

COMMONWEALTH OF PENNSYLVANIA
PUBLIC UTILITY COMMISSION

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Pennsylvania Public Utility Commission : Docket No.
v. Philadelphia Gas Works : R-00061931
 General rate increase. : R-00061931C0001
 : through
 Evidentiary hearings. : R-00061931C0071
 :
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Pages 455 through 710

Hearing Room 1
State Office Building
Broad & Spring Garden Streets
Philadelphia, Pennsylvania

DOCUMENT
FOLDER

Tuesday, May 22, 2007

Met, pursuant to adjournment, at 9:00 a.m.

BEFORE:

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ANGELA T. JONES, Administrative Law Judge

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P R O C E E D I N G S

1
2 JUDGE JONES: This is the time and place for the
3 further hearing of Pennsylvania Public Utility Commission
4 vs. Philadelphia Gas Works, at Docket Nos. R-00061931,
5 R-00061931C0001 through C0071.

6 I note the appearance the following. Dan Clearfield,
7 Deanne O'Dell, both representing PGW; Christy Appleby,
8 Darryl Lawrence and Tanya McCloskey, all representing the
9 Office of Consumer Advocate; Mr. Todd Steward, representing
10 IGS; Ms. Charis Mincavage, representing the industrials,
11 also known as PICGUG; Mr. Richard Kanaskie, Ms. Allison
12 Kaster, representing Office of Trial Staff; Ms. Sharon Webb,
13 Ms. Lauren Lepkoski, representing the Office of Small
14 Business Advocate; Mr. Miles Shore, representing the School
15 District of Philadelphia; Mr. Philip Bertocci, Ms. Thu Tran,
16 representing Action Alliance of Senior Citizens and Tenant
17 Union Representative Network; Mr. Gregory Stunder,
18 representing the Philadelphia Gas Works.

19 I note for the record that counsel for PECO is not
20 present. I also note for the record that counsel for the
21 Archdiocese is not present.

22 I also note for the record that counsel for Hess did
23 ask to be excused, and will not be participating in any
24 further hearings.

25 I note for the record that Mr. Hinerman, representing

1 the Philadelphia Housing Authority, is present.

2 Mr. Hinerman, please record your attendance, sir.

3 While he is going that, I have alerted Mr. Stunder
4 that we will be dealing with his motion in reference to the
5 testimony of Ms. Mondre, her surrebuttal testimony,
6 representing the School District of Philadelphia.

7 We do wish to have a clarification before we rule,
8 Mr. Stunder. We note that there was something in your oral
9 argument referencing an adjustment that you are of the
10 opinion that the Philadelphia School District is asking for
11 in their surrebuttal testimony. We'd like clarification on
12 that as far as a page reference in the surrebuttal.

13 MR. STUNDER: Yes, Your Honor. If I may look for the
14 reference.

15 (Pause.)

16 MR. STUNDER: Your Honor, on page ten of Ms. Mondre's
17 surrebuttal testimony there's a question and answer which
18 begins on line six and goes to line twelve where she does
19 mention --

20 JUDGE FORDHAM: Keep your voice up, Mr. Stunder.

21 MR. STUNDER: Oh, I'm sorry. Where she does mention
22 an amount of \$11,609,657.

23 JUDGE JONES: And this is the adjustment that you're
24 referring to?

25 MR. STUNDER: Yes.

1 JUDGE JONES: And you're referring that that should
2 be struck because it was not mentioned in previous
3 testimony, and the opportunity to mention it was in previous
4 testimony. Is that our understanding?

5 MR. STUNDER: Yes, Your Honor. In the direct
6 testimony that ended up yesterday as an exhibit.

7 JUDGE FORDHAM: Let's go off the record a minute.

8 (Discussion off the record.)

9 JUDGE JONES: We're back on the record.

10 We recognize that the motion of Mr. Stunder to strike
11 certain rebuttal testimony of Ms. Mondre as a witness for
12 the Philadelphia School District goes from page six, line
13 18, I guess, for the question, through to page ten, line
14 twelve.

15 We will rule that the footnote on page six, as well
16 as all text under the motion starting with line 18 through
17 to line five on page ten, is out, is stricken, with the
18 exception of page seven, line 23 through page eight, line
19 three. That is in.

20 Everything else is out up through page five, as we
21 find that it is hearsay. We do not find that the Section
22 703 that Mr. Shore referenced under this state exceptions to
23 hearsay applies.

24 Does anyone else have a question in reference to our
25 ruling?

1 (No response.)

2 JUDGE JONES: Hearing none, Mr. Stunder, do you have
3 anything else in reference to your motion?

4 MR. STUNDER: Your Honor, are you striking page ten,
5 lines six and twelve?

6 JUDGE JONES: No.

7 MR. STUNDER: Thank you.

8 MR. CLEARFIELD: Thank you.

9 JUDGE JONES: Any other questions in reference to
10 your motion, Mr. Stunder?

11 MR. STUNDER: No, Your Honor. Thank you.

12 JUDGE JONES: Anyone else have any questions in
13 reference to the motion?

14 (No response.)

15 JUDGE JONES: Hearing none, we're ready to move
16 forward. We do have some matters that were left in flux
17 from yesterday in reference to stipulated testimony.

18 I do believe there are some new developments in
19 reference to the stipulated testimony. We'd like to hear
20 from Mr. Todd Stewart in reference to IGS testimony.

21 MR. STEWART: Thank you, Your Honor.

22 This morning we were able to execute a stipulation
23 with the Office of Small Business Advocate, who was the last
24 party who had any cross examination for Mr. Parisi.

25 I would like to move that the stipulation as a

1 hearing exhibit, as well as Mr. Parisi's testimony this
2 morning. I'll start with the testimony, if that's okay.

3 I'd like to ask to be marked for identification
4 purposes that which is identified as IGS Statement No. 1,
5 which is the direct testimony of Vincent Parisi on behalf of
6 Interstate Gas Supply.

7 JUDGE FORDHAM: It shall be so marked.

8 (Whereupon, the document was marked
9 as IGS Statement No. 1 for
10 identification.)

11 MR. STEWART: And according to the standard
12 stipulations, Mr. Parisi would state that the testimony was
13 prepared by him or under his supervision, that the
14 information contained therein is true and correct to the
15 best of his knowledge, information and belief, and that if
16 he were asked the same questions today his answers would be
17 the same.

18 With that I would move for admission into the record
19 of IGS Statement No. 1.

20 JUDGE FORDHAM: It's so admitted.

21 (Whereupon, the document marked as
22 IGS Statement No. 1 was received in
23 evidence.)

24 MR. STEWART: Also, I've distributed to the parties a
25 document, a stipulation between Interstate Gas Supply and

1 the Office of Small Business Advocate which is marked as IGS
2 Hearing Exhibit No. 1. It is a stipulation between the
3 parties. I'd ask that to be entered into the record as
4 well.

5 JUDGE FORDHAM: So admitted.

6 (Whereupon, the document was marked
7 as IGS Exhibit No. 1 for identification
8 and received in evidence.)

9 JUDGE JONES: Mr. Stewart, I note for the record that
10 there is handwritten N3 on the second line of the first
11 paragraph.

12 MR. STEWART: Yes.

13 JUDGE JONES: And that does apply to this exhibit?

14 MR. STEWART: Yes, it does. When I typed this up
15 yesterday I neglected to include Mr. Knecht's surrebuttal
16 testimony.

17 JUDGE JONES: Thank you, Mr. Stewart.

18 MR. STEWART: Thank you.

19 JUDGE JONES: Ms. Webb or Ms. Lepkoski?

20 MS. WEBB: Good morning, Your Honor.

21 JUDGE JONES: Good morning.

22 MS. WEBB: Sharon Webb on behalf of the OSBA.

23 As Mr. Stewart indicated, we've reached a stipulation
24 with IGS. And the rest of the parties have agreed to
25 stipulate to the authenticity of the OSBA's statements, OSBA

1 Statement 1, the direct testimony of Robert D. Knecht; OSBA
2 Statement 2 is the rebuttal testimony; and OSBA Statement 3
3 was the surrebuttal testimony of Mr. Knecht, and the
4 accompanying exhibits in reference to interrogatories.

5 I have provided two copies of those to the court
6 reporter and the parties, and Your Honors each previously
7 received them.

8 The parties had agreed to stipulate to the entry of
9 the testimony and the factual statements contained therein.
10 We represent that the statements are true and correct to our
11 knowledge, and that the witness, if asked the same questions
12 today would provide the same answers.

13 I'd ask that those statements be marked for
14 identification, please.

15 JUDGE FORDHAM: They're so marked.

16 (Whereupon, the documents were marked
17 as OSBA Statement Nos. 1, 2 and 3 for
18 identification.)

19 MS. WEBB: Mr. Stewart provided you with copies of
20 the stipulation which we've agreed. And based on that I
21 would ask that OSBA Statements 1, 2 and 3, and accompanying
22 exhibits, be moved into the record.

23 JUDGE FORDHAM: OSBA Statements 1, 2 and 3, which are
24 the direct, rebuttal and surrebuttal testimony of
25 Mr. Knecht, are admitted with their exhibits.

1 (Whereupon, the documents marked as
2 OSBA Statement Nos. 1, 2 and 3 were
3 received in evidence.)

4 JUDGE JONES: Now, we also had influx of possible
5 agreement with Action Alliance and PGW. Is there any new
6 status to that, Mr. Bertocci and Ms. Tran?

7 MR. BERTOCCI: Yes, Your Honor, there is. We have a
8 stipulation, which is between PGW and Action Alliance with
9 regard to Harry Geller's testimony, Statement No. 1 and
10 Statement No. 1SR.

11 In addition, there is no cross examination from OSBA
12 for Statement No. 1R, the rebuttal testimony of
13 Harry S. Geller.

14 So at this point what I'd like to do is to have the
15 stipulation and have this testimony authenticated and placed
16 into the record.

17 JUDGE JONES: Very well. You may proceed,
18 Mr. Bertocci.

19 MR. BERTOCCI: We have three pieces of testimony.
20 The direct testimony and exhibits of Harry S. Geller on
21 behalf of Action Alliance marked Statement No. 1.

22 There is also the rebuttal testimony of
23 Harry S. Geller in response to the testimony of Mr. Knecht,
24 marked Action Alliance Statement No. 1-R.

25 And there is also the surrebuttal testimony of

1 Harry S. Geller marked Action Alliance Statement No. 1-R in
2 response to --

3 JUDGE JONES: 1-SR?

4 MR. BERTOCCI: No. 1-SR. I'm sorry. I'd like to
5 have those marked for identification.

6 JUDGE FORDHAM: So marked.

7 (Whereupon, the documents were marked
8 as Action Alliance Statement Nos. 1,
9 1-R and 1-SR for identification.)

10 MR. BERTOCCI: The parties have stipulated that the
11 testimony that would be introduced into evidence without
12 cross examination.

13 If Mr. Geller were here today he would swear that
14 this testimony was prepared by him or under his direction,
15 and that the statements made therein are true and correct to
16 the best of his knowledge, information and belief; with a
17 couple of corrections having to do with Statement No. 1,
18 Action Alliance Statement No. 1.

19 JUDGE JONES: Just a moment, Mr. Bertocci.

20 (Pause.)

21 JUDGE JONES: Okay, you may proceed.

22 MR. BERTOCCI: On the title page, the title page says
23 -- this is a small change. The title page says June 6,
24 2006. It should be April 6, 2007. I don't want anyone to
25 throw that away, the testimony.

1 On page 34, line 26, change 34,000 to 45,000. On
2 page 34, line 27, change 34,000 to 45,000.

3 And on page 36, line eight, insert after the words
4 July 2006 a parenthetical phrase which says, this is the new
5 part, open quotation marks, open parentheses, who had been
6 on budget billing for at least twelve months, close
7 parentheses, period.

8 If Mr. Geller were here today, he would testify that
9 this information was true and correct to the best of his
10 knowledge, information and belief.

11 JUDGE JONES: Mr. Bertocci, on page 36, line eight,
12 that 34,000 remains 34,000?

13 MR. BERTOCCI: Page 34, line --

14 JUDGE JONES: Page 36.

15 MR. BERTOCCI: Page 36, yes.

16 JUDGE JONES: Line eight. That 34,000 remains
17 34,000?

18 MR. BERTOCCI: 34,000, yes.

19 JUDGE JONES: And the sentence that you add
20 parenthetically was, who had been on budget billing for at
21 least twelve months?

22 MR. BERTOCCI: That's right, yes.

23 JUDGE JONES: Very well. Any other changes?

24 MR. BERTOCCI: No. Accordingly, I would move that
25 these three documents be admitted into evidence; Action

1 Alliance Statement No. 1, Action Alliance Statement No. 1-R,
2 and Action Alliance Statement 1-SR.

3 JUDGE FORDHAM: The three documents, which are the
4 testimony of Mr. Geller, will be so admitted.

5 MR. BERTOCCI: Thank you.

6 (Whereupon, the documents marked as
7 Action Alliance Statement Nos. 1, 1-R
8 and 1-SR were received in evidence.)

9 MR. BERTOCCI: And also I guess the stipulation also
10 should be --

11 JUDGE FORDHAM: I'll ask Mr. Clearfield.

12 Mr. Clearfield, in reference to PGW hearing exhibits
13 not yet identified?

14 MR. CLEARFIELD: Yes, Your Honor. We have entered
15 into a stipulation with Action Alliance that will result in
16 not needing to cross Mr. Geller.

17 I believe it's been handed out. And I think we were
18 proposing to mark these stipulations that would be entered
19 into the record as a PGW hearing exhibit.

20 Now, I would note that we're going to have cross
21 examination exhibits and we're going to have rejoinder
22 exhibits. If that's okay with Your Honors, we can go ahead
23 and mark this as PGW Hearing Exhibit 1.

24 JUDGE JONES: That's fine.

25 JUDGE FORDHAM: That's fine.

1 JUDGE JONES: It shall be so marked.

2 (Whereupon, the document was marked
3 as PGW Hearing Exhibit No. 1 for
4 identification.)

5 MR. CLEARFIELD: And we would move that into the
6 record as a reflection of the --

7 JUDGE FORDHAM: Before we do that, there are a couple
8 of handwritten notes on here that I'm not sure what they
9 are.

10 Between the second and third line there is a
11 notation.

12 Oh, Mr. Bertocci, that's your signature?

13 MR. BERTOCCI: That's right, yes.

14 JUDGE FORDHAM: Okay. And also your signature at the
15 bottom where it says 52?

16 MR. BERTOCCI: That's right.

17 JUDGE FORDHAM: Okay.

18 JUDGE JONES: And I just want to clarify for the
19 record. It's 1 and, and not land?

20 MR. CLEARFIELD: That's correct, Your Honor. It's 1
21 and 1-SR.

22 JUDGE FORDHAM: We also had 1-R, too; is that
23 correct? It's 1, 1-R and 1-SR?

24 MR. BERTOCCI: Yes. But 1-R was not subject to this
25 particular stipulation because it involved OSBA and not PGW.

1 JUDGE FORDHAM: Okay.

2 MR. BERTOCCI: But OSBA also does not object to the
3 entry into the record of 1-R without cross examination.

4 JUDGE FORDHAM: Thank you. So admitted.

5 MR. CLEARFIELD: Thank you.

6 (Whereupon, the document marked as
7 PGW Hearing Exhibit No. 1 was received
8 in evidence.)

9 JUDGE JONES: Are there any other preliminary matters
10 to be brought before us today?

11 MR. CLEARFIELD: Yes, Your Honor, a couple. PGW has
12 also entered into a stipulation with IGS that has obviated
13 the need for PGW to cross Mr. Parisi, and vice versa.
14 Ms. O'Dell is handing that out. And I would ask that it be
15 marked as PGW Hearing Exhibit 2.

16 JUDGE FORDHAM: It shall be so marked.

17 (Whereupon, the document was marked
18 as PGW Hearing Exhibit No. 2 for
19 identification.)

20 MR. CLEARFIELD: As you see, it's been executed by
21 PGW and by counsel for Interstate Gas Supply. And it
22 reflects an agreement on a few principles with which we can
23 both agree, and has obviated the need for cross examination.

24 I believe that Mr. Parisi's testimony has already
25 been moved and has been entered into the record.

1 JUDGE JONES: Yes.

2 MR. CLEARFIELD: So this would be just to accompany
3 that arrangement.

4 JUDGE JONES: And that's PGW Hearing Exhibit No. 2?

5 MR. CLEARFIELD: Yes, Your Honor.

6 JUDGE JONES: It shall be so identified.

7 MR. CLEARFIELD: I'd ask that it be moved into the
8 record as a stipulation between the two parties.

9 JUDGE JONES: It shall be admitted.

10 (Whereupon, the document marked as
11 PGW Hearing Exhibit No. 2 was received
12 in evidence.)

13 MR. CLEARFIELD: Just a few other things. I don't
14 believe we can complete these, but I'm pleased to announce
15 that with respect to an issue that was raised by OTS witness
16 Mr. Graeser, both the OTS and PGW have been able to reach an
17 agreement in principle with respect to the issues, or at
18 least the principal issues raised by Mr. Graeser's
19 testimony.

20 We are in the process of finalizing that stipulation.
21 I believe there should be no problem in doing that. It's
22 just a matter of getting the final clearances.

23 But we would ask just in an abundance of caution that
24 when Mr. White is presented sometime today -- I was going to
25 say this afternoon, but it may be this morning -- that we

1 would defer any rejoinder on that particular issue, with the
2 right to recall him if something happens and we are not able
3 to finalize this stipulation.

4 And we should have that for you, if all goes well, by
5 tomorrow.

6 JUDGE JONES: Thank you. Thank you for that caution.

7 We do have a question in reference to PGW Hearing
8 Exhibit No. 1.

9 MR. CLEARFIELD: Okay.

10 JUDGE JONES: There is a reference to Ms. Coltro's
11 testimony as part of the stipulation.

12 MR. CLEARFIELD: Yes, Your Honor. I believe that
13 Action Alliance was the only entity that indicated that they
14 wish to cross her. And with the technology, Action Alliance
15 has agreed to waive cross and to enter the testimony into
16 the record.

17 JUDGE JONES: So we are wondering if we're going to
18 get her testimony into the record now.

19 MR. CLEARFIELD: We can do that. Would you like to
20 do that?

21 JUDGE JONES: Thank you.

22 MR. CLEARFIELD: Your Honor, Ms. Coltro submitted two
23 pieces of testimony that I'd ask be identified in the
24 following way. A several page piece that is marked as PGW
25 Statement 7, which consists of several questions and

1 answers, and two exhibits, CC-1 and CC-2. And I ask that
2 that be so identified.

3 JUDGE FORDHAM: It shall be so marked.

4 (Whereupon, the document was marked
5 as PGW Statement No. 7 for
6 identification.)

7 MR. CLEARFIELD: And a several page set of questions
8 and answers which we pre-identified as PGW Statement 7R.
9 And accompanying that piece is several exhibits, CC-3
10 through CC-6. And we ask that it be marked in that way.

11 JUDGE FORDHAM: It shall be so marked.

12 (Whereupon, the document was marked
13 as PGW Statement No. 7R for
14 identification.)

15 MR. CLEARFIELD: Your Honor, in accordance with the
16 stipulation that we've entered into with AA, there will be
17 no cross for Ms. Coltro. So we'd like to have this
18 testimony stipulated into the record.

19 The parties have agreed that if Ms. Coltro were here,
20 she would testify that she prepared this, or it was prepared
21 under her supervision and direction, that it's true and
22 correct to the best of her information, knowledge and
23 belief, and that if she was asked the questions set forth
24 therein today, her answers would be the same.

25 I'd ask that it be admitted into the record on that

1 ground.

2 JUDGE FORDHAM: The direct and rebuttal testimony of
3 Ms. Coltro, with the accompanying exhibits, is so admitted.

4 (Whereupon, the documents marked as
5 PGW Statement Nos. 7 and 7R were
6 received in evidence.)

7 MR. CLEARFIELD: Thank you, Your Honor.

8 JUDGE JONES: Thank you.

9 Are there any other preliminary matters?

10 MR. STUNDER: Your Honors, the school district and
11 PGW has reached an agreement on Mr. Gorman's testimony,
12 which will obviate the need for cross examination of
13 Mr. Gorman.

14 We've reached that agreement today, and we'd like to
15 present the formalized agreement to you tomorrow, the
16 formalized stipulation in writing.

17 JUDGE FORDHAM: Thank you.

18 JUDGE JONES: Thank you, Mr. Stunder.

19 MR. CLEARFIELD: And so we will not be calling
20 Mr. Gorman tomorrow morning.

21 JUDGE JONES: Thank you very much.

22 JUDGE FORDHAM: Thank you very much.

23 JUDGE JONES: Okay. We have agreed that we would
24 have testimony from Mr. Hershey, I believe, as the first
25 witness from PGW.

1 MR. CLEARFIELD: Yes, Your Honor.

2 JUDGE JONES: We are ready to hear your witness.

3 MR. CLEARFIELD: Thank you, Your Honor.

4 Whereupon,

5 STEVEN P. HERSHEY

6 having been duly sworn, testified as follows:

7 JUDGE JONES: Would you state your name and business
8 address for the record, please? And please spell your last
9 name.

10 THE WITNESS: Steven P. Hershey, H-E-R-S-H-E-Y;
11 Philadelphia Gas Works, 800 West Montgomery Avenue,
12 Philadelphia, Pennsylvania 19122.

13 JUDGE FORDHAM: And is that Steven with a V or a P-H?

14 THE WITNESS: I'm sorry. With a V.

15 JUDGE FORDHAM: Thank you.

16 You may proceed, Mr. Clearfield.

17 MR. CLEARFIELD: Thank you, Your Honor.

18 Your Honors, we've previously distributed and
19 provided to the court reporter this morning copies of a
20 statement that is marked as PGW Statement 1, the testimony
21 of Steven P. Hershey, consisting of several pages of
22 questions and answers, and one exhibit as SPH-1. And we ask
23 that it be so identified.

24 JUDGE FORDHAM: It shall be so marked.

25

1 (Whereupon, the document was marked
2 as PGW Statement No. 1 with accompanying
3 exhibit for identification.)

4 MR. CLEARFIELD: And we also distributed several
5 pages of questions and answers which have been marked as PGW
6 Statement 1R, rebuttal testimony of Steven P. Hershey, which
7 consists of several pages of questions and answers, and two
8 exhibits, Exhibit SPH-2 and SPH-3. And we ask that that be
9 identified in that manner.

10 JUDGE FORDHAM: It shall be so marked.

11 MR. CLEARFIELD: Thank you.

12 (Whereupon, the document was marked
13 as PGW Statement No. 1R with
14 accompanying exhibits for
15 identification.)

16 DIRECT EXAMINATION

17 BY MR. CLEARFIELD:

18 Q. Mr. Hershey, would you state your full name and
19 business address for the record, please?

20 A. Again?

21 Q. Yes, again.

22 (Laughter.)

23 MR. CLEARFIELD: Can we declare him a hostile
24 witness, Your Honor?

25 (Laughter.)

1 THE WITNESS: Steven P. Hershey, Philadelphia Gas
2 Works. That's Steven with a V; Hershey, H-E-R-S-H-E-Y.
3 Philadelphia Gas Works, 800 West Montgomery Avenue,
4 Philadelphia, Pennsylvania 19122

5 BY MR. CLEARFIELD:

6 Q. By whom are you employed, and in what capacity?

7 A. Philadelphia Gas Works, I'm vice president,
8 regulatory and external affairs.

9 Q. Do you have before you what has been marked for
10 identification as PGW Statement 1 and the accompanying
11 exhibits?

12 A. Yes.

13 Q. Was that prepared by you or under your
14 supervision and direction?

15 A. Yes.

16 Q. Do you have any additions or corrections that
17 you've like to make to PGW Statement 1 or the exhibits?

18 A. Yes. On page two, line eight, 1992 should be
19 1993. On page six, line nine, the word "is" should be
20 inserted.

21 Q. She also is?

22 A. Yes.

23 Q. Do you have any other corrections to your
24 Statement 1?

25 A. No.

1 Q. With those corrections, is it true and correct to
2 the best of your information, knowledge and belief?

3 A. Yes.

4 Q. If I asked you the questions that are set forth
5 therein today, would your answers be the same?

6 A. Yes.

7 Q. Let's turn to your Rebuttal Statement 1R. Was
8 that prepared by you or under your supervision and
9 direction?

10 A. Yes.

11 Q. Do you have any additions or corrections you'd
12 like to make to that statement?

13 A. More in the nature of a clarification. On page
14 seven, line 13, where I say 96 plus percent, while that was
15 true at the time of filing, it should be clear that today
16 that number would be approximately 95.5 percent on a rolling
17 twelve-month average.

18 Q. Any other clarifications, additions or
19 corrections?

20 A. No.

21 Q. With that, is your Statement 1R true and correct
22 to the best of your information, knowledge and belief?

23 A. Yes.

24 Q. If I asked you the questions set forth therein
25 today, would your answers be the same?

1 A. Yes.

2 MR. CLEARFIELD: Your Honor, I would move for the
3 admission of PGW Statement 1 and PGW Statement 1R, subject
4 to any appropriate cross examination that may occur.

5 JUDGE FORDHAM: I'll admit it after cross
6 examination.

7 MR. CLEARFIELD: Okay. Thank you, Your Honor.
8 That's fine. I believe that Mr. Hershey is available for
9 cross examination. We do not have rejoinder for
10 Mr. Hershey.

11 JUDGE JONES: I believe OTS, OCA, Action Alliance and
12 the school district. Is there any preference in the order,
13 counsel?

14 MS. McCLOSKEY: I think Mr. Kanaskie can start.

15 JUDGE JONES: Okay, very well.

16 You've been volunteered by OCA, Mr. Kanaskie.

17 (Laughter.)

18 MR. KANASKIE: Thank you, Your Honor.

19 **CROSS EXAMINATION**

20 BY MR. KANASKIE:

21 Q. Good morning, Mr. Hershey. My name's
22 Rick Kanaskie. I'm an attorney with the Office of Trial
23 Staff.

24 A. Good morning.

25 Q. A little background information. I'm correct you

1 have a legal background? You're an attorney?

2 A. I am.

3 Q. Have you participated in regulatory proceedings
4 in the past?

5 A. As an attorney I have. I began representing low-
6 income individuals and community organizations while working
7 at Community Legal Services in the 1970s, primarily in PECO
8 rate cases.

9 I participated in the investigation of the
10 construction of the Limerick facility; and then in several
11 other proceedings subsequent to that.

12 Q. Since joining PGW, have you been involved in any
13 regulatory proceedings?

14 A. Not as either a witness or an attorney.

15 Q. I'm going to make references to your rebuttal
16 testimony at this point. If you could go to page two, line
17 18.

18 A. Yes.

19 Q. You refer to a threefold increase in the
20 commodity cost of gas. Would you agree with me that PGW is
21 reimbursed essentially on a dollar-for-dollar basis for the
22 cost of gas?

23 A. That is the theory. Not always collectible; but
24 that's correct.

25 Q. Further you would agree then that there are

1 allowances built in for portions that may not be collected?

2 A. Yes.

3 Q. On page three of your testimony, on line 13, just
4 some general questions here. You comment that there's a
5 finite limit to the debt that PGW can assume.

6 Would I be correct in characterizing PGW's debt as
7 containing both long-term and short-term borrowing?

8 A. Yes.

9 Q. Would you agree that the short-term portion is
10 referred to as a line of credit, the commercial paper?

11 A. Yes. Yes, and if you go much further on this
12 line, I'll refer you to Mr. Bogdonavage. But let's see
13 where we draw the line.

14 Q. One more, and we'll see. Would you agree as an
15 operating principle that the line of credit balance will
16 fluctuate throughout the year?

17 MR. CLEARFIELD: Your Honor, I'm going to object. I
18 think that question is more properly posed to
19 Mr. Bogdonavage. He's our financial expert. He's the CFO
20 of the company.

21 And this is outside the scope. This is a general
22 summary of position for PGW that Mr. Hershey's made, and
23 Mr. Bogdonavage is sitting right behind him, and he can
24 answer that question.

25 MR. KANASKIE: I'll accept that, Your Honor.

1 JUDGE FORDHAM: Okay. Thank you.

2 BY MR. KANASKIE:

3 Q. On page four, again still with your rebuttal
4 testimony, lines 19 through 21. You talk about the grant
5 back of the \$18 million annual payment.

6 Would you agree that in this filing, PGW's filing
7 this year, that this expense is not included in the
8 company's test year data?

9 A. In the current period, including the test year, I
10 believe -- and you should ask the question of
11 Mr. Bogdonavage to confirm this. But the payment is
12 actually made as required under the ordinance. But it's
13 granted back by the city.

14 Q. Okay. I'll save the next question then for
15 Mr. Bogdonavage also. Let's go to page five, lines 14
16 through 16. You talk about the emergency rate increase that
17 PGW had to apply for.

18 Am I correct that you testified earlier that you were
19 not involved in that proceeding?

20 A. That's correct.

21 Q. Have you had an opportunity to review the
22 Commission's resolution of that proceeding?

23 A. I did not -- I do not recall specifically reading
24 the document.

25 Q. Would you agree, subject to check, if you prefer,

1 that the Commission's order in granting the \$36 million,
2 contained a discussion on pay down of the short-term debt?

3 A. I'll accept that.

4 Q. Would you also agree subject to check that the
5 conclusion of the base rate proceeding that was connected
6 with that contained specific provisions in its ordering
7 paragraph regarding the discussion of short-term debt?

8 A. The document says what it says.

9 Q. But you're not aware of what the document says?
10 You have not reviewed it; correct?

11 A. I'm generally aware of the provisions. I don't
12 recall the specific language of it.

13 Q. Are you aware the provision had indicated that
14 PGW would project the annual amount of short-term debt that
15 it would pay?

16 MR. CLEARFIELD: Your Honor, I'm trying to give some
17 leeway here, but I'd have to object. I think this is
18 outside the scope of Mr. Hershey's testimony.

19 And Mr. Bogdonavage, to the extent that there's
20 factual issues other than the order, can try to answer those
21 questions. He's aware of what the company did or didn't do
22 with respect to the short-term debt after the 2002 order.

23 THE WITNESS: And there are other witnesses in this
24 proceeding from PGW who address those same issues.

25 MR. KANASKIE: Your Honor, I'm exploring the depth of

1 the witness's knowledge here. He's commenting on a \$36
2 million emergency rate increase; I suspect that it's a
3 scenario that not anyone wishes to have to go through again.
4 He's raised the issue. I'm asking what he knows about it.

5 If he doesn't know, I'll accept that answer.

6 JUDGE FORDHAM: Okay, I'll allow the question.

7 THE WITNESS: My testimony does not go to the
8 specific provisions of the order, but rather to the
9 sequences of events in which an emergency order was issued;
10 that there were two proceedings in quick succession because
11 the order in the first proceeding provided inadequate
12 relief, an emergency arose, and that had to be dealt with.

13 That's what I'm referring to when I say that no one
14 wants to go through that scenario again.

15 JUDGE FORDHAM: So you're referring to the
16 emergency --

17 THE WITNESS: That's correct.

18 JUDGE FORDHAM: -- proceeding?

19 THE WITNESS: Emergency that arose after the
20 inadequacy of the initial proceeding.

21 MR. KANASKIE: I understand, Your Honor. But we have
22 accepted the questions; it's on the record, and we'll
23 continue; correct? With that explanation.

24 (Pause.)
25

1 BY MR. KANASKIE:

2 Q. All right. Let's change topics a little bit.
3 Let's go to page eight of your testimony, please, your
4 rebuttal testimony, lines one through ten.

5 Is it a fair summary -- I'm going to rephrase your
6 position. I'm just asking you if I'm representing it
7 fairly.

8 The discussion deals with known and measurable
9 events.

10 (Pause.)

11 A. Is that a question?

12 Q. Is that a fair assessment? Yes. Is my comment
13 regarding your lines one to ten a fair assessment of what it
14 contains in there, a discussion of known and measurable
15 events?

16 A. That section addresses the test year and events
17 that are commonly characterized as known and measurable
18 events that occurred beyond the test year.

19 Q. So just to clarify then, that is yes, we are
20 discussing known and measurable events in this section of
21 your testimony?

22 A. The testimony discusses the relationship between
23 the test year and known and measurable event beyond the test
24 year.

25 Q. So I'll accept that as yes.

1 JUDGE FORDHAM: Mr. Hershey, would you say yes or no?

2 THE WITNESS: It's not a simple yes or a simple no.

3 JUDGE JONES: We understand that, Mr. Hershey. But
4 we have several witnesses, and this will proceed much
5 smoother, sir, if you would say yes or no, and then you can
6 give your explanations.

7 THE WITNESS: Yes, known and measurable events are
8 discussed in that section of my testimony.

9 JUDGE JONES: Thank you.

10 BY MR. KANASKIE:

11 Q. Is it your testimony that known and measurable
12 events can reach out, for example, four years?

13 A. I think the --

14 (Pause.)

15 A. I'm hesitant to put a specific time period on how
16 far out one would go. I would say that, as everyone has
17 acknowledged in this proceeding, they may go beyond the test
18 year, and that there are events that have a reasonable --
19 can reasonably be characterized as known and measurable in
20 the PGW forecast that have not been identified by the
21 parties as known and measurable, have not been included in
22 their testimony and positions, but should be.

23 Q. Same page. Let's go to line 17. Let's talk a
24 little bit about lines 17 through 23.

25 Would you agree with me that the PUC regulates

1 utilities based on a test year?

