

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

ORIGINAL

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 Pennsylvania Public Utility Commission :
 v. Philadelphia Gas Works :
 : Docket No.
 Requesting a general rate increase :
 of \$65,000,000. : R-00006042;
 : R-00006042,
 Initial Hearing. : C0001, et al.
 :
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Pages 437 through 664

Hearing Room No. 1
State Office Building
Broad and Spring Garden Streets
Philadelphia, Pennsylvania

Tuesday, May 22, 2001

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

SEAL
MAY 29 2001

J.M.

CYNTHIA W. FORDHAM, Administrative Law Judge

APPEARANCES:

JOHNNIE SIMMS, Esquire
P. O. Box 3265
Harrisburg, Pennsylvania 17105
(For the Office of Trial Staff)

DANIEL CLEARFIELD, Esquire
MARK STEWART, Esquire
Wolf Block Schorr & Solis-Cohen
Suite 300
212 Locust Street
Harrisburg, Pennsylvania 17101
(For Philadelphia Gas Works)

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Commonwealth Reporting Company, Inc.

700 Lisburn Road
Camp Hill, Pennsylvania 17011

APPEARANCES (CONTINUED):

WENDELL F. HOLLAND, Esquire
Obermayer Rebmann Maxwell & Hippel LLP
19th Floor
One Penn Center
1617 JFK Boulevard
Philadelphia, Pennsylvania 19103
(For Philadelphia Gas Works)

WALTER W. COHEN, Esquire
Obermayer Rebmann Maxwell & Hippel LLP
204 State Street
Harrisburg, Pennsylvania 17101
(For Philadelphia Gas Works)

STEPHEN J. KEENE, Esquire
TANYA J. McCLOSKEY
CHRISTY M. APPLEBY, Esquire
Fifth Floor
555 Walnut Street
Harrisburg, Pennsylvania 17101
(For the Office of Consumer Advocate)

STEVEN GRAY, Esquire
1102 Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101
(For the Office of Small Business Advocate)

Commonwealth Reporting Company, Inc.

700 Lisburn Road
Camp Hill, Pennsylvania 17011

APPEARANCES (CONTINUED):

CHARIS BURAK, Esquire
McNees Wallace & Nurick
100 Pine Street
Harrisburg, Pennsylvania 17108
(For the Philadelphia Industrial and
Commercial Gas Users Group)

PHILIP A. BERTOCCI, Esquire
Community Legal Services
Fourth Floor
1424 Chestnut Street
Philadelphia, Pennsylvania 19102
(For CEPA, ACORN, TAG and Action Alliance)

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Commonwealth Reporting Company, Inc.

700 Lisburn Road
Camp Hill, Pennsylvania 17011

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P R O C E E D I N G S

ADMINISTRATIVE LAW JUDGE CYNTHIA WILLIAMS FORDHAM:

1
2
3 Good morning. I am Administrative Law Judge Cynthia
4 Williams Fordham and this is the time and place for the
5 hearing in the matter of Pennsylvania Public Utility
6 Commission versus the Philadelphia Gas Works at Docket
7 Number R-00006042.

8 There have been a number of other complaints filed
9 in this case at Docket Nos. C-0001 through C-0171, and
10 then there have been some additional complaints that have
11 been added.

12 At this time I would ask Counsel to enter their
13 appearances, starting with Counsel for PGW.

14 MR. CLEARFIELD: Thank you, Your Honor.

15 I am Daniel Clearfield of Wolf Block Schorr &
16 Solis-Cohen. With me is my colleague Mark Stewart. We
17 are representing PGW.

18 MR. HOLLAND: I am Wendell Holland from Obermayer
19 Rebmann Maxwell & Hippel.

20 MR. COHEN: Walter Cohen from Obermayer also.

21 JUDGE FORDHAM: Mr. Simms.

22 MR. SIMMS: Good morning, Your Honor. Johnnie
23 Simms from the Office of Trial Staff.

24 MR. KEENE: Good morning, Your Honor. Stephen
25 Keene from the Office of Consumer Advocate. With me is

COMMONWEALTH REPORTING COMPANY, INC.

1 (800) 334-1063

1 Tanya McCloskey and Christy Appleby.

2 MS. BURAK: Good morning, Your Honor. This is
3 Charis Burak. I am with McNees Wallace & Nurick and I am
4 here on behalf of the Philadelphia Industrial and
5 Commercial Gas Users Group.

6 JUDGE FORDHAM: Thank you.

7 MR. GRAY: Good morning, Your Honor. Steven Gray
8 for the Office of Small Business Advocate.

9 JUDGE FORDHAM: Thank you.

10 MR. BERTOCCI: Good morning, Your Honor. I am
11 Philip Bertocci. I am with Community Legal Services and
12 I represent the Consumers Education and Protective
13 Association, The Association of Community Organizations
14 for Reform Now, Tenants Action Group and Action Alliance
15 of Senior Citizens.

16 JUDGE FORDHAM: Thank you.

17 Let me give a brief history of this proceeding and
18 then we have a couple of housekeeping matters before we
19 proceed with the testimony.

20 On January 5, 2001, the Philadelphia Gas Works
21 filed Supplement No. 7 to Tariff Gas Pennsylvania PUC No.
22 1 with the Pennsylvania Public Utility Commission. This
23 supplement was scheduled to become effective on March 6
24 of 2001. In this tariff PGW proposed changes in the
25 rules, regulations and rates calculated to produce \$65

1 million in additional annual revenues. In addition, they
2 filed the testimony of six witnesses.

3 Concurrently they filed a petition for waiver of
4 potentially applicable notification and filing
5 requirements and establishment of expedited hearing
6 schedule for the base rate proceeding. There were
7 comments filed by the Office of Consumer Advocate, Office
8 of Trial Staff, the Philadelphia Industrial and
9 Commercial Gas Users Group, the Consumer Education and
10 Protective Association, the Association of Community
11 Organizations for Reform Now, Action Alliance of Senior
12 Citizens of Greater Philadelphia and the Tenants Action
13 Group.

14 On February 2nd PGW filed revised testimony of
15 their original six witnesses.

16 By order entered on February 8, 2001, the
17 Pennsylvania Public Utility Commission instituted an
18 investigation into the lawfulness, justness and
19 reasonableness of the proposed rate increase. Pursuant
20 to section 1308(d) of the Public Utility Code Supplement
21 No. 7 to Tariff Gas Pa. PUC No. 1 was suspended by
22 operation of law until October 6, 2001, unless otherwise
23 directed by order of the Commission. In addition, the
24 Commission ordered that the investigation include
25 consideration of the lawfulness, justness and

1 reasonably of PGW's existing rates. The matter was
2 assigned to the Office of Administrative Law Judge for
3 resolution by hearing and for issuance of a recommended
4 decision.

5 The petition for waiver of potentially applicable
6 notification and filing requirements and establishment of
7 expedited hearing schedule for base rate proceeding was
8 granted in part and denied in part. The request for
9 waiver of 52 Pa. Code section 53.45(a), which requires
10 that the utility file with the Commission written notice
11 30 days prior to the filing was granted. The request to
12 provide notice to customers under the alternative method
13 set forth in 52 Pa. Code section 53.45(b)(4) was also
14 granted. PGW's request for waiver from providing the
15 information required at 52 Pa. Code sections 53.52 and
16 53.53 was denied.

17 There had been a previous filing by PGW on August 8
18 of 2000. That was an interim base rate case. That was
19 filed with the PUC and an expedited proceeding was
20 requested. That request was granted by the PUC.

21 After the hearings the Commission entered its
22 opinion and order on November 22 of 2000, allowing PGW an
23 \$11 million rate increase with certain conditions. The
24 rates were not increased at that time because PGW
25 appealed this order to Commonwealth Court.

1 On February 8, 2001, PGW and the Commission's Law
2 Bureau filed a joint settlement petition resolving the
3 issue raised in the appeal. The Commission approved the
4 joint settlement petition by order enter February 22,
5 2001. Therefore, effective March 1st, 2001, the gas cost
6 rate increased and the customer charge for residential
7 customers, commerical customers and industrial customers
8 also increased. PGW did file those tariff revisions with
9 the Commission on March 1st.

10 On March 12, 2001, the OCA filed a motion to
11 dismiss objections and compel answers to various
12 interrogatories. PGW filed an answer to the motion to
13 compel on March 16 of 2001. On March 20, 2001, CEPA, et
14 al., filed a letter memorandum in support of OCA's motion
15 to dismiss objections and compel answers. PGW filed a
16 motion in limini on March 21, 2001. On March 22nd, 2001,
17 CEPA, et al., filed a motion to dismiss objections and
18 compel answers to various interrogatories. On March 28,
19 2001, PGW filed an answer to the motion.

20 Public input hearings were held in this matter on
21 March 28 and 29 of 2001 in Philadelphia.

22 On April 2nd, 2001, OCA, OTS, the commerical group,
23 CEPA, et al. filed answers to the motion in limini. On
24 April 6, 2001, PGW filed a reply to the answers to the
25 motion in limini or in the alternative request for leave

1 to respond and response to answers of the intervenors.

2 On April 10 the testimony was filed by the Office
3 of Trial Staff, Office of Consumer Advocate, Office of
4 Small Business Advocate and the commercial group.

5 On April 13, 2001, the Presiding Officer issued
6 Order No. 3 denying PGW's motion in limini. Order No. 4
7 granting OCA's motion to dismiss objections and compel
8 answers was issued on April 17, 2001. Order No. 5
9 granting in part CEPA, et al.'s motion to dismiss
10 objections and compel answers was issued on April 19 of
11 2001.

12 There were a number of complaints assigned to the
13 Presiding Officer on April 16, 2001: Ida Holloway versus
14 Philadelphia Gas Works at Docket No. C-00014826; Regina
15 M. Krohn versus PGW at Docket No. C-00014827; Zina
16 Hampton versus PGW at Docket No. C-00014828; Mary and
17 Salvatore Danese versus PGW at Docket No. C-00014843;
18 Fredrick Karcher versus Philadelphia Gas Works at Docket
19 No. C-00014910; Jessie Cardine Hairston versus
20 Philadelphia Gas Works, Docket No. C-00015037; Cora M.
21 Turpin versus PGW at Docket No. C-00015044, Stella Miller
22 vesus PGW at Docket No. C-00015045; Mrs. Frank Boettcher
23 versus Philadelphia Gas Works at Docket No. C-00015046;
24 Themiah Waters versus PGW at Docket No. C-00015047;
25 Walter Stukowski versus PGW Docket C-00015048; Lester

1 Herbert versus Philadelphia Gas Works Docket No.
2 C-00015050; Florence Preisano versus PGW at Docket No.
3 C-00015098.

4 By secretarial letter dated April 24, 2001, the
5 Commission appointed an Administrative Counsel to offer
6 the management audit into the record in this proceeding.
7 On April 26, 2001, Stanley E. Brown, Esquire, entered his
8 appearance as Administrative Counsel.

9 By Order No. 6 dated May 7, 2001, the 13 complaints
10 that were C dockets were consolidated with the current
11 case.

12 Rebuttal testimony was filed by PGW, OCA, OSBA and
13 OTS on May 8 of this year. Then surrebuttal testimony
14 was also filed on May 16.

15 We have the testimony of Mr. Wheaton, who is the
16 witness for the Administrative Counsel. His testimony
17 was filed last Thursday on May 17. And then we have the
18 response from Mr. Knudsen which was dated yesterday
19 evening and has been provided today.

20 That is what has happened in this case so far.

21 We did have a conference call last Thursday and
22 there was an issue that was raised by Mr. Bertocci
23 regarding the petition. At this time I will have that
24 discussion on the record and have a decision on that
25 matter.

1 Mr. Bertocci.

2 MR. BERTOCCI: Yes, Your Honor.

3 I wanted to offer into evidence a petition which
4 was gathered by CEPA and some of the other organizations
5 that I represent. It contains 730 signatures. The
6 document that I have is the original here with the
7 signature sheets. Tina Nelson of CEPA is here if
8 testimony should be required to authenticate this
9 document as to how the signatures were collected.

10 What I was proposing was that one of the reasons
11 that the petition was put together was because the notice
12 for the input hearings was very short. Newspaper notice
13 appeared on Monday and the hearings began on Wednesday.
14 And for that reason many people that might have
15 participated in the input hearings just weren't able to
16 do it on such short notice. CEPA felt that those people
17 should have a way of presenting and having their opinions
18 and having their interests expressed on the record in
19 this proceeding in the same way as if they appeared at
20 the public input hearings.

21 The petition really has two parts to it. Some has
22 to do with statements of fact and some of it has to do
23 with a request that the petition -- that the PUC reject
24 any rate increases, that it tie the city payment in the
25 future to efficient performance by the gas works and that

1 it initiate an investigation into the price fixing of
2 natural gas. So there are really two parts to it. There
3 are some factual allegations: bills are not clear and
4 concise -- maybe that is opinion -- customer service
5 remains at unacceptable levels, gas prices have
6 skyrocketed, people were not able to come to the public
7 input hearings because of the short notice.

8 So what I would move is that this be entered into
9 evidence as if it was a petition presented by someone
10 coming to the Public Input Hearing in the first place and
11 saying I have testimony to present and by the way I got
12 my neighbors to sign this petition also.

13 JUDGE FORDHAM: Mr. Clearfield.

14 MR. CLEARFIELD: Your Honor, PGW certainly doesn't
15 oppose customers putting on the record or stating their
16 opinion about the rate increase. What we think is
17 inappropriate is that it be placed on the evidentiary
18 record at this time. This isn't evidence. It does not
19 satisfy any of the requirements for evidence. As I
20 understand it, even the CEPA witness would not be able to
21 testify that she in fact gathered every one of these
22 signatures, that each person on there was a PGW customer,
23 for example.

24 So I guess as a compromise I would propose that it
25 be placed in the public input record along with the other

1 petitions and the Commission can consider it as it sees
2 fit.

3 JUDGE FORDHAM: And by putting it in the public
4 input record, do you mean just submit it to the
5 Commission?

6 MR. CLEARFIELD: As part of the material that was
7 gathered at the public input session. If we could just
8 designate that it was cumulative testimony that was
9 provided or cumulative material that was submitted at the
10 public input hearings, I think that is a reasonable
11 compromise.

12 JUDGE FORDHAM: Mr. Bertocci.

13 MR. BERTOCCHI: Your Honor, I am not sure I quite
14 understand what the proposal is. Because there are two
15 kinds of testimony at public input hearings. There is
16 testimony under oath and testimony and there is testimony
17 that is not under oath. People are told that testimony
18 under oath becomes part of the record and can be cited in
19 briefs in support of various positions. That is what we
20 would be offering this petition for.

21 Ms. Nelson is prepared to testify as to her
22 knowledge about these signatures. I think a large number
23 of these signatures were actually made before her eyes.
24 The document speaks for itself as to the people signing
25 them saying that they are consumers or customers of the

1 Philadelphia Gas Works. So in that respect the documents
2 do give enough assurance so that they should be part of
3 the record.

4 MR. CLEARFIELD: Your Honor, that is not
5 sufficient. The reason the witnesses are asked to swear
6 that the testimony is true and correct at the public
7 input is to give some assurance that in fact the
8 testimony is truthful. We also have the right, in fact,
9 as a standard practice to request that they indicate that
10 they are in fact customers of the company that they are
11 testifying against. So to put this in the record at this
12 time as 800 or whatever number of additional people who
13 testified at the public input hearing under oath would, I
14 think, be unfair to the company.

15 We would accept it as part of the correspondence
16 file, which as I understand it any non-sworn testimony
17 would be put into the public input hearing record as
18 well.

19 MR. BERTOCCI: Your Honor, if I may, at the public
20 input hearings people can testify who are consumers of
21 gas of PGW. A tenant, for example, who may not be an
22 actual customer but pays paid for gas through his rent is
23 welcome to testify at public input hearings. Let's
24 remember that the testimony that is offered at public
25 input hearings is really a combination of fact and

1 opinion and as opinion we don't have any problem at all
2 with hearsay. As to fact, there is rarely any
3 cross-examination because there is a custom of giving the
4 testimony at public input hearings the weight that it
5 appears to deserve under all the circumstances. For
6 those reasons I think it is quite appropriate for this
7 document to be entered as being presented under oath and
8 we certainly have someone here ready under oath to state
9 exactly the conditions under which this document was
10 collected.

11 JUDGE FORDHAM: With respect to the public input
12 hearings, there were two people who did present petitions
13 and I did ask them about the petitions that they
14 presented. They indicated that they had circulated them
15 and they were the ones that collected all of the
16 signatures. I did allow latitude during the public input
17 hearings for that.

18 At this time we are here for the experts to provide
19 testimony and we do have a number of people who have
20 already submitted complaints in this matter. We do have
21 171 complaints in this matter. We had three public input
22 hearings. I believe at least 30 people testified the
23 afternoon on the first day, approximately 20 or 25 the
24 evening of the first day and then the second day about
25 40. So people did testify.

1 With respect to putting this in the record as under
2 oath, I reject that. I do accept the objections of PGW
3 to indicate that they can be put in the record but it
4 will not be put in the record as if it was under oath at
5 the public input hearing.

6 MR. CLEARFIELD: Thank you.

7 MR. BERTOCCI: Very well, Your Honor. Should I
8 submit the originals to the Court at this time?

9 JUDGE FORDHAM: Yes.

10 MR. BERTOCCI: And a copy for the court reporter?

11 JUDGE FORDHAM: Yes.

12 Do you want to mark these?

13 MR. BERTOCCI: They should be marked but as the
14 Court finds appropriate. If they are going into the
15 correspondence file I'm not sure whether they should be
16 marked as an exhibit at this hearing.

17 MR. CLEARFIELD: Generally items that go in the
18 correspondence file don't get marked as exhibits.

19 JUDGE FORDHAM: Okay. Let's mark it CEPA
20 Submission so we know where it came from.

21 MR. BERTOCCI: That's fine.

22 MR. CLEARFIELD: That's fine.

23 (Whereupon, the document was marked as CEPA

24 Submission for submission to the correspondence
25 file.)

1 JUDGE FORDHAM: Do we have anything else before we
2 start the cross-examination?

3 MR. CLEARFIELD: Yes, Your Honor. I had a couple
4 of housekeeping matters.

5 JUDGE FORDHAM: Okay.

6 MR. CLEARFIELD: As you know, we are submitting for
7 cross-examination several witnesses today. The order
8 that we have discussed with the parties and it would be
9 convenient for the schedule of the witnesses is
10 Ms. Bisgaier, Mr. Sullivan, Mr. White, Mr. Bogdonovage
11 and Mr. Knudsen.

12 JUDGE FORDHAM: Okay.

13 MR. CLEARFIELD: And for, I believe, each of those
14 witnesses we have some short rejoinder that we propose to
15 put on before they have cross-examination so that the
16 parties can cross-examine on both the rejoinder and on
17 the rest of their testimony.

18 JUDGE FORDHAM: Okay.

19 MR. CLEARFIELD: Secondly, I discussed with the
20 parties a proposal to potentially streamline the hearings
21 a tad. And that is the potential of having all the
22 parties stipulate that the authenticity of the
23 pre-prepared, pre-submitted testimony is all true and
24 correct to the knowledge of the witnesses and that it
25 would be admitted into the record subject to any timely

1 motions to strike all or part of it that a party would
2 want to raise. And the purpose of that, Your Honor, is
3 to avoid our sort of traditional litany of authenticating
4 each piece of testimony when the witness is present.
5 That can save maybe a little time.

6 JUDGE FORDHAM: So that is a stipulation for all of
7 the testimony that has been filed?

8 MR. CLEARFIELD: Yes, for all parties.

9 JUDGE FORDHAM: Okay.

10 MR. CLEARFIELD: And then what I would propose is
11 that as each witness is submitted the attorney sponsoring
12 the witness for the record just state the pieces of
13 testimony that that witness is sponsoring so that it is
14 clear and there is no confusion.

15 JUDGE FORDHAM: Thank you.

16 MR. CLEARFIELD: The other item that we wanted to
17 place on the record is we have had discussions with
18 several of the parties yesterday and today and it appears
19 that there is no cross-examination for Mr. Lukens at this
20 time, who was scheduled for tomorrow, I believe.

21 JUDGE FORDHAM: Yes.

22 MR. CLEARFIELD: We have agreed that Mr. Lukens
23 does not have to appear. So his testimony would be
24 entered into the record. The Trial Staff may have a
25 statement to make at that time, which is fine, with

1 respect to their position on the testimony and we have no
2 objection to that. And we thank the parties for their
3 courtesy for telling us and allowing us to avoid the cost
4 of having Mr. Lukens come to the hearings.

5 JUDGE FORDHAM: Previously I thought OCA was going
6 to cross. You have decided not to?

7 MR. KEENE: Yes. We have no cross for Mr. Lukens.

8 JUDGE FORDHAM: Thank you.

9 MR. CLEARFIELD: My co-Counsel, Mr. Holland, has
10 one other preliminary matter.

11 JUDGE FORDHAM: Mr. Holland.

12 MR. HOLLAND: I believe as you noted in your
13 preliminary remarks, Your Honor, that the supplemental
14 rebuttal testimony of Tom Knudsen with respect to the
15 management audit has been received by you. We delivered
16 it to the parties last night and this morning. And
17 everyone got, I believe, a copy of it by E-mail last
18 night. So another housekeeping matter out of the way.

19 JUDGE FORDHAM: Thank you.

20 MR. HOLLAND: Thank you, Your Honor.

21 MR. CLEARFIELD: That's all the preliminary matters
22 that I had.

23 JUDGE FORDHAM: Does anyone else have anything.
24 Mr. Bertocci?

25 MR. BERTOCCI: Your Honor, we also discussed the

1 CEPA exhibit of answers to interrogatories which went to
2 things like company cars, the cafeteria subsidy, the 25
3 year century banquet, political lobbying and some things
4 concerning customer service which I want to have entered
5 into the record. I don't know whether now is the
6 appropriate time or whether the appropriate time would be
7 after the company has submitted the cross-examination.

8 JUDGE FORDHAM: Maybe it would it would be better
9 after the company submitted its cross-examination.

10 MR. CLEARFIELD: For the record, Your Honor, I
11 believe the questions on all these issues can be
12 addressed to Mr. Knudsen. There were different
13 individuals who sponsored them but rather than require
14 each of those individuals to appear Mr. Knudsen -- they
15 were all prepared under his supervision and direction so
16 that might be the best time to deal with this issue.

17 JUDGE FORDHAM: Thank you.

18 Anything further?

19 (No audible response.)

20 JUDGE FORDHAM: If not, Mr. Clearfield.

21 MR. CLEARFIELD: We would call Ms. Bisgaier to the
22 stand.

23 Whereupon,

24 BARBARA BISGAIER

25 having been duly sworn, testified as follows:

COMMONWEALTH REPORTING COMPANY, INC.

1 (800) 334-1063

1 JUDGE FORDHAM: Would you state your name and
2 business address for the record and please spell your
3 last name.

4 THE WITNESS: It is Barbara Bisgaier,
5 B-I-S-G-A-I-E-R. I am a managing director of Public
6 Financial Management, which is located at Two Logan
7 Square, Philadelphia, Pennsylvania 19103.

8 MR. CLEARFIELD: Your Honor, Ms. Bisgaier has
9 submitted direct testimony as PGW Statement 2.0 which has
10 two exhibits, Exhibit BB-1 and BB-2, and she has also
11 submitted PGW Statement 2.1.

12 (Whereupon, the documents were marked as PGW
13 Statements Nos. 2.0 and 2.1 and Exhibits Nos. BB-1
14 and BB-2 for identification.)

15 MR. CLEARFIELD: Before we turn her over for cross
16 on those statements, in her rebuttal testimony she
17 indicated that at the time of her appearance today she
18 would endeavor to provide an update of the status of
19 PGW's contemplated bond issuance and the status of the
20 renewal of PGW's line of credit that backs up the
21 commercial paper program. I would ask with your
22 indulgence that Ms. Bisgaier provide that update at this
23 time.

24 JUDGE FORDHAM: Thank you.

25 You may proceed.

1 DIRECT EXAMINATION

2 THE WITNESS: Good morning.

3 Unfortunately we have no good news to report on the
4 status of either of those things.

5 With regard to the commercial paper, first, the
6 commercial paper is a \$100 million short-term financing
7 mechanism that PGW had over the past 20 or so years used
8 to make cash available on a timely basis during the
9 course of the year because their revenues come in
10 consolidated over the winter and they need to level off
11 their cash during the year. So like many companies PGW
12 borrowed -- it was like a line of credit -- to keep
13 cashflow on a steady basis during the course of the year.

14 The commercial paper market, the municipal
15 commercial paper market that PGW participates in,
16 requires that the commercial paper have the very highest
17 credit rating. And in order to achieve that virtually
18 all government entities that do commercial paper get a
19 letter of credit from a commercial bank or a group of
20 commercial banks to support the commercial paper so that
21 the purchasers of the commercial paper really are not
22 relying on PGW to pay them back, they are relying on this
23 backstop of a letter of credit.

24 In 1999 PGW obtained a letter of credit from J.P.
25 Morgan, which has the highest short-term credit rating,

1 and it was a two year letter of credit. That is a
2 standard term for a letter of credit in today's market.

3 That letter of credit expires on June 5 of this
4 year, which happens to be two weeks from today. If we
5 are unable to replace or renew that letter of credit a
6 number of very bad results will result. Right now we are
7 negotiating with the banks to replace the letter of
8 credit or to -- I'm sorry -- to renew the letter of
9 credit.

10 In the normal course of events we would have done
11 this a year ago. In fact, last June Mr. Knudsen and I
12 met with Morgan Guaranty and pursuant to the agreement we
13 had we had the right one year before the expiration date
14 to request an extension. This is called an evergreen
15 feature. So you always know that you've got an extension
16 running a year past the expiration date. In the normal
17 course of events they would that have taken a few weeks
18 and gotten back to us and said, fine, yes, it is extended
19 to 2002.

20 When we asked in June of 2000 for the extension
21 they said we need to see what is going to happen, there
22 is too much in play right now. We don't know the answer
23 to a lot of questions. So since last June we have had
24 countless phone calls, meetings, you know, back and forth
25 with them to get them to commit to the extension of the

1 letter of credit.

2 We have been partially successful. We've gotten
3 Morgan Guaranty and another bank -- a Canadian bank -- to
4 agree to extend the letter of credit for 14 months from
5 June but only in the amount of \$50 million. We have not
6 gotten commitments from other banks -- the banks
7 typically form a syndicate and Morgan has limited its
8 exposure to \$25 million, the Canadian bank has limited
9 its exposure to \$25 million and we are currently still
10 negotiating with a number of local banks to get their
11 participation in various pieces to get it up to the \$100
12 million level.

13 If we are unsuccessful in getting the \$100 million
14 letter of credit extension, all or a portion of the
15 commercial paper program will collapse.

16 Next Friday, the 31st, is the date on which PGW is
17 prevented from remarketing their commercial paper again.
18 On May 31 they will owe \$100 million to the note holders.
19 Obviously PGW does not have \$100 million. There will be
20 a draw on the letter of credit and PGW will then owe this
21 consortium of banks \$100 million. In order to avoid that
22 event we need to get an additional \$50 million of bank
23 commitments from local Philadelphia banks to participate
24 in the letter of credit.

25 I can't stress enough how normal it would have been

1 to get this a year ago. It is the unknown condition of
2 PGW and what has gone on for the past year that has
3 prevented this from happening. And now we are really
4 past the 11th hour, the 11th and-and-a-half hour, in this
5 matter.

6 PGW would like to be able to reduce its reliance on
7 this letter of credit and the commercial paper program in
8 the future. If you look at the Black & Veatch report, it
9 lays out a strategy for paying down the commercial paper
10 over a five year period of time a little bit at a time in
11 an orderly fashion. And that is, of course, dependent on
12 getting the \$53 million in rate relief.

13 The second thing that is dependent on getting the
14 letter of credit and the commercial paper revitalized for
15 another year is that a failure to do that will prevent
16 PGW from entering the bond market as it now plans to do
17 in June. PGW is planning to sell approximately \$110
18 million -- it may go up as high as 140 million -- of what
19 we call the third series of revenue bonds in June.

20 Because PGW currently has the lowest level of bond
21 rating above junk bond -- they are not junk bonds yet;
22 they are one step above junk bonds -- if the commercial
23 paper program is not renewed in my opinion, my very
24 strong opinion, PGW will be downgraded from investment
25 grade to junk bond status. That will prevent PGW from

1 getting bond insurance and most assuredly limit PGW's
2 ability to sell those bonds.

3 The proceeds of the bonds are to be used both for
4 the main replacement program and for the revitalization
5 of the liquid natural gas, the LNG, plant and PGW has no
6 other way to continue the maintenance of the main
7 replacement program and the upgrade of the LNG plant
8 without those bond proceeds.

9 So right now both the commercial paper and the
10 bonds are in limbo and I can't tell you at this time,
11 although I had hoped to, what the outcome of that is
12 going to be.

13 BY MR. CLEARFIELD:

14 Q. You mentioned level of the bonds at 110 to 140
15 million. How much of that would be for capital
16 improvement and how much of that would be for other
17 items?

18 A. 110 is for capital improvement.

19 Q. What would the rest be for?

20 A. The balance would be used to do what is called
21 a refunding, which would be to allow PGW to replace
22 existing debt service with new debt service on these
23 bonds. A refinancing of existing debt service.

24 Q. Does that complete your update?

25 A. Yes.

1 Q. Just one question or two on rejoinder,
2 Ms. Bisgaier.

3 Looking at Mr. Lelash's surrebuttal, page two, he
4 disputes your testimony that investors are expecting the
5 PUC to grant at least a \$53 million rate increase based
6 on the Black & Veatch report. Why do you believe that
7 investors are expecting the results that have been shown
8 in the Black & Veatch report?

