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Philadelphia
WJH

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION, ET AL.,
Complainant

v.

THE PHILADELPHIA GAS WORKS,
Respondent

Docket No. R-00061931

DIRECT TESTIMONY
OF
VINCENT PARISI
ON BEHALF OF INTERSTATE GAS SUPPLY, INC.

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

1 **Q. Please state your name for the record?**

2

3 **A. Vincent Parisi**

4

5 **Q. By whom are you employed and in what capacity?**

6

7 **A. Interstate Gas Supply as General Counsel and Regulatory Affairs Officer. I am**
8 **responsible for all general legal work for Interstate Gas Supply, Inc., as well as all**
9 **of its affiliates. I am also responsible for all regulatory work, including existing**
10 **markets as well as new market development.**

11

12 **Q. Are you testifying on behalf of IGS here today?**

13

14 **A. Yes.**

15

16 **Q. What is the purpose of your testimony?**

17

18 **A. The purpose of my testimony is two-fold. First, I will identify what I consider to**
19 **be a major failure of the Philadelphia Gas Works' ("PGW") filing, as presented to**
20 **this Commission--it does not consider the lack of residential competition on its**
21 **system nor does it propose concrete steps to promote competition. Because of**
22 **PGW's financial position, as described in its filing, it does not appear that PGW**
23 **intends to make the necessary changes anytime soon, particularly to its billing**

1 system, that are needed to allow for competition. Second, I propose some
2 programs by which PGW might be able to bring about the benefits of competition
3 to customers on its system.
4

5 **Q. What is your understanding of the current level of shopping on the PGW**
6 **system?**

7
8 A. My current understanding is that while there is currently some shopping among
9 larger commercial industrial customers and even less among smaller commercial
10 customers, there are no residential customers shopping for natural gas on the
11 PGW system at the moment.
12

13 **Q. Based upon what you know about the PGW system, what you have seen in**
14 **PGW's filing in this case and what would you suspect to be the major causes**
15 **of lack of participation in choice on the PGW system?**

16
17 A. I suspect that one reason may be PGW's unique position of having no on-system
18 storage and having a large percentage of its deliverability based on LNG storage.
19 It is my understanding that the LNG storage is not made available to customers
20 that migrate, at least not on an equal basis as it is made available to sales
21 customers. It is also my understanding that a significant amount of the winter
22 deliverability comes from the LNG storage, and that beyond some balancing
23 services, the assets are not made available to choice customers. These

1 circumstances can make it difficult for suppliers to manage capacity and storage
2 in a way that allows them to bring value to residential customers. However, when
3 I look at the limitations of PGW's billing system, it appears to me that most
4 natural gas suppliers, including IGS, that serve mass market customers would be
5 unwilling to enter the market. The system cannot handle multiple rates and really
6 is not designed to allow for billing for competition. One other factor that may be
7 keeping competition at minimal levels, are the requirements for suppliers
8 transporting on the PGW system contained in its supplier tariff. That tariff
9 contains a number of examples of open-ended or one-sided and/or potentially
10 costly provisions such as Section 7.5 that allows PGW to revise the terms and
11 conditions of the firm pooling agreement at its own discretion at any time.
12 Another example would be Section 4.1 by which PGW purports to be the sole
13 judge (without regard to the Commission's licensing requirements) as to whether
14 a supplier may "safely and reliably serve the Company's customers." There are
15 others as well, however, the point is that since PGW has not had suppliers serving
16 small customers on its system, it has not had been required to revisit the Supplier
17 Tariff in an effort to make it more NGS-friendly.

18
19 **Q. Why is the ability to bill customers on behalf of suppliers important for**
20 **opening a market competition?**

21
22 **A.** In a market such as PGW, there is a bit of a "chicken and egg" problem when it
23 comes to opening the market to competition. That is, there is no choice, but there

1 is no critical infrastructure and assets are not properly aligned so as to follow
2 customers, which is necessary to let choice happen. However, without that
3 critical infrastructure and asset issue being addressed, choice can't happen,
4 because suppliers will be unwilling to invest the amount of money it takes to bill
5 on their own in an uncertain market place. Further, with many other markets
6 opening in other states and even in Pennsylvania where billing options exist that
7 are more conducive to market entry, it is difficult to dedicate resources to a
8 market where the infrastructure does not easily enable new market participation to
9 occur, as compared to other utilities. The quandary to be solved is how to create
10 an incentive for the company to develop the appropriate billing system and
11 address other market defects while at the same time allowing the market to open
12 for choice and providing the company with some expectation of a return of the
13 investment in the infrastructure.

14
15 **Q. Is the only thing that would be required to allow for competition**
16 **implementing a billing system that would be capable of doing rate ready**
17 **billing for customers?**

18
19 **A.** No. In the case of PGW, it appears that something additional may be required in
20 order to even familiarize customers with the concept of choice and to review the
21 entire program to see what, if any other inequities exist so that they can be
22 addressed and corrected so as to allow a competitive market to develop at the
23 small commercial and residential customer level. The competitive market offers

1 many attractive alternatives to utility based pricing, including the opportunity to
2 lock in a fixed rate (peace of mind on pricing), summer winter pricing, guaranteed
3 savings products and other market based opportunities and value added services,
4 while at the same time by migrating customers off of PGW commodity supply
5 service tends to reduce the company's exposure through the reduction of up front
6 costs associated with being in the gas sales business.

7
8 **Q. So simply asking the Commission to order PGW to upgrade its billing system**
9 **would not solve the dilemma here.**

10
11 **A. No, and there is no guarantee that such an Order would result in the most efficient**
12 **and appropriate upgrades to the system to permit the greatest amount of**
13 **competition to occur, at least not without the input and assistance of competitive**
14 **retail natural gas supply companies, like IGS, that have been in the business of**
15 **providing commodity service to residential customers for years and have**
16 **experience on multiple utilities that can bring that experience to the table.**
17 **Moreover, it appears from PGW's filing that PGW, at least, believes that it has**
18 **insufficient capital to invest in modifications to its billing system when it sees no**
19 **direct return from that investment.**

1 **Q. Has PGW done anything to assist in opening the market to competition or**
2 **allowing the market to become more favorable to competition?**

3
4 **A. In this case, PGW has proposed that it take the revenue from off-system sales and**
5 **capacity release, and rather than sharing those revenues with customer as it does**
6 **today, that it would use those revenues to fund delivery system improvements.**
7 Up to this point, such a use of customer paid-for assets to subsidize GCR
8 customers, through a reduction in GCR rates by crediting some or all of those
9 revenues to the GCR price has not been problematic for residential customers,
10 because all residential customers to this point, have been GCR customers.
11 However, as part of a transition to a competitive market, one vital element is to
12 ensure that choice customers are in the same position relative to the use of those
13 assets as non-choice customers. Accordingly, IGS supports PGW's proposal in
14 this case, on that basis, because it is fundamental to the development of a
15 competitive market that customers are not asked to pay for assets for which they
16 do not derive the full benefits, or to have assets denied to those customers simply
17 for selecting an alternative supplier. It is equally as important that if assets are
18 paid for by all customers, any revenues derived from the use of those assets are
19 used in a competitively neutral manner. To do otherwise creates an inequity that
20 unfairly burdens one class of customers over another, and in the case of the off-
21 system sales revenue sharing mechanism, unless all choice eligible customers are
22 able to derive benefit from those revenues, choice customers would be unfairly
23 burdened. PGW's suggested approach provides value to all customers without

1 creating an inequity between groups, which exists when the revenues are provided
2 to reduce the GCR.

3
4 **Q. What do you propose as possible solutions for the lack of competition on**
5 **PGW's system?**

6
7 A. There are a number of solutions that could be applied to PGW's situation to solve
8 some or most of the problems related to competition, and at the same time, not
9 produce additional costs to the company that would be unrecoverable or
10 nonproductive. I have been involved in the Dominion East Ohio ("DEO") phase I
11 and phase II processes, and in other states as well. Based upon those experiences,
12 I propose that PGW first be required to start to develop actual retail competition,
13 and after that, when there is meaningful competition, to consider moving to a
14 DEO model, where the obligation to provide default service gas supply is
15 auctioned off to suppliers. Without some retail competition to serve as a catalyst,
16 programs such as DEO's simply replace the default service provider and retail
17 competition is less likely to flourish. As a first step, I think a program similar to
18 what I understand was employed in the PECO electric service territory, namely a
19 market share threshold type of process, would be appropriate. But before we can
20 even get to that sort of program, PGW must be required to spend the money to
21 make its billing system workable for choice and it must be allowed to recover that
22 money. I believe this is a requirement of the Natural Gas Choice and Competition
23 Act for all NGDCs. Simply put, the current state of PGW's billing system is not

1 acceptable. The Commission should require at least one threshold level, I propose
2 30%, so if that level of shopping is not met, enough customers to achieve 30%
3 shopping would be randomly assigned to willing suppliers to serve those
4 customers at some discount below the GCR rate for defined period, I propose 3
5 years. The 30% shopping level is a good benchmark that a market is beginning to
6 be competitive and provides a sufficient critical mass of migration to ensure any
7 systems built are scalable and can meet the needs of the market and customers.
8 Such a program will allow customers to become aware of the benefits of choice,
9 i.e., the ability to save or other benefits that marketers can bring, such as
10 levelized rates. After shopping hits the 30% level, the Commission should then
11 consider implementing a DEO type wholesale auction.

