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ORIGINAL

October 19, 2001

VIA HAND DELIVERY

James McNulty, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

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SECRETARY'S BUREAU

RE: Pennsylvania Public Utility Commission v. Philadelphia
Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works, enclosed for filing please find an original and three copies of its Petition for Rehearing and Reconsideration with regard to the above referenced matter.

DOCUMENT
FOLDER

All parties of record have been officially served as evidenced by the attached Certificate of Service.

If you should have any questions, please do not hesitate to contact me.

Very truly yours,

Daniel Clearfield
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww
Enclosure

cc: All Parties of Record w/enc.

DSH:28999.1

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ORIGINAL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility
Commission**

v.

Philadelphia Gas Works

Docket No. R-00006042

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**PHILADELPHIA GAS WORKS' PETITION FOR
REHEARING AND RECONSIDERATION**

A. Introduction

Philadelphia Gas Works ("PGW"), pursuant to 66 Pa.C.S. § 703(f) and (g) and 52 Pa.

Code § 5.572, respectfully requests that the Pennsylvania Public Utility Commission ("Commission" or "PUC") grant a rehearing in order to receive newly discovered and/or available evidence regarding PGW's bad debt expense, cash working capital needs and its projected future financial condition if the PUC's rate order is not revised, and reconsider and amend its Order entered October 4, 2001, in the above-captioned matter. In that Order, the Commission determined that Section 2212(e) of the Public Utility Code requires that PGW's rates be set in accordance with the Cash Flow Method, as contained in the City of Philadelphia's Management Agreement Ordinance.¹ The Commission, asserting that it utilized the Cash Flow Method, allowed PGW to increase its base rates by \$28,067,000 in addition to the \$11 million in

¹ PUC Order (October 4, 2001) at 108, ¶ 7.

interim relief implemented in March 2001.² On October 12, 2001, the PUC issued a Tentative Order modifying its October 4, 2001, Order by reducing PGW's base rate increase to \$22,558,000 over and above the interim relief (for a total of \$33,558,000).

The Commission's tentative rate award of \$33.6 million must be adjusted to correct several computational errors and add offsetting adjustments that were made or overlooked in calculating the tentatively authorized rate increase. Further, PGW respectfully requests that the PUC reconsider its decision to set the Company's bad debt expense level at 7.6% of gas revenues. Considering that this authorized level is considerably below PGW's experienced level for the last two years, the Commission should, at the very least, use a historical average using data from the five most recent years, which produces a 8.569% percentage.

Most importantly, the Commission should reconsider its Order because of its failure to even consider, much less deal adequately with, PGW's cash working capital needs. All parties – and now the Commission – have acknowledged that the Cash Flow Method, as detailed in Section VII of the Management Agreement, requires that PGW be allowed a reasonable amount of cash flow both during the year and at year end.³ But, even though it specifically adopted this Cash Flow ratemaking method, the Commission granted a rate increase which, as the PUC itself

² *Id.* at 107-08, ¶ 6.

³ *Id.* at 13.

has calculated, produces just \$10.2 million in end of year cash,⁴ and did so without providing discussion about the adequacy of this level of cash.

Considering the record evidence, however, the rate award fails to provide PGW the legally mandated reasonable level of cash flow. The undisputed evidence shows that \$35-\$40 million in end of year cash is needed to meet PGW's bond covenants and obligations.⁵ Significantly, the tentative rate increase of \$33.6 million is over \$10 million below the level of rate relief found by the Commission's own Office of Trial Staff ("OTS") as minimally adequate from a cash flow standpoint.

This record evidence of cash flow inadequacy is buttressed by additional evidence showing PGW's projected FY 2002 results, assuming just a \$33.6 million rate increase; evidence which PGW is requesting the PUC allow into the record at this time. These data show that the level of cash flow produced by an overall \$33.6 million increase is so woefully inadequate that the Company is in danger of not being able to pay obligations in the short and long term, having its commercial paper program canceled, being downgraded and having its access to the long term bond market completely eliminated. To provide independent support for these allegations, PGW respectfully requests that the Commission accept into evidence a statement from an advisor to

⁴ *Id.* at 107-08, ¶ 6 and Cash Flow Statement FYE August 31, 2001. PGW's actual end of year cash for FY 2001 is \$2.5 million. *See* Exh. B hereto which PGW is requesting that the Commission accept into the record.

⁵ Even the Office of Consumer Advocate ("OCA") purported to satisfy this need. OCA St. 1-S (Lelash) at 11. However, the OCA achieved this necessary result by relying on projected actual end of year cash, which included extraordinary and non-recurring sources of revenues such as the \$45 million City loan and \$11.5 million in deferred gas purchases. PGW M.B. at 52. As noted, PGW's actual FY 2001 year end cash level is \$2.5 million.

PGW's primary short term lender – Morgan Guaranty – providing his conclusion that a failure to upwardly adjust PGW's cash working capital allowance will produce bond covenant violations, commercial paper program cancellation, and downgrading.

In order to actually comply with the Cash Flow Method, as well as its obligation under Section 2212(e) of the Code to set rates for PGW that satisfy both its debt service coverage bond covenant and its cash flow bond covenant (which the PUC apparently overlooked in its initial determination), the Commission must reconsider and amend its rate increase determination to permit an end of year cash flow level of at least \$35-40 million. The only real way to accomplish this is to permit PGW to increase its rates by at least \$30 million over and above its \$33.6 million tentative allowance.

Finally, PGW requests that the Commission reconsider its Order to the extent that it directs the Company to increase rates for classes LBS Large Direct, TriGen Direct and NGV Direct, and to decrease rates for class GTS Trans. In addition to the fact that these are not cost based rates, but rather are negotiated and based on alternate fuel prices, PGW has no usage in class TriGen Direct and no non-Company usage in class NGV Direct.⁶ Thus, PGW will never receive the revenues the Commission has attributed to it based on these changes in its rates.⁷

⁶ See Exhibit A hereto at 2. PGW is requesting that the PUC grant a rehearing to accept this information into the record.

⁷ PGW, in conjunction with the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"), will also be seeking reconsideration in regard to the PUC's denial of their proposed settlement concerning changes to PGW's transportation tariff provisions.

In further support of its Petition for Rehearing and Reconsideration, PGW avers as follows:

1. By Order entered October 4, 2001, the PUC approved in part and denied in part PGW's Supplement No. 7 to Tariff Gas -- Pa.P.U.C. No. 1, which proposed to implement PGW's requested \$65 million base rate increase.⁸ In its Order, the Commission authorized PGW to implement a supplement to change its rules, regulations and rates so as to produce \$28.1 in incremental revenues, in addition to the \$11 million interim rate increase it had previously granted.⁹ In reaching this figure, the Commission increased PGW's residential and commercial customer counts as well as the average annual usage for these customers as proposed by OTS, and adopted OTS's suggested bad debt allowance.¹⁰ The Commission also formally acknowledged its obligation under Section 2212(e) of the Public Utility Code to set PGW's rates using the Cash Flow Method, as contained in Section VII of the Management Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation ("PFMC"), and consistent with PGW's bond covenants.

2. On October 12, 2001, the Commission entered a Tentative Order which further reduced PGW's authorized rate increase to \$33.6 million. While PGW is requesting that the October 4th, \$39 million rate increase Order be reconsidered and amended, the new evidence it is seeking to enter and its arguments on reconsideration contained herein will be directed at the

⁸ *Id.* at 107, ¶ 5.

⁹ *Id.* at 107-08, ¶ 6.

¹⁰ *Id.* at 108-09, ¶¶ 12 and 16.

\$33.6 million rate increase. PGW has several bases on which the Tentative Order should be revised, which it will set forth in response to that Order and will also summarize here.

B. Basis for Pleading and Request for Rehearing

3. This Petition for Rehearing and Reconsideration involves Ordering Paragraphs 5-6, 9, 12, and 16, as well as Findings of Fact Paragraphs 33 and 36, of the Commission's October 4, 2001 Order.

4. Pursuant to Section 703(f) of the Code, after an order has been entered by the Commission, any party may apply for a rehearing in respect to the matters determined by that order. In *Dulick v. PG&W*, the Commission held that a petition for rehearing "properly must seek the reopening of the record for the introduction of additional evidence of some sort" that is either newly discovered or was not discoverable through the exercise of due diligence prior to the close of the record.¹¹

5. PGW respectfully requests that the Commission grant rehearing to accept into the record the following newly available evidence: a Verified Statement of Craig White addressing calculation revisions to OTS' customer count and usage adjustments (Exhibit A); a Verified Statement of Joseph R. Bogdonavage identifying PGW's bad debt percentage for fiscal year 2001 and detailing the projected cash flow impact of the \$33.6 million rate award on a current fiscal year basis (Exhibit B); and a Verified Statement of Gary Krellenstein of Morgan Guaranty discussing the consequences of the Commission's Order on PGW's cash flow, commercial paper line of credit, and its future ability to issue bonds (Exhibit C).

¹¹ 56 P.U.C. 553, 558 (1982).

6. The Verified Statement of Craig White refers to and relies upon data that is already in the record, but explains modifications that are necessary to accurately calculate OTS's *pro forma* revenue adjustment adopted by the Commission. During the proceeding, the focus of the parties, including PGW, was on the appropriateness of the theory behind and approach to these customer count and average annual usage adjustments and the accuracy of the competing forecasting models, as advocated by OTS. After the PUC adopted the adjustment, and in the process of preparing its compliance filing, PGW discovered certain computational errors in the calculation of the OTS adjustment. The calculation discrepancies discussed below are newly discovered and significant, and Mr. White's explanation of them should be admitted into the record.¹²

7. The Verified Statements of Mr. Bogdonavage and Mr. Krellenstein both contain new evidence that was not available prior to the close of the record or the Commission's Order. PGW's fiscal year 2001 bad debt percentage was not available until recently, and the analysis of Mr. Bogdonavage and statements of Mr. Krellenstein, from Morgan Guaranty, could not have been made prior to knowing the rate increase awarded by the Commission. All of this new evidence has a direct and crucial bearing on the amount of rate relief to which the Company is entitled and the question of whether the Commission has properly discharged its duties under Section 2212(e) of the Code.

¹² Unrelated to the OTS adjustment, Mr. White's Verified Statement also notes that PGW has no usage in rate class TriGen Direct and no non-company usage in rate class NGV Direct.

8. Below, PGW sets forth several compelling reasons why the Commission must reconsider and amend its October 4, 2001 Order. These amendments are necessary both computationally and in order for the Commission to remain consistent with its professed dedication to the Cash Flow Method and its acknowledged obligations under Section 2212(e). In *Dulick v. PG&W*, the Commission enunciated the standard for petitions for reconsideration under 66 Pa. C.S. § 703(g), declaring that a party “may properly raise any matters designed to convince the Commission that it should exercise its discretion” to rescind or amend a prior order and that it expected such petitions to raise “new and novel arguments, not previously heard or considerations which appear to have been overlooked or not addressed by the Commission.”¹³ Further, the Commonwealth Court has made clear that there is no requirement under Section 703(g) of the Code that a petition for reconsideration allege newly discovered evidence.¹⁴ All of the arguments for reconsideration below raise new or novel arguments which were not addressed by the Commission or identify points which the Commission apparently overlooked.

C. Petition For Reconsideration - Correction of Errors and Overlooked Additional Adjustments Associated With OTS *Pro Forma* Revenue Adjustment.

9. The Commission adopted OTS’ proposed adjustment to PGW’s claimed *pro forma* revenues which recalculated annual sales and the number of residential and commercial customers based upon actual, year 2000 recorded experience. While not contesting the PUC’s determination to accept the OTS’s overall recommendation to utilize 2000 data to calculate *pro*

¹³ 56 P.U.C. 553, 559 (1982).

¹⁴ *AT&T v. Pa. P.U.C.*, 568 A.2d 1362, 1364 (1990).

forma revenues, PGW is requesting that the Commission amend its Order to account for certain calculation discrepancies and errors.

1. The PUC Has Overstated The OTS Revenue Adjustment By Failing to Make Offsetting Calculations Proposed By The OTS.

10. First, on the Income Statement schedule attached to the PUC's October 4, 2001 Order, the Commission has misstated the increase in revenues resulting from the OTS' adjustments to PGW's residential and commercial customer counts and average annual use by residential heating customers.

11. On page one of the Commission's schedule, it identifies an adjustment of \$34.263 million in increased operating revenues.¹⁵ This number purports to represent the combined increases in *pro forma* revenues that OTS projected PGW would receive if OTS' residential and commercial customer counts and average annual residential heating customer usage were adopted.¹⁶ However, that number was derived using OTS' numbers and PGW's proposed customer charges. Obviously, PGW's proposed customer charges were not accepted by the Commission.

12. Utilizing OTS' customer counts and average annual residential heating customer usage and the customer charges ordered by the Commission reduces the \$34.263 million to \$33,856,232 in additional revenues.¹⁷

¹⁵ PUC Order (October 4, 2001) at Income Statement FYE August 31, 2001, p. 1.

¹⁶ OTS St. 2 (Kubas) at 19-21; Recommended Decision at 48-49.

¹⁷ This was recognized by the ALJ. R.D. at 48, n. 33, and 49, n. 34 (additional revenues at OTS customer charge levels was \$1,622,232 instead of \$2.029

(continued...)

13. Consequently, PGW's rate increase should be \$406,768 higher, and the Commission should amend its Order accordingly.

14. Second, the OTS calculation of PGW's revenue adjustment contained an offsetting credit for the "ratemaking revenue impact" of the OTS revenue adjustment. That adjustment added back \$2,055,000 of revenues. This is shown on pages 20-21 of OTS's Reply Exceptions and is reproduced on page 41 of the Order. It is PGW's understanding that this revenue credit was designed to offset the effect on the compliance filing of using OTS' higher usage per customer and customer counts. Without an offsetting adjustment, PGW would be denied the ability to actually collect the full authorized rate increase.

15. This \$2.055 million offsetting adjustment was not made by the PUC when it calculated its \$39 million award or its revised, \$33.6 million award.

16. Accordingly, PGW believes that this adjustment continues to be correct and \$2,055,000 should be added to the PUC's \$33.6 million authorized revenue requirement. Taking both adjustments to the PUC's Income Statement into account, PGW's rate award should be increased by \$2,461,768 (\$2.055 million + \$406,768).

2. Revisions are Necessary to the Average Annual Residential Heating Customer Usage Adjustment.

17. The Commission should also reconsider and amend its Order to account for calculation errors in the determination of PGW's average annual usage by residential heating customers.

¹⁷(...continued)
million).

18. The OTS usage per customer adjustment was calculated by taking the difference between what OTS calculated to be PGW's claimed *pro forma* residential usage per customer and OTS' calculated usage per customer using actual year 2000 usage and customer counts.¹⁸

19. In reaching its recommended revised average annual usage number, OTS purported to divide the total sales for residential customers by the total number of residential service customers.¹⁹ However, in preparing its compliance filing, PGW discovered that the OTS adjustment contains a calculation error. In making this adjustment, the sales from three classes of residential customers, Residential, CRP and Philadelphia Housing Authority ("PHA/GS"),²⁰ were divided by the number of customers from only two of these classes, Residential and CRP.²¹ The PHA/GS customers, who are billed at residential rates and for the test year average 3,948 in number,²² were left out of the equation.

20. These customers must also be factored into OTS' residential heating customer count recommendations. Instead of comparing OTS' actual count of 424,099 residential heating customers to PGW's test year count of 412,910,²³ the OTS should have compared an actual count

¹⁸ OTS St. 2.0 (Kubas) at 12-13.

¹⁹ OTS Exh. 2, Sch. 2 at 2 and 4; OTS Exh. 2, Sch. 5 at 2 and 4-7.

²⁰ OTS Exh. 2, Sch. 5 at 2 and 4-7. PHA/GS are residential customers who live in PHA facilities.

²¹ OTS Exh. 2, Sch. 2 at 2 and 4.

²² See Exh. A hereto at 2. PGW requests that the PUC grant a rehearing to accept this explanation into the record.

²³ OTS St. 2 (Kubas) at 15.

of 427,576 residential heating customers to a proposed *pro forma* test year count of 416,858.²⁴

This comparison reduces the OTS adjustment for additional residential heating customers from 11,189 to 10,718.

21. When these two revisions are factored into the equation, the average annual usage for residential heating customers using year 2000 data is 102.96 Mcf per year, and not 103.91 Mcf as indicated in the Commission's Order.

22. In addition, the OTS calculation of usage per residential heating customer implicitly contained an error in PGW's claimed *pro forma* revenues. OTS calculated that PGW's claimed *pro forma* level produced a 100.94 Mcf per residential heating customer figure.²⁵ However PGW has determined that OTS' calculation of this *pro forma* level again failed to include the residential heating customers reflected in the PHA/GS class of customers. By adding that group of customers to the base, PGW's claimed *pro forma* level of usage per customer actually is 101.27 Mcf instead 100.94 Mcf.²⁶

23. Because the OTS adjustment was calculated by comparing the PGW claimed *pro forma* usage per residential heating customer with the OTS proposed *pro forma* level, and the OTS figure was overstated while the PGW claimed level was understated, the OTS revenue adjustment was, in turn, overstated. These two calculation corrections reduce the OTS revenue

²⁴ See Exh. A hereto at 2.

²⁵ *Id.*; OTS St. 2.0 (Kubas) at 8.

²⁶ Exh. A hereto at 2 and Attachments 1-3.

adjustment from \$33,856,232 to \$31,601,232.²⁷ A description of these calculation errors and the revision to the OTS adjustment are reflected in the Verified Statement of Craig White, attached as Exhibit "A."²⁸

24. Based on these computational revisions to the OTS adjustment, the Commission should increase PGW's \$33.6 million rate increase by \$2.255 million.

D. The PUC Must Reconsider and Amend its Order to Recalculate PGW's Bad Debt Expense Using the Most Recent Available Data.

25. Bad debt expense is a crucial factor in formulating PGW's *pro forma* expenses, net income, coverages and cash flow. Utilizing a bad debt percentage that accurately reflects PGW's actual experience is essential if the Company is to have any chance of realizing the levels of net income, coverages and cash flow which the PUC's rate award purports to allow. The PUC's determination to utilize a bad debt percentage derived from PGW's historical experience in the years 1995-99²⁹ – producing a 7.61% average – resulted in a \$9.679 million adjustment in PGW's claimed revenue requirement, taking into account the PUC's subsequent adjustment in the Tentative Order.³⁰ The adjustment to the Company's proposed bad debt expense allowance constituted the second largest adjustment that negatively impacted PGW's rate request.³¹

²⁷ *Id.* at 2.

²⁸ While all of these data are contained in the record, this explanation of the calculation error is submitted in an additional statement.

²⁹ PUC Order (October 4, 2001) at 59 and 109, ¶ 16; OTS Exh. 1, Sch. 4.

³⁰ Tentative Order at Income Statement FYE August 31, 2001, p. 1.

³¹ *Id.*

26. PGW respectfully requests that the Commission reconsider and revise its determination in this respect. The PUC's decision to apply a bad debt expense percentage derived exclusively from PGW's experience in the prior decade hopelessly understates the Company's recent actual experience as well as its likely levels on a going forward basis. The Commission has already acknowledged that PGW's Fiscal Year 2000 bad debt percentage was 10.2%.³² Crucially, in the year just completed, FY 2001, PGW's bad debt expense as a percentage of operating revenues was 8.67%. This figure is shown on Verified Statement of Joseph R. Bogdonavage, attached as Exhibit B, which PGW is requesting the PUC permit to be entered into the record at this time.

27. An accurate and reasonable allowance for bad debt expense is crucially important to PGW. For example, if PGW's going forward experienced level of bad debt expense continues at the nearly 9%³³ level – a reasonable assumption considering gas costs that are 20-30% higher than the historical levels and an increasingly slowing economy – PGW's expense will be \$66.2 million, or, over \$10 million higher than the final level authorized by the PUC in the Tentative Order (and \$1 million higher than PGW's claimed *pro forma* amount). This downward adjustment is especially troubling because it creates the impression that PGW's net income,

³² PUC Order (October 4, 2001) at 7 and Finding of Fact ¶ 26. The actual final level was 10.25%. Exh. B, hereto.

³³ PGW's percentage would have been even higher if the Company had not engaged in an extremely aggressive effort to obtain federal LIHEAP supplements and to outsource its collection activity at the first opportunity. PGW's going forward experience likely will be higher than the 5-year historical average. See, Exh. C (Krellenstein), p. 2.

coverages and cash flow are far better than they actually will be, adding additional financial pressures on the Company's already precarious situation.

28. PGW believes that recent data, especially the actual results for 2000 and 2001, should be utilized in calculating the appropriate bad debt expense percentage rather than out-of-date historical averages. In determining PGW's authorized *pro forma* revenues, the Commission held that actual data from Fiscal Year 2000 is appropriately representative of PGW's normalized revenue experience and should be utilized in establishing PGW's rates.³⁴ Accordingly, the Commission should apply the same approach to its calculation of bad debt expense and include the actual percentages for the most recent two fiscal years in making its bad debt determination, rather than relying on OTS' outdated historical average calculation.³⁵

29. Moreover, the PUC affirmatively found that it was bound by the ratemaking method and requirements which were applied prior to the PUC's takeover of jurisdiction. That prior ratemaking methodology always permitted PGW an allowance for bad debt expense in its rates which reflected most recent actual and projected experience. If even the lower level (8.67%) of PGW's most recent actual bad debt experience is applied to the total, *pro forma*, gas revenues allowed by the Commission's \$33.6 million rate increase, PGW's originally claimed level of bad debt expense – \$65.3 million – would be fully justified.

30. Even if the Commission were to continue to use a historical average to determine an appropriate *pro forma* bad debt expense level, the PUC's authorized percentage should be

³⁴ PUC Order (October 4, 2001) at 45 and 48.

³⁵ See OTS Exh. 1, Sch. 4.

revised upward. Using a five year average that includes 1997-2001 results, the appropriate bad debt expense percentage would be 8.569%.³⁶ Applying this more recent five-year average percentage to the PUC's allowed annual revenue level produces an authorized bad debt expense would be \$63.407 million, and would mean that PGW's proposed \$65.297 allowance would be adjusted downward by \$1.890 million, instead of \$9.679 million.³⁷ Accordingly, PGW's rate award would be increased by \$7.789 million.³⁸

31. While PGW continues to maintain that the Commission is required by Section 2212(e) to use PGW's prior ratemaking method in setting the Company's rates, including its method for determining bad debt expense, PGW urges the Commission, at the very least, to utilize a historical average approach that incorporates the most recent five years in order to provide an allowance that has a reasonable chance of being representative of future conditions and to be consistent with its rulings on allowable *pro forma* revenues (where actual, year 2000 data was used).

E. The PUC Must Allow PGW a Reasonable Amount of Cash Flow and Should Amend its Order Accordingly.

32. Separate and apart from the above requests to revise upward PGW's authorized rate increase, the PUC's new rate increase level – \$33.6 million – fails to make adequate provision for a reasonable level of cash working capital for PGW. Indeed, the PUC's final order

³⁶ OTS Exh. 1, Sch. 4; PUC Order (October 4, 2001) at Finding of Fact ¶ 26; Exh. B hereto.

³⁷ Tentative Order at Income Statement FYE August 31, 2001, p. 1.

³⁸ This adjustment for bad debt expense would have to be further adjusted upward if the PUC grants any other upward adjustments to PGW's authorized rate increase.

does not even discuss the Company's extensive evidence on this subject, or the several exceptions that PGW filed to the ALJ's recommended decision alleging that even her recommended \$44 million rate increase would fail to satisfy PGW's end of year cash flow requirements.³⁹

33. The Commission has acknowledged that it is required by the Code to set PGW's rates by using the Cash Flow Method, detailed in Section VII of the Management Agreement.⁴⁰ In so doing, the Commission quoted the ratemaking requirements found in Section VII of the Agreement, including that PGW's rates must produce revenues sufficient to "provide reasonable additions to the working capital as may be determined by the Company and approved by the Gas Commission."⁴¹ The PUC's Order recognized that this cited obligation is now the responsibility of the PUC.

34. In this proceeding, no one challenged the fact that PGW must have adequate cash balances at the end of its fiscal year in order to permit the Company to make debt service and other payments in the following four months (prior to the onset of the winter heating season, a period during which it has no positive cash flow). Moreover, PGW was the only party to provide any analysis and evidence regarding the required or appropriate level of year end cash that it

³⁹ PGW Exceptions at 12-17.

⁴⁰ PUC Order (October 4, 2001) at 15 and 108, ¶ 7.

⁴¹ *Id.* at 13 (emphasis added).

should have to meet its obligations. PGW identified that level as \$35-\$40 million.⁴² No other party offered an independent analysis of the appropriate and reasonable level of year end cash.⁴³

35. The FY 2001 end of year cash balance that the Commission claims its \$39 million rate increase will produce is only \$10.2 million.⁴⁴ The Commission's Tentative Order claims that its revised \$33.6 million rate award will produce the same level of cash.⁴⁵ But this level is starkly inconsistent with the Cash Flow Method's requirement that PGW be allowed a reasonable amount of cash working capital, and is woefully short of the amount established by the evidence to be reasonable: \$35-\$40 million. PGW witness Thomas Knudsen has repeatedly testified that to be able to achieve any sort of financial stability, it is crucial that PGW have a level of revenues

⁴² PGW St. 1.0 (Knudsen) at 20. This target amount is particularly crucial in light of the fact that PGW has virtually no external short term borrowing available.

⁴³ Tr. 745; OCA St. 1.0 (Lelash) at 23. OCA actually claimed to have satisfied the this cash need, but could only do so by relying on PGW's actual projected end of year cash which included non-recurring sources of revenue such as the \$45 million City loan and \$11.5 million in deferred gas purchases. PGW M.B. at 52. As noted below, PGW's actual 2001 year end cash balance was only \$2.5 million. Exh. B hereto.

⁴⁴ PUC Order (October 4, 2001) at Cash Flow Statement FYE August 31, 2001.

⁴⁵ Tentative Order at Cash Flow Statement FYE August 31, 2001. Even though the PUC's Tentative Order decreased PGW's rate increase to \$33.5 million, the attached schedule asserts the same end of year cash balance of \$10.2 million that is purported to result from the \$39 million increase. In addition, the Cash Flow statement attached to the Commission's Tentative order, as well as that included with the original Opinion and Order, includes a line at the bottom inapplicable designated "internally generated funds." This term is a misnomer. The standard use of internally generated funds assumes that a company has internal funding sources. PGW has had no internal funding sources and did not generate any in FY 2001. PGW, for the third year in a row, has been forced to borrow 100% of its funds for construction.

that produces end of year cash at the \$35-40 million level.⁴⁶ Notably, PGW's actual end of year cash balance for FY 2001 was only \$2.5 million.⁴⁷ Accordingly, based upon the Commission's own summary schedules, the Commission's authorized revenue requirement is completely inadequate and cannot be sustained.⁴⁸

36. PGW's projected results based upon its FY 2002 budget confirms the inadequacy of the PUC's determination. The Attachment to Exhibit B sets forth PGW's projected cash receipts and disbursements for FY 2002, assuming that the PUC's \$33.6 million rate increase is not adjusted in any way. PGW respectfully requests that the Commission permit these newly available data into the record pursuant to its Petition for Rehearing. This schedule demonstrates that by the end of FY2002, the Commission's \$33.6 million request will produce a negative \$40 million cash balance at August 31, 2002, an unmitigated disaster from a cash working capital standpoint.

⁴⁶ PGW St. 1.0 (Knudsen) at 20; PGW St. 1.1 at 5.

⁴⁷ See Exh. B hereto. PGW requests that the PUC reopen the record to enter this actual data into the record.

⁴⁸ While PGW's original, *pro forma* cash flow schedule produced \$10.2 million of year-end cash at a \$65 million rate increase (see, PGW M.B., App. A, p.3), that figure understated the amount it could have justified in order to keep the rate increase request at the \$65 million level. Moreover, any cash flow flexibility that PGW previously had has been eliminated by virtue of the fact that PGW is now fully utilizing its \$45 million loan from the City (which must be paid back next year) and the reduction of its commercial paper line of credit from \$100 million to \$80 million at August 2002.

37. Significantly, and as noted, PGW must reduce its line of commercial paper from \$100 million to \$80 million by August 2002.⁴⁹ In addition, PGW must have fully repaid the \$45 million City loan by January 2003, which is actually an end of year obligation given its lack of earnings in the first four months of the fiscal year.⁵⁰ Clearly, and as shown on Attachment 1 to Exhibit B, given this deficient rate award, PGW will be unable to meet these obligations. Moreover, during FY 2002, without extraordinary measures, for which PGW has been criticized in the past, or without additional rate relief, the Company projects that it will actually be faced with the potential of defaulting on its debt service and other obligations.

38. As indicated by the Verified Statement of Gary Krellenstein, an advisor to PGW's primary short-term lender, Morgan Guaranty, as a result of the PUC's \$33.6 million rate award, PGW's cash flow will not be adequate to permit PGW to make even its January 2002 debt service payment or to meet its first substantial gas bills of the winter heating season, due essentially at the same time.⁵¹ Mr. Krellenstein also concludes that, at the PUC's rate award, the Company will not be able to pay off the City's \$45 million loan, due in January 2003. His conclusion is as follows:

Any analyst studying this situation would conclude that PGW is presently at severe operating and financial risk. PGW requires immediate additional rate relief, now, sufficient to allow cash balances to build an additional \$25 to \$30 million by August of next year to avoid bond covenant violations and the termination of

⁴⁹ PGW Exh. BB-3.

⁵⁰ Tr. at 597 and 611.

⁵¹ See Exh. C hereto. PGW requests that the PUC reopen the record to enter this statement into the record.

its commercial paper program or, more immediately, a potential downgrading by the rating agencies in the next several months.

* * *

It is my view that without further attention to PGW's situation by the Commission, this utility faces not being able to renew its short term debt instrument and being downgraded below investment grade and, thereby, lose all access to the capital markets.⁵²

These consequences are hardly consistent with the Cash Flow Method and Section VII of the Management Agreement.⁵³

39. As indicated, based on the \$33.6 million increase, the Commission cannot satisfy its Section 2212(e) obligation to ensure that PGW can charge and collect rates sufficient to ensure that the Company satisfies all of its bond covenants. Contrary to the implication in the PUC's Order, debt service coverage requirements are not the only bond covenants with which PGW must comply.⁵⁴ As the Commission has already acknowledged, PGW also has a covenant that requires it to have sufficient cash to enable it to pay all of its obligations when they come due.⁵⁵ In approving the Interim Rate Settlement, the Commission specifically recognized its Section 2212(e) obligation to allow PGW to charge rates that would satisfy the following bond covenant:

⁵² Exh. C, attached hereto.

⁵³ See PGW Exh. JRB Rejoinder-2, 1982 Opinion and Order at 18 ("We must provide PGW with the opportunity to earn sufficient revenue so that it will have reasonable access to the capital markets. We adopt as an essential goal the retention of PGW's present bond rating").

⁵⁴ See *infra* n. 9.

⁵⁵ See *Pa. P.U.C. v. PGW*, R-00005654, Opinion and Order (February 22, 2001) at ¶ 1; Joint Petition for Full Settlement at ¶ 10.

A covenant that requires PGW and its owner, the City of Philadelphia, to charge rates that permit PGW to have sufficient cash to pay all of its obligations, including its debt service obligations, during each fiscal year in full when they are due.⁵⁶

As demonstrated in Exhibits B and C hereto, PGW will not be able to comply with this covenant with the level of rate relief allowed by the Commission in either its October 4, 2001 Order or its Tentative Order.

40. Thus, as the Commission has adopted the Cash Flow Method and recognized that it is required by law to utilize that method, the Commission must reconsider and amend its Order to allow PGW sufficient cash working capital to meet its obligations, as was intended. Under the Cash Flow Method, the PUC is obligated to conduct an "iterative" analysis, that calculates the level of *pro forma* cash flow produced by all of the PUC accounting adjustments. If that level is below the appropriate target level — \$35-40 million at year end based on the evidence — it is obligated to add additional revenue to permit PGW to achieve the target level of cash flow. In this case, based upon its own schedules, this iterative process requires the PUC to add back \$25-30 million to the \$33.6 million authorized request. If the PUC refuses to grant further rate relief,

⁵⁶ *Pa. P.U.C. v. PGW*, R-00005654, Joint Petition for Full Settlement at ¶ 10; Opinion and Order (February 22, 2001) at 7, n.1 and ¶ 1.

its Order will be internally inconsistent, without the support of substantial evidence,⁵⁷ and violative of the prior ratemaking methodology, as well as the Company's bond covenants.

F. The Commission Must Reconsider its Order as it Affects PGW's Rates LBS Large Direct, TriGen Direct, NGV Direct and GTS Trans.

41. The Commission has adopted the OTS' recommendation that PGW increase the rates for classes LBS Large Direct, TriGen Direct and NGV Direct, and also decrease the rates for class GTS Trans by a corresponding amount, purportedly to ensure that these classes' rates more appropriately match their costs.⁵⁸

42. In addition to its arguments below that the rates for these customer classes are not cost based but rather negotiated, PGW asserts that the Commission must reconsider and amend its Order as it concerns these rate classes because, in fact, PGW has no usage in rate class TriGen Direct and no non-company usage in rate class NGV Direct in the last year, and does not expect sales under these tariffs.⁵⁹ Thus, the Commission's Order will have the effect of attributing greater revenues to PGW for these classes while at the same time it will be absolutely certain that the Company will not receive those additional revenues.

⁵⁷ In addition to being inconsistent with the evidence on end of year cash, the PUC's \$33.6 million rate award lacks substantial evidence in general. The only parties to provide evidence of the necessary rate increase using the Cash Flow Method were PGW and OTS, who identified that level of increase as \$65 and \$44 million, respectively. Thus, the PUC's finding that the Cash Flow Method calls for only a \$33.6 million rate increase has absolutely no support in the record. The evidence requires that PGW's rate increase be authorized at \$44 million — at the very least.

⁵⁸ PUC Order (October 4, 2001) at 71-74 and 108, ¶ 9.

⁵⁹ See Exh. A hereto at 2. PGW requests that the PUC reopen the record to receive this data into the record.

43. Moreover, the rates for the other tariff schedules at issue are set by comparison to the price of alternative fuel.⁶⁰ Accordingly, raising or lowering those charges without regard to the relative level of rates compared to fuel prices would be counter productive.

44. Finally, as the PUC acknowledged in ruling on the requested transportation rate and rule changes offered by PICGUG, Section 2212(d) of the Public Utility Code does not permit the PUC to unilaterally require changes in PGW's July 2000 tariff until restructuring.⁶¹ PGW did not propose any change in the rates for any of these classes, and thus, by its own terms, the PUC's Order does not permit it to order PGW to make the changes in these rates until PGW's restructuring proceeding.

45. Accordingly, the PUC should reconsider and rescind the portion of its Order that requires PGW to increase the rates for TriGen Direct, NGV Direct and LBS Large Direct as to "cost" and to lower the rate for GTS Transmission.

Respectfully submitted,



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Dated: October 19, 2001

⁶⁰ PGW St. 4.1 (White) at 12; PGW Exceptions at 38.

⁶¹ PUC Order (October 4, 2001) at 97.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility	:	
Commission	:	
	:	
v.	:	Docket No. R-00006042
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT OF CRAIG WHITE

I am Craig White, Interim Chief Operating Officer for Philadelphia Gas Works ("PGW"), and I state as follows.

In preparation of compliance filing documents, PGW staff reviewed the testimony and exhibits of the Public Utility Commission's Office of Trial Staff (OTS) in the above proceeding and, in so doing, discovered two mistakes that significantly impact the OTS claim of total additional revenue for the residential heating class of \$27,114,000. See OTS Main Brief at 22.

The mistakes center on the OTS' calculation of the average use per residential heating customer, i.e., 103.91, and in its determination of the recommended increase in the number of residential heating customers, i.e., 11,189. PGW is in agreement with the OTS' average use calculation for the commercial heating class and in their recommended increase in the number of customers for this same class.

The evolution of these errors occurred during the normal course of this proceeding when PGW focused on OTS' overall policy claim that year 2000 data should be used as opposed to PGW's historical modeling process. In the course of preparing its Compliance Filing, PGW discovered computational errors in the OTS calculations. As a result, this action is now necessary to address the manner in which OTS actually calculated the proposed adjustment. The following is a description of the mistakes made and the impact on the OTS claim of excessive revenues.