9 A. The Black & Veatch report would actually be
10 physically printed in the offering document that
11 investors would receive and the purchasers of these
12 bonds, if we get to the point where we can sell them, are
13 as sophisticated -- this is a product that would be
14 bought by sophisticated institutional investors like the
15 Fidelity Fund or the Vanguard Fund, those kind of
16 investors, who will study that report and analyze it
17 closely and make the decision as to whether or not they
18 should buy the bonds.

19 In that report they are looking at basically two
20 critical items. One is that the Black & Veatch report
21 relies on the fact that the PUC is required to grant rate
22 relief sufficient to meet the bond covenants. And the
23 bond covenants -- there are many of them but the two most
24 important ones from an investor point of view are that
25 PGW be able to pay its bills and operate -- pay its bills

1 when they are due and operate -- and that it be able to
2 set rates and charges -- that the PUC set rates and
3 charges that are sufficient to meet the operating
4 requirements and the debt service and debt service
5 coverage requirements of PGW.

6 Black & Veatch has based its report on that
7 assumption and based on that they have concluded that \$53
8 million of rate relief is needed. The bondholders will
9 rely on Black & Veatch as an independent expert and
10 accept their judgement that that is in fact needed and
11 appropriate.

12 Q. Mr. Lelash points out that the renewal of the
13 commercial paper and the issuance of the bonds will occur
14 hopefully in the next month or so. How will that have
15 any effect, how will this rate increase decision by the
16 Commission have any effect on those items or the
17 company's financial ability to go to the market?

18 A. It is possible that because no decision will be
19 made in that timeframe that prospective purchasers of the
20 bonds and the providers of the letter of credit for the
21 commercial paper will be relying on Black & Veatch and on
22 the assumptions in that report, that the PUC is going to
23 act in a certain fashion in setting rates. Because the
24 final action won't be determined in this timeframe they
25 will give the benefit of the assumption to the Black &

1 Veatch report.

2 If the PUC were to subsequently act after the
3 commercial paper is renewed and after the third series
4 bonds are sold and come in with a number that is
5 different than that and doesn't meet the bond covenants,
6 those bondholders have no recourse. A bad thing won't
7 happen with the third series bondholders but for sure PGW
8 will be unable to sell bonds in the future and when the
9 commercial paper letter of credit is up for renewal in
10 August of 2002, the 14 month renewal, absolutely there
11 will be no way to get that commercial paper renewed.

12 So in effect PGW may have a slight benefit now of
13 the unknown and based on the Black & Veatch report the
14 prospective bond buyers and the commercial banks will be
15 relying on Black & Veatch. This will be the last time
16 that that happens if that level of rate relief is not
17 granted.

18 MR. CLEARFIELD: That is all I have, Your Honor for
19 rejoinder. Ms. Bisgaier is available for cross.

20 JUDGE FORDHAM: Mr. Simms.

21 MR. SIMMS: Thank you, Your Honor.

22 CROSS-EXAMINATION

23 BY MR. SIMMS:

24 Q. Good morning.

25 A. Good morning.

1 Q. Ms. Bisgaier, on your direct testimony you made
2 a reference to Morgan being concerned about the interim
3 rate case and the actions of the PUC with regard to the
4 GCR before it acts on PGW's requested extension, did you
5 not?

6 A. Yes.

7 Q. What GCR are you referring to in your
8 testimony?

9 A. Morgan had not a specific GCR -- not one of the
10 specific filings in mind. What Morgan had expressed to
11 myself and to Mr. Knudsen was a concern that in the -- I
12 believe it was in the interim case and forgive me for not
13 quite understanding all these different cases.

14 Q. I understand.

15 A. That one of the things that Morgan was
16 concerned about -- and this was going back to November or
17 December of 2000 -- that as rates -- as natural gas costs
18 were going up they were very concerned that PGW have the
19 ability to go back to the PUC on a fairly regular basis
20 if necessary as gas costs were going up. And so it was
21 more having the access to that kind of opportunity to
22 request an increase in the GCR rather than a specific GCR
23 and a specific number that they were concerned about.
24 And they were very happy with the order that came down
25 from the PUC in that regard.

1 Q. Okay. That was going to be my next question.
2 So Morgan understands that after the interim and the GCR
3 in November of 2000 that the GCR tools available to PGW
4 change?

5 A. That is exactly right. And they were very
6 pleased with that. And that is frankly one of the
7 reasons that they have agreed to continue providing their
8 portion of the letter of credit.

9 Q. With that change available to PGW such as the
10 quarterly filings did the management of PGW contact you
11 regarding the April 2nd update, quarterly update?

12 A. I don't think so.

13 (Pause.)

14 A. Forgive me. I'm not sure which update that is.
15 I would not in the normal course have any involvement in
16 their GCR filings.

17 Q. I understand that. I guess my question to you
18 is whether or not the management of PGW contacted you and
19 made an inquiry as to how Morgan or any other bank would
20 feel if in fact they did not recognize increased gas
21 costs in their quarterly filings with the Commission.

22 A. I did not have that discussion with PGW.

23 Q. Now, on page seven of your direct testimony you
24 make reference to the fact that the commercial papers
25 have essentially become a permanent part of PGW's capital

1 structure, do you not?

2 A. I do.

3 Q. Is your statement that the commercial paper has
4 been used to pay for permanent capital assets?

5 A. No, it is not.

6 Q. Can you explain the purpose of your statement?

7 A. Sure. I think the best way to think about the
8 commercial paper is as though you had a home equity line
9 of credit and you decided that you needed to borrow a
10 little bit on the line of credit to pay some bills. And
11 then, you know, over the next three months you pay it
12 back and maybe next year you borrow again and then you
13 pay it back. That is how the commercial paper was meant
14 to be used, to just smooth over your cashflows.

15 When I say that it has become a permanent part of
16 the capital structure that is in fact what PGW used the
17 money for, but they have not paid it back. The \$100
18 million has been outstanding now for several years
19 without being able to pay it back. So although they
20 didn't use it for capital items as we think of capital
21 items, they have no ability to pay it back right now. So
22 it becomes a permanent loan.

23 It's as though you had your home equity line of
24 credit fully exposed and you never paid anything but the
25 interest and you could never pay down the principal

1 amount. That is where PGW is with that 100 million right
2 now.

3 Q. So in essence instead of short-term debt we now
4 of long-term debt?

5 A. Well, it is short-term debt because of the
6 nature of the notes. But I think in the sense that you
7 mean it is permanent. It is permanent and until they
8 start to pay it down the way you would a home equity loan
9 it is going to be outstanding in the full amount and they
10 are going to have interest due on it all the time. It is
11 kind of like financing your day-to-day home operations on
12 a credit card. It's not a whole lot different than that.

13 Q. Now, although I know you didn't prepare the
14 report, the Black & Veatch report presents a series of
15 payoffs for the commercial papers?

16 A. Yes.

17 Q. And that is one of the items that Morgan and
18 the other banks are looking at?

19 A. Yes. That's correct.

20 MR. SIMMS: That concludes my cross-examination,
21 Your Honor.

22 JUDGE FORDHAM: Thank you.

23 Mr. Keene.

24 MR. KEENE: Your Honor, if I could just have a
25 moment, please.

1 JUDGE FORDHAM: Sure.

2 (Pause.)

3 MR. KEENE: Your Honor, I am ready whenever you
4 are.

5 JUDGE FORDHAM: You may proceed, Mr. Keene.

6 MR. KEENE: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. KEENE:

9 Q. Good morning, Ms. Bisgaier. I am Steve Keene
10 with the Pennsylvania Office of Consumer Advocate.

11 A. Good morning.

12 Q. I want to start with page six of your direct
13 testimony. There you testify that without the requested
14 rate relief PGW will not be able to meet its bond
15 coverages in the fiscal year 2001 and its credit rating
16 will be downgraded by the credit rating agencies, isn't
17 that correct?

18 A. Yes.

19 Q. And that opinion was based on projections
20 provided by PGW at the time of your direct testimony --
21 at the time your direct testimony was filed in January,
22 isn't that correct?

23 A. That's correct.

24 Q. And, again, on page six -- rather, let me just
25 turn to your update on the bond issue. I believe you

1 testified that the bonds that will be issued are
2 purchased by sophisticated institutional investors, isn't
3 that correct?

4 A. That's right.

5 Q. Don't you think that these sophisticated
6 investors understand or review the rate setting process
7 that is taking place here?

8 A. They won't make an independent review of that
9 process. They won't read these proceedings. They won't
10 read any of these filings. Basically they will conduct
11 their review by reading the offering document called the
12 preliminary official statement which has appended to it
13 Black & Veatch report and certain other opinions as to
14 the -- bond related opinions. But that is what they will
15 base their review on.

16 Some of them may do a search, look at newspaper
17 articles. I doubt if they are going to make their credit
18 review based on the Daily News, but they will look at
19 those kinds of articles. And that is what they will base
20 it on. They will not not make an independent evaluation
21 of this process.

22 Q. Do you know whether financial analysts will
23 contact parties to these proceedings to determine what
24 their positions are on these issues?

25 A. There are a number of -- because PGW has so

1 much debt outstanding already there are a number of
2 investment firms like the kinds that I mentioned that
3 already own PGW bonds. And in the normal course they do
4 what is called surveillance. Any bonds that they own in
5 their portfolio, they don't just buy those bonds and put
6 them away. Somebody might own bonds that they bought
7 eight years ago and in the normal course once a year they
8 will do a review or a surveillance of the underlying
9 credit of the bonds that they already own.

10 In the course of doing that they will call PGW,
11 they will call me, they will call PGW's accountants. I
12 think it is possible that in this instance because of the
13 change of the jurisdictional -- the regulation of PGW
14 from the PGC to the PUC that has obviously been covered
15 extensively in the paper and they might have questions
16 about that. So I would think it would not be not unusual
17 away from a bond issue for them to call and try to
18 understand what from a staff level prospective the PUC is
19 thinking about.

20 Q. And you don't think they are reviewing the
21 positions that the other parties in the proceeding have
22 put forward?

23 A. They may be but I would find that fairly
24 unusual. But they may be. Some diligent analyst
25 somewhere may be doing that, especially if it is a fund

1 like the Delaware Fund or the Vanguard Fund that is based
2 in the Philadelphia area and sort of see this stuff in
3 the papers on a regular basis. I think it is unlikely
4 that a fund analyst in Boston has that level of attention
5 to the daily doings of this.

6 Q. In 1998 there were two classes of debt created
7 for PGW, isn't that correct?

8 A. Yes.

9 Q. And those were pre-1998 debt and post-1998
10 debt, is that correct?

11 A. Effectively. The pre was already created. The
12 bonds issued under the 1975 ordinance were existing. In
13 1998 the ability to issue bonds under a new ordinance,
14 the 1998 ordinance, was added to what PGW could do.

15 Q. And were you involved in the development of
16 that second type of debt?

17 A. Yes.

18 MR. KEENE: That is all I have, Your Honor. Thank
19 you.

20 JUDGE FORDHAM: Thank you.

21 Mr. Bertocci.

22 CROSS-EXAMINATION

23 BY MR. BERTOCCHI:

24 Q. Good morning, Ms. Bisgaier.

25 A. Good morning, Mr. Bertocci.

1 Q. You know I represent some of the consumer
2 organizations?

3 A. Yes.

4 Q. You are the managing director of Public
5 Financial Management, are you not?

6 A. A managing director.

7 Q. And PFM since 1992 has been the city's
8 financial advisor, correct?

9 A. That is correct.

10 Q. And you worked with the city on its five year
11 plans, the PICA plans?

12 A. The five year plans. Not a PICA report but the
13 five year plans of the city, yes.

14 Q. And the five year plans are required by PICA?

15 A. By the PICA legislation, yes.

16 Q. And you also worked on behalf of the city on
17 gas revenue bonds and water revenue bonds throughout the
18 1990s?

19 A. That's correct.

20 Q. And an important part of your work with the
21 city has been to serve as a liaison between the city --
22 between the city's municipally owned utilities and the
23 bond rating agencies?

24 A. Yes.

25 Q. The insurers?

1 A. Yes.

2 Q. The credit providing agencies, which I take to
3 means banks, is that right?

4 A. Credit providing is both banks and bond
5 issuers.

6 Q. Now, on page two of your testimony you refer to
7 your clients. In your work on all those matters the city
8 is your client, is that right?

9 A. That's correct.

10 Q. In your testimony on page 11 you say that you
11 mention the need for Morgan and the bond rating agencies
12 to generate sufficient revenue -- for PGW to generate
13 sufficient revenue to, quote, demonstrate that it is a
14 going concern, close quote.

15 A. Right.

16 Q. Isn't it true that the going concern
17 requirement is not strictly speaking a rate covenant?

18 A. Yes. That is right. Going concern is an
19 accounting -- it is something that the accounting firm
20 that audits PGW would opine to and if there is a doubt
21 that PGW would be able to continue as a, quote, going
22 concern, which is a term of art, they would raise that in
23 their audit letter.

24 But I used it here not so much in the accounting
25 sense as in the sense that they would be looking to make

1 sure that PGW can sustain itself into the future.
2 Anybody who buys these bonds, rates these bonds or
3 insures these bonds, old bonds, new bonds, is looking at
4 a 30 year investment. They are sort of not looking to
5 what is going to happen over the next two or three weeks.
6 So they want to be sure that PGW has the ability over
7 time to sustain itself.

8 Q. I thought that the reference to going concern
9 was actually a reference to section 4.03(d) of the
10 general bond ordinance. That is one that says that the
11 city pledges to continuously maintain in good condition
12 and continuously operate the gas works. Am I mistaken on
13 that?

14 A. That was not my intention in writing this.

15 Q. But you are aware that in the general bond
16 ordinance there is such an obligation on the part of the
17 city, is that right?

18 A. Well, I see the city and PGW as being the same
19 thing. I mean, it is a distinction without a difference,
20 I think, because the city has asked PGW to undertake that
21 obligation, to maintain --

22 Q. But PGW isn't a city department, is it?

23 A. It is not a city department the way the water
24 department is.

25 Q. Isn't it true that the management agreement

1 says that PGW itself is a collection of pipes and
2 personal and real assets of the City of Philadelphia?

3 A. Yes.

4 MR. CLEARFIELD: That is a rough quote, I take it.

5 A. It approximately says that.

6 MR. BERTOCCI: Okay. I will accept that as a fair
7 answer to an approximate quotation from the management
8 agreement.

9 BY MR. BERTOCCI:

10 Q. Assuming subject to check that there is a
11 requirement in the general bond ordinance that I quoted,
12 section 4.03(d), that the city has an obligation to
13 continuously maintain in good condition and continuously
14 operate the gas works, wouldn't that place the city in
15 the situation where in some situations it might have to
16 make an equity infusion into the gas works?

17 A. I believe the extent of the financial
18 obligation is in the definitions of gas works revenues.
19 And the obligation of the city and of PGW is limited to
20 the defined term -- making available gas work revenues by
21 rates and charges. I don't think this opens it up to the
22 city's general fund, if that is the question.

23 Q. But you are saying that this part of the
24 general bond ordinance is not a rate covenant. So it
25 doesn't say that the city in fulfilling its obligation to

1 maintain the gas works must do it through rates? It
2 doesn't say that in the general bond ordinance, doesn't
3 it?

4 A. This is not in the rate covenant. The rate
5 covenant is in a specific section of the ordinance. I
6 apologize. I can't cite to you --

7 Q. 4.03(b).

8 A. Thank you.

9 In that it says the rate covenant only goes to the
10 question of the adequacy of rates and charges being set
11 to meet, as you know, a whole list of items. And this
12 section that you are reading is not part of the rate
13 covenant because it doesn't go to the setting of rates
14 and charges.

15 Q. In your rebuttal testimony at page three you
16 say that if the city committed to making one or more,
17 quote, one-time payments of 18 million in lieu of
18 obtaining that 18 million through rates that that might
19 technically satisfy the bond covenants, don't you?

20 A. Uh-huh.

21 MR. CLEARFIELD: Was that a yes?

22 BY MR. BERTOCCI:

23 Q. You could do that?

24 A. There is a way to do it so it could be included
25 in the definition of revenues which then would flow

1 through to the adequacy of rates -- of revenues -- to
2 meet the rate covenant.

3 Q. So you agree that the making of the \$18 million
4 payment does not -- that does not fulfill any rate
5 covenant in the bond ordinances?

6 A. I'm sorry. Can you ask that again? I lost you
7 on that.

8 Q. Sure. The rate covenants applicable to PGW do
9 not require PGW to make the \$18 city payment?

10 MR. CLEARFIELD: We wish it was \$18.

11 BY MR. BERTOCCI:

12 Q. The \$18 million payment to the city.

13 A. The rate covenant does not require that. The
14 rate covenant only goes to the setting of rates to be
15 adequate to meet that list of obligations. It doesn't go
16 at all to the receipt of or the payment of the \$18
17 million.

18 Q. And you also say in that rebuttal testimony, I
19 think, that if the city was to under these circumstances
20 this year and perhaps next year grab back the 18 million
21 that that would be viewed negatively by the rating
22 agencies. Is that your opinion?

23 A. Yes, it is. And the reason for that is that
24 PGW has sustained itself over the last five or six years
25 by doing what in my business is called a series of

1 one-time fixes. As you know, we did the forward rate
2 agreement for the debt service reserve fund. We did the
3 swap in '98, I guess it was, or '99. And we have done a
4 series of things that have generated enough money in each
5 of those years so PGW could meet its rate covenant.

6 The rating agencies want PGW to have a systemic,
7 sustainable ability to operate itself and meet the rate
8 covenant. They are tired of seeing a series of one-time
9 things. They will stand still for a couple but we have
10 reached the point now where if the only way PGW can meet
11 its rate covenant is by a series of non-systemic moves,
12 you know, trading future benefits, getting grants from
13 the city, there is no way that they can be assured that
14 PGW will maintain itself as a going concern.

15 So while it may technically meet the rate covenant
16 if the city were to grant it in the correct fashion, the
17 rating agencies would recognize this as once again PGW
18 not having adequate rates in place to be an ongoing
19 sustainable venture.

20 Q. But you mentioned the one-time fixes as fixes
21 which involve trading future benefits, by which I take it
22 you mean not paying tomorrow but postponing to the future
23 some obligation which was really a present obligation.

24 A. No. That is not what I mean.

25 Q. What do you mean by that? Wasn't the forward

1 purchase agreement an one-time fix in that sense?

2 A. No. The forward purchase agreement was in fact
3 just the opposite of that. The forward purchase
4 agreement gave up a future stream of revenues that PGW
5 could have in the normal course gotten in exchange for a
6 payment up front. So instead of getting earnings on
7 their reserve fund on a regular basis over the next 30
8 years they traded with a bank and the bank said, all
9 right, we will get the benefit of those earnings over
10 time -- it was, I think, a seven year agreement at the
11 time -- and we will pay you today for that.

12 Now, they paid us obviously at a discounted rate.
13 It was discounted at their cost of money, which is a
14 taxable rate, more than PGW would borrow at. So in
15 effect PGW got money today to make the rate covenant in
16 that particular year and gave up future earnings.

17 Q. I don't disagree with that. I thought that --
18 and I may have misspoken or you may have misunderstood --

19 A. I may have misunderstood.

20 Q. -- but that was a situation where PGW to
21 realize a present advantage essentially put itself in a
22 situation where it would be denied something in the
23 future.

24 A. That's correct.

25 Q. Now, in the situation where the city grants

1 back the 18 million, that is not the same thing, is it?

2 A. Assuming the city makes it an outright grant
3 with no repayment obligation, that is an one-time fix
4 with no future cost or sacrifice on PGW's part. That is
5 true.

6 Q. And wouldn't you agree that from a consumer's
7 point of view granting back the \$18 million is not an
8 one-time fix?

9 MR. CLEARFIELD: Your Honor, I would object. She
10 is not testifying here to provide opinions on consumers'
11 point of view. She is here as the financial expert for
12 PGW. It calls for speculation.

13 MR. BERTOCCI: Your Honor, she is here
14 characterizing various financial alternatives that the
15 company is facing and the ramifications of them. She is
16 characterizing some of them as one-time fixes, including
17 the \$18 million payment, and we are discussing, well,
18 what does she mean by an one-time fix. I think we are
19 reaching a kind of understanding of some of the
20 difficulties of using the term one-time fix.

21 JUDGE FORDHAM: But I believe you asked her to
22 testify on behalf of the consumers.

23 MR. BERTOCCI: No. I just asked her to make a
24 judgement as to whether or not as to customers there was
25 any quality of one-time fixness about granting back the

1 \$18 million.

2 JUDGE FORDHAM: Are you able to answer that
3 question?

4 THE WITNESS: I am, Your Honor.

5 JUDGE FORDHAM: You may answer.

6 A. Obviously the customers would not care. Only
7 if they are taxpayers in Philadelphia and that \$18
8 million comes out of tax revenue. They might care for
9 that reason.

10 BY MR. BERTOCCI:

11 Q. We won't pursue that one further here.

12 A. As you reminded me, I am the city's financial
13 advisor.

14 Q. Thank you.

15 Now, you would agree, however, if the city granted
16 back the \$18 million regardless of how you think the
17 rating agencies might view it, that one of the advantages
18 of granting back the 18 million is that it would have a
19 positive effect on uncollectibles?

20 A. I'm not sure what the nexus is.

21 Q. Well, on the logic that PGW's total
22 uncollectibles are an escalating percentage of what they
23 have to charge in rates. We have seen an increase in
24 uncollectibles from roughly eight percent to around 12
25 percent, I believe. So if instead of having to get \$18

1 million from customers PGW would get \$18 million from the
2 city, and assuming the city paid that money, we would not
3 have a collectible problem as to that \$18 million. We
4 would not have to discount that \$18 million by eight to
5 12 percent, isn't that right?

6 A. If you assume that the \$18 million would have
7 otherwise been in rates I suppose that is right. There
8 would be some discount on that.

9 Q. Now, you said that the city helping out PGW
10 with an equity infusion would be negatively viewed by the
11 rating agencies. What about the city helping out PGW by
12 its \$45 million advance? Was that viewed -- did that
13 have a negative effect on bondholders and the rating
14 agencies?

15 A. No, it didn't. Because that was structured
16 with a repayment obligation and because the repayment of
17 it is part of PGW's rate case they saw that as being in
18 effect not unlike what the commercial paper program was
19 originally meant to be, that it was another home equity
20 loan that PGW could use to get over the next couple of
21 years while the rate case and then the restructuring case
22 are filed and, you know, ultimately adjudicated. So they
23 viewed that as interim cashflow relief as opposed to the
24 one-time fix of the \$18 million grant.

25 Q. If the city had not stepped in at that point

1 don't you agree that they would have thought that the
2 city was not meeting its responsibilities and could not
3 be expected to meet its responsibilities concerning a
4 company that it owns?

5 A. If they had not stepped in at that point there
6 would not have been much judgement involved in that
7 because PGW would have been flat out of cash and unable
8 to buy gas. So whether or not they viewed that as the
9 city's fault, they would have been focused on the problem
10 of PGW having no gas.

11 Q. I wanted to come back just for a moment to the
12 Black & Veatch report. You were talking about investors
13 in bonds and you talked about investors being
14 sophisticated investors reading the Black & Veatch
15 report. Do institutional investors have people that
16 specialize in utility bonds?

17 A. Yes. Sure.

18 Q. And wouldn't you say that it is sort of common
19 knowledge among people that specialize in utility bonds
20 that rates are always determined ultimately on the just
21 and reasonable standard?

22 MR. CLEARFIELD: Objection. There is an assumption
23 in there and it also calls for a legal conclusion.

24 MR. BERTOCCI: Well, it may call for a legal
25 conclusion in the sense that the just and reasonable

1 standard is a legal standard and even a constitutional
2 standard. But even on lay grounds people understand that
3 to get rates it is necessary to go to a regulator and a
4 regulator is going to apply standards which balance the
5 rights of customers versus the rights of the utility in
6 determining those rates.

7 MR. CLEARFIELD: Your Honor, I am going to object.
8 Mr. Bertocci does not have a witness and he is trying to
9 testify through cross-examination. It calls for utter
10 speculation. He asked Ms. Bisgaier don't you think that
11 investors think that something is decided in a certain
12 way. He has not even established the foundation that
13 that is in fact the basis. We don't have to argue about
14 that now. So --

15 MR. BERTOCCI: Your Honor -- excuse me.

16 MR. CLEARFIELD: I object.

17 MR. BERTOCCI: Ms. Bisgaier has already testified
18 about what investors might think and certainly that has
19 been opened up for me to ask what investors might think
20 and what they might know.

21 MR. CLEARFIELD: In the area of expertise that she
22 has, Your Honor. I assume we would not ask Ms. Bisgaier
23 about their opinion about the 76ers winning the eastern
24 finals. I mean, this is way beyond the areas that she
25 would have expertise in in terms of determining what

1 investors think or believe.

2 JUDGE FORDHAM: The objection is sustained.

3 MR. BERTOCCI: I will rephrase it another way, Your
4 Honor.

5 BY MR. BERTOCCI:

6 Q. Wouldn't a sophisticated investor know that
7 whatever rates a utility gets it gets from its regulator?

8 A. In the case of PGW the investors have been told
9 in old bonds and they will be told with regard to the
10 third series bonds that rates and charges have to be set
11 in accordance with the rate covenant. They don't make a
12 distinction -- they don't do a review and say the people
13 who wrote this document are lying to us. It says in the
14 offering statement rates and charges must be set to cover
15 this list of items, period. They know that there is a
16 regulator. It used to be the PGC, now it's the PUC.
17 They are being told and they understand that it is in
18 accordance with that document, the bond indenture, that
19 rates will be set.

20 Q. But wouldn't they know, wouldn't a
21 sophisticated investor, at least someone who bothered to
22 read -- and let's assume that a sophisticated investor
23 read the Black & Veatch study -- know that PGW's
24 experience with the PUC, there is no real track record
25 there, right, except for the interim rate case? Isn't

1 that right? They would know that.

2 A. Yes.

3 Q. Because it says in the Black & Veatch study
4 that PGW does have limited experience with the PUC, isn't
5 that right?

6 A. Right. That is correct. But they will still
7 be relying on the legal representations made in the
8 offering document that specifies how the rates should be
9 set.

10 Q. And the 52 million figure that is in the Black
11 & Veatch study --

12 A. It is 53 million.

13 Q. 53 million. I'm sorry. The 53 million, that
14 is a figure that is given -- that is presented as an
15 assumption, isn't it?

16 MR. CLEARFIELD: Well, Your Honor, Mr. Sullivan is
17 going to testify next. He is sponsoring the Black &
18 Veatch report. If we have questions about that it would
19 seem to me to make a lot more sense to ask Mr. Sullivan
20 those questions.

21 JUDGE FORDHAM: Mr. Bertocci?

22 MR. BERTOCCHI: Your Honor, I think she was saying
23 people reading this are going to rely on the Black &
24 Veatch and I just think it ought to be clear that they
25 are relying on something that is presented in the Black &

1 Veatch as an assumption.

2 JUDGE FORDHAM: I will allow limited
3 cross-examination on this.

4 BY MR. BERTOCCI:

5 Q. Isn't it true that the assumption of 52 million
6 is not the minimum necessary to satisfy the bond
7 covenants? That is not what the Black & Veatch study
8 says, is it?

9 MR. CLEARFIELD: Objection. These are questions
10 that should be posed to Mr. Sullivan. Ms. Bisgaier is
11 not sponsoring the Black & Veatch report. Mr. Sullivan
12 can explain exactly how the \$53 million impacts the
13 ability of PGW to satisfy its bond covenants and the
14 other financial goals that are in there.

15 MR. BERTOCCI: Well, she is still saying that
16 investors are expecting and will be disappointed and in
17 fact disillusioned if PGW does not get 52 million. And
18 it seems to me that one can say just looking at the Black
19 & Veatch study I would like to bring out the fact that
20 investors -- that by the terms of the Black & Veatch
21 study itself there isn't a reason for investors to be
22 disappointed if there is significantly less than \$52
23 million provided in this case.

24 MR. CLEARFIELD: Your Honor, that is a complete
25 mischaracterization of the Black & Veatch report. It

1 says exactly the opposite.

2 MR. BERTOCCHI: No, it isn't.

3 JUDGE FORDHAM: We can look at the report.

4 MR. CLEARFIELD: The report is in the record. To
5 have Mr. Bertocci ask questions about what is in the
6 report and ask Ms. Bisgaier to affirm one way or the
7 other when the author of the report is sitting in the
8 courtroom does not seem to be a productive use of our
9 time.

10 JUDGE FORDHAM: Mr. Bertocci, in terms of what
11 Ms. Bisgaier has already indicated, you can ask her a
12 question, a limited question, regarding the report.
13 However, the majority of the questions should be given to
14 Mr. Sullivan regarding this report.

15 MR. BERTOCCHI: I understand, Your Honor. I am just
16 pointing out that aspect of the report.

17 I have no more questions.

18 JUDGE FORDHAM: Do any other intervenors have
19 questions?

20 (No audible response.)

21 MR. CLEARFIELD: I have a few items on redirect,
22 Your Honor.

23 REDIRECT EXAMINATION

24 BY MR. CLEARFIELD:

25 Q. You mentioned that the commercial paper is

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1 equivalent to a home equity line of credit?

2 A. That's correct.

3 Q. Is the cost to PGW equivalent, relatively
4 equivalent, vis-a-vis other sources of external
5 financing? I don't mean the precise cost, but relatively
6 speaking.

7 A. Right. For the past two years the cost of the
8 letter of credit has been 82 basis points, which is
9 slightly less than one percent of the \$100 million, 82
10 percent of one percent. The cost that Morgan has quoted
11 for the renewal of their portion of the letter of credit
12 is 165 basis points. So the cost has doubled over the
13 past year as a result of Morgan's assessment of the
14 creditworthiness of PGW.