12
13 **Q. Do you have anything else you wish to add?**

14
15 **A.** It appears that the problem with PGW relative to choice is that it sees no incentive
16 to provide for choice on its system because the investment and the assets required
17 to allow for choice do not provide a return to the company, a company that
18 believes itself to be financially strapped. Nonetheless, I believe that in the long
19 run, choice will benefit the company by reducing its risk exposure and in reducing
20 its capital needs for gas supply. I believe that even in the short term, either of the
21 two programs that I have outlined broadly, could serve as a basis for migrating
22 customers away from traditional GCR service. Moreover, the customers that
23 would be engaged in such programs would immediately benefit by receiving a

1 market price gas that would produce savings. Long run benefits of a competitive
2 market can only be demonstrated through an open market, but I believe that over
3 the long run, competitive markets offer more benefits to consumers than utility
4 pricing can. In short, customers in PGW's service territory should not be
5 deprived of the benefits of choice simply because their company claims it cannot
6 afford to make the changes to its system to allow for choice to happen.

7
8 **Q. Does that conclude your direct testimony?**

9
10 **A. Yes.**

5/22/07

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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-00061931
Philadelphia Gas Works :

STIPULATION

The Office of Small Business Advocate ("OSBA") and Interstate Gas Supply, Inc. ("IGS") agree to submit the testimony of Robert Knecht (OSBA Statements No. 1 & 2) and Vincent Parisi (IGS Statement No. 1) into the evidentiary record of this proceeding without cross-examination.

OSBA also stipulates as follows:

To the extent that any costs associated with owning or acquiring storage assets are included in Philadelphia Gas Work's ("PGW") base rates, and to the extent that PGW does not make those assets available to the Natural Gas Suppliers ("NGSs") serving customers on the PGW system on the same basis that they are available to its own gas supply function, returning some or all of the margins earned by PGW that are specifically related to those assets only to commodity customers of PGW and not to all base rates customers is not equitable to the customers of the NGSs, because those customers paid for a portion of the costs of those assets through base rates. If shopping customers are required by the Commission to pay for assets that they are not entitled to utilize on a non-discriminatory basis, they should not be deprived of the revenue credits earned by PGW from such assets.

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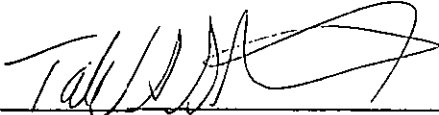
PA PUBLIC UTILITY COMMISSION SECRETARY'S BUREAU

AGREED TO BY:



Sharon E. Webb
For Office of Small Business Advocate

Date: May 22, 2007



Todd S. Stewart
For Interstate Gas Supply, Inc.

Date: May 22, 2007

5/22/07
Philadelphia
wfl

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No. R-00061931

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Direct Testimony and Exhibits of

ROBERT D. KNECHT

DOCKETED
AUG 20 2007

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Cost Allocation
Revenue Allocation

Date Served: April 6, 2007

Date Submitted for the Record: _____

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DIRECT TESTIMONY OF ROBERT D. KNECHT

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Q. Mr. Knecht, please state your name and briefly describe your qualifications.

A. My name is Robert D. Knecht. I am a Principal and the Treasurer of Industrial Economics, Incorporated ("IEc"), a consulting firm located at 2067 Massachusetts Avenue, Cambridge, MA 02140. As part of my consulting practice, I have prepared analyses and expert testimony in the field of regulatory economics on a variety of topics. I obtained a B.S. degree in Economics from the Massachusetts Institute of Technology in 1978, and an M.S. degree in Management from the Sloan School of Management at M.I.T. in 1982, with concentrations in applied economics and finance. I am appearing in these proceedings on behalf of the Pennsylvania Office of Small Business Advocate ("OSBA"). My résumé and a listing of expert testimony that I have filed in utility regulatory proceedings are attached in Exhibit RDK-1.

Q. What issues do you address in this testimony?

A. This testimony addresses the proposals made by the Philadelphia Gas Works ("PGW") with respect to the following subjects:

- The allocation of costs among the various rate classes, as proposed by PGW witness Howard S. Gorman in his testimony and in the class cost of service study ("CCOSS") detailed in Exhibits HSG-1 through HSG-6 and Exhibit HSG-8;
- PGW's proposal for assigning the base rates increase among the various rate classes (the "revenue allocation"), as proposed by PGW witnesses Craig White and Howard S. Gorman in their testimonies, and as detailed in Exhibit HSG-7;

Q. Please summarize your conclusions and recommendations on these subjects.

A. I conclude the following:

- PGW improperly "bundles" its cost allocation study, by including all gas supply, transportation, load balancing, distribution and customer assistance program costs into a single study. Because PGW sets different rates for its upstream gas services

1 (the "GCR"), for its distribution services ("base rates"), and for its customer
2 assistance programs (the "USEC"), it should evaluate the costs of these services
3 independently. In Mr. Gorman's CCOSS, the costs associated with each rate
4 component cannot be distinguished. The Commission should rely on separate
5 CCOSS's for the GCR and for base rates.

- 6 • PGW's proposals for allocation of upstream transportation and load balancing costs,
7 which are recovered in its GCR, are not consistent with cost causation. PGW's
8 CCOSS for its GCR-related costs therefore provides no useful information for GCR
9 rate design. Moreover, because PGW is not proposing to change its current
10 methodology for recovering its upstream gas costs in the GCR, there is little value in
11 developing and litigating a complicated GCR CCOSS in this proceeding. Because
12 PGW has not developed an accurate CCOSS for GCR-related costs, I agree with
13 PGW that the Commission should continue to use the current rate design approach for
14 the GCR.

- 15 • PGW's CCOSS methodology for allocating base rates costs to the various classes
16 contains a number of biases that generally result in the over-allocation of costs to
17 commercial customers. While I identify these biases in this testimony, and I
18 encourage PGW to address them for its next base rates case, I have accepted PGW's
19 base rates CCOSS methodology for the purpose of revenue allocation in this
20 proceeding.

- 21 • PGW's base rates revenue allocation proposal is hopelessly inconsistent with its base
22 rates CCOSS, to the detriment of commercial customers. At current rates, PGW's
23 CCOSS indicates that commercial customers provide a rate of return of 13.5 percent,
24 compared to the system average return for firm sales customers of 6.0 percent.
25 Nevertheless, PGW proposes to assign a base rates increase to the commercial classes
26 of 49.5 percent, compared to a system average base rates increase of 33.9 percent,
27 thereby moving base rates revenues *further away* from allocated costs. PGW's
28 proposal does not reflect the regulatory principle of rate *gradualism*, because it makes
29 no progress at all toward cost-based rates, gradual or otherwise. In this testimony, I

1 develop two alternative proposals for revenue allocation, one based on gradual
2 progress toward cost-based rates at PGW's full revenue requirement, and one based
3 on the concept of "first dollar relief" for the non-residential rate classes.

- 4 • PGW's proposal to continue to recover the costs for its customer assistance (or
5 "universal service") program from all rate classes is not consistent with cost causation
6 or with recent Commission precedent. I recommend that the universal service charges
7 that apply to non-residential customers be phased out over the next three years, in the
8 context of PGW's annual reconciliation process for those costs, beginning with
9 PGW's 2008 GCR proceeding.

10 **Q. How is the balance of your testimony organized?**

11 A. This testimony is organized as follows:

- 12 • Section 2: Unbundling PGW's cost allocation and rate design into GCR, base rates,
13 and universal service components;
- 14 • Section 3: Analysis of GCR cost allocation and rate design;
- 15 • Section 4: Base rates cost allocation issues;
- 16 • Section 5: Base rates revenue allocation issues; and,
- 17 • Section 6: Universal service cost allocation and rate design.

