1258), relating to Company's management fee.

*Marginal notes are not part of the agreement, but are provided for convenience of use.*

AGREEMENT made this 29th day of December, 1972, by and between the CITY OF PHILADELPHIA (hereinafter called "City"), and PHILADELPHIA FACILITIES MANAGEMENT CORPORATION, a corporation organized and existing under the laws of the State of Pennsylvania (hereinafter called "Company").

*Parties and dates*

WITNESSETH:

WHEREAS, the City is the owner of a group of real and personal assets known as the Philadelphia Gas Works ("Gas Works"); and

WHEREAS, the City desires to provide quality gas services to its citizens at reasonable rates; and

WHEREAS, the Company is a non-profit corporation organized for the specific purpose of operating the Philadelphia Gas Works.

NOW, THEREFORE, the parties to this Agreement, intending to be legally bound, agree as follows:

SECTION I

*General*

1. The City hereby authorizes Company on the terms and conditions herein set forth to manage and operate all the property, real and personal, collectively known as the Gas Works, for the sole and exclusive benefit of City; provided, however, City may retrieve from the Gas Works any property or equipment which City determines to be unnecessary to the efficient and economic operation of the Gas Works.

*Authority to manage and operate PGW property*

*City may retrieve surplus property or equipment*

2. City, to the extent that it has or shall have the authority or power so to do, authorizes and empowers Company to maintain, change, alter, replace, repair and operate the Gas Works and appurtenances along and beneath the surfaces of the highways, streets, avenues, lanes, alleys, ways and public places in City, for the supply and distribution of gas, subject to provisions hereinafter set forth. For these purposes Company may enter upon, occupy and open all said highways, streets, avenues, lanes, alleys, ways and public places, and supply and distribute gas through pipes laid therein.

*Right to enter highways*

3. During the term of this Agreement, Company will maintain the Gas Works for the sole and exclusive benefit of the City, including all additions, extensions, betterments, and improvements made thereto, in good order and efficient operating condition. Upon termination of this Agreement by expiration of the term or by any other means, City, its agents, servants, or employees shall be entitled without further payment to Company to use all processes established at the Gas Works for the manufacture or distribution of gas of any type or kind. To the extent that use of any such process is authorized by a contract with a third party, City may at its option either continue the use of such process in accordance with the terms of such contract or may discontinue use of such process.

*Company to maintain Gas Works*

*City's use of processes upon termination*

4. Company shall not assign or subcontract this Agreement or any rights hereunder to any person or corporation, nor delegate any duties hereunder.

*Agreement not assignable*

5. Company's primary obligation shall be to apply the highest standards of management practice and diligence to the operation of the Gas Works.

*Highest management standards*

\*"Recommendations" in the Ordinance.

6. Company shall provide the following personnel for the operation of the Gas Works:

*Management  
personnel provided  
by Company*

- (a) a chief executive officer;
- (b) a chief operating officer;
- (c) a chief financial officer; and
- (d) such other personnel as deemed appropriate by Company.

All such personnel shall be subject to the approval of the Gas Commission, which approval shall not be unreasonably withheld. In the event the Gas Commission fails to approve any such personnel they shall be replaced by approved personnel forthwith.

*Personnel subject to  
Gas Commission  
approval*

7. Company shall file semi-annual reports with the Gas Commission setting forth all salaries, fringe benefits, expenses and costs incurred by Company in carrying out its duties and responsibilities under the terms and conditions of this Agreement.

*Company to file  
semi-annual reports*

## SECTION II

### *Production, Purchase and Delivery of Gas*

1. The Company shall take all reasonable steps to insure that the capacity of the Gas Works to manufacture, provide and distribute gas is at all times sufficient for the estimated maximum requirements of gas users in the City of Philadelphia.

*Capacity shall  
meet requirements*

2. Company may purchase natural gas or other gas from other parties pursuant to contracts and agreements for such purchases which are first submitted to the Gas Commission for its recommendations and approved by City Council; except that in temporary or emergency situations, Company may purchase natural or other gas from other parties and then seek the approval for such purchase or purchases from the Gas Commission and City Council within 30 days after the initiation of such purchase. In the event such temporary purchase shall be disapproved such supply if continuing shall immediately terminate. Company shall have the right to contract with others for the distribution and/or transmission of such gas to the Gas Works or its facilities which are ancillary, attendant or related in any manner to purchase of gas after such contracts are first submitted to the Gas Commission for its recommendations and approved by City council.

*Approval of purchase of gas*

*Approval of natural gas delivery facilities*

3. Company, to the extent permitted by the lawfully constituted authorities, may enlarge or extend the facilities for the distribution of gas to an agreed-upon customer meter location as may be necessary to meet the demand for gas. In any situation where such enlargement or extension of the Gas Works' facilities will place an unreasonable financial burden upon the then existing customers, in view of the anticipated revenues to be expected from such enlargement or extension Company shall make reasonable charges for the same as defined from time to time in Company regulations which are approved by the Gas Commission.

*Charges to customers for extensions*

4. The intention of this Agreement is that all changes, additions, extensions, betterments, improvements, alterations and replacements in the Gas Works and in the mains, pipes and appurtenances thereof, and in the property needed to meet the demands for gas as herein provided, shall be made in such a way and manner as shall maintain the Gas Works in good order and condition with the best and most economical processes in use that are customary in the best regulated gas works, to the extent permitted by funds available for said purposes.

*Company shall maintain Gas Works in good order*

5. All openings, excavations and repaving shall be made subject to such general rules, regulations, specifications, ordinances and such Acts of Assembly as may apply, as from time to time shall be in force concerning the opening, excavation and repaving of streets and the protection of travel along the same, and the trenches shall be refilled and repaved with the same material and character of paving as before they were opened, unless otherwise ordered by the Streets Commissioner. Refilling and making opening safe for traffic shall be completed by Company within five (5) days after the pipe, services, or mains have been laid, and said repaving shall be completed, weather permitting, within sixty (60) days thereafter.

*Paving requirements*

6. All ordinances, rules and regulations of City regulating the safety of the piping and fixtures of houses or buildings shall be binding upon Company.

*Safety regulations*

### SECTION III

#### *Standards of Gas*

##### 1. *General*

Company may supply straight natural gas in accordance with the standards provided for in the General Terms and Conditions of the supplier Company's Tariffs on file with the Federal Energy Regulatory Commission and incorporated by reference in the Agreements for the purchase of natural gas, to which the Company, City and Supplier companies are parties. Also for supplemental purposes, the Company may, as necessary, supply other gases interchangeable and compatible with natural gas.

*Natural gas standards*

*Interchangeable supplemental gases*

2. *Testing--Facilities and Inspection*

Adequate facilities for testing the heating value and purity of the gas shall be provided at the Gas Works' expense and equipped with calorimeters for continuously determining the heating value of the gas, apparatus for determining presence of sulphureted hydrogen in the gas, apparatus for determining total sulphur content, apparatus for determining total ammonia content, apparatus for determining specific gravity of the gas and such other apparatus customary and necessary for such purposes, or which will be found to improve the rapidity and accuracy of such testing.

*Plant testing facilities*

The location of testing facilities shall be selected by Company, and approved by Gas Commission.

*Location of testing facilities*

The design and accuracy of all testing apparatus when desired by City, Gas Commission or Company shall be certified by the United States Bureau of Standards.

*Certification of test equipment*

Standards and tests specified herein may be changed and altered from time to time as recommended by Company and approved by Gas Commission.

*Change in standards and tests*

City and Gas Commission shall have the right at all times by its proper officers, during the term of this Agreement, to test the quality and pressure of gas. Full facilities for these purposes shall be afforded by Company. All such tests shall be made in the presence of a representative of Company. Accurate written records of such test shall be maintained by Company.

*City and Gas Commission have right to inspect*

3. *Heating Value--Requirements And Determination*

The monthly average total heating value of the gas, when determined as provided below, shall not be less than 950 British Thermal Units per cubic foot, measured at a temperature of 60° Fahrenheit and a pressure of 30 inches of mercury.

*Heating value standards*

The daily average total heating value shall not differ from the monthly average total heating value to such extent as to interfere with the satisfactory functioning of consumer appliances.

The total heating value of the gas shall be continuously recorded daily unless prevented by circumstances beyond the Company's control.

*Daily recording*

The monthly average total heating value of the gas shall be the average of the daily averages of the total heating value for that month.

*Average monthly value*

The daily average total heating value shall be the average of 24-hourly readings.

*Average daily value*

#### 4. *Purity--Requirements and Determination*

*Sulphureted Hydrogen*--The gas shall contain not more than a trace of sulphureted hydrogen. The gas shall be considered to contain not more than a trace of sulphurated hydrogen if a strip of white filter paper moistened with a solution containing five per cent by weight of lead acetate is not distinctly darker than a second paper freshly moistened in the same solution after the first paper has been exposed to the gas for one and one-half minutes in an apparatus of approved form through which the gas is flowing at the rate of approximately 5 cubic feet per hour, the gas not impinging directly from a jet upon the test paper.

*Sulphureted hydrogen*

*Total sulphur*--The gas shall contain in each 100 cubic feet not more than 30 grains of total sulphur.

*Sulphur*

*Ammonia*--The gas shall contain in each 100 cubic feet not more than 5 grains of ammonia.

*Ammonia*

5. *Pressure Regulations*

Company shall maintain pressures throughout the City within limits compatible with the satisfactory utilization of gas and as more fully defined in the Rules and Regulations\* of the Company's Tariff and as approved from time to time by the Gas Commission.

*Gas pressure requirements*

Company shall take pressure readings continuously in representative locations throughout the City, which readings shall be available to representatives of City and the Gas Commission upon request for a period of one year prior to the date of such request, or in compliance with the rules issued from time to time by the Gas Commission.

*Pressure readings*

Gas Commission may order Company by written notice to adjust pressures to acceptable limits for satisfactory utilization of gas, and due diligence shall be employed by Company to adjust pressures at such points to within such acceptable limits. If compliance with the order of the Gas Commission shall require the installation of new apparatus or mains, Company shall be allowed six (6) months, after the necessary financing has been secured to obtain permits for opening of streets and for the laying of the mains and the installation of the necessary apparatus.

*Adjustments of pressures*

*Delay in compliance*

SECTION IV

*Accounting Methods; Operating Budget and Forecast; Capital Budget and Forecast; Temporary Financing and Financial Statements*

1. *Accounting Methods*

(a) *In General*

The accounts and reporting shall be on the accrual methods in which the accounting for depreciation shall be as described in subsection 1(b) herein.

*Accounting to be on accrual method*

The Gas Works revenues and expenses shall be operated and accounted for an extended period basis from July 1, 1981 to August 31, 1981, and on a fiscal year basis commencing September 1, 1982 and terminating August 31, 1983 and from September 1 to August 31 from year to year thereafter. Accounting shall be employed to show separately the operating accounts and the capital accounts. Operating and capital accounts shall follow generally the classifications specified by the Public Utility Commission of Pennsylvania, expanded or altered, as required by the Director of Finance to portray the special charges and special accounting prescribed in this agreement.

*Fiscal year  
September 1 to  
August 31*

*Accounting to follow  
PUC*

*(b) Depreciation*

There shall be established and maintained a reserve for depreciation reasonably estimated to be adequate to care for the retirement (due to exhaustion, wear and tear and obsolescence) of property at original cost. The amount necessary to be credited to the reserve each year for such purposes shall be charged to operations.

*Depreciation on  
original cost*

*(c) Employee Retirement Costs*

There shall be provided for and charged to operations annually retirement cost for retired employees and employees still in service on the following basis:

For retired employees, the amount necessary to meet current payments to them under their retirement schedules.

*Retired employees*

An additional amount, as determined by the Director of Finance, shall be placed in a retirement fund to be held and invested by the Sinking Fund Commission. Such additional amount shall be determined by the Director of Finance after taking into consideration the current payrolls, the retirement schedules then in effect applicable to various classes of employees and the extent to which it appears desirable and reasonable to build up such fund in current and future years.

*Pension fund*

To this end, the Director of Finance at appropriate times shall obtain competent actuarial advice and shall have available at all times a report made within the immediately preceding five (5) years by a competent actuary based upon an actuarial investigation of the pertinent factors with the costs to be paid by the Gas Works. Payment out of such funds shall be subject to the approval of the Director of Finance as to amounts and when and how payable.

Any proposed change in the retirement plan, schedule or system recommended by Company first shall be transmitted to the Director of Finance for his approval and then transmitted to City Council for its approval, for which purpose there shall be made available to the City Council an appropriate actuarial report prepared under the direction of the Director of Finance.

*Retirement plan changes*

No employee of Company shall be entitled to be paid a retirement or separation allowance unless and until he can establish his direct and immediate and exclusive connection as such employee with the Gas Works whether under the present operator or former operator.

*Employee eligibility for pensions*

All such retirement and separation allowances which are paid during the continuance of this agreement and the terms of which, as so approved, require their continued payment after its termination, shall be thereafter paid by City, or City shall cause the same to be paid by any person succeeding to the operation of the Gas Works.

*Obligation of City to continue to pay pensions*

## **2. Budgets**

### **(a) Operating Budget and Forecast**

There shall be prepared annually an operating budget for the ensuing year and an operating forecast for four (4) years comprising the ensuing year and the three (3) years next following.

*Operating budget*

Such budget and forecast shall be prepared by Company with the aid of the Director of Finance; shall be consistent with the accounting methods prescribed in Section IV (1); and in general shall be in form and extent satisfactory to the Director of Finance and Gas Commission. The operating budget and forecast shall be subject to the approval of the Gas Commission.

*Approval of operating budget by Gas Commission*

*(b) Capital Budget and Forecast*

There shall be prepared annually a proposed capital budget for the ensuing year and a forecast for six (6) years comprising the ensuing year and the five (5) years next following. Such budget and forecast shall be prepared by Company; shall be consistent with the accounting methods prescribed in Section IV (1); and in general be in form and extent satisfactory to the Director of Finance and the Gas Commission.

*Capital budget*

The proposed budget and forecast first shall be transmitted to the Director of Finance and the Gas Commission for their recommendations thereon. The Director of Finance and Gas Commission shall transmit such budget and forecast together with their recommendations thereon to City Council for its approval. The submission of the proposed budget and forecast to the Director of Finance and Gas Commission by Company shall be made in sufficient time for their review and for the Director of Finance and Gas Commission in turn to submit the said budget and forecast together with their recommendations thereon to City Council no later than the middle of the fourth month preceding the beginning of the Gas Works' fiscal year, so that City Council may act on it at least thirty (30) days prior to the next ensuing fiscal year.

*Approval of capital budget by City Council*

The capital budget and forecast shall include a showing of the nature of the proposed capital additions and replacements, the amounts needed therefor and how the funds required are to be supplied as between—

*Nature of capital items*

(i) funds generated within the business through charges to customers or otherwise; and

(ii) funds to be obtained through capital loans.

*Capital loans*

At any time during the fiscal year, or before the budget accounts are closed for the year, the division between (i) and (ii) above may, if conditions so warrant, be changed or the total thereof increased upon recommendation of the Director of Finance and the Gas Commission and upon approval by City Council.

*Approval of changes*

In the event that capital loans are required in any year under (ii) above, plans therefor shall be submitted to the Director of Finance for approval of the amount of loan and the method of effecting it, and then transmitted to City Council for its approval.

*Approval of capital loans*

### *(c) Expenditures Pursuant to Budgets*

All expenditure and commitments therefor shall be made pursuant to such approved budgets and subject to rules and regulations, if any, promulgated by the Gas Commission in connection therewith.

*Gas Commission rules regulate expenditures*

### *3. Temporary Financing*

Short-term loans not exceeding twenty million dollars in amount or twelve months in duration may be negotiated in anticipation of revenues, except that short-term loans exceeding twenty million dollars but not exceeding forty-five million dollars in amount may be negotiated in anticipation of revenues for Fiscal Year 1982 of the Gas Works and may be outstanding during the period July 1, 1981 through June 30, 1982. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of amount of loan. The amount of any such loan shall also be subject to the approval by resolution or by ordinance of City Council.

*Approval of short term loans*

The Gas Works may also receive temporary advances from the City in anticipation of revenues which are anticipated to be received by the Gas Works provided that such advances do not exceed twenty million dollars in amount or twenty-four months in duration; provided further, however, that during the period June 30, 1981 through June 30, 1983, such advances may exceed twenty million dollars but shall not exceed forty-five million dollars in amount. The amount of each such advance shall be subject to the prior approval of the Director of Finance and the Gas Commission and to the approval by resolution or by ordinance of City Council.

In addition to the foregoing authorized borrowings, loans not exceeding one hundred million dollars in aggregate principal amount at any time outstanding may be incurred for financing accounts receivable and the purchase of inventory for the Gas Works, as authorized by applicable law. If such loans are required, plans therefor shall be submitted to the Gas Commission and the Director of Finance for approval of the aggregate principal amount of such loans which may be outstanding at any single time. Such aggregate principal amount shall also be subject to approval by resolution or by ordinance of City Council.

#### 4. Financial Statements

Company shall within a reasonable time after the close of the Gas Works' fiscal year furnish to the Mayor, the Gas Commission, the City Controller, the City Solicitor, the Director of Finance and City Council a financial statement of such year in form and extent satisfactory to the Director of Finance and Gas Commission. Such financial statement shall be audited by a certified public accountant in accordance with generally accepted accounting principles.

*Furnishing of  
financial  
statements by  
Company*

*CPA to audit  
financial statement*

All books, records and accounts of the Gas Works shall be kept separate and apart from all other books, records and accounts of Company. The City Controller and the Director of Finance and Gas Commission may examine or cause to be examined the books, records and accounts of Gas Works for the purpose of auditing and reporting upon

*Books, records and  
accounts of PGW to  
be kept separate*

such financial statement to the Mayor, the Gas Commission, the City Council, the City Solicitor and the Director of Finance; and the Director of Finance, Gas Commission and the City Controller shall at all times hereafter, for such purpose or for the purpose of ascertaining any facts in relation to the operation of the Gas Works and the performance of the obligations of Company, have full and free access at all reasonable hours to the related books, records and accounts of Gas Works.

*City controller,  
Director of Finance  
and Gas Commission  
may audit books*

Company shall furnish the Mayor, the Gas Commission, the City Controller, the City Solicitor, the Director of Finance and City Council with copies of regular interim financial or operating reports, prepared for periods within the fiscal year, which any such parties may reasonably request.

*Furnishings of  
regular interim  
reports by company*

## SECTION V

### *Insurance; Eminent Domain*

#### *1. Insurance*

Company shall insure against loss the buildings, machinery, and equipment and other property of the Gas Works and other risks to the Gas Works, all of which shall be insured to the extent that such property and risks of gas companies are usually insured except that the Gas Commission may provide otherwise in its discretion.

*Adequate insurance  
to be provided*

#### *2. Eminent Domain*

In the event that Company shall be lawfully required to remove or reconstruct any portion of the Gas Works, or to acquire additional land or property therefor, in consequence of the taking of any of the land or property of the said Gas Works by the United States, the State of Pennsylvania or the City of Philadelphia, in the exercise of the right of eminent domain, or for any other reason whatsoever, the cost and expense thereof shall be accorded appropriate accounting treatment.

*Exercise of right of  
eminent domain*

SECTION VI

*Gas Commission*

1. The Gas Commission as it is presently constituted shall be retained.

*Retained*

2. The Gas Commission shall consist of the City Controller, two members appointed by City Council and two members appointed by the Mayor.

*Membership*

3. The members of the Gas Commission appointed by the Mayor shall be designated for four year terms to hold office until their successors are appointed and qualified. The City Controller shall hold office during his incumbency and until his successor has been elected and qualified. The members of the Gas Commission appointed by City Council shall be designated for four year terms, to hold office until their successors are appointed and qualified. The terms of all members of the Gas Commission shall terminate if this agreement is terminated by either party prior to the expiration of their respective terms.

*Terms of office*

4. Members of the Gas Commission shall receive compensation as fixed by City Council from time to time.

*Compensation*

5. The Gas Commission shall have the power and authority to obtain such professional services and to employ experts, consultants and such other personnel as in its judgment shall be deemed necessary, their compensation and expenses to be considered an operating expense of the Gas Works.

*Power to hire experts*

6. A statement of the expenses of the Gas Commission shall be filed annually by the Gas Commission with the City Controller and copies thereof transmitted to the Mayor, the City Solicitor, the Director of Finance and City Council.

*Statement of expenses to be filed annually*

7. Company shall keep the Gas Commission fully informed of its plans for operation, improvement, extension and betterment of the Gas Works.

*Company to keep Gas Commission fully informed*

8. The Gas Commission shall hold regular meetings and shall conduct all Commission business thereat. The City Solicitor and the Director of Finance or their designates or deputies shall and the Chief Executive Officer of the Gas Works or his designates may attend all such meetings of the Gas Commission.

*Regular meetings*

9. The Gas Commission shall have the responsibility for the overseeing of the operation of the Gas Works by the Company. All power not specifically granted to the Company shall reside in the Gas Commission.

*Responsibility, powers, and duties*

## SECTION VII

### *Gas Rates*

1. The Gas Commission shall fix and regulate rates and charges for supplying gas to customers, other than the City and the Board of Education, without further authorization of City Council, which (together with revenues for gas supplied to the City and to the Board of Education and other revenues of the Gas Works qualifying as "project revenues" as such term is defined in Section 2 of The First Class City Revenue Bond Act) will, in each fiscal year produce revenues, at a minimum:

*Gas commission shall fix rates*

*"Project Revenues"*

*First Class City Revenue Bond Act*

(a) Sufficient to pay all of the operation and maintenance costs and expenses of conducting the Gas Works enterprise and to pay the interest and amortization becoming due in such fiscal year on debt incurred for the Gas Works, including, but not limited to:

*Rates to include  
Operating and  
maintenance costs  
Interest and  
amortization on  
debt*

(i) Charges for depreciation as prescribed in Section IV 1. (b);

*Depreciation*

(ii) Charges for employees' retirement costs as prescribed in Section IV 1. (c);

*Retirement costs*

(iii) A management fee to Company equal to the actual cost to Company of managing the Gas Works but not to exceed the sum of:

*Management Fee*

(A) The amount needed to pay or provide for the payment of base salaries for the Chief Executive Officer, chief Operating Officer and Chief financial Officer and to pay the other expenses of the Company, not to exceed the following amounts for the specified fiscal years:

*Salaries*

FY1996	\$700,000
FY1997	\$725,000
FY1998	\$750,000
FY1999	\$775,000
FY2000	\$800,000

FY2001 and thereafter The prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumer (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance on March 1 of each such fiscal year; and

(B) Incentive compensation, if any, awarded to Company management at the discretion of Company's Board of Directors, in total amount not to exceed \$150,000 per annum and in an amount per employee not to exceed \$75,000 per annum. Incentive compensation shall be payable only pursuant to performance standards established, and performance measured against such standards, by the Board of Directors of the Company. The performance standards shall include standards which the Board of Directors determines, from time to time, to be important for the improved operations of the Gas Works such as the achievement of the Gas Works' financial plan, customer service, billing and collection efficiencies and development of new revenues (other than from general rate increases).

*Incentive  
compensation*

The Gas Works shall reimburse Company against vouchers on the first day of each calendar month for monies expended for the operation of the Gas Works in the previous calendar month.

(iv) Expenses of the Gas Commission; and

*Gas Commission  
expenses*

(v) All sinking fund charges payable in respect of principal and interest on all obligations of the City issued for or with respect to the Gas Works and, with respect to Gas Works Revenue Bonds issued pursuant to The First Class City Revenue Bond Act, such additional amount as may be required to comply with any rate covenant and sinking fund reserve requirement approved by ordinance of City Council in connection with the authorization or issuance of Gas Works Revenue Bonds.

*Sinking fund  
charges in  
connection with Gas  
Works Revenue  
Bonds*

(b) Sufficient also (together with the excess on a cumulative basis of internally generated funds available for the purposes set forth below in this subparagraph (b) of prior years beginning after June 30, 1974, to the extent that such excess shall not have been applied to such purposes and shall be available for the payment of general expenses of such fiscal year and, subject and subordinate to the payment or provision for payment of all operation and maintenance costs and all sinking fund and sinking fund reserve

*General expenses*

requirements as set forth in subparagraph (a) of this subsection 1., together with the excess funds provided by revenues of such fiscal year not required for such purposes):

(i) To make base payments to the City in the aggregate annual *principal* amount of \$18,000,000 payable in the amount of \$4,500,000 on each February 1, March 1, April 1 and May 1, provided that the Gas Works may defer this payment to any time between said due date and June 30 of each year in which event it shall be assessed interest on the principal amount of prevailing rates, to be determined by the Director of Finance and the Gas Works, from the said due date of the date of payment or such different amounts at such different times, not greater in annual aggregate principal amount, as City Council shall prescribe;

*Payments to City*

(ii) To provide appropriations, to the extent not otherwise provided, for prepayment of debt and for capital additions which have been determined by the Gas Commission to be reasonable and which have been approved by City Council; and

*Debt reduction and capital additions*

(iii) To provide cash, or equivalent, for working capital in such reasonable amounts as may be determined by Company to be necessary and as shall be approved by the Gas Commission.

*Working capital*

(c) Anything to the contrary herein contained notwithstanding, Company may continue to budget and report revenues and expenses in the form and by the methods heretofore used and the Gas Works shall continue to pay out of its revenues all of the expenses set forth in this subsection 1, and all other expenses necessary and proper to the operation of the Gas Works, excepting only the Company's own personnel and administrative costs which are payable out of the management fee.

*Non-cash expenses included in estimates of revenue requirements*

For the purposes of clauses (a) and (b) of this subsection 1., to the extent that operating expenses do not represent an actual outflow of funds (e.g., depreciation) such amount may be included in ascertaining whether revenues are sufficient to meet other costs, expenses and requirements of said clauses (a) and (b). Company shall at all times to the extent of its authority observe and comply with all terms, covenants and provisions of all ordinances enacted by City Council relating to the Gas Works including without limitation, ordinances enacted pursuant to The First Class City Revenue Bond Act authorizing Gas Works Revenue Bonds.

*Company to comply with terms of City Council ordinances*

2. Upon any change in the rates for gas, the Gas Commission, at least thirty (30) days prior to the effective date thereof, shall notify City Council and give public notice by advertisement once in one or more daily newspapers having a circulation of at least 10,000 published in the City of Philadelphia, of the rates for gas to be charged.

*Public notice of rate change*

3. Company shall furnish to the City and the Board of Education, delivered in their various public buildings along the lines of its mains, such amounts of gas as may be required by the City or the said Board. Rates for gas for such public purposes shall be established from time to time by the Gas Commission upon the recommendations of Company and subject to approval by City Council.

*Gas Rates for municipal purposes*

4. In connection with any gas rate study or matter related thereto, Company shall furnish the Gas Commission such data as may reasonably be required therefor.

*Company to furnish rate data to Gas Commission*

5. In the determination of rate schedules for gas, the Gas Commission shall establish and apply non-discriminatory rates based on suitable and reasonable classification of the services provided, taking into consideration the preparation of such schedules, the nature and purpose of the use, the quantity\* used, the time of year when used, the available supply of gas and other competing fuels, the maximum demand, and such other factors, including state, and federal laws, regulations or guide lines,

*Non-discriminatory rates*

*Classification of service*

\* "quantity" in the Ordinance

as may be appropriate to the economics of the purchase, manufacture, distribution and sale of gas and consistent with the intent and purpose of this ordinance and/or Agreement. Such rates may provide for sufficient revenue to stabilize them over a reasonable number of years.

6. If conditions warrant, the Company shall pay to the City, but only from any excess described in clause (b) of subsection 1. of this Section VII, such amounts, in addition to those set forth in clause (b) (i) of subsection 1. of this Section VII, as may be determined and agreed upon by the Gas Commission and City Council.

*Additional city payments*

7. The Gas Commission is authorized to establish rates for gas users authorizing a reduction in gas rates, in the amount of 20% of charges for non-heating and heating purposes to his residence, for any individual 65 years of age or older, residing in the City of Philadelphia, who directly makes payment to the operator of the Gas Works for gas services at his residence. In order to qualify for any rate reduction a person must first apply to the Philadelphia Gas Works for a rate reduction at least thirty days before the next scheduled meter reading. The reduction shall then take effect at the start of the succeeding billing period.

*Senior Citizen rate*

8. Notwithstanding any provisions to the contrary contained herein, no payments will be made to the City under subparagraph (b) of Paragraph 1 or under Paragraph 6 of this Section VII until the \$20,000,000 Gas Works Temporary Loan Note, Series of 1980, of the City has been paid in full with interest.

*Temporary Loan Notes*

## SECTION VIII

### *Purchases and Sales of Non-Gas Items*

1. Except in the purchase of unique articles or articles which for any other reason cannot be obtained in the open market, competitive bids shall be secured, pursuant to

procurement standards adopted and promulgated by the Gas Commission, before any purchase, by contract or otherwise, is made or before any contract is awarded for material and supplies, construction, alterations, repairs or maintenance or for rendering any services to Company other than professional services or for the purchase of any other item, thing or service, and the purchase shall be made from or the contract shall be awarded to the lowest responsible bidder.