15 Q. And in terms of the overall cost of the
16 commercial paper vis-a-vis long-term debt, which one is
17 more expensive?

18 A. I'm sorry. I didn't understand your question.

19 Q. That's okay.

20 A. The commercial paper, because it is a
21 short-term security, is at the relatively lower cost end
22 of the scale versus 30 year debt. The commercial paper
23 is continually remarketed or recycled for it could be as
24 few as one day and as many as but no more than 270 days.
25 But because it is a short investment the interest rate on

1 it is low whereas the 30 year bond investment rate is
2 higher.

3 Q. Do you see any conflict between the interests
4 of PGW and the interests of the city vis-a-vis PGW's
5 financial status at the moment?

6 A. No.

7 Q. Why not?

8 A. Because PGW and the city are -- PGW is owned by
9 the city and they are one and the same.

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

11 JUDGE FORDHAM: Thank you.

12 You may be excused from the stand.

13 (Witness excused.)

14 MR. CLEARFIELD: Your Honor, as promised we have
15 Mr. Sullivan, if you would like to proceed with him.

16 JUDGE FORDHAM: That's fine.

17 Before we go to Mr. Sullivan, Mr. Clearfield did
18 you want to move Ms. Bisgaier's documents?

19 MR. CLEARFIELD: Your Honor, I would move for the
20 admission into the record of Ms. Bisgaier's Statement 2
21 and accompanying exhibits and her Statement 2.1.

22 JUDGE FORDHAM: Since there have been no objections
23 they will be admitted without objection.

24 (Whereupon, the documents marked as PGW

25 Statements Nos. 2.0 and 2.1 and Exhibits Nos.

1 BB-1 and BB-2 were received in evidence.)

2 MR. CLEARFIELD: Thank you.

3 Whereupon,

4 THOMAS J. SULLIVAN

5 having been duly sworn, testified as follows:

6 JUDGE FORDHAM: Would you state your name and
7 business address for the record, please?

8 THE WITNESS: Thomas J. Sullivan, 8400 Ward
9 Parkway, Kansas City, Missouri 64114. And the company I
10 work for is Black & Veatch Corporation.

11 MR. CLEARFIELD: Your Honor, Mr. Sullivan is
12 sponsoring PGW Statement 8 and two exhibits, Exhibit
13 TJS-1 and TJS-2. TJS-2 is the engineering report, the
14 Black & Veatch report that Ms. Bisgaier referred to.

15 (Whereupon, the documents were marked as PGW
16 Statement No. 8 and Exhibits Nos. TJS-1 and
17 TJS-2 for identification.)

18 JUDGE FORDHAM: Thank you.

19 MR. CLEARFIELD: Your Honor, I have just a couple
20 of questions on rejoinder.

21 DIRECT EXAMINATION

22 BY MR. CLEARFIELD:

23 Q. Mr. Sullivan, on page seven of Mr. Lelash's
24 surrebuttal he states that your engineering report did
25 not calculate a revenue requirement for PGW. Is he right

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1 about that?

2 A. No. That is exactly what it is. The analysis
3 that is contained in our report is virtually identical to
4 the type of analysis we would do for any municipal system
5 where we are trying to determine a revenue requirement
6 for a rate case. So in that case -- the steps that we
7 took to prepare this report are the same up to the point
8 of actually designing rates that we would do, you know,
9 in any municipal rate study. In that sense it is a
10 revenue requirement study.

11 Q. Did you use the same method of calculating the
12 revenue requirement that you would use for other
13 municipals?

14 A. Yes. The cash basis is typically what is used.
15 Typically there are two methods, a cash basis and utility
16 basis, the utility basis being what you would generally
17 see for a regulated utility. Even in studies where we
18 have done a utility basis calculation we still do a cash
19 basis calculation because that represents the
20 requirements that that utility has to meet. So virtually
21 every study that I have ever done for a municipal system,
22 the cash basis or the cash position in meeting its cash
23 requirements is the primary concern in a rate study for a
24 municipal system.

25 Q. You said in your last answer the utility basis

1 is used for a regulated utility. Did you mean for an
2 investor-owned utility?

3 A. Yes.

4 Q. Also on page seven of Mr. Lelash's testimony he
5 states that you based your recommendation on the period
6 after the budget year. And by the budget year he means
7 PGW's 2001 fiscal year. What period of years did you
8 examine and why did you examine them?

9 A. The study that we did examined the period 2001
10 through 2006. And, again, most of the studies I have
11 been involved in where I performed a revenue requirement
12 study I typically want to look at a five year future
13 period. The 2001 period is a partial. In our report it
14 is actually a partial actual, partial projected, year and
15 I typically want to look at five additional years out
16 into the future to make sure that I am picking up any
17 events that might occur that are outside of that one year
18 period. For example, capital improvement projects, I
19 want to make sure that I am picking that up in my
20 analysis and my rate design recommendation.

21 Q. Finally, on page four of Mr. Lelash's testimony
22 he claims that your revenue requirement that you
23 calculated incorporates amounts to remedy past management
24 and financial deficiencies. Do you know what he is
25 talking about and if so what is your response?

1 A. Not really. Our study, the starting point of
2 our study, is the cash position of the company today when
3 we did our study. To the extent that that is the
4 accumulation of past events that have occurred with PGW,
5 you know, that is what is in that number. But we did not
6 directly, you know, analyze these past events or anything
7 else except to the extent that they may carry on beyond
8 2001.

9 Q. Is that different than the way in which you
10 would conduct a study typically?

11 A. No. The past events, like I said, are not
12 necessary relevant unless they have some sort of direct
13 carry-through like a capital improvement project or
14 something like that. They really don't have any bearing
15 on the future.

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

17 JUDGE FORDHAM: Thank you.

18 Mr. Simms.

19 MR. SIMMS: Thank you, Your Honor.

20 CROSS-EXAMINATION

21 BY MR. SIMMS:

22 Q. Good morning, Mr. Sullivan. My name is Johnnie
23 Simms. I am with the Office of Trial Staff.

24 A. Good morning.

25 Q. Mr. Sullivan, on page three of your testimony

1 you reference funding more of its construction from
2 internally generated funds.

3 A. Excuse me. Where are you at?

4 Q. Page three.

5 A. Okay. You are at the top of the page there?
6 Line two?

7 Q. Yes.

8 A. Okay.

9 Q. Did your company quantify that amount of
10 funding needed?

11 A. If you look at our report -- and bear with me
12 while I find the page. If you refer to table 13 on page
13 B-48, line six, the item referred to as transfer from
14 operating fund is actually internally generated funds
15 used for construction. And that is how it is reflected
16 in our report.

17 Q. Now, on page five of your testimony you
18 testified that Office of Trial Staff Witness Weakley's
19 recommended \$33 million increase exclusive of the interim
20 rate relief also appears to be inadequate, do you not?

21 A. Yes.

22 Q. Have you made any definitive calculations or
23 schedules as to whether the recommended \$33 million is or
24 is not inadequate? Do you have any schedules or
25 calculations to support that statement?

1 A. Well, I have statements in my report to that
2 effect. Let me reference that.

3 (Witness perusing documents.)

4 A. In our report we state that if the overall
5 level of rate relief -- and I'm on page B-54 -- if the
6 overall level of rate relief realized by PGW is less than
7 \$53 million per year over the 2002 through 2006 period
8 PGW's ability to meet its bond ordinance covenants may be
9 significantly impaired. And that also includes the four
10 items listed above that statement.

11 Q. Well, let's go to that. Is it your testimony
12 that if the Office of Trial Staff's recommendation is
13 adopted by the Commission PGW will be unable to meet its
14 bond covenants?

15 A. We didn't specifically identify which things it
16 would not be able to meet. It would not be able to meet
17 its bond covenants and those items. It would not be able
18 to meet those four items. I didn't specifically identify
19 which items it would not meet.

20 Q. Did you get an opportunity to review OTS
21 Witness Deardorff's testimony in the preparation of your
22 testimony?

23 A. I beg your pardon?

24 Q. Did you have an opportunity to review OTS
25 Witness Deardorff's testimony?

1 A. No. I don't believe I have read that.

2 Q. You have not read that?

3 A. No.

4 Q. Let's go to table 15 of your report.

5 A. Okay. I am there.

6 Q. I believe at the bottom of the page you
7 identify, do you not, the total long-term debt for the
8 company. Is that correct? Beginning with the year 2001
9 through 2006.

10 A. Well, this table is debt service. This isn't
11 the debt outstanding.

12 Q. I am looking down at the bottom of the page
13 there. If you look at the description, you have total
14 long-term debt in 2001, \$90,943.

15 A. That is debt service. That is not the debt
16 outstanding.

17 Q. Right. But you have that listed there,
18 correct? The total debt service?

19 A. Yes. That is the total long-term debt service.

20 Q. The next column, commercial paper, you have the
21 amount in 2002, the amount the company anticipates paying
22 off on commercial paper, do you not?

23 A. What that is is the amount that is consistent
24 with the goal that is identified on page B-54, which was
25 to significantly pay down the outstanding commercial

1 paper between 2002 and 2004 and pay off all commercial
2 paper by 2005.

3 Q. And you also have the CNG note and city loan
4 payoff in the year 2003, correct?

5 A. Right. Again, on B-54 it is repay the \$45
6 million city loan by January 25, 2003.

7 Q. And at the bottom of the page you have the
8 total debt service for each of those years, correct?

9 A. Yes.

10 Q. Now, to try to save time, if I add up the five
11 year totals for the total debt service for the years 2002
12 through 2006 I come up with about \$595 million. Is that
13 your calculation?

14 A. Well, subject to check. I don't have a number.

15 Q. Subject to check.

16 A. You are adding up 2002 through 2006?

17 Q. That's correct.

18 (Pause.)

19 Q. That is subject to check.

20 MR. HOLLAND: That was your number?

21 MR. SIMMS: 595 million, three hundred and three.

22 BY MR. SIMMS:

23 Q. Do you accept that subject to check?

24 A. Yes. That is close, subject to check.

25 Q. When I look at your table 18, line number 11,

1 funds available for debt service, I assume that is based
2 upon your \$53 million rate relief?

3 A. That line does include the \$53 million.

4 MR. CLEARFIELD: For year 2002.

5 THE WITNESS: Yes. For 2002 through 2006 it
6 includes the \$53 million.

7 MR. SIMMS: That's correct.

8 BY MR. SIMMS:

9 Q. And would you accept subject to check that that
10 equal about \$768,280,000?

11 A. Yes. Subject to check that looks pretty close.

12 Q. And if you subtract those two I believe you
13 have funds available for capital expenditures and working
14 capital of about 172,977,000, subject to check?

15 A. Yes.

16 Q. Did you do the same type of analysis with the
17 recommendation of the Office of Trial Staff as I have
18 just taken you through?

19 A. I'm not sure I know what you are referring to.

20 Q. Well, I took you through a series -- I
21 identified for you your schedules of total long-term debt
22 service, commercial paper, the payoff for the CNG note
23 and city loan and the total debt service and we came to a
24 five year total, correct?

25 A. You are talking about the \$172 million number?

1 Q. Well, no. I am talking about the \$595 million
2 number.

3 A. Oh, okay.

4 Q. And then we subtracted that from your \$53
5 million increase in the years 2002 through 2006 and came
6 up with \$768 million.

7 A. I'm not sure that is exactly right.

8 Q. Subject to check.

9 A. Well, what you are saying is the 768 is the sum
10 of the figures on line 11, which are funds available for
11 dept service --

12 Q. That's correct.

13 A. -- which include --

14 Q. The \$53 million.

15 A. -- the 2002 through 2006 \$53 million a year.

16 Q. Right. And we came up with a figure of about
17 \$172 million.

18 A. When we took the difference between those two
19 numbers.

20 Q. That is correct.

21 And my question to you is when you say that the
22 Office of Trial Staff recommendation is inadequate did
23 you perform that same type of analysis in reaching that
24 conclusion?

25 A. No.

1 Q. I had an opportunity, Mr. Sullivan, to perform
2 that same type of analysis assuming all the variables in
3 your tables as well. And I used the \$44 million for the
4 funds available for debt service that you have listed in
5 table 18.

6 A. Okay.

7 Q. And my figure using the \$44 million comes to
8 \$723,280,000. And using \$44 million, the funds available
9 for capital expenditure and working capital is
10 \$127,977,000. Is it your testimony that that is
11 inadequate for PGW for all the items you have listed in
12 your engineering report?

13 A. Yes, it is inadequate.

14 Q. And why is that?

15 A. Well, if we start deducting out some of the
16 other obligations -- and I will just refer to line items
17 in my report if you would like. In table 15 --

18 MR. CLEARFIELD: What page is that?

19 THE WITNESS: B-51.

20 A. If we sum up the line of commercial paper you
21 get approximately \$97 million. If you reduce your 127 by
22 that you end up with 30 million.

23 BY MR. SIMMS:

24 Q. No, no. I think you misunderstood my question.
25 The \$44 million, I have used the same line items we

1 discussed using the \$53 million. I used the total
2 long-term debt that you have identified on table 15.
3 That has been being calculated in there. I used the
4 payoff of the commercial paper in the years 2002 through
5 2005. I used the payoff of the city loan of \$45,000. I
6 used your identical total debt service of \$595,303,000.
7 The only difference we have in using \$44 million is the
8 funds available for debt service. Instead of the \$768
9 million using the 53 million we have 723 million using
10 the 44 million.

11 A. Okay. I was making a mistake.

12 Okay. Let's start with your 127 again. Bear with
13 me as I go through this.

14 (Pause.)

15 A. The line item 11 that you totaled to get your
16 768 or your 723 does not include, I do not believe, the
17 \$18 million payment to the city. So if you take 18 times
18 five you get 90. If you reduce your 127 by 90 you are
19 down to 37.

20 Q. 90,000?

21 A. 90 million.

22 MR. CLEARFIELD: Over the five year period.

23 A. Over the five year period. The same period you
24 looked at.

25 BY MR. SIMMS:

1 Q. Okay.

2 A. I refer you now to another table. If you go to
3 table 13 on page B-48, line six, you have approximately
4 \$68 million of internally generated funds used for
5 construction that are not included in those numbers. If
6 you reduce your 37 by 68 million you are already
7 negative.

8 And then there is a third item that is not being
9 met, and that is the item on line -- the ending cash
10 balance on table 17, line 24. I don't know what that
11 number would be but it would not be 28 million. It would
12 be more than likely less than zero based on the deficit I
13 have already accumulated with your numbers.

14 Q. Let's go back to transfers from operating fund.
15 What was your mathematics on that?

16 A. You are talking about the capital improvement?

17 Q. Yes. You end up with \$90 million. And you
18 went from \$90 million to a negative, if I recall.

19 A. Well, if you add up the line items that are
20 shown --

21 Q. Which are three.

22 A. On table 13, line six, in 2004 through 2006 you
23 have internally generated funds used for capital
24 improvements and that number adds up to \$68 million --
25 actually it is closer to \$69 million.

1 So the 37, after I already reduced your 127 for the
2 90 and you reduce it for the 68, you are already negative
3 without taking into account having sufficient working
4 capital available. So in this sense your starting
5 number, the \$723 million, is inadequate.

6 Q. Well, maybe I'm missing something in your
7 calculation. If you take into account the city's payment
8 we are down to 90 million?

9 A. No. You are down to 37. Because it is 18
10 times five.

11 Q. \$18 million times five?

12 A. Yes. \$18 million times five would be 90
13 million.

14 Q. And then you went to the generated capital
15 structure, is that correct?

16 A. Well, I went to table 13, which is the
17 internally generated funds used for capital projects,
18 line six.

19 Q. And those amounts have already been approved?

20 A. I don't know whether they have been approved or
21 not. But those are the level of capital improvements
22 that are in PGW's five year plan.

23 MR. CLEARFIELD: That would be generated from
24 internal funds?

25 THE WITNESS: Right.

1 Actually, the total capital improvement
2 expenditures are shown on line nine. Line six only shows
3 the part that is paid for by internally generated funds.

4 BY MR. SIMMS:

5 Q. I understand that. But do you know whether or
6 not they have been approved?

7 A. I don't know that.

8 Q. Now, what is your understanding in your report
9 as to how the GCR costs, the gas costs, are resolved
10 before the Commission?

11 A. I guess I really don't know what the procedure
12 -- are you asking me about the procedure?

13 Q. Yes.

14 A. My understanding of it is that PGW has the
15 ability to file for a change in its GCR on a quarterly
16 basis or more frequently if needed to adjust its GCR to
17 reflect, you know, actual costs or actual sales or actual
18 conditions -- a combination of actual and forecasted.

19 Q. On a quarterly basis?

20 A. I believe that the filings are generally made
21 on a quarterly basis but they can be made more frequently
22 than that if need be. I believe they have made them more
23 frequently than a quarterly basis this winter.

24 Q. This past winter? Did you review any documents
25 to suggest that?

1 A. I don't know exactly what the dates were of
2 those filings.

3 Q. Well, my question was whether or not you
4 reviewed any documents to reflect that.

5 A. Yes, I did. I reviewed the filings but I don't
6 recall the dates on those filings.

7 Q. You reviewed a filing that suggested that PGW
8 made a filing before the Commission on a more frequent
9 basis than quarterly?

10 A. That is my recollection but that may be in
11 error.

12 Q. Do you know when PGW made its first GCR filing
13 before the Commission?

14 A. I believe it was sometime last summer.

15 Q. Did your report conduct an analysis which shows
16 the receipt and disbursement of funds for PGW on a
17 monthly basis and show the level of cash remaining at
18 year end?

19 A. No. Our study was done on an annual basis.

20 Q. So do you know -- assume hypothetically that
21 the \$44 million is adopted by the Commission. You don't
22 know the level of cash remaining at year end for that
23 figure?

24 A. I have not run the calculations of a \$44
25 million number through our analysis.

1 Q. Do you know the level of cash remaining at year
2 end based upon the Commission adopting a \$53 million
3 increase?

4 A. Yes, I do.

5 Q. And that is set forth in what table?

6 A. That would be table 17, line 24.

7 (Pause.)

8 A. Did I say line four? I meant line 24. I'm
9 sorry.

10 Q. And I would be correct that as you testified
11 earlier you don't know the receipt and disbursement of
12 funds for PGW on a monthly basis using the \$53 million?

13 A. Again, our analysis was done on an annual
14 basis, not on a monthly basis.

15 MR. SIMMS: That concludes my cross-examination,
16 Your Honor.

17 JUDGE FORDHAM: Let's take a ten minute break.

18 (Recess.)

19 JUDGE FORDHAM: Back on the record.

20 Ms. McCloskey.

21 MS. McCLOSKEY: Thank you, Your Honor

22 CROSS-EXAMINATION

23 BY MS. McCLOSKEY:

24 Q. Good morning, Mr. Sullivan. My name is Tanya
25 McCloskey. I am with the Office of Consumer Advocate.

1 As the sponsor of the Black & Veatch report were
2 you also the project manager for this report?

3 A. Yes.

4 Q. And as the project manager did you have the
5 final authority on the report's scope, findings,
6 conclusions and recommendations?

7 A. No, I wasn't the final authority.

8 Q. Who was the final authority?

9 A. The signer of the report, Mr. Loos.

10 Q. What is Mr. Loos' position or title?

11 A. He is vice-president of Black & Veatch
12 corporation.

13 Q. Now, did PGW review a draft or have any input
14 into the final findings, conclusions or recommendations
15 of this report?

16 A. Yes. We had working group meetings where
17 drafts of this report were reviewed and discussed.

18 JUDGE FORDHAM: Mr. Sullivan, would you keep your
19 voice up?

20 THE WITNESS: Okay. I'm sorry.

21 JUDGE FORDHAM: It's a little difficult to hear.
22 Thank you.

23 BY MS. McCLOSKEY:

24 Q. Now, how many previous reports of this type
25 have you been project manager for or sponsored or behalf

1 of utilities?

2 A. This is the first time I have actually
3 sponsored a bond report. As I said earlier, the vast
4 majority of the reports that I do for municipal systems
5 include a revenue requirement calculation that is
6 comparable to what is in this report. Most municipal
7 systems aren't regulated by a public utility commission
8 so there isn't any need to testify with regard to those
9 reports.

10 Q. If you could look at your resume attached as
11 Exhibit TJS-1, you provide a listing of your prior
12 experience. Is it correct that the bulk of your work has
13 been on rate design, class cost of service and
14 depreciation studies?

15 A. Yes. I would say it was more than 50 percent.

16 Q. And what percentage of your work has involved
17 gas distribution companies?

18 A. Again, it is probably more than 50 percent. It
19 is probably something like 60.

20 Q. Mr. Sullivan, would you agree with me that the
21 engineering report is similar to a due diligence report
22 for investors who might lend to PGW?

23 A. Really, I would not know the answer to that.

24 Q. Were you here this morning when Ms. Bisgaier
25 said that this report will be provided with the bond

1 issuance?

2 A. Yes. It is an attachment to the POS.

3 Q. And that investors will rely on this report?

4 A. Yes.

5 MR. CLEARFIELD: What is the POS?

6 THE WITNESS: Preliminary official statement.

7 BY MS. McCLOSKEY:

8 Q. Now, in developing these types of reports for
9 bond issuances is it customary to make a revenue
10 requirement recommendation as you have here?

11 A. Yes. Within the report we have to make some
12 sort of a forecast of revenues and if the existing rate
13 revenues are insufficient to meet all of the revenue
14 requirements it is common to make an assumption with
15 regard to what level of rate increase is needed to
16 generate sufficient revenues to cover all the revenue
17 requirements.

18 Q. Did you review the prior Stone & Webster
19 reports that were issued with the prior bond issuances by
20 PGW?

21 A. I believe the one I reviewed was the one just
22 prior to this current bond issue.

23 Q. And did that contain a revenue requirement
24 recommendation as you made here?

25 A. I don't recall.

1 Q. Now, let's turn to your revenue requirement
2 recommendation of \$53 million. At page two of your
3 testimony and in your study you refer to this often as a
4 levelized amount of \$53 million. Is that different from
5 an annual increase of \$53 million?

6 A. Well, your question kind of mixes it. The \$53
7 million is not a revenue requirement. That is the amount
8 of the increase in revenues needed to meet the revenue
9 requirement.

10 Q. Okay. But when you talk about it as a \$53
11 million levelized amount, is that the same as an annual
12 increase amount?

13 A. Yes. That is \$53 million per year over the
14 five year period that we looked at.

15 Q. So under your analysis if the company was
16 provided \$53 million in this case, assuming all other
17 assumptions in your study remain the same, they will not
18 require a further increase until 2006, correct?

19 A. Well, we do not have an assumption with regard
20 to anything -- it would have to be after 2006.

21 Q. Correct. After 2006.

22 A. The assumption is -- if all of the other
23 assumptions in the report hold true and they receive \$53
24 million in rate relief then the assumption is that no
25 additional rate relief for purposes of this report is

1 necessary.

2 Q. Also on page B-44 of the report -- and I
3 believe you discussed this a little bit with Mr. Simms --
4 you list the four items that the \$53 million increase
5 will allow the company to do: pay down its commercial
6 paper, fund capital expenditures, establish working
7 capital and repay the city loan. Do you see that?

8 A. What it really says is this level of rate
9 relief will also enable PGW to do these items.

10 Q. Okay. Correct.

11 So it is accurate, then, to say that the \$53
12 million increase would meet the current budget needs and
13 provide earnings to be applied to these capital needs in
14 this future period?

15 A. I'm not sure I exactly understand your
16 question. I mean, you used the word capital. You are
17 kind of interchanging terms there so I'm not sure exactly
18 what you are asking.

19 Q. It's accurate, then, to say that the \$53
20 million will meet the current budget needs and it will
21 meet earnings to pay down the commercial paper, fund the
22 capital expenditures, establish working capital and repay
23 the city loan in this future period between 2002 and
24 2006?

25 A. Well, as the report states, the \$53 million

1 level is necessary for PGW to comply with its bond
2 ordinance covenants including its covenant to pay
3 operating expenses and debt service in full when due, to
4 continuously operate and maintain the system in good
5 condition, to pay all city charges including the annual
6 base payment to the city and to achieve the coverage
7 required by the rate covenants. This level of rate
8 relief will also enable PGW to do the four items that are
9 listed there. That is what the \$53 million does.

10 Q. So the 18 million city payment is also included
11 in your \$53 million increase amount?

12 A. It is included in the revenue requirement.

13 Q. Now, on page four of your testimony and I
14 believe also in your report you state that you used the
15 cashflow method for calculating this revenue requirement.
16 Was the definition and operation of this method provided
17 to you by the company?

18 A. Not necessarily. As I stated earlier in my
19 testimony, the cashflow method is -- there is nothing
20 extraordinary about the method that is in this report.
21 That is the method that we would use in virtually any
22 study that we would do for a municipal system. But we
23 did receive input from, you know, the bond working group
24 with regard to, you know, any specifics with regard to
25 what that means with regard to PGW.

1 Q. And I assume, Mr. Sullivan, you are not a
2 lawyer, is that correct?

3 A. No, I'm not a lawyer.

4 Q. And you are not offering the engineering report
5 as a legal interpretation of the act or of any of the
6 agreements under which PGW operates, is that correct?

7 A. That's correct.

8 Q. Now, you stated a moment ago and I believe in
9 your rejoinder that this is a revenue requirement that
10 you use with other municipal companies. Now, are you
11 familiar in regulation with the concept of the historic
12 and the future test years?

13 A. With regard to regulated investor-owned
14 utilities, yes.

15 Q. Are you familiar that that covers essentially a
16 two year time period, one year of past year and one year
17 of forward looking for the future test year?

18 A. It could. It may not. It may involve many
19 years.

20 Q. Are you familiar with regulation in
21 Pennsylvania and the definition of the term future test
22 year in Pennsylvania?

23 A. No, I'm not.

24 Q. Now, I would like to turn to page B-56 of your
25 study. In paragraph four where you are talking about

1 your 53 million per year in permanent base rate increase
2 you have a parenthetical note and I'm not sure I
3 understand it. I want to try and clear that up.

4 There you say the 53 million is to be compared to
5 the rate levels existing before the implementation of the
6 interim rate increase. Do you see that?

7 A. Yes.

8 Q. If we compared your recommendation to the rate
9 levels after the increase with the rates levels that are
10 in existence today, is your recommendation for an
11 incremental amount of 35 million, which is essentially
12 your 53 million minus the 11 million that was implemented
13 in March minus the seven million of bad debt expense that
14 the company was allowed to retain?

15 A. That number was not derived on an incremental
16 basis. The \$18 million was strictly limited to the
17 fiscal year 2001 and then 53 million -- I guess we didn't
18 really think of it in terms of directly comparing it to
19 the 18 million.

20 Q. Well, let's look at table 17, then, which is
21 just back on page B-54. There, for example, in 2001 you
22 show an ending cash balance of 425,000. And that number
23 does not include the \$11 million interim base rate
24 increase and the \$7 million bad debt expense increase
25 that has now been put into effect?

1 A. Yes, it does.

2 Q. It does?

3 A. Yes.

4 Q. And where did you include that?

5 A. It is included in several places. It will be
6 in table 16, line seven. That is probably the most
7 direct answer to your question.

8 Q. Do you know if your ending cash balance of
9 \$425,000 differs from the company's projected ending cash
10 balance in this case?

11 A. I'm not sure what number you are referring to
12 as far as the company number.

13 Q. The company's number either based on current
14 rates or on its projected rates.

15 A. I don't know what that number is.

16 Q. You don't know what that is. Okay.

17 Now, if you could turn to page two of your
18 testimony, and it also appears in your report, line 14.

19 A. Okay. I am there.

20 Q. You state that PGW is competently managed.
21 When you are using that term competently managed are you
22 referring to the current management of PGW when you make
23 that statement?

24 A. Yes. That is only management we are familiar
25 with.

1 Q. And this comment is not intended to address any
2 past management of PGW, is that correct?

3 A. No. It is intended to address the current
4 going forward.

5 Q. Are you aware that the officers that are
6 currently serving are serving in a temporary capacity?

7 A. Yes. That is stated in the report.

8 Q. And you assume that the Philadelphia Facilities
9 Management Corporation will appoint similarly qualified
10 individuals in your report, do you not?

11 A. Yes.

12 Q. Now, looking at the study at pages B-4 and B-5
13 you discuss the officers that the Philadelphia Facilities
14 Management Corporation is to appoint for the operation of
15 PGW. In your analysis did you review any efforts by PFMC
16 to appoint permanent officers?

17 A. I can't recall anything specifically we would
18 have looked at with regard to -- other than the
19 commitments that they had made to do that.

20 Q. And did you review PFMC's past procedures for
21 appointing officers?

22 A. No, I personally did not.

23 Q. Now, you also state in your testimony and the
24 report that PGW has met all regulatory requirements. In
25 developing your report did your firm conduct an

1 independent appraisal of PGW's customer service?

2 A. In what regard? We evaluated the systems that
3 were in place.

4 MR. CLEARFIELD: Keep your voice up, please.

5 THE WITNESS: I'm sorry.

6 A. We evaluated, for example, the BCCS system and
7 interviewed people who were responsible for that.

8 BY MS. McCLOSKEY:

9 Q. Did you independently measure things such as
10 abandonment phone rates or response times for the call
11 center?

12 A. That information was available in documents
13 that we read.

14 Q. I'm sorry. The question is did your company
15 independently measure --

16 A. Oh, no. No, we didn't.

17 Q. Did you review the management audit conducted
18 by the PUC?

19 A. Yes.

20 Q. And are you aware that the management audit
21 concluded that PGW's customer service is among the worst
22 in the industry?

23 MR. CLEARFIELD: Objection. That is a
24 mischaracterization. The audit says that as measured by
25 certain indices it is the among worst. I can refer you

1 to the page.

