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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY
ON BEHALF OF
PHILADELPHIA GAS WORKS

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MAR 03 2004

Philadelphia Gas Works
Proposed CRRC

MARCH 1, 2004

DIRECT TESTIMONY

CRRC Statement No. 1 – Joseph R. Bogdonavage

CRRC Statement No. 2 – Douglas Moser

CRRC Statement No. 3 – Randall Gyory

CRRC Statement No. 4 – Hugh Gilbert Peach, Ph. D.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF

JOSEPH R. BOGDONAVAGE

ON BEHALF OF
PHILADELPHIA GAS WORKS

R-00049157

P-_____

Philadelphia Gas Works

Proposed CRRC

MARCH 2004

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

2 A. My name is Joseph R. Bogdonavage. My business address is 800 West Montgomery
3 Avenue, Philadelphia, PA 19122.

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

5 A. I am employed by the Philadelphia Gas Works in the capacity of Senior Vice President -
6 Finance.

7 **Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS SENIOR VICE**
8 **PRESIDENT?**

9 A. My principal responsibilities include the oversight of PGW's Accounting & Budget,
10 Treasury and Procurement & Contract Services Department. I am currently responsible
11 for the overall preparation of the financial areas of the operating and capital budgets.
12 These activities include the preparation of varied analyses for the purpose of generating
13 alternative financial initiatives; i.e., proposed revenue bond offerings, cash liquidity
14 analyses and base rate case presentations.

15 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE**
16 **PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PUC")?**

17 A. Yes, my most recent testimony was in PGW's Restructuring Proceeding (M-00021612).

18 **Q. PLEASE EXPLAIN THE REASON FOR YOUR TESTIMONY.**

19 A. I will: 1) explain and document PGW's liquidity shortfall that it is currently experiencing
20 and which could reach crisis proportions at the end of the current fiscal year; 2) explain
21 that this liquidity crisis is directly attributable to a dramatic decline in customer cash
22 receipts that PGW has experienced during the past year which, in turn, is attributable to
23 the persistently high natural gas costs that PGW is attempting to recover; 3) explain that,
24 while cash receipts levels have been volatile, PGW expects these trends will continue and
25 substantial liquidity shortfalls will result for the next several years; 4) explain that in an

1 effort to forestall a financial crisis, and to respond to the high and volatile level of these
2 cash receipts, which is largely outside of PGW's control, I am proposing a mechanism
3 that, like the existing GCR clause, will permit PGW to reconcile actual levels of cash
4 receipts relative to billed revenues with historic levels (contained in PGW's last fully
5 litigated rate proceeding). The clause, which PGW is characterizing as its Cash Receipts
6 Reconciliation Clause (CRRC), will serve as a hedge to assure that PGW will be able to
7 reconcile its cash receipts with the assumed pro forma level. I will show PGW's
8 calculation of how the proposed Cash Receipts Reconciliation Clause would be
9 calculated and produce more adequate cash and liquidity to pay expenses timely and
10 provide for PGW's working capital requirements that have been adversely affected by
11 high natural gas costs.

12 **BACKGROUND**

13 **Q. HOW DOES PGW CURRENTLY RECOVER ITS COSTS INCLUDING**
14 **UNCOLLECTIBLE EXPENSE**

15 A. PGW recovers all of its costs of operations in its rates (although, as a municipally owned
16 utility, it does not receive an allowance for a rate of return). Virtually all of its natural
17 gas costs are designed to be recovered in a separate GCR rate which, pursuant to section
18 1307(f) of the Public Utility Code, is adjusted annually to reflect PGW's actually
19 experienced natural gas costs. A separate part of the same mechanism – the “E” factor –
20 authorizes the recovery (or credit) of any amounts from past periods which were not
21 recovered (or which were over recovered). Historically, PGW has recovered its natural
22 gas costs in this type of annual adjustment clause because natural gas costs are volatile
23 and the actually experienced price levels are a function of overall commodity market
24 conditions and are largely outside of the Company's control.

1 **Q. DOES THE COMPANY COLLECT 100% OF THE INCREASED NATURAL**
2 **GAS COSTS THAT IT IS PERMITTED TO BILL THROUGH ITS GCR?**

3 A. No. Like every company, it regularly fails to collect a portion of these and all other
4 charges. This past year, PGW collected less than 87% of the total amount it billed
5 including gas costs. When those amounts become permanently uncollectible, PGW has
6 no other alternative but to write them off. In the last four years, PGW's uncollectible
7 expense has ranged from 8.1% to 11% of total billed gas revenues. This means that while
8 it is theoretically permitted to recover all of the natural gas cost increases it experiences,
9 it failed to collect up to 13% of the increased charges in FY 1993 most of which turn into
10 permanent uncollectibles. Historically, PGW has failed to collect only 8% of all charges
11 billed. The difficulty the Company faces is that for the first time in many years, gas costs
12 have escalated for two years in a row. Customers have had no opportunity to catch their
13 breathes and are struggling to keep up.

14 **Q. HAS THE PUC PERMITTED PGW TO RECOVER ANY PORTION OF THIS**
15 **SHORTFALL.**

16 A. Yes. PGW is permitted an allowance for uncollectible expense in its permanent
17 distribution rates (which are **not** adjusted for changes in natural gas costs). In its last
18 fully litigated base rate case (R-00006042), PGW was permitted an allowance for
19 uncollectible expense of \$55.7 million, based upon an authorized uncollectible expense
20 percentage of 7.616% of pro forma gas revenues. This authorized amount implicitly
21 assumed that PGW would collect the remainder of its billed revenues – 92.38%. As one
22 can see from JRB-Exhibits 1 and 2, while being quite volatile, in this past year PGW's
23 cash receipts have fallen off significantly from historic levels (and its uncollectible
24 expense has also grown significantly).

1 **Q. PLEASE EXPLAIN YOUR ANALYSES OF THE DECLINE IN CASH RECEIPTS**
2 **DURING FISCAL YEAR 2003?**

3 A. The analysis is shown on JRB Exhibit-1. JRB Exhibit-1 details the recent history of
4 PGW's cash receipts compared to billings. Again, a long-term time horizon, PGW has
5 collected approximately 92% of annual billings on average. During the 2003 fiscal year,
6 however, and as mentioned above, PGW experienced a significant increase in natural gas
7 prices and a colder than normal winter heating season. The result of this situation was a
8 cash receipts factor below 87% or 5% below the historic level of 92%. Each 1% decline
9 in the receipts factor resulted in a reduction of nearly \$8.0 million or in Fiscal Year 2003,
10 an overall decline of over \$40.0 million.

11 **Q. WHY HAVE RECEIPTS DECLINED SO PRECIPITOUSLY?**

12 A. As Mr. Moser will explain in his testimony, gas costs have been increasing steadily over
13 the last several years. This was also reflected in increased average heating bills. From
14 FY 2000 to FY 2004 residential heating bills have increased approximately 60%. (See
15 Exhibit JRB-3). Customers experienced bills in the range of \$900 per family per year for
16 well over a decade. This allowed for predictability in terms of personal budgeting and
17 expected payment patterns on the part of the utility. For the latter part of the 1990's and
18 as late as 2002, this stability was enhanced from the customer's perspective by much
19 warmer than normal weather. In his testimony, Mr. Moser describes the circumstances in
20 the gas markets as they have evolved and how gas prices are likely to behave in the next
21 few years.

22 The customers' experiences changed abruptly over the last two years. As weather
23 returned to colder than normal last year, following a winter that was 24% warmer than
24 normal, and gas prices began their ascent, the bills topped off at \$1300 per family per

1 year, up \$400 on average from the prior period. As JRB Exhibit-3 details, the average
2 residential customer bill is anticipated to rise from just around \$900 in Fiscal Year 2002
3 to approximately \$1,450 projected for Fiscal Year 2004. These increases represent real
4 costs to customers and have put an extraordinary strain on not only the low income
5 ratepayer but on the middle class as well. A similar pattern of average bills also exists for
6 PGW's small business customers.

7 **Q. COULD YOU EXPLAIN THE IMPACT THAT LOWER CASH RECEIPTS HAD**
8 **ON CUSTOMER ACCOUNTS RECEIVABLE BALANCES AND**
9 **UNCOLLECTIBLE EXPENSE DURING FISCAL YEAR 2003.**

10 A. PGW's net customer accounts receivable balance as shown on JRB Exhibit-2 rose by
11 nearly 40% to \$92.9 million up from \$66.6 million in the prior year, while bad debt
12 expense rose to \$85.0 million, up \$33.5 million or 65% from \$51.5 million in Fiscal Year
13 2003 (and in comparison to our pro forma allowance of \$55.7 million). Exhibit JRB-4
14 compares total uncollectible expense with total cash collections. As is plainly shown
15 there, the very high levels of uncollectible expense PGW has experienced in 2001, 2003
16 and predicted for 2004 are associated with dramatically lower levels of cash collections.
17 I understand that available data show that both residential and small business customers
18 are responsible for the increase in accounts receivables and uncollectibles.

19 **Q. WHAT IS THE MAIN CAUSE OF THIS DRAMATIC RISE?**

20 A. Clearly, the increase in the absolute amount of our uncollectible levels are principally
21 associated with the significant rise in PGW's GCR charges which, in turn, are due to the
22 escalating price of natural gas combined with the colder weather experienced. But the
23 decrease in the relative amount of cash collections (i.e., from 92% down to below 87%) is
24 also related to these same factors. Moreover, as Mr. Peach explains, these persistently
25 high levels of natural gas costs have also resulted in customers paying a smaller and

1 smaller portion of the amounts they are billed. He explains that these higher prices hit
2 PGW customers unusually hard because of the economic circumstances in Philadelphia.
3 As a result of all of these factors, based upon projections of average annual customer bills
4 for the next few years or so, PGW is faced with the potential for continuing low
5 percentages of collections despite the Company's heightened attempts to improve its
6 results in this area, as described by Mr. Gyory.

7 **Q. WILL THIS INCREASE IN UNCOLLECTED REVENUES HAVE A MATERIAL**
8 **EFFECT ON PGW'S FINANCIAL CIRCUMSTANCES?**

9 A. Yes, very definitely.

10 **Q. PLEASE DESCRIBE THE IMPACT OF THE DECLINE IN CASH RECEIPTS**
11 **ON PGW'S OVERALL LIQUIDITY DURING FISCAL YEAR 2003.**

12 A. First, it is important to recall that PGW is regulated on a "Cash Flow Method" basis,
13 with its revenue requirement set a level that will permit PGW to maintain the debt
14 coverage levels required by its bond covenants and to achieve levels of liquidity so that it
15 is able to pay its bills when due. Under this approach, PGW obtains all of its cash
16 working capital from customers through the rates it charges for gas service. PGW in past
17 rate proceedings documented that it needed \$35.0 to \$40.0 million in liquidity (i.e., cash
18 and available short-term borrowing) (not including the limited and restricted funds
19 available from the restricted capital fund) at the end of its fiscal year to provide funding
20 for working capital requirements. While the PUC's prior orders have sought to set this
21 year-end liquidity level at a just and reasonable level, it did so under the assumption that
22 PGW would be able to collect billed revenues at historically realized amounts.

23 However, the dramatic drop in PGW's cash receipts has resulted in a parallel
24 drop in the Company's overall liquidity. JRB Exhibit-5, page 1, represents PGW's total
25 cash receipts and disbursements during Fiscal Year 2003. This analysis shows that PGW

1 had a cash balance of \$.1 million (i.e., \$100,000) and \$5.8 million in available
2 commercial paper with the remaining balance of \$74.0 million utilized. The \$45.0
3 million City of Philadelphia loan was also fully utilized at August 31, 2003. The only
4 way the Company was able to achieve even these results was by executing a forward
5 sale of gas inventory which produced \$15 million of additional cash at year end. The
6 only remaining source of liquidity was PGW's restricted capital fund which, while
7 having a balance of nearly \$94.0 million at fiscal year end 2003, and which can be used
8 as a source of intra-fund borrowing, must be reconciled to PGW's actual capital spending
9 on an annual fiscal period basis. In other words, PGW must either expend the
10 "borrowed" funds on construction or pay the money back into the fund by the end of the
11 year or be in violation of its bond ordinances.

12 **Q. WHAT IMPACT WILL THE CASH RECEIPTS DECLINE HAVE ON PGW'S**
13 **LIQUIDITY IN FISCAL YEAR 2004?**

14 A. As shown on JRB Exhibit-5 page 2, PGW is projecting a year end cash balance of
15 negative \$5 million. All sources of liquidity, including the \$80.0 million commercial
16 paper program and the \$45.0 million City of Philadelphia loan will be fully utilized. In
17 addition, PGW will have to draw down on its restricted capital fund in several months to
18 pay its current natural gas invoices and other obligations as they become due. As was
19 previously mentioned, PGW had \$94.0 million available in its restricted capital fund at
20 the beginning of the 2004 Fiscal Year. By the end of the fiscal period August 31, 2004,
21 PGW expects to have a remaining balance of just \$27.0 to \$30.0 million in the capital
22 fund. This level will not be sufficient to fund PGW's Fiscal Year 2005 capital program
23 and will require PGW to enter the capital market this fall (earlier than it had planned) for
24 a new bond issue of between \$125.0 million to \$150.0 million. If PGW's cash liquidity

1 issues have not been resolved by the time the bond is marketed, it could result in
2 substantially higher interest rates at best. At worst, it could substantially impede the
3 Company's access to the market place for capital funding. Either of these results will
4 substantially damage the Company's continued efforts at a financial work-out that has
5 been delayed more than two years. It would not appear to be the subject of serious
6 dispute that PGW needs either to find a way to return its cash receipts collections to
7 historical levels (and the levels assumed by the PUC in its last litigated rate proceeding)
8 or it needs to secure revenues to replace those that it can not collect from a portion of its
9 customer base.

10 **Q. WHAT OPTIONS DID PGW CONSIDER TO ADDRESS THIS PROBLEM?**

11 A. The first option considered was a full base rate case in which PGW would present its
12 need for a rate increase not only to cover this experienced and projected levels of
13 uncollectibles but also to cover the myriad of other expense increases that it has
14 experienced since its last rate proceeding, together with a new claim for year end cash
15 working capital and liquidity to reflect current market and financial conditions. While
16 some individual expense items may have gone down since that case, several major
17 categories of costs have increased, most notably pension expense, healthcare costs and
18 uncollectibles. There is no doubt, therefore, that, overall, PGW's cost of providing
19 service is higher today than it was in its last rate case. The second approach, and that
20 adopted by PGW, is to focus on the principal variable that is causing the financial crisis –
21 cash collection levels.

22 **Q. WHY DOESN'T PGW REDUCE OTHER COSTS TO CREATE ADDITIONAL**
23 **CASH WORKING CAPITAL?**

1 A. Because PGW has very limited ability to do so. PGW is constantly looking to reduce
2 expenditures over which it has some control. But only about 6% of its costs are truly
3 discretionary. That amounts to about \$50 million. These expenditures consist of things
4 like administrative and general expense, postage, utilities and the like. Obviously it
5 would be impossible to make up the entire cash shortfall -- or even a significant portion
6 of it -- by making cuts in this area without seriously harming the Company's ability to
7 operate.

8 **Q. CAN YOU EXPLAIN WHY PGW IS PROPOSING THE CASH RECEIPTS**
9 **RECONCILIATION CLAUSE ("CRRC")?**

10 A. Like its GCR clause for the recovery of natural gas costs, PGW's CRRC would recognize
11 that the current downturn in PGW's levels of uncollected cash receipts is largely outside
12 its control. If cash receipts return to the level, included in PGW's current base rates, the
13 clause will not charge customers . As Mr. Gyory explains, PGW is undertaking an
14 extensive effort to increase collections levels. If PGW is successful in improving these
15 collection levels, the clause will not charge customers any additional amount. However,
16 by putting the clause in place PGW will be assured (and assure potential bondholders)
17 that it will be able to achieve minimally acceptable levels of cash collections.
18 Moreover, PGW's recent experience shows that its cash collection levels are volatile and
19 swing wildly as natural gas costs and weather affect its customers' charges and, in turn,
20 their ability to pay their gas bills. In addition, such factors as the authorized levels of
21 LIHEAP funding will affect PGW's realized cash receipts in any particular year. As
22 such, in today's environment, recovering increased uncollectible amounts in an
23 automatically adjusting, fully reconcilable clause is best for a Cash Flow method
24 company like PGW.

1 Q. **IN CONSTRUCTING THE PROPOSED CLAUSE, WHY DIDN'T PGW FOCUS**
2 **ON RECONCILING ITS PROVISION FOR UNCOLLECTIBLES OR ITS**
3 **ACTUAL WRITE-OFFS?**

4 A. Because, for PGW, what it books as a "bad debt expense," and ultimately its actual write-
5 offs is not what drives its financial health at the current time. Its levels of cash at crucial
6 periods during the year are key and, in turn, so are its levels of cash collections. PGW
7 may not write off a large portion of delinquent accounts in any one year for a variety of
8 reasons, but that doesn't change the fact that it has, nonetheless, experienced a real cash
9 shortfall in that year.

10 Q. **WHAT ARE THE ELEMENTS OF THE CLAUSE AS PROPOSED BY PGW AND**
11 **HOW WILL THE MECHANISM BE IMPLEMENTED.**

12 A. As depicted on Exhibit JRB-6, PGW's proposal would have two components: a pro
13 forma prospective test year (Fiscal Year 2005) factor, which would have a projected level
14 of gas billings and projected cash receipts factor for the fiscal year. PGW in its most
15 recent fully litigated base rate proceeding had a \$55.7 million uncollectible expense
16 allowance incorporated in rates. The clause would be calculated utilizing a projected
17 cash receipts factor multiplied by the gas billings. PGW is proposing that the projected
18 cash receipts factor be set at the actual cash receipts percentage realized in the prior
19 year. The resultant short fall would be reduced by the allowance in base rates of \$55.7
20 million, leaving the remainder to be recovered over firm sales on a per Mcf basis. For
21 2004-05, (FY 2005) the calculation would be as follows: Gas billings: \$826 million @
22 89% (projected receipts factor for the fiscal year) = \$735.9 million, producing a gross
23 short fall of \$90.9 million, less \$55.7 million allowance in rates = \$35.2 million to be
24 recovered through the clause.

25 *In addition, there would be an "E" factor similar to the one included in PGW's*

1 Gas Cost Rate. The "E" factor would be implemented in basically the same manner
2 although it would utilize actual/estimated data for the current period. The "E" factor for
3 the 2003-04 clause would be calculated as follows: Gas billings: \$818.4 million @ 89%
4 (actual receipts factor for 2003-04) = \$728.4 million, producing a shortfall of \$90.0
5 million, less \$55.7 million allowance = \$34.3 million. To recognize that the clause
6 would be established at a point when the factors that affect PGW's cash collections have
7 had their most negative effect, and that the effect on our cash collections has been
8 building-up for a few years, PGW is proposing to amortize the initial realized "E" factor
9 over three years for an annual recovery of \$11.4 million (without interest). This produces
10 a total potential recovery for these two components of \$ 46.7 million. This recovery, if
11 it becomes necessary, would permit PGW to bill customers for the shortfall in cash
12 collections and provide a source of liquidity to allow PGW to reduce its reliance on short-
13 term borrowing and the restricted capital fund for working capital requirements. Like, its
14 GCR, PGW would update these calculations in a 4th Quarter adjustment that would be
15 filed on September 1, 2004. In this way if PGW is able to improve its cash collections by
16 the end of its fiscal year, it will be able to adjust its projected collection levels as well as
17 the "E" factor for the 2003-04 period. This clause would be reconciled on an annual
18 basis at the same time and in the same manner as its GCR. The revisions to the tariff
19 necessary to implement this clause are set out in PGW's Supplement No. 3 to Tariff No.
20 2. As indicated earlier, if approved, this clause should allow PGW to have the cash
21 available to fund operations and to maintain minimally acceptable financial viability.

22 **Q. IF PGW'S ACTUAL CASH RECEIPTS LEVELS EXCEEDS THE LEVEL OF**
23 **UNCOLLECTIBLES INCLUDED IN RATES (\$55.7 MILLION) WILL THE**
24 **CLAUSE PROVIDE A CREDIT TO CUSTOMERS?**

1 A. No, PGW is proposing the CRRC as a “make whole” mechanism rather than as a true-up.
2 This is important because PGW, in its present circumstances needs to collect revenues at
3 historic collection percentages just to avoid financial crisis. If it is fortunate enough to
4 realize collection levels that would result in an implicit uncollectible amount that is
5 smaller than its present base rate allowance, PGW needs to be first able to use this added
6 amount as a source of internally generated working capital, and reduce its use of its short
7 term borrowings but ultimately its sole reliance on long term debt for capital
8 improvements. As indicated above, PGW continues to be in a situation where it has
9 absolutely no margin of error. It would be to everyone’s benefit if PGW were able to
10 produce internally generated funds (which ultimately all came from the customer) and
11 firm up its financial position in the coming few years. This has been our goal for some
12 time but high gas costs and much tighter financial markets has frustrated our progress.

13 **Q. MR. BOGDONAVAGE, IF THE PUC AUTHORIZES THIS “MAKE WHOLE”**
14 **CLAUSE WILL PGW LOSE ITS INCENTIVE TO IMPROVE ITS CASH**
15 **COLLECTIONS LEVELS?**

16 A. Absolutely not. As I indicated above, the clause would give PGW some assurance that it
17 will at least realize cash collection percentages at historic levels, levels that are essential
18 if it is to avoid full financial crisis. But the Company is completely committed not just to
19 surviving but to extricating itself from its present precarious financial circumstances and
20 getting back on to the road to financial stability. The only way that it is going to achieve
21 that is by exceeding historic performance levels. The only way to do this would be by
22 exceeding historic levels of collections. Considering the way in which the Company is
23 structuring the clause it will not lose its incentive to collect every penny of billings, in
24 fact, just the opposite is true.