*Purchases to be made by competitive bids*

*Gas Commission to set purchasing standards*

2. All residuals and by-products from operations, unserviceable property or equipment shall be sold to the highest responsible bidder pursuant to standards adopted and promulgated by the Gas Commission in a manner similar to that required for awards of contracts for the purchase of goods and services.

*Residuals to be sold to highest responsible bidder*

3. All acquisitions, sales and leases of real estate proposed by or for the Gas Works by Company shall be submitted to the Gas Commission for its action and approval, and shall be submitted to City Council for its approval by ordinance.

*Real estate transactions to be approved by Gas Commission and City Council*

## SECTION IX

### *Legal Services*

The Law Department of the City of Philadelphia shall be the legal advisor for the Gas Commission and the Gas Works. It shall supervise, direct, and control all of the law work of the Gas Commission and the Gas Works including, but not limited to, litigation or other legal representation, investigation, and drafting of documents including contracts, bonds and all other legal instruments for the Gas Commission and the Gas Works.

*Law Department legal advisor for Gas Commission and PGW*

*Duties of Law Department*

The City Solicitor shall determine whether legal services for the Gas Works shall be performed by other counsel, and in such event he shall designate such counsel and the compensation therefor in his sole discretion.

*City Solicitor shall designate other counsel*

All legal services rendered, by the Law Department and by other special legal counsel, to the Gas Commission and to the Gas Works shall be billed to the Gas Works and shall be payable out of gas revenues.

PGW shall pay for legal services

## SECTION X

### *Company's Obligations During Disputes*

No disputes between City and Company concerning any of the terms or provisions of this Agreement shall release Company from its obligations to manufacture, provide and supply gas in accordance with the terms and provisions hereof during the existence of this Agreement.

Disputes between City and Company

## SECTION XI

### *Definitions*

The following terms are defined for purposes of this Agreement as set forth below:

1. *Director of Finance* - The Director of Finance of the City of Philadelphia.
2. *City Solicitor* - The City Solicitor of the City of Philadelphia.
3. *City Controller* - The City Controller of the City of Philadelphia.
4. *Mayor* - The Mayor of the City of Philadelphia.

5. *City Council* - The City Council of the City of Philadelphia.

6. *Streets Commissioner* - The Commissioner of the Department of Streets of the City of Philadelphia.

7. *Gas Works* - All of the property, both personal and real, including mains and pipes, which together constitute the plant and equipment of the Philadelphia Gas Works.

8. *Non-Gas Items* - Non-gas items include but are not limited to every tangible or intangible article, item or thing except natural gas and substitute natural gas.

## SECTION XII

### *Term*

The term of this Agreement shall be for a period of two (2) years commencing January 1, 1973. Said term shall be subject to cancellation by City at any time, or upon the expiration of said two (2) years, upon ninety (90) days notice. No such cancellation shall be effective unless and until such cancellation shall have been approved by resolution or ordinance of City Council. In the absence of such notice, the term shall be extended for further two (2) year periods upon the terms and conditions herein.

*Two year term*

*Termination by City*

## SECTION XIII

### *Other Agreements*

1. Unless approved by the Gas Commission, no contract or agreement with a third party, including without limitation any union contract covering Gas Works personnel, entered into by Company or at its direction on behalf of the Gas Works during the term of this Agreement shall provide by its terms that it shall terminate or expire in the event that this Agreement between City and Company shall terminate or expire.

*Contracts shall not terminate with this*

2. The City agrees and hereby does, indemnify and hold harmless the Directors, the officers and the employees of Company, individually and collectively, while acting within the scope of their employment, against and from any and all personal liability, actions, causes of action, and any and all claims made against them whatever in their capacities as Directors, Officers or employees of Company with regard to this Agreement.

*Indemnification of  
Board by City*

#### SECTION XIV

##### *Counterparts*

This Agreement may be executed in counterparts, all of which taken together shall constitute one document.

#### SECTION XV

##### *Effectiveness*

This Agreement shall not be effective or binding upon the parties unless it has been approved by an effective ordinance of City Council and has been ratified by the Board of Directors of Company.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, the corporate seal of the City of Philadelphia has been duly affixed by the Mayor of said City, and the corporate seal of the Philadelphia Facilities Management Corporation has been duly affixed by an authorized officer thereof, the day and year first above written.

CITY OF PHILADELPHIA

Attest:(s) Pace Reich  
Deputy to the City Solicitor

By: (s) Frank L. Rizzo  
Mayor

By: (s) William A. Costello  
Commissioner of Public Property

PHILADELPHIA FACILITIES MANAGEMENT CORPORATION

Attest: (s) Stephen S. Gardner  
Secretary

By: (s) F. Eugene Dixon, Jr.  
President

Approved for the City of Philadelphia  
as to correctness and form:

(s) Martin Weinberg  
City Solicitor

5/22/01

*Photo, etc*

*015*

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

**THOMAS E. KNUDSEN**

ON BEHALF OF  
PHILADELPHIA GAS WORKS

RECEIVED  
01 JUN -6 PM 3:40  
PA.P.U.C.  
SECRETARY'S BUREAU

RE: PHILADELPHIA GAS WORKS  
BASE RATE PROCEEDING

DOCKET NO. R-00006042

May, 2001

**DOCKETED**  
JUN 7 2001

DOCUMENT  
FOLDER

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Thomas E. Knudsen. My business address is 800 West Montgomery  
3 Avenue, Philadelphia, PA 19122.  
4

5 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

6 A. My testimony will provide an overall response to the positions advanced by the OCA, in  
7 the testimony of Richard Lelash, and the OTS, summarized in the testimony of Charles  
8 Weakley, concerning the overall base rate increase that the PUC should permit for PGW  
9 in this proceeding. Specifically, I will demonstrate that the recommendations of these  
10 parties, and particularly that of Mr. Lelash, if adopted by the PUC, are inconsistent with  
11 PGW's prior ratemaking methodology and requirements, would cause PGW to be in  
12 violation of its bond covenants, and would deny PGW access to the capital markets in the  
13 future -- as well as seriously threatening its ability to maintain the short term borrowing  
14 source it now has -- and are likely to put PGW in a position where it will have to suspend  
15 important efforts to make capital improvements and improve service.

16  
17 **Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES THAT HAVE  
18 SUBMITTED DIRECT TESTIMONY IN RESPONSE TO PGW'S FILING.**

19 A. In response to our original filing showing that a \$65 million permanent rate increase is  
20 justified, Mr. Lelash, for the OCA, has submitted testimony claiming that PGW's  
21 permanent base rates should be increased just \$21.5 million from pre-interim increase  
22 levels. This means that Mr. Lelash's recommendations would permit PGW to increase its  
23 rates by just \$3.5 million on an annual basis, over and above its present interim rate level.  
24 This is a level that, presumably, PGW would have to live with until its next base rate  
25 examination, which the company has been assuming would occur in its restructuring case  
26 in 2002-03. The OTS's recommendation, summarized in the testimony of Mr. Weakley,  
27 is for an increase of \$33 million over and above the \$11 million base rate increase  
28 authorized by the PUC in its February 22, 2001 Order approving the Joint Petition For  
29 Settlement of the Interim Rate Proceeding ("Joint Petition"), or a total of \$44 million.  
30

**RESPONSE TO OCA WITNESS LELASH AND OTS WITNESS WEAKLEY**

3  
4 **Q. MR. KNUDSEN, MR. LELASH HAS TAKEN THE POSITION THROUGHOUT**  
5 **HIS TESTIMONY THAT THE "CASH FLOW" METHOD FOR SETTING**  
6 **RATES FOR PGW SHOULD NOT BE USED. PLEASE COMMENT.**

7 A. Mr. Lelash's position is wrong in virtually every possible way. First, I am advised by  
8 counsel that the PUC is constrained to utilize the "prior ratemaking methodology and  
9 requirements" which were employed by the Philadelphia Gas Commission (PGC) in  
10 setting rates for PGW in this proceeding. I have participated in every PGW base rate  
11 proceeding since 1986 and every budget proceeding since 1990. I can personally confirm  
12 that in all instances the PGC utilized the "cash flow method" to calculate any change in  
13 the level of rates for PGW. The specifics of this ratemaking methodology are set forth in  
14 the Management Agreement between the City and the Philadelphia Facilities  
15 Management Corporation (PFMC), PGW's board of directors. The rate setting  
16 requirement set forth in Section VII of the Management Agreement requires, generally,  
17 that PGW's rates be set to: fund its operating budget; pay its debt service; satisfy its 1.5x  
18 debt service coverage ratio obligation in its bond ordinances; and provide a reasonable  
19 amount of working capital. The amount of working capital deemed reasonable was the  
20 amount that would allow PGW to have sufficient cash to pay its obligations when they  
21 would come due in a particular month (this is also a bond ordinance requirement, as I will  
22 explain below), and to have sufficient cash at the end of the year to handle obligations in  
23 the first several months of the next Fiscal Year, before the next winter heating season  
24 started and PGW could again start to collect substantial revenues. While the PGC  
25 certainly reviewed PGW's recommendations and made its own findings on cash flow,  
26 either explicitly or implicitly, it never refused to provide an allowance in rates for a  
27 reasonable amount. I believe that Mr. Lelash agrees with me on this point. The  
28 mechanics of the process are to conduct a cash flow analysis which shows the receipt and  
29 disbursements of funds for PGW on a monthly basis and to show the level of cash  
30 remaining at year end. This analysis, which was always part of the evidence in the  
proceedings, is used to insure that, on a monthly basis, PGW is going to have enough

2 cash on hand to pay its bills, including debt service, in the budget year. The schedules  
3 also indicate how much cash PGW is going to have at the end of the budget year to allow  
4 PGW to meet its obligations in the months of September through early January of the  
5 next fiscal year. This is the period when PGW does not have adequate cash flow from  
6 billings and receipts to support business operations and the initial debt service payment  
7 on the first working day of January.

8 In past proceedings, if this analysis showed that the level of revenues needed to  
9 fund PGW's expenses and debt service on an overall basis would not give PGW enough  
10 cash to pay its bills when they came due, the revenues could be increased to account for  
11 that fact. As I explain below, until recently, because of the way in which PGW's debt  
12 service coverages were required to be calculated, cash working capital was very rarely a  
13 separate problem because rates set to meet these debt service requirements also produced  
14 adequate cash flow. Also, PGW's cash needs have increase enormously in the last year  
15 due to the huge jump in natural gas prices.

16 **Q. DID MR. LELASH CONDUCT A CASH FLOW ANALYSIS TO DETERMINE**  
17 **WHETHER HIS RECOMMENDATION WAS SUFFICIENT FROM THIS**  
18 **STANDPOINT?**

19  
20 A. No. Mr. Lelash's recommendation completely fails to deal with this part of PGW's  
21 ratemaking requirement. He has made no independent cash working capital analysis on  
22 his recommended \$21.5 million and is thus not consistent with the methodology used by  
23 the PGC to set PGW's revenue requirement prior to PUC assuming jurisdiction.

24 **Q. MR. LELASH IMPLIES THAT THE ACTUAL STANDARD IS SIMPLY**  
25 **WHETHER THE RATES ARE "JUST AND REASONABLE." IS THIS YOUR**  
26 **UNDERSTANDING?**

27 A. No. Based upon my personal experience, "just and reasonable" was part of the overall  
28 review standard used by the courts and the PGC. The rates charged were required to be  
29 just and reasonable. The PGC specifically found that the methodology it was required to  
30 use to meet this requirement was the cash flow method, as set forth in Section VII of the  
31 Management Agreement, a city ordinance. I understand that the appellate courts

2 concluded that the use of that methodology satisfied the requirement that rates must be  
3 "just and reasonable" both from a legal and constitutional perspective. The same criteria  
4 for rate making are contained in the several ordinances and indentures governing the sale  
5 of PGW bonds.

6 What appears to be given short shrift by the parties is the fact that people actually  
7 do rely on these procedural assurances to make investments. These are investors who, by  
8 and large, are not putting up risk capital but rather are seeking a certain return and  
9 security in their investment.

10 **Q. MR. LELASH CLAIMS THAT THE REQUIREMENTS OF THE**  
11 **MANAGEMENT AGREEMENT CAN BE DISREGARDED BECAUSE PGW**  
12 **ALLEGEDLY HAS NOT LIVED UP TO OTHER PROVISIONS WHICH HE**  
13 **CHARACTERIZES AS CONDITIONS PRECEDENT TO THE USE OF THE**  
14 **CASH FLOW METHOD. PLEASE COMMENT.**

15  
16 A. Putting aside the legal question of whether an ordinance of the City can be interpreted in  
17 this way, I am unaware of any instance in which the PGC ever interpreted the  
18 Management Agreement as Mr. Lelash suggests. Indeed, I am unaware that any party,  
19 including the City's Public Advocate, on whose behalf Mr. Lelash testified in the past,  
20 ever suggested such an interpretation.

21  
22 **Q. ARE THERE OTHER LEGAL DEFICIENCIES IN THE RECOMMENDATIONS**  
23 **OF THE OTHER PARTIES?**

24  
25 A. Yes, the result of Mr. Lelash's refusal to apply the cash flow method, and to assure that  
26 the company will have sufficient cash working capital, is a recommendation that plainly  
27 fails to permit PGW to satisfy its bond covenants. While Mr. Lelash claims that his rate  
28 increase would allow PGW to satisfy its debt service coverage covenant, Mr.  
29 Bogdonavage's updated projections show that even this claim is incorrect. Moreover,  
Mr. Lelash did not even seek to determine whether his recommendation would satisfy the

1 remaining bond covenants. As the PUC has recognized, PGW has two other relevant  
2 bond covenants:

3 -- A covenant that requires PGW and its owner, the City of Philadelphia, to  
4 charge rates that permit PGW to have sufficient cash to pay all of its  
5 obligations, including its debt service obligations, during each fiscal year  
6 in full when they are due; and  
7

8 A covenant that requires PGW and the City to continuously maintain and  
9 operate the Gas Works.<sup>1</sup>  
10

11 As Mr. Bogdonavage shows, setting PGW's revenue requirement to meet only the 1.5x  
12 coverage covenant deprives PGW of sufficient revenues to pay its obligations when due.  
13 This occurs almost immediately if not for the \$45 million City loan and will occur, even  
14 if PGW continues to rely on the City loan, within several months after the end of the  
15 fiscal year. This is inconsistent with PGW's bond covenants which promise that PGW  
16 will have sufficient revenues from rates to be able to pay its obligations when due. Mr.  
17 Lelash's recommendation will result in PGW having to stop or defer needed construction  
18 projects because we will simply not have the funds to pay our other obligations. While  
19 the effect is not as negative, Mr. Weakley's recommendation also does not satisfy PGW's  
20 cash requirements in the four months following the fiscal year, or allow the needed level  
21 of cash from external and internal sources at the end of the fiscal year --- \$30 to 35  
22 million. Neither recommendation, therefore, will allow us fully to honor our promise to  
23 bond holders to "continuously maintain and operate the Gas Works."  
24  
25

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<sup>1</sup> Joint Petition for Full Settlement of Philadelphia Gas Works' Petition for the Establishment of Interim Rates and Related Appeal, R-00005619 (Feb. 8, 2001) The Joint Petition was approved by the PUC in an order entered February 22, 2001.

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**Q. IS THERE ANY INDEPENDENT EVIDENCE NOW AVAILABLE OF THE LEVEL OF RATE INCREASE REQUIRED BY PGW TO SATISFY ITS BOND COVENANTS AND TO MEET OTHER ESSENTIAL FINANCIAL GOALS?**

A. Yes. As part of the bond insurance process, the City was required to commission an "Engineering Report" for the purpose of making an evaluation of whether PGW can satisfy its obligations to the bond holders. While this independent analysis found that PGW's revenues will permit it to satisfy its obligations under its bond ordinances, a critical assumption supporting this conclusion was an independent calculation that PGW needed at least a \$53 million levelized annual increase over the next five years in order to meet these bond obligations. <sup>2</sup>

**Q. WHAT FINANCIAL GOALS DID THE BLACK & VEATCH STUDY IDENTIFY AS BEING ADDRESSED BY PGW'S RATE INCREASE?**

A. They made the following findings:

Based on the assumptions contained in this report, this overall level of rate relief is necessary for PGW to comply with its Bond Ordinance covenants, including its covenants to pay operating expenses and debt service in full when due, to continuously operate and maintain the System in good condition, to pay all City Charges, including the annual base payment to the City, and to achieve the coverage required by the Rate Covenants.

This level of rate relief will also enable PGW to:

1. Significantly pay down outstanding commercial paper between 2002 and 2004 and pay off all commercial paper by 2005,
2. Fund a significant portion of capital expenditures from internally generated funds beginning in 2004,
3. Establish an adequate level of working capital, and
4. Repay the \$45 million City loan by January 25, 2003.

These same goals parallel those that I identified for this base rate proceeding.

Significantly, the report also concluded that:

---

<sup>2</sup> The Report's \$53 million finding is consistent with our \$65 million request because it assumes additional increases in the planning period that would likely not be necessary if PGW received the full \$65 million that it is requesting.

Neither analysis utilized our revised projection of future natural gas costs, as shown in Mr. Bogdonavage's updated, fully forecasted test year presentation.

1  
3 [i]f the overall level of rate relief realized by PGW is less than \$53 million  
4 per year over the 2002 through 2006 period, PGW's ability to meet its  
5 Bond Ordinance covenants may be significantly impaired. If the overall  
6 level of rate relief realized by PGW is greater than \$53 million per year  
7 over the 2002 through 2006 period, the need for future long-term  
8 borrowing might be funded from internally generated funds, and PGW's  
9 overall financial health would be improved. This could ultimately be  
10 reflected in improved bond ratings, lower borrowing costs, and lower  
rates.

11 These Black and Veatch findings and assumptions, therefore, represent a clear indication  
12 of investor expectations with respect to PGW's future financial needs. In my view, if the  
13 recommendations of Mr. Lelash or Mr. Weakley (or a combination that produces even  
14 less) is adopted by the Commission, the investors' expectations and assumptions will not  
15 be met. In that event, it will be extremely difficult for PGW to continue to access the  
16 long term capital markets. Our short term borrowing ability -- through our commercial  
17 paper program -- would continue to be seriously threatened.

18 **Q. IS MR LELASH'S RECOMMENDATION CONSISTENT WITH GENERAL**  
19 **FINANCIAL OR REGULATORY STANDARDS, IN YOUR VIEW?**

20  
21 A. Not in my opinion. Every enterprise requires a reasonable level of working capital. In  
22 every utility or corporation rather extensive cash flow planning is undertaken to assure  
23 management that when bills need to be paid, the funds are there. Mr. Lelash, who has an  
24 extensive corporate background at a high level of responsibility, is well aware of this. I  
25 also note that investor owned utilities, regulated on the basis of a reasonable return on  
26 investment, are permitted a substantial allowance for working capital in the rate base.

27 PGW is different in this regard. There is no relevance of a return on an  
28 investment in the regulation of PGW. What we require is a recognition that customers,  
29 by design, provide for the liquidity through rates and that municipal entities have to  
30 operate with a much tighter level of cash availability.

2 Mr. Weakley's testimony, while certainly more reasonable, also does not conduct  
3 the needed cash flow analysis and also does not make any explicit finding of the level of  
4 cash that the company needs.

5 Mr. Lelash's testimony takes hardly any issue with PGW's overall financial  
6 presentation, or makes any substantial adjustments. For example, he does not take issue  
7 with the \$16.5 million in force reduction, productivity and other expense savings that the  
8 company has included in its FY 2001 budget. Thus, at least implicitly he appears to  
9 agree that the cost saving targets, which correlate in a general sense to efforts to impose  
10 efficiency on the organization, are sufficient. Ironically, in the earlier proceeding he  
11 raised concern that these targets might be too aggressive and the complementary target  
12 for required rate relief might, therefore, be understated. Even with these substantial  
13 efficiency and cost cutting assumptions, Mr. Lelash has argued against most of the rate  
14 increase requested.

15 **Q. MR. LELASH CLAIMS THAT PGW HAS NEVER OPERATED AT REVENUE  
16 AND INCOME LEVELS THAT PRODUCED DEBT SERVICE COVERAGE  
17 LEVELS MUCH HIGHER THAN THOSE MINIMALLY REQUIRED BY PGW'S  
18 BOND COVENANTS. IS HE CORRECT?**

19 **A.** No, and his error points up another problem with his recommendation – the assumption  
20 that PGW should make up any inadequacy in his rate increase recommendation by  
21 relying on one-time fixes, such as using additional City contributions, making forward  
22 purchase agreements or, most importantly revising PGW's bond requirements.

23 To be specific regarding the indenture restructuring, prior to 1998, PGW's debt  
24 service coverage requirement was calculated such that a full 150% of its annual debt  
25 service obligation had to be shown to be on hand in order to provide sufficient protection  
26 for those investors. In fact, the PGC regularly settled on multiples of 1.65X to 1.75X, as  
27 appropriate. When PGW's net income was set to meet this standard, it produced  
28 sufficient revenue to satisfy PGW's reasonable cash working capital needs at the same  
29 time. That is, cash flow prior to 1998 was seldom a separate issue because the single  
30 indenture calculation generated enough cash to make the City Payment of \$18 million  
and to supply sufficient cash at the end of the year to fund 30-50% of the construction

2 expenditure from internally generated funds. Also, PGW's commodity costs were much  
3 lower than they are today.

4 In 1998, however, the Company was confronted with the potential of not making  
5 its required coverage ratio. Because PGW was selling bonds at the same time, a solution  
6 designed to avoid the need for a rate increase was arrived at: two classes of debt --- pre-  
7 1998 and post-1997 -- were created. The restructuring of the bond indentures at that time  
8 stipulated that coverages for those bonds issued before 1998 were to be calculated under  
9 the old method while coverages for any new bonds would essentially reuse the .5X  
10 multiple portion of the 1.5X annual interest and principle payments from the old bonds to  
11 apply to the new.<sup>3</sup> This "double count" has deprived PGW of approximately \$20 million  
12 in annual cash flow over the last three years. That is \$60 million that we could have used  
13 to satisfy our acute working capital needs. Of course, the situation has now gotten  
14 critical because of the increased cash flow needed to pay the huge gas bills that we are  
15 responsible for, as well as the continuing increase in accounts receivables.

16 The position that Mr. Lelash has taken, on behalf of the OCA, only perpetuates  
17 the cash short-fall problem resulting from this now infamous "one-time-fix." He takes  
18 advantage of a mechanism soundly condemned by the PUC and its auditors.

19 Properly applying the "cash flow" method without forcing PGW into gimmicks at  
20 this time will result in the appropriate level of rate relief and provide the means for PGW  
21 to return to a state of minimal financial stability. Just to be clear, even if the PUC  
22 ordered the full \$65 million request, PGW cannot get out of financial difficulty before the  
23 next rate filing, presumably consistent with our restructuring filing. We have a \$142  
24 million debt to repay: \$97 million in the Letter of Credit and a \$45 million loan from the  
25 City. Moreover, our new projections show that PGW would need over \$90 million in  
26 increase to fully realize all of its financial goals. Even assuming we get the whole \$65  
million we are requesting, it will still take 2.2 years before we can do anything but pay

---

<sup>3</sup> See, BWG Management Audit, pgs. X-9,10.

off these obligations. For example, we will still be financing the capital program exclusively from long term debt well into FY 2004.

2  
3  
4 **Q. WHAT ALTERNATIVES DOES THE COMPANY HAVE NOW WITH REGARD**  
5 **TO CASH FLOWS WERE IT NOT TO RECEIVE THE REQUISITE AMOUNT**  
6 **OF RATE RELIEF?**

7 A. The alternatives are *limited*. Mr. Lelash claims that the City can supply what his  
8 recommendation will not. Ms. Davis will explain why this suggestion is simply  
9 impossible, from the City's standpoint. I have also been informed by counsel that this  
10 demand for City contribution is inconsistent with the Public Utility Code. Moreover, the  
11 annual City payment is more appropriately viewed as compensation to the City and its  
12 citizens for the use of plant and facilities that are owned by the City, but used by PGW.  
13 As a percentage of PGW's total 1999 net utility plant (\$790 million) the \$18 million  
14 represents just a 2.3% return (that has gone steadily down since 1995). Significantly the  
15 PUC's Management Audit, prepared by BWG, found that the payment was reasonable in  
16 that it was lower than similar payments made by other municipal systems, and  
17 represented a return on the City's invested equity (which, by the way, averages  
18 approximately \$250 million) of just 8.4% (BWG Audit, p. X-12). This is considerably  
19 below the return on equity that any non-municipal utility investor would accept. Finally,  
20 the Audit concluded that the \$18 million payment is no greater than the amount that  
21 PGW would have to pay to the City just in property taxes if the Gas Works were  
22 privately owned and not exempt from such taxes. By any measure the City payment is  
23 reasonable and it is simply not reasonable to assume away a substantial amount of needed  
24 rate increase by arguing that the City should "waive" or grant back this fee.

25 A second alternative for generating cash is to continue the "one time fixes." But,  
26 obviously, such approaches do nothing but put off the problem for another day. Indeed,  
27 another finding of the BWG Audit was that the Company "should take the necessary  
28 steps to mitigate the current financial crisis and implement appropriate measures to  
29 ensure that PGW is not allowed to make the types of questionable transactions that have  
compromised its financial position and impaired its credibility with lenders, the rating

agencies and others in the financial community.” (BWG Audit, p. X-20). We began to  
2 take these needed steps last June only to be thwarted in our efforts each step of the way.  
3 We would only resort to these kinds of actions if more reasonable financing options were  
4 foreclosed to us. If we are forced to pursue such actions, it will only highlight the urgent  
5 need for the Commission to grant the full increase requested to avoid having to take this  
6 course again in the future.

7 Obviously, another argument would be that we should collect what is owed us.  
8 But, the projections already assume a year-end net level of receivables of little more than  
9 one month’s summer sales. We are working hard to reduce the bad debt expense. But,  
10 that action is projected to generate \$ 5-10 million, at best, under the circumstances. That  
11 would be an important contribution but not a solution. Beyond tapping the City for non-  
12 existent funds or further mortgaging the future, there are really no other alternatives.

13  
14 **Q. MR. LELASH ARGUES THAT RATES SHOULD NOT BE RAISED BECAUSE**  
15 **THE CUSTOMERS HAVE ALREADY BEEN ASKED TO ABSORB TOO MUCH**  
**OF AN INCREASE ASSOCIATED WITH THE COMMODITY COSTS OF GAS.**  
**PLEASE COMMENT.**

16  
17 **A.** To suggest that the customers should not be asked to pay for the basic costs of PGW  
18 operations after a ten year hiatus because of the increases in the commodity charge is  
19 neither legal (based upon advice of counsel) nor reasonable, in my view. Inability to pay  
20 should be dealt with directly, not by refusing to implement a needed rate increase. But,  
21 to the extent that the recent level of rate increase or decrease experienced by customers is  
22 going to play a role in making the determination in this case, it is important to note that,  
23 overall, most customers will experience a modest decrease compared to their present  
24 rates were PGW’s permanent base rates to be implemented. With the removal of the  
25 compression factor, PGW’s GCR rates will be lower next year by an anticipated \$64  
26 million. The gas markets have not softened as was hoped, and gas costs have not  
27 returned to historic levels --- and, in fact, are projected to stay at levels higher than we  
28 originally had hoped for the next 18 - 24 months. But, the fact remains that when the  
29 GCR decrease is considered, PGW’s entire \$65 million rate increase (\$47 million not  
30 presently in rates) can be implemented and customer bills will go down on a net basis.

2 Thus, customer "ability to pay" mitigates in favor of the entire fully justified base rate  
3 increase, at this time.

4 **Q. MR. LELASH MAKES AN ARGUMENT THAT INADEQUACY OF SERVICE**  
5 **SHOULD BE CONSIDERED IN DECIDING ON PGW'S LEVEL OF RATE**  
6 **RELIEF. DO YOU AGREE?**  
7

8 A. The adequacy of PGW's service, and particularly its customer service, is just as  
9 important an issue to the company as it is to customers, and improving that service is one  
10 of my top priorities. The PUC has indicated -- and PGW has agreed -- that this base rate  
11 case can be used as a vehicle to review and discuss PGW's efforts to improve service.  
12 However, based upon my experience, PGW's prior ratemaking methodology and  
13 requirements never included a denial of an otherwise justified rate increase on  
14 conclusions about PGW's service quality. That is not permitted under Section VII of the  
15 Management Agreement. In addition, such a denial would have resulted in PGW  
16 violating its rate covenants and thus would have been illegal. It would have the same  
17 result today.

18 I also question whether the studies to which Mr. Lelash points establish a basis for  
19 denying PGW's rate request, even if such an adjustment were legally permissible. The  
20 reports that he references were prepared at PGW's request to analyze specific aspects of  
21 the Company's operation for the purpose of identifying areas that require improvement.  
22 In no instance, to my knowledge, did these reports make findings as to whether PGW  
23 satisfied or failed to satisfy established PUC standards for service adequacy. This is true  
24 as well for the BWG Audit. Moreover, none of these reports -- or any other for that  
25 matter, including the BWG Audit -- casts doubt on the basic ability of PGW to fulfil its  
26 primary mission -- to deliver the necessary amount of natural gas to customers when and  
27 where they need it in a safe manner. There should be no concern with regard to  
28 emergency calls or, as a general matter, collection inquiries. While PGW continues to  
29 have call center and billing issues (although the target date for completing remaining

enhancements to the BCCS system in July 17) this does not make PGW's overall service inadequate.