2 BY MS. McCLOSKEY:

3 Q. It is in the audit in chapter eight, page
4 seven. I will read the whole quote.

5 Are you aware that it makes the finding that PGW's
6 level of service as measured by abandonment phone rates
7 and response time of the call center is one of the worst
8 in the industry?

9 A. Well, as you just read it to me I am aware of
10 it.

11 Q. Did you review any company reports on the call
12 center such as the Vanguard report?

13 A. I personally did not. There were other people
14 working with me that may have.

15 Q. But you are not sure whether they have reviewed
16 those reports?

17 A. I'm not sure.

18 Q. And did you seek to obtain any independent
19 information on whether the call center problem identified
20 in the management audit has been remedied?

21 A. Let me refer you to what is addressed in our
22 report.

23 JUDGE FORDHAM: Will you keep your voice up?

24 THE WITNESS: I'm sorry.

25 JUDGE FORDHAM: Which section?

1 THE WITNESS: I am going to find it in the report.

2 JUDGE FORDHAM: Okay.

3 (Witness perusing document.)

4 A. Can I get you to restate your question for me?

5 BY MS. McCLOSKEY:

6 Q. The question was do you have any independent
7 information that the call center problems that were
8 identified in the management audit have been remedied
9 between the time of the management audit and your report?

10 A. The section where we discuss this is on page
11 B-36 of the report. And I believe that fairly accurately
12 describes, short of me reading it to you, that fairly
13 accurately describes our findings with regard to the
14 BCCS.

15 Q. Okay.

16 A. And it carries over on to page B-37.

17 Q. Now, if you could turn to table B-32 -- page
18 B-32 -- table seven.

19 A. Okay.

20 Q. There you provide a listing of monthly bills of
21 customers using 20 Mcf of gas per month. First of all,
22 could you tell us whether in calculating these monthly
23 bills you have included customer charge, delivery charges
24 and commodity charges? Is that correct?

25 A. The intent of that is including all charges

1 that would be applicable. In other words, that is a
2 total bill.

3 Q. So you would then have included reconciliation
4 factors and transition surcharges?

5 A. I believe that there were transition surcharges
6 in some of those numbers.

7 Q. And were they based on tariffed rates at a
8 specific date, a specific point in time?

9 A. Well, obviously they were but they may not have
10 been based on rates that were adopted at the same time
11 for each utility. These were the rates in effect at the
12 time we did this report.

13 Q. And what was the date on which you did the
14 report or the calculations?

15 A. Well, the date of the report is April 24.
16 These calculations were probably done, you know, roughly
17 a month before that.

18 Q. Now, for PGW the \$239.32 monthly bill does not
19 include, or does it include, the \$11 million interim base
20 rate increase?

21 A. It does include the interim rate increase.

22 Q. But it does not include your \$53 million
23 increase recommendation, is that correct?

24 A. That's correct. It includes the current rate
25 at the time we did the study.

1 Q. If we included your recommended increase what
2 would be the approximate increases in the monthly bail
3 for PGW?

4 A. Well, first of all, I probably would not have
5 included that because that would be an apples and oranges
6 comparison. Because I would be drawing a rate out into
7 the future that does not exist whereas it is conceivable
8 that you would have to update all the numbers if I did
9 that.

10 Q. Do you know if any of these other companies
11 have a pending base rate case?

12 A. That would be affected by more than just the
13 base rates increase. It would be a GCR reconciliation or
14 anything else.

15 Q. Well, that wasn't my question. My question was
16 do you whether any of these companies have a pending base
17 rate increase before the Pennsylvania Public Utility
18 Commission?

19 A. I don't know that.

20 Q. But if you did include the base rate increase
21 for Philadelphia Gas Works the increase would be
22 approximately ten percent higher?

23 A. Again, if I was doing table seven I would not
24 include that because I would not be comparing apples to
25 apples.

1 Q. Mr. Sullivan, assuming all else is equal and
2 assuming that none of the GCRs change and we hold all the
3 GCRs equal, to include your \$53 million rate increase,
4 that would be at least a ten percent higher bill for the
5 PGC customers, isn't that correct?

6 A. I can't say that.

7 MR. CLEARFIELD: Just on a mathematical basis?

8 MS. McCLOSKEY: Just on a mathematical basis.

9 BY MS. McCLOSKEY:

10 Q. You are recommending a ten percent rate
11 increase, isn't that right? Or more?

12 A. Well, it depends on how you measure ten
13 percent. I mean, the \$53 million is less than ten
14 percent of the revenues.

15 Q. In the base rates.

16 A. I really have not computed what that number is.

17 Q. And can you tell us why you used 20 Mcf per
18 month of gas for a residential customer?

19 A. That was our estimate of, you know, what the
20 typical peak month would be for a residential customer.

21 Q. That is not meant really, then, to be an
22 average or an annualized monthly bill for a residential
23 customer?

24 A. It is intended to be a typical bill that could
25 be expected during the high use months in the winter.

1 Q. But not each month of every year?

2 A. No.

3 Q. Now, at page B-57, paragraph number five, you
4 indicate there that you assume that rates in 2003 will
5 allow PGW to assign capacity or collect stranded costs.
6 Did you review the Natural Gas Act in Pennsylvania for
7 provisions regarding the recovery of stranded cost?

8 A. No.

9 MS. McCLOSKEY: Thank you very much, Mr. Sullivan.
10 That is all I have.

11 JUDGE FORDHAM: Mr. Bertocci.

12 CROSS-EXAMINATION

13 BY MR. BERTOCCI:

14 Q. Good morning, Mr. Sullivan.

15 A. Good morning.

16 Q. My name is Philip Bertocci. I represent
17 several consumer organizations.

18 This is the first time that Black & Veatch has made
19 an engineering report for a PGW bond issue, isn't that
20 right?

21 A. Yes, that is true.

22 Q. But it is true also that the City of
23 Philadelphia is a longstanding client of Black & Veatch
24 in that Black & Veatch has represented the water
25 department or has provided reports for the water

1 department since 1972?

2 A. I believe that is stated in our report.

3 Q. B-2. Page B-2.

4 A. I just wasn't sure of the date.

5 MR. CLEARFIELD: If it is in the report, Your
6 Honor, it is already in the record.

7 (Witness perusing document.)

8 A. Okay. 1972. That is what it says in the
9 report.

10 BY MR. BERTOCCI:

11 Q. I want to refer you, again, to page B-44. That
12 seems to be a favorite page.

13 In the first line you say the 53 million levelized
14 annual increase in base rates assumed in this report is
15 predicated on balancing several considerations. Isn't it
16 true there is no mention made there of balancing consumer
17 interests against the interests of the company?

18 A. That really was not within the scope of our
19 report, I don't believe, directly. I mean, in the
20 report, the table that we just discussed, the level of
21 rates obviously is a consideration in this report and how
22 PGW compares to other utilities is an element of this
23 report. That, you know, analysis that is contained in
24 the report didn't highlight anything to be concerned with
25 with regard to the level of rates that PGW charges

1 relative to other Pennsylvania utilities. So in that
2 sense that was our focus of this report.

3 Q. And also nothing to be concerned with
4 concerning the level of service that PGW has been
5 providing to customers?

6 A. Well, again, I will refer to our discussion
7 earlier, that if you are referring to the BCCS system
8 that was an element of what we discussed with the company
9 personnel.

10 Q. And you also really didn't consider how PGW got
11 itself into a situation where part of its plan, a
12 substantial part of this rate increase, would go to
13 paying down short-term and long-term debt?

14 A. The focus of our report was on the present
15 going forward.

16 Q. Just to be sure, is it your position that the
17 city will be in technical default on its bonds if it does
18 not make the \$18 million city payment in any particular
19 year?

20 A. You know, I'm not -- you are asking me to make
21 a legal opinion, I believe, and I can't make that with
22 regard to technical default. I don't know the answer to
23 that.

24 Q. In looking at the requirements here, you are
25 really not distinguishing between those requirements

1 which are related to meeting debt service coverage and
2 requirements that have to do with the company's financial
3 objectives as expressed to you, is that fair?

4 A. All of the things that we considered are
5 identified on page B-44. And that includes, you know, a
6 couple of the items that you mentioned. If you would
7 like I will repeat what is on page B-44.

8 Q. What I was really asking was you are saying
9 these are all requirements but you have not made an
10 effort to break down those requirements which are bond
11 coverage related and requirements which have been
12 expressed to you by the company as things that they would
13 like to do over the next five years which are not bond
14 related or not -- do not entail -- where a failure to
15 comply with some of these articulated requirements would
16 not necessarily lead to a default on the bonds.

17 A. I guess I really don't understand what your
18 question is.

19 Q. Let's try it one more time. The \$18 million
20 city payment has been expressed to you by PGW as a
21 requirement, right?

22 A. We have included it as a revenue requirement,
23 yes.

24 Q. And if it was not a revenue requirement would
25 you still be recommending a \$53 million -- would you

1 still be assuming -- because that is what you are doing,
2 you are assuming?

3 A. Yes. We have defined revenue requirement in
4 this report. The \$18 million payment is an element of
5 that.

6 MR. BERTOCCI: Okay. I have no more questions.
7 Thank you very much.

8 JUDGE FORDHAM: Does anyone else have any questions
9 for this witness?

10 (No audible response.)

11 JUDGE FORDHAM: Any redirect?

12 MR. CLEARFIELD: Could I have perhaps just a moment
13 to confer, Your Honor?

14 JUDGE FORDHAM: Yes.

15 (Pause.)

16 JUDGE FORDHAM: We are back on the record.

17 I did have one question before we go to redirect.

18 On page two of the report, Mr. Sullivan, at the top
19 you indicated that the report was based on review of the
20 books and records and customer and financial projections
21 and other materials supplied by PGW. Then the next
22 sentence says while Black & Veatch considers such
23 materials to be reliable we have not verified the
24 accuracy of those documents. I believe Ms. McCloskey
25 touched a little bit on this when she asked you did you

1 do independent analysis of the BCCS system. Could you
2 explain what documents you relied on and how you
3 determined whether they were reliable or not?

4 THE WITNESS: Yes. There are several instances.
5 One of the primary documents was the company's filing,
6 initial filing, in this case and workpapers that the
7 company developed in preparing that filing. If you would
8 like I can go through the whole thing or I can give you
9 an example.

10 JUDGE FORDHAM: Just give me an example.

11 THE WITNESS: Okay. With regard to sales, revenues
12 and number of customers, which basically feeds the
13 revenue forecast of this, we looked at the detailed
14 computer runs that the company develops that projects
15 that and did some of our own independent analyses. We
16 did weather normalization adjustments, we did some
17 statistical and regression analyses, to test the
18 reasonableness of that level of normalized sales and also
19 to test the level of revenues against the tariffed rates
20 to determine whether we believed that that level of
21 revenue they were forecasting was reasonable.

22 So in a sense we used company data but in certain
23 instances we would have done independent analyses to test
24 whether, you know, figures were -- where we differed.
25 And there were some instances where we did change some

1 things. Specifically with regard to the sales revenue
2 forecast, we made a change in the report that you won't
3 see in anything that PGW filed with regard to the growth
4 adjustment that they have later in the period. We
5 included some capital costs associated with promotion
6 that they would need to incur in order to get new
7 customers to connect to the system independent of what
8 they were currently doing.

9 So depending on which issue you are talking about,
10 you know, there was independent checking and analyses of,
11 you know, company documents. But obviously the starting
12 place for what we do was company information. I mean,
13 that is typical in any rate study or bond study that we
14 would do, to use the books and records of the company.

15 JUDGE FORDHAM: Does anyone else have any cross on
16 that?

17 MS. McCLOSKEY: No, Your Honor.

18 REDIRECT EXAMINATION

19 BY MR. CLEARFIELD:

20 Q. Just so it is clear, why was this study done
21 initially?

22 A. Well, this study, when we were initially
23 contacted was to provide the engineers report that would
24 be an attachment to the POS.

25 Q. So was it done for the rate case?

1 A. No.

2 Q. On page B-32 of your report you have the
3 comparisons, as it says in the report, of typical peak
4 winter month residential bills. Ms. McCloskey asked you
5 some questions about that. If you were going to restate
6 these levels for a period after this rate increase is
7 going to be voted on by the PUC would you just look at
8 the base rate increase that the Commission would award or
9 that you were assuming?

10 A. No, I mean, because a significant part of the
11 dollars in this are gas costs and GCR related costs. So
12 obviously I would -- I am looking at a rate that would be
13 in effect -- assumed in this report it would take effect
14 in fiscal year 2002. So I would have to look at some
15 estimate of what the future GCR is for Philadelphia Gas
16 Works and to the extent that other information is
17 available on these other companies I would make that
18 adjustment as well.

19 Q. If you considered the base rate increase that
20 you are assuming and also PGW's recently filed GCR
21 increase do you know if this typical residential bill
22 would go up or down vis-a-vis what is on the sheet?

23 A. Well, it could go either way depending on the
24 magnitude of the GCR. If the GCR calculation was more
25 than, you know, the ten percent number, or whatever she

1 quoted, it would go down.

2 Q. Mr. Bertocci asked you some questions about the
3 items that are on B-44 and he characterized them as items
4 that PGW said they would like to do. Is that a fair
5 characterization?

6 A. Well, like implies kind of random, you know,
7 wishful kinds of things. These reflect, you know, input
8 -- primarily the items one through four we relied heavily
9 on input from the working group that was part of the bond
10 study with regard to, you know, acceptable schedules, for
11 example, with regard to the payment of the commercial
12 paper. While the individual numbers in our report year
13 by year we determined, we determined them consistent
14 with, you know, the input that we got from the working
15 group. In other words the bond underwriters,
16 Ms. Bisgaier, Ms. Stern and people like that, with regard
17 to what they thought was a reasonable schedule or period
18 of time with regard to repayment of that commercial
19 paper. So the input was a broader group than just PGW.

20 Q. On page two of your testimony you summarize the
21 conclusion you have in the report that PGW is competently
22 managed and operated -- is a competently managed and
23 operated gas utility. How do you reconcile that
24 conclusion with the finding in the management audit that
25 will be put in the record shortly that PGW's level of

1 service as measured by abandonment phone rates and
2 response times of the call center is one of the worst in
3 the industry?

4 A. Well, while the call center is an important
5 item relative to other things that we looked at it's not
6 on the same level as operating and maintaining the
7 system. I am talking about the pipes in the system in a
8 safe and reliable manner and having gas supply available
9 to meet the demands of the customers. In the context of
10 our report that is the critical consideration that we
11 were addressing in our report, not the specifics of
12 individual, you know, smaller items within the company,
13 you know, with regard to customer service, for example.

14 MR. CLEARFIELD: That's all.

15 JUDGE FORDHAM: Anything?

16 MS. McCLOSKEY: Yes.

17 RE-CROSS-EXAMINATION

18 BY MS. McCLOSKEY:

19 Q. Just one question on your last statement.

20 You said your focus was more on maintaining the
21 pipes and system gas supply. Did you review the
22 company's mains replacement program and Navigant
23 Consulting study concerning the mains replacement
24 program?

25 A. Yes, we did.

1 Q. Did you agree with the conclusion there that
2 the company needed to increase its mains replacement
3 program from its historic levels to a level approximating
4 one percent?

5 A. We found the recommendations in that report to
6 be reasonable.

7 MS. McCLOSKEY: Thank you, Your Honor. That is all
8 I have.

9 JUDGE FORDHAM: Mr. Bertocci.

10 MR. BERTOCCI: Thank you, Your Honor. I just have
11 one question.

12 RE-CROSS-EXAMINATION

13 BY MR. BERTOCCI:

14 Q. Getting back to those four items that were
15 enumerated on B-44, you said you talked to the bond
16 working group and other bond people about these. Are you
17 implying that if PGW did not do these things that they
18 would be in violation of some bond covenant?

19 A. I'm not sure that I am specifically addressing,
20 quote, unquote, the bond covenant here. In other words,
21 in the sense of our report, these were items that are
22 elements of the revenue requirement that is included in
23 this report, and those are reasonable items in our
24 opinion to include in a revenue requirement study for a
25 municipal system. I mean, there is nothing particularly

1 outstanding or unique about any of those assumptions.
2 The absolute levels of them are unique to PGW but there
3 is nothing unique about any of those assumptions.

4 Q. By the absolute level you mean the \$100 million
5 in short-term debt that should be paid down?

6 A. Yes. In other words, I could probably pull out
7 any number of studies that would have those similar items
8 listed in them. But the dollar amounts would be unique
9 to that particular utility.

10 MR. BERTOCCI: Thank you.

11 MR. CLEARFIELD: I have nothing further.

12 May Mr. Sullivan be excused?

13 JUDGE FORDHAM: Yes. You may be excused from the
14 stand.

15 (Witness excused.)

16 JUDGE FORDHAM: Do you want to move for the
17 admission of his documents?

18 MR. CLEARFIELD: I would move for the admission of
19 PGW Statement 8.0 and the accompanying exhibits, Your
20 Honor.

21 JUDGE FORDHAM: Since there are no objections, it
22 is admitted without objection.

23 (Whereupon, the documents marked as PGW
24 Statement No. 8 and Exhibits Nos. TJS-1 and
25 TJS-2 were received in evidence.)

1 MR. CLEARFIELD: Thank you.

2 JUDGE FORDHAM: It is lunch time. How long did we
3 want to take for lunch?

4 MR. CLEARFIELD: Considering that we have three
5 more witnesses scheduled for today, Your Honor, I would
6 think an hour so that we can try to finish up. Unless we
7 are sure that we are not going to finish and then we can
8 put somebody off.

9 JUDGE FORDHAM: An hour was the longest I wanted to
10 consider.

11 MR. CLEARFIELD: Forgive me, Your Honor.

12 JUDGE FORDHAM: I think we should do that. An
13 hour.

14 (Whereupon, at 12:45 p.m., the hearing was
15 adjourned, to be reconvened at 1:45 p.m. this same day.)

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1 AFTERNOON SESSION

2 (1:55 p.m.)

3 JUDGE FORDHAM: We are back on the record.

4 MR. CLEARFIELD: Your Honor, we are going to go
5 forward with Mr. White at this time.

6 JUDGE FORDHAM: Okay.

7 Whereupon,

8 CRAIG WHITE

9 having been duly sworn, testified as follows:

10 JUDGE FORDHAM: Would you state your name and
11 business address for the record, please.12 THE WITNESS: My name is Craig White. The business
13 address is 800 West Montgomery Avenue, Philadelphia,
14 Pennsylvania 19122.

15 JUDGE FORDHAM: Would you identify the statements?

16 MR. CLEARFIELD: Yes, Your Honor.

17 Mr. White is sponsoring PGW Statement 4.0 and two
18 exhibits, Exhibits CW-1 and CW-2, and also rebuttal
19 Statement 4.1 and Exhibit CWR-1.20 (Whereupon, the documents were marked as PGW
21 Statements Nos. 4.0 and 4.1 and Exhibits Nos.
22 CW-1, CW-2 and CWR-1 for identification.)

23 JUDGE FORDHAM: Thank you.

24 MR. CLEARFIELD: Your Honor, we have also handed
25 out to all the parties and I have provided a copy to you

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1 and two copies to the court reporter of two exhibits that
2 Mr. White would like to use in the short rejoinder that
3 we are planning to do right now.

4 JUDGE FORDHAM: Okay.

5 MR. CLEARFIELD: I would ask that these be marked
6 for identification as CW Rejoinder Exhibit No. 1 and 2.

7 JUDGE FORDHAM: They shall be so marked.

8 (Whereupon, the documents were marked as PGW
9 Exhibit Nos. CW-Rejoinder-1 and CW-Rejoinder-2
10 for identification.)

11 MR. CLEARFIELD: Thank you.

12 DIRECT EXAMINATION

13 BY MR. CLEARFIELD:

14 Q. Mr. White, Mr. Lelash's testimony at pages 10
15 and 11 in his surrebuttal claims that PGW's estimate for
16 prospective wholesale gas costs which Mr. Bogdonavage
17 then used to update his test year financial projections
18 are overstated. Mr. Bogdonavage indicated in his
19 rebuttal that you had provided those estimates to him and
20 he used those estimates in his analysis. So could you
21 please respond to Mr. Lelash's claims that those
22 projections overstate gas costs as you see them?

23 A. Certainly. PGW for, I guess, the past ten
24 years has applied pretty much the same mechanism in
25 developing a gas cost forecast. We have a contract with

1 DRI, which now falls under the umbrella of Standard &
2 Poor's. DRI produces a quarterly report for us and then
3 of course ad hoc reports if we request them on gas costs
4 specifically for the Philadelphia market along with
5 alternate fuels.

6 As I said, we have been using the same methodology.
7 The issues that Mr. Lelash pointed out, such as the fact
8 that gas costs are presently if you look at a snapshot of
9 NYMEX at the current time they are below what our DRI
10 forecast indicated when we developed the most recent GCR
11 filing. However, as has been the case over many years,
12 the same argument occurs, which is if you look at a
13 snapshot in time it obviously is going to move as we move
14 forward.

15 The forecast that we did is for the period
16 September 1 of 2001, through August 31, 2002. Between
17 now and that point when those actual gas costs become a
18 reality the forecast could be below, above, below, above,
19 multiple times. It just so happens that at the time that
20 Mr. Lelash filed his testimony the New York Mercantile
21 Exchange was reporting gas costs that were below what PGW
22 had in its forecast.

23 Q. Do you have what was marked as CW-Rejoinder
24 Exhibit 1?

25 A. Yes.

1 Q. Would you tell us what that is?

2 A. As I alluded to, we use a fuel price forecast
3 prepared by Standard & Poor's and this is that forecast.
4 It is used in our quarterly GCR filings, as I said
5 earlier, and it is also used for our operating budget and
6 all of our gas supply planning.

7 Q. And this is the forecast that you used -- this
8 particular forecast is the one that you used for your GCR
9 projections?

10 A. Yes. In all cases when we are preparing a
11 forecast we have at some point fish or cut bait. We have
12 today what is the latest piece of information that we
13 have that we have to work with and still allows us enough
14 time to complete the filing by the due date. This was a
15 March filing that we arranged for so that we would get it
16 in a timely enough fashion that would allow us to
17 complete the filing by the filing date.

18 Q. And is there a more recent full forecast that
19 is available at this time?

20 A. No. There is not a more recent forecast
21 specifically created for PGW. Now, Standard & Poor's
22 does have a web site where they put a forecast out on a
23 month-to-month basis. But it's not necessarily a
24 forecast that deals with the Philadelphia market and the
25 pipelines that we deal with.

1 Q. And would you explain what you are showing on
2 CW-Rejoinder Exhibit 2?

3 A. Yes. One of the points I would like to make is
4 evident on this exhibit. This exhibit provides you with
5 the closing price since January of '98, the New York
6 Mercantile Exchange closing price for gas futures at
7 Henry Hub, Louisiana, which is one of the points where
8 the NYMEX reports gas costs.

9 As you can see, prior to '99, during '99, we were
10 in a gas market that was relatively flat. As you move
11 into 2000 the market starts to get a little more
12 volatile. And in 2001 you can see the market that we are
13 in today.

14 The snapshot that Mr. Lelash is relying on is
15 basically at the back end of this forecast. Prices at
16 the present time are probably closer to the 4.50 at Henry
17 Hub, Louisiana, 4.50 to the 4.60 range, somewhere in that
18 neighborhood. And they are fluctuating daily.

19 Gas that trades on the New York Mercantile Exchange
20 trades throughout the entire day and it can range from --
21 you know, there can be a dollar or two dollars swing from
22 where the price finally settles at on the day. What
23 these settlement prices represent is the monthly
24 settlement price. So this is the settlement price for
25 each of these particular months.

1 My point is this is the market we are in today. We
2 are in this 2001 market. We are not in the market that
3 existed back in '98 and '99 and 2000. We are in a very
4 volatile gas market. There are no assurances that we
5 won't see significant changes going forward. We are at a
6 point right now where the electric generation load has
7 not kicked in for the summer. There are a lot of items
8 that the experts will indicate it is a fragile market
9 right now and there are things that could materially
10 impact gas costs.

11 So to indicate that we have overstated gas costs,
12 we have used a forecast that represents a longer term
13 look. It does not look at a snapshot in time. It
14 considers it but it does not look at only a snapshot in
15 time. It is looking at a lot of other causal factors and
16 we believe using a standard like this consistently, which
17 is what we did -- we are not cherrypicking this at all.
18 We consistently use it year after year.

19 Q. Do you have anything you wanted to add with
20 respect to that?

21 A. No.

22 Q. If we could turn to Mr. Kubas' surrebuttal for
23 a moment. Mr. Kubas in his surrebuttal claims that the
24 analysis that you used to attempt to verify your
25 projections of normalized sales for the fully forecasted

1 test year was flawed. Would you explain why you think
2 Mr. Kubas' analysis is incorrect?

3 A. Well, the planning model that we used for
4 forecasting sales -- and I think Mr. Sullivan referred to
5 it a little bit earlier. He was indicating, as an
6 example, that he looked at that model to review its
7 validity. That model is something that we developed back
8 in the early '80s. The key to any model, any forecasting
9 model, is the consistency and accuracy of the input data
10 that you use to develop the factors that are then used to
11 project sales and sendout.

12 The model that we used for the rate case proceeding
13 which provided the information to both Mr. Sullivan and
14 provided information to Mr. Rudden in his cost of service
15 analysis and Mr. Bogdonavage and so forth, that model
16 incorporated the best information that we had going into
17 the forecast.

18 To validate the model what I did was what we call
19 backcasted the model. In other words, when we ran this
20 model for the rate case we put in the theoretical normal
21 degree days that occur over a year, which are 4,555 as we
22 proposed in this rate filing. What I did was I went back
23 in November through March, which incidently is the period
24 of time where PGW experiences about 70 percent, closer to
25 72 percent, of its total annual sales occur during that

1 timeframe. What I did was I put actual degree days in
2 during that timeframe and I said my model factors
3 consider a plethora of items but there is one variable
4 that I have no control over and that variable is
5 obviously weather. I put actual degree days in and ran
6 the model and I came in with an uncanny level of accuracy
7 in my opinion -- and I have been doing this for 20 years
8 -- of less than two percent variation from what actually
9 occurred.

10 Now, in Mr. Kubas' testimony he suggests that I
11 compared sendout to sales. I did not. I compared
12 sendout to sendout. I drew the parallel that sendout is
13 directly relateable to sales because there is only a
14 different of unaccounted for. But for the purpose of
15 identifying whether this model accurately projections
16 sendout and in turn sales and in turn revenue, I put the
17 actual degree days in and I compared it to actual sendout
18 that we incurred.

19 Now, any utility that wants to measure the amount
20 of gas that they use, the most accurate representation is
21 the information that is metered at your city gate
22 stations. Now, in PGW we have approximately nine city
23 gate stations. That level of accuracy is what I am tying
24 back to. I'm not trying to tie back to 520,000
25 individual meters that are read on a cycle bill basis. I

1 am saying that the models that we have when you put
2 actual degree days in will generate a sendout that very
3 closely mirrors the sendout that actually occurred. And
4 that was the basis upon which I'm drawing the conclusion
5 that the model is very accurate.

6 Q. But Mr. Kubas indicates that your analysis
7 might be flawed because you only examined five months.
8 Is he correct there?

9 A. Well, as I said, in those five months we have
10 43 Bcf of the total of 59 Bcf of sales -- of firm sales.
11 That represents about 72 percent. Of that 43 Bcf, 36 Bcf
12 of it is heating sales. So if there is going to be a
13 variation or if you have factors that are not going to
14 accurately represent sendout, it's going to be readily
15 apparent in that five peak winter months.

16 Mr. Kubas in his testimony indicates that he is
17 proposing a 2.9 Bcf adjustment, which is only 2.67
18 percent, and he compares that to my 1.95 and says, well,
19 geez, there is not much of a variation here, your one
20 1.95 could be happenstance.

21 Well, first of all, Mr. Kubas did not compare the
22 firm sendout, he compared the total sendout. Using
23 interruptibles our total sendout is about 68 Bcf.
24 Interruptible sales represent about 10 Bcf of that so
25 it's not relevant to the analysis.

1 I am looking at firm sales and my point is I
2 develop a forecast that is within less than two percent
3 accurate to the total firm sales. Mr. Kubas' 2.67 uses a
4 larger denominator, he uses total sales and he is not
5 telling the full story because the 2.9 Bcf does not
6 represent his full adjustment. He is actually asking us
7 to adjust sales by 4.2 Bcf which represents seven percent
8 of PGW's total firm sales.

9 My point is I'm accurate to within two percent.
10 He's asking for an adjustment that is seven percent --
11 not 2.67 percent but seven percent.

12 Q. Have you ever seen an increase in firm sales of
13 that magnitude in your experience with PGW?

14 A. No. In point of fact since 1984 our average
15 annual use for residential customers -- residential
16 customers make up almost 500,000 of our total 520,000
17 customers -- we have a ten percent reduction in the
18 average use per customer per year. So, for instance, if
19 the customers were using 115 in 1984 they are using 101
20 today as an example.

21 We have not had load growth and in this instance we
22 would be asked to increase our firm sales by 4.2 Bcf in a
23 normal year. If I were to extrapolate that to a design
24 year that would be better than a 14 percent increase in
25 my total firm sales.

1 I have not reviewed it to the point of giving you a
2 definitive answer, but I would suggest that we may not
3 even have the assets, meaning upstream transportation,
4 underground storage and LNG, to meet that level of firm
5 requirement if I added another 14 percent on my firm
6 load.

7 We reserve assets to meet our firm load. We are
8 not trying to reserve assets and pay demand charges on
9 assets that we don't need to meet our firm load. To
10 suggest that the firm load is actually significantly
11 higher is inappropriate and it is just inconceivable to
12 me.

13 Q. Mr. Kubas suggested PGW's actual results may
14 have been affected by the GCR increases that were
15 experienced in fiscal year 2001. Do you have any comment
16 on that?