1 **Q. WOULD THE COMPANY GO FORWARD AND IMPLEMENT THE CLAUSE IF**
2 **THE COMMISSION AUTHORIZED IT BUT MANDATED THAT IT HAD TO**
3 **TRUE UP CASH COLLECTIONS AND RETURN ANY AMOUNTS OVER THE**
4 **AMOUNT IMPLICITLY ASSUMED IN RATES BACK TO CUSTOMERS?**

5 A. Under the present circumstances, it is unlikely that we would agree to do so and PGW
6 reserves the right to withdraw the proposal if the PUC changes or revises a material term
7 such that, in the Company's view, implementation of the clause would be harmful to
8 PGW's overall financial position. We would have no option but to file a base rate case
9 for more money than we are seeking through the CRRC.

10 **Q. HOW WILL THE CRRC BE CHARGED TO CUSTOMERS?**

11 A. All firm rate customers would be billed the charge, which would be added to their
12 distribution charge, in the same way that PGW now calculates and charges its
13 Restructuring Charge and its Universal Service Charge. PGW's has included proposed
14 language in its GCR/CRRC Tariff filing to implement the CRRC (Supplement No. 2 to
15 Pa PUC Tariff No. 2, pg. 82).

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

17 A. Yes.

18

PHILADELPHIA GAS WORKS
Historical Accounts Receivable and Write-offs

	Fiscal Year Ending August 31,					
	<u>Actual</u> <u>1999</u>	<u>Actual</u> <u>2000*</u>	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Estimate</u> <u>2004</u>
Billed Gas Revenues (\$000)	\$ 482,700	\$ 495,545	\$ 741,963	\$ 557,466	\$ 755,920	\$ 818,395
Accounts Receivable (\$000)	107,453	185,421	280,406	254,047	321,408	353,103
Less: Reserve for Bad Debt	(67,070)	(129,154)	(184,324)	(187,461)	(228,548)	(238,548)
Net Accounts Receivable	40,383	56,267	96,082	66,586	92,860	114,555
Bad Debt Reserve/Accounts Receivable	62.4%	69.7%	65.7%	73.8%	71.1%	67.6%
Write-Offs Net (\$000)	36,806	37,807	27,701	48,411	43,914	60,000
Receivable/Billed Gas Revenues	22.3%	37.4%	37.8%	45.6%	42.5%	43.1%
Bad Debt (\$000)	39,000	54,000	67,633	51,548	85,000	70,000
Bad Debt /Billed Gas Revenues	8.1%	10.9%	9.1%	9.2%	11.2%	8.6%
Bad Debt/Accounts Receivable	36.3%	29.1%	24.1%	20.3%	26.4%	19.8%

* Accounts Receivable & Reserve for Bad Debt Restated .

Philadelphia Gas Works

FY1993-2004 Year End Net Accounts Receivable & Ave. Residential Heating Bill

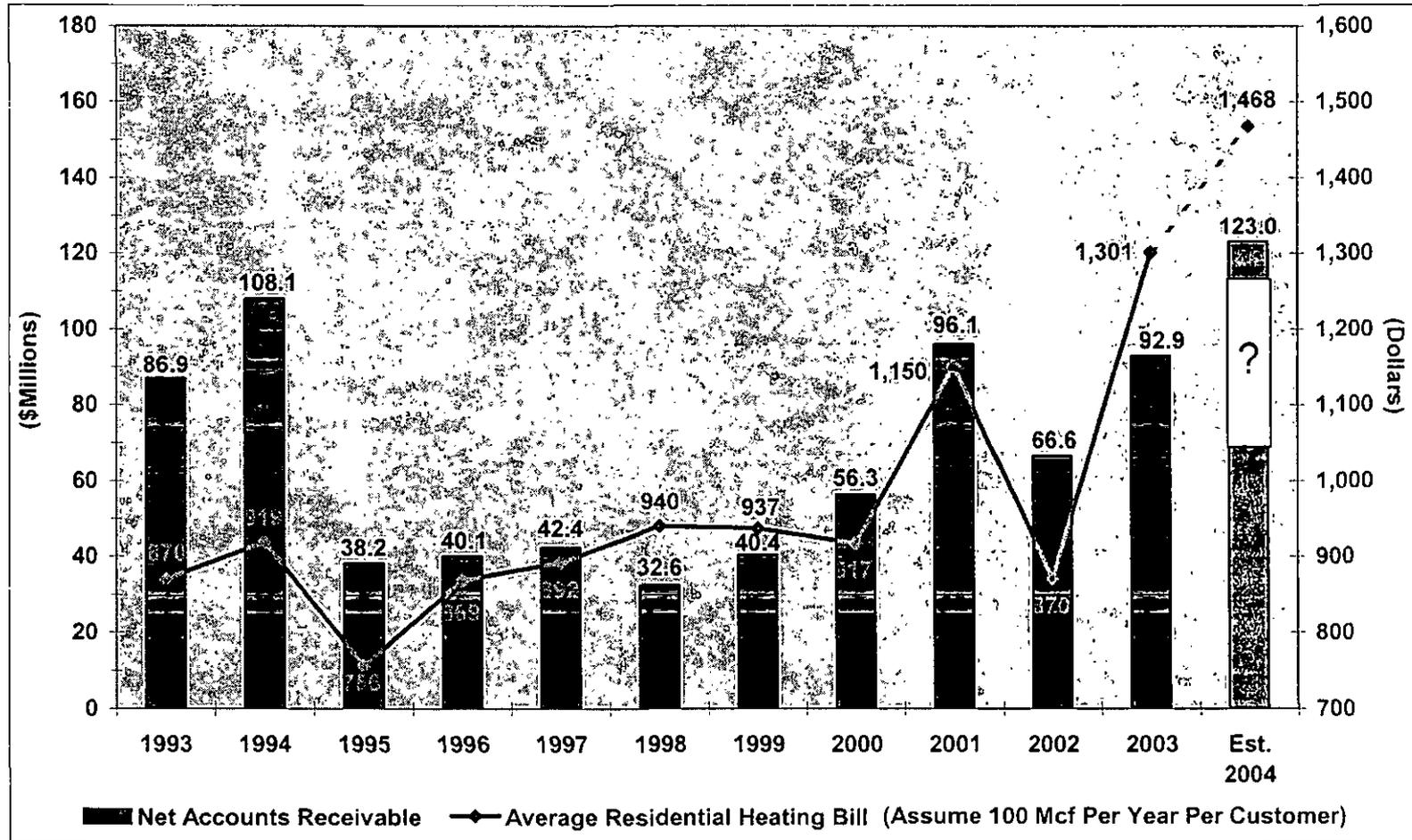
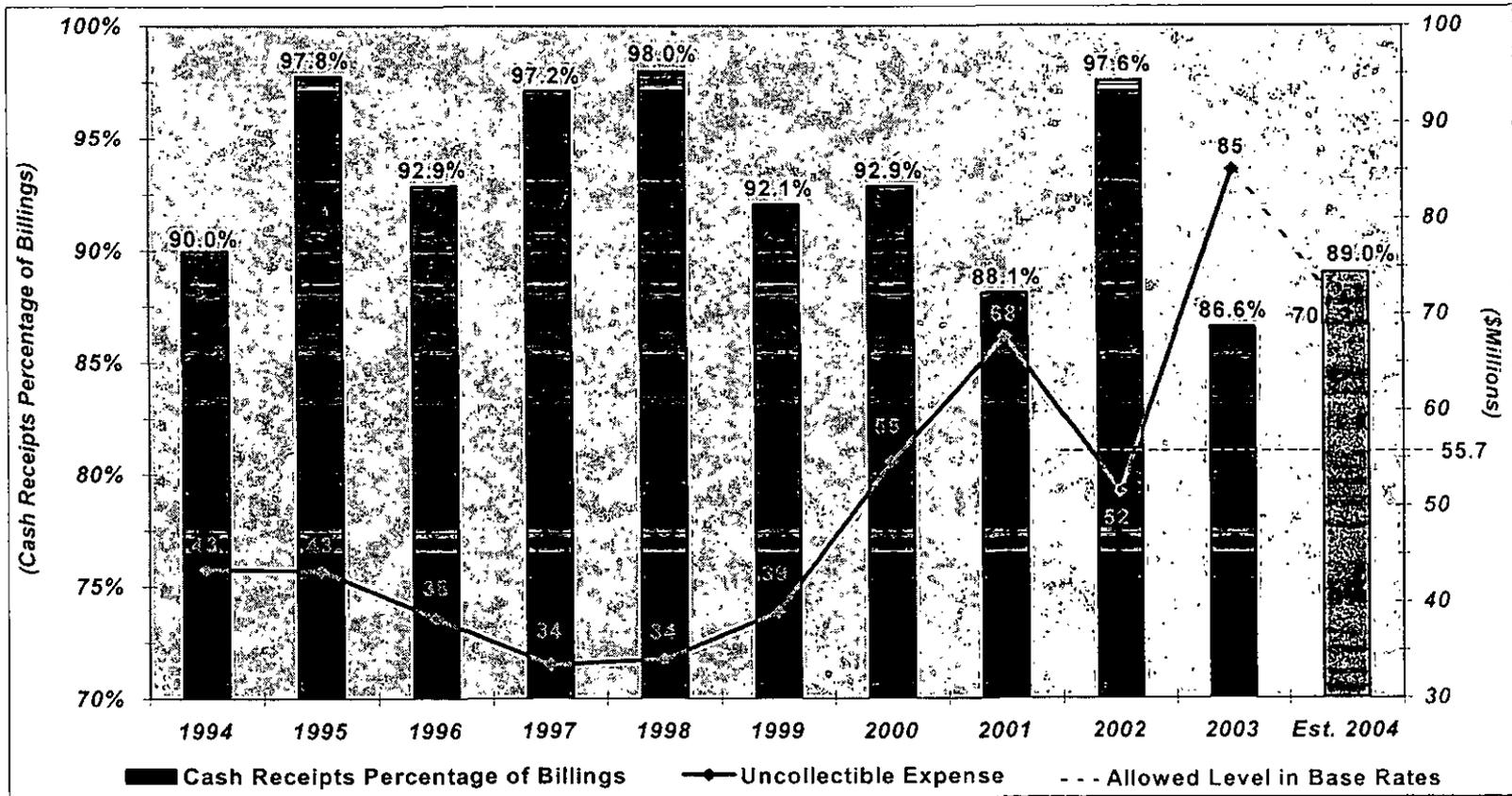


Exhibit JRB-3

Cash Receipts & Uncollectible Expense

At 86.57% in FY2003 Cash Receipts levels are dropping below historic percentages of Billings (91.85%) as well as the implicit level assumed in last base rate case (92.33%).



While Provision for Uncollectible Expense is climbing.

Actual Weather 4,794 degree days 5.25%
 City Loan \$45.0 MM Fully Outstanding @ 8/31/03
 \$69.6M Annualized Rate Increase
 TXCP \$80.0 M with \$74.0 MM Outstanding @ 8/31/03
 New Bond Sale \$125.0 MM 12/2002
 WNA Customer Credit \$10.0 MM

ESTIMATE OF CASH RECEIPTS AND DISBURSEMENTS
 FISCAL YEAR ENDING AUGUST 31, 2003
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	TOTAL
9/17/03	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	
OPENING BALANCE - CASH INCLUDES \$78.0 TXCP RECEIPTS	\$11.4	(\$0.7)	\$0.8	\$6.0	\$6.2	\$8.0	\$3.1	\$10.1	\$13.8	\$2.2	\$2.0	(\$1.0)	\$11.4
Gas	28.5	37.7	31.6	49.9	77.6	76.3	102.9	85.4	68.8	50.5	44.6	36.7	690.5
Other	1.1	0.4	6.0	0.2	0.3	0.1	0.5	0.5	0.4	0.3	0.6	15.3	25.7
Drawn from Capital Funds - Principal	0.0	6.0	17.0	11.4	20.7	0.0	0.0	0.0	15.4	1.2	(3.1)	(7.6)	61.0
Drawn from Capital Funds - Interest	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.4	0.8	1.7
Drawn from Lease Funds - Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Advance (Repayment) of Capital Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Draw	0.0	3.6	1.5	1.0	2.6	0.0	2.6	1.8	0.8	0.8	0.8	1.7	17.2
City Loan	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
Rate Relief	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
TOTAL RECEIPTS	29.6	47.7	56.1	62.5	101.7	76.4	106.0	87.7	85.4	52.8	43.3	46.9	796.1
TOTAL	41.0	47.0	56.9	68.5	107.9	84.4	109.2	97.8	99.2	55.0	45.3	45.9	807.5
DISBURSEMENTS													
Labor	10.7	10.3	12.6	11.4	12.4	12.2	11.7	12.4	12.3	9.8	12.5	11.5	139.8
Natural Gas	19.0	21.6	28.8	38.4	41.2	44.5	45.1	59.3	37.8	41.4	37.0	17.5	431.6
Debt Service	0.0	2.0	0.0	0.0	24.7	5.4	0.0	2.0	4.7	0.0	36.2	13.3	90.3
TXCP: Interest	0.0	0.1	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.4	0.0	0.1	1.1
Repayment of City Loan	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
City Fee	0.0	0.0	0.0	0.0	0.0	4.5	4.5	4.5	4.5	0.0	0.0	0.0	18.0
Other Disbursements	12.0	9.2	10.5	10.2	9.5	8.8	12.2	9.8	10.2	9.4	11.1	7.9	120.8
TOTAL DISBURSEMENTS	41.7	43.2	51.9	60.2	87.9	75.5	73.6	88.0	69.5	61.0	98.8	50.3	801.6
MONTHLY CASH FLOW	(12.1)	4.5	4.2	2.3	13.8	0.9	32.4	(0.3)	15.9	(8.2)	(55.5)	(3.4)	(5.5)
CUMULATIVE CASH FLOW	(12.1)	(7.6)	(3.4)	(1.1)	12.7	13.6	46.0	45.7	61.6	53.4	(2.1)	(5.5)	
OPENING TXCP	79.8	79.8	79.8	76.8	77.8	75.7	63.7	58.0	32.5	36.5	9.0	17.0	69.5
TXCP ISSUED DURING MONTH	0.0	0.0	1.0	0.0	0.0	0.0	0.0	4.0	0.0	8.0	52.5	4.5	70.0
TXCP ISSUED PAID DOWN DURING MONTH	0.0	3.0	0.0	2.1	12.0	5.8	25.5	0.0	27.5	0.0	0.0	0.0	75.9
ENDING TXCP	79.8	76.8	77.8	75.7	63.7	58.0	32.5	36.5	9.0	17.0	69.5	74.0	74.0
OPENING BALANCE - CASH	11.4	(0.7)	0.8	6.0	6.2	8.0	3.1	10.1	13.8	2.2	2.0	(1.0)	11.4
MONTHLY CASH FLOW	(12.1)	4.5	4.2	2.3	13.8	0.9	32.4	(0.3)	15.9	(8.2)	(55.5)	(3.4)	(5.5)
NET TXCP ACTIVITY MONTHLY	0.0	(3.0)	1.0	(2.1)	(12.0)	(5.8)	(25.5)	4.0	(27.5)	8.0	52.5	4.5	(5.8)
ENDING BALANCE - CASH	(0.7)	0.8	6.0	6.2	8.0	3.1	10.1	13.8	2.2	2.0	(1.0)	0.1	0.1
CITY LOAN AVAILABLE - END OF MONTH	6.5	2.3	1.3	0.0	5.1	0.0	0.8	6.6	11.5	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	38.5	42.7	43.7	45.0	39.9	45.0	44.2	38.4	33.5	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(123.2)	(119.7)	(116.8)	(109.4)	(100.7)	(99.0)	(60.8)	(56.2)	(51.8)	(60.0)	(115.5)	(118.9)	

Actual/Estimate Weather 4,490 degree days
 City Loan \$45.0 MM Fully Outstanding @ 8/31/04
 TXCP \$80.0 MM with \$79.8 MM Outstanding @ 8/31/04
 Original Collection Factor 94.5% / Estimate 89.0%
 City Fee Deferral \$18.0 M-Nat. Gas Storage Deferral \$10.0M
 Natural Gas Pymt. Deferral \$24.5 M @ 4.59 Bcf May-Sept
 FY 2004 Impact \$4.9 M per Month June-Aug
 2/25/04

BUDGET OF CASH RECEIPTS AND DISBURSEMENTS
 FISCAL YEAR ENDING AUGUST 31, 2004
 (Millions of Dollars)

	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ESTIMATE	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	TOTAL
OPENING BALANCE - CASH INCLUDES \$74.0 TXCP RECEIPTS	(\$0.1)	(\$2.7)	(\$1.5)	(\$0.8)	\$3.3	\$13.4	\$7.8	\$14.0	\$14.5	\$4.3	\$41.3	\$15.1	(\$0.1)
Gas	34.0	42.3	39.3	58.9	77.5	96.0	99.0	91.0	77.0	60.0	47.0	44.7	766.7
Other	2.2	1.7	0.1	0.4	3.4	0.1	0.1	0.6	0.6	0.6	0.6	1.9	12.3
Drawn from Capital Funds - Principal (\$94.2MM)	18.6	9.6	12.4	4.3	31.0	0.0	0.0	0.0	18.1	0.0	0.0	(27.4)	66.6
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	1.4	1.4
Drawn from Lease Funds - Principal (\$X.XMM)	0.0	1.2	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	4.4
Drawn from Lease Funds - Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Pension Draw	0.8	2.2	1.5	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	18.8
City Loan	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
TOTAL RECEIPTS	55.6	57.0	53.3	65.2	113.4	97.7	100.7	96.5	97.3	62.2	49.2	22.2	870.3
TOTAL	55.5	54.3	51.8	64.4	116.7	111.1	108.5	110.5	111.8	66.5	90.5	37.3	870.2
DISBURSEMENTS													
Labor	10.4	12.2	10.8	11.4	12.3	11.4	12.3	11.9	11.0	11.3	11.4	11.4	137.8
Natural Gas	28.7	32.5	35.7	41.4	55.5	63.5	49.2	52.8	41.9	29.2	26.7	26.5	483.6
Debt Service	0.0	2.0	0.0	0.0	23.3	8.4	0.0	2.0	4.6	0.0	39.0	15.0	94.3
TXCP: Interest	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.2	2.2
Repayment of City Loan	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
Sales Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0	1.5
City Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	18.0
Other Disbursements	16.5	11.1	10.2	10.2	12.0	12.8	12.8	12.6	12.0	11.3	11.1	11.0	143.6
TOTAL DISBURSEMENTS	55.7	57.9	56.8	63.1	103.3	96.3	74.5	81.0	69.7	70.2	88.4	64.1	881.0
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	10.1	1.4	26.2	15.5	27.6	(8.0)	(39.2)	(41.9)	(10.7)
CUMULATIVE CASH FLOW	(0.1)	(1.0)	(4.5)	(2.4)	7.7	9.1	35.3	50.8	78.4	70.4	31.2	(10.7)	
OPENING TXCP	74.0	71.5	73.6	77.8	79.8	79.8	72.8	52.8	37.8	0.0	45.0	58.0	74.0
TXCP ISSUED DURING MONTH	0.0	2.1	4.2	2.0	0.0	0.0	0.0	0.0	0.0	45.0	13.0	21.8	88.1
TXCP ISSUED PAID DOWN DURING MONTH	2.5	0.0	0.0	0.0	0.0	7.0	20.0	15.0	37.8	0.0	0.0	0.0	82.3
ENDING TXCP	71.5	73.6	77.8	79.8	79.8	72.8	52.8	37.8	0.0	45.0	58.0	79.8	79.8
OPENING BALANCE - CASH	(0.1)	(2.7)	(1.5)	(0.8)	3.3	13.4	7.8	14.0	14.5	4.3	41.3	15.1	(0.1)
MONTHLY CASH FLOW	(0.1)	(0.9)	(3.5)	2.1	10.1	1.4	26.2	15.5	27.6	(8.0)	(39.2)	(41.9)	(10.7)
NET TXCP ACTIVITY MONTHLY	(2.5)	2.1	4.2	2.0	0.0	(7.0)	(20.0)	(15.0)	(37.8)	45.0	13.0	21.8	5.8
ENDING BALANCE - CASH	(2.7)	(1.5)	(0.8)	3.3	13.4	7.8	14.0	14.5	4.3	41.3	15.1	(5.0)	(5.0)
CITY LOAN AVAILABLE - END OF MONTH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY LOAN UTILIZED - END OF MONTH	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
CASH POSITION NET OF TXCP AND CITY LOAN	(119.2)	(120.1)	(123.6)	(121.5)	(111.4)	(110.0)	(83.8)	(68.3)	(40.7)	(48.7)	(87.9)	(129.8)	

<u>Pro-Forma</u>			
2004-2005 Gas Billings	\$ 826,800	\$ 826,800	
Cash Receipts Percentage	<u>89.00%</u>		
Cash Receipts	<u>735,852</u>	<u>(735,852)</u>	
Gas Billings less Cash Receipts		90,948	
Uncollectible Expense Recovered in Base Rates		<u>(55,700)</u>	
Pro-Forma Recovery Amount		<u>35,248</u>	\$ 35,248
<u>"E" Factor</u>			
2003-2004 Gas Billings	818,395	818,395	
Cash Receipts Percentage	<u>89.00%</u>		
Cash Receipts	<u>728,372</u>	<u>(728,372)</u>	
Gas Billings less Cash Receipts		90,023	
Uncollectible Expense Recovered in Base Rates		<u>(55,700)</u>	
E Factor Recovery Amount		<u>34,323</u>	\$ 34,323
E Factor Amortization Period		<u>3</u>	
Amortized E Factor Recovery Amount		<u>11,441</u>	11,441
Total Recovery Amount			<u>\$ 46,689</u>

March 1, 2004 1307(f) Filing - Tab 1, Schedule 10:

		<u>50% of</u> <u>September</u>	<u>11.5 Months</u>	<u>Total</u>
Firm Sales	Mcf	628,566	59,144,619	59,773,185
CASH RECEIPTS RECOVERY CLAUSE SURCHARGE		-	\$ 0.7947	
Total Projected Recovery		\$ -	\$ 47,000,000	\$ 47,000,000

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF

DOUGLAS MOSER

ON BEHALF OF
PHILADELPHIA GAS WORKS

DOCKET NO. R-00049157

P- _____

Philadelphia Gas Works

Proposed CRRC

March 1, 2004

1 **Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.**

2 A. My name is Douglas Moser. My position with PGW is Vice President of Gas
3 Management.

4 **Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.**

5 A. I received a Bachelor of Science degree in Chemical Engineering from Pennsylvania
6 State University in 1979. I have also received a Masters in Business Administration from
7 Widener University in 1990.