Error in Determining Average Use per Residential Heating Customer -- OTS Exhibit No.2, Schedule 5, p. 2 and pp. 4-7, is an exhibit presented by OTS, that relied on data provided by PGW, showing aggregated sales data listed under the general heading "Heating," sub-category "Residential." This category happens to include **three** classes of customers, i.e., GS Residential Heating, GS Residential Customer Responsibility Program (CRP) and GS Residential Philadelphia Housing Authority (PHA). Additionally, *OTS Exhibit No. 2, Schedule 2, p. 2 and p. 4*, is an exhibit presented by OTS, that relied on data provided by PGW, showing the average number of customers for GS Residential Heating and Customer Responsibility Program (CRP), or data for **two** classes. *OTS Exhibit No.2, Schedule 3, p. 1*,

uses the aforementioned sales data, normalized (Column J), as the numerator in the calculation of average use per customer, and the average of Column C, "No. of Customers," as the denominator, to arrive at a flawed average use per customer of 103.91. Presented in the October 12, 2001, Compliance Filing, as *Exhibit 2*, is a schedule showing the effect of correcting this error, i.e., matching the appropriate sales with the appropriate customers, that results in the average use per customer decreasing from 103.91 to 102.96. OTS also based the *pro forma* residential heating average annual usage figure it ascribed to PGW, 100.94 Mcf, on the same **two** classes of residential customers. When data for all **three** customer classes is utilized, the *pro forma* average use per residential heating customer would be 101.27 Mcf.

Error in Determining Increase in Number of Residential Heating Customers -- OTS *Exhibit No.2, Schedule 1, p. 7*, uses test year data of only **two classes** of residential heating customers, i.e., Total Residential Heating customers of 4,358,923 and CRP of 595,996 for a total of 4,954,919 that, when divided by 12, provides a test year average of 412,910. Compared against the actual period **two-class** average on *OTS Exhibit No.2, schedule 5, p.2 & pp. 4-7*, of 424,099, the difference, as pointed out by OTS, is 11,189. However, presented in the October 12, 2001, Compliance Filing, as *Exhibit 4*, is a schedule showing the average adjustment that PGW believes must be made to the test year and the actual year average customer count to account for Philadelphia Housing Authority (PHA) customers. The adjustment to the actual period is 3,477 and to the test period 3,948. This is further illustrated in *Attachment A* of the October 12 Compliance Filing under footnotes 2-4. In addition to Attachments 1-3 hereto, I have attached a copy of PGW's Compliance Filing absent the tariff pages.

You'll also note on this schedule that the test year increases from 412,910 to 416,858 and the actual year increases from 424,099 to 427,576. Then, applying the OTS methodology, the actual year of 427,576 minus the test year of 416,858 results in a difference of only 10,718 customers, not 11,189.

Error in Determining Total Additional Revenue of \$27,114,000 -- Applying the corrected averages above and employing the same methodology as OTS did in *OTS Exhibit No. 2, Schedule 3, pp. 2-4*, herewith restated by PGW in Attachments 1, 2 and 3, the Total Additional Revenue adjustment reduces from OTS' \$27,114,000 w/gas, or \$10,919,000 w/o gas, to PGW's \$20,912,000 w/gas, or \$8,664,000 w/o gas.

Conclusion -- As a result of the above corrections, it is recommended that the award be increased by \$2,255,000 (\$10,919,000 minus \$8,664,000 = \$2,255,000).

Finally, concerning an unrelated matter, the Commission's directive that PGW increase its rates for rate classes TriGen Direct and NGV Direct is problematic because the Company has had no usage in class TriGen Direct for at least a year and no non-Company usage in class NGV Direct. Thus, increasing these rates provides no additional revenues for the Company.

I verify, pursuant to the penalties contained in 18 Pa. C.S. § 1804 (relating to unsworn falsification to authorities), that the preceding statement and Attachments 1-3 are true and correct to the best of my knowledge, information and belief.

Craig White/IC
Craig White
Interim Chief Operating Officer

October 19, 2001

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ATTACHMENT 1
Total Volumetric Sales Adjustment

	(A)	(B)	(C)	(D)
		<u>PGW</u>	<u>Adjustment</u>	<u>Adjusted Revenue</u>
14 Total Number of Customers		416,858	0	416,858
15 Total Normal Usage (Mcf)		101.27	1.69	102.96
16				
17 Annualized Sales (Mcf)		42,215,210	704,490	42,919,700
18				
19 Customer Charge		\$15.00	\$0.00	\$15.00
20				
21 Residential Volumetric Rate (\$6.905 + \$3.5945)		\$10.4995	\$0.0000	\$10.4995
22				
23 Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)		\$6.7745	\$0.0000	\$6.7745
24				
25 Total Volumetric Revenue				
26 (Line 17 X Line 21)		<u>\$443,238,594</u>	<u>\$7,396,793</u>	<u>\$450,635,387</u>
27				
28 Customer Charge Revenue				
29 (Line 14 X Line 19 X 12 months)		\$75,034,440	\$0	\$75,034,440
30				
31 Total Proposed Rate Revenue				
32 (Line 26 + Line 29)		\$518,273,034	\$7,396,793	\$525,669,827
33				
34 Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)				
35 (Line 17 x Line 23)		\$285,986,938	\$4,772,568	\$290,759,505

Note: 101.27 = Test Year Sales (34,836,930+6,842,076+509,236+27,635) / Test Year Customers (4,358,923+595,996+45,124+2,256)/12

ATTACHMENT 2
Total Number of Residential Heating Customers Adjustment

	(A)	(B)	(C)	(D)
		<u>PGW</u>	<u>Adjustment</u>	<u>Adjusted Revenue</u>
14	Total Number of Customers	416,858	10,718	427,576
15	Total Normal Usage (Mcf)	101.27	0	101.27
16				
17	Annualized Sales (Mcf)	42,807,148	1,085,412	43,892,560
18				
19	Customer Charge	\$15.00	\$0.00	\$15.00
20				
21	Residential Volumetric Rate (\$6.905 + \$3.5945)	\$10.4995	\$0.0000	\$10.4995
22				
23	Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)	\$6.7745	\$0.0000	\$6.7745
24				
25	Total Volumetric Revenue			
26	(Line 17 X Line 21)	<u>\$449,453,650</u>	<u>\$11,396,282</u>	<u>\$460,849,932</u>
27				
28	Customer Charge Revenue			
29	(Line 14 X Line 19 X 12 months)	\$75,034,440	\$1,929,240	\$76,963,680
30				
31	Total Proposed Rate Revenue			
32	(Line 26 + Line 29)	\$524,488,090	\$13,325,522	\$537,813,612
33				
34	Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)			
35	(Line 17 x Line 23)	\$289,997,024	\$7,353,123	\$297,350,147

Note: 101.27 = Test Year Sales (34,836,930+6,842,076+509,236+27,635) / Test Year Customers (4,358,923+595,996+45,124+2,256)/12

ATTACHMENT 3
Combined Residential Heating Customer and Average Heating Adjustments

(A)	(B)	(C)	(D)
	<u>PGW</u>	<u>Adjustment</u>	<u>Adjusted Revenue</u>
14 Total Number of Customers	416,858	10,718	427,576
15 Total Normal Usage (Mcf)	101.27	1.69	102.96
16			
17 Annualized Sales (Mcf)	42,215,210	1,808,015	44,023,225
18			
19 Customer Charge	\$15.00	\$0.00	\$15.00
20			
21 Residential Volumetric Rate (\$6.905 + \$3.5945)	\$10.4995	\$0.0000	\$10.4995
22			
23 Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)	\$6.7745	\$0.0000	\$6.7745
24			
25 Total Volumetric Revenue			
26 (Line 17 X Line 21)	<u>\$443,238,594</u>	<u>\$18,983,257</u>	<u>\$462,221,850</u>
27			
28 Customer Charge Revenue			
29 (Line 14 X Line 19 X 12 months)	\$75,034,440	\$1,929,240	\$76,963,680
30			
31 Total Proposed Rate Revenue			
32 (Line 26 + Line 29)	\$518,273,034	\$20,912,497	\$539,185,530
33			
34 Cost of Gas (\$ per Mcf) (\$3.18 + \$3.5945)			
35 (Line 17 x Line 23)	\$285,986,938	\$12,248,400	\$298,235,337

Note: 101.27 = Test Year Sales (34,836,930+6,842,076+509,236+27,635) / Test Year Customers (4,358,923+595,996+45,124+2,256)/12

PGW COMPLIANCE FILING

PHILADELPHIA GAS WORKS
DOCKET R-00006042
PROOF OF REVENUE

This schedule shows:

- The rates in the current tariff excluding the effect of the interim rates (columns E1 and F1) and the revenue produced by these rates (columns G1, H1 and I1);
- The rates in the accompanying tariff (columns E2 and F2) and the revenue produced by these rates (columns G1, H1 and I1);
- Increase in revenue of \$39,065,094 produced by the rates in the accompanying tariff over the rates in the current tariff (columns G, H and I); this increase represents an increase of \$39,067,000 stated in the Order less a small rounding difference.

The rates in the accompanying tariff include:

- Monthly Customer Charge (column E2): Residential - 12/month; Commercial - \$18/month; Industrial- \$50/month; All other classes- same as current tariff.
- Base Rate (column F2): All classes other than Residential- same as current tariff; Residential- \$6.9119/mcf, the amount needed for the increase in total revenue of \$39,067,000.

1 Philadelphia Gas Works
 2 Docket R-00006042
 3 Proof of Revenue Schedule 1

	Number of Customers	Number of Annual Bills	Annual Sales (mcf)	Dis-count	Current Tariff				
					Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue
	A	B=A*12	C	D	E1	F1	G1=B*E1 Less discount	H1=C*F1 Less discount	I1=G1+H1
7 Non-Heating:									
8 Residential	58,693	704,310	1,932,718	-	\$ 8.00	\$ 6.6130	5,634,480	12,781,064	18,415,544
9 Residential-Senior	6,956	83,466	182,395	20%	\$ 8.00	\$ 6.6130	534,182	964,943	1,499,125
10 CRP	2,230	26,757	184,455	-	\$ 8.00	\$ 6.6130	214,056	1,219,801	1,433,857
11 CRP-Senior	102	1,224	9,446	20%	\$ 8.00	\$ 6.6130	7,834	49,973	57,807
12 Commercial	5,822	69,866	1,886,320	-	\$ 10.00	\$ 7.1200	698,660	13,430,598	14,129,258
13 Commercial-Senior	1	12	43	20%	\$ 10.00	\$ 7.1200	96	245	341
14 Industrial	388	4,656	548,742	-	\$ 20.00	\$ 7.1200	93,120	3,907,043	4,000,163
15 Municipal/MS	343	4,116	228,441	-	\$ -	\$ 6.4130	0	1,464,992	1,464,992
16 Municipal/GS	9	108	417	-	\$ 10.00	\$ 7.1200	1,080	2,969	4,049
17 PHA	8	96	36,655	-	\$ -	\$ 7.1260	0	261,204	261,204
18 Total Non-Heating Firm	74,551	894,611	5,009,632				7,183,508	34,082,832	41,266,340
20 Heating:									
21 Residential	295,698	3,548,375	28,446,137	-	\$ 8.00	\$ 6.6130	28,387,000	188,114,304	216,501,304
22 Residential-Senior	78,264	939,164	7,607,347	20%	\$ 8.00	\$ 6.6130	6,010,650	40,245,909	46,256,558
23 CRP	44,189	530,262	5,992,589	-	\$ 8.00	\$ 6.6130	4,242,096	39,628,991	43,871,087
24 CRP-Senior	5,478	65,734	849,487	20%	\$ 8.00	\$ 6.6130	420,698	4,494,126	4,914,824
25 Commercial	19,087	229,041	9,113,613	-	\$ 10.00	\$ 7.1200	2,290,410	64,888,925	67,179,335
26 Commercial-Senior	25	300	6,141	20%	\$ 10.00	\$ 7.1200	2,400	34,979	37,379
27 Industrial	785	9,424	930,507	-	\$ 20.00	\$ 7.1200	188,480	6,625,210	6,813,690
28 Municipal/MS	549	6,588	1,056,589	-	\$ -	\$ 6.4130	0	6,775,905	6,775,905
29 Municipal/GS	3	36	73,992	-	\$ 10.00	\$ 7.1200	360	526,823	527,183
30 PHA Rate 8	470	5,640	134,850	-	\$ -	\$ 7.1260	0	960,941	960,941
31 PHA/GS	4,016	48,189	1,122,137	-	\$ 8.00	\$ 6.6130	385,510	7,420,692	7,806,202
32 Total Heating Firm	448,563	5,382,753	55,333,389				41,927,604	359,716,805	401,644,408
34 Total Heating & Non-Heating	523,114	6,277,364	60,343,021				49,111,112	393,799,636	442,910,748

1 Philadelphia Gas Works
 2 Docket R-00006042
 3 Proof of Revenue Schedule 1
 4

	PUC Order					Increase		
	Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Customer Revenue	Base Rate Revenue	Total Revenue
			G2=B*E2	H2=C*F2				
			Less discount	Less discount	I2=G2+H2	G=G1-G2	H=H1-H2	I=G+H
7 Non-Heating:								
8 Residential	\$ 12.00	\$ 6.9119	8,451,720	13,358,754	21,810,474	2,817,240	577,689	3,394,929
9 Residential-Senior	\$ 12.00	\$ 6.9119	801,274	1,008,557	1,809,830	267,091	43,614	310,705
10 CRP	\$ 12.00	\$ 6.9119	321,084	1,274,935	1,596,019	107,028	55,134	162,162
11 CRP-Senior	\$ 12.00	\$ 6.9119	11,750	52,232	63,982	3,917	2,259	6,176
12 Commercial	\$ 18.00	\$ 7.1200	1,257,588	13,430,598	14,688,186	558,928	0	558,928
13 Commercial-Senior	\$ 18.00	\$ 7.1200	173	245	418	77	0	77
14 Industrial	\$ 50.00	\$ 7.1200	232,800	3,907,043	4,139,843	139,680	0	139,680
15 Municipal/MS	\$ -	\$ 6.4130	0	1,464,992	1,464,992	0	0	0
16 Municipal/GS	\$ 18.00	\$ 7.1200	1,944	2,969	4,913	864	0	864
17 PHA	\$ -	\$ 7.1260	0	<u>261,204</u>	<u>261,204</u>	0	0	0
18 Total Non-Heating Firm			11,078,333	34,761,528	45,839,861	3,894,825	678,696	4,573,521
19								
20 Heating:								
21 Residential	\$ 12.00	\$ 6.9119	42,580,500	196,616,854	239,197,354	14,193,500	8,502,550	22,696,050
22 Residential-Senior	\$ 12.00	\$ 6.9119	9,015,974	42,064,977	51,080,952	3,005,325	1,819,069	4,824,394
23 CRP	\$ 12.00	\$ 6.9119	6,363,144	41,420,176	47,783,320	2,121,048	1,791,185	3,912,233
24 CRP-Senior	\$ 12.00	\$ 6.9119	631,046	4,697,255	5,328,302	210,349	203,129	413,478
25 Commercial	\$ 18.00	\$ 7.1200	4,122,738	64,888,925	69,011,663	1,832,328	0	1,832,328
26 Commercial-Senior	\$ 18.00	\$ 7.1200	4,320	34,979	39,299	1,920	0	1,920
27 Industrial	\$ 50.00	\$ 7.1200	471,200	6,625,210	7,096,410	282,720	0	282,720
28 Municipal/MS	\$ -	\$ 6.4130	0	6,775,905	6,775,905	0	0	0
29 Municipal/GS	\$ 18.00	\$ 7.1200	648	526,823	527,471	288	0	288
30 PHA Rate 8	\$ -	\$ 7.1260	0	960,941	960,941	0	0	0
31 PHA/GS	\$ 12.00	\$ 6.9119	<u>578,266</u>	<u>7,756,099</u>	<u>8,334,364</u>	<u>192,755</u>	<u>335,407</u>	<u>528,162</u>
32 Total Heating Firm			63,767,836	372,368,145	436,135,981	21,840,233	12,651,340	34,491,573
33								
34 Total Heating & Non-Heating			74,846,169	407,129,672	481,975,842	25,735,058	13,330,036*	39,065,094

* Adjusted for a necessary mathematical revision as detailed on Attachment A.

ATTACHMENT A

Sales (Mcf)	OTS	PGW	Difference		Rudden			
			PUC v. PGW			Firm	Senior	Applicable
						Sales	Disc. Sales	Sales
Calendar Year 2000 -- Firm Residential Heating ⁽¹⁾	42,293,783	42,293,783	0	N/A				
Calculated Normalized Firm Sales ⁽⁵⁾	44,069,567	44,025,143	(44,424)	N/A				
Residential Heating Applicable Sales ⁽⁶⁾	N/A	42,326,300	N/A	42,326,300	Residential	28,446,137	-	28,446,137
					Residential Senior	7,607,347	1,521,469	6,085,878
					CRP	5,992,589	-	5,992,589
					CRP-Senior	849,487	169,898	679,589
Number of Customers	(2)	(3)	(4)	(7)	PHA/GS	1,122,137	-	1,122,137
Calendar Year 2000 -- Average Residential Heating	424,099	427,576	3,477	427,576				
Test Year (Budgeted Customers)	412,910	416,858	3,948	416,858				
Difference/Adjustment	11,189	10,718		10,718				
						44,017,697	1,691,367	42,326,330
						Incremental Diff. Base Rate		\$ 0.2989
								<u>\$12,651,340</u>
Average Use Customer					Per Proof of Revenue Base ⁽⁸⁾			
Normalized Sales	<u>44,069,567</u>	<u>44,025,143</u>			Residential Heating			\$ 8,502,550
Customers	424,099	427,576			Residential Heating Senior			\$ 1,819,069
					CRP Heating			\$ 1,791,185
Average Use/Customer	103.91	102.96			CRP-Senior Heating			\$ 203,129
Calculated Normalized Usage -- Firm Sales	44,069,567	44,025,143	(44,424)		PHA/GS Heating			\$ 335,407
								<u>\$12,651,340</u>

Notes:

- (1) Sales from three classes of customers: Residential, CRP and Philadelphia Housing Authority. (See OTS Exhibit No. 2, Schedule 5, p.2, & pp 4-7)
- (2) Average customers from only two classes: Residential and CRP. Philadelphia Housing Authority not included. (See OTS Exhibit No. 2, Schedule 2, p.2 & p.4)
- (3) Average customers from three classes: Residential, CRP and Philadelphia Housing Authority. Budgeted numbers used because actual included non-PHAGS customers.
- (4) Average adjustment of 3,477 customers based off September 2000 through December 2000 average customers. Only PHAGS actual breakout data available (See Exhibit 4)
- (5) Difference (44,424 Mcf) due to revision in customer count for PHAGS and its effect on the average base load calculation June, July and August 2000 and average Mcf/DD calculation. (See attached worksheets, Exhibits 1 and 2)
- (6) Arrived at by taking the increased effect on total sales from the change in customer counts (10,718) added back to the test year (budgeted) Applicable Sales. (See attached Exhibit 3).
- (7) Adjustment to Test Year (Proof of Revenue) customer count = 10,718
- (8) See Proof of Revenue

Philadelphia Gas Works
Weather Normalization Calculation
Residential Heating Sales
11/1/00 - 12/31/00

EXHIBIT 1

Months (A)	No. of Customers (B)	Actual Sales Mcf (C)	Base Load Customers Mcf (D=B*BLoad)	Temperature Sensitive Load of Customers Mcf (E=C-D)	Actual Deg. Days (F)	Temperature Sensitive Load Mcf/DD (G=E/F)	PGW Exhibit CW-1 Normal Deg. Days (H)	Normalized Temperature Sensitive Load Mcf*DD (I=G*H)	Normalized Load (Mcf) (J=D+I or C)
Jan-00	416,773	7,173,279	937,739	6,235,540	974	6,402	983	6,293,166	7,230,905
Feb	418,071	8,208,061	940,660	7,267,401	738	9,847	825	8,123,775	9,064,435
Mar	419,064	4,812,965	942,894	3,870,071	456	8,487	657	5,575,959	6,518,853
Apr	422,455	3,255,134	950,524	2,304,610	329	7,005	346	2,423,730	3,374,254
May	425,132	2,070,280	956,547	1,113,733	75	14,850	108	1,603,800	2,560,347
Jun	427,904	2,605,691	962,784	1,642,907	19	86,469	12	1,037,628	2,000,412
Jul	430,075	989,539	967,669	21,870	1	21,870	1		989,539
Aug	430,761	980,482	969,212	11,270	1	11,270	1		980,482
Sep	430,761	921,912	969,212	(47,300)	57	(830)	37		921,912
Oct	423,513	1,778,521	952,904	825,617	197	4,191	249	1,043,559	1,996,463
Nov	422,815	2,994,691	951,334	2,043,357	537	3,805	521	1,982,405	2,933,739
Dec-00	421,864	6,503,228	949,184	5,554,034	1,011	5,494	828	4,549,032	5,498,226
Total	5,089,188	42,293,783	11,450,673	30,843,110	4,395	178,860	4,568	32,633,054	44,069,567

Avg No
of Customers 424,099

Degree Day Variance (Warmer)/Colder (173)

Average Use per Customer 8.66 Mcf per Month 103.91 Mcf per Year

	Customers	Mcf Sales
July	430,761	989,539
Aug	430,761	980,482
Sept	423,513	921,912
Total	1,285,035	2,891,933

Base Load (Mcf) Per Customer (BL) 2.25

es = Vols from Exh # 2 Schedule #5 (PGW Sales) These Sales have the PHA P-2 sales include in the Residential Sales
tomers = Residential and CRP customers from schedule 1 and 2 of Exhibit NO. 2. (PGW Customer Counts) The P-2 PHA residentials are not included in the Customer Count of Co

EXHIBIT 2

Philadelphia Gas Works
Weather Normalization Calculation
Residential Heating Sales
11/1/00 - 12/31/00

Months (A)	No. of Customers (B)	Actual Sales Mcf (C)	Base Load Customers Mcf (D=B*BLoad)	Temperature Sensitive Load of Customers Mcf (E=C-D)	Actual Deg. Days (F)	Temperature Sensitive Load Mcf/DD (G=E/F)	PGW Exhibit CW-1 Normal Deg. Days (H)	Normalized Temperature Sensitive Load Mcf*DD (I=G*H)	Normalized Load (Mcf) (J=D+I or C)
Jan-00	420,250	7,173,279	932,955	6,240,324	974	6,407	983	6,293,166	7,226,121
Feb	421,548	8,208,061	935,837	7,272,224	738	9,854	825	8,123,775	9,059,612
Mar	422,541	4,812,965	938,041	3,874,924	456	8,498	657	5,575,959	6,514,000
Apr	425,932	3,255,134	945,569	2,309,565	329	7,020	346	2,423,730	3,369,299
May	428,609	2,070,280	951,512	1,118,768	75	14,917	108	1,603,800	2,555,312
Jun	431,381	2,605,691	957,666	1,648,025	19	86,738	12	1,037,628	1,995,294
Jul	433,552	989,539	962,485	27,054	1	27,054	1		989,539
Aug	434,232	980,482	963,995	16,487	1	16,487	1		980,482
Sep	434,232	921,912	963,995	(42,083)	57	(738)	37		921,912
Oct	427,018	1,778,521	947,980	830,541	197	4,216	249	1,043,559	1,991,539
Nov	426,289	2,994,691	946,362	2,048,329	537	3,814	521	1,982,405	2,928,767
Dec-00	425,331	6,503,228	944,235	5,558,993	1,011	5,499	828	4,549,032	5,493,267
Total	5,130,915	42,293,783	11,390,631	30,903,152	4,395	189,765	4,568	32,633,054	44,025,143

Avg No
of Customers 427,576

Degree Day Variance (Warmer/Colder) (173)

Average Use per Customer 8.58 Mcf per Month 102.96 Mcf per Year

	Customers	Mcf Sales
July	433,552	989,539
Aug	434,232	980,482
Sept	434,232	921,912
Total	1,302,016	2,891,933

Base Load (Mcf) Per Customer (BL) 2.22

No. of Customers = Residential, CRP and P2 PHA

Residential Heating Customers

	OTS	PGW	Difference
Jan-00	416,773	420,250	3,477
Feb	418,071	421,548	3,477
Mar	419,064	422,541	3,477
Apr	422,455	425,932	3,477
May	425,132	428,609	3,477
Jun	427,904	431,381	3,477
Jul	430,075	433,552	3,477
Aug	430,761	434,232	3,471
Sep	430,761	434,232	3,471
Oct	423,513	427,018	3,505
Nov	422,815	426,289	3,474
Dec-00	<u>421,864</u>	<u>425,331</u>	<u>3,467</u>
	5,089,188	5,130,915	41,727
	424,099	427,576	3,477

3477 = Sept 2000 thru dec 2000 avg

3948 = 2000-01 rudden run average

471

11,189 (471) 10,718

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility	:	
Commission	:	
	:	
v.	:	Docket No. R-00006042
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT OF JOSEPH R. BOGDONAVAGE

My name is Joseph R. Bogdonavage. I am the Senior Vice President of Finance for the Philadelphia Gas Works. I have previously presented testimony before the Pennsylvania Public Utility Commission in support of the Philadelphia Gas Works' request for a \$65.0 million increase in base rates.

Cash Flow Analysis

The purpose of this affidavit is to advise the Commission that the Commission's tentative Order of October 12, 2001 awarding PGW a \$33,558,000 base rate increase will not permit PGW to meet its mandatory bond covenants. I have attached Exhibit B-1, PGW's FY 2002 Projected Cash Receipts and Disbursements, in support of this assertion. This schedule was based on PGW's FY 2002 Operating Budget which was filed on August 3, 2001 with the Philadelphia Gas Commission, amended for the \$33,558,000 base rate increase. Additionally, the actual cash balance of \$2.5 million at August 31, 2001 was utilized as the starting cash balance for the projection of FY 2002 Cash Flow and is PGW's latest information available.

PGW, during the first third of its fiscal period September through December 2001, is projected to have a negative Cash Flow of \$15.2 million, leaving an opening cash balance of \$6.4 million on the first business day of January 2002. PGW has a mandatory \$24.3 million debt service payment due on January 2, 2002. Absent extraordinary measures for which it has been criticized in the past for utilizing, (i.e., advanced borrowing of capital improvement fund proceeds and advanced reimbursement of pension beneficiary payments from the pension sinking fund) will not have sufficient cash to make the debt service payment when due, and natural gas bills later in the month. Furthermore, PGW is unlikely to receive a renewal of its commercial paper program in August 2002 without significantly higher rate relief during the balance of FY 2002. PGW's most recent renewal agreement of its Commercial Paper Program requires that the outstanding level be reduced from \$100.0 million to \$80.0 million by August 2002. This will potentially result in the loss of \$20.0 million in financial liquidity in support of

PGW's operations in FY 2002. PGW is projecting that its fiscal year-end cash balance will be a negative \$40.0 million, when the repayment of the \$45.0 City loan is factored into its Cash Flow projections. The reason for this assumption is that PGW does not produce positive cash flow in the first third of its fiscal year. Since the City loan is due by ordinance in January 2003, it is, for all intents and purposes, a year-end cash requirement.

Bad Debt Expense

Regarding the Commission's utilization of a five-year historical level for bad debt expense proposed by the Office of Trial Staff, PGW respectfully submits that at the very least the historical average should include the most recent information available. The information provided below details the impact of the most recent five-year historical average and its impact on the bad debt allowance and the adjustment to the Commission's rate order of \$33,558,000.

	<u>Bad Debt %*</u>	<u>PGW Adjustment</u>
FY 1995	7.8555%	-
FY 1996	6.3019%	-
FY 1997	7.1381%	7.1381%
FY 1998	9.2318%	9.2318%
FY 1999	7.5525%	7.5525%
FY 2000	-	10.2500% ¹
FY 2001	-	8.6700%**
Average	7.6160%	8.5685%
	PGW Adjustment	.9525%

*Per Exhibit No. 1 Schedule 4 of OTS Testimony

**FY 2001 Unaudited Results

The adjustment to bad debt expense of .9525%, utilizing the most recent information for a five-year historical average, impacts the Commissions' Tentative Rate Order by \$7,789,000. This figure is reached by starting with the PUC's total gas revenues of \$735,789,000², adding back to those gas revenues the \$4,169,000 that had been subtracted based on the OTS \$61.1 million bad debt allowance,³ and then

¹ The Commission found that PGW's FY 2000 bad debt percentage was 10.2%. PUC Order (October 4, 2001) at Finding of Fact ¶ 26. The percentage taken out to an equivalent degree with the other calculations was actually 10.25%.

² PUC Order (October 4, 2001) at Income Statement FYE August 31, 2001, p. 1.

³ *Id.*

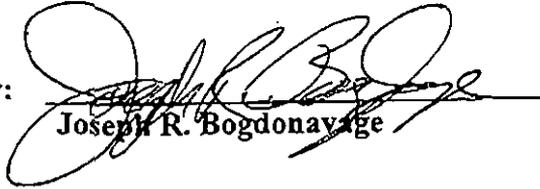
multiplying the resulting total gas revenues by the 8.569% average bad debt percentage for the five year period 1997-2001. The level of bad debt expense would increase from the \$55,618,000 in the Commission's October 12, 2001 Tentative Rate Order to \$63,407,000. Thus, instead of the Tentative Order's proposed \$9.679 million negative adjustment, only a \$1.890 million adjustment is required. Finally, these revised figures require an upward adjustment to the Tentative Rate Order increase of \$33,558,000 to \$41,347,000.⁴ The use of PGW's most recent experience related to bad debt expense is more representative of the future requirements that PGW will encounter when the proposed base rates are effective in FY 2002.

It is my recommendation that the Commission consider an upward adjustment to the base rate increase so that PGW will be able to meet all of its bond covenant requirements and at the same time provide sufficient Cash Flow for its ongoing operations.

⁴ Note that if the Commission makes any other adjustments that add revenues, then an iterative bad debt adjustment that increases PGW's bad debt expense allowance will be required.

I verify, pursuant to the penalties contained in 18 Pa. C.S. §1804 (relating to unsworn falsification to authorities), that the preceding statement and Attachments are true and correct to the best of my knowledge, information and belief.

Submitted By:



Joseph R. Bogdonavage

Dated: October 19, 2001

Exhibit B
Attachment 1

Normal weather 4555 degree days
City Loan \$45.0 MM Available & Fully Outstanding
\$3.0M Rate Increase Effective Oct 2001
TXCP \$100.0 M with \$80.0 M Outstanding 8/31/02
Reduced expenses per union contract settlement

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDING AUGUST 31, 2002
(Millions of Dollars)

	Estimate	Estimate	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	TOTAL
10/1/01	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES 97.0 TXCP RECEIPTS	\$2.5	\$1.0	\$24.0	\$12.4	\$8.4	(\$17.0)	(\$9.1)	\$26.7	\$63.8	\$68.9	\$52.7	\$19.6	\$2.5
Gas	33.0	36.6	38.3	48.9	61.6	72.2	81.8	75.1	61.8	45.3	39.1	36.2	629.4
Other	1.6	1.7	1.7	1.7	1.6	1.8	1.6	1.8	1.6	1.6	1.6	3.3	21.1
Drawn from Capital Funds - Principal (\$60.0MM)	7.9	20.0	0.0	0.0	0.0	4.0	4.0	4.5	4.5	5.3	5.3	5.3	60.8
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	1.7
Drawn from Lease Funds - Principal (\$3.8MM)	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	1.8	0.0	3.8
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw	0.0	4.8	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.4	2.4	27.8
City Loan													0.0
Rate Refd	0.0	0.5	1.9	2.5	3.1	3.7	4.1	3.8	3.1	2.3	2.0	1.8	29.0
TOTAL RECEIPTS	42.5	62.3	44.3	66.5	68.7	85.8	80.6	87.3	73.2	56.8	52.1	50.9	773.8
TOTAL	45.0	63.3	69.0	68.9	75.1	87.9	84.5	113.0	120.9	125.6	104.8	70.5	776.3
DISBURSEMENTS													
Labor	10.7	12.3	12.1	11.9	12.6	11.0	11.1	11.3	11.5	10.4	11.4	10.9	137.2
Natural Gas	27.0	29.8	36.8	40.9	48.3	48.8	37.9	34.5	30.2	26.5	23.2	23.8	407.8
Debt Service	0.0	3.9	0.0	0.1	24.3	6.9	0.0	4.0	1.7	1.4	16.2	16.4	94.9
TXCP - Interest	3.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	3.2
Repayment of City Loan													46.0
Uncertainty Management Reductions	0.0	0.0	(0.4)	(0.5)	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.2)	(1.3)	(1.4)	(9.3)
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.2	0.0	0.0	19.2
Other Disbursements	8.0	8.2	9.1	9.8	10.2	10.7	10.5	10.2	10.4	10.4	10.4	10.6	119.6
TOTAL DISBURSEMENTS	46.0	64.8	57.6	62.5	63.0	76.9	58.9	59.3	53.0	68.0	60.1	106.6	815.4
MONTHLY CASH FLOW	(3.5)	7.7	(13.4)	(8.0)	(24.3)	8.9	34.7	28.1	20.1	(11.2)	(20.1)	(64.6)	(41.5)
CUMULATIVE CASH FLOW	(3.5)	4.3	(9.1)	(15.1)	(39.4)	(30.6)	4.2	32.3	52.4	41.2	13.1	(41.5)	
OPENING TXCP	78.0	78.0	80.0	96.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	78.0
TXCP ISSUED DURING MONTH	2.0	18.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.0
TXCP ISSUED PAID DOWN DURING MONTH	0.0	0.0	5.0	5.0	5.0	5.0	20.0						
ENDING TXCP	80.0	96.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	77.0
OPENING BALANCE - CASH	2.5	1.0	24.0	12.4	8.4	(17.0)	(9.1)	26.7	63.8	68.9	52.7	19.6	2.5
MONTHLY CASH FLOW	(3.5)	7.7	(13.4)	(8.0)	(24.3)	8.9	34.7	28.1	20.1	(11.2)	(20.1)	(64.6)	(41.5)
NET TXCP ACTIVITY MONTHLY	2.0	18.0	1.0	0.0	0.0	0.0	0.0	0.0	(5.0)	(5.0)	(5.0)	(5.0)	(1.0)
ENDING BALANCE - CASH	1.0	24.8	12.4	8.4	(17.9)	(9.1)	25.7	53.8	68.9	52.7	19.6	(40.0)	(40.0)
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	45.0						
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	0.0	0.0						
CASH POSITION NET OF TXCP AND CITY LOAN	(124.0)	(116.2)	(120.6)	(136.0)	(152.9)	(151.1)	(116.1)	(88.2)	(88.1)	(79.3)	(107.4)	(117.0)	

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility
Commission**

v.

Philadelphia Gas Works

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:
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:
:
:

Docket No. R-00006042

Verified Statement of Gary Krellenstein

My name is Gary Krellenstein. I am Vice President and senior analyst in J.P. Morgan's Municipal Finance Department. My areas of specialty are municipal utilities, energy technologies, and cogeneration & resource recovery, as well as the analysis and rating of pollution control and industrial development bonds. My responsibilities include providing credit research and recommendations to J.P. Morgan's sales and trading desk, institutional investor clients and issuers. I also advise Morgan Guaranty Trust Company regarding its short-term utility lending policies.

The purpose of this affidavit is to advise the Commission about the risks that the Philadelphia Gas Works (PGW) faces in renewing its commercial paper instrument and in selling additional long term bonds if it is only awarded the rate levels in the Commission's Tentative Order. I am familiar with the Company's credit history and have discussed with current management the requisite steps to improve PGW's financial condition.

Having read both recent base rate orders, I do not express any opinion regarding the interpretation of Section 2212 nor the merits of "burden of proof" as applied to PGW. However, in my role as credit analyst, I do want to comment on the financial and rating implications should the Commission award only \$33.6 million in PGW's base rate relief presently being considered.

Morgan Guaranty has been the lead underwriter of the letter of credit that supports PGW's Tax Exempt Commercial Paper (TXCP) for several years. A major criterion used by Morgan, and other banks in determining PGW's short-term credit worthiness, is its cash flow position. With each successive year, the financial flexibility of PGW has become more constrained. This tentative decision, if left unchanged, will only exacerbate the utility's cash adequacy problems leaving PGW with few options for funding day to day activity and requiring PGW to operate with much too limited cash flow. It should be noted that a condition for renewal of the letter of credit this last June, was a

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requirement for PGW to reduce the outstanding balance from \$100 to \$80 million by August 2002.