2 A. Yes.

3 Q. Am I also correct that --

4 A. Excuse me. That has been the practice.

5 Q. Okay. Am I correct then your testimony is that
6 you believe this is inappropriate, this practice?

7 A. No, I'm not saying that. What I'm saying is that
8 the test year is a useful tool in most cases, that it should
9 not be the exclusive tool, and that in certain situations it
10 is inadequate in resolving a problem that must be resolved
11 to the benefit of the public, the utility and its customers.

12 Q. Would I be correct to say that the principle you
13 just explained would apply to every utility, not
14 specifically PGW?

15 A. I've not examined how it might apply to other
16 utilities. I know that for PGW, functioning as it does, it
17 should apply.

18 Q. Let's go to page ten of your rebuttal, please.
19 On lines one to three you testified that you believe that
20 the Commission should look at the forecasted debt service
21 covenants and known and measurable events and provide the
22 rates now to solve the problem.

23 Would you agree as a general premise, to the extent
24 you are familiar with the concept -- and we may defer to
25 Mr. Bogdonavage if necessary -- that the level of debt is

1 affected by the operations of the company?

2 A. That is in the nature of a tautology. I mean
3 the --

4 Q. That's all I've asked.

5 A. But it's important to understand that even with a
6 test year as commonly used by the Commission, using a future
7 test year, you're also projecting into the future, as we do
8 here, that there's nothing about the future that is
9 absolutely certain; and that there are always some degree of
10 changes that occur in the future beyond projections.

11 It is common for the Commission to accept some
12 deviation from the projections in a future test year.

13 What I'm saying here is that there is adequate
14 certainty in the projections made by PGW and it's financial
15 situation.

16 Some of -- a very large portion of PGW's expenses are
17 absolutely fixed. We know what the debt service payments
18 are going to be, and we know a long list of expenses. And
19 Mr. Bogdonavage can go into greater detail.

20 And that that provides sufficient detail for the
21 Commission to reach out to the period that I'm referring to
22 to solve a problem which otherwise, if limited to the test
23 year practice, would never be resolved effectively.

24 Q. Let's turn to the bottom of page ten, the top of
25 page eleven. You would agree just as a frame of reference

1 that you're addressing off-system sales and capacity release
2 in this section; is that correct?

3 A. Yes.

4 Q. I want to explore your background a little bit on
5 Commission proceedings.

6 Would you agree that the Commission reviews purchased
7 gas costs of NGDCs annually?

8 A. Yes.

9 Q. You also agree that these proceedings are often
10 referred to as, or also referred to as 1307(f) filings?

11 A. Yes.

12 Q. Are you involved in PGW's 1307(f) filing?

13 A. Not directly.

14 JUDGE FORDHAM: Mr. Kanaskie, do you mean the current
15 1307(f) filing?

16 MR. KANASKIE: Yes. I'm sorry, Your Honor.

17 BY MR. KANASKIE:

18 Q. The current 1307(f) proceeding. Same answer?

19 A. Same answer.

20 Q. And I'd be correct then that you were not
21 directly involved in any of the prior 1307(f) proceedings;
22 is that correct?

23 A. Yes, but when I say not directly, I mean I do not
24 prepare the testimony, I do not participate in the
25 litigation of the proceeding. I'm aware of the information

1 that goes into the proceeding, I'm aware of the positions
2 and how they are formed as filed, and I'm aware of and
3 participate in the ultimate decision-making as to where we
4 want to come out in those proceedings.

5 Q. Okay. So with that background and with that
6 understanding, would you agree that off-system sales and
7 capacity release credits are reviewed annually in these
8 1307(f) proceedings?

9 A. Yes.

10 Q. Would you agree that under the way it's currently
11 operating that the proceeds from these programs reduce the
12 cost of gas charged to ratepayers?

13 A. Yes. Let's be clear about what my testimony is
14 here. I acknowledge that very fact. What I'm suggesting in
15 the testimony is that we propose effectively to give the
16 customer back not one dollar for every dollar of off-system
17 sales or capacity release, but effectively \$1.50.

18 And the reason for that is that because these funds
19 would be used not as a single dollar-for-dollar match, but
20 as an offset to the capital program which to date, since
21 1993, has been funded exclusively by borrowing long-term
22 debt, which has a 1.5 times coverage requirement, that in
23 effect it takes a dollar and a half for every dollar of that
24 capital budget.

25 To the extent that we can take the funds from

1 off-system sales and capacity release and use those funds to
2 replace borrowing subject to the 1.5 times coverage
3 requirement, we've given the customer not a dollar, but
4 \$1.50.

5 It's not as though these funds will go to
6 shareholders. They will go directly to customers, but in a
7 different form.

8 Q. Still in context of a 1307(f) problem, are you
9 familiar with the requirement of a least-cost procurement
10 policy?

11 A. Yes.

12 Q. Is it your testimony that -- let me give you a
13 frame of reference here. Page eleven, line one to ten.

14 Is it your testimony that PGW does not need to take
15 any steps to mitigate the cost of gas paid by customers?

16 A. I'm not sure what you mean by mitigate.

17 Q. For example, if off-system sales and capacity
18 release credits are credited back to ratepayers, I would
19 consider that mitigating the cost of gas.

20 With that reference, is it your testimony that PGW,
21 under least-cost procurement policy, is not required to do
22 that?

23 A. PGW, like other utilities subject to the
24 Commission's regulation, is, of course, subjected to the
25 least-cost procurement policy, and mitigating the burdens on

1 the customer to the extent possible.

2 What I'm suggesting here is that the major thrust of
3 the 1307(f) proceeding is to make sure that PGW and the
4 other utilities have been prudent and made best efforts to
5 secure the lowest cost gas for its customers.

6 To the extent that there are other offsets to the
7 lowest cost gas procured, that is all to the good. What I'm
8 suggesting here is that there is a larger mitigation
9 available which -- and that the construct that you're
10 suggesting is an artificial one; that the mitigation that
11 you associate exclusively with 1307(f), if applied as I'm
12 proposing here, would have a great benefit, would mitigate
13 the customer's -- the bottom line for the customer in a
14 holistic view, in a much more effective way that would
15 provide greater benefit for the customer.

16 Q. You would agree, though, and you testified
17 earlier, that off-system sales and capacity releases are
18 reviewed annually in these 1307(f) proceedings?

19 A. Yes. And that should give the Commission and all
20 the parties comfort that PGW is using best efforts, is
21 taking a reasonable least-cost gas procurement policy.

22 Q. You would agree, and we've been talking about
23 1307(f) proceeding all along here, that there are statutory
24 and regulatory requirements associated with 1307(f)
25 proceedings?

1 A. Yes.

2 Q. And again, you would agree that least-cost
3 procurement is one of those?

4 A. I think we've established that.

5 Q. Thank you. Would you agree with the statement
6 that on a net basis, if you do not credit back off-system
7 sales and capacity releases to the 1307(f) customers, their
8 net payment for the purchased gas would be higher?

9 A. If you look at the narrow scope of a 1307(f)
10 proceeding, of course that's true. What I'm suggesting is
11 that the more beneficial view for the customer is to take
12 the holistic view.

13 In addition, in our filing we have suggested moving
14 \$10 million to this capital fund. If there are additional
15 off-system sales capacity release, they would continue to
16 flow through the 1307(f) proceeding.

17 And we have also testified that we are preparing a
18 phase two investment for the LNG facility, which should
19 expand our ability to make off-system sales capacity
20 release.

21 And to the extent we can exceed \$10 million in any
22 year, the excess under our proposal would continue to flow
23 through 1307(f).

24 Q. Do you agree -- and you've reviewed Mr. Yocca's
25 testimony on this topic; correct?

1 A. Yes.

2 Q. In two separate places Mr. Yocca asserts that
3 ratepayers -- and again, we're talking about off-system
4 sales and capacity releases -- the ratepayers have paid for
5 these assets.

6 Mr. Yocca references this in his direct on page eight
7 and his surrebuttal on page six. Do you disagree with
8 Mr. Yocca's comment?

9 MR. CLEARFIELD: I'm sorry. Are we talking about the
10 gas assets or all assets?

11 MR. KANASKIE: Mr. Yocca's testimony, page eight,
12 lines six to seven of his direct.

13 MR. KANASKIE: I'll get it.

14 (Document handed to witness.)

15 THE WITNESS: You're looking at page six?

16 BY MR. KANASKIE:

17 Q. We can go with six of the surrebuttal or eight of
18 his direct. Whatever you've got.

19 A. I have the direct.

20 Q. Okay.

21 A. I also have the rebuttal, surrebuttal. But tell
22 me where you want to go, and I'll --

23 Q. Let's go direct, page eight?

24 A. Page eight?

25 Q. Correct. Lines six and seven.

1 MR. CLEARFIELD: May I look over the witness's
2 shoulder there, Your Honor?

3 JUDGE JONES: Yes.

4 JUDGE FORDHAM: Yes.

5 BY MR. KANASKIE:

6 Q. The statement is very simply from Mr. Yocca,
7 money to fund off-system sales and capacity release
8 transactions comes from the PGW customers.

9 Do you have that line?

10 A. I do.

11 Q. Do you disagree with Mr. Yocca's comment?

12 A. For PGW there is no one else. So I agree with
13 the statement.

14 Q. For any other NGDC would you disagree with that
15 statement?

16 A. I won't speak to any other NGDC.

17 Q. As a general principle in 1307(f) proceedings, it
18 is your testimony that outside of PGW you don't know where
19 the money to fund off-system sales and capacity releases
20 comes from; is that correct?

21 A. I don't have experience in dealing with that
22 issue for other utilities, and I won't speak to it.

23 Q. Okay. Thank you.

24 Have you reviewed the Commission's decisions from any
25 other 1307(f) proceedings, specifically last year's

1 proceedings?

2 A. For which utilities.

3 Q. Let's say Equitable.

4 A. No.

5 JUDGE JONES: I'm sorry, Mr. Kanaskie. Did you say
6 Equitable?

7 MR. KANASKIE: Yes, ma'am.

8 JUDGE JONES: Thank you.

9 MR. KANASKIE: Your Honor, if I may have a moment?

10 JUDGE JONES: You may.

11 (Pause.)

12 MR. KANASKIE: I have no further questions, Your
13 Honor.

14 JUDGE FORDHAM: Ms. McCloskey?

15 MS. McCLOSKEY: Yes, Your Honor. Thank you.

16 **CROSS EXAMINATION**

17 BY MS. McCLOSKEY:

18 Q. Good morning, Mr. Hershey. My name is
19 Tanya McCloskey. I'm with the Office of Consumer Advocate.
20 I'd just like to follow up briefly, to begin with where
21 Mr. Kanaskie was discussing off-system sales credits with
22 you.

23 If PGW retained some of the off-system sales credits,
24 would PGW be able to use that money for any company purpose?
25 In other words, it would be fungible within the company?

1 A. I think our testimony's pretty clear on that; and
2 that we would reserve it for capital budgets.

3 Q. But that would then free up money elsewhere
4 within your budgets which you could use for other company
5 purposes; is that correct?

6 A. Well, the capital budget is a budget that is
7 reviewed by the Gas Commission and approved by city council.
8 It has designated for that. And all of those funds have
9 been borrowed.

10 The purpose of my testimony is to reduce the reliance
11 on debt to fund those capital projects.

12 Q. If you could turn to your rebuttal testimony --

13 A. If I may, just to add to that, I mean it's
14 important to understand that distinction. It's not as
15 though the operating budget is affected in that way.

16 The operating budget is funded through revenue. It's
17 by definition -- Mr. Bogdonavage can correct me. The
18 operating budget is not funded through long-term debt.

19 Q. If you could turn to your rebuttal testimony,
20 page three, lines three to four. And there you state that
21 PGW's problems would long-term as long as commodity costs
22 stay at record levels.

23 Could you define in dollars per Mcf or dollars per
24 decatherm what you consider to be record levels?

25 A. The dollars that we've experienced in the last

1 roughly three years.

2 Q. Do you have an estimate of what that is? Is it
3 \$9.00, \$10? What range?

4 A. Well, it's gone from -- it's gone as high as, at
5 times, \$16. But it's, as you know, a volatile figure.

6 Q. And is it the volatility of the gas costs that
7 you're incurring, or the dollar magnitude that you're
8 referencing here?

9 A. I'm talking about the dollar magnitude.
10 Volatility doesn't help. But it's the dollar magnitude that
11 is the issue.

12 Q. In your company's projections of its five-year
13 forecast, do you assume that gas costs will stay at these
14 record levels that you're referencing?

15 A. That's a question you should ask Mr. Bogdonavage.

16 Q. So you're not aware of what gas costs are
17 included within the five-year forecast of the company?

18 A. Not at the level that I want to answer questions
19 in this proceeding. I'd much rather rely on somebody who
20 knows it in detail.

21 Q. If gas costs decline a bit from these record
22 levels, would that lessen PGW's financial and liquidity
23 problems?

24 MR. CLEARFIELD: Your Honor, I would object. These
25 are questions that should be directed to Mr. Bogdonavage.

1 Mr. Hershey didn't sponsor the five-year forecasts,
2 Mr. Bogdonavage did. And the effect of gas prices would be
3 a question that Mr. Bogdonavage would be happy to answer.

4 MS. McCLOSKEY: Your Honor, it's Mr. Hershey's
5 testimony that commodity costs at record levels are creating
6 a long-term problem for the company. And I'm trying to
7 probe into that statement as to the long-term problem and
8 the effect of commodity costs.

9 MR. CLEARFIELD: Your Honor, Ms. McCloskey has
10 switched to discussions about the five-year forecast.
11 That's a different issue. And that's something that
12 Mr. Bogdonavage testifies to.

13 She asked specifically how a change in gas prices
14 would affect the five-year forecast. Unless I misunderstood
15 the question.

16 MS. McCLOSKEY: No, my question was, if gas costs
17 declined from the record levels, would that lessen PGW's
18 financial and liquidity problems in the --

19 MR. CLEARFIELD: Based on the forecast, is my
20 understanding.

21 MS. McCLOSKEY: My question is, if gas costs declined
22 a bit from the record levels, would that lessen PGW's
23 financial and liquidity problems in the long term, as you're
24 discussing at page three, lines three and four of your
25 testimony.

1 MR. CLEARFIELD: Your Honor, again, we have
2 Mr. Bogdonavage, we have Ms. Bisgaier, who's the financial
3 advisor for the company, testifying tomorrow. I think
4 that's a question more properly posed to either of them.

5 JUDGE FORDHAM: I think that Ms. McCloskey can ask
6 Mr. Hershey to clarify his statement on page three. If he
7 does not know specifics, we'll agree to that. But the
8 clarification is allowed.

9 So please answer the question.

10 THE WITNESS: I can answer the question without
11 reference to the five-year forecast specifically as a
12 general matter.

13 And you haven't defined what you mean by decline a
14 bit. But for the moment I'll ignore that.

15 Every decrease in price helps. It helps PGW with
16 cash flow issues, and it helps the customer. There are
17 numerous ways in which it helps.

18 How much it helps, how much a bit is, those are all
19 relevant issues to be explored. But --

20 BY MS. McCLOSKEY:

21 Q. But you would agree, as gas prices decline from
22 the record levels that you're discussing, PGW's financial
23 and liquidity problems would be lessened?

24 A. To some extent. Whether it's enough is -- I'm
25 not addressing that, because I don't know what you're

1 referring to in part.

2 Q. Now, if you could turn to page four of your
3 rebuttal, lines 19 to 21. There you mention that the city
4 is not able to step forward with a loan or a grant back of
5 the \$18 million.

6 And referring to the grant back of the \$18 million,
7 in that phrase do you mean any further grant back than what
8 has been reflected in your schedules in this case?

9 A. Correct.

10 Q. Now, as a practical matter, Mr. Hershey --

11 A. Let me just add one point, if I may there.

12 Beginning in 1986, when I first served as the public
13 advocate, through 1998, I've been familiar with PGW and --

14 MS. McCLOSKEY: Your Honor, I think that goes well
15 beyond my question.

16 THE WITNESS: Actually, I was going to address the
17 \$18 million specifically in relation to the specific
18 testimony and your question.

19 MS. McCLOSKEY: Your Honor, I would object to any
20 further elaboration. My question was whether he meant any
21 further grant back than what has been reflected in the
22 schedules in this case. We may get to the point in my
23 follow-up questions.

24 JUDGE FORDHAM: Mr. Clearfield, would you --

25 MR. CLEARFIELD: Well, I think he should be allowed

1 to explain. He's made it clear that he believes that this
2 is relevant to explaining his last answer.

3 JUDGE FORDHAM: Can you do that on redirect?

4 MR. CLEARFIELD: Certainly, Your Honor.

5 JUDGE FORDHAM: Thank you.

6 MS. McCLOSKEY: Thank you, Your Honor.

7 BY MS. McCLOSKEY:

8 Q. Mr. Hershey, as a practical matter, would you
9 agree with me that the city is the owner of PGW, and in
10 essence, it's only stockholder?

11 A. As the public advocate we argued that the
12 customers were the owner of PGW.

13 Q. And do you believe that today as vice president
14 of PGW?

15 A. We have stated that most recently, fairly
16 recently, the customers have paid, with the exception of the
17 period under the Street Administration when the Street
18 Administration did more than any other administration to
19 provide taxpayer dollars for PGW by granting back the \$18
20 million, and by providing the \$45 million loan interest
21 free.

22 The customers have paid every penny of PGW operations
23 in capital investment since 1846. And with that as a basic
24 understanding, that is why we argued, and still believe,
25 that ultimately the customers are the owners.

1 It is true that on paper PGW is, as federal court has
2 stated, and other courts have stated, that PGW is a
3 collection of assets owned by the city.

4 Q. Isn't what you describe really a cooperative
5 association?

6 A. I'm describe --

7 Q. Such as a rural electric cooperative where the
8 members own the cooperative.

9 A. I'm describing -- I'm not drawing any conclusions
10 as to formal structure. I'm telling you how the money has
11 flowed and what our position has been from the beginning.

12 Q. But you agree that under federal decisions, and
13 PGW itself has stated, that PGW is a collection of assets
14 that's owned by the city?

15 A. On paper, that's correct.

16 Q. And the \$18 million payment goes to the city, not
17 to the customers or to the members?

18 A. Though it has been granted back by this
19 administration, that's right.

20 Q. And in fact, it was granted back in 2004; is that
21 correct?

22 A. I believe 2004 was the first year. You can
23 double-check that though with Mr. Bogdonavage.

24 Q. Before 2004, did the city grant back any of the
25 \$18 million payment to PGW?

1 MR. CLEARFIELD: Wait a minute. I object. It's not
2 just 2004. So I object because --

3 MS. McCLOSKEY: My question was before 2004.

4 JUDGE FORDHAM: She said before 2004.

5 MR. CLEARFIELD: I'm sorry.

6 THE WITNESS: I don't believe so, no.

7 BY MS. McCLOSKEY:

8 Q. Mr. Hershey, are you aware that the city's equity
9 investment in PGW has been about the same in dollar terms
10 since 1993 to the present?

11 A. Yes.

12 (Pause.)

13 A. Though again, there it's a question of how you
14 define equity in a situation like this.

15 Q. But you'd agree that the city's equity in PGW has
16 not grown? It's remained the same from 1993 until about the
17 present, in dollar terms?

18 A. I'll accept that.

19 Q. Now, if PGW's management is chosen by the
20 Philadelphia Facilities Management Corporation, or PFMC; is
21 that correct?

22 A. The most senior officers are chosen by PFMC.

23 Q. And PFMC is also responsible to the city; is that
24 correct?

25 A. Yes.

1 Q. Now, Mr. Hershey, I believe you and Mr. Kanaskie
2 also had a discussion regarding the settlement in PGW's 2002
3 base rate proceeding.

4 And I believe you indicated that you were aware that
5 there was a provision in that settlement in the Commission
6 order regarding short-term debt pay down.

7 A. Yes.

8 Q. Do you know at this time how much of PGW's short-
9 term debt has been paid down since the 2002 base rate case?

10 A. I could not give you a specific dollar amount. I
11 suspect -- I'll leave that to Mr. Bogdonavage.

12 Q. To Mr. Bogdonavage, okay. Thank you.

13 MS. McCLOSKEY: Thank you, Your Honor. I have
14 nothing further.

15 JUDGE FORDHAM: Thank you, Ms. McCloskey.

16 Action Alliance; Mr. Bertocci.

17 **CROSS EXAMINATION**

18 BY MR. BERTOCCI:

19 Q. Good morning, Mr. Hershey. My name's
20 Philip Bertocci. I represent Action Alliance.

21 A. Good morning.

22 Q. In your PGW Statement No. 1, on page two, lines
23 13 to 22. In those lines you make the general statement
24 that there's a general public recognition that PGW needs
25 fixing; is that right?

1 A. Yes.

2 Q. And you move from that to the argument that, or
3 the statement that the only viable approach is to act now
4 and to provide the \$100 million rate increase that PGW is
5 requesting; is that right?

6 A. Yes.

7 Q. Now, you recognize that there is no consensus
8 that a \$100 million rate increase is the way to fix the
9 problem; is that right?

10 A. Within that group.

11 Q. Well, you say there's a public recognition that
12 PGW needs fixing. And you make a distinction between a
13 recognition that PGW has a debt level that's too high and
14 the recognition that the proposal for resolving or dealing
15 with that issue is that there is no consensus about how to
16 deal with that particular issue; is that right?

17 A. There's general recognition that PGW needs
18 fixing; there's general recognition that PGW's debt level is
19 much too high, that its reliance on long-term debt is --
20 exclusive reliance on long-term is inappropriate but
21 inescapable under the current situation.

22 It is PGW's proposal that that problem be addressed
23 within a \$100 million base rate increase and the \$10 million
24 redirection of off-system sales capacity release.

25 Q. Now, you know that on March 29 Philadelphia City

1 Council unanimously passed a resolution proposing an
2 amendment to the Philadelphia city charter urging the
3 Pennsylvania Public Utility Commission to deny the
4 Philadelphia Gas Works 2006 request for a base rate
5 increase?

6 MR. CLEARFIELD: Objection, Your Honor. Irrelevant.

7 MR. BERTOCCI: I don't think it's irrelevant. He's
8 made statements saying that there's public recognition of a
9 need for fixing PGW.

10 And in fact in his testimony and in Mr. Bogdonavage's
11 testimony there is reference to city council and to the city
12 as having this view.

13 And I think it's important to make sure that we
14 understand what the level is of, quote, recognition that
15 he's talking about so that we don't think that -- or so the
16 false impression is not given that there is a consensus that
17 in city council itself that this \$100 million rate increase
18 should be granted.

19 MR. CLEARFIELD: Your Honor, we could ask for a
20 hundred different references to the various opinions.
21 Mr. Hershey has indicated his view that there's public
22 recognition of that. He stated where that comes from.

23 The fact that the city council issued a resolution, I
24 believe, is irrelevant.

25 JUDGE FORDHAM: Because of the statement made by

1 Mr. Hershey, I do believe that Mr. Bertocci can investigate
2 who he's talking about in this general recognition.

3 In addition, city council does have some relationship
4 to PGW in the fact that the city is an owner, in quotes. I
5 will allow the question.

6 THE WITNESS: I'm happy to answer the question, Your
7 Honor.

8 I'm aware of that resolution. And frankly, in an
9 election season I would expect no different. But let's be
10 clear.

11 When I say that there's a general recognition of the
12 need to fix PGW and the nature of its problem, that's based
13 on personal discussions with city council members, with the
14 mayor and his staff, with the editorial boards and reporters
15 of the major newspapers, with the governor's office, with
16 members of the Philadelphia delegation and leaders, in the
17 general assembly, both the senate and the house.

18 The fact that there was a resolution just prior to
19 the primary doesn't mean that there's not a problem. It
20 doesn't mean that city council doesn't recognize the
21 existence of that problem. All they're saying is that, gee,
22 we don't want it to happen.

23 And they also made that resolution knowing full well,
24 and I participated in these discussions, that it was, given
25 the timing, impossible to make the change that they were

1 voting on because they couldn't get it on the ballot.

2 MR. BERTOCCI: I have no more questions. Thank you.

3 JUDGE FORDHAM: Thank you, Mr. Bertocci.

4 Mr. Shore?

5 MR. SHORE: Thank you, Your Honor. There's no room
6 at counsel table, but I'm sure I can --

7 JUDGE JONES: They're making room, sir.

8 MR. SHORE: Thank you.

9 **CROSS EXAMINATION**

10 BY MR. SHORE:

11 Q. Good morning, Mr. Hershey. I'm Miles Shore. I'm
12 the assistant general counsel for the School District of
13 Philadelphia.

14 A. Good morning.

15 Q. When were you first admitted to practice law in
16 Pennsylvania?

17 A. 1976.

18 Q. For what time were in the private practice of law
19 as opposed to public service in your present position?

20 A. From 1998 until 2004. I'm sorry, December 2003.

21 Q. During your time in private practice, did you
22 provide legal advice to the School District of Philadelphia
23 in your capacity as a legal consultant, or an energy
24 consultant?

25 A. I represented Judith Mondre on matters including

1 those related to the school district.

2 Q. So your answer is yes?

3 A. With the caveat that I described.

4 Q. For how long a period of time did you represent
5 Mondre Energy on behalf of the school district?

6 A. Probably less than a year.

7 Q. During that time did your representation relate
8 to contracts between the school district and PGW for natural
9 gas service to school district properties?

10 A. Yes.

11 Q. And did you engage in negotiations on behalf of
12 the school district with PGW representatives in connection
13 with any contract disputes?

14 A. I believe that I did.

15 Q. When did you first join PGW?

16 A. January 2004.

17 Q. Did you ever work in PGW's legal department, or
18 in a capacity as an attorney?

19 A. No.

20 Q. Did you ever report directly to the general
21 counsel of PGW?

22 A. No.

23 Q. Are you familiar with Mr. White's rebuttal
24 testimony on behalf of PGW in which he alleges that the
25 school district was not using natural gas or not fulfilling

1 the level of usage required by contracts?

2 A. I'm familiar with that testimony, and I'm
3 familiar with the existence of that issue during the time
4 that I represented Mondre Energy.

5 Q. Did Mr. White consult with you this year, either
6 to prepare his rebuttal testimony or for any other reason in
7 this proceeding?

8 MR. STUNDER: Your Honor --

9 MR. SHORE: I'll rephrase that, Your Honors.

10 BY MR. SHORE:

11 Q. Did Mr. White consult with you in preparation of
12 his rebuttal testimony specifically about whether the school
13 district had breached any contractual obligations with PGW
14 in the past?

15 A. No.

16 Q. Did you assist Mr. White at all in preparation of
17 his rebuttal testimony?

18 A. Generally speaking, or only with regard to the
19 school district?

20 Q. Generally speaking.

21 A. I believe that I reviewed drafts of his
22 testimony.

23 Q. And did you consult with Mr. White or review
24 drafts of his testimony specifically regarding the School
25 District of Philadelphia?

1 A. I read the drafts of testimony on that issue. I
2 would not have -- I do not recall commenting on any of that
3 testimony on that subject, and would have left that to
4 others with more specific information about those issues.
5 And more current information.

6 Q. Is it fair to say then that you did not advise
7 Mr. White that you had previously when you were in private
8 practice had represented the School District of Philadelphia
9 adverse to PGW on this issue?

10 MR. STUNDER: Objection, Your Honor. It's not
11 relevant. It's not germane to this proceeding.

12 JUDGE FORDHAM: Why don't you think it's germane to
13 this proceeding?

14 MR. STUNDER: I'm sorry?

15 JUDGE FORDHAM: Why do you think it's not germane to
16 this proceeding?

17 MR. STUNDER: Well, they're getting into an area
18 where Mr. Hershey clearly established that he didn't advise
19 Mr. White, and he keeps on asking questions.

20 So basically, I guess, if I -- I'll revise my
21 objection to asked and answered. He's really getting into
22 more detail and asking, in a sense, the same question over
23 and over again in a different way.

24 MR. SHORE: I thought I'd only asked it one time,
25 Your Honor. But it goes to the comments that he had with

1 Mr. White, not confidential attorney/client communications.

2 And he said he did review drafts of Mr. White's
3 testimony on this subject. So it goes to his credibility
4 also.

5 JUDGE FORDHAM: I think the last question was whether
6 he told Mr. White that he had ever been counsel. I don't
7 remember that being asked.

8 You may answer the question.

9 THE WITNESS: I think it was general knowledge at PGW
10 that I had represented Mondre Energy. But we did not
11 specifically have the conversation during the preparation of
12 Mr. White's testimony.

13 But I also did not advise Mr. White on the issues
14 related to the school district.

15 JUDGE FORDHAM: Was Mr. White at PGW during the time
16 that you represented Ms. Mondre?

17 THE WITNESS: Yes.

18 JUDGE JONES: You may proceed, Mr. Shore.

19 MR. SHORE: Thank you.

20 BY MR. SHORE:

21 Q. Mr. Hershey, during the time that you were in
22 private practice and you represented Mondre Energy on behalf
23 of the school district, was there any resolution to any
24 contractual issues between PGW and the school district?

25 MR. STUNDER: Your Honor, I object to the extent it

1 delves into attorney/client privilege.

2 JUDGE FORDHAM: If there was a resolution, I don't
3 believe that -- I think the resolution would have been
4 something that would have been public. So I'll allow the
5 question.

6 THE WITNESS: I do not specifically recall at that
7 level of detail the events during my, at the end of my
8 representation of Mondre Energy.

9 I would say that it appears as though there has been
10 no final resolution, because Ms. Mondre is back here raising
11 claims, and PGW has responded. So apparently there is no
12 resolution.

13 JUDGE JONES: That is an assumption on your part,
14 Mr. Hershey?

15 THE WITNESS: That's the conclusion I draw as the
16 state today. I do know -- I do not recall the specific
17 facts of the period at the end of my representation of
18 Mondre Energy.

19 BY MR. SHORE:

20 Q. Have you spoken to Ms. Mondre about your
21 testimony in this proceeding?

22 A. No.

23 Q. When's the last time you spoke to Ms. Mondre
24 about anything? Or this subject.

25 JUDGE JONES: I'm sorry, Mr. Shore. Anything --

1 THE WITNESS: Four or five years ago.

2 JUDGE JONES: -- on this subject?

3 MR. SHORE: I said anything; then I said or any
4 subject.

5 THE WITNESS: I would have to guess probably four or
6 five years ago.

7 BY MR. SHORE:

8 Q. Are you personally friendly with Ms. Mondre?

9 MR. STUNDER: Your Honor, objection.

10 MR. SHORE: I'll withdraw the question.

11 JUDGE JONES: Thank you.

12 BY MR. SHORE:

13 Q. Mr. Hershey, do you recall that in your opinion
14 the claims that PGW was making against the school district
15 at the time were grossly exaggerated?

16 MR. STUNDER: Your Honor, objection.

17 JUDGE FORDHAM: Objection sustained.

18 MR. SHORE: Thank you. No further questions, Your
19 Honor.

20 JUDGE JONES: Thank you, Mr. Shore.

21 Mr. Clearfield?

22 MR. CLEARFIELD: Could we have a moment?

23 JUDGE JONES: Yes.

24 (Off-the-record pause.)

25 JUDGE JONES: You may proceed, Mr. Clearfield.

1 MR. CLEARFIELD: Thank you, Your Honor.

2 **REDIRECT EXAMINATION**

3 BY MR. CLEARFIELD:

4 Q. Mr. Hershey, you were asked a question by
5 Mr. Kanaskie with respect to PGW's recovery of natural gas
6 costs in the gas cost rate. Do you remember that question?

7 A. Yes.

8 Q. And you agreed that the costs of gas are
9 recovered in the gas cost rate. Does the increases in gas
10 costs have effect on any other of PGW's expenses or
11 requirements that are not recovered in the gas cost rate?

12 A. There are several effects. First, obviously, as
13 the gas costs increase, it has a dramatic effect on PGW's
14 cash flow and its ability therefore to meet not only the
15 purchased gas cost, but those of all other operating costs.

16 In addition, it has dramatic effect on bad debt. And
17 neither of those impacts are reflected in the 1307(f)
18 proceeding.

19 MR. CLEARFIELD: That's all we have, Your Honor.

20 JUDGE JONES: Mr. Kanaskie, recross?

21 MR. KANASKIE: Yes, Your Honor.

22 JUDGE JONES: You may proceed.

23 **REXCROSS EXAMINATION**

24 BY MR. KANASKIE:

25 Q. Mr. Hershey, would you agree in a 1307(f) context

1 that prices are adjusted quarterly, or can be adjusted
2 quarterly?

3 A. Yes.

4 MR. KANASKIE: That's all, Your Honor.

5 JUDGE FORDHAM: Thank you.

6 Anyone else, recross?

7 (No response.)

8 JUDGE FORDHAM: Thank you, Mr. Hershey. You are
9 excused.

10 (Witness excused.)

11 JUDGE FORDHAM: There has been a motion to accept
12 the --

13 (Pause.)

14 JUDGE FORDHAM: Are there any objections to the
15 motion?

16 (No audible response.)

17 JUDGE JONES: The statements and exhibits are
18 admitted without objection.

19 MR. CLEARFIELD: Thank you, Your Honor.

20 (Whereupon, the documents marked as
21 PGW Statement Nos. 1 and 1R were
22 received in evidence.)

23 JUDGE JONES: We are off the record.

24 (Discussion off the record.)

25 JUDGE FORDHAM: We're back on the record.

1 Mr. Clearfield?

2 MR. CLEARFIELD: I think we're ready for
3 Mr. Bogdonavage.

4 **Whereupon,**

5 **JOSEPH R. BOGDONAVAGE**

6 **having been duly sworn, testified as follows:**

7 JUDGE FORDHAM: Would you state your name and
8 business address for the record? And please spell your last
9 name.

10 THE WITNESS: My name is Joseph R. Bogdonavage.
11 That's B-O-G-D-O-N-A-V-A-G-E. Business address, 1800 West
12 Montgomery Avenue, Philadelphia, Pennsylvania 19222.