18 **2 UNBUNDLING**

19 **Q. Please summarize the services that PGW provides to its customers.**

20 A. PGW provides three basic types of service: firm sales service, interruptible sales service
21 and transportation service. At current rates, the tariff charges produce revenues of
22 \$1,044.1 million, of which approximately \$995.8 million (95.4 percent) is related to firm
23 sales service, \$41.2 million is related to interruptible sales service (3.9 percent) and \$7.3
24 million is related to GTS/IT transportation service. A summary of PGW's current tariff
25 charges and associated revenues is shown at Exhibit HSG-6S.

26 **Q. Please describe PGW's firm sales rates in more detail.**

27 A. PGW's firm sales rates must recover costs associated with (a) supplying gas to the city
28 gate when it is demanded, (b) delivering the gas from the city gate to the burner tip, and
29 (c) funding PGW's extensive customer assistance programs.

1 The major categories of costs and revenues for PGW's sales customers are as follows:

2 *GCR:* PGW recovers the costs associated with its commodity gas purchases, interstate
3 pipeline transportation and its non-PGW storage contracts through its gas cost rate
4 ("GCR"). The GCR is a reconcilable charge that is updated quarterly, and is examined
5 in more detail in annual 1307(f) proceedings before the Commission. The GCR also does
6 double duty as the shopping credit, for those retail customers who choose to shop.¹
7 Therefore, transportation customers do not pay the GCR. Under current practice, the
8 GCR is a constant per-Mcf charge for all firm sales customers, and PGW is not proposing
9 any change to that basic approach. Of the \$995.8 million in firm sales revenues, some
10 \$568.9 million (57.1 percent) is related to the GCR. In this proceeding, PGW proposes to
11 modify its GCR accounting such that it will retain 100 percent of all capacity release
12 revenues and off-system sales margin, in contrast to the current practice of fully refunding
13 those amounts to firm sales customers.² PGW estimates the impact of this change at
14 \$10.0 million per year.

15 *Base Rates:* PGW's base rates are designed to recover the costs associated with PGW's
16 liquefied natural gas ("LNG") facilities, its gas distribution services, its customer service
17 and billing costs, and its general administrative costs. At current rates, base rates provide
18 \$295.3 million in revenue, or 29.7 percent of firm sales customer revenue.³ In this
19 proceeding, PGW proposes to increase delivery charges to firm sales customers by \$99.9
20 million, an increase of 33.9 percent.

21 *Universal Service and Energy Conservation ("USEC"):* PGW operates several programs
22 designed to benefit certain low-income and senior residential customers. The USEC
23 recovers costs associated with the Customer Responsibility Program ("CRP"), the Senior

¹ At present, no residential or smaller commercial customers take supply from alternative natural gas suppliers ("NGSs").

² Note that Exhibits HSG-6 and HSG-7 do not show the impact of this proposed rate increase.

³ Note that I have included revenues of \$3.4 million associated with PGW's Restructuring and Consumer Education Charge ("RCEC") in current base rates revenues. PGW proposes to eliminate the RCEC in this proceeding, except for any lagging over- or under-collections.

1 Citizen Discount ("SCD") and the Conservation Works Program ("CWP"). The USEC is
2 a volumetric charge that applies equally to all firm sales customers and is annually
3 reconciled as part of PGW's 1307(f) process. At current tariff rates, the USEC produces
4 annual revenues of \$131.6 million, or 13.2 percent of firm sales revenue.

5 **Q. Please describe PGW's Interruptible Sales service in more detail.**

6 A. PGW offers interruptible sales service under tariff Schedules BPS, LBS, and Cogen.
7 Interruptible customers must demonstrate that they have alternative fuel capability to be
8 eligible for these rates. In general, PGW provides supply to these customers on a bundled
9 basis, with the bundled rate set at the cost of alternative fuel. PGW sets a minimum rate
10 for this service at 110 percent of its short-run marginal cost of gas supply. In that way,
11 interruptible customers provide some contribution to the fixed upstream gas supply costs
12 and possibly some contribution to fixed distribution costs.

13 It is important to recognize that PGW has essentially set rates for these customers at the
14 maximum. If rates were set any higher than the cost of alternative fuel, these customers
15 will simply switch fuels. Thus, from a practical perspective, the costs allocated to this
16 class are not relevant for rate design.

17 **Q. Please describe PGW's transportation service in more detail.**

18 A. PGW provides transportation service to larger industrial customers under rates GTS Firm,
19 GTS Interruptible, and IT (collectively, "GTS/IT"). Under these tariffs, PGW delivers
20 gas supplied by the customer from its city gate to the customer's location. Under certain
21 extreme circumstances, PGW may interrupt that service and use gas supplied by the
22 customer for its own needs. The rates paid by these customers are generally negotiated
23 rates, reflecting the cost of alternative fuels.

24 **Q. Please explain why you recommend that PGW unbundle its CCOSS.**

25 A. I make the recommendation to unbundle the CCOSS for the simple reason that PGW has
26 unbundled its rates. Without an unbundled cost allocation study, it is impossible to

1 determine whether each component of PGW's unbundled rates is or is not consistent with
2 allocated costs.⁴

3 PGW unbundled its rates pursuant to its gas industry restructuring proceeding.⁵ As
4 described above, PGW's tariff has separate charges for gas supply (the GCR), distribution
5 and customer services (base rates), and USEC. It makes little sense to continue to
6 allocate those costs on a fully bundled basis, as PGW proposes in this proceeding.
7 Moreover, it makes even less sense to allocate costs using one methodology and to design
8 rates on a completely different basis. And yet PGW proposes to do exactly that. For its
9 GCR costs, it allocates all of its gas supply costs by using a variety of different design day
10 demand and commodity allocators, but it sets the GCR charge on a commodity-only
11 basis. It is much more logical to unbundle both revenues and costs, thereby allowing the
12 Commission to more readily evaluate which components of PGW's tariff charges should
13 be modified in order to better reflect cost of service.

14 **3 GCR COST ALLOCATION AND RATE DESIGN**

15 **Q. What types of costs are included in PGW's GCR?**

16 A. The major cost components of the GCR are the commodity cost of gas, the fees paid to
17 interstate pipelines to deliver gas from producing regions to PGW's market area, and the
18 fees paid to the interstate pipelines for storage and load balancing services. PGW also
19 includes some, but by no means all, of the operating expenses associated with its LNG
20 facilities in the GCR. The rate base and most operating costs for the LNG facilities are
21 included in PGW's base rates costs.

22

⁴ Note that it is not always necessary to actually develop separate CCOSS studies, as long as costs within each study are segregated into categories (or "functions") that are consistent with the unbundled rates. Thus, for example, the allocation of USEC costs in PGW's CCOSS is generally not problematic, because the costs that are associated with USEC revenues can be readily segregated. However, PGW's CCOSS does not clearly segregate GCR-related costs and revenues, which are intermingled with non-GCR production and storage costs. Therefore, separate studies are required for PGW's GCR and base rates costs.

⁵ Pennsylvania Public Utility Commission v. Philadelphia Gas Works, Docket No. M-00021612, Order entered March 31, 2003.

1 **Q. Has PGW prepared a GCR-only CCOSS?**

2 A. Yes. In response to OSBA-I-3 (Revised),⁶ PGW has submitted a CCOSS for GCR-only
3 costs, using the same allocation methodology for those costs that it used in its fully
4 bundled study. While I have minor quibbles with why certain costs were included in that
5 CCOSS, that analysis provides an accurate report of the implications of unbundling GCR
6 costs based on PGW's allocation methodology.⁷ However, as I explain below, I do not
7 agree that this is a reasonable approach for allocating gas supply costs.

8 **Q. Is it your view that GCR costs should be allocated on the basis of cost causation?**

9 A. Yes. Costs should be allocated to those customers who cause the utility to incur the costs.

10 **Q. Is PGW's proposal for allocating the commodity portion of gas supply costs**
11 **consistent with cost causation?**

12 A. Yes it is. PGW allocates commodity gas costs on a volumetric (or commodity) basis,
13 such that each class is allocated the same dollar-per-Mcf cost. Because gas costs are
14 generally incurred in proportion to volume, this approach is reasonably consistent with
15 cost causation. Moreover, this approach is consistent with standard industry practice, and
16 it is consistent with PGW's rate design methodology. Therefore, I agree with PGW's
17 approach.

18
19
20

⁶ The final version of PGW's response to OSBA-I-3 was submitted on March 30, 2007. For convenience, I refer to this as OSBA-I-3 (Revised). All interrogatory responses that are cited in this testimony are listed in Exhibit IIEc-2, attached to this testimony. Because of the extremely voluminous nature of these responses, copies of the responses are *not* attached to this testimony. The OSBA will enter these interrogatory responses into the record of this proceeding at an appropriate time.