Specifically, with only \$10.2 million in pro-forma year-end cash balances at August 2001 (as shown in the Commission's order and with the adjustments it made to reach this level), no short term borrowing ability and no further recourse to City funds (\$45 million being outstanding and due January 2003), PGW will not have the necessary funds available for its on-going needs in 2002. First, the company faces a debt service payment of over \$25 million the first working day of January each year and, second, its first substantial gas bills of the winter season are due at approximately the same time. Since no recognition is being given to post-test year cash needs by the Commission and PGW does not generate meaningful levels of cash or earnings from September through December, the utility faces two risks. It can miss the \$25 million debt service payment and/or not pay gas invoices, both of which are unacceptable to the financial markets and gas suppliers. Simply put, there is insufficient liquidity to satisfy operating needs and PGW faces violating its bond covenants. This situation will be further compounded if PGW is also unable to renew its commercial paper letter of credit in August 2002, a development which is likely with no change in circumstance.

Were PGW to file for immediate rate relief, a course which I am recommending to management if PGW does not receive the full amount requested, the company could not obtain a rate award before late summer of next year. This would leave little time to substantially increase revenues and cash balances prior to next winter. PGW's financial condition will be further exacerbated in January 2003 when, as noted, the City loan for \$45 million must be paid according to City ordinance. The requirement of holders of all PGW securities is that the company be able to pay all financial obligations when due.

Pertaining to the issues of City ownership and projections of "receivables" and "bad debt", I make the following observations. PGW is one of the lowest rated municipal utilities in the nation and is currently under review for a possible downgrade by S&P and has a negative trend from Moody's. Although the City is the owner of PGW, it does not guarantee PGW's debt obligations. While the relationship between the City and PGW is a factor, the primary focus of investors and analysts evaluating PGW's long-term credit quality is the utility's ability to charge user fees sufficient to pay all expenses, debt obligations and transfers, while maintaining adequate cash working capital. In regard to future projections of "bad debt", it should be noted that Philadelphia's poverty rate has gone up steadily over the past 2 decades and is now about 25%. Together with the spike in gas prices last winter and spring (and attendant fuel price increases on customers' bill), it is reasonable to assume that "receivables" and "bad debt" will be higher than the 5-year historical average.

As a municipal financial analyst, I review the implications of regulatory assumptions with regard to what is "just and reasonable" and in my evaluations this standard has two considerations. First, customer interests must be addressed. Second, reasonableness must also mean there are sufficient revenues for a utility to continue as an on-going entity and to preclude that utility from being shut out of the capital markets.

It must be noted that the recent renewal of the letter of credit and the sale of long-term bonds, which were issued in anticipation of adequate rate relief to support these instruments, came at a substantial cost. This last round of financing costs were double those for similar transactions two years ago. There is a serious question whether PGW can access the financial markets without additional rate relief. However, assuming such access is possible, the associated costs would be significantly higher. Questions of market access and cost of financing do not appear to have been a consideration of the Commission in its Orders.

Any analyst studying this situation would conclude that PGW is presently at severe operating and financial risk. PGW requires immediate additional rate relief sufficient to allow cash balances to build an additional \$25 to \$30 million by August of next year to avoid bond covenant violations and the termination of its commercial paper program or, more immediately, a potential downgrading by the rating agencies in the next several months.

Since the future of PGW requires access to financial markets, it is important to understand current market conditions for utility related debt of any sort. Investors now have very real reservations about lending to any utilities in the financial circumstances in which PGW will shortly find itself without Commission assistance. Due to the recent developments in California, there is low tolerance and little appetite for marginal or sub-investment grade utilities. In that situation, a number of banks, Morgan included, lent \$4.5 billion to the California Department of Water Resources as bridge financing to be followed by permanent bond issues. These bridge loans were predicated on a rate agreement proposed by the governor and supported by the state legislature but subsequently not approved by the California Public Service Commission. As a result, banks and institutional investors are re-evaluating their lending policies where they have potential exposure from regulatory decisions.

It is my view that without further attention to PGW's situation by the Commission, this utility faces not being able to renew its short term debt instrument and being downgraded below investment grade and, thereby, lose all access to the capital markets.

VERIFICATION

I, Gary Krellenstein, hereby state that the facts above set forth are true and correct (or are true and correct to the best of my knowledge, information and belief). I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: 10/19/01

Gary Krellenstein
(Signature)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND/OR FEDERAL EXPRESS

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Daniel Clearfield, Esquire

Dated: October 19, 2001



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

October 22, 2001

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James J. McNulty, Secretary
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of **The Office of Trial Staff's Response to Philadelphia Gas Works' Compliance Filing** in the above-captioned proceeding.

Copies are being served on all active parties of record.

**DOCUMENT
FOLDER**

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

JES:ecm

c: Parties of Record
Honorable Cynthia W. Fordham

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission	:	Docket Number
	:	
v.	:	R-00006042
	:	R-00006042C0001 <u>et al</u>
Philadelphia Gas Works	:	

The Office of Trial Staff's Response
To Philadelphia Gas Works'
Compliance Filing

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OCT 23 2001

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Introduction

On August 7, 2001, Administrative Law Judge Cynthia Williams Fordham issued a Recommended Decision in the above-captioned proceeding. Many of the active parties in the proceeding filed Exceptions and/or Reply Exceptions to the Recommended Decision of Administrative Law Judge Fordham. By an Opinion and Order entered October 4, 2001, the Pennsylvania Public Utility Commission ("Commission") considered and disposed of the Exceptions to the Recommended Decision, and the Philadelphia Gas Works ("PGW") was ordered to file a Tariff supplement designed to change rules, regulations and rates calculated to produce

\$28,067,000 in additional revenue in addition to the \$11,000,000 interim relief implemented in March 2001.

On October 12, 2001, PGW attempted to comply with the Commission's Order of October 4, 2001, by filing its compliance filing. The purpose of a compliance filing is for the utility to make its tariff supplement in compliance with the Commission's Order. In the instant proceeding, PGW has not made its tariff supplement in compliance with the Commission's Order, and as such, the tariff supplement should be rejected by the Commission for the following reasons:

II. PGW failed to recognize customer charges for PHA/PHA and MUN/MS Customer Classes.

In PGW's initial rate Filing with the Commission, PGW proposed a customer charge of \$25.00 for customer classes PHA/PHA and MUN/MS, respectively, which represented \$411,000 in total proposed customer revenue for the two customer classes. See OTS Exhibit No. 3, Schedule 2. After reviewing PGW's proposal, OTS recommended that the customer charge for customer classes PHA/PHA and MUN/MS, respectively, be set at \$18.00, which represents \$295,920 in total customer revenue for the two customer classes. See OTS Exhibit No. 3, Schedule 3. Administrative Law Judge Fordham adopted OTS' recommended \$18.00 for commercial customer charge. See Recommended Decision at page 78. The Commission's Opinion and Order of October 4, 2001 adopted the Administrative Law Judge's recommendation of \$18.00 for

commercial customer charge. See Ordering Paragraph No. 8 in the Commission's Opinion and Order of October 4, 2001.

PGW's Compliance Filing failed to recognize that the Commission ordered a \$18.00 customer charge for the PHA/PHA and MUN/MS customer classes. In fact, the Compliance Filing did not recognize the proposed customer charge of \$25.00 for the PHA/PHA and MUN/MS customer classes, as the Compliance Filing included a customer charge of zero for the two customer classes. It appears that the utility is relying upon the fact that Ordering Paragraph did not specifically discuss the PHA/PHA and MUN/MS customer classes; however, as earlier discussed, OTS Exhibit No. 3, Schedule 3, specifically recommended a \$18.00 customer charge for the PHA/PHA and MUN/MS customer classes.

In the absence of a customer charge in the Compliance Filing for PHA/PHA and MUN/MS customer classes reflecting the adopted customer charge of \$18.00, the Compliance Filing dated October 12, 2001 should be rejected. Accordingly, PGW should be ordered to reflect a customer charge of \$18.00 for the PHA/PHA and MUN/MS customer classes in a new Compliance Filing.

III. PGW's Compliance Filing will result in the utility receiving \$626,338 more in Revenues than allowed in the Commission's Order.

The Commission ordered PGW to collect \$28,067,000, relating to the base rate filing in addition to the \$11,000,000 interim rate increase, which totals \$39,067,000. The utility has calculated their revenues using improper sales volumes, customer number, and customer charges. OTS cannot determine the

basis for PGW's numbers. However, when OTS plugs in the Commission approved OTS' sales volumes, customer number, and customer charges, the resulting calculation shows that PGW's Compliance Filing will allow the utility to collect approximately \$39,693,338 or \$626,338 more revenues than approved by the Commission in its Opinion and Order of October 4, 2001. See Attachment No. 1 of PGW Compliance Filing.

Consequently, the filed Compliance Filing of PGW is in error, as the Filing will allow the utility to collect more revenues than approved by the Commission. Accordingly, PGW's Compliance filing must be rejected by the Commission and PGW should be ordered to file a Compliance Filing in accordance with the Commission's Opinion and Order of October 4, 2001.

IV. PGW did not utilize OTS' approved adjustments to customer numbers and volumetric sales.

On its cover page to Secretary McNulty, PGW informed the Commission that the rates in the Compliance Filing reflect one revision for a mathematical calculation discrepancy for OTS' calculations regarding the number and average use of PGW's residential and commercial heating customers. Without discussing the merits of the "mathematical calculation discrepancy", the reliance upon PGW's revised customer number and volumetric sales results in the utility recovering \$590,491 more in revenues than approved by the Commission. See PGW Compliance Filing at Attachment No. 2.

In an effort to resolve PGW's revised customer number and volumetric sales, PGW and OTS had the opportunity to have one meeting regarding this matter; however the matter was not resolved during the meeting. Based upon OTS calculation, the revised customer number and volumetric sales has a *diminutive revenue effect*. PGW's reference to a "mathematical calculation discrepancy" is insignificant, when its Compliance Filing allows PGW to recover \$626,338 more in revenues using the Commission approved OTS sales volumes, customer number and customer charges, and \$590,491 more in revenues using PGW's revision for a "mathematical calculation discrepancy."

With or without considering the merits of PGW's revised "mathematical calculation discrepancy", the Compliance Filing presented by PGW allows the utility to recover substantially more in revenues than the amount approved by the Commission. Accordingly, the Compliance Filing should be rejected.

V. PGW did not change the rates for the Tri-Gen Direct and LBS Large Direct classes.

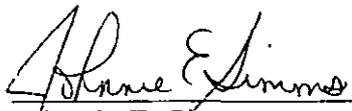
On page 74 of its Opinion and Order of October 4, 2001, the Commission ordered that PGW's LBS Large Direct, Tri-Gen Direct and NGV Direct classes to move closer toward their respective costs of service. Additionally, the Commission ordered the rates for the GTS customer class to be reduced. An examination of the Compliance Filing reveals that PGW has not filed the ordered rate changes for these classes in their Compliance Filing.

Accordingly, the Compliance Filing should be rejected, and PGW ordered to file a Compliance Filing in accordance with Ordering Paragraph Number 9 of the Commission's Opinion and Order in the above-captioned proceeding.

VI. CONCLUSION

WHEREFORE, for the foregoing reasons, Philadelphia Gas Works' Compliance Filing filed on October 12, 2001 should be rejected by the Commission as not being in compliance with its Opinion and Order of October 4, 2001 in the above-captioned proceeding.

Respectfully submitted,


Johnnie E. Simms
Senior Prosecutor

The Office of Trial Staff
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Harrisburg, Pa. 17105
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Date: October 22, 2001

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P.A.U.C.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

Pennsylvania Public Utility Commission :

v. :

Docket No. R-00006042

Philadelphia Gas Works :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Office of Trial Staff's Response to Philadelphia GasWorks' Compliance Filing**, dated October 22, 2001, either personally, by first class mail, express mail, electronic mail, or by fax upon the persons listed below:

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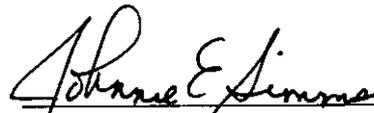
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Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: October 22, 2001
Docket No. R-00006042

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October 22, 2001

VIA HAND DELIVERY

James McNulty, Secretary
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SECRETARY'S BUREAU

RE: Pennsylvania Public Utility Commission v. Philadelphia
Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works, enclosed please find an original and three copies of its Comments to the Pennsylvania Public Utility Commission's Tentative Order dated October 12, 2001 with regard to the above referenced matter.

All parties of record have been officially served as evidenced by the attached Certificate of Service.

If you should have any questions, please do not hesitate to contact me.

Very truly yours,

Daniel Clearfield
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DC/lww

Enclosure

cc: All Parties of Record w/enc.

Robert Rosenthal, FUS, w/enc.

Office of Special Assistants w/enc.

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission

SECRETARY'S BUREAU

v.

Docket No. R-00006042

Philadelphia Gas Works

COMMENTS OF PHILADELPHIA GAS WORKS TO THE PUBLIC UTILITY COMMISSION'S OCTOBER 12, 2001, TENTATIVE ORDER

Philadelphia Gas Works ("PGW") respectfully submits these Comments to the Public Utility Commission's ("Commission" or "PUC") Tentative Order, entered October 12, 2001, which proposes to modify the Commission's October 4, 2001, Order by reducing further PGW's allowed base rate increase. Pursuant to the Tentative Order, PGW would be authorized to increase its base rates by \$22.558 million over and above the previously allowed \$11 million in interim rates. The Commission's reduction in rate relief is prompted by a "correction" in the calculation of PGW's bad debt expense allowance.¹ The correction follows the ratemaking methodology advocated by the Office of Trial Staff ("OTS"), which advocated certain iterative

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¹ PGW has filed a Petition for Rehearing and Reconsideration in which it requests that the Commission further correct the bad debt expense allowance by utilizing the most recent five years as the basis for deriving the proper bad debt percentage. Such a revision would more accurately reflect PGW's anticipated bad debt experience, and increase the likelihood that the Company might actually realize the revenues that the Commission claims it will earn. Whatever bad debt expense percentage is ultimately authorized, PGW acknowledges that the iterative adjustment proposed in the Tentative Order is appropriate.

adjustments to set the final allowance for bad debt expense and other items once the PUC made its initial revenue requirement determination for PGW.

PGW agrees that if the PUC intended to adhere to the OTS' recommended ratemaking methodology, the iterative adjustment proposed in the Tentative Order was appropriate. However, as set forth below, PGW maintains that the Tentative Order contains other computational errors and iterative adjustments which should also be made if the OTS approach is to be adopted. In addition, PGW believes that if OTS' recommendation – accepted by the PUC – to utilize the Cash Flow Method to set PGW's rates is to be followed, PGW's cash working capital needs should be recognized by reestablishing the Company's rate increase at no less than the level proposed by OTS — \$44 million (inclusive of the interim rate relief).

In further response to the Tentative Order, PGW states as follows:

1. The Commission has overstated the OTS revenue adjustment and has failed to make an offsetting adjustment also proposed by the OTS.

a. First, on the Income Statement schedule attached to the Tentative Order (and the October 4, 2001 Order), the Commission has misstated the increase in revenues resulting from the OTS' adjustments to PGW's residential and *commercial customer counts and average annual use by residential heating* customers. On page one of the Commission's schedule, it identifies an adjustment of \$34.263 million in increased operating revenues.² This number purports to represent the combined increases in *pro forma* revenues that OTS

² Tentative Order at Income Statement FYE August 31, 2001, p. 1; PUC Order (October 4, 2001) at Income Statement FYE August 31, 2001, p. 1.

projected PGW would receive if OTS' residential and commercial customer counts and average annual residential heating customer usage were adopted.³ However, that number was derived using OTS' numbers and PGW's proposed customer charges. Obviously, PGW's proposed customer charges were not accepted by the Commission.⁴

Utilizing OTS' customer counts and average annual residential heating customer usage and the customer charges ordered by the Commission reduces the \$34,263,000 to \$33,856,232 in additional revenues.⁵ Consequently, PGW's rate increase should be \$406,768 higher, and the Commission should amend its Order accordingly. (This adjustment is further explained in PGW's Petition for Rehearing and Reconsideration.)

b. Second, the OTS *pro forma* revenue adjustment, which was adopted by the Commission in its October 4th Order, contained calculation errors which resulted in it being overstated by an additional \$2,255,000. The nature of these calculation errors, and their resulting effect upon PGW's revenue requirement are also set out in PGW's Petition for Rehearing and Reconsideration.

c. Finally, OTS' calculation of PGW's revenue requirement in its Reply Exceptions contained an additional offsetting credit for the "ratemaking revenue

³ OTS St. 2 (Kubas) at 19-21; Recommended Decision at 48-49.

⁴ PUC Order (October 4, 2001) at 108, ¶ 8.

⁵ R.D. at 48, n. 33, and 49, n. 34 (additional revenues at OTS customer charge levels was \$1.622 million instead of \$2.029 million).

impact” of its revenue adjustment. That adjustment added back \$2,055,000 of revenues. This is shown on pages 20-21 of OTS’s Reply Exceptions and is reproduced on page 41 of the Commission’s Order. PGW understands that this revenue credit was designed to offset the effect on the compliance filing of using OTS’ higher usage per customer and customer counts. Without an offsetting adjustment, PGW would be denied the ability to actually collect the full, authorized rate increase.

This \$2.055 million offsetting adjustment was not made by the PUC when it calculated its \$39 million award or its revised, \$33.6 million award. PGW believes that this adjustment continues to be correct and, accordingly, that \$2,055,000 should be added to the PUC’s \$33.6 million authorized revenue requirement.

Taking all three adjustments to the OTS accounting adjustments into account, PGW’s rate award should be increased by \$4,716,768 (\$2.255 million + \$2.055 million + \$406,768).⁶

2. The other revision to the Commission’s October 4, 2001 Order, which should be made to make it consistent with the OTS methodology is to recognize that OTS’ overall recommendation was designed to produce a certain level of rate increase that it had determined was the minimally acceptable level necessary to provide PGW with what it believed to be

⁶ If these, or any portion of these adjustments are made, an additional iterative adjustment to PGW’s allowed bad debt expense must be made to recognize that PGW will have greater bad debt expense as a result of the higher revenue requirement. At the PUC’s currently authorized bad debt expense percentage -- 7.61% -- the additional revenue requirement would be \$358,964.

adequate cash working capital. For this reason, the ALJ recommended that PGW's rates be increased by \$44 million notwithstanding the fact that she had recommended the adoption of all of the OTS proposed accounting adjustments and all of the OCA proposed accounting adjustments (which totaled an additional \$6.4 million).⁷ Significantly, the OTS did not file any exceptions to the ALJ's recommendation, implicitly accepting that the \$44 million should be awarded notwithstanding the effect of the additional OCA adjustments. The Tentative Order purports to adopt the OTS ratemaking methodology but fails to recognize that the full application of OTS approach requires an overall award of \$33 million (over and above the interim increase) regardless of the mathematical result of all the accounting adjustments approved by the Commission. By reflecting the additional iterative and OCA adjustments in the calculation of PGW's revenue requirement, the Commission's Order does not fully comply with the Cash Flow Method, as applied by the OTS in its testimony, and as recommended by the ALJ. Accordingly, at a minimum (and only as a minimum), and without regard to the arguments and evidence presented by PGW in its Petition for Rehearing and Reconsideration,⁸ PGW's incremental rate award should be set at \$33 million at the very least.

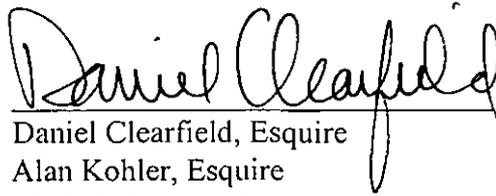
⁷ R.D. at 69; OCA Exceptions at 10, n.7 (net \$6.4 million).

⁸ As indicated in PGW's separate Petition, PGW's rate award should be revised upward to recognize a more realistic bad debt percentage and the unrefuted record evidence showing a reasonable level of year end cash to be \$35-\$40 million. The Commission's decision, by its terms, only permits some \$10 million of year end cash, and the only way to reach the appropriate level is to grant PGW's full, \$65 million rate request. *See*, PGW Petition for Rehearing and Reconsideration at 16-23.

3. PGW further details these cash flow inconsistencies in the Commission's Order, as well as other necessary revisions to the Commission's rate award, in its Petition for Rehearing and Reconsideration, the averments of which are incorporated herein by reference as additional comments.

WHEREFORE, PGW respectfully requests that the Commission modify its Tentative Order so that it also corrects the errors concerning the calculation of the OTS revenue adjustment and the inconsistencies in the Commission's October 4, 2001 Order involving its recognition of the Cash Flow Method and the final rate award.

Respectfully submitted:



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Attorneys for Philadelphia Gas Works

Of Counsel:
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Dated: October 22, 2001

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CERTIFICATE OF SERVICE

ORIGINAL

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND/OR FIRST CLASS MAIL

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Daniel Clearfield, Esquire

Dated: October 22, 2001



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October 22, 2001

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Filed by Federal Express

DOCKETED
OCT 26 2001

Re: CEPA et al. v. Philadelphia Gas Works, Docket No. R-00006042

DOCUMENT
FOLDER

Dear Secretary McNulty:

We represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants' Action Group (TAG) (collectively "CEPA et al.") in the above-captioned matter.

CEPA et al. support the positions taken by the Office of Consumer Advocate concerning PGW's October 12, 2001 "compliance filing" implementing the Commission's Opinion and Order entered October 4, 2001 in this case.

As evidenced by the Certificate of Service attached to this filing, all parties to the proceeding are being served with copies of this letter.

Very truly yours,

EDWARD A. MCCOOL
PHILIP A. BERTOCCI

Attorneys for CEPA et al.

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cc: Certificate of Service
Commission's Office of Special Assistants

OCT 22 2001
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

104

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R-00006042

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing letter of CEPA et al. upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

Via First Class U.S. Mail, Postage Prepaid

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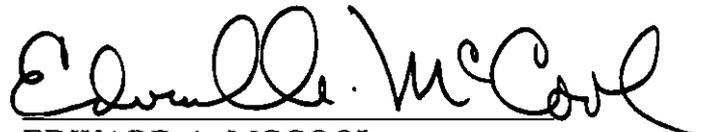
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October 22, 2001

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SECRETARY'S BUREAU

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

DOCUMENT
FOLDER

Dear Secretary McNulty:

Enclosed for filing please find an original and ten (10) copies of the Comments of the Office of Consumer Advocate in the above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Sincerely yours,

James A. Mullins
Assistant Consumer Advocate

Enclosure

cc: All parties on record

65949

ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION :

v. :

Docket No. R-00006042

PHILADELPHIA GAS WORKS :

COMMENTS OF THE
OFFICE OF CONSUMER ADVOCATE

RECEIVED
01 OCT 22 PM 3:41
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**DOCUMENT
FOLDER**

Stephen J. Keene
Senior Assistant Consumer Advocate
James A. Mullins
Assistant Consumer Advocate

OCT 29 2001

For:
Irwin A. Popowsky
Consumer Advocate

Office of Attorney General
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048

DATED: October 22, 2001

I. INTRODUCTION

The Office of Consumer Advocate (“OCA”) submits the following Comments to the Compliance Filing of the Philadelphia Gas Works (“PGW” or “Company”) in the above-captioned matter. The OCA has identified some areas where portions of the Compliance Filing provided should be further modified or clarified.

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II SPECIFIC ISSUES

A. Specific Tariff Provisions

1. Section 2.3

In its original filing, PGW recommended adoption of its proposed Section 2.3. This

Section reads:

OTHER RATES

- a. In addition to contracts stipulating service at the scheduled tariff rates, contracts stipulating negotiated rates and terms of service *for interruptible customers may be entered into between the Company and Customer when Company, in its sole discretion, deems such rate offerings to be economically advantageous to the Company.*
- b. The negotiated rate(s) shall not be lower than 110% of the weighted average cost of natural gas for Company, or, if the contract will utilize a specific gas source, the price will not be less than 110% of the projected cost of natural gas the Company determines that it will incur in serving the load.

Throughout the course of these proceedings, the OCA recommended three changes to the Company's proposed Section 2.3. However, Administrative Law Judge Fordham recommended that "PGW's proposal be adopted without revision" and the Commission accepted Judge Fordham's recommendation.

However, in the Compliance Filing, this Section has been modified and now reads:

OTHER CONTRACTS

Contracts stipulating negotiated non-scheduled rates and/or terms of service may also be entered into between the Company and the Customer when the Company, in its sole discretion, deems such offerings to be economically advantageous to the Company.

Neither Judge Fordham, nor the Commission recommended adoption of this language. Therefore, the OCA submits that PGW should be required to comply with the Commission's order, which is that its tariff proposal for non-standard rates be adopted without revision. In other words, the original Section 2.3 (as initially filed by PGW) should be adopted, rather than the modified Section contained in PGW's Compliance Filing.

2. Rates BPS-S and BPS-L

Regarding the commodity charge for Rates BPS-S and BPS-L, in the Compliance Filing, the relevant portions of each of these rate schedules reads:

Provided further that the rate per Mcf shall not be set at a level greater than ninety percent (90%) of the General Service Rate (including the Gas Cost Rate) for Commercial and Industrial Customers. In no event, however, shall such rate be less than one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes, as determined by the Company.

However, as set forth in the Commission's Final Order:

At the present time, the rate schedules can be read to limit the maximum price that PGW can charge its BPS customers to 90% of the General Service (GS) rate for commercial customers, even if that rate is below PGW's cost of gas. To eliminate this confusion, PGW proposed to eliminate the 90% provision. PGW stated that it preferred that it be permitted to charge at least 110% of the cost of gas to serve the BPS-S and BPS-L classes.

Pennsylvania Public Utility Commission v. Philadelphia Gas Works, Docket No. R-00006042 (Order

Entered October 4, 2001) at 90. The OCA concurred with elimination of the 90% reference.

Consequently, the ALJ recommended this elimination and the PUC adopted the ALJ's

recommendation. Therefore, the following sentence should be removed from the tariff language relating to Rates BPS-S and BPS-L:

Provided further that the rate per Mcf shall not be set at a level greater than ninety percent (90%) of the General Service Rate (including the Gas Cost Rate) for Commercial and Industrial Customers.

With this change, uncertainty regarding the BPS price ceiling is removed.

3. Rates MS and PHA

At present rates, there is no customer charge for Municipal Service provided under Rate MS (tariff page 85) or for Philadelphia Housing Authority Service provided under Rate PHA (tariff page 87). In its original filing, PGW proposed to establish a customer charge for these service categories, and to set it at \$25 per month, which is the same as PGW's proposed customer charge rate for Commercial customers taking General Service under Rate GS. PGW St. 4.0 at 8. However, these proposed new customer charges are absent from PGW's October 12, 2001 compliance filing.

PGW's proposal to establish customer charges for Rates MS and PHA is clearly recognized in the Commission's order. Order at 75 (Table). No party to the proceeding disputed or even questioned this proposal, and -- except for the aforementioned table -- there is no mention of this issue in either the Commission's order or the Recommended Decision. Customer charges for Rates MS and PHA should therefore be established as proposed by PGW. Specifically, the rate level for these customer charges should be \$18 per month, in accord with the Commission's determination of the appropriate customer charge for Commercial customers served under Rate GS.

The \$18 rate for commercial customers, which the ALJ recommended (R.D., p.78) and the Commission accepted, is explicitly based on the position of OTS in the recommended decision.

However, the OCA submits that OTS witness Paul Metro clearly intended his recommended rate of \$18 per month to apply also to the Municipal service under Rate MS and the Philadelphia Housing Authority service under Rate PHA. In his OTS Exh. 3, Schedule 2 shows the "PHA/PHA" and "MUN/MS" customer charges sought by PGW as being \$25 per month, whereas his Schedules 3, 4, 6, and 7, which contain his own recommendations, all show a customer charge of \$18 for these two customer classes, matching his recommended customer charge for the "CommGS/MUNGS" class. Therefore, an \$18/month customer charge should also be applied to Rates MS and PHA.

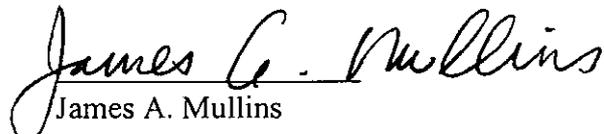
B. Miscellaneous

PGW's "Proof of Revenue Schedule 1"--contained within the Company's Compliance Filing--is based on implementation of a \$39,065,094 annual rate increase. See Proof of Revenue Schedule 1 page 2. However, based on the Commission's October 12, 2001 Tentative Opinion and Order, this number should be reduced to \$33,555,094. See Pennsylvania Public Utility Commission v. Philadelphia Gas Works, Docket No. R-00006042 (Order Entered October 12, 2001). This reduction is necessary since PGW's "bad debt" expense allowance was overstated by \$5,510,000 in the Commission's Order of October 4. Therefore, it is anticipated that PGW will need to file a revised "Proof of Revenues" when the Tentative Opinion and Order becomes final.

III CONCLUSION

For the reasons set forth above, the OCA respectfully urges the Commission to require modifications to PGW's Compliance Tariff consistent with the positions set forth in these Comments and to make any further modifications deemed necessary upon any further review conducted by the Commission.

Respectfully submitted,


James A. Mullins
Assistant Consumer Advocate

Stephen J. Keene
Senior Assistant Consumer Advocate

Counsel for:
Irwin A. Popowsky
Consumer Advocate

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Dated: October 22, 2001
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CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

Docket No. R-00006042

I hereby certify that I have this day served a true copy of the foregoing documents, Office of Consumer Advocate's Comments, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 22nd day of October, 2001.

SERVICE BY FACSIMILE AND U.S. MAIL, POSTAGE REPAID

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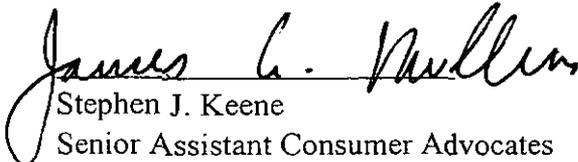
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DATE: October 22, 2001

SUBJECT: R-00006042

DOCKETED
OCT 23 2001

TO: Office of Special Assistants

FROM: James J. McNulty, Secretary

**DOCUMENT
FOLDER**

LAF

Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works

Attached is a copy of a Joint Petition for Reconsideration, filed by Philadelphia Industrial and Commercial Gas Users Group and Philadelphia Gas Works, in connection with the above docketed proceeding.

This matter is assigned to your Office for appropriate action.

Attachment

cc: FUS
OTS

laf

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028909

October 22, 2001

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Filed by Federal Express

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FOLDER

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01 OCT 29 AM 9:35

Re: CEPA et al. v. Philadelphia Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

We represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants' Action Group (TAG) (collectively "CEPA et al.") in the above-captioned matter.

CEPA et al. support the positions taken by the Office of Consumer Advocate concerning PGW's October 12, 2001 "compliance filing" implementing the Commission's Opinion and Order entered October 4, 2001 in this case.

As evidenced by the Certificate of Service attached to this filing, all parties to the proceeding are being served with copies of this letter.

Very truly yours,



EDWARD A. MCCOOL
PHILIP A. BERTOCCHI

Attorneys for CEPA et al.

cc: Certificate of Service
Commission's Office of Special Assistants

R-00006042

CERTIFICATE OF SERVICE

0289

I hereby certify that I have this day served a true copy of the foregoing letter of CEPA et al. upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

Via First Class U.S. Mail, Postage Prepaid

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McNees, Wallace, Nurick
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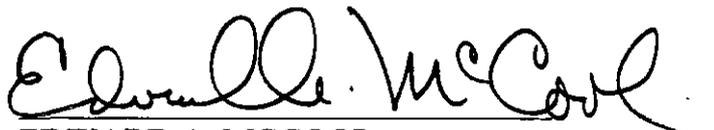
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EDWARD A. MCCOOL

Date: October 22, 2001

DATE: October 26, 2001
SUBJECT: R-00006042
TO: Office of Special Assistants
FROM: James J. McNulty, Secretary

DOCKETED
OCT 29 2001

LAF

Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works

DOCUMENT
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Attached is a copy of a Petition for Rehearing and Reconsideration, filed by Philadelphia Gas Works, filed in connection with the above docketed proceeding.

This matter is assigned to your Office for appropriate action.

Attachment

cc: LAW
OTS

laf



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048

IRWIN A. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
E-Mail: paoca@ptd.net

October 29, 2001

James J. McNulty, Secretary
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400 North Street
P.O. Box 3265
Harrisburg, PA 17120

ORIGINAL

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

Dear Secretary McNulty:

Enclosed for filing please find an original and three copies of the Office of Consumer Advocate's Answer to Philadelphia Gas Works' Petition for Reconsideration, in the above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Sincerely yours,

Stephen J. Keene
Senior Assistant Consumer Advocate

Enclosure

cc: All parties of record

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ORIGINAL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-00006042
 :
 Philadelphia Gas Works :

OFFICE OF CONSUMER ADVOCATE'S ANSWER
TO PHILADELPHIA GAS WORKS'
PETITION FOR REHEARING AND RECONSIDERATION

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Pursuant to Section 5.572 of the Commission's Rules of Administrative Practice and Procedure, the Office of Consumer Advocate files the following Answer to Philadelphia Gas Works' Petition for Rehearing and Reconsideration in the above-captioned proceeding.

I. INTRODUCTION

On October 4, 2001, an Opinion and Order ("October 4th Order") was entered in the above-captioned proceeding involving the Philadelphia Gas Works' ("PGW") request for an increase in base rate revenues of \$65 million. In the October 4th Order, the Commission allowed PGW to increase its base rate revenues by approximately \$39 million,

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inclusive of the \$11 million interim rate increase.¹ Subsequently, on October 12, 2001, the Commission entered a Tentative Order (“Tentative Order”) that reduced the increase in base rate revenues from \$39 million to \$33.5 million, inclusive of the \$11 million interim rate increase. The Tentative Order found that the Commission had made a computational error in calculating the appropriate level of bad debt expense for PGW in its October 4th Order. Upon correction of this error, the overall increase in base rate revenues was reduced by \$5.5 million to \$33.5 million, inclusive of the \$11 million interim rate increase. Tentative Order at 4.

The Company filed a *Petition for Rehearing or Reconsideration* (“Petition”) on October 19, 2001. The OCA now files this Answer to the Company’s *Petition for Rehearing or Reconsideration* and, for the reasons set forth below, respectfully requests that the Company’s *Petition* be denied.

II. ANSWER

A. Legal Standard.

Petitions for rehearing, reconsideration, clarification and amendment to an order must meet certain legal requirements. *Pa.P.U.C. v. T.W. Phillips Gas & Oil Co.*, 75 Pa. PUC 237, 239 (1991). Section 703(f) of the Public Utility Code states:

¹ In an Order entered on November 22, 2000 in Docket No. R-00005654, the Commission approved an interim increase in base rate revenues of \$11 million for the Company. The October 4th Order in the instant proceeding approved an additional increase in revenues of \$28 million. Thus, the total permanent increase in base rate revenues approved in the October 4th Order was \$39 million.

Rehearing. – After an order has been made by the commission, any party to the proceedings may, within 15 days after the service of the order, apply for a rehearing in respect of any matters determined in such proceedings and specified in the application for rehearing, and the commission may grant and hold such rehearing on such matters. No application for a rehearing shall in anywise operate as a supersedeas, or in any manner stay or postpone the enforcement of any existing order, except as the commission may, by order, direct. If the application be granted, the commission may affirm, rescind, or modify its original order.

66 Pa.C.S. § 703(f).

Section 703(g) provides :

(g) Rescission and amendment of orders. – The commission may, at any time, after notice and after opportunity to be heard as provided in this chapter, rescind or amend any order made by it. Any order rescinding or amending a prior order shall, when served upon the person, corporation, or municipal corporation affected, and after notice thereof is given to the other parties to the proceedings, have the same effect as is herein provided for original orders.

66 Pa.C.S. § 703(g).

The standard that the Commission applies in considering a request for rehearing or reconsideration under Section 703 of the Public Utility Code was delineated by the Commission in Duick v. Pa. Gas & Water Co., 56 Pa.PUC 553 (1982). There, the Commission stated:

A Petition for Reconsideration, under the provisions of 66 Pa.C.S. 703(g), may properly raise any matters designed to convince the Commission that it should exercise its discretion under this code section to rescind or amend a prior order in whole or in part.

In this regard, we agree with the court in the Pennsylvania Railroad Company case, wherein it was said that:

Parties ... cannot be permitted by a second motion to review and reconsider, to raise the same questions, which were specifically decided against them.

What we expect to see raised in such petitions are new and novel arguments; not previously heard or considerations which appear to have been overlooked by the Commission.

Duick, 56 Pa.PUC at 559.

The OCA submits that PGW's Petition fails to present any new or novel arguments and reconsideration should therefore be denied.

B. The Company's Contention That The Commission's October 4th Order Should Be Amended Since It Did Not Allow PGW A Sufficient Amount Of Cash Flow Should Be Rejected Since It Presents No New Or Novel Arguments.