17 A. Yes. The only thing I can say about that is
18 the model has been an accurate forecaster of sales,
19 sendout and revenues for many years. And in all of those
20 years we had fluctuating GCRs, we had fluctuating gas
21 costs. The basis upon which we build the factors is the
22 very latest empirical evidence from the sales information
23 that we have and that sales information has to reflect
24 such things as conservation. It reflects such things as
25 the fact that a degree day generates more sales in

1 January than it generates in November. It reflects a
2 multitude of variables because of the fact that you are
3 using actual information.

4 Q. Why do you think Mr. Kubas' results appear to
5 be so inconsistent with what you have experienced and
6 with what you have projected?

7 A. Well, Mr. Kubas hangs his whole argument on a
8 statement in Mr. Knudsen's testimony that the billing
9 system is now accurately -- during the year 2000 the
10 billing system is producing accurate results. In fact,
11 that was our number one priority, to make sure that
12 customers' bills were both sent out and calculated
13 correctly. We have worked very hard on that.

14 But as a second priority we looked at the
15 ancilliary reports that I use to develop the forecasts.
16 And those reports are still being refined.

17 Mr. Kubas chose to use the 2000 year data. Now, we
18 took it one step further. Mr. Kubas makes no reference
19 to any analysis where he compares to the 2000 year data
20 to any previous years to say, well, wait a minute, this
21 is not out of the realm of reasonableness. And if you
22 look at that 2000 year data there are months where the
23 sales are actually negative sales. So I wasn't about to
24 use that information in developing factors.

25 However, I asked my analysts to develop individual

1 factors for both base load and heating load for all 42 of
2 our -- 49 -- of our homogenous classes. We do that on
3 an annual basis to see whether or not the factors are
4 accurate and should be used in a forecast.

5 Historically we have a five to six percent plus or
6 minus variation about an actual number that we compare
7 back to. In the case of the 2000 year data we had a 30
8 percent variation. We were 30 percent under the actual
9 sendout.

10 What I mean by that is we create the factors. We
11 put the actual degree days from the months the original
12 data was derived and we recalculate the sendout and we
13 say, okay, using our factors and putting in actual degree
14 days how close are we to our sendout. Well, we are
15 usually plus or minus five percent. Using the 2000 year
16 data we were 30 percent under.

17 Q. Finally, Mr. Kubas also indicated there seems
18 to be some agreement about revising or reconsidering the
19 test year to update the customer count. But in your
20 testimony did you not add additional load associated with
21 those additional customers. Mr. Kubas takes issue with
22 that. How do you explain the fact that you did not add
23 additional load for those customers?

24 A. That's correct. At the time we did this
25 filing, which was November, I was reviewing the billing

1 count and the billing count, as I show in the exhibit
2 attached to my rebuttal testimony, has a significant
3 amount of variation. It was not until we started to
4 prepare our factors for the purpose of filing the --
5 prefiling for the GCR -- that we believe that there was
6 some stability to the billing count.

7 However, one of the factors that contributes to the
8 higher number of billings is the fact that we went from
9 an old system which did not assign a customer charge on a
10 meter basis, which is what the tariff requires, to a new
11 system where each meter has a customer charge. It
12 doesn't mean you are going to get any more sales. It
13 just means you are going to get a higher number of
14 customer charges.

15 So we have about 10,000 more reported customers
16 which we are assigning a customer charge. That does not
17 change the sales or the sendout.

18 Q. Why doesn't it change the sales or the sendout?

19 A. Well, because if you take a facility that has
20 two meters, it is two separate counts. We were counting
21 it as one account. The amount of using that occurs at
22 that location has not changed.

23 Q. And have you captured that in your sales
24 projections?

25 A. In my rebuttal testimony I indicated that if I

1 were to rerun this today I would account for those
2 additional customer charges, which I think Mr. Kubas and
3 I are fairly close on our numbers. It results in about
4 \$2 million worth of additional revenue. So of Mr. Kubas'
5 \$34 million in adjustment I am willing to state that the
6 two million associated with a customer charge if I were
7 to run this again today would be a reasonable inclusion.
8 But as far as his adjustments to sales volumes, I see no
9 reason to do that and I think I provided some explanation
10 to why I feel that way.

11 Q. Yes, you have.

12 MR. CLEARFIELD: Thank you, Your Honor. That is
13 all we have on rejoinder.

14 JUDGE FORDHAM: Thank you.

15 Mr. Simms.

16 MR. SIMMS: Thank you, Your Honor.

17 CROSS-EXAMINATION

18 BY MR. SIMMS:

19 Q. Good afternoon, Mr. White.

20 A. Good afternoon.

21 MR. CLEARFIELD: I apologize. I don't mean to
22 interrupt, but just to clarify, Mr. White is testifying
23 on rate structure and cost of service issues as well.
24 That is going to be tomorrow. Just so everybody is
25 clear.

1 MR. SIMMS: Hopefully I divided it up. But I am
2 quite sure you will object if I --

3 MR. CLEARFIELD: I won't object. It's just to make
4 sure the record is clear. I just forgot to mention that.

5 BY MR. SIMMS:

6 Q. Let's go back to the GCR rejoinder.
7 Fortunately, or unfortunately, I am assigned to the GCR
8 case of PGW. Attached to your letter in your filing were
9 the city gate prices for the 2001-2002 fully estimated
10 budget year. Do you recall that?

11 A. Yes.

12 Q. Are these prices solely gas costs or do they
13 include social costs as well?

14 A. Well, you have indicated there is attachment
15 and I would have to see the attachment.

16 MR. SIMMS: May I approach the witness, Your Honor?

17 JUDGE FORDHAM: Sure.

18 (Document handed to witness.)

19 A. I know what it is now. I don't need to see it
20 anymore. I just needed to see the format.

21 Those prices represent city gate delivered prices.
22 So it is gas from the wellhead and includes
23 transportation, surcharges and fuel. No social costs
24 included in that.

25 BY MR. SIMMS:

1 Q. Now, you indicated that your rejoinder
2 Exhibit 2 is a snapshot of what the gas costs will be in
3 2001, did you not?

4 A. No. Actually Exhibit 2 is the closing price
5 for every month. This is historical evidence of what has
6 occurred at the close of every month. This is your NYMEX
7 closing.

8 Q. Now, are you familiar with the NYMEX?

9 A. Yes.

10 Q. You do agree that they also forecast gas costs
11 going up into 2004, do they not?

12 A. It's not really a forecast. It is the result
13 of the trading activity that is ongoing in the
14 marketplace. And it is, you know, for the future months
15 going out 24.

16 Q. When I look at the future pricing coming out to
17 24, I see no prices coming close to what you are
18 projecting in this exhibit here. Can you explain that?

19 A. Sure. As I had indicated, what you are looking
20 at when looking at the NYMEX is a snapshot in time of
21 what investors believe the costs will be or what they are
22 willing to pay for futures contracts well into the
23 future. The DRI forecast, which was done probably
24 sometime in early March, is, I guess, a couple months out
25 of phase from the snapshot in time. However, when the

1 DRI price was calculated it also had a NYMEX that may
2 have been less than what the prices are that eventually
3 populate the forecast.

4 I guess my point is that the NYMEX is only one
5 indicator of where the future price is going to be. It
6 is one variable. It doesn't consider pipeline expansion.
7 It doesn't consider the fact that domestic natural gas
8 drilling right now, you will read articles that will
9 indicate that the easier gas has been found. Tougher
10 drilling operations will occur. Deep water drilling.
11 There is a possibility that pipeline expansions which are
12 before the FERC may not get built. There is a lot of
13 variables that are considered in this DRI forecast, not
14 just what NYMEX looks liking go forward.

15 Now, obviously between now and when our GCR goes
16 into effect we are going to update. At the point when we
17 update once again it will be not only a snapshot of the
18 NYMEX but we will consider other factors that may impact
19 the price going forward.

20 So only thing I can say is that you are looking at
21 a snapshot and we are looking at something that was
22 created a month-and-a-half, two months, ago but it looks
23 over an extended period of time and considers a lot of
24 other factors.

25 Q. But back over the years the NYMEX has been

1 pretty close to what the gas prices have been over the
2 years, has it not?

3 A. I think there is a misconception here. The
4 NYMEX trades every day. It trades throughout the day.
5 When the NYMEX closes that is the price. There is a
6 slight variation between the cash market and the first of
7 the month closing price.

8 Q. As I understand that.

9 A. But as far as the NYMEX is not really a
10 projector or predictor of gas costs. It is what
11 investors are willing to pay for a contract at a point in
12 time. So five months from now, next August, it could be
13 trading materially different than what it is trading
14 today.

15 Q. Well, have you done a study -- you say you have
16 been in this business 20 years -- of how close the NYMEX
17 has been to the cost of gas going forward?

18 A. I guess I'm just not understanding the
19 question.

20 Q. Do you know what the Commission relies on in
21 terms of using for gas costs for 1307(f) GCR proceedings?

22 A. I am assuming that the Commission is going to
23 evaluate the forecasts that we produce. Our forecast has
24 a certain amount of gas that is locked in. So of that
25 forecast that went out, there is a certain amount of gas

1 that is locked in for price. By the time I update it
2 there will be more gas that is locked in for price and
3 there will be a lot less gas that will be subject to the
4 market.

5 Where the market is at that time, we will have a
6 new forecast. I am assuming that the Commission will
7 evaluate that forecast and just determine the validity of
8 it, whether it is on point, whether it is too high, too
9 low.

10 Q. I guess that was next question. What is the
11 purpose of the GCR filing that you just made with the
12 Commission?

13 A. The purpose of the GCR filing?

14 Q. Yes.

15 A. We made a pre-filing and I think we are -- this
16 is the first filing that we have made before the
17 Commission under the 1307(f). The purpose of the filing
18 is to set the rate for an effective implementation of
19 September 1 through August 31, subject to periodic review
20 and quarterly updates.

21 Q. So the Commission is going to make at some
22 point in time a determination as to what your gas cost
23 rate is going to be in about a couple months?

24 A. Yes. That is my understanding.

25 Q. And if gas costs were to increase

1 hypothetically before your next GCR filing how will PGW
2 deal with that?

3 A. You mean between September 1 and the following
4 year's annual filing?

5 Q. Yes.

6 A. I would assume that we would make a quarterly
7 filing and in that quarterly filing we would identify
8 where the over-under billing is and we would project
9 forward for 12 months.

10 I mean, this differs from what PGW historically
11 does. We always stay within the fiscal year. But as I
12 understand it, 1307(f) is always a prospective 12 month
13 factor. So if I set the factor in September and by
14 December the gas -- between September 1 and December 1 --
15 the gas subject to index is materially higher, I may have
16 to come back in with a quarterly adjustment that says I
17 have underbilled by so many million dollars and we expect
18 the price to say high hypothetically going forward and as
19 a result of that we want to change the factor for the
20 next 12 months based upon this evidence. And I would
21 assume that the Commission would rule on that.

22 Q. And how much notice would the Commission
23 require for you to change the customers' bills based upon
24 a hypothetical increase in gas costs?

25 A. How much notice? Subject to check, I think we

1 have to file the quarterly 30 days in advance of the
2 close of the quarter. I haven't had to cross that bridge
3 yet so I'm not quite sure of the answer to that.

4 Q. Will you accept subject to check that the
5 company can provide an one day notice to customers on a
6 quarterly filing?

7 A. I think that is correct.

8 Q. Now, in between quarterlies if there is an
9 increase in gas costs of two percent or more is there any
10 tool available to the company to address those increasing
11 gas costs in between quarterlies?

12 A. It is my understanding that there is when it
13 varies beyond the two percent threshold.

14 You will have to excuse me from this standpoint,
15 that I have been working under one set of rules and we
16 just now as per our interim filing we have agreed to
17 follow the 1307(f). We filed the annual prefiling. My
18 next hurdle is to file on June 1st testimony on the
19 second piece. And I am crossing these bridges as I come
20 to them. So the subsequent quarterly filings and my
21 rights after that point I have not really poured over
22 that yet. But I am assuming I have similar flexibility
23 to what I have today, which gives me the right once we go
24 outside of a certain band to file for additional costs.

25 Q. I understand. And that is why I am trying to

1 get the company's understanding. And I presume you are
2 the witness to address these questions to.

3 Fortunately, or unfortunately, I have been doing
4 this for 20 years too. So I am trying to see whether the
5 company has an understanding of the tools available to it
6 because in this proceeding here Mr. Bogdonavage, based
7 upon your analysis, has placed some additional gas costs
8 into this proceeding and I am trying to find out your
9 knowledge and the company's knowledge as to all the tools
10 that are available to it in addressing increasing gas
11 costs.

12 MR. CLEARFIELD: Your Honor, this may or may not
13 help. Mr. Bogdonavage's rebuttal testimony didn't deal
14 with the gas costs per se as much as the base rate effect
15 of the gas costs that are not included.

16 MR. SIMMS: I understand that. But you would agree
17 that the bad debt expense is reflected in the amount of
18 gas costs that Mr. White has testified to.

19 MR. CLEARFIELD: Yes. In the base rates.

20 MR. SIMMS: In the base rates, yes.

21 BY MR. SIMMS:

22 Q. Now, on July 1 you will make a definitive
23 filing for the GCF, testimony and supporting
24 documentation. It is my understanding that you are going
25 to revisit your projections on gas costs at that time.

1 A. On July 1 did you say?

2 Q. Did you say July 1? What are you making on
3 July 1?

4 A. On June 1 we have --

5 Q. June 1. I'm sorry. A definitive filing?

6 A. A second filing. At that point we are not
7 anticipating modifying the GCR. I believe that we will
8 be doing that subsequent to that point but prior to the
9 implementation date to give the Commission a later view
10 of the gas costs.

11 Q. And out of that GCR proceeding will be a
12 definitive ruling by the Commission as to what the gas
13 costs will be for PGW, will it not?

14 A. Right. That is my understanding.

15 JUDGE FORDHAM: Can I stop you there? Because
16 Judge Chestnut has that case and the question, I guess, I
17 have is whether I have to deal with the issue in this
18 case. Because it has been raised regarding the social
19 programs and whether they should be part of the gas cost
20 rate. So am I to understand that that is an issue that
21 should be left open in this case and resolved in the GCR
22 case? Where are we on that issue?

23 MR. CLEARFIELD: You are speaking of the social
24 cost recovery in the GCR, Your Honor?

25 JUDGE FORDHAM: Yes.

1 MR. CLEARFIELD: I believe that issue is here in
2 this base rate case. Now, if there was a decision to
3 change the GCR and put some of those costs into base
4 rates for recovery there is going to have to be
5 coordination between the GCR and the base rates because
6 we are going to have to revise the GCR to eliminate those
7 costs and presumably increase the base rates to recover
8 them.

9 MR. SIMMS: That's correct. I concur with that.

10 JUDGE FORDHAM: Thank you.

11 BY MR. SIMMS:

12 Q. When is your next quarterly filing? Do you
13 recall? You made one in April.

14 A. Can I use my fingers?

15 Q. Yes.

16 A. I guess May 31 is the close of the third
17 quarter.

18 Q. While we are discussing the tools available to
19 PGW for the recovery of gas costs, did you explain those
20 procedures to your commercial paper holders, Morgan or
21 anyone, the banks?

22 A. I personally did not. That is not to say that
23 someone at the company did not. I just did not myself.

24 Q. Let me refer you to page 15 of your rebuttal
25 testimony. Starting on line nine you discuss the

1 interruptible sales customers and the potential expenses,
2 correct?

3 A. Actually, I am only referring to the sales
4 volume, the annual sales volume for the 500 or so
5 interruptible customers that we have.

6 Q. Well, I guess my question is are these the same
7 interruptible customers that you discuss back on page 12,
8 lines seven through 17 of your rebuttal testimony?

9 A. The customers discussed on line seven are a
10 very small subset of that 10 Bcf. I think I have
11 highlighted the volumes associated with these customers
12 and you can see on page 12 the LBS-L, which is the one
13 tariff category, is 335,000 Mcf. The LBS-XL is 69,000
14 Mcf, or 70,000 Mcf. And the NGV Direct is about 3,000
15 Mcf. And the total 500 customers that I refer to on page
16 15 are a total of ten million Mcf.

17 Q. Well, I guess my question to you is are some of
18 these customers that comprise this 10 Bcf interruptible
19 alternative fuel customers who receive an one-time
20 incentive payment?

21 A. These 500 customers would not receive an
22 incentive payment. They are already customers. The
23 purpose of the incentive payment is to address the first
24 cost issues that are prevalent when we are competing
25 against oil, steam, propane. Only in the event that one

1 of these 500 customers would have some incremental
2 opportunity that we believe would hinge on -- you know,
3 if there was an issue of first cost and there was, for
4 example, if a customer was considering steam versus
5 natural gas. They were already a natural gas customer,
6 they were already a dual fuel customer, an interruptible
7 customer, and they want to expand their usage or they
8 want to potentially end a contract with a steam company.
9 We may be willing to provide an incentive payment. But
10 the internal rate of return for that project has to be at
11 least 12 percent.

12 Q. Now, as I understand your testimony on page 15
13 you paid an one-time incentive payment totaling
14 approximately \$558,000 and you recovered \$511,000 from
15 these customers, correct?

16 A. In one year.

17 Q. In one year.

18 A. In one year. That is 21 customers that
19 received the 558,000.

20 Q. Do these customers sign a service contract with
21 PGW for a specified time period?

22 A. Yes.

23 Q. How long that is time period?

24 A. It varies. It varies. The time period
25 requires exclusive use of gas unless we make some other

1 arrangements. We typically will work with a customer.
2 If the customer wants to reduce the incentive payment so
3 that they can burn dual fuel earlier on in the game we
4 will adjust it. I mean, it is a zero sum game for us.
5 We are looking for a return. We have a certain amount of
6 dollars on the table. We have a certain amount of
7 anticipated margin that we will receiver from that
8 customer based upon our analysis of the annual use that
9 this customer will have. So we are weighing a number of
10 things. We are weighing the usage. We are weighing the
11 incentive payment that we are providing. Any mains and
12 service costs that we would put in the ground. And we
13 are looking at the potential margin that we are going to
14 get for each Mcf over the lifetime of that contract.

15 Q. So the company never flexes the interruptible
16 rates to these customer?

17 A. We don't flex our interruptible rates. We set
18 them on a monthly basis. At the present time we set them
19 on the 18th working day of the month. That is when we
20 initially set them. If there are changes that allow us
21 to drop or force us to raise the rate, we will do so.
22 But that is more the exception than it is the rule.

23 Q. So as I understand your answer, it is in order
24 to retain a customer or to get a customer -- well, in
25 order to retain or prevent a customer from using an

1 alternative fuel you use an incentive payment as opposed
2 to flexing your interruptible rates for that customer?

3 A. We don't have tariff authority to flex the
4 rate. So I guess the answer is we do not flex the rate.
5 But I'm not sure that your understanding of how we apply
6 the incentive payment is 100 percent on point. Maybe I
7 just have not been too clear about it.

8 To use an example, a customer will -- a potential
9 customer will come to PGW and they will say, look, I have
10 this size building, the energy analysis indicates that I
11 am going to use this much per hour, this much per month,
12 this much per year. We are going to look at that, look
13 at the amount of revenue that will be generated and then
14 we look at the cost of the mains and service. If there
15 is the ability to provide an incentive payment while at
16 the same time we still have an adequate return we will do
17 that. And the incentive payment is to defray or to
18 offset the capital investment for new equipment. It's
19 not just a reduction in a rate. It is to assist the
20 customer in paying for equipment that is very expensive.

21 Q. I understand. But you understand what flexed
22 rates mean as well, don't you? Flexing the interruptible
23 rates?

24 A. Well, I mean, I have seen flexed rates before.
25 But as I said, we don't have that authority. So when you

1 say do I understand a flexible interruptible rate, not in
2 the context of PGW's tariff.

3 (Pause.)

4 A. When we apply an interruptible rate we apply it
5 consistently to every customer in the class. So we do
6 not have a rate that differs. If you're an LBS-XL
7 customer, you're going to pay whatever rate is in effect.
8 And all LBS-XL customers will pay that rate.

9 Q. But if I tell you that I am going to leave the
10 system because I have an alternative fuel you would give
11 me an incentive payment, is that correct?

12 A. No.

13 Q. If I am a new customer coming in that is when
14 you use an incentive payment?

15 A. If you are a new customer and you are making a
16 capital investment we will consider an incentive. If you
17 are an existing customer and you are going to expand your
18 load and once again you are dealing with a capital
19 investment, we will provide an incentive payment if the
20 economics work. And we will make sure that you sign a
21 contract so that you use enough gas so that we can
22 acquire an adequate return on investment.

23 Q. And that determines the duration of the
24 contract?

25 A. Yes.

1 Q. What is the longest, to your knowledge, term
2 that you have for a customer in order to receive a return
3 back from your investment?

4 A. Well, we have one customer that is really a
5 outlier. That is a large generating facility, a
6 cogenerator. That is a 20 year contract. But for the
7 majority of the contracts we are usually in a ten year.
8 We may have one or two that extend beyond ten years to,
9 say, 11 or 12, but nothing beyond that. After those
10 contracts the next shortest contract is the 20 year
11 contract and there is only one customer that has that.

12 Q. In the company's cost of service study in this
13 proceeding are those 21 customers covering their costs?
14 Are you recovering costs from those customers in the
15 present cost of service study?

16 A. It is my understanding from my review of the
17 cost of service study we are recovering the cost of
18 service from the customers as a whole. Now, there are
19 some categories of customers that are undercontributing
20 and there are other categories of customers that are
21 contributing in excess of the cost to serve.

22 Q. Looking at your table on page two of your
23 rebuttal testimony, you have testified that the five year
24 average for unaccounted for gas is a percentage of 3.6.
25 Was that accounted for in the tables or columns in your

1 testimony?

2 A. In this particular table you are comparing
3 sendout to sendout.

4 Q. Yes.

5 A. So there is no application of unaccounted for.
6 The information in the first column here that is labeled
7 firm sendout company recorded actual, that is the
8 information that comes right out of the gate stations.
9 So that is the information that is both metered by the
10 pipeline and metered by PGW. So the gas that we have
11 delivered to the city gate and the gas that we send out,
12 that is this number.

13 Q. And that comes from the city gate?

14 A. Yes.

15 (Pause.)

16 A. It includes any LNG just to be clear, any LNG
17 vaporization.

18 MR. SIMMS: Your Honor, that concludes my
19 cross-examination.

20 JUDGE FORDHAM: Thank you.

21 Mr. Keene.

22 MR. KEENE: Your Honor, I have nothing for
23 Mr. White. Thank you.

24 JUDGE FORDHAM: Do you have anything, Ms. Burak?

25 MS. BURAK: Your Honor, I have nothing on the

1 revenue portion of it.

2 JUDGE FORDHAM: Mr. Gray?

3 MR. GRAY: No, Your Honor.

4 MR. BERTOCCI: No, Your Honor. I don't either.

5 JUDGE FORDHAM: Any redirect?

6 MR. CLEARFIELD: No redirect.

7 JUDGE FORDHAM: Thank you. See you tomorrow.

8 (Witness excused.)

9 MR. CLEARFIELD: Your Honor, may I move into
10 evidence Mr. White's testimony and exhibits, PGW
11 Statement 4, Statement 4.1 and his Rejoinder Exhibits 1
12 and 2?

13 JUDGE FORDHAM: Yes. And I would just note for the
14 record that on May 15 there was a revision to 4.1, two
15 pages, pages four and nine, I believe.

16 MR. CLEARFIELD: Yes, Your Honor. The copies that
17 I provided the court reporter reflect those revisions.

18 JUDGE FORDHAM: Okay. Hearing no objections they
19 are admitted without objection.

20 (Whereupon, the documents marked as PGW
21 Statements Nos. 4.0 and 4.1 and Exhibits Nos.
22 CW-1, CW-2, CWR-1 and CW-Rejoinder-1 were
23 received in evidence.)

24 MR. CLEARFIELD: Moving right along, Your Honor,
25 Mr. Bogdonavage is our next witness.

1 Whereupon,

2 JOSEPH BOGDONAVAGE

3 having been duly sworn, testified as follows:

4 JUDGE FORDHAM: Would you state your name and
5 business address for the record and please spell your
6 last name?

7 THE WITNESS: Joseph Bogdonavage,
8 B-O-G-D-O-N-A-V-A-G-E. I am Senior Vice-president of
9 Finance at PGW. That is 800 West Montgomery Avenue,
10 Philadelphia, Pennsylvania 19122.

11 JUDGE FORDHAM: Thank you.
12 You may proceed, Mr. Clearfield.

13 MR. CLEARFIELD: Thank you.

14 Mr. Bogdonavage is sponsoring PGW Statement 3 and
15 Exhibit JRB-1 as well as Volume 2 of the original filing.
16 He is also sponsoring PGW Statement 3.1 including
17 Exhibits JRB-2 and 3. And then with respect to his
18 rejoinder, we have handed out to the reporter and I
19 believe you have a copy of two rejoinder exhibits,
20 Rejoinder Exhibit 1 and Rejoinder Exhibit 2.

21 JUDGE FORDHAM: I don't see it.

22 MR. CLEARFIELD: Just a moment, Your Honor.

23 (Document handed to Judge Fordham.)

24 MR. CLEARFIELD: They have been marked and copies
25 have been provided to the court reporter.

1 JUDGE FORDHAM: Thank you.

2 (Whereupon, the documents were marked as PGW
3 Statements Nos. 3.0 and 3.1 and Exhibits JRB-1,
4 JRB-2, JRB-3, JRB-Rejoinder-1 and JRB-Rejoinder-2
5 for identification.)

6 DIRECT EXAMINATION

7 BY MR. CLEARFIELD:

8 Q. Mr. Bogdonavage, I would like you to respond to
9 some contentions that Mr. Lelash has in his surrebuttal.

10 First, on page ten Mr. Lelash states that PGW's
11 updated test year results which you presented in your
12 rebuttal which updated the fully forecasted test year for
13 the most recent gas cost projections for PGW are
14 inconsistent with prior ratemaking methodologies used by
15 PGW at its former regulatory agency, the PGC,
16 Philadelphia Gas Commission. First, are you familiar
17 with PGC ratemaking methodologies and procedures that
18 were used for PGW?

19 A. Yes, I am. During my career at PGW I have been
20 involved with most of the rate cases and budget filings
21 since about 1978, or about 20 some years.

22 Q. That is even longer than 20 years,
23 Mr. Bogdonavage, just for the record.

24 With respect to his contention about PGW's rate
25 setting is he correct that using the projected gas cost

1 is inconsistent with that methodology?

2 A. If I may, Your Honor, PGW normally files its
3 operating budget and request for rates prior to the
4 beginning of the fiscal year that we are expecting the
5 rates to be set for. PGW during this case right now for
6 the fiscal year 2001 filed with the Philadelphia Gas
7 Commission at the time its annual operating budget on
8 June 19 of 2000.

9 Q. What is your fiscal year, just for the benefit
10 of the Judge?

11 A. The fiscal year at PGW starts September 1st and
12 ends August 31.

13 In normal practice before the Philadelphia Gas
14 Commission prior to the transfer over to the Public
15 Utility Commission PGW would file its operating budget,
16 as I mentioned before, along with any increase in rates
17 that were requested for base rates. Normally that
18 process took about three to four months. So if we filed
19 in June we expected rates to be in place sometime in the
20 September-October-November time span, which would be more
21 representative of when the rates were going to be in
22 effect for the normal cost of operations for a fully
23 forecasted test year.

24 Q. So how did the budget year coincide with
25 revenues and expenses that were expected to be in place?

1 A. They were the same. The revenues that were
2 expected to be in place and the rates in place to bill
3 customers would have been representative of a fully
4 forecasted budget year. As an example, in one of the
5 cases when PGW filed for rates, the last case was in
6 1991, the 1991-1992 budget year was in fact what was used
7 as the normal cost of operation for a fully forecasted
8 period.

9 Q. And do you have a rejoinder exhibit that
10 provides information in that respect?

11 A. Yes, it does. On Exhibit 1 of JRB Rejoinder
12 you can see that going back to the 1997-98 period the
13 PGW's filings occurred usually in the late spring or
14 early summer. The budget year that was in effect at that
15 time was the fully forecasted year that would take place
16 in September 1st. So as an example, back in 1997-98 we
17 filed in April. The budget year -- that should be
18 1977-78. The order was entered after hearings and the
19 process of interviewing all those parties who would have
20 intervened along with the witnesses that were involved
21 with the case. That order was adopted in May of 1977.
22 The rates went into effect in '77. It was about a 30 day
23 or a two month period.

24 Over the course of this you can see over the last
25 seven or eight filings that PGW has made for base rates

1 the normal process was somewhere between the three to
2 four months as I just alluded to.

3 Back in 1982-83 PGW had back-to-back rate cases.
4 We had one in 1982 and also one in 1983 which were filed
5 for the purposes of cashflow. Back then PGW's debt
6 service coverage was substantially better than the 1.5
7 that was mandated. Both of those cases involved a
8 tremendous increase in the natural gas prices that we
9 were charging to customers and also had the commensurate
10 effect of increasing our accounts receivable and putting
11 severe pressure on PGW's cashflow at the time.

12 I may, Your Honor, mention that prior to 1982 PGW
13 did not have a commercial paper program in place. So we
14 did not have that overall flexibility at the point in
15 time to take care of any working capital needs as a
16 result of higher gas prices for inventory and for
17 accounts receivable from customers.

18 Q. Let me just make sure this is clear.
19 Mr. Lelash in his surrebuttal indicates that PGW's
20 budgeting and rate setting historically were based on
21 coverages, trying to meet coverages, and not on cashflow.
22 So are you saying he is wrong about that?

23 A. That's correct. If we go back to some of the
24 rate orders that we had back in 1982 and 1983, both of
25 those cases typically had cashflow as part of the base

1 rate case. Back then PGW, as I just mentioned, had
2 severe cashflow problems. We had run-ups in customer
3 accounts receivable and also in the natural gas prices
4 that were being charged to customers at that point in
5 time.

