

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held October 12, 2001

Commissioners Present:

Glen R. Thomas, Chairman
Robert K. Bloom, Vice Chairman
Aaron Wilson, Jr.
Terrance J. Fitzpatrick

DOCUMENT
FOLDER

Pennsylvania Public Utility Commission	:	R-00006042
	:	R-00006042C0001 <i>et al.</i>
	:	C-00014826 – C-00014828
v.	:	C-00014843
	:	C-00014910
	:	C-00015037
Philadelphia Gas Works	:	C-00015044 – C-00015048
	:	C-00015050
	:	C-00015098

TENTATIVE OPINION AND ORDER

BY THE COMMISSION:

On October 4, 2001, the Pennsylvania Public Utility Commission (Commission) entered an Opinion and Order (Final Order) in the above captioned general rate increase proceeding of the Philadelphia Gas Works (PGW). Therein, we expressed the result of our specific disposition of the various issues raised by the parties, as permitting PGW to increase annual revenues by \$28,067,000, in addition to an \$11,000,000 interim rate increase implemented in March 2001. Through Staff's

continuing review of the calculations involved in producing this annual revenue increase, the Commission became aware of a potential error which may result in a reduction in that amount.

Pursuant to the statutory authority conferred upon us by Section 703(g) of the Public Utility Code (Code), 66 Pa. C.S. §703(g), we have elected, on our own motion, to reconsider and propose to amend our Final Order entered on October 4, 2001, after notice and opportunity to be heard by the interested parties. Specifically, by this Tentative Opinion and Order, we propose to correct the bad debt expense allowance so as to accurately reflect the use of the methodology adopted by the Final Order, and to make the corresponding revision to the annual revenue increase authorized for PGW.

History of the Proceeding¹

On January 5, 2001, PGW filed Supplement No. 7 to Tariff Gas – Pa. P.U.C. No. 1 to become effective March 6, 2001. In its tariff, PGW proposed changes in rules, regulations and rates calculated to produce \$65,000,000 in additional annual revenues.

By Order entered February 8, 2001, we instituted an investigation into the lawfulness, justness and reasonableness of the proposed rate increase. Pursuant to Section 1308(d) of the Code, 66 Pa. C.S. §1308(d), Supplement No. 7 to Tariff Gas – Pa. P.U.C. No. 1 was suspended by operation of law until October 6, 2001, unless otherwise directed by Order of the Commission. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness and reasonableness of PGW's existing rates.

¹ A more detailed history of this proceeding can be found in our Opinion and Order entered on October 4, 2001.

On August 17, 2001, the Office of Administrative Law Judge (OALJ) issued the Recommended Decision of Administrative Law Judge (ALJ) Cynthia Williams Fordham. Exceptions and Reply Exceptions were timely filed by the various Parties to the proceeding.

Thereafter, as previously noted, we issued our Final Order in this proceeding, which noted the results of the various determinations therein as producing an increase in annual revenues in the amount of \$28,067,000. Following adoption of the Motion providing for a Final Order in this matter, we became aware of a potential error in the calculation of the increase in annual revenues as a result of the adjustment to bad debts expense allowance. For this reason, we are proposing to amend our Final Order, to properly reflect the increase in annual revenues to which we have determined that PGW is entitled.

Discussion

In our Final Order, we found that the allowance for bad debt expense must be based on calculations that can be reviewed to determine whether they are reasonable. We also determined that a proper calculation begins with an historic analysis of actual write-offs. (Order, p. 58). Based on our review of the record evidence, we concluded that the Office of Trial Staff's (OTS) calculation, which was based upon the use of a five-year analysis of prior years uncollectible accounts expense, rather than a "budgeted" amount, is the more accurate method of determining the appropriate level of bad debt expense. (Order, p.59).

The income statement attached to our Final Order, as Appendix A, appears to contain a computational error regarding the bad debt expense. Within that schedule, bad debt expense is reflected as \$61,128,000, representing 7.616% of the OTS' recommended total gas revenues. However, it was our intention to apply the 7.616%

factor to our overall determination of total gas revenues, rather than that submitted by the OTS, to arrive at the proper bad debt expense allowance level.