In its Petition, PGW contends that "the Commission should reconsider its Order because of its failure to even consider, much less deal adequately with, PGW's cash working capital needs." Petition at 2. PGW goes on to state that the Commission's authorized rate increase produces \$10.2 million in year-end cash which is less than the \$35-\$40 million cash level which the Company claims is needed to meet its bond covenants and obligations. Petition at 2-3. The OCA submits that PGW's Petition simply raises the same issues that were already extensively litigated, considered and rejected by the Commission. As such, the OCA submits that the Company's Petition fails to meet the standard set forth in Duick and should be denied.

There is nothing new or novel about the Company's argument that anything less than the \$65 million requested in its initial filing is insufficient to satisfy the Company's end-of-year cash flow requirements. This issue was extensively litigated and briefed by all parties, addressed by ALJ Fordham in her Recommended Decision and rejected by the Commission in its October 4th Order.

Paragraphs 32-40 of the Company's Petition argue that the October 4th Order does not allow an increase in base rate revenues sufficient to satisfy PGW's end-of-year cash requirements. Petition at ¶¶ 32-40. In its Main and Reply Briefs, the Company argued extensively that the cash-flow method required rates to be set at a level that would enable it to have \$35-40 million of cash on hand at the end of Fiscal Year 2001 (FY2001). See, PGW M.B. at 23, 29-31; PGW R.B. at 19-24. The OCA also addressed this issue in its Main and Reply Briefs. See, OCA M.B. at 26-28; OCA R.B. at 13-18. Other parties to the proceeding also addressed the very same issue. See, e.g., OTS M.B. at 39-41.

The October 4th Order, as amended by the Tentative Order, approved rates for PGW that satisfy the bond covenants and meet the expenses identified in PGW's budget for the test year. October 4th Order at 43-44. In its Order, the Commission, starting from the Company's filed \$65 million rate request, made necessary and appropriate adjustments to various PGW expense claims. It based its findings on all of the evidence which the parties chose to submit into the record. To now go back and effectively require piecemeal adjustments based on unsubstantiated, forecasted data is unwarranted and unreasonable. The Company is, in essence, requesting additional rate relief for potential prospective events. In effect, it seeks a

perpetual rate case in which it is to be allowed to update only for those changes which favor a higher rate award.

In its Petition, the Company once again renews its argument that it must have a \$35-40 million end of year cash balance. The OCA submits that this argument was specifically addressed by the parties, considered and rejected by the ALJ in her Recommended Decision and the Commission in its October 4th Order.

The bulk of PGW's argument is driven by its assertion that only under its proposed increase of \$65 million, will it have the \$35-40 million of cash at the end of the fiscal year that is required under the Management Agreement, with no help from its owner, the City of Philadelphia. PGW once again seeks to have this Commission find that the Management Agreement, and thereby the bond covenants, set forth a specific amount of cash that must be available to PGW at the end of each fiscal year. The Management Agreement and bond covenants specify no such amount and do not even reference specific year-end cash balances.

As to the issue of cash, or cash working capital, the Management Agreement provides:

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

(b) Sufficient also ...

(iii) To provide cash, or equivalent, for working capital in such *reasonable amounts*

as may be determined by Company to be necessary and as shall be approved by the Gas Commission.

PGW Exh. TEK-2, §VII.1(b)[emphasis added]. The Agreement clearly states that only a *reasonable amount* of working capital is to be included in rates. The Management Agreement does not assume that customer rates will cover all Company capital and cash needs as if no other sources of capital or revenues are available to PGW. In its October 4th Order, the Commission specifically found that a \$39 million increase in base rate revenues (later corrected to \$33.5 million in the Tentative Order) will provide the Company with adequate revenues “to ensure that PGW is able to maintain an adequate level of financial health required to fund operations and meet debt service requirements.” October 4th Order at 43-44. The Commission’s October 4th Order specifically found that the approved revenue requirement, which includes a reasonable amount of cash working capital, results in rates that are just and reasonable in accordance with the statutory directives set forth in the Public Utility Code. October 4th Order at 26-27.

Despite PGW’s protestations, the Management Agreement does not require a greater increase; nor does the just and reasonable standard. If PGW seeks greater bond coverages or greater cash reserves, it should seek a grant back of the \$18 million payment to the City as project revenues, a source of revenues specifically contemplated under the Management Agreement. PGW Exh. TEK-2, Section VII. 1. PGW should not turn exclusively to its ratepayers for this cash.

The OCA submits that the Company’s position that ratepayers must meet all of

its needs, including all of its cash requirements, and must solve all of its long-term financial problems in this one rate case is untenable. The Company's \$65 million request would simply relieve the City from its responsibility as owner and would overburden ratepayers. The unreasonableness of the Company's position that has produced its \$65 million claim was explained by OCA witness LeLash as follows:

The Company's definition or application of this method has rates providing PGW's capital as well as meeting revenue requirements. From a regulatory perspective, this interpretation of the Act and the cash flow method is fundamentally unreasonable. If it is followed, it would have the effect of absolving the City from any of its ownership responsibilities. In effect, the City would always be able to say that any PGW deficiencies were the result of insufficient revenues for costs and capital. Failure to rectify the Billing, Collections and Customer Service System (BCCS) problems, lack of adequate mains replacement, unreasonable levels of customer service could always be explained away by inadequate rate allowances.

OCA St. 1 at 26-27. For the reasons set forth above, the OCA submits that the Commission properly concluded that PGW's request for a \$65 million rate increase was unreasonable.

The OCA submits that the Commission's October 4th Order, fully addressed the cash working capital issue raised by the Company in its Petition. There is nothing new or novel about PGW's request for \$35-40 million in cash on hand at the end of FY2001. This request was fully litigated and rejected by the Commission. Therefore, the Quick standard is not met and reconsideration should be rejected.

- C. The Company's Request For Rehearing To Admit Additional Exhibits Should Be Denied.

In order to bolster its argument that the \$33.5 million rate award, inclusive of the \$11 million interim rate increase, is insufficient to meet its cash working capital requirements, the Company seeks to reopen the record to admit several additional exhibits. One of the exhibits is an additional statement by PGW witness Bogdonovich which identifies PGW's bad debt expense for FY2001 and provides a projected cash flow estimate resulting from an award of \$33.5 million. PGW Petition, Exh. B. The OCA submits that once again, the Company is attempting to reach beyond the test year in this case and present a cash flow analysis for FY2002 that is flawed. The test year utilized in this case to establish PGW's revenue requirement is FY2001. ALJ R.D. at 9. It is inappropriate for PGW to present a new cash flow analysis for FY2002 as an attachment to its Petition for Rehearing and Reconsideration. Since the test year in this proceeding was based on FY2001, any projections about FY2002 are irrelevant. Tr. at 826.

The Company also seeks to reopen the record to admit a statement by Gary Krellenstein, an analyst for Morgan Guaranty, PGW's short-term debt lender. It is Mr. Krellenstein's conclusion that with a base rate increase of only \$33.5 million, PGW will not be able to renew its short term debt and PGW's bonds will be downgraded below investment grade. Petition at 21. Initially, Mr. Krellenstein admits that he expresses no opinion on the application of Section 2212 or on whether PGW has met its burden of proof in this proceeding. Petition, Exh. B at 1. It is the Commission that has the authority to set rates for PGW, not the investment community.

The OCA submits that Mr. Krellenstein's statement is based upon untested

assumptions and forecasts that go well beyond the test year (FY2001). For instance, according to Mr. Krellenstein, the Commission, in setting rates based on PGW's FY 2001 budget, must be concerned with obligations and payments due in 2003. Petition, Exh. 3 at 2. Likewise, without any evidence whatsoever, the advisor concludes it is reasonable to assume that "receivables" and "bad debt" will be higher than the 5-year historical average despite gas prices that are significantly lower than last winter. Petition, Exh. B at 2. The Commission should not give any weight to such evidence, and indeed, it should not be allowed into the record in this case at this time. While the Company states that its supporting statements "could not have been made prior to knowing the rate increase awarded by the Commission" this is not justification to reopen the record at this late stage in the proceeding, nor is it even accurate. Petition at 7. The Company had ample opportunity to present "what if" scenarios and related information based upon the recommendations of the other parties during the proceedings, and did so extensively.

While Mr. Krellenstein's statement is based upon speculation and conjecture, there is evidence in the record that PGW was able to renew its short term debt and make a bond issuance of \$120 million. PGW R.B. at 22; PGW Exh BB-3. The Company was able to do so even though there were parties on the record in the base rate case recommending that PGW's rate increase be limited to no more than \$21.5 million, inclusive of the \$11 million interim rate increase. Certainly, the investment and banking communities were aware of the fact that PGW might not receive the full \$65 million rate increase it requested when the decisions were made to go forward with the short term debt renewal and bond issuance. The

Commission cannot base rate relief on the speculative possibility of alleged future investor concerns.

Furthermore, Mr. Krellenstein's testimony is cumulative in that he simply repeats what PGW witness Bisgaier testified to during the hearing. Again, there is nothing new or novel in the position set forth by Mr. Krellenstein. A petition for rehearing which seeks to reopen the record for the introduction of additional evidence must allege newly discovered evidence that was not available at the time of hearing. Dayton v. AT&T Communications of PA, 70 Pa.PUC 138 (1989). Mr. Krellenstein's statement is simply a restatement of Ms. Bisgaier's testimony. The Commission already considered Ms. Bisgaier's testimony when it concluded that a \$33.5 million increase in base rates, inclusive of the \$11 million interim rate increase, was appropriate for PGW.

Therefore, for the reasons set forth above, the Company's request for rehearing to introduce additional exhibits into the record should be denied.

D. PGW's Request To Modify The Bad Debt Expense Should Be Rejected.

In its Petition for Reconsideration, PGW also seeks to adjust the level of bad debt expense authorized by the Commission. Petition at 13-16. In its October 4th Order, the Commission adopted OTS' recommendation that a five-year average be used to calculate the appropriate level of bad debt expense. October 4th Order. The Commission utilized a five-year historic average level of bad debt expense from the years 1995-1999, to develop a 7.61% percentage for bad debt expense. October 4th Order at 58-59.

In its Petition, PGW seeks to argue once again that the five-year average is

inappropriate to calculate the Company's bad debt expense. Petition at 14-15. Instead, the Company argues that the Commission should utilize actual bad debt expense figures for only two years -- FY2000 and FY2001 -- which were 10.25% and 8.67%, respectively. Petition at 15. The Company made the very same argument during this proceeding, advocating the use of the FY2000 bad debt expense. In its Opinion and Order, the Commission specifically considered and rejected PGW's argument, opting instead to utilize the 5-year average of 7.61%. October 4th Order at 58-59.

Therefore, the OCA submits that the Commission has fully considered this issue and need not revisit this matter.

E.. OCA Takes No Position On The Issues Raised By OTS And Adopted By The Commission.

PGW is also seeking reconsideration of the Commission's adjustment to *pro forma* revenues, seeking to correct certain claimed errors and overlooked adjustments.

Petition at 8-13. These issues were addressed by the OTS in this proceeding and the OCA has taken no position on these issues. Therefore, the OCA takes no position on the Company's request for reconsideration of these issues.

The Company also seeks reconsideration of the Commission's determination to adopt the OTS recommendation on rates for classes LBS Large Direct, TriGen Direct, NGV Direct and GTS Trans. Again, the OCA takes no position on the Company's request for reconsideration on these issues.

III. CONCLUSION

For the reasons set forth above, the Office of Consumer Advocate respectfully requests that Philadelphia Gas Works' Petition for Rehearing and Reconsideration be denied.

Respectfully submitted,



Tanya J. McCloskey
Stephen J. Keene
Senior Assistant Consumer Advocates

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
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(717) 783-5048

Dated: October 29, 2001

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CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

I hereby certify that I have this day served a true copy of the foregoing documents, Office of Consumer Advocate's Answer to PGW Petition for Reconsideration, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 29th day of October, 2001.

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COMMONWEALTH OF PENNSYLVANIA
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October 29, 2001

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Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

Dear Secretary McNulty:

Enclosed for filing please find an original and nine (9) copies of the **Office of Trial Staff's Answer to Philadelphia Gas Works' Petition for Rehearing and Reconsideration** in the above-captioned proceeding.

Copies are being served on all active parties of record.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Enclosure

- cc: Parties of Record
Chairman Thomas
Vice Chairman Bloom
Commissioner Wilson
Commissioner Fitzpatrick
Chief Counsel Pankiw
Director Walker-Davis

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility
Commission** :
:
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v. :
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Philadelphia Gas Works :

Docket No. R-00006042

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**THE OFFICE OF TRIAL STAFF'S ANSWER
TO
PHILADELPHIA GAS WORKS' PETITION FOR
REHEARING AND RECONSIDERATION**

DOCKETED

OCT 31 2001

A. Introduction

The Office of Trial Staff ("OTS"), pursuant to 52 Pa. Code §5.572(e) files this Answer to the Petition of the Philadelphia Gas Works ("PGW") which requests that the Pennsylvania Public Utility Commission ("Commission") grant a rehearing in order to receive newly discovered and/or available evidence regarding PGW's bad debt expense, cash working capital needs, and its projected future financial condition if the Commission's rate order of October 4, 2001 is not revised and reconsidered in the above-captioned proceeding. The Commission in granting petitions for rehearing and reconsideration has relied upon its ruling in

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Duick v. PG&W, 56 P.U.C. 553, 558 –559 (1982), in that a petition for rehearing “properly must seek the reopening of the record for the introduction of additional evidence of some sort” that is either newly discovered or was not discoverable through the exercise of due diligence prior to the close of the record.

With regard to PGW’s petition for rehearing and reconsideration ("Petition"), OTS respectfully submits that the evidence sought by PGW to be introduced into evidence is neither “newly discovered” nor could have been discoverable by PGW through the exercise of due diligence prior to the close of the record in the above-captioned proceeding.¹ Further, the above-captioned proceeding was fully litigated with a record consisting of 890 pages of transcribed testimony, with numerous statements and exhibits, Main and Reply Briefs, and Exceptions and Reply Exceptions. As will be discussed below, PGW had ample opportunity to present its case-in- chief, and express its opinion by way of cross-examination, rebuttal testimony and rejoinder testimony, regarding OTS’ recommendations in the above-captioned proceeding. To the extent that PGW may have overlooked addressing an issue in a particular manner should not qualify as a reason for reopening the record for the introduction of evidence. OTS submits that the granting of this Petition would result in a precedent that would allow a party in a Commission proceeding to seek a rehearing and/or reconsideration if there is a belief that the party has overlooked evidence in the

¹ In many instances, the arguments made by PGW in its Petition are the same arguments made by PGW throughout this proceeding.

record during the course of presenting its case. Clearly, such a precedent would have a detrimental effect on Commission proceedings, as there would be no finality to the proceedings.

In the instant proceeding, like all other Commission proceedings, an active party probably engages in post-mortem evaluation of their respective cases. In most instances, after the post-mortem evaluation, most parties probably wished they had presented an issue in a different manner based upon their post-mortem evaluation of the record evidence. However, in the past those parties apparently realized that the Commission's ruling in the *Duick v. PG&W* case prohibits a second opportunity to present your case before the Commission after the close of the record. In the instant proceeding not only does PGW cite the ruling in the *Duick v. PG&W* case, but provides the *prima facie* reason why the Commission should deny its Petition for rehearing and reconsideration. For example, PGW admits that "the Verified Statement of Craig White refers to and relies upon data that is already in the record." See PGW Petition at page 7. OTS submits that the "Verified Statement of Craig White" refers to data already in the record, thus the Petition does not satisfy the requirement of receiving additional evidence that is newly discovered or was not discoverable through the exercise of due diligence prior to the close of the record.

Further, it must be noted that Mr. White participated in the evidentiary hearings before Administrative Law Judge Fordham at every level. Mr. White presented numerous exhibits, direct and rebuttal testimony, and oral rejoinder

testimony in the above-captioned proceeding.² Moreover, all data and schedules utilized to support OTS' adjustments to the customer count and average annual usage were admitted into evidence in the above-captioned proceeding.³

Accordingly, PGW had ample opportunity to discover any "calculation discrepancies" in OTS' adjustments through the exercise of due diligence prior to the close of the record, but failed to do so.⁴ It is nonsensical to argue that PGW did not address any "calculation discrepancies" during the evidentiary phase of the above-captioned proceeding due to its focus on "the appropriateness of the theory behind and approach to these customer count and average annual usage adjustments and the accuracy of the competing forecasting models, as advocated by OTS." The method selected by PGW for addressing OTS' customer count and average annual usage adjustments was a trial strategy decision made during the proceeding between PGW and its counsels, and was subsequently determined to be unsuccessful by both Administrative Law Judge Fordham and the Commission. A desire by PGW to change its trial strategy by way of a Petition for rehearing and reconsideration after the close of the record because of its post-mortem evaluation is a violation of the Commission's ruling in the *Duick v. PG&W* case.

² See PGW St. No. 4.0, PGW St. No. 4.1, PGW Exhibit No. CW-1, PGW Exhibit No. CW-2, PGW Exhibit No. CWR-1, PGW Exhibit No. CW-Rejoinder-1 and PGW Exhibit No. CW-Rejoinder-2. See Tr. 542-574.

³ See OTS St. No. 2, OTS St. No. 2SR, OTS Exhibit No. 2 and Tr. 731-732.

⁴ OTS is not in agreement that there are "calculation discrepancies", but the merits of PGW's argument regarding any "calculation discrepancies" will be discussed in another section of this Answer.

The same legal impediment that applies to the Verified Statement of Craig White, as will be discussed below, applies equally to the Verified Statements of Messrs. Bogdonavage and Krellenstein.

B. OTS' Answer to PGW's Request that Correction of Errors and Overlooked Additional Adjustments with OTS Pro Forma Revenue Adjustment be made by the Commission.

As PGW accurately discussed, the Commission adopted OTS' proposed adjustment to PGW's claimed *pro forma* revenues which recalculated annual sales and the number of residential and commercial customers based upon actual, year 2000 recorded experience. While PGW is not contesting OTS' overall recommendation to utilize 2000 data to calculate *pro forma* revenues, PGW has requested that the Commission amend its Order to account for certain calculation discrepancies and errors. See PGW Petition at page 3. OTS respectfully submits that PGW's argument regarding "calculation discrepancies" has no merit.

1. The Commission Has Not Overstated The OTS Revenue Adjustment By Failing to Make Offsetting Calculations Proposed By The OTS.

On page 4, Section C, paragraph 5 of its Petition for rehearing and reconsideration, PGW argues that an offsetting credit of \$2,055,000 of revenues for "ratemaking revenue impact" should be added back to its revenues. OTS respectfully submits that this "ratemaking revenue impact" of \$2,055,000 is a creation of PGW's Exceptions.⁵ In its Exceptions, PGW argued that the ALJ erred in calculating and adopting the revenue requirement recommended by OTS, which

requires a rate increase that is actually \$2.1 million higher than the cited \$33 million. In response to PGW's Exceptions, OTS argued that the total base rate revenues based on the ALJ's Recommended Decision was \$741,687,000.⁶ Consequently, the final base rate adjustment of \$2,055,000 was to account for the ratemaking revenue impact associated with the customer count and usage adjustment as accepted by the ALJ. Moreover, as OTS indicated in its Reply Exceptions at page 20, the \$2,055,000 is the added revenues that PGW would experience at their proposed rates, using OTS' customer number and sales volumes. Most important, the \$2,055,000 utilized by OTS in its Reply Exceptions was in response to the flawed schedule that had been presented by PGW's in its Exceptions. Simply noted, the \$2,055,000 was a reconciliation adjustment to account for the difference between PGW's volumes and OTS volumes (which were adopted by the Commission) in support of the ALJ's \$33 million recommendation. Once the Commission set the approved level of revenues, the \$2,055,000 adjustment became moot. The 2,055,000 "ratemaking revenue impact" is a non issue, as the Commission's Order intrinsically included the \$2,055,000, when the Commission granted the increase based on OTS' customer number and sales volumes.

Moreover, with respect to PGW's argument that PGW's rate increase should be \$406,768 higher is without merit. The Commission's calculation of the

⁵ See PGW Exception No. 10 at pages 29-30.

⁶ See OTS Reply Exception No. 7 at pages 19-21.

revenues is correct because the Company's proposed revenues included the Company's proposed customer charges.

Consequently, there is no merit to PGW's argument, and its Petition for rehearing and reconsideration regarding this issue should be rejected.

2. Revisions are not Necessary to the Average Annual Residential Customer Usage Adjustment.

It is PGW's position that the Commission should reconsider and amend its Order to account for calculation errors in the determination of PGW's average annual usage by residential heating customers. OTS respectfully submits that the argument presented by PGW represents a fundamental misunderstanding of both the legal and technical impracticalities of its Petition for rehearing and reconsideration. First, as previously discussed, every schedule and all data utilized by OTS in support of its adjustment was available to PGW, and could have been discovered, if due diligence had been exercised by PGW before the close of the record. Accordingly, any revisions (if needed) to the average annual residential heating customer usage adjustment is prohibited by the Commission's legal requirement for a rehearing and reconsideration.⁷

Second, assuming *arguendo* that PGW's passed the legal restrictions for a rehearing and reconsideration, from a technical viewpoint, PGW's argument demonstrates a lack of understanding of OTS' adjustment in this area. It is PGW's argument that *some* of the PHA customers should *now* be included in the

determination of the average number of residential hearing customers, which OTS submits, is an invalid argument. A review of OTS Exhibit No. 2, Schedule 2, at pages 2 through 4, reveals a separate line and a separate number for the residential heating customers (which was used by OTS), and the number of PHA customers, which were not used by OTS for each month of the year.⁸ What PGW has failed to understand in its post-mortem evaluation, is that OTS accepted the original number of PHA customers claimed by PGW, and their corresponding usage.⁹ Consequently, OTS did not adjust the number of PHA customers or their corresponding usage for a weather normalization adjustment. OTS only adjusted the customer counts on those customer classes that OTS believed a weather normalization adjustment was necessary in this proceeding. PGW is now claiming an error and the need for an adjustment on the number of PHA customers, even though OTS did not take issue with the original number of customers and their corresponding usage.

Accordingly, since there is no technical merit to PGW's argument, the 11,189 adjustment for residential heating customers that has been approved by the Commission is the proper figure that should be utilized for this adjustment.

⁷ From a technical viewpoint, OTS submits that no revisions are needed to its average annual residential and customer usage adjustment.

⁸ All of data was provided by PGW to OTS by way of discovery and/or in the original Filing.

⁹ Using the PGW's interpretation for a rehearing and reconsideration, perhaps OTS should engage in a post-mortem evaluation, and not accept the original number of PHA customers claimed by PGW, and request a rehearing for the purpose of introducing new evidence into the record regarding the PHA customers.

C. The Commission Should Not Reconsider and Amend its Order to Recalculate PGW's Bad Debt Expense.

On page 13 of its Petition for rehearing and reconsideration, PGW requests that the Commission amend its Order to recalculate PGW's bad debt expense. OTS requests that the Commission review PGW Exception No. 6 at pages 23 through 25, as the arguments in both the PGW's Petition and Exceptions are the same, particularly the *bulleted* points on page 25. By presenting no new evidence, and/or new and novel arguments, PGW has presented a *prima facie* case as to why there should not be any consideration of its request to recalculate PGW's bad debt.

For example, on page 25 of its Exceptions, PGW argued that "none of the five years utilized by OTS to calculate its bad debt ratio, is representative of current conditions", and on page 15 of its Petition, PGW argues that "recent data", rather "than out-of-date historical averages" should be used. Additionally, PGW argued in its Exceptions that OTS' bad debt ratio was "far off" of the 1999-2000 bad debt of 10.2%, and in its Petition, PGW is once again advocating that 10.2% be utilized in a recalculation of its bad debt ratio.¹⁰ OTS submits that there is absolutely nothing new in the arguments presented by PGW to support a recalculation of its bad debt expense. OTS submits that the Commission must send a message that a Petition for rehearing and reconsideration is not a tool to be

¹⁰ See PGW Exceptions, page 25 and PGW Petition at page 14 and 15.

utilized for the purpose of presenting old arguments. There must be some finality in the adjudication of issues in proceedings before the Commission.

Additionally, OTS submits that there is no technical support for the position advocated by PGW in its Petition. A proper calculation of the bad debt for PGW's fiscal year 2000 is a ratio of bad debt expense to sales of 3.9280%, not 10.2%.¹¹ The 3.9280% bad debt expense calculation for fiscal year 2000 is determined by utilizing the methodology approved by the Commission, which requires using the actual account receivables write-offs to gross revenues (\$19,465,000 divided by \$495,545,000). PGW's self-proclaimed 10.2% bad debt expense is based on funding the bad debt reserve balance. It must be noted that PGW's self-proclaimed bad debt expense is the amount needed to adjust the bad debt reserve balance to the desired level, which can be any amount PGW or the Philadelphia Gas Commission so selects in the budgetary process. PGW's recalculated bad debt claim should not be used in setting rates since it does not reflect actual write-offs.

As part of its Petition for rehearing and reconsideration, PGW is seeking to enter into the record at this time, an exhibit prepared by Joseph R. Bogdonavage. First of all, Mr. Bogdonavage was a witness in this proceeding, at which time, the

¹¹ In its Petition, PGW argues that the Commission has already acknowledged that PGW's Fiscal Year 2000 bad debt percentage was 10.2%. OTS submits that the Commission did not acknowledge the 10.2% as the bad debt percentage for 2000, but merely cited PGW's position in the case. It appears that PGW failed to recognize that the Commission informed all parties the ALJ's Findings of Fact are incorporated by reference to the extent that they are not expressly or by necessary implication overruled or modified by their Opinion and Order. With respect to the 10.2%, OTS submits that the Finding has by necessary implication, overruled by the Commission.

parties were afforded the opportunity to cross-examine the witness, and test the technical veracity of the exhibits prepared by Mr. Bogdonavage.¹² Under PGW's method of introducing this new exhibit into the record there would be no way of affording the other parties an opportunity to test the technical veracity of the Exhibit. Second, a limited review of the Exhibit indicates that PGW's determination of bad debt for the fiscal year 2001, are not the actual write-offs, therefore the ratio of 8.67%, for 2001 is incorrect, because the Commission's approved methodology has not been utilized.

Finally, if the Commission applied the approved methodology, applied the data as advocated by PGW, which requires including the 3.9280% bad debt ratio for 2000, the average would be less and the adjustment would only serve to reduce the Commission's approved ratio of 7.6160%. Consequently, there is no need to recalculate the 5-year average. The Commission was correct in ruling that a five-year analysis of prior years uncollectible accounts expense is appropriate, rather than a "budgeted" amount in determining the level of bad debt expense for PGW.

D. The Commission does not need to Amend its Order Allow a Reasonable amount of Cash Flow Acceptable to PGW

It is the position of PGW that its increase level of \$33.6 million fails to make adequate provision for a reasonable level of cash working capital. OTS

¹² Additionally, interrogatories were submitted regarding the issues and exhibits that Mr. Bogdonavage held responsibility for in this proceeding.

submits that PGW's argument regarding the level of increase is nothing new. In its Exceptions, at page 15, PGW argued that the full, \$65 million rate increase request was necessary to enable PGW to meet all of its bond covenants.

Accordingly, throughout this proceeding, PGW has maintained that anything less than \$65 million would not allow for a reasonable level of cash working capital. The only difference since the beginning of this proceeding is that we now know the exact level of the rate increase (\$33.6 million) which the Commission will allow. There is absolutely no reason for the Commission to reconsider its Order, as the same arguments that were presented throughout this proceeding have been re-argued in PGW's Petition, with an added Verified Statement from Gary Krellenstein.

In fact, Mr. Krellenstein's Statement places into question his understanding of the *ratemaking process*. For example, Mr. Krellenstein appears not to take into consideration that the reduction from \$44.0 million to \$33.6 million also had a corresponding reduction in expenses, so that there will be no impact on debt service coverage ratios. Any future projections Mr. Krellenstein makes concerning 2002 and 2003 are simply speculation, since the assumptions underlying them have not been adequately scrutinized.

Moreover, Mr. Krellenstein suggests that receivables and bad debt will be higher than the 5-year historical average, OTS submits that Mr. Krellenstein

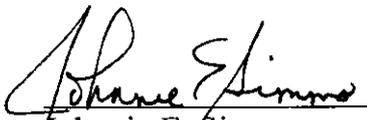
failed to recognize that natural gas prices began to fall dramatically last spring. In addition, PGW's 1307(f) rate is dramatically reduced from just one year ago. In fact, PGW's customers' gas costs bills will be reduced by at least 50% from last year.

Finally, Mr. Krellenstein makes a passing reference to the crisis point of the electric utilities in California. As should be noted, the California crisis occurred by setting the retail price of electricity below what the electric utilities paid for it on the wholesale market. Without the benefit of cross-examination there is no opportunity to determine whether Mr. Krellenstein is aware that the Commission has a GCR mechanism, which will allow PGW to received full recovery for any cost in gas. The manner in which PGW has sought to introduce Verified Statements into the record without the benefit of due process, by way of discovery, cross-examination and the opportunity to respond, is the very reason, among others, that PGW's Petition for rehearing and reconsideration should be denied.

E. Conclusion

For the foregoing reasons, Philadelphia Gas Works' Petition for rehearing and reconsideration should be denied.

Respectfully submitted,


Johnnie E. Simms
Senior Prosecutor

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Harrisburg, Pa. 17105
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Date: October 29, 2001

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

v. :

Docket No. R-00006042

Philadelphia Gas Works :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Office of Trial Staff's Answer to Philadelphia Gas Works' Petition for Rehearing and Reconsideration**, dated October 29, 2001, either personally, by first class mail, express mail, electronic mail, or by fax upon the persons listed below:

Honorable Cynthia W. Fordham
Pa Public Utility Commission
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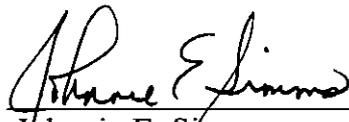
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Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: October 29, 2001
Docket No. R-00006042

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October 29, 2001

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Filed by Federal Express

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Re: CEPA et al. v. Philadelphia Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

I represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants Action Group (TAG) (collectively CEPA et al.) in the above-captioned matter.

Enclosed please find for filing an original and three copies of CEPA et al.'s Answer to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration.

Very truly yours,



PHILIP A. BERTOCCI

Attorney for CEPA et al.

cc: Certificate of Service

Enclosures

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SECRETARY'S BUREAU

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BEFORE THE
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PA PUBLIC UTILITY COMMISSION
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Pennsylvania Public Utility
Commission

Docket Number

v.

R-00006042

R-00006042C0001 et al.

Philadelphia Gas Works

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ANSWER OF CEPA et al. TO PHILADELPHIA GAS WORKS'
PETITION FOR REHEARING AND RECONSIDERATION

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Four low income consumer membership and advocacy organizations, Consumers Education and Protective Association ("CEPA"), the Association of Community Organizations for Reform Now ("ACORN"), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants' Action Group ("TAG")(collectively "CEPA et al.") hereby answer the Philadelphia Gas Works' Petition for Rehearing and Reconsideration.

A. Introduction.

PGW's Petition for Rehearing and Reconsideration (hereinafter "Petition") represents an attempt to selectively relitigate this case, by adding to the record unaudited actual FY2001 evidence, FY2002 projections and even some projections concerning FY2003. In the extensive hearings on this rate filing, which was based on a fully forecasted FY2001 test year, all of this evidence would have been ruled irrelevant and inadmissible. CEPA et al. therefore request that the Commission deny both rehearing

and reconsideration, as follows:

1. PGW's opening commentary on the October 4, 2001 Opinion and Order, as amended on October 12, 2001 (hereinafter "Order") distorts the import of the Order and the standards applied by the Commission. The Order reaffirmed earlier determinations that PGW's rates are and always have been subject to the overarching "just and reasonable" standard, expressed both in the Federal Constitution, as interpreted both by the U.S. Supreme Court and the Pennsylvania Supreme Court, the Public Utility Code and even adumbrated in the specific language of the Management Agreement. Order, at 25, 26. In this context, the Commission interpreted Section 2212(e) of the Public Utility Code to require that the Commission apply the particular variety of cash flow method set forth in Section VII of the Management Agreement between the City of Philadelphia and the Philadelphia Facilities Management Corporation ("PFMC"). In defining what PGW's particular cash flow method requires within the larger ratemaking context, the Commission correctly announced its intention to be guided strictly by the actual words of Section VII of the Management Agreement. In articulating this standard, the Commission rejected PGW's expansive interpretations of this method, which would have placed the Commission in the role of a "rubber stamp" for PGW's rate requests. Accordingly, the Commission denied PGW's legally erroneous claims that the applicable "cash flow method" placed the Commission under the obligation to provide for recovery exclusively through rates of all amounts that PGW deemed necessary to meet the utility's operating and financial needs, particularly working cash needs. Order, at 30.

2. By combining a request for rehearing with a request for reconsideration, PGW improperly seeks to color its request for reconsideration with evidence which could only be validly considered on a grant of rehearing and appropriate rulings concerning

admissibility. A request for reconsideration must rest on the established record -- with the justification that the Commission must consider new or novel arguments not previously made, or reconsider record evidence misinterpreted or overlooked. Duick v. PG&W, 56 P.U.C. 553, 558 (1982). In the instant Petition, PGW repeatedly invokes new “evidence” offered in its Petition for Rehearing to support its claims for reconsideration.¹ However, even for Rehearing, the proffered “evidence” should be excluded on the grounds of relevance. Proffered “evidence” which, as here, does not meet the standards necessary for the grant of rehearing should not be allowed to support a request for reconsideration.

B. Basis for Pleading and Request for Rehearing.

3.-5. These averments provide background information, state legal conclusions and summarize PGW’s request for relief, to which no responses are required. As set forth below, CEPA et al. opposes this request for rehearing.

6. PGW concedes that the Verified Statement of Craig White relies upon data that is “already in the record.” In addition, PGW admits that it developed the new arguments it is presenting concerning the “computational adjustments” in reviewing the OTS data contained in the record.² As such, this Verified Statement may present arguments in support of reconsideration, but not for rehearing or admission into the

¹ See, e.g., PGW’s request for “reconsideration” of the Commission’s application of the Management Agreement cash flow method on the basis of alleged FY 2001 unaudited actual year end cash balances and FY2002 cash projections. Petition, at 8; also PGW’s request for reconsideration of PGW’s allowable bad debt expense on the basis of non-record evidence of FY2001 unaudited actual bad debt and projections for FY2002 bad debt. Petition, at 13-16.

² There is no need to reopen the record or grant rehearing for Mr. White’s statements concerning rate class LBS Large Direct, TriGen Direct, NGVDirect, and GTS Trans. CEPA et al. support PGW’s position that because PGW did not propose changes in these specialized Tariff rates, the Commission does not at this time have the authority to order amendments to this part of PGW’s Tariff.

record as additional evidence.

Mr. White's Statement involves the calculations performed by OTS. CEPA et al. have no knowledge of OTS' response to the averments of Mr. White. Assuming for the purposes of argument that the subject matter of Mr. White's Verified Statement is material to the Commission's \$33 million Order, CEPA et al. are without sufficient knowledge or information to determine whether reconsideration should be granted.

For the reasons set forth in Paragraphs 26, 28 and 38 below, the Verified Statements of Mr. Bogdonavage and Gary Krellenstein concerning bad debt expense do not justify a grant of either reconsideration or rehearing. These Statements also do not justify reconsideration or rehearing concerning PGW's ability to satisfy its cash flow needs and/or its rate covenants.

In any event, CEPA et al. oppose reconsideration or rehearing on these issues because the Commission's award of a \$33 million base rate increase exceeds by far the permissible level of rates that may be provided under the "just and reasonable" standard.

7. The evidence offered in the Verified Statements of Mr. Bogdonavage and Mr. Krellenstein do not constitute a valid basis for rehearing. To the extent that these Statements address unaudited actual FY2001 financial results, they are irrelevant, because this case is based on a fully forecasted FY2001 test year, not actual FY2001 numbers. Order at 7, ALJ Finding of Fact No. 15. For the same reason, these Statements are irrelevant to the extent that they provide projections of FY2002 cash flows and year end cash balances. Mr. Krellenstein's testimony, moreover, does not constitute new evidence at all; he merely offers supposedly expert testimony in the same narrow vein as that presented by PGW through Barbara Bisgaier (Public Financial Management) and Black and Veatch concerning how the rating agencies and bond markets might respond

to PGW's situation at a particular level of rate relief, and without any change in the City posture concerning extension of the \$45 million City loan, improvement of PGW's collection practices and operating efficiencies, or payment or waiver or grant back of the \$18 million City payment. It is denied that this new evidence has any "direct and crucial bearing" on the level of rate relief to which PGW claims it is entitled in this proceeding.