13 JUDGE FORDHAM: Thank you.

14 I would note that there have been documents
15 distributed today which were distributed by email on Friday.
16 Is that correct?

17 MR. CLEARFIELD: Yes, Your Honor. And we'll go over
18 those.

19 JUDGE FORDHAM: Thank you. You may proceed,
20 Mr. Clearfield.

21 MR. CLEARFIELD: Thank you, Your Honor.

22 Your Honor, we've previously distributed a multi-page
23 document consisting of questions and answers which is
24 entitled Testimony of Joseph R. Bogdonavage.

25 We previously marked that as PGW Statement No. 2. It

1 consists of, as I said, several pages of questions and
2 answers, and six schedules, JRB-1 through JRB-6. And I
3 would ask that it be so identified.

4 JUDGE FORDHAM: It shall be so marked.

5 MR. CLEARFIELD: Thank you.

6 (Whereupon, the document was marked
7 as PGW Statement No. 2 with accompanying
8 exhibits for identification.)

9 DIRECT EXAMINATION

10 BY MR. CLEARFIELD:

11 Q. Mr. Bogdonavage, do you have before you what has
12 been marked as PGW Statement No. 2 and the accompanying
13 exhibits?

14 A. Yes, I do.

15 Q. Is that your prepared testimony for the purposes
16 of this proceeding?

17 A. It is.

18 Q. Did you prepare it, or was it prepared under your
19 supervision and direction?

20 A. It was prepared in part by myself and under my
21 direct supervision.

22 Q. Do you have any additions or corrections you'd
23 like to make to either the statement or to the exhibits?

24 A. I think the only thing that I have is the -- this
25 is not the rebuttal? No, I do not on this.

1 Q. We'll just do it sequentially so we don't lose
2 track.

3 A. I do not have any changes in my original
4 testimony.

5 Q. Is it true and correct to the best of your
6 knowledge, knowledge and belief?

7 A. Yes, it is.

8 Q. And if I asked you the questions that are set
9 forth therein today, would your answers be the same?

10 A. Yes, they would.

11 MR. CLEARFIELD: I understand, Your Honor, you'd like
12 a motion to admit at the end?

13 JUDGE FORDHAM: Yes. Thank you.

14 MR. CLEARFIELD: I'll proceed to Mr. Bogdonavage's
15 rebuttal.

16 BY MR. CLEARFIELD:

17 Q. Did you prepare rebuttal testimony for the
18 purposes of this proceeding?

19 A. Yes, I did.

20 MR. CLEARFIELD: Your Honor, we've previously
21 distributed a document which is entitled rebuttal testimony
22 of Joseph R. Bogdonavage, which consists of several pages of
23 questions and answers, and Schedules JRB-7 through JRB-16,
24 and ask that it be identified as PGW Statement 2R.

25 JUDGE FORDHAM: It shall be so marked.

1 (Whereupon, the document was marked
2 as PGW Statement No. 2R with
3 accompanying exhibits for
4 identification.)

5 BY MR. CLEARFIELD:

6 Q. Did you prepare, or was that prepared under your
7 supervision and direction? That is Statement 2R,
8 Mr. Bogdonavage.

9 A. Yes, I did.

10 Q. Do you have any additions or corrections that
11 you'd like to make to this?

12 A. Yes, I would. JRB Exhibit 13A, which is PGW's
13 projections of the test year and forecast at present rates,
14 did contain erroneous information regarding the number of
15 customers that PGW had accepted, I think from Mr. Kubas's
16 testimony.

17 What had happened is on the present rates we identify
18 the volumetric usage, and then priced it out with the
19 revenues using the \$100 million increase, which was in
20 Schedule 13B. And what we should have used is the lower
21 rates at present rates. And that was corrected in the
22 JRB-13A revised.

23 MR. CLEARFIELD: I would also note, Your Honor, that
24 in that email on Friday we noted that the copies that we had
25 previously distributed to the parties of Exhibits 13A and B

1 did not contain a single page for each of those sub exhibits
2 that listed footnotes.

3 We distributed those to the other parties through
4 that email, and the copies that we presented to the court
5 reporter today and with Your Honors contain the single page
6 that had been inadvertently omitted in the original page.

7 BY MR. CLEARFIELD:

8 Q. Mr. Bogdonavage, do you have any other additions,
9 corrections or clarifications to your Statement 2R?

10 A. No, I do not.

11 Q. With those corrections to your Exhibit 13A and B,
12 is your Statement 2R true and correct to the best of your
13 information, knowledge and belief?

14 A. Yes, it is.

15 Q. If I asked you the questions therein today, would
16 your answers be the same?

17 A. Yes, they would.

18 MR. CLEARFIELD: Your Honor, I think that takes care
19 of the prefiled testimony from Mr. Bogdonavage, and we would
20 move to rejoinder for Mr. Plonski and to some extent
21 Mr. Lelash at this time.

22 JUDGE FORDHAM: You may proceed.

23 MR. CLEARFIELD: Thank you, Your Honor.

24 BY MR. CLEARFIELD:

25 Q. Mr. Bogdonavage, I want to start by asking you

1 some questions about Mr. Plonski's surrebuttal testimony.

2 On page five of his surrebuttal he states that in his
3 opinion the Commission may consider a reasonable level of
4 working capital in setting rates under the cash flow method.

5 But he claims that the term that the management
6 agreement that sets forth the elements of the cash flow
7 method that must be used in setting rates for PGW is working
8 capital. Which he says is different than cash working
9 capital, and would allow the Commission to set PGW's rates
10 without including a specific allowance for cash working
11 capital in its rates.

12 JUDGE FORDHAM: Mr. Clearfield, you indicated that
13 was the surrebuttal?

14 MR. CLEARFIELD: Surrebuttal on page five and six.

15 JUDGE FORDHAM: Thank you.

16 BY MR. CLEARFIELD:

17 Q. Now, first, does the management agreement that
18 Mr. Plonski references only reference working capital, as he
19 claims?

20 A. Well, I think the first problem was that I think
21 the quote that we have there is quoting the original
22 agreement in 1972.

23 That agreement has been amended multiple times since
24 then. And specifically with the language which PGW believes
25 to be synonymous. And working capital and cash working

1 capital, for all intents, purposes, are the same.

2 This amended language --

3 MR. CLEARFIELD: Just a second.

4 Your Honor, we previously distributed to Your Honors,
5 I believe, and to the other parties an excerpt from the
6 management agreement, which we would ask be marked for
7 identification as PGW Rejoinder Exhibit 1.

8 JUDGE FORDHAM: It shall be so marked.

9 (Whereupon, the document was marked
10 as PGW Rejoinder Exhibit No. 1 for
11 identification.)

12 BY MR. CLEARFIELD:

13 Q. Mr. Bogdonavage, do you have what we've marked
14 for identification as PGW Rejoinder Exhibit 1?

15 A. Yes, I do.

16 Q. Can you identify for the record and for the
17 benefit of the Administrative Law Judges the provision that
18 you're referring to, and explain how it differs from
19 Mr. Plonski's testimony?

20 A. I think the relevant paragraph is included on
21 page 19 of the handout. It mentions that rates need to be
22 set to provide revenues to provide for -- and there's a
23 multiple list of items that have to be provided for from
24 rates.

25 But the most important one is to provide cash or its

1 equivalent for working capital in such reasonable amounts as
2 may be determined necessary by the Commission, or by the
3 company, and then approved by the Commission.

4 Q. And you're looking at the paragraph that's marked
5 little I in the hole on page 19 there?

6 A. That is correct.

7 Q. And the portion that you mentioned with respect
8 to a provision in rates to produce revenues, what page is
9 that on?

10 A. That is on page 16 under section seven, first
11 paragraph. It basically states that the Commission shall
12 fix and regulate rates and charges for supplying gas to
13 customers other than the city and the school district
14 without further authorization from city council; and
15 together with revenues for gas supplied to the city and
16 other revenues of the gas works which would qualify as
17 project revenues. And each year should produce revenues at
18 a minimum.

19 And then it goes on to ascertain the pecking order of
20 what expenses are paid. And one of those was, as we
21 determined to be, the working capital requirement.

22 Q. Now, in applying this provision before the Gas
23 Commission and in your experience, what does cash or
24 equivalent mean?

25 A. Well, the way PGW has determined that statement,

1 cash or its equivalents are investments that are very liquid
2 in nature, and would be able to be maintained and then
3 converted into cash on a very quick basis.

4 Q. Does it include your commercial paper?

5 A. Commercial paper is a funding source. I wouldn't
6 consider necessarily the working capital source. It is
7 backed up by certain working capital items.

8 Q. Does the commercial paper come from rates that
9 produce revenues, a source of funds for the commercial
10 paper, or do they come from investors?

11 A. The commercial paper program is, PGW has it in
12 place right now, is provided by investors. However, the
13 ratepayers themselves do pay the carrying costs of the
14 commercial paper program.

15 Q. Now, just for clarification, in your rebuttal
16 testimony, did you quote the original 1972 version of the
17 management agreement?

18 A. Yes, I did. And the reason that I did that is,
19 you know, reading over Mr. Plonski's testimony it was
20 unclear to me that the 2001 rate order did not have the most
21 recent PFMC agreement.

22 PGW didn't object at that time because we didn't
23 really believe that the difference between what was referred
24 to as working capital was any different than cash working
25 capital.

1 Q. And in the time that you participated in having
2 rates set by the Gas Commission, did the Gas Commission ever
3 distinguish between cash working capital and working
4 capital?

5 A. To the best of my knowledge, no, they did not.

6 Q. Now, Mr. Plonski says that the working capital
7 phrase refers to all sources of funds, including current
8 assets such as accounts receivable, capital funds, gas
9 inventories versus current liabilities, and that all those
10 should be considered when judging whether PGW has enough
11 cash working capital, and cash from rates is only one item
12 to consider. Do you agree?

13 A. Yeah, I agree there are many sources of revenues
14 that could be provided to turn into either revenues or
15 funding sources for cash and cash working capital.

16 Probably, obviously the most liquid would be when we
17 have enough cash working capital that is provided through
18 rates and the revenue streams. But there are other sources
19 which we have taken into account on our cash flows.

20 As he points out, the current assets minus any
21 current liabilities would be a source of working capital.

22 But I would just, for Your Honors' attention, our
23 commercial paper program has already monetized these,
24 because we are financing the growth and receivables and gas
25 inventories with the commercial paper program as it

1 currently exists.

2 Q. Mr. Bogdonavage, do you have a schedule or a
3 series of schedules that actually calculates the cash flow
4 or the cash that's available from these various sources for
5 PGW?

6 A. Yes, I do.

7 Q. Could you reference the one that --

8 A. I think we're looking at JRB-8.

9 Q. Do you have that in front of you?

10 A. If you'll give me a second.

11 (Pause.)

12 A. Yes, I do.

13 Q. All right. Now, Mr. Plonski again --

14 JUDGE JONES: Just a moment.

15 MR. CLEARFIELD: Oh, yes, certainly.

16 (Pause.)

17 MR. KANASKIE: Excuse me, Your Honor. Could we
18 locate where that is?

19 MR. CLEARFIELD: JRB-8 is the first exhibit in the
20 rebuttal testimony.

21 MR. KANASKIE: Thank you.

22 JUDGE JONES: You may proceed, Mr. Clearfield.

23 MR. CLEARFIELD: Thank you, Your Honor.

24 BY MR. CLEARFIELD:

25 Q. Now, first, what is JRB-8? Just in summary, what

1 were you trying to display there on JRB-8?

2 A. JRB-8 was a representation of the pro forma test
3 year that would include \$25 million of base rate increases.
4 And it was on an annualized basis to, as I pointed out, to
5 be the test year.

6 Q. Do you have a schedule that shows the cash flow
7 that considers the items that Mr. Plonski mentions?

8 A. Yes, I did. That's the second page of JRB-8.
9 It's titled Cash Flow Statement. And as you can see there,
10 there are some sources of funding. Basically coming from
11 the income statement is net income, which includes the net
12 of revenues versus expenses, and includes depreciation and
13 other income.

14 As you can see here, we do add depreciation back into
15 this as a source of funds. However, as we go down the
16 statement, which is the budget year 2007, you'll notice that
17 to retain about a \$50 million cash balance we need to have
18 \$95 million of commercial paper outstanding.

19 Or in another term, actually, we have a \$45 million
20 negative cash balance, since this is a current asset and a
21 current liability that will have to be paid off sometime
22 during the period.

23 Also I would note for the record and for Your Honors
24 that that \$50 million cash balance also has embedded in it
25 the ongoing \$45 million city loan that was provided in 2000.

1 This statement does, in fact, show that a portion of
2 that would be paid back, the 22 1/2 million, one half of
3 that.

4 But what we were trying to identify here is that the
5 cash balance of 50 million is all borrowed funds, none of
6 which, even with the 25 million rate increase, was
7 generating any cash working capital for PGW.

8 Q. Now, does the company reference another term,
9 "liquidity"?

10 A. Yes, it does.

11 Q. How does the company use the term "liquidity"?

12 A. Well, just looking at the exact schedule that we
13 had before us as I was speaking on the cash flow under
14 JRB-8, basically what we look at is liquidity.

15 PGW currently has a letter of credit with a
16 consortium of banks that has a maximum level outstanding of
17 \$150 million.

18 And if you looked at this statement, at the very
19 bottom you'll see that the commercial paper outstanding is
20 95 million. And I would proffer that the additional 55
21 issue is liquidity.

22 So the combination of that plus the \$50 million of
23 cash that we show, and again, all borrowed funds, we would
24 consider to be liquidity sources for the company.

25 Q. I think you mentioned that -- how much cash from

1 operations, therefore, is being produced on this schedule if
2 the amount that's borrowed is considered, or paid back at
3 the end of the year?

4 A. As I just, I think I reiterated, if I look at the
5 95 million of commercial paper that's outstanding, the cash
6 balance of 50, it would be a \$45 million negative position.

7 And in addition to that, with the city loan being
8 embedded in that cash balance, it would be somewhere around
9 \$67- to \$70 million of a negative cash position.

10 Q. Let's go back to Mr. Plonski's testimony for a
11 moment. He also suggests, I believe, that the company could
12 make up this difference, or this deficiency, by essentially
13 converting certain kinds of current assets to cash, like gas
14 inventories and accounts receivable.

15 Couldn't PGW actually sell these assets to obtain
16 more cash in addition to the commercial paper program?

17 A. Basically, yes, they could do that. And I would,
18 just for a point of reference, if you were to go back to two
19 schedules from where I was just speaking on the cash flow,
20 there's a balance sheet under JRB-8 which lists the totality
21 of all the assets and liabilities of the company.

22 And I think what Mr. Plonski is saying, that if you
23 looked on, we'll stay with the budget of 2007, the pro forma
24 test year, is that basically under the accounts receivable
25 you'll see that there is a net receivable of about \$80

1 million.

2 The gross receivable was just over a quarter billion
3 dollars. Although 185 million of that is set aside as a
4 reserve for uncollectibles.

5 The differential of about \$70 million is one of the
6 items that Mr. Plonski's saying we could probably, if we
7 could make a transaction with a third party, that we could
8 cash out those receivables.

9 However, at the very least it would be very expensive
10 to do that. And since the bulk of those receivables that
11 are not reserved are rather current -- and by current I mean
12 less than 120 days delinquent -- PGW has made great strides
13 in the last few years improving its collections factors on
14 the outstanding accounts receivable from customers.

15 And from my sense, the prudence there would be, it
16 would be not in the best interest of PGW to give up what
17 PGW's currently collecting at around 95 or 96 percent.

18 In addition to that --

19 Q. Do you have any indication or any experience to
20 indicate what kind of realization you would have on those
21 accounts receivable?

22 A. As a matter of fact, we do. Back in 1995 PGW did
23 sell about \$105- to \$110 million of severely delinquent
24 receivables, and received about a penny to a penny and a
25 half, or roughly a million and a half dollars for that over

1 \$100 million of receivable.

2 And at that time that transaction did have recourse.
3 And what I mean by recourse is, if payments were not sent to
4 the third party collection agency, PGW had to rebate them
5 when they came to PGW.

6 So for all intents, purposes, that 100 million sale
7 of receivable generated what I would look at as about a
8 million and a half dollar two-year loan. Because within two
9 years we paid back almost all of the up-front cash that was
10 received by selling those receivables.

11 Q. Well, couldn't you -- and maybe you said this.
12 Couldn't you sell the current receivables?

13 A. As I pointed out, the current receivables, it
14 makes no sense for us to sell those. As I pointed out, this
15 is basically about two or three months of customer billings,
16 which we have a very good indication that we have
17 collections methodologies in place that we would be able to
18 collect, as I pointed out, about 95 or 96 cents on the
19 dollar from these accounts.

20 So it makes absolutely no sense to be selling off
21 current receivables.

22 Q. Would the bond covenants have any effect on that
23 either?

24 A. Well, the bond covenants, for all intents,
25 purposes, when we generate revenues which were originally

1 billed to customers, that would be classified as project
2 revenues. And quite frankly, I think they're already
3 pledged to the bond-holders to satisfy the covenant.

4 Q. Let's look at gas inventories for a second. Now,
5 I think Mr. Plonski suggested that we could actually sell
6 gas inventories if we ran into an emergency, and produce
7 some cash.

8 Is that a prudent or a practical way to produce cash
9 working capital, or working capital?

10 A. In its generic sense, it absolutely would be a
11 source of funds and cash that we could sell off our gas
12 inventories.

13 However, there is a very cyclical nature -- being an
14 urban utility in the northeast part of the country, we have
15 wild swings in the demand that customers require of gas
16 service.

17 Obviously, we bill about 60 to 70 percent of our
18 revenues between November and March. It is at that point
19 that we have our highest levels of supply that is needed to
20 be maintained.

21 These gas inventories would be at some points in time
22 almost \$200 million; but could be as low as probably in the
23 \$25- or \$30 million range.

24 That is the working capital requirement that PGW has
25 to get over that hurdle on an annual basis.

1 But if we did get into trouble and were trying to
2 liquidate these, depending on the period of time of the
3 year, these would absolutely be the essential component of
4 our gas supply for reliability.

5 And, you know, obviously at that time we would not be
6 able to sell these, because this would be part of the supply
7 that the customers would be requesting during the winter
8 period.

9 In addition, PGW did, for about three years, did some
10 gas deferral transactions with one of its suppliers where we
11 tried to provide additional liquidity at a very, you know,
12 steep price compared to our commercial paper program, where
13 we deferred the payment of the natural gas that was being
14 put into storage, until the winter period when it was
15 actually being used and we had a better chance of billing
16 and collecting it for customers.

17 And some of those programs went as high as \$30
18 million of deferrals. And again, it was at that point in
19 time, because of the lack of both cash and liquidity, that
20 PGW found that it was prudent to enter into those
21 transactions; albeit that they were much, probably twice as
22 expensive as our commercial paper program.

23 Q. Now, Mr. Plonski also suggests that PGW could use
24 capital project funds as a source of liquidity. And that's,
25 again, in his surrebuttal. Can you comment on that?

1 A. Yes. PGW, over the course of years, has used the
2 proceeds that have been garnered through the sale of long-
3 term debt. However, the covenants require that those funds
4 ultimately only be spent for capital construction purposes.

5 PGW is allowed on an intra-fund basis to utilize
6 those funds during the year for short periods of time,
7 basically to pay its bills when they come due.

8 To the extent that that capital fund would be low on
9 a balance side, obviously those funds would not be available
10 to provide cash or funding sources for the company.

11 And I may just point out that as we entered the
12 beginning of our fiscal year, which started September 1 of
13 this year, PGW had on hand about \$40 million of capital
14 funds from its fifth series sale, which was two years prior.

15 As we speak, PGW has closed a new long-term debt
16 issue last Tuesday in the magnitude of \$200 million of new
17 money.

18 It is those proceeds that Mr. Plonski is saying could
19 be utilized, you know, to provide working capital. And as I
20 pointed out, those funds need to be utilized ultimately.

21 And what I mean by ultimately is, on an annual basis
22 we must reconcile the capital construction spending with the
23 amount of money being drawn down from this restricted
24 account.

25 So although it can be used in an interim basis, it

1 must be paid back at the end of the fiscal year so that all
2 of that dollar value was only drawn and utilized for capital
3 construction.

4 Q. Would you consider that a reliable or prudent
5 source of regular cash working capital or working capital?

6 A. Personally I would not consider that to be a
7 prudent source, only because there is no indefinite amount
8 of long-term debt that any type of, you know, large
9 corporation can avail itself.

10 PGW right now has over \$1.2 billion of long-term debt
11 outstanding.

12 As Ms. Bisgaier and other witnesses may testify,
13 there may be a time when PGW may not have access to the
14 capital markets. And if that were to be the case at
15 reasonable rates, then these funding sources would not be
16 available.

17 Q. And you couldn't pay your bills with them?

18 A. And we would not be able to pay our bills on a
19 timely or current basis.

20 MR. CLEARFIELD: Your Honor, we handed out a two-page
21 document, which is the front page and an excerpt from what's
22 called the official statement from the City of Philadelphia
23 bonds. And we'd ask that that be marked as PGW Rejoinder
24 Exhibit 2.

25 JUDGE FORDHAM: It shall be so marked.

1 (Whereupon, the document was marked as
2 PGW Rejoinder Exhibit No. 2 for
3 identification.)

4 (Document handed to witness.)

5 BY MR. CLEARFIELD:

6 Q. Mr. Bogdonavage, Mr. Plonski in his surrebuttal
7 says that the \$25 million rate request, rate increase, that
8 he's recommended focuses on permitting PGW's debt service
9 requirements to be met, which are a requirement of PGW's
10 bond covenant.

11 Does PGW have a covenant that also focuses on PGW's
12 ability to pay its bills?

13 A. Yes, it does.

14 Q. Would you electric service that?

15 A. The handout, I think, the relative page, or the
16 relevant page, is page 39. I'm just looking for the
17 reference itself.

18 Under Section 2212, subparagraph (e), the bond
19 covenant basically states that the establishment of PGW's
20 revenue requirement would -- first of all, the covenant
21 requires it to produce 1.5 times coverage of the annual debt
22 service.

23 And I would just proffer for Your Honors and this
24 proceeding that right now PGW's debt service obligation is
25 somewhere around \$90 million.

1 So we're looking that we must have rates in place to
2 produce revenues to cover that at one and a half times.

3 It also requires that PGW and the City of
4 Philadelphia charge rates that permit PGW to have sufficient
5 to pay all of its obligations, including debt service and
6 other obligations, during each fiscal year in full when they
7 are due.

8 And it also requires that the company be maintained
9 continuously in operation by the city.

10 Q. And would that be a technical default if the PGW
11 is not able to meet that covenant?

12 A. Again, I'm not a lawyer. But in the strictest
13 sense, I would say that we were not meeting the intent of
14 the covenant, that if bills are not paid timely through the
15 proper setting of rates, producing revenues that would --
16 you know, there could be a legal definition that we might be
17 in technical default, but I'll leave that to the lawyers.

18 Q. I apologize for the confusion. But just so the
19 record is clear, would you identify what you were reading
20 from?

21 A. Yes. The front page of this handout, which is
22 Exhibit 2, is PGW's most recent official statement that, as
23 I spoke to, this was the bond issue that closed last --
24 let's see, it was May 15, a week ago Tuesday.

25 And there were two components of this. There was a

1 small component, \$14 1/2 million of 1975 ordinance bonds
2 that were refunded.

3 And as I pointed out, there was also \$30 million in
4 1998 outstanding bonds that were refunded. But the bulk of
5 the issue was to provide capital spending in the tune of
6 \$200 million for ongoing construction purposes from the
7 company.

8 Q. All right. Let's go to another subject.
9 Mr. Lelash and Mr. Plonski both reviewed PGW's testimony
10 regarding a prudent number of days of liquidity that a
11 company such as PGW would have that you testified to and
12 Ms. Bisgaier testified to, and suggested that a standard
13 approach would be 45 days, which is reflective of the one
14 eighth method that's used for calculating cash working
15 capital allowance.

16 First, with respect to the 200 days of liquidity that
17 you testified to and Ms. Bisgaier testified to, does the
18 company meet that 200 day standard under the proposed rate
19 increase?

20 A. No, it does not.

21 Q. How many days of liquidity would it have,
22 roughly?

23 A. I think if we're -- you know, we're looking at
24 the schedules which were the pro forma \$100 million rate
25 increase, and I think also included the \$10 million of

1 capacity release credits, probably puts us in the vicinity
2 of about 65 to 70 days of liquidity.

3 Q. And again, tell us what liquidity means in that
4 definition.

5 A. And again, that liquidity stream basically means
6 that at that point in the time bulk of those cash on hand
7 days were borrowed funds, not necessarily all being provided
8 from rates.

9 And again, I must reiterate, as we look at the cash
10 statements for year end cash, in many, many instances in the
11 past decade and looking into the future, a lot of that cash
12 on hand is borrowed funds; which to me is not being produced
13 sufficiently from the rates that are in place to generate
14 revenues to pay its bills when they ultimately become due.

15 Q. But the 67 days you mentioned, what exactly is
16 that? What two things are you looking at?

17 A. Well, I'm looking at the cash balance and the
18 available liquidity that is not outstanding from commercial
19 paper.

20 Q. So the commercial paper did --

21 A. The remaining outstanding --

22 Q. -- not become available?

23 A. -- commercial paper plus the cash on hand.

24 Q. Okay. Now, again, as I mentioned, Mr. Lelash and
25 Mr. Plonski both mentioned this one eighth method, or 45

1 days, as, I think, a standard. In fact, Mr. Lelash called
2 it a universally accepted standard. An amount of cash
3 working capital on hand.

4 Could the company accept a rate level that included
5 45 days of cash as a cash working capital allowance?

6 A. Yes, it could.

7 Q. Could you explain how much cash that would be and
8 how that compares to the rate increase you've requested?

9 A. Well, basically, if I looked at the pro forma
10 2007 test year, we have expenses, operating and maintenance
11 expenses, including natural gas, of about just short of \$900
12 million.

13 Under this method, the one eighth method, using about
14 twelve and a half percent of that, you're looking at
15 somewhere around a cash on hand of about 100 to 110, 15
16 million dollars. That's how it equates into 45 days of
17 cash.

18 Q. And how much do we have?

19 A. Right now, looking at certain factors, we're
20 considerably less than that, actually, in a negative
21 position.

22 Q. And if we look at your schedule that shows the
23 amount of cash on hand on a pro forma basis, assuming the
24 proposed rate increase and the off-system sales proceeds
25 were provided, how much cash working capital would our

1 proposal produce, in your opinion?

2 A. Well, right now --

3 Q. Tell us what schedule you're looking at first.

4 A. Again, I'm looking at JRB, I'm now on 13B,
5 because we're now moving to the \$100 million proposed base
6 rate increase plus the \$10 million of capacity release
7 credits.

8 Q. Okay. Now, let people get to that.

9 (Pause.)

10 A. If you look at that schedule, now looking at the
11 revised pro forma year 2007, approximately the middle of the
12 page, right past the adjustments.

13 Q. Which schedule do you want them to look at?

14 A. Cash flow schedule, the second schedule of 13B.
15 You'll notice that at the very bottom you'll see an ending
16 cash balance of about \$40 million.

17 Q. 40 million 291?

18 A. That is correct. Basically that says that at
19 this point in time there was \$30 million of cash or
20 commercial paper outstanding. If that was paid off we'd
21 only have \$10 million of cash on hand.

22 And as I pointed out in previous discussions, that
23 still includes the \$45 million loan that the city provided
24 back in 2000.

25 So that if I added the two together, at that point in

1 time I would be about a \$35- or \$40 million negative
2 position, or about 20 days negative, instead of the positive
3 45 days of cash on hand.

4 Q. Now, is this at present rates, or is this at a
5 \$100 million rate increase?

6 A. This is at a hundred plus the \$10 million
7 increase. This is not at present rates.

8 MR. CLEARFIELD: We can repeat that if you'd like,
9 Your Honor.

10 JUDGE JONES: It's on the schedule, Mr. Clearfield.

11 MR. CLEARFIELD: No, I think it's the
12 characterization.

13 BY MR. CLEARFIELD:

14 Q. Now, this shows the cash at the end of the year.
15 But does PGW experience the same levels of negative cash at
16 either present rates, at present rates during the year?

17 A. Yes, it does.

18 MR. CLEARFIELD: Your Honor, I'd like to have marked
19 for identification a three-page schedule that I think we
20 pre-marked as PGW Rejoinder Exhibit 3.

21 JUDGE FORDHAM: So marked.

22 (Whereupon, the document was marked
23 as PGW Rejoinder Exhibit No. 3 for
24 identification.)
25

1 BY MR. CLEARFIELD:

2 Q. Do you have what we've marked for identification
3 as PGW Rejoinder Exhibit 3, Mr. Bogdonavage?

4 A. Yes, I do.

5 Q. Can you explain what this shows?

6 A. Yes. Basically I have a little narrative on the
7 front page. But what we were attempting to do is on a daily
8 basis, starting with our fiscal year that begins
9 September 1, there was a full historical year being the
10 actual for 2006, which is the second schedule.

11 And then the more recent schedule is the daily
12 activity up through, I think it was about May 15.

13 Q. So the historical one is the one that's marked as
14 Rejoinder Exhibit 2, the last page in that?

15 A. That is correct.

16 Q. And it's the one that has the negative \$40.88
17 million at the top in bold?

18 A. That is the average outstanding daily cash
19 balance, yes.

20 Q. Now, explain what that is.

21 A. The easiest thing to do is basically to look at
22 this and -- and I'll discuss this. On the first day of
23 September, in 2005, PGW had \$49.9 million of commercial
24 paper outstanding, and at that time had \$15 million of cash
25 on hand, or roughly about six or seven days of cash, the way

1 we've been discussing it as a cash on hand instrument.

2 So that shows us that at that point in time we were
3 \$34.2 million negative cash.

4 Q. Now, exactly how do you do that?

5 A. It's the number to the right there on the first
6 day, 49.9, or almost 50 million, was outstanding of
7 commercial paper.

8 But we only had \$15 million in the bank. Thereby,
9 you know, ending in a \$34 million negative position at that
10 point in time, because it's borrowed funds

11 In addition to that, as I pointed out prior, 45
12 million of the city loan is still outstanding. And that is
13 embedded in that cash number. So at this point in time we
14 would be very close to almost 80 million in negative cash
15 position.

16 But what I would like, you know, for the matter at
17 hand is if we could move to January of six, which is the
18 fifth column over to the right.

19 You'll notice on the 25th of January a couple things
20 happened that day. We at that point in time had, prior to
21 January 25, the commercial paper program was capped at \$100
22 million of outstanding notes available at any one time.

23 Because of the restraints that we were going under as
24 a result of the escalating natural gas prices due to the
25 hurricanes that had occurred in that fall, PGW prudently

1 looked ahead, along with myself, the treasurer and the
2 controller, and basically said we're probably going to run
3 out of cash.

4 So immediately we got in touch with our banks and
5 asked if there was a willingness to increase the commercial
6 paper limit from 100 to 150 million.

7 These are the three banks that have stayed with us
8 through thick and thin over the last decades. And they came
9 back with a positive response.

10 We took the necessary steps to have city council
11 ordinances introduced. They were approved through council
12 on a barely a time available basis, because we had to pay
13 the natural gas bill on January 25.

14 So we immediately included that extra \$50 million.
15 It was issued that day. And as you can see, when we're
16 talking about now liquidity, I had 150 million of commercial
17 paper, basically that 149.9, outstanding.

18 I paid the natural gas bills. We still had the city
19 loan outstanding, and I had \$4 million of cash on hand after
20 I paid the gas bill.

21 So for all intents, purposes, almost 99 1/2 percent
22 of all liquidity was stretched to the breaking point that
23 day.

24 Q. If you'd had another gas bill the next day, would
25 you have been able to pay it?

1 A. We would have had to defer it. We would not have
2 paid that bill on a timely basis.

3 Q. Or default?

4 A. But just to reiterate, in positions that I have
5 as the senior vice president of finance, and my colleague,
6 the controller, and cash managers, this is not a prudent way
7 to run the business.

8 Although we took everything as we saw this coming, we
9 took the necessary steps to make sure that we would have the
10 proper liquidity streams in place. And it was a good thing
11 that the banks were willing to extend this additional credit
12 to us.

13 Q. Just to make sure it's clear, could you reiterate
14 how this shows that this problem of a lack of cash balance
15 exists throughout the years as --

16 A. Okay. As I pointed out, if you look to the left-
17 hand side of the page, as we come into the beginning of the
18 fiscal in September, we issued commercial paper as needed to
19 cover the growth in receivables, and also in inventories.

20 The bulk of our buildup in gas inventories occurs
21 from about April through November. And you'll notice that
22 we go from the first day of September up to about 50
23 million. We maxed out at \$100 million in the November time
24 frame.

25 As I pointed out, we got the additional letter of

1 credit increased to 150 million. That was fully utilized in
2 January.

3 And as you can see, as the billings start to grow as
4 a result of the winter season, obviously our collections do
5 pickup.

6 And you'll notice that the credit balances, being the
7 amount that is negative from the commercial paper
8 outstanding, start to decline as we get into the spring and
9 summer periods.

10 Now, there are some days during the year when we
11 actually, and do, mandatorily have to pay down commercial
12 paper for IRS regulations about arbitrage.

13 So we do have to pay it down to zero. And you'll
14 notice that that occurred in May of 2006, around the 18th or
15 19th of May.