6 Q. So was the case filed to meet debt service
7 coverages or to provide cash working capital?

8 A. That case back in 1982 and then subsequently in
9 '83 were mostly cashflow methodology cases.

10 Q. Can you tell us what you are showing in exhibit
11 JRB-Rejoinder-2?

12 A. Yes. Your Honor, what is attached here are the
13 rate orders for both of those cases. If you go to the
14 second tab in -- actually, the first tab in -- you will
15 see an order from the 1981 use rate case. If you go to
16 page --

17 Q. That is the one that says filing date, June 19,
18 1981?

19 A. That's correct.

20 MR. CLEARFIELD: Do you see that, Your Honor?

21 JUDGE FORDHAM: Yes. Thank you.

22 A. There was a summary attached initially up front
23 to this. But basically if you turn to page seven there
24 is a section seven from the PFMC agreement that the Gas
25 Commission alludes to the fact that the cashflow method

1 is what is prevailing for PGW's setting of rates and is
2 bound by all of the criteria set forth in section seven
3 of the PFMC agreement, which basically orders PGW to have
4 enough rates in place to charge and collect to pay for
5 its operating and maintenance expenses, its debt service
6 and also for reasonable working cash, just to paraphrase.

7 Also in the 1982-83 order, which would be your last
8 tab if you went to page nine, the Commission again
9 reaffirmed that the Commission's oversight responsibility
10 was that the revenues would be sufficient to cover
11 everything covered through the PFMC agreement in section
12 seven, and that the cashflow methodology was upheld.
13 Further, they went through and also through the
14 adjudication process made a determination that the rates
15 at that time would be just and reasonable and that the
16 cashflow methodology was by virtue of their order a just
17 and reasonable approach for setting PGW's rates.

18 MR. CLEARFIELD: Just one moment, Your Honor.

19 (Pause.)

20 Q. Mr. Bogdonavage, in referring to the first case
21 you said that you are referencing page seven of the
22 opinion and order, which was in fact the first tab. Did
23 you mean to say that you were referencing page seven of
24 the supplemental opinion and order?

25 A. Yes. I'm sorry for that, Your Honor. It was

1 the supplemental.

2 JUDGE FORDHAM: Thank you.

3 BY MR. CLEARFIELD:

4 Q. Mr. Bogdonavage, what would happen if the
5 Commission accepted Mr. Lelash's similar argument that
6 cash working capital should not be considered in this
7 rate award in terms of PGW's financials?

8 A. Your Honor, the most important issue before PGW
9 right now is obviously a cashflow issue. If Mr. Lelash's
10 proposed 21-and-a-half million dollar rate increase were
11 all that PGW could rely upon for meeting its many
12 requirements PGW would have a substantial cash problem at
13 the end of this current fiscal year.

14 As Ms. Bisgaier testified earlier today, PGW at
15 this time does not have a renewal for its commercial
16 paper program. At the moment we are still in
17 negotiations with trying to sell our bonds for capital
18 purposes and as we speak PGW probably has about a 20 to
19 30 million dollar hole in paying back the commercial
20 paper which would be due sometime in the month of June.

21 Currently PGW has projected somewhere in the 20 to
22 25 million dollar range an opening cash balance on June
23 1st. We have substantial requirements that month, being
24 June of 2001. PGW does have to pay back the \$97 million.
25 It will have the \$45 million city loan outstanding. So

1 that will be able to be used to pay off the commercial
2 paper. There will also be an advance from PGW's pension
3 and sinking fund to pay beneficiary payments. And then
4 most importantly for one of the dominos to fall in place
5 for the commercial paper would be the sale of the bonds
6 that Ms. Bisgaier mention this morning.

7 The third series bond is supposed to generate about
8 \$110 million of proceeds for capital expenditures. PGW
9 expects to spend about 62 to 64 million dollars in
10 capital for the fiscal year ended 2001 in August.

11 As we speak PGW has spent about half of that amount
12 so far. We will be going full bore on the cast iron main
13 replacement program over the summer construction season.
14 We are also very well under way on our LNG refurbishment
15 that was also mentioned.

16 At this point in time PGW has no funds available
17 from any of its prior bond issues. PGW drew down about
18 \$34 million of proceeds from the 1999 bond sale. That
19 exhausted the proceeds that were remaining from that
20 issue. Currently PGW has about \$6 million left in its
21 capital lease fund. Those expenditures can only be made
22 for information technology and transportation equipment.

23 So barring any sale of the third series bond PGW has no
24 other mechanism right now to reimburse ourselves for
25 capital expenditures.

1 So the timing of the commercial paper being renewed
2 and also that the revenue bond be sold in the latter part
3 of June would afford PGW the flexibility to then pay back
4 its commercial paper, stay out of the commercial paper
5 market for the mandatory five days and then at that point
6 in time then reissue hopefully because of the renewal of
7 the commercial paper whatever we needed to fund working
8 capital requirements and pay the timely expenses as they
9 become due, including payroll and natural gas payments.

10 Q. Mr. Bogdonavage, in Mr. Lelash's surrebuttal he
11 attempts to rebut your assertion that company doesn't
12 have enough cash by referencing what we call the actual
13 projected results for fiscal year 2001 and he mentions
14 the number of \$37 million in cash at the end of the year
15 based on that snapshot. Now, do you have updated
16 information on that and can you explain how the amount of
17 cash that is shown at the end of the year can be
18 reconciled with your testimony that you just gave that
19 Mr. Lelash's recommendation would not be sufficient to
20 produce enough cash to keep the company going?

21 A. Yes, I will.

22 Q. Can you reference the page that you are going
23 to refer to?

24 A. Your Honor, I am referencing schedule JRB-2,
25 page four.

1 Q. Which is attached to the rebuttal?

2 A. That is part of the rebuttal testimony.

3 This is a monthly cashflow projection of receipts
4 and disbursements from PGW. It includes basically seven
5 months of actual experience that has occurred through the
6 end of March with a very good estimate for April. PGW is
7 now projecting that we would have a year end cash balance
8 at the end of August of 34.1 million.

9 We have had some erosion from when the testimony
10 was filed initially that Mr. Lelash has spoken about as
11 an ending cash balance. PGW has had some higher
12 expenditures and also a little erosion in cash receipts.

13 But the 34.1 million ending cash balance is a
14 little misleading. The only two ways we get to that \$34
15 million is, as you know, the \$45 million city loan is
16 included in that number. If I were to remove the \$45
17 million which was fully outstanding at the end of August
18 I would have a negative cash balance of about \$11
19 million.

20 In addition to that, Mr. White through his supply
21 departments has been able to work out some deals with
22 natural gas suppliers that we are not paying for gas
23 currently and we will be paying for that gas on a
24 deferred basis sometime in the the December through April
25 timespan. Included in this current fiscal year is about

1 11-and-a-half million dollars of cash deferments on
2 natural gas.

3 So absent those two items, PGW would have about a
4 \$20 negative cash balance, not the 37 that was initially
5 referred to by Mr. Lelash.

6 Q. Or the 34?

7 A. Or the 34 that we are now projecting, correct.

8 Q. Does it include or exclude the capital fund?

9 A. One of the other fundamental items that we have
10 in the \$34 million cash balance is PGW will be
11 withdrawing from the new bond proceeds of the sale about
12 \$24 million to then fund 100 percent of all capital
13 expenditures for the current fiscal year. Not a very
14 financially prudent thing to do.

15 PGW historically has liked to fund about a third of
16 capital expenditures from internally generated funds.
17 That is what a large portion of the rate increase is
18 designed to do. What we are looking at right now is that
19 if we spend at this pace of about 60 to 65 million
20 dollars which is projected over the next two fiscal
21 years, PGW will be back into the bond market in early
22 2002 or 2003 and we will have exhausted all 110 million
23 of the proceeds. Again, not something that I think
24 Ms. Bisgaier or the investment community would be looking
25 for. Sooner or later PGW should have rates sufficient so

1 that they should be able to fund some of the capital
2 expenditures on a pay-as-you-go basis.

3 Q. Did you do a projection of Mr. Lelash's 21.5
4 million recommendation considering the results of
5 operations that you are projecting for the fiscal year
6 starting September, 2001?

7 A. Yes, I did. Your Honor, that would be schedule
8 JRB-3, page one, of the rebuttal testimony. This is a
9 fully forecasted --

10 MR. KEENE: Your Honor, I am going to interject
11 with an objection at this point. This schedule was
12 presented. It was attached to his rebuttal. He could
13 have provided testimony on it then. To allow him to
14 provide additional testimony on rejoinder is improper.
15 Mr. Lelash has recommended \$21.5 million, which was made
16 in his direct testimony. So they have had an opportunity
17 to respond to this.

18 MR. CLEARFIELD: Well, Your Honor, if I could
19 respond, Mr. Lelash has reiterated in his surrebuttal the
20 contention that the 21.5 is sufficient to meet PGW's cash
21 needs and he has referenced this actual projected for
22 2001 and said that that should be more than sufficient to
23 take care of any problems that PGW would have. Mr.
24 Bogdonavage has shown that that is illusory. There is no
25 cash. He was completely wrong about that.

1 But in addition, Mr. Bogdonavage wanted to point
2 out the fact that based on the period of time in which
3 the rates are going to be in effect what the results of
4 Mr. Lelash's recommendation would be which, again, is in
5 direct response to Mr. Lelash's surrebuttal.

6 MR. KEENE: Again, Your Honor, he could have
7 presented this in his rebuttal testimony. There is
8 nothing new here. We were told this was to be very
9 limited rejoinder testimony to specific new issues that
10 Mr. Lelash raised in his surrebuttal. There is nothing
11 new here.

12 MR. CLEARFIELD: Well, I respectfully disagree,
13 Your Honor. In his surrebuttal -- in the rebuttal
14 testimony of Mr. Bogdonavage he indicated that Mr. Lelash
15 had not done any kind of cash working capital analysis
16 for the company. Mr. Lelash, I believe on page 10 or 11
17 or 12 of his surrebuttal said, oh, no, that is wrong, I
18 have looked at cash working capital and he quotes from an
19 interrogatory response that he put in the record and he
20 indicates that he thinks the cash would be more than
21 adequate for the company because of a balance that they
22 have at the end of the year and because of other sources
23 he thinks will take care of the company's cash needs on a
24 going forward basis.

25 JUDGE FORDHAM: Which page did you say?

1 MR. CLEARFIELD: I will get you the exact page,
2 Your Honor. It is in Mr. Lelash's surrebuttal and it is
3 a block quote, so I can find it quickly. It is on page
4 11.

5 MR. KEENE: And, Your Honor, he just addressed this
6 moments ago.

7 MR. CLEARFIELD: Your Honor, I think he only has
8 one point to make. There were two parts to the answer.
9 One was to rebut the contention about end of the year
10 cash balance for the FY 2001 period and then to show what
11 our projections of PGW's cash working capital would be
12 for the FY 2002, the next year, if Mr. Lelash's
13 adjustment was adopted. Because the cash is a continuing
14 complication.

15 JUDGE FORDHAM: So that is your only question?

16 MR. CLEARFIELD: That is the last thing that
17 Mr. Bogdonavage has to do, just refer to our projection
18 and explain how that impacts Mr. Lelash's contention in
19 his testimony.

20 MR. KEENE: Your Honor, this case isn't about
21 fiscal year 2002. It is about fiscal year 2001.

22 MR. CLEARFIELD: Your Honor, that is ridiculous.
23 It is about PGW's cashflow needs. You have to look at
24 what our actual cashflow needs are in the period of time
25 in which the rates are in effect. You can't ignore what

1 is going to happen in the period of time that the rates
2 are in effect or this company is going to go bankrupt.

3 Mr. Bogdonavage is trying to show what Mr. Lelash's
4 recommendation would do to the company, which would be
5 that the company would be \$30 million negative at the end
6 of the fiscal year 2002 and would actually not have
7 enough money to make its debt service payment in August.

8 MR. KEENE: But their budgeted year that they
9 presented in this case is for fiscal year 2001. Now they
10 are trying to expand it into what happens next year and
11 that is not what their case is based upon,

12 MR. CLEARFIELD: Well, Your Honor, we can argue
13 about this in the brief. A municipal company has to look
14 at actual cash working capital receipts and
15 disbursements. It can't look at hypothetical receipts
16 and disbursements because you can't pay your bills
17 hypothetically.

18 MR. KEENE: But Mr. Lelash's surrebutal does not
19 address fiscal year 2002.

20 MR. CLEARFIELD: Your Honor, that is right. He
21 didn't say fiscal year 2002. What Mr. Lelash said was
22 that PGW's cash should be adequate for the period of time
23 in which the rates are in effect and he pointed to the
24 end of the budget year 2001 and he said that should be
25 fine for the company for the time in which the rates are

1 in effect. Mr. Bogdonavage wants to show why he believes
2 that statement is incorrect.

3 JUDGE FORDHAM: The exhibit that you are referring
4 me to does not deal at all with fiscal year 2001. It
5 starts with September.

6 THE WITNESS: Right. That is the ending cash
7 balance that PGW now projects because of some of the
8 one-time things that have happened, basically the city
9 loan and the deferral of natural gas bills and also the
10 100 percent borrowing for capital expenditures.

11 Your Honor, all I wanted to do in this exhibit was
12 to now display PGW's 1307(f) filing for the gas cost rate
13 which will take effect prior to probably the
14 implementation of the base rate which if it went to its
15 fruition we would not have a decision from the Public
16 Utility Commission until probably October.

17 JUDGE FORDHAM: You are saying the gas cost rate
18 that has just been filed would take effect prior to the
19 base rate case?

20 THE WITNESS: That is my understanding, Your Honor.

21 MR. KEENE: But it will take place after the budget
22 year that they have presented to support their base rate
23 case.

24 MR. CLEARFIELD: Your Honor, we updated our budget
25 year to include what we believed to be the best

1 projection of gas costs because gas costs have a big
2 effect on the company in two ways that are not covered by
3 the GCR, that is, bad debt expense and and the biggest
4 effect is cash. Because when gas costs go up the company
5 has to have more money to pay its gas bills when they
6 come due. So unlike other companies that get their cash
7 working capital from investors, we get it from rates. So
8 we have to be able to show how increased costs of such
9 magnitude, what, two-thirds of our total expenditures --

10 MR. KEENE: Your Honor, that's fine.

11 Mr. Clearfield is not testifying here. What we are
12 trying to do is limit the scope of Mr. Bogdonavage's
13 rejoinder. That was supposed to be very limited to
14 responding to Mr. Lelash's surrebuttal testimony. And
15 now they are trying to present additional testimony on
16 next year, which isn't even part --

17 MR. CLEARFIELD: Your Honor, we already presented
18 that testimony.

19 JUDGE FORDHAM: Let Mr. Keene finish.

20 I'm sorry, Mr. Keene.

21 MR. KEENE: The fiscal year 2002 is not part of
22 this case. Their case is premised on fiscal year 2001.

23 MR. CLEARFIELD: Your Honor, that is an argument
24 that Mr. Keene is making. It is not a fact. We updated
25 our test year to show what our projected gas costs are

1 just like every other company gets to update their
2 expenditures to show what they expect to experience in
3 the period of time in which the rates are in effect.
4 That is exactly what we always did at the PGC. And in a
5 cash case, which is very different, as Mr. Sullivan
6 testified today, very different than the way in which
7 rates are set for an investor-owned utility, you have to
8 do that because you have to show what the cash receipts
9 and disbursements are actually going to be.

10 So what we did is we updated our test year to
11 include our best projection of what the gas costs are
12 going to be based on the GCR that we filed, and then
13 Mr. Bogdonavage produced a cash receipts and
14 disbursements study for the period of time that starts in
15 September, 2001, to the end of 2002.

16 All he was going to do, I think, was two more
17 sentences and say if you look at Mr. Lelash's
18 recommendation at 21.5 and you look out a year to see
19 what would happen, Mr. Lelash's recommendation would make
20 us default on our bond covenants. And that is just a
21 fact.

22 Now, Mr. Keene can says we can't look at that. I
23 don't think that is a prudent thing to do.

24 JUDGE FORDHAM: I will allow this one question and
25 then we will move on.

1 THE WITNESS: Your Honor, on Exhibit JRB-3, page
2 one, which starts off with the best projection PGW now
3 has for beginning cash of 34.1 million, one of the most
4 distressing things that we found out from this new filing
5 with the 1307(f) is that the natural gas prices that
6 Mr. White has projected are going to lead PGW to probably
7 pay about 50 to 55 million dollars more for natural gas
8 in the September through December period than it did last
9 year. So I don't have the luxury of just closing my eyes
10 and saying this FY 2001 fully forecasted.

11 PGW expects to be able to hopefully get the renewal
12 on commercial paper, sell the bond, use those proceeds to
13 reimburse PGW for capital expenditures and then husband
14 enough cash that we will be able to get through the next
15 four months, being December 31 of 2001, and make the debt
16 service payment. And all I wanted to project here is if
17 we do all of those things the 21.5 that Mr. Lelash is
18 recommending is inadequate.

19 Just to go a little step further, further to the
20 right, at the end of July, PGW will then be in a negative
21 cash position after it has made its natural gas and debt
22 service payments. However, there is a \$13 million debt
23 payment due on August 1st. At that point PGW will have
24 all 60 some million dollars now borrowed for capital
25 expenditures, the city loan will be fully outstanding and

1 PGW will have no other source of cash to make those
2 payments at that point.

3 BY MR. CLEARFIELD:

4 Q. Is that \$13.3 million?

5 A. That is correct.

6 Your Honor, that is all I wanted to point out, that
7 during Mr. Lelash's discussion on PGW's fully forecasted
8 test year I would just like to bring it to the Court's
9 attention that the fully forecasted 2001 year did not
10 have the natural gas prices that were approved by the
11 Public Utility Commission at all. And also through the
12 cost of service, which was done by Mr. Rudden, had a
13 somewhat in-between look at natural gas prices. I think
14 the numbers that we were looking at at that point in time
15 were about a \$150 million increase.

16 Q. That was your original filing in January?

17 A. That was the January 5 filing that was made
18 before the PUC. 465 in base rates.

19 Coincident with that the Public Utility Commission
20 allowed PGW in its January filing to increase rates on a
21 compressed rate of about \$230 million. So just going
22 back and looking at Mr. Lelash's testimony and schedules,
23 he did make coverage at 21-and-a-half million dollars.
24 However, by adding another \$80 million of gas costs just
25 looking at it hypothetically if all things were still to

1 remain equal, PGW would probably have about a three to
2 five million dollar exposure on bad debt because of the
3 increase in natural gas costs that would then be passed
4 on to customers. And at that point Mr. Lelash would not
5 have made the debt service coverage requirement that PGW
6 had to for FY 2001.

7 Q. So even if we did not look at FY 2002 gas costs
8 and used the actual gas costs from 2001, Mr. Lelash would
9 have us violate our bond covenants?

10 A. All things else being equal, correct.

11 Q. With respect to Mr. Weakley's testimony in his
12 surrebuttal I just want to clarify, he indicates in there
13 that he believes his \$44 million recommendation would
14 produce sufficient cash for PGW because it would produce
15 a positive balance at the end of the year and he says
16 that any deficiencies could be made up during the winter
17 heating season. Would you clarify why that is the not
18 correct?

19 A. PGW if we look at any of the cash projections
20 that we have, and even on a historic basis, is in a
21 negative cashflow between September and December. That
22 is why PGW is husbanding as much cash as we can to get us
23 over the working capital requirement that normally would
24 have been funded by PGW's commercial paper program.

25 As Ms. Bisgaier had testified earlier today, that

1 is the very reason why PGW has the commercial paper, to
2 get it over the hump of the revenues which come in
3 substantially during the winter period and also any of
4 the cashflow requirements because of the purchase of
5 natural gas inventories that are made between September
6 and December. Until PGW gets to about December or
7 January it is in a negative cash position. Our fixed
8 costs at that point in time are substantial. The
9 revenues are very minor at that point in time because
10 there is no heating load that PGW relies upon.

11 Again, just to go a step further, if in fact I were
12 to run out Mr. Weakley's \$44 million we would still up FY
13 2002 at the end of August in a negative cash position,
14 although not quite as drastic as Mr. Lelash's.

15 Q. This need to pay for gas costs in the September
16 to December period, that is what drives the need to have
17 a cash balance at the end of the fiscal year?

18 MR. KEENE: Objecting, Your Honor. We have been
19 over this and over this. This is nothing new.

20 MR. CLEARFIELD: Your Honor, this was a question
21 that went to Mr. Weakley's testimony and it was simply to
22 clarify and to make sure you understood how his answer
23 relates to the surrebuttal that Mr. Weakley put in.

24 That was the last question on the surrebuttal, Your
25 Honor -- or the rejoinder.

1 MR. KEENE: And it is already in the record, Your
2 Honor.

3 MR. CLEARFIELD: Then what harm does it do for
4 Mr. Bogdonavage to clarify at this point in rejoinder,
5 Your Honor? We will go a lot faster if we --

6 JUDGE FORDHAM: I have looked at it. I do believe
7 that it is already in the record. So at this point I
8 will sustain the objection.

9 MR. CLEARFIELD: That's fine.
10 That is all I have.

11 (Pause.)

12 MR. CLEARFIELD: I'm sorry. I did have one more.
13 I apologize.

14 BY MR. CLEARFIELD:

15 Q. Getting back to Mr. Lelash real quickly,
16 Mr. Lelash has criticized the level of gas cost
17 projections and Mr. White has already discussed that.
18 But in terms of the effect on cashflow, if we substituted
19 Mr. Lelash's projections or the original projections for
20 the ones that are reflected in our updated GCR would that
21 have a dollar-for-dollar effect your cashflow analysis?

22 A. It would have a dollar-for-dollar impact on
23 cash flow. However, as Mr. White has testified, PGW has
24 about 48 Bcf of gas available on the open market that PGW
25 has not locked up with pricing. At this point in time

1 Mr. Lelash's average \$1.34 -- I think was the number that
2 was quoted -- for the 12 month period, even in fact if I
3 put the \$1.34 into play at this point in time PGW for FY
4 2002 still would have a cashflow problem at the back end,
5 being August of 2002.

6 MR. CLEARFIELD: That is all I have. Thank you.

7 JUDGE FORDHAM: Thank you.

8 Mr. Simms.

9 MR. SIMMS: Thank you, Your Honor.

10 CROSS-EXAMINATION

11 BY MR. SIMMS:

12 Q. Good afternoon.

13 A. Good afternoon.

14 Q. Were you present in the hearing room this
15 morning?

16 A. Yes, I was.

17 Q. I believe Ms. Bisgaier indicated that PGW was
18 still negotiating with Philadelphia banks to secure the
19 additional \$50 million that she believed the company
20 needed for this commercial program. Did you hear that
21 testimony?

22 A. Yes, I did.

23 Q. And if the company is successful in securing
24 that particular \$50 million would that change any of your
25 schedules?

1 A. It would not change any of my schedules because
2 PGW is relying upon the fact that the renewal of the
3 commercial paper, which is the lifeblood of the company,
4 would result -- if it was not renewed at \$100 million
5 would result in substantial erosion of cash balances.

6 Q. But if it was renewed -- well, you have \$50
7 million already as I recall from the testimony this
8 morning.

9 A. I think Ms. Bisgaier has mentioned that we have
10 an unconditional commitment for \$50 million, correct.

11 Q. And if you get an additional \$50 million your
12 testimony is it will not change any of your schedules?

13 A. The projected \$34 million cash balance in
14 August of this fiscal year is predicated on the \$100
15 million of commercial paper being renewed.

16 MR. CLEARFIELD: You have already assumed that.

17 THE WITNESS: The assumption in the \$34 million is
18 two-fold. It is a commercial paper renewal at \$100
19 million and also the sale of the new third series revenue
20 bond. They are the two critical cornerstones of PGW's
21 financial viability to get through to next January.

22 BY MR. SIMMS:

23 Q. Now, on page two of your rebuttal testimony you
24 testify on line ten about deferring approximately \$11.5
25 million in natural gas purchase obligations. Do you see

1 that?

2 A. That's correct.

3 Q. Was that the April 2nd, 2001, quarterly filing?

4 A. I think that was Mr. White's 1307(f) filing,
5 correct.

6 Q. Well, not 1307(f). Was that the quarterly
7 filing for April 7?

8 A. Subject to check, Your Honor, I would say yes.

9 MR. CLEARFIELD: Your Honor, just a second. I
10 don't believe -- we will do it in redirect. I'm sorry.

11 BY MR. SIMMS:

12 Q. Is there an amount reflected in any of your
13 schedules?

14 A. Yes. The 11-and-a-half million dollars is
15 reflected in PGW's new projected cash balance of \$34
16 million, yes.

17 Q. And how is it reflected?

18 A. The natural gas expenditures that I expected to
19 pay between April and August have been reduced by
20 11-and-a-half million dollars. That is one of the
21 cornerstones of getting the 34 million of cash. Absent
22 that we would be down to 23, as I spoken to earlier in
23 the testimony.

24 Q. Now, when I look at JRB-3, page two, this
25 schedule was designed by you to illustrate what would

1 occur with the \$44 million increase, was it not?

2 A. Yes. Along with the inclusion of our new
3 natural gas projections for pricing to be paid in the
4 September through August time span.

5 Q. Natural gas expenditures would depend somewhat
6 on what the Commission determines in the company's
7 1307(f) or GCR filing, correct?

8 A. That would be one of the points, yes. Whether
9 or not the Commission allows PGW to recover its costs
10 would be a difference, because PGW may in fact pay
11 higher, as it did last year, when the gas cost rate was
12 not changed until January and PGW had to front-end all of
13 the cash working capital needs because the rates were
14 changed subsequent to the payment of natural gas expense.

15 Q. When did the company make its first GCR filing
16 in front of the Commission?

17 A. August 8.

18 MR. CLEARFIELD: 2000.

19 BY MR. SIMMS:

20 Q. Now, as I understand it, this schedule is to
21 reflect the impact of the \$44 million increase
22 recommended by Mr. Weakley, correct?

23 A. It has the impact of 44 in rates, correct.

24 Q. Did you reflect the adjustments that -- whether
25 or not you disagree with the adjustment, did you reflect

1 the adjustments that Mr. Weakley also made with respect
2 to his testimony?

3 A. No. This was a fully forecasted period.

4 Q. That's is not my --

5 A. No, I did not.

6 Q. Now, in your direct testimony you did not
7 provide a description of the purpose of each witness who
8 testified on behalf of PGW, the purpose of their
9 testimony, did you?

10 A. Not that I am aware of, no.

11 Q. Did you review Mr. Knudsen's testimony in that
12 regard?

13 A. I have read Mr. Knudsen's testimony.

14 Q. Have you reviewed Mr. Lukens' testimony?

15 A. I have reviewed some of Mr. Lukens' testimony.

16 Q. When I look at page 11 of your rebuttal
17 testimony, line 22, beginning with "The" and going on to
18 23, am I not correct that neither Mr. Knudsen nor
19 Mr. Lukens used this identical statement in describing
20 the purpose of their testimony -- or Mr. Lukens'
21 testimony -- correct?

22 A. You are talking about line 22 through 25?

23 Q. That's correct.

24 MR. CLEARFIELD: Your Honor, I am a little -- the
25 testimony will speak for itself.

1 MR. SIMMS: I am asking whether or not --

2 A. I think Mr. Lukens provided testimony that if
3 PGW --

4 BY MR. SIMMS:

5 Q. That is not my question. My question is very
6 clear. Starting at "The" and ending with "municipals"
7 does Mr. Lukens define in his testimony, or Mr. Knudsen,
8 that particular sentence describing the purpose of
9 Mr. Lukens' testimony?

10 A. In exactly that term?

11 Q. Yes.

12 A. Probably not.

13 Q. Have you accounted for quarterly updates in
14 your fully forecasted test year for GCR purposes?

15 A. For the fiscal year 2001?

16 Q. Yes.

17 A. Not in the fully forecasted test year. But PGW
18 provides an update almost on a monthly basis,
19 unfortunately over the last six or eight months almost on
20 a daily basis. We take a look at whatever natural gas
21 costs are being projected, yes.

22 MR. SIMMS: That concludes my cross-examination,
23 Your Honor.

24 JUDGE FORDHAM: Let's take a ten minute break.

25 (Recess.)

1 JUDGE FORDHAM: We are back on the record.

2 Ms. Burak.

3 MS. BURAK: I have nothing for this witness, Your
4 Honor.

5 JUDGE FORDHAM: Mr. Keene.

6 MR. KEENE: Actually, Your Honor, I had just a few.

7 JUDGE FORDHAM: Mr. Keene. I'm sorry.

8 CROSS-EXAMINATION

9 BY MR. KEENE:

10 Q. Good afternoon.

11 A. Good afternoon.

12 Q. My name is Steve Keene with the Office of
13 Consumer Advocate.

14 A. Good afternoon.

15 Q. In your rebuttal testimony you presented a
16 fully forecasted test year for fiscal year 2002, isn't
17 that correct?

18 A. Among other things, correct.

19 Q. And that is in JRB-3?

20 A. Statement 3.

21 Q. Going back to your direct testimony, at page
22 two you presented a revised budget for fiscal year 2001,
23 isn't that correct?

24 A. That's correct.

25 Q. And it was a revised budget for fiscal year

1 2001 which forms the basis for your requested increase in
2 base rate revenues of \$65 million, isn't that correct?

3 A. At the point of the filing on January 5, that
4 is correct. But it does not include the approved PUC gas
5 cost rates that were in effect for the current period.

6 Q. And in proceedings before the Philadelphia Gas
7 Commission has the company ever presented anything other
8 than a budgeted test year for the current year to the
9 Philadelphia Gas Commission?