According to our current calculations, application of the OTS methodology (or 7.616%) to total gas revenues, as determined by our Final Order, produces a bad debt expense allowance of \$55,618,000 instead of \$61,128,000 as contained in our Final Order. This correction results in an annual allowable revenue increase in the amount of \$22,558,000 instead of the \$28,067,000 figure referenced in our Order. By this Tentative Opinion and Order, we simply propose to correct the bad debt expense allowance consistent with our adoption of the OTS methodology, and revise the annual allowable revenue increase accordingly; **THEREFORE,**

IT IS ORDERED,

1. That our Opinion and Order entered October 4, 2001, in the above captioned proceeding should be corrected, as proposed by this Tentative Opinion and Order.

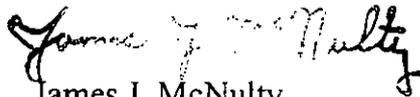
2. That Ordering Paragraph No. 6 of our Opinion and Order entered October 4, 2001, in this proceeding, should be replaced and superceded by Ordering Paragraph No. 3, below.

3. That, within thirty (30) days of the date that this Tentative Opinion and Order becomes final, the Philadelphia Gas Works be authorized to file a Tariff supplement containing revised rules, regulations and rates calculated to produce \$22,558,000 in additional annual revenue, in addition to the \$11,000,000 interim relief implemented in March 2001.

4. That the Parties to this proceeding are afforded ten (10) days from the date of entry of this Tentative Opinion and Order to file comments regarding the corrected computation proposed herein.

5. That, if no comments are timely filed, this Tentative Opinion and Order shall become final without further Commission action.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: October 12, 2001

ORDER ENTERED: **OCT 12 2001**

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PA PUC v. Philadelphia Gas Works
Docket Number R-00006042
[Corrected] Income Statement
FYE August 31, 2001

	PGW Revised Budget	Commission	
	(\$000)	Adjustments (\$000)	Allowance (\$000)
<u>OPERATING REVENUES:</u>			
1. Non-Heating	121,544		121,544
2. Gas Transportation Service	3,656		3,656
3. Heating	535,415	34,263	569,678
4. Proposed Base Rate Increase	65,000	(42,442)	22,558
5. CRP/CWP/Senior Discount		0	0
6. Interim Increase		11,000	11,000
7. Electric Costs from GCR			0
8. Unbilled Revenue Adjustment	<u>1,844</u>		<u>1,844</u>
9. TOTAL GAS REVENUES	727,459	2,821	730,280
10. Other Operating Revenues	<u>28,026</u>		<u>28,026</u>
11. TOTAL OPERATING REVENUES	<u>755,485</u>		<u>758,306</u>
<u>OPERATING EXPENSES</u>			
13. Natural Gas	394,576	20,479	415,055
14. Other Raw Materials	<u>10</u>		<u>10</u>
15. <u>Sub-total Fuel</u>	394,586		415,065
16. <u>Contribution Margins</u>	360,899		343,241
17. Gas Processing	13,968		13,968
18. Field Services	33,061		33,061
19. Distribution	13,601		13,601
20. Customer Affairs	31,208		31,208
21. Electric Costs		0	0
22. Social Programs		0	0
23. Admin and General <small>(Rate Case Expense)</small>	45,407	-313	45,095
24. Marketing and Point of Sale Expenses	6,713	-1,260	5,453
25. Bad Debt Expense <small>(Corrected)</small>	65,297	-9,679	55,618
26. BCCS Remediation		-800	-800
27. Consultant Services		-424	-424
28. Non-Recurring Expenses		-1,840	-1,840
29. Employee Consultants		-258	-258
30. Equipment Rentals and Leasing		-632	-632
31. Lobbying Expenses		-115	-115
32. Operating Leases		-601	-601
33. Non-Recurring Material Purchases		-100	-100
34. Amortization-Regulatory Asset		-1,637	-1,637
35. Health Insurance	26,290		26,290

PA PUC v. Philadelphia Gas Works
Docket Number R-00006042
[Corrected] Income Statement
FYE August 31, 2001