Finally, Mr. Lelash's position on the amount of an appropriate rate increase is difficult to reconcile with OCA's argument that service is inadequate and inefficiently delivered and needs immediately to be improved. PGW simply can not proceed with the myriad of service improvement steps that the parties and the PUC are demanding at the rate levels reflected in either Mr. Lelash's or Mr. Weakley's testimony.

**Q. DOES THAT COMPLETE YOUR TESTIMONY?**

**A.** Yes it does.

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**PHILADELPHIA GAS WORKS**  
**DAILY CASH RECEIPTS**

Month of May 2001

	<u>City Loan Available</u>	<u>Opening Cash</u>	<u>Projected Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>	<u>To-Date Variance</u>
Tue May 1	\$45,000,000	\$6,995,000	\$3,850,000	\$3,835,130	(\$14,870)	(\$14,870)
Wed May 2	45,000,000	10,191,000	3,700,000	4,696,764	996,764	981,894
Thu May 3	45,000,000	13,688,000	3,650,000	3,584,859	(65,141)	916,753
Fri May 4	45,000,000	16,545,000	3,450,000	3,315,453 *	(134,547)	782,206
Mon May 7	45,000,000	18,278,000	3,600,000	3,815,297 *	215,297	997,503
Tue May 8	45,000,000	20,881,000	3,300,000	4,605,652	1,305,652	2,303,155
Wed May 9	45,000,000	24,957,000	3,300,000	3,146,578	(153,422)	2,149,733
Thu May 10	45,000,000	27,977,000	3,300,000	3,942,708	642,708	2,792,441
Fri May 11	45,000,000	30,946,000	3,150,000	4,730,747 *	1,580,747	4,373,188
Mon May 14	45,000,000	30,477,000	3,400,000	3,069,982	(330,018)	4,043,170
Tue May 15	45,000,000	32,338,000	3,250,000	3,388,979	138,979	4,182,149
Wed May 16	45,000,000	33,726,000	3,250,000	4,895,360 *	1,645,360	5,827,509 2,363,194 crisis
Thu May 17	45,000,000	38,158,000	3,250,000	2,680,103 *est	(569,897)	5,257,612 86,503 liheap
Fri May 18	45,000,000	41,065,000	3,000,000	2,437,418 est	(562,582)	4,695,030
Mon May 21	45,000,000		3,300,000			
Tue May 22			3,100,000			
Wed May 23			3,100,000			
Thu May 24			3,100,000			
Fri May 25			2,800,000			
Tue May 29			3,250,000			
Wed May 30			3,000,000			
Thu May 31			2,900,000			
Fri June 1						
<b>Total</b>			<u>\$72,000,000</u>	<u>\$52,145,030</u>	<u>\$4,695,030</u>	<u>\$4,695,030</u>

\* Includes \$4,738,519 in Liheap & Crisis Grants.

Total Liheap & Crisis Grants received To-Date - \$22,081,722.

	<u>Projected</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>	<u>Cumulative</u> <u>Variance</u>
Sept.'00	\$30,300,000	\$29,400,000	(\$900,000)	(\$900,000)
Oct. ' 00	31,800,000	31,100,000	(700,000)	(1,600,000)
Nov.' 00	34,900,000	32,500,000	(2,400,000)	(4,000,000)
Dec.' 00	45,900,000	40,300,000	(5,600,000)	(9,600,000)
Jan.' 01	67,604,000	75,796,274	8,192,274	(1,407,726)
Feb.' 01	85,900,000	88,174,195	2,274,195	866,469
Mar.' 01	90,400,000	86,806,295	(3,593,705)	(2,727,236)
Apr.' 01	85,500,000	81,076,023	(4,170,654)	(6,897,890)
May' 01	72,000,000	52,145,030	4,695,030	(2,202,860)
June' 01	61,000,000			
July' 01	51,000,000			
Aug.' 01	46,000,000			
<b>Total</b>	<b><u>\$702,304,000</u></b>	<b><u>\$517,297,817</u></b>	<b><u>(\$2,202,860)</u></b>	<b><u>(\$2,202,860)</u></b>

**Month of May**

Liheap	\$397,253
Crisis	4,341,266
<b>Total</b>	<b><u>\$4,738,519</u></b>
<b>Total To-Date</b>	<b><u>\$22,081,722</u></b>

0.730

## CRP - Requested Data

05/18/2001

	FY1999	FY2000	FY2001 (to 3/31)	FY2001 - Est.
<b>Number of CRP Participants</b>	46,456	53,559	60,278	60,000
<b>Total Asked to Pay Amount</b>	\$ 26,607,800	\$ 34,454,774	\$ 32,661,926	\$ 54,436,543
<b>Total Payed Amount</b>	\$ 19,485,308	\$ 27,522,028	\$ 26,718,443	\$ 46,066,281
<b>Payment Ratio</b>	73%	80%	82%	85%
<b>Number of Cash Grants Received</b>	43,035	41,085	51,070	57,000
CRP	22,809	23,622	28,410	32,490
Non-CRP	20,226	17,463	22,660	24,510
<b>Cash Grants Funds Received</b>	\$ 9,123,420	\$ 8,812,733	\$ 10,965,222	\$ 12,198,000
CRP	\$ 4,835,508	\$ 5,066,919	\$ 6,082,440	\$ 6,952,860
Non-CRP	\$ 4,287,912	\$ 3,745,814	\$ 4,882,782	\$ 5,245,140
<b>Number of CRISIS Grants Received</b>	4,770	16,786	7,255	22,000
CRP	2,572	12,106	4,591	15,400
Non-CRP	2,198	4,680	2,664	6,600
<b>CRISIS Funds Received</b>	\$ 1,189,638	\$ 4,985,442	\$ 4,587,752	\$ 13,200,000
CRP	\$ 641,457	\$ 3,595,482	\$ 2,898,654	9,240,000
Non-CRP	\$ 548,181	\$ 1,389,960	\$ 1,689,098	3,960,000

Effect on Typical Bill

<u>Residential</u>	(1)		(2)	Change In Rate	(3)	Change In Rate	(4)	Change In Rate	Assuming Full Reward vs. Present Rates
	Annual	Unit	(As Of 4/27/01)		Beginning of		Base Rate		
			Rates		Fiscal Year		Assuming		
<u>Unit Costs</u>									
Base Fuel	100.0	Mcf	\$ 3,1800	Na	\$ 3,1800	\$ -	\$ 3,1800	\$ -	\$ -
Base Non-Fuel	100.0	Mcf	\$ 3,4330	Na	\$ 3,4330	\$ -	\$ 3,7251	\$ 0.292	\$ 0.292
GCR Factor	100.0	Mcf	\$ 6,6959	Na	\$ 5,5958	\$ (1.10)	\$ 5,5958	\$ -	\$ (1.100)
Customer Charge	12	Months	\$ 11.66	Na	\$ 8.00	\$ (3.66)	\$ 15.00	\$ 7.00	\$ 3,340
<b>Annualized Bill/Annualized % Change</b>			<b>\$ 1,470.81</b>	Na	<b>\$ 1,316.88</b>	<b>-10.5%</b>	<b>\$ 1,430.09</b>	<b>8.6%</b>	<b>-2.8%</b>

Commercial

<u>Commercial</u>	(1)		(2)	Change In Rate	(3)	Change In Rate	(4)	Change In Rate	Assuming Full Reward vs. Present Rates
	Annual	Unit	(As Of 4/27/01)		Beginning of		Base Rate		
			Rates		Fiscal Year		Assuming		
<u>Unit Costs</u>									
Base Fuel	382.0	Mcf	\$ 3,1800	Na	\$ 3,1800	\$ -	\$ 3,1800	\$ -	\$ -
Base Non-Fuel	382.0	Mcf	\$ 3,9400	Na	\$ 3,9400	\$ -	\$ 4,5064	\$ 0.566	\$ 0.566
GCR Factor	382.0	Mcf	\$ 6,6959	Na	\$ 5,5958	\$ (1.10)	\$ 5,5958	\$ -	\$ (1.100)
Customer Charge	12	Months	\$ 14.57	Na	\$ 10.00	\$ (4.57)	\$ 25.00	\$ 15.00	\$ 10.43
<b>Annualized Bill/Annualized % Change</b>			<b>\$ 5,452.51</b>	Na	<b>\$ 4,977.44</b>	<b>-8.7%</b>	<b>\$ 5,373.80</b>	<b>8.0%</b>	<b>-1.4%</b>

Industrial

<u>Industrial</u>	(1)		(2)	Change In Rate	(3)	Change In Rate	(4)	Change In Rate	Assuming Full Reward vs. Present Rates
	Annual	Unit	(As Of 4/27/01)		Beginning of		Base Rate		
			Rates		Fiscal Year		Assuming		
<u>Unit Costs</u>									
Base Fuel	1,129.0	Mcf	\$ 3,1800	Na	\$ 3,1800	\$ -	\$ 3,1800	\$ -	\$ -
Base Non-Fuel	1,129.0	Mcf	\$ 3,9400	Na	\$ 3,9400	\$ -	\$ 4,6370	\$ 0.697	\$ 0.697
GCR Factor	1,129.0	Mcf	\$ 6,6959	Na	\$ 5,5958	\$ (1.10)	\$ 5,5958	\$ -	\$ (1.100)
Customer Charge	12	Months	\$ 29.14	Na	\$ 20.00	\$ (9.14)	\$ 50.00	\$ 30.00	\$ 20.86
<b>Annualized Bill/Annualized % Change</b>			<b>\$ 15,947.83</b>	Na	<b>\$ 14,596.14</b>	<b>-8.5%</b>	<b>\$ 15,743.05</b>	<b>7.9%</b>	<b>-1.3%</b>

Municipal

<u>Municipal</u>	(1)		(2)	Change In Rate	(3)	Change In Rate	(4)	Change In Rate	Assuming Full Reward vs. Present Rates
	Annual	Unit	(As Of 4/27/01)		Beginning of		Base Rate		
			Rates		Fiscal Year		Assuming		
<u>Unit Costs</u>									
Base Fuel	1,941.0	Mcf	\$ 3,1800	Na	\$ 3,1800	\$ -	\$ 3,1800	\$ -	\$ -
Base Non-Fuel	1,941.0	Mcf	\$ 3,2330	Na	\$ 3,2330	\$ -	\$ 3,8867	\$ 0.654	\$ 0.654
GCR Factor	1,941.0	Mcf	\$ 6,6959	Na	\$ 5,5958	\$ (1.10)	\$ 5,5958	\$ -	\$ (1.100)
Customer Charge	12	Months	\$ -	Na	\$ -	\$ -	\$ 25.00	\$ 25.00	\$ 25.00
<b>Annualized Bill/Annualized % Change</b>			<b>\$ 25,444.37</b>	Na	<b>\$ 23,309.08</b>	<b>-8.4%</b>	<b>\$ 24,877.91</b>	<b>6.7%</b>	<b>-2.2%</b>

PHA

<u>PHA</u>	(1)		(2)	Change In Rate	(3)	Change In Rate	(4)	Change In Rate	Assuming Full Reward vs. Present Rates
	Annual	Unit	(As Of 4/27/01)		Beginning of		Base Rate		
			Rates		Fiscal Year		Assuming		
<u>Unit Costs</u>									
Base Fuel	289.0	Mcf	\$ 3,1800	Na	\$ 3,1800	\$ -	\$ 3,1800	\$ -	\$ -
Base Non-Fuel	289.0	Mcf	\$ 3,9460	Na	\$ 3,9460	\$ -	\$ 4,0676	\$ 0.122	\$ 0.122
GCR Factor	289.0	Mcf	\$ 6,6959	Na	\$ 5,5958	\$ (1.10)	\$ 5,5958	\$ -	\$ (1.100)
Customer Charge	12	Months	\$ -	Na	\$ -	\$ -	\$ 25.00	\$ 25.00	\$ 25.00
<b>Annualized Bill/Annualized % Change</b>			<b>\$ 3,994.53</b>	Na	<b>\$ 3,676.60</b>	<b>-8.0%</b>	<b>\$ 4,011.74</b>	<b>9.1%</b>	<b>0.4%</b>

## Notes:

- (1) Typical Annual Usage for the Class
- (2) GCR and Customer Charge Compressed. Not Annualized
- (3) Assumes Reverting back to pre-"Interim Increase" Customer Charges with new GCR
- (4) Assumes Full \$65M impact of Base Rate Increase (Customer Charges and Volumetric Charges) with new GCR.

Decrease in GCR of \$1.10 per Mcf times Applicable Sales of 57,888,620 Mcf = \$63.7 million decrease in annual revenues between Present and 9/1/01.

**Typical Residential Bill -- December 1991 versus September 2001 versus Proposed Base Rate  
Compared to Increase in Bureau of Labor Statistics Utility Natural Gas Index <sup>(1)</sup>**

<u>Residential</u>			<u>Rates</u>	<u>Beginning</u>	<u>Base Rate</u>	<u>Rate</u>
	<u>Annual</u>	<u>Unit</u>	<u>in Effect</u>	<u>Fiscal Year</u>	<u>Assuming</u>	<u>Assuming</u>
<u>Unit Costs</u>			<u>Dec-91</u>	<u>9/1/01</u>	<u>Full Award</u>	<u>Index</u>
				<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Base Fuel	100.0	Mcf	\$ 3.1800	\$ 3.1800	\$ 3.1800	\$ 5.609
Base Non-Fuel	100.0	Mcf	\$ 3.9400	\$ 3.4330	\$ 3.7251	\$ 6.949
GCR Factor	100.0	Mcf	\$ 0.3565	\$ 5.5958	\$ 5.5958	\$ 0.629
Customer Charge	12	Months	\$ 4.00	\$ 8.00	\$ 15.00	\$ 7.055
<b>Typical Annual Bill</b>			<b>\$ 795.65</b>	<b>\$ 1,316.88</b>	<b>\$ 1,430.09</b>	<b>\$ 1,403.38</b>

Percent Change in Bureau of Labor Statistics Index -- December 1991 to April 2001 Equals: 76.4%

<sup>(1)</sup> Bureau of Labor Statistics Data -- Average Price Data -- U.S. City Average

Gas Planning Department  
5/21/01  
compare15.xls

PGW St.1.2

5/22/01

Phila PA RLS

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SUPPLEMENTAL REBUTTAL TESTIMONY OF

**THOMAS KNUDSEN**

IN RESPONSE TO MANAGEMENT AUDIT

ON BEHALF OF  
PHILADELPHIA GAS WORKS

DOCKET NO. R-00006042

PHILADELPHIA GAS WORKS  
BASE RATE PROCEEDING

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**Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION ON THE PREPARATION AND PROCESS OF THE STRATIFIED MANAGEMENT AND OPERATIONS AUDIT.**

A. The Pennsylvania Public Utility Commission (PUC) began regulatory oversight of Philadelphia Gas Works (PGW) on July 1, 2000. As part of its regulatory process, the Commission required an audit of the Company. The Barrington-Wellesley Group (BWG) was selected to conduct the audit. BWG prepared the Stratified Management and Operations Audit (the Audit). They evaluated PGW from June through September 2000. The Audit was undertaken at a time of dynamic change at PGW: interim senior management of PGW began their work only two months before the audit process commenced, the computer system was at the earliest point of repair and the devastating financial problems arising from the increase in gas costs were not yet manifest. Interim management shared its insights with the BWG consultants, detailed steps that were underway to correct PGW's problems, and insisted on a high degree of candor on the part of all employees in their dealing with the auditors. Some of the Audit recommendations suggest new areas for improvement, while many recommendations affirm commitments the Company had already made or programs that were contemplated prior to their arrival.

**Q. WHAT WAS YOUR RESPONSE TO THE AUDIT?**

A. Our response is contained in the Implementation Plan, which I am attaching hereto. (TEK - 3) The Audit and the Implementation Plan should be read as one document.

**Q. WAS PGW ABLE TO COMMENT OR OBJECT TO ANY OF THE CONTESTED RECOMMENDATIONS OR FINDINGS AND CONCLUSIONS PRIOR TO PUBLICATION OF THE AUDIT, AND IF SO, WERE THESE COMMENTS AND OBJECTIONS INCLUDED IN THE FINAL VERSION OF THE AUDIT?**

A. The review process provided management the opportunity to rebut assertions or conclusions reached by the auditors and to propose corrections or different interpretations of data or findings. The auditors reviewed PGW management's comments and incorporated some, but not all, of these into the final Audit Report.

Under no circumstances does PGW want its cooperation in focusing on the ultimate recommendations to be misconstrued as an unchallenged acceptance of the findings and conclusions therein. While we may have agreed to implement a recommendation of BGW, we do not necessarily accept the findings and conclusions underlying that recommendation. I have believed all along that PGW's resources were better focused on the positive implementation of the recommendations rather than any debate over their foundation. That being said, it appears to be the intention of some of the intervenors to use the findings and conclusions of the Audit, most specifically regarding customer service and billing, without the benefit of our responses and clarifications. Therefore, since not all of the objections, comments and corrections to findings and conclusions appear in the Audit or the Implementation Plan, I am providing them now. (See TEK - 4 and TEK - 5. TEK - 4 is PGW's objections to the original task report on the chapter for Customer Service, Billing and Collection; TEK - 5 is additional comments to the final draft of that chapter.) In the event that the intervenors

attempt to use the findings and conclusions in the Audit, these documents provide a clearer picture of PGW's position regarding the findings and conclusions in that chapter, and help balance factual conclusions that PGW believes simply are not correct. Note that PGW offered critical observations on virtually every section of the Audit.

**Q. THE MANAGEMENT AUDIT COVERS A VARIETY OF ISSUES REGARDING THE COMPANY. ARE THERE ANY AREAS THAT YOU WISH TO COMMENT ON IN THIS TESTIMONY?**

A. Yes. The three areas I will focus on are: customer service and billing, bad debt write-off, and the Senior Citizens Discount Program.

**Q. BEYOND THE RECOMMENDATIONS CONTAINED IN THE AUDIT, WOULD IT BE APPROPRIATE TO MAKE CONCLUSIONS ABOUT THE ADEQUACY OF PGW'S OVERALL SERVICE?**

A. No. Findings were made in the context of the Audit's purpose: to identify ways of improving PGW's service in specific areas. What the Audit does not address is the fact that PGW offers a range of service not offered by other regional utilities. Such offerings are necessarily provided at a cost and induce a complexity of operations that other utilities do not experience.

A partial list includes the following:

1. District Offices – Because of the unique demographic makeup of the City, PGW offers its customers personal service at eight district offices throughout the City. In contrast, PECO has no district offices maintaining only a central facility at its headquarters building. Other PUC regulated utilities have closed their facilities.

2. The Customer Responsibility Program - PGW's low-income customer assistance program affords Philadelphia's low-income customers needed flexibility over less generous regulations of the state CAP program. This program, however, is more complex to administer and encompasses a higher percentage of customers than comparable programs at other utilities throughout the state.
3. Senior Citizens Program – There has been a public policy concern in Philadelphia for many years regarding the needs of older customers, typically living on fixed incomes. PGW offers its senior customers discounted rates in accordance with a City Council ordinance.
4. Appliance Repair Programs - PGW services appliances in customers' homes. There are many instances when a customer's appliance or furnace may be outdated and the parts no longer available. PGW helps customers avoid the necessity of appliance replacement and manufactures or fabricates parts, when able, to fix the customers' equipment. Again, this service creates substantial operating problems and billing issues.
5. CRISIS/LIHEAP Grants - In this fiscal period, PGW aggressively sought grants for low-income customers and enrolled record numbers into these programs far in excess of any other jurisdictional utility.

**Q. WITH RESPECT TO CUSTOMER SERVICE, THE MANAGEMENT AUDIT HAS FOCUSED ON CUSTOMER ACCESS, i.e. THE CALL CENTER. ARE THERE FACTORS THAT THE PARTIES AND THE PUC SHOULD CONSIDER IN EVALUATING PGW IN THIS AREA?**

A. Yes. During the period April through October 2000, which encompassed BWG's audit activities, the entire organization was focused on stabilizing the billing system. First, PGW has undertaken extensive efforts to raise the standards of service in order to provide our customers with a much higher caliber of service representatives. PGW has screened over 500 applicants and found only 44 persons who could qualify under the higher standards established. Second, frustrating the attempts to hire more personnel for the Call Center was the record rate of retirement of staff over the months following the completion of the Audit. Third, there are areas of customer access that work quite well. The safety concerns of our customers are always a priority. That is why all emergency calls are answered under thirty seconds. Last, since the turn off period began, PGW has accommodated many of its customers and entered into numerous payment agreements arising from customer calls which are also answered, in the main, within the standards stipulated.

While we acknowledge the current need to improve, our focus is on accomplishing the solution.

**Q. IN HIS DIRECT TESTIMONY, MR. WHEATON STATES THAT PGW DOES NOT HAVE A FUNCTIONING CUSTOMER BILLING SYSTEM. IS THAT ACCURATE?**

A. No. That may have been his observation at the time he made his report, as I indicate above. However, there have been numerous improvements since then, initially to stabilize the system and then to add the needed functionalities which had been dropped during the initial implementation period. Most importantly, the vast majority of customers are being billed and billed accurately. (See the attachment, Exhibit TEK-6, for a partial listing of major accomplishments.)

As noted during the first six months of interim management's term, the focus was on stabilizing the Billing Credit and Collection System (BCCS). During that time we used any and all personnel knowledgeable about BCCS to complete the task. It has only been since November with new management that PGW has been able to direct resources into improving questions of customer access. During the period October through April, activities have been focused on making the BCCS system functional. The next four to five months will bring the benefits together.

**Q. WHAT IS THE COMPANY CURRENTLY DOING TO IMPROVE CALL CENTER PERFORMANCE?**

A. Since late March, PGW has been developing a plan to improve Call Center access and overall customer service. In response to the Commission's tentative order requesting an RFP be prepared to outsource overflow from the Call Center, PGW will meet with the PUC in late May to collaborate in the refinement of a comprehensive plan. PGW has already implemented many innovations. PGW's management and board are fully committed to improving the quality of service offered to its customers.

**Q. DO YOU AGREE WITH THE RECOMMENDATION IN THE MANAGEMENT AUDIT THAT PGW IS ABLE TO REDUCE ITS BAD DEBT WRITE-OFFS TO TWO PERCENT?**

A. No. The auditors make the assumption that PGW, as an urban utility, can realize a reduction in its uncollectible percentage from a seven year average of 7.7% to match the statewide average of about 2%. While the Company agrees with the need to reduce the amount of uncollectibles, the proposal is flawed in that it fails to recognize the economics and demographics of the service territory. Specifically, one third of our customers live at or below 150% of the federal poverty limit. Residential customers represent a higher percentage of PGW's total throughput, approximately 59%, as compared to other companies. Therefore, PGW's revenues are at a greater risk of being uncollected. The 2% bad debt write-off experience, stated to be consistent with industry standards, includes utilities that are primarily rural or semi-rural, with some urban components, but none that are totally located within a city environment like PGW. Therefore, it is inappropriate to draw any conclusions as to the appropriate level of write-offs based on these comparisons. For decades, PGW's uncollectible experience has been in the range of 6-8% of total revenues while the state average is 1-2%; however, it has increased dramatically recently due to increased gas prices. PGW's Net Accounts Receivable from customers, after seven months of FY 2001 is \$232 million, while last year at the same time it was \$130 million.

**Q. YOU ALSO DISAGREE WITH THE RECOMMENDATION THAT THE ELIMINATION OF THE SENIOR CITIZENS DISCOUNT PROGRAM WOULD RESULT IN \$13.5 MILLION SAVINGS. WHY?**

A. The program's elimination would not result in a net benefit to the Company but rather would result only in a redistribution of costs back to Senior Citizens from other customer groups. Currently, discounted rates are recovered through the GCR and Base Rates of other customer classes, per the tariff. This shift would increase the bills of seniors by requiring them to pay non-discounted rates, at the same time reducing the bills of the remaining customers. BWG's proposal only redistributes the discounted costs to the other customer classes and results in no net savings to PGW.

**Q. IN ADDITION TO THE ZERO SUM SAVINGS, ARE THERE ANY OTHER OBSTACLES THAT BAR THIS RECOMMENDATION?**

A. The Natural Gas Choice and Competition Act reserves the right to modify the Senior Citizen Discount Program to the City Council. This program is a matter of City ordinance, or law, that can only be changed by the City's legislative process – matters that are unquestionably beyond the control of PGW.

**Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?**

A. Yes.

TEK-3

D6W  
Ex. TEK-3

R-00006042

5/22/01

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# PHILADELPHIA GAS WORKS

## IMPLEMENTATION PLAN

for the

### STRATIFIED MANAGEMENT AND OPERATIONS AUDIT

MARCH 2001

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## **Philadelphia Gas Works**

Thomas E. Knudsen  
Chief Financial Officer



800 W. Montgomery Avenue, Philadelphia, PA 19122  
Telephone: (215) 684-6051  
Fax: (215) 684-6101  
E-mail: thomas.knudsen@pgworks.com

March 22, 2001

Thomas Sheets  
Manager, Management Audit Division  
Bureau of Audits  
Commonwealth of Pennsylvania  
Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17015

Dear Mr. Sheets:

The Philadelphia Gas Works ("PGW" or "the Company") hereby submits its Plan for Implementation of the Recommendations in The Stratified Management and Operations Audit of the Philadelphia Gas Works conducted by the Barrington-Wellesley Group, Inc. ("BWG"), prepared for the Pennsylvania Public Utility Commission (the "PaPUC"), and submitted in January 2001. PGW fully appreciates both the need for and the benefits that can be derived from this effort. This Plan presents specific steps which PGW management proposes to take to implement the recommendations contained in the audit report.

### The Audit Process

The evaluation of the company was conducted from June through September 2000, while analysis, writing, review and comments by PGW and the PUC audit staff occurred between October 2000 and January 2001. The Audit was undertaken at a time of dynamic change at PGW: interim senior management of PGW began their work only two months before the audit process commenced. Interim management shared its insights with the BWG consultants, detailed steps that were underway to correct PGW's problems, and insisted on a high degree of candor on the part of all employees in their dealing with the auditors. Many of BWG's recommendations affirm commitments that the Company had already made or programs that were contemplated prior to their arrival. Other recommendations suggest new areas for improvement. Almost 600 requests for data or documents were answered.

The review process provided management the opportunity to rebut assertions or conclusions reached by the auditors and to propose corrections or different interpretations of data or findings. The auditors reviewed PGW management's comments and incorporated some, but not all, of these into the final Audit document.

### Bases for Challenging Recommendations

Because of PGW's unique status as a municipally-owned utility, it is simply not possible for management to implement all of the Audit recommendations. Several of the recommendations are premised on resolution of public policy issues beyond the control of PGW, have presumed certain results from the forthcoming collective bargaining process or presented other difficulties. As a result, PGW sought, and in the February 22, 2001 PUC Order approving the Joint Petition for Settlement, was granted language that allows PGW to challenge recommendations if they fit within three general categories, as follows:

- *Legality of the recommendations (i.e., beyond PGW's legal authority to implement including that the recommendation is not an issue over which PGW management has control or that PGW is under a legal obligation to take a different position);*
- *Affordability, feasibility and material quantification issues (i.e., the Company believes in good faith that it does not or may not have funds available to implement the recommendation while funding all other necessary operations and meeting legal obligations: that quantification of the benefit/recommendation is not accurate or justified; or that the recommendation would inappropriately reduce existing consumer protections or consumer benefit programs); and*
- *Collective bargaining (i.e., the recommendation would violate PGW's existing collective bargaining agreement).*

(Please see the attached Schedule for a listing of those recommendations to which PGW has taken exception in full or accepted in part for the reasons presented above.)

### Calendarization of BWG's Quantified Benefits

In Exhibit II-2 of the Audit report, sixteen of the recommendations have been assigned dollar-saving values and are presented in lump sum form with suggested periods over which the savings might be realized. PGW offers the following table that recasts those numbers as they might affect the operating statement. The amounts to be saved are

presented incrementally in the year of first impact, as stipulated by the consultants, and then totaled.

Recommendation/Annual Savings (millions)	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Total</u>
Workers' Compensation Costs	\$ .167	\$ .333	\$ .333	\$ .167	\$ -	\$1.000
Governance	-	1.300	-	-	-	1.300
Uncollectible Expense	4.667	9.333	9.333	4.667		28.000
Billing Cycle Lag	.650	.650				1.300
Senior Citizen Discount		13.500				13.500
Cast Iron Main Program Benefit			.100			.100
Janitorial Services	.200	.200				.400
Inventory Turnover	.150	.150				.300
Fleet Improvement	.375	.375				.750
HR Information System		.400				.400
IT Costs	.300	.300				.600
Wage Increases	.300	.300				.600
Absenteeism	.337	.667	.667	.333		2.000
Fringe Benefits	1.000	2.000	2.000	1.100		6.100
Work Management	-	<u>1.000</u>	<u>2.000</u>	<u>3.000</u>	<u>4.000</u>	<u>10.000</u>
Total*	\$8.146	\$30.508	\$14.433	\$9.267	\$4.000	\$66.350

\* Details may not add due to rounding

The Audit also quantified two areas of capital spending. The first is to increase the annual investment in cast iron main replacement by one third or \$11.2 million per year. Management views this recommendation both as not affordable and not theoretically necessary. A second recommendation regarding productivity increases is accepted. An inventory reduction recommendation results in a one-time savings of \$1.3 million.