8 I have held the following positions at PGW: Engineering Assistant, Production
9 Engineer, Supervisor – Gas Conditioning, and Operations Engineer in the Gas
10 Processing Department, Manager – Gas Control and Manager – Gas Acquisition
11 in the Gas Supply Department and Senior Project Manager in the Strategic
12 Planning Department.

13 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE**
14 **PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PUC")?**

15 A. Yes, I testified in PGW's Restructuring Proceeding (M-00021612).

16 **Q. WHAT IS THE FOCUS OF YOUR TESTIMONY IN THIS PROCEEDING?**

17 A. My testimony will describe how the natural gas market has evolved in the recent years,
18 how natural gas prices are predicted to perform in the next few years and the effect this
19 has had and will continue to have on the cost of natural gas for PGW customers. I will
20 also describe a potential benefit to the development of a competitive natural gas supply
21 market in PGW's service territory that could be offered if the PUC approves PGW's
22 proposed CRRC clause.

23 **Q. WHAT HAS BEEN THE PATTERN FOR NATURAL GAS PRICES DURING**
24 **THE LAST TEN YEARS?**

1 A. As seen on DM-1 and DM-2, natural gas prices have more than doubled from a range of
2 \$2.00-2.50 from 1996 to 1999 to a range of \$4.50-6.00 in 2003-04. Since 2003 natural gas
3 prices have stayed above \$4.00 with a spike to over \$9.00 in March, 2003. Whereas
4 natural gas prices typically traded within a narrow band in the late 1990's, the volatility
5 of natural gas prices have increased and prices now trade within a \$1.50 to \$2.00 band.
6 Therefore, not only have natural gas prices more than doubled, their volatility has also
7 more than doubled.

8 **Q. WHERE DOES PGW SEE NATURAL GAS PRICES IN THE FUTURE?**

9 A. As witnessed recently, there are many factors which influence natural gas prices. Factors
10 such as weather, new well drilling, price of alternate fuels and demand by electric
11 generators are all issues when discussing the future of natural gas prices. The
12 fundamentals are there to support a supply versus demand shortfall in the near term.
13 Publications such as Global Insight, Inc. are forecasting natural gas prices remaining in
14 the range of \$4.50 to \$6.00 over the next two years (See, Exh. DM-2, page 1). Based
15 upon current NYMEX futures contracts, prices are projected to be in the \$5.00- \$6.00
16 range for the foreseeable future (DM-2, pg. 2).

17 **Q. HOW DOES THIS AFFECT PGW'S PURCHASED GAS COSTS?**

18 A. Natural gas costs are a pass-through cost to the consumers. PGW is able to stabilize the
19 costs from broad fluctuations to a degree through the use of storages and forward
20 purchases of commodity, however the market is forcing the price to higher levels. As
21 displayed in DM-3, residential customers have experienced an increase in the yearly bill
22 from \$800 to nearly \$1450 (based on 100 mcf usage). The majority of this increase is
23 due to the increasing cost of the natural gas commodity.

1 **Q. HAVE THE RECENT INCREASES IN CUSTOMER BILLS BEEN MORE**
2 **SUSTAINED THAN IN THE PAST?**

3 A. Yes. This can also be seen on Exhibit DM-3. Until 2000, PGW's total GCR usually
4 changed just once a year and never experienced an increase for two consecutive periods.
5 In 2000 the rate went up and continued upward in 2001, but started downward by
6 December, of that year. However, in June 2002 the total commodity cost/Mcf began a
7 steady movement effort throughout that entire year and through 2003, with increases in
8 every quarter.

9 **Q. IS PGW THE ONLY LDC AFFECTED BY THE COMMODITY PRICE**
10 **INCREASES?**

11 A. No. To varying degrees, every LDC is being affected by the commodity increases. DM-
12 4 shows PGW's Purchased Gas Cost (PGC) rates compared to the other Pennsylvania
13 companies. Each of the companies have experienced increases in their PGC during the
14 four year period.

15 **Q. MR. MOSER, IS THERE A POSSIBILITY THAT THE ESTABLISHMENT OF**
16 **THE CRRC COULD ASSIST THE DEVELOPMENT OF COMPETITIVE GAS**
17 **SUPPLY SERVICE IN PGW'S SERVICE TERRITORY?**

18 A. Yes. If the Clause is enacted, PGW is willing to meet and discuss with Natural Gas
19 Suppliers (NGSs) the potential of purchasing the accounts receivables of their PGW
20 customers under specific conditions and including those revenues within the coverage of
21 the CRRC. Although PGW has received some inquiries from retail natural gas suppliers
22 about providing competitive natural gas supply service to PGW's customers, there are
23 currently no NGSs offering firm gas supply service in PGW's service territory. While
24 there might be several reasons for this, one potential cause may be the high level of
25 uncollectible accounts in PGW's service territory. This is a widely-known problem and
26 NGSs are likely to be very wary of serving customers that have a high default rate. It

1 stands to reason, therefore, that if there was some way to relieve NGSs of the risk of high
2 uncollectible accounts, they might be more willing to serve PGW's firm customers.

3 **Q. HOW WOULD THE CRRC PROVIDE SUCH AN OPPORTUNITY?**

4 A. PGW and an NGS could arrive at an appropriate arrangement in which PGW could
5 include the billings of NGSs in the CRRC. This would relieve these companies of
6 collection risk associated with PGW customers.

7 **Q. WOULD THERE BE CONDITIONS THAT WOULD HAVE TO BE MET TO**
8 **ALLOW PGW TO MAKE THIS OFFER?**

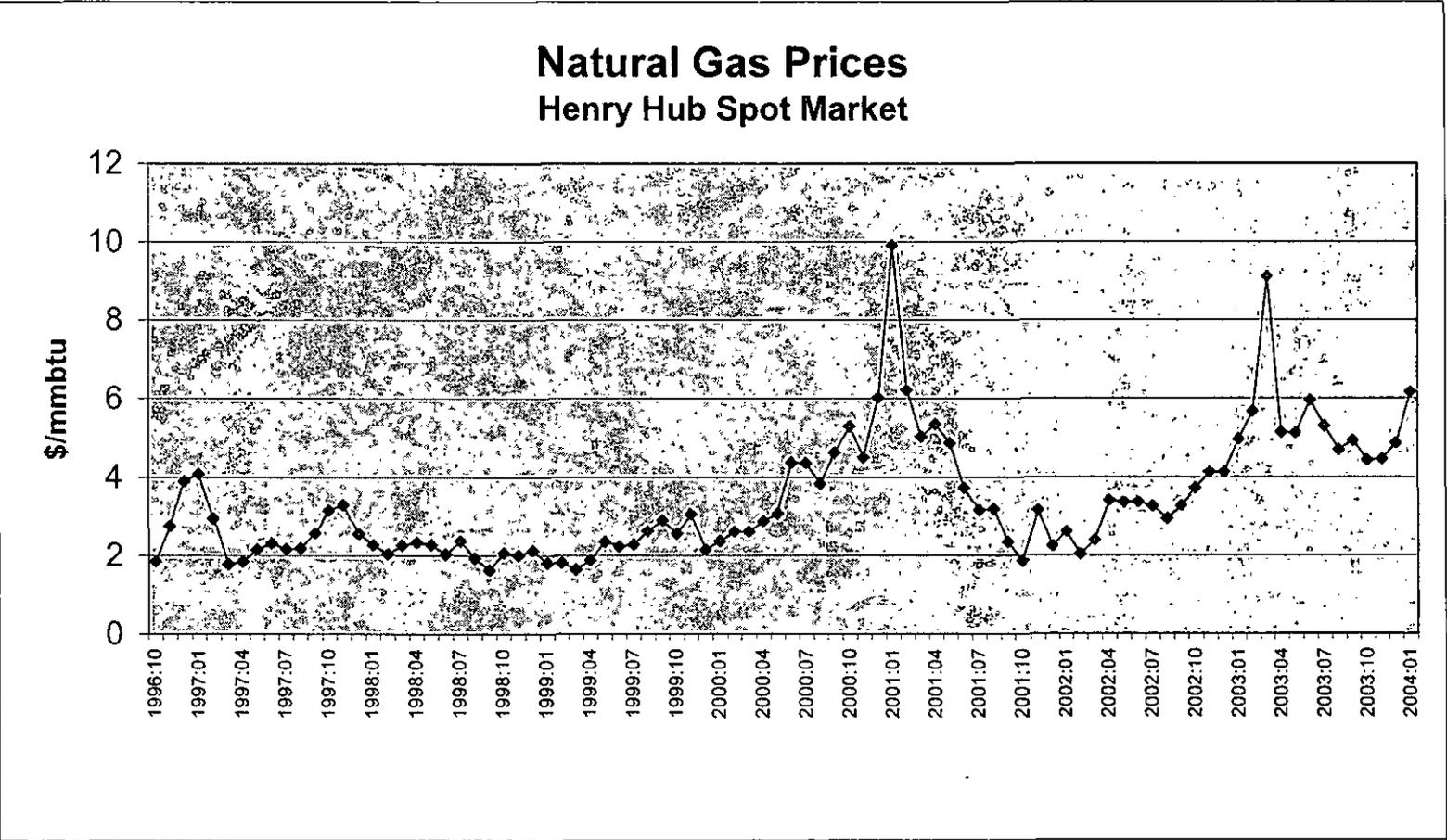
9 A. Yes. NGSs would have to use our soon-to-be-available consolidated billing option to
10 make this administratively workable. They would also have to agree to receive payment
11 from customers (or from the CRRC) at the same rate and time as we receive the payments
12 from our customers, otherwise it would create a cash working capital drain on the
13 company. There are likely other requirements and conditions that would be required as
14 well.

15 **Q. HOW DO YOU PROPOSE TO PROCEED?**

16 A. If the Commission approves the CRRC, and PGW receives a request from an NGS, the
17 Company would commit to holding a workshop to attempt to determine whether a set of
18 rules and procedures could be arrived at that would permit NGSs to participate in the
19 clause without adverse financial or operational consequences for the Company or its
20 customers.

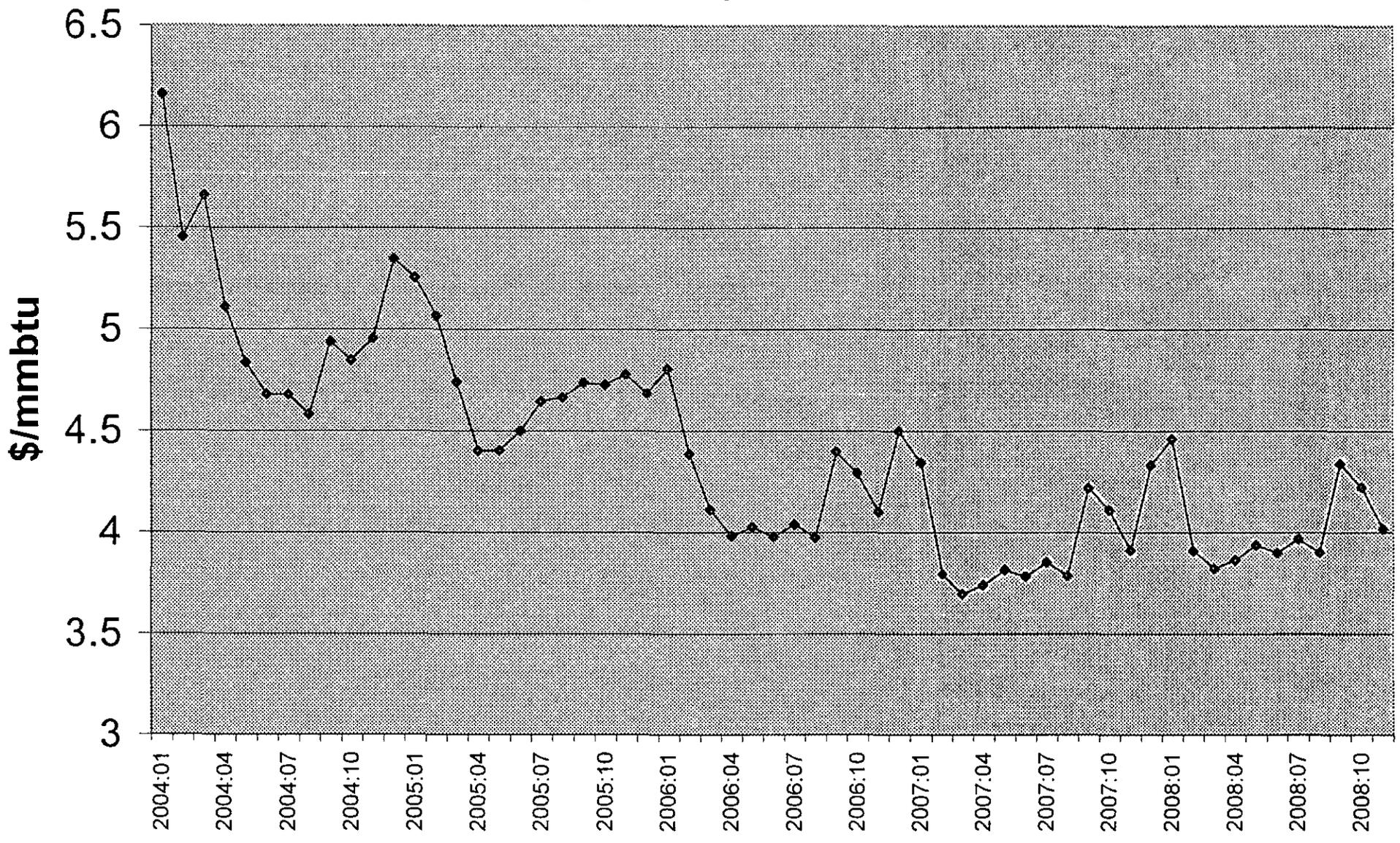
21 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

22 A. Yes.



Future Natural Gas Prices

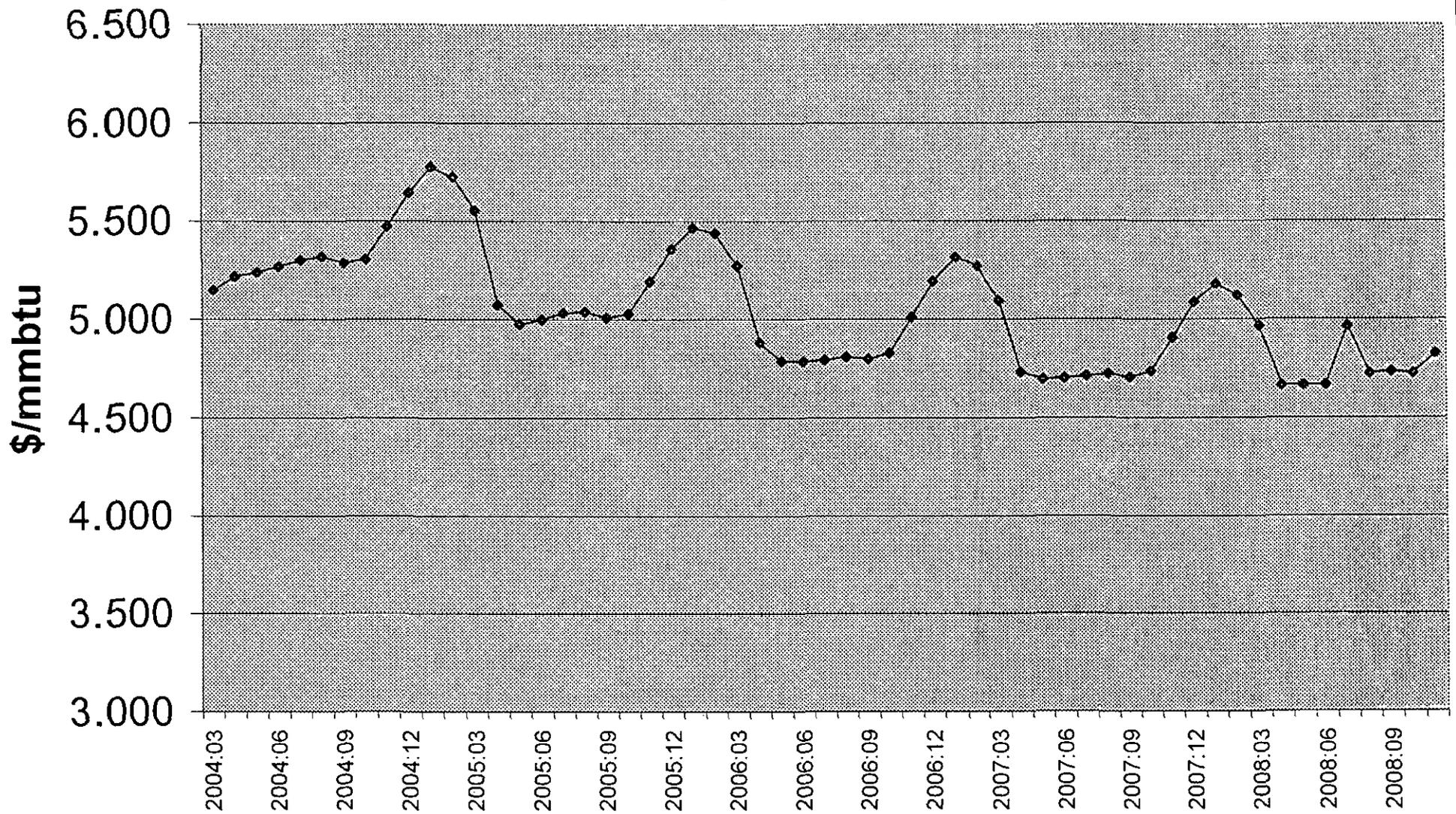
Henry Hub Spot Market



Global Insight Energy Price Forecast - January, 2004

Natural Gas - NYMEX Futures Contract

Henry Hub



PRICES AS OF FEBRUARY 25, 2004

PGW Tariff Gas Costs - GS Residential (MCF)

<u>Date</u>	<u>Cust. Charge</u>	<u>Delivery Charge</u>	<u>Surcharges</u>		<u>Dist. Charge</u>	<u>Comm. Charge</u>	<u>Gas Cost Adjust</u>	<u>Total GCR</u>	<u>Total Per Mcf</u>	<u>Yearly Cost 100 Mcf</u>
			<u>R&CE</u>	<u>USC</u>						
12/1/2003	\$ 12.00	4.2124	0.0675	1.0765	5.3564	7.1697	0.4616	7.6313	12.9877	\$ 1,442.77
9/1/2003	\$ 12.00	4.2124	0.0675	1.2564	5.5363	7.6442	0.2228	7.8670	13.4033	\$ 1,484.33
		<u>Base Rate Non-Gas</u>	<u>Base Rate Commodity</u>		<u>Base Rate</u>	<u>GCR Factor</u>		<u>Total Comm. Cost / Mcf</u>		
6/1/2003	\$ 12.00	4.2984	3.18		7.4784	5.7687		8.9487	13.2471	\$ 1,468.71
4/11/2003	\$ 12.00	4.2984	3.18		7.4784	5.0600		8.2400	12.5384	\$ 1,397.84
3/1/2003	\$ 12.00	4.2984	3.18		7.4784	4.2350		7.4150	11.7134	\$ 1,315.34
12/1/2002	\$ 12.00	4.2984	3.18		7.4784	3.5917		6.7717	11.0701	\$ 1,251.01
9/1/2002	\$ 12.00	4.2984	3.18		7.4784	3.0385		6.2185	10.5169	\$ 1,195.69
6/1/2002	\$ 12.00	4.1134	3.18		7.2934	2.7932		5.9732	10.0866	\$ 1,152.66
4/16/2002	\$ 12.00	4.1134	3.18		7.2934	2.0203		5.2003	9.3137	\$ 1,075.37
3/1/2002	\$ 12.00	3.4120	3.18		6.5920	2.0203		5.2003	8.6123	\$ 1,005.23
12/1/2001	\$ 12.00	3.7319	3.18		6.9119	3.1307		6.3107	10.0426	\$ 1,148.26
#####	\$ 12.00	3.7319	3.18		6.9119	4.3727		7.5527	11.2846	\$ 1,272.46
9/1/2001	\$ 11.66	3.4330	3.18		6.6130	4.3727		7.5527	10.9857	\$ 1,238.49
3/1/2001	\$ 11.66	3.4330	3.18		6.6130	6.6959		9.8759	13.3089	\$ 1,470.81
1/1/2001	\$ 8.00	3.4330	3.18		6.6130	6.1985		9.3785	12.8115	\$ 1,377.15
#####	\$ 8.00	3.4330	3.18		6.6130	3.0445		6.2245	9.6575	\$ 1,061.75
1/1/2000	\$ 8.00	3.4330	3.18		6.6130	1.0982		4.2782	7.7112	\$ 867.12
12/1/1999	\$ 8.00	3.4330	3.18		6.6130	1.2394		4.4194	7.8524	\$ 881.24
6/1/1999	\$ 8.00	3.4330	3.18		6.6130	1.0114		4.1914	7.6244	\$ 858.44
1/19/1999	\$ 4.00	3.9400	3.18		7.1200	1.0114		4.1914	8.1314	\$ 861.14
12/1/1996	\$ 4.00	3.9400	3.18		7.1200	1.4272		4.6072	8.5472	\$ 902.72
10/1/1996	\$ 4.00	3.9400	3.18		7.1200	1.6517		4.8317	8.7717	\$ 925.17
9/1/1995	\$ 4.00	3.9400	3.18		7.1200	0.6540		3.8340	7.7740	\$ 825.40
9/1/1994	\$ 4.00	3.9400	3.18		7.1200	0.6895		3.8695	7.8095	\$ 828.95
9/1/1993	\$ 4.00	3.9400	3.18		7.1200	0.6957		3.8757	7.8157	\$ 829.57
9/1/1992	\$ 4.00	3.9400	3.18		7.1200	0.4075		3.5875	7.5275	\$ 800.75