10 A. As I spoke before earlier in my testimony, PGW
11 always filed a fully forecasted test year because that
12 was the period when the rates would be in effect.

13 Q. And if we look back at that exhibit, JRB
14 Rejoinder Exhibit 1, the budget year utilized in each of
15 those cases was for the current year, wasn't it?

16 A. That's correct.

17 (Pause.)

18 A. And if I may, Your Honor, just to put a little
19 more insight into it, those years because of the budget
20 starting in September rates were usually in effect and an
21 order was handed down by the gas commission relatively
22 early in that fiscal period. As we speak now, the entire
23 test period apparently will be over before the rates are
24 now set for the base rate case.

25 Q. And when you used the term a fully forecasted

1 test year you are referring to a budget and not stated on
2 a ratemaking basis?

3 A. It would be a normal cost of operating PGW from
4 a budget that was prepared at the beginning of each
5 fiscal year that the rates will be in effect, correct.

6 Q. Turning to your rejoinder testimony, you
7 mentioned a number of cases in the 1980s before the
8 commercial paper program was in effect and that there was
9 no commercial paper for cash working capital requirements
10 then. Since PGW has implemented a commercial paper
11 program has the Philadelphia Gas Commission review been
12 more geared to bond coverages?

13 A. Subsequent to the 1983 base rate case most of
14 the proceedings for base rates before the PGC have been
15 driven by the debt service coverage minimum requirement.

16 Q. I want to ask you one more question about
17 JRB-3.

18 A. Which page?

19 Q. Page one of schedule JRB-3.

20 A. I have that.

21 Q. Did your projections in there include any of
22 the potential 18 million of GCR overrecovery that the
23 company was allowed to keep under the settlement with the
24 PUC?

25 A. The answer to the question is no. But I think

1 more importantly, PGW's new project is that there is an
2 underrecovery, not an overrecovery.

3 MR. KEENE: If I could just have a moment, Your
4 Honor?

5 JUDGE FORDHAM: Sure.

6 (Pause.)

7 MR. KEENE: That is all I have, Your Honor. Thank
8 you.

9 JUDGE FORDHAM: Mr. Bertocci.

10 MR. BERTOCCI: I have no questions, Your Honor.

11 JUDGE FORDHAM: Do you have anything, Mr. Gray?

12 MR. GRAY: Nothing, Your Honor. Thank you.

13 JUDGE FORDHAM: Any redirect?

14 MR. CLEARFIELD: A few questions, Your Honor.

15 REDIRECT EXAMINATION

16 BY MR. CLEARFIELD:

17 Q. Starting backwards, you indicated that
18 subsequent to 1983 the cases before the PGC focused
19 primarily on debt service coverage. How did the focusing
20 on debt service coverage affect the company's cash
21 working capital needs or allowance for cash working
22 capital?

23 A. Going back to 1987, which I think was the first
24 year that we had a base rate increase, debt service
25 coverage was an issue at that point in time. However, as

1 part of all of PGW's operating budget filings, including
2 ones for base rate increases, a cashflow projection was
3 always part of that filing. PGW has always had problems
4 with customer accounts receivable and also the funding of
5 the working capital requirements for natural gas storage
6 inventory. So in any given fiscal year PGW's operating
7 budget, which is still under the purview of the
8 Philadelphia Gas Commission, includes not only a look at
9 all of the normal operating costs for that fully
10 forecasted period, but also take into account PGW's
11 projections for what its cashflow and working capital
12 needs will be.

13 Q. If the rates were set to produce appropriate
14 debt service coverages under the 1975 ordinance how would
15 that affect the company's cash working capital
16 requirements?

17 A. Under the 1975 ordinance PGW would recover the
18 extra half point, the 1.5. That would be over and above
19 the debt service payment and would go to provide some
20 sort of working capital requirement for the company.

21 Q. And was that adequate?

22 A. In certain of those years that was adequate in
23 combination with the commercial paper program.

24 Q. And did that change?

25 A. It changed significantly, as Ms. Bisgaier had

1 mentioned earlier today. Starting with the 1998 bond
2 issue, which was the first series, PGW had a two tier
3 debt service coverage calculation and the net result of
4 that was that rather than covering all of the debt at 1.5
5 times there is a two tier system the net effect of which
6 was that it pulled about 15 to 20 million dollars of
7 working capital out of the coverage calculation and is
8 one of the paramount reasons why PGW has such a cashflow
9 requirement right now. Over the last three years PGW has
10 cumulatively lost somewhere around 50 to 60 million
11 dollars of working capital because of the change in the
12 calculation of the debt service coverage.

13 Q. Finally, Mr. Simms asked you whether in your
14 analysis of Mr. Weakley's recommendation from a cashflow
15 standpoint that you show on JRB-3, page two, if you
16 included the adjustments that Mr. Weakley had sponsored
17 or incorporated from the other OTS witnesses. Do you
18 recall those questions?

19 A. Yes.

20 Q. What approximately would be the effect in your
21 view if you had included those adjustments?

22 A. Again, looking at that fully forecasted 2002
23 test year, if I included all of Mr. Weakley's adjustments
24 that were both revenue and also for bad debt expense the
25 negative \$11 million would be about a positive three.

1 Again, not a tremendous improvement over PGW's cashflow
2 needs. Because at the end of fiscal year 2002 the city
3 loan of \$45 million is by ordinance due on January 25 of
4 2003. And as I pointed out a little earlier, the reason
5 that PGW tries to husband as much cash at the end of the
6 fiscal period, it is in a negative cashflow position
7 between September and January 1st of most heating
8 seasons. So that PGW needs to have about 35 to 40
9 million dollars in play to satisfy two needs, in this
10 particular case the city loan and also to pay the debt
11 service payment which is due on January 1st.

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

13 JUDGE FORDHAM: Anything further?

14 MR. SIMMS: Yes, Your Honor.

15 JUDGE FORDHAM: Mr. Simms.

16 MR. SIMMS: Thank you, Your Honor.

17 RECROSS-EXAMINATION

18 BY MR. SIMMS:

19 Q. Would not in the upcoming year, with the
20 company's GCR filing, would the company be in position to
21 address for the first time the hypothetically increase
22 gas costs going forward with the GCR filing, the
23 quarterly filing and the two percent threshold? Would
24 that be correct?

25 A. PGW would be in a much better position this

1 year than it was last year, correct.

2 MR. SIMMS: Thank you.

3 That's all I have, Your Honor.

4 FURTHER REDIRECT EXAMINATION

5 BY MR. CLEARFIELD:

6 Q. But that better position would deal with gas
7 costs. Would it deal with the effects on base rates and
8 cashflow?

9 A. There would be a domino effect because of
10 whatever increases in gas costs that would be in effect
11 at that point in time would have a degradation in the
12 impact on the base rate case because of the bad debt
13 expense.

14 Q. Is that a yes or no?

15 A. As a result of just the gas cost rate increases
16 there would be a substantial impact on the base rate
17 case.

18 Q. Can the company's financial condition be
19 completely projected just by the GCR when gas costs go
20 up?

21 A. No.

22 FURTHER RECROSS-EXAMINATION

23 BY MR. SIMMS:

24 Q. But you would agree that you are in a better
25 position to address at least the gas cost portion of your

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1 budget than you were in years past, is that correct?

2 A. Under the PUC they have given us the ability
3 to, as Ms. Bisgaier had pointed out earlier, the ability
4 to track our natural gas costs in a more timely manner,
5 yes.

6 MR. SIMMS: Thank you.

7 JUDGE FORDHAM: Thank you. You may be excused from
8 the stand.

9 (Witness excused.)

10 MR. CLEARFIELD: Your Honor, may I move into the
11 record Mr. Bogdonavage's exhibits, Statement 3.0, JRB-1,
12 Volume II, his Statement 3.1, JRB Exhibits 2 and 3 and
13 then the two rejoinder exhibits, JRB Rejoinder Exhibit 1
14 and JRB Rejoinder Exhibit 2?

15 And before are you rule, I will note that I believe
16 Mr. Bogdonavage mentioned this but there is a typo in
17 JRB-Rejoinder Exhibit 1. The second column on the left,
18 the first line, says 1997 to '78. It should 1977 to '78.

19 MR. KEENE: Your Honor, with respect to the
20 rejoinder exhibits and in particular Exhibit JRB
21 Rejoinder 2, the orders from the Philadelphia Gas
22 Commission, these appear to be just some selected orders
23 from the gas commission and we just saw these for the
24 first time today. So we would reserve the right to
25 utilize any other decisions of the Philadelphia Gas

1 Commission that might be relevant in this proceeding
2 after we have taken a look at them.

3 JUDGE FORDHAM: So you are not objecting to this
4 but you are indicating that you might want to add --

5 MR. KEENE: Yes, Your Honor.

6 JUDGE FORDHAM: Okay.

7 MR. CLEARFIELD: Well, Your Honor there is no
8 objection, but Mr. Bogdonavage provided expert testimony
9 about how to interpret these orders and what they said.
10 So that is why we thought it was relevant. That is why
11 we made it an exhibit.

12 MR. BERTOCCI: Your Honor, I don't believe he
13 provided any expert testimony concerning essentially
14 legal opinions. He provided testimony to call attention
15 to previous decisions. He is not a lawyer. He can't
16 provide expert testimony on what is a legally binding
17 order.

18 MR. CLEARFIELD: Well, the orders will speak for
19 themselves, Your Honor. But he also authenticated --
20 some of these orders, for example, the '81 case, has
21 three different parts. He was able to because he was
22 there put those three together and I don't believe there
23 is any objection to that and say this is the totality,
24 this is the order that the Commission issued. So in that
25 respect he presented testimony.

1 JUDGE FORDHAM: Mr. Bertocci, are you objecting to
2 the admission of the orders?

3 MR. BERTOCCI: I would prefer that the orders -- I
4 don't have a problem with PGW attaching copies of the
5 orders to their brief, calling attention to them. But it
6 seems to me they are like any kind of opinion and there
7 is no reason to have them in evidence per se. So I would
8 object to their admission as evidence.

9 JUDGE FORDHAM: Is any other party objecting to the
10 admission?

11 MR. KEENE: Your Honor, I guess I would just say
12 that these are just decisions of an administrative agency
13 and if the company wants to cite them they can cite them
14 and attach them as they would any other orders or
15 opinions.

16 MR. CLEARFIELD: Your Honor, the reason
17 Mr. Bogdonavage testified on the orders was, first of
18 all, to make sure that we identified the right orders
19 since this is a different process than we are used to. I
20 think it is relevant for that purpose. He was there. He
21 can testify to them. And he also testified as an expert
22 as to what the subject of the case was. He used these as
23 the basis for that testimony. He said this was a
24 cashflow case.

25 He is not providing an opinion over and above what

1 is stated in these orders as to what the orders say. But
2 he is saying this case was a cashflow case and he was
3 using these orders to illustrate that. So for that
4 reason I think it is appropriate.

5 JUDGE FORDHAM: The statements and the Exhibits JRB
6 1, 2 and 3 and JRB Rejoinder Exhibit 1 are admitted
7 without objection. And JRB Rejoinder 2 is admitted with
8 the objections of OCA and CEPA noted.

9 MR. CLEARFIELD: Thank you.

10 (Whereupon, the documents marked as PGW
11 Statements Nos. 3.0 and 3.1 and Exhibits Nos.
12 JRB-1, JRB-2, JRB-3, JRB-Rejoinder-1 and
13 JRB-Rejoinder-2 were received in evidence.)

14 MR. KEENE: And, Your Honor, we have reserved our
15 right to utilize any other decisions that we may have
16 from the Philadelphia Gas Commission.

17 JUDGE FORDHAM: In the briefs or present them as
18 evidence?

19 JUDGE FORDHAM: As exhibits?

20 MR. KEENE: I suppose we could present them as
21 evidence or just site them in our briefs and attach them.

22 JUDGE FORDHAM: I have no problem with citing them.

23 MR. KEENE: Whichever method Your Honor would
24 prefer.

25 JUDGE FORDHAM: It is probably better to cite them

1 in your brief. If we make mention of them as you
2 cross-examine a witness or whatever, then you can decide
3 at that time. But if they are not used in
4 cross-examination or you find that there are others that
5 are relevant you can cite them in your brief.

6 MR. KEENE: Thank you, Your Honor.

7 MR. CLEARFIELD: Your Honor, we have come to the
8 last witness of the day. I know you're glad to hear me
9 say that. Mr. Knudsen.

10 Whereupon,

11 THOMAS KNUDSEN

12 having been duly sworn, testified as follows:

13 JUDGE FORDHAM: Would you state your name and
14 business address for the record and please spell your
15 last name?

16 THE WITNESS: My name is Thomas E. Knudsen,
17 K-N-U-D-S-E-N. I am Interim Chief Financial Officer of
18 Philadelphia Gas Works. Our address is 800 North
19 Montgomery Avenue, Philadelphia, Pennsylvania.

20 JUDGE FORDHAM: And please keep your voice up.

21 THE WITNESS: Very good.

22 MR. CLEARFIELD: Your Honor, Mr. Knudsen is
23 sponsoring several pieces of testimony. PGW Statement
24 1.0 is his direct testimony. It has exhibits TEK-1 and
25 TEK-2. He is sponsoring PGW Statement 1.1, which is his

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1 rebuttal.

2 And then yesterday and this morning we distributed
3 his response to the management audit, which has been
4 marked as PGW Statement 1.2, supplement rebuttal
5 testimony of Thomas Knudsen, and that contains exhibit
6 TEK-3 through TEK-6.

7 And then, Your Honor, if we could have marked for
8 identification this afternoon a rejoinder exhibit, TEK
9 Rejoinder Exhibit 1, which we previously distributed to
10 the parties and provided to the court reporter which we
11 will use to make some points on rejoinder.

12 JUDGE FORDHAM: They shall be so marked.

13 (Whereupon, the documents were marked as PGW
14 Statements Nos. 1.0, 1.1 and 1.2 and Exhibits
15 Nos. TEK-1 through TEK-6 for identification.)

16 MR. CLEARFIELD: Your Honor, with respect to
17 Mr. Knudsen, Mr. Holland has a statement he would like to
18 make.

19 JUDGE FORDHAM: Mr. Holland.

20 MR. HOLLAND: Yes, Your Honor. With Your Honor's
21 permission we would like to do the management audit stuff
22 tomorrow while Mr. Wheaton is here. So he will only be
23 crossed this afternoon on his revenue requirement issues.

24 JUDGE FORDHAM: That's fine.

25 Does anybody have any objection?

1 MR. SIMMS: No, Your Honor.

2 MS. McCLOSKEY: No, Your Honor.

3 JUDGE FORDHAM: Okay.

4 MR. CLEARFIELD: We have three or four questions on
5 rejoinder.

6 DIRECT EXAMINATION

7 BY MR. CLEARFIELD:

8 Q. Mr. Knudsen, at page six of Mr. Lelash's
9 surrebuttal he has responded to your rebuttal statements
10 and indicated that PGW should be held to the minimum
11 level of rate increase possible because of his perception
12 about the level of service for PGW and also the alleged
13 unreasonableness of the resulting rate levels. Do you
14 have a response?

15 A. Yes, I do. When I read Mr. Lelash's rebuttal
16 testimony I was concerned that there was a very large
17 disconnect between what the parties were saying needed to
18 be done and where PGW is in reality. I want to make it
19 very clear, as I think one would sense from Ms.
20 Bisgaier's testimony this morning, that PGW is on the
21 brink of not making it. I can't say that any more
22 strongly than that. We are a hair's breadth away from a
23 financial disaster. We need the amount of rate relief
24 that is being requested in order to survive next year.
25 If we don't we will not raise paper, as Ms. Bisgaier said

1 this morning, we will not sell bonds and the mandates of
2 the Commission to keep our construction budget going next
3 year and complete our construction or refurbishment, our
4 liquified natural gas facility, that will not happen.

5 The niceties of the arguments that are being made
6 are simply missing the point. We cannot stop the
7 analysis of this company at August 31 of this year for
8 the reasons that Mr. Bogdonavage said.

9 In reality what we ought to be doing is having, as
10 Mr. Keene said, looking at fiscal 2002. But that's not
11 where we are in this proceeding. We are playing this
12 particular proceeding as if it was a PUC proceeding, a
13 rate hearing, a this, a that. That is not how this
14 company is regulated under what I understand the
15 procedures to be.

16 We are dealing with a budgeted fiscal period. We
17 are looking at the cash requirements and now we really
18 have to look at the consequences of any shortfalls.

19 That is the first disconnect.

20 The second disconnect is the sum total of
21 Mr. Lelash's both direct and his rebuttal testimony --

22 Q. Well, focus just on his surrebuttal testimony.

23 A. He confirms some of these issues again in his
24 rebuttal testimony. And the logic goes like this -- and
25 you will have to forgive me because I have notes because

1 I wanted to get the sequence right.

2 The representations are made that PGW is
3 competently managed. Both BWG, the auditors, and Black &
4 Veatch have determined that. It is recognized that PGW
5 is aggressively reducing costs. In fact, Mr. Lelash has
6 testified that maybe we are too aggressive, that in fact
7 we won't meet the goals that we have set for this year
8 which, of course, reduce the amount of rate relief that
9 we are asking for. If we are not going to meet the
10 levels of cost reduction then our request should be more.
11 It is not. It stays at \$65 million.

12 PGW's budgeting process is transparent. It is not
13 like an investor-owned utility. We go before the
14 Philadelphia Gas Commission and our entire presentation
15 is vetted. We are vetted in the press and we are vetted
16 before the PUC and I have a decision -- I made a decision
17 last fall that as far as any of the substantive issues
18 were concerned the parties could know anything about the
19 Philadelphia Gas Works. We made studies available that
20 any other utility probably would have buried and not made
21 public. We made those public for the purposes of
22 bringing people along with us in understanding the
23 complexities, not necessarily where we were, but the
24 complexities of the issues that we are dealing with.

25 It is recognized that PGW has undertaken profound

1 reform and we are in the process of that.

2 So you take all one, two, three, four of that and
3 then you say that is all well and good but we are not
4 going to give you the resources to work with. We are
5 going to give you \$21.5 million, as far as the OCA is
6 concerned, or we are going to give you \$44 million, as
7 far as the OTS is concerned. Sixty-five million is what
8 our budgeting process has identified as really the
9 minimum amounts with some adjustments that I think are
10 appropriate and we will live with. But essentially that
11 order of magnitude is what is going to pull us through.

12 So those are the two disconnects that I want you to
13 particularly understand. That we are in desire straits
14 and that even if we skate through this year because the
15 timing is as it is, as Ms. Bisgaier said this morning,
16 that the financial markets are going to trust that the
17 PUC will do the right thing, if we don't get the level of
18 rate relief that is required we will not get through next
19 year for sure.

20 Q. Focusing just on Mr. Lelash's claim that he has
21 made in is surrebuttal testimony that in light of the
22 recent marked increases in the GCR that PGW's rates will
23 be unreasonably high if its \$65 million rate request were
24 put into effect, do you believe that Mr. Lelash's
25 concerns are factually justified?

1 A. No, I don't. I think I would like to offer two
2 pieces of evidence in that regard.

3 Q. Is that in your rejoinder exhibit?

4 A. That is in the Rejoinder Exhibit 1. Let's go
5 to page four first.

6 What we have done here is to look at the rates that
7 were in effect in December of 1991, which is the time of
8 the last rate increase. And using the Bureau of Labor
9 Statistics utility natural gas index, which is
10 essentially the inflation index, applied that against
11 those rates, and that is the last column. This is for an
12 annual -- essentially an annual bill for a residential
13 customer. We are looking at 1,403.38. That takes the
14 795.65 and essentially adjusts it for inflation coming
15 forward.

16 Q. Would that show what the national average
17 increase would be applied to PGW?

18 A. Yes. That would be the national experience
19 relative to PGW's rates.

20 Then you compare that with the third column of
21 numbers, which is the base rate assuming full award
22 rates, and we would be at \$1,430. So that you see
23 relative to what other utilities have experienced across
24 the country these are not unreasonable rates in that
25 regard. We are consistent with the experience of the

1 industry more broadly across the country.

2 Turning go back, then, to page three, what is the
3 effect on the typical bill. The rates that are in effect
4 right now will be adjusted through the GCR as we have
5 filed it. Obviously if it is a further reduction than we
6 have anticipated these numbers will look even more
7 advantageous to the customer. But the way we are looking
8 at it right now, we will reduce rates for the GCR. If we
9 got the entire rate increase, the \$65 million, rates
10 would still be reduced from the present levels by 2.8
11 percent.

12 Q. And the present levels include the interim
13 increase?

14 A. They include the interim increase, that's
15 correct.

16 Q. And that's for residential?

17 A. That's correct. And then the exhibit shows
18 what the other rate classes or rate groups would
19 experience.

20 Q. Do you have any other evidence that shows how
21 customers are doing with respect to paying their current
22 bills?

23 A. Yes. There is a question of affordability and
24 I would offer the following two exhibits: 1 and 1(a) were
25 intended to be together but it got so small that we one

1 could read it so we put it on two pages.

2 If you go to the second page, what we attempted to
3 do was to project receipts with these incredibly higher
4 rates as to -- project receipts as we would anticipate
5 them to be based on a historical pattern of receipts plus
6 our efforts to collect money. And what you can see from
7 particularly page 1(a) is that we have billed -- we
8 anticipate receiving \$702 million for the year and we are
9 very close. It is really less than a half a percent off
10 right now in terms of the collections through about the
11 15th of May.

12 Q. What does that tell you?

13 A. What this says is that customers are paying
14 their bills. Whether they like to pay them or not,
15 whether they think they can afford to pay them or not,
16 they are paying their bills. This is a gross measure but
17 it is one that I have to tell you this particular E-mail
18 is distributed widely throughout the city and is watched
19 daily at four o'clock every afternoon.

20 Q. How does that compare to the company's
21 projection of bad debt expense?

22 A. Well, this level of cash receipts equates
23 generally to what we would anticipate our earnings
24 position to be. In other words, we need to get to 702
25 and then we would have about \$70 million of bad debt

1 experience. This is very gross but it generally holds as
2 a theory. To the extent, then, that we exceed these cash
3 receipts we will essentially reduce the bad debt
4 experience. So right now things are occurring generally
5 the way we thought they might, which is to say that most
6 of the people are paying their bills.

7 Now, let me go to the next page, which I think is a
8 wonderful exhibit for us and for, I think, Mr. Bertocci,
9 particularly. It is complex in its presentation but it
10 is fairly simple.

11 Just go to the estimated the 2001 line. Stay with
12 the CRP participants. We anticipate that we will have
13 60,000 CAP customers, the equivalent of CAP customers, at
14 PGW this year. That is substantially more than any other
15 utility in the state has by a factor of three, four and
16 five.

17 We have asked them to pay \$54.4 million and once we
18 have received in the crisis grants and the LIHEAP program
19 -- actually, not the LIHEAP, but the crisis grants plus
20 what the people themselves have paid, we will be at about
21 46 million. That is 85 percent of the money owed by our
22 CAP customers, our CRP customers, will be in this year.
23 That is a substantial accomplishment and we have just
24 gone absolutely flat out to enroll these people and
25 irritated other utilities in the state as a result. Be

1 that as it may, that is where we are.

2 And then the other numbers are simply a reduction
3 of that overall figure.

4 The point that I am raising there is that the low
5 income customers have reached out to us and we have
6 reached out to them mutually so that they got the full
7 benefit of particularly the crisis payments here. That
8 is really the larger amount of money. The crisis and the
9 LIHEAP both. They sought us and we sought them and we
10 have had a very good experience this year. That is to
11 say that they are making an effort to pay their bills as
12 well.

13 So the question of affordability is very much on
14 our minds. Believe me, it is on my mind daily as I look
15 at all of these numbers together. The reality is that we
16 are not going to be looking at a reduction most likely in
17 the overall level of rates. People can do it this year.
18 We have to assume that they will make a similar effort
19 next year and understand that they will make other
20 sacrifices. There is no question about that. But this
21 group of customers is not alone in the country, it's not
22 alone in the state, it's not alone in the region. All of
23 these customers are experiencing substantial increases in
24 the cost of gas.

25 Q. You said that you are not looking at a

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1 reduction this year. Did you mean you are not looking at
2 an increase?

3 A. We are looking at a reduction in gas costs,
4 that is correct.

5 Q. An overall rate reduction?

6 A. An overall rate reduction.

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

8 JUDGE FORDHAM: Mr. Simms.

9 MR. SIMMS: Thank you, Your Honor.

10 JUDGE FORDHAM: You're welcome.

11 CROSS-EXAMINATION

12 BY MR. SIMMS:

13 Q. Good afternoon.

14 A. Good afternoon to you.

15 Q. I just want to go through the budget process
16 that you mentioned that the \$65 million has identified.
17 Who prepares the budget at PGW?

18 A. Well, in April of each year we send out a
19 budget letter to all of the departments with certain
20 guidelines that we anticipate will apply, inflation
21 levels, general guidelines as to how we went them to
22 approach the budget. And then in the months of April and
23 May and then into June we put the budget together. It is
24 then compiled along with some not detailed testimony but
25 adequate testimony to explain what we have done and that

1 is presented historically, now, to the Philadelphia Gas
2 Commission as it will be this June.

3 Q. When you say we, you mean the management of
4 PGW?

5 A. I mean Mr. Bogdonavage and me.

6 MR. CLEARFIELD: Don't forget Mr. White.

7 THE WITNESS: Mr. White as well.

8 BY MR. SIMMS:

9 Q. And then the Philadelphia Gas Commission will
10 approve or adjust the budget?

11 A. Yes. Then they evaluate the budget and look at
12 our program definition. In this year's budget
13 Mr. Bleiweis, who is in the hearing room with us here,
14 they made certain adjustments that we have accepted as a
15 modification to the budget. They are not huge but they
16 are appropriate.

17 JUDGE FORDHAM: What was the name?

18 THE WITNESS: I'm sorry. Mr. Bleiweis.

19 JUDGE FORDHAM: Can you spell that?

20 THE WITNESS: B-L-E-I-W-E-I-S.

21 BY MR. SIMMS:

22 Q. And in the past for rate purposes when PGW was
23 under the jurisdiction of the gas commission, the gas
24 commission then set rates for --

25 A. In a year in which there was a request for a

1 change of rates, then the budget proceeding became a
2 process for establishing a new level of rates for
3 customers.

4 Q. Now, you made a reference to the \$65 million.
5 Is that reference in disagreement with your engineering
6 report where Mr. Sullivan testified about \$53 million?

7 A. No. The budget that was prepared for last June
8 was a different animal. It had a much lower level of gas
9 costs, substantially less gas costs. And it had a \$52
10 million requirement. The \$53 million requirement that
11 was derived by Black & Veatch was an independent
12 determination. They just happened to come close together
13 but the circumstances were somewhat different for sure.

14 MR. SIMMS: That concludes my cross-examination,
15 Your Honor.

16 JUDGE FORDHAM: Thank you.

17 Let's take a ten minute break now.

18 (Recess.)

19 JUDGE FORDHAM: Back on the record.

20 While we were off the record we did talk about the
21 witnesses for the next two days. Tomorrow Mr. Lukens, we
22 indicated before that there was no cross for him and he
23 would not appear. There is also no cross for
24 Mr. Brian Kalcic for OSBA. So we are going to start at
25 10 o'clock instead of nine o'clock on Wednesday.

1 Q. At this time the company has not filed its
2 fiscal year 2002 operating budget with the Philadelphia
3 Gas Commission, is that correct?

4 A. That's correct.

5 Q. When is that anticipated to be filed with the
6 gas commission?

7 A. Probably the third week of June. For all of
8 the other things that are going on in everybody's lives
9 right now it is hard to get at it cleanly.

10 Q. You don't have a filing deadline or timeframe?

11 A. No.

12 Q. Now, in your rejoinder testimony I would like
13 to ask you a few questions about your rejoinder exhibit.
14 First, we were on this CRP, which is page two, the CRP
15 requested data.

16 A. Yes.

17 Q. And you made the statement in your rejoinder
18 that with 60,000 customers you have substantially more
19 customers enrolled than any other utility.

20 A. That is my understanding.

21 Q. In Pennsylvania. Are you indicating gas
22 utilities or all utilities?

23 A. No. Gas utilities.

24 Q. And you are aware that PECO Electric Company
25 has more than 80,000 customers in its CAP program, which

1 is the equivalent of your CRP?

2 A. That's correct.

3 Q. Now, on your pages 1 and 1(a) -- and perhaps we
4 can just look at page one, that would be easiest -- on
5 the projected receipts column, I'm not sure if I missed
6 this explanation but it was unclear to me what your
7 projected receipts are. These are not your bills, is
8 that correct? This is not what you have billed to
9 customers?

10 A. Well, it is bills, but it is the anticipated
11 receipt of funds from all customer sources. In other
12 words, there could be LIHEAP, crisis. We have three
13 major customers in the city, PHA, Philadelphia Housing
14 Authority and the school district. So all of those are
15 included here.

16 Q. So you took what you billed to customers and
17 then projected how much you would be receiving over this
18 time period. So is your uncollectibles factor then
19 reflected in your receipts? In other words, you took
20 your billings and reduced it by the amount of
21 uncollectibles?

22 A. Like I said, as a gross measure, a very gross
23 measure, if you look at 1(a), we are forecasting \$702
24 million of receipts. If you added to that our
25 uncollectibles of about 73 or so that would bring us up

1 to about \$785 million in billings. And that is
2 approximately where we are.

3 Now, this is cash, you see. So we have a
4 receivables at the beginning of the year that we will
5 have received during the year and we will end with some
6 of our bills uncollected going into September. But as a
7 general statement, yes, if you put this schedule together
8 with our uncollectible that is where we think we are
9 probably going to come out. Or we certainly hope we can
10 come out. And if we can end up better than that I would
11 be delighted.

12 Q. But you do continue to expect your
13 uncollectibles factor to increase from its current level,
14 is that correct?