It should be noted that the report also does not attribute costs to those recommendations that will require additional spending in order to implement them. These omissions include investment in the Human Resources Information System and the investment in fleet life-cycle studies together with the resulting capital investment in new vehicles.

#### Calendarization of Accepted BWG Recommendations

Having recast the Audit recommendations assuming implementation of all recommendations, the following table presents the calendarization of benefits of those

proposals that PGW accepts.:

Recommendation/Annual Savings	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Total</u>
Workers' Compensation Costs	\$ .167	\$ .333	\$ .333	\$ .167		\$1.000
Billing Cycle Lag	.650	.650				1.300
Janitorial Services	.200	.200				.400
Inventory Turnover	.150	.150				.300
Fleet Improvement	.375	.375				.750
HR Information System		.400				.400
IT Costs	.300	.300				.600
Wage Increases	.300	.300				.600
Absenteeism	.333	.667	.667	.333		2.000
Fringe Benefits	1.000	2.000	2.000	1.100		6.100
Work Management		<u>1.000</u>	<u>2.000</u>	<u>3.000</u>	<u>4.000</u>	<u>10.000</u>
Total	<u>\$3.475</u>	<u>\$6.375</u>	<u>\$5.000</u>	<u>\$4.600</u>	<u>\$4.000</u>	<u>\$23.450</u>

The principal differences between the two tables are three recommendations which PGW either rejects totally or challenges the quantification thereof. The first, a reduction in the uncollectible expense of \$28 million or two thirds of the 1999 booked expense, is the largest. The assumption the auditors make is that PGW, as an urban utility, can realize a reduction in its uncollectible percentage to match the average for the rest of the state. This proposal is flawed in that it fails to recognize the economics and demographics of the service territory and, specifically, that one third of our customers live at or below 150% of the federal poverty limit. For decades, PGW's uncollectible experience has been in the range of 6-8% of total revenues while the state average is 1-2%. In this time of dramatically increased gas prices the percentage is even higher as customers struggle to pay their gas bills. The Company fully supports the objective of reducing the expense but not to a level of 2% of total sales.

A second recommended reduction of \$13.5 million calls for the elimination of the Senior Citizen Discount. This program is a matter of City ordinance or law that can only be changed by the City's legislative process--it is beyond the control of PGW. Further, the Natural Gas Choice and Competition Act specifically reserves this decision to the City. Even the program's elimination would not result in a net benefit to the company but rather results in a redistribution of costs back to Senior Citizens from other customer groups.

The third area is the elimination of \$1.3 million of costs resulting from the streamlining of PGW's governance structure. Any action in this regard is the sole responsibility of the City.

The Impact Of The Audit On Operations and Financial Reports

It should be noted that PGW management unilaterally committed to a reduction in unspecified spending of \$24 million over 2.5 years before the Audit began. This representation was made both in the budget filings before the Philadelphia Gas Commission and in the forecast portions of the base rate filings submitted to the PaPUC. Those reductions called for the following: \$13 million in 2001 plus \$5 million in 2002 plus \$6 million in 2003. As shown above, the total Audit recommendations, adjusted to exclude the uncollectible expense, the Senior Citizen Discount, and governance charges, which we challenge, result in a net savings of \$23.45 million (nearly \$24 million) to be realized over a four to five year period. When one compares the two sets of numbers, the cost savings for the Company are the same; the first estimated internally, the second by the auditors. Whereas the Company's internal savings were not specified in the budget filings, the remaining Audit recommendations now provide PGW with specific program targets. The attainment of \$24 million in 2.5 years is even more aggressive than the \$24 million recommended by the auditors over 4 to 5 years.

Summary

The management of PGW is appreciative of the efforts and professionalism of both the BWG auditors and the PUC Bureau of Audits staff. Although we have disagreed on several issues, this effort has given form and focus to our goals for cost reduction and savings. PGW will aggressively pursue the implementation of this program.

Sincerely,

THOMAS E. KNUDSEN

/cjp  
Attachment

TEK322

## SCHEDULE

### Recommendations Rejected In Whole or Accepted in Part

- |         |   |   |
|---------|---|---|
| VII-1   | Revise Governance Structure:              | Rejected, in whole, as being outside of PGW's legal authority.  |
| VIII-1  | Customer Service Representative: Salaries | Accepted, in part, as being subject to collective bargaining negotiation.   |
| VIII-7  | Uncollectible Expense Reduction:          | Accepted, in part, regarding the feasibility of the projected savings   |
| VIII-16 | Eliminate Senior Citizen Discount:        | Rejected, in whole, as being outside of PGW's legal authority also on the basis of quantification of the benefit. |
| IX-2    | Accelerate Cast Iron Main Program:        | Accepted, in part, due to affordability and feasibility.  |
| X-2     | Periodic Evaluation of Sale:              | Rejected, in whole, as being outside of PGW's legal authority.  |
| XIII-8  | Back To Work Programs:                    | Accepted, in part, as being subject to collective bargaining negotiations   |
| XIII-9  | Fringe Benefit Cost Reduction:            | Accepted, in part, as being subject to collective bargaining negotiations   |

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation III-1:** Ensure that the planning process incorporates bottom-up input from individual departments, is linked to the budgeting process, and reflects the realities of PGW's operation environment.

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Director-Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Department Goals & Strategies submitted.	(C) 03/15/01
Impact of strategies quantified.	(E) 04/15/01
Strategies included in budget preparation.	(E) 05/01/01
Internal budget approval.	(E) 06/15/01
Budget submitted to Philadelphia Gas Comm.	(E) 08/01/01
Budget approval.	(E) 09/01/01
Strategies/Goals adjusted.	(E) 10/01/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation III-2:** Focus the current corporate planning process on establishing goals for the next six months.

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Develop key results areas.	(C) 11/01/00
Identify responsible individuals.	(C) 11/01/00
Publish plan.	(C) 11/01/00
Monitor results.	(E) 06/01/01
Develop plan for next period.	(E) 06/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IV-1:** Undertake a Phase III project to develop specifications and procedures for a comprehensive work management and manpower planning program for PGW as part of this management and operations audit. (High Priority. See Chapter XV-Proposed Work Management and Manpower Planning Program.)

Response:      X   Accepted               Rejected               Accepted, in part

Individual Responsible: Director-Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify business owner .	(E) 04/15/01
Contract Project Manager	(E) 04/15/01
Prepare specifications.	(E) 11/01/01
Develop RFP and vendors	(E) 12/15/01
Evaluate bids.	(E) 02/15/02
Select successful vendor.	(E) 03/31/02
Complete project timeline.	(E) 04/30/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IV-2:** Reduce the number of positions that have high or low spans of control. (Medium Priority.)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify positions with a reporting ratio of less than 1:3 or greater than 1:10.	(E) 5/31/01
Review with the department manager reporting ratio(s).	(E) 6/30/01
Where inappropriate, work with department manager to develop appropriate recommendations.	(E) 7/31/01
Finalize and implement	(E) 8/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IV-3:** Develop and implement a labor relation's strategy that will promote improved productivity and lower labor costs. (High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Identify existing collective bargaining provisions, local agreements and past practices that adversely impact productivity;	March 12, 2001 (C)
Bargain over changes and/or elimination of existing collective bargaining provisions, local agreements and past practices that adversely impact productivity;	May 15, 2001 (E)
Establish a new process and procedure for local agreements that shall include: (a) Written recommendation and justification by local department manager;  (b) Productivity and cost impact analysis by local department manager;  (c) Termination date or agreed upon process for revising or terminating agreement;  (d) Review and approval by Senior Management and HRD.	Dec. 31, 2001 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation V-1:** Take steps to reduce workers' compensation claims costs.  
(Medium Priority.)

Response:      Accepted      Rejected      Accepted, in part

Individual Responsible: Director – Risk Management

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Increase supervision of outside counsel	(C) 9/2000
Institute monthly claims review meetings with the third party administrator (CSI)	(C) 11/2000
Increase the monitoring of medical care by CSI	(E) 4/2001
Improve the vocational aspect of the program with an emphasis on increasing the availability of meaningful light duty positions for temporarily disabled employees and finding permanent jobs for permanently disabled employees	(E) 6/2001
Revamp subrogation and supersedeas recovery program	(E) 6/2001
Successfully negotiate systemic reforms in upcoming labor agreement	(E) 7/2001
Decrease ongoing indemnity costs through aggressive litigation	(E) 9/2001 with ongoing annual review

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VI-1:** Develop and implement a status reporting system that will provide timely and specific information regarding improvement initiatives to the PUC, the Philadelphia Facilities Management Corporation Board of Directors, the City Council, and the Mayor. (High Priority.)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Director – Internal Auditing

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Design a monthly “report card” of metrics and time-oriented goals that demonstrate progress in customer service and other Company operations. Metrics and goals will initially be based on the strategic plan and departmental goals.	March 31, 2001 (E)
Solicit operating management for any other appropriate metrics or goals not included in the strategic plan or departmental goals.	March 31, 2001 (E)
Review the report card with senior management and PFMC members to ensure the content meets their needs/expectations.	April 30, 2001 (E)
Review the report card with PUC and City Administration officials and, if necessary, modify to address any concerns.	May 31, 2001 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VII-1:** Revise the governance structure of PGW to make it more accountable and to eliminate overlapping responsibilities. (High Priority.)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Exhibit B PUC Interim Order	(E) June 30, 2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

For clarification of governance in concept Management accepts the recommendation. However, the form, timing and fact of such a change is the sole responsibility of the City Administration and City Council and is an issue over which PGW Management has no control

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VII-2:** Complete implementation of the new organization structure, and take steps to encourage managers to set and communicate consistent policies to employees in all PGW departments. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Director – Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Proposed organizational structure approved.	(C) 12/01/00
Establish corporate procedures group.	(C) 12/01/00
Identify high priority key corporate processes.	(C) 02/01/01
Task teams to work on critical processes.	(C) 02/15/01
Task Team reports submitted.	(C) 03/15/01
Key high priority procedures developed.	(E) 07/01/01
Medium priority key process teams established.	(E) 08/01/01
Complete corporate organizational staffing.	(E) 09/30/01
Task Team Reports	(E) 10/01/01
Procedures developed.	(E) 12/01/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VII- 3:** Take steps to improve PGW’s interfaces with outside parties.  
(Medium Priority)

Response:      x   Accepted               Rejected               Accepted, in part

Individual Responsible: VP – Corporate Communications

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Identify BCCS issues in conjunction with Customer Affairs.	(E) 08/01/01
Develop and get approval for Communications Plan	(E) 09/01/01
Identify alternative communication methodology for customers.	(E) 12/31/01
With senior management, identify key communication issues with local government.	(E) 09/01/01
Develop communication model for local government issues.	(E) 12/31/01
Work with Regulatory Affairs to develop issues for Communication Plan with Pa. PUC.	(E) 09/01/01
Identify communication model with Pa. PUC.	(E) 12/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VII-4:** Establish an ethics “hotline” reporting directly to PGW’s manager of internal audit or its chief legal counsel. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Director – Internal Auditing

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Review the current Company ethics policy and determine the steps needed to ensure full compliance with the policy.	April 30, 2001 (E)
Designate staff to participate in the ethics program and identify training needs.	April 30, 2001 (E)
Obtain related training.	June 30, 2001 (E)
Design a full ethics program, <u>including a telephone hotline</u> , which is in compliance with Company policy for the receipt, investigation and disposition of ethics issues.	August 31, 2001 (E)
Obtain senior management approval of the ethics program.	September 30, 2001 (E)
Present the ethics program to all employees.	December 31, 2001 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Fill senior management positions with qualified personnel. Fill open positions that exist within all Customer Affairs operations, including the Call Center.

Response:    X Accepted    \_\_\_\_\_ Rejected                    \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Hire the following permanent employees:	
V. P. Customer Service	(E) 9/01
Director, Call Center Operation	(E) 6/01
Call Center Manager	(E) 6/01
Manager of Systems Administration	(E) 6/01
Training Manager	(E) 4/01
Adequately staff Customer Service Departments:	
Call Center up to 128 employees	(E) 9/01
Dispute Resolution up to 18 employees	(E) 4/01
Customer Accounting up to 24 employees	(E) 5/01
District Offices up to 66 employees	(E) 5/01
Training up to 7	(E) 5/01
Quality Assurance up to 10	(E) 5/01
System Administration up to 6	(E) 5/01
Supervisors of Call Center Operations up to 8	(E) 4/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Implement a single customer access phone number and provide cross-training to all customer service representatives (CSR) so that each can address any customer issue. Provide "estimated call wait time" to customers so that they can choose whether or not to remain on hold.

Response:    X   Accepted    \_\_\_\_\_ Rejected    \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Install estimated wait time technology.	(C) 10/31/2000
All agents and new hires are fully trained to handle all aspects of the CSR job.	Ongoing

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

A single line is not necessary because with the current technology installed at PGW, it makes no difference to the customer which line is called. Since October 2000, all CSR's are trained in all areas.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Take steps to reduce absenteeism and the use of auxiliary time in the call center to ensure that sufficient personnel are on-site to respond to customers in a timely manner. Auxiliary time for CSR's could be costing PGW as much as \$750,000 per year.

Response:     X Accepted     \_\_\_\_\_ Rejected                     \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
<p>The following steps are being taken to reduce absenteeism:</p> <ul style="list-style-type: none"> <li>▪ Meeting with union employees on a weekly basis to resolve outstanding issues.</li> <li>▪ Supervisors are responsible for coaching, counseling and monitoring employees.</li> <li>▪ Establishing a team spirit where employees will be measured and rewarded.</li> </ul>	<p>Ongoing</p>

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Currently, "auxiliary time" is only used for restroom, breaks or meetings with management. The union representative has stated to management that he agrees that this supposed work rule has not been in effect for a number of years. Therefore, the proposed savings of \$750,000 per year does not apply to current environment.

Cost/Benefit Analysis (documenting economics of reason for rejection)  
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Take steps to bring CSR's salaries in line with industry practices. Eliminate the focus on seniority in filling CSR positions and require relevant skills instead. Consider freezing salaries of certain high paid employees.

Response:       Accepted       Rejected       Accepted, in part\*

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
We are currently filling 50 jobs. The employees are being tested weekly while in training. At the end of the training period, if employees fail test they will not be awarded position.	5/01 (E)
Meet and discuss concept with Union	1/01 – 03/01 (Ongoing)
Attempt to negotiate job descriptions with Union.	(C) 3/13/01
Develop Training	(E) 4/01/01
Prepare Cost Analysis	(E) 4/15/01
Present Cost Analysis	(E) 4/22/01
Implement	(E) 5/01/01
Training (4.0 hours)	(C) 5/01
Attempt to negotiate salary level changes	(E) 05/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Take steps to bring CSR salaries in line with industry practices and consider freezing salaries of certain high paid employees. \*This must be done in the normal collective bargaining arena.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Increase the level of training provided to CSR's and ensure that the training provided is monitored for its cost-effectiveness. Complete and utilize a users' manual for the Billing, Credit and Collection System (BCCS).

Response:    X Accepted    \_\_\_\_\_ Rejected                   \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Provide a minimum of 40 hours of developmental and performance related training per employee each fiscal year.	Ongoing
Hire Training Manager and staff dedicated to Call Center and District Office training only.	(E) 4/01
Begin Phase II of Billing Training for all agents.	(E)1/01
Complete and utilize a users' manual for the Billing, Credit and Collection System (BCCS)	(C) 1/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Resolve CSR worker flexibility issues for the benefit of the customer. Change work rules as necessary to ensure maximum utilization of the Billing, Credit and Collection System (BCCS).

Response:     X Accepted     \_\_\_\_\_ Rejected                     \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Negotiate flexibility agreement with Union to allow use of Collection's CSR's to handle Billing calls during the day.	(C) 11/00 to 1/01 *
Each month review workload between Call Center and Collection Department and make determination where it is appropriate to use Collection employees to take billing calls. When appropriate, Collection employees will be utilized to handle billing calls.	Ongoing

\*This agreement had to be suspended due to increased workload in the Collection area.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII-1:** Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Establish a target date to either make the Call Center effective and customer-oriented or consider outsourcing the entire function. Establish industry standard call response time goals and ensure that staffing is based on achieving those goals.

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Customer Affairs

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
"DID" used to connect directly to agents.	(C) 10/30/00
Queue size determined by length of expected wait.	(C) 10/30/00
Initial access to agents only if wait is less than 15 minutes.	(C) 10/30/00
Estimated wait time provided once in queue.	(C) 10/30/00
Expanded service offering to 7 a.m. to midnight 7 days a week.	(C) 10/30/00
Five (5) seconds "breathing room" between all calls.	(C) 10/30/00
Establish weekly meetings to build rapport with labor union.	Began 11/3/00 (Ongoing)
Manual use of caller ID to retrieve account immediately.	12/1/00 (Ongoing)
Allow customer to wait on hold a reasonable time and offer self-service prior to disconnect.	(C) 10/30/00
Provide fast path for shorter transaction.	(C) 10/30/00
Consolidate into two large groups for more efficient processing of calls.	(C) 10/30/00
Computerize customer transaction coding.	(C) 10/30/00
Improve CRM with FSD by establishing a procedure to call customer regarding missed appointments and to verify next day appointments.	12/1/00 (Ongoing)
Form Dispute Resolution Unit to centralize handling of internal disputes (calls from City Counsel, distressed citizens, etc.)	(C) 12/2/00
Reorganize departments to insure agent success (Training Manager, Quality Assurance	

Manager, System Administrator).	12/2/00 (Ongoing)
Establish weekly meeting with Shop Stewards to evaluate their concerns and work proposals including the workload across employees.	(C) 11/1/00
Established Call Center metrics.	11/00
Modify new hire training to include preparation to handle billing, service and emergency calls.	Began 11/00 (Ongoing)
Initiate "ANI" study in January 2001 and determine 55% of all calls are repeats (20% call more than 5 minutes).	Began 1/18/01 (Ongoing)
Broaden "ANI" study in March 2001 to determine repeat callers' "customer attributes."	Began 3/9/01 (Ongoing)
Initiate "Customer Satisfaction Survey" March 2001. Scheduled to be completed by mid to late April 2001.	(E) 4/01
We believe by 2003, customers who contact the Call Center will obtain reasonable service or we will consider outsourcing at that time.	2003

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Outsourcing does not guarantee customers will receive reasonable service, as it will take time to learn PGW's processes. However, we may consider outsourcing a portion of this service that requires a longer process if it will help us reach industry standards faster.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII- 2:** Correct all billing, credit and collection system (BCCS) inaccuracies. (High Priority)

Response:     \_\_\_X\_\_\_ Accepted     \_\_\_ \_\_\_ Rejected     \_\_\_ \_\_\_ Accepted, in part

Individual Responsible: Manager – Project Management Office

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
The PMO is currently correcting all known billing, credit and collection system inaccuracies.	(E) 08/01
A Quality Control Section will be formally established upon BCCS system acceptance in June 2001	(E) 08/01
The PMO will continue to monitor the system for quality assurance. As in any billing system anomalies will occur. As they occur, the PMO will identify and resolve the problem.	(E) 09/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII- 3:** Complete the customer satisfaction survey (Low Priority)

Response:      X   Accepted      \_\_\_\_\_ Rejected      \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Engage outside consultant.	03/15/01 (C)
Survey Design (draft)	03/15/01 (C)
Survey Finalized	03/16/01 (C)
Sample Delivery	03/19/01 (E)
Survey Programming	03/16 – 03/20/01 (E)
Interviewing	03/20 – 03/31/01 (E)
Data Processing	Early 4/01 (E)
Analysis and Report	Mid - 4/01 (E)
Final Report/Presentation	Mid/Late 4/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII –4:** Conduct a study to determine if field collections personnel should be transferred to other areas of customer contact, and if collections should be outsourced to private vendors. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW will begin process to develop an RFP on outsourcing of collection activities.	(E) 06/01
PGW will begin internal review of effectiveness of field collection personnel and possible reassignment to other areas in Customer Affairs.	(E) 06/01
PGW will analyze RFPs from vendors and make a formal selection	(E) 07/01
*Upon completion of the collection study, a final determination on whether or not to outsource collection activities will be made.	(E) 12/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

\*If the final determination is to outsource collection activity, it could be a collective bargaining agreement issue.

Cost/Benefit Analysis (documenting economics of reason for rejection)  
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 5:** Take steps to reduce the number of estimated bills and ensure that no customer goes over six months without a meter read. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Manager – Project Management Office

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Meters without AMR devices will be read on a six month cycle.	(E) 04/01
Update BCCS trend tables for estimating customer usage.	(C) Ongoing review.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 5:** Take steps to reduce the number of estimated bills and ensure that no customer goes over six months without a meter read. (Medium Priority)

Response:       X   Accepted            Rejected            Accepted, in part

Individual Responsible: Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Formulate AMR residential installation plan for 2001.	(E) 03/15/01
Confirm material availability.	(E) 03/22/01
Re-start installations.	(E) 04/01/01
Complete residential AMR program.	(E) 12/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 6:** Continue the installation of Automated Meter Reading (AMR) devices on commercial/industrial accounts to improve the cost effectiveness of reading their meters. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Prepare installation plan for FY 2001.	(E) 03/15/01
Prepare material requisitions, if necessary.	(E) 03/15/01
Re-start multi-year installation program.	(E) 04/01/01
Prepare installation plan for FY 2002.	(E) 03/15/02
Acquire necessary material.	(E) 03/15/02
Restart installations.	(E) 04/01/02
Finish all initial C&I AMR installs.	(E) 08/31/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 7:** Take steps to improve delinquent payments and uncollectible accounts (High Priority)

Response:     \_\_\_\_\_ Accepted     \_\_\_\_\_ Rejected     \_\_\_X\_\_\_ Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Effective 04/01/01, PGW will begin intensified collection activity on delinquent accounts that have accrued over the past winter season. (Shut-off Moratorium ends 03/31/01)	(E) 04/01
PGW instituted a pilot program with collection agencies to obtain full payment of delinquent accounts with a prescribed period of time. Program was initiated in 01/01.	(C) 01/01
PGW continues the process of contacting all eligible low-income customers for fuel grant assistance.	Ongoing.
Analyze results of pilot program to assess effectiveness.	(E) 06/01
PGW will benchmark collection and delinquency activity according to Best Practices and industry standards.	(E) 08/01
PGW will assess industry standard of 2% uncollectible expense to see if it is reasonable in PGW's service territory.	(E) 09/01
PGW will propose tariff changes regarding the transition to Chapter 56 standards.	(E) 06/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

We agree with the need to reduce the amount of uncollectibles; however, the \$28m is two-thirds of our 1999 bad debt experience and assumes a reduction to a state-wide average. It fails to recognize that one-third of our customers live at or below 150% of the federal poverty limit as well as the economic and demographic make-up of the service territory.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 8:** Revise policies so that PGW can shut off customers after 32 days compared to its current 48-day termination practice. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) Expected Completion (E)
PGW will assess the impact on the BCCS system's ability to produce past-due and shut-off notices by reducing the number of days before termination can occur.	(E) 05/01
PGW will propose tariff changes to reduce the amount of days required prior to shut-off.	(E) 07/01
PGW will work with the Bureau of Consumer Services to streamline differences between PGW's current tariff and Chapter 56 standards.	(E) 06/06

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 9:** Review the feasibility of reducing the Meter-Read-to-Billing cycle lag to one day. (High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP – Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) Expected Completion (E)</b>
PGW through the Project Management Office, will investigate the feasibility of reducing the meter-read-to-billing cycle lag to one day.	(E) 04/01
PGW will investigate the Meter Reading uploading capabilities of the current system to effectuate a reduction in the billing cycle lag.	(E) 04/01
*PGW will make the necessary changes in the billing cycle preparation, if feasible.	(E) 09/01

To be completed if rejected whole or in part:

Explanation: (Reasons for rejection)

Additional personnel and equipment may be required to reduce the meter reading period from two days to one. PGW has concerns that if the lag time is reduced after the bill calculation, there could be insufficient time to perform necessary quality control measures.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 10:** Measure appointments kept for field service work from the standpoint of the customer, that is, actually accomplishing the work desired, and not on whether the employee says he or she was at the job site at a specific time. (Medium Priority)

Response:      Accepted      Rejected      Accepted, in part

Individual Responsible: Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Service Technicians use cell phones to confirm appointments prior to arrival.	(C) 03/01/97
Customer Service Representatives (CSRs) call the night before for reminder to customers.	(C) 11/15/00
FSD Supervisor monitors Technician's schedule and re-routes Technicians to minimize missed appointments.	(C) 11/01/00
Implement process for missed customer appointments with call-back procedure through Dispute Resolution Team.	(C) 11/01/00
CSRs scheduled to add Technician monitoring capability to their workstation.	(C) 12/01/00
PGW will change its appointment statistic methodology to be more customer focused.	(E) 06/01/01
Continue to evaluate results and make adjustments, as necessary.	(E) On-going.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 11:** Conduct a study to determine which district offices should be closed and the time of their closing. (Medium Priority)

Response:      X Accepted                  \_\_\_\_\_ Rejected                  \_\_\_\_\_ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Engage outside consultant.	(E) 03/15/02
Design Study (draft)	(E) 03/15/02
Design Study Finalized	(E) 03/18/02
Sample Delivery	(E) 03/19/02
Programming	(E) 03/18 – 03/20/02
Interviewing	(E) 03/20 – 03/31/02
Data Processing	(E) Early 4/02
Analysis and Report	(E) Mid - 4/02
Final Report/Presentation	(E) Mid/Late 4/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

Recommendation VIII – 12: Increase the effectiveness of the Customer Review Unit (CRU) and periodically measure and report its compliance with the Memorandum of Understanding (MOU) (Medium Priority)

Response:      ✓   Accepted               Rejected               Accepted, in part

Individual Responsible: VP – Regulatory Affairs

Action Plan	Date Completed (c) Or Expected Completion
Case Management - Objective : All complaints received in 2001 are to be monitored and responded to within 30 days. Implement measures to assign complaints and provide for faster turn around through creation of a “expediting function” that will track progress of responses to complaints as they reach nearer to their due dates.	(C) 02/01/01
Automation of process to generate [1] Statement of Account, [2] Utility Report form	(C) 02/01/01
Addressing Informal Complaint Backlog: Provide staffing assigned to the CRU on a temporary basis for a period of several months to reduce Informal Complaint backlog of approximately 2,000 complaints received from July to December 2000. Provide additional staffing of 6 and supervision on addressing problems and quick training of all PGW staff working on informal complaints on an as needed basis. Assign work of backlog to temporary individuals by job knowledge and expertise.	(C) 02/05/01
Creation of a Data Base of higher sophistication to accommodate track and manage number and types of informal complaints received and processed by CRU staff.	(C) 02/01/01
Employee Time Management - telephone issues: Objective: Management and reduction of telephone calls from PUC through the use of receptionist and call back periods to regulate times when CRU personnel may focus on the completion of Reports to Informal Complaints.	(C) 03/02/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 13:** Complete efforts to reinstitute a revenue recovery unit.  
(Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Director – Engineering & Building Services

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Re-institute Revenue Recovery unit.	(C) 08/01/00
Post vacancies for Theft Investigator.	(C) 08/23/00
Re-establish theft tip line.	(C) 12/00
Complete staffing of Revenue Recovery.	(E) 03/31/01
Finish development of pilot program concentrating on inactive accounts w/consumption.	(E) 04/01/01
Re-establish policies and procedure Based on new BCCS system.	(E) 05/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 14:** Develop an effective marketing and sales function and increase focus on Major Accounts, based on revenues received. (Low Priority)

Response: Accepted

Individual Responsible: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	<b>C = Date Completed E = Expected Completion</b>
1. Complete development of a Data Acquisition Plan for Major Accounts by load and revenue.	E = 11/30/01, with quarterly updates thereafter
2. Reassign Major Accounts Managers to largest customers & customer-aggregates.	E = 12/31/01
3. Begin quarterly contacts with largest 25 customers.	E = 2/28/02 and ongoing
4. Increase contacts to 75 next-largest customers, using the same or similar strategies as those listed in #3.	E = 4/30/02 and ongoing
5. Continue ongoing efforts such as tariff changes, sales, account management and promotion of gas technologies.	E = through 8/31/01, and ongoing into fiscal 2002
6. Formalize initiatives such as oil and steam conversion campaigns.	E = 12/31/01 and ongoing
7. Develop Web Site information for Major Accounts.	E = 8/31/01 and ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 15:** Improve the cost-effectiveness of the Customer Responsibility Program (CRP). (Low Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Manager – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Conduct Impact and Process Evaluations of the CRP program along with recommendations for program changes.	(E) 8/31/2001
Develop transition procedure for CRP program changes for PUC compliance.	(E) 12/31/2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 16:** Eliminate the Senior Citizens Assistance Program and base any future bill reductions on an assessment of need. (High Priority)

Response:     \_\_\_ Accepted     \_\_\_ X Rejected     \_\_\_ Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

This recommendation is beyond PGW’s legal authority to implement as it requires action by Philadelphia City Council. Moreover, PGW is constrained by the Natural Gas Act. In addition, the savings stated are inaccurate as the gas portion of the discount is recovered through the GCR and, as such, is billed to other customers. The Base Rate portion of the discount is also recovered through the base rates of other customers. Therefore, elimination of the discount will redistribute costs but will not result in any savings.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation VIII – 17:** Appeal to the City administration to tighten eligibility rules for PGW’s social programs and/or transfer the cost of the social programs from PGW to the City general fund. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Letter of appeal will be sent.	(E) 04/10/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX-1:** Make a final decision with respect to operating or disposing of the Gas management System (GMS).