16 And at that point in time we had paid down the whole
17 150 million. And at points in time we had \$4- or \$5 million
18 of cash on hand.

19 And again, just to alert you, though, that still
20 included the \$45 million city loan.

21 And as we ended up at the end of the year in August,
22 55 million of commercial paper was outstanding, and we had
23 approximately \$8 million in the bank. That resulted in that
24 negative \$46 million at the end of the year.

25 The net result of the 365 days was that on average we

1 had a negative cash position of almost \$41 million on an
2 average basis.

3 Q. And is that the same general conclusions -- can
4 the same general conclusions be drawn from the FY 2007 data,
5 just generally?

6 A. Yes. The reason at this point in time that we
7 have about a \$55 million negative position on average is
8 because we have yet to complete the other three and a half
9 months of the year; which obviously are a little bit more
10 rich as our expenses decline, because the gas bills are not
11 as high as they are in the winter, and we're collecting from
12 our customers over this course of time, is that I would --
13 all things being equal, I would say we would probably be
14 somewhere maybe a little bit better, but in that negative
15 position, albeit about \$30- or \$40 million.

16 And as you can see from this schedule, we have been
17 paying back the commercial paper line in about mid April.
18 And basically was paid for the rest of that month.

19 And then again after the gas bill was paid, we did
20 start to have cash build up again. And as we speak, on
21 May 22, right now, just so happens that our commercial --
22 the commercial paper program is being renewed to day.

23 We had a pre-closing yesterday. So our plans are
24 right now to have in place this \$150 million commercial
25 paper program.

1 And the good news is that we were able to reach very
2 favorable terms with the banks.

3 And we were always, over the last probably eight to
4 ten years, doing an annual renewal. Which become very
5 expensive.

6 We've now renewed this commercial paper program for
7 the next 30 months, which takes it out to the end of the
8 five-year ordinance that city council has approved.

9 So we thought it was prudent with the fee reduction
10 that we have in place now at the 150 level, that the
11 commercial paper program, we're saving somewhere around
12 \$750- to \$800,000 on an annual basis. And we've got this
13 program locked in, as I pointed out, to about 30 months,
14 taking it out through the 2010 year.

15 Q. Mr. Bogdonavage, when you described the data on
16 Rejoinder Exhibit 3, as well as your earlier schedules,
17 you've been referencing net cash. That is the cash minus
18 what you borrow.

19 Why don't you consider the commercial paper as part
20 of this cash working capital analysis?

21 A. Well, it can be considered. But prudently, I
22 think that when I'm looking at how I pay my bills, I'd
23 rather not borrow the money to pay my bills.

24 And what has happened over the last decade and a half
25 is that we basically institutionalized this short-term

1 commercial paper program as almost what I would consider to
2 be a partial long-term funding source.

3 That was never the intent of this. The intent of the
4 commercial paper program, as I pointed out, is to fund
5 increases in the accounts receivable that occur during the
6 year from customers, and also the spikes that we have
7 because of our gas inventories.

8 That's the nature of this. It was never intended to
9 be a long-term instrument.

10 We've made strides in the last two to three years'
11 because of increased collections. We're doing better with
12 the program. It is a short-term program.

13 Although even with the \$100 million rate increase
14 that the company is asking for, it's going to take a few
15 years before we can actually meet all of our goals; one of
16 which, obviously, is to reduce the short-term paper to its
17 bear minimum.

18 Q. If you consider your commercial paper program a
19 source of liquidity, why don't you just go and increase that
20 line to get the cash working capital you need?

21 A. Well, as a matter of fact, prudently, we did go
22 to city council in January of this past year with a new
23 ordinance which would authorize city council, and the city
24 would authorize PGW to raise its limit to \$200 million,
25 another \$50 million.

1 We looked at that. The banks were amenable to
2 granting that if we requested it.

3 Right now we didn't see the need to do that because
4 right now, as I pointed out, it is a costly mechanism to
5 provide working capital funding requirements.

6 And that additional \$50 million would have cost us in
7 up-front fees probably \$3- to \$400,000. And at current
8 rates, some were hovering around four percent, another
9 \$2 million. And we didn't see the need at this point in
10 time.

11 And hopefully there will not be again a spike in
12 natural gas prices after the hurricane season in the Gulf.

13 But we thought it was prudent that we would avail
14 ourselves of the ability through the city and city council
15 to raise that if needed.

16 But it's a very expensive type of proposition.
17 Although it's much cheaper, some of the other one-time fixes
18 that we've gotten through over the years.

19 Q. Is it increased risk or decreased risk if you
20 went that direction?

21 A. Well, I think, you know, it's kind of we're
22 talking past each other. From the point of view that the
23 banks are willing to lend it to us, I think they see PGW as
24 less risky.

25 However, there's no guarantee that if we got into a

1 crisis, which is exactly when we would need this extra
2 letter of credit increase, they may not be willing at that
3 point in time to permit us to do that.

4 So there is some risk involved in this. And again,
5 as I pointed out, it is all borrowed funds.

6 Q. Your position, again, is that you have to have
7 cash working capital in addition to the liquidity; is that
8 right?

9 A. Yes.

10 Q. Mr. Plonski also, and Mr. Lelash, both suggested
11 if we need more cash, we could have the city -- I'm sorry.
12 If we needed to improve our debt portion of our capital
13 structure, that's the focus of their testimony, that we
14 could ask the city to forgive the \$45 million loan.

15 Have you examined the effect that forgiving a \$45
16 million loan would have on the company's percentage of debt
17 in its capital structure?

18 A. I've done quite a few schedules, and --

19 Q. Okay, hold it a second.

20 MR. CLEARFIELD: Your Honor, can we have identified
21 as PGW Rejoinder Exhibit 4, which we've previously handed
22 out, a several-page schedule which is labeled on the left,
23 Rejoinder, \$25 million rate increase, \$45 million city loan
24 forgiven?

25 JUDGE FORDHAM: So marked.

1 MR. CLEARFIELD: Thank you.

2 (Whereupon, the document was marked
3 as PGW Rejoinder Exhibit No. 4 for
4 identification.)

5 BY MR. CLEARFIELD:

6 Q. Do you have what we've marked as PGW Rejoinder
7 Exhibit 4?

8 A. Yes, I do.

9 Q. Did you prepare that, or was that prepared under
10 your direction?

11 A. Yes, I did.

12 Q. Would you tell us what that shows?

13 A. Yes. Just to put it in a perspective, again,
14 it's the pro forma test year budget 2007. It includes the
15 \$25 million rate increase, and it does show that the city
16 loan is forgiven over a two-year period.

17 And I would turn your attention to the second page;
18 again, the cash flow. And what that shows is that with the
19 \$22 1/2 million being forgiven in 2007, and again in 2008,
20 that basically at that point in time the cash balance again
21 around \$50 million, we still had commercial paper, although
22 much less than in other schedules that I have done, about 72
23 outstanding.

24 So even with the \$22 1/2 million, I still had \$22
25 million of negative cash.

1 The following year, as a result of the compound
2 effect of the 45 million being forgiven, at that point in
3 time I've cut that deficit down to about \$4 million. That's
4 the 40 million less the 54 that's outstanding in commercial
5 paper.

6 However, from that point forward, the requirements of
7 the company again would start to build. Commercial paper
8 balances will decline, and then somewhat increase over the
9 course of that five-year period.

10 But the over-arching issue here is that the 45
11 million again being a one-time infusion of cash into the
12 company doesn't satisfy the bond covenant requirements.

13 Which on the very next page show that as we again try
14 to make our bond covenant at 1.5 on the debt service
15 coverage, and I'm now in forecast period for 2008 and 9,
16 you'll notice there is a severe degradation in the middle of
17 the page there where it says debt coverage service, coverage
18 on the 1998 bonds, where we're projecting about 2.5 in the
19 current pro forma year, it drops significantly to about 1.7,
20 and then further to one seven in 2009, and then below the
21 mandated, which would be a default, in 2010.

22 Q. The mandated being?

23 A. 1.5 coverage. And as you can see at the bottom
24 of the page, the third line up, our aggregate debt service,
25 as I had previously mentioned, of about \$90 million will

1 grow.

2 Because even though we have a \$25 million rate
3 increase in place, and the city has forgiven the \$45 million
4 loan, I still have to fund my construction expenditures over
5 the course of those five or six years, and I have to sell
6 two more bond issues of about \$150 million each.

7 And you'll notice on the far right-hand column, third
8 line up from the bottom, the aggregate debt service will
9 grow from 91 million to over 126 million.

10 Q. And who pays that?

11 A. Well, it's paid by the ratepayers. And they must
12 cover that debt service coverage at 1.5 times.

13 So the \$45 million loan, although it does provide
14 some breathing room in the short term, really basically
15 proffers that over the course of four or five years we will
16 make no inroads into funding the capital construction cost
17 on an ongoing basis.

18 And more importantly, the last page there is a
19 capitalization ratio which shows that in the current year,
20 the third line down is a debt-to-equity ratio, it's about 80
21 percent, 80/20.

22 And you'll notice to the far right, as we get to 2012
23 -- although, you know, certain things have occurred, and the
24 25 million is in place for all five of those years, we've
25 made no inroads into the debt-to-equity.

1 In fact, the outstanding long-term debt, because of
2 the two issues, is even higher than it was in the current
3 period.

4 Q. Let's quickly turn to a couple of other subjects,
5 and then we'll be concluded. One is on what we called the
6 bring-down.

7 Mr. Plonski criticized your alternative method of
8 determining PGW's revenue requirement, the bring-down from
9 the last two cases, he claimed that it was, to get to the
10 level of earnings permitted by the PUC in those last two
11 cases, you improperly combined the results of the last two
12 cases.

13 Could you explain why you made that calculation that
14 way?

15 A. Well, what PGW'd looked at is that the last fully
16 litigated case was in 2001. And it did show a determination
17 with an authorized level of income and coverage ratios.

18 But the following year we had to come back and ask
19 for an emergency rate increase. We did ask for 60 million;
20 eventually settled on 36 million. But that was a black box
21 settlement.

22 Q. The final base rate decision?

23 A. Final base rate. They did grant the emergency
24 rate relief, I think, in May of 2002 on an interim basis.
25 That case was settled, I think, in August on a permanent

1 basis.

2 But there was no determination of income or coverage
3 calculations at that point in time because of the
4 stipulations and the settlement agreements with all the
5 parties.

6 So what we were looking at is because of the
7 increased cost over that period, the most recent litigated
8 case that had an income level and coverage ratio was the
9 2001 case.

10 And basically all we did at this point is add the \$36
11 million of emergency relief to that, coming up with an
12 income and coverage level that we thought was appropriate to
13 move forward, to see what the Commission thought that they
14 authorized for PGW in the level of income, net earnings, and
15 also for coverage ratios.

16 Q. One more area. Turning to Mr. Colton's testimony
17 about bad debt expense in the collection and CRP, he
18 continues to claim that the CRP level double recovers bad
19 debt expense because PGW's bad debt expense will be lower as
20 a result of the fact that a portion of a low-income
21 customer's bill, when that customer moves from non-CRP to
22 CRP, will be collected from the customers at large and not
23 just from the low-income customer.

24 Do you have a response?

25 A. Well, Mr. Colton makes a very narrow point there.

1 There isn't an exact science in trying to set bad debt
2 expense.

3 The accounting convention that our auditors use, and
4 most people in the free world use, is an accounting
5 convention which basically looks at a receivable at any
6 point in time and looks at the ultimate collectability of
7 that.

8 And to the extent that something is not collectible,
9 then that is reserved by that entity as uncollectible.

10 There are many factors that can go into this. One of
11 which being, again, higher gas prices, higher billings to
12 customers, lower income because of the low-income customers
13 not being able to pay their bills, less funding sources from
14 the Federal Government for low income.

15 There's a myriad of factors that go into that. And
16 PGW, on an ongoing basis at the end of each of its fiscal
17 years, as the auditors come in, make a determination with
18 the auditors' oversight on whatever the level of receivable
19 is, what's the ultimate collectability. And that is how the
20 bad debt expense is set.

21 To the extent that their possibly could be an over-
22 recovery or a double recovery of something, that's just one
23 of the factors.

24 We look at all of the factors in the ultimate
25 collectability. So to that extent, bad debt is set on an

1 annual basis at the end of the year based on future
2 collectability of the receivable.

3 And we do not track individual customers or customer
4 classes to see if they're paying better or worse than other
5 customers when we determine what our bad debt expense is for
6 any given period.

7 MR. CLEARFIELD: That's all I have, Your Honor.
8 Should I await the end of the cross examination to move in
9 the rejoinder exhibits?

10 JUDGE FORDHAM: Yes.

11 MR. CLEARFIELD: Very well. Thank you. We're at
12 your pleasure in terms of breaking for lunch.

13 JUDGE FORDHAM: Let's go off the record.

14 (Discussion off the record.)

15 JUDGE FORDHAM: We're back on the record.

16 Mr. Bertocci?

17 MR. BERTOCCI: Thank you.

18 **CROSS EXAMINATION**

19 BY MR. BERTOCCI:

20 Q. Good morning, Mr. Bogdonavage.

21 A. Good morning.

22 Q. I'm Philip Bertocci. I represent Action
23 Alliance.

24 JUDGE JONES: Please keep your voice up.

25 MR. BERTOCCI: Yes.

1 BY MR. BERTOCCHI:

2 Q. Turning your attention to PGW Statement 2, page
3 15, lines one to seven. Is that your rebuttal testimony?

4 A. What was the page number?

5 Q. Page 15, one to seven.

6 Part of the over-arching theme or justification for a
7 \$100 million rate increase is to reduce debt by over 200
8 million over a five-year period; isn't that right?

9 A. It was one of the goals that the company had set.

10 Q. And for the first three years of the five-year
11 period, the city has committed to granting back the annual
12 \$18 million payment; is that right?

13 A. That is correct.

14 Q. However, for the last two years of the five-year
15 period, fiscal 2011 and fiscal 2012, PGW forecasts that it
16 will pay the city the \$18 million per year; is that right?

17 A. That was one of the assumptions embedded in the
18 five-year forecast, correct.

19 Q. And that's apparent on Schedule JRB-1, page
20 seven. Just so that everyone knows where it is and can find
21 it.

22 A. One of the schedules.

23 Q. That would be in PGW Statement 1 and JRB-1, this
24 attached. And that would be page -- I'm just asking you to
25 put your finger right on the spot.

1 A. I think you're looking for Exhibit JRB-1, page
2 three?

3 Q. Yes. It would be Statement JRB-1, page two?

4 A. The cash flow.

5 Q. And JRB-1, page seven.

6 A. Different schedule, but that'll work.

7 Q. It's on the cash flow stream; is it not?

8 A. That is correct. If you're looking at JRB-1,
9 page seven, as you point out, our fiscal, PGW's fiscal 2011
10 and 2012, you'll notice about the sixth line down there,
11 there is a blank next to grant income. That is the grant
12 back of the 18 million from the city.

13 A little bit further down below you'll see the
14 distribution payment being made as the use of the cash.
15 That is the \$18 million payment being paid to the city for
16 those two periods.

17 Q. That's under uses and distribution of earnings
18 where you see the 18 million all the way across?

19 A. That's correct.

20 MR. BERTOCCI: That's all I have. Thank you.

21 JUDGE JONES: Thank you, Mr. Bertocci.

22 (Pause.)

23 MR. KANASKIE: Your Honor, can we go off the record a
24 second?

25 JUDGE JONES: Yes.

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JUDGE FORDHAM: We're off the record.

(Discussion off the record.)

(Whereupon, at 11:52 a.m., the hearing was adjourned,
to reconvene at 1:30 p.m. this same day.)

FORM 2

AFTERNOON SESSION

(1:30 p.m.)

1
2
3 JUDGE JONES: We are back on the record.

4 Before we proceed with cross examination of the last
5 witness, we have a couple questions for the exhibits that
6 were handed out with the rejoinder.

7 Specifically on JRB-13A and 13B, the text that was
8 given out.

9 JUDGE FORDHAM: These are the marked exhibits.

10 MR. CLEARFIELD: Those are the footnotes to those
11 two.

12 JUDGE JONES: These are the footnotes?

13 MR. CLEARFIELD: Yes.

14 JUDGE JONES: Okay.

15 MR. CLEARFIELD: And if Your Honor pleases, on 13A
16 and B, if you look at the first page, the footnotes, there
17 are letters listing A through H on those schedules.

18 JUDGE FORDHAM: Oh, in the adjustment column?

19 MR. CLEARFIELD: Yes, ma'am.

20 JUDGE FORDHAM: Okay. Thank you.

21 JUDGE JONES: Also, as far as the revised schedules,
22 JRB-13A, are these available electronically?

23 MR. CLEARFIELD: They were sent out Friday afternoon.

24 JUDGE JONES: Okay.

25 MR. CLEARFIELD: And we'd be happy to send another

1 copy over.

2 JUDGE JONES: No, we have them.

3 MR. CLEARFIELD: They were with that packet.

4 JUDGE JONES: Okay.

5 As far as the intervenors are concerned for cross
6 examination, do you wish to proceed in the same order you
7 did with Mr. Hershey?

8 MS. McCLOSKEY: Yes, Your Honor.

9 JUDGE JONES: Okay. That would mean that OTS is
10 proceeding first, Mr. Kanaskie?

11 MR. KANASKIE: Yes, Your Honor.

12 **CROSS EXAMINATION**

13 BY MR. KANASKIE:

14 Q. Good afternoon. My name's Rick Kanaskie with the
15 Office of Trial Staff.

16 A. Good afternoon.

17 Q. A little background information, if I could,
18 please. How long have you been in your current position
19 with PGW?

20 A. In my current position, a little over five years
21 as senior vice president of finance.

22 Q. Am I correct you participated in PGW's last base
23 rate case?

24 A. That is correct.

25 Q. And included in that characterization would be

1 the petition for emergency relief. You were involved with
2 that as well?

3 A. Yes.

4 Q. Focus on your rebuttal testimony just briefly.
5 Just to clarify, page three, lines eleven to 13. Is it a
6 fair assessment on my part that your opinion in setting
7 rates is based on adjustments to your proposed --

8 MR. CLEARFIELD: On that page, Mr. Kanaskie, where he
9 states his opinion about the 75 percent?

10 MR. KANASKIE: Page three, lines eleven to 13.

11 THE WITNESS: Yes. The recommendations made by the
12 witnesses in this proceeding, even if we, as I state there,
13 made all of the adjustments, basically PGW would be looking
14 at about a 75 percent of the \$100 million rate increase.

15 BY MR. KANASKIE:

16 Q. Was it your testimony that that's how rates are
17 set in regulatory proceedings?

18 A. No, it is not.

19 Q. Let's go to page five, if you would, please.
20 Line 18, you talk about the, in quotes, actual projected
21 basis. Do you see that?

22 A. Yes.

23 Q. Have you defined this phrase anywhere in your
24 testimony?

25 A. Defined the term actual projected? No.

1 Q. How about line 23 where you talk about real world
2 basis?

3 A. Again, I did not identify the term.

4 Q. Would I be correct if, back up at line 18, we
5 talked about actual projected, would that be analogous to a
6 forecasted result?

7 A. Well, that could be one interpretation.

8 Q. Is this a fair statement on my behalf, that base
9 rate increase request that we have here incorporates a five-
10 year planning horizon for operating and capital budget
11 purposes? And I'm referencing lines 23 and 24.

12 MR. CLEARFIELD: Page five?

13 MR. KANASKIE: Yes, still on page five.

14 THE WITNESS: Yes, as part of the management
15 agreement, PGW on an annual basis prepares the upcoming
16 budget year in a four-year planning horizon per the
17 ordinance for both operating and capital.

18 BY MR. KANASKIE:

19 Q. Would you agree that, at least between the Office
20 of Trial Staff's analysis of your filing and your
21 presentation, that kind of the crux of the difference would
22 be utilization of a future test year versus a planning
23 horizon?

24 A. I probably would agree partially with that.

25 Q. Well, for clarification purposes, which?

1 A. Well, the \$100 million we're asking for is to
2 take care of basically starting immediately to meet some of
3 our goals.

4 The most urgent is obviously any increase in
5 operating and maintenance costs. But also to pay down our
6 short-term commercial paper program. And I think that's a
7 more short-term need than on a planning horizon.

8 If the rates were left in place over the five- or
9 six-year horizon, obviously a lot more of the goals that PGW
10 articulated could possibly be met.

11 Q. Is it your position that the ALJs and the
12 Commission in essence really need to abandon their analysis
13 based on a future test year and incorporate, and this is my
14 terminology, a hybrid approach?

15 MR. CLEARFIELD: I would object, because there hasn't
16 been an establishment that there's anything to abandon.

17 MR. KANASKIE: I'll withdraw it.

18 BY MR. KANASKIE:

19 Q. Do you believe PGW -- is it your testimony that
20 PGW should be regulated based on a future test year?

21 A. I think that the regulations that the PUC have
22 established on a permanent basis require that the company
23 utilize a pro forma test year of known and measurable
24 events.

25 Q. So then you would agree based on that response

1 that projections out five years are nothing more than
2 illustrative exercises?

3 A. They could be. Or they could be fact.

4 Q. But we don't know?

5 A. But in certain cases we do know. And we do have
6 a contract with our unionized work force that extends to
7 2010 with wage increases. That's a very known and
8 measurable fact.

9 Q. Would you agree then by 2010 that revenues will
10 fluctuate?

11 A. They could, yes.

12 Q. Would you agree if revenues fluctuate, the level
13 of debt will be affected, positively or negatively?

14 A. That could be one outcome, yes.

15 Q. Would you agree with the statement that
16 projections further out would tend to be less reliable than
17 closer in, as a general premise?

18 A. In a generic sense I would agree with that.

19 Q. Just to clarify, your original JRB-1, page three.
20 Just to make sure we're all talking about the same thing
21 here.

22 A. I have that.

23 Q. Future test year, when we're referring to the
24 test year data, am I correct that the column entitled Budget
25 2006-2007 is the test year data?

1 A. That is correct.

2 Q. And when we say FY, we're talking fiscal year;
3 correct?

4 A. Yes, PGW's fiscal year is a September to
5 August 31 annual basis.

6 Q. And I believe the fixed debt coverage indicated
7 there on this JRB-1 for the future test year is 1.34 times;
8 correct?

9 A. Well, that's not the covenant. That is basically
10 a Wall Street determination. The ordinance and the coverage
11 requirements are that we cover our '75 and '98 ordinance
12 bonds at 1.5. That happens to be an aggregate of all the
13 coverage.

14 Q. Okay. And you would agree, based on this
15 exhibit, though, that the '75 bonds are at 4.03?

16 A. That's correct.

17 Q. And the '98 bonds are 2.03?

18 A. That is correct.

19 Q. Let's go to page 14, please. So you're still in
20 your rebuttal. We're going to focus on line one; lines one
21 to ten.

22 In this portion of your testimony you make the
23 comment that, while the agencies have acknowledged progress
24 made at PGW, there has been no significant increase in the
25 company's rating. I believe that's lines six and seven.

1 A. That's correct.

2 Q. During this pendency of this proceeding, or in
3 recent occurrence, wouldn't you agree that Fitch Rating
4 Service actually raised the PGW outlook from BBB- to BBB?

5 A. Yes, they did. But we felt -- and again,
6 Ms. Bisgaier can shed some more light on this. We felt that
7 at the time that was a correction of something that was long
8 in coming.

9 The 1975 bond ordinance indicates that those bonds
10 were covered before the 1998 series, so there was less of a
11 risk.

12 But you are correct that Fitch raised the standard on
13 those bonds from BBB- to BBB.

14 Q. Am I correct there's no other reference in your
15 testimony from any contact from any other rating entity?

16 A. In my testimony?

17 Q. Correct.

18 A. I do not think so.

19 Q. Let's go to page 21, please, lines 14 to 16.

20 While utilization of a pro forma test year may be
21 appropriate, the company is being regulated on a rate of
22 return rate base basis, it's a very limiting and potentially
23 inaccurate mechanism for cash flow companies.

24 So my characterization of this would be your
25 testimony indicates that we cannot or should not regulate

1 PGW on a pro forma test year?

2 A. I think that's one of the components that can be
3 utilized. I don't think we're saying, or I didn't mean to
4 say at that point that the PUC should not do that. It's one
5 of the things that they can look at.

6 Q. On a general note, you supplied updated schedules
7 to JRB-1. I believe one was attached to Mr. Plonski's
8 testimony, which was an interrogatory response to OCA. I
9 believe you entered JRB-8, or offered JRB-8 as updated
10 statements.

11 And this is just a general question. To the extent
12 you need to refer to them, please do.

13 In all these schedules that have been updated and
14 been supplied at various times, have there been changes made
15 to the future test year data?

16 MR. CLEARFIELD: In any of the schedules?

17 MR. KANASKIE: Any of them.

18 MR. CLEARFIELD: For JRB-8?

19 MR. KANASKIE: Well, JRB-1 as the basis, as the
20 starting point.

21 BY MR. KANASKIE:

22 Q. That was filed with your direct testimony.
23 You've updated -- let's go with JRB-8. I believe JRB-8 was
24 first scheduled with your --

25 A. Rebuttal testimony.

1 Q. With rebuttal, yes. Thank you.

2 A. Yes, this schedule that was supplied as part of
3 my rebuttal testimony was assuming that a \$25 million base
4 rate increase was granted in this proceeding.

5 And then it has numerous flow-throughs basically to
6 cash, bad debt expense, accounts receivable, year-end cash
7 balances. Everything associated with the 25 million. So
8 there were changes made, yes.

9 Q. But in the column that we've identified as a
10 future test year, had there been any changes reflected in
11 this schedule?

12 A. Yes, as I just reiterated. Obviously if I were
13 to look at JRB-1 in my original testimony, the bad debt
14 expense was 52.3 million. And there are adjustments made
15 now for 54 million.

16 And one of the reasons there is the original schedule
17 was computed at 96 percent collection factor, and 95 percent
18 was utilized in the preparation of JRB-8.

19 Q. Please bear with me here. I'm trying to find on
20 the budget 2006-2007 the future test year where those
21 changes are reflected. In that column.

22 A. If I look at the line bad debt expense, 54
23 million 641, on JRB-8?

24 Q. 54 million --

25 A. About halfway through the operating expenses.

1 And if you look at my original JRB-1, page one schedule, the
2 bad debt expense was 52 258.

3 Q. Here's the problem. I'm looking at JRB-1, page
4 three.

5 A. That's not the income statement.

6 Q. I'm looking at the debt service coverage
7 statement.

8 MR. CLEARFIELD: That would be one of the problems.

9 MR. KANASKIE: That's why I can't match my numbers.

10 MR. CLEARFIELD: So you want to look at debt service
11 coverage?

12 MR. KANASKIE: Yes. And I apologize if I misspoke
13 and sent you off in the wrong direction.

14 THE WITNESS: Now, if I was to look at that JRB-8
15 schedule compared to JRB-1, page three, in the pro forma
16 test year, you'll notice that the revenues are up about
17 \$25 million, reflecting the \$25 million rate increase, where
18 the JRB-1 schedule was at current rates.

19 And the same thing with operating expenses, you'll
20 notice that they have changed.

21 BY MR. KANASKIE:

22 Q. And then the debt service coverage identified
23 have increased, and the fixed coverage charge down on the
24 bottom would increase?

25 A. Because of the assumed rate increase, correct.

1 Q. Okay. That's all I wanted on that. Thank you.
2 And I appreciate your patience.

3 Let's get away from the tables for the moment.

4 (Laughter.)

5 Q. Page 22, lines 14 to 16.

6 JUDGE JONES: Still rebuttal, Mr. Kanaskie?

7 MR. KANASKIE: Yes, Your Honor, still rebuttal.

8 THE WITNESS: Would you give me the line number
9 again?

10 BY MR. KANASKIE:

11 Q. 14 to 16. You make the comment that \$25 million
12 will do nothing to reduce the level of debt in PGW's capital
13 structure. Do you have that?

14 A. Yes.

15 Q. Am I correct that this analysis -- I'm going to
16 use the word term adjustments, suggested by OTS. That this
17 analysis doesn't incorporate or acknowledge any of the
18 adjustments presented by our O&M witness?

19 A. If you'll give me a second, I just want to check
20 what JRB-7 was.

21 (Pause.)

22 A. I think that's a fair statement, yes.

23 Q. As a general premise, your analysis doesn't
24 anticipate any participation by the City of Philadelphia?

25 A. Any participation? The participation that we

1 expect is that the 18 million will be granted back for three
2 more years, being 2007, 2008, nine and ten. I'm sorry, four
3 years.

4 Q. But it doesn't anticipate any -- and I believe
5 Mr. Plonski referred to it as an equity infusion; any
6 capital influx, whatever?

7 A. No, it does not.

8 Q. Okay. On the bottom of page 22, you begin a
9 discussion of pro forma expense adjustments. In your
10 preparation for this, for today's hearings, am I correct
11 you've reviewed Mr. Plonski's testimony, as well as
12 Ms. Markovich's testimony?

13 A. Yes.

14 Q. Would you agree that OTS's recommended revenue
15 allowance in this proceeding does not, is not negatively
16 impacted by the adjustments recommended by Ms. Markovich?

17 A. It's not negatively impacted?

18 Q. I'll try to rephrase it, if you'd like.

19 A. If you could, please.

20 Q. Do you believe the OTS revenue adjustment, or
21 revenue recommendation in this proceeding was adjusted
22 downward to reflect the suggestions made by Ms. Markovich?

23 A. Are you talking about the inclusion of the
24 25 million in rate increase?

25 Q. Correct.

1 A. The problem that we've had as we've identified
2 the testimonies of those witnesses is we have no idea where
3 they came up with 25, because we were working off the
4 assumption of the pro forma test year, and assuming that the
5 \$100 million would be reduced by certain adjustments. That
6 was not the case in the testimony presented.

7 Q. Let me go back to Mr. Plonski's testimony where
8 he recommends \$25 million.

9 A. Okay.

10 Q. And I believe the sum total of Ms. Markovich's
11 adjustments, round figures, let's say \$20 million.

12 A. Subject to check.

13 Q. Do you believe if Ms. Markovich's adjustments --
14 arguably, let's say the Commission and the ALJ rejects it.
15 Do you believe then that the OTS revenue adjustment should
16 be upwardly adjusted?

17 MR. CLEARFIELD: Your Honor, I'm going to object. I
18 don't understand the question.

19 MR. KANASKIE: Well, I can rephrase it. Very simply,
20 Your Honor --

21 MR. CLEARFIELD: It's in the testimony. The OTS
22 claims they didn't make these adjustments, but the problem
23 is we don't accept the OTS's basis for deciding whether we
24 -- you know, our revenue requirement, because they leave
25 very significant items out. So I think it's all in the

1 testimony.

2 MR. KANASKIE: Your Honor, the question, very simply,
3 is, if hypothetically OTS were to succeed on every
4 adjustment recommended by Ms. Markovich, isn't Mr. Plonski's
5 testimony --

6 JUDGE JONES: Mr. Plonski?

7 MR. KANASKIE: Yes. As Mr. Bogdonavage understands
8 it, that our new recommendation would be \$5 million?

9 THE WITNESS: No, it is not.

10 MR. KANASKIE: Okay?

11 MR. CLEARFIELD: Yes, he answered it. I really
12 didn't have much choice.

13 (Laughter.)

14 BY MR. KANASKIE:

15 Q. As a general premise, would you agree that
16 allowing this revenue to be included in your operation could
17 be used then to fund your capital needs?

18 A. Are you specifically talking about the 25 million
19 increase in rates?

20 Q. No, I'm talking about Ms. Markovich's
21 adjustments. By not making those adjustments, assuming
22 arguably that they were valid.

23 A. If the adjustments of \$20 million were made, if
24 they were substantiated and viable, obviously that could
25 increase funds available for whatever purpose.

1 Q. Okay. Let's talk about your oral rejoinder just
2 briefly. As I understand it, in your oral rejoinder you
3 talked about factors to be included in liquidity. Is that
4 correct?

5 A. Yes.

6 Q. And was this a fair assessment of your testimony
7 that there are outside or other factors that would be
8 included in the definition of liquidity, but your analysis
9 doesn't recommend that they be utilized? Is that fair?

10 A. If I could, you know, obviously when we're
11 looking at liquidity, as I pointed out earlier, we're
12 looking at whatever may be on hand from whatever source, and
13 any unused component of our commercial paper; and to the
14 extent that other areas of the operations of PGW would
15 generate additional funding, that they could be used for any
16 possible funding requirement.

17 Q. And PGW's definition of cash is very liquid,
18 readily converted; is that correct?

19 A. I would think that is a fair assessment of my
20 testimony.

21 Q. Okay. Your oral rejoinder, you've referred to
22 commercial paper as a funding source. But am I correct that
23 your testimony is it's not necessarily a liquid asset?

24 A. Well, I think that that's partially true. My
25 testimony is that when I borrow money from a letter of

1 credit, I don't consider that to be cash.

2 I mean obviously that's going to have to be repaid.
3 That's a current liability that'll be paid sometime in the
4 future, and may get me over some short-term problem, but
5 doesn't do anything for my overall improvement in working
6 capital from rates.

7 Q. But in the context of a liquid asset, you would
8 agree that it's readily converted into cash?

9 A. Albeit, it is fully borrowed, yes.

10 Q. Okay. I believe in your rejoinder you made a
11 reference that commercial paper is received from investors.
12 Is that correct?

13 A. Yes. The commercial paper, I think, through our
14 consortium of banks is put out in the marketplace by, I
15 think it's Goldman, Sachs. And obviously investors choose
16 whether they should invest in that instrument or they don't.