**2003 - 2004 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)
PGC 2003 1307-f Rates										
PGC Rate In Effect Prior To Annual Review										
Approved rate	\$ 6.4985	\$ 7.3527	\$ 8.9487	\$ 8.6504	\$ 7.7215	\$ 8.56	\$ 6.1765	\$ 5.7041	\$ 7.2557	\$ 7.3237
Rates per Annual Review + 4th Quarterly PGC 2002										
Date rates effective	Aug 1, 2003	Aug 1, 2003	Sept 1, 2003	Oct 1, 2003	Oct 1, 2003	Oct 1, 2003	Dec 1, 2003	Dec 1, 2003	Dec 1, 2003	Dec 1, 2003
Approved rate	\$ 6.1909	\$ 8.2166	\$ 7.8670	\$ 7.1536	\$ 7.5431	\$ 8.50	\$ 6.7104	\$ 7.5347	\$ 7.1880	\$ 7.9286
Rate Increase/(decrease)	\$ (0.3076)	\$ 0.8639	\$ (1.0817)	\$ (1.4968)	\$ (0.1784)	\$ (0.06)	\$ 0.5339	\$ 1.8306	\$ (0.0677)	\$ 0.6049
Percentage Increase/(decrease)	(4.7)	11.7	(12.1)	(17.3)	(2.3)	(0.7)	8.6	32.1	(0.9)	8.3
1st Quarterly										
Date rates effective	Nov 1, 2003	Nov 1, 2003	Dec 1, 2003	Jan 1, 2004	Jan 1, 2004	Jan 1, 2004	Mar 1, 2004	Mar 1, 2004	Mar 1, 2004	Mar 1, 2004
Approved rate	\$ 6.3341	\$ 7.8660	\$ 7.6313	\$ 7.6361	\$ 8.4001	\$ 8.88	\$ -	\$ -	\$ -	\$ -
Rate increase/(decrease)	\$ 0.1432	\$ (0.3506)	\$ (0.2357)	\$ 0.4825	\$ 0.8570	\$ 0.38	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	2.3	(4.3)	(3.0)	6.7	11.4	4.5	0.0	0.0	0.0	0.0
2nd Quarterly										
Date rates effective	Feb 1, 2004	Feb 1, 2004	Mar 1, 2004	Apr 1, 2004	Apr 1, 2004	Apr 1, 2004	June 1, 2004	June 1, 2004	June 1, 2004	June 1, 2004
Approved rate	\$ 6.6440	\$ 8.1964	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate Increase/(decrease)	\$ 0.3099	\$ 0.3304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	4.9	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3rd Quarterly										
Date rates effective	May 1, 2004	May 1, 2004	June 1, 2004	July 1, 2004	July 1, 2004	July 1, 2004	Sept 1, 2004	Sept 1, 2004	Sept 1, 2004	Sept 1, 2004
Approved rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate increase/(decrease)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percentage Increase/(decrease)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quarterly										
Date rates effective										
Approved rate										
Rate increase/(decrease)										
Percentage Increase/(decrease)										

**2002 - 2003 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)
PGC 2002 1307-f Rates										
Rates per Annual Review + 4th Quarterly PGC 2001										
Date rates effective	Aug 1, 2002	Aug 1, 2002	Sept 1, 2002	Oct 1, 2002	Oct 1, 2002	Oct 1, 2002	Dec 1, 2002	Dec 1, 2002	Dec 1, 2002	Dec 1, 2002
Approved rate	\$ 4.5732	\$ 6.2118	\$ 6.2185	\$ 6.8189	\$ 5.1719	\$ 6.52	\$ 5.2228	\$ 6.4441	\$ 5.7793	\$ 5.3780
Rate increase/(decrease)	\$ 0.4702	\$ 0.4472	\$ 0.2453	\$ 2.1856	\$ 1.1167	\$ 0.0	\$ (0.7204)	\$ (0.1821)	\$ (0.1197)	\$ (0.3976)
Percentage Increase/(decrease)	11.5	7.8	4.1	47.2	27.5	0.0	(12.1)	(2.7)	(2.0)	(6.9)
1st Quarterly										
Date rates effective	Nov 1, 2002	Nov 1, 2002	Dec 1, 2002	Jan 1, 2003	Jan 1, 2003	Jan 1, 2003	Mar 1, 2003	Mar 1, 2003	Mar 1, 2003	Mar 1, 2003
Approved rate	\$ 4.9094	\$ 6.2118	\$ 6.7717	\$ 7.6074	\$ 6.0330	\$ 7.05	\$ 6.3737	\$ 8.5641	\$ 7.4139	\$ 6.8405
Rate increase/(decrease)	\$ 0.3362	\$ 0.0	\$ 0.5532	\$ 0.7885	\$ 0.8611	\$ 0.53	\$ 1.1509	\$ 2.1200	\$ 1.6346	\$ 1.4625
Percentage Increase/(decrease)	7.4	0.0	8.9	11.6	16.7	8.1	22.0	32.9	28.3	27.2
2nd Quarterly										
Date rates effective	Feb 1, 2003	Feb 1, 2003	Mar 1, 2003	Apr 1, 2003	Apr 1, 2003	Apr 1, 2003	June 1, 2003	June 1, 2003	Interim Apr 10, 2003	June 1, 2003
Approved rate	\$ 5.7581	\$ 6.9467	\$ 7.4150	\$ 8.8716	\$ 7.7215	\$ 8.56	\$ 6.3454	\$ 7.7441	\$ 6.8421	\$ 7.3237
Rate increase/(decrease)	\$ 0.8487	\$ 0.7349	\$ 0.6433	\$ 1.2642	\$ 1.6885	\$ 1.51	\$ (0.0283)	\$ (0.8200)	\$ (0.57)	\$ 0.4832
Percentage Increase/(decrease)	17.3	11.8	9.5	16.6	28.0	21.4	(0.4)	(9.6)	(7.7)	7.1
3rd Quarterly										
Date rates effective	April 1, 2003	May 1, 2003	Interim Apr 11, 2003	July 1, 2003	July 1, 2003	July 1, 2003	Sept 1, 2003	Interim Aug 1, 2003	2nd Qtrly June 1, 2003	Sept 1, 2003
Approved rate	\$ 6.4985	\$ 7.3527	\$ 8.2400	\$ 8.6504	\$ 7.7215	\$ 8.56	\$ 6.1765	\$ 5.7041	\$ 7.0302	\$ 7.3237
Rate increase/(decrease)	\$ 0.7404	\$ 0.4060	\$ 0.8250	\$ (0.2212)	\$ 0	\$ 0	\$ (0.1689)	\$ (2.0400)	\$ 0.1881	\$ 0
Percentage Increase/(decrease)	12.9	5.8	11.1	(2.5)	0.0	0.0	(2.7)	(26.3)	2.8	0.0
4th Quarterly										
Date rates effective			3rd Qtrly June 1, 2003					3rd Qtrly Sept 1, 2003	3rd Qtrly Sept 1, 2003	
Approved rate			\$ 8.9487					\$ 5.7041	\$ 7.2557	
Rate increase/(decrease)			\$ 0.7087					\$ 0	\$ 0.2255	
Percentage Increase/(decrease)			8.6					0.0	3.2	

(1) Numbers represent the total GCR rate including non-gas costs.

**2001 - 2002 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) Residential	NFG (Mcf)	PGW (Mcf) (1)	COLUMBIA (Mcf)	PEOPLES (Mcf)	EQUITABLE (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf) PGC-1	PG ENERGY (Mcf)	PECO (Mcf)	
PGC 2001 1307-f Rates											
Rates per Annual Review + 4th Quarterly PGC 2000											
Date rates effective	Aug 1, 2001	Aug 1, 2001	Sept 1, 2001	Oct 1, 2001	Oct 1, 2001	Oct 1, 2001	Oct 1, 2001	Dec 1, 2001	Dec 1, 2001	Dec 1, 2001	Dec 1, 2001
Approved rate	\$ 4.7155	\$ 6.5494	\$ 7.5524	\$ 3.3542	\$ 4.0023	\$ 5.84	\$ 6.5179	\$ 5.5462	\$ 5.7735	\$ 5.7756	
Rate increase/(decrease)	\$ (1.3089)	\$ (2.9705)	\$ (2.3235)	\$ (4.2853)	\$ (4.7047)	\$ (2.53)	\$ 0.4405	\$ (2.9972)	\$ (2.1878)	\$ (2.3624)	
Percentage Increase/(decrease)	(21.7)	(31.2)	(23.5)	(56.1)	(54.0)	(30.2)	(6.30)	(35.1)	(27.5)	(29.0)	
1st Quarterly											
Date rates effective	Nov 1, 2001	Nov 1, 2001	Dec 1, 2001	Jan 1, 2002	Jan 1, 2002	Jan 1, 2002	Mar 1, 2002	Mar 1, 2002	Mar 1, 2002	Mar 1, 2002	
Approved rate	\$ 4.3030	\$ 5.4604	\$ 6.3107	\$ 3.4866	\$ 3.9656	\$ 5.84	\$ 5.9425	\$ 5.5462	\$ 5.7106	\$ 5.7756	
Rate increase/(decrease)	\$ (0.4125)	\$ (1.0890)	\$ (1.2417)	\$ 0.1324	\$ (0.0367)	\$ 0.00	\$ (0.5754)	\$ 0.00	\$ (0.0629)	\$ 0.00	
Percentage Increase/(decrease)	(8.8)	(16.6)	(16.4)	4.0	(0.9)	0.00	(8.8)	0.00	(1.1)	0.00	
2nd Quarterly											
Date rates effective	Feb 1, 2002	Feb 1, 2002	Mar 1, 2002	Apr 1, 2002	Apr 1, 2002	Apr 1, 2002	June 1, 2002	June 1, 2002	June 1, 2002	June 1, 2002	
Approved rate	\$ 4.1030	\$ 5.2883	\$ 5.2003	\$ 4.2828	\$ 4.0552	\$ 6.27	\$ 5.9010	\$ 6.6262	\$ 6.4606	\$ 5.7756	
Rate increase/(decrease)	\$ (0.2000)	\$ (0.1721)	\$ (1.1104)	\$ 0.7962	\$ 0.0896	\$ 0.43	\$ (0.0415)	\$ 1.0800	\$ 0.7500	\$ 0.00	
Percentage Increase/(decrease)	(4.7)	(3.2)	(17.6)	22.8	2.3	7.4	(0.7)	19.5	13.1	0.00	
3rd Quarterly											
Date rates effective	May 1, 2002	May 1, 2002	June 1, 2002	July 1, 2002	July 1, 2002	July 1, 2002	Sept 1, 2002	Sept 1, 2002	Sept 1, 2002	Sept 1, 2002	
Approved rate	\$ 4.1030	\$ 5.7646	\$ 5.9732	\$ 4.6333	\$ 4.0552	\$ 6.52	\$ 5.9432	\$ 6.6262	\$ 5.8990	\$ 5.7756	
Rate increase/(decrease)	0.00	\$ 0.4763	\$ 0.7729	\$ 0.3505	0.0	\$ 0.25	\$ 0.0422	0.0	\$ (0.5616)	0.0	
Percentage Increase/(decrease)	0.00	9.0	14.9	8.2	0.0	4.0	0.7	0.0	(8.7)	0.0	
4th Quarterly											
Date rates effective											
Approved rate											
Rate increase/(decrease)											
Percentage Increase/(decrease)											

(1) Numbers represent the total GCR rate including non-gas costs.

**2000 - 2001 PURCHASED GAS COST RATES
PERCENTAGE INCREASES
CALCULATED PER THE OFFICE OF TRIAL STAFF**

	T.W. PHILLIPS (Mcf) TTL SYS	NFG (Mcf)	COLUMBIA (Mcf)	PEOPLES (Mcf)	Equitable (Mcf)	PECO (Mcf)	Penn Fuels PFG (Dth)	UGI (Mcf)	PG ENERGY (Mcf)	PGW (Mcf) (1)
PGC 2000 1307-f Rates										
Rates per Annual Review + 4th Quarterly PGC 1999										
Date rates effective	Aug 1, 2000	Aug 1, 2000	Oct 1, 2000	Oct 1, 2000	Oct 1, 2000	Dec 1, 2000	Dec 1, 2000	Dec 1, 2000	Dec 1, 2000	Sept 1, 2000
Approved rate	\$ 4.2452	\$ 5.7984	\$ 6.9356	\$ 6.1999	\$ 7.25	\$ 6.2632	\$ 5.6753	\$ 6.8045	\$ 6.4844	\$ 4.2782
Rate increase/(decrease)	\$ 1.1316	\$ 1.3694	\$ 1.9653	\$ 1.0416	\$ 0.89	\$ 1.8173	\$ 1.6742	\$ 0.4155	\$ 2.3118	
Percentage Increase	36.34	30.92	39.54	20.19	13.99	40.88	41.84	6.50	55.40	
1st Quarterly										
Date rates effective	Oct 1, 2000 *	Nov 1, 2000	Jan 1, 2001	Jan 1, 2001	Jan 1, 2001	Mar 1, 2001	Mar 1, 2001	Mar 1, 2001	Mar 1, 2001	Interim Nov 22, 2000
Approved rate	\$ 4.6980	\$ 6.6108	\$ 8.9452	\$ 8.2433	\$ 9.47	\$ 8.6309	\$ 8.2789	\$ 9.2134	\$ 6.9226	\$ 6.2245
Rate increase/(decrease)	\$ 0.4528	\$ 0.8124	\$ 2.0096	\$ 2.0434	\$ 2.22	\$ 2.3677	\$ 2.6036	\$ 2.4089	\$ 0.4382	\$ 1.9463
Percentage Increase	10.67	14.01	28.98	32.96	30.62	37.80	45.88	35.40	6.76	45.49
2nd Quarterly										
Date rates effective	Jan 1, 2000 *	Feb 1, 2001	Apr 1, 2001	Apr 1, 2001	Apr 1, 2001	June 1, 2001	June 1, 2001	June 1, 2001	June 1, 2001	1st Quarterly Jan 1, 2001
Approved rate	\$ 6.6778	\$ 8.9373	\$ 8.6853	\$ 9.9991	\$ 9.47	\$ 8.6309	\$ 7.1708	\$ 9.2134	\$ 7.9892	\$ 9.3785
Rate increase/(decrease)	\$ 1.9798	\$ 2.3265	\$ (0.2599)	\$ 1.7558	\$ 0.00	\$ 0.00	\$ (1.1081)	\$ 0.00	\$ 1.0666	\$ 3.1540
Percentage Increase	42.14	35.19	(2.91)	21.30	0.00	0.00	(13.38)	0.00	15.41	50.67
3rd Quarterly										
Date rates effective	May 1, 2001	May 1, 2001	July 1, 2001	July 1, 2001	July 1, 2001	Sept 1, 2001	Sept 1, 2001	Sept 1, 2001	Sept 1, 2001	Interim Setlmt Mar 1, 2001
Approved rate	\$ 6.0601	\$ 9.5199	\$ 7.6395	\$ 8.7070	\$ 8.37	\$ 8.1380	\$ 6.9583	\$ 8.5434	\$ 7.9613	\$ 9.8759
Rate increase/(decrease)	\$ (0.6177)	\$ 0.5826	\$ (1.0458)	\$ (1.2921)	\$ (1.10)	\$ (0.4929)	\$ (0.2125)	\$ (0.6700)	\$ (0.0279)	\$ 0.4974
Percentage Increase	(9.25)	6.52	(12.04)	(12.92)	(11.62)	(5.71)	(2.96)	(7.27)	(0.35)	5.30
4th Quarterly										
Date rates effective	Interim June 5, 2001									2nd Quarterly Apr 1, 2001
Approved rate	\$ 5.5601									\$ 9.8759
Rate increase/(decrease)	\$ (0.5000)									0.00
Percentage Increase	(8.25)									0.00
* Quarterlies filed one month early.										
(1) Numbers represent the total GCR rate including non-gas costs.										

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF
RANDALL GYORY

ON BEHALF OF
PHILADELPHIA GAS WORKS
DOCKET NOS. R- 00049157
P-

Philadelphia Gas Works
Proposed CRRC

MARCH 1, 2004

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Randall Gyory. My business address is 800 West Montgomery Avenue, Philadelphia, PA 19122.

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

A. I am employed by the Philadelphia Gas Works in the capacity of Vice President – Customer Affairs.

Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS VICE PRESIDENT?

A. My principal responsibilities include the oversight of PGW's Call Center Operations, Credit and Collections, Customer Service Centers, Account Management Department, Billing System, Bill Preparation & Mail Receipts, Universal Services and Customer response as required by PUC regulations.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PUC")?

A. Yes, my most recent testimony was in PGW's Restructuring Proceeding (M-00021612).

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to explain the efforts that PGW has is continuing to take to address the decline in receipts and improve collections.

Q. PLEASE DESCRIBE PGW'S STRATEGY TO IMPROVE COLLECTION PERFORMANCE.

A. In November 2003 PGW launched the Collection Renewal Initiative to address the decline in cash receipts. The strategic objectives of the program are to:

- Create focus and dedication to quickly drive improvement initiatives
- Enhance our Credit and Collections staffing and capabilities to address current cash flow needs

- Revise processes and capabilities based on principles of sound root cause analysis to improve our capacity and results
- Build a sense of partnership to strengthen our customer and commission relationships
- Sustain and continue to build upon results for the long term

Q. WHY WAS THE INITIATIVE REQUIRED?

A. In June 2003 it was becoming evident to management that a formalized program had to be initiated to address the decline in collections in comparison to our 10 year historical rates of 92%. We also needed to determine how best to respond to the effect on customer payment patterns that we expected in light of the projections by industry and government that natural gas costs -- already at all time highs -- were expected to stay at these levels in the upcoming winter. PGW decided to conduct a study to determine what the best approach would be to try to reverse the precipitous decline in collections and then implement those measures in a timely manner.

Q. WHY DID PGW INITIATE THIS STUDY IN JUNE, 2003?

A. Examining the results from the prior winter, it was clear that if natural gas costs were going to continue to stay at record high levels PGW was going to continue to be faced with collections results that were significantly lower than historic averages. It was more important than ever, therefore, for the Company to do all that it could to make sure that it was collecting every possible dollar, recognizing that the high gas costs could very well make completely reversing the trend very difficult if not impossible.

Q. PLEASE DESCRIBE YOUR OVERALL APPROACH OF THE COLLECTION RENEWAL INITIATIVE.

A. PGW has launched a two-tiered approach to address the decline in cash receipts.

The Plan determined to:

- 1) focus on enhancing cash flow and containment of uncollectibles;
- 2) *conduct a operations diagnostic and long-term collection initiative to:*
 - a) Review collection business processes and metrics,
 - b) Perform effective work planning and backlog reduction and
 - c) Transform and align PGW to industry best practices.

RJG Exhibit-1 & 2 illustrates the approach and the Initiative strategy.

Q. HOW WILL PGW MEET THE INITIATIVE OBJECTIVES?

A. PGW has partnered with Accenture to develop and implement credit and collection actions that specifically:

- Review existing credit & collections plans and capabilities to identify potential gaps and opportunities to improve efficiency and/or reduce receivables;
- Develop a credit scoring model to guide credit & collections customer interactions; and
- Modify existing plans and identify goals for individual collections programs and opportunities to improve management controls (the "Project").

Q. WHAT ARE THE KEY COMPONENTS OF THE INITIATIVE?

A. The scope of activity includes all Customer Service operations involved in the present collection of accounts receivable. Specific activities include, but are not necessarily limited to the following:

- Review and analyze PGW's current Collection processes, policies and procedures, and technologies.
- Perform collections leading practices Gap Analysis.
- Design, streamline and implement individual programs to improve credit and collections efficiency, and reduce PGW's receivables.
- Develop and assist in implementation of management controls.

- Assign 3, 6, 9 and 12-month recovery goals for individual programs.
- Enhance and provide training to assist the implementation of programs.
- Provide on-going program management consulting for the term of the contract.
- Develop a five (5) year Collections Strategic Plan with measurable ROI.
- Develop Credit Scoring application (model).