⁷ I disagree with PGW's decision to include some working capital rate base in the GCR CCOSS. Since PGW does not include any return on rate base costs in its GCR, it makes little sense to include the rate base itself. (In his response to OSBA-I-3, Mr. Gorman indicates that he agrees that no rate base should be assigned to the GCR, but he includes some rate base anyway.) Also, as discussed in more detail below, PGW's decision to exclude the gas supply revenues and costs associated with interruptible sales customers from the GCR-only CCOSS is questionable, since the margins earned from these sales are credited to the GCR and not base rates. However, neither of these issues has a material effect on the implications of the cost allocation analysis in this proceeding.

1 Q. Let's turn to the more complicated issue. What are the causation factors for
2 pipeline and storage cost incurrence?

3 A. To understand cost causation for these services, it is necessary to recognize that, in
4 general, upstream pipeline capacity serves a very different function than does upstream
5 storage capacity.

6 The primary reason that a natural gas distribution company ("NGDC") will procure
7 pipeline capacity is to transport gas from producing regions to either the NGDC's city
8 gate or local storage. Because long-haul pipeline capacity is relatively expensive per unit
9 of demand, it is typically operated at a high load factor. The pipeline capacity must
10 therefore be sufficient to move the total annual gas supply requirement from the
11 producing region to the consuming region (to either the city gate or storage). Thus,
12 pipeline capacity is primarily caused by annual consumption.

13 Storage capacity, on the other hand, provides a load balancing function. If every
14 customer consumed the same amount of gas on every day, no storage capacity would be
15 required. Therefore, customers who use about the same amount of gas on every day of
16 the year do not cause the utility to incur any significant storage-related costs.⁸ For those
17 customers who have temperature-sensitive loads, storage capacity must be sized to meet
18 two load balancing requirements. First, there must be sufficient daily *deliverability*
19 capacity to meet the design day demand of firm customers that is not already met by
20 pipeline capacity. Second, there must be sufficient *space* capacity to meet the overall
21 higher seasonal demands in the winter. Storage costs, therefore, are most logically
22 classified and allocated on an *excess* demand basis.

23 An excess demand allocator is one that is based on the difference between peak demand
24 and average demand. By definition, a 100 percent load factor customer has zero excess
25 demand, and it is therefore logically allocated zero storage costs with an excess demand
26

⁸ These customers are often referred to as "high load factor" customers, and they are typically industrial process operations.

1 allocator. Conversely, an excess demand allocator will allocate a larger portion of costs
2 to weather-sensitive customers than will a peak demand allocator.

3 **Q. Does PGW size its pipeline and storage capacity resources in that general manner?**

4 A. Yes it does. A significant share of the GCR costs that Mr. Gorman classifies as demand-
5 related are in fact related to long-haul pipeline capacity that is operated at a very high load
6 factor.⁹ As explained above, like most NGDCs, PGW sizes its long-haul pipeline
7 capacity to meet its annual requirements, not its peak requirements. Thus, these costs
8 should be classified and allocated on a commodity basis. Similarly, the storage-related
9 demand costs should be classified on an excess demand basis.

10 **Q. Does Mr. Gorman's cost allocation study properly reflect cost causation for pipeline
11 and storage demand charges?**

12 A. No it does not. Mr. Gorman generally allocates both types of costs on a design day basis
13 rather than on an excess demand basis. For that reason, I do not recommend that Mr.
14 Gorman's GCR-only CCOSS be used to set GCR rates in this proceeding

15 **Q. What then do you recommend with respect to setting GCR rates?**

16 A. As noted above, the current GCR rate design methodology is consistent with allocating
17 all costs on a volumetric basis. While I do not agree that this approach is consistent with
18 cost causation for the reasons explained above, my assignment in this proceeding does
19 not extend to correcting the GCR cost allocation errors. Moreover, this is a base rates
20 proceeding, and it seems to me that changing the established GCR cost allocation and rate
21 design would be more appropriate as part of the annual 1307(f) proceedings. Finally, the
22 current volumetric method used by PGW for recovering GCR costs is consistent with
23 most of the purchased gas cost rate methods used at other Pennsylvania NGDCs. Thus,
24 for the purpose of this proceeding, I recommend that the volumetric approach be retained.

⁹ See Exhibit HSG-6A and OSBA-I-13(a). At least \$45 million of PGW's pipeline demand costs are related to long-haul pipeline capacity that PGW intends to operate at 100 percent load factor in the test year.

1 However, because Mr. Gorman's cost allocation methodology for upstream gas supply
2 costs is not consistent with cost causation, it is even more important to exclude those
3 costs from the base rates CCOSS.

4 4 BASE RATES COST ALLOCATION ISSUES

5 **Q. Please summarize the key aspects of PGW's base rates CCOSS.**

6 A. At OSBA's request, PGW prepared a version of its filed CCOSS that relies only on the
7 revenues and costs associated with base rates, and submitted it as a corrected response to
8 OSBA-I-2. In this CCOSS, costs are first *functionalized* into five functions: supply,
9 storage, distribution, on-site, and USEC. Following the normal cost allocation procedure,
10 the CCOSS then *classifies* these costs into demand, commodity and customer
11 components, and *allocates* the costs to the various rate classes.

12 The non-GCR supply costs in the PGW unbundled CCOSS consist primarily of
13 commodity costs related to interruptible sales customers.¹⁰ These costs are allocated
14 only to the interruptible service classes on a commodity basis.¹¹

15 The non-GCR storage costs consist primarily of plant and O&M costs related to PGW's
16 LNG facility, which provides peak day deliverability capacity. PGW classifies these
17 costs as demand-related, and allocates them on a design day demand basis.

18 Distribution costs are those that are related to the plant and O&M costs needed to deliver
19 gas from the city gate to each customer's meter. For the most part, these costs are
20 classified as either peak demand-related and customer-related, or some combination of
21 the two. Demand-related costs are generally allocated on the basis of design day demand,

¹⁰ The decision to include the costs and revenues associated with interruptible sales service in the unbundled base rates CCOSS was made by PGW. In retrospect, it would be more appropriate to include the volumetric revenues and costs in the unbundled GCR CCOSS, because the entire margin supplied by interruptible sales customers is credited to the GCR, pursuant to the Commission's decision in the restructuring proceeding at Docket No. M-00021612. However, because the total margin from these customers is small (\$2.7 million in PGW's GCR CCOSS compared to base rates costs of about \$340 million) and because I am not proposing any change to PGW's proposal for interruptible sales rates, I did not request that PGW re-run its unbundled CCOSS on that basis.

¹¹ PGW also allocates a relatively small amount of net "production-related" costs in the base rates CCOSS, but the net effect of this allocation is minor. See OSBA-III-79.

1 while customer-related costs are allocated on either a customer or weighted customer
2 basis.¹² Of note, in its filing, PGW classifies its distribution mains plant (and associated
3 O&M expenses) into 75 percent demand and 25 percent customer components, based on
4 expert judgment and experience. This experience is supplemented by zero-intercept and
5 minimum system analyses submitted in response to OSBA-II-20.

6 On-site costs are those related to metering, billing and other customer service functions.
7 These costs are all classified as customer-related, and they are allocated using weighted
8 and unweighted customer allocators.

9 USEC costs are the costs related to rate discounts and uncollectibles costs associated with
10 PGW's CRP, the SCD rate discounts, and costs associated with the CWP. PGW
11 classifies these costs as customer-related, and allocates them in proportion to firm sales
12 volumes.¹³ Because these costs are quite easily identifiable (and separable) within this
13 CCOSS, there is no need to segregate them into separate CCOSS models.

14 **Q. Please summarize the errors and biases that you have identified in PGW's CCOSS.**

15 A. I take issue with PGW's CCOSS methodology in the following areas:

- 16 • PGW's zero-intercept analysis indicates that its judgmental classification of mains
17 costs *understates* the customer component of costs and *overstates* the demand
18 component of costs.¹⁴ Had PGW relied on the zero-intercept analysis, costs allocated
19 to commercial customers would be lower.

¹² For example, services costs are allocated on a weighted customer basis, wherein the weighting factors reflect the higher cost of services for business customers than for residential customers. See Exhibit HSG-6L.

¹³ In passing, I note that there is no logic to classifying USEC costs as customer-related. Since they are both allocated and recovered on a volumetric basis, it is most logical that they be classified as commodity-related. This error does not affect allocation of the costs (which is discussed in more detail below), but it does affect the customer-related costs that are often used by utilities to develop monthly customer charges. For that reason, any analysis of customer-related costs from PGW's CCOSS should exclude all USEC costs. I suggest that PGW correct this error in its next base rates case.