C. Petition For Reconsideration - Correction of Errors and Overlooked Additional Adjustments Associated With OTS *Pro Forma* Revenue Adjustment.

8.-24. The amendments to the Order proposed by PGW to be effectuated through reconsideration fall into several categories. As to the amendments proposed in Paragraphs 9 through 24 of PGW's Petition, characterized as "Correction of Errors and Overlooked Additional Adjustments Associated with OTS Pro Forma Revenue Adjustment", CEPA et al. do not know of OTS' response to the criticism of its calculations, and are therefore without sufficient knowledge or information to affirm or deny PGW's allegations concerning computational errors or overlooked additional adjustments. In light of historic PGW mismanagement and the inadequate level of service provided by PGW – which inter alia is reflected in the Company's apparent inability even to present an authoritative and convincing account of the number of its customers and their average annual usage -- CEPA et al. maintain that the Order as written grants a level of rate increase which is far in excess of what would be "just and reasonable," and should not be adjusted either on reconsideration or on rehearing.

D. PGW's Request that the PUC Reconsider and Amend its Order to Recalculate PGW's Bad Debt Expense Using the Most Recent Available Data.

25. Unlike other elements in its budget such as debt service, which are relatively fixed, PGW's bad debt expense is an expense which is not substantially beyond the capacity of the company to significantly reduce through more efficient, coherent and cost-effective collections activities. See generally, Management Audit, Chapter VIII (Customer Service, Billing and Collection. In this proceeding, PGW argues for a level of bad debt expense which essentially incorporates into the norm its horrendous and unconscionable 10.2% collection performance of FY2000, when due to the failed implementation of its BCCS system on July 1, 1999, the company failed to bill or incorrectly billed hundreds of thousands of customers. The Commission's adoption of the OTS recommended bad debt expense, reflecting the 7.61% average bad debt percentage (derived from PGW's historical experience in the years 1995-1999) is the appropriate standard. Contrary to PGW's claims, the bad debt expense is no more crucial to PGW's realizing the levels of net income, coverages and cash flow which the PUC's rate award allows than other elements of comparable size contained in PGW's Operating Budget.

26. The Commission should also deny PGW's request to take the alleged 8.6% unaudited actual FY2001 bad debt figure into account in computing PGW's allowable bad debt expense. This unaudited actual figure is not appropriate in ruling on a petition for reconsideration, because it is not part of the record of this proceeding. Moreover, much attention was addressed by the parties to PGW's allowable level of bad debt expense in this proceeding; PGW has presented no new arguments on the basis of the existing evidentiary record, and identified no facts of record on this issue which the PUC has overlooked. For these reasons, reconsideration is not appropriate.

The Commission should also deny PGW's request for admission into the record or for rehearing of allegations contained in the Verified Statement of Joseph R, Bogdonavage on this issue. The FY2001 alleged unaudited actual bad debt expense is

irrelevant for this proceeding, which is based on a fully forecasted, as opposed to actual FY2001. As such, no reconsideration or rehearing relating to this testimony is permissible.

27. On the basis of the existing record, and extensive testimony and briefing, the Commission concluded that 7.61% bad debt expense level, not 9% or higher, is a reasonable assumption concerning PGW's fully forecasted FY2001 bad debt expense. There are not sufficient grounds in the existing record to adjust the 7.61% bad debt expense level upward. Even the 8.67% FY2001 unaudited actual figure reflects extraordinary circumstances, including continued difficulties with the BCCS system, and not only unparalleled increases in natural gas prices, but also rates that were compressed due to the necessity of recovering incremental gas costs over nine, rather than twelve months. Order at 7, ALJ Finding of Fact No. 28.

From a customer perspective, PGW's experience of "troubling" sentiments regarding the impression that might be created by the downward adjustment of the bad debt expense will be salutary, if it spurs the Company to upgrade the efficiency, coherency, and cost effectiveness of its collection operations. A reduction in bad debt expense through efficient and cost effective collection operations would give not a troubling but a positive impression to the public, because it would send a signal that PGW has brought to a halt upward spiraling uncollectibles which spur rate increases and discourage economic growth and increased natural gas consumption in Philadelphia.

28. Contrary to PGW's assertions, it is denied that "consistency" requires that the Commission include FY2000 actual collections data in determining the bad debt allowance, just as it used FY2000 actual data to determine PGW's normalized revenue experience. Bad debt and revenue levels are not comparable. Normalized revenue experience is likely to be fairly stable, given the demography of PGW's customer base;

bad debt experience, on the other hand, is much more dependent upon the effectiveness of PGW management. The Commission must analyze the different elements of PGW's FY2001 fully forecasted test year, not selected unaudited actual FY2001 data, in order to develop its rate determination. To be sure, recent historical pre-FY2001 experience is relevant in assessing the validity of each of the elements of PGW's FY2001 forecasted test year, but especially for bad debt -- which is so dependent upon the effectiveness of management -- the Commission is well justified in viewing PGW's actual abysmal FY2000 performance as one which is not a model and which, indeed, should not be a model for this utility. Consistent with the single test year methodology, the bad debt figures for FY1995-1999 are themselves conservative indicators of what may be reasonably expected from PGW operating only slightly better than its traditional pre-BCCS levels of inefficiency, and as such are not "outdated."

The Commission should reject PGW's contention that the Commission utilize the unaudited actual and audited bad debt expense for the past two fiscal years, FY2001 and FY2000, either on reconsideration or on rehearing. As a matter for reconsideration, the FY2001 unaudited actual figures are not part of the record, and may not be considered. As for FY2000, audited actual bad debt figures were in the record, were fully considered, and correctly rejected as a basis or partial basis for the bad debt allowance both by the ALJ and by the Commission. The unaudited actual FY2001 bad debt expense should not be included in the record, or set down for rehearing because that alleged unaudited actual expense is not relevant under the forecasted single test year ratemaking methodology which has governed this proceeding.

29. *Denied.* The Commission's acceptance of the 7.61% bad debt expense level is fully consistent with PGW's former ratemaking method and requirements, which required a reasonable projection of bad debt expense for the test year. Nothing in the Management Agreement prescribes how the bad debt expense shall be determined -- and

the Commission need only attempt to make a reasonable projection on the basis of available, admissible evidence. CEPA et al. therefore deny that PGW's prior ratemaking methodology required, as PGW claims, that bad debt expense should be based on "most recent actual and projected experience," even when there are legal and factual reasons to give greater weight to less recent experience.

30. For the same reasons as have been set forth above in the answers contained in Paragraphs 28 and 29, the Commission should reject PGW's request for reconsideration and/or rehearing with regard to the issue whether PGW's bad debt expense should be determined on the basis of the five year average of FY1997-2001 results.

31. As set forth in Paragraph 29 above, the Commission's acceptance of the 7.61% bad debt expense level is fully consistent with PGW's former ratemaking method and requirements, which required a reasonable projection of bad debt expense for the test year. Nothing in the Management Agreement prescribes how the bad debt expense shall be determined – and the Commission need only attempt to make a reasonable projection on the basis of available, admissible evidence. CEPA et al. therefore deny that PGW's prior ratemaking methodology required, as PGW claims, that bad debt expense should be based on "most recent actual and projected experience," even when there are legal and factual reasons to give greater weight to less recent experience. Nothing in PGW's prior ratemaking methodology required the ratemaker to endorse and provide in rates a level of bad debt expense that reflects billing and collections practices which are inadequate. PGW's argument that such a result is required by "consistency" is also spurious, as explained above. In this case, use of a FY 1997-2001 five year average of actual and alleged unaudited actual bad debt expense would not be reasonable.

E. PGW's Request that the PUC Allow PGW a Greater Amount of Cash Flow.

32. CEPA et al. deny that the PUC's new rate increase level – \$33.6 million – fails to make adequate provision for a reasonable level of cash working capital for PGW. The PUC's new generous rate increase level provides for \$10.2 million in net income, the same level of net income as was requested by PGW in its filing for a rate increase of \$65 million. Such a level of net income, given the inadequacy of PGW's service and the burdens of historic mismanagement, is more than is consistent with the requirement that rates be "just and reasonable." Furthermore, in formulating its cash year end "targets," PGW unjustifiably omits accounting for resources available, inter alia, from the City's \$45 million loan, and possible extensions thereof, from the FY2001 GCR overcollection, from flexibility available through accepted and legitimate use of its reimbursements from the capital fund, and from deferment, waiver or possible grant back of all or part of the \$18 million City payment. Petition, at 18, note 43. It is also denied that the Order does not "discuss" PGW's evidence on cash issues; to the contrary, the Order references the ALJ's summary of PGW's position. Order, at 35-37, 43-44.

33. CEPA et al. deny PGW's contention that the Management Agreement requires the Commission to provide "reasonable additions to the working capital as may be determine by the Company ..." In its interpretation of the Management Agreement, PGW gives no weight to the express language in the Management Agreement which clearly states that it is for the regulator to determine whether to "approve" or modify the Company's request (in the context of exercising its duties to approve only a rate which is "just and reasonable"). In this respect, the Commission is particularly constrained this year because, as PGW itself admits, with uncharacteristic understatement, current rates are still 20% to 30% above November 1, 2000 levels. Petition, at 14.

34.-36. It is admitted, as PGW states, that the parties do not deny that the Company, like any business, must have adequate cash flow to pay the expenses of operations. CEPA et al. deny, however, PGW's and the City's insistence that all such cash above the \$100 million line of credit, must be funded (principal and interest) exclusively through rates. In that short-sighted and narrow view, customers are a seemingly inexhaustible source of cash, in contrast to the owner, the City of Philadelphia, who professes to have absolutely no resources to assist in a refurbishment necessitated by its own neglect of this municipally owned utility. Accordingly, PGW and the City refuse to count as resources for addressing PGW's cash needs the \$45 million City loan and possible extensions thereof, the flexibility available through approved and legitimate use of its reimbursements from the capital fund, the FY2001 GCR overcollection, and from deferment, waiver or possible grant back of all or part of the \$18 million City payment. Petition, at 18, note 43.

PGW's allegations concerning PGW's "actual end of year cash balance for FY2001" and the alleged "projected cash receipts and disbursements for FY2002" (Petition, at 19,) are not part of the record, and thus are not a proper basis for reconsideration. Because this rate proceeding is based upon a fully forecasted test year FY2001, this proffered evidence is not relevant to this case, and may not be included in the existing record, or serve as a basis for the granting of rehearing.

37. PGW's allegations concerning year end FY2002 cash balances and debt service payments in January 2003 are based on allegations not contained in the record. These allegations are not relevant to this proceeding, which is confined to setting rates on the basis, chosen by PGW, of a fully forecasted test year FY2001. During the hearings, PGW sought to introduce projections related to its anticipated financial position in the first quarter of FY2002. Now, the parties are presented with projections concerning FY2002 year end cash balances and even projections purporting to demonstrate an

inability to make payments on obligations not coming due until January, 2003. For the Commission to open the door to rehearing or to reconsideration based upon this evidence is to undermine the whole basis of setting rates on the basis of a single fully forecasted test year.

PGW's reference to "extraordinary measures" that it claims will be necessary to avoid default on obligations in FY2002 are in fact not extraordinary at all. The Commission is fully entitled to take into account PGW's use of the \$45 million City loan in FY2002; the Management Agreement has always authorized City Council to make loans of this nature to PGW to address the Company's cash needs in certain circumstances. In order to address cash needs in early FY2002, the PUC has already provided that PGW may temporarily utilize its FY2001 GCR overcollection – approximately \$10 million.

38. In this proceeding, PGW has offered testimony predicting technical violation of bond covenants, downgrading by rating agencies, denial of access to short term capital and long term capital, unless the PUC awards PGW a base rate increase substantially in conformity with its \$65 million request. In formulating its Order, the Commission has given this testimony the weight it deserves under the circumstances. Those circumstances include the fact that such testimony has been offered by witnesses who serve the City as financial advisors and takes little or no account of the PUC's duty to balance the interests of customers and PGW in fixing and setting rates. Consistent with their municipal client's determination not to assume more than minimal responsibility for past mismanagement and to seek to fund PGW's refurbishment exclusively through rates, these witnesses give no consideration to the positive impact on investor confidence which could be achieved by such affirmative City actions as waiving the \$18 million City Payment -- or extending the \$45 million line of credit.

The Verified Statement of Gary Krellenstein is irrelevant to this

proceeding, which is based on a fully forecasted FY2001 test year, because it consists of projections concerning PGW's cash flow and its relationship with the banks, bondholders and rating agencies in FY2002 and beyond. As such, it is not a proper basis for rehearing or for reconsideration.

39. CEPA et al. deny PGW's claim that a \$33.6 million increase is contrary to the Commission's duties under Section 2212(e). To the contrary, even \$33.6 million is well above the "just and reasonable" level, which the Commission has recognized as the ultimate standard overarching determinations made pursuant to Section 2212(e) and the Management Agreement.

It is denied that the Order implies that PGW's debt service coverage requirements are the only bond covenant applicable to this case; to the contrary, the Order explicitly recognizes that the "rate covenants obligate PGW to collect in each fiscal years rates sufficient, together with all other revenues to cover its net operating expenses...." Order, at 43.

It is denied that the Management Agreement or PGW's bond covenants require that the Commission "ensure" or "guarantee" under all circumstances that PGW may derive from rates alone all the sums required to meet the Company's cash flow needs. Where the Commission has, as here, provided a reasonable amount of cash working capital, including debt service on a \$100 million Tax Exempt Commercial Paper Program, it is incumbent upon the City and PGW management to marshal the necessary non-rate resources, including, inter alia, the \$45 million City loan, and possible extensions thereof, and the waiver or grant back of all or part of the \$18 million City payment, as necessary.

It is denied that the PUC has "acknowledged" any broader obligation concerning PGW's rate covenants in the Joint Petition for Full Settlement, Pa. P.U.C. v. PGW, R-00005654, Opinion and Order (February 22, 2001). Indeed, even if such

acknowledgment had been made, that Settlement barred PGW from citing any term of that agreement as binding precedent.

40. Denied. For all the above reasons, no amendment of the Order to provide for additional cash flow is either appropriate or required. The particular cash flow method described in the Management Agreement does not by its terms or as applied require that the Commission through its rate order allow PGW to charge rates which are not “just and reasonable,” in order to meet such and such PGW determined “appropriate target level” of year end cash. The Order provides PGW with a reasonable amount of working capital given that the PGW ratepayers already pay annual debt service on \$100 million in Tax Exempt Commercial Paper, and that the City has the resources to provide and extend PGW’s \$45 million City loan, to utilize numerous other standard approved and legitimate financial management techniques, and to waive or grant back as necessary the \$18 million City payment.

F. The Commission Must Reconsider its Order as it Affects PGW’s Rate LBS Large Direct, TriGen Direct, NGV Direct and GTS Trans.

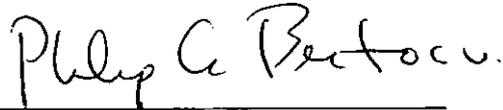
41. Admitted.

42.-44. CEPA et al. agree with PGW that the PUC should reconsider and rescind its Order as it affects PGW’s Rate LBS Large Direct, TrigGen Direct, NGV Direct and GTS Trans. These requirements are contrary to applicable law as set forth by PGW in Paragraph 44. Because these requirements are beyond the Commission’s authority in any event, there is no need to reopen the record to receive additional evidence offered by PGW in its Petition at 23, n. 59.

WHEREFORE, CEPA et al. respectfully request that the Commission deny PGW’s

Petition for Reconsideration and Rehearing, except as to reconsideration of the Order's requirements concerning Rate LBS Large Direct, TriGen Direct, NGV Direct and GTS Trans.

Respectfully submitted,



PHILIP A. BERTOCCI, ESQUIRE
EDWARD A. MCCOOL, ESQUIRE

Attorneys for CEPA et al.

October 29, 2001

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(215) 981-3702

R-00006042

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing CEPA et al.'s Answer to PGW's Petition for Rehearing and Reconsideration upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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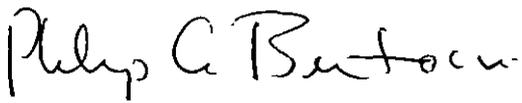
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Date: October 29, 2001



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

October 29, 2001

ORIGINAL

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

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PA. U.C.
SECRETARY'S BUREAU

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Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

Dear Secretary McNulty:

Enclosed for filing please find an original and nine (9) copies of the **Office of Trial Staff's Answer to Philadelphia Gas Works' and the Philadelphia Industrial and Commercial Gas Users Group's Petition for Reconsideration** in the above-captioned proceeding.

Copies are being served on all active parties of record.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Enclosure

- cc: Parties of Record
- Chairman Thomas
- Vice Chairman Bloom
- Commissioner Wilson
- Commissioner Fitzpatrick
- Chief Counsel Pankiw
- Director Walker-Davis

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ORIGINAL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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**Pennsylvania Public Utility
Commission**

v.

Philadelphia Gas Works

Docket No. R-00006042

DOCKETED

OCT 31 2001

**THE OFFICE OF TRIAL STAFF'S ANSWER
TO
PHILADELPHIA GAS WORKS' AND THE PHILADELPHIA
INDUSTRIAL AND COMMERCIAL GAS USERS GROUP'S
PETITION FOR RECONSIDERATION**

DOCUMENT
FOLDER

A. Introduction

The Office of Trial Staff ("OTS"), pursuant to 52 Pa. Code §5.572(e) files this Answer to the Petition of the Philadelphia Gas Works ("PGW") and the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") in the above-captioned proceeding. The Commission in granting petitions for rehearing and reconsideration has relied upon its ruling in Dulick v. PG&W, 56 P.U.C. 553, 558 -559 (1982), in that a petition for rehearing "properly must seek the reopening of the record for the introduction of additional evidence of some sort" that is either newly discovered or was not discoverable through the exercise of due diligence

prior to the close of the record. In the instant Petition for Reconsideration, on September 20, 2001, PGW and PICGUG filed a proposed "Settlement Stipulation" with the Commission addressing various natural gas transportation rules and regulations issues raised in the above-captioned proceeding.

On September 21, the Commission in a public meeting, rejected the Settlement Stipulation because the parties were not afforded the opportunity to file timely comments. Since the rejection of the Settlement Stipulation there was not an appropriate vehicle for the filing of comments until the filing of this Petition for reconsideration.¹ Accordingly, OTS request that the following comments be included in the granting of this Petition, as we believe that the comments will provide the necessary safeguards needed for a successful implementation of the proposed pilot program:

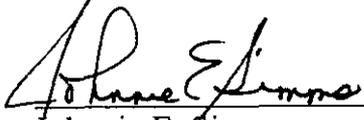
- OTS proposes that PGW make a separate tariff filing for a transportation customer choice program at the conclusion of the collaborative.
- All potential transportation customers should be notified about the pilot program.
- OTS preference is that all customer classes be eligible for transportation, but since, PGW must file a restructuring filing by July 1, 2002, OTS would agree to a pilot program for industrial and large commercial customers. In addition, the pilot program will not prejudice OTS or the other parties in determining customer choice program rules that will be established in the upcoming restructuring proceeding.

¹ PGW and PICGUG in their Petition for Reconsideration indicated that "upon the filing of this Joint Petition for Reconsideration, CEPA and OTS will have opportunity to comment of PICGUG and PGW's request by responding to this Joint Petition.

- Banking, balancing, advancing, OFO, storage issues and rates will be agreed upon before the pilot program is initiated. In addition, the proposed tariff language will be filed with the Commission for a transportation customer choice program.
- A collaborative will be setup to include the marketers, suppliers, OTS, OCA and OSBA to facilitate rules for capacity release, Communications, and protocol.

With the foregoing safeguards added as conditions, the Office of Trial Staff will not oppose the Joint Petition for reconsideration of the Settlement Stipulation between the Philadelphia Gas Works and the Philadelphia Industrial and Commercial Gas Users Group.

Respectfully submitted,


Johnnie E. Simms
Senior Prosecutor

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Date: October 29, 2001

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-00006042
Philadelphia Gas Works :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Office of Trial Staff's Answer to Philadelphia Gas Works' and the Philadelphia Industrial and Commercial Gas Users Group's Petition for Reconsideration**, dated October 29, 2001, either personally, by first class mail, express mail, electronic mail, or by fax upon the persons listed below:

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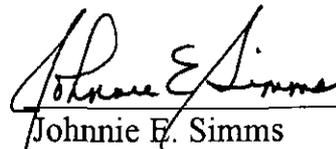
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Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: October 29, 2001
Docket No. R-00006042

October 29, 2001

ORIGINAL

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Filed by Federal Express

DOCKETED

OCT 31 2001

Re: CEPA et al. v. Philadelphia Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

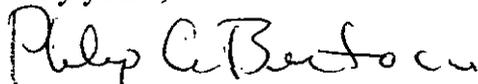
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I represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants Action Group (TAG) (collectively CEPA et al.) in the above-captioned matter.

This letter is to inform the Commission that CEPA et al. do not oppose the Joint Petition for Reconsideration filed by Philadelphia Industrial and Commercial Gas Users Group (PICGUG) and the Philadelphia Gas Works on October 19, 2001 relative to the Commission's Opinion and Order entered October 4, 2001. Additionally, CEPA et al. do not oppose the Stipulation which is the subject of that Joint Petition for Reconsideration.

If you have questions concerning this matter, please do not hesitate to contact me at 215-981-3702.

Very truly yours,


PHILIP A. BERTOCCI

Attorney for CEPA et al.

cc: Certificate of Service

Enclosures

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OCT 29 2001

PA PUBLIC UTILITY COMMISSION
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R-00006042

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing letter of CEPA et al. upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

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November 1, 2001

VIA HAND DELIVERY

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Re: Pennsylvania Public Utility Commission v. Philadelphia
Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works, enclosed for filing please find an original and three copies of its Reply Comments to the Compliance Filing Comments of the Office of Consumer Advocate and Office of Trial Staff with regard to the above referenced matter. A copy has been served on all parties of record.

Very truly yours,

Dan Clearfield
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DCC/lww
Enclosure

cc: All Parties of Record w/enc.

99

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Pennsylvania Public Utility
Commission

P.A.U.C.
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v.

Docket No. R-00006042

Philadelphia Gas Works

**REPLY COMMENTS OF PHILADELPHIA GAS WORKS
TO THE COMPLIANCE FILING COMMENTS OF THE
OFFICE OF CONSUMER ADVOCATE AND OFFICE OF TRIAL STAFF**

I. Introduction

Philadelphia Gas Works ("PGW") respectfully submits these Reply Comments to the Comments of the Office of Consumer Advocate ("OCA") and Office of Trial Staff ("OTS") to PGW's Compliance Filing. PGW's Compliance Filing was based on a careful review of the Public Utility Commission's October 4, 2001, Order which finally determined the Company's request for a base rate increase. PGW firmly believes that its Compliance Filing properly implemented the Commission's Order, but is nonetheless willing to make certain changes recommended in the comments of OCA and OTS in an effort to be reasonable and accommodate these parties.

II. Specific Reply Comments

A. Customer Charges for Customer Classes PHA/PHA and MUN/MS

Both the OTS and OCA commented on the lack of a customer charge for classes PHA/PHA and MUN/MS in the Company's Compliance Filing. However, a careful reading of the Commission's Order reveals that it did not direct PGW to implement customer charges for

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those classes. Order at ¶ 8. Instead, the PUC directed that "the tariff filed by [PGW] will include a residential customer charge of \$12, a commercial customer charge of \$18 and an industrial customer charge of \$50." *Id.* The Commission's Order included this specific directive even as it recognized that PGW had initially proposed a customer charge for these additional classes. *Id.* at 75. As the Commission was plainly aware of the initial proposal, but did not include it in its Order, PGW properly implemented the Order as enunciated by the Commission.

Nonetheless, PGW is willing to partially accommodate these parties' interpretations of and additions to the Commission's Order. Assuming the Commission's approval, the Company will revise its filing to include an \$18 customer charge for class PHA/PHA. PGW is not able to impose a customer charge on class MUN/MS, as the implementation of such a charge would have to be approved by the Philadelphia City Council per Section VII(3) of the Management Agreement and Section 2212(e) of the Public Utility Code. While the City Council may have considered such a proposal at the time of PGW's base rate filing in January 2001, since that time it has provided the Company with the \$45 million, interest free City loan. Accordingly, PGW believes that the City Council will no longer consider approving such a customer charge. At any rate, seeking such approval at this point in time would take months (if it ever was approved), thereby eliminating any ability for PGW to realize the benefit of the higher charge.

B. Rates BPS-S and BPS-L

The OCA submitted comments calling for the elimination of the language in PGW's tariff for classes BPS-S and BPS-L that discussed rates not being greater than 90% of the General Service Rate. While this is not what PGW proposed initially, it accomplishes the goals of the proposed tariff change and, therefore, is acceptable. PGW is willing to revise its Compliance Filing to eliminate the language as requested by OCA.

C. Rates TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans

OTS filed comments noting that PGW did not change the rates for classes TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans. PGW recognizes this fact, but notes that its has requested the Commission to reconsider its Order in relation to these "rates" because of significant misconceptions about them (i.e., there is no TriGen Direct rate or usage – TriGen's rate is tied to the price of alternative fuel and it has not purchased any gas from PGW in the last year; the only usage in NGV Direct is PGW's) and serious issues regarding its ability to comply with the directives. PGW also notes that neither OTS nor OCA addressed this issue in their Answers to PGW's Petition for Rehearing and Reconsideration, and therefore the Company assumes that opposition to its Compliance Filing on this basis no longer exists.

D. Future Revisions to the Compliance Filing

The OCA commented on the need for further revision to the Company's Compliance Filing based on the Commission's Tentative Order. PGW agrees that once the Commission's Tentative Order becomes final, whether that Order calls for more than or less than the \$39 million in rate relief authorized by the October 4 Order, revisions to its tariff will become necessary. Moreover, if the Commission grants PGW's Petition for Rehearing and Reconsideration additional revisions will become necessary.

E. OTS's Claimed Excess Revenues and Customer Counts and Volumetric Sales Adjustments

The OTS submitted comments contending that PGW's Compliance Filing would result in the Company receiving \$626,338 more than the Commission's authorized rate increase. OTS also notes that PGW did not utilize OTS's recommended residential heating customer numbers and average annual volumetric sales. Contrary to the impression created by OTS, PGW asserts that its Compliance Filing is consistent with the PUC's Order, if the errors made by the OTS in

calculating its revenue adjustment are factored in. First, a portion of the OTS's claimed excess revenues (approximately \$300,000) are the result of OTS adding additional PHA/PHA and MUN/MS customer charge revenue to the Compliance Filing. But, as noted above, the Commission did not direct or approve customer charge increases for those classes, and thus those alleged excess revenues do not exist.

The remainder of the alleged over collection is calculated by using OTS's uncorrected customer counts and usage per customer and applying the proposed compliance rates which reflects corrected residential customer counts and usage.¹ But, as PGW pointed out in its filing (and has restated in its Petition for Reconsideration), the OTS proposed customer count and usage levels contained a previously unrecognized error. The Commission's Order granted the OTS's recommendation to increase the number and average usage of PGW's residential and commercial customers based on OTS's calculations. Order at ¶ 12. PGW's compliance filing is consistent with the OTS's recommendation to utilize year 2000 data to make this calculation. However, PGW's filing also corrects an error in OTS's calculation of the number and usage for residential heating customers. Due to a misunderstanding of underlying PGW data, OTS did not include PGW's PHA/GS (General Service) customers in what OTS assumed was PGW's *pro forma* level of residential heating customers (PHA-GS customers are residential customers who live in PHA-sponsored housing). Nor did the OTS witness include these customers in the "total customer" portion of his calculation when he calculated "usage per customer" (which is calculated by dividing total customers by total usage) although the usage for this group of

¹ Because OTS's error in calculating the effect of its revenue adjustment overstated the number of customers and usage its adjustment actually produced, if those levels are used to calculate compliance revenues, PGW's compliance rates would appear to overstate the amount of revenue that the rates actually will produce. As indicated below, when the rates are priced out using the corrected *pro forma* volumes, PGW's compliance filing produces the target \$39 million.

customers was included. This change affected OTS's projected *pro forma* average residential heating usage figure (decreasing it from 103.9 Mcf to 102.9 Mcf).²

Ultimately, PGW's Compliance Filing is completely consistent with the Commission's Order and the OTS's recommendation on this issue, except for the correction to the input data pointed out in PGW's Petition for Reconsideration (and fully explained in the Compliance Filing itself). To find otherwise would be to knowingly direct the Company to implement its rates based upon calculations that the Commission and the parties know to be incorrect. Such a result is neither reasonable nor consistent with the PUC's Order.

F. Non-Standard Contract Tariff Language

The OCA claims that PGW's Compliance Filing is not consistent with the Commission's Order concerning this issue. However, the OCA is incorrect. The PUC's Order stated:

That Philadelphia Gas Work's request to modify its tariff to allow it to enter into individual contracts with commercial and industrial customers at negotiated prices and/or terms and conditions of service for an agreed upon period of time is approved.

Order at ¶ 21. The tariff language in PGW's Compliance Filing regarding this issue, Section 2.3 "Other Contracts," is exactly consistent with the PUC's Order and with the Company's requested changes.

² While OTS's "Answer" to PGW's Petition for Reconsideration and Rehearing disputes the legitimacy of the error carefully detailed by PGW, its main ground is that PGW had failed to raise the issue in a timely manner, which is not a valid basis for disputing the underlying validity of the error. (See OTS Answer at 2-4.) OTS also disputed the validity of the errors discovered by PGW, but its argument erroneously characterized the problem as failing to adjust PHA customer counts. In fact, as clearly explained by PGW, the OTS's error was created by using a customer count that did not include PHA-GS customers (residential customers who live in PHA-sponsored housing) while it used a usage number that did include usage from all residential customer classes, including the PHA-GS category.

The language referenced by OCA in its comments is the repudiated language from PGW's initial January 5, 2001, filing. However, PGW filed revised testimony and supporting documents on February 2, 2001. In the revised filing, the testimony of PGW witness Craig White specifically addressed this issue and, as a comparison of the two filings shows,³ clearly and significantly changed the Company's position on the issue. PGW St. 4.0 (White) at 10-13 (revised). The testimony plainly stated that PGW intended to consider these non-standard contracts for commercial and industrial customers, as opposed to simply interruptible customers, and that the Company was seeking the maximum flexibility in negotiating individual and alternative pricing solutions for customers faced with competitive fuel offerings.⁴

The Commission clearly recognized the change in PGW's position, and accurately paraphrased it in its Order. Order at 87. In disposing of the issue, the PUC explicitly agreed with PGW's proposal to "allow it to enter into individual contracts with commercial and industrial customers at negotiated prices and/or terms and conditions of service for an agreed

³ For instance, the revised testimony deleted the emphasis on negotiating these contracts with interruptible customers, and expanded it to commercial and industrial customers generally. The January 5th testimony (St. 4.0 at p. 11) began: "Q: What non-standard rate arrangements are you proposing for your interruptible industrial and commercial customers? A: PGW proposes to modify its tariff so as to be able to enter into individual contracts with interruptible customers" (emphasis added). But, the revised testimony read: "Q: What non-standard contract arrangements are you proposing for your industrial and commercial customers? A: PGW proposes to modify its tariff so as to be able to enter into individual contracts with customers" PGW St. 4.0 (revised) at 10 (emphasis added). Similarly, the initial January 5th testimony (St. 4.0 at 12) asked: "Q: How are you going to insure that the discount does not fall below the cost of gas?" Mr. White answered that negotiated terms would "insure that PGW revenues will equal or exceed 110% of the cost of natural gas." But, in the revised testimony, this exchange was deleted. PGW St. 4.0 (revised) at 10-13. The non-standard contract portions of the revised testimony and the replaced, initial testimony are attached hereto as Appendices A and B.

⁴ New tariff language was not submitted at that time because it was assumed – correctly – that the tariff language needed to implement PGW's proposal would be finally determined in the compliance phase.

upon time period." Order at 89. The PUC also concurred that PGW needed flexibility in formulating those negotiated contracts, and rejected the OCA's attempt to limit its flexibility to a specific costing formula. Id. Yet, that is what the tariff language insisted upon by OCA would do. Accordingly, PGW's Compliance Filing is completely consistent with the Commission's Order, and it should not be altered on this point. PGW's proposed section 2.3 should be approved.

III. Conclusion

With the modifications expressly agreed to above regarding the PHA/PHA customer charge and the elimination of the 90% language from the BPS-S and BPS-L tariff provisions, PGW respectfully requests that the Commission approve its Compliance Filing.

Respectfully submitted:



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Alan Kohler, Esquire
Mark S. Stewart, Esquire
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(717) 237-7160
Attorneys for Philadelphia Gas Works

Of Counsel:

Abby L. Pozefsky, Esquire
Margaret Flores, Esquire
Philadelphia Gas Works
800 West Montgomery Ave.
Philadelphia, PA 19122

Dated: November 1, 2001

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APPENDIX A

**Revised Testimony of
Craig White
Dated February 2, 2001**

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1
2 A. As these programs are all part of PGW's current tariff and approved or directed
3 by the PGC and/or the City of Philadelphia, PGW believes that any revision of
4 these programs should occur in PGW's restructuring proceeding. So long as
5 these programs continue, it is crucial to PGW's financial stability that the
6 Company continue to have the ability to recover all of these costs on a dollar-for-
7 dollar basis. The inclusion of these items in its GCR assures such a dollar-for-
8 dollar tracking recovery.

9 **V. NON-STANDARD CONTRACT ARRANGEMENTS**

10 **Q. WHAT NON-STANDARD CONTRACT ARRANGEMENTS ARE YOU**
11 **PROPOSING FOR YOUR INDUSTRIAL AND COMMERCIAL CUSTOMERS?**

12
13 A. PGW proposes to modify its tariff so as to be able to enter into individual
14 contracts with customers at a negotiated price and/or terms and conditions of
15 service for an agreed upon period of time. Such flexibility will allow the Company
16 to offer individual, alternative pricing solutions to customers when they are faced
17 with competitive fuel offerings, or to attract them back to natural gas when they
18 are currently using an alternative fuel. Because the result would be an
19 arrangement with rates and/or terms of service that would be different than
20 PGW's standard schedule, PGW is proposing to characterize such arrangements
21 as "non-standard contracts."

22 **Q. PLEASE GIVE AN EXAMPLE OF SUCH A POTENTIAL OFFERING.**

23
24 A. One solution to regain customers lost to alternative fuels may be to offer a fixed
25 discount from the published comparable tariff rate for a set period of time with
26 minimum usage requirements.

1 Q. **WHAT IS DRIVING THIS REQUEST TO CHANGE PGW'S TARIFF TO ALLOW**
2 **NON-STANDARD CONTRACTS?**

3
4 A. Though PGW exists in a regulated market environment, it faces significant price
5 competition from alternative energy service providers. When competition is
6 present, the utility's prices should be based on its customers' competitive
7 alternatives. PGW's current tariff does not allow any negotiated rates or terms
8 for any rate class other than for gas transportation service (GTS) customers.
9 PGW proposes to obtain pricing and contracting flexibility in order to retain load
10 and attract new load, when doing so will provide net benefits to PGW and its firm
11 customers.

12 Q. Does PGW have competition now?

13 A. Yes. Natural gas customers have the opportunity to use alternate fuels in all
14 major applications now. Because the customer's ultimate needs can be satisfied
15 by alternative energy sources, aggressive competition is a fact of life in the
16 natural gas business today.

17 PGW faces particularly intense competition from alternate energy suppliers,
18 including oil dealers, electricity suppliers, district steam, as well as other natural
19 gas distribution companies. In addition to the well known competitive alternatives
20 to natural gas – No. 6 and No. 2 oil and electric suppliers, – PGW also faces
21 significant challenges from an existing steam loop that provides service
22 throughout downtown Philadelphia and is able to make attractive offers,
23 particularly for large renovation projects where pre-existing conditions and space
24 can drive decisions.

25 Moreover, PGW's condensed, relatively small geographic market means that for
26 many of its customers moving to an alternative NGDC service territory (or moving

1 load to another existing location in another company's service territory) is
2 relatively easier than for customers of other NGDC's whose service territories are
3 expansive. PGW's situation therefore is closer to the situation in western
4 Pennsylvania where gas-on-gas competition is the norm.