Q. WHAT IS THE IMPLEMENTATION TIME FRAME AND PROGRAM OBJECTIVES?

A. PGW's time frame for completing the Collections Renewal Initiative is nine to twelve months. This period has been selected as ample time to put in place the steps needed to attempt to reverse the decline in cash receipts and at minimum try to reestablish collections to the historical rate of 92% of total billings for FY2004. **RJG Exhibit-3** illustrates the work-plan and timeline developed for the initial stage of the program. The details of the second and third phase are dependent on the completion of the first phase.

Q. DO YOU EXPECT THE INITIATIVE TO BE SUCCESSFUL?

A. We are hopeful that the execution of the initiative will result in PGW collecting every dollar that is within its ability to collect; however we are concerned that if current circumstances (i.e., high gas costs) continue and if such factors as the income levels of our customers continue to deteriorate, PGW's unique operating environment will make reversing the current trend extremely difficult if not impossible. Therefore, there are no guarantees that PGW will be able to achieve the required collection rates to maintain financial viability in the near-term.

Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

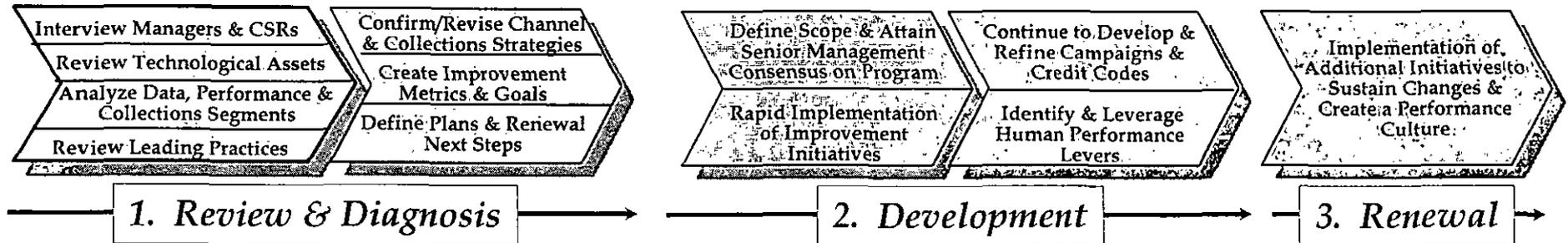
A. Yes it does.

CRI Initial

Exhibit RG-1

Approach Details

Our CRI team is determined to gain substantial and sustainable performance improvements in all aspects of our collections operations.



Deliverables

<ul style="list-style-type: none"> Start quick hits & create a balanced scorecard Assess collection ops against leading practices Identify key segments in A/R and write-off groups Identify processes, campaign & systems gaps Design credit model & technology requirements Develop staff/supervisor skills 	<ul style="list-style-type: none"> Assess employee & supervisor concerns/expectations to identify barriers to change Adjust renewal plans & put communications plan together Develop business case & ROI metrics to guide people, the improvement initiatives & value realization 	<ul style="list-style-type: none"> Resolve any technical issues Implement a credit scoring model Perform supervisor & staff skills assessments Conduct pilots to analyze how segments respond to campaigns Redesign or develop campaigns to improve collections by segment 	<ul style="list-style-type: none"> Design high performance supervisor processes Implement daily work planning & program control metrics/process Set training requirements Initiate supervisor training program aligned with strategy Reassign personnel to get "square pegs in square holes" 	<ul style="list-style-type: none"> Train staff on process changes Modify supervisor goals Complete new process designs Monitor performance, review/tune strategy, vendor mix & plans Address barriers to sustaining results Develop 5 year plan & ROI goals
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Timeline

2 Months	2 Months	8 Months
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CRI Initiative Summary

Exhibit RG-2

The CRI mobilization effort has focused on getting key enablers and quick hits in place.

Enablers (Needed Operational Capabilities)

- Compliance Task Force
- Collection Staff Optimization & Daily Work Planning
- Program Scorecard (Weekly Steering Committee & Board)
- Call Monitoring (Monthly Sessions)
- Supervisor Development Program
- Balanced Scorecard (Monthly for Function)
- Real-time Metric Posting (Reader Board)
- Metrix-Matrix Survey
- Outbound Campaign Coordinator
- Outsource CRP Qualification & LIHEAP Application

Quick Hits/In-Flight (Improve Receivables & Write-offs)

- Delay Write-off on Shut-offs until EOY 2003
- City Employee Reconciliation
- Large City Accounts - Get Outstanding Balances Current
- Resolve PHA Outstanding Issues
- Tiered Collection Agency Commission Contracts
- Outbound Scripts/Campaigns - Unprotected/Collectibles
- Customer Liens & Judgment Process Change
- Meter Investigation/Theft of Service - Vacant Account
- Payment Arrangement Process Improvement
- Winter Interim Period Pilot
- Reporting to Credit Bureau / Collections Communication
- Outbound Scripts/Campaigns - NPSO customers
- Large City Accounts - Prepaid/Advanced Billing
- Referral to Agency Final/WO Notification Letter Campaign
- Income Tax Credit
- High Risk Desk
- Outbound Calling Matrix

Long-Term (Confirm after Diagnosis)

- Thanks to Good Payer Customer Program
- Customer Segmentation - Late Payer Program
- Outbound Scripts/Campaigns - High Balance Accounts
- Outsource Final and Write-off accounts
- Secondary Collection Agency Placements
- Outbound Scripts/Campaigns - Disputes & Holds
- Inaccessible AMR Meter Shut-off Pilot Program
- Automated Transfer of Final Accounts
- Payment Arrangement Programming Enhancement
- IVR Tree Redesign
- Tenant Landlord USTRA Posting
- CSR Training Redesign
- Geographic Segmentation of Calls Pilot
- Tariff Reconnect Fees Pilot

Pilots (Design with BCS Input)

- Customer Segmentation - Chronic Delinquent Accounts Pilot
- Bill Reminder Campaign Pilot
- Credit Score/Pos ID Pilot

Workplan & Timeline

Exhibit RG-3

The Review and Diagnosis stage consists of the following activities and tasks.

Consolidation Strategy Review											
											Week
Activities/Tasks	PRESTART	1/5	1/12	1/19	1/26	2/2	2/9	2/16	2/23	3/1	3/8
Mobilization											
<ul style="list-style-type: none"> Finalize Workplan Orient Team Communicate data requests & begin data collection 	☆										
Customer Segmentation Data Analysis (+)											+
Identify & Implement Quick Hits (In Progress) (+)											+
Review/Confirm Current Situation											
<ul style="list-style-type: none"> Collections Timeline As-Is Metrics Collection Collections Staffing Analysis Collections Functional Processes* Review Technological Capabilities 						☆					
Collections Analytics* (+)											+
Identify/Confirm Initiatives											+
<ul style="list-style-type: none"> Perform Gap Analysis/Leading Practices Review Identify Initiatives (long term > 6 months) 											+
Create Renewal Plans											
<ul style="list-style-type: none"> Credit & Collection Improvement Metrics & Goals Credit & Collection Business Cases Credit & Collection Initiatives & Implementation Plan 										☆	
Project Management											

☆	Project Kick-off Meeting
☆	Review/Briefing

* Refer to Process & Analytics Summary Slide for further details
 + Task/Activity continues into following phase

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF
HUGH GILBERT PEACH, PH. D.

ON BEHALF OF
PHILADELPHIA GAS WORKS

DOCKET NOS. R-00049157
P-

Philadelphia Gas Works

Proposed CRRC

March 1, 2004

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

2 A. My name is Hugh Gilbert Peach and my business address is 16232 NW Oakhills Drive,
3 Beaverton, Oregon 97006.

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

5 A. I am the Principal of H. Gil Peach & Associates LLC, where I direct and conduct
6 program evaluation and policy studies primarily related to energy efficiency services and
7 universal services in the US and Canada.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 A. I was awarded the Doctorate of Philosophy in Sociology from New York University, the
11 Master of Arts in Economics from the New School for Social Research in New York
12 City, the Master of Arts in Sociology from Michigan State University, and the Bachelor
13 of Science in Sociology from Michigan State University. Since 1988, I have been
14 principal of H. Gil Peach & Associates performing evaluation, research, and policy
15 studies. Prior to that I was responsible for similar work for a number of years for a multi-
16 state utility (Pacific Power, where I served as Evaluation Manager), a small foundation
17 working on ways to improve City services for the City of New York (the Fund for the
18 City of New York), as a civil servant (for the Health and Housing agencies of the City of
19 New York), and prior to that I worked at the New York Stock Exchange. I began to
20 study low-income utility issues in Pennsylvania in 1988. Since then, I have carried out
21 evaluation, research, and policy studies in Pennsylvania for a total of sixteen (16) years
22 from project to project, primarily in Pittsburgh and in Philadelphia, but also around the
23 state. For the past seven (7) years, going on eight, I have been studying energy use,
24 energy services, and universal services in the City of Philadelphia. My resume, which

1 describes my educational background and work experience is attached and marked as
2 Exhibit HGP-1.

3 **Q. HAVE YOU EVER CONDUCTED STUDIES FOR A PUBLIC UTILITY**
4 **COMMISSION?**

5 A. Yes. This experience includes responsibility for the audit of energy efficiency evaluation
6 and related practices of the Long Island Lighting Company in a formal audit by the New
7 York Commission, and several verification studies carried out jointly for utilities and
8 commissions including the Wisconsin Commission and the Ontario Energy Board. I
9 have also carried out a management study of Boston Edison energy efficiency evaluation
10 practices in connection with a commission order and served as consultant to the staff of
11 the Massachusetts Commission. I have also been responsible for a management study of
12 energy efficiency evaluation for Los Angeles Water and Power (Electric Division), as
13 chartered by their board which performs a similar role to a public utility commission.
14 Currently, I am conducting the legislatively mandated two-year evaluation of the new
15 systems benefit charge for the Housing Division and the Welfare Division of the State of
16 Nevada. In addition, virtually all of my work in Pennsylvania in independent evaluation
17 studies for utilities is conducted according to provisions of the Pennsylvania Utility Code
18 and is jointly accountable to the Commission through the Bureau of Consumer Services.
19 Staff and Commissioners have relied on the evaluation studies I have conducted.

20 **Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION**
21 **BEFORE?**

22 A. I have submitted testimony in a previous matter, but have not previously testified before
23 the Commission. However, I was invited to Harrisburg to present to the Pennsylvania
24 Commissioners the results of the Equitable Gas Universal Services Energy Assistance
25 Program. This study demonstrated the success of a well run Universal Services Program

1 in benefiting all customers, including participants and non-participants. Also, I have
2 provided testimony to the Massachusetts, Rhode Island, Connecticut, and Kentucky
3 Commissions.

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

5 A. My testimony will explain and document the effect that historically high natural gas costs
6 have had on the ability of PGW customers to pay their bills. I will explain why
7 customers of all types – residential and commercial alike – are not only creating greater
8 levels of uncollectibles than ever before but are paying a smaller percentage of their total
9 bill as well. My testimony will also demonstrate that these unusually high gas prices
10 have a unique impact on PGW because of the demographics of its customer population.

11 **Q. PLEASE SUMMARIZE YOUR FINDINGS**

12 A. Philadelphia utility gas customers are caught by two conflicting trends – a sustained
13 upward trend in the price of natural gas and a substantial and continuing decline in real
14 income in the City that affects all income groups. In addition, there are shifts in cost in
15 the economy that make economic viability more difficult for middle class families with
16 children. It has become quite difficult for families with children and one breadwinner.

17 In Philadelphia, in contrast to other regions of Pennsylvania, a pattern of
18 continuing payment trouble is extended under these conditions to the lower middle and
19 middle-income households. With declining ability to pay an increasing cost of gas, and
20 given that in winter it is generally not possible to cut back on the use of gas for heating, it
21 is likely that upwards of fifty percent (50%+) of households will be increasingly unable
22 to pay full gas bills. Since both trends are driven by changes in the national economy for
23 which no solution is currently evident, they are likely to continue. Both trends are
24 outside the reach of the Philadelphia Gas Works, which must, nevertheless, develop

1 approaches to resolve the payment problems. While I understand from the testimony of
2 Mr. Moser that the high gas prices are projected to continue for several years, the changes
3 related to the economy should not be understood as temporary changes, but as historic
4 changes in the economy, the type of change that is referred to by economists as a
5 fundamental change in structure. Payment problems, that will affect not only low income
6 families but those up well through the strata of middle-income, will have to be worked
7 with for the foreseeable future. Overcoming this will take a considerable effort by both
8 the public and private sector and at all levels of government and is not the kind of
9 problem that can be resolved by PGW alone.

10 **Q. HAVE YOUR PAST ASSIGNMENTS CAUSED YOU TO DEVELOP AN**
11 **UNDERSTANDING OF THE DEMOGRAPHIC AND OTHER**
12 **CHARACTERISTICS OF PGW CUSTOMERS?**

13 A. Yes. On behalf of PGW, I have conducted a number of studies of PGW residential
14 customers which have assisted and informed my opinions in this testimony.

15 **Q. PLEASE DESCRIBE YOUR STUDIES OF PGW RESIDENTIAL CUSTOMERS.**

16 A. H. Gil Peach & Associates LLC was engaged by PGW to develop three studies related to
17 understanding and facilitating the transition to regulation by the Pennsylvania Public
18 Utility Commission. The purpose was to help PGW evaluate how to best modify its
19 Customer Responsibility Program (CRP) to fit within requirements and expectations for
20 Customer Assistance Programs in Pennsylvania, exploring both immediate and long-term
21 program approaches. We were also engaged to do a short follow-on study of the Senior
22 Citizen Discount and then, later, to prepare testimony.¹ These studies provide an
23 empirical basis for evaluating the relationship between cost and ability to pay for PGW

¹ This study was included in the record of the restructuring case.

1 customers and have assisted in the development of the conclusions I reach in this
2 testimony.

3 **Q. IS YOUR TESTIMONY DIRECTLY RELEVANT TO LOW-INCOME**
4 **UNIVERSAL SERVICES PROGRAM CUSTOMERS IN THE PHILADELPHIA**
5 **GAS WORKS CUSTOMER RESPONSIBILITY PROGRAM?**

6 A. No. Due to the foresight of the PUC in adopting Universal Service Programs as an
7 alternative payment modality and of PGW in developing and refining its program in
8 accordance with the Pennsylvania Code and the requirements of the Bureau of Consumer
9 Services, households in the Customer Responsibility Program are largely shielded from
10 the current comparatively high price of gas supply. This is accomplished through the
11 percentage of income payment plan adopted as the basic design for the Customer
12 Responsibility Program (CRP). Under CRP, low-income customers pay a fixed
13 percentage of their income (depending on their income level) regardless of the price of
14 gas or level of consumption. It is important to note however, that while the CRP
15 customers are shielded from the problems of this winter, only approximately two-thirds
16 of PGW customers who are eligible for CRP because of their income level actually
17 participate in the program. Approximately 30,000 customers who are income-eligible for
18 CRP are not enrolled in the program. These customers are extremely vulnerable and are
19 likely having great difficulty in paying their bills or are not paying them at all.

20 One other point must be kept in mind with regard to the impact of the CRP customers on
21 the problem which is at the heart of this proceeding. CRP customers pay a percentage of
22 their income as their full responsibility, without regard to usage or the price of gas. As
23 originally designed, this program required participants to pay an amount sufficient to
24 cover the variable costs of serving them plus some contribution to the company's fixed
25 costs. With gas costs at current levels, CRP customers do not come close to covering the

1 cost of service. The Company then attempts to collect this additional amount from
2 remaining customers in its Universal Service Charge. As this charge goes up, it adds to
3 the total billings that non-CRP customers are responsible for paying, of which in recent
4 periods they are actually paying less and less.

5 **Q. EXAMINING NON-CRP CUSTOMERS THEN, AS YOU UNDERSTAND IT,**
6 **WHAT ARE THE CURRENT FACTS CONCERNING THE PAYMENT**
7 **PATTERNS FOR THESE PGW CUSTOMERS?**

8 A. Based upon the facts as they have been presented to me, and which are described in the
9 testimony and schedules of Mr. Bogdonavage in this proceeding, the amount of dollars
10 that PGW customers owe and are not remitting has reached unprecedented levels. Just as
11 concerning, those amounts represent unprecedented percentages of PGW customers'
12 billed amounts.

13 If we look at this record, the overall relation between typical bill and percentage
14 receipts is of *medium size*.² The correlation on nominal bill from 1992 to 2002 is 0.36,
15 and on real bill it is 0.39. When looking at overall receipts, this is a substantial effect.

² The standard convention for interpreting correlations is that a “small” effect size for a Pearson correlation is defined as $r = 0.10$, “medium” is $r = 0.30$, and “large” is 0.50 . Cohen, Jacob, *Statistical Power Analysis for the Behavioral Sciences, Second Edition*. Hillsdale, New Jersey” Lawrence Erlbaum Associates, 1988, PP. 77-81.

Table 1: Typical Residential Bill & Overall Percentage Receipts

Relation of Nominal Bill and Receipts			Relation of Real Bill and Receipts				
Approximate Bill Date	Typical Bill	% Receipts	Typical Bill	CPI Index	Real Bill	% Receipts	Year
12/1/2003	\$ 1,442.77	86.57%	\$ 1,442.77	188.8	\$1,442.77	86.57%	2003
12/1/2002	\$ 1,251.01	97.57%	\$ 1,251.01	184.9	\$1,277.40	97.57%	2002
12/1/2001	\$ 1,148.26	88.08%	\$ 1,148.26	181.3	\$1,195.76	88.08%	2001
11/22/2000	\$ 1,061.75	92.85%	\$ 1,061.75	176.5	\$1,135.74	92.85%	2000
12/1/1999	\$ 881.24	92.06%	\$ 881.24	171.9	\$967.88	92.06%	1999
12/1/1996	\$ 902.72	92.88%	\$ 902.72	162.8	\$1,046.89	92.88%	1996
9/1/1995	\$ 825.40	97.77%	\$ 825.40	158.7	\$981.95	97.77%	1995
9/1/1994	\$ 828.95	89.98%	\$ 828.95	154.6	\$1,012.33	89.98%	1994
9/1/1993	\$ 829.57	93.24%	\$ 829.57	150.2	\$1,042.76	93.24%	1993
9/1/1992	\$ 800.75	92.28%	\$ 800.75	146.6	\$1,031.25	92.28%	1992
Pearson Correlation: r =		-0.36	Pearson Correlation: r =		-0.39		

Q. WHAT, IN YOUR OPINION ACCOUNTS FOR THIS EXPERIENCE?

A. In my opinion, PGW is experiencing these unprecedented levels of uncollectibles as a result of a variety of factors, all related to the persistently high price of natural gas and the impact that the high price has on the ability to pay of a very large percentage of PGW customers. Another factor is the continuing decline of real incomes in the City, which is discussed later in my testimony. The situation is exacerbated by the cold weather this winter. The result is that customer bills are increasing because of increased consumption and the rising cost of natural gas at a time when many customers have increasingly limited ability to pay.