**Response:** Accepted

**Individual Responsible:** Senior Vice President, Marketing and Supply Services

<u>Action Plan</u>	<b>C = Date Completed</b> <b>E = Expected Completion</b>
1. Negotiated with the vendor to put the system in a dormant state to reduce the maintenance fee obligation.	C = Partially completed in 12/00
2. Reduce fee payment schedule negotiated with the vendor to tie in with the Company's unbundling timeline.	E = 3/01
3. Reinstate full maintenance obligation with vendor.	E = 9/03
4. Finalize decision on operating or disposing of the Gas Management System (GMS).	C = 9/03

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 2:** Accelerate the cast iron replacement program to 27 miles per year. (High Priority)

Response:     \_\_\_ Accepted     \_\_\_ Rejected     \_\_\_ X Accepted, in part

Individual Responsible: Director – Distribution Department

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Increase the amount of cast iron pipe retired from service by 100% to 18 miles/yr.	(E) 12/31/01
Reevaluate risk profile and priority listing and determine retirement target for 2002 (minimum 18 miles)	(E) 03/01/02

To be completed if rejected whole or in part:

Explanation: (Reason for Accepted, in part)

PGW has had a recent engineering study done that concludes that a 18 mile/yr reduction in cast iron inventory, if targeted to the riskier segments of cast iron pipe, will remove all segments with three or more breaks by 2007, thereby stabilizing the break rates for all cast iron classifications as is shown on the attached pages from the Navigant Study (2/11/2000). If PGW increases its cast iron reduction program from 9.3 miles in FY 2000 to 18 miles (approx. 100%), then this program would eliminate most of PGW's trouble-prone pipe in five years. Furthermore, more than an 18 mile/year program would stretch PGW's current resources far beyond that which can be provided in this environment and add \$11.2m to our Capital Program at a time when PGW is facing severe financial constraints. Extreme weather conditions and other variables may increase the reduction amount in any given year. (See further discussion on attached sheets.)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

# Philadelphia Gas Works Mains Replacement Study

February 11, 2000



**Navigant**<sup>™</sup>  
CONSULTING, INC.

# Benchmarking PGW - Top 25 Eastern Gas LDC Peer Group

Company	Total Services	Unprotected steel Services	%	Main Miles	Cast iron main Miles	%	Unprotected steel Main miles	%
1 NICOR	1,724,295	23,337	1%	26,549	561	2%	209	1%
2 Consumers Power	1,437,426	19,648	1%	22,807	872	4%	214	1%
3 AGL	1,277,398	59,441	5%	26,352	291	1%	1939	7%
4 Columbia of Ohio	1,207,252	201,316	17%	18,060	319	2%	4069	23%
5 PSE&G	1,153,327	41,608	4%	16,194	4,815	30%	1289	8%
6 East Ohio	1,095,578	638,254	58%	18,179	51	0%	7013	39%
7 MichCon	1,083,588	59,772	6%	16,492	2,830	17%	1894	11%
8 NIPSCO	654,203	-	0%	12,908	49	0%	127	1%
9 Laclede	565,669	13,110	2%	7,586	945	12%	40	1%
10 BUG	535,427	30,344	6%	3,909	1,939	50%	316	8%
11 Indiana Gas	534,473	62,508	12%	10,383	202	2%	1637	16%
<b>12 PGW</b>	<b>511,545</b>	<b>244,759</b>	<b>48%</b>	<b>3,006</b>	<b>1,758</b>	<b>58%</b>	<b>547</b>	<b>18%</b>
13 Peoples Gas Light	496,136	9,484	2%	3,944	1,932	49%	0	0%
14 NiMo	482,497	148,352	31%	8,223	1,032	13%	1467	18%
15 Alabama Gas	472,948	54,264	11%	8,948	1,230	14%	185	2%
16 National Fuel Gas	462,858	129,938	28%	9,470	594	6%	2979	31%
17 BG&E	454,029	97,289	21%	5,592	1,458	26%	91	2%
18 LILCO	420,771	183,536	44%	6,491	421	6%	3715	57%
19 Boston Gas	418,978	264,715	63%	5,948	2,557	43%	1804	30%
20 Columbia of PA	380,594	93,321	25%	6,839	91	1%	2448	36%
21 Con Ed	364,246	159,296	44%	4,152	1,486	36%	1470	35%
22 NJNG	361,688	68,496	19%	5,799	163	3%	750	13%
23 PECO	361,672	68,966	19%	5,884	920	16%	557	9%
24 CG&E	338,534	22,834	7%	4,562	1,033	23%	199	4%
25 Peoples Natural	332,650	80,595	24%	6,206	71	1%	2383	38%
26 UGI	267,098	42,597	16%	4,270	495	12%	603	14%



# **Benchmarking PGW - Top 25 Eastern Gas LDC Peer Group**

There are various appropriate measures of a local distribution company's (LDC's) size: revenue, customers, services. The source of the benchmark data we used is the US Department of Transportation's Office of Pipeline Safety Annual Reports of LDC's. These reports include the number of services, which is an appropriate indicator of size, and is close to the number of customers.

While PGW is the 26th largest LDC in the USA, it is the 12th largest among its peers -- Eastern gas LDC's, and it is the largest municipal LDC, the others being investor-owned. Because PGW will soon be regulated by the Pennsylvania Public Utility Commission, we have included UGI for comparison as well, even though it is not among the top 25 Eastern gas LDC's by size.

Like many companies that serve older, urban areas, PGW's mains are mostly cast iron, with some unprotected steel, and very little plastic. As a result, half of its services are unprotected steel as well. It has fewer miles of main than any of its peers, because of its densely urban territory. In that regard, its territory resembles that of companies like Brooklyn Union Gas, Boston Gas, Peoples Gas Light & Coke of Chicago, or Consolidated Edison of New York.

# **CI main breaks are the main source of incidents**

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<b>Cause</b>	<b>Leaks</b>	<b>Incidents</b>	<b>Incidents per 10,000 leaks</b>	<b>Risk Multiple</b>
<b>CI main breaks</b>	<b>10,760</b>	<b>83</b>	<b>77.1</b>	<b>385.5</b>
<b>Service leaks</b>	<b>125,941</b>	<b>9</b>	<b>.7</b>	<b>3.5</b>
<b>Main corrosion</b>	<b>16,560</b>	<b>1</b>	<b>.6</b>	<b>3.0</b>
<b>CI joint leaks</b>	<b>82,877</b>	<b>2</b>	<b>.2</b>	<b>1.0</b>

Source: Independent study of another northeast gas utility

**PGW's data generally confirm this relationship as well**

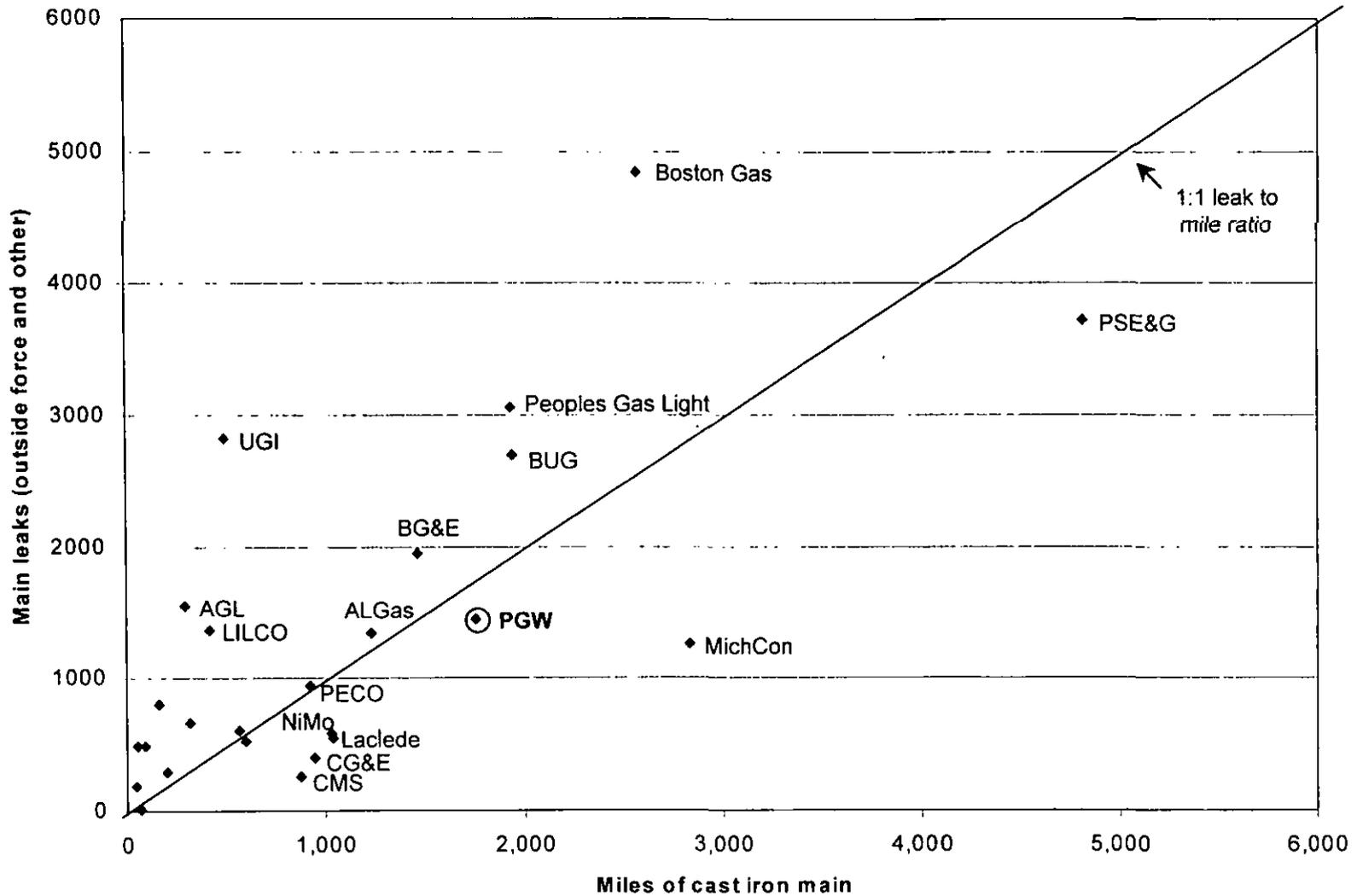
# **CI main breaks are the main source of incidents**

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Cast iron tends to develop leaks, particularly at the joints between pipe segments. It can also break circumferentially, which is classified as a 'leak', but is more typically called a 'break'. Typically, joint leaks cause gas to escape at a slow rate, especially when the gas is at utilization pressure. Joint leaks on cast iron are often comparable to a pinhole corrosion leak on steel mains or services. A cast iron main break can cause more gas to escape, and therefore normally presents a more serious risk.

Other companies' experience confirms PGW's that cast iron main breaks are an order of magnitude more likely to cause incidents than other types of leaks. As the chart on the next page, shows, over the last 45 years PGW has had 63 incidents due to main breaks and 12 due to other causes, compared to approximately 20,000 breaks, more than 65,000 main leaks and over 200,000 service leaks. PGW's number of break-caused incidents per 10,000 breaks is 31.5, about half of the other company's experience (the other company has some cast iron at higher pressure, which is more likely to cause an incident when it breaks). PGW's number of other incidents per 10,000 other leaks is .45, about the same as the combined ratio for all of the other company's non-break leaks. The ratio of incident rates is 70, which, while half of the the comparable ratio for the other company, still strongly demonstrates that cast iron main leaks are more likely to cause incidents than other leaks by not just a multiple but by an order of magnitude (not just 7 times but 70 times).

# PGW's cast iron leaks at the typical rate or less



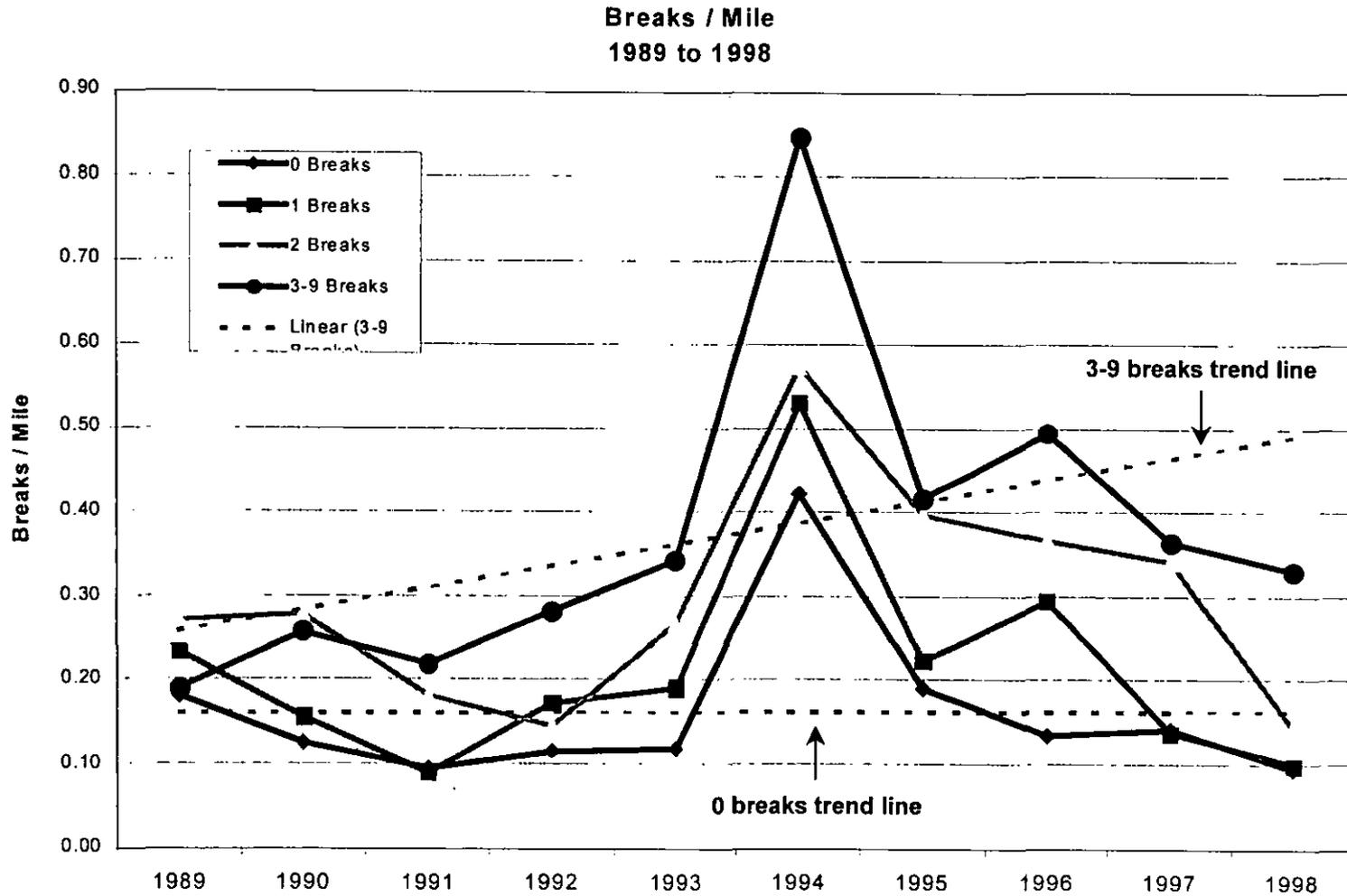
Source: U.S. DOT 1998 Annual Report - Gas Distribution System.  
 Companies Ranked: Top 25 Eastern gas LDC's and UGI.  
 Note: Graph Excludes Con Ed (1,486 miles, 6,476 leaks).

# **PGW's cast iron leaks at the typical rate or less**

Companies tend to replace cast iron main that leaks too much or that might tend to break. As a result of this normal replacement, most companies find their cast iron system experience one leak per mile of main. In comparing between companies, it is useful to look at only those leaks classified as due to outside force (frost, or soil movement) or 'other' (because some companies record joint leaks in that category).

In 1998, PGW's rate of .8 per mile compared favorably to the industry average. PGW's cast iron main leak rate per mile has remained lower than the industry average since the 1995 study.

# However, some of PGW's CI shows an increasing break rate

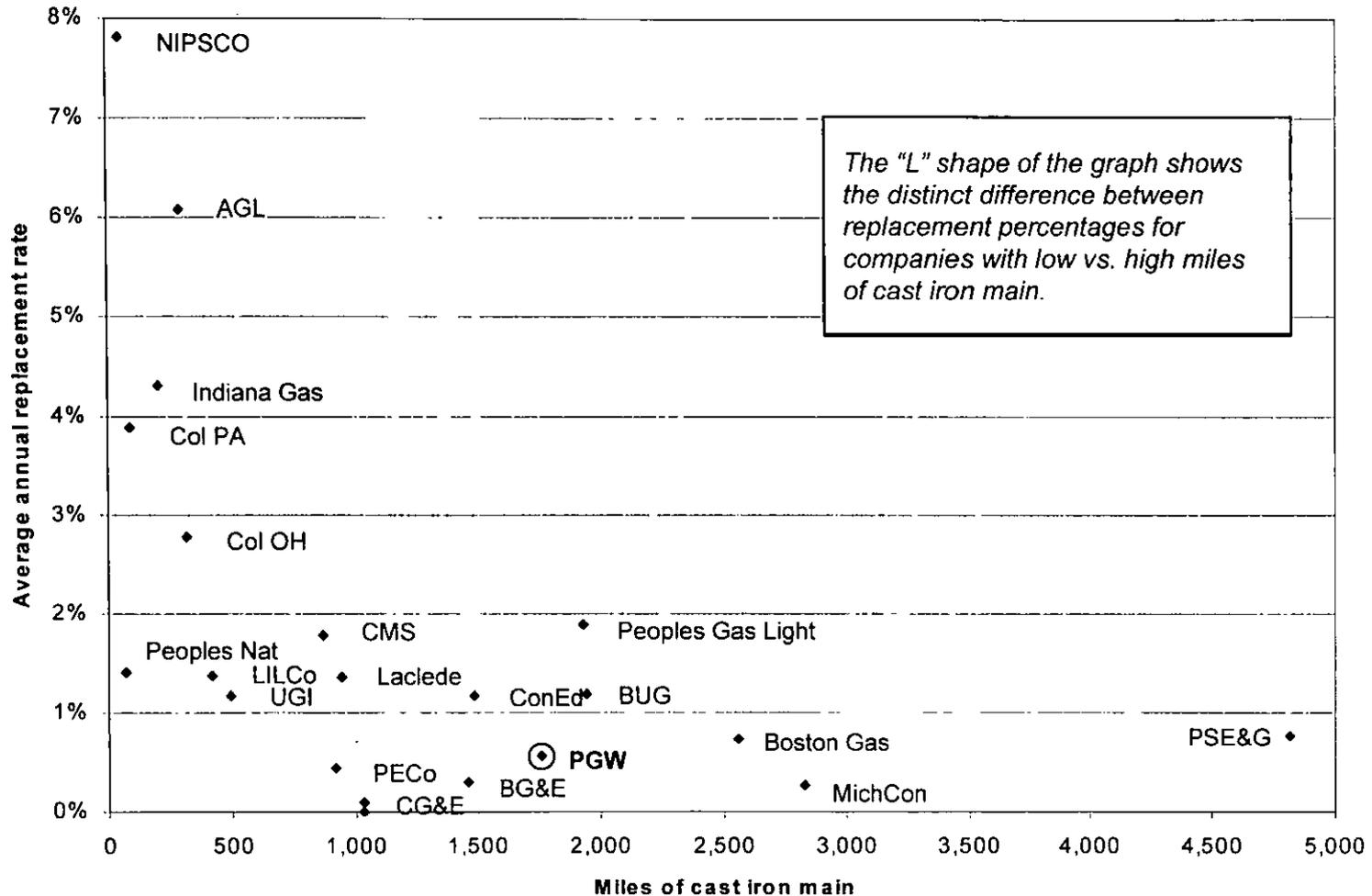


## **However, some of PGW's CI shows an increasing break rate**

While the overall number of breaks has been relatively constant at 400 per year in normal weather, it is clear that for the last ten years some of PGW's pipe has been breaking at an increasing rate. When segments of pipe are separated into categories of how many previous breaks each segment has had, the pipe with three or more previous breaks has been breaking at an increasing rate.

It is hard to see this trend overall, because the majority of breaks still come on cast iron pipe segments that have never broken before. When pipe segments are classified by degrees of risk, the pipe segments that have broken before represent segments with higher risk, since they can be predicted to break at a higher rate. Managing risk involves managing the inventory of those segments with higher risk, and replacing pipe at a rate such that the inventory of such segments does not grow over time.

# Cast iron mains replacement of 1 to 2 percent is typical



Source: U.S. DOT 1998 Annual Report - Gas Distribution System.

Companies Ranked: Top 25 Eastern gas LDC's, and UGI.

Note: Graph Excludes NJNG (163, 12.2%), NICOR, AL Gas, Nat'l Fuel Gas, East OH Gas (All missing data)



# **Cast iron mains replacement of 1-2 percent is typical**

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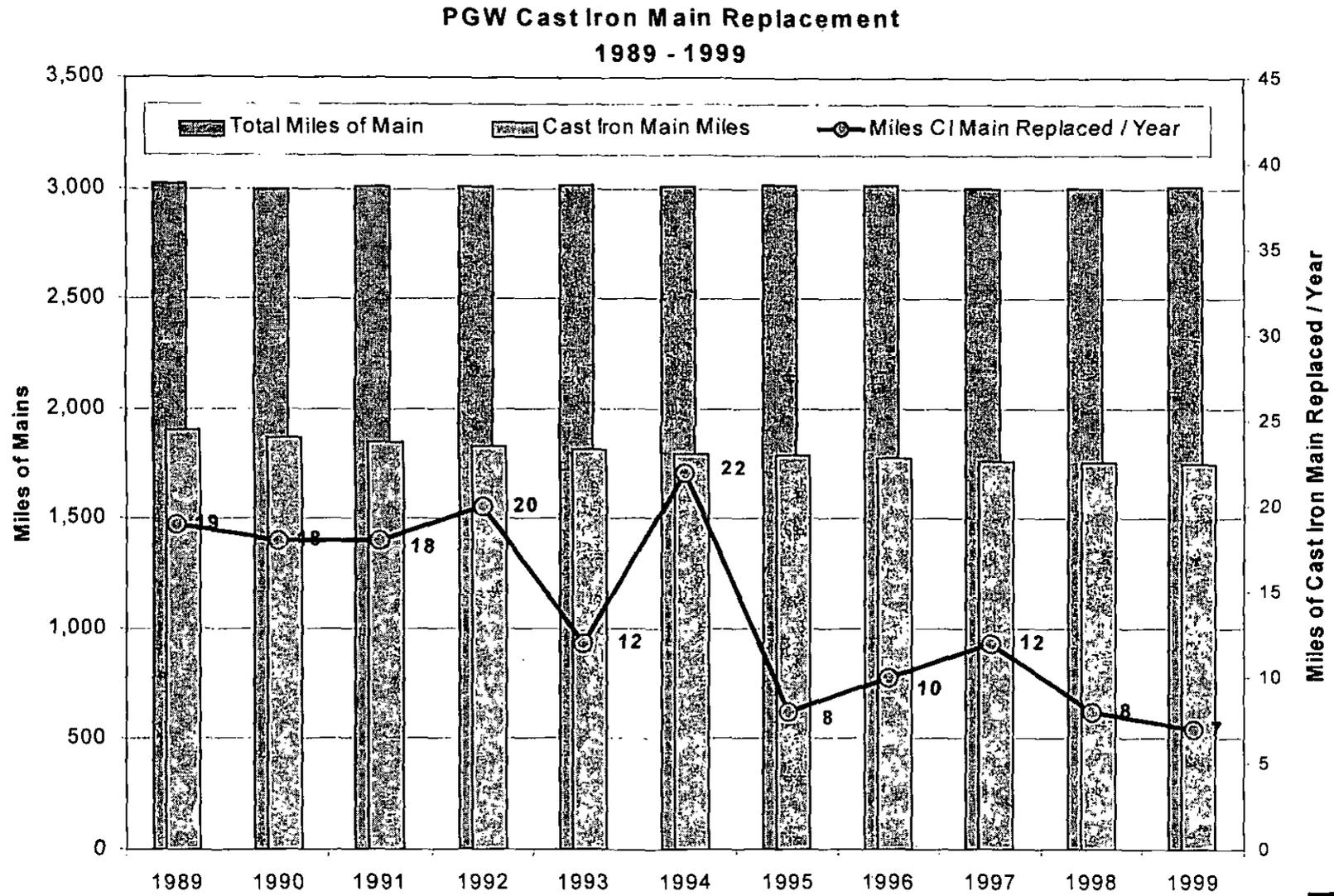
The annual replacement percentage of cast iron main by natural gas distribution companies falls into two distinct groups. The first group are those companies with less than 500 miles of cast iron main. For the LDC's with less than 500 miles of cast iron main, most have a cast iron annual replacement percentage exceeding 2%. This is because they are nearing the end of their replacement programs and can afford to reach for the benefits of complete replacement.

For the LDC's with greater than 500 miles of cast iron main, no company replaces more than 2% of its cast iron main annually. For this second group of companies, the average annual replacement percentage is close to 1 percent per year. At that rate, a company could take 100 years to replace all of its cast iron. This difference between the two groups is evidenced by the L-shape of the graph.

Over the 1995 to 1998 time period, PGW's annual replacement percentage has been only 0.56 percent per year, below the industry average for its peer group (LDC's with greater than 500 miles of cast iron main).

It should be noted that the data used for this comparison are the changes in year-end values of cast iron inventory. As such, what we call 'replacement' is actually the combination of replacement and abandonment, in that it includes anything that causes the inventory to decrease. For our analysis of PGW's main replacement budget, the distinction is not that crucial, because on average PGW's reduction in cast iron inventory equals the footage of new plastic that must be put in place, with the additional abandonment being mainly ductile steel or other steel.

# PGW's CI main replacement dropped in 1995



# **PGW's CI replacement dropped in 1995**

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From 1989 to 1994, PGW was replacing cast iron main at a rate of about 20 miles per year, which was about 1 percent of its inventory. (The normal rate was depressed in 1993, probably because of a labor work stoppage). In 1995, that rate fell to less than half that amount, and has averaged 9.4 miles per year since then.

# Replacement of main should be based on risk

Risk Rank	Size	Miles	Breaks Per mile	Cost Per foot	Replacement Cost (\$000)
1	3"	38	.3	\$140	\$28,311
1	4"	499	.3	\$140	\$368,639
2	6"	799	.2	\$140	\$590,769
3	8"	98	.1	\$150	\$77,616
4	10", 12", 14"	125	.02	\$300	\$198,634
5	16"	51	.01	\$425	\$115,117
5	20", 24"	98	.01	\$500	\$259,776
6	30" +	<u>49</u>	.00	\$625	<u>\$160,319</u>
	All sizes	1758	.22	\$194	\$1,799,181

**One driver of the risk of cast iron mains breaks is pipe size: smaller diameter cast iron mains break more often**

# **PGW's cast iron main breaks can be projected under various replacement funding levels**

Using the model described above, PGW's cast iron main breaks can be projected under various assumptions about the funding of replacement.