17 Q. And I'm correct that the ultimate responsibility
18 for repayment of the commercial paper is the ratepayers; is
19 that correct?

20 A. Absolutely.

21 Q. If I could go back to your definition of
22 liquidity. And I won't belabor this point too much.

23 When you've done your analysis of liquidity, have you
24 included any of these other assets in your definition or
25 your analysis of liquidity?

1 MR. CLEARFIELD: I'm sorry. What other assets?

2 MR. KANASKIE: The ones that he's identified that
3 Mr. Plonski had testified to that could be considered
4 liquid, but he has offered explanation as to why it wouldn't
5 be prudent. And the ones we've just talked about.

6 MR. CLEARFIELD: Well, we were talking about the
7 commercial paper, Your Honor. Just for clarification,
8 Mr. Bogdonavage just testified that our definition of
9 liquidity is cash and commercial paper.

10 So that's the definition of liquidity we've used.
11 These other things would be on top of that.

12 MR. KANASKIE: Did Mr. Bogdonavage not indicate that
13 liquidity can include other assets?

14 MR. CLEARFIELD: Well, you can ask him.

15 BY MR. KANASKIE:

16 Q. Did you?

17 A. In the discussion that I have in oral rejoinder
18 is a retort to Mr. Plonski. We did identify that, yes,
19 accounts receivable and some inventories and other current
20 assets could be liquid.

21 But we didn't know, first of all, if we could
22 consummate a transaction with a third party to take
23 advantage of this. And secondly, as I pointed out, I don't
24 know that it necessarily would be prudent.

25 But they are identifiable with the offset of current

1 liabilities. That net impact could, could, become liquid,
2 yes.

3 Q. Those assets are what I am referring to. Now,
4 with that as a backdrop, have you done any analysis that
5 incorporates, whether you believe it's prudent or not,
6 whether it incorporates the value of any of those assets?

7 A. Well, absolutely I have. Because when I take a
8 projection of what I think the ending cash balance this
9 coming August is, obviously during the middle of the winter
10 that receivable was probably well over \$400 million.

11 And we're making an assessment that based on 95 or 96
12 percent collections of the billings, that receivable could
13 be in the range of 250 million.

14 So yes, I've assumed that we will get that \$150
15 million of current receivables in the door by August 31 of
16 this coming year.

17 It's the same thing that I've done with materials and
18 supplies. We fully expect that at this point we probably
19 have somewhere around \$60- or \$70 million of inventory.

20 And as I pointed out, the normal for any LDC in the
21 northeast is probably a buildup of 15 to 20 billion cubic
22 feet of storage between April and November each year. And
23 that number we're expecting to be somewhere around \$170- or
24 \$180 million by August. And it will grow even higher before
25 the onset of the winter season.

1 MR. CLEARFIELD: You said materials and supplies.
2 Did you mean materials and supplies?

3 THE WITNESS: Well, material and supplies is the
4 category, which is gas inventories. 99 percent of it.

5 MR. CLEARFIELD: Okay.

6 THE WITNESS: So to that impact, yes, we did consider
7 them. We do make an analysis of what we think we can do and
8 avail ourselves of.

9 And obviously, the reason the commercial paper --
10 because we have no free cash. The reason commercial paper
11 is at those levels outstanding is to help us fund that
12 working capital requirement.

13 MR. KANASKIE: Could I have one moment, Your Honor?

14 JUDGE JONES: Sure.

15 JUDGE FORDHAM: Sure.

16 (Pause.)

17 MR. KANASKIE: Your Honor, I have no other questions.

18 JUDGE JONES: Okay. Thank you, Mr. Kanaskie.

19 Ms. Appleby, will you be questioning Mr. Bogdonavage?

20 MS. APPLEBY: Yes, the Office of Consumer Advocate
21 does have some questions.

22 JUDGE JONES: You may proceed, Ms. Appleby.

23 MS. APPLEBY: Thank you, Your Honor.
24
25

CROSS EXAMINATION

1
2 BY MS. APPLEBY:

3 Q. Good afternoon. I'm Christy Appleby. I'm with
4 the Office of Consumer Advocate. I just have a few
5 questions. Well, actually, more than a few questions, for
6 you.

7 The first question I wanted to ask you about is, I
8 wanted to just get a clarification on your Rejoinder
9 Exhibit 3.

10 And this is going to be just by way of example so I
11 can make sure I'm understanding it okay.

12 JUDGE JONES: Ms. Appleby, I know you can speak
13 louder.

14 MS. APPLEBY: I'll speak louder. Sorry, Your Honor.

15 BY MS. APPLEBY:

16 Q. By way of example, I'd like to look at September
17 of '06. And I'm just going to pick day one and look at
18 that.

19 It says \$149.9 million was commercial paper
20 outstanding, and --

21 A. Correct.

22 Q. -- \$49.57 million is negative cash. Does that
23 49.57 million reflect the payment of the \$45 million city
24 loan?

25 A. No, it doesn't. In fact, the city loan is

1 embedded in that negative 49 million.

2 Q. It doesn't include that 49. Does the \$45 million
3 city loan, is it included in the 49.57?

4 A. No, it is not.

5 Q. Okay. Could you possibly explain what is
6 included in the 49.57?

7 A. I'll do my very best. On the first day of
8 September there we had issued almost 150 million of
9 commercial paper. And at that point in time we had \$10
10 million in the bank.

11 Included in that \$10 million in the bank was embedded
12 the \$45 million city loan as a semipermanent financing
13 source until it's repaid.

14 Q. And is that the case for every other day as well
15 in the schedule?

16 A. That is correct. Until we get out to the March
17 and April time frame, when you'll see that there are numbers
18 that are zero.

19 And in that case we're actually paying down, not
20 permanently, but into a revolving account, portions of the
21 \$45 million on a daily basis.

22 As an example, prior to, as I pointed out earlier in
23 my testimony, the commercial paper program was renewed today
24 with the consortium of banks.

25 And as we speak today, the \$45 million loan was

1 repaid. And we actually had some positive cash today.

2 Q. Okay.

3 MS. APPLEBY: Would you hold on for a moment? I'm
4 sorry.

5 (Pause.)

6 BY MS. APPLEBY:

7 Q. I just have one follow-up question to that. If
8 you did not have the \$45 million included in this number,
9 what would that number be on the first day?

10 A. Well, the way I would look at that, I'm saying at
11 this point in time when I had \$100 million of cash,
12 obviously the number would be \$55 million of cash.

13 Q. Okay. Thank you very much. I appreciate the
14 clarification.

15 A. Uh-huh.

16 Q. I just want to generally look at your JRB-1.

17 A. On my original testimony?

18 Q. Yes, in your original testimony. These are just
19 general questions about it.

20 Would you agree that your Exhibit JRB-1 revenue
21 requirement model is just one scenario of many that could
22 have been utilized? That is, if the assumptions were
23 changed, the financial results would vary?

24 A. I would agree with that on a general basis. But
25 just to clarify for the proceeding, that pro forma test year

FORM 2

1 was, in fact, approved by the Philadelphia Gas Commission
2 when we went down for operating budget approval process.

3 There were some adjustments made to those numbers,
4 but I wouldn't just say that, you know, it could change.
5 That, in fact, with some of the adjustments the Gas
6 Commission had recommended was, in fact, fully litigated
7 before them as a part of the operating budget proceeding
8 that PGW has on an annual basis.

9 Q. Well, I don't think that's what I'm asking. What
10 I'm really asking is that if you change the goals that you
11 have stated in your JRB-1, such as payback of the \$45
12 million city loan over two years, that that would affect the
13 financial results. Is that correct?

14 A. I think I had that in my Rebuttal Exhibit JRB-13,
15 yes.

16 Q. Okay. Thank you.

17 MR. CLEARFIELD: Your rejoinder exhibit?

18 THE WITNESS: Rejoinder exhibit. I'm sorry. Thank
19 you.

20 BY MS. APPLEBY:

21 Q. And would you agree -- this kind of is based on
22 that question in follow-up. Would you agree that your
23 Exhibit JRB-1 revenue requirement reflects achieving the
24 major goals that PGW has set in its five-year forecast?

25 A. Well, are we talking about the first set of them

1 with no -- one is at present rates, the other is at proposed
2 rates.

3 Q. Well, I'm talking about the whole of the five-
4 year forecast. For example, what I'm talking about are the
5 payback of the \$45 million city loan over two years, the
6 cessation of the \$18 million grant back of the city payment
7 in fiscal year 2010, and the \$202 million debt reduction
8 program over the five-year period that would attain
9 approximately a 50-50 debt equity ratio at proposed rates.

10 A. At proposed rates, they are some of the
11 assumptions. Unfortunately, one of the over-arching issues
12 is, obviously in 2007 we will not be able to collect
13 anywhere near, or bill, any rate increase in this particular
14 fiscal period.

15 So that's going to have a dampening effect of all of
16 the five out years, since the major assumption was that \$100
17 million increase was in place for the test year.

18 But physically, that cannot happen in 2007. So
19 basically everything is going to have to shift out another
20 year.

21 Q. But it still does include these major goals in
22 its five-year forecast?

23 MR. CLEARFIELD: I'm going to object, Your Honor.
24 The first two aren't goals. Those are things that the
25 company has to do, or the city has said to do.

1 The assumption, or the insinuation is that we're just
2 like putting things in here and building our numbers up to
3 that. And that's just not true.

4 MS. APPLEBY: If the company would prefer, I can call
5 them objectives or assumptions.

6 MR. CLEARFIELD: How about facts?

7 MS. APPLEBY: Well, no. I'm not going to call them
8 facts. What I'd like to call them is that the planning
9 process that you have put into this five-year forecast
10 includes these three items.

11 MR. CLEARFIELD: Assumptions that we're going to --

12 MS. APPLEBY: These three assumptions.

13 MR. CLEARFIELD: -- be required to pay back the city
14 loan, that the city has not granted back the \$18 million in
15 FY 11 and 12?

16 MS. APPLEBY: Yes, that's what I'm asking of
17 Mr. Bogdonavage.

18 MR. CLEARFIELD: At the present rates, it doesn't
19 include capital funds. I don't know if you're talking about
20 the present rates or the proposed rates.

21 MS. APPLEBY: That's what I was asking of
22 Mr. Bogdonavage, if it includes those assumptions.

23 THE WITNESS: It includes those assumptions. But
24 they're more than assumptions. I have a standing city
25 council ordinance that says that the 45 million loan should

1 be paid back by August 2008. And to me, that is almost a
2 fact.

3 BY MS. APPLEBY:

4 Q. Thank you. Also, would you agree that the five-
5 year forecast includes assumptions or projections regarding
6 many items, such as expenses, including gas costs and labor,
7 and also labor-related expenses such as health insurance?

8 A. Absolutely.

9 Q. And by way of example, have you assumed a
10 declining level of employees over this five-year period?

11 A. Yes, we did.

12 Q. Have you also assumed a two percent increase to
13 salaries after fiscal year 2007 in this five-year forecast?

14 A. That is correct. And unfortunately, we have a
15 superseding event where we had an extension of two years to
16 the union contract that takes us now through 2010, and
17 adjusts that two percent number a little bit higher. I
18 think they were both two and a half percent increases.

19 So unfortunately, that -- well, not unfortunately.
20 That is a fact that will occur over the next couple years.

21 Q. Thank you. Have you also generally applied a two
22 percent inflation factor where you did not have specific
23 information in developing the five-year forecast?

24 A. Yes, I did.

25 Q. Have you reflected any offsets for efficiencies

1 gained in operations during the five-year forecast period?

2 A. Gains in efficiencies?

3 Q. Yes.

4 A. Obviously, if we reduce the personnel levels over
5 those years, we do anticipate, obviously, some improvements
6 to the operating efficiencies of the company, yes.

7 Q. Besides labor, are there any other efficiencies
8 that you can think of?

9 A. Other than the reductions in personnel levels,
10 and we expect to maintain safe and reliable service under
11 the PUC. So at this point in time this is our best estimate
12 of what requirements we need for O&M expenses.

13 Q. And I know this has been gone over a few times.
14 But I just want to crystalize this in my mind. So please
15 forgive me for this.

16 As I understand your rejoinder and your responses to
17 the OTS questions, you used the term "liquidity" to mean
18 available commercial paper plus year end cash; is that
19 correct?

20 A. That is correct.

21 Q. Would you also agree that if any of your major
22 assumptions that PGW has set in its five-year forecast
23 change, it could have a significant effect on the liquidity?

24 A. That's a fair statement.

25 Q. And would you also agree that if any of your

1 assumptions turns out differently, such as the inflation is
2 higher or lower, the labor cost is higher or lower, this
3 could also affect your analysis?

4 A. Certainly.

5 Q. All right. Now, I'd like to look at your Exhibit
6 JRB-8. What I'd like to look at is your page two cash flow
7 statement.

8 MR. CLEARFIELD: What was the number?

9 MS. APPLEBY: JRB-8, in the rebuttal testimony. And
10 I'd like to look at the page two cash flow statement.

11 THE WITNESS: I have that.

12 BY MS. APPLEBY:

13 Q. Am I correct that this exhibit reflects a
14 \$25 million rate increase beginning in the fiscal year 2007
15 test year, the debt reduction program, and payment of the
16 \$45 million city loan over two years?

17 A. Yes.

18 Q. So I want to clarify -- I know this was gone over
19 a little bit. Am I correct that by ordinance, the way the
20 debt service coverage is structured, the coverage must first
21 be determined for the 1975 bonds, and then for the 1998
22 bonds?

23 A. That is correct.

24 Q. And I think you mentioned this in your rejoinder
25 testimony. Exhibit JRB-8, which is the next page, the debt

1 service coverage schedule.

2 The coverage on the 1998 bonds for the test year 2007
3 is 2.47 times; is that correct?

4 A. Yes.

5 Q. And that still exceeds the debt service coverage
6 of 1.5 times required by the ordinance for the 1998 bonds;
7 is that correct?

8 A. In the narrow assumption that it's above 1.5 for
9 coverage, yes.

10 Q. Thank you. Please refer back to your cash flow
11 statement on JRB-8 for the test year fiscal year 2007. This
12 is the cash flow statement based on your Exhibit JRB-8. It
13 shows the \$25 million rate increase.

14 Is it correct that with the \$25 million rate
15 increase, the outstanding commercial balance at the end of
16 the test year would be \$95 million out of a maximum
17 available balance of 150 million?

18 A. That additional liquidity is available, yes.

19 Q. Am I also correct that for the fiscal years 2008
20 and 2009, the year end cash balance is approximately 50
21 million?

22 A. All things being equal, that's correct.

23 Q. Under this scenario in JRB-8, the commercial
24 paper outstanding increases in fiscal year 2008 to 100
25 million, and then declines to \$75 million in fiscal year

1 2009; is that correct?

2 A. That's correct.

3 Q. And would you agree that unlike debt service
4 coverage, there is no requirement that the year end cash
5 balance be a specific amount, like 50 million?

6 A. Obviously when we're running a corporation with a
7 billion dollars of plant and revenues, having a cash-on-hand
8 balance to equate to the next 45 days, as an example, of
9 working capital requirements, I think is prudent.

10 And I think what I just need to reiterate is, even
11 under this scenario, this is all borrowed cash. This is not
12 free cash from operations or from rates.

13 Q. Well, what I'm asking about -- I'm sorry to
14 interrupt. What I'm asking about is that the year end cash
15 balance, there's nothing in an ordinance or law that says
16 that it has to be 50 million specifically?

17 A. That's correct.

18 Q. PGW has not had a year end cash balance of 50
19 million since fiscal year 1995; is that correct?

20 A. Subject to check, I would --

21 Q. Subject to check. And please look again at your
22 JRB-8 scenario for cash flow.

23 As we discussed earlier, you used the term
24 "liquidity" to mean available commercial cash, commercial
25 paper, plus year end cash.

1 Am I correct that the liquidity at the year end
2 fiscal year 2007 would be about \$105 million?

3 A. It would be. The liquidity would be 105, and all
4 of it borrowed.

5 Q. So that would be \$55 million of commercial paper
6 and \$50 million of cash?

7 A. Well, basically it's the deep pockets of
8 J.P. Morgan for \$105 million.

9 Q. Okay.

10 MR. CLEARFIELD: Who's J.P. Morgan?

11 THE WITNESS: J.P. Morgan is the lead bank on the
12 commercial paper program.

13 BY MS. APPLEBY:

14 Q. Thank you. And I just had a couple of questions
15 about your rejoinder.

16 In your rejoinder you were discussing the available
17 cash. Would you agree that the cash working capital for an
18 investor-owned utility is provided by shareholders, and that
19 the ratepayers pay a return on that cash working capital, as
20 it is included in rate base?

21 A. I don't have specific knowledge of that. I
22 haven't worked for an IOU, but generally through the
23 accounting convention in ratemaking, I would say that is a
24 true statement.

25 Q. And I have one final question. The cash working

1 capital is borrowed from shareholders, and the ratepayers
2 pay a return on that balance; is that correct? For the IOU?

3 A. I would think that is true, yes.

4 MS. APPLEBY: Thank you very much. I don't have any
5 other questions.

6 JUDGE JONES: Thank you, Ms. Appleby.

7 Mr. Bogdonavage, I have some questions for you. I'm
8 going to start off with where Ms. Appleby left momentarily,
9 in reference to your JRB-8 statement.

10 She asked you a question about the cash balance has
11 not been 50 million since 1995. Do you recall that
12 exchange?

13 THE WITNESS: Yes, I do.

14 JUDGE JONES: And your response was yes. Was that
15 correct?

16 THE WITNESS: That response was yes, that is correct.

17 JUDGE JONES: Okay. And my clarification is, it has
18 not been over 50 million since '95?

19 THE WITNESS: Well, Your Honor, one of the things
20 that we do is we do manage our program to hold down costs.
21 If you were to look at the instant matter at hand, which
22 was, on this schedule, happens to be the last actual period
23 being 2005, you'll notice on that schedule that the ending
24 cash was \$15 million.

25 However, if I chose to issue another 35 million of

1 borrowed funds, I could get \$50 million.

2 So, you know, it's a fact that we didn't have \$50
3 million outstanding, but the liquidity was there if we
4 needed to do that.

5 I may note for the record, though, that over the last
6 two to three years our requirements for working capital have
7 grown significantly as a result of the spike in natural gas
8 prices.

9 So our working capital requirement has grown over
10 those two years. And that's basically why we're looking to
11 have an increase in the amount of cash and/or liquidity
12 available at any period.

13 JUDGE JONES: Okay. In your exchange with
14 Mr. Kanaskie, I believe you were referencing your Statement
15 2R at page 21. It looks like lines 14 to 16. You were
16 talking about the pro forma test year.

17 And I believe the question was, is that one component
18 that you would say the Commission is to look at. And I
19 believe your response was yes. Is that correct?

20 THE WITNESS: That's correct.

21 JUDGE JONES: Is there, in your mind, or in your
22 opinion, what are the other components that the Commission
23 should look at?

24 THE WITNESS: Well, one of the components that I
25 think is mandated by the city ordinance that manages the gas

1 works, and I think was accepted when PUC took over
2 regulation of the company, is that it is monitored, and
3 rates are set on a cash flow basis.

4 Obviously, I think PGW, outside of maybe
5 Chambersburg, is the only other municipality, or municipal
6 utility that the Public Utility Commission does regulate.

7 To my knowledge, obviously there are significant
8 differences between an IOU utility and a municipal utility.
9 And we do have different requirements out of our rate base
10 and our ratepayers.

11 And one of the particular things when I talk about
12 this opinion here is, I would just like to have some cash
13 available that wasn't borrowed.

14 And that is one of the components that the ordinance
15 had mentioned, is we should be regulated as a cash flow
16 company, in addition to utilizing the pro forma test year
17 and other known and measurable events.

18 JUDGE JONES: And in your mind, having some cash
19 available that isn't borrowed is very prudent for you as a
20 financial advisor?

21 THE WITNESS: Absolutely, Your Honor.

22 JUDGE JONES: Okay. Just a moment, sir. I think
23 it's just one more.

24 Okay. This is in reference to your rejoinder
25 testimony, I believe. I don't even have in my notes the

1 context that this came up.

2 I do have that there was a time where PGW did some
3 gas deferrals, three year, I believe was your testimony, to
4 gas suppliers, and deferred payment until the winter. I
5 believe that was your testimony. Is that correct?

6 THE WITNESS: What is correct, Your Honor.

7 JUDGE JONES: You said three years. I want to try to
8 pin you down. When is that three-year period?

9 THE WITNESS: The first transaction that we
10 consummated was in 2003. And we did one in 2004 and 2005.
11 So it was over three different fiscal periods, but it was a
12 transaction in all three of those years.

13 JUDGE JONES: Okay. And the thinking at that time
14 was that was a prudent financial maneuver?

15 THE WITNESS: Yes, it was, Your Honor.

16 JUDGE JONES: I don't have anything further.

17 JUDGE FORDHAM: Mr. Bogdonavage, during your
18 rejoinder, Mr. Clearfield pointed you to Mr. Plonski's
19 statement, OTS Statement No. 1SR, page five. And in that,
20 on lines 30 to 32, Mr. Plonski is talking about the working
21 capital contained in the management agreement, and also
22 discussing the order entered on October 4, 2001.

23 You have provided PGW Rejoinder Exhibit 1. And I
24 just want to be clear on what we're discussing.

25 I believe you indicated that the original agreement

1 was in 1972; is that correct?

2 THE WITNESS: That is correct, Your Honor.

3 JUDGE FORDHAM: And you have provided us today with
4 PGW Rejoinder Exhibit 1. And on the front it says, printing
5 date January 1996, includes amendment through December 31,
6 1995. Is that correct?

7 THE WITNESS: That's correct.

8 JUDGE FORDHAM: That's the last amendment that was
9 made in 1995?

10 THE WITNESS: To the best of my knowledge, Your
11 Honor, subject to check. I could find out from our legal
12 department.

13 JUDGE FORDHAM: Okay.

14 THE WITNESS: I think this is the most recent update
15 of the agreement.

16 MR. CLEARFIELD: Your Honor, we'll present this in a
17 brief. But there have been subsequent amendments. This
18 included all of the amendments up to 2000. There were
19 amendments after that. That was when the PUC took over.

20 JUDGE FORDHAM: That's what I was going to ask.

21 MR. CLEARFIELD: As far as we can tell, and we only
22 had a few days, unfortunately, since the surrebuttal, the
23 language has been changed since sometime probably after
24 1972, has remained in the management agreement ordinance
25 ever since then. This was an example of where it was in the

1 amendments up to 1995.

2 But we can put in the current ordinance and all the
3 other amendments in our brief.

4 JUDGE FORDHAM: What I was trying to clarify was --
5 and maybe you can do this a little bit better than I can.
6 You were talking about the working capital. And I believe
7 it was his testimony that the 2001 order did not have the
8 current management agreement language.

9 MR. CLEARFIELD: We discovered that when we saw
10 Mr. Plonski's testimony, frankly, that it appears to have
11 quoted the 1972 management agreement.

12 Because that language was changed. And as far as we
13 know, it's been changed ever since then.

14 JUDGE FORDHAM: Do you know who -- and I don't
15 remember whether the management agreement was an exhibit, or
16 that was just --

17 MR. CLEARFIELD: I do not remember.

18 JUDGE FORDHAM: Okay.

19 MR. CLEARFIELD: I can check, and we can put that
20 information in the brief.

21 JUDGE FORDHAM: I would appreciate that.

22 THE WITNESS: Your Honor, and again, I was involved
23 in all of those cases. I'm pretty sure that we had that as
24 an exhibit.

25 But I think what I just wanted to do in my testimony

1 is, we didn't realize at the time that the testimony
2 presented by Mr. Plonski had quoted the Commission, being
3 the PUC's order.

4 JUDGE FORDHAM: Right.

5 THE WITNESS: And that was not the most recent
6 management agreement.

7 JUDGE FORDHAM: Okay.

8 THE WITNESS: And it was subsequent, as
9 Mr. Clearfield points out, that we found that out through a
10 little bit of detective work.

11 But the language, talking about working capital and
12 its cash or equivalent, has been in place for many, many
13 years, even prior to the PUC regulation in 2000.

14 MR. CLEARFIELD: And just so it's clear, Your Honor,
15 since this is an ordinance, it's a law, we will provide a
16 history in the brief. Unless you tell me otherwise, I think
17 it's appropriate.

18 JUDGE FORDHAM: That would be good.

19 MR. CLEARFIELD: Thank you. We were planning to do
20 that. We wanted to make sure we didn't -- we traced it
21 back, and we didn't give you any inaccurate information this
22 afternoon.

23 JUDGE FORDHAM: I appreciate that.

24 MR. CLEARFIELD: We know that's been changed in the
25 existing ordinance. It was in as far back as 1995. We

1 didn't have a chance to trace it all the way back.

2 JUDGE FORDHAM: Thank you. But I just wanted to make
3 sure that from 2000 on we know where we're going.

4 MR. CLEARFIELD: And off the record --

5 JUDGE FORDHAM: Yes, we can go off the record.

6 (Discussion off the record.)

7 JUDGE FORDHAM: We are back on the record.

8 JUDGE JONES: Mr. Clearfield, do you have any
9 redirect?

10 MR. CLEARFIELD: I may have a few questions. Could I
11 have a few minutes to confer with Mr. Bogdonavage?

12 JUDGE JONES: Yes, you may.

13 MR. CLEARFIELD: Thank you.

14 (Recess.)

15 JUDGE JONES: We're back on the record.

16 Mr. Clearfield, redirect?

17 MR. CLEARFIELD: Just a few questions.

18 **REDIRECT EXAMINATION**

19 BY MR. CLEARFIELD:

20 Q. In answer to a question on cross, you mentioned
21 -- I think it was a question from Judge Jones, as a matter
22 of fact, with respect to the gas deferrals that PGW
23 undertook in the last three years. And you said that those
24 were prudent from a management standpoint. Why did you
25 those?

1 A. Well, in the scope of the rising gas prices, at
2 that point in time PGW's commercial paper program was at the
3 \$100 million level.

4 Between myself and the controller and treasurer, we
5 looked out at the horizon of where we thought the commercial
6 paper program proceeds would be in the December-January time
7 frame, and we realized it was going to be very close, and we
8 had no other place to turn to at that point in time.

9 So that we would have had all \$100 million of
10 commercial paper outstanding in probably the December-
11 January time frame, which is a very critical point of time
12 for PGW.

13 And we thought it was prudent at that point, in those
14 three periods of the natural gas price spikes, that if we
15 could work out a transaction with one of our suppliers where
16 they would inject the natural gas into storage for us, and
17 then we would pay for it over the course of the winter when
18 we were billing customers, it would give us a little bit
19 more breathing room, or liquidity, and we wouldn't be
20 bumping up against the hard number where we'd have no other
21 source of funding to go.

22 Q. Did the company incur a cost to undertake those
23 transactions?

24 A. Yes, it did. Typically, depending on interest
25 rates, the cost of the commercial paper program with

1 interest is about four percent, would be about \$6 million.

2 These transactions on an interest rate basis were
3 probably at double that. They were probably in the eight to
4 ten percent range.

5 And basically we were utilizing that because we
6 anticipated the commercial paper to be fully outstanding.
7 And although it was not necessarily cost effective, it was
8 one of the only sources that we could turn to to provide
9 funding for bills when they came due.

10 Q. Do you believe that that kind of transaction
11 would always be available, or always be something the
12 company can utilize?

13 A. Well, I think the third party would have to, you
14 know, analyze the risk that they had involved. And, you
15 know, I wouldn't say it's always going to be available.
16 There's always a risk.

17 But it's something that we could probably avail
18 ourselves in the future, but the third party would have to
19 determine what risk they wanted to accept.

20 Q. A couple questions were asked about the use of
21 the future test year, or the test year. And you said that
22 that was one factor in setting rates that you believe should
23 be considered for a cash flow company.

24 And I just wanted to clarify. What other factors or
25 elements do you think should go in there?

1 A. Well, obviously, there would be known and
2 measurable events that may or may not be inside the test
3 year, but would be known and measurable.

4 But in addition, the covenant itself says that we
5 should have cash working capital on hand. And obviously,
6 the crafters of our agreement realized in the future that
7 there could be times when the company needs cash working
8 capital.

9 And they provided for that in that section of the
10 management agreement that the rates should be set to
11 produce, among other things, a component for cash working
12 capital so that the company can get over some of the timing
13 differences.

14 Q. What about a planning horizon? Is that something
15 that should be utilized?

16 A. The planning horizon can be utilized in part.
17 Obviously it's not the only thing, but it's one thing that
18 we could look at.

19 And I think I did mention in my testimony there are
20 some known and measurable facts in the horizon that will
21 come to fruition. We do have an extension of our labor
22 contract with our union personnel and, you know, certain
23 other things.

24 So planning horizon is one thing you can look at.
25 But we were trying to basically state that, you know, PGW's

1 not an IOU, and it needs to be regulated on a cash flow
2 baskets. And right now our cash flow is pretty poor.

3 Q. But with respect to that planning horizon, does
4 it concern you that some of the assumptions you make in that
5 projection could change?

6 A. Well, there's always risk. Obviously, you know,
7 we do the very best we can with estimates of where we think
8 we'll be in the future.

9 But it's fair enough to say that there are some
10 things that could change. And obviously those outcomes
11 could go one way or the other. And right now it is a
12 horizon.

13 And just along that point, PGW's in the process right
14 now of developing its 2008 budget in the new five-year
15 planning horizon.

16 So obviously there may be different information
17 available. And we'll utilize the best information
18 available. Which is what we did here in the test year, and
19 also for the horizon before the Commission right now.

20 Q. Do you use the same projection methods and
21 assumptions in the test year as you do with the planning
22 horizon?

23 A. Basically we probably have some better
24 information for the test year than we do in a horizon,
25 obviously. It's a look into the future, so there are a

1 multitude of factors that could change.

2 So the pro forma test year obviously would be more
3 static than it would be into the future.

4 Q. You had some questions about the 45-day one
5 eighth method. And you stated that your understanding that
6 when that's applied to an investor-owned utility,
7 essentially the investor, the investment on utility is
8 allowed to put that amount into rate base, recognizing that
9 it's essentially a loan from investors. Do you remember
10 that?

11 A. Yes.

12 Q. Why aren't you proposing that the cash working
13 capital allowance that would be produced by using this 45-
14 day method for PGW be treated the same way?

15 A. Well, obviously we don't have any investors other
16 than the City of Philadelphia. And they've made a huge
17 commitment to the company as it stands.

18 So the only other place to really turn to proactively
19 is to ask our ratepayers to pay the additional rates that
20 we're asking for right now so that we can begin to provide
21 the necessary infusion to reduce debt and pay our bills
22 timely.

23 Q. Is that consistent with the management agreement,
24 in your opinion?

25 A. Yes, it is.

1 Q. There was also some questions about the, I think
2 it's JRB-8, which shows the effect of a \$25 million rate
3 increase on the company on various financial indices. And I
4 think Mr. Kanaskie asked you about the adjustments that the
5 OTS proposed in its testimony.

6 Do you have an opinion as to how the level of debt in
7 the company's capital structure would change if those
8 adjustments were incorporated into the revenue requirement
9 establishment proceeding, essentially giving you, I guess,
10 another \$20 million?

11 A. Over that planning horizon, if I looked at that,
12 \$20 million is nothing to sneeze at, obviously; but when I
13 look at the debt-to-equity ratio over the five-year horizon,
14 it's virtually unchanged at 82 percent.

15 I'm sure it's changed. But on a rounding basis, it's
16 virtually unchanged over the five-year horizon.

17 Q. So just to make sure it's clear. Without any
18 rate increase, PGW, you're projecting what level of debt in
19 capital structure in 2012?

20 A. About 82, 83 percent.

21 Q. And with a \$25 million rate increase and the
22 adjustments that the OTS projected, what would you estimate
23 the percentage of debt would be?

24 A. Subject to check, obviously very close to the
25 same numbers we just talked about, about 82 percent.

1 Q. Now, you also said in answer to a question
2 Mr. Kanaskie asked you, whether the OTS recommendation of
3 revenue requirements was \$25 million minus \$20 million for
4 the adjustments, and whether you would agree that that was
5 the net result of the OTS's recommendation. Do you remember
6 those questions, more or less?

7 A. Yes, I do.

8 Q. You answered no. Can you explain why?

9 A. Well, obviously, you know, we do not know
10 physically what went into the calculation to come up with
11 the 25 million in the first place.

12 But basically, to my sense, the \$25 million was
13 almost a status quo, that it would provide in the test year
14 a reasonable coverage level. It would make no inroads into
15 borrowed cash. We'd still have to have an outstanding
16 amount of commercial paper.

17 And basically it would be a different, or another
18 source of funding, but it would be almost insignificant when
19 we're looking at the test year trying to pay down some of
20 the borrowed funds.

21 MR. CLEARFIELD: Let me just check my notes, Your
22 Honor.

23 (Pause.)

24 BY MR. CLEARFIELD:

25 Q. There was also some questions about your

1 five-year forecast and the degree to which you included any
2 cost savings or efficiencies in the forecast. Do you recall
3 those?

4 A. Yes, I do.

5 Q. If there were efficiencies or cost savings that
6 occurred over that period, would they have a material
7 effect, in your view, on the financial indices that you show
8 on those, or the financial results that you show on those
9 schedules?

10 A. I'm just looking at the Rejoinder Exhibit 4,
11 which happens to be the \$25 million rate case. And if you
12 looked at the pro forma test year you'll see that the
13 operating and maintenance expenses, less the natural gas
14 costs, are about \$230 million.

15 Embedded in that \$230 million is about \$80 million of
16 labor costs spread amongst those departments in the company.
17 So when we take that out of the equation, we're down to
18 about 150 million.