Q. HOW HAS THE PRICE OF NATURAL GAS INCREASED?

A. Generally, and as set forth in greater detail in the testimony and schedules of Douglas Moser in this proceeding, the cost of natural gas has increased approximately as shown in the following table and graph.³

³ Data is for the Philadelphia-Wilmington-Atlantic City, PA-DE-NJ-MD, CMSA. The Pennsylvania portion is Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties; New Jersey Portion: Atlantic, Burlington, Camden, Cape May, Cumberland,

1

Table 2: Sustained Increases in Gas Price

Month	Gas Price Index	% change 1 Month	% Change 12 Months
Dec-01	148.46	-	-
Jan-02	148.23	-0.16%	-
Feb-02	148.27	0.03%	-
Mar-02	144.82	-2.33%	-
Apr-02	144.14	-0.47%	-
May-02	143.17	-0.68%	-
Jun-02	146.01	1.99%	-
Jul-02	146.09	0.06%	-
Aug-02	148.43	1.60%	-
Sep-02	149.24	0.54%	-
Oct-02	149.45	0.14%	-
Nov-02	150.51	0.71%	-
Dec-02	149.83	-0.45%	0.92%
Jan-03	150.60	0.51%	1.60%
Feb-03	150.20	-0.27%	1.30%
Mar-03	162.20	7.99%	12.00%
Apr-03	163.60	0.86%	13.50%
May-03	165.50	1.16%	15.60%
Jun-03	170.10	2.78%	16.50%
Jul-03	170.20	0.06%	16.50%
Aug-03	170.70	0.29%	15.00%
Sep-03	176.40	3.34%	18.20%
Oct-03	176.50	0.06%	18.10%
Nov-03	177.60	0.62%	18.00%
Dec-03	181.00	1.91%	20.80%

Source: US Bureau of Labor Statistics
Mid-Atlantic Office Consumer Price Index Ann
<http://www.bls.gov/ro3/#inflation>

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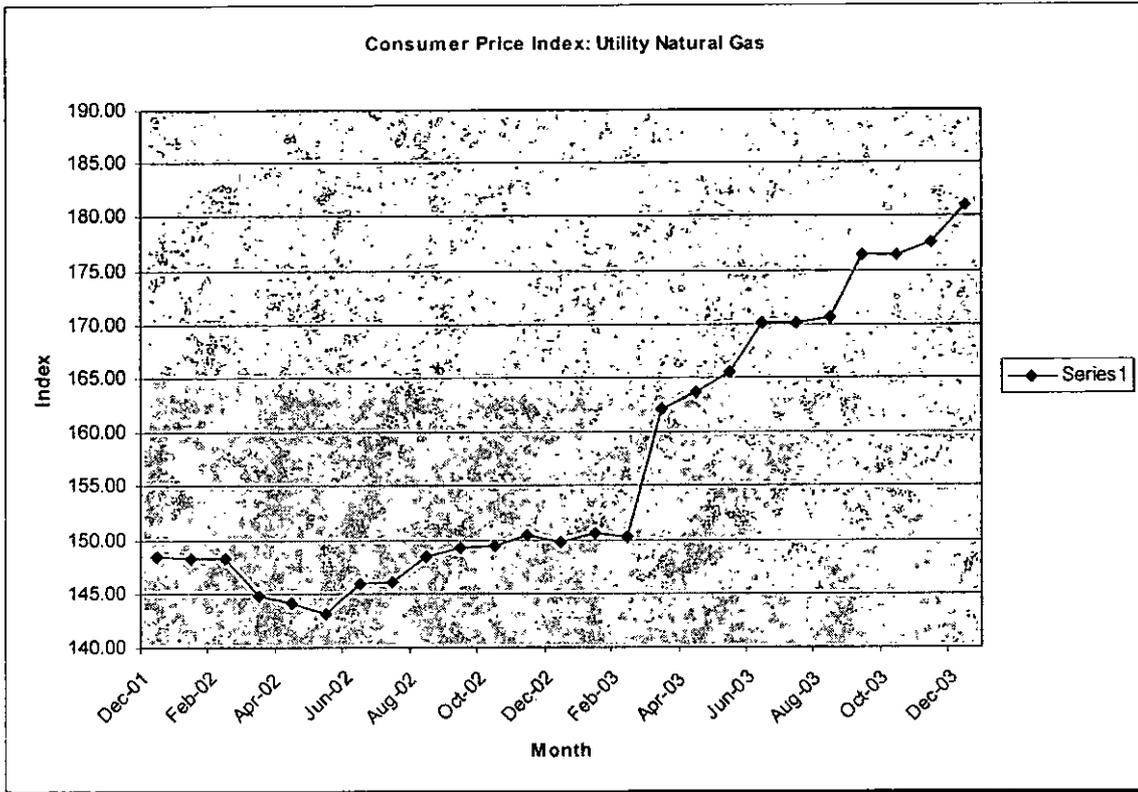
9

As is evident in the table, the increase in gas price is substantial and continuing. The numbers show that the consumer price index for utility natural gas has had a positive change for 10 straight months, beginning in March of 2003, with a 20.8% year vs. year increase from December 2002 to December 2003. During the summer, although the bills were lower than in winter, there were problems in paying bills. This was probably due to problem of families trying to deal with the cumulative effect of the bills from the previous winter. With the return of winter the increase in price, the need to heat can

Gloucester, and Salem Counties; Delaware Portion: New Castle County; and Maryland Portion: Cecil County

1 explain why people cannot pay their bills.

2 The increasing trend is visible in the Consumer Price Index curve for natural gas.
3



4
5 **Figure 1: Gas Price Index Rises Sharply**

6 The PGW specific data shows a similar pattern. On a total charge basis, gas
7 charges to customers have increased by 80% since 1992 in nominal dollars and about
8 40% in real dollars. This calculation is shown in Table 2 using PGW's current projection
9 for MCF for the Residential Heating rate by month, rates as of 12/1/2003 and as of
10 9/1/1992 and using the US BLS CPI Series CUURA102SA0, for Philadelphia-
11 Wilmington-Atlantic City PA-NJ-DE-MD.
12
13

1 **Table 3: Nominal and Real Increase (2003 vs. 1992)**

2003 vs. 1992				
Residential Heating		Customer Bill		
Month	MCF	2003	1992	1992
		PGW Rate of 12/1/2003 (2003 Dollars)	PGW Rate 9/1/1992 (2003 Dollars)	PGW Rate 9/1/1992 (1992 Dollars)
Jan	20.8	282.14	206.79	160.57
Feb	18.3	249.67	182.56	141.75
Mar	14.9	205.52	149.60	116.16
Apr	9.9	140.58	101.13	78.52
May	4.7	73.04	50.71	39.38
Jun	2.8	48.37	32.30	25.08
Jul	2.2	40.57	26.48	20.56
Aug	2.1	39.27	25.51	19.81
Sep	1.9	36.68	23.57	18.30
Oct	2.8	48.37	32.30	25.08
Nov	6.6	97.72	69.13	53.68
Dec	11.9	166.55	120.51	93.58
Year	98.8	\$1,428.48	\$1,020.59	\$792.47
2003 Bill as Percentage of 1992 Bill (Nominal):				180%
2003 Bill as Percentage of 1992 Bill (Real):				140%
Note: Cost per MCF 12/01/2003: 12.9877				
Cost per MCF 09/01/1992: 7.5275				
CPI for 1992 (base 1982-1984) 146.6				
CPI for 2003 (base 1982-1984) 188.8				
CPI Ratio (2003/1992) 1.2879				

2
3
4 **Q. HOW HAVE THESE PERSISTENTLY HIGH GAS CHARGES AFFECTED**
5 **CUSTOMER PAYMENT PATTERNS?**

6 A. They have decimated them. Customers have followed their historic patterns and failed to
7 pay a portion of their, now much higher PGW bill. But just as important, the months of
8 very high gas charges have caused them to pay an even smaller amount relative to their
9 total bill.

10 **Q. CAN YOU EXPLAIN WHY THIS IS OCCURRING?**

1 A. Yes. The research evidence on the inelastic nature of energy usage is clear. Generally,
2 families increase the use of fuel for heat when it gets cold. In my experience conducting
3 interview surveys of low-income customers, there is really no choice, regardless of
4 income, and regardless of whether or not the family has the ability to pay the gas bill at
5 the end of the month.

6 I would like to highlight the difference between inelastic demand and problem
7 customer payment. They are two separate facts. Customers having payment difficulty,
8 including middle class customers experiencing payment difficulty, still have no choice
9 but to use increased fuel in colder weather. But, in my experience in conducting and
10 managing the conduct of interviews with hundreds of customers, the winter moratorium
11 is a kind of “godsend” for households that cannot pay all of the bills that come due at the
12 same time in the winter. Given impossible choices, it is understandable that they take
13 advantage of the winter moratorium. I note that a recent study done for Oak Ridge
14 *National Laboratory finds a similar result:*⁴

15 When gas bills rise...Consumers often pay other bills before paying utility bills because
16 of protections against loss of service that are included in most utility tariffs. As a result,
17 in periods of high gas prices, uncollectibles can grow substantially above the level
18 anticipated in the regulated rate...Presenters at a number of gas utility
19 conferences...cited increases of 80 percent or more in uncollectibles.

20 A recent study of middle class payment difficulties by Warren & Tyagi underlines the
21 similar dilemma of a two-income middle class professional family in which one job is
22

⁴ Henning, Bruce, Michael Sloan, Maria de Leon, Energy and Environmental Analysis, Inc., *Natural Gas and Energy Price Volatility, Prepared for the Oak Ridge National Laboratory*. October 2003, P. I-63.

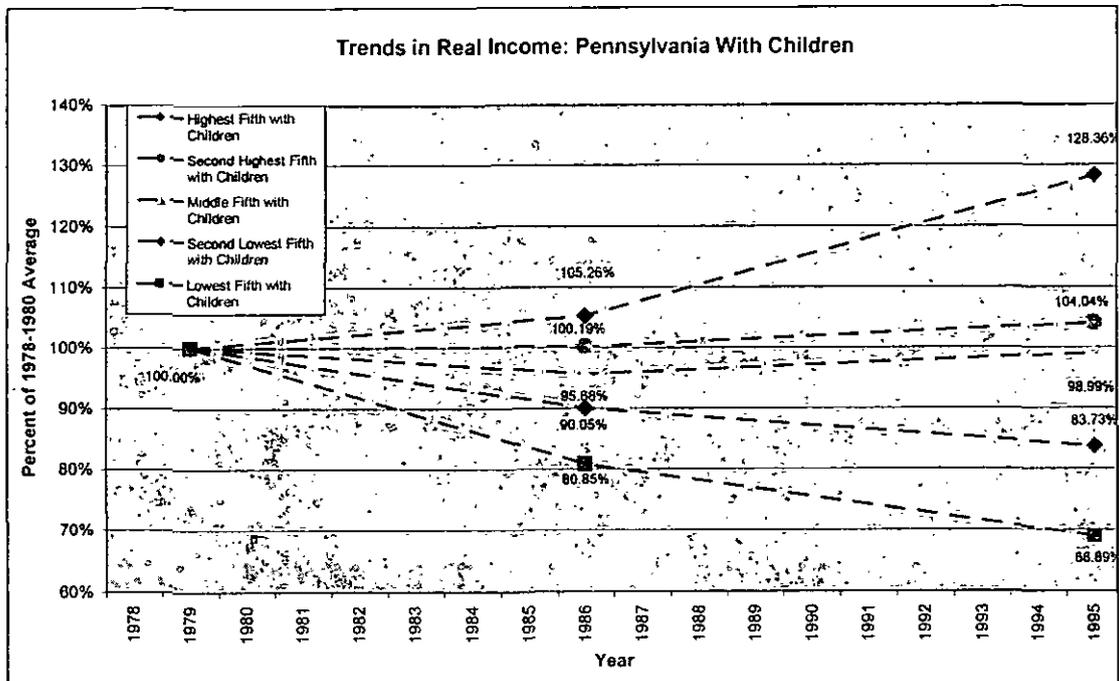
1 lost due to the incursion of “big box” stores and the closure of local employment.⁵

2
3 “Few families have substantial savings, so they usually run out of cash within a month or
4 so. Soon the charges start mounting up for the basics of life—food, gasoline, and
5 whatever else can go on “the card.” When there still isn’t enough to go around, the game
6 of impossible choices begins. Pay the mortgage or keep the heat on? Cancel the car
7 insurance or the health insurance. Meanwhile, interest and late fees have piled on,
8 making everything more expensive.”

9
10 The element introduced by the Warren & Tyagi study is the payment difficulties faced by
11 two-income and single-income families with children. The existence of income problems
12 for families with children is also shown in the following graph (Figure 3).⁶

5 Warren, Elizabeth an Amelia Warren Tyagi, *The Two-Income Trap, Why Middle-Class Mothers and Fathers are Going Broke*. New York: Basic Books, 2003, P. 3.

6 Income graph constructed using data from the Center for Budget and Policy Priorities, collected by the Current Population Survey.



1
2 **Figure 2: Families with Children**

3
4 Warren & Tyagi go beyond the problems summarized by Figure 3 to document the
5 problems experienced by two-income and single-income middle-income families with
6 children, including civil service and professional families, in dealing with economic
7 changes of the past 30 years.

8 Decreases in costs in many areas essential to family life (clothing, food,
9 appliances, etc.) are more than offset by increases in other areas (housing, education,
10 other costs of children) so that a typical two-income family with more joint income than a
11 typical single-breadwinner family of a generation ago has *less discretionary income and*
12 *lower savings*.

13 The situation is very difficult for single-income families with children. According
14 to Warren & Tyagi, competition from two-income families bids up costs of necessary
15 expenditures. The general situation of the middle class is one of high fixed costs, little
16 ability to maneuver and susceptibility to any sudden change.

1 At the same time, nearly every institution in the corporate economy and extending
2 to government and non-profit organizations is becoming more efficient. For much of the
3 corporate service economy, this means transferring costs to customers and households so
4 that the production unit appears more efficient. There are many academic studies of the
5 “new economy,” and the erosion of economic infrastructure, the structure of jobs, and the
6 social safety nets. All of these factors weaken the ability of middle class households to
7 accommodate income or price shocks.⁷

8 **Q. IF MIDDLE-INCOME FAMILIES WITH CHILDREN ARE SUSCEPTIBLE TO**
9 **SUDDEN CHANGES, IS THE SITUATION MORE DIFFICULT IN**
10 **PHILADELPHIA?**

11 A. Yes. Results in Philadelphia are quite negative compared to the region and to the state in
12 general. Philadelphia differs in that it is highly affected by payment problems because
13 the steeply rising price curve is met by declining real income across all income groups.
14 In my experience, Philadelphia’s situation is unique within Pennsylvania. In
15 Philadelphia, approximately 50% or more of the customers have difficulty in paying
16 today’s higher supply prices for gas.

17 In past and current work in Pittsburgh, I do not find this situation, nor have I
18 found it in other utility service territories around the state. What is exceptional is that the
19 problem is not limited to low income customers (only about 2/3 of whom are protected
20 by Universal Service program participation, and about 1/3 of whom remain outside
21 Universal Service). What is a low income problem elsewhere in the state occurs in
22 Philadelphia up through the middle of the Philadelphia households by income.

⁷ See Goode, Judith & Jeff Maskovsky, eds., *The New Poverty Studies*. New York & London: New York University Press, 2001

1 Q. ARE YOU SAYING THAT PHILADELPHIA'S LOWER INCOME CUSTOMERS
2 ARE GOING TO HAVE AN EVEN HARDER TIME PAYING THEIR GAS BILL
3 NOW THAN THEY HAVE IN THE PAST?

4 A. Yes. But the point is that not only lower income customers are affected, but also the
5 lower middle and middle-income Philadelphia households are finding themselves in the
6 same position as low income customers. A working definition of poverty is being in a
7 position where one can not consistently meet all one's financial obligations on a regular
8 basis. In a year with high natural gas supply prices and during winter weather, many
9 families and households are placed into moderate, major, or extreme payment difficulties.
10 This is due both to the price of fuel and need to use high amounts of fuel due to winter,
11 regardless of price. While energy prices have gone up to unprecedented levels, and have
12 stayed up for unusually long times, Philadelphia residents have not experienced increase
13 at any comparable level of income. They have, in fact lost real income [See Table 5,
14 below].

15 The same problems that chronically confront low-income customers now, for a
16 period of months, temporarily but severely confront households of lower-middle and
17 middle income. Also, due to the long term decline in real income across income groups
18 in Philadelphia, the definition of "temporary" may easily stretch into the summer months.
19 Eventually, unless there is a reversal of price trend and a reversal in the continuing
20 decline of real incomes, the lower middle and much of the middle income groups will be
21 living with the chronic economic fear and chronic lack of ability to pay that in the past
22 has been associated with low income households.

23 In addition, it is important to keep in mind that there are also many small business
24 customers who are affected in exactly the same way as residential customers by high
25 prices and winter usage patterns. Their income is typically derived from a small store,

1 repair shop or similar establishment that produces modest income. That income must
2 cover the expenses of the commercial operation, including heat, as well as the family's
3 residential expenses. I will address the issue below.

4 **Q. ARE THESE FACTORS THAT WILL AFFECT PHILADELPHIA CUSTOMERS**
5 **TO AN EVEN GREATER EXTENT THAN OTHER NATURAL GAS**
6 **CUSTOMERS?**

7 A. Yes. Philadelphia's situation is particularly difficult. The "income donut" for
8 Philadelphia County is shown below.⁸ An income donut is a particular format for
9 showing the income distribution of a city. The income donut is constructed by taking all
10 of the household income of the city and then adding across the bottom 20% of
11 households by income (the low-income households), the next 20% of households by
12 income (lower-middle income households), the middle 20% (middle income households),
13 and so on. Each segment of the donut contains 20% of city households. The size of each
14 is proportional to the amount of household income received by the households within the
15 segment. When Philadelphia households are broken out this way, the bottom 20% have
16 incomes of \$10,000 or less, the lower-middle 20% have incomes above \$10,000 but less
17 than \$25,000, the middle income 20% have incomes from \$25,000 and to less than
18 \$40,000. The upper-middle income 20% has incomes of \$40,000 and to less than
19 \$60,000. The upper income 20% in Philadelphia has incomes of \$60,000 or more.

⁸ Constructed from Table P52, Household Income in 1999, Census 2000 Summary File 3 -
Sample Data.

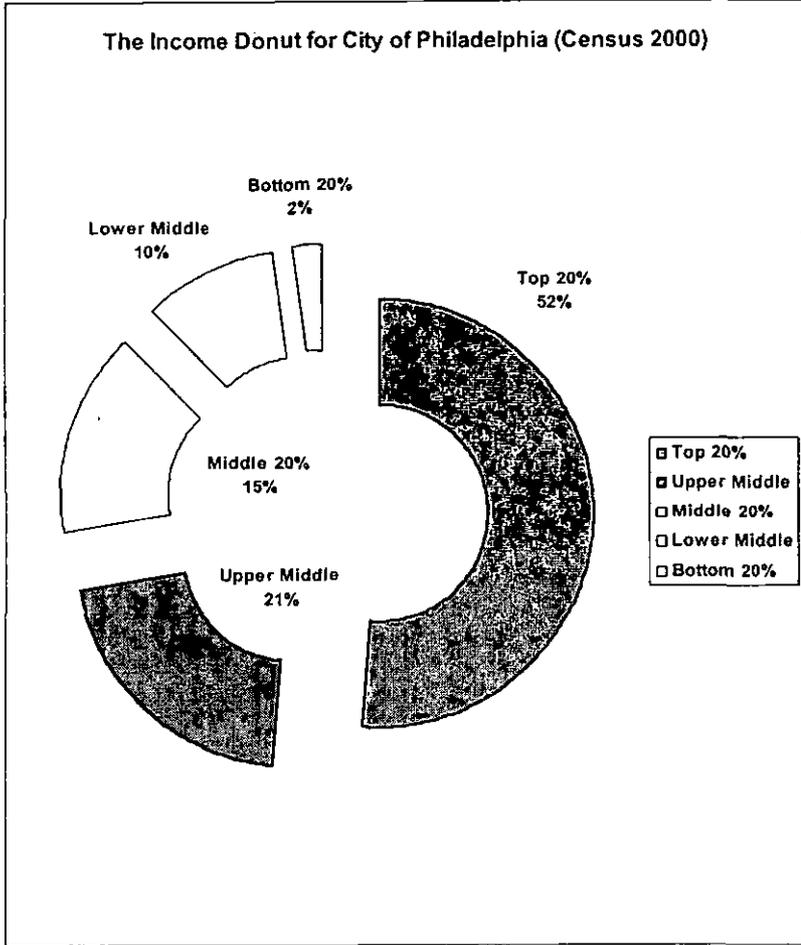


Figure 3: Income Donut for Philadelphia

With this “snapshot” of income in Philadelphia, it is clear that lower-middle and middle income households can be expected to have difficulty with payment, while upper-middle and upper income households will probably be able to handle the combination of persistently higher prices and cold winter weather. Note that the bottom 20% of the City population (with 2% of the household income) and a portion of the next 20% (lower-middle, with 10% of household income) are eligible for existing programs (though, as set forth above, not all participate and are almost certain to be unable to pay because they simply do not have the resources to pay a general service residential bill).⁹

⁹ These same factors affect small business customers.

Table 4: Controller's Data on Loss of Real Income

CHANGE IN AVERAGE REAL INCOME 1986-94 CITY VS. SUBURBS		
Quintile	City	Philadelphia Suburbs
Poorest Quintile	-54.2%	-42.5%
Middle Three Quintiles	-24.5%	-11.1%
Richest Quintile	-6.4%	+4.3%

Source: Table 7.1, P. 67, Jonathan A. Saidel, City Controller, 1997 Mid-Year Economic and Financial Report. Philadelphia: Office of the Controller, March 1997.

An independent calculation using the 1990 and 2000 federal census results for Philadelphia, and adjusting for the loss of population and to constant dollars confirms that this pattern is continuing, although the percentages are smaller for the more recent time period.

Table 5: Loss of Real Income¹⁰

Loss of Real Income by Philadelphia Households 1990 - 2000	
Low-Income 20%	-29.7%
Lower-Middle	-12.8%
Middle 20%	-7.7%
Upper-Middle	-9.2%
Upper 20%	-2.2%

The remainder of the lower-middle income households (with 10% of household income) and the middle income households (with 15% of household income) are not shielded.

¹⁰ Data for 1990 are taken from Columns 1 & 2, Table P080, Household Income in 1989, Census 1990, Summary Table File 3 - Sample Data. Data for 2000 are taken from Columns 1 & 2, Table P52, Household Income in 1999, Census 2000 Summary File 3 - Sample Data. Data from 1990 and 2000 are adjusted to constant dollars using the CPI, Series ID CUURA102SA0, for Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD, for all items, Base Period 1982-1984 = 100. Results are not taken directly from the federal census, but are calculated based on census figures. Results are approximate.

1 Q. **BESIDES HAVING A GREATER PERCENTAGE OF POORER CITIZENS**
2 **WHAT OTHER CIRCUMSTANCES CONTRIBUTE TO THIS INABILITY TO**
3 **PAY?**

4 A. The other important factor is that Philadelphia citizens are continuing to lose income at
5 alarming levels. As shown in Table 4, Philadelphia's middle three quintiles of
6 households by income are losing income at a faster rate than suburban households.
7 When families lose significant percentages of real income it becomes difficult to manage
8 ordinary expenses. This is the situation of middle income families in Philadelphia an
9 income grouping that is experiencing substantial loss of real income. The effects of a
10 fuel crisis of the type that has occurred in 2003-2004 are then magnified for these
11 households. A loss of about a quarter of real income (24.5%) across the lower-middle,
12 middle, and upper-middle income groups means that any price crisis will be intensely
13 magnified in its effects.