¹⁴ See OSBA-III-80. Because the objective of the zero-intercept analysis is to allocate both gross book value and depreciation reserve, the results of the zero-intercept analysis for the various types of mains should be weighted by net book value. On that basis, the customer component of costs should be the 27.1 percent shown in OSBA-III-80, rather than the 25.0 percent used in the PGW CCOSS.

- 1 • PGW's class design day demand allocators overstate the contribution of commercial
2 customers to firm design day demand, and understate the contribution of other
3 customer classes. My analysis of design demand allocators is shown in Exhibit IEc-3.
- 4 • PGW's allocation of working capital costs fails to recognize that the payment lag for
5 business customers is usually considerably less than the payment lag for residential
6 customers.¹⁵ Thus, PGW's CCOSS likely overstates the costs to serve business
7 customers.
- 8 • PGW incorrectly allocates its LNG costs, which are related to load balancing, on a
9 design day demand basis. As I explained above, load balancing costs should be
10 allocated on an excess demand basis to be consistent with cost causation. PGW's
11 treatment results in over-allocating costs to higher than average load factor classes,
12 including commercial customers.
- 13 • PGW does not segregate the significant administrative costs incurred at its service
14 centers and elsewhere in support of its customer assistance programs, nor does it
15 recover those costs in the USEC. Those costs are inappropriately allocated to all firm
16 rate classes as part of the base rates allocation, thereby overstating the cost to serve
17 non-residential customers.¹⁶
- 18 • PGW assigns all revenues associated with its appliance service business, the Parts and
19 Labor Plan ("PLP"), to the residential rate classes, but fails to fully assign the costs of
20 these programs to the residential class.¹⁷ In effect, PGW's CCOSS inaccurately
21 credits the residential class with a significant profit from this business, while
22 burdening all classes with the overhead costs associated with the effort.
23 Consequently, the PGW CCOSS overstates the cost caused by non-residential

¹⁵ PGW has not evaluated the relative payment lag by rate class. Its justification for not performing lead-lag studies is that they are not necessary for a cash flow regulated utility. (See OSBA-III-78) However, class-specific payment lags are necessary for accurate allocation of working capital costs (even for cash flow regulated utilities).

¹⁶ See OSBA-III-81, and PGW's CCOSS at Exhibit HSG-5D, which indicate that Account 920 costs are allocated to all rate classes using functionalization and allocation factors that reflect general labor costs.

¹⁷ See OSBA-I-10 and OSBA-III-82.

1 customers by charging them for costs associated with a program in which they do not
2 participate.

3 **Q. PGW's response to OSBA-I-2 allocates USEC costs on a commodity basis to all rate**
4 **classes. In evaluating base rates costs, have you made any modifications to that**
5 **allocation?**

6 A. For the purposes of this section of my analysis, I have not. In PGW's base rates CCOSS
7 filed in response to OSBA-I-2A (Revised),¹⁸ the revenue and costs for USEC are all
8 allocated on a volumetric basis, and therefore USEC revenues and costs are in balance.
9 As detailed further below, I recommend that the issue of bringing the recovery of
10 universal service costs into compliance with Commission policy be treated separately
11 from base rates issues. Thus, for the purpose of base rates cost allocation and revenue
12 allocation issues, I simply exclude both USEC costs and revenues. Because PGW's
13 CCOSS balances costs and revenues for each class, excluding consideration of these costs
14 has no impact on class rates of return or on dollar cross-subsidies among rate classes.

15 **Q. Have you developed a corrected version of PGW's CCOSS to account for the errors**
16 **and biases that you identified?**

17 A. No I have not. PGW has refused to make an electronic version of its CCOSS available to
18 intervenors, and replicating PGW's study would be costly, time-consuming, and beyond
19 the scope of my assignment. Moreover, Table IEc-1 below shows that PGW's CCOSS
20 already indicates that commercial and industrial firm sales customers provide revenues
21 that are well in excess of allocated costs.

¹⁸ This document refers to the full updated response to OSBA-I-2A circulated by PGW on March 30, 2007.

| Table IEC-1 PGW Base Rates CCOSS Summary of Results for Firm Sales Customers at Present Rates \$000 | | | | |
|--|----------|-------------|------------|--------------------|
| | Revenues | Total Costs | Difference | Revenue-Cost Ratio |
| Residential | 264,747 | 281,203 | (16,456) | 94.1% |
| Commercial | 52,317 | 39,766 | 12,551 | 131.6% |
| Industrial | 5,432 | 3,996 | 1,436 | 135.9% |
| Municipal | 4,417 | 3,275 | 1,142 | 134.9% |
| Housing Auth. | 4,751 | 3,423 | 1,328 | 138.8% |
| Total | 331,664 | 331,664 | -- | 100.0% |
| Source: Exhibit IEC-4 | | | | |

1 Based on my experience, I think it unlikely that the Commission would be willing to fully
2 eliminate the cross-subsidies that are on the order of 35 percent of allocated costs in a
3 single proceeding, in light of the principle of gradualism. Thus, there is no dire need to
4 correct PGW's cost allocation study at this stage. The primary question for this
5 proceeding is simply how much of the cross-subsidy from the business classes to the
6 residential class can reasonably be eliminated at this time, without violating the principle
7 of gradualism.

8 **5 BASE RATES REVENUE ALLOCATION**

9 **Q. What criteria are most commonly used by regulators and utilities for allocating the**
10 **revenue among rate classes?**

11 A. The process for determining class revenue requirements generally begins with a review of
12 the revenues produced under existing rates from each class. These revenues are included
13 in a "present-rates" cost of service study analysis. This "present rates" study shows each
14 class's over- or under-recovery of allocated costs at the existing rates. Most utilities and
15 regulators adopt a policy in a base rates proceeding of attempting to move revenues more
16 into line with allocated costs (the "cost of service" criterion). Generally, utilities address

1 this criterion by assigning above-average rate increases to those classes that under-recover
2 allocated costs, and assigning below-average rate increases to those classes that over-
3 recover costs.

4 I note also that the Commonwealth Court of Pennsylvania has recently re-affirmed the
5 importance of cost of service for assigning rate increases among the various rate classes,
6 identifying it as the "polestar" criterion.¹⁹

7 In addition to the cost of service criterion, utilities and regulators often subject the
8 revenue allocation process to other non-cost criteria of ratemaking. Of the traditional rate
9 design criteria, the most common non-cost considerations in the revenue assignment
10 process are (a) the principle of gradualism (or avoidance of "rate shock"), in which large
11 rate increases for individual customers or classes of customer are avoided, and (b) the
12 value of service principle, which is often used to mitigate rate increases for customers or
13 customer classes with relatively elastic demand.

14 Using these criteria, the utility will develop a proposal for assigning the increase in the
15 revenue requirement among the classes that reflects both cost and non-cost
16 considerations. From this proposal, the cost of service studies are then re-simulated to
17 show the impact on cost recovery at "proposed rates." With the two sets of cost of
18 service studies, at existing and proposed rates, the utility can demonstrate whether any
19 "progress" has been made toward the policy of achieving cost-based rates.

20 **Q. Does PGW indicate that it agrees with these criteria?**

21 A. Yes it does. First, with respect to the value of service criterion, PGW retains its
22 philosophy of setting rates for interruptible service customers at the price of alternative
23 fuel. For those classes, PGW effectively sets rates *at* the value of service.

24 Further, PGW indicates that one of its key criteria for revenue allocation is "[t]o
25 implement a gradual process of moving the Rate Classes closer to their full cost of

¹⁹ Lloyd v. Pennsylvania Public Utility Commission, Nos. 137 CD 2005, 144 CD 2005, 275 CD 2005, and 884 CD 2005 (Opinion and Order filed August 4, 2006), page 16.

1 service . . .²⁰ Thus, PGW indicates that it relies on both the cost of service and
2 gradualism criteria.

3 PGW's proposed average rate increase for each class is shown in Table IEC-2 below,
4 compared to each class's revenues, allocated costs and rate of return at current rates.

| | Current Revenues | Allocated Total Costs | Current Rate of Return | Proposed Increase |
|---------------|------------------|-----------------------|------------------------|-------------------|
| Residential | 264,747 | 281,203 | 4.4% | 30.0% |
| Commercial | 52,317 | 39,766 | 13.5% | 49.5% |
| Industrial | 5,432 | 3,996 | 16.0% | 35.3% |
| Municipal | 4,417 | 3,275 | 13.0% | 51.5% |
| Housing Auth. | 4,751 | 3,423 | 15.9% | 42.4% |
| Total | 331,664 | 331,664 | 6.0% | 33.9% |

Interruptible sales and transportation customers are excluded from this comparison for reasons discussed below.
Total costs include all costs, including return on rate base and ratepayer equity contribution.
Source: Exhibit IEC-4

5 **Q. Is PGW's proposal consistent with its goal of moving rates more into line with**
6 **allocated costs?**

7 A. No it is not. PGW's proposal actually moves rates further away from allocated costs. In
8 the parlance of utility revenue allocation, PGW's proposal increases the cross-subsidies
9 among rate classes rather than decreases them.