19 There may be some discretion in the bad debt expense.
20 But basically, if I remove that \$50 million, I'm down to
21 about 100.

22 But embedded in there is, you know, health insurance,
23 pensions, taxes, things that are not avoidable. And we'd
24 probably come down to about four or five percent of cost
25 that might be termed discretionary.

1 So we're doing everything we can to hold down the O&M
2 costs.

3 And if I may, over the last five or six years, that
4 cost has been almost static, adjusted for inflation, so that
5 we don't have a lot of room to look at operating
6 efficiencies.

7 We do everything we can, but it's not fair to just
8 look at a \$230 million O&M number and say you can make
9 tremendous inroads with efficiencies.

10 And as I pointed out, you probably have about four or
11 five percent of those expenditures, \$20-, \$30-, \$40 million
12 that might be available to have efficiencies applied to.

13 MR. CLEARFIELD: That's all I have, Your Honor.
14 Thank you.

15 JUDGE FORDHAM: Thank you.

16 Any recross, Mr. Kanaskie?

17 MR. KANASKIE: Can I have a moment?

18 JUDGE FORDHAM: Yes.

19 JUDGE JONES: Yes.

20 (Pause.)

21 MR. KANASKIE: I have no questions, Your Honor.

22 JUDGE FORDHAM: Thank you.

23 Mr. Clearfield, would you like to move your exhibits
24 at this time?

25 MR. CLEARFIELD: I certainly would, Your Honor. I'd

1 move PGW Statement 2, 2R, and the accompanying exhibits, and
2 PGW Rejoinder Exhibits 1 through 4, into the record at this
3 time.

4 JUDGE FORDHAM: Okay. I would just like to caution
5 everyone to make sure of the numbers of the rejoinder
6 exhibits.

7 The agreement is PGW Rejoinder Exhibit 1; the gas
8 works revenue bonds is two. Then the schedule with
9 commentary on the front is three. And the last document is
10 four, because that was originally labeled as three.

11 MR. CLEARFIELD: Thank you, Your Honor. Yes. I
12 changed the front page; I noticed that I did not change the
13 pages two or three. Would you like me to do that?

14 JUDGE FORDHAM: No, we just noted for everyone to
15 make sure that they did that.

16 MR. CLEARFIELD: I apologize, Your Honor.

17 JUDGE FORDHAM: That's okay.

18 Any objection to the statements or any of the
19 exhibits?

20 (No audible response.)

21 JUDGE JONES: Hearing none, PGW Statements 2 and 2R,
22 which are the direct and rebuttal testimony of
23 Mr. Bogdonavage, and the rejoinder exhibits, are entered
24 into -- and the accompanying exhibits and the rejoinder
25 exhibits, are also entered into the record.

1 MR. CLEARFIELD: Thank you, Your Honor.

2 (Whereupon, the documents marked as
3 PGW Statement Nos. 2 and 2R with
4 accompanying exhibits were received in
5 evidence.)

6 (Whereupon, the documents marked as
7 PGW Rejoinder Exhibit Nos. 1 through 4
8 were received in evidence.)

9 MR. CLEARFIELD: May Mr. Bogdonavage be excused?

10 JUDGE FORDHAM: Yes, he may.

11 THE WITNESS: Thank you, Your Honors, for your
12 attention.

13 JUDGE FORDHAM: Thank you very much.

14 (Witness excused.)

15 MR. CLEARFIELD: The next witness that we were
16 planning to present was Mr. White.

17 JUDGE FORDHAM: Do you have rejoinder for Mr. White?

18 MR. CLEARFIELD: A short amount of rejoinder. And
19 just so you know, Your Honor, I will be doing part of the
20 rejoinder, with Your Honors' permission, then I'm going to
21 turn it over to Mr. Stunder, because it focuses on issues
22 that involve the housing authority and the school district.

23 JUDGE FORDHAM: Thank you.
24
25

1 Whereupon,

2 CRAIG WHITE

3 having been duly sworn, testified as follows:

4 JUDGE JONES: Please state your name and business
5 address for the record, please?

6 THE WITNESS: My name is Craig White, and I work at
7 800 West Montgomery Avenue, Philadelphia, PA 19022.

8 JUDGE FORDHAM: Thank you.

9 Mr. Clearfield, you may proceed.

10 MR. CLEARFIELD: Thank you, Your Honor.

11 We've previously distributed to the all the parties
12 and to Your Honor and to the court reporter a multi-page
13 document which is entitled Testimony of Craig White, which
14 consists of several pages of questions and answers, and
15 seven exhibits; CW-1 through CW-7. And we pre-marked that
16 as PGW Statement No. 5. And we ask that it be so marked.

17 JUDGE FORDHAM: It shall be so marked.

18 MR. CLEARFIELD: Thank you, Your Honor.

19 (Whereupon, the document was marked
20 as PGW Statement No. 5 with accompanying
21 exhibits for identification.)

22 DIRECT EXAMINATION

23 BY MR. CLEARFIELD:

24 Q. Mr. White, do you have what we've marked for
25 identification as PGW Statement No. 5?

1 A. Yes.

2 Q. Is that your prepared direct testimony in this
3 proceeding?

4 A. Yes, it is.

5 Q. Was it prepared by you or under your supervision
6 or direction?

7 A. Yes, it is.

8 Q. Do you have any additions or corrections that
9 you'd like to make to that statement at this time?

10 A. No, I do not.

11 Q. And with that, is it true and correct to the best
12 of your information, knowledge and belief?

13 A. Yes, it is.

14 Q. And if I asked you the questions set forth
15 therein today, would your answers be the same?

16 A. Yes.

17 Q. All right. Let's take a look at the next
18 statement.

19 MR. CLEARFIELD: Your Honor, I'd like to have marked
20 for identification as PGW Statement 5R a multi-page document
21 entitled Rebuttal Testimony of Craig White, consisting of
22 several pages of questions and answers, and Exhibits CW-8
23 through CW-10.

24 JUDGE FORDHAM: It shall be so marked.

25

1 (Whereupon, the document was marked
2 as PGW Statement No. 5R with
3 accompanying exhibits for
4 identification.)

5 BY MR. CLEARFIELD:

6 Q. Mr. White, do you have what we've marked as PGW
7 Statement 5R before you?

8 A. Yes, I do.

9 Q. Was that prepared by you or under your
10 supervision and direction?

11 A. Yes, it was.

12 Q. And do you have any additions or corrections?

13 A. I have one correction --

14 Q. Would you like to make --

15 A. -- or clarification. Certainly.

16 With respect to the discussion of the Philadelphia
17 Hospital of Osteopathic Medicine -- PCOM. Let me just --

18 Q. Do you have --

19 A. -- call it PCOM.

20 Q. -- a page?

21 A. No, I'm sorry, I don't. I left that to you,
22 Mr. Clearfield.

23 (Laughter.)

24 Q. Sorry.

25 A. I can make a reference. With respect to PCOM I

1 indicated that there were no discussions between the
2 company, negotiations between the company and PCOM.

3 And upon some further review, I found that there was
4 an individual in our marketing department that is now
5 working in the operations in the company that did have a
6 preliminary discussion with PCOM.

7 So I want to clarify the record that we did have a
8 discussion with PCOM regarding their rates, or regarding gas
9 service.

10 Q. With that clarification, is your testimony true
11 and correct to the best of your information, knowledge and
12 belief?

13 A. Yes.

14 Q. And if I asked you the questions set forth
15 therein today, would your answers be the same?

16 A. Yes, they would.

17 MR. CLEARFIELD: Now, we have some limited rejoinder,
18 Your Honor, in a couple of areas. And I'll start with, I
19 believe, one question, and then I'll turn it over to
20 Mr. Stunder.

21 BY MR. CLEARFIELD:

22 Q. With respect to IT rates, in Dr. Cohen's
23 testimony for PECO, he suggested in surrebuttal that PGW's
24 negotiations with Philadelphia College of Osteopathic
25 Medicine -- now, this may be something you've already

1 referenced in your clarification. But you may want to add
2 something to this.

3 That the company was unwilling to negotiate
4 reasonable IT rates. Do you agree with that
5 characterization?

6 A. No, I do not. As I said, there was a
7 clarification that we did have some preliminary discussions.
8 Those preliminary discussions were in the context of
9 information that was provided to PGW by Mr. Cohen indicating
10 that his client, PCOM, was interested in gas service, that
11 they would potentially put in a propane blender as the
12 alternative fuel source, it would enable them to move over
13 to an interruptible transportation rate.

14 It's important to note that if you're going to
15 operate on an interruptible transportation rate, you have to
16 have dual fuel.

17 There was no information exchanged regarding volumes
18 that the customer may use, the term that they would use the
19 volume; there was no calculation of potential revenues for
20 the company.

21 So with respect to the negotiations, we indicated to
22 Mr. Cohen that the applicable rate class had a max rate of
23 \$1.66, and that's what we offered.

24 And typically in negotiations, one party starts out
25 at one point, another party starts at another point, and you

1 work yourself to an agreed-to point of view.

2 And in this case that's what we had done. We started
3 with our initial max rate, and we haven't had any further
4 communications with Mr. Cohen since the. And we'd be more
5 than happy to negotiate and add PCOM as an interruptible
6 transportation customer.

7 MR. CLEARFIELD: Thank you. Mr. Stunder will conduct
8 his direct now.

9 JUDGE FORDHAM: Go ahead, Mr. Stunder.

10 MR. STUNDER: Thank you.

11 **DIRECT EXAMINATION**

12 BY MR. STUNDER:

13 Q. Mr. White, I want to direct you towards the
14 various testimonies of Ms. Mondre. And the first is
15 Ms. Mondre's surrebuttal regarding PHA, specifically on page
16 two where she states that there are three tariff rates
17 applicable to PHA; the PHA rate, the municipal service rate,
18 and the general service residential rate. Is she correct
19 about that?

20 A. No, she is not. The only rate that's applicable
21 to the PHA is the PHA rate. Typically, PHA customers, or
22 PHA conventional sites, are master-metered sites, and they
23 are applicable to the PHA rate.

24 Q. Now, Ms. Mondre also notes in that same testimony
25 on page two that the general service residential rate

1 applies to residential and public housing authority
2 customer.

3 And she then concludes that, and I quote, This tariff
4 provision clearly includes PHA, yet PHA has not been
5 directly billed at these rates for convention site services.

6 Is she correct about that?

7 A. No, she is not correct. I took the liberty of
8 pulling out the GS tariff and looking at it before I came
9 over today just to absolutely be certain about this.

10 The PHA is not applicable to the GS rate. Customers
11 that have, that are PHA sites that are individually metered,
12 and they are the customer of record with PHA -- I mean with
13 PGW, I'm sorry -- are applicable to the GS rate. But not
14 the PHA.

15 Q. Now, these sites, what you just referred to as
16 just sites, these are what are referred to as scattered
17 sites; is that correct?

18 A. That's correct.

19 Q. And the conventional sites are the
20 characteristics of those master-metered and PHAs, the
21 customer of record?

22 A. That's correct.

23 Q. Now, on pages two and three of Ms. Mondre's PHA
24 surrebuttal, she continues to maintain that PHA is similar
25 to many municipal agencies for the purposes of qualifying

1 for the MS rate. And she implies that the company's offer
2 to not object to a reclassification of PHA under the MS rate
3 is somehow an admission of its eligibility all along. Do
4 you agree?

5 A. No, I think that's a ridiculous statement. PHA
6 is applicable to the PHA rate. We recognize that if PHA
7 were to be applicable to the MS rate, that would be a tariff
8 decision that would have to be made by the PUC. And --
9 well, I can't say anything further about that.

10 Q. Now, finally on this topic, Ms. Mondre, again in
11 the same testimony, the surrebuttal testimony, on page
12 three, she accuses PHA of electing to charge PHA the highest
13 rate; or, quoting her, picking the highest tariff rate
14 possible to bill PHA.

15 And she asserts in her testimony that for 2006 alone,
16 PHA should have realized a savings of \$660,000. What's your
17 response to this?

18 A. Well, first of all, PHA's only applicable to one
19 rate. And that's the PHA rate. It's not applicable to
20 three rates. And to come up with a savings to a rate you're
21 not applicable to, it just doesn't make any sense.

22 So as I understand it, Ms. Mondre was calculating
23 that based upon the differential between the rate that PHA's
24 applicable to and the MS rate rate, which it's not
25 applicable to.

1 Q. When you say applicable, do you mean eligible
2 for?

3 A. Yes.

4 Q. Now, with regard to PHA, are you familiar with
5 what is called the vendor program?

6 A. Yes, I am.

7 Q. Could you please describe the vendor program, a
8 little bit of the history?

9 A. Well, it predates me a little bit. I started at
10 the company in January of 1980. And the vendor program was
11 something that, as I understand it, drew its origins back in
12 the seventies, where PECO and PGW approached PHA about the
13 fact that many of the PHA customers were delinquent on their
14 gas and electric bills. And the vendor program was
15 developed.

16 Now, this predates any CRP or CAP programs. So a
17 vendor program was developed, and that vendor program
18 allowed PHA, or permitted PHA to provide payment directly to
19 the company for these individual scattered sites at the
20 GS rate.

21 Q. Now, is it your understanding that this program
22 was developed between Community Legal Services to have the
23 HUD --

24 A. HUD.

25 Q. -- and PHA?

1 A. Yes, that's my understanding.

2 Q. Now, on page three of Ms. Mondre's school
3 district surrebuttal, in regard to the vendor program, she
4 claims that PGW is over-billing PHA by \$4 million for gas
5 service for the customers who are in this vendor program.
6 Is that true?

7 A. No, that's not true. Obviously the vendor
8 program goes back to the seventies. It's certainly
9 something that we'd be willing to discuss with PHA.

10 But to suggest that the company is effectively
11 collecting general service payments from PHA, treating the
12 customers as a CRP customer and billing the discount, is
13 beyond belief. It's ridiculous. The company is not double-
14 billing. It's billing for the GS rate.

15 Q. For those customers in the vendor program, the
16 800 customers in the vendor program, are any portions of
17 their bills being recovered in the CRP program?

18 A. No.

19 Q. Now, Ms. Mondre discusses retiree health
20 benefits. Is her position correct?

21 A. No.

22 Q. Is PGW going to present some rejoinder on that
23 topic?

24 A. Yes, Mr. D'Attilio, our vice president of human
25 resources, will provide rejoinder on that issue.

1 Q. I'd like to discuss another portion of
2 Ms. Mondre's school district surrebuttal.

3 On page eleven, Ms. Mondre claims that the purchase
4 of the property next to the Richmond plant is unreasonable.
5 Do you agree?

6 A. No, absolutely not. The property that we're
7 talking about here is the old Franklin Smelting facility.
8 It's the portion of the Franklin Smelting that actually is
9 embedded within the footprint of the block that PGW takes up
10 for the Richmond facility.

11 Three of the fence lines for the old Franklin
12 Smelting property actually border our fence line. So it's
13 actually embedded within the context of our, or within the
14 footprint of our facility.

15 And the reason we bought this facility was, number
16 one, for security reasons. We certainly didn't want another
17 entity in there, since PGW's LNG facility is considered a
18 critical facility by the Federal Government. I think that's
19 the term.

20 And number two, any potential plans of putting in a
21 second liquefier for liquefaction purposes, the appropriate
22 location for doing that would be next to the fence line
23 where the Franklin Smelting facility was.

24 Certainly, if we don't own it, there's stand-off
25 distances that we have to meet. And now that we do own the

1 property, we can obviously install this liquefier in that
2 location, and that will save substantial dollars if we are
3 able to do that.

4 Q. Now, another reason she thinks that the purchase
5 of this property was unreasonable is that she asserts that
6 PGW was going to sell the Richmond facility at one time. Is
7 that true?

8 A. I went back and looked at the RFP that we issued
9 a couple years ago. We were attempting to -- as we are down
10 at the Passyunk facility today, we're trying to utilize our
11 assets and generate revenues.

12 The revenues, obviously, without shareholders, they
13 go back and reduce rates to firm customers, or offset rates
14 to firm customers.

15 In that case we issued an RFP. Our primary desire
16 was to lease the facility. We did have -- in the RFP we did
17 make reference to sale of the tanks. But that was not our
18 preferred direction.

19 But we in no way ever discussed selling the Richmond
20 facility.

21 Q. Meaning with a third party?

22 A. With a third party.

23 Q. That wasn't contemplated as part of any --

24 A. No. I mean there's a lot more there than just
25 the LNG tanks. There's other assets, other facilities.

1 Q. Now, on page twelve of Ms. Mondre's school
2 district surrebuttal, she references the RFP for the
3 Passyunk site.

4 And in that she makes a statement that the potential
5 development of the Passyunk site and, quote, will produce
6 lengthier income streams with the developers than PGW will
7 derive from the sale price of the property.

8 Does she have this right?

9 A. No, we're not intending to sell the Passyunk
10 facility either. We need that facility for a number of
11 reasons. There's a number of assets on there, not the least
12 of which is the LNG facility, which we use to support the
13 pressures on the south end of our system.

14 Once again, we are attempting to utilize assets that
15 we have to potentially generate incremental revenues. And
16 the RFP we put out discusses the highest and best use for
17 that facility. And we're still working on that particular
18 initiative.

19 Q. I just want to shift your focus to one more
20 topic. And that's on pages 13 and 16 of Ms. Mondre's school
21 district surrebuttal where she discusses rule ten and its
22 applications at the school district.

23 Are her characterizations about rule ten correct as
24 they're applied to the school district?

25 A. No, they're not. To give you a little history on

1 that, there were quite a number of schools where PGW --

2 MR. SHORE: Again, objection, Your Honor. This is
3 beyond answering the question. And it should be specific
4 questions if there's follow-up. He disagreed with her
5 characterizations, but he doesn't have to give background.

6 MR. STUNDER: Your Honor, I could take care of that
7 in a second.

8 BY MR. STUNDER:

9 Q. Could you give us your opinion on that?

10 MR. SHORE: Objection to the form of the question.

11 BY MR. STUNDER:

12 Q. Will you please further discuss a little bit of
13 the history surrounding the rule ten and the school
14 district?

15 A. Sure. The school district had a number of
16 facilities where PGW had a contract with the school
17 district. We installed mains and services; and the school
18 district in some cases did not put in the facilities that
19 could burn natural gas, or in other cases didn't make the
20 physical connections.

21 And in researching this subject prior to this
22 opportunity to speak before you today, I found out that
23 there are actually school that will probably not be used in
24 the future. So there will never be an opportunity.

25 I don't know whether they're going to be demolished,

1 but it's my understanding that these schools, we've been
2 informed by the school district -- some of those same
3 marketing people that discussed things with Mr. Cohen; we
4 were informed by the school district that these schools were
5 not going to be utilized going forward.

6 So in that case we've actually invested capital, and
7 we'll see no return on those facilities.

8 Q. Just to clarify, Mr. White, are you talking about
9 mains and services for which PGW spent capital dollars on?

10 A. Yes, I am. When a customer comes to us, or a new
11 customer comes to us, they, in many cases they need to make
12 a physical connection where the company has to invest
13 capital in order to do that.

14 And that's what we do under the section ten of the
15 tariff, rule ten of the tariff.

16 Q. And for certain school district properties, did
17 PGW have contracts with the school district to recover those
18 capital costs through certain volumes?

19 A. Many, many.

20 Q. And was PGW able to recover for certain volumes
21 at certain school district properties?

22 A. No.

23 Q. And as a result of that, currently what does PGW
24 require with regard to the school district and the mains and
25 services?

1 A. We require that the school district pay up front
2 for those main and service installations.

3 Q. Thank you, Mr. White.

4 MR. STUNDER: Your Honor, that's it for rejoinder.

5 JUDGE JONES: Is the witness available for cross
6 examination?

7 MR. STUNDER: Yes, the witness is available.

8 JUDGE JONES: We think it's prudent to take a break
9 so that the intervenors can digest the rejoinder, as well as
10 any creature comforts. We will be back at 3:30.

11 (Recess.)

12 JUDGE JONES: We're back on the record.

13 I understand Ms. Mincavage is proceeding first with
14 cross examination of Mr. White.

15 MS. MINCAVAGE: I believe so, Your Honor.

16 JUDGE JONES: You may proceed.

17 MS. MINCAVAGE: Thank you, Your Honor.

18 **CROSS EXAMINATION**

19 BY MS. MINCAVAGE:

20 Q. Good afternoon, Mr. White.

21 A. Good afternoon.

22 Q. As you probably know, my name is
23 Charis Mincavage, and I'm here representing the Philadelphia
24 Industrial and Commercial Gas Users Group.

25 I'd like to start to go with your very brief

1 rejoinder regarding Philadelphia College of Osteopathic
2 Medicine, which I will refer to as well as PCOM.

3 A. Very good. Thank you.

4 Q. PCOM is currently a sales customer on PGW's
5 system; correct?

6 A. I believe so.

7 Q. So roughly, PGW is aware of the volumes of
8 natural gas that PCOM uses?

9 A. PCOM is a firm customer. When you put dual fuel
10 in, you obviously, your volumes can change substantially.

11 Q. Mr. White, did you know that PCOM has been
12 discussing interruptible transportation rates with PGW for
13 about over a year now?

14 A. Like I said, I did some research, and I found out
15 that there was one discussion between Lew Cohen and John --

16 (Pause.)

17 Q. Zook, I believe?

18 A. John Zook. Thank you.

19 Q. There was one face-to-face discussion; correct?

20 A. I wouldn't be able to tell you whether it was
21 face to face or over the phone.

22 Q. Would you agree with me that there was at least
23 one face-to-face discussion?

24 A. I know there was one discussion.

25 Q. Okay. So then you're not aware that there was

1 also several telephonic conversations?

2 A. No, I'm not.

3 Q. Or that there was various emails exchanged?

4 A. No, I'm not.

5 Q. Mr. White, when a customer's interested in
6 negotiating interruptible transportation rates, who is the
7 point person for PGW for those discussions?

8 A. It typically would be someone in our major
9 accounts group; the manager of that group, or the vice
10 president in that area.

11 Q. So how does a customer know whom to go to then?
12 Is it on your website?

13 A. I believe so.

14 Q. Okay. Well, do they assign a person, a different
15 person for these negotiations?

16 A. I believe that the director or the manager of
17 that area has some discretion as to which account
18 representative will deal with which account.

19 Q. Okay.

20 A. But I believe in this case Mr. Zook was the
21 senior most-person in that group, reporting directly to the
22 vice president. So he was dealing with Mr. Cohen directly.

23 Q. Who's the vice president that they're reporting
24 to?

25 A. Joe Smith.

1 Q. Okay. So it's --

2 A. That's a real name, by the way.

3 (Laughter.)

4 Q. So you're not directly involved with any of these
5 negotiations?

6 A. No, I'm not.

7 Q. Do you know if the account representative keeps
8 written notes of the discussions that occur between the
9 customer and the sales?

10 A. I would expect, knowing Mr. Zook, that he
11 includes those notes in Gold Mine, which is our contact
12 management software.

13 Q. Did you look at Gold Mine before presenting your
14 rejoinder today?

15 A. No, I did not.

16 Q. Did you check with Mr. Zook to see if he kept any
17 written notes?

18 A. Actually I checked with Mr. Smith to see whether
19 -- I asked Mr. Smith was there contact. Mr. Smith said that
20 upon check there was a very preliminary discussion between
21 Mr. Zook and Mr. Cohen. I think I've already said that a
22 couple times.

23 Q. Yes. Do you know if Mr. Smith just talked to
24 Mr. Zook? You said that he checked into this. Did that
25 checking in --

1 A. Oh, I don't know to what degree he checked into
2 it.

3 Q. Okay. Do you know if Mr. Zook ever asked PCOM to
4 provide any additional information?

5 A. I would expect that in Mr. Zook's position, and
6 with Mr. Zook's background and basic knowledge of the
7 subject matter, he certainly would ask the appropriate
8 questions, which would include usage, time frame, type of
9 backup fuel.

10 Obviously when we were informed that the backup fuel
11 may be propane, I'm sure you're aware, there raises
12 questions with the Philadelphia Fire Department, which
13 obviously has certain implications for us.

14 Q. So the answer is you don't know?

15 MR. CLEARFIELD: No, that's not the answer, Your
16 Honor. The answer was what he said.

17 MS. MINCAVAGE: The answer was he's assuming. So I'm
18 confirming that he doesn't know; these are just his
19 assumptions.

20 JUDGE JONES: Why don't you ask that, Ms. Mincavage.

21 MS. MINCAVAGE: I'll repeat.

22 BY MS. MINCAVAGE:

23 Q. Mr. White, do you know for a fact whether or not
24 Mr. Zook asked and received this information, or are you
25 just assuming that he attempted to obtain this information?

1 A. I don't think I --

2 Q. Could you answer yes or no, please, and then go
3 from there?

4 A. No.

5 Q. Thank you. Mr. White, you mentioned on page
6 seven of your direct testimony -- I don't know if you want
7 to turn to it, or if we should keep going. Okay.

8 You mentioned that IT rates are set by contract. Did
9 PGW maintain sole discretion in terms of agreeing to a rate
10 that is below the maximum level?

11 A. PGW operates within the context of its tariff.

12 Q. Could you answer yes or no, and then give me an
13 explanation?

14 A. Yes.

15 Q. Okay. So PGW doesn't need PUC approval?

16 A. You don't want my explanation?

17 Q. Oh, I'm sorry. I thought you already gave the
18 explanation. But go ahead.

19 A. What I said is my explanation.

20 Q. Okay. So PGW doesn't need PUC approval for its
21 negotiated rates?

22 A. Yes.

23 Q. Okay. You mention on page eight of your direct
24 testimony that most customers are charged a rate below the
25 maximum. Do you know the percentage of customers that are

1 being charged the maximum rate?

2 A. No, I do not.

3 Q. Do you know if there are any customers being
4 charged a negotiated rate that's at their cost to serve?

5 A. No, I do not.

6 Q. Okay. Turning to your rebuttal testimony, you
7 mentioned on page five that since 2002 the amount of gas
8 being delivered via interruptible transportation service has
9 increased tenfold.

10 Would you agree with me that PGW didn't come under
11 the jurisdiction of the PUC until approximately 2000?

12 A. Approximately.

13 Q. Okay.

14 A. I would agree.

15 Q. Okay, thank you. And would you agree that when
16 PGW came under the jurisdiction of the PUC, that at that
17 time PGW maintained a GTX rate for transportation?

18 A. Prior to coming under the jurisdiction of the
19 PUC, we had a GTX rate.

20 Q. And that GTX rate required a customer to
21 transport at least 75,000 Dth per year; correct?

22 A. I believe that's correct.

23 Q. And that's significantly higher than the minimum
24 requirements for the IT rate; correct?

25 A. That's significantly higher than some of the

1 IT rates.

2 Q. The lowest IT rate, let's say.

3 A. Yes, I would agree with that. I think we have
4 eight IT rates.

5 Q. Would you also agree with me then that rate IT
6 and the eight schedules therein were not put into place
7 until approximately '02 in a pilot program?

8 A. I don't recall the nature of it being a pilot,
9 but subject to check I certainly acquiesce to that
10 characterization. But yes, it was not until 2002 or
11 thereabouts.

12 Q. And we can also agree then that rate IT, in terms
13 of being open to anyone who might be interested to seek that
14 rate, was not available until PGW's restructuring went into
15 place in about 2003?

16 A. We have eight IT rates. We have IT one through
17 eight. So is your question was GTS applicable, or was IT?
18 We don't have an IT. We have an IT one, two, three, four,
19 five, six, seven eight.

20 Q. Okay. Sorry. That's why I mentioned IT and the
21 various eight rate schedules. Let me rephrase.

22 A. Certainly.

23 Q. Rate schedules IT one through IT eight did not
24 become available to any interested customers until
25 approximately 2003 when PGW's restructuring took place; is

1 that correct?

2 A. Yeah. I think you said 2002 a moment ago.
3 Subject to check, it's in that time frame.

4 Q. I think I was referring to pilot as 2002, and the
5 restructuring itself as 2003?

6 A. Okay. Thank you for that clarification.

7 Q. One last question, I believe, Mr. White. For a
8 customer in PGW's service territory, PGW is the only natural
9 gas distribution company available for that customer to
10 transport natural gas on; correct?

11 A. That would be correct.

12 MS. MINCAVAGE: That's all I have, Your Honor.

13 JUDGE JONES: Thank you.

14 Mr. Shore?

15 MR. SHORE: I'll defer to Mr. Hinerman, Your Honor.

16 JUDGE JONES: Okay.

17 Mr. Hinerman?

18 MR. HINERMAN: For a temporary deferral, because I
19 believe he does have some questions. But I have a few more.

20 JUDGE JONES: Yes.

21 Could you put up the sign for PHA, please, Mr. White?
22 Thank you.

23 **CROSS EXAMINATION**

24 BY MR. HINERMAN:

25 Q. Mr. White, my name is Philip Hinerman. I think

1 we've met before on several occasions. I'm an attorney for
2 the Philadelphia Housing Authority, and I have a number of
3 questions I want to ask you regarding the different rates,
4 some of the rejoinder testimony.

5 Sometimes I get to talk too fast. If I talk too
6 fast, slow me down, and I'll re-ask the question.

7 What is your position at PGW?

8 A. Executive vice president and acting chief
9 operating officer.

10 Q. In that role, did you have discussions with
11 others at PGW in preparation for your testimony regarding
12 issues related to the PHA?

13 A. Yes, I did.

14 Q. Who else did you speak with?

15 A. Mr. Stunder.

16 Q. Aside from Mr. Stunder, anyone else at PGW?

17 A. Mr. Dybalski and Mr. Moser.

18 Q. What did you and Mr. Dybalski talk about?

19 MR. STUNDER: Objection. This is a bit of a fishing
20 expedition. He should ask a question about a topic in the
21 testimonies. This is cross examination on the testimonies.

22 MR. HINERMAN: Let me ask one question, and then I
23 can sort of dispense with the line.

24 JUDGE FORDHAM: Well, first of all, would you spell
25 Mr. Dybalski's name for the record?

1 THE WITNESS: Oh, that's a challenge for me as well.
2 I think it's D-Y-B-A-L-S-K-I, Dybalski.

3 MR. STUNDER: That's correct.

4 JUDGE FORDHAM: And who is Mr. Dybalski?

5 THE WITNESS: He is the director of energy planning
6 and rates.

7 JUDGE FORDHAM: Go ahead, Mr. Hinerman.

8 BY MR. HINERMAN:

9 Q. Well, I guess the bottom line question is,
10 there's no one else from PGW that's been designated as a
11 person to discuss PHA rates other than you?

12 A. Well, I don't typically designate people for
13 that. I look for who has the background, who's working with
14 it, and I may ask them a question because I know that their
15 knowledge base is strong in that area.

16 Q. But you are the person that PGW, at PGW, who is
17 testifying regarding the PHA rates in this proceeding?

18 A. Right. And I have subject matter experts that
19 helped me with the testimony, yes.

20 Q. And that's Mr. Moser and Mr. Dybalski. What is
21 Mr. Moser's position?

22 A. Vice president of gas management.

23 Q. How many public housing -- let me start over.
24 PGW provides services to public housing residents; is that
25 correct?

1 A. Yes.

2 Q. Can you explain the types of public housing
3 residents that they serve?

4 A. We serve multi-unit buildings, and we serve
5 individual scattered sites.

6 Q. So the public housing clients of PGW are related
7 to, they're low-income individuals with PHA?

8 A. Could you repeat that?

9 Q. Well, are their public housing clients of PGW who
10 are not in some way related either as tenants of PHA or are
11 ownership interests from PHA?

12 MR. STUNDER: Your Honor, could I ask Mr. Hinerman to
13 clarify that question? I don't think I understand.

14 MR. HINERMAN: Okay, that's fine.

15 THE WITNESS: I'm not sure -- the reason I'm
16 hesitating, I don't know whether there's other public
17 agencies that have customers that qualify under the
18 definition that you just indicated.

19 But I would say that most of the public housing
20 customers are clients of PHA, if that's what you're asking
21 me.

22 BY MR. HINERMAN:

23 Q. It may have been a little bit confusing. Maybe
24 if I said something, to your knowledge, are there any other
25 agencies who provide public housing which receives gas from

1 PGW?

2 A. Not to my knowledge.

3 Q. Okay. Have you ever heard of the Philadelphia
4 Office of Housing and Community Development?

5 A. I've heard a variety of acronyms that are very
6 close to that.

7 Q. Do you know if they have customers of PGW?

8 A. I do not know.

9 Q. You testified earlier that there are two types of
10 rates for PHA tenants. Can you explain in maybe a little
11 more detail those two types of rates?

12 A. Well, the conventional sites are typically
13 master-metered facilities where PHA's the customer of
14 record.

15 So our customer is PHA. They're operating these
16 multi-unit facilities where a lot of their clients live.
17 And they receive service and are billed under the PHA rate.

18 And then there are other facilities that we usually
19 refer to as scattered sites. And those scattered sites are
20 typically billed at the general service rate.

21 And then, of course, there was the earlier discussed
22 vendor program, which is also billed under the general
23 service rate. And it consists of scattered sites.

24 Q. How does PGW make a determination as to what PHA
25 tenant to put in what category?

1 A. When we add a new customer, typically they make a
2 point of contact with the company, whether it's through our
3 call center or our marketing reps. And those individuals,
4 based upon tariff definitions, would assign that particular
5 customer to a particular rate class.

6 Q. And in the case of --

7 A. I mean a large entity like the housing authority
8 probably has a point of contact, and they probably call, I
9 would suspect, maybe one individual over at PGW. I'm not
10 sure.