14 Q. **YOU HAVE DESCRIBED THE DEMOGRAPHIC PATTERNS OF PGW**
15 **CUSTOMERS WITH REGARD TO INCOME. IS THIS PATTERN SEEN IN**
16 **OTHER UTILITY SERVICE TERRITORIES IN PENNSYLVANIA?**

17 A. No. In Pennsylvania, each of the five income groups experienced a percentage increase
18 in real (inflation adjusted) income from the late 1980s to the late 1990's.¹¹ In
19 Philadelphia each of the five income groups experienced a percentage decrease in real
20 income *In Philadelphia, all income groups are affected.*

¹¹ For Pennsylvania, the source is the "Pennsylvania Fact Sheet" in Economic Policy Institute/Center on Budget and Policy Priorities, *Pulling Apart: A State-by-State Analysis of Income Trends, April 2002*. Figures in this study are based on averaging three year results from the Current Population Survey (1988 – 1990 as compared with 1998 – 2000). Note that the years included in the study are years of increasing economic expansion culminating in the collapse of the "bubble" and the healthcare, energy, and communications scandals that surfaced around the year 2000. Since 2000, poverty has increased in the US and the median income has declined.

Loss of Real Income by Philadelphia Households 1990-2000		Real Income as % of 1990
Low-Income 20%	-29.70%	70.30%
Lower-Middle	-12.80%	87.20%
Middle 20%	-7.70%	92.30%
Upper-Middle	-9.20%	90.80%
Upper 20%	-2.20%	97.80%
Increase in Real Income by Pennsylvania Households 1988-1990 v. 1998-2000		Real Income as % of '88-'90
Low-Income 20%	12.00%	112.00%
Lower-Middle	13.00%	113.00%
Middle 20%	15.00%	115.00%
Upper-Middle	18.00%	118.00%
Upper 20%	25.00%	125.00%

Table 6: Contrast of Philadelphia to the State

In Philadelphia, the situation is different from the state as a whole. The strong negative income effects extend to lower-middle and middle income groups. The loss of 24% of real income within the lower-middle, middle, and upper-middle income groups taken together is singular to the City. Even the upper-middle group is losing income and the top 20% is losing income. Philadelphia is experiencing a much more difficult situation than other utility service territories in Pennsylvania. The effect of this change is that, in Philadelphia, *lower-middle* and *middle income* customers are payment troubled, while in the rest of the State the designation applies to just the lower 20% of households by income.

Q. ARE YOU FAMILIAR WITH OTHER UTILITY SERVICE AREAS IN PENNSYLVANIA?

A. Yes. I have been working continuously in Pennsylvania from year to year since 1988 and have now completed studies that cover, when put together, most of the geography of

1 Pennsylvania. In addition to PGW, these studies have been for Duquesne Light,
2 Allegheny Power, Equitable Gas, Columbia Gas of Pennsylvania, PECO Energy,
3 People's Gas, Pennsylvania American Water Company, and currently Penn Power, Met
4 Edison, and Pennsylvania Power. While effects for the low income group are similar
5 around the state, I have not seen this problem throughout all the income groups
6 elsewhere.

7 **Q. CAN YOU FURTHER CHARACTERIZE THIS DIFFERENCE?**

8 A. Yes. Philadelphia's loss is much deeper, and *spread throughout all economic groups*
9 because of the City's transition from a regional financial and economic hub. Today, most
10 of the primary national and regional functions previously headquartered in Philadelphia
11 have been moved to other places. It is then, not just that manufacturing has left for other
12 countries and regions but that the core business institutions of the cities have been
13 transferred away, or, if some remain they are no longer headquartered here. The City
14 Controller projects a continued "decline in the City's share of economic activity relative
15 to the United States as a whole...." The Controller also forecasts the future economic
16 activity of City as a reflection of the national economy (rather than driven primarily by
17 economic factors belonging to the City).¹² It is becoming a smaller City in population
18 and its dependency ratio is increasing as the population ages. Because of the loss of jobs,
19 people in the prime working ages often have to leave the City to seek economic
20 opportunities.

21 **Q. DO YOU OBSERVE SIMILAR SHIFTS IN PAYMENT PATTERNS FOR SMALL**
22 **BUSINESS CUSTOMERS?**

¹² Office of the City Controller, City of Philadelphia, *Philadelphia, A New Urban Direction*. Philadelphia: Saint Joseph's University Press, 1999, P. 15.

1 A. Yes. Small business customers in Philadelphia are affected by the same shifts in
2 population and economic activity because their traditional sources of customers have left
3 the City or have less money to spend on the products and services offered by small
4 business. Small businesses within the City continue to lose customers due, in part, to the
5 decline of City population caused by the lack of job opportunities for persons within the
6 prime working ages. In addition, many of the traditional customers of small businesses
7 have migrated to the large national chains such as Wal Mart, Sears, Circuit City, Jiffy
8 Lube, etc. While some of those large chain stores are located within the City, most are on
9 the periphery – in the suburbs, so customers and their dollars migrate out of the City, with
10 many jobs, leaving less money circulating within the City economy, reducing the impact
11 of the multiplier effect, and compounding the ability-to-pay problem for residential and
12 small business customers. Even when the “big box” stores and their counterparts are
13 located within the City, they tend to remove net job opportunities from the City. There is
14 a large literature on this phenomenon: each big box store destroys and/or marginalizes
15 many small businesses, displacing local small and middle sized entrepreneurs and
16 reducing the total number of employees. Small and middle sized businesses that
17 managed to remain are generally weakened by a loss of customer traffic. The “big box”
18 stores offer quality goods at lower prices, in part, because they are of sufficient size to
19 distort markets and are thus able to force prices lower from suppliers. They also tend to
20 be involved in a succession of labor problems – offering low prices and high efficiency at
21 the cost of City jobs and quality of life. At the same time, small businesses have to carry
22 part of the weight of an increasing tax burden as the cost of City services is spread across
23 a declining tax base, thus further weakening their ability to pay their gas bills.

1 The same effect exists for gas costs: as PGW loses customers, the fixed utility
2 costs (the overhead) are spread over a declining base, leaving each remaining customer
3 with a larger responsibility. For PGW that impact is further exaggerated by the loss of
4 industrial customers (the old economy) that used substantial volumes of gas and paid
5 their bills *fully and on time*. Those customers, who might have mitigated the impact of
6 today's problems on PGW, are gone.

7 **Q. FOR BOTH RESIDENTIAL AND SMALL BUSINESS CUSTOMERS, DO YOU**
8 **HAVE ANY REASON TO EXPECT THAT PGW'S UNCOLLECTIBLE**
9 **EXPERIENCE WILL IMPROVE DRAMATICALLY IN THE SHORT TERM?**

10 A. I have been informed that PGW is trying to improve its results by increasing and
11 improving collection activity and procedures, as described in the testimony of Mr. Gyory
12 in this proceeding. While I understand that PGW is hopeful that these efforts will
13 produce benefits during the near term, they will take several years to produce dramatic
14 results, if they ever do. The natural gas cost jumps that have caused these decreases in
15 payments didn't happen overnight and even if gas prices return gradually to pre-spike
16 levels it will take many months for customers to see the effects of that mitigation in their
17 retail bills and then pay off any balances accumulated during this period. Nonetheless, it
18 would make sense to permit PGW to track its uncollectible experience in some special
19 mechanism at least until there is consensus that the cost spikes have mitigated for the
20 foreseeable future.

1 **Table 7: Yearly Bill & % Receipts**

Bill & Receipts	
Bill (2000\$)	% Receipts
\$1,031	93.09%
\$1,196	91.57%
\$1,277	90.82%
\$1,443	89.29%
\$1,600	87.85%
\$1,800	86.00%
\$2,000	84.16%

2
3
4 A regression using the PGW data of record from Table 1 yields the results shown in
5 Table 7. If the residential heating rate bill is around \$1,031, the percentage of total
6 receipts has historically been around 93%. As a projection, if the residential bill is in the
7 range of \$1,400 to \$1,600, total receipts will run about 88% - 89%. This projection is
8 based on a ten-year trend that has no realistic prospect of being reversed substantially. It
9 does not take into account future loss of income by the Philadelphia middle class which
10 will tend to hold receipts down further. The combined force of increase in real price of
11 gas and declined of real incomes across the board in the City are strong forces driven by
12 factors outside the City. A special mechanism, such as that proposed by PGW is required
13 to deal with this problem. In my opinion, it will deal with it directly and effectively

14 **Q. ARE THERE OTHER FACTORS WHICH AFFECT THE COLLECTIBILITY OF**
15 **A GAS UTILITY'S BILLINGS?**

16 A. Yes. As described briefly above, the so-called winter moratorium on service terminations
17 has a strong affect on collectibility. I support the moratorium as good public policy
18 which protects the most vulnerable customers, but it is clear that it has an impact on
19 payment patterns. From our fairly extensive survey work we have learned that
20 Pennsylvanians work very hard at trying to pay their bills, and at certain times of year
21 many families with scarce resources tend to prioritize the bills that they will pay at a

1 particular time. When utility customers know that they will not be shut off during winter,
2 they commonly allocate resources to some other bill, postponing until spring the
3 reckoning.¹³

4 There are at least two unfortunate consequences of postponing payment that are
5 relevant to this proceeding. First, fewer payments are made to PGW during the period
6 December 1 through March 31 which is exactly the period when PGW has to pay for the
7 winter gas volumes it must purchase to serve its customers. Second, when the customer
8 has to make arrangements in spring and summer to pay off the bill that accumulated
9 during the winter, those arrears are typically paid off, if they are paid, over an extended
10 period of time. The impact on PGW is that it must wait even longer to be made whole for
11 the expenditures it made during the winter, with direct negative implications for its cash
12 flow.

13 **Q. ISN'T THIS PATTERN ONE THAT IS EXPERIENCED BY OTHER UTILITIES?**

14 A. Yes, it is experienced by other utilities, but the demographics of PGW's customers are
15 such that makes this a much more serious problem for PGW than it would be for other
16 utilities. As I described above, PGW has many more customers in income categories that
17 experience this problem because they have difficulty paying. As a result, the impact on
18 PGW, among all the utilities with which I am familiar, is unique.

19 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

20 A. Yes it does.
21

¹³ Note that ability to pay the gas bill is a matter separate from the inelasticity of demand for heating in cold weather. Heating is not a choice, so the heating bill will be incurred.

H. GIL PEACH, Ph.D., Principal

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Summary

- **Manager/Principal Investigator: Evaluation Research, Organizational Studies, Survey Research, Socioeconomic Studies, Applied Statistics, Litigation Support, Planning & Policy Studies, Strategic Policy Support.**
- **Expert Services including Evaluation design and Methods; Expert Witness Services on Measurement and Evaluation issues; Strategic Intelligence/Policy Development.**
- **Academic specialization in Study of Organizations, Political Economics, Sociology of Economic Life, Sociology of Deviance & Social Control, Applied Social Statistics, Econometrics.**
- **Thirty years experience in applied and evaluation research in Human Services, including Energy, Water, Health, Housing, Social Services, Community-Based Projects, Management & Organizational studies, Market & Market Transformation, Socio-economic Studies.**

Experience

Principal, H. Gil Peach & Associates (HGPA). January 1988 to present. HGPA provides evaluation design, process and impact evaluation services, planning and program development services, management and organizational studies, program design, policy studies, litigation support, expert witness services, and support for consensus building/collaborative initiatives. HGPA is the US member, along with a Canadian and a Swedish firm in the Scan America® Group, providing planning, measurement and evaluation services worldwide.

Manager, Evaluation & Coordinator, Demand Side Management Planning - Pacific Power & Light - 1988 to April 1989. Managed development of conservation supply curves, demand side of least-cost planning, development of portfolio of conservation programs.

Manager, Research & Evaluation - Pacific Power - 1984 to 1988. Managed research studies while maintaining consensus among industry, government, and public interest groups in a multi-year program of energy policy related social research.

Research & Evaluation Coordinator - Pacific Power - 1983 to 1984. Managed project evaluation for the Hood River Conservation Project, at the time the most ambitious community weatherization effort in the United States.

Sr. Analyst, Analyst - Pacific Power - 1980 to 1982. Reviewed, designed, and coordinated survey research projects, load studies, statistical, and energy conservation studies; coordinated improvements in computer supported statistical analysis; developed staff capability in research methods. Responsible for direct day-to-day supervision of load research staff.

Research Statistician/Computer Analyst - Fund for the City of New York - 1978 to 1980. Conducted social research & statistical analysis for public sector management studies to improve efficiency and quality of service in hospital outpatient services, subways, and taxi regulation, social services, training and employment programs. Pioneered the role of research planning and technical analytic support for joint projects of non-profit agencies, which developed, for a time, as a major focus of the foundation.

Marketing Consultant - 1975 to 1980. Applied analytic problems, primarily in survey research. Principal clients: Pan Am, Citibank, Avon Products, American Market Research Bureau.

Sr. Quantitative Analyst, Program Research Analyst - City of New York - 1972 to 1978. Evaluation research for Health Department; represented Director to funded university and hospital research teams. Various positions 1969 to 1972: Applied housing program research, urban renewal, training, budgeting, applied statistics.

Sr. Clerk - New York Stock Exchange - 1969. Assisted on trading floor, developed statistical reports.

Professional Memberships

American Evaluation Association; American Statistical Association – Past President, State of Oregon Chapter, Society for the Social Study of Science; American Association for the Advancement of Science.

Education

Ph.D. Sociology (1985), New York University, New York, New York. Dissertation topic: *The Social Production of Applied Social Statistics*. This is a study of how social factors influence the construction of quantitative results when applied statistics are developed in different kinds of organizations. MA Economics (1972), New School for Social Research, New York, New York. MA Sociology (1969), Michigan State University; BS Sociology (1965) Michigan State University, Sociology; One Year of Metropolitan Urban Service Training, Union Theological Seminary, New York, New York. Substantial undergraduate study in physics and mathematics, Michigan Technological University, Houghton, Michigan.

Selected Papers & Publications

Peach, H. Gil, "The Hood River Conservation Project: A Model for Consensus-Building in Applied & Energy Research." Paper presented to the eighth annual meeting of the Society for Social Studies of Science, Session I, Taking Scientific Practice Seriously. Blacksburg, Virginia, 1983. The paper emphasizes the relationship of research quality, a focus on measurement and evaluation, and collaboration.

Peach, H. Gil, Terry V. Oliver, Mark Cherniack, David Goldstein, and Marion Philips, "Dialectic of Cooperation: How the Hood River Project Worked." In *ACEEE Summer Study on Energy Efficiency in Buildings*. University of California at Santa Cruz: American Council for an Energy Efficient Economy, 1984. The paper details the 'back and forth' relations of continued collaboration in a multi-year multi-party evaluation.

Keating, Kenneth M., Ruth L. Love, Terry V. Oliver, H. Gil Peach, & Cynthia B. Flynn, "The Hood River Project -- Take a Walk on the Applied Side", *The Rural Sociologist*, Vol. 5, No. 2, Pp. 112-118, 1985. This paper deals with the learning experience for program planners and evaluators in the contrast between evaluation planning and the encounter of realities in the field.

Peach, H. Gil, "Argumentation in Applied Research", Paper presented at the 10th Annual Meeting of the Society for Social Studies of Science, Rensselaer Polytechnic Institute, Troy, New York, October 24-27, 1985. A paper illustrating the Dunn/Toulmin policy analysis approach to multi-party evaluation, employing 'argument maps'.

Peach, H. Gil, "Utilization Focused Field Experiments", Paper presented to Conference on Advances in Knowledge Utilization: Impacts of Sciences and Professions in the Information Society, A Joint Conference Sponsored by the Howard R. Davis Society for Knowledge Utilization and Planned Change and the University of Pittsburgh, October 8-10, 1987. A short paper contrasting different approaches to evaluation and knowledge development in different kinds of projects.

Peach, H. Gil, "Evaluation Strategies and Customer Response to Energy Efficiency Programmes: Pro-Active Evaluation - Lessons for the Future." *In Workshop on Conservation Programmes for Electric Utilities*, Pp. 341-351. Paris, France: International Energy Agency & Organization for Economic Cooperation and Development, 1988. This paper is a call for evaluators to work with program planners and implementation staff. Thesis: While retaining a responsibility to 'call things as they are' in the final evaluation, evaluators should share a common interest in and contribute to program success and social learning along with other parties.

Morse, William L. & H. Gil Peach, "Control Concepts in Conservation Supply," *Energy*, Vol. 14, No. 11, PP 727-735, 1989. This is a technical/statistical publication on energy conservation, incorporating evaluation as a tool for incremental social and organizational learning.

Peach, H. Gil & Eric Hirst, "Factors in the Practice, Organization, and Theory of Evaluation," *Evaluation and Program Planning*, Vol. 12, Pp. 163-170, 1989. This is an article on evaluation method, calling for positive inclusion of organizational context as a factor in evaluations.

Keating, Kenneth & H. Gil Peach, "Demonstration Projects: What's in Them for Utilities?" *Energy and Buildings*, Vol. 13, Pp. 85-91, 1989. This article calls for sponsorship of demonstration projects to promote social and organizational learning.

Peach, H. Gil, "Verification and Sample Design." *Evaluation Exchange*, Vol. 1, No. 7, Pp. 12-13, 1991. This is a short technical contribution to quantitative method in evaluation.

Peach, H. Gil, "Energy Conservation Technical Collaboratives," Paper presented to the 4S/EASST Joint Conference, Gothenburg, Sweden, August 1992. This paper contrasts the collaborative styles of California and New England in multi-party program and evaluation design.

Peach, H. Gil, "Performance Contracting: Advice to Utilities." *Home Energy*, Vol. 9, Pp. 19-21, 1992. This article alerts readers to several differences in how some performance contractors approach evaluation and measurement issues, in contrast to program funders.

Peach, H. Gil, Ralph Prah, Jeff Schlegel, & Rick Fleming, "Moving Towards Market Transformation", *Proceedings of the 1993 ECEEE Summer Study: The Energy Efficiency Challenge for Europe*. R. Ling & H. Wilhite (eds.). The European Council for an Energy Efficient Economy, Oslo, Norway, Pp. 141-151, 1993. This paper deals with using market forces to promote program goals, and with how evaluation changes in a market context.

Peach, H. Gil, "Low Income Program Evaluation for a Competitive Era," In *The Future of Energy Markets: Evaluation in a Changing Environment*, Pp. 293-300. Chicago, Illinois: National Program Evaluation Conference, 1997. This paper introduces improvements in evaluation perspectives and methods in the evaluation of low-income programs.

Peach, H. Gil, "Industrial Energy Efficiency in the Michigan Collaborative." In *Energy Program Evaluation: Uses, Methods, Results*, CONF-950817, Pp. 43-47. Chicago, Illinois: National Program Evaluation Conference, 1997. Based on evaluation results, this paper presents a public-responsibility perspective on industrial energy programs.

Peach, H. Gil, C. Eric Bonnyman, and Joseph C. Ghislain, "What Works for Energy Efficiency in Large Industry." In *ACEEE Summer Study on Energy Efficiency in Industry*, Pp. 473-482. Saratoga, New York: American Council for an Energy Efficient Economy, 1997. Based on evaluation results, this paper presents industrial energy efficiency programs from the industrial perspective of global auto companies.

Castelow, Carl, C. Eric Bonnyman, Joseph Ghislain, Phares A. Noel, Mary A. Kurtz, Jim Malinowski, H. Gil Peach, and Martin Kushler, "Energy Efficiency in Automotive and Steel Plants." In *Sustainable Energy Opportunities for a Greater Europe: The Energy Efficiency Challenge for Europe*, Pp. 166 1-10. Spindleruv Mlyn, Czech Republic: European Council for an Energy-Efficient Economy, 1997. This paper presents a technical perspective, based on a three-year evaluation of industrial programs at three major auto companies and two major steel plants in the US.

Peach, H. Gil, "Implications of Income Shifts & Globalization for Program Evaluation in the United States." Beaverton, Oregon: H. Gil Peach & Associates, Monograph 99-1-1, 1999. Preliminary theoretical developments of this monograph were presented in Session 227, "Global Thinking in Evaluation," at the 1998 Annual Meeting of the American Evaluation Association, "Transforming Society through Evaluation," Chicago, Illinois, November 4-7, 1998; and at the Affordable Comfort Conference, Madison, Wisconsin in the Spring of 1998. This research monograph is an 'alert to

evaluators' detailing the need to take secular economic trends into account in evaluations, in that changes in social organization and economic context have become stronger factors than direct program influences in contributing to the outcomes of many programs.

Peach, H. Gil, "Improving Customer Service - The Customer Perspective." Paper presented to Workshop on Maintaining Quality Customer Service during the Transition to Competition, NLIIEC 1999 Conference, Pittsburgh, Pennsylvania, June 1999. Based on evaluation results, this paper contrasts the perspectives and pressures on utilities with the perspectives and needs of customers during organizational and economic transition.

Peach, H. Gil, Anne West, Howard Reichmuth and Ryan N. Miller, "The Sector Map Methodology for Evaluating Energy Affordability Programs," technical paper presented at the Seventeenth Annual Conference of the American Evaluation Association meeting in Sparks, Nevada, November 2003.

References

References will be provided on request.

ORIGINAL

SUPPLEMENT No. 3 to
Supplier Tariff - Pa P.U.C. No.1
Third Revised Page No. 1
Canceling Second Revised Page No. 1

PHILADELPHIA GAS WORKS

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GAS SUPPLIER TARIFF

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List of Changes Made by this Tariff

9.14. LOAD BALANCING SURCHARGE, 9.14.A. (Page No. 39)

The load balancing charge increases from \$54.6883 per design day Mcf to \$61.7145 per design day Mcf.

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9.14. 0LOAD BALANCING CHARGE.