10 **Q. What do you mean by cross-subsidies?**

11 A. In utility regulatory proceedings, a cross-subsidy represents the relationship between the
12 revenues provided by a rate class and the costs allocated to the class. It is typically
13 referred to as a "cross-subsidy," because a subsidy that is received by one class must be
14 provided by the other classes. Each class's cross-subsidy can be measured either as a

²⁰ PGW Statement No. 5, page 10.

1 dollar figure, using the *difference* between revenues and allocated costs, or it can be
2 measured as a percentage, using the *ratio* of revenues to allocated costs.

3 If the dollar value approach is used, a cross-subsidy with a positive value indicates that
4 revenues are greater than costs, and therefore the class is providing a cross-subsidy.
5 Conversely, a negative value indicates that the class is receiving the cross-subsidy.

6 If the ratio (or revenue-cost ratio) measure is used, a ratio over 100 percent indicates that
7 the class is providing a cross-subsidy; a value below 100 percent indicates that the class is
8 receiving a cross-subsidy.

9 **Q. What is the implication of PGW's revenue allocation proposal on class cross-**
10 **subsidies?**

11 A. Table IEC-3 below shows the impact of PGW's proposals on both measures of cross-
12 subsidy, for the firm sales rate classes. I have excluded the interruptible service
13 customers from this comparison, because those rates are based on value of service
14 criteria.

| | Dollar Values | | Revenue-Cost Ratios | |
|---------------|---------------|-----------------|---------------------|-----------------|
| | Present | PGW Proposed | Present | PGW Proposed |
| Residential | (16,456) | (29,887) | 94.1% | 91.8% |
| Commercial | 12,551 | 23,737 | 131.6% | 144.5% |
| Industrial | 1,436 | 2,127 | 135.9% | 141.3% |
| Municipal | 1,142 | 2,023 | 134.9% | 144.1% |
| Housing Auth. | 1,328 | 2,001 | 138.8% | 144.4% |
| Total | -- | -- | 100.0% | 100.0% |

Interruptible sales and transportation customers are excluded from this comparison for reasons discussed below.
Source: Exhibit IEC-4

1 As shown in Table IEc-3, the dollar value of the cross-subsidies all *increase* from present
2 and proposed rates, indicating that every class's rates are moving away from allocated
3 costs. Similarly, the revenue-cost ratios shown in Table IEc-3 indicate that all of the
4 indexes move further away from 100 percent, again indicating that rates are moving away
5 from allocated costs.

6 It is therefore painfully obvious that PGW does not "practice what it preaches." Its
7 proposed revenue allocation makes no progress, gradual or otherwise, toward aligning
8 rates with allocated costs.

9 **Q. But PGW must have some justification for this proposal. What is PGW's rationale?**

10 A. As far as I can tell, PGW's only justification for this proposal is that it results in an
11 *indexed rate of return* (sometimes called the *relative rate of return*) at proposed rates that
12 is closer to unity (1.0 or 100 percent) than it is at current rates. PGW believes that if the
13 class indexed rates of return move closer to unity, then the proposed rates are closer to
14 allocated costs than are current rates.²¹

15 **Q. Is the indexed rate of return a reasonable indicator of whether proposed rates are
16 more in line with allocated costs than current rates?**

17 A. No it is not. As PGW's example illustrates, the indexed rate of return metric can imply
18 that progress is being made toward cost-based rates, when common sense (and all other
19 metrics) says otherwise.

20 As shown in Table IEc-2 above, the commercial class exhibits a class rate of return at
21 current rates of 13.5 percent, well above the system average return of 6.0 percent. That
22 means that the commercial class is providing a subsidy to those rate classes whose class
23 rate of return is below system average. In fact, as shown in Table IEc-3, the commercial
24 class is providing a subsidy of some \$12.6 million at present rates, and that the class's
25 rates are more than 31 percent above its allocated costs.

²¹ See OSBA-I-12.

1 Common sense would suggest that to move rates more into line with costs would imply
2 that the commercial class must be assigned a below-average rate increase. And yet, PGW
3 proposes to assign the commercial class a rate increase of 49.5 percent, that is far above
4 the average increase of 33.9 percent. And, as PGW correctly calculates, this proposal has
5 the counter-intuitive effect of moving the commercial class indexed rate of return closer
6 to unity. Of course, as shown in Table IEC-2 above, this proposal increases the
7 commercial class cross-subsidy from \$12.6 million to \$23.7 million, and it increases the
8 revenue-cost ratio from 131.6 percent to 144.5 percent. Clearly, the indexed rate of return
9 is not sending the correct signal.

10 If this proposal were accepted by the Commission, it would put the OSBA in the an
11 uncomfortable position. When a Philadelphia small business customer calls OSBA and
12 asks why he faces a rate increase that is substantially higher than residential customers,
13 OSBA will need to reply: "Because you were already providing a significant subsidy to
14 residential customers, PGW is going to help you out and give you a much larger rate
15 increase than the residential customers face. That will, of course, make the subsidy
16 smaller. You just have to understand the indexed rate of return."

17 **Q. Why does the indexed rate of return produce results that defy common sense,**
18 **implying that there is progress toward cost-based rates when there is none?**

19 A. The fundamental arithmetic problem with the indexed rate of return metric is that it relies
20 on a ratio of ratios. Rate of return, in and of itself, is already a ratio, namely the ratio of
21 income to rate base. The indexed rate of return is the ratio of class rate of return to
22 system average rate of return. By taking a ratio of ratios, the underlying revenue and cost
23 components can be badly distorted. The largest distortion arises when the indexed rate of
24 return is used to compare current rates with proposed rates, because the indexed rate of
25 return measure can have a very different system average rate of return as a denominator.

1 Let's take the very simple example of PGW's commercial class. At current rates, the
2 class rate of return is 13.5 percent, compared to a system average 6.0 percent return.²²
3 This yields a current-rates indexed rate of return as follows.

$$4 \quad \text{Current Commercial IRoR} = \frac{13.5\%}{6.0\%} = 223\%$$

5 If we assign an across-the-board increase, each class would face the system average
6 increase of 30.1 percent. A 30.1 percent increase to the commercial class results in an
7 increase in that class's rate of return of 9.3 percent, from 13.5 percent to 22.8 percent. It
8 also results in an increase in the system average rate of return of 8.1 percent, from 6.0
9 percent to 14.1 percent.²³ Therefore, even with an across-the-board rate increase (which
10 ought to, by common sense, show no progress toward cost-based rates), the commercial
11 indexed rate of return at proposed rates goes to:

$$12 \quad \text{Proposed Commercial IRoR} = \frac{13.5\% + 9.3\%}{6.0\% + 8.1\%} = \frac{22.8\%}{14.1\%} = 162\%$$

13 Thus, by adding a similar number to both the numerator and the denominator of the
14 indexed rate of return equation, the index automatically moves substantially closer to
15 unity, from 223 percent to 162 percent, even though the rate increase for the commercial
16 class is no different from that for any other class.

17 A similar pattern can be observed for the residential class. At current rates, the residential
18 class rate of return is 4.4 percent, implying an indexed rate of return of 74 percent. If that
19 class is assigned a system-average 30.1 percent increase, the class rate of return increases
20 by 7.8 percent, thereby having the following effect on its indexed rate of return:

$$21 \quad \text{Proposed Residential IRoR} = \frac{4.4\% + 7.8\%}{6.0\% + 8.1\%} = \frac{12.2\%}{14.1\%} = 87\%$$

²² The details of this analysis are shown in Exhibit IEC-5, Table 5-A.

²³ An across-the-board increase has a slightly larger impact on the Commercial Heat class rate of return than it does on the system average because the ratio of current revenues to rate base is higher for Commercial Heat than it is for the system as a whole.

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Again, by adding similar numbers to both the numerator and the denominator of the IRoR equation, the index moves closer to unity, from 74 percent to 87 percent, even though the residential class faces the same increase as every other class.

In Exhibit IEC-5, I have detailed the arithmetic for the indexed rate of return calculation. That analysis demonstrates that, to hold the indexed rate of return constant for a class that is currently over-recovering allocated costs, it is necessary to assign that class an above system average increase. It also demonstrates that, the more a particular class is over-recovering at current rates, the larger is the increase necessary to maintain a constant indexed rate of return.