11 Q. When you provide services to someone who is a
12 scattered site resident, is it typically more expensive to
13 provide those services than to a PHA master-meter situation,
14 or less expensive?

15 (Pause.)

16 A. I mean if you were -- I can't give you a simple
17 yes/no, because there's so many different situations.
18 Obviously if you're talking about real hardcore cost of
19 service analysis, you could have a scattered site that's at
20 the far end of the system that requires greater investment
21 on the company's part.

22 But we don't necessarily split the hairs like that, I
23 don't believe, in our development of our cost of service.

24 So in answer to your question, I don't believe
25 there's, it's easily definable as to whether or not it's

1 more expensive or less expensive to serve different
2 customers.

3 The analysis is done by Mr. Gorman. He takes into
4 consideration a lot of different factors, and he develops
5 the cost of service.

6 So I would defer to him to really answer that
7 question.

8 Q. Do you know what factors were considered in the
9 decision being made to charge PHA a higher base rate than a
10 resident who is a PHA tenant?

11 MR. CLEARFIELD: Your Honor, I object. It's asked
12 and answered. Mr. White has clearly stated that it's a cost
13 of service issue and he can't answer that question.

14 MR. HINERMAN: I don't think he stated that. If
15 that's true, then he should say that.

16 THE WITNESS: Could you repeat the question?

17 BY MR. HINERMAN:

18 Q. Yes. What factors were used in the decision to
19 charge PHA a higher rate than the tenants of PHA who are
20 billed by PGW?

21 A. That predates this rate case, I believe. So I
22 really don't know the answer to that.

23 Q. Well, you're asking for an increase in both of
24 those rates, and they differ. Who made the decision that
25 they should differ?

1 A. Well, they differed before we asked for the rate
2 increase.

3 Q. Well, are they the same now? Is it your
4 testimony the increase in the PHA rate is the same as --

5 A. No, I believe the PHA rate is eight tenths of one
6 cent per Mcf greater than the general service rate prior to
7 the rate increase. I can't tell you exactly what it is
8 after the rate increase.

9 Q. Why is it higher?

10 A. It's been higher for many years.

11 Q. Why?

12 A. Don't know the answer to that.

13 Q. They can't think of a single reason that there's
14 a different reason between why PHA's charged more than the
15 PHA residents?

16 MR. STUNDER: I object, Your Honor. He answered the
17 question already.

18 MR. HINERMAN: We can stipulate that you don't know
19 of any reason, if that's what you want to do.

20 THE WITNESS: No, I don't know the reason. I mean
21 the rates were not done on a cost of service basis when
22 these rates were first established. They were done many,
23 many years ago.

24 BY MR. HINERMAN:

25 Q. Your earlier testimony was that the PHA rate -- I

1 think you said several times the PHA is only applicable to
2 the PHA rate; is that right?

3 A. The PHA as a customer is only applicable to the
4 PHA rate. That's correct.

5 MR. HINERMAN: Your Honors, if I could present an
6 exhibit?

7 JUDGE FORDHAM: A cross exhibit?

8 MR. HINERMAN: Yes.

9 JUDGE FORDHAM: Yes.

10 MR. HINERMAN: And I didn't actually number it,
11 because I thought we would see how you would like it
12 numbered.

13 JUDGE FORDHAM: We need to label it PHA Cross Exhibit
14 No. 1.

15 MR. HINERMAN: Okay.

16 (Whereupon, the document was marked
17 as PHA Cross Examination Exhibit No. 1
18 for identification.)

19 (Document handed to witness.)

20 BY MR. HINERMAN:

21 Q. Do you know what this PHA Cross Exhibit 1 is?

22 A. Yeah, this is the rate schedule that I referred
23 to in my rejoinder that I had looked at earlier today.

24 Q. Can you explain to me when it says the customer
25 charge and the GCR and distribution charge for public

1 housing authority customers, what that refers to?

2 A. Scattered sites.

3 Q. It doesn't refer to the public housing
4 authority --

5 A. No, it does not.

6 Q. -- that is a customer?

7 A. No, it does not.

8 Q. What's the basis for your testimony it does not
9 refer to the public housing authority?

10 A. The public housing authority has one rate, and
11 individual customers of record who are residential have
12 another rate. And that would be the rate that we're looking
13 at on this sheet, general service rate.

14 And these references are referring to those scattered
15 site customers that are, as you indicated earlier, they're
16 clients of the Philadelphia Housing Authority.

17 Q. Where does it say that?

18 A. Well, you didn't ask me whether it said that. I
19 was just giving you a response to your earlier question. It
20 does not say that on this sheet.

21 Q. You're saying that when it says public housing
22 authority customers, that does not refer to the public
23 housing authority?

24 A. It's plural. I don't refer to the public housing
25 authority as the public housing authority customers. The

1 public housing authority is one customer.

2 Q. There are other customers, though, who are under
3 the public housing authority penumbra; right?

4 A. Well, I don't see any reference to public housing
5 authority under availability. You're asking me about
6 various subsets of the -- or various component parts here,
7 and I'm referring to the fact that these are applicable to
8 the scattered sites PHA customers, not PHA.

9 Q. And in this rate increase, we're not talking
10 about the customer charge, are we? We're talking about GCR?

11 A. We're talking about --

12 Q. Delivery charge?

13 A. -- all aspects of -- but you put a rate schedule
14 in front of me and you asked me whether or not it was,
15 whether it was available to the Philadelphia Housing
16 Authority. And I'm answering you and indicating that if you
17 look under availability, it does not indicate that it's
18 available to the Philadelphia Housing Authority.

19 Q. Mr. White, let me just ask you to listen to my
20 question, because you just told me something I didn't ask
21 you. So let me try to be more specific and help you
22 understand what my questions are.

23 A. Likewise, I'll do my best.

24 Q. Now, the rates that are going to be increased,
25 can you tell me in PHA Cross Exhibit No 1 what rates are

1 scheduled to be increased on this page?

2 A. The rates that are scheduled to be increased on
3 this page are the base rates and the non-fuel component of
4 base rates.

5 Q. Point them out to me for the record.

6 A. They would be the -- well, can I just read them
7 to you?

8 Q. Sure.

9 A. Okay. That would be the customer charge and the
10 delivery charge.

11 Q. Which would be the distribution charge on this?
12 Is that how it's referred to?

13 A. Yeah, it's referred to as delivery charge under
14 sub part A, I guess.

15 Q. Then let's take delivery charge. Do you see the
16 words "public housing"?

17 A. Yes.

18 Q. Does that apply to the Philadelphia Housing
19 Authority?

20 MR. STUNDER: Your Honor, I object to this line of
21 questioning, because what Mr. Hinerman is doing is he's
22 absolutely ignoring that we have another tariff page titled
23 PHA Philadelphia Housing Authority.

24 So he is only showing one exhibit, and not showing
25 the tariff as it is inclusively with another page, another

1 rider, that is the PHA rider, like this one.

2 So I object to this line of questioning, because
3 Mr. Hinerman is not presenting the tariff in its entirety,
4 as he should, and indicate that we have another PHA rate on
5 a separate page in our tariff.

6 JUDGE FORDHAM: But I thought it was Mr. White's
7 testimony that the GS rate did apply to PHA customers.

8 MR. STUNDER: The GS rate applies to PHA customers
9 when they're scattered sites. When they are conventional
10 sites, it's the PHA rate.

11 JUDGE JONES: But that does relate to this,
12 Mr. Stunder.

13 JUDGE FORDHAM: So he can ask him questions regarding
14 that.

15 MR. STUNDER: He can ask questions to this, but what
16 he is not revealing at this point in time --

17 JUDGE JONES: But can't you do that in rehabilitating
18 your witness?

19 MR. STUNDER: Okay.

20 MR. HINERMAN: Your Honor, I agree, that's not a --

21 JUDGE JONES: Go ahead, Mr. Hinerman.

22 JUDGE FORDHAM: And the other thing is, we're not
23 sure where he's going. He might have that after this. I'm
24 not sure.

25 Go ahead, Mr. Hinerman.

1 MR. HINERMAN: Your Honors, just for clarification,
2 I'll give you those pages. I don't want to in any way
3 deceive anyone or try to put one over on the witness.

4 JUDGE FORDHAM: This will be marked PHA Cross Exhibit
5 No. 2.

6 (Whereupon, the document was marked
7 as PHA Cross Examination Exhibit No. 2
8 for identification.)

9 (Document handed to witness.)

10 BY MR. HINERMAN:

11 Q. Just so the record is clear, do you know what
12 this is, Mr. White?

13 A. This is the Philadelphia Housing Authority rate.

14 Q. That's the rate that's currently being charged to
15 the Philadelphia Housing Authority; is that correct?

16 A. That's correct.

17 Q. Okay. Now, back to PHA Cross Exhibit 1. The
18 question that I had asked you before Mr. Stunder objected
19 was, when it refers under delivery charge to public housing,
20 could that include the Philadelphia Housing Authority?

21 A. It never has.

22 Q. Why not?

23 A. It never has.

24 Q. Has there ever been --

25 A. I mean I can't give an answer as to why it

1 hasn't, but we have not billed the Philadelphia Housing
2 Authority under the general service rate.

3 Q. Has there ever been a discussion of billing the
4 Philadelphia Housing Authority under the general service
5 rate?

6 (Pause.)

7 A. Has there ever been a discussion between PGW and
8 the housing authority?

9 Q. Yes.

10 A. I think there's been requests by the housing
11 authority.

12 Q. Have you and I ever met before?

13 A. Yes, I believe so.

14 Q. Did we have a meeting at one point at the PHA?
15 Do you remember that?

16 A. Yes.

17 Q. And did you not make a statement at that point
18 that PGW could bill PHA at the GS rate without a tariff
19 change?

20 A. I don't recall making that statement, no.

21 MR. STUNDER: I object to this line of questioning
22 under the rules of evidence. When parties -- well, let me
23 withdraw the objection. I'm sorry.

24 BY MR. HINERMAN:

25 Q. If I stated on the record today that I was at a

1 meeting with you, and you made the statement that PGW could
2 bill PHA at the GS rate without a tariff rate, would you say
3 I was lying?

4 A. I don't recall the conversation. I mean there
5 was a lot discussed at that meeting, not the least of which
6 was a discussion of the municipal rate, the PHA rate, the
7 general service rate, the CRP rate, the delinquencies. I
8 mean there was a plethora of issues discussed.

9 If you're asking me if I recall this one specific
10 incident or discussion, no, I do not.

11 MR. STUNDER: Your Honor, I may have an objection
12 here. And I'll know if I do. Can I ask Mr. Hinerman in
13 what context was that meeting held?

14 MR. HINERMAN: I have asked the questions I'm going
15 to ask about that meeting. I just want to now sort of
16 conclude this. I have one question over-arching --

17 MR. STUNDER: But was that within the context of a
18 rate case?

19 MR. HINERMAN: No. No.

20 BY MR. HINERMAN:

21 Q. Now that you have reviewed PHA Cross Exhibit 1
22 and Cross Exhibit 2, is it still your opinion that PHA is
23 applicable to the PH rate alone?

24 A. Yes, it is my opinion that is applicable to the
25 PHA alone.

1 Q. You could not use, in other words, a GS rate,
2 wording that talks about billing of public housing --

3 A. That was never the intent of this tariff, and
4 it's not been the application of this tariff.

5 Q. How do you know that?

6 A. It hasn't for 27 years.

7 Q. How do you know that?

8 A. Because I've been here for 27 years at PGW, and
9 I've worked in the areas that pertain to this subject matter
10 for the entire 27 years.

11 Q. Other than because you say so, what else is
12 there?

13 A. I would imagine you could go back and look at the
14 billing records.

15 Q. What would the billing records show you?

16 A. That customers that are billed -- PHA is billed
17 at the PHA rate, and its scattered sites are billed at the
18 GS rate.

19 Q. But does that mean it has to be that way? That's
20 the question, Mr. White. Can you use the language in the
21 GS rate and bill PHA under the GS rate?

22 A. I imagine you could make the language, you could
23 interpret the language any way you want to interpret the
24 language. But the intent of this, the GS tariff, and the
25 intent of the PHA tariff, were to be used as they've been

1 used.

2 Q. Why would you charge PHA a higher rate?

3 A. That goes back so far, I don't know the differ --
4 I don't know why there's an eight tenths of one cent
5 difference between the rates.

6 Q. No, I'm not talking about just in the context of
7 this particular rate case. But in general, your chart at
8 CW-10 sets out the historic billing rates for base rates.
9 And I'd like, if you would, I want to ask you a couple
10 questions about it, if you can refer to it.

11 A. Sure.

12 Q. At CW-10, you reflect, and your testimony
13 discusses the fact, as you put it, that the PH rate is
14 always higher than the municipal rate, and comparable or
15 similar to the commercial and residential rate.

16 So I'd like to ask you to look at that and tell me,
17 is it not true that at every date on CW-10, the PH rate
18 exceeds the residential rate?

19 (Pause.)

20 A. I would be surprised if it didn't.

21 Q. Why?

22 MR. STUNDER: Your Honor, I object. This has clearly
23 been established as a cost of service issue. Mr. White has
24 already stated that he doesn't know exactly the exact
25 history of the rate structure, and that Mr. Gorman, who

1 prepares the cost of service, and he's deferred to him
2 already. And his testimony's provided in this rate case,
3 which has been voluminous.

4 MR. HINERMAN: I would be happy, Your Honors, if we
5 want to stipulate that there's nothing in the record to
6 justify the difference. Because that's what we're hearing.

7 Now, if there is a reason to justify a difference in
8 the rate, it should have been presented in the PUC hearing.

9 MR. STUNDER: Well, it should have been in your
10 testimony.

11 MR. HINERMAN: It was. It's all over my --

12 MR. STUNDER: Not a justification for it.

13 MR. HINERMAN: Okay. So I'm willing to stipulate
14 that there is no known reason for the difference, and we can
15 move on. If not,

16 MR. STUNDER: Your Honor, objection --

17 MR. HINERMAN: -- this is my witness. I have no
18 other witness.

19 MR. STUNDER: The objection isn't coming through a
20 stipulation.

21 JUDGE FORDHAM: Mr. Hinerman, in your review of
22 Mr. Gorman's testimony, you're saying that he cannot answer
23 the questions that you have raised?

24 MR. HINERMAN: It is not referenced in Mr. Gorman's
25 testimony. Now, whether he would have some other, something

1 outside the PUC proceeding that he would want to bring in at
2 this point, it's too late. I don't have a chance to talk to
3 him about his justifications for why PHA's rate is more and
4 is being raised to a higher level.

5 I don't know what he knows. It's just not in the
6 record.

7 JUDGE FORDHAM: Did you propound any discovery to PGW
8 regarding this?

9 MR. HINERMAN: Yes, we did.

10 JUDGE FORDHAM: And you did not get a response?

11 MR. HINERMAN: We didn't get anything that would help
12 enlighten us as to why this is.

13 MR. STUNDER: Your Honor, PGW provided responses to
14 all PHA discovery.

15 MR. HINERMAN: That is correct, they did provide a
16 response. And they provided the same justification here
17 today from the witness.

18 JUDGE JONES: Was it from Mr. White or from
19 Mr. Gorman, Mr. Hinerman? Was the questions from Mr. White
20 or Mr. Gorman?

21 MR. HINERMAN: It will take me a few minutes to look
22 up the answers. I have them here.

23 JUDGE FORDHAM: We're off the record a minute.

24 (Off-the-record pause.)

25 JUDGE FORDHAM: We're back on the record.

1 MR. STUNDER: Your Honors, could we have a brief
2 recess to try and clarify this situation?

3 JUDGE FORDHAM: Okay, we can do that. We can go back
4 off the record.

5 (Recess.)

6 JUDGE JONES: We are on the record.

7 Now go ahead, Mr. Hinerman.

8 MR. HINERMAN: Question PHA Set 1-1 asks the
9 question, Please provide all documents explaining the origin
10 and continuation of the current tariff structure involving
11 gas service to PHA and its residents, including but not
12 limited to billings and declination of use of the
13 residential and commercial GS rate, the PHA rate, and the
14 municipal MS rate.

15 There were a list -- we were requesting lists of
16 documents. Mr. Stunder and I talked about that. They did
17 not, for confidentiality purposes, want to distribute the
18 list.

19 Filed an objection. We didn't push them on that. We
20 agreed to work out something on that. Mr. Stunder provided
21 the answer to that.

22 JUDGE JONES: Mr. Stunder provided the answer to
23 that?

24 MR. HINERMAN: To that particular question. But
25 there were other questions.

1 Question PHA Set 1-3. Please provide a copy of any
2 and all company documents, reports, manuals and policies
3 regarding rate determination as to the various classes of
4 rates, including but not limited to how rate classes are
5 determined, or the client, and the form and documentation
6 required by PGW to assign a rate class to the customer.

7 Response provided by Mr. White, Mr. Gorman. And the
8 response is, Please see testimony of Mr. White, testimony of
9 Mr. Gorman, and cost of service study.

10 Question 1-4. Please provide all documents relating
11 to determination of amounts for requested rate increase for
12 each rate class.

13 Response provided by Craig White and Mr. Gorman:
14 Please see the testimony of Craig E. White, the testimony of
15 Howard Gorman, and the cost of service study.

16 I've reviewed those, obviously. There is no
17 documentation in the testimony or the cost of service study
18 which would explain to us why the decision was made that PHA
19 should have to pay a higher rate for its residents in the
20 PHA class than for its residents in the municipal rate. Or,
21 I'm sorry, in the residential rate.

22 MR. STUNDER: Your Honor, we provided the cost of
23 service study. It's a whole volume. It's 300 pages. It's
24 a detailed study of how rates are applied to different
25 classes.

1 Now, Mr. Hinerman is not an expert in the
2 interpretation of these things. We referred to a study that
3 is over 300 pages long.

4 Mr. Gorman's direct testimony, I don't know how many
5 pages that is; and it explains how the various -- how the
6 cost allocations were developed.

7 These are very lengthy and costly studies that are
8 provided in rate cases.

9 Now, Mr. Hinerman has not determined how it's done in
10 this study, because he's not an expert in that field. But
11 we have provided that through our testimony, explaining how
12 these allocations are done, and explaining how the rate
13 increase allocation was done.

14 And it's explained in Mr. Gorman's testimony. And
15 that's why we referred to Mr. Gorman's testimony, and that's
16 why we referred to the study that is over 300 pages long
17 that in minute detail explains how the cost of service is
18 allocated on the rate classes.

19 MR. HINERMAN: Your Honors, may I respond?

20 JUDGE JONES: No. I'll paraphrase what you gentlemen
21 are telling me.

22 Mr. Hinerman, you asked a question in reference to
23 the rates. You were referred to testimony by, specifically,
24 Mr. Gorman and Mr. White.

25 You reviewed that testimony and found that

1 unsatisfactory to your question. Where is your motion to
2 compel an answer?

3 MR. HINERMAN: Your Honor, it was satisfactory,
4 because there wasn't anything. If there had been, I would
5 have received it.

6 JUDGE JONES: So you assumed that because you
7 couldn't find anything, there was nothing?

8 MR. HINERMAN: When they referred me to specific
9 testimony and documents, and I looked at those documents, I
10 assumed what you heard from this witness today that just
11 because it's always been that way for the last how many
12 years -- and we're going to get into that in a minute --
13 that's not a sufficient reason to increase the PHA rate like
14 they're doing.

15 Unless they can come up with some kind of reason the
16 cost of service differs, it's not in those documents.

17 Now, could I have compelled something that doesn't
18 exist? Probably not. I would assume they're going to
19 answer fully and completely.

20 MR. STUNDER: At this point in time, Mr. Hinerman has
21 not presented a witness that says it's not in that study.
22 If there's no testimony on behalf of the Philadelphia
23 Housing Authority that said that the Philadelphia Gas Works
24 cost of service study is deficient -- they don't have a cost
25 of service study expert. OTS has one; OCA has one. They

1 don't have one.

2 They presented no testimony whatsoever pointing out
3 deficiencies in our cost of service study.

4 Additionally, they've waived cross on --

5 JUDGE JONES: I know they've waived cross on
6 Mr. Gorman. I'm aware of that, Mr. Stunder. That's why I
7 asked which witnesses they referred to.

8 We are off the record.

9 (Discussion off the record.)

10 JUDGE JONES: We're back on the record.

11 Mr. Hinerman, we're of the opinion that your due
12 diligence was lacking as far as pursuing specifically where
13 in the testimony your answer was, since that was referred to
14 you by the interrogatory.

15 In light of that, we believe that the objection
16 raised by PGW, specifically Mr. Stunder, is sustained.

17 MR. HINERMAN: Okay.

18 BY MR. HINERMAN:

19 Q. In your testimony, at page 26, you refer to --

20 MR. STUNDER: Mr. Hinerman, which testimony?

21 MR. HINERMAN: I'm sorry.

22 MR. STUNDER: Direct or rebuttal?

23 MR. HINERMAN: That's a good point.

24 BY MR. HINERMAN:

25 Q. In the rebuttal testimony, at page 26. There is

1 discussion in the last paragraph on that page regarding
2 similarities and hallmarks, efficiencies, which qualify for
3 the MS rate. And you say, but that is not enough.

4 Have you ever reviewed the structure of the housing
5 authority to determine whether or not it has connections
6 with the municipality of Philadelphia?

7 A. Can you be specific about what you mean by
8 connections?

9 Q. Do you know how appointments are made to the
10 board?

11 A. The mayor has some influence over that, I
12 understand.

13 Q. Do you know anybody on the state level that has
14 influence on that?

15 A. I'm sure there are.

16 Q. If you don't know --

17 A. I'm not aware of the governance over at the PHA,
18 no.

19 Q. Are you aware of whether or not there's a
20 residency requirement at PHA that all the employees must be
21 residents of the City of Philadelphia?

22 A. I was not aware of that.

23 Q. Do you know whether the service area of PHA
24 includes more than just the City and County of Philadelphia?

25 A. I was always under the understanding that it

1 dealt with the City and County of Philadelphia.

2 MR. STUNDER: Your Honor, PGW's more than willing to
3 stipulate that the PHA is a state authority. Which I
4 believe it is.

5 MR. HINERMAN: I'm asking questions about the
6 hallmarks or similarities of entities. And that's what I'm
7 just pursuing. I can go on to another area, if we've made
8 the point.

9 BY MR. HINERMAN:

10 Q. You also discuss on the prior page --

11 A. Page 25?

12 Q. Yes. As shown on CW-10, since 1993 the rate
13 charged under PHA eight rate class has been higher than the
14 municipal rate class.

15 Do you see that reference in the middle of the page?

16 A. Yes.

17 Q. Was PHA charged at the municipal rate prior to
18 1993?

19 A. I do not know that. I don't recall that.

20 Q. Is that when you were at PGW?

21 A. Yes, it certainly was.

22 Q. Are you familiar with whether or not PHA pays PHA
23 billed rates consistently at 100 percent?

24 A. What do you mean by PHA billed rates? Are you
25 talking about a utility allowance here? I mean I'm just

1 trying to --

2 Q. No, I'm talking bills directly to the housing
3 authority. Are they paid at 100 percent?

4 A. Yes. My understanding they are.

5 Q. So it's one of your better customers, if not the
6 best?

7 A. I would expect that they would be one of our
8 better customers.

9 Q. Can you explain to me the way the utility
10 allowance works, to your understanding?

11 A. To my understanding?

12 Q. Yes.

13 A. PHA receives funds from HUD on behalf of
14 customers. My understanding is, from brief discussions that
15 I've had with PHA personnel, that they have some latitude on
16 the development of the formula for various customers. And
17 that formula is used to identify what the HUD utility
18 allowance should be that PHA would receive.

19 Q. Do you know the purpose behind the utility
20 allowance?

21 A. I would assume that it is to -- as I understand
22 it, there's an electric and gas. And I would assume that
23 the gas utility allowance is for the purpose of assisting
24 low-income customers with their gas bill.

25 Q. Are you aware of any utility allowances at the

1 PHA billed rate, or are they all at the residential billed
2 rate?

3 A. PHA billed rate. I don't understand the
4 question.

5 Q. Are you aware of whether or not there are utility
6 allowances given to residents whose units are billed through
7 the PHA at the PHA rate?

8 A. I'm not aware of that. I'm aware of the fact
9 that the utility allowance is provided to customers, and
10 scattered site customers; and those scattered site customers
11 have the responsibility to pay PGW.

12 Q. So the utility allowances, to your understanding,
13 are provided to residents who pay PGW?

14 A. That's correct.

15 Q. On some occasions are utility allowances paid
16 directly to PGW by PHA?

17 A. I think at the present time PHA pays us the
18 applicable rate. If it's for PHA facilities, they pay us
19 the PHA rate; if it's for scattered sites, they pay us the
20 general service rate.

21 Q. Are you aware of whether or not all of the
22 residents receive a utility allowance -- I'm sorry. Let me
23 strike that and ask it a better way.

24 To your understanding, do all residents receive the
25 utility allowance that is paid directly to PGW?

1 MR. STUNDER: Your Honor, I object. This is beyond
2 the scope of Mr. White's testimony. So now he's asking a
3 bunch of questions about PHA that the PHA people know.
4 Mr. White doesn't know this stuff.

5 MR. HINERMAN: No. I'm obviously not asking --

6 MR. STUNDER: He's not an administrator at PHA.

7 BY MR. HINERMAN:

8 Q. What I want to know is if it's your
9 understanding, Mr. White, that all of the utility allowances
10 are paid directly by PHA to PGW.

11 A. No, that's not my understanding.

12 MR. STUNDER: Your Honor, objection. There's nothing
13 in his testimony --

14 JUDGE FORDHAM: What is the objection?

15 MR. STUNDER: Pardon?

16 JUDGE JONES: What is your objection, Mr. Stunder?

17 MR. STUNDER: There's nothing in Mr. White's
18 testimony about that subject.

19 JUDGE JONES: About how PHA pays --

20 MR. STUNDER: About how PHA --

21 JUDGE JONES: -- the PGW?

22 MR. STUNDER: -- applies the utility allowances, and
23 how that, if, in part, in whole, more, less, is paid to PGW.
24 There's nothing in Mr. White's testimony about that.

25 JUDGE FORDHAM: Who at PGW knows that?

1 MR. STUNDER: Pardon?

2 JUDGE FORDHAM: Who in PGW knows that?

3 MR. STUNDER: Well, my objection doesn't go to that,
4 Your Honor. It goes to the scope of cross examination. And
5 none of that is contained in Mr. White's testimony.

6 So Mr. Hinerman is asking Mr. White a series of
7 questions that's not in Mr. White's testimony. And
8 Mr. White is telling him that he's uncertain.

9 So primarily, it's beyond the scope of his testimony.

10 MR. HINERMAN: My understanding was there was some
11 discussion about the vendor program in which payments went
12 directly to PGW from PHA. And I --

13 MR. STUNDER: Well, that wasn't the testimony. The
14 testimony was --

15 MR. HINERMAN: I'm sorry, let me finish.

16 And my understanding was that there were some
17 payments that were made directly to PGW. If that's not what
18 he considers as part of the vendor program, I'd like to know
19 that as well.

20 MR. STUNDER: Mr. Hinerman, where in the testimony
21 does it say that utility allowances are paid directly to
22 PGW? Because everything that I read in this testimony says
23 that we bill PHA for, in the vendor program, the GS rate.
24 For conventional sites we pay the PHA rate.

25 There's nothing in the testimony that says that a

1 utility allowance is passed on along to PGW. There's not
2 one piece in here to --

3 JUDGE JONES: Okay, gentlemen, gentlemen.

4 Mr. Hinerman, point to a specific page, a specific
5 line as to where the foundation of your question is. And
6 perhaps that will help us in determining whether it's beyond
7 the scope of the testimony or not.

8 MR. HINERMAN: In Mr. White's rejoinder testimony
9 today, he discussed the vendor program in which the payments
10 were made directly by the company at the GS rate from PGW --
11 or, I'm sorry -- to PGW from PHA.

12 I'm trying to find out what that vendor program is
13 and whether it includes a utility allowance payment.

14 MR. STUNDER: Your Honors, Mr. White testified that
15 PHA's billed at the GS rate in that program by an agreement
16 with CLS, HUD and PHA.

17 JUDGE FORDHAM: Is the utility allowance involved in
18 that?

19 THE WITNESS: We would not know that, Your Honor.
20 That's not something that PGW's internal personnel -- when
21 you asked the question who at PGW, that utility allowance is
22 a PHA HUD interaction. It has nothing to do with our
23 interaction between the company --

24 JUDGE JONES: So your answer is you don't know?

25 THE WITNESS: We don't know. That's not something --

FORM 2

1 JUDGE JONES: Okay, that's the answer.

2 BY MR. HINERMAN:

3 Q. Are you familiar with litigation involving CLS
4 and PHA regarding utility allowances?

5 MR. STUNDER: Objection. This is beyond the scope of
6 his testimony.

7 MR. HINERMAN: You know what? I'm just asking if he
8 knows about it.

9 MR. STUNDER: Well, he didn't testify to it.

10 MR. HINERMAN: He did testify about payments made
11 under CLS, from an agreement with CLS, PGW and PHA. I'm
12 just asking him if he's aware of whether or not that comes
13 from the litigation.

14 BY MR. HINERMAN:

15 Q. Are you?

16 A. I'm aware from a discussion I had with the
17 senior-most person over at PHA that PHA's in litigation with
18 a third party.

19 He may have mentioned CLS, he may have mentioned
20 another entity. I just know that you're in litigation.

21 Q. Do you know -- and I apologize. I'm really
22 unclear. But do you know whether the payments that we're
23 talking about being made that you referred to with CLS, PGW
24 and PHA have anything to do with that litigation, or have
25 anything to do with utility allowances?

1 A. I have no knowledge of that.

2 Q. Okay. Do you know if any of the payments made
3 through that vendor program are for residents who are under
4 the CRP program?

5 A. The vendor program is, as I indicated in my
6 rejoinder, is a program that was designed, and has not
7 changed. It was designed prior to the development of the
8 CRP program, otherwise known as the CAP program at the state
9 level.

10 So to my knowledge, there are no customers in the
11 vendor program that receive the CRP rate. And if there are,
12 it's a mistake.

13 Q. Has there, to your knowledge, been any review of
14 whether or not that situation exists?

15 A. I mean we always review and make sure that the
16 customers are on the proper rate schedule. But certainly
17 errors can occur.

18 Q. Did you read Mr. Colton's testimony regarding the
19 PHA in his rebuttal testimony?

20 A. I reviewed it, yes.

21 Q. Did you have any opinions on Mr. Colton's
22 approach as to obtaining utility allowance directly to PGW
23 from PHA and enrolling people under the CRP program?

24 MR. STUNDER: Objection. Mr. White did not testify
25 as to anything that's contained in Mr. Colton's testimony.

1 MS. APPLEBY: And Your Honor, objection from the OCA.
2 Mr. Colton will be here tomorrow. If Mr. Hinerman has
3 questions about Mr. Colton's testimony, he can ask
4 Mr. Colton those questions.

5 MR. HINERMAN: If Mr. White is aware of any
6 regulatory hurdles that he would like to mentioned, I think
7 it's important to his testimony.

8 MR. STUNDER: It's beyond the scope of his testimony.
9 Mr. White offered no testimony as to what Mr. Colton said.
10 It's not proper cross.

11 MS. APPLEBY: And Your Honor, the --

12 JUDGE JONES: Objection sustained. Mr. Hinerman,
13 move on.

14 MR. HINERMAN: I have no further questions. Thank
15 you.

16 JUDGE JONES: Thank you, Mr. Hinerman.

17 Mr. Shore?

18 MR. SHORE: Yes. Thank you, Your Honor.

19 **CROSS EXAMINATION**

20 BY MR. SHORE:

21 Q. Good afternoon, Mr. White. I'm Miles Shore. I
22 represent the School District of Philadelphia.

23 A. Good afternoon.

24 Q. Thank you. How long have you been in your
25 present position?

1 A. July of 2001.

2 Q. You've been the interim chief operating officer
3 since 2001?

4 A. That's correct.

5 Q. With respect to the contractual issues and rule
6 ten that you covered in your rebuttal testimony, and you
7 also mentioned today, particularly at page 23 of your
8 rebuttal testimony.

9 Where did you learn that the school district back in
10 the late 1990s was contractually obligated to use natural
11 gas for approximately 80 schools?

12 A. At that time I had just moved into the position
13 as vice president of marketing. And one of the things that
14 we did was we went back to review our contracts that we had
15 with customers to ensure that we were not installing
16 facilities and not receiving the appropriate contractual
17 response from the customer.

18 And we discovered that there were some -- there was a
19 large number of schools that had signed a contract to use
20 gas exclusively for a period of time, and PGW had installed
21 facilities at those schools.

22 Q. When did you do that research or investigation?

23 A. Probably '98.

24 Q. Were you personally involved in any negotiations
25 or discussions with the school district on that subject?

FORM 2

1 A. Yes, I was.

2 Q. And were you aware that Mr. Steven Hershey was
3 representing the school district at the time?

4 A. I'm not sure if I knew at that time. But I guess
5 I heard after Mr. Hershey came to the gas works that he was
6 working with Ms. Mondre, and she was representing the school
7 district.

8 Q. Well, he was representing Ms. Mondre and the
9 school district in 1999, wasn't he, before he came to PGW?

10 A. I didn't have knowledge of it at that time. And
11 even today I couldn't tell you specifically when he
12 represented Ms. Mondre.

13 Q. Were you aware that of the 80 schools that you
14 refer to on page 23, line five, that several, or more than
15 ten of them were no longer contractually required to use
16 only natural gas?