Three funding scenarios were examined:

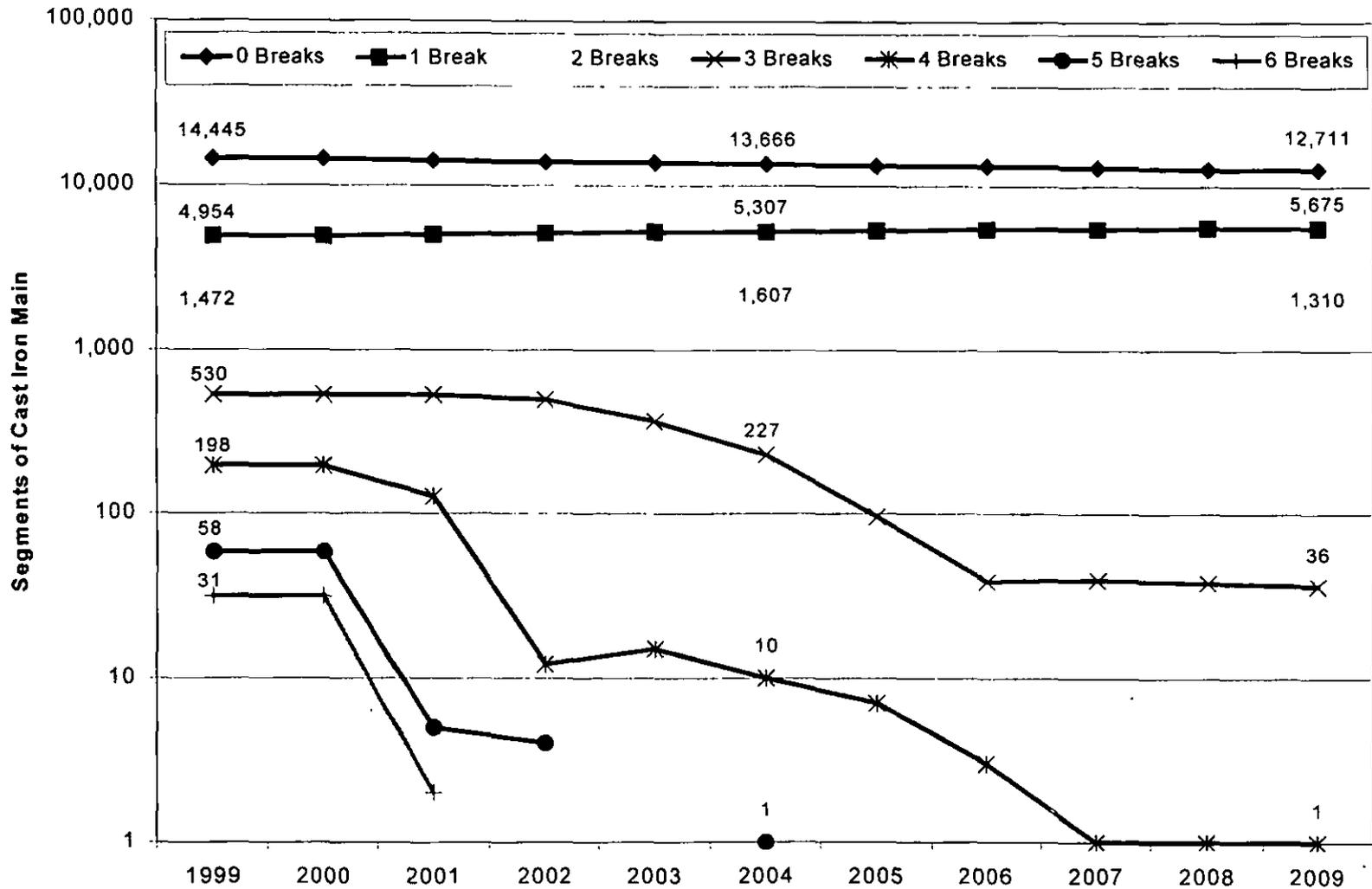
<u>Replacement Miles per Year</u>			<u>Initial</u>	<u>Initial</u>
<u>Total</u>	<u>Enforced</u>	<u>Prudent</u>	<u>Percent</u>	<u>Funding</u>
9	5.65	3.35	.5 percent	\$ 6.7 million
18	5.65	12.35	1.0 percent	\$13.3 million
27	5.65	21.35	1.5 percent	\$20.0 million

Funding in subsequent years was allowed to grow at the rate of inflation, keeping the miles replaced constant. Also, the percent replaced was allowed to grow slightly as the remaining inventory decreased yet the replacement mileage remained constant.

Starting from an initial projection in 2000 of 336 breaks per year, the level of breaks achieved by the tenth year are projected to be 353, 324, and 255, respectively.

# A 16-mile replacement program eliminates most of PGW's trouble-prone pipe in 5 years

Segments of Cast Iron Main by Number of Previous Breaks



# **An 18-mile replacement program eliminates most of PGW's trouble-prone pipe in 5 years**

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An 18-mile replacement program, or about 1 percent of the current inventory per year, aggressively attacks the worst pipe segments - those with 3, 4, or more breaks already. In fact, in three years there would be less than 20 pipe segments with 4 or more breaks, assuming actual replacement followed the indicated prioritization.

This would be so even though new pipe that breaks would normally add to the inventory of pipe that is broken so many times. The reason can be seen from the chart above: even the inventory of mains with 3 breaks would be aggressively reduced under this program, so much so that the inventory of pipe with 4 or more breaks could be effectively eliminated. It even stabilizes and eventually reduces the inventory of mains with 2 breaks.

Such a program would be expected to stabilize the number of breaks at a level of less than 330 per year, under normal weather (and even less under the mild winters PGW has had lately).

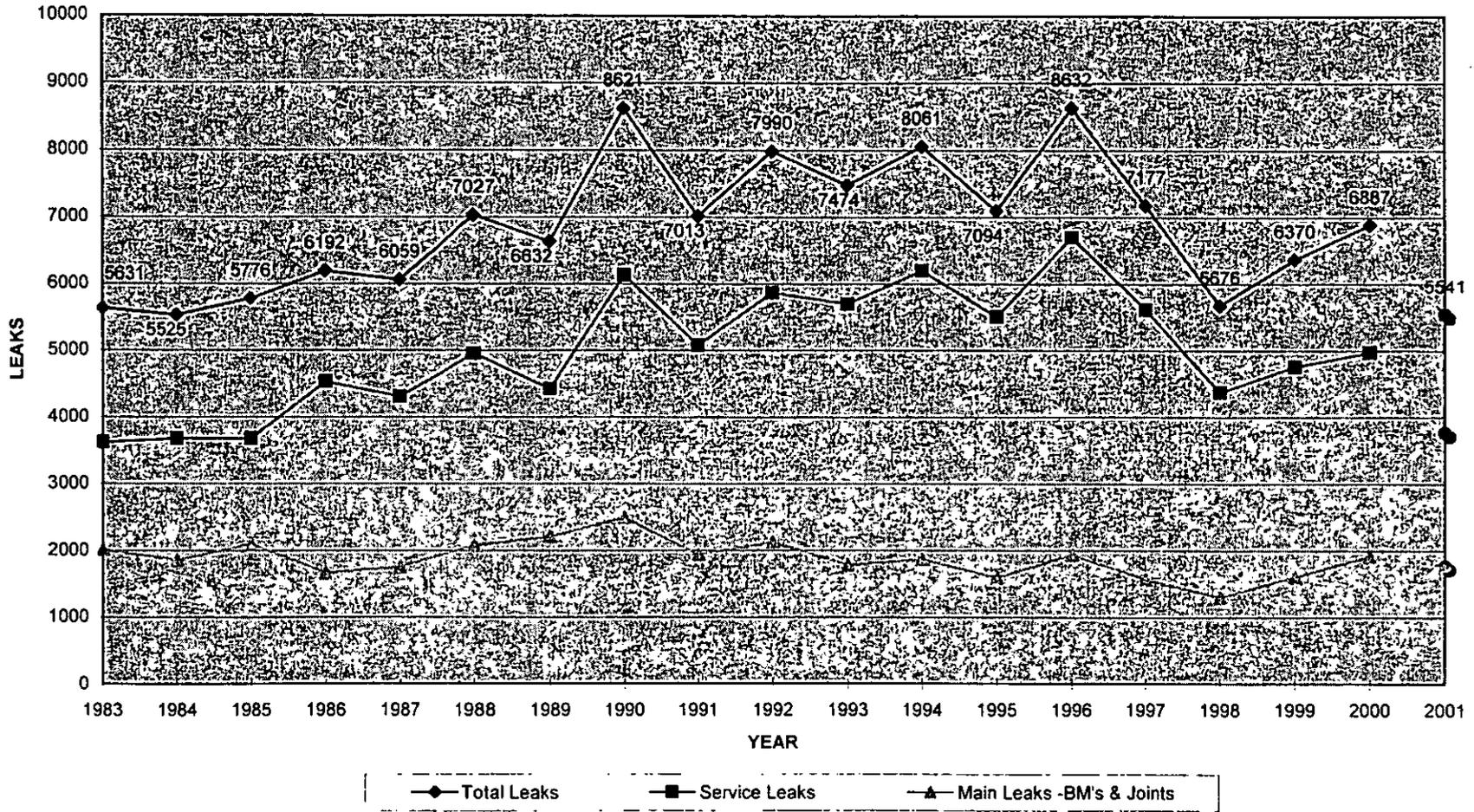
# **We recommend the 18-mile replacement program**

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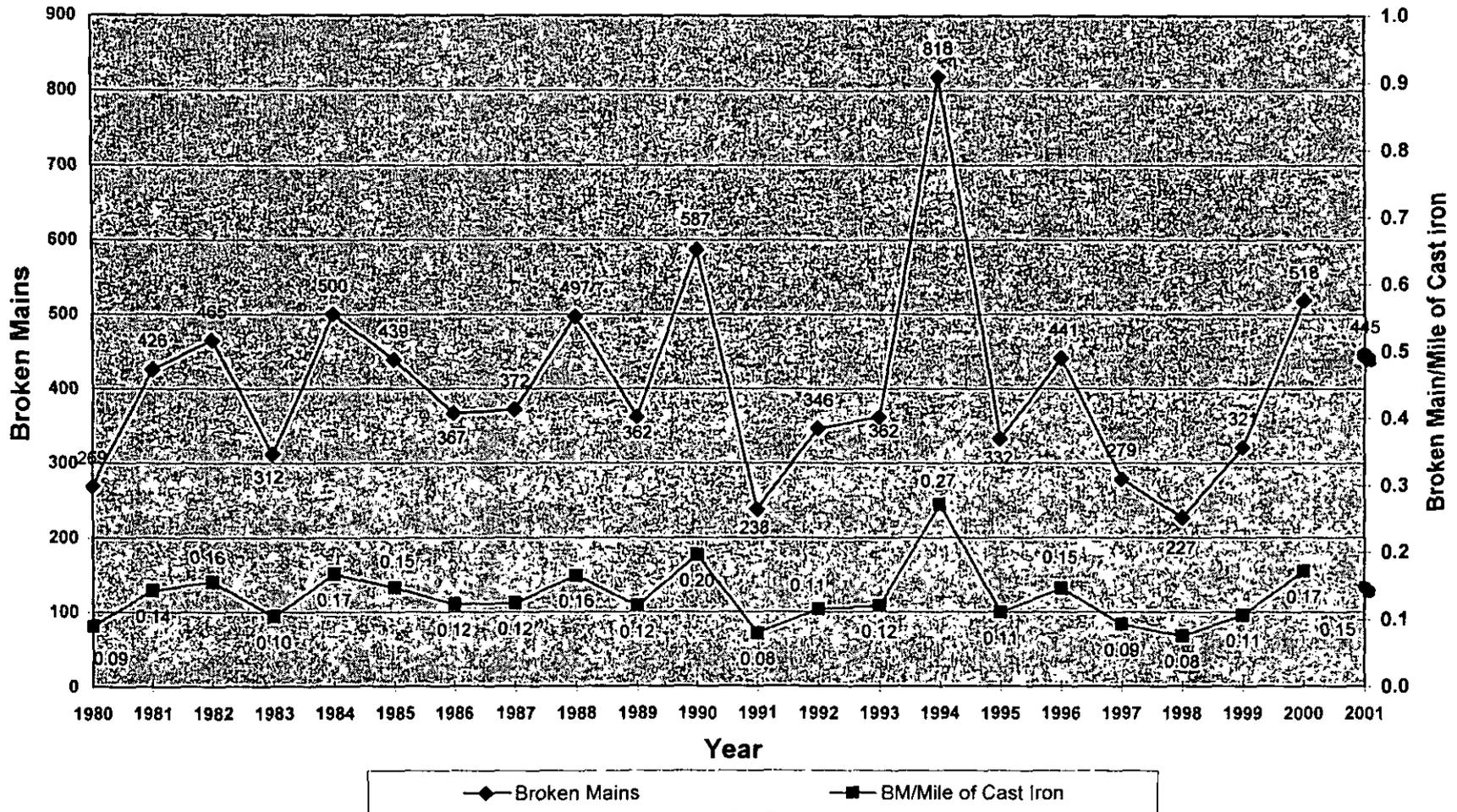
Considering the factors discussed above, the program which we would recommend at this time is the 18-mile program. Summarizing the reasons:

- The risk of incidents is driven by the risk of cast iron breaks
- The risk of cast iron breaks is reduced through replacement of break-prone mains
- The 18-mile program is required to virtually eliminate the break-prone segments (those with 3, 4, 5, or more breaks already) over the next 5-10 years
- The 18-mile program is required to keep cast iron main breaks from trending up
- The 18-mile program is approximately 1 percent of current inventory, which is comparable to what other companies with similar inventories average
- A program of much more than 18 miles would begin to experience diminishing returns once the break-prone segments were reduced
- A nine-mile program, while better than nothing, would represent a state of not keeping up with the gradual deterioration of the system, and would allow some break-prone categories to increase over the next ten years
- The relatively mild winters of late are not typical of the secular average. As normal weather returns, or with a severe winter in terms of depth of frost, breaks can be expected to increase substantially. The 18-mile program would allow PGW to replace some of the most break-prone segments in the first few years, which would better prepare the system for severe weather that is likely to recur some time in the future

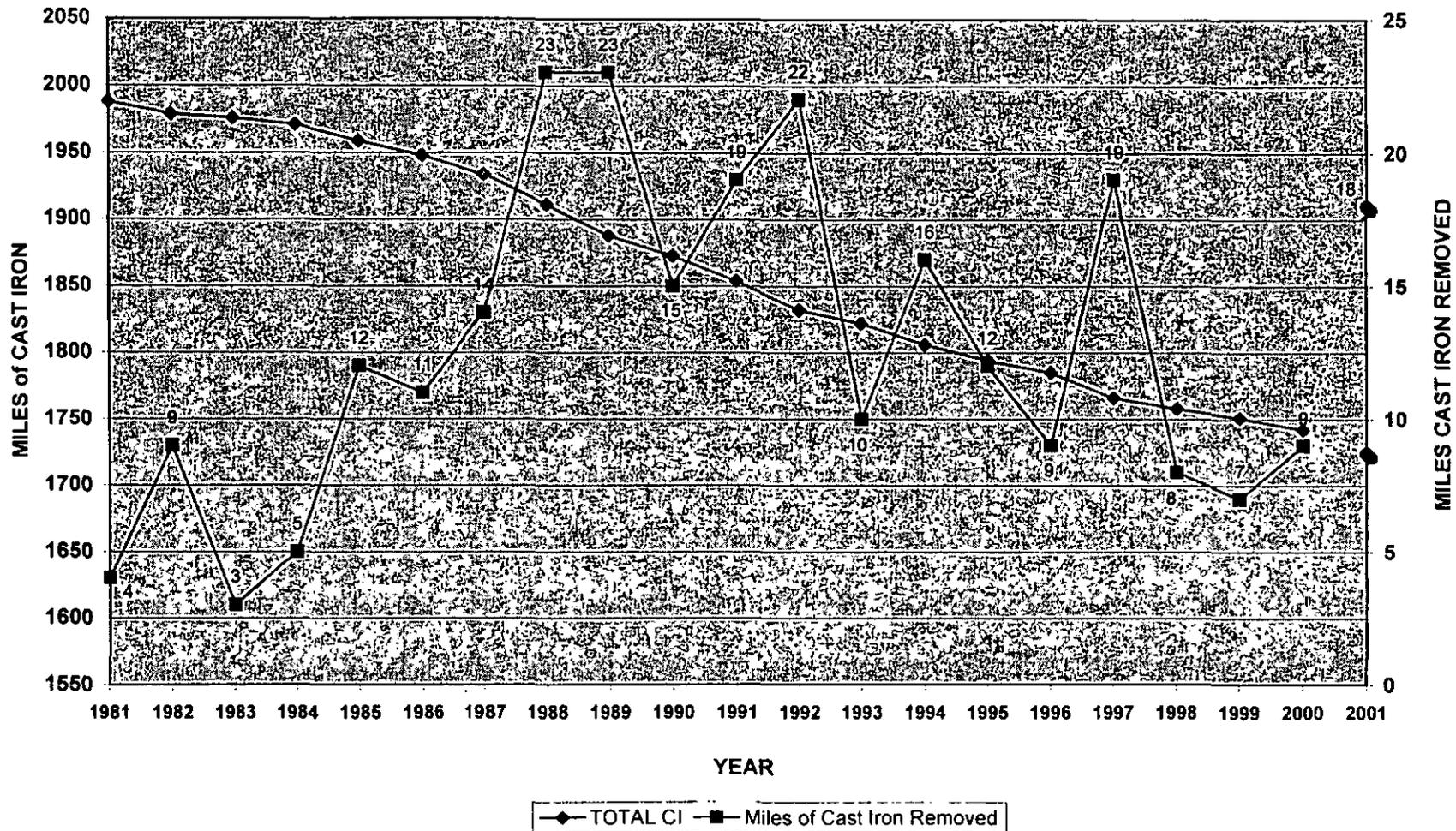
# LEAK COMPARISON



# Broken Mains per Year



# CAST IRON PROGRAM



**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 3:** Accelerate the replacement or cathodic protection programs for coated-but-not-cathodically protected steel main, and continue to replace bare steel services. (High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Operations

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW has budgeted in FY 2001 \$200,000 to add cathodic protection to existing steel mains.	(C) FY 2001 budget submitted May 2000.
PGW will budget \$300,000 or more in FY 2002. Bare steel service replacements will be Accelerated as PGW increases the amount of Cast iron main replaced as shown in IX-2.	(E) Budget will be submitted May 2001.
Re-evaluate each subsequent year.	(E) May 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 4:** Evaluate engineering staffing levels and trends to determine the most cost-effective way to obtain engineering services. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Operations

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Requisitions have been processed to hire at least seven (7) new Engineers.	(C) February 2001
Hire new Engineers	(E) July 2001
Conduct study to evaluate continuing need for Engineers including the use of Professional Services Contracts.	(E) 12/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 5:** Reduce PGW crews' wages and/or increase their productivity to make them more cost-effective, or contract out more construction work. (Medium Priority)

Response:       X   Accepted            Rejected            Accepted, in part

Individual Responsible: Director – Distribution Department

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW's union contract expires in May 2001. union wages will obviously be a major topic.	(E) Some time in 2001.
New methods and technologies are being introduced to improve productivity.	(E) Continuous.
PGW has increased its amount of contract construction work from 9,000 feet in FY 2000 to a projected 35,000 feet in FY 2001..	(E) 11/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX-6:** Avoid dispatching gas in an uneconomical manner.

**Response:** Accepted

**Individual Responsible:** Senior Vice President, Marketing and Supply Services

<u>Action Plan</u>	<b>C = Date Completed E = Expected Completion</b>
1. PGW's gas policy for economic dispatching has been reaffirmed.	C = 11/99
2. Create a Gas Supply Policy Committee made up of Senior Management along with members of the gas supply staff. The purpose of the committee is to conduct ongoing review of policy for gas supply strategies and actions.	C = 1/31/01

**Explanation: (Reason for Rejection)** if rejected in whole or part

The orders of the previous COO and VP of Gas Management were abandoned in November 1999 with their termination and resignation respectively and the reorganization of Gas Management into Supply Services. This fact should have been highlighted in Recommendation IX-6 to remove any appearance of a pre-formed bias in the Barrington-Wellesley audit.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX-7:** Prepare a new gas supply strategic plan that addresses deregulation and the evolving natural gas market.

**Response:** Accepted, in part

Individual Response: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	<b>C = Date Completed</b> <b>E = Expected Completion</b>
<ul style="list-style-type: none"> <li>• Apply gas supply purchasing and capacity strategic initiatives for upcoming injection season and subsequent winter operating season.</li> </ul>	E = Ongoing
<ul style="list-style-type: none"> <li>• Form committee to address Pennsylvania State Competition Act and develop project plan.</li> </ul>	E = 3/31/01
<ul style="list-style-type: none"> <li>• Identify, among other things, nominating, scheduling and associated upstream requirements for restructuring.</li> <li>• Prepare restructuring filing for submission</li> <li>• Prepare pro-forma tariff sheets</li> </ul>	E = 4/30/01  E = 12/31/02 E = 12/31/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

The reason Supply Services partially rejects the recommendation is based on unsound support for Conclusion 18.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 8:** Solicit bids to perform janitorial services from union and non-union contractors as well as from PGW's Building Services Department and select the most cost-effective bid. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Director – Engineering & Services

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Develop RFP to solicit bids.	(C) March 2001
Bids to be sent out to all parties.	(E) April 2001
Selection of most cost-effective bid that meets all requirements.	(E) May 2001
Evaluate contractor performance and actual cost savings vs. projected.	(E) March 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 9:** Take steps to increase the inventory turnover rate from 2.7 to 3.0 or greater. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Manager – Materials Management

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Separate inventory into categories based on the ability to generate increased turnover.	(C) February 2001
Improve purchasing methods to reduce need for excess inventory.	(E) August 2001
Increase turnover ratio to 3.0 or greater.	(E) December 2001
Investigate the potential for reduction in inventory due to the replacement of PGW's 30+ year old LNG liquefaction facilities.	(E) November 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation IX- 10:** Undertake a comprehensive fleet operations improvement program. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: \_\_\_\_\_

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
New fleet management system has been installed. Final work being performed now.	(E) April 1, 2001.
Perform life cycle analysis and develop replacement plan.	(E) May 1, 2001
Submit plan as part of FY 2002 Capital Budget.	(E) May 30, 2001
Reevaluate mechanic staffing.	(E) May 2002.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-1:** Take the necessary steps to mitigate the current financial crisis and implement appropriate measures to ensure that PGW is not allowed to make the types of questionable transactions that have compromised its financial position and impaired its credibility with lenders, the rating agencies, and others in the financial community.  
(High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW completed a \$45.0m short-term loan transaction to provide working capital with the City of Philadelphia.	(C) 12/00 Repayment due 06/03.
PGW's outside feasibility study consultants are performing an independent review of PGW's cash, earnings, and coverage requirements for the current and five-year forecast. This study will be utilized to support PGW's proposed revenue bond issue in 06/01.	(E) 04/01
PGW's ongoing base rate increase proceedings before the Pa. PUC will impact whether a bond rating improvement is possible.	(E) 10/01
*PGW will analyze each financial transaction to be undertaken to determine the benefit to PGW while assessing the financial and non-financial impacts.	(E) Ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

The tone of the conclusion that PGW used "questionable" financing transactions is inappropriate. PGW utilized a forward rate agreement, revenue bond refinancings, a knock-in swap transaction and a re-negotiation of our tax-exempt commercial paper program letter of credit. These financings provided millions of dollars of revenue enhancement, cost reductions and financial flexibility to sustain PGW through periods of

operational revenue reductions. At the same time, PGW did not raise base rates. Many of the above transactions may have or could be used by many major corporations in times of financial crisis.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-2:** Evaluate periodically, that is, every four to five years, whether or not the City should sell PGW. (Low Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

This recommendation is beyond PGW's legal authority to implement as it is the sole prerogative of the City.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X- 3:** Establish a functioning audit committee on the PFMC Board of Directors, and restore a viable internal audit function either internally or by outsourcing it. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Director – Internal Auditing

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Hold Audit Committee meetings at least quarterly with the Director of Internal Audit and at least annually with the independent accountants and, as necessary, with finance department management and/or other senior managers.	First quarterly meeting by April 30, 2001. (E)
Hire internal audit staff for all open and approved positions.	May 31, 2001 (E)
Alternatively, obtain help from external audit consultants to perform audit work deemed critical to the operations of the Company.	June 30, 2001 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X- 4:** Require the external auditing firm to adhere to SEC guidelines that require the rotation off the assignment if the partner-in-charge has served in that capacity for seven or more years. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The City Controller & City Finance Director in conjunction with PGW will meet to determine the status of PGW's independent auditor for the FY 2001 Audit.	(E) 04/01
PGW will solicit bids for the performance of its annual audit of financial statements.	(E) 04/01
PGW will review bids and select the successful vendor.	(E) 05/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X -5:** Establish responsibility accounting centers at the lowest practical level of management, and set performance objectives for managers and supervisors that include specific budget performance targets that are linked to the strategic planning process. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Senior VP - Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW issued its FY 2002 operating budget and forecast preparation assumptions letter.	(C) 03/01
PGW will integrate its Strategic Plan including accountability and responsibility for meeting corporate goals into its FY 2002 operating budget.	(E) 05/01
PGW will file its FY 2002 operating budget with the Philadelphia Gas Commission for its approval.	(E) 05/01
PGW will implement a process to measure the achievement of individual departmental strategic goals and include the results in its employee evaluation and compensation review.	(E) 10/01
PGC approval of PGW's FY 2002 Operating budget.	(E) 10/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheet may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-6:** Establish a finance committee on the PFMC Board of Directors with specific responsibilities to monitor PGW's capital and operating budget processes and budget variances. (High Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: CEO

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Board Resolution to establish Finance Committee	(E) 03/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheet may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-7:** Assign responsibility to the treasurer's department for establishing and enforcing cash management policies including accounts receivable collection policies and procedures. (High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The Senior VP-Finance will have overall responsibility for establishing and enforcing cash management policies. This span of control includes the Controller and the Manager of the Collection Department.	(C) 11/00
The accountability for the Cash Receipts function was transferred to the Treasury area.	(C) 11/00
The Senior VP-Finance, Controller and Collection Manager will oversee the development of cash management and collection policies and procedures.	(E) 04/01
The Senior VP-Finance, Controller and Collection Manager will review the results of cash management and collection policies and procedures and take any necessary corrective action including possible tariff revisions.	(E) 07/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X- 8:** Update accounting procedure manuals and implement procedures for the inventory and tracking of capital assets. (Low Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: Senior VP - Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
The Accounting Manuals will be updated to reflect current accounting procedures and processes. The procedures for the inventory and tracking of capital assets along with all other accounting procedures will be implemented.	(E) 01/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-9:** Take steps to implement all appropriate recommendations from the forensic audit currently being performed by an external accounting firm.  
(Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: Senior VP - Finance

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW received the final report on the audit of bank reconciliations for FY's 1997, 1998 & 1999.	(C) 02/01
PGW will make the necessary journal entries to properly reflect in the general ledger findings that were identified in the Audit Report.	(E) 06/01
PGW, through cooperation of the Accounting and Internal Auditing Department, will assure the timely completion of all bank and accounts receivable reconciliations.	(E) Ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation X-10:** Establish a statement of financial policy which includes parameters against which PGW senior management and the PFMC Board of Directors can evaluate financial alternatives and performance. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Draft policy for April PFMC Board Meeting	(E) 04/27/01
Final policy for May PFMC Board Meeting	(E) 05/24/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-1:** Develop and implement a formal IT planning process.  
(Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Create an IT strategic plan with yearly updates	6/30/01 (E) and each August
Create an IT Blueprint for Operations document with yearly updates	5/30/01 (E) and each September thereafter
Create an architectural plan with yearly updates	11/5/00 (C) and each January thereafter
Create a yearly capital planning process with input for Steering Committee and other Departments	3/31/01 (E) and each March thereafter

To be completed if rejected whole or in part:  
Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-2:** Strengthen the IT steering committee. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: COO

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Establish new committee structure with COO as Chair.	(E) 06/01/01
Review the IT planning model.	(E) 06/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-3:** Reorganize the IT Department to strengthen new project development and ongoing operation of applications. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify roles for new IT organization	9/30/01 (C)
Define organizational structure to support roles	10/31/00 (C)
Determine staffing numbers	12/15/00 (C)
Write job descriptions	6/30/01 (E)
Interview candidates and hire	2/28/02 (E)
New organization fully staffed	2/28/02 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

## IMPLEMENTATION PLAN

**Recommendation XI-4:** Emphasize outsourcing as a means for developing and implementing new IT applications to the extent possible. (Medium Priority)

Response:      Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Create small project process using selective sourcing	4/30/01 (E)
Purchase tool to facilitate creation of RFI and RFP for large projects.	3/1/01 (C)
Create a process for vendor selection with options including outsourcing and hosting.	4/30/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-5:** Restructure the Project Management Office (PMO) after the BCCS problems are resolved. (Low Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Evaluate BCCS status	(E) 07/31/01
Determine ongoing implementation needs.	(E) 07/31/01
Decide to continue PMO/BCCS emphasis. If yes, continue independent role. If no, roll into IT Department.	(E) 08/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI –6:** Continue efforts to select and implement a new Human Resource Information System (HRIS). (High Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
High level presentations and vendors	(C) 12/23/00
HRD identified vendors that supported needs, also payroll department	(C) 1/12/01
All vendors submitted cost estimates	(C) 1/15/01
Brief Senior Management	(C) 1/15/01
Vendor revisited PGW for detail presentation	(C) 1/24/01 - HRD (C) 1/25/01 - Payroll
Discussion held with Gartner Group to validate funding & approach to project	(C) 2/21/01
Met with Legal Dept. RFP being prepared to be sent out to vendors.	(C) 2/08/01 (E) 3/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-6:** Continue efforts to select and implement a new Human Resource Information System (HRIS). (High Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Requirements gathered	2/28/01 (C)
Prepare RFP	3/31/01 (E)
Vendor Decision	4/30/01 (E)
Implementation of Core System	9/30/01 (E)
Payroll Data Cleanup / Prep	8/31/01 (E)
Payroll Acceptance Testing	12/31/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)  
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-7:** Take steps to strengthen IT internal operating practices.  
(Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part	Date Completed (C) or Expected Completion (E)
IT Senior Team sets goals and objectives	1/10/01 (C)
Identify Key It Functions and Processes	1/12/01 (C)
Publish and distribute	5/25/01 (E)
Implement control practices	8/31/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XI-8:** Take steps to reduce and control IT costs, and make the IT user departments accountable for IT costs. (High Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
IT Senior Team sets goals and objectives	1/10/01 (C)
Create 1 <sup>st</sup> draft for cost controls and charge back policies	1/22/01 (C)
Purchase and install Account 4 software to track time and costs	2/26/01 (C)
Create cost controls and charge back policies	2/26/01 (C)
Create costs, pricing, categories, elements	3/30/01 (E)
Publish for review	4/30/01 (E)
Publish and distribute	5/25/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XII-1:** Complete a review of applicable PUC regulatory and reporting requirements and develop a comprehensive implementation plan to ensure compliance.  
(High Priority)