5 **Q. DOES PGW'S TARIFF CURRENTLY PROVIDE ANY PRICING FLEXIBILITY?**

6
7 A. PGW's current rate formula for interruptible customers reflects the price of #2 and
8 #6 oil, but requires that PGW set a single, posted rate, at 110% of the predicted
9 avoided cost for the customer, which must be posted monthly and well in
10 advance of the pricing period. This approach limits PGW's ability to provide truly
11 competitive pricing alternatives, particularly to its large commercial and industrial
12 customers whose energy pricing alternatives are becoming more and more
13 customized.

14 **Q. WHAT DO YOU PROPOSE IN ORDER TO PERMIT PGW TO RESPOND**
15 **COMPETITIVELY TO THOSE ALTERNATIVES?**

16
17 A. PGW proposes that it be given the authority to establish non-standard contracts
18 for commercial and industrial customers. Non-standard contracts offer PGW the
19 opportunity to compete successfully for new business and strengthen our
20 business retention efforts.
21 The ability to charge market-based rates in competitive markets is critical to
22 PGW's ability to compete effectively. Aside from the issue of straight price
23 competition, competitive fuel dealers are more flexible than PGW regarding
24 discounts, term of contract, benchmarked prices, fixed price alternatives and
25 availability of up-front funds for capital costs. Under PGW's current tariff, PGW is
26 unable to offer customers terms, conditions and prices that are available from the
27 competition.

1 PGW believes that such flexibility is already reflected in the tariffs of other gas
2 LDCs in Pennsylvania. There are many that contain provisions for individually
3 negotiated, non-standard contracts, for at least part of their customer base.

4 Additionally, PGW has long competed with energy entities providing greater
5 flexibility and options to commercial and industrial customers. As indicated, the
6 pricing alternatives available from PGW's competitors continue to grow.

7 **Q. WHAT BENEFITS CAN THE RESIDENTIAL CLASS CUSTOMER AND OTHER**
8 **FIRM RATEPAYERS EXPECT AS A RESULT OF THIS TARIFF CHANGE?**

9
10 A. As proposed, PGW will not be obligated to enter into non-standard contracts; it
11 will be left to PGW's sole discretion. The only time PGW will consider a non-
12 standard deal is when flexibility in terms, price and conditions will result in an
13 overall financial benefit to the company and its firm customers by increasing
14 expected margin. The contracts will be written to insure maximum margin. For
15 each non-standard contract PGW will require the customer to provide indications
16 of the alternative competitive service price against which PGW is being asked to
17 compete.

18 **Q. HAVE YOU ENCLOSED THE PROPOSED TARIFF LANGUAGE CHANGES?**

19 A. Yes. The attached Proposed Tariff Language for Non-Standard Service
20 Contracts is contained in Supplement No. 7 (revised), the Supplement
21 implementing PGW's proposed base rate increase. Because of the specifics of
22 this proposal for its success, PGW reserves the right to withdraw these
23 requested tariff changes if the PUC declines to provide approval in the form
24 acceptable to PGW

25
26

APPENDIX B

**Initial, Replaced Testimony of
Craig White
Dated January 5, 2001**

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1 A. As these programs are all part of PGW's current tariff and approved or directed
2 by the PGC and/or the City of Philadelphia, PGW believes that any revision of
3 these programs should occur in PGW's restructuring proceeding. So long as
4 these programs continue, it is crucial to PGW's financial stability that the
5 Company continue to have the ability to recover all of these costs on a dollar-for-
6 dollar basis. The inclusion of these items in its GCR assures such a dollar-for-
7 dollar tracking recovery.

8 **V. NON-STANDARD RATE ARRANGEMENTS**

9 **Q. WHAT NON-STANDARD RATE ARRANGEMENTS ARE YOU PROPOSING**
10 **FOR YOUR INTERRUPTIBLE INDUSTRIAL AND COMMERCIAL**
11 **CUSTOMERS?**

12
13 A. PGW proposes to modify its tariff so as to be able to enter into individual
14 contracts with interruptible customers at a negotiated price for an agreed upon
15 period of time. Such flexibility will allow the Company to offer individual,
16 alternative pricing solutions to customers when they are faced with competitive
17 fuel offerings, or to attract them back to natural gas when they are currently using
18 an alternative fuel.

19 **Q. PLEASE GIVE AN EXAMPLE OF SUCH A POTENTIAL OFFERING.**

20
21 A. One solution to regain customers lost to alternative fuels may be to offer a fixed
22 discount from the published comparable tariff rate for a set period of time with
23 minimum usage requirements.

1 **Q. HOW ARE YOU GOING TO INSURE THAT THE DISCOUNT DOES NOT FALL**
2 **BELOW THE COST OF NATURAL GAS?**

3
4 A. Terms will be included in all non-standard rate offerings to insure that PGW
5 revenue will equal or exceed 110 percent of the cost of natural gas. Specifically,
6 revenues will exceed 110 percent of the weighted average cost of gas, or in the
7 alternative, if PGW enters into an arrangement providing for direct-stream gas
8 supply, PGW will require revenue equal to or in excess of 110 percent of the cost
9 of natural gas. Each arrangement will be evaluated in response to a
10 competitive scenario. Many factors will be taken into account and contracts will
11 be structured to insure positive returns based on the above criteria and sound
12 business practices.

13 **Q. ARE YOU SUGGESTING THAT THOSE CUSTOMERS WILL BE PERMITTED**
14 **TO NEGOTIATE THE PRICE THAT THEY WILL PAY FOR THEIR GAS?**

15
16 A. Yes, but only to the extent that the customer's circumstances satisfy the
17 requirements described above.

18 **Q. HOW WOULD THESE TYPES OF ARRANGEMENTS HELP THE OVERALL**
19 **FINANCIAL POSITION OF THE COMPANY?**

20
21 A. As proposed, PGW will not be obligated to enter into a non-standard rate
22 arrangement; it will be left to PGW's sole discretion. The only time PGW will
23 consider a non-standard deal is when flexibility in terms, prices or conditions will
24 result in an overall financial benefit to the company and remaining customers by
25 increasing expected margin. For example, when new or existing customers are
26 deciding on what systems and technologies to install, energy alternatives are an
27 important consideration. The proposed tariff language will enable PGW more

1 effectively to compete with electric, steam and oil competitors who currently offer
2 creative and flexible solutions. The contracts will be written to insure maximum
3 margin and confidentiality.

4 **Q. WILL THE COMPANY'S FIRM CUSTOMERS RECEIVE ANY BENEFIT BY**
5 **ALLOWING THE COMPANY TO OFFER THIS TYPE OF SERVICE TO**
6 **INTERRUPTIBLE CUSTOMERS?**

7
8 A. Yes, any additional margin associated with these deals will flow back to support
9 the firm ratepayers, thereby reducing the level of costs borne by the firm
10 ratepayers.

11 **Q. DOES THIS PROPOSED PRICING ENHANCEMENT CHANGE THE NATURE**
12 **OF THE INTERRUPTIBLE SERVICE?**

13
14 A. The proposed pricing enhancement will not change the nature of the interruptible
15 service. All of the characteristics of providing interruptible service, as identified in
16 the tariff, will remain intact.

17 **Q. HOW WILL THESE CUSTOMERS BE IMPACTED DURING PERIODS OF**
18 **INTERRUPTION?**

19
20 A. These interruptible customers will be treated in the same manner as all other
21 interruptible customers.

22 **Q. PLEASE IDENTIFY ANY CHANGES REQUIRED TO YOUR EXISTING TARIFF**
23 **TO EFFECTUATE THESE CHANGES.**

24
25 A. PGW's proposed tariff submitted with this file contains the proposed tariff
26 changes necessary to provide this enhanced level of service. These changes
27 can be found in proposed Section 2.3.

28

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND/OR FIRST CLASS MAIL

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Dated: November 1, 2001



Daniel Clearfield, Esquire

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November 5, 2001

VIA HAND DELIVERY

James McNulty, Secretary
PA Public Utility Commission
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

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Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works, enclosed for filing please find an original and three copies of its Motion For Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition For Rehearing and Reconsideration with regard to the above referenced matter. A copy has been served on all parties of record.

DOCUMENT
FOLDER

Very truly yours,

Daniel Clearfield
Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DCC/lww
Enclosure

cc: All Parties of Record w/enc.
Clemens B. Glunz, w/enc.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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PENNSYLVANIA PUBLIC UTILITY
COMMISSION

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

v.

Docket No. R-00006042

PHILADELPHIA GAS WORKS

**MOTION FOR LEAVE TO FILE A REPLY TO THE ANSWERS
TO THE PHILADELPHIA GAS WORKS' PETITION FOR
REHEARING AND RECONSIDERATION**

Philadelphia Gas Works ("PGW") respectfully submits this Motion for Leave to File a Reply to the Answers to its Petition for Rehearing and Reconsideration. In support thereof, PGW avers as follows:

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1. On October 4, 2001, the Commission issued its Opinion and Order in the above-captioned matter, which allowed PGW a \$39 million rate increase.

2. On October 19, 2001, PGW filed a timely Petition for Rehearing and Reconsideration pursuant to Section 703(f) and (g) of the Public Utility Code and 52 Pa. Code § 5.572. PGW's Petition requested that the Commission grant rehearing to allow into the record newly available evidence and grant reconsideration in light of several overlooked issues and errors in the calculation of its rate award as well as new arguments asserted by the Company.

3. On October 29, 2001, the Office of Trial Staff ("OTS"), Office of Consumer Advocate ("OCA"), and Consumers Education and Protective Association ("CEPA") filed Answers to PGW's Petition.

4. On October 25, 2001, the PUC granted PGW's Petition for Rehearing and Reconsideration for the purpose of further considering the Company's requests on the merits.

5. PGW requests leave to file the accompanying Reply to these Answers. PGW's Reply is particularly necessary due to the fact that this is the Commission's first permanent base rate case involving the Company, and its Cash Flow Method of ratemaking. Consequently, there continues to be appear to be confusion concerning the theory and mechanics of that Method, as well as the calculation of revenue requirement, *pro forma* revenues, the preparation of the compliance tariff, the application of test year concepts, and other issues. PGW's Reply, attached hereto as "Appendix A," will assist the Commission in evaluating the position of the parties in regard to these issues.¹

6. In addition, the OTS has utilized its Answer to introduce new evidence into this proceeding regarding PGW's bad debt percentage for the year 2000. OTS Answer at 10. OTS has claimed that PGW's 2000 bad debt percentage is just 3.9% , rather than 10.25% as testified to by PGW in its verified statement and recognized by the ALJ in the findings of fact set forth in the Recommended Decision. OTS's claim, made for the first time in its Answer, is patently incorrect because it is based upon an invalid comparison of actual write-offs to revenues, as opposed to the appropriate comparison of uncollectible revenues to total revenues previously used by all parties, including the OTS.² PGW should be allowed to file a Reply to address this new, incorrect, and non-record evidence included in OTS's Answer.

¹ PGW's Reply will also be helpful to clarify misconceptions, evident in the parties' Answers, related to the Company's position on the computational errors involving the OTS customer count and usage adjustment and on the appropriate bad debt percentage that the Commission should employ.

² OTS Exh. 1, Sch. 4.

WHEREFORE, PGW respectfully requests that the Commission grant its Motion for Leave to Reply, and carefully consider its Reply to the Answers to its Petition for Rehearing and Reconsideration, attached hereto as Appendix A.”

Respectfully submitted,



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Dated: November 5, 2001

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APPENDIX "A"

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

Docket No. R-00006042

PHILADELPHIA GAS WORKS

REPLY TO ANSWERS TO PETITION FOR REHEARING
AND RECONSIDERATION

A. INTRODUCTION

Philadelphia Gas Works' ("PGW") hereby Replies to the "Answers" of the Office of Consumer Advocate ("OCA"), Office of Trial Staff ("OTS"), and the Consumers Education and Protective Association ("CEPA") to its Petition for Rehearing and Reconsideration submitted in the above captioned proceeding. In general these answers should be rejected for a number of reasons, including the following:

- The opposing parties refuse to recognize that PGW's cash needs are real, ongoing and significant. Neither the parties, nor the Pennsylvania Public Utility Commission ("PUC" or "Commission") has recognized that, under the Cash Flow Method, which the PUC has adopted, as well as Section 2212 of the Public Utility Code, it is not enough merely to consider PGW's hypothetical cash flow needs – the Commission must assure that the Company in fact has the money to pay its bills, and survive. The PUC's Order, taken in its entirety, simply does not do that. There are only two sources of additional cash for the Company – reducing costs

or reducing uncollectibles. No party has challenged the sufficiency of PGW's proposed cost reduction program -- \$25 million over three years. And, while PGW has worked hard to reduce its uncollectible percentages, one cannot "force" the issue by setting targets that do not reflect reality. PGW has no "cushion," no fall-back source of funds to make up a shortfall when the "target" rate of uncollectibles is not achieved. The only way to responsibly deal with this issue is to grant it the rate increase needed to produce the working capital that the company is so badly in need of.

- The parties instead have attempted to misapply rules about test year adjustments and the reopening of the record when the real question is whether PGW is going to survive over the next year. At the same time, however, the opposing parties have previously agreed that a PGW downgrading and/or loss of its commercial paper program would be devastating to the Company and its customers, raise costs and threaten service. PGW has presented evidence from one of the advisers to its commercial paper program indicating that the level of rate relief presently contemplated by the PUC -- \$33.5 million -- would push PGW to these calamitous results. Plainly, it would be unreasonable, to say the least, simply to ignore this evidence, yet this is what the opposing parties continue to advocate.
- Similarly, PGW has presented verified statements that demonstrate that the PUC's decision on bad debt expense and *pro forma* revenues are factually not supportable, or contain errors or both. While the parties have raised protests about considering such evidence, if the PUC has any doubt about the validity of these facts, PGW urges the Commission to permit the opposing parties to submit

responsive affidavits or to conduct a “workshop” or other fact-finding process. In any event, the Commission should make its decision on the best available evidence and not rely upon out of date facts or incorrect calculations, to PGW's detriment.

- The Commission should not fall prey to the parties' attempt to scare it into believing that it cannot consider PGW's Petition without damaging its ratemaking process and the principle of finality. One point on which all parties should be able to agree is that the integrity of the proceedings before the PUC will not be preserved by allowing known errors to remain uncorrected. A concern for finality cannot be elevated over reasonableness, justness and accuracy. Moreover, contrary to the OTS's claims, finality is not placed in jeopardy by the PUC's consideration of PGW's Petition. The Public Utility Code, as well as the Commission's regulations,¹ allow for a specific period in which it can account for overlooked points or errors and newly discovered or newly available evidence – which is exactly what PGW has requested be done by the Commission.
- Finally, and perhaps most importantly, PGW has worked hard to attempt to meet the demands of the PUC in the areas of service and efficiency, particularly by improving the call center, reforming its collective bargaining agreement, to improve productivity and reduce costs, and taking meaningful steps to prepare for restructuring (in the form of the PICGUG settlement). The Company urges the PUC to give the Company the level of rate relief it needs to continue this forward progress – a level which is far higher than the \$33 million presently contemplated.

¹ 66 Pa. C.S. § 703(f) and (g); 52 Pa. Code § 5.572.

**B. REJOINDER TO OTS ANSWER ON REVENUE ADJUSTMENT
CALCULATION ERRORS**

The Trial Staff disputed each of PGW's proposed revisions to the final revenue requirement calculation, but each of OTS's responses appear to misunderstand the nature of the correction or revision presented by PGW in its Petition. Indeed, in response to one revision, OTS even inadvertently admitted the error that PGW raised in its Petition, but nonetheless opposes correcting it.

1. **\$406,768 Overstatement of OTS Revenue Adjustment**

OTS's response to PGW's request that the Commission correct the error it made in the schedule attached to its Order is confusing, to say the least. OTS disputes this adjustment even though, again, it was specifically included in OTS's Brief and referenced by the ALJ in the Recommended Decision.² As PGW tried to explain, the figure included by the PUC in its summary schedule – \$34.263 million – represented the OTS calculation of the additional *pro forma* revenue PGW will experience when OTS's additional customer count and usage figures are adopted. But, as the testimony of the OTS witness who sponsored the adjustment plainly indicated, his proposed revenue effect was calculated assuming that PGW's proposed customer charges were in place.³

The difference for the residential customers (\$402,784), together with the difference (\$3,984) in the commercial customer count adjustment calculated using OTS's proposed customer charge rather than PGW's higher level (\$18 vs. PGW's proposed \$25), is exactly the amount by which PGW has shown the OTS adjustment has been overstated (\$402,784 + \$3,984 = \$406,768) in the Final Order. In fact, when showing the appropriate amount of this adjustment

² OTS M.B. at 22-23, nn. 63 and 66; R.D. at 48-49, nn. 33-34.

³ OTS's testimony stated: "The Company will receive customer charge revenues from these additional 11,189 residential heating customers paying the [PGW] proposed \$15.00 monthly customer charge. This would increase proposed revenues by \$2,014,000" OTS St. 2 (Kubas) at 19 (emphasis added). In its Main Brief, OTS reproduced this testimony, adding in a footnote: "If OTS's recommended customer charge is adopted [which is what occurred], the proposed revenue increase will be \$1,611,216 (11,189 x 12.00 x 12)." OTS M.B. at 22, n. 63. OTS's testimony and Brief gave parallel treatment to the increased commercial customer counts. OTS St. 2 (Kubas) at 21; OTS M.B. at 23, n. 66.

in its Reply Exceptions, the OTS also indicated that the adjustment – at the PUC approved customer charges – was \$33,856,232.⁴

Again, this adjustment is necessary to accurately calculate the effect of the OTS adjustment on PGW's claimed revenue requirement. OTS asserted that PGW's normalized test year was going to have more customers and more usage than the level claimed by the Company. Since the OTS adjustment used PGW's proposed customer charges to calculate the added revenue that the Company would experience because of these added accounts, the adjustment had to be factored down to reflect the lower level of charges actually ordered. How the OTS can claim that this adjustment is incorrect, when its own witness testified to and its own Brief stated just the opposite, is frankly hard to fathom.

2. Correction of Computation Errors Contained in OTS Revenue Adjustment.

OTS has disputed PGW's position that heretofore undiscovered calculation errors caused OTS to overstate by some \$2 million the effect of its test year revenue adjustment. But the OTS response appears to completely misunderstand the nature of the calculation error that was carefully explained by PGW in its Petition. The OTS stated that it did not take issue with the *pro forma* level of PHA customers assumed in the test year. OTS's usage adjustment was made by comparing OTS's calculation of usage per customer, as claimed by PGW, with a higher figure that OTS believed was the usage per customer based upon year 2000 actual data. OTS's response admits that, in making this calculation, it did not include customers in the "PHA"⁵ category. What OTS continues to fail to understand (pointing to OTS Exh. 2, Sch. 2, p. 2) is that the category – PHA – is mostly made up of residential heating customers whose usage is

⁴ See OTS Reply Exceptions at 20.

⁵ OTS Answer at 8.

contained in the "Actual Sales" column listed on OTS Exh. 2, Sch. 3, p. 1. By dividing an average number of customers that was understated (due to the OTS's admitted failure to include the PHA GS customers) by a total heat sensitive usage figure that does include the usage for these customers, the result is a *pro forma* usage per customer that is higher than it should be. PGW's verified statement presented a revised usage per customer that includes PHA-GS customers in the numerator and PHA-GS usage in the denominator. The lower usage per customer must be utilized in making this adjustment. A similar correction must be made to the OTS calculation of PGW's claimed *pro forma* usage per customer. OTS's failure to include PHA-GS customers in this calculation understated the true usage per customer that PGW had included in its test year, *pro forma* figures and, again, overstated the adjustment.⁶

Considering the nature of the correction – a computation error that neither the OTS witness nor PGW analysts noticed until the compliance filing stage – ignoring this needed correction would exalt form over substance to the greatest degree. These necessary corrections are just the type of "overlooked" considerations that Section 703 was designed to remedy.⁷ The PUC has a long standing and commendable commitment to accuracy and fairness in the exercise of its ratemaking authority; it should not abandon that goal now.⁸

⁶ PGW Petition at Exh. A, pp. 1-2. As detailed by Mr. White, in addition to decreasing the OTS's average usage from 103.91 Mcf to 102.96 Mcf, the inclusion of the PHA customers in the calculation increases the average usage figure assigned to PGW by OTS, 100.94 Mcf, to 101.27 Mcf. Thus, the OTS adjustment should be based upon the difference between 102.96 Mcf (as OTS's suggested average usage) and 101.27 Mcf (as the "PGW usage").

⁷ *Dulick v. Pa. Gas & Water Co.*, 56 Pa. PUC 553, 559 (1982).

⁸ In regard to both Mr. White's Verified Statement on the correction of these computational errors and the introduction of the newly available bad debt expense evidence for 2001, the decisions of the Commonwealth Court support the granting of PGW's Petition. See *Reading Company v. Pa. PUC*, 333 A.2d 525, 527 (Pa. Cmwlth. 1975) ("a prime

3. \$2,055,000 Add Back

OTS claimed that the \$2,055,000 add back was in response to “a flawed schedule that had been presented by PGW in its Exceptions . . . to account for the difference between PGW’s volumes and OTS’s volumes . . . in support of the ALJ’s \$33[.5] million recommendation,” and therefore is not appropriately repeated in the PUC’s final summary schedules.⁹ OTS further claimed that “once the Commission set the approved level of revenues, the \$2,055,000 [became] a non issue, as the Commission’s Order intrinsically included in the \$2,055,000 when the Commission granted the increase based upon OTS’s customer number and sales volume.”¹⁰

But, the problem with OTS’s explanation is that OTS, itself, had presented the \$2,055,000 adjustment on a schedule in its Reply Exceptions detailing how its recommended \$33.5 million rate increase was calculated.¹¹ That schedule clearly shows that the only way to get to the OTS recommendation – accepted by the ALJ and thus the starting point for the final PUC decision – was to add \$2.055 million to the final rate increase level.¹² Otherwise, the rate increase would have been \$31 million – not \$33.5 million. Significantly, that calculation already assumed that the Commission had accepted the OTS revenue adjustment (if it had not the overall rate increase would have been much higher by some \$14 million), so the fact that the PUC has now adopted this same adjustment cannot be a reason to forgo the offsetting adjustment that the OTS itself represented was necessary.

consideration of the test must be whether the outcome of the litigation might be different if that evidence is admitted into the record”).

⁹ OTS Answer at 6.

¹⁰ *Id.*

¹¹ OTS Reply Exceptions at 20-21.

¹² *Id.*

In the PUC's final order, the Commission adopted all of the OTS recommended adjustments (except for a minor one), and then added all the OCA expense adjustments on top of the OTS position. Hence the \$2.055 million add back still should have been included.

C. BAD DEBT EXPENSE

In its Petition, PGW requested that the PUC reconsider its decision on bad debt expense and, at the very least, utilize a five year average that included the last two years of PGW experience.¹³ Because the evidence that the OTS sponsored, 7.61% bad debt expense is so completely inconsistent with PGW's recent actual experience, the Trial Staff has resorted to insisting that the Commission nevertheless should not review this evidence. The PUC, however, should not ignore this most recent evidence that PGW's bad debt percentage is far higher than the level offered by OTS – 8.67% and 10.2% in comparison to an average from the 1990's of 7.61%. If this percentage continues to be utilized, PGW simply will not actually collect the level of revenues that even the PUC has authorized, which is clearly inconsistent with the requirements of the Management Agreement and the Public Utility Code.

The OTS's second claim is that the Company's actual year 2000 write-off percentage is much lower – just 3.9% – than the 10.2% that the ALJ specifically found as a fact.¹⁴ OTS's claim that PGW's actual year 2000 bad debt expense is closer to 3% strains credulity, and calls

¹³ In its Answer, OCA stated that PGW was again asking the Commission to not use a five year average to calculate its bad debt percentage, but rather to use only 2000 and 2001 data. OCA Answer at 12. However, this is a misreading of PGW's Petition. PGW accepted the use of a five year average; it simply asked that years 2000 and 2001 be included in the five years used to calculate the percentage. The inclusion of this more recent data will result in a more accurate bad debt percentage, and is consistent with the other portions of the PUC's decision where it endorsed the use of 2000 data instead of more historical, out of date data.

¹⁴ The OTS claims that the 10.2% level calculated in the record had been impliedly overturned by the PUC's Order. This is obviously specious. Nothing in the PUC Order requires the rejection of the ALJ's factual finding of PGW's 2000 bad debt expense.

into question OTS's overall understanding of the bad debt expense claim in the first instance. The OTS's own data showed a bad debt expense percentage of between 6.3% and 9.2%; and the record shows that the comparable figure for 2000 is 10.2%. How could PGW's actual bad debt expense in year 2000 – when its gas revenues skyrocketed due to historic increases in gas prices – be half the level in years when its revenues were twice as low? The answer is that the OTS has confused PGW's actual write offs (the number OTS used to reach the 3.9% figure) with the level of uncollectibles, a completely different concept.¹⁵ OTS's own schedule showed that its calculation was based upon a comparison of billed gas revenues and bad debt expense – not actual write-offs in each year.¹⁶ This is appropriate because the purpose of establishing a bad debt expense percentage for a cash flow regulated company is to identify the portion of revenues – including any rate increase that is authorized – that the utility will not collect in the year. Failure to collect means a loss of cash flow, a loss that must be reflected in the bad debt expense percentage. OTS's comments appear to be an attempt to distract the PUC from the hard fact that the OTS proposed adjustment, which was adopted by the PUC, is totally at odds with reality and cannot rationally be sustained.

D. REJOINDER TO OPPOSITION TO PGW'S ADDITIONAL CASH FLOW NEEDS

Both OTS and OCA have argued against PGW's evidence that its future cash flow will be seriously deficient on the ground that the evidence is impermissibly "beyond the test year."

¹⁵ PGW's bad debt expense is the portion of billed revenues in any budget year that PGW will not collect; actual write offs are a subset of bad debt expense – the amount that PGW and its auditors determine will never be collected.

¹⁶ OTS Exh. 1, Sch. 4. PGW utilized the exact same method contained in this schedule to determine the 2000 and 2001 bad debt percentages of 10.2% and 8.67%, respectively. By attacking PGW's Petition on this point, OTS is attacking its very own recommendation on bad debt expense.

But these claims, again, fail to appreciate that a cash flow ratemaking approach must focus on the level of actual cash that the Company has to pay its bills – not some hypothetical level for a year that has already occurred. It is frankly irresponsible to simply reject evidence that Pennsylvania’s largest natural gas distribution company may well not be able to pay its bills in August 2002 by dismissively noting that that period “is beyond the test year.”

OTS and OCA also argue that the record should not be reopened to include an affidavit from one of PGW’s bankers expressing the opinion that, if the PUC’s rate order is not substantially improved, the Company faces downgrading, the loss of its commercial paper program and an inability to access the long term bond markets. These parties claimed that the statements by Mr. Krellenstein are “speculative” and simply “cumulative” of claims made by PGW throughout the proceeding.¹⁷

First, Mr. Krellenstein’s statement is extremely relevant, new evidence showing the effects on PGW’s cash flow and general financial condition if the PUC’s \$33.5 million rate increase is permitted to stand. Such evidence obviously was not available prior to the PUC’s final decision in the proceeding. Moreover, all the opposing parties continue to refuse to acknowledge that PGW is different from other utilities regulated by the PUC. The acknowledged method of establishing a revenue requirement – the Cash Flow Method – by its very nature, focuses on the Company’s actual ability to pay its bills when they come due.¹⁸ Mr. Krellenstein's statement, relying on the cash flow calculations of Company witness Bogdonavage, provides a highly probative new analysis of the effect the PUC's award will have,

¹⁷ OTS Answer at 12; OCA Answer at 11.

¹⁸ *See Action Alliance of Senior Citizens of Greater Philadelphia v. Philadelphia Gas Comm'n*, 406 A.2d 1155, 1156 (Pa. Cmwlth. 1979) (the Cash Flow Method is the process "tailoring [rates] to anticipated need for cash").

based upon PGW's current and projected financial condition. Without considering such evidence, the Company will be perpetually "behind the eight ball," constantly attempting to catch up and assure sufficient cash and earnings to pay its bills and meet its bond covenants.

Accordingly, it is incumbent upon the Commission to consider this evidence and honor its obligations under the Cash Flow Method, PGW's bond covenants and the Public Utility Code.

On the merits, the OCA and CEPA contend that all the Cash Flow Method requires is that PGW's rates be set to produce a "reasonable" amount of cash flow. They claim that the PUC's Order found that a \$33.5 million increase was reasonable and, therefore, whatever cash the Order produces for the Company is "reasonable." This is circular logic of the highest order.

In fact, other than PGW's presentation, no one was able to point to any analysis or determination by the Commission (or anyone else) of what PGW's end of year cash balances need to be in order to maintain the Company's financial status at minimally acceptable levels. The evidence - which no party refuted in their Answer -- shows that PGW needs end-of-year cash of \$35-40 million to maintain financial health whereas, even without looking beyond the test year used in the case, the PUC's own calculations show that PGW will have just \$10 million of end of year cash.¹⁹ In light of PGW's extensive evidence, both in the record and included in PGW's Petition, the facts show overwhelmingly that the Commission's rate award simply does not satisfy these requirements.

The only response to this irrefutable evidence is that "if PGW needs more revenues to satisfy its needs, including its cash requirements . . ." it should not look to ratepayers. Returning

¹⁹ CEPA criticized PGW's analysis for not including the \$45 million city loan in its cash flow analysis (Answer at 10-11), but ignores the record evidence that the loan is already fully maxed out and must be paid back by January, 2003, making it inappropriate to consider as a permanent source of working capital. Indeed, PGW needs to have a cash build up at the end of August 2002 in order to be able to pay back this loan, as required by City ordinance.

to the theme they have raised throughout the proceeding, the parties claim that PGW should obtain its additional cash needs from the "City" or other sources. This is legally and factually untenable.

First, contrary to the constant and completely incorrect assertion by CEPA, in particular,²⁰ the Management Agreement, the Bond Covenants and the Public Utility Code all require that PGW has an absolute right to obtain any cash flow short fall from rate increases to customers.²¹ For example, Section 2212(e) states that "notwithstanding any other provision in this title to the contrary, the commission shall permit [PGW] to impose, charge or collect rates ...as necessary to permit the City to comply with [its bond] covenants... ." As demonstrated, one of PGW's bond covenants states that PGW must have sufficient cash to pay all of its obligations when they come due.²² The PUC's rate decision does not give PGW sufficient rate

²⁰ CEPA Answer at 11-14.

²¹ The Management Agreement states:

The Gas Commission shall fix and regulate rate and charges for supplying gas to customers . . . which (together with . . . other revenues of the Gas Works qualifying as project revenues . . .) in each fiscal year produce revenues, at a minimum:

(b) Sufficient also . . .

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

The clear impact of this statement is that other than any available project revenue (i.e., proceeds from bonds that are used to reimburse previous construction expenditures) all other funds needed to produce a reasonable level of cash working capital must come from rates. That the City cannot be required to waive the annual fee to which it is entitled has already been clearly established by the Commission and the Legislature. PUC Order (October 4, 2001) at 33-35; 66 Pa. C.S. § 2212(f).

²² The PUC recognized that the Company's bond covenants require it to "charge rates that permit PGW to have sufficient cash to pay all of its obligations, including its

revenues to allow it to do that. To claim that, notwithstanding, other sources of revenues may be available is simply legally untenable.

Second, as demonstrated on the record, this exact argument was made before the Philadelphia Gas Commission and rejected as being utterly inconsistent with the Cash Flow Method.²³ Accordingly, the parties' position is inconsistent with PGW's prior ratemaking method and Section 2212(e) of the Code. Finally, the record also revealed that the City of Philadelphia was not in a fiscal position to act in accordance with the OCA, CEPA, and OTS's wishes.²⁴ If anything, the City's financial position has deteriorated since those statements were made, and the notion that the City can simply "write a check" to make up what, by the evidence, should come from rates, simply is not realistic, to say nothing of being illegal.

To avoid serious financial consequences, PGW respectfully urges the Commission to reconsider its decision and to make a specific finding that, to meet its cash working capital need, PGW's revenues should be increased over and above the level justified by the accounting adjustments adopted by the Commission. The evidence shows that, on this basis the full, \$65 million rate request is justified.

debt service obligation, during each fiscal year in full when they are due." *Pa. PUC v. PGW*, R-00005654, Joint Petition for Full Settlement at ¶ 10 (emphasis added); Opinion and Order (February 22, 2001) at ¶ 1.

²³ See PGW Exh. JRB Rejoinder-2, 1982 Executive Summary at 5 and 1982 Supp. Opinion and Order at 7. In that proceeding, the Peoples Counsel argued that increases for working capital should not come from rates, but rather PGW should borrow from the City or other outside sources. *Id.*, 1982 Executive Summary at 5. This is the exact same argument that OCA, CEPA and OTS are making, here. The PGC flatly rejected this argument. *Id.*, 1982 Supp. Opinion and Order at 7.

²⁴ PGW St. 7.0 (Davis) at 4.

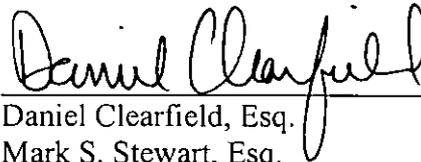
E. RESPONSE TO OTS COMMENTS ON PGW/PICGUG SETTLEMENT

OTS's answer supports the PGW/PICGUG settlement, but appears to be somewhat confused about the intent and structure of the Pilot Program. Under the terms of the Pilot, only 100 customers, who currently take interruptible service, may be included in the Pilot. One spot was reserved for a non-interruptible customer who, while currently taking firm service, has the operational capability to reduce its load when needed and would be willing to do so. PGW is aware of only one customer who would satisfy this criteria. Further, PGW and PICGUG fully intend to include OTS and the other public parties in the process of crafting the supplier rules necessary to implement the settlement. Accordingly, PGW urges the PUC to approve the terms of the settlement as proposed.

F. CONCLUSION

PGW respectfully requests that the Commission carefully consider this Reply to the parties' Answers, and then grant its Petition for Rehearing and Reconsideration.

Respectfully submitted,



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Date: November 5, 2001

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND/OR FIRST CLASS MAIL

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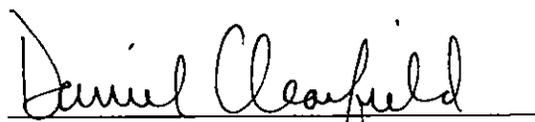
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E-mail: Rbaudino@jkenn.com

Dated: November 5, 2001


Daniel Clearfield, Esquire

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COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

November 5, 2001

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pa. 17105

ORIGINAL

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

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Dear Secretary McNulty:

On November 1, 2001, the Philadelphia Gas Works ("PGW") filed Reply Comments regarding the Compliance Filings Comments of the Office of Trial Staff ("OTS") and the Office of Consumer Advocate ("OCA"). In its Reply Comments, PGW noted that OTS did not address the issue regarding rates TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans in our Answer to PGW's Petition for Rehearing and Reconsideration. Based on that notation, PGW in its Reply Comments assumed that OTS' opposition to its Compliance Filing relative to that particular issue no longer existed.

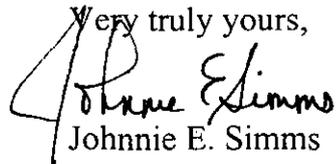
In order to eliminate any ambiguity as to OTS' position regarding rates TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans, OTS is submitting this letter. PGW's fiscal year 2001 Cost of Service Study at Exhibit HSG-1, Schedule 1 at page 3, provides the record evidence that revenues exist for classes TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans. However, OTS is willing to accept the representation of PGW in its Petition for Rehearing and Reconsideration that no revenues will be collected from these customer classes. Accordingly, OTS no longer raises as an objection that PGW did not change the rates for classes TriGen Direct, NGV Direct, LBS Large Direct and GTS Trans in its Compliance Filing.

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AB

As evidence by the Certificate of Service attached to this letter, all parties to the proceeding are being served with copies of this letter.

Very truly yours,


Johnnie E. Simms
Senior Prosecutor

cc: Certificate of Service
Commission's Office of Special Assistants

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

v.

:

Docket No. R-00006042

Philadelphia Gas Works

:

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter**, dated November 5, 2001, either personally, by first class mail, express mail, electronic mail, or by fax upon the persons listed below:

Honorable Cynthia W. Fordham
Pa Public Utility Commission
Office of Administrative Law Judge
1302 Philadelphia State Office Building
Broad and Spring Garden Streets
Philadelphia, PA 19130

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Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: November 5, 2001
Docket No. R-00006042



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

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November 7, 2001

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James J. McNulty, Secretary
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works
Docket No. R-00006042

Dear Secretary McNulty:

Enclosed for filing please find an original and nine (9) copies of the **Office of Trial Staff's Answer to the Philadelphia Gas Works' Motion for Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration** in the above-captioned proceeding.