17 A. I would suspect that they didn't meet the
18 contract. So when you say they're no longer required, I'm
19 not quite sure what you mean by that.

20 Q. I mean either that the term of the contracts had
21 expired, or that the school district had actually met the
22 requirements of the contracts.

23 A. It's not my understanding that they met the
24 requirements of the contract. If you're saying that the
25 contract itself had a term that has passed, I would accept

1 your representation that ten of them have.

2 MR. SHORE: I'm going to show the witness an exhibit
3 for cross examination, Your Honor.

4 JUDGE JONES: You may approach.

5 MR. SHORE: I've pre-marked this as School District
6 Cross Examination Exhibit No. 5. I'm taking it out of
7 order. I'll re-number it number one if you'd prefer.

8 JUDGE FORDHAM: That would be better.

9 JUDGE JONES: That would be better.

10 (Whereupon, the document was marked
11 as Philadelphia School District Cross
12 Examination Exhibit No. 1 for
13 identification.)

14 (Document handed to witness.)

15 BY MR. SHORE:

16 Q. Mr. White, I'm showing you a document that's
17 marked as School District Cross Examination Exhibit No. 1.
18 Have you ever seen this? This is a copy of a letter dated
19 February 11, 1999, from Philadelphia Gas Works to
20 Steven Hershey, Esquire. Have you ever seen this document
21 before?

22 A. I don't recall ever seeing this document. I know
23 I'm listed as a CC, but you're talking about an eight-year-
24 old document.

25 I mean since it's carboned to me, I probably would

1 expect that it came to me. But you're asking me if I recall
2 it, and I do not.

3 Q. And the letter is written by Abbie Pozefsky, who
4 was the general counsel at the time; is that right?

5 A. Yes.

6 Q. I'd like to invite your attention in the first
7 paragraph, the second sentence. Do you see where she wrote,
8 We are able to confirm that with the exception of the Wilson
9 School, whose contract term expires in February 2001, all
10 schools listed in your letter are no longer subject to
11 exclusive use requirements? Do you see that?

12 A. Yes. Can you give me a moment to read this?

13 Q. Sure.

14 A. Okay.

15 (Witness perusing document.)

16 A. Upon reading this, I recall the letter.

17 MR. STUNDER: Mr. White, hold on one second.

18 Your Honor, I object to the presentation of this as
19 evidence, and reference to it, because it references a prior
20 letter. We don't have that letter presently. I don't know
21 what schools are listed in that letter.

22 And I don't even know how the schools referenced in
23 this letter intersect with the 80 schools in Mr. White's
24 testimony.

25 So Mr. White doesn't have any foundation whatsoever

1 to answer any questions responsive to this letter, because
2 he doesn't even know how they intersect with the 80 schools;
3 and we don't have the prior letter.

4 MR. SHORE: Your Honors, this is cross examination.
5 And I can test his knowledge and memory of the facts that he
6 set forth in his rebuttal testimony.

7 And this is a writing that was contemporaneous with
8 the period he's talking about, and which he was copied.

9 MR. STUNDER: On the very least, I'd like to see the
10 prior letter. I mean we're just like fish out of the water.
11 We don't even know what schools are listed in the prior
12 letter.

13 MR. SHORE: Your Honor, this is cross examination.
14 I'm not offering the letter into evidence.

15 (Pause.)

16 MR. STUNDER: Your Honor, there's also other
17 references in here in the second paragraph where we write --
18 well, Ms. Pozefsky writes, that PGW continues to await a
19 response from the school district regarding some do,
20 regarding --

21 MR. SHORE: Your Honor --

22 JUDGE JONES: Wait a minute. That's not proper,
23 because Mr. Shore has only referenced one particular part of
24 the letter thus far. And he has not offered this letter
25 into evidence, Mr. Stunder.

1 I agree with you that the part that he has referenced
2 does reference another letter. And we are not sure what
3 that other letter's contents was.

4 MR. STUNDER: Exactly.

5 JUDGE JONES: Mr. Shore, are you prepared to provide
6 the contents of the letter dated February 3, 1999?

7 MR. SHORE: May I have a moment, Your Honor, see if I
8 have it in my briefcase?

9 (Pause.)

10 THE WITNESS: Your Honor, are we off the record at
11 this moment?

12 JUDGE JONES: We are off the record.

13 (Discussion off the record.)

14 JUDGE JONES: Back on the record.

15 MR. SHORE: In answer to your question, I do not have
16 the February 3, 1999 letter referred to in my Exhibit No. 1.
17 I was intending only to use this letter to cross-examine the
18 witness on the specific sense that I mentioned, to test his
19 memory and credibility relating to his rebuttal testimony on
20 page 23.

21 JUDGE JONES: In reference to the 80 schools;
22 correct?

23 MR. SHORE: Yes, in reference to the 80 schools.

24 JUDGE JONES: But the problem is that the part that
25 you're pointing us to states that there was a list of

1 schools in the February 3, 1999 letter. We don't have that
2 list in this letter, so we don't know what we're talking
3 about.

4 Do you agree with me on that, Mr. Shore?

5 MR. SHORE: I agree that we do not have the
6 February 3 letter. My point was, though, that a gas works
7 representative stated that all the schools that were listed
8 in the letter were no longer subject to exclusive use
9 requirements.

10 Mr. White, in his testimony --

11 JUDGE JONES: But we don't know what other schools
12 were.

13 MR. SHORE: No, we don't know the names.

14 JUDGE JONES: And we don't know if it was 80.

15 MR. SHORE: No, we don't. That's right, Your Honor.

16 MR. STUNDER: And he's misquoting the letter.
17 There's other parts of the letter that militate against his
18 position.

19 I mean he's quoting one, not even an entire sentence.
20 And the next paragraph stands for the reverse of what he
21 wants to have it stand for.

22 MR. SHORE: Well, that may be subject to redirect
23 examination, Your Honor. But it's not grounds --

24 JUDGE JONES: I would agree, Mr. Shore. Go ahead.

25 MR. SHORE: It's not grounds to prohibit cross

1 examination based on a letter that was written at the time
2 that was copied to this witness.

3 I was also going to ask him about the next sentence,
4 about the seven named schools. Which is within the scope of
5 his rebuttal testimony as well.

6 Again, it's only being used for the purpose of cross
7 examination. I'm not --

8 MR. STUNDER: It's incomplete.

9 MR. SHORE: -- going to offer it into evidence.

10 MR. STUNDER: I mean it's not even going to be
11 helpful.

12 MR. SHORE: Well, that's Mr. Stunder's opinion, Your
13 Honor. The cross examination of all the witnesses is
14 helpful to the Court, I believe. To the administrative law
15 judges.

16 JUDGE JONES: We're off the record.

17 (Discussion off the record.)

18 JUDGE JONES: We're back on the record.

19 Go ahead, Mr. Stunder.

20 MR. STUNDER: Your Honor, we have no way of knowing
21 how this letter references the 80 schools, or if it's even
22 part of the 80 schools. We have no way of knowing that.

23 Mr. Shore has not presented us anything that connects
24 this. There's no nexus to those 80 schools. We have no
25 idea. No idea.

1 And what he's offering this letter is absolutely
2 unhelpful. And if it's unhelpful for us here, it's not
3 going to even get at the heart of the purpose of cross
4 examination.

5 We have an idea. If we can't figure out how this is
6 related to the 80 schools, how do we expect a witness?
7 There's nothing apparent on its face.

8 JUDGE FORDHAM: Do you have a list of the 80 schools?
9 That's part of your witness's testimony, the 80 schools. Do
10 you have the list of the 80 schools?

11 MR. STUNDER: We don't have them presently.

12 MR. SHORE: Well, that was going to be one of the
13 follow-up questions, Your Honor. Where did he learn that
14 there were 80 schools?

15 MR. STUNDER: Well, he provided --

16 JUDGE JONES: No, your witness provided the 80
17 schools.

18 THE WITNESS: I would be happy to respond. There
19 were other reasons other than just not using gas. There
20 were reasons where they weren't on the proper rate class
21 because they didn't meet the requirements.

22 So the 80 schools was an amalgamation of a lot of
23 issues. I cannot tell from this letter whether it was
24 referring to the fact that certain schools didn't belong on
25 -- or belonged on the BPS rate, but didn't use in accordance

1 with the BPS tariff, or whether there were schools that
2 weren't using at all, or whether there were schools that
3 didn't connect physically. I can't tell any of those things
4 from this.

5 All I know, that back in '98 we had a significant
6 number of Philadelphia School District facilities that we
7 had installed expensive capital improvements in the ground,
8 and they weren't using in compliance with the contract that
9 they had signed.

10 JUDGE FORDHAM: How long did the contract last?

11 THE WITNESS: Various time frames. Because each
12 contract is typically created based upon the investment that
13 PGW has to make.

14 So in some cases the contracts may be longer, some
15 contracts may be shorter.

16 JUDGE FORDHAM: And if you know, what would break the
17 contract?

18 THE WITNESS: Not meeting the terms of the contract,
19 which include burning gas in accordance with the appropriate
20 volumetric levels, using the appropriate dual fuel, using
21 gas exclusively.

22 You've got to remember, Your Honor, at this point
23 we're trying to recover the capital. We spent ratepayers'
24 money to put capital in the ground on behalf of a customer.
25 We need to recover that by the customer exclusively using

1 gas for a period of time.

2 If we didn't require that, the customer could go out
3 and use number two oil if number two oil dropped below the
4 price of natural gas.

5 So in that case, our firm customers, who are paying,
6 effectively, since we have no one else footing the bill
7 here, paying to make that into -- to install that capital.
8 And we have to require that the customer do certain things.

9 So to specifically answer your question, the customer
10 isn't meeting one of a number of issues.

11 JUDGE FORDHAM: And what did PGW do if they did not
12 use the requisite amount of gas?

13 THE WITNESS: Well, that's when we moved to the point
14 where we had negotiations with the school district, and we
15 determined that we would require that they paid us
16 initially, as opposed to getting the benefit of assuming
17 that they will use gas; stay on the right rate class and use
18 it in accordance with what they agreed to.

19 They weren't meeting the terms of earlier contracts.
20 So one of the ways that we dealt with it was to have them
21 pay for the installation up front, and then at a certain
22 point in time -- at the end of that contract, I should say.
23 The end of the contract we would review the usage and
24 determine whether or not the school district would receive
25 full credit, or receive a refund, or whether they had

1 already met, or just not met the rule ten requirements.

2 I don't know whether I made that last part very
3 clear. I know I didn't. Want me to give it another shot?

4 (Laughter.)

5 JUDGE FORDHAM: That's sufficient.

6 THE WITNESS: Okay.

7 JUDGE FORDHAM: Mr. Shore, what else did you want
8 with respect to this particular letter?

9 MR. SHORE: I was going to ask a follow-up question
10 about how he learned, or how he knew that there were
11 approximately 80 schools involved. And I as also going to
12 ask him about the next sentence that specifically references
13 seven schools, and whether PGW ever took any action to
14 recover the costs, their capital costs.

15 JUDGE FORDHAM: Mr. Stunder?

16 MR. STUNDER: Your Honor, I object to the second
17 question where he asks how the number of schools relate to
18 the 80 schools.

19 JUDGE FORDHAM: Where he asked what?

20 MR. STUNDER: Where he asked -- because again, we
21 don't have the prior letter, and we can't place this,
22 properly place this within the context of the 80 schools.

23 JUDGE FORDHAM: But you have no objection to his
24 other questions?

25 MR. STUNDER: The first and the third I don't have

1 any problem with.

2 JUDGE FORDHAM: You may ask those other questions,
3 Mr. Shore.

4 MR. SHORE: Thank you, Your Honor.

5 BY MR. SHORE:

6 Q. Mr. White, how did you learn that there were
7 approximately 80 schools, school district schools that were
8 contractually obligated to use natural gas back in the late
9 nineties?

10 A. How did I learn it for the purposes of this
11 testimony, or --

12 Q. Let me rephrase it.

13 A. Give me the right time frame, and I'll answer.

14 Q. When did you first learn --

15 A. Okay.

16 Q. -- that there were 80 schools during that time?

17 A. Back in '98 we did an extensive review of the
18 contracts, of the usage, of every school within the school
19 district. And we put together listings.

20 I've seen those listings. I've reviewed them. But
21 of course it's been a few years since I've looked at it.
22 And there was a large number of schools on there. I'm
23 assuming that it was 80.

24 My subject matter expert that helped me write this
25 testimony put the 80 down, so I'm assuming that it's

1 correct, and I will stand by it.

2 With respect to why we didn't take actions, I think
3 that was your third question.

4 Q. Well, let me ask. Who was your subject matter
5 expert on this subject?

6 MR. STUNDER: Your Honor, I object to that to the
7 extent that it violates attorney/client privilege. Because
8 it was a contractual issue at that point in time.

9 MR. SHORE: The witness may answer, Your Honor. If
10 it was an attorney, he may so state. I wouldn't ask him for
11 the disclosure of any confidential attorney/client
12 communications.

13 MR. STUNDER: Okay.

14 MR. SHORE: But the fact that an attorney was
15 involved --

16 JUDGE JONES: Go ahead. Mr. White, answer the
17 question.

18 THE WITNESS: There were a number of people that
19 worked on it, all the way from --

20 JUDGE JONES: No, he asked your subject matter
21 person.

22 THE WITNESS: A number of subject matter experts that
23 worked on it. Teresa Glollick (phonetic) was one. I
24 imagine --

25 (Pause.)

1 THE WITNESS: I know Teresa was at the ground floor.
2 I can't recall who was in what job at that time. But it
3 would have been members of the major accounts group that
4 would have filtered this information up.

5 The information was provided to a number of us; one
6 of our attorneys, myself. So there were a number of people
7 involved.

8 BY MR. SHORE:

9 Q. And was an attorney one of the subject matter
10 experts?

11 A. Not a subject matter expert, just involved. The
12 subject matter expert was an individual who dealt directly
13 with the school district for many years, and had, you know
14 -- she is one of those fortunate people that have, you know,
15 that you have in your organization that has the
16 institutional memory, and also has worked with the school
17 district.

18 So putting this information together, for her, was
19 not a problem. It was very detailed.

20 Q. And can we agree that PGW never took any legal
21 action to recover the capital costs that it spent on
22 construction of mains and services in order to provide gas
23 service to those 80 schools, as you mentioned on page 23 of
24 your rebuttal testimony?

25 MR. STUNDER: Objection. I would just ask Mr. Shore

1 to define legal action.

2 BY MR. SHORE:

3 Q. Mr. White, legal action means filing a lawsuit or
4 a claim, an administrative claim of some sort.

5 A. No, we chose not to do that to the school
6 district.

7 Q. Were you aware that PGW did transfer some
8 accounts, school district accounts to a higher rate class?

9 MR. STUNDER: Your Honor, I object. That's assuming
10 facts not in evidence. When he asks a question, are you
11 aware.

12 MR. SHORE: This is cross examination, Your Honors.

13 (Pause.)

14 MR. SHORE: Well, I'll rephrase the question.

15 BY MR. SHORE:

16 Q. Did PGW transfer any of the school district
17 accounts to higher rate classes as a result of your
18 discovery of these contractual obligations referred to on
19 page 23?

20 A. I believe we did.

21 Q. When was that?

22 A. I would suspect that it was in the late nineties
23 or 2000. '98, '99, something like that.

24 Q. And when did PGW start requiring payment in full
25 up front from the school district on section ten projects?

1 A. About the same time.

2 Q. With respect to the benefits, I know that your
3 counsel or you mentioned that there will be oral rejoinder
4 from another witness. But this issue is mentioned in your
5 rebuttal testimony also, on page 21.

6 MR. STUNDER: Your Honor, if I may have a moment just
7 to review 21.

8 JUDGE FORDHAM: Which line are you --

9 MR. SHORE: Well, actually, it's a slightly different
10 question.

11 BY MR. SHORE:

12 Q. On page 21, starting at lines 22 through 25, you
13 state that only a small percentage, less than five percent
14 of PGW's annual expenses are non-discretionary. Do you see
15 that?

16 A. Yes, I do.

17 Q. Is that correct? Did you mean -- is that non-
18 discretionary correct, or did you mean discretionary?

19 A. I would imagine we meant discretionary, as
20 Mr. Bogdonavage testified to earlier today. Thank you for
21 that correction.

22 Q. Would you correct your testimony to change that
23 word to discretionary rather than non-discretionary?

24 A. I believe so, yes.

25 Q. Thank you. Are management bonuses discretionary?

1 MR. STUNDER: Objection, Your Honor. That's outside
2 of the scope of Mr. White's testimony. He never testified
3 to that. That's why you struck footnote one in Ms. Mondre's
4 testimony.

5 MR. SHORE: Your Honors, this is not Ms. Mondre's
6 surrebuttal testimony. This is Mr. White's --

7 JUDGE JONES: This is Mr. White's --

8 MR. SHORE: -- direct and his rebuttal testimony.

9 MR. STUNDER: But he never testified to it. I'm just
10 making an analogy.

11 JUDGE JONES: Mr. Shore, is your question, would you
12 characterize a bonus is discretionary? Is that your
13 question?

14 MR. SHORE: A management bonus, yes. Or I could ask
15 him more generally what, in his opinion, what types of
16 expenses are discretionary.

17 JUDGE JONES: Ask that question, sir.

18 BY MR. SHORE:

19 Q. Mr. White, what types of annual expenses referred
20 to on page 21 of your rebuttal testimony are discretionary?

21 A. I couldn't even venture to pass myself off as an
22 expert on the accounting at PGW. But I would answer your
23 question that I wouldn't consider -- I would consider
24 bonuses discretionary.

25 Q. Has PGW reduced its health and welfare costs over

1 the last three years?

2 A. I'm sorry. Could you repeat that?

3 Q. Has PGW reduced its health and welfare costs over
4 the last --

5 MR. STUNDER: Objection, Your Honor. We're going to
6 have a subject matter expert, Mr. D'Attilio, addressing the
7 school district's testimony on this matter tomorrow.

8 Also, Mr. Bogdonavage was here to testify about these
9 expenses. He was just here. Mr. Shore sat through that; he
10 waived cross examination on Mr. Bogdonavage.

11 MR. SHORE: I should have referenced the specific
12 page of Mr. White's rebuttal testimony before I asked that
13 question. And if I may, I'll rephrase it.

14 JUDGE JONES: Thank you, Mr. Shore.

15 BY MR. SHORE:

16 Q. Mr. White, inviting your attention to page 19 of
17 your rebuttal testimony, particularly at lines 14 through
18 17. Have the health benefits that you refer to there been
19 reduced at all in the last three years?

20 MR. STUNDER: Your Honor, again, I object.
21 Mr. D'Attilio is going to be here tomorrow. He will be able
22 to answer that question.

23 MR. SHORE: Your Honors, but Mr. White is here today.
24 And his rebuttal testimony discusses this issue. And I have
25 a right to cross-examine him on it.

1 MR. STUNDER: And that's why we put the Q&A in the
2 rejoinder, because we are presenting Mr. D'Attilio on that
3 subject matter.

4 Mr. D'Attilio is the head of HR. And we are
5 presenting him, as we informed Your Honors, as a rejoinder
6 witness for this very issue. What is better than to have
7 Mr. D'Attilio here to speak to the matter?

8 JUDGE FORDHAM: Well, since Mr. White has included it
9 in his testimony, I'll allow the question. If he doesn't
10 know the answer, then he can say that.

11 THE WITNESS: Could you repeat the question?

12 (Pause.)

13 THE WITNESS: I think it was had the health care
14 benefits dropped --

15 BY MR. SHORE:

16 Q. Thank you. Have the health and welfare benefits
17 of the PGW been reduced at all in the last three years?

18 A. I would expect that they are, because they have
19 been, because we negotiated a two-year extension with our
20 unionized labor force, 686. And in that extension we have
21 higher co-pays.

22 So my answer to that question is yes. But obviously,
23 Mr. D'Attilio will have a lot more specificity on this issue
24 than I do.

25 Q. Which is the largest union in PGW?

1 A. We only have one union, sir.

2 Q. One union. What's the name of that union?

3 A. That would be Local 686.

4 Q. And what's the term of the collective bargaining
5 agreement?

6 A. May 15 of --

7 MR. STUNDER: Your Honor, objection. Mr. D'Attilio
8 will be here tomorrow to speak to this.

9 MR. SHORE: Your Honors, again, this is specifically
10 referenced on page 19 of Mr. White's rebuttal testimony. He
11 says it's required under the collective bargaining
12 agreement.

13 JUDGE JONES: And the question is, what is the term
14 of the agreement?

15 MR. SHORE: Yes, what's the term of the present
16 agreement.

17 JUDGE JONES: We'll allow it.

18 THE WITNESS: May 15, 2010, is the termination of the
19 existing or current agreement.

20 BY MR. SHORE:

21 Q. Have the base costs of the health benefits for
22 the union members increased over the last three years even
23 if the co-pay has increased also?

24 A. Now you're getting into details that, you know,
25 you're going to have a witness tomorrow that will have all

1 the details on this. That's what he does.

2 Q. You do not know the answer?

3 A. I would rather not guess.

4 Q. You also mention on your oral rejoinder, I
5 believe, that you learned that there are schools in
6 Philadelphia that are not going to be used in the future,
7 something to that effect; is that right?

8 A. Yeah, that's my understanding.

9 Q. How and when did you learn that?

10 A. Today.

11 Q. From whom?

12 A. Mr. Smith.

13 Q. What did Mr. Smith tell you?

14 A. Mr. Smith indicated to me that there was
15 discussions with Mr. Zook and school district personnel in
16 which Mr. Zook was informed that there are certain schools
17 that would most likely not be used in the future.

18 Q. Are you aware that the school district has been
19 closing schools regularly --

20 MR. STUNDER: Objection.

21 MR. SHORE: -- over the last several years?

22 MR. STUNDER: Assuming facts not in evidence. This
23 isn't a question for question. It's beyond the scope of his
24 testimony.

25 MR. SHORE: I'll rephrase the testimony.

1 JUDGE JONES: Thank you, Mr. Shore.

2 BY MR. SHORE:

3 Q. Do you know if the School District of
4 Philadelphia has closed any public schools in the last five
5 years?

6 MR. STUNDER: Objection. This is not relevant to
7 Mr. White's testimony.

8 JUDGE JONES: Mr. White, in his oral rejoinder, said
9 that he had heard from Mr. Zook, I believe, that there would
10 be some schools that would be --

11 MR. STUNDER: Schools not using natural gas.

12 JUDGE JONES: Not using natural gas.

13 MR. STUNDER: That's what he learned.

14 JUDGE JONES: And you're probing as to whether he
15 knows --

16 MR. SHORE: How he knows and what he learned about
17 that. I will rephrase the question, Your Honor, if I may,
18 and ask Mr. White if he knows of any schools that were
19 either closed completely or no longer use natural gas as a
20 fuel, even though the school is open, in the last five
21 years.

22 THE WITNESS: I'm sure there have been. I can't tell
23 you the names of the schools.

24 BY MR. SHORE:

25 Q. And you also said that -- let me ask you. Are

1 there other older facilities in the city, not schools, that
2 are being closed or demolished or --

3 MR. STUNDER: Objection.

4 MR. SHORE: -- boarded up and no longer use natural
5 gas?

6 MR. STUNDER: This is beyond the scope of his
7 testimony.

8 MR. SHORE: It relates to the oral rejoinder that
9 was --

10 MR. STUNDER: It does not at all. He testified about
11 the school district.

12 MR. SHORE: Well, he testified about the school
13 district, yes. But just that's a narrow focus. I can ask
14 him on cross examination are there other buildings --

15 MR. STUNDER: Well, why don't ask him about
16 everything --

17 MR. SHORE: If any other public buildings --

18 MR. STUNDER: -- in the City of Philadelphia?

19 MR. SHORE: -- that are being closed also.

20 MR. STUNDER: This is beyond the scope of his oral
21 rejoinder, his written testimony.

22 JUDGE FORDHAM: It's beyond the scope. The objection
23 is sustained.

24 BY MR. SHORE:

25 Q. Mr. White, when did the gas works purchase the

1 Franklin Smelting property?

2 A. Within the last year.

3 Q. And how much did they pay for it?

4 A. I believe it was \$265,000.

5 Q. Are you familiar with any environmental studies
6 or reports about the property?

7 A. Yes. I understand that they have an Act Two
8 closure. And I believe there are portions of the Franklin
9 Smelting that are considered a Super Fund site.

10 Q. And was PGW aware of that situation when you
11 bought the property?

12 A. Absolutely.

13 MR. SHORE: Thank you. I have no further questions,
14 Your Honors.

15 JUDGE JONES: Thank you, Mr. Shore.

16 Both Mr. Shore and Mr. Hinerman, you have cross
17 examination exhibits. Do you wish to do anything with those
18 exhibits?

19 MR. HINERMAN: I'd like mine admitted into the
20 record.

21 JUDGE JONES: Is there any objection, Mr. Stunder?

22 MR. STUNDER: I do not object to the tariff pages
23 being put into the record.

24 JUDGE JONES: Very well. PHA Cross Examination
25 Exhibits Nos. 1 and 2 are admitted without objection.

1 (Whereupon, the documents marked as
2 PHA Cross Examination Exhibit Nos. 1
3 and 2 were received in evidence.)

4 JUDGE JONES: Mr. Shore, my understanding is you do
5 not wish to admit your exhibit. Is that true?

6 MR. SHORE: Your Honors, I did say that I was not
7 offering it into evidence, I was using it solely for the
8 purpose of cross examination, subject to the objections that
9 were raised and ruled upon.

10 JUDGE JONES: Okay.

11 Mr. Clearfield and Mr. Stunder, both of you have
12 sponsored this witness. Both of you, I assume, are
13 evaluating whether you have redirect.

14 MR. STUNDER: That's correct. I have a little bit,
15 briefly. If I could have a few minutes to discuss.

16 JUDGE JONES: We're going to break. We are off the
17 record.

18 (Discussion off the record.)

19 JUDGE JONES: We are back on the record.

20 I believe, Mr. Stunder, you were planning some
21 redirect.

22 MR. STUNDER: Yes, very briefly.

23 JUDGE JONES: You may proceed.

24 MR. STUNDER: Thank you, Your Honor.
25

REDIRECT EXAMINATION

1
2 BY MR. STUNDER:

3 Q. Mr. White, in regard to the Franklin Smelting
4 property, does PGW have any financial exposure at all based
5 on its formal resolution with the Pennsylvania Department of
6 Environmental Protection with regard to that property?

7 A. No, we do not.

8 Q. Now, you testified earlier that there was an
9 increase in the customer charge. Is PGW proposing an
10 increase in the customer charge in this filing?

11 A. No, only the non-fuel base rate.

12 Q. Is PHA a municipal entity?

13 A. No, it is not.

14 Q. Therefore is it eligible for the MS rate?

15 A. No, it is not.

16 Q. Why did PGW choose not to file a lawsuit against
17 the school district?

18 (Laughter.)

19 A. We chose not to file the lawsuit against the
20 school district because we have a good working relationship,
21 and we didn't feel that that was the appropriate way to work
22 things out.

23 Q. Thank you, Mr. White.

24 MR. HINERMAN: Recross, one question?

25 JUDGE JONES: Just a moment.

1 Mr. Clearfield, do you have --

2 MR. CLEARFIELD: No, we have no redirect on my side
3 of the story.

4 JUDGE JONES: Okay.

5 Mr. Hinerman?

6 **REXCROSS EXAMINATION**

7 BY MR. HINERMAN:

8 Q. What is the basis for your conclusion that PHA is
9 not a municipal entity?

10 A. PHA is not part of the city.

11 MR. HINERMAN: No further questions.

12 JUDGE JONES: Any questions --

13 MR. SHORE: No questions, Your Honor.

14 JUDGE JONES: -- from the school district?

15 No further questions from --

16 MS. MINCAVAGE: No, Your Honor.

17 JUDGE JONES: I assume there's no questions in
18 reference to --

19 MR. STUNDER: No, Your Honor.

20 JUDGE JONES: -- Mr. Hinerman's questions.

21 Mr. White, thank you for your entertaining testimony.

22 (Laughter.)

23 THE WITNESS: Your Honor, I was doing my best to make
24 it as entertaining as possible.

25 JUDGE JONES: You are excused, sir. And please leave

1 the signs for tomorrow.

2 (Laughter.)

3 (Witness excused.)

4 JUDGE JONES: It is my understanding that we have
5 made an amendment to our agreed-upon presentation of
6 witnesses for today, and we will be taking a witness for
7 PGW, Mr. Gyory, on Thursday.

8 MR. CLEARFIELD: Yes, ma'am.

9 JUDGE JONES: And it is also my understanding that
10 because we will be taking Mr. Gyory on Thursday that we have
11 concluded the witnesses that we have stated we would present
12 today. Is that correct?

13 MR. CLEARFIELD: Yes, ma'am.

14 JUDGE JONES: Okay. We are off the record.

15 (Discussion off the record.)

16 JUDGE JONES: We are back on the record.

17 In reference to Mr. Gorman, it has been represented
18 that previously there was no need to call him, that there
19 were stipulations and waivers.

20 Mr. Hinerman is now requesting that Mr. Gorman be
21 made available based upon his cross examination of
22 Mr. White. His assessment for his waiver, he has found that
23 he does need, in fact, to ask questions of Mr. Gorman, as
24 Mr. Gorman was referred to by Mr. White as the witness for
25 his questions.

1 Mr. Stunder, you have a response to his request?

2 MR. STUNDER: Your Honor, Mr. Hinerman has already
3 waived cross on Mr. Gorman. We've informed Mr. Gorman that
4 he's not needed.

5 Mr. Gorman is ill. We don't know if he's available
6 tomorrow. We don't know if he's available Thursday.

7 JUDGE JONES: I believe we can remedy that by asking
8 Mr. Gorman when he is available. That's correct,
9 Mr. Stunder?

10 MR. STUNDER: I'll give him a call to see if he is
11 indeed available. But I don't know.

12 JUDGE JONES: Mr. Hinerman, are you representing that
13 the questions that you have for Mr. Gorman are limited to
14 the area of questions in reference to the cost of service
15 study and how that assessment is made regarding PHA?

16 MR. HINERMAN: Let me say this. I will re-review
17 Mr. Gorman's testimony. I will not ask any questions beyond
18 those related to PHA and the determination of why the
19 increases were made for PHA.

20 But I would like to just re-review the testimony to
21 be sure that that's complete.

22 JUDGE JONES: You're talking about increases in the
23 rate for PHA?

24 MR. HINERMAN: The proposal in the tariff for an
25 increase in PHA's rate, yes.

1 JUDGE JONES: And we're not talking about a history
2 of PHA rates being higher than any other rates?

3 MR. HINERMAN: Well, Mr. Gorman would probably talk
4 about that. I would assume that that's all going to be part
5 of --

6 JUDGE JONES: Mr. Hinerman, I hope you've learned
7 your lesson about assuming. What is it that your testimony
8 is going to be concentrated on, sir?

9 MR. HINERMAN: I believe that a witness who is going
10 to testify on the reasons for an increase in a particular
11 rate has to look at historic reasons as well. And --

12 MR. STUNDER: Your Honor -- I'm sorry. I'll let him
13 finish, but --

14 JUDGE JONES: Thank you, Mr. Stunder.

15 MR. HINERMAN: And so I don't anticipate going any
16 further afield than that. If Mr. Gorman raised the rates
17 solely on the grounds that historically that was the rate,
18 then we could even stipulate to that and not bother
19 Mr. Gorman.

20 I suspect that would be easy to do. Instead, if we
21 need his testimony, that's what I would like to get into
22 with Mr. Gorman in the testimony.

23 JUDGE JONES: Mr. Stunder?

24 MR. STUNDER: Your Honor, with due respect to
25 Mr. Hinerman, he doesn't understand what a cost of service

1 study is. A cost of service --

2 JUDGE JONES: You can't make that assessment of
3 Mr. Hinerman, Mr. Stunder.

4 MR. STUNDER: Well, what he's said so far --

5 JUDGE JONES: What he's said so far, you question
6 whether he understands.

7 MR. STUNDER: Exactly. The cost of service study is
8 based on test year data and when it allocates it.
9 Mr. Hinerman wants to question him about history of the PHA
10 rate.

11 Cost of service experts don't do that. That's not
12 what's in the cost of service study.

13 JUDGE JONES: Okay. So then Mr. Gorman could say he
14 doesn't do that; correct?

15 MR. STUNDER: Well, --

16 JUDGE JONES: Correct?

17 MR. CLEARFIELD: Exactly. But --

18 JUDGE JONES: Okay. So if that's the question --

19 MR. STUNDER: I mean we could stipulate that
20 Mr. Gorman doesn't -- you know, we could obviate the need
21 for his --

22 JUDGE JONES: Mr. Hinerman?

23 MR. STUNDER: -- cross examination, period. Because
24 what he wants is something that Mr. Gorman doesn't do.

25 JUDGE JONES: Mr. Hinerman?

1 MR. HINERMAN: I would suggest that counsel meet
2 after the hearing today to see if we can't work up a
3 stipulation that would cover the issue.

4 JUDGE JONES: Mr. Stunder, is that --

5 MR. STUNDER: I'd be happy to.

6 JUDGE JONES: -- a proposal?

7 MR. STUNDER: I'll be happy to.

8 JUDGE JONES: Excellent, gentlemen.

9 We are off the record.

10 (Whereupon, at 5:27 p.m., the hearing was adjourned,
11 to reconvene on Wednesday, May 23, 2007, in Philadelphia,
12 Pennsylvania.)

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C E R T I F I C A T E

I hereby certify, as the stenographic reporter,
that the foregoing proceedings were taken stenographically
by me, and thereafter reduced to typewriting by me, or under
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