Response:   X Accepted                       Rejected                       Accepted, in part

Individual Responsible; VP – Regulatory Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completed (E)	
	Started	Completed
Obtain and review Pennsylvania Code, Title 52, Public Utilities and Purdon's, Title 66 as well as the Reporting Requirements information prepared by outside counsel and by PUC Staff	1-6-2000 11-16-2000	12-15- 2000 (C)
Request Obtain a comprehensive list of electronic and hard-copy forms from the PAPUC	1-3-2001	3-9-2001 (E)
Prepare a Project Report of the key reports by date	12-15-2000	3-16-2001 (E)
Submit the Project Report to Supervisors for approval	3-16- 2001	3-30- 2001 (E)
Submit the approved Project Report to Senior Team for approval	4-16-2001	4-30-2001 (E)
Submit the approved Project Report to PUC for approval	5-1-2001	5-30-2001 (E)
Assign the PAPUC approved reports to PGW personnel for preparation	6-29-2001	6-29-2001 (E)
Receive the reports from PGW personnel; perform quality control and forward to the PAPUC.	As required	As required

To be completed if rejected whole or in part:

Explanation: N/A

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XII - 2:** Implement procedures to obtain the customer information needed on an ongoing basis, and develop a detailed marketing plan to compete effectively in the restructured natural gas industry. (Low Priority)

Response: Accepted

Individual Responsible: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	<b>C = Date Completed</b> <b>E = Expected Completion</b>
1. Hire Market Research Analyst.	E = 5/15/01
2. Refine and further develop Preliminary Market Research Plan based on data acquisition and analyses, early research efforts, and input from Analyst.	E = 8/31/01 and ongoing
3. Data Acquisition Plan (Departmental).	E = 4/1/01 and ongoing
4. Work with restructuring consultant starting 3/1/01 to prepare PGW for Restructuring Filing.	E = 3/1/01 - 12/1/01
5. Quantify existing pipeline/supply assets.	E = 4/1/01
6. Research capacity assignment.	E = 5/1/01
7. Begin development of Restructuring Filing.	E = 5/1/01
8. Research cost allocation.	E = 6/1/01
9. Identify potential Unbundled Services.	E = 7/1/01
10. Develop rates for Unbundled Services.	E = 8/1/01
11. Begin Market Research (dependent on budget allocation).	E = 9/1/01
12. Develop Tariff language for Unbundled Services.	E = 9/1/01
13. Tariff changes allowing negotiated rates (dependent on PUC approval).	E = 11/1/01
14. First Draft of Restructuring Filing	E = 12/1/01
15. Develop analyses/support schedules for restructuring.	E = 3/1/02
16. Update analyses/support schedules for restructuring.	E = 5/1/02
17. Final Draft of Restructuring Filing	E = 6/1/02
18. Restructuring Filing.	E = 7/1/02
19. First Draft, Marketing Plan for Unbundling.	E = 3/1/02
20. Final Marketing Plan for Fiscal 2003.	E = 9/1/02
21. Implement Unbundling.	E = 9/1/03

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII-1:** Develop an ongoing plan to manage the wage and salary levels in an effective manner. (Medium Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Study conducted by outside consultant	10/01/00 (C)
Establish Compensation System	12/01/00 (C)
Establish Compensation Committee	Meets as needed
Provide salary adjustments to address compression.	02/01/01 (C)
Provide performance based increases	09/01/01 (E)
Annual review of compensation system	Ongoing After 09/01/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 2:** Develop and implement an incentive compensation program that rewards personnel for high-level achievements that are specifically tied to supporting PGW's strategy. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Study conducted by outside consultant;	10/01/00 (C)
Establish Compensation System;	12/01/00 (C)
Establish Compensation Committee;	Meets as needed
Provide salary adjustments to address compression;	02/01/01 (C)
Revise performance appraisal system to incorporate elements of strategic plan;	See dates provided in Action Plan for Recommendation XIII -10
Annual budgetary review of compensation system;	Ongoing after 09/01/01 (E)
Provide performance-based increases.	Annually, beginning on 09/01/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII-3:** Limit future compensation increases to a level no greater than the consumer price index (CPI). (High Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
PGW presently forecasts a total wage increase within CPI projection of 2%	(C)
Review annually to ensure total wage growth does not exceed CPI projection	Ongoing

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 4:** Develop and implement a cost-effective training strategy that promotes those attributes in employees that would allow PGW to succeed in a deregulated and competitive environment. (Low Priority)

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Provide core curriculum ex. Business Grammar, Successful Communication, etc.	C-1/15/01
Provide leadership, management, supervisory training.	C-Supervisory training implemented 1/15/01 E-Leadership and management training 8/01
Identification and implementation of software package that will track completed training.	C-2/15/01
Review skills assessment on an annual basis.	Annually
Modify curriculum accordingly.	Annually

To be completed if rejected whole or in part:  
Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 5:** Take steps to ensure that the Code of Ethics and conflict of interest policy are understood by all employees, and obtain proof that each employee has a copy of the policies. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Meet and discuss policy with Union	30 days after ratification of collective bargaining agreement (E)
Distribute Policy to employees and require employees to sign form acknowledging receipt of policy.	60 days after ratification of collective bargaining agreement (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII-6:** Enhance union-management safety training efforts and develop specific annual goals for achieving improved safety levels. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Departments/Safety start submitting lost time accident information to CEO for review.	5/31/01 (E)
Develop Root Causes/Trends Analysis Program.	12/31/01 (E)
Present root causes and trends of accidents, plus recommendations to CEO.	3/30/02 (E)
Initiate appropriate corrective actions and training as directed by CEO to prevent similar accidents.	6/1//02 (E)
Review progress of corrective actions with appropriate Vice President and CEO.	12/31/02 (E)
Develop with the Managers' Safety Committee annual safety goals that are based on 5% reductions from FY 2000 results. Thereby achieving a lost time accident rate company goals of 2.72 or lower.	8/31/03 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 7:** Work within the union contract to ensure that a consistent approach is taken for disciplinary issues throughout PGW and hold the human resource department responsible for reviewing disciplinary issues company-wide. (Medium Priority)

Response:      X   Accepted               Rejected               Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Meet and discuss with Union new disciplinary process wherein no disciplinary action is imposed without the review and approval of the Director of Labor Relations, unless the health and safety of our employees or the general public demand an immediate suspension.	60 days after ratification of collective bargaining agreement (E)
Issue new Disciplinary Procedures	75 days after ratification of collective bargaining agreement (E)
Develop and maintain a database with the new Human Resources Information System (HRIS) of all disciplinary actions taken to allow the Human Resources Department to ensure consistency.	On-going from the date the new HRIS system is fully functional

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 8:** Reduce absenteeism through consistent treatment and increased focus on “back to work” programs. (High Priority)

Response:       Accepted       Rejected       Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify best practices for reducing rate of absenteeism;	February 20, 2001 (C)
Attempt to negotiate significant change in the Collective Bargaining Agreement provisions governing Absence Pay Allowance (Article VIII, Section 4) that will foster improved attendance.	May 15, 2001 (E)
Implement an HR Information System (HRIS) that will allow an automated, centralized tracking of all absences by HRD;	March 31, 2002 (E)
Review absence data on a quarterly basis to ensure consistency across departments.	On-going after HRIS implementation.

To be completed if rejected whole or in part:

**Explanation for Rejection in part:**

We agree with the recommendation that absenteeism must be reduced in PGW. A study of best practices from other organizations has confirmed that the most effective way to control the excessive use of sick leave is to reduce the number of days of paid leave available. However, because PGW’s Absence Pay Allowance is a negotiated benefit, it can only be changed through negotiations with and agreement by the Union. Therefore, unless the Union agrees to a significant change in the Absence Pay Allowance provision in the labor contract, it will be impossible to realize the recommended savings.

Moreover, based on a previous arbitration award, PGW cannot unilaterally implement a company-wide absenteeism policy. Rather, the arbitrator specifically ruled that such a policy must be first negotiated with the Union.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 9:** Take steps to reduce fringe benefit costs. (High Priority)

Response:     \_\_\_\_\_ Accepted     \_\_\_\_\_ Rejected     \_\_\_\_\_ X Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Perform a cost analysis of existing fringe benefits and compare with other employers;	March 12, 2001 (C)
Identify fringe benefits to be reduced;	March 12, 2001 (C)
Attempt to negotiate significant changes in the Collective Bargaining Agreement provisions governing health and welfare plans, overtime eligibility, meal allowances, perfect attendance and other bonuses, legal services, absence pay allowance, etc.	May 15, 2001 (E)

To be completed if rejected whole or in part:

**Explanation for Rejection in part:**

We agree with the recommendation that fringe benefits must be reduced in PGW. However, PGW's fringe benefits can only be changed through negotiations with and agreement by the Union. Therefore, unless the Union agrees to a significant change in the fringe benefit provisions in the labor contract, it will be impossible to realize the recommended savings.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII – 10:** Develop a company-wide policy on performance evaluations and ensure its consistent application. (Medium Priority)

Response:      x   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Meet with Senior Management/cross functional teams to review and if required revise core competencies.	3/31/01 (E)S
Meet and discuss with Union new performance appraisal process.	60 days after ratification of collective bargaining agreement (E)
Ensure, through communication vehicles and discussions with managers that all employees understand individual goals, departmental and corporate goals that are tied to the strategic plan.	4/15/01 (E)
Ensure, through communication vehicles, discussion and training that all employees are aware of the performance metrics.	8/31/01 for non-union employees; 90 days after contract ratification for union employees (E)
Ensure that reviews are done on an annual basis.	Annually
Develop and maintain a database with the new Human Resources Information System (HRIS) of all performance evaluations to ensure consistency and compliance.	On-going from the date the new HRIS system is fully functional.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII – 11:** Update the personnel policy manual. (Low Priority)

Response:      Accepted      Rejected      Accepted, in part

Individual Responsible: VP – Human Resources

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Review all current Personnel Policies to ensure compliance with Collective Bargaining Agreement and applicable employment and labor laws;	December 31, 2001 (E)
Identify which Personnel Policies are outdated;	December 31, 2001 (E)
Establish Corporate Committee to review and recommend revisions to outdated or non-compliant Personnel Policies;	January 31, 2002 (E)
Draft revisions to outdated or non-compliant Personnel Policies;	June 30, 2002 (E)
Meet and discuss proposed changes with Union;	September 30, 2002 (E)
Distribution of all revised policies.	December 31, 2002 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII – 12:** Work with the City Council to determine the long-term effect of continuing the City residency requirement and, if possible, eliminate it (Low Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Prepare white paper of residency issues at PGW.	(E) 12/31/01
Submit to City Council members.	(E) 12/31/01
Seek a sponsor for a bill.	(E) 06/30/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIII- 13:** Implement all relevant recommendations from the June 2000 external consultant's report which provided a comprehensive assessment of the human resource function. (Medium Priority)

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
HR Staffing Rules & Resources	Staffing Completed 02/15/01 (C)
Procedurize the selection process	02/15/01 (C)
Move Workers Compensation to HR	Rejected 12/01/00 (C)
Implement HRIS System	See recommendation XI-6 12/31/01 (E)
Update HR Policies & Procedures	See recommendation XIII – II 12/31/02 (E)
Establish Integrated Safety Program	Medical Department moved under Safety 12/01/00 (C) Also see recommendation XIII-6
Establish Drug & Alcohol as formal policy	Completed
Procedure to report to HR when arrested in Drug & Alcohol	Collective Bargaining issue negotiations 05/15/01 (E)
Develop a comprehensive Labor Relations Strategy	See recommendation IV-3 Collective Bargaining Contract 2001 Strategy 05/15/01 (E)
Work Force Analysis	See recommendation XV-1
Audit CSI twice yearly	See recommendation V-1
Introduce more effective salary management And merit planning/budgeting process	New non-union compensation plan completed 12/01/00 See recommendation XIII-1

Add a Manager or Administrator of Compensation & Benefits position	Completed 02/01/01 ( C) Employee Services Administrator and Senior Compensation Analyst added
Introduce a cafeteria style Benefits program	Under investigation for contract negotiations 05/15/01 (E)
Outsource payroll	HRIS option See recommendation XI-6 12/31/01 (E)
Convert as many employees as possible to Bi-weekly payroll	On hold, pending HRIS See recommendation XI-6 12/31/01 (E)
Provide leadership training for key Professional Staff	See recommendation XIII-4 08/31/01 (E)
Ensure pay differences between moderate and effective performers	Pay for performance is part of compensation plan for 09/01/01 (E) Also see recommendation XIII-3
Define future state competencies for Professional Staff and the Bargaining Unit	See Recommendations XIII-2, XIII-4 and XIII-10
Consider turning over much of the day to day operation of the company to the Bargaining Unit (e.g. work assignments)	Under investigation for contract negotiations 05/15/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIV-1:** Ensure that the PFMC Board of Directors requires that PGW file an Affirmative Action Plan (AAP) on an annual basis. (Medium Priority).

Response:     Accepted     Rejected     Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Affirmative Action Developed and will be maintained on an annual basis	(C) 12/00

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIV-2:** Identify the employment areas that are below “parity” in the year 2000 AAP and develop feasible approaches for reaching parity. (Medium Priority)

Response:  Accepted  Rejected  Accepted, in part

Individual Responsible: VP- Human Resources

Action Plan (if accepted, whole or in part)	Date Completed ( C) or Expected Completion (E)
1. Employment areas that are below parity have been identified.	12/00 C
2. Goals to reach parity have been established.	12/00 C
3. Corporate Diversity Committee established.	12/00 C
4. Communicate Affirmative Action objectives to PGW employees.	3/01 E
5. Train managers regarding Affirmative Action accountability.	6/01 E
6. Develop Targeted Recruitment Program.	6/01 E
7. Audit & Reporting System Implementation.	6/01 E
8. Identify minorities and women for inclusion in Succession Planning and provide training development opportunity.	8/01 E
9. Develop Liaison Activities with Community Groups, Business Leaders, Minorities and women organization.	6/01 E
10. Review and make appropriate changes to Personnel Policies and Procedures to remove barriers that impede Affirmative Action Progress.	12/00 ongoing
10. Conduct adverse Impact Analysis on all personnel actions.	6/01 E

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation XIV-3:** Hold senior management accountable for implementing the diversity policy approved by the PFMC Board of Directors. (Medium Priority)

Response:   X   Accepted             Rejected             Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PFMC set goals for performance reviews.	(E) 09/01/01
Annual review/sent each year.	Annual

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

Recommendation XIV-4: Develop and implement a meaningful Minority Business Enterprise/Woman Business Enterprise/Disabled Business Enterprise (MBE/WBE/DBE) program for making purchases outside the normal procurement process. (Medium Priority)

Response:      Accepted      Rejected      Accepted, in part

Individual Responsible: Director – Procurement & Contract Services

<b>Action Plan (if accepted, whole or in part)</b>	<b>Date Completed (C) or Expected Completion (E)</b>
Identify current contracts, established outside the procurement processes, and integrates contracts into the normal procurement processes.	(E) 05/01
Identify MBE/WBE/DBE contracts and establish MBE/WBE/DBE codes within the Oracle financial system for tracking purposes.	(E) 07/01
Establish a procedure to include the Procurement Department to assist in identifying MBE/WBE/DBE vendors prior to award of contracts.	(C) 03/01
Approval of procedure to include the Procurement Department to assist in identifying MBE/WBE/DBE vendors prior to award contracts.	(E) 05/01
Distribute the Minority Business Enterprise Directory of Certified firms to personnel making purchases outside the procurement process.	(C) 01/01
Any new contracts are to be installed into the Oracle financial system. This will enable PGW to track MBE/WBE/DBE usage company-wide and measure annual progress. This is an on-going process.	(C) 03/01
Approval of Key Processes for Procurement and Contract Management	(E)05/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT  
IMPLEMENTATION PLAN**

**Recommendation:** XV-1 – Implement the proposed work management and manpower planning program.

Response:      X   Accepted           Rejected           Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Each department will identify the elements to which they will report time and budget.	4/30/01 (E)
Requirements documents(s) will be created in preparation for vendor bids	5/15/01 (E)
Solicit bids from selected vendor list	5/31/01 (E)
Vendor creates and delivers application for each department to use in reporting time	8/31/01 (E)
Each department reports time on a regular basis, generates monthly reports, and manually updates BW spreadsheet with actual times.	9/30/01 (E)

To be completed if rejected whole or in part:  
Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

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## **CHAPTER VIII – CUSTOMER SERVICE, BILLING AND COLLECTION**

**Page VIII-5, lines 30-33 – Determine how effective PGW is in providing specific service appointment times to customers (percent of service calls in which the customer is given a one or two hour appointment window) and how effective they are in meeting their appointments.**

**PGW Comment:** - Most appointment windows are of a four or eight hour variety.

**Page VIII-7, lines 13-14 – PGW’s level of service, as measured by abandonment phone rates and response time of the call center, is one of the worst in the industry.**

**PGW Comment:** - Response time and abandonment rates in the call center have not been acceptable, in the past, due to several factors including the abnormally high call volume created by the BCCS problem, poor labor management relations, and a lack of funds to implement needed changes. Labor management relations have improved under the new VP for Customer Service.

**Page VIII-7, lines 15-22 – PGW has had numerous reviews of its call center operations and understands the steps required to improve its effectiveness. An external consultant draft report dated June 5, 2000 gave a comprehensive assessment of all aspects of customer service at PGW, including the call center. The report identified and prioritized needed improvements including implementation of “call waiting,” “call back manager,” upgrades to the telephone switch, and the use of automated customer survey forms. PGW has yet to implement most of these recommendations.**

**PGW Comment:** - Since October, have implemented those consultant recommendations which our financial resources and operation allowed. Implemented the following organizational changes; extended hours of operations, defined mission and vision as well as the following operational changes; defined key performance indicators and redefined job descriptions and hiring criteria. Instituted technical changes including expected wait time and streamlined call routing and resource utilization. **NOTE:** Customer Service personnel were used extensively to repair computer problem. The department went without a leader for the months of August and September due to resignation.

**Page VIII-8, lines 16-17 and VIII-9, lines 1-2 – PGW does not hire short-term staff at peak demand periods, and, due to work rule restrictions, cannot temporarily assign staff from other departments to its call centers, as needed. PGW has not used part-time or contract personnel to achieve desired or appropriate call response goals.**

**PGW Comment:** - Work rule restrictions have prevented use of part-time employees; however, temporary use of other department employees in the call center has/does occur as a result specific negotiations.

**Page VIII-9, lines 3-5 – PGW call centers could meet reasonable service level standards if all personnel were present and available, and if the billing and service functions were consolidated.**

**PGW Comment:** - The June 5 study identified three elements for success; 1) Improved attendance, 2) Corrected billing system, decrease volume, etc. and, 3) Improved use of technology, decrease handling time. All personnel will never be available due to vacations, training, days off, etc. Additionally, combining billing and service in and of itself will not guarantee all calls will be answered within desired parameters. Accurate call volumes need to be developed and agents appropriately staffed against said volumes to insure reasonable customer access.

**Page VIII-9, lines 18-30 – According to a “local agreement,” call center employees believe they have two hours and forty minutes each eight-hour day when they do not have to be available to take calls.**

**PGW Comment:** - The “local agreement” referred to has not been applicable or enforced in the call center for some time. The “agreement” was entered into in 1987. CSR’s take a 30 minute lunch and two 15 minute breaks for each 8-hour period worked. Additionally, CSR’s sign in and sign out when on break/lunch. “Auxiliary time” is used for meetings with management and restroom breaks only.

**Page VIII-9, lines 31-36, Exhibit VIII-4 shows the staffing necessary to meet a reasonable service level standard compared to the level provided by the 36 available staff on July 27, 2000. If 31 additional CSRs were added, PGW could meet service level objectives. The 77 CSRs needed on-site are one fewer than the 78 positions currently budgeted. One cannot assume, however, that all employees would be on-site at any point in time.**

**PGW Comment:** - Exhibit VIII-4 is incomplete and doesn’t indicate the call volumes it uses to calculate the partial results it reports. The call volumes are important and if they are the post BCCS numbers, then the staffing will be too high once the BCCS issues are resolved.

**Page VIII-10, lines 18-24 – The CSR is a highly paid position at PGW as the average base salary, exclusive of benefits, of a CSR exceeds \$46,000 per year. Until recently, the CSR positions were filled according to seniority, without considering skill levels or an employee’s ability to talk with customers. Since the CSR position is not an entry-level position, as is the case in many utilities, it could be expected that PGW would have highly trained and experienced CSRs.**

**PGW Comment:** - With some exceptions, testing and the employee's record were always considered in filling CSR positions. Seniority has always been an important factor, as well.

**Page VIII-11, Exhibit VIII-5 –**

**PGW Comment:** - Exhibit VIII-5 fails to acknowledge that the average number of FTEs unavailable includes 9 FTE's who are carried on the roster but are permanently assigned to other functions in the company; i.e. PMO. The reorganization will result in the proper, permanent assignment of all personnel to allow appropriate evaluation of the need across departments.

**Page VIII-11, lines 9-10 – PGW's union could provide the name of only one utility in the country that paid its CSRs more than PGW does.**

**PGW Comment:** - The \$46,000 salary is the maximum for the CSR position, not the average.

**Page VIII-11, lines 18-21 – Since September 1999, the Customer Affairs Department has requested a total of 47 additional personnel...**

**PGW Comment:** - Since September 1999, a total of 57 requests for personnel was received from Customer Affairs. Four (4) of these requisitions were administratively closed. The result is a total of 53 open positions for this period of time. From September 1999 a total of 36, or 67.9%, of the positions have been filled for Customer Affairs.

**Summary of Open Positions-September 1999-Present**

Notice	Department	Position	NR	Status	Comments
264	Customer Service	Sr. Customer Contact Rep	1	Filled*	
265	Customer Service	Customer Telephone Rep	30*	In progress	18 internal and 8 external in position, 2 external confirmed to start 1/2/01, additional interviews pending
266	Customer Service	Specialist, Customer Support Group	1	Closed**	See Req. #273
267	Accounts Receivable	Gas Collections Clerk	1	Open***	Disposition pending
269	Customer Service	Customer Contact Rep	1	Closed	Closed – no action
270	Customer Service	Field Representative	1	Closed	See Req. #274
272	Customer Service	Correspondence Clerk	3	Open	Applicant absence review in progress
273	Customer Service	Specialist, Customer Support Group	3	Open	Applicant absence review in progress

274	Customer Service	Field Representative	6	Open	Applicant absence review in progress
943	Customer Service - Call Center	Secretarial Assistant II	1	Open	Internal & external candidates declined offers - 2nd external candidate identified, approval pending
944	Customer Service - Cust. Svc.	Supr., Customer Service (bilingual)	1	Filled	
945	Customer Service	Mgr., Customer Accounting	1	Filled	
948	Customer Service - Acct. Rec.	Supr., Customer Service	2	Filled	
949	Customer Service - Org. Quality	Training Supervisor	1	Filled	
951	Customer Service - Cust. Svc.	Supr., Customer Service	0	Closed	See Req. # 963
963	Customer Service - Call Center	Supr., Customer Service	4	Filled	4 positions filled by two internal & two external candidates

- \* **Filled**-candidate has been identified and has started to work
- \*\* **Closed**-Department has requested that Staffing not proceed with recruiting
- \*\*\* **Open**-position has not been filled

Please note: Although Staffing received requisitions from Customer Affairs, in several instances Staffing was directed not to proceed until the VP of Customer Affairs and other Senior Team managers clarified issues regarding manpower allocations, etc. e.g. customer telephone representatives, customer affairs supervisors, manager of customer accounting. This did have a direct impact on the filling of positions in a timelier manner.

Further all of the union positions, by policy are required to be posted intra-departmentally first. If no successful candidates are identified the department is required to notify HRD-Staffing so that the position can be posted company wide. For positions 266, 267 and 269 Customer Affairs did not notify Staffing as to the disposition of the postings due to various management changes within Customer Affairs. Staffing is working closely with all departments to ensure that line management is clear on posting policies.

Finally, with the addition of a Senior Human Resources Staffing Representative and a HR Staffing Assistant, the Staffing Department is better positioned to manage the recruitment activity.

**Page VIII-11, lines 22-26 - PGW's attempt to adequately staff the call center has proven to be ineffective. Exhibit VIII-6 provides the unfortunate chronology of**

**PGW's Human Resource Department's attempts to fill the CSR positions. Although additional personnel were requested in April and June 2000, ten of the thirty requested personnel were not selected until late September which made it too late to have those employees ready and trained for the winter months.**

**PGW Comment:** - Although additional personnel were requested for the call center in April and June, it was not until mid-June that the Staffing department received the authorization to post and recruit for the positions. In addition, recognizing the need to attract more qualified candidates, the testing criteria were re-vamped. In addition to testing for math and reading, an updated customer focus assessment was administered along with computer aptitude assessment. Representatives of HRD and the Customer Affairs management team also telephoned screened applicants to assess their telephone skills as well as interviewing the candidates using Targeted Selection. Targeted Selection is a behavioral based, competency focused interviewing instrument.

Please note: The figure of 30 call center representatives is not a static number due to the fact that as positions are filled, many employees in the call center have applied and accepted other positions within PGW where knowledge of the Legacy and BCCS systems is needed. This clearly exacerbates the problem since we are in the mode of backfilling as well as increasing staff.

**Internal Applicants**

<u>Number</u>	<u>Passed Test/Attendance Guidelines</u>	<u>Offered</u>	<u>Accepted Position</u>
118	21	21	18

**External Applicants**

1<sup>st</sup> round

161 scheduled	35	17	13
Total 244	56	38	31*

\*Accepted position-31 out of 38

Note: 3 employees started but were either terminated or resigned.

Presently, there are additional 203 candidates in various stages of screening, testing and interviewing.

**Page VIII-13, lines 9-15 – To increase the number of personnel available to answer the phone during the fall and winter months, in August 2000, PGW offered “flexibility assignment” to attract up to 28 employee volunteers from all departments to the call center. If PGW does not receive an adequate number of volunteers, it will assign employees to the program based on reverse seniority. To be a volunteer, employees are not required to have any customer service or telephone answering skills.**

**PGW Comment:** - Not true. The employee “volunteers” are those from the collections and district offices who have developed “customer service” handling skills either from face-to-face dealing or answering inbound collection calls.

**Page VIII-14, lines 7-9 – Inbound collections phone personnel are physically separated from other call center personnel and are not active participants in the activities of the call center.**

**PGW Comment:** - Physical separation of the inbound collection personnel has no adverse effect on their performance as CSRs.

**Page VIII-14, lines 10-12 – PGW’s phone system does not provide customers an estimated call waiting time. Customers need this information so that they can control the time they spend on the phone.**

**PGW Comment:** - Estimated wait time was provided PGW customers effective October 31, 2000.

**Page VIII-16, Exhibit VIII-7 and lines 28-32 – Many utilities have moved away from having field personnel collect cash and have instead utilized other methods such as collection agencies and small claims court. Other utilities have found that collection agencies are more cost-effective because they specialize in this area and use advanced collection techniques.**

**PGW Comment:** - As stated above, many utilities have moved away from field collection but many have also returned to the practice after a period of time; finding out that it is a necessary function for utilities in a metropolitan area. We do not know of any collection agency that performs field collections in Philadelphia. The Field Collections area consistently collects close to \$10 million a year and shuts off, on average, 30,000 accounts per year. These accounts, shut off from January 2000 to December 13, 2000, represented \$44 million of our accounts receivable. If 80% of the customers shut off came into the district office and entered into a payment agreement with 20% down, then it could be attributed to the field force driving in another \$7 million in down payments on those agreements. Also, the field force delivers an average of 900 notices per day which are required by our tariff.

**Page VIII-16, lines 33-34 – PGW’s program to install automatic meter readers (AMRs) is nearly complete, and PGW needs to develop a plan to dispose of them after their useful life.**

**PGW Comment:** - PGW’s plan is to replace AMR devices using a third party or the original provider to replace the battery (which determines the life of the device) and recycle the AMR device with a fresh battery. Either the original provider or the third party will arrange for the disposal of the battery.