Copies are being served on all active parties of record.

Sincerely,

Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

DOCUMENT
FOLDER

Enclosure

- cc: Parties of Record
- Chairman Thomas
- Vice Chairman Bloom
- Commissioner Wilson
- Commissioner Fitzpatrick
- Chief Counsel Pankiw
- Director Walker-Davis

12

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

Docket No. R-00006042

PHILADELPHIA GAS WORKS

**THE OFFICE OF TRIAL STAFF'S ANSWER
TO THE PHILADELPHIA GAS WORKS' MOTION FOR
LEAVE TO FILE A REPLY TO THE ANSWERS TO THE
PHILADELPHIA GAS WORKS' PETITION FOR
REHEARING AND RECONSIDERATION**

The Office of Trial Staff ("OTS") respectfully submits this Answer to the Philadelphia Gas Works' ("PGW") Motion for Leave to File a Reply to the Answers to its Petition for Rehearing and Reconsideration. In support thereof, OTS avers as follows:

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I. Introduction

1. On October 4, 2001, the Pennsylvania Public Utility Commission ("Commission") issued its Opinion and Order in the above-captioned matter, which granted PGW a \$39 million rate increase.

2. On October 19, 2001, PGW filed a Petition for Rehearing and Reconsideration of the Commission's Opinion and Order of October 4, 2001.

3. On October 29, 2001, OTS, the Office of Consumer Advocate ("OCA"), and Consumers Education and Protective Association ("CEPA") filed timely Answer to PGW's Petition pursuant to Section 5.572 of the Commission's Rules of Administrative Practice and Procedure.

4. On October 25, 2001, the Commission granted PGW's Petition for Rehearing and Reconsideration for "the limited purpose of preserving jurisdiction in order to afford an opportunity to further review of, and consideration on the merits, of the Petition and any responses thereto." See Order entered October 25, 2001.

5. On November 5, 2001, PGW filed a Motion for Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration ("Motion"), along with an Appendix "A" entitled Reply to Answers to Petition for Rehearing and Reconsideration ("Appendix A").

6. In support of filing its Motion and Appendix A, PGW alleges in its Reply to the OTS, OCA and CEPA's Answers is necessary in order to assist the Commission in evaluating the issues. Moreover, PGW alleges that OTS utilized its Answer to introduce new evidence into this proceeding regarding PGW's bad debt percentage for the year 2000.

7. OTS respectfully submits that the reasons presented by PGW for the filing of its Motion and Appendix A are without merit, both factually and legally.

Accordingly, both the Motion and Appendix A should be rejected for the following reasons:

II. PGW's Bad Debt Percentage for the Year 2000

In its zeal to provide support for the unprecedented filing of its Motion and Appendix A, PGW claimed that OTS utilized its Answer to PGW's Petition for rehearing and reconsideration to introduce new evidence into this proceeding regarding PGW's bad debt percentage for the year 2000. OTS respectfully submits that PGW's claim is absolutely false. Moreover, PGW based its argument on its belief that "OTS made an invalid comparison of actual write-offs to bill gas revenues, as opposed to the appropriate comparison of uncollectible expenses to total revenues previously used by all parties, including OTS." It is clear by PGW's argument that its Motion and Appendix A were written by someone who possesses a little technical knowledge, but not enough technical knowledge to fully comprehend how the bad debt percentage was calculated based upon the record evidence in this proceeding. Accordingly, there is a need to fully explain in detail how the Commission approved OTS bad debt expense methodology was mathematically calculated.

By way of background, the Commission in Pennsylvania Public Utility Commission, et al. v. Philadelphia Gas Works, R-00005654 (November 22, 2000), addressed the bad debt expense issue in pertinent part as follows:

Based upon the evidence before us, we shall adopt the position of the OTS and based PGW's uncollectible accounts expense upon the application of the recommended

bad debts percentage of 7.3922 percent. We arrive at this conclusion for a number of reasons. First, we find the OTS method of determining the bad debt percentage to be reasonable and consistent with the Commission's policy of allowing *known and measurable* adjustments. We are mindful that the purpose of an adjustment such as this is to determine a normal level of expense by levelizing fluctuations in this expenses such as: write off or collection activities by PGW, economic conditions, or increased consumption due to weather. We are also of the opinion that the five-year period chosen by the OTS is of sufficient length to achieve that purpose. Further, we find the PGW bad debt percentage of 8.4% to be speculative in nature in that it has submitted no calculations to support the reasonableness of this proposal.

Opinion at page 17.

In recommending an appropriate bad debt expense calculation in the above-captioned proceeding, OTS employed the same methodology using the same mathematical calculation as had been approved by the Commission in PGW's interim rate proceeding at docket number R-00005654, and subsequently reaffirmed by the Commission in its Order of October 4, 2001 in the above-captioned proceeding.

The approved mathematical calculation is very simple, in that a five-year period was selected with the time period of 1995-1999. See Attachment No. 1, OTS Exhibit No. 1, Schedule 4. After determining the five-year period, PGW's "billed gas revenues" and "bad debt expense" were listed for each of the five years. For example, PGW's "billed gas revenues" and "bad debt expense were \$482,700,000 and \$36,456,000, respectively for fiscal year 1999. See Attachment 1, OTS Exhibit No. 1, Schedule 4. In order to determine the

appropriate write-off ratio for fiscal year 1999, one must divide the write-off "bad debt expense" of \$36,456,000 by the "billed gas revenues" of \$482,700,000 which results in a 7.5525% write-off ratio for 1999. See Attachment No. 1, OTS Exhibit No. 1, Schedule 4. The mathematical calculation that has been described in determining the write-off ratio for 1999 was initially approved by the Commission in the interim proceeding at docket number R-00005042, and reaffirmed by the Commission in its Opinion and Order of October 4, 2001 in the above-captioned matter. Moreover, the mathematical calculation described for determining the write-off ratio for fiscal year 1999 is the same mathematical calculation utilized for determining the write-off ratio for each PGW's fiscal years listed on OTS Exhibit No. 1, Schedule 4.

OTS respectfully submits that if the Commission and/or a party have a desire to determine the write-off ratio for a fiscal year other than the years listed in OTS Exhibit No. 1, Schedule 4 then the proper mathematical calculation must be the write-off (bad debt) expense for that year divided by the billed gas revenues for that year, which will provide the appropriate write-off ratio for that particular year. In that regard, the Commission's approved mathematical calculation in determining the write-off ratio for a particular year is crucial in determining whether PGW's utilization of 10.25% is correct for fiscal year 2000.

First of all, with respect to PGW's bad debt percentage for the year 2000, PGW, not OTS is advocating the inclusion of year 2000 bad debt percentage in the five-year average. OTS did not utilize the 2000 bad debt percentage in its five-

year average due to its abnormally low bad debt percentage presumably due to the billing and collection problems associated with PGW's computer problems in the year 2000.

Second, PGW has falsely accused OTS of introducing new evidence in its Answer to PGW's Petition for rehearing and reconsideration as it relates to PGW's bad debt percentage for the year 2000. As previously noted, PGW, not OTS, is advocating the use of the bad debt percentage for the year 2000. Accordingly, the first issue is whether the bad debt percentage for the year 2000 utilized by PGW is correct, and the answer is **NO**. The second issue is whether the correct bad debt percentage for the year 2000 can be calculated from evidence that has been admitted into the record, and the answer is **YES**.

As previously noted, the Commission has twice approved OTS' recommended mathematical calculation for determining the write-off ratio for a particular PGW fiscal year, by using the **write-off (bad debt) expense divided by billed gas revenues**. In its Motion and Appendix A, PGW has made the unsubstantiated allegation that OTS' argument that the proper write-off ratio of 3.9% for PGW's 2000 fiscal year is the introduction of new evidence.¹ On the contrary, when PGW in its Petition for rehearing and reconsideration asserted that the write-off ratio for its 2000 fiscal year was 10.25%, OTS simply looked at the Commission approved mathematical calculation for determining write-off ratio for a particular year, and the record evidence regarding PGW's 2000 fiscal year. In

that regard, PGW Exhibit JRB-2, page 6, which has been admitted into evidence, reveals that the write-off (bad debt) expense for fiscal year 2000 is \$19,465,000 and the billed gas revenues for fiscal year 2000 is \$495,545,000. See Attachment No. 2. Using the Commission approved mathematical calculation for determining the write-off ratio, which was utilized in OTS Exhibit No.1, Schedule 4, the year 2000 write-off (bad debt) expense of \$19,465,000 divided by billed gas revenues of \$495,545,000 equals 3.9280% write-off ratio for the fiscal year 2000. The appropriate write-off ratio for fiscal year 2000 only became an issue, when PGW filed its Petition for rehearing and reconsideration, and OTS correctly responded by utilizing the Commission's Order of October 4, 2001, which provided the mathematical calculation, and the record evidence of PGW Exhibit JRB-2, page 6, which provided the write-off (bad debt) expense and the billed gas revenues of fiscal year 2000. It does not take a mathematical genius to determine that a write-off (bad debt) expense of \$19,465,000 divided by billed gas revenues of \$495,545,000 equals 3.9280. PGW's argument that it must file a Reply to OTS' answer to its Petition for rehearing and reconsideration due to OTS' introduction of new evidence is a fabrication, and is merely an attempt to justify an unwarranted and legally unsupported Motion and Appendix A.

PGW in its Motion and Appendix A attacked the credibility of OTS, by suggesting that "OTS did not understand the bad debt expense claim in the first

¹ In its Answer, OTS indicated that "a proper calculation of the bad debt for PGW's fiscal year 2000 is a ratio of bad debt expense to sales of 3.9280%, not 10.2%.

instance." Moreover, in footnote 16 of its Appendix A, PGW argued that it "utilized the exact same method contained in this schedule (OTS Exh. 1, Sch.4) to determine the 2000 and 2001 bad debt percentages of 10.2% and 8.67%, respectively." PGW continues its attack in footnote 16, by arguing that "by attacking PGW's Petition on this point, OTS is attacking its very own recommendation on bad debt expense." OTS would submit that nothing could be further from the truth.

Case in point, OTS in its previous discussion in this Answer has illustrated point by point how the write-off ratio is calculated in OTS Exhibit 1, Schedule 4, by using the write-off (bad debt) expense divided by the bill gas revenues for a particular PGW fiscal year. To further demonstrate the mathematical calculation used in OTS Exhibit 1, Schedule 4 and the determination of a 3.9280 write-off ratio for the fiscal year 2000, OTS respectfully requests that the Commission **admit into evidence**, PGW's response to interrogatory OTS-RE-83. See Attachment No. 3. PGW's response to interrogatory OTS-RE-83 shows the actual billed gas revenues and write-off expense for the years 1994-2000. By placing OTS Exhibit No. 1, Schedule 4 and the response to OTS-RE-83 side by side, the Commission will conclude that for the years 1995-1999, the "billed gas revenues" column on OTS Exhibit No. 1, Schedule 4 is identical to the "bill gas revenues" column on OTS-RE-83. Likewise, by placing OTS Exhibit No. 1, Schedule 4 and the response to OTS-RE-83, side by side, the Commission will conclude that for the years 1995-1999, the "bad debt expense" column on OTS Exhibit No. 1,

Schedule 4 is identical to the "write-off expense" column on OTS RE-83. As previously discussed, the write-off ratios listed on OTS Exhibit No. 1, Schedule 4 for the years 1995-1999 were calculated by using the bad debt expenses divided by the billed gas revenues for each of those years. Of course, the average of 7.6160% for the five years of 1995-1999 was calculated by adding the write-off ratios for each of the years, and dividing by five.

The question that the Commission must have answered is that while PGW has advocated adding 2000 and 2001 to the five years, with PGW's calculated bad debt percentages 10.2% and 8.67%, respectively, how were the percentages calculated? The answer is that PGW has not provided any information regarding how 10.25% was calculated as a write-off ratio. PGW in its accusatory argument asserted in footnote 16 of its Appendix A that "PGW utilized the exact same method contained in this schedule (OTS Exh. 1, Sch. 4). OTS respectfully submits that if the Commission reviews PGW's response to interrogatory OTS-RE-83, it will show that the write-off expense column for 2000 is \$19,465,000 and the billed gas revenues column for 2000 is \$495,545,000. There should be no dispute that by using the write-off expense of \$19,465,000 divided by billed gas revenues by 495,545,000 equals 3.9280% not 10.25%. In case PGW's response to interrogatory OTS-RE-83 is not admitted into evidence, the same figures can be located in PGW Exhibit JRB-2 in columns identified as write-off account balance and billed gas revenues, respectively for actual 1999-00. See Attachment No. 2. Consequently, PGW's argument that its determination of bad debt percentages of

10.2% and 8.67%, respectively, for 2000 and 2001 is the "exact same" method contained in OTS Exhibit No. 1, Schedule 4 is a false impression. When PGW's asserts that OTS' argument "strains credulity", OTS submits that there is a strain of credulity regarding the bad debt expense issue, and it begins and ends with PGW. In fact, it is incredible that PGW continues with the 10.2% argument, when OTS through its witness, Charles Weakley, explained on cross-examination that any reference to 10.2% as it relates to bad debt expense was not applicable. See Attachment No. 4, excerpts from the transcribed notes from the proceeding.

While PGW asserts that the 10.2% and 8.67% bad debt percentages for 2000 and 2001 were calculated using the same method contained in OTS Exhibit No. 4, Schedule 4, a simple mathematical calculation proves that the assertion is incorrect. Accordingly, the best OTS can determine with respect to PGW's claimed 10.2% bad debt percentage for 2000 is that it appears to be calculated by taking the "Appropriation to Reserve" column of \$54,642,000 of actual 1999-00 divided by "Total Revenues" column of \$526,334,000, which are contained in PGW Exhibit JRB-2, but this is not the method approved by the Commission as presented in OTS Exhibit No. 1, Schedule 4. Consequently, PGW's 10.2% bad debt expense is based on funding the bad debt reserve balance. OTS submits that PGW's bad debt expense is the amount needed to adjust the bad debt reserve balance to a desired level, which can be any amount so desired by PGW or the Philadelphia Gas Commission. Simply, PGW's bad debt claim should not be used in setting rates since it does not reflect actual write-offs.

Additionally, PGW's determination of bad debt expense for the fiscal year 2001 is not the actual write-offs. The ratio of 8.67% for 2001 is likewise incorrect based upon the Commission approved method. There is absolutely no support for the estimated 8.67% in the record evidence in this proceeding.

III. \$406,768 Overstatement of OTS Revenue Adjustment

PGW's continued proposed \$406,768 Overstatement of OTS Revenue Adjustment is simply wrong, and a gross misunderstanding of the ratemaking process before the Pennsylvania Public Utility Commission. PGW failed to comprehend that the Commission determined, in this proceeding, a revenue level for PGW's increase which was approximately \$33 million. In determining the rates that develop the \$33 million, PGW should have use OTS' approved sales volumes and customer count, which it did not. Second, PGW should have multiplied the approved customer charges by the approved customer count, which it did not. If PGW had performed the above proper procedures, a certain level of revenues would have been calculated. After calculating the level of revenues, PGW should have subtracted the customer charge revenue from the \$33 million. There is simply no revenue overstatement or incremental revenue associated with OTS' approved customer number and sales volumes.

The real problem surrounding this issue is the fact that PGW did not file a build up of the proposed revenue increase from present rates. PGW never filed an income statement based on present rates. Now, after the Commission has made a determination of the revenue for PGW' s increase, PGW is attempting to use

"smoke and mirrors" to secure additional revenues that it has no claim to. PGW has created its own problem by attempting to adjust its proposed revenue level downward instead of building up to the present rates. Simply put, instead of working with the Commission's approved revenue level, PGW is working off a hypothetical proposed revenue number that constantly varies.

Accordingly, there is no merit to PGW's argument, and the Motion and Appendix A should be rejected.

IV. Conclusion

While Philadelphia Gas Works' Motion and Appendix A are replete with nonsensical rhetoric, the Office of Trial Staff's Answer purposely did not address every single argument made by Philadelphia Gas Works, as we believe that our Answer to Philadelphia Gas Works' Petition for Rehearing and Reconsideration sufficiently addressed many of the arguments presented by the Philadelphia Gas Works. This Answer is supplemental to the Office of Trial Staff's Answer to the Petition for Rehearing and Reconsideration, and is requesting that the Commission deny Philadelphia Gas Works' Motion and reject its attached Appendix A.

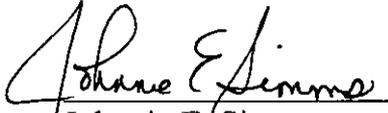
The Office of Trial Staff respectfully submits that there can no doubt that Philadelphia Gas Works' Motion lacks legal support, as there is no legal provision, which will allow the granting of its motion to reply to Answers to its Petition for Rehearing and Reconsideration. Philadelphia Gas Works' had ample opportunity to present all of its arguments in its Petition, and the parties had the right to respond in an Answer to those arguments. This arrogant notion that its requests to

file a Reply is needed so as to educate the parties, including the Commission about the “Cash Flow method, the calculation of revenue requirement, *pro forma* revenues, the preparation of the compliance tariff, the application of test year concepts, and other issues” is laughable, and should be rejected. If one took Philadelphia Gas Works’ argument seriously, one would conclude that the reason for its Reply is that everyone, excluding Philadelphia Gas Works, needs to read a book on “Ratemaking For Dummies”. Instead of filing a Reply to Answers to its Petition for Rehearing and Reconsideration, Philadelphia Gas Works needs to fully comply with the Commission’s Opinion and Order of October 4, 2001.

Moreover, this fabrication that a Reply is needed because the Office of Trial Staff introduced new evidence into this proceeding has been dispelled by the above discussion on the bad debt issue, and likewise should be rejected.

Accordingly, the Office of Trial Staff respectfully requests that the Commission deny the Philadelphia Gas Works' Motion for Leave to Reply, and not consider its Reply to Answers to its Petition for Rehearing and Reconsideration, attached to its Motion as "Appendix A".

Respectfully submitted,


Johnnie E. Simms
Senior Prosecutor

The Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, Pa. 17105
(717) 787-1976

Dated: November 7, 2001

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ATTACHMENT NO. 1

OTS Exhibit No. 1

Witness: Charles T. Weakley, III

Date: April 10, 2001

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Philadelphia Gas Works

Docket No. R-00006042

Exhibits To Accompany

The

Direct Testimony

Of

Charles T. Weakley, III

Office of Trial Staff

Concerning: Base Rate Proceeding

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

<u>YEAR</u>	<u>BILLED GAS REVENUES</u> (1)	<u>BAD DEBT EXPENSE</u> (2)	<u>BAD DEBT % OF SALES</u> (3) = (2) / (1)
1995	\$477,601	\$37,518	7.8555%
1996	\$539,119	\$33,975	6.3019%
1997	\$548,455	\$39,149	7.1381%
1998	\$497,985	\$45,973	9.2318%
1999	\$482,700	\$36,456	7.5525%
		AVERAGE	<u>7.6160%</u>

OTS ADJUSTED TOTAL GAS REVENUES	\$802,624
AVERAGE BAD DEBT % OF SALES	<u>7.6160%</u>
OTS RECOMMEND BAD DEBT EXPENSE	<u><u>\$61,128</u></u>

ATTACHMENT NO. 2

EXHIBIT JRB-2

DOCKET NO. R-00006042

		\$18 M	\$21.5 M	\$44 M	\$65 M
		5/07/01	05/07/01	05/07/01	05/07/01
	Actual	Estimate	Budget	Budget	Budget
<u>Accounts Receivable</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2001-02</u>	<u>2001-02</u>
Beginning Receivable Balance	97,038	141,080	199,985	199,985	199,985
Billed Gas Revenues	495,545	746,360	782,333	782,333	782,333
Proposed Rate increase			21,500	44,000	65,000
Other Operating Revenues	30,789	24,880	26,796	27,546	28,246
Total Revenues	526,334	771,240	830,629	853,879	875,579
	87.74%	87.50%	90.00%	90.00%	90.00%
Collections Current Revenues	(461,824)	(674,835)	(747,566)	(768,491)	(788,021)
Collections on Prior AR			(10,000)	(10,000)	(10,000)
Write-Offs Less Reactivations	(20,468)	(37,500)	(52,000)	(52,000)	(52,000)
Total Credit / Reductions	(482,292)	(712,335)	(809,566)	(830,491)	(850,021)
Ending Receivable Balance	141,080	199,985	221,047	223,372	225,542
<u>Bad Debt Expense</u>					
Current Year Net Receivable	141,080	199,985	221,047	223,372	225,542
Reserve Factor	38.73%	35.00%	34.00%	34.00%	34.00%
Total Bad Debt Expense	54,642	69,995	75,156	75,947	76,684
<u>Write Off Account Balance</u>	19,465	37,500	52,000	52,000	52,000
<u>Total Reserve Balance</u>					
Beginning Reserve Balance	66,520	101,697	134,192	134,192	134,192
Write-Off Balance	(19,465)	(37,500)	(52,000)	(52,000)	(52,000)
Appropriation to Reserve	54,642	69,995	75,156	75,947	76,684
Ending Reserve Balance	101,697	134,192	157,348	158,139	158,876
OAR Reserve	253	250	250	250	250
M & J Reserve	50	50	50	50	50
Total Reserve Balance	102,000	134,492	157,648	158,439	159,176

05/08/2001

ATTACHMENT NO. 3

RESPONSE TO THE OFFICE OF TRIAL STAFF INTERROGATORIES
REGARDING PGW'S BASE RATE PROCEEDING

Question OTS-RE-83: Reference PGW St. 3.0, page 10. Please provide an updated schedule of Accounts Receivable, Reserve for Bad Debt, Write-off Expenses, Delinquent Customers and Reserve Statistics for the years ending 1994 to 2000.

Response Provided By: Joseph R. Bogdonavage, Senior Vice President, Finance

Response: See the attached schedule.

PHILADELPHIA GAS WORKS
ACCOUNTS RECEIVABLE, RESERVE FOR BAD DEBT EXPENSE,
WRITE OFF EXPENSE & REVENUE STATISTICS

	ACTUAL							\$18.0 M
	1994	1995	1996	1997	1998	1999	2000	Estimate
	1994	1995	1996	1997	1998	1999	2000	2001
Billed Gas Revenues	\$554,212	\$477,601	\$539,119	\$548,455	\$497,985	\$482,700	\$495,545	\$793,080
Accounts Receivable	171,730	140,002	143,303	132,560	110,790	115,788	156,080	225,475
Bad Debt Appropriation	43,401	43,276	38,340	33,474	34,130	38,999	54,642	74,979
Reserve For Bad Debt	(73,772)	(79,195)	(83,214)	(77,100)	(64,724)	(67,070)	(102,000)	(139,476)
Reserve as a % of Accounts Receivable	43.0%	56.6%	58.1%	58.2%	58.4%	57.9%	65.4%	61.9%
Write-Off Expense	23,927	37,518	33,975	39,149	45,973	36,456	19,465	37,500
Receivable as a % Billed Revenues	31.0%	29.3%	26.6%	24.2%	22.2%	24.0%	31.5%	28.4%
Net Receivable as a % Billed Revenues	17.7%	12.7%	11.1%	10.1%	9.3%	10.1%	10.9%	10.8%
Delinquent Customers (Annual Average)	143,613	112,712	119,806	120,901	117,394			

ATTACHMENT NO. 4

1 Q. Do you know what \$54,642,000 is as a percentage
2 of the total gas revenues that the company actually
3 experienced? I calculated it as 10.25 percent but you
4 know how lawyers are with math.

5 (Pause.)

6 Q. I have Mr. Bertocci's calculator here if you
7 want it.

8 (Pause.)

9 A. Yes, it is about 10.2 percent. But just to
10 make sure you understand, the 54 million listed in this
11 schedule is based on the company's funding of reserve
12 balance and it is not the actual write-off of customer
13 accounts. During the same period the company wrote off
14 19,465,000 in customer accounts. Just so you know.

15 Q. Well, you are the expert, but isn't that number
16 really representative of what the company -- and it is an
17 audited number, isn't it, that bad debt expense?

18 A. It's an estimate.

19 Q. Well, I believe Mr. Bogdonavage testified that
20 in fact it is audited by outside auditors and verified by
21 them. Do you remember that testimony?

22 A. It is reviewed by the company's auditors but
23 accountants don't express an opinion on the
24 uncollectibles. What they do is they review it with the
25 company and that the estimates in the financials are

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-00006042
Philadelphia Gas Works :

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CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Office of Trial Staff's Answer to the Philadelphia Gas Works' Motion for Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration**, dated November 7, 2001, either personally, by first class mail, express mail, electronic mail, or by fax upon the persons listed below:

Honorable Cynthia W. Fordham
Pa Public Utility Commission
Office of Administrative Law Judge
1302 Philadelphia State Office Building
Broad and Spring Garden Streets
Philadelphia, PA 19130

Daniel Clearfield, Esquire
Mark S. Stewart, Esquire
Wolf, Block, Schorr and Solis-Cohen LLP
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Harrisburg, PA 17101

Steven Gray, Esquire
Office of Small Business Advocate
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Harrisburg, PA 17101

Tanya J. McCloskey, Esquire
Office of Consumer Advocate
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Harrisburg, PA 17101-1923

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David M. Kleppinger, Esquire
McNees, Wallace & Nurick
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School District of Philadelphia
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204 State Street
Harrisburg, PA 17101

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Johnnie E. Simms
Senior Prosecutor
Office of Trial Staff

Dated: November 7, 2001
Docket No. R-00006042

ORIGINAL

November 14, 2001

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 7 North
400 North Street
Harrisburg, PA 17120

Filed by Federal Express

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PA PUBLIC UTILITY COMMISSION
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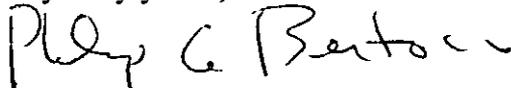
Re: Pa. P.U.C. v. Philadelphia Gas Works, Docket No. R-00006043

Dear Secretary McNulty:

I represent the Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), Action Alliance of Senior Citizens of Greater Philadelphia, and the Tenants Action Group (TAG) (collectively CEPA et al.) in the above-captioned matter.

Enclosed please find for filing an original and three CEPA et al.'s Answer to PGW's Motion for Leave to File a Reply to the Answers to PGW's Motion for Rehearing and Reconsideration in this case.

Very truly yours,



PHILIP A. BERTOCCI

Attorney for CEPA et al.

cc: Certificate of Service

Enclosures

DOCUMENT
FOLDER

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

Pennsylvania Public Utility Commission
v.
Philadelphia Gas Works

:
:
:
:
:

Docket Number
R-00006042
R-00006042C0001 et al.

CEPA et al.'s ANSWER TO PGW'S MOTION FOR LEAVE TO FILE A REPLY
TO THE ANSWERS TO PGW'S MOTION
FOR REHEARING AND RECONSIDERATION

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

The Consumers Education and Protective Association (CEPA), the Association of Community Organizations for Reform Now (ACORN), the Tenants' Action Group (TAG) and Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) (collectively "CEPA et al.") hereby answer PGW's November 5, 2001 Motion for Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration as follows:

1.-3. Admitted.

4. Denied. The Commission's Order speaks for itself. It is CEPA et al.'s understanding that the Petition for Rehearing and Reconsideration was granted for the purposes of retaining jurisdiction while further considering whether reconsideration or rehearing would be granted.

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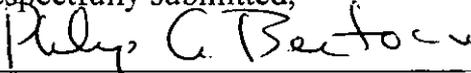
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5.-6. Denied. CEPA et al. agree with the positions set forth by OCA and OTS in their responses to PGW's Motion for Leave to File a Reply.

WHEREFORE, CEPA et al. request that PGW's Motion be denied.

Respectfully submitted,



PHILIP A. BERTOCCI, ESQUIRE
EDWARD A. MCCOOL, ESQUIRE

Attorneys for CEPA et al.

November 14, 2001

COMMUNITY LEGAL SERVICES, INC.
1424 Chestnut Street, 4th Floor
Philadelphia, PA 19102
(215) 981-3702

R-00006042

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing CEPA et al.'s Answer to PGW's Motion for Leave to File a Reply to the Answers to the Philadelphia Gas Works' Petition for Rehearing and Reconsideration upon the participants listed below in accordance with the requirements of 52 Pa.Code §1.54 (relating to service by a participant).

Via First Class U.S. Mail, Postage Prepaid

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Commerce Building, Suite 1102
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Tanya Mc Closkey, Esquire
Stephen Keene, Esquire
Office of Consumer Advocate
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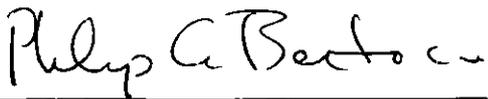
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PHILIP A. BERTOCCI

Date: November 14, 2001

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PUBLIC UTILITY COMMISSION
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ORIGINAL

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November 19, 2001

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VIA HAND DELIVERY

James McNulty, Secretary
PA Public Utility Commission
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

DOCUMENT
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K.S.R.

Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works, Docket No. R-00006042

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works ("PGW"), this letter clarifies certain statements made in PGW's Motion for Leave to File a Reply to the Answers of the Office of Trial Staff ("OTS"), et al., to its Petition for Rehearing and Reconsideration, and responds to comments made in the OTS Answer to the Motion.

First, PGW's motion implied that a reference in OTS's Answer to PGW's original Petition for Rehearing and Reconsideration - in which OTS cited PGW's actual year 2000 write-off level - \$19.5 million - was new, non-record evidence.¹

After reviewing the OTS Answer to PGW's Reply, PGW agrees that the OTS reference of \$19.5 million is indeed in the record in the proceeding² (OTS had not originally provided a record cite to the \$19.5 million). The year 2000 recorded level of bad debt write-offs, however, as the OTS itself acknowledged in its direct testimony,³ is not reflective of PGW's actual uncollectible experience in that year because the lack of full functionality of its billing system prevented PGW from writing off all accounts that qualified for write-off. Those billing system

¹ PGW Motion at ¶ 6.

² Tr. 757.

³ OTS St. 1 at 8.

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James McNulty, Secretary
November 19, 2001
Page 2

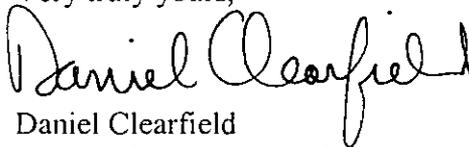
errors persisted in 2001, rendering the 2001 write-off number to be unusable for comparison purposes, as well

Second, OTS took issue with PGW's suggestion that the use of the year 2000 write-off figure was inconsistent with the method used by OTS to calculate the recommended level of *pro forma* bad debt expense.⁴ After reviewing OTS's response, PGW agrees that OTS's methodology has consistently employed PGW's actual write-off amounts to calculate its recommended *pro forma* bad debt expense allowance.

PGW continues to assert however, that the use of historical write-off amounts is not an appropriate method of calculating a *pro forma* uncollectible allowance for a Company that employs the Cash Flow Method of ratemaking, such as PGW. PGW's write-off level (even when properly recorded) does not reflect the total amount of revenues that the Company will bill, but not collect, in the test year. Since PGW's cash working capital is a key element of the rate determination, PGW continues to believe that an accurate *pro forma* percentage must include current data reflecting bad debt expense, not write-offs. The Company's bad debt expense reflects the ultimate collectibility of the accounts receivable as determined by PGW's outside auditors.

Accordingly, PGW continues to urge that, if the PUC is going calculate a bad debt expense figure based upon historical data, the percentage proposed in PGW's Petition for Rehearing and Reconsideration – 8.5685% – accomplishes this by utilizing PGW's actual bad debt expense, as a percentage of total gas revenues, at least for the most current period (2000-01), combined with the OTS's more conservative write-off percentage for earlier years (1997-1999).

Very truly yours,



Daniel Clearfield

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

DCC/lww

cc: Parties of Record
PUC Office of Administrative Assistants

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⁴ PGW Motion at 6.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL AND/OR FIRST CLASS MAIL

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Dated: November 19, 2001



Daniel Clearfield, Esquire

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City of Philadelphia v. Pennsylvania Public Utility
Commission.

R-00006042

NOTICE OF PETITION by City of Philadelphia, at No. 19
C.D. 2002, in the Commonwealth Court of Pennsylvania
from the order of the Commission entered December 6,
2001 in the above-captioned appeal.

B-00023882

Filed: January 4, 2002

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JAN 29 2002

DOCUMENT FOLDER

Philadelphia Gas Works on its own behalf and by the
Philadelphia Facilities Management Corporation v.
Pennsylvania Public Utility Commission.

R-00006042

NOTICE OF PETITION by Philadelphia Gas Works on its
own behalf and by the Philadelphia Facilities Management
Corporation, at No. 20 C.D. 2002, in the Commonwealth
Court of Pennsylvania from the order of the Commission
entered December 6, 2001 in the above-captioned appeal.

B-00023883

Filed: January 4, 2002

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JAN 29 2002

Philadelphia Gas Works

Craig White
Senior Vice President
Marketing and Supply Services



800 W. Montgomery Avenue, Philadelphia, PA 19122
Telephone: 215-684-6746
Fax: 215-787-1213
E-mail: cwhite@pgworks.com

January 7, 2002

James McNulty, Secretary
Pennsylvania Public Utility Commission
Room B-20, North Office Building
Harrisburg, PA 17105-3265

RE: Pennsylvania Public Utility Commission v.
Philadelphia Gas Works, Docket Number
R-00006042 et al.

Dear Secretary McNulty,

Enclosed please find the following items in compliance with the Pennsylvania Public Utility Commission's (PUC) Opinion and Order entered December 6, 2001 in the above captioned matter:

1. A schedule setting forth the calculation of PGW's Proof of Revenue for its Base Rates adjusted in accordance with the Commission's December 6, 2001 Order. The rates are based on the Office of Trial Staff's (OTS) calculations regarding the number and average use of PGW's residential heating customers. Also enclosed are two additional Proof of Revenue Schedules. One was previously filed as part of PGW's October 12, 2001 compliance filing and the other reflects what the October 12, 2001 compliance filing would have looked like with the OTS' calculations regarding the number and average use of PGW's residential heating customers. Since the Commission found that PGW's October 12, 2001 compliance filing was inconsistent with the Commission's October 4, 2001 Order regarding this issue, PGW has calculated the amount it anticipates overcollecting under its existing tariffed rates for future refund to customers. In order to calculate this refund amount, PGW measured the overcollection amount from October 13, 2001, the date the rates at issue became effective, through March 1, 2002, the projected date of Commission approval of PGW's compliance filing. (PGW filed its compliance filing on October 12, 2001 and it went into effect the next day, October 13, 2001.) As the Commission can see from the Estimated Overcollection schedule, PGW has calculated that it will have overcollected approximately \$226,910.00 between October 13, 2001 and March 2002. This schedule as well as the Overcollection Comparison Schedule illustrates how this figure was calculated.

PGW proposes refunding this amount in combination with any refund the Commission may require as a result of the OCA's Petition for Enforcement of the Settlements and OTS' Formal Complaint against the December 1, 2001 GCR quarterly adjustment filed under Docket numbers R-00016378 and R-00005654. See December 26, 2001 Secretarial Letter. The

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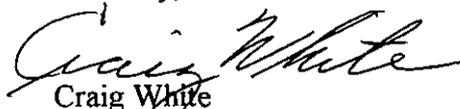
combination of the two amounts in one refund will save PGW from incurring the duplicative costs separate customer refunds would require. It is noteworthy that PGW's next quarterly GCR filing is scheduled for March 1, 2002, around the time that PGW expects the Commission to approve this Compliance Filing.

2. Proposed tariff pages setting forth: a) the revised customer and commodity charges under Rate GS; b) the addition of a new customer charge for Rate MS and Rate PHA; c) the addition of a new section, at section 2.3, allowing for stipulated negotiated rates and terms of service contracts with certain customers; and d) clarifications to the terms of Rates BPS-S and BPS-L. PGW has omitted effective dates on the tariff pages and rate schedules because the rates will not be effective until following final Commission approval of this Compliance Filing. In this regard, the Commission's finalization of its October 12, 2001 Tentative Order is implemented prospectively, consistent with applicable law. While the new customer charge for Rate MS is included in the proof of revenue statements, by law, the rate change is subject to approval by the City Council of the City of Philadelphia and the rate change will not be charged or implemented until such time as City Council approval is received.

3. PGW has agreed to a timetable with OCA, OTS and OSBA for filing exceptions and reply exceptions under which this Compliance Filing and any subsequent exceptions will be served by first class mail providing responding parties with the benefit of the three day mail rule. *See* 52 Pa. Code §1.56(b). Pursuant to this timetable, all intervenor exceptions will be filed by January 22, 2002 and PGW will file its reply exceptions by January 30, 2002. Once the Commission approves the rate, PGW will notify its customers by message on the bill.