Q. In response to OSBA-I-12, PGW's Mr. White indicates that PGW is committed to making continued progress toward class indexed returns of unity. If PGW makes progress in this proceeding, why can't it just keep moving indexed rates of return closer to unity with each proceeding?

A. At first blush, Mr. White's argument almost seems logical. The commercial rate class exhibits an indexed rate of return at current rates going into this proceeding of 223 percent, and with PGW's proposed rate increase, the indexed rate of return falls to 205 percent. Mr. White then implicitly assumes that the commercial indexed rate of return will be 205 percent going into the next base rates case, and PGW can then further lower the rate of return in that proceeding.

Unfortunately, the implicit assumption that a class's indexed rate of return *going into* the next case is the same as the one *coming out* of this case is completely wrong.

If the cost to serve each rate class increases at exactly the same rate between now and the next base rates case, the indexed rate of return for the commercial class *going into* the next base rates case will be much higher than it is *going into* this base rates case. The arithmetic supporting this proposition is shown in Exhibit IEC-6 for the PGW commercial rate class.

1 That exhibit shows class revenues, costs, rate base and rates of return under three
2 scenarios, all of which exclude GCR costs and revenues. The first scenario is based on
3 PGW's current rates, in which the system average rate of return is 6.0 percent, and the
4 commercial class indexed rate of return is 223 percent.

5 The second scenario is based on PGW's proposed rates, scaled back to a \$60 million
6 overall increase, in which the system average rate of return is 10.9 percent and the
7 commercial class indexed rate of return is 205 percent.

8 The third scenario then assumes that both costs and rate base increase proportionally for
9 each rate class, while revenue and volume remain constant. By increasing costs and rate
10 base by 18.2 percent across-the-board, the system average rate of return falls back to 6.0
11 percent. However, even though neither revenues nor costs have shifted among rate
12 classes, the indexed rate of return for commercial class rises to 269 percent, well above
13 the 223 percent value *going into* this case.

14 This analysis simply confirms common sense. Assigning a rate increase to the
15 commercial class that far exceeds the system average increase cannot result in any
16 progress at all. The indexed rate of return metric is simply not a useful way of measuring
17 progress toward cost-based rates within the context of a single rate proceeding.

18 **Q. If the indexed rate of return does not provide useful insight into moving rates into
19 line with costs, what approach should the Commission use?**

20 A. Personally, I favor the revenue-cost ratio approach. That approach measures cross-
21 subsidies on a percentage basis, and it can therefore be used to see how far out of line
22 each class's revenues are on a consistent basis. For example, if a class exhibits a
23 revenue-cost ratio of 120 percent, its revenues exceed allocated cost by 20 percent.

24 Thus, in the revenue allocation proposals I make below, I use the revenue-cost ratio to
25 measure progress. My proposals are based on a desire to move the revenue-cost ratios for
26 each class as close to 100 percent as possible, taking into account my judgment regarding
27 the principle of gradualism.

1 **Q. Is there a particular reason why the Commission should move as aggressively as**
2 **possible in this proceeding to move rates into line with allocated costs?**

3 A. Yes. PGW has proposed an extraordinarily aggressive rate increase in this proceeding,
4 one that is designed to provide a rate of return on all rate base in excess of 14 percent, and
5 to result in an increase of over \$480 million in ratepayer-supplied equity over the next
6 five years.²⁴ If the Commission approves a rate increase that is anywhere near that
7 requested by PGW, it is unlikely that PGW will need to file another rate case for the
8 foreseeable future.

9 However, the principle of gradualism is based on the idea that a regulatory authority can
10 use reasonably frequent rate proceedings to gradually move class rates into line with
11 allocated costs. Without regular rate proceedings, the practice of gradualism cannot be
12 followed.

13 Thus, if the Commission approves a rate increase that is designed to result in significant
14 ratepayer contributions to PGW equity, it should also attempt to align base rates closely
15 with allocated costs. All cross-subsidies approved in this proceeding will persist for a
16 very long time.

17 **Q. How did you develop your revenue allocation proposals?**

18 A. I developed two proposals. Under the first proposal, I assume that PGW would be
19 granted its full base rate increase of \$100 million per year. Under the second proposal, I
20 use the PGW proposed rate increases as a starting point, but then assign "first dollar
21 relief" ("FDR") to the non-residential classes.

22 In both proposals, I accept PGW's proposed allocation of the revenue increase to
23 interruptible and GTS/IT customers. The rates for interruptible sales customers are
24 generally already set as high as possible, being based on the cost of alternative fuel. (Any
25 further increase would result in those customers switching to the alternative fuel, along
26 with the subsequent loss of margin by PGW.) As PGW's witness White indicates, the

²⁴ See OSBA-II-34. "City" equity increases from \$347.8 million at year-end 2007 to \$834.5 million at year-end 2012.

1 GTS/IT rates are set by contract and cannot be readily increased. In addition, PGW's
2 CCOSS indicates that the GTS/IT rates are sufficient to more than fully recover allocated
3 base rates costs.

4 Thus, my revenue allocation proposals apply to the firm sales customer classes.

5 **Q. Of the two approaches you use for allocating the revenue requirement, which is the**
6 **superior approach for addressing the problems with PGW's proposed revenue**
7 **allocation and for moving rates more into line with allocated costs?**

8 A. Each approach has its advantages and disadvantages. The primary advantage of the "full
9 revenue requirement" approach is that it starts with a clean slate. The analyst or the
10 regulator can evaluate all of the usual regulatory criteria in allocating the revenue
11 unencumbered by any proposal made by the utility. Thus, this approach provides the
12 maximum flexibility.

13 However, a significant disadvantage to this approach is that, if the Commission awards a
14 much smaller rate increase than the full proposed revenue requirement, a scaleback of the
15 overall allowed revenue increase will have the effect of substantially reducing the
16 progress toward cost-based rates that was inherent in the full requirements revenue
17 allocation.

18 For example, under PGW's full \$100 million base rate increase, my revenue allocation
19 proposal (explained below) will result in a reduction in the revenue-cost ratio for the
20 commercial class from 127.7 percent to 105.2 percent. However, if it is determined that
21 PGW's actual financial needs require a \$60 million increase, the progress under a scaled
22 back increase would be from 127.7 percent to 113.9 percent. Thus, the full requirements
23 approach can be misleading as a measure of progress, unless a scaleback is explicitly
24 factored into the calculations.

25 A second disadvantage to this approach is that it can potentially result in rate increases for
26 particular classes that are higher than those proposed and publicized by the utility. From
27 a practical perspective, changes of this nature can encounter significant customer
28 resistance.

1 The advantages and disadvantages of the FDR approach are the converse of those for the
2 full requirements approach. The idea of FDR is that the starting point for revenue
3 allocation is the utility proposal. However, because some classes over-recover allocated
4 costs at the full revenue requirement, any reduction to the overall rate increase granted by
5 the Commission is first assigned to these rate classes. Thus, under FDR, no class can
6 face an increase that is larger than that announced by the utility. This feature often makes
7 FDR more attractive to customers and regulators. Moreover, the FDR approach results in
8 a revenue allocation that implicitly recognizes that fairly significant reductions in the
9 utility's proposed revenue requirement are often made by regulators, and therefore the
10 lost progress toward cost-based rates in a scaleback is less of an issue.

11 The disadvantages of FDR are that the original utility proposal acts as a starting point
12 constraint to revenue allocation, and, if the regulator does not approve a lower revenue
13 requirement, the original inequitable utility proposal will be accepted. As such, the
14 mechanism is less flexible than the full requirements approach, and it can provide
15 insufficient relief to some rate classes if the revenue requirement is not significantly
16 reduced by the regulator.

17 **Q. How do these considerations affect your revenue allocation proposals?**

18 A. Because the full requirements approach loses much of its potency in a scaleback, I
19 evaluate my proposal both at PGW's \$100 million proposed increase and at a \$60 million
20 base rates increase.

21 This \$60 million figure is based generally on my experience with regulatory proceedings
22 in Pennsylvania, in which the utility-proposed revenue requirement is typically scaled
23 back significantly. However, based on my review of PGW's response to OSBA-II-34, it
24 is apparent that a \$50 million base rates increase (and without the proposed \$10 million
25 increase in the GCR) would allow PGW to substantially increase its book equity, meet the
26 \$18 million city payment beginning in 2010-2011, pay back the \$45 million City Loan in
27 2007-2008, and reduce its long-term debt by over \$240 million over a five-year period.
28 Also, rather than reduce long-term debt by the full amount shown in the interrogatory
29 response, I assume that PGW could alternatively reduce or eliminate its reliance on

1 commercial paper for long-term financing, which is one of its reasons for the proposed
2 increase. (It is not clear at this writing why PGW did not make that assumption in
3 responding to that interrogatory, although I am awaiting interrogatory responses.) Thus,
4 even without considering other factors, it appears that a \$60 million increase would meet
5 or exceed many or all of PGW's stated longer-term financial requirements, using PGW's
6 own forecasts.²⁵

7 In addition, in developing my proposals, I generally followed the strategy of reducing the
8 subsidies provided by the non-residential classes by about one-half, at a \$60 million
9 increase. This approach will allow PGW to move its rates into line with allocated costs
10 over two or three base rates proceedings (including this one), recognizing that PGW's
11 CCOSS currently over-allocates costs to the non-residential customer classes.