9.14.A. Suppliers for all gas delivered under Firm Transportation Rates, of this Suppliers Tariff shall be charged at \$ 61.7145 per design day Mcf that is fulfilled by PGW storage and peaking assets, for recovery of those costs for Balancing Service, calculated in the manner set forth in the Commission's Order at M-00021612 (entered March 31, 2003) and as set forth below. Such rate for Balancing Service shall be increased or decreased, from time to time, in accordance with applicable law and procedures. (I)

9.14.B.Computation of Balancing Service Costs per Dth.

9.14.B.1.Formula. Balancing Service Costs, per design day Mcf, that is fulfilled by PGW storage and peaking assets, shall be computed to the nearest one-hundredth cent (\$0.0001) in accordance with the formula set forth below:

$$BSC = ((C - E) / (S))$$

Projected Balancing Service Costs, so computed, shall be charged to Suppliers of Firm Transportation Rates per Customer per design day Mcf that is fulfilled by PGW storage and peaking assets, for an enrollment month. The amount of those costs, per Mcf, will vary, if appropriate, based upon annual filings by the Company pursuant to Section 1307(f) of the Public Utility Code and such supplemental filings as may be required or be appropriate under Section 1307(f) or the PUC's regulations adopted pursuant thereto.

9.14.B.2. Definitions. In computing the Balancing Service Costs, per Dth, pursuant to the formula above, the following definitions shall apply:

"BSC" - Balancing Service Costs determined to the nearest one-hundredth cent (\$0.0001) to be charged to each design day Mcf that is fulfilled by PGW storage and peaking assets, under Rate Schedule Firm.

"C" - Cost in dollars: for all types of storage and related services, the fixed and variable costs for the projected period when rates will be in effect.

"E" - the net overcollection or undercollection of Balancing Service Costs.

The net overcollection or undercollection shall be determined for the most recent period permitted under law, which shall begin with the month following the last month which was included in the previous overcollection or undercollection calculation reflected in rates. The annual filing date shall be the date specified by the PUC for the Company's Section 1307(f) Tariff filing.

Each overcollection or undercollection statement shall also provide for refund or recovery of amounts necessary to adjust for overrecovery or underrecovery of "E" factor amounts under the previous Balancing Service Costs Rate. Interest shall be computed monthly at the rate as provided for in Section 1307(f) of the Public Utility Code from the month that the overcollection or undercollection occurs to the effective month such overcollection is refunded or undercollection is recouped. Such over billings (or under billings) will be made with interest at the statutory rate.

"S" - projected Mcf of storage gas/LNG to be delivered to Customers to meet design day needs during the projected period when rates will be in effect.

(I) - Increase

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List of Changes Made by this Tariff Supplement

GAS COST RATE (GCR) – SECTION 1307f, II DEFINITIONS (PAGE No. 67)

Revised the definition of “C” factor to include commodity costs and demand costs. Defined commodity costs and demand costs.

Revised the definition of “E” factor to include commodity costs and demand costs.

Revised the definition of “GAC” to include the per Ccf charge for Commodity Costs and Demand Costs. The total “GAC” value effective September 1, 2004 decreases from \$0.05496 per Ccf to \$0.00378 per Ccf.

Revised “IRC - Interruptible Revenue Credit,” to include the per Ccf amount for the IRC.

Revised “SSC - Sales Service Charge,” to include the per Ccf charge for Commodity Costs and Demand Costs.

GAS COST RATE (GCR) – SECTION 1307f, III COMPUTATION OF GAS COST RATE (Page No. 68)

The Gas Cost Rate (GCR) effective September 1, 2004 decreases from \$0.76313 per Ccf to \$0.74216 per Ccf.

RESTRUCTURING AND CONSUMER EDUCATION SURCHARGE (PAGE No. 79)

The Restructuring and Consumer Education Surcharge effective September 1, 2004 increases from \$0.00675 per Ccf to \$0.00683 per Ccf.

UNIVERSAL SERVICE SURCHARGE (PAGE No. 81)

The Universal Services Surcharge effective September 1, 2004 increases from \$0.10765 per Ccf to \$0.13030 per Ccf.

CASH RECEIPTS RECONCILIATION CLAUSE SURCHARGE (PAGE No. 82)

Added the provision for a Cash Receipts Reconciliation Clause Surcharge.

List of Changes Made by this Tariff Supplement (continued)

GENERAL SERVICE – RATE GS (Page No. 83)

The GCR for Residential, Commercial, and Industrial Services decreases from \$0.76313 per Ccf to \$0.74216 per Ccf, effective September 1, 2004.

Added Cash Receipts Reconciliation Clause Surcharge in Surcharge section.

MUNICIPAL SERVICE – RATE MS (Page No. 87)

The GCR for Municipal Service decreases from \$0.76313 per Ccf to \$0.74216 per Ccf, effective September 1, 2004.

Added Cash Receipts Reconciliation Clause Surcharge in Surcharge section.

PHILADELPHIA HOUSING AUTHORITY SERVICE – RATE PHA (Page No. 90)

The GCR for Philadelphia Housing Authority Service decreases from \$0.76313 per Ccf to \$0.74216 per Ccf, effective September 1, 2004.

Added Cash Receipts Reconciliation Clause Surcharge in Surcharge section.

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GAS COST RATE (GCR) -- SECTION 1307(f)

I. PROVISION FOR ADJUSTMENT

The Gas Cost Rate shall be applied to each Mcf (1,000 cubic feet) for Firm Retail Sales Service Gas supplied under Rates Schedules GS, MS, PHA, and NGVS-Firm, except for Gas usage under the Special Provisions – Air Conditioning of those rates calculated in a manner set forth below, pursuant to 66 Pa.C.S. §1307(f). Such rates for Firm Sales Service Gas may be increased or decreased from time to time under the procedures set forth in Section II.B. below to reflect changes in the level of Gas costs incurred or projected to be incurred by PGW related to Sales Service.

II. DEFINITIONS

C - The current cost of Natural Gas and other raw materials determined as follows: (a) for all types of Gas, project the cost for each purchase (adjusted for net current Gas stored) for the computation year plus (b) the of (1) the projected book value of non-current Gas at the beginning of the computation year minus (2) the projected book value of non-current Gas at the end of the computation year. In addition to any cost authorized by the Commission, the cost of Natural Gas may include any item included in the definition of Natural Gas costs set forth in 66 Pa.C.S. § 1307(h) ("Definition"). The Factor "C" includes two components – Commodity Costs and Demand Costs which are defined as follows: Commodity Costs - the actual cost of natural gas and purchased electric for firm customers that does not include the fixed costs associated with the transportation and storage of natural gas; and Demand Costs - the fixed costs associated with the transportation and storage of natural gas for firm customers.

(C)
↓

Computation Year - The 12-month forecast period as identified in the Company's annual 1307 (f) filing and each quarterly GCR filing.

E - Experienced net over billing (or under billing) of the cost of Natural Gas and other raw materials applicable to the GCR reported in the most recent Section 1307(f) proceeding. Such over billings (or under billings) will be made with interest at the rate and method set forth by the Pennsylvania Public Utility Commission. Additionally, supplier refunds received prior to the end of the August billing period will be included in the Factor "E." The Factor "E" includes two components -- Commodity Costs and Demand Costs which are defined above in the Factor "C" definition.

(C)

Firm Sales Service - The service provided to Customers who receive firm supply service from PGW. The term does not include the service provided to Customers who receive interruptible supply service from PGW.

GAC - The "E" factor component of the GCR, representing the net overcollection or undercollection of Natural Gas and other raw materials costs. The currently effective GAC is \$0.00378 per Ccf for Commodity Costs and \$0.00000 per Ccf for Demand Costs, for service on or after September 1, 2004. The total Gac is \$0.00378 per Ccf.

(D)

(C)

GCR - Gas Cost Rate determined to the nearest one-hundredth cent (\$0.0001) to be applied to each Mcf of Gas supplied under Rates GS, MS, PHA, and NGVS-Firm, except for Gas usage under the Special Provisions – Air Conditioning of those rates and is equal to the SSC plus the GAC minus the IRC.

IRC - Interruptible Revenue Credit - The credit defined in Subsection VI below. The currently effective IRC is \$0.00558 per Ccf for service on or after September 1, 2004.

(C)

Natural Gas or Gas - The volumes of gas purchased or manufactured by the Company that is delivered to the Company's Customers, plus such portion of the Company-used and unaccounted-for gas as the Commission permits, including, but not limited to, natural gas, liquefied natural gas, synthetic gas,

(C) – Change, (D) – Decrease

liquefied propane and naphtha.

S - Projected applicable Mcf of Gas to be billed to Customers during the computation year.

SSC-Sales Service Charge - The purchased Gas costs determined to the nearest $\frac{1}{100}$ of a cent (\$0.0001). The currently effective SSC is \$0.61466 per Ccf for Commodity Costs and \$0.12930 per Ccf for Demand Costs, for service on or after September 1, 2004. The total SSC is \$0.74396 per Ccf.

(C)
↓

(C) – Change

PHILADELPHIA GAS WORKS

III. COMPUTATION OF GAS COST RATE

A. The GCR shall be computed to the nearest one-thousandth cent (\$0.00001) in accordance with the formula set forth below as the terms are defined in Section II:

$$\begin{aligned} \text{SSC} &= \text{C/S} \\ \text{GAC} &= \text{E/S} \\ \text{GCR} &= \text{SSC} + \text{GAC} - \text{IRC} \end{aligned}$$

B. Each Gas Cost Rate so computed shall be applied to Customers' bills for twelve monthly billing periods commencing with September.

The currently effective Gas Cost Rate is \$0.74216 per Ccf, for service on or after September 1, 2004. (D)

IV. REPORTING REQUIREMENTS

A. The Company's rates are subject to quarterly adjustments for recovery of the Gas Cost Rate under procedures set forth in Section 1307 (f) of the Public Utility Code.

B. The filing of the Company's annual Section 1307(f) filing, annual Gas Cost Rate, effective during the billing period of September through August, shall be submitted to the Commission by March 1 of each year, with a February 1 pre-filing date.

C. The application of the Gas Cost Rate shall be subject to review and audit by the Commission at such intervals as the Commission shall determine.

D. If it shall be determined, from audit by the Commission, or by final order entered after notice and hearing, that the application of this clause has resulted in the overcollection or undercollection of revenues, then the Company shall apply such over/undercollection as a credit or debit against future Gas Cost Rates.

V. PROVISION FOR INCLUSION OF SPECIFIC NON-GAS EXPENSES

The computation of the Gas Cost Rate may include such Non-Gas expenses as may be authorized by this tariff and annually authorized by the Commission.

VI. INTERRUPTIBLE REVENUE CREDIT (IRC)

A. The GCR rate shall be credited with an Interruptible Revenue Credit (IRC) equal to the margin realized from interruptible sales under PGW's Interruptible Sales Tariff Rates: BPS, LBS; and CG (Total Margin Revenue).

B. The IRC shall be set each year in the Company's 1307(f) proceeding to reflect the Total Margin Revenue. The rate per Mcf shall be calculated by dividing the Total Margin Revenue by total applicable firm sales. For the period September 1, 2003 through August 31, 2004 the IRC shall be initially set to reflect the Total Margin Revenue authorized by the Commission in its final order at M-00021612 (entered March 31, 2003).

(D) - Decrease

RESTRUCTURING AND CONSUMER EDUCATION SURCHARGE

Non-Gas restructuring and consumer education costs will be recovered by a Restructuring and Consumer Education Surcharge applicable to all volumes of Gas delivered.

1. Computation of the Restructuring and Consumer Education Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307 of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
2. Restructuring and Consumer Education costs recovered through the Surcharge mechanism are the Commission approved costs which the Company has or will incur to meet the requirements of the Natural Choice and Competition Act and applicable Commission regulations, orders and other regulatory requirements, other than those costs pertaining to universal service and energy conservation programs.
3. Once the surcharge is in place, PGW shall file reconciliation statements quarterly and shall submit a claim for over/under recovery on an annual basis, at the same time it submits its projected Restructuring costs and Restructuring Surcharge claim for the next year; provided however, that if a project for which costs were included in the Restructuring Surcharge is cancelled or delayed beyond the year in which the cost was originally scheduled to be incurred, the Company will withdraw the projected costs of that project from the Restructuring Surcharge in its next quarterly update. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the restructuring and consumer education costs approved for annual recovery by the estimated applicable throughput in Mcf.
4. The Restructuring and Consumer Education Surcharge shall remain in effect until restructuring and consumer education costs have been collected or as otherwise directed by the Commission.
5. The Restructuring and Consumer Education Surcharge is effective on and after September 1, 2003.

Current Restructuring and Consumer Education Surcharge = \$0.00683/Ccf

(I)

(I) – Increase

UNIVERSAL SERVICE AND ENERGY CONSERVATION SURCHARGE

Universal service and energy conservation program and related costs will be recovered by a Universal Service and Energy Conservation Surcharge applicable to all volumes of Gas delivered.

1. The Surcharge will recover: 1) the discounts provided to Customers pursuant to the Customer Responsibility Program (CRP); 2) the discounts provided to Customers pursuant to the Senior Citizen Discount; 3) the costs of the Conservation Works Program (CWP); and, 4) for Customers entering the CRP program on or after September 1, 2003, past due arrearages forgiven pursuant to paragraph A (6) of the CRP/CAP Program Design Stipulation approved by the Commission by its order at M-00021612 (entered March 31, 2003).
2. Computation of the Universal Service and Energy Conservation Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
3. Once the surcharge is in place it will be automatically adjusted effective March 1, June 1, September 1, and December 1 of each year in accordance with Section 1307(f) quarterly adjustment procedures. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the total universal service and energy conservation program costs approved for annual recovery by the estimated applicable throughput in Mcfs.
4. The Universal Service and Energy Conservation Surcharge shall take effect upon the effective date of this Tariff.

Current Universal Service and Energy Conservation Surcharge = \$ 0.13030/Ccf.

(I)

(I) - Increase

CASH RECEIPTS RECONCILIATION CLAUSE SURCHARGE

(C)

Uncollectible amounts of gas billings that exceed the uncollectible expense in base rates will be recovered by a Cash Receipts Reconciliation Clause Surcharge applicable to all volumes of Gas delivered.

1. The Surcharge will be calculated as follows:
[PFGB - (PFGB * CR%)] - UEBR = PFRA
[EFGB - (EFGB * CR%)] - UEBR = EFRA
TRA = PFRA + (EFRA/AP)
2. Definitions:
Computation Year - The 12-month forecast period as identified in the Company's annual 1307 (f) filing and each quarterly GCR filing.
PFGB - Pro-Forma Year Gas Billings. The Pro-Forma Year is the Computation Year.
EFGB - E Factor Year Gas Billings. The E Factor Year is the year immediately preceding the Computation Year.
CR% - Cash Receipts Percentage. The applicable Cash Receipts Percentage is based upon the annual period immediately preceding the Computation Year (utilizing 10 months actual data and 2 months projected data).
UEBR - Uncollectible Expense recovered in Base Rates. The amount of Uncollectible Expense currently being recovered in base rates (currently \$55,700,000).
PFRA - Pro-Forma Year Recovery Amount.
EFRA - E Factor Year Recovery Amount.
TRA - Total Recovery Amount.
AP - Amortization Period - Three years.
3. Computation of the Cash Receipts Reconciliation Clause Surcharge factors will be in accordance with the automatic adjustment procedures utilized under Section 1307(f) of the Public Utility Code and will be filed and approved in conjunction with the Company's annual Section 1307(f)-GCR filing.
4. Once the surcharge is in place, PGW shall file reconciliation statements annually and shall submit a claim for over/under recovery on an annual basis, at the same time it submits its projected Cash Receipts Reconciliation Surcharge Claim for the next year. A Cash Receipts Reconciliation Surcharge Claim for the next year will not be submitted if the projected uncollectible expense is less than the Uncollectible Expense recovered in Base Rates. Over/under-recovery amounts will be factored into the year following the computation year based upon actual data from the computation year period but an over-recovery amount will not occur if the actual uncollectible expense is less than the Uncollectible Expense Recovered in Base Rates. No interest will be included in such surcharge computations. The basic component of the surcharge will be determined by dividing the Total Recovery Amount approved for annual recovery by the estimated applicable throughput in Mcf.
5. The Cash Receipts Reconciliation Clause Surcharge shall take effect upon the effective date of this Tariff.

Current Cash Receipts Reconciliation Clause Surcharge = \$ 0.07947 /Ccf.

(C) - Change

GENERAL SERVICE - RATE GS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2003

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 or Transportation Services required.

RATES

CUSTOMER CHARGE (per Meter (except parallel meters)):

\$ 12.00 per month for Residential and Public Housing Authority Customers.
\$ 18.00 per month for Commercial and Municipal Customers
\$ 50.00 per month for Industrial Customers

Plus,

GCR (not applicable to GS Customers who transport gas through a qualified NGS):

\$ 0.74216 per Ccf for Residential and Public Housing (D)
\$ 0.74216 per Ccf for Commercial and Municipal Customers (D)
\$ 0.74216 per Ccf for Industrial Customers (D)

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.42124 per Ccf for Residential and Public Housing
\$0.43056 per Ccf for Commercial and Municipal Customers
\$0.43029 per Ccf for Industrial Customers

(B) Surcharges:

Cash Receipts Reconciliation Clause Surcharge; Universal Service and Energy Conservation Surcharge; and Restructuring and Consumer Education Surcharge. (C)

(D) - Decrease

(C) - Change

MUNICIPAL SERVICE - RATE MS

Rate: Applicable to all Retail Sales Service or Transportation Service rendered pursuant to this Rate Schedule on or after September 1, 2003.

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.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters):

\$ 18.00 per month

Plus,

GCR (not applicable to MS Customers who transport Gas through a qualified NGS):

\$0.74216 per Ccf (D)

Plus,

DISTRIBUTION CHARGE (consisting of items (A) and (B), below):

(A) Delivery Charge:

\$0.31470 per Ccf

(B) Surcharges:

The Cash Receipts Reconciliation Clause Surcharge; Universal Service and Energy Conservation Surcharge; and The Restructuring and Consumer Education Surcharge. (C)

Also,

The following Riders may apply:

(D) - Decrease

(C) - Change

PHILADELPHIA HOUSING AUTHORITY SERVICE - RATE PHA

Rate: Applicable to all Retail Sales Service or Transportation Services rendered pursuant to this Rate Schedule on or after September 1, 2003

AVAILABILITY

Available for all Gas usage in multiple dwelling Residential buildings containing 10 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 10 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 (a) buildings operated by the Philadelphia Housing Authority, prior to the original effective date of this rate (January 1, 1969), and (b) buildings for which, in the judgment of the Company, such Gas Service cannot be provided economically.

RATES

CUSTOMER

CHARGE (per Meter (except parallel meters);

\$18.00 per month

Plus,

GCR (not applicable to PHA customers who transport gas through a qualified NGS):

\$0 .74216 per Ccf

(D)

Plus

DISTRIBUTION CHARGE:

DISTRIBUTION CHARGE (consisting of item (A) and (B), below):

(A) Delivery Charge:

\$0 .42952 per Ccf

(B) Surcharges:

The Cash Receipts Reconciliation Clause Surcharge; Universal Service and Energy Conversation Surcharge; and The Restructuring and Consumer Education Surcharge. (C)

(D) -- Decrease

(C) -- Change

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission,

v.

Philadelphia Gas Works

Petition of Philadelphia Gas Works to Establish a
Case Receipts Reconciliation Clause

R-00049157

DOCUMENT
FOLDER

SECRETARY'S BUREAU

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MOTION FOR CONSOLIDATION

Pursuant to 52 Pa. Code §§ 5.81 and 5.101, Philadelphia Gas Works ("PGW") requests that its petition to establish a Cash Receipts Reconciliation Clause ("CRRC"), filed with and as a companion to PGW's 2004 Gas Cost Rate ("GCR") filing, be consolidated for hearing and disposition with its 2004 GCR proceeding because both proceedings involve common questions of law and fact.

DOCKETED

MAR 03 2004

In support of its request, PGW states as follows:

1. Section 5.81 of the Commission's regulations provides that the Commission may order proceedings involving a common question of law or fact to be consolidated.

2. The proposed CRRC and PGW's 2004 GCR proceeding involve common questions of law and fact.

(a) The proposed CRRC is directly related to and necessitated by the recent large increases in natural gas prices.

(b) The CRRC is being filed with PGW's 2004 GCR filing and is proposed as a companion to PGW's existing GCR.

(c) The proposed CRRC would track the GCR in most material respects, such as filing dates and time periods, and the use of historical and projected amounts of actual gas prices, sales, billings and receipts.

(d) Also, differences between projected and actual cash receipts with billed revenue would be reconciled in the same manner as the GCR.

Accordingly, PGW requests that its petition to establish the CRRC be consolidated with its 2004 GCR filing and assigned to the same Administrative Law Judge for hearing and disposition.

Respectfully submitted



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(717) 237-7173

OF COUNSEL:

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Philadelphia, PA 19122

Dated: March 1, 2004

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SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

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

VIA EMAIL AND FIRST CLASS MAIL

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Dated: March 1, 2004


Daniel Clearfield, Esq.

RE-ASSIGNMENT MEMO

DATE: March 3, 2004

SUBJECT: R-00049157

DOCKETED
MAR 16 2004

TO: Office of Administrative Law Judge

FROM: James McNulty
Secretary 

**DOCUMENT
FOLDER**

On February 18, 2004, the Philadelphia Industrial and Commercial Gas Users Group filed a Petition to Intervene in the above docketed proceeding. The Petition was assigned to the Bureau of Fixed Utility Services in error on February 25, 2004.

A copy of the Petition was forwarded to your Office on February 25, 2004, along with a copy of the assignment memo. Please be advised that the Petition to Intervene is hereby being re-assigned to your Office for appropriate action.

cc: Bureau of Fixed Utility Services