Please contact me if you have any additional comments or questions.

Sincerely,



Craig White
Acting Chief Operating Officer
For: Philadelphia Gas Works

cc: All parties of Record w/enc.
Karen Moury, Esq. Law Bureau w/enc.
Robert Rosenthal, Director, Fixed Utility Services w/enc.
Daniel Clearfield, Esq.

1 Philadelphia Gas Works
 2 Docket R-0006042
 3 Proof of Revenue Schedule 1
 4

January 7, 2002 COMPLIANCE FILING

	Number of Customers	Number of Annual Bills	Annual Sales (mcf)	Discount	Current Tariff in effect on 1/6/01					PUC Order					Increase			
					Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Customer Revenue	Base Rate Revenue	Total Revenue	
5																		
6 Non-Heating:																		
7 Residential	58,693	704,310	1,932,718	-	\$ 8.00	\$ 6.613	5,634,480	12,781,064	18,415,544	\$ 12.00	\$ 6,7770	8,451,720	13,098,030	21,549,750	2,817,240	316,966	3,134,206	
8 Residential-Senior	6,956	83,466	182,395	20%	\$ 8.00	\$ 6.613	534,182	964,943	1,499,125	\$ 12.00	\$ 6,7770	801,274	988,873	1,790,146	267,091	23,930	291,021	
9 CRP	2,230	26,757	184,455	-	\$ 8.00	\$ 6.613	214,056	1,219,801	1,433,857	\$ 12.00	\$ 6,7770	321,084	1,250,052	1,571,136	107,026	30,251	137,279	
10 CRP-Senior	102	1,224	9,446	20%	\$ 8.00	\$ 6.613	7,834	49,973	57,807	\$ 12.00	\$ 6,7770	11,750	51,212	62,963	3,917	1,239	5,156	
11 Commercial	5,822	69,866	1,886,320	-	\$ 10.00	\$ 7.120	698,660	13,430,598	14,129,258	\$ 18.00	\$ 7,1200	1,257,588	13,430,598	14,688,186	558,928	0	558,928	
12 Commercial-Senior	1	12	43	20%	\$ 10.00	\$ 7.120	96	245	341	\$ 18.00	\$ 7,1200	173	245	418	77	0	77	
13 Industrial	388	4,656	548,742	-	\$ 20.00	\$ 7.120	93,120	3,907,043	4,000,163	\$ 50.00	\$ 7,1200	232,800	3,907,043	4,139,843	139,680	0	139,680	
14 Municipal/MS	343	4,116	228,441	-	\$ -	\$ 6.413	0	1,464,992	1,464,992	\$ 18.00	\$ 6,4130	74,088	1,464,992	1,539,080	74,088	0	74,088	
15 Municipal/GS	9	108	417	-	\$ 10.00	\$ 7.120	1,080	2,969	4,049	\$ 18.00	\$ 7,1200	1,944	2,969	4,913	864	0	864	
16 PHA	8	96	36,655	-	\$ -	\$ 7.126	0	261,204	261,204	\$ 18.00	\$ 7,1260	1,728	261,204	262,932	1,728	0	1,728	
17 Total Non-Heating Firm	74,551	894,611	5,009,632				7,183,508	34,082,832	41,266,340			11,154,149	34,455,218	45,609,366	3,970,641	372,386	4,343,027	
18																		
19 Heating:																		
20 Residential	296,169	3,554,027	29,620,143	-	\$ 8.00	\$ 6.613	28,432,216	195,878,006	224,310,222	\$ 12.00	\$ 6,7770	42,648,324	200,735,709	243,384,033	14,216,108	4,857,703	19,073,811	
21 Residential-Senior	78,264	939,164	7,607,347	20%	\$ 8.00	\$ 6.613	6,010,650	40,245,909	46,256,558	\$ 12.00	\$ 6,7770	9,015,974	41,243,992	50,259,967	3,005,325	998,084	4,003,409	
22 CRP	44,189	530,262	5,992,589	-	\$ 8.00	\$ 6.613	4,242,096	39,528,991	43,871,087	\$ 12.00	\$ 6,7770	6,363,144	40,611,776	46,974,920	2,121,048	982,785	3,103,833	
23 CRP-Senior	5,478	65,734	849,487	20%	\$ 8.00	\$ 6.613	420,698	4,494,126	4,914,824	\$ 12.00	\$ 6,7770	631,046	4,605,579	5,236,625	210,349	111,453	321,801	
24 Commercial	19,087	229,041	9,113,613	-	\$ 10.00	\$ 7.120	2,290,410	64,888,925	67,179,335	\$ 18.00	\$ 7,1200	4,122,738	64,888,925	69,011,663	1,832,328	0	1,832,328	
25 Commercial-Senior	25	300	6,141	20%	\$ 10.00	\$ 7.120	2,400	34,979	37,379	\$ 18.00	\$ 7,1200	4,320	34,979	39,299	1,920	0	1,920	
26 Industrial	785	9,424	930,507	-	\$ 20.00	\$ 7.120	188,480	6,625,210	6,813,690	\$ 50.00	\$ 7,1200	471,200	6,625,210	7,096,410	282,720	0	282,720	
27 Municipal/MS	549	6,588	1,056,589	-	\$ -	\$ 6.413	0	6,775,905	6,775,905	\$ 18.00	\$ 6,4130	118,584	6,775,905	6,894,489	118,584	0	118,584	
28 Municipal/GS	3	36	73,992	-	\$ 10.00	\$ 7.120	360	526,823	527,183	\$ 18.00	\$ 7,1200	648	526,823	527,471	288	0	288	
29 PHA Rate 8	470	5,640	134,850	-	\$ -	\$ 7.126	0	960,941	960,941	\$ 18.00	\$ 7,1260	101,520	960,941	1,062,461	101,520	0	101,520	
30 PHA/GS	4,016	48,189	1,122,137	-	\$ 8.00	\$ 6.613	385,510	7,420,692	7,806,202	\$ 12.00	\$ 6,7770	578,266	7,604,722	8,182,988	192,755	184,030	376,786	
31 Total Heating Firm	449,034	5,388,405	56,507,395				41,972,820	367,480,506	409,453,326			64,055,764	374,614,561	438,670,326	22,082,945	7,134,055	29,217,000	
32																		
33 Total Heating & Non-Heating	523,585	6,283,016	61,517,027				49,156,328	401,563,338	450,719,666			75,209,913	409,069,779	484,279,692	26,053,586	7,506,441	33,560,027	

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1 Philadelphia Gas Works
 2 Docket R-00006042
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October 12, 2001 COMPLIANCE FILING

5					Current Tariff in effect on 1/5/01					PUC Order					Increase		
	Number of Customers	Number of Annual Bills	Annual Sales (mcf)	Dis-count	Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Customer Revenue	Base Rate Revenue	Total Revenue
					E1	F1	G1=B*E1 Less discount	H1=C*F1 Less discount	I1=G1+H1	E2	F2	G2=B*E2 Less discount	H2=C*F2 Less discount	I2=G2+H2	G=G1-G2	H=H1-H2	I=I1-I2
7 Non-Heating:																	
8 Residential	58,693	704,310	1,932,718	-	\$ 8.00	\$ 6.6130	5,634,480	12,781,064	18,415,544	\$ 12.00	\$ 6.9119	8,451,720	13,358,754	21,810,474	2,817,240	577,689	3,394,929
9 Residential-Senior	6,956	83,466	182,395	20%	\$ 8.00	\$ 6.6130	534,182	964,943	1,499,125	\$ 12.00	\$ 6.9119	801,274	1,008,557	1,809,830	267,091	43,614	310,705
10 CRP	2,230	26,757	184,455	-	\$ 8.00	\$ 6.6130	214,056	1,219,801	1,433,857	\$ 12.00	\$ 6.9119	321,084	1,274,935	1,596,019	107,028	55,134	162,162
11 CRP-Senior	102	1,224	9,446	20%	\$ 8.00	\$ 6.6130	7,834	49,973	57,807	\$ 12.00	\$ 6.9119	11,750	52,232	63,982	3,917	2,259	6,176
12 Commercial	5,822	69,866	1,886,320	-	\$ 10.00	\$ 7.1200	698,660	13,430,598	14,129,258	\$ 18.00	\$ 7.1200	1,257,588	13,430,598	14,688,186	558,928	0	558,928
13 Commercial-Senior	1	12	43	20%	\$ 10.00	\$ 7.1200	96	245	341	\$ 18.00	\$ 7.1200	173	245	418	77	0	77
14 Industrial	388	4,656	548,742	-	\$ 20.00	\$ 7.1200	93,120	3,907,043	4,000,163	\$ 50.00	\$ 7.1200	232,800	3,907,043	4,139,843	139,680	0	139,680
15 Municipal/MS	343	4,116	228,441	-	\$ -	\$ 6.4130	0	1,464,992	1,464,992	\$ -	\$ 6.4130	0	1,464,992	1,464,992	0	0	0
16 Municipal/GS	9	108	417	-	\$ 10.00	\$ 7.1200	1,080	2,969	4,049	\$ 18.00	\$ 7.1200	1,944	2,969	4,913	864	0	864
17 PHA	8	96	36,555	-	\$ -	\$ 7.1260	0	261,204	261,204	\$ -	\$ 7.1260	0	261,204	261,204	0	0	0
18 Total Non-Heating Firm	74,551	894,611	5,009,632				7,183,508	34,082,832	41,266,340			11,078,333	34,761,528	45,839,861	3,894,825	678,696	4,573,521
19																	
20 Heating:																	
21 Residential	295,698	3,548,375	28,446,137	-	\$ 8.00	\$ 6.6130	28,387,000	188,114,304	216,501,304	\$ 12.00	\$ 6.9119	42,580,500	196,616,854	239,197,354	14,193,500	8,502,550	22,696,050
22 Residential-Senior	78,264	939,164	7,607,347	20%	\$ 8.00	\$ 6.6130	6,010,650	40,245,909	46,256,558	\$ 12.00	\$ 6.9119	9,015,974	42,064,977	51,080,952	3,005,325	1,819,069	4,824,394
23 CRP	44,189	530,262	5,992,589	-	\$ 8.00	\$ 6.6130	4,242,096	39,628,991	43,871,087	\$ 12.00	\$ 6.9119	6,363,144	41,420,176	47,783,320	2,121,048	1,791,165	3,912,233
24 CRP-Senior	5,478	65,734	849,487	20%	\$ 8.00	\$ 6.6130	420,698	4,494,126	4,914,824	\$ 12.00	\$ 6.9119	631,046	4,697,255	5,328,302	210,349	203,129	413,478
25 Commercial	19,087	229,041	9,113,613	-	\$ 10.00	\$ 7.1200	2,290,410	64,888,925	67,179,335	\$ 18.00	\$ 7.1200	4,122,738	64,888,925	69,011,663	1,832,328	0	1,832,328
26 Commercial-Senior	25	300	6,141	20%	\$ 10.00	\$ 7.1200	2,400	34,979	37,379	\$ 18.00	\$ 7.1200	4,320	34,979	39,299	1,920	0	1,920
27 Industrial	785	9,424	930,507	-	\$ 20.00	\$ 7.1200	188,480	6,625,210	6,813,690	\$ 50.00	\$ 7.1200	471,200	6,625,210	7,096,410	282,720	0	282,720
28 Municipal/MS	549	6,588	1,056,589	-	\$ -	\$ 6.4130	0	6,775,905	6,775,905	\$ -	\$ 6.4130	0	6,775,905	6,775,905	0	0	0
29 Municipal/GS	3	36	73,992	-	\$ 10.00	\$ 7.1200	360	526,823	527,183	\$ 18.00	\$ 7.1200	648	526,823	527,471	288	0	288
30 PHA-Rate 8	470	5,640	134,850	-	\$ -	\$ 7.1260	0	960,941	960,941	\$ -	\$ 7.1260	0	960,941	960,941	0	0	0
31 PHA/GS	4,016	48,189	1,122,137	-	\$ 8.00	\$ 6.6130	385,510	7,420,692	7,806,202	\$ 12.00	\$ 6.9119	578,266	7,756,099	8,334,364	192,755	335,407	528,162
32 Total Heating Firm	448,563	5,382,753	55,333,389				41,927,604	359,716,805	401,644,408			63,767,836	372,368,145	436,135,981	21,840,233	12,651,340	34,491,573
33																	
34 Total Heating & Non-Heating	523,114	6,277,364	60,343,021				49,111,112	393,799,636	442,910,748			74,846,169	407,129,672	481,975,842	25,735,058	13,330,036	39,065,094

1 Philadelphia Gas Works
 2 Docket R-00006042
 3 Proof of Revenue Schedule 1
 4

Revised October 12, 2001 COMPLIANCE FILING

5	Number of Customers	Number of Annual Bills	Annual Sales (mcf)	Dis-count	Current Tariff in effect on 1/5/01					PUC Order					Increase		
					Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Monthly Customer Charge	Base Rate (per mcf)	Customer Charge Revenue	Base Rate Revenue	Total Revenue	Customer Revenue	Base Rate Revenue	Total Revenue
	A	B=A*12	C	D	E1	F1	G1=B*E1 Less discount	H1=C*F1 Less discount	I1=G1+H1	E2	F2	G2=B*E2 Less discount	H2=C*F2 Less discount	I2=G2+H2	G=G1-G2	H=H1-H2	I=G+H
7 Non-Heating:																	
8 Residential	58,693	704,310	1,932,718	-	\$ 8.00	\$ 6.6130	5,634,480	12,781,064	18,415,544	\$ 12.00	\$ 6.9038	8,451,720	13,343,099	21,794,819	2,817,240	562,034	3,379,274
9 Residential-Senior	6,956	83,466	182,395	20%	\$ 8.00	\$ 6.6130	534,182	964,943	1,499,125	\$ 12.00	\$ 6.9038	801,274	1,007,375	1,808,648	267,091	42,432	309,523
10 CRP	2,230	26,757	184,455	-	\$ 8.00	\$ 6.6130	214,056	1,219,801	1,433,857	\$ 12.00	\$ 6.9038	321,084	1,273,440	1,594,524	107,028	53,640	160,668
11 CRP-Senior	102	1,224	9,446	20%	\$ 8.00	\$ 6.6130	7,834	49,973	57,807	\$ 12.00	\$ 6.9038	11,750	52,171	63,921	3,917	2,198	6,114
12 Commercial	5,822	69,866	1,886,320	-	\$ 10.00	\$ 7.1200	698,660	13,430,598	14,129,258	\$ 18.00	\$ 7.1200	1,257,588	13,430,598	14,688,186	558,928	0	558,928
13 Commercial-Senior	1	12	43	20%	\$ 10.00	\$ 7.1200	96	245	341	\$ 18.00	\$ 7.1200	173	245	418	77	0	77
14 Industrial	388	4,656	548,742	-	\$ 20.00	\$ 7.1200	93,120	3,907,043	4,000,163	\$ 50.00	\$ 7.1200	232,800	3,907,043	4,139,843	139,680	0	139,680
15 Municipal/MS	343	4,116	228,441	-	\$ -	\$ 6.4130	0	1,464,992	1,464,992	\$ -	\$ 6.4130	0	1,464,992	1,464,992	0	0	0
16 Municipal/GS	9	108	417	-	\$ 10.00	\$ 7.1200	1,080	2,969	4,049	\$ 18.00	\$ 7.1200	1,944	2,969	4,913	864	0	864
17 PHA	8	96	36,655	-	\$ -	\$ 7.1260	0	261,204	261,204	\$ -	\$ 7.1260	0	261,204	261,204	0	0	0
18 Total Non-Heating Firm	74,551	894,611	5,009,632				7,183,508	34,082,832	41,266,340			11,078,333	34,743,136	45,821,468	3,894,825	660,304	4,555,129
19																	
20 Heating:																	
21 Residential	296,169	3,554,027	29,620,143	-	\$ 8.00	\$ 6.6130	28,432,216	195,878,006	224,310,222	\$ 12.00	\$ 6.9038	42,648,324	204,491,543	247,139,867	14,216,108	8,613,538	22,829,646
22 Residential-Senior	78,264	939,164	7,607,347	20%	\$ 8.00	\$ 6.6130	6,010,650	40,245,909	46,256,558	\$ 12.00	\$ 6.9038	9,015,974	42,015,682	51,031,656	3,005,325	1,769,773	4,775,098
23 CRP	44,189	530,262	5,992,589	-	\$ 8.00	\$ 6.6130	4,242,096	39,628,991	43,871,087	\$ 12.00	\$ 6.9038	6,363,144	41,371,636	47,734,780	2,121,048	1,742,645	3,863,693
24 CRP-Senior	5,478	65,734	849,487	20%	\$ 8.00	\$ 6.6130	420,698	4,494,126	4,914,824	\$ 12.00	\$ 6.9038	631,046	4,691,751	5,322,797	210,349	197,625	407,973
25 Commercial	19,087	229,041	9,113,613	-	\$ 10.00	\$ 7.1200	2,290,410	64,888,925	67,179,335	\$ 18.00	\$ 7.1200	4,122,738	64,888,925	69,011,663	1,832,328	0	1,832,328
26 Commercial-Senior	25	300	6,141	20%	\$ 10.00	\$ 7.1200	2,400	34,979	37,379	\$ 18.00	\$ 7.1200	4,320	34,979	39,299	1,920	0	1,920
27 Industrial	785	9,424	930,507	-	\$ 20.00	\$ 7.1200	188,480	6,625,210	6,813,690	\$ 50.00	\$ 7.1200	471,200	6,625,210	7,096,410	282,720	0	282,720
28 Municipal/MS	549	6,588	1,056,589	-	\$ -	\$ 6.4130	0	6,775,905	6,775,905	\$ -	\$ 6.4130	0	6,775,905	6,775,905	0	0	0
29 Municipal/GS	3	36	73,992	-	\$ 10.00	\$ 7.1200	360	526,823	527,183	\$ 18.00	\$ 7.1200	648	526,823	527,471	288	0	288
30 PHA Rate 8	470	5,640	134,850	-	\$ -	\$ 7.1260	0	960,941	960,941	\$ -	\$ 7.1260	0	960,941	960,941	0	0	0
31 PHA/GS	4,016	48,189	1,122,137	-	\$ 8.00	\$ 6.6130	385,510	7,420,692	7,806,202	\$ 12.00	\$ 6.9038	578,266	7,747,009	8,325,275	192,755	326,317	519,073
32 Total Heating Firm	449,034	5,388,405	56,507,395				41,972,820	367,480,506	409,453,326			63,835,660	380,130,404	443,966,064	21,862,841	12,649,898	34,512,739
33																	
34 Total Heating & Non-Heating	523,585	6,283,016	61,517,027				49,156,328	401,563,338	450,719,666			74,913,993	414,873,540	489,787,533	25,757,666	13,310,202	39,067,867

ESTIMATED OVERCOLLECTION

	<i>Oct</i> <i>(Actual)</i>	<i>Nov</i> <i>(Actual)</i>	<i>Dec</i> <i>(Estimated)</i>	<i>Jan</i> <i>(Estimated)</i>	<i>Feb</i> <i>(Estimated)</i>	<i>Mar</i> <i>(Estimated)</i>	<i>Total</i>
<i>Res GS/PIIA GS Sales *</i>	181,208	2,455,650	4,323,134	9,333,661	8,402,907	3,317,069	
	<u>\$ 0.0081</u>	<u>\$ 0.0081</u>	<u>\$ 0.0081</u>	<u>\$ 0.0081</u>	<u>\$ 0.0081</u>	<u>\$ 0.0081</u>	
	\$ 1,468	\$ 19,891	\$ 35,017	\$ 75,603	\$ 68,064	\$ 26,868	\$ 226,910

* Billed sales

1/4/02

OVERCOLLECTION COMPARISON

Philadelphia Gas Works
Docket R-00006042

	<u>Base Case</u>	<u>Increase</u>	<u>Compliance</u>	<u>Increase</u>	<u>Revised Compliance</u>	<u>Total Increase</u>
<u>No. of Customers</u>						
Non-Heating:						
Residential	58,693		58,693		58,693	
Residential-Senior (80%)	5,564		5,564		5,564	
CRP	2,230		2,230		2,230	
CRP-Senior (80%)	102		102		102	
Heating:						
Residential	284,980	10,718	295,698	471	296,169	11,189
Residential-Senior (80%)	78,264		78,264		78,264	
CRP	44,189		44,189		44,189	
CRP-Senior (80%)	5,478		5,478		5,478	
PHAVGS	<u>4,016</u>		<u>4,016</u>		<u>4,016</u>	
Total Residential Customers	483,514	10,718	494,232	471	494,703	11,189

Sales

Non-Heating:						
Residential	1,932,718		1,932,718		1,932,718	
Residential-Senior (80%)	145,916		145,916		145,916	
CRP	184,455		184,455		184,455	
CRP-Senior (80%)	7,557		7,557		7,557	
Heating:						
Residential	27,229,583	1,216,554	28,446,137	1,174,006	29,620,143	2,390,560
Residential-Senior (80%)	6,085,878		6,085,878		6,085,878	
CRP	5,992,589		5,992,589		5,992,589	
CRP-Senior (80%)	679,590		679,590		679,590	
PHAVGS	<u>1,122,137</u>		<u>1,122,137</u>		<u>1,122,137</u>	
Total Residential Sales	43,380,422	1,216,554	44,596,976	1,174,006	45,770,982	2,390,560

Customer Chg Revenue Increase ⁽¹⁾	\$	25,735,058	\$	25,757,666	
Base Rate Revenue Increase ⁽²⁾	\$	13,330,036	\$	13,310,202	
Total Revenue Increase	\$	39,065,094	\$	39,067,867	
Increase In Residential Base Rate (Base Rate Rev Increase/Total Sales)	\$	0.2989	\$	0.2908	\$ (0.0081)

Overcollection

⁽¹⁾ Customer charge revenue includes customer charge increase for all customer classes.

⁽²⁾ Base Rate revenue increase is residential customers only.

NOTE: Twenty percent (20%) of the Senior Citizen customer charge and rate is discounted.

PHILADELPHIA GAS WORKS
Docket R-00006042
Base Rate Summary

Date	Total Revenue (Base Rates)	Incremental Increase(Dec)	Increase From 1/5/01	Increase From 3/1/01
1/5/01	\$450,719,666.00			
3/1/01	\$461,729,996.00	\$11,010,330.00	\$11,010,330.00	
10/13/01	\$489,787,533.00	\$28,057,537.00	\$39,067,867.00	\$28,057,537.00
Proposed	\$484,279,692.00	-\$5,507,841.00	\$33,560,026.00	\$22,549,696.00

PHILADELPHIA GAS WORKS

GAS SERVICE TARIFF



Issued by: Les A. Fyock
Vice President
Regulatory Affairs
PHILADELPHIA GAS WORKS
800 West Montgomery Avenue
Philadelphia, PA 19122

NOTICE

This Tariff Supplement Makes Increases and Changes in Existing Rates, Terms and Conditions

LIST OF CHANGES MADE BY THIS TARIFF SUPPLEMENT

REGULATION 2.3 – OTHER CONTRACTS – (Second Revised Page No. 14)

Added new section for stipulated negotiated rates and terms of service contracts for certain customers.

GENERAL SERVICE – RATE GS – COMMODITY CHARGE - (Third Revised Page No. 83)

Increased Customer Charges and some Commodity Charge(s) for Residential, Municipal, Public Housing Authority, Commercial, and Industrial Customers served by this rate.

MUNICIPAL SERVICE – RATE MS - COMMODITY CHARGE - (Second Revised Page No. 85)

New Customer Charge for Municipal Customers served by this rate. *

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA - COMMODITY CHARGE - (Second Revised Page No. 87)

New Customer Charge for Philadelphia Housing Authority Customers served by this rate.

BOILER AND POWER PLANT SERVICE - SMALL VOLUME – RATE BPS-S – COMMODITY CHARGE (Second Revised Page No. 90)

Clarifies that floor price is one hundred and ten percent of the incremental gas costs.

BOILER AND POWER PLANT SERVICE - LARGE VOLUME – RATE BPS-L – COMMODITY CHARGE (Second Revised Page No. 94)

Clarifies that floor price is one hundred and ten percent of the incremental gas costs.

* The rate change was ordered by the Commission in its December 6, 2001 Order at Docket No. R-00006042, et al. By law, the rate change is subject to approval by the City Council of the City of Philadelphia and the rate change will not be charged or implemented until such time as City Council approval is received.

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PHILADELPHIA GAS WORKS

- b. Is a former Customer who has not paid a final bill in full, or
- c. Is a former Customer whose service was terminated for non-payment shall execute any required payment agreement and submit any required down payment, deposit, and/or supporting documentation.
- c. An in-person application interview may be required for any applicant who:
 - 1. Is a former Customer whose service was terminated for unauthorized usage and/or tampering with the meter or other utility equipment, or
 - 2. Is applying for service at a service address at which service was terminated for non-payment within the preceding one hundred twenty (120) days or where the home telephone number supplied by the applicant is the same as the home telephone number for a previously terminated account at the same address.
 - 3. The purpose of the interview shall be to determine whether the applicant is responsible for the unauthorized usage and/or tampering and/or the prior usage at the service address.
- d. Any applicant for service who cannot complete his/her application by telephone or mail and for whom a personal visit to one of PGW's District Offices is a severe hardship due to disability, may request that a PGW customer representative complete the application at the applicant's residence.
- e. Each applicant for service shall designate, in written form to PGW, whether or not the application is for residential service to a tenant-occupied property. If the property is tenant-occupied, a list of tenants shall be submitted by the landlord-customer to PGW on an annual basis. The Company shall have the obligation of informing the landlord-customer that an updated list of tenants is due.

2.2 STANDARD SERVICE CONTRACT

Any application for gas service, upon acceptance by the Company, constitutes a contract between the Company and the Customer.

2.3 OTHER CONTRACTS

(C)

Contracts stipulating negotiated non-scheduled rates and/or terms of service may also be entered into between the Company and certain Customers when the Company, in its sole discretion, deems such offerings to be economically advantageous to the Company.

(C)

2.4 RIGHT TO REJECT

- a. PGW may limit the amount and character of gas service it shall supply or may reject requests for initial or increased service if this is necessary to protect the supply of service to any Customer.
- b. PGW may reject requests for service for good and sufficient reason in accordance with the policies and regulations of the Commission.

(C) -- Changed

GENERAL SERVICE - RATE GS

Rate: Applicable to all gas consumed on or after _____
Air Conditioning Provision: Effective July 14, 2000
Compressed Natural Gas Provision: Effective July 14, 2000

(C)

AVAILABILITY

Available for any purpose where the Company's distribution mains adjacent to the proposed gas service location are, or can economically be made, suitable to supply the quantities of gas required. Gas service is also available under this rate for comfort cooling and/or pilot usage for buildings served under seasonal rates, during those periods of the year when gas service is not ordinarily available under such seasonal rates.

RATES

CUSTOMER CHARGE:	Per Meter (except parallel meters)		
	\$ 12.00	per month for Residential and Public Housing Authority Customers.	(I), (C)
	\$ 18.00	per month for Commercial and Municipal Customers	(I), (C)
	\$ 50.00	per month for Industrial Customers	(I)

Plus

COMMODITY CHARGE	67.770¢	per 100 cubic feet for Residential and Public Housing Authority Customers	(I), (C)
	71.200¢	per 100 cubic feet for Commercial and Municipal Customers	(C)
	71.200¢	per 100 cubic feet for Industrial Customers	

SPECIAL PROVISION – AIR CONDITIONING – For the billing months May through September, the Commodity Charge shall become 40.00 cents per 100 cubic feet for all gas used for cooling purposes. Provided, however, if one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company exceeds 40.00 cents per 100 cubic feet, then the rate under this provision shall be the lesser of one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company, or the applicable Commodity Charge set forth above. This rate is applicable for directly and indirectly fired gas cooling equipment of minimum cooling capacity of 3 tons, installed on or after September 1, 1990. Where practicable, such equipment must be separately metered and the cost for any additional metering, related equipment and installation shall be subject to Regulation 10 of the Rules and Regulations of this tariff. Where separate metering is impracticable for directly or indirectly fired gas cooling and heating equipment, one meter shall be installed for the heating/cooling equipment and such gas rendered to the Customer through such meter will be charged the full Rate GS for the billing months October through April. Under no circumstances will Customers be permitted to use gas rendered through such meter for any purpose other than cooling or heating.

(I) - Increase; (C) - Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all gas consumed on or after _____
Air Conditioning Provision - Effective March 10, 1991
Compressed Natural Gas Provision: Effective July 14, 2000

AVAILABILITY

Available to properties owned or occupied by the City of Philadelphia or the Board of Education, or any of their respective agencies or instrumentalities, for any type of gas service, unless purchased for resale to others, and where the Company's distribution mains adjacent to the proposed gas service locations are, or can economically be made, suitable to supply the quantities of gas required; provided, however, that the rate shall not be available to commercial tenants of any such property.

This rate is also available for service at such locations, served under seasonal rates for comfort cooling and/or pilot usage, during periods of the year when gas is not ordinarily available under such seasonal rates.

RATE

CUSTOMER CHARGE: Per Meter (except parallel meters) (C) (I)*
\$ 18.00 per month. ↓

Plus

COMMODITY CHARGE The rate per hundred cubic feet 64.13¢

SPECIAL PROVISION - AIR CONDITIONING - For the billing months of May through September, the rate shall become 40.00 cents per 100 cubic feet for all gas used for cooling purposes. This rate is applicable for directly and indirectly fired gas cooling equipment (gas engine, absorption, adsorption) of minimum cooling capacity of 15 tons, installed on or after September 1, 1990. Such equipment must be separately metered and the cost for any additional metering, related equipment and installation, remain the responsibility of the customer.

SPECIAL PROVISION - COMPRESSED NATURAL GAS (CNG) - Natural gas provided under this rate schedule for purposes of fueling CNG vehicles shall be dispensed on a liquid gallon basis but billed on an Mcf basis. The conversion between liquid gallons and Mcf shall use a ratio in which the numerator is the Department of Energy BTU energy content of one gallon of gasoline and the denominator is the Lower Heating Value (LHV) in BTUs of the Company's average annual natural gas sendout.

GAS COST RATE CLAUSE

The Gas Cost Rate Clause as set forth in Regulation 11 of the Rules and Regulations of this Tariff shall apply to the above rate.

(C) - Change, (I) - Increase * The rate change was ordered by the Commission in its December 6, 2001 Order at Docket No. R-00006042, et al. By law, the rate change is subject to approval by the City Council of the City of Philadelphia and the rate change will not be charged or implemented until such time as City Council approval is received.

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all gas consumed on or after _____
Air Conditioning Provision: Effective July 14, 2000

AVAILABILITY

Available for all gas usage in multiple dwelling residential buildings containing ten or more dwelling units, owned and operated by the Philadelphia Housing Authority, where cooking shall be performed exclusively with gas and where gas service shall be supplied through one or more single point metering arrangements at locations where the Company's distribution mains adjacent to the proposed gas service locations are, or can economically be made, suitable to supply the quantities of gas required.

This rate is also available for all gas usage in single and multiple dwelling residential buildings, containing less than ten dwelling units, provided, and only so long as, gas is used exclusively for cooking, water heating and space heating for all such residential buildings owned and operated by the Philadelphia Housing Authority, except (1) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (2) buildings for which, in the judgment of the Company, such gas service cannot be provided economically.

This rate is also available in buildings, meeting the above specifications, served under seasonal rates for comfort cooling and/or pilot usage, during periods of the year when gas service is not ordinarily available under such seasonal rates.

RATE

CUSTOMER CHARGE: Per Meter (except parallel meters)
\$ 18.00 per month

(C) (I)
↓

Plus

COMMODITY CHARGE: The rate per hundred cubic feet 71.26¢

(C) - Change, (I) - Increase

Plus

COMMODITY CHARGE:

Commodity Charge: The rate per Mcf shall be calculated by Company within a range computed to be from twenty percent (20%) above to twenty percent (20%) below the numerical average of the high and the low posted reseller tank car price for No.2 oil, at Philadelphia, as posted on the first twelve (12) business days (excluding Saturdays and Sundays) of the calendar month in which the calculation is being made, as published in THE JOURNAL OF COMMERCE, or a successor publication, or where none exists, a publication selected by the Company pending final approval of the Commission, adjusted for Btu equivalence. (One cent per gallon being equivalent to 7.30 cents per Mcf.) Provided, however, in any month when the floor price calculated using the JOURNAL OF COMMERCE posted prices is more than ten percent (10%) higher than the preceding month's floor price, the floor price shall instead be one hundred and ten percent (110%) of the preceding month's floor price. In no event, however, shall such rate be less than one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes, as determined by the Company. (C)

The Commodity Charge for Rate BPS-S Customers, as calculated above, will be available by the eighteenth (18th) working day of each month, and will be applicable for the subsequent calendar month, to the extent that service under this rate can be made available.

SPECIAL PROVISION - AIR CONDITIONING - For the billing months of May through September, the Commodity Charge shall become the lower of the prevailing month's BPS-S rate or 40.00 cents per 100 cubic feet for all gas used for cooling purposes. Provided, however, if one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company exceeds 40.00 cents per 100 cubic feet, then the rate under this provision shall be one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company. This rate is applicable for directly and indirectly fired gas cooling equipment of minimum cooling capacity of 3 tons, installed on or after September 1, 1990. Where practicable, such equipment must be separately metered and the cost for any additional metering, related equipment and installation shall be subject to Regulation 10 of the Rules and Regulations of this tariff. Where separate metering is impracticable for directly or indirectly fired gas cooling and heating equipment, one meter shall be installed for the heating/cooling equipment and such gas rendered to the Customer through such meter will be charged at Rate BPS-S for the billing months October through April. Under no circumstances will Customers be permitted to use gas rendered through such meter for any purpose other than cooling or heating

MINIMUM CHARGE: The monthly Minimum Charge is the Customer Charge set forth above.

Customer Charges will be determined at the commencement of each of the Company's fiscal years based upon Customer's consumption during the previous twelve (12) months or, in the event of new Customers, on annual projected consumption. Charges so established will remain in force for the ensuing twelve (12) months.

(C) - Change

Plus

COMMODITY CHARGE:

Commodity Charge: The rate per Mcf shall be calculated by Company within a range computed to be from twenty percent (20%) above to twenty percent (20%) below the numerical average of the high and the low posted reseller tank car price for No.2 oil, at Philadelphia, as posted on the first twelve (12) business days (excluding Saturdays and Sundays) of the calendar month in which the calculation is being made, as published in THE JOURNAL OF COMMERCE, or a successor publication, or where none exists, a publication selected by the Company pending final approval of the Commission, adjusted for Btu equivalence. (One cent per gallon being equivalent to 7.30 cents per Mcf.) Provided, however, in any month when the floor price calculated using the JOURNAL OF COMMERCE posted prices is more than ten percent (10%) higher than the preceding month's floor price, the floor price shall instead be one hundred and ten percent (110%) of the preceding month's floor price. In no event, however, shall such rate be less than one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes, as determined by the Company. (C)

The Commodity Charge for Rate BPS-L Customers, as calculated above, will be available by the eighteenth (18th) working day of each month, and will be applicable for the subsequent calendar month, to the extent that service under this rate can be made available.

SPECIAL PROVISION - AIR CONDITIONING - For the billing months of May through September, the Commodity Charge shall become the lower of the prevailing month's BPS-L rate or 40.00 cents per 100 cubic feet for all gas used for cooling purposes. Provided, however, if one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company exceeds 40.00 cents per 100 cubic feet, then the rate under this provision shall be one hundred and ten percent (110%) of the incremental gas costs for gas sold under this rate schedule plus an adjustment for all applicable taxes as determined by the Company. This rate is applicable for directly and indirectly fired gas cooling equipment of minimum cooling capacity of 3 tons, installed on or after September 1, 1990. Where practicable, such equipment must be separately metered and the cost for any additional metering, related equipment and installation shall be subject to Regulation 10 of the Rules and Regulations of this tariff. Where separate metering is impracticable for directly or indirectly fired gas cooling and heating equipment, one meter shall be installed for the heating/cooling equipment and such gas rendered to the Customer through such meter will be charged at Rate BPS-L for the billing months October through April. Under no circumstances will Customers be permitted to use gas rendered through such meter for any purpose other than cooling or heating.

MINIMUM CHARGE: The monthly Minimum Charge is the Customer Charge set forth above.

Customer Charges will be determined at the commencement of each of the Company's fiscal years based upon Customer's consumption during the previous twelve (12) months or, in the event of new Customers, on annual projected consumption. Charges so established will remain in force for the ensuing twelve (12) months.

(C) - Change