	<u>PGW Revised Budget</u>	<u>Commission Adjustments</u>	<u>Allowance</u>
	(\$000)	(\$000)	(\$000)
36. Capitalized Fringe Benefits	-5,333		-5,333
37. Capitalized Administrative Costs	-6,815		-6,815
38. Regulatory Asset Amortization	3,750		3,750
39. Amortization of Restructuring Costs	965		965
40. Y2K & Deregulation Amortization	888		888
41. Pensions	1,376		1,376
42. Taxes	6,548		6,548
43. Amort. Of Non-Recurring IT Costs	0		0
44. Personnel Reductions/Retirements	-2,500		-2,500
45. Cost Savings/Productivity Improvements	<u>-10,000</u>		<u>-10,000</u>
46. <u>Sub-total Operating Expenses</u>	224,424		206,766
47. Depreciation	33,381		33,381
48. Cost of Removal	2,500		2,500
49. To Clearing Accounts	<u>-3,344</u>		<u>-3,344</u>
50. <u>Sub-total</u>	32,537		32,537
51. <u>TOTAL OPERATING EXPENSES</u>	<u>651,547</u>		<u>654,368</u>
52. <u>OPERATING INCOME</u>	103,938		103,938
53. Other Income	<u>6,106</u>		<u>6,106</u>
54. Income Before Interest Expense	110,044		110,044
55. <u>Interest Expense</u>			
56. LT Debt	47,871		47,871
57. Other	6,102		6,102
58. AFUDC	-346		-346
59. Loss from Extinguishment of Debt	<u>4,162</u>		<u>4,162</u>
60. Total Interest	57,789		57,789
61. Net Income	52,255		52,255
62. City Payment	<u>18,000</u>		<u>18,000</u>
63. Net Earnings	<u>34,255</u>		<u>34,255</u>

PA PUC v. Philadelphia Gas Works
Docket Number R-00006042
Debt Service Coverage
FYE August 31, 2001

	(\$000)
FUNDS PROVIDED	
1. Total Gas Revenues	730,280
2. Other Operating Revenues	28,026
3. Total Operating Revenues	758,306
4. Other Income less Restricted Funds	6,557
5. AFUDC (Interest)	346
6. TOTAL FUNDS PROVIDED	<u><u>765,209</u></u>
 FUNDS APPLIED	
7. Fuel Costs	415,065
8. Other Operating Costs	239,303
9. Total Operating Expenses	<u>654,368</u>
10. PMA Lease Cost	0
11. \$20.1M Capital Lease Cost	3,980
12. \$23.0M Capital Lease Cost	3,997
13. Less: Non-Cash Expense	<u>37,272</u>
14. TOTAL FUNDS APPLIED	<u><u>625,073</u></u>
15. Funds Available to Cover Debt Service	140,136
16. Add-back Lease Costs	<u>7,977</u>
17. Funds Available Excluding Lease Costs	148,113
18. 1975 Ordinance Bonds Debt Service	51,611
19. Debt Service Coverage 1975 Bonds	<u><u>2.87</u></u>
20. Net Available after Prior Debt Service	96,502
21. PMA & Other Capital Leases	<u>7,977</u>
22. Net Available after Prior Capital Leases	88,525
23. 1998 Ordinance bonds Debt Service	29,449
24. Debt Service Coverage New Bonds	<u><u>3.01</u></u>
25. Net Available after Debt Service	59,076
26. 1998 Ordinance Subordinate Bond Debt Service	1,990
27. Debt Service Coverage Subordinate Bond	<u><u>29.69</u></u>

PA PUC v. Philadelphia Gas Works
Docket Number R-00006042
Cash Flow Statement
FYE August 31, 2001

	(\$000)
SOURCES	
1. Net Income	52,255
2. Depreciation and Amortization	42,827
3. Earnings on Restricted Funds	451
4. Impact of Refunded Debt Service	-
5. Increased/(Decreased) Other Liabilities	3,682
6. Available From Operations	<u>99,215</u>
7. Funds Required for Capital	34,000
8. Capital Leasing	6,000
9. Temporary Financing	-
10. TOTAL SOURCES	<u>139,215</u>
USES	
11. Net Construction Expenses	62,293
Funded Debt Reduction:	
12. Revenue Bonds	34,192
13. PMA Leases/Subordinate Debt	1,065
14. Capital Leases	6,901
15. Temporary Financing	-
16. Notes Payable - CNG Acquisition	59
17. Temporary Financing Repayment	-
18. Distribution of Earnings	18,000
19. Additions to (Reductions of) Non-Cash Working Capital	<u>14,891</u>
20. Cash Needs	137,401
21. Cash Surplus (Shortfall)	1,814
22. TOTAL USES	<u><u>139,215</u></u>
23. Cash - Beginning of Period	8,425
24. Cash - Surplus (Shortfall)	1,814
25. ENDING CASH	<u><u>10,239</u></u>
26. Internally Generated Funds	22,293
27. Outstanding Commercial Paper	97,000