15 A. Well, you mean from the historic levels of 7.78
16 to the 10, 11, 12 percent level?

17 Q. Yes.

18 A. Yes, this reflects that experience so far.
19 Now, if in fact our cash now stays positive -- where are
20 we now? We are down \$2 million cumulatively for the
21 eight-and-a-half months. If it goes positive then,
22 again, in a very gross sense we will see some diminution
23 or reduction in the uncollectible expense.

24 Q. Now, if you could look at page three of your
25 exhibit where you were discussing the effect on the

1 typical residential bill, in your last column you were
2 showing it as a negative 2.8 percent change in rates from
3 present rates. When you used the term present rates are
4 you working off of the rates that are in effect that have
5 the compression factor involved in them which is allowing
6 you to collect the \$11 million between March and August?

7 A. That's correct. That is column two. And that
8 -- I think the intent here is what are customers
9 experiencing, what will they experience if the GCR
10 reduces their rates and then there is a concomitant
11 increase in base rates.

12 Q. But as of the end of August the compression
13 factor is to go away?

14 A. Is to come off, that's correct.

15 Q. Is to come off in any event?

16 A. That's correct.

17 Q. And I believe you indicated that this was with
18 the GCR, the preliminary GCR, that you are filing, that
19 you just recently filed reflecting the reduction in some
20 gas costs, that we would experience the negative 2.8
21 percent?

22 A. That's correct.

23 MS. McCLOSKEY: Thank you, Your Honor. That is all
24 I have for Mr. Knudsen.

25 JUDGE FORDHAM: Thank you.

1 Ms. Burak.

2 MS. BURAK: I have nothing. Thank you, Your Honor.

3 JUDGE FORDHAM: Mr. Bertocci.

4 MR. BERTOCCI: Thank you, Your Honor

5 CROSS-EXAMINATION

6 BY MR. BERTOCCI:

7 Q. Good afternoon, Mr. Knudsen.

8 A. Good afternoon.

9 Q. You are PGW's Interim Chief Financial Officer,
10 is that right?

11 A. That's correct.

12 Q. And you are in a chain of command at PGW, is
13 that right?

14 A. Yes, I am. Not a very long one.

15 Q. You report to the Interim CEO?

16 A. That's correct.

17 Q. And he is a City of Philadelphia employee on
18 loan from his post as Water Department Commissioner, is
19 that correct?

20 A. Correct.

21 Q. And you were appointed by the Philadelphia
22 Facilities Management Corporation, PFMC?

23 A. That's correct.

24 Q. And that is a board appointed by -- composed of
25 people appointed by the Mayor of Philadelphia, is that

1 right?

2 A. Correct.

3 Q. And people serve on that board at the Mayor's
4 pleasure, is that correct?

5 A. That's correct.

6 Q. And the Philadelphia Director of Finance also
7 sits on that board?

8 A. She does.

9 Q. Is it fair to say that she is probably the most
10 influential person on that board?

11 A. No.

12 Q. The mission of PFMC is to manage PGW for the
13 sole and exclusive benefit of the city, is that right?

14 A. I think that is what the management agreement
15 calls for, yes.

16 Q. And the city is designated in the management
17 agreement as, quote, owner of a group of real and
18 personal assets known as the Philadelphia Gas Works,
19 close quote?

20 A. The pipes in the ground. That is correct.

21 Q. So ultimately the amount of a rate increase is
22 not your decision, is it? The amount of the requested
23 rate increase that PGW has requested is not your
24 decision?

25 A. Mine personally?

1 Q. Yes.

2 A. No.

3 Q. It is a decision which is made by
4 (gesturing) --

5 JUDGE FORDHAM: We can't reflect that on the
6 record.

7 BY MR. BERTOCCI:

8 Q. It is a decision that is made by the city, is
9 that right?

10 A. I don't think that is totally fair. Certainly
11 there is input from the city. But in this instance the
12 recommendation and the determination was PFMC's.

13 Q. And PFMC, of course, is appointed by the Mayor
14 and serves at the Mayor's pleasure?

15 A. Well, let me be clear on that. These are not
16 simply people who rubber stamp the decisions that are
17 made. I mean, these are people who have been meeting in
18 many respects every week for a year, until relatively
19 recently when we have gone every two weeks, and they
20 serve without compensation and they are very dedicated
21 and they are far from -- believe me, far from -- rubber
22 stamps on policy.

23 Q. What about the decision whether to request a
24 grantback of the \$18 million city payment? You indicated
25 in your testimony that that is non-existent as a

1 possibly, is that right?

2 A. Yes.

3 Q. But that is not really your decision, right?

4 A. To request the grantback?

5 Q. The decision not to --

6 A. Not to grant one?

7 Q. Well, the decision not to --

8 A. Yes, it is not my decision.

9 Q. -- not to make a rate request which has as a
10 component or as part of a rate request a statement that
11 the city intends to grant back the 18 million.

12 A. That would not be my decision. I mean, the
13 rate, the budget with the accompanying rate requirement
14 that we prepared, had no provision for a grantback of the
15 18 million.

16 Q. By the way, on page four, I notice that you
17 say, quote, the company has no option but to turn to its
18 owner/customers for the funds it needs to operate, close
19 quote.

20 MR. CLEARFIELD: Is that direct or rebuttal?

21 MR. BERTOCCI: I thought it was page four of his
22 main testimony.

23 MR. CLEARFIELD: Okay.

24 MR. BERTOCCI: The direct testimony.

25 MR. CLEARFIELD: Yes, it is in his direct.

1 MR. BERTOCCI: That's right? Okay.

2 A. Line 13?

3 BY MR. BERTOCCI:

4 Q. Do you know of any legal document which
5 identifies customers as, quote, the owners of PGW?

6 A. I don't believe so, no. I have heard it
7 referred to in the context of a legal debate as
8 owner/operators but I can't say where, so the answer is
9 no.

10 Q. In your testimony you address resources other
11 than rates that are available to PGW to meet PGW's
12 financial needs. And you say that the city -- this is on
13 page 11 of your direct testimony -- the city has already
14 committed all that it can in working capital, a total of
15 63 million, close quote.

16 A. Yes.

17 Q. You are referring to the \$45 million advance,
18 which is the city loan, right?

19 A. Right.

20 Q. A two year loan that is a revolving line of
21 credit?

22 A. Correct.

23 Q. And there is no interest on that credit when it
24 is being used by PGW. PGW returns it as quickly as it
25 can. And then it sits in a fund which draws interest for

1 the benefit of the city, is that right?

2 A. That's correct.

3 Q. And then there is the 18 million that would
4 make up 63 --

5 A. The 18 that I am referring to there is the
6 deferred \$18 million that starts in February and builds
7 to 18 over four months. So it is really not a total of
8 18.

9 Q. So what you are really committing, really, is
10 the deferral of the payments which start being due in
11 March, April, May and June?

12 A. That's right.

13 Q. They are all paid in June and they are all paid
14 with interest, is that right?

15 A. That's correct.

16 Q. At that time.

17 A. We have the use of the funds through February,
18 March, April and May, and they were quite critical to us
19 this year. Not only were we borrowing the 45 but we also
20 were essentially exercising the provisions of our FERC
21 tariffs which allow us to essentially defer capacity
22 charges on our fuel purchases.

23 Q. And you are saying that that is all the city
24 can do, right?

25 A. Well, I think that question is better directed

1 at Ms. Davis, who will be here on Thursday. I think she
2 will be quite explicit that that is all the city can do.

3 Q. But you have not done any independent analysis
4 of the city's finances to determine whether or not that
5 is all the city can do, is that right?

6 A. No. I am relying on Ms. Davis. I am in
7 conversation with a number of people who talk about the
8 difficulties that the city is facing and is going to face
9 and a lot of it right now revolves around the school
10 district.

11 Q. So on page 21 when you say that the alternative
12 to providing all PGW's cash needs through rates is really
13 sale of the utility --

14 MR. CLEARFIELD: Could we have a line?

15 MR. BERTOCCI: I don't have a line, I'm sorry to
16 say.

17 MR. CLEARFIELD: I just want to make sure he knows
18 where the exact statement is.

19 MR. HOLLAND: Line 25?

20 MR. BERTOCCI: Yes, at the bottom. Line 25.

21 MR. CLEARFIELD: It says either sell.

22 BY MR. BERTOCCI:

23 Q. Either sell or arrange for an investor-owned
24 utility to provide gas to the city and have the company's
25 rates determined on a traditional...

1 A. Let me just -- bear with me. I just want to
2 see what the context was leading up to that statement.

3 (Witness perusing document.)

4 Q. You are giving me too much credit for my
5 question. All I want to ascertain is you really ruled
6 out the possibility of the city providing a 18 million
7 grant for the next year.

8 A. Yes.

9 Q. When you pose the question in that terms and
10 you say the only alterantive.

11 A. Yes.

12 MR. CLEARFIELD: We always want to give you credit.

13 MR. BERTOCCI: Well, I don't want anyone to mistake
14 him for an expert witness in this context. He is an
15 employee of the utility.

16 MR. CLEARFIELD: Thank you for that.

17 BY MR. BERTOCCI:

18 Q. On page 18 of your testimony, you describe the
19 cashflow method -- page 19, line 18 -- you describe the
20 cashflow method as the least costly and the most
21 reasonable method of setting rates for a municipal
22 utility.

23 A. Yes.

24 Q. Now, the cashflow method that is not really
25 statutory language. That is not in the bond ordinance,

1 that's not in the management agreement, that is not even
2 in the Gas Choice Act, is it?

3 MR. CLEARFIELD: Well, I object, Your Honor. The
4 PGC has characterized section seven of the management
5 agreement as the cashflow method at least eight times in
6 various rate orders.

7 MR. BERTOCCI: No, I said statutory language.

8 MR. CLEARFIELD: I'm sorry. I thought you meant
9 initial administrative decisions. And the Supreme Court
10 and the Commonwealth Court have also characterized it
11 that way and approved it as a method of setting just and
12 reasonable rates. But other than that, no.

13 MR. BERTOCCI: Thank you, Dan.

14 BY MR. BERTOCCI:

15 Q. So is it fair to say that the cashflow method
16 is a concept, is that right?

17 A. Well, as I think Ms. Bisgaier this morning
18 testified, I mean, it is an approach to a determination
19 of a level of revenues that a municipal utility requires.
20 And as Mr. Sullivan also testified, that in fact the
21 method that we were using for purposes of this proceeding
22 is very similar to that used in other municipalities.

23 Q. And basically the concept is that you cover all
24 debt expenses and meet required debt service ratios and
25 that you have cash receipts sufficient to pay obligations

1 as they come due after accounting for available short and
2 long-term borrowing. Is that about the concept itself?

3 A. Generally that is the concept.

4 Q. On page 21 you say that the cashflow method
5 asks for quote, no return. That is line 17. No return
6 on cash working capital, is that right?

7 (Witness perusing document.)

8 Q. But then the next --

9 MR. CLEARFIELD: Wait a minute. He wants to
10 familiarize himself with that.

11 MR. BERTOCCI: He is giving me too much credit
12 again.

13 (Witness perusing document.)

14 A. Well, the concept there was likening it to an
15 investor-owned utility proceeding.

16 BY MR. BERTOCCI:

17 Q. And then in the next line you say that the only
18 payment that the owner of this municipal utility receives
19 is the 18 million that is mandated by the PGW management
20 agreement and now by the Public Utility Code, is that
21 right?

22 A. Yes.

23 Q. That is not a return?

24 A. I don't think so. I think what we have here is
25 -- I think there is a difference of opinion as to what

1 the 18 million really constitutes. The management audit
2 was quite detailed in its analysis of this amount and I
3 would commend the parties and the Court to that portion
4 where we are talking about it potentially being a
5 franchise fee for a municipality utility, which is a very
6 common mechanism. But even if it were, a quote,
7 dividend, a return, it would be a very low return on the
8 total investment relative to other market rates at the
9 present time.

10 Q. But as a franchise fee, if you think of it as a
11 franchise fee, how does that square with the management
12 agreement which requires PFMC to do more than simply --
13 the city does more than simply franchise PGW. It charges
14 PFMC with maintaining the highest standards of management
15 practices and diligence in the operation of the gas
16 works. That is from the management agreement.

17 A. And you are saying that that is a criterion,
18 then, for the \$18 million?

19 Q. Well, my question is, again, you are saying
20 it's not a return on investment. And you are saying in
21 some way it is compensation for either service provided
22 by the city or like a franchise fee. And I am pointing
23 out that that \$18 million, if you think of it as
24 compensation then we have to look to see whether or not
25 compensation has actually been provided by the city,

1 isn't that right?

2 MR. CLEARFIELD: Your Honor, we are getting to the
3 point of asking for a legal conclusion about what the
4 management agreement says. I mean, all Mr. Knudsen
5 pointed out was that the management audit characterized
6 the payment in a variety of ways, one way you could look
7 at it is as a franchise fee, and they found that it was a
8 reasonable one. There was no comparison to the
9 management agreement. If we are going to make a legal
10 conclusion then that is outside the scope of this
11 witness' expertise.

12 MR. BERTOCCI: Your Honor, I'm not asking for a
13 legal conclusion. I am really looking at the problem of
14 talking about as a concept the cashflow method which
15 presumably covers the cash needs of the utility and then
16 having the requirement attached to the cashflow method
17 that \$18 million be paid to the city ostensibly for
18 reasons which no one really can quite understand. We
19 don't understand whether it is return on investment, we
20 don't understand whether it is a franchise fee. If it is
21 compensation for service then we certainly have a right
22 to ask what kinds of services have been provided to
23 ratepayers for this 18 million.

24 MR. CLEARFIELD: This is all argument, Your Honor.
25 It is compensation for the fact all of the properties

1 owned by the city. You can look at it as a franchise
2 fee. You can look at it as payment in lieu of taxes.
3 The audit looked at it in several ways and found that it
4 was reasonable. If we are going to get into a policy
5 debate about this then that is not proper
6 cross-examination and I object.

7 MR. BERTOCCHI: I think I am at the end of that line
8 of questioning, Your Honor.

9 MR. CLEARFIELD: Then I withdraw the objection.

10 JUDGE FORDHAM: Okay.

11 BY MR. BERTOCCHI:

12 Q. In your rebuttal testimony at page five, lines
13 18 and 19 again, you say that PGW's bond covenants
14 require that PGW have sufficient revenues, quote, from
15 rates, close quote, to be able to pay its obligations
16 when due. You appear to take the position that the bond
17 rate covenants require not merely that debt service
18 coverage ratios be met from rates but that debt service
19 payments as they come due be met from rates in that
20 month. Is that your position?

21 A. Well, I think that is the company's position on
22 this, yes. That will be the legal argument.

23 Q. That is a position taken on advice of Counsel?

24 A. Yes.

25 Q. Are you saying that it violates the covenants

1 to use the tax exempt commercial paper, to use money from
2 the tax exempt commercial paper or monies from the
3 capital fund or even the city advance, to make debt
4 service payments?

5 A. No. I mean, if we have instrumentalities
6 available to us to use that is not inappropriate. The
7 problem that we have is that ultimately those are
8 exhausted within the 12 month period and we are nowhere.
9 And we are sitting with this obligation for the 45
10 million to pay it back by the 1st of January, 2003, and
11 with the level of recommended rate relief we don't make
12 it. And that is an ordinance and we are under law to
13 return those monies by I think it is the 3rd or 4th of
14 January of 2003.

15 Q. Now, on page 12 of your rebuttal testimony,
16 lines 29 through 31, you say that in your experience --
17 I'm paraphrasing -- in your experience with PGW's prior
18 ratemaking methodology and requirements the gas
19 commission never denied an otherwise justified rate
20 increase on the basis of conclusions about PGW's service
21 quality, is that right?

22 A. That was my experience, yes.

23 Q. But wouldn't you agree that in that time there
24 never was a time when there was a failed implementation
25 of a billing system?

1 MR. CLEARFIELD: I'm sorry. I missed that
2 question.

3 BY MR. BERTOCCI:

4 Q. In the time of your experience with PGW, which
5 I recognize that his experience with PGW goes back to the
6 late 1980's, you are saying service was never an issue
7 when it came to rates in those times. I am saying, well
8 -- I'm asking him, well, was there ever a time in that
9 timeframe when customers had experienced the failed
10 implementation of a billing system.

11 A. Well, I think that is a layered question. Let
12 me respond. Yes, there was no other failed
13 implementation of a billing system. We had a very flawed
14 billing system before this one. So the question then was
15 did you take the risk to remove a very flawed system that
16 was essentially creating God knows as many problems then
17 as we have tried to eliminate in the last year. And the
18 answer was by a group of folks, including ourselves when
19 I was at that table for 28 years, 14 of which I was
20 appearing for Mr. Bertocci and his predecessors, we
21 argued that the IT system, the information technology
22 system, had to be upgraded, which it did. So they took
23 that book but they did a very bad job of it.

24 Are they unique is the next question. That is the
25 next layer of inquiry. And the fact is that they are

1 not. There are at least four regional utilities around
2 us who have major flawed implementations of billing
3 systems for a very good reason: they are very hard to do
4 right. And then on top of that, we offer five types of
5 services that nobody else in the region does that further
6 complicates our billing system and has complicated it to
7 a fairtheewell and we are pulling our way out of that.

8 The difference between us and the others around us
9 -- I'm not going to name the utility but there is one
10 where they actually hired people to manually to write out
11 bills to make sure that they got out the door. We could
12 not do that because we simply don't have the resources.
13 So the IOUs around us were able to do that. We were not.

14 MR. CLEARFIELD: What is an IOU?

15 THE WITNESS: An investor-owned utility.

16 So the idea that somehow we should be held to a
17 different standard I think is unfair because we are not
18 an investor-owned utility. There was no deep pocket to
19 go to to essentially pull us out of this problem that we
20 were in and we have gone as far as we can in financing it
21 differently. We now have to turn to the customers and
22 that is really what this is addressed to here.

23 BY MR. BERTOCCI:

24 Q. Don't you agree that PGW's problems at least in
25 degree are significantly greater with its new billing

1 system than other utilities?

2 A. It is in degree because of the complexity of
3 the design.

4 Q. And the design was attributable to...?

5 A. The major problem that we have had with the
6 implementation of the system is the CRP program.
7 Essentially what we took was a standard industry vanilla
8 construct and we had to interlace with it a very complex
9 tariff, the CRP program, and it has created no end of
10 problems. The irony of this is we are going to get
11 ourselves out from all of this and we are going to turn
12 and under restructuring put the CAP program in.

13 Q. But it was prior management that attempted to
14 implement this system, is that right?

15 A. That's correct.

16 Q. And when the system was implemented in July of
17 1999 isn't it fair to say that you were not in the least
18 surprised at the disaster which ensued?

19 A. Yes, that's correct.

20 Q. On page 32 of your main testimony you say at
21 line 19 through 21 we know from a recent study that if we
22 can address these three concerns -- and you are referring
23 to improving the call center and I think you are
24 referring to the productivity of staff, improving the
25 information and accessibility to the computer system and

1 training and also attitudinal changes in the staff --
2 you are saying if we can address these three concerns
3 there is no reason that you cannot reach industry
4 standards of performance, is that right?

5 A. Yes.

6 Q. So at this point you would agree that you are
7 below industry standards of performance?

8 A. Yes. On certain aspects of customer access.
9 Some aspects of customer access are in excess of current
10 standards.

11 Q. As far as the call center is concerned --

12 A. No. Within the call center we answer emergency
13 calls well under standard and with the exception of one
14 week since about the 25th of March anybody who called PGW
15 for a payment arrangement has been able to get in under
16 the 30 second requirement or generally around that level.
17 So where we do have problems -- and here again and I
18 think I would certainly like the Court and the parties to
19 understand that PGW offers an array of services that no
20 other utility around here does. And it is this offering
21 of this array of services in conjunction with this new
22 billing system that has created the problems.

23 There is a very strong temptation right now simply
24 to discontinue the whole array of services. Then we will
25 have a perfectly functioning call center and a lot of

1 people will be severely discommoded and inconvenienced
2 because PGW is no longer the provider of essential
3 services to this community.

4 Right now we do a lot of work for low income
5 customers. We have 150,000 people living at or below 150
6 percent of poverty. We have a blacksmith and a sheet
7 metal worker on duty all of the time because, guess what,
8 we have 60 and 70 year old furnaces in this town that
9 need repair parts that we custom make. And I will tell
10 you we do not receive back in compensation the cost of
11 incurring that obligation. But we do have a customer in
12 their location, in their home, staying on the system and
13 not homeless.

14 So when we talk about the services that PGW
15 supposedly fails in providing, we have an array of
16 difficulties and it is not only our responsibility and
17 problem. We have a lot of difficulties communicating
18 with clientele, our customers, who make an appointment
19 and choose not to show up even though we call them the
20 night before and say please be available in the hours
21 that we have indicated. They may not be there.

22 We have appliance repairs. We have the senior
23 citizens in PGW's service territory who put an
24 extraordinary demand on us in terms of the phone calls.
25 We know from recent studies -- and, Phil, you will be

1 interested in this -- 33 percent of our customers have
2 never phoned us in the last two-and-a-half years by their
3 report. Two-thirds, then, do phone us and they phone on
4 the average of two-and-a-half times a year. The great
5 percentage of those are low income and older people. And
6 that speaks to the difficulties because people don't call
7 necessarily only for a specific reason. I was listening
8 to phone conversations the other day and older people
9 were calling simply to make sure that everything is okay.

10 There are people in this town who will not turn on
11 their own -- they don't light up their own equipment in
12 the fall. The gas man does that. There are other people
13 who will not adjust their thermostat in Philadelphia.
14 The gas man does that.

15 So we are offering an enormous complexity of
16 services and we take a drubbing because some of it
17 seriously goes wrong. And we are working very hard to
18 correct those problems.

19 But to now -- and I come back to my list of four or
20 five items -- get me down to the bottom and say I'm sorry
21 but you can't have any money to fix the rest of it even
22 though you are undertaking reforms, even though you are
23 cutting costs to the best that you can, where does that
24 leave us? Nowhere. And that is really the issue that we
25 are talking about.

1 A long-winded answer.

2 Q. I let you go.

3 A. Thank you.

4 Q. PGW is proposing a \$65 rate increase pursuant
5 to a financial plan which envisions repaying the \$45
6 million advance within two years and paying down the \$97
7 million in short-term commercial paper within five, is
8 that right?

9 A. Yes.

10 Q. Now, such a financial plan ideally would be
11 grounded on a strategic plan, isn't that right?

12 A. And it is.

13 Q. Has PGW formulated a strategic plan that is
14 acceptable to the gas commission and Philadelphia City
15 Council?

16 A. The answer to that is that the strategic plan
17 which we prepared, which was a booklet about an
18 inch-and-a-half thick, that in my opinion certainly was
19 representative of an industry definition of a strategic
20 plan was rejected for very technical reason.

21 Q. So the answer is no?

22 A. The answer is no in this jurisdiction at this
23 time, that is correct.

24 Q. So the owner of PGW has not at this point
25 settled upon a strategic plan for PGW?

1 MR. CLEARFIELD: I'm confused. The PGC, the gas
2 commission, does not own PGW. You said it was rejected
3 by the gas commission and City Council.

4 MR. BERTOCCI: The city owns PGW, right?

5 MR. CLEARFIELD: And its citizens, who are also
6 ratepayers.

7 MR. BERTOCCI: That's what you think.

8 MR. CLEARFIELD: I think we can take administrative
9 notice of that.

10 MR. BERTOCCI: The City Council is part of the
11 city, right?

12 MR. CLEARFIELD: If you want to say that the City
13 Council has not done it, or the PGC has not approved it,
14 that's fine.

15 BY MR. BERTOCCI:

16 Q. And the gas commission is a department of the
17 city, really, isn't it?

18 A. But you left out the Mayor's office.

19 Q. That's right. The Mayor is part of the city.
20 And there has not been an agreement?

21 MR. CLEARFIELD: Why don't you ask him if the
22 administration has approved the plan.

23 BY MR. BERTOCCI:

24 Q. If a plan has been submitted -- isn't it true a
25 plan has been submitted --

1 A. The administration is --

2 Q. The mayor and PFMC support the strategic plan
3 which you have presented at this time?

4 A. Yes. The only element that was not included
5 originally because we physically could not do it in
6 November and we have had a hard time delivering it since
7 then, although I am about to deliver it to the PGC, and
8 that was that they wanted all of the departmental goals
9 and the departmental structures to contain and reflect
10 the overall direction that we were going in. In all
11 candor, while the place was in chaos there was simply no
12 way to direct resources to this kind of an academic
13 exercise. We have gone through that since then and we
14 are about to incorporate that process in the 2002
15 budgeting protocol. So all of those questions will be
16 answered in a very short period of time.

17 Q. But you would not say the development of a
18 strategic plan at the departmental level is simply an
19 academic exercise, would you?

20 MR. CLEARFIELD: Your Honor, I don't know what the
21 strategic plan has to do with this rate case. The PUC
22 doesn't approve the strategic plan. Mr. Bertocci may
23 think it is crucial but I don't believe it has ever been
24 part of a ratemaking determination.

25 MR. BERTOCCI: Well, Your Honor, the reason I am

1 asking about it is that we have heard a lot of testimony
2 today which asks for a rate increase which in all
3 appearances not only meets bond requirements but is also
4 part of a financial plan which involves paying down
5 according to a particular schedule short and long-term
6 debt -- or reducing long-term debt and paying down
7 short-term department. And the question is it is a
8 matter of priorities. What I'm inquiring is, you know,
9 if ratepayers are the ones that are going to have to come
10 up with this money then we want to be sure that PGW at
11 the level of departments has in position a strategic plan
12 which enables them to set their priorities and cut in
13 such a way that all this money that we have provided in
14 rate ostensibly to reduce debt does not end up going for
15 operating expenses which have been uncontrolled. That is
16 the relevance of the question. And I think he has just
17 about given me the answer.

18 A. Well, I've got a little bit more of an answer
19 to give.

20 MR. CLEARFIELD: It is argument, Your Honor. But
21 at this late hour I will withdraw my objection.

22 A. The strategic plan was prepared. It reflected
23 a continuation of services as we currently constituted
24 it. That was essentially the implicit understanding I
25 had with the staff of the gas commission when I started

1 down that path. It was that document that was the
2 foundation for the Black & Veatch report. Black & Veatch
3 then independently reviewed with Mr. Bogdonavage and
4 others in the company the assumptions: was what we were
5 saying an appropriate direction for the company and did
6 this five year forecast or outlook represent something
7 consistent with what they either have experienced in the
8 industry or they would judge to be independently
9 acceptable. And the answer was yes.

10 So the strategic plan as Mr. Bertocci I think
11 properly observes is part of this case. It happens to
12 have taken a different form and it is called the Black &
13 Veatch report. The basis for the Black & Veatch report
14 was this book that was an inch-and-a-half thick that I
15 submitted to the gas commission last November.

16 BY MR. BERTOCCI:

17 Q. But isn't it true that the Black & Veatch
18 report really makes no effort to assess whether or not
19 from a customer standpoint the rates which would be
20 implied by the Black & Veatch report are just and
21 reasonable?

22 A. That is not their job.

23 MR. BERTOCCI: I have no further questions.

24 JUDGE FORDHAM: Any redirect?
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REDIRECT EXAMINATION

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BY MR. CLEARFIELD:

Q. Mr. Knudsen, in the comments that you received from the PGC -- and I'm not sure if City Council is part of that -- did they question at all the goals of paying down the commercial paper or increasing the portion of capital expenditures generated by internally generated funds?

A. They did not comment on that at all. There was a concern with this other aspect of the program.

Q. Did they indicate that you should not pay back the \$45 million loan from the city?

A. Oh, on the contrary, at the same meeting of the City Council where this strategic plan was denied acceptance counsel was vociferous in its requirement that we pay this \$45 million off on the second year anniversary.

Q. Did the PGC indicate that the \$18 million city payment should be waived?

A. No.

Q. Did the City Council or PGC indicate that PGW should not have an adequate level of cash working capital during this planning period?

A. No.

MR. CLEARFIELD: That is all I have.

1 JUDGE FORDHAM: Anything?

2 (No audible response.)

3 JUDGE FORDHAM: Thank you very much.

4 THE WITNESS: Thank you very much, Your Honor.

5 (Witness excused.)

6 JUDGE FORDHAM: This concludes the session for
7 today. We will start tomorrow -- I'm sorry.

8 MR. CLEARFIELD: Your Honor, I would like to move
9 into evidence Mr. Knudsen's exhibits, PGW Statement 1.0
10 with Exhibits TEK-1 and 2, PGW Statement 1.1.

11 We will wait on the supplemental. That goes to the
12 management audit.

13 JUDGE FORDHAM: Okay.

14 MR. CLEARFIELD: And then we would like to move
15 into evidence TEK Rejoinder Exhibit 1.

16 JUDGE FORDHAM: Hearing no objections, those
17 statements and exhibits are admitted without objection.

18 MR. CLEARFIELD: Thank you, Your Honor.

19 (Whereupon, the documents marked as PGW
20 Statements Nos. 1.0 and 1.1 and Exhibits Nos.
21 TEK-1, TEK-2, TEK-3 and TEK-Rejoinder-1 were
22 received in evidence.)

23 JUDGE FORDHAM: We will resume tomorrow at 10
24 o'clock.

25 Thank you very much.

1 (Whereupon, at 5:14 p.m., the hearing was
2 adjourned, to be reconvened at 10:00 a.m. on Wednesday,
3 May 23, 2001, in Philadelphia, Pennsylvania.)
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I hereby certify, as the stenographic reporter,
that the foregoing proceedings were taken
stenographically by me and thereafter reduced to
typewriting by me or under my direction; and that this
transcript is a true and accurate record to the best of
my ability.

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By: Robert J. Stonaker

Robert J. Stonaker

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