**Page VIII-17, lines 35-39 – As of August 31, 2000, PGW had not read over 17,000 residential meters for three months or more. If PGW has made a manual reading during the past nine months, then it can estimate the reading. If the meter was not read in the previous nine months, PGW bills the customer for the standard service charge only, thereby losing the cash flow from the delayed billing of commodity charges. The PUC requires meter reading at least once every six months.**

**PGW Comment:** - I believe that this explanation of estimated bills is wrong. It was and is PGW’s practice to render an estimated bill for both the service and commodity charges. For a period of time due to BCCS problems, estimated bills only contained the service charge. That situation was corrected by an aggressive effort to read meters manually and a change to the computer program.

**Page VIII-18, Exhibit VIII-8 –**

**PGW Comment:** - Why doesn’t the exhibit include all meter readings per month? Many companies don’t have AMR and are not achieving 86-87% success on total meter reads. Many of the manual reads are customers who have not cooperated with the AMR installation program or if industrial/commercial did not have an AMR device available to fit their meter until recently. PGW is not unique but it does have an extraordinarily high percentage of homes with the meter inside the domicile.

**Page VIII-18, lines 16-22 – PGW’s process for reading the meters of commercial and/or industrial accounts is not cost-effective because the company has not installed AMRs on these accounts.**

- **About \$1 million dollars is spent annually to read about 4,000 accounts monthly, at a per meter read cost of \$20.83.**
- **PGW uses eleven meter readers to read commercial/industrial accounts.**
- **PGW has only recently begun installing AMRs on these accounts.**

**PGW Comment:** - We can not verify the \$1 million dollars to manually read 4,000 commercial/industrial accounts. Last year, we made 74,000 attempts using, on average, 10 people with base salary expenses of approximately \$500,000. PGW has had a program for the last two years to convert the remaining large commercial/industrial meters to AMR. We have converted 6,745 over the past two years. This delay was the result of there not being a AMR device that fit

many of these meters. This problem has been corrected. The consultant was apprised of these facts.

**Page VIII-19, Exhibit VIII-9, and lines 12-15; Exhibit VIII-10 – Out of approximately 512,000 customers, about 80,000 to 85,000, or about 16%, are chronic delinquent accounts. Given such a high level of delinquent accounts, customer deposits are inadequate, and are declining as shown in Exhibit VIII-10.**

**PGW Comment:** - Deposits were a part of the application process and, in early 1999, the previous Chief Operating Officer directed all of Customer Affairs to stop taking deposits. We are presently putting back in place a Credit Check process for all new customers along with a deposit requirement, when necessary. Also, PGW plans to start reporting to the Credit Bureau, as previously, all customers' payment records.

**Page VIII-20, lines 21-23 – Collection efforts suffer because PGW does not consistently perform credit checks on customers, take large enough deposits from customers, or report customer delinquency to credit bureaus.**

**PGW Comment:** - Collection efforts suffer in large part because of the large number of low income customers who cannot afford the energy bill for what is often a very inefficient property. If these customers can't pay their monthly bill, what makes BWG think we can "take large enough deposits" from them. As a municipal utility, PGW must consider the impact on the City of depriving customers of an essential service. There is always a tension between a utility's solvency and the potential of driving people onto the streets.

**Page VIII-20, line 24 – PGW's shut-off policy is too lenient.**

**PGW Comment:** - The timeline is specified in our Tariff which presently governs our policies and practices.

**Page VIII-21, lines 10-16 – PGW can attain a one-time cash flow benefit of \$21 million if it mails its bills the day after it reads the meters.**

- **Currently, PGW's customer bills are not mailed until two days after the meters are read.**
- **Each day's billing amounts to about \$21 million in cash flow. By eliminating the one-day delay, PGW can attain, over time, a one-time cash flow improvement of \$21 million**

**PGW Comment:** - Insufficient documentation is provided to substantiate BWG's claim of \$21 million cash flow improvement.

**Page VIII-21, lines 17-27 – Management has not placed sufficient emphasis on the need to meet customer expectations in its field service operations.**

- CSRs do not have the authority to schedule customer visits without first calling the dispatch area, and they have no assurance that field operations keep the appointments they make.
- The number of appointments kept from the standpoint of the customer differs substantially from the number of appointments met from the standpoint of PGW. PGW takes credit for meeting an appointment if its employee shows up on-site, on time, and not if it completes the work the customer desired. This practice increases the number of calls to the call center and adversely affects the overall customer impression of PGW.

**PGW Comment:** - Management has placed significant emphasis on the need to meet customer expectations in the field service operations. This is demonstrated by the establishment several years ago of additional objectives for Field Services, such as appointments made, appointments kept, 1-day service guarantee on old househeaters, the addition of computer dispatch, cell phones, additional PLP plans on different appliances, etc. Normally, CSRs don't call the dispatch area to schedule customer visits. They schedule visits via BCCS and the CAS interface with Mobile. Field Operations makes every attempt to make all appointments. During peak periods, leak calls, emergencies and other priority work interfere with some appointments. Availability of personnel is sometimes hampered by scheduling problems, and employee sickness.

The definition of "appointment met" is different than the percent of completed jobs. PGW may meet its appointment by being at the customer's premise during the "promised" time window even though some customers choose not to be there. Other times PGW meets the appointment but is unable due to circumstances beyond its control, to complete the work the customer desired due to lack of parts that need to be ordered, condition of customer's appliance, unsafe conditions for the tech on the customer's property, no access to the part of the property necessary to complete the work (usually in a rental situation), etc. All of these circumstances (only a sampling of what can occur on a job) should qualify as an appointment met if we arrive during the "period" scheduled. All of these circumstances may generate additional phone traffic (not all to/from the call center) to complete the customer's request.

In addition, we now telephone the customer the prior evening to confirm appointments. Secondly, we call to apprise customers of any delay either before 12:00 a.m. or by 4:00 p.m. for the 8:00-12:00 window or the 12:00-4:00 window.

**Page VIII-27, lines 7-13 – The three discount agreements apply if the participant's gross monthly income is at or below 135% of the FPL. About 60%, or 31,800, customers are in the 7.35% option which provides a 7.35% discount. Another 30%, or 15,900, customers are in the \$30 minimum payment per month option. Only about ten customers use the third discount option, the customer needs unit agreement, which is used for exceptions.**

**PGW Comment:** - This paragraph and Exhibit VIII-16 on Page VIII-16 seem to be at odds. This paragraph makes no mention of a 12% of gross income plan as is detailed in the exhibit.

**Page VIII-27, lines 9-10 – “...are in the 7.35 percent option which provides a 7.35 percent discount.**

**PGW Comment:** - This is an incorrect statement. CRP customers on the 7.35% agreement have a CRP budget amount equal to 7.35% of the gross household income. Refer to D.R. #2.3.073, section labeled Customer Responsibility Program – Brief Program Overview.

**Page 27, line 14-15 – About 4,000 customer use the two non-discount agreements, BUD2 and Philadelphia Housing Authority (PHA).**

**PGW Comment:** - The description would improve if the number 4,000 is changed to percent. There is about 10% of CRP customers participating in the Budget plus 2% and PHA agreements combined.

**Page 27, line 18 – “...percent of his overdue balance.”**

**PGW Comment:** - The phrase “overdue balance” may be confused with “open or unpaid current CRP bills.” It should be described as “percent of his pre-CRP arrears.”

**Page 28, Exhibit VIII-16 – Under “PGW Tariff, Regulation 45 (CRP)”, last bullet point, “...Arrearage forgiveness: PGW does not forgive arrearages.”**

**PGW Comment:** - PGW’s tariff does have provisions for arrearage forgiveness. However, the current tariff language needs to be re-worked to accommodate changes in CRP and in the LIHEAP programs. (Please refer to D.R. #2.3.0118)

**Page VIII-32, lines 17-21 – The most recent CWP evaluation was in June 1998, and its results are summarized in Exhibit VIII-19. The savings were generally consistent with expectations. PGW’s program evaluators do not include sidewall insulation, which the PUC has found to be one of the most cost-effective program measures.**

**PGW Comment:** - This comment does not apply to the vast majority of Philadelphia homes as Philadelphia homes are brick row houses, while unlike other PUC jurisdictions.

**Page VIII-36, lines 1-3, Fill senior management positions with qualified personnel. Fill open positions that exist within all customer affairs operations, including the call center.**

**PGW Comment:** - On October 5, 2000, PGW engaged Charles E. Day and Associates. The engagement included the assignment, for a period of at least six months, of

Herb Jackson as Vice President of Customer Service. Mr. Day and Mr. Jackson bring extensive call center experience to the assignment. Mr. Day is the author of "Call Center Operations, Profiting From Teleservices," a book published by McGraw-Hill. Mr. Jackson has extensive call center operations and labor relations' management experience. On December 1, 2000, Mr. Jackson reorganized the customer affairs department into the Customer Services Department with emphasis on call center operations. The new organization provides a Director of Call Center Operations (will be filled by someone outside the Company with extensive experience in the operation of large call centers, Systems Administration Manager (will be filled by someone from outside the company with extensive experience in call center technology; Quality Assurance Manager; Training Manager as well as a Call Center Manager (will be filled by someone outside the company with call center experience.

**Page VIII-36, lines 4-7 – Implement a single customer access phone number and provide cross-training to all customer service representatives (CSR) so that each can address any customer issue. Provide "estimated call wait time" to customers so that they can choose whether or not to remain on hold.**

**PGW Comment:** - The emergency line should continue to be a separate phone number. These calls are PGW's highest priority; customers shouldn't have to wade through IVR menus to call in an emergency. While the theoretical concept of a CSR who can address any customer issue is attractive, the complexity of issues is such that it appears impractical for the average CSR to reach this level without many years of experience and much training. Implementation of a single customer telephone number should not be considered until all agents have the capability to answer all calls. Likewise, implementation of Call Back Manager software would not be useful since there is insufficient manpower to complete customer call-backs. Ability of an agent to answer any customer issue will not be possible unless and until an accommodation can be reached with the Union. Estimated wait time was implemented effective October 31, 2000. Additionally, on that date a fast path was established for the shorter transactions, and call flows were changed to consolidate agents into two groups for more efficient processing of calls (used DIDs and placed the IVR behind the Divinity). Determine queue size with estimated wait time (initial access to agents only if wait is less than 15 minutes) and provided customers the option to call back during "extended" hours or use IVR self-service option prior to disconnect (allowed customers to wait on hold a reasonable amount of time prior to forced disconnect) Provided a five-second "breather" between calls on all splits. Implemented manual use of "Caller ID" to speed up access to customer accounts. Changes results in a 5% improvement in calls handled; a 25% reduction in the average speed of answer; a 65% reduction in the maximum time a customer remained on hold; average abandonment was reduced by 62% and agent utilization improved by 8% (comparison of October 2000 to November 2000). On November 29, 2000, the PUC instructed PGW to allow any customer who wished to remain on hold to remain on hold as long as they chose. The changes resulted in an immediate

reversal in performance, 15% fewer calls handled; average speed of answer was 49% longer; maximum time a customer remained on hold increased 21%; average abandonment increased 21% and the agent utilization decreased 7%. The PUC and PGW have reached agreement to reinstate prior changes which addresses PUC staff concerns.

**Page VIII-36, lines 8-11 – Take steps to reduce absenteeism and the use of auxiliary time in the call center to ensure that sufficient personnel are on-site to respond to customers in a timely manner. Auxiliary time for CSRs could be costing PGW as much as \$750,000 per year.**

**PGW Comment:** - Auxiliary time is now used properly and does not result in the cost indicated in the findings. Call center manpower allocation will be based upon accurate call volumes and will consider day-off patterns, training and sick time when staffing for telephone coverage. Local agreements with the union will be a subject for negotiations this Spring.

**Page VIII-36, lines 12-14 – Take steps to bring CSR salaries in line with industry practices. Eliminate the focus on seniority in filling CSR positions and require relevant skills instead. Consider freezing salaries of certain high paid employees.**

**PGW Comment:** - CSR hiring now being handled by an outside firm. All future candidates will be from the outside the company so seniority is not an issue and will help in the uncontrolled shrinkage, i.e. vacations, sick leave entitlements. The answer is not to freeze salaries but to improve productivity and utilization of current assets.

**Page VIII-36, lines 21-24, Establish a target date to either make the call center effective and customer-oriented or consider outsourcing the entire function. Establish industry standard call response time goals and ensure that staffing is based on achieving those goals.**

**PGW Comment:** - Outsourcing the entire function would not result in better service to PGW's customers in the short term. The time required to train a new entity on PGW's billing system, etc. would exceed the time needed to get PGW's call center in a position to respond to customers in a more reasonable manner (answer 80% of the calls in 2 minutes). Our current strategic plan provides for meeting call center industry standard metrics.

**Page VIII-36, lines 33-35 – Transfer the majority of field collections personnel to other areas of customer contact. Conduct a study to determine if collections should be out-sourced to private vendors. (Refers to Conclusion 11.)**

**PGW Comment:** - Conclusion #11 was unfounded. PGW uses small claims court, along with Municipal Liens to collect from delinquent customers. Collection Agencies do not use any advanced techniques to collect money. Also, PGW cannot

outsource until the union is at capacity and capacity is a very expensive place to operate.

**Page VIII-36, lines 36-37 – Develop a plan to replace and dispose of automated metered reading (AMR) devices when they reach the end of their useful life. (Refers to Conclusion 12.)**

**PGW Comment:** - As described in the response to Conclusion #12, PGW does not believe that there will be a disposal problem for the AMR devices. The replacement plan is in progress.

**Page VIII-37, lines 4-5 – Take steps to improve the cost effectiveness of reading meters for commercial/industrial accounts. (Refers to Conclusion 15.)**

**PGW Comment:** - Field Services Department is currently installing AMR devices on large meters for our commercial/industrial customer population. Many of these meters cannot be retrofitted and will require a meter replacement. FSD expects to have all of its commercial/industrial customer meters converted by the end of FY 2003.

**Page VIII-37, lines 6-12 – Take steps to reduce delinquent payments and uncollectible accounts. Establish a goal for write-offs of customer receivables that is consistent with industry standards. Use the Billing, Credit and Collection System (BCCS) to check credit of customers and to report payment histories to credit bureaus as appropriate. Increase customer deposit requirements for chronic delinquent accounts. Reducing PGW's bad debt write-offs to two percent would save PGW over \$28 million per year. (Refers to Conclusion 16.)**

**PGW Comment:** - The Tariff is specific as to the amount of deposit we can demand from a customer. Presently, PGW is using Credit Commander to perform credit checks in the Collections area. As of January 1, 2001, Credit Commander will be available to all Customer Affairs personnel to perform credit checks and take deposits. PGW prefers not to report to the Credit Bureau at this time because of the billing problems that still exist in BCCS.

**Page VIII-37, lines 13-14 – Take steps to expedite shut-off policies so that PGW can shut off customers after 32 days compared to its current 48-day termination. (Refers to Conclusion 17.)**

**PGW Comment:** - Conclusion 17 was unfounded because PGW is presently under the Tariff that is specific to the number of days for notice of intended shutoff for non-payment.

**Page VIII-37, lines 18-21 – Measure appointments kept for field service work from the standpoint of the customer, that is, actually accomplishing the work desired, and**

**not on whether the employee says he or she was at the job site at a specific time.  
(Refers to Conclusion 19.)**

**PGW Comment:** - FSD disagrees with the determination that we have not placed sufficient emphasis on meeting customers' expectations. FSD has benchmarked and currently tracks several customer satisfaction/quality service goals. Furthermore, CSRs do have the authority to schedule customer premise visits, based on available capacities, through the customer appointment scheduler/manager of the Mobile Dispatch System. An improvement currently being worked on will provide override capabilities for Supervisory use. Also, FSD completes approximately 50 "special list" service visits daily that CSRs schedule. Except for FSD's response to leaks, odors and emergencies, all other premise visits for service are performed by appointment.

The number of appointments kept is absolutely dependent on the customer providing access for FSD. In FY 2000, the number of appointments provided and kept was 84% and 85% respectively. The service technician telephones the customer in advance of his arrival but has absolutely no control as to whether the customer will be home to provide access. The customer service unit is working on a process that will telephone customers the day before service is scheduled to remind the customer that an FSD visit is scheduled. Service Technicians make every effort to gain access to customers' homes and we intend to continue measuring appointment success rate as currently established. NOTE: FSD management feels that BWG did not appropriately interview those responsible for achieving our customer satisfaction goals and therefore did not adequately understand the process.

Additionally, we instituted a procedure where FSD representatives call the Dispute Resolution group between 10:00 a.m. and 11:00 a.m. with jobs they will not be able to complete by Noon. Dispute Resolution personnel call customer and move job to the same afternoon or guarantee the job for the next day. The same process is repeated between 2:00 p.m. and 3:00 p.m. for those customers who will not be completed by 8:00 p.m., those customers are called and guaranteed the next day service or a future service date agreeable to the customer. At 5:00 p.m. each day, the appointments for the following day are called by the call Center personnel to verify the appointment.

**Page 38, line 5, "...the financial controls portion of BCCS operable on January 1, 2001, as planned.."**

**PGW Comment:** - Although we did plan to have the CRP collection module (financial and non-financial paths) in production by January 2001, we now know that it will not be possible. In testing this complex process, PGW has ran into glitches that will require additional programming and testing. We now expect this component of BCCS to be functional by March 2001.

12/19/00

## ADDENDUM

### **CHAPTER VIII – CUSTOMER SERVICE, BILLING AND COLLECTIONS**

**Page VIII-25, line 23 – PGW does not have an effective major accounts program.**

**PGW Comment:** - PGW disagrees with the tone of this statement and the impression it leaves with the reader. PGW's Marketing Department has undergone a total reconstruction and is in the process of rebuilding its infrastructure to better serve its existing customers and seek new load opportunities. Under management directives established by the previous management, in March 1999 budgeted staffing was cut from 93 to 39 while actual staffing was reduced from 63 to 39. In fact, marketing operated with only 27 employees for an extended period of time. During that same period, the focus of the department shifted from equipment installations and electricity and other non-gas initiatives. Therefore, beginning in March 1999, support systems and training efforts began in earnest to move towards gas sales. Only four months after this re-direction occurred, BCCS conversion was implemented and marketing and sales activities were diverted to address recurring customer problems that needed to be addressed by this group in conjunction with the correction of the computer system.

**Page VIII-25, lines 19-24 – PGW cannot identify its top 25 major revenue accounts, and cannot access contact names and phone numbers for each. Marketing needs this information from BCCS in a form that will allow it to retrieve information and manipulate the data in any manner necessary. Marketing needs to be able to identify the largest customers by profit margin, size of facility, load and type of business.**

**PGW Comment:** - The listing of major customers is dynamic and changes based upon fuel choices made by the customer during any given period and the billing option chosen by the customer. One customer, with many locations may want to receive individual bills while another customer may request one bill for many locations. The marketing staff keeps a detailed database (GoldMine software) of customer information continuing contact names and phone numbers. The word "profit" may be inappropriate and should read "margin contribution."

**Page VIII-26, lines 13-14 – While the Marketing Department has limited its advertising and programs to small initiatives using internal personnel, it has identified several future projects.**

**PGW Comment:** - It is important to note that financial constraints play a big role in determining why marketing has limited its advertising program.

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## CHAPTER VIII – CUSTOMER SERVICE, BILLING AND COLLECTION

1. **Page VIII-7, lines 19-22 – The report identified and prioritized needed improvements including implementation of “call waiting,” “call back manager,” upgrades to the telephone switch, and the use of automated customer survey forms. PGW has yet to implement most of these recommendations.**

**PGW Comment:** - The technical changes including expected wait time and streamlined call routing and resource utilization have been implemented. These were implemented at a date earlier (October 31, 2000) than some of the other changes that have been recognized in various chapters of this Audit Draft and therefore the report should recognize and include these changes as well.

2. **Page VIII-9, lines 19-21 – According to a “local agreement” entered into in 1987, call center employees believe they have two hours and forty minutes each eight-hour day when they do not have to be available to take calls.**

**PGW Comment:** - The statement that “call center management is attempting to change...” is incorrect. This work rule has been changed and has not been in effect for a number of years. Currently, “auxiliary time” is only used for restroom breaks or meetings with management. The union representative has stated to management that he agrees that this supposed work rule has not been in effect for a number of years. Therefore, the proposed savings of \$750,000 per year is not correct.

3. **Page VIII-11, Exhibit VIII-5 –**

**PGW Comment:** - Exhibit VIII-5 fails to acknowledge that the average number of FTEs unavailable includes 9 FTE’s who are carried on the roster but are permanently assigned to other functions in the company; i.e. PMO. The reorganization will result in the proper, permanent assignment of all personnel to allow appropriate evaluation of the need across departments.

4. **Page VIII-13, lines 9-15 – To increase the number of personnel available to answer the phone during the fall and winter months, in August 2000, PGW offered “flexibility assignments” to attract up to 28 employee volunteers from the collections unit and district offices to the call center. If PGW does not receive an adequate number of volunteers, it will assign employees to the program based on reverse seniority. To be a volunteer, employees are not required to have any customer service or telephone answering skills.**

**PGW Comment:** - This statement is incorrect. All of the volunteers used are from either Collections or the District Offices. Therefore, all volunteers have telephone and customer service skills and training.

5. **Page VIII-14, lines 8-10 – PGW’s phone system does not provide customers an estimated call waiting time. Customers need this information so that they can control the time they spend on the phone.**

**PGW Comment:** - As stated earlier, this statement is incorrect as the estimated wait time technology was installed October 31, 2000. This change is well within the time period during which other changes were accepted in other chapters of this report.

6. **Page VIII-16, lines 26-30 – Many utilities have moved away from having field personnel collect cash and have instead utilized other methods such as collection agencies and small claims court. Other utilities have found that collection agencies are more cost effective because they specialize in this area and use advanced collection techniques.**

**PGW Comment:** - PGW’s practice should be included in this statement. PGW’s field personnel who act as collection agents are needed in addition to (and not instead of) other collection techniques. PGW’s collection practices have included collection agencies as well as filing municipal liens and/or small claims against non-paying customers.

7. **Page VIII-8, Manual Read Statistics**

**PGW Comment:** - The focus of manual read statistics leaves the reader with the impression that these statistics apply to all meters when the AMR program has been very successful with a read rate of 98%.

8. **Page VIII-18, lines 20-21 – PGW has installed 6,745 AMRs on these accounts over the past two years.**

**PGW Comment:** - The impression left with the reader is that this is not substantial progress when, in fact, it is 45% of the total and the remainder will be completed by 2003. Also, the delay in beginning the installation for industrial and commercial customers was due to the fact that there were no AMR devices for many of these meters.

9. **Page VIII-21, lines 14-16 – Each day’s billing amounts to about \$21 million in cash flow. By eliminating the one-day delay, PGW can attain, over time, a one-time cash flow improvement of \$21 million.**

**PGW Comment:** - This has been translated to a \$21 million estimated one-time benefit in Chapter II, Exhibit II-2 as part of Recommendation VIII-9. This is not

accurate, it is only a cash flow benefit and PGW requests that this estimated benefit be removed from Exhibit II-2. At the end of the cycle, PGW does not have an additional \$21 million. At best it would recognize a benefit equal to one day's interest on this amount. Currently, the additional day can be used for important quality checks that could prevent incorrect billings and additional costs necessary to correct them.

10. **Page VIII-28, Exhibit VIII-16 – CRP and CAP Policy Statement Comparison – The last item on the PGW Tariff concerning “PGW does not forgive arrearages.”**

**PGW Comment:** - Due to changes in governmental programs made since the tariff language was written, PGW cannot forgive arrearages on CRP accounts. However, it is PGW's intent to revise the tariff language so that it enables PGW to forgive arrearages on CRP accounts

11. **Page VIII-36, lines 4-7 – Implement a single customer access phone number and provide cross-training to all customer service representatives (CSR) so that each can address and customer issue. Provide “estimated call wait time” to customers so that they can choose whether or not to remain on hold.**

**PGW Comment:** - A single line is not necessary because with the current technology installed at PGW, it makes no difference to the customer which line is called. Since October 2000, all CSRs are trained in all areas.

12. **Page VIII-37, lines 1-3 – Take steps to reduce the number of estimated bills and ensure that no customer goes over two months without a meter read. Update factors for calculating estimated bills on an annual basis. (Refers to Conclusion 14.)**

**PGW Comment:** - The PUC requires meter reads at least once every six months as stated on Page VIII-17, line 39. This recommendation should reflect that requirement.

13. **Page VIII-37 – lines 7-13 – Take steps to reduce delinquent payments and uncollectable accounts. Establish a goal for write-offs of customer receivables that is consistent with industry standards. Use the Billing, Credit and Collection System (BCCS) to check credit of customers and to report payment histories to credit bureaus as appropriate. Increase customer deposit requirements for chronic delinquent accounts. Reducing PGW's bad debt write-offs to two percent would save PGW over \$28 million per year. (Refers to Conclusion 16.)**

**PGW Comment:** - There needs to be some recognition in this Audit that no other utility in the State has the number or percent of low income customers as does PGW. We agree with asking for deposits and credit checks. However, there is a public

policy issue regarding how aggressively PGW can pursue payment on delinquent accounts that needs to be resolved before the savings listed here and in Chapter II, Exhibit II-2 can be achieved. The \$28 million per year is not realistic in this service area.

14. **Page VIII-38, lines 3-8 – Improve the cost effectiveness of the Customer Responsibility Program (CRP) and make it comply with appropriate provisions of the PUC's Customer Assistance Program (CAP) guidelines. In this regard, it must make the financial controls portion of BCCS operable in March 2001 as planned and to have an independent evaluation of the program prepared in the Summer of 2001 as planned. (Refers to Conclusions 25, 26 and 27.)**

**PGW Comment:** - This Recommendation is outside of PGW's control and is a Public Policy debate issue.

15. **Page VIII-38, lines 9-12 – Eliminate the Senior Citizens Assistance Program and base any future bill reductions on an assessment of need. Elimination of the senior citizen assistance program could save PGW \$13.5 million per year based on the program's cost for 1999. (Refers to Conclusion 30.)**

**PGW Comment:** - The elimination of the Senior Citizen Discount requires action by Philadelphia City Council and is outside of PGW's control. However, even if the program is eliminated, there is no analysis on how total costs will be eliminated. Some of those currently receiving the discount will continue to qualify for assistance under a means test. In addition, another group would switch to CRP, further reducing the estimated annual benefit. Also, the GCR portion of the discounted cost is already recovered through the GCR of other customers and, if the discount is eliminated, will not result in any savings.

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The Project Management Office was created in June, 2000. It drew from the company the very best people knowledgeable about both BCCS and the legacy system and recognized as having strong analytical and training skills. The mission of the PMO since its inception has been to increase the functionality of the Billing, Collections and Customer Service (BCCS) system, first, to a level of system stability, and then to full effectiveness. This was to be accomplished by effective project management of the key prioritized issues. The first several months were spent developing the system metrics and assessing system backlogs. The following are the original, major issues identified and completed:

1. **Billing Exceptions** – There were over 55,000 billing exceptions in June 2000. These included the backlog since the system went live in July 1999. The number of exceptions presently is 250 per cycle that are corrected and bills issued daily. This was accomplished through the CRP cancel and rebilling process and systematically addressing the exceptions in the Customer Affairs Department and Call Center.
2. **Cash Posting Errors** -- Over 18,000 accounts had payments which were not posted last June. PMO directed the effort to have these posted correctly. 6000 errors were systematically corrected and the remainder were manually corrected. This resulted in the proper posting of over \$3,000,000.
3. **Budget Billing** – Problems associated with new or renewing budget billing customers receiving a zero bill the first month after renewal or being placed on the budget was corrected. The 20,000 customers dropped from the program at the time of conversion were placed back on the budget in December.
4. **PLP Solicitation/PLP creation** -- Solicitation files for the FY 2001 Parts and Labor Plan were created. Cash Remittance problems that led to the incorrect posting of some of FY2000 PLP's were corrected. This has eliminated almost all errors that had been associated with the earlier plan. Over 100,000 customers have signed up for the plan resulting in over \$9.2 million of payments in FY 2001. Additional functionality in the mobile software is enabling the accurate tracking of costs which will assist in the evaluation of the program.
5. **CRP Relief Loan** -- Created new CRP loans as directed by the Gas Commission. This relieved all monies owed for a specified time based on number of months unbilled.
6. **Estimated and Unbilled Accounts** – PMO identified and corrected over 70,000 accounts which were estimated in error and were billing for zero usage. This resulted in a manual meter reading effort of the accounts falling into this category which did not have an AMR. The effort resulted in additional billings of \$2.9 million for the month of October. A systematic correction was instituted to estimate the accounts for which we were unable to read the meters. An additional meter reading uploading problem was identified for over 23,000 accounts. The uploading error was identified and corrected resulting in these accounts being billed based on the actual meter reading as opposed to the estimated bill they had been receiving.
7. **Mobile Project** – Phase two was successfully implemented in September. Additional functionality has been added to the system. Some of the quality of the system include:
  - One of the largest and most overlooked qualities of the system in place today is the ability for technicians to complete a full days work without making any request for more information from the system. Each order received by the technician has history, meter information, telephone numbers, and all other pertinent information for that job attached to the order. This reduces the chance of a CGI and allows a technician to complete a rack of work even if communications were lost during his shift.
  - Technicians can access all order information before they even go to their orders by a View Order Detail selection.

- Soft tables allow for certain customizations to wording and table selections that suit PGW's business needs.
- Reporting can be done accurately and customized to fit any business needs.