12 **Q. Please describe your full revenue requirements proposal in more detail.**

13 A. My proposed revenue allocation proposal is based on the principle of moving rates into
14 line with allocated costs, consistent with the principle of gradualism. For the reasons
15 detailed above, my proposal relies on PGW's unbundled base rates CCOSS as a measure
16 of costs, although I recognize that this CCOSS over-allocates costs to non-residential
17 customer classes. For evaluating progress toward cost-based rates, I rely primarily on the
18 revenue-cost ratio metric, but I also consider the dollar subsidy and differential rate of
19 return metrics. Finally, the goal of my revenue allocation is to move each class's rates
20 about halfway toward cost-based rates, once the proposed increase is scaled back to a \$60
21 million overall increase.

22 The detailed implications of this proposal are shown in Table 4-B of Exhibit IEc-4. As
23 that exhibit shows, the revenue-cost ratio for each rate class moves almost exactly
24 halfway from its current-rates level toward unity with a \$60 million overall rate increase.
25 For example, the commercial class revenue-cost ratio is 127.7 percent at current rates and
26 it moves to 113.8 percent at the scaled-back proposed rates. The other metrics also
27 indicate that substantial progress toward cost-based rates is being achieved for all rate

²⁵ See also OSBA-III-85.

1 classes. Moreover, all rate classes are assigned base rate increases, and therefore all
2 classes contribute to PGW's need for additional funds. Of course, the non-residential rate
3 classes will continue to pay rates that are substantially in excess of allocated costs.

4 **Q. Is your proposal consistent with the principle of gradualism?**

5 A. I believe that it is. While there are no hard-and-fast rules for defining gradualism, some
6 regulators and experts use a rule-of-thumb that any particular class's rate increase should
7 not be more than 1.5 times or 2.0 times the system average increase. By that standard, my
8 proposal is well within the allowable norms, since it requires that the residential class rate
9 increase be 1.22 times the system average. Moreover, establishing a goal of moving rates
10 into line with allocated costs over two or three rate proceedings, which could easily be a
11 ten year period, is certainly not unreasonable.

12 By way of contrast, I note that even the 1.5 times system average rule-of-thumb limit for
13 gradualism would allow rates to be moved completely into line with allocated costs in
14 this proceeding. Getting all rate classes at a 100 percent revenue-cost ratio at a \$60
15 million overall increase would require setting the residential class increase at about 1.41
16 times the system average increase. If that approach were adopted, however, some rate
17 classes would be assigned rate decreases. While some regulatory bodies will approve
18 base rate decreases, my experience in Pennsylvania suggests that such a result would be
19 unlikely in this jurisdiction. For that reason, I have not recommended it.

20 **Q. Please describe your FDR proposal in more detail.**

21 A. My FDR proposal is based on the same principles as my full requirements proposal,
22 namely reliance on the unbundled PGW base rates CCOSS and a desire to move rates
23 about halfway into line with allocated costs at a \$60 million overall increase.

24 My proposal is shown on Table 4-C of Exhibit IEC-4. As shown in that exhibit, I assign
25 the first \$27.0 million in any reduction from PGW's overall \$100.0 million proposal to
26 the non-residential classes. Because this is an FDR proposal, I assign each dollar of relief
27 among the non-residential classes in proportion to PGW's proposed increase for that rate
28 class. Any reduction beyond the first \$27.0 million is assigned to all firm rate classes in

1 proportion to each class's rate increase (after FDR). For the reasons detailed above,
2 Table 4-C is based on a \$60.0 million increase.

3 Table 4-C demonstrates that, based on the revenue-cost ratio metric, the residential and
4 non-residential rate classes generally move about halfway toward allocated costs under
5 this proposal. There is some variation between rate classes relative to my full
6 requirements proposal, because the FDR is based on PGW's proposed increases and not
7 strictly on allocated costs. However, all of the progress metrics indicate that this proposal
8 will result in substantial progress toward allocated costs.

9 Moreover, because this proposal results in a revenue allocation that is similar to my full
10 revenue requirements proposal, it meets the rule-of-thumb test for consistency with the
11 principle of gradualism.

12 **Q. Overall, do you have a specific recommendation regarding which approach should**
13 **be adopted?**

14 A. If the Commission permits PGW to increase its rates by \$73 million or less, my
15 alternative proposals will produce very similar results. Under those conditions, I do not
16 have a strong preference between the two proposals, although I observe that my full
17 revenue requirements proposal is more consistent with PGW's allocated cost study.

18 If, however, the Commission awards a rate increase to PGW that is higher than \$73
19 million, the FDR proposal will not be as effective in making progress toward cost-based
20 rates. Under those conditions, I recommend adoption of my full revenue requirements
21 proposal.

22 **6 CUSTOMER ASSISTANCE PROGRAM COST RECOVERY**

23 **Q. Please describe PGW's methodology for allocating costs and setting rates for PGW's**
24 **customer assistance program ("CAP") costs.**

25 A. The vast majority of the program costs associated with PGW's CAP costs are allocated to
26 all firm service sales customers on a volumetric basis, and are recovered from those
27 classes using a constant dollar per Mcf Universal Service and Energy Conservation
28 Surcharge ("USEC Surcharge"). The costs consist of the Customer Responsibility

1 Program ("CRP") of \$90.1 million, the Senior Citizen Discount ("SCD") of \$16.4
2 million, the Customer Weatherization Program ("CWP") of \$2.0 million, and prior period
3 undercollections of \$23.1 million.

4 Because both the CRP and SCD costs are relatively large, and because they vary with the
5 market price of natural gas, PGW is permitted to reconcile the costs and revenues
6 associated with these programs on an annual basis. This reconciliation takes place as part
7 of PGW's annual 1307(f) GCR process.

8 **Q. Is it appropriate to recover CAP-related costs from all of PGW's firm service**
9 **customers?**

10 A. No it is not.²⁶ The CAP costs are associated with programs that are available to
11 residential customers who apply and demonstrate an annual household gross income at or
12 below certain Federal poverty guidelines, or to residential customers who qualify for the
13 SCD based on age.²⁷ These programs are available only to residential customers, and
14 therefore all benefits associated with these programs accrue to residential customers.
15 Likewise, all of the costs associated with these programs are incurred on behalf of the
16 residential class.

17 **Q. But is it consistent with cost causation to allocate the costs of the CAP programs to**
18 **those residential customers who do not benefit from these programs, since the costs**
19 **are obviously caused by the customers who are eligible?**

20 A. Yes it is. One way to look at the CAPs is as a form of insurance. The residential
21 customers who are currently not low-income customers may not *presently* qualify for
22 CAP benefits but, if their circumstances change, they may become eligible for those
23 benefits. However, unlike residential customers, commercial and industrial customers
24 can never qualify for such programs. Since only the residential class is covered by the

²⁶ In preparing this portion of my testimony, I relied on advice of OSBA counsel and the comments OSBA submitted in the Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order, Docket No. M-00051923.

²⁷ The SCD is gradually being phased out. Existing customers' eligibility has been grandfathered (with apologies for the pun), and no new customers may enter the program.

1 "insurance" offered by the CAPs, it is appropriate that only the residential class pay the
2 associated insurance premiums, i.e., universal service costs.

3 **Q. Has the Commission affirmed that universal service cost recovery should be**
4 **restricted to the residential class?**

5 A. Yes. Counsel informs me that the Commission has specifically declined to allocate such
6 costs to non-residential customers in the following gas proceedings: (a) Equitable Gas
7 Company at Docket No. R-00994784; (b) Valley Energy, Inc. at Docket No. R-00049345;
8 (c) Equitable Gas Company at Docket No. P-00052192; and (d) PPL Gas Utilities
9 Corporation at Docket No. R-00061398.

10 **Q. Has the Commission reached the same conclusion regarding universal service cost**
11 **recovery in any recent electric proceeding?**

12 A. Yes, in the PPL Electric Utilities Corporation proceeding at Docket No. R-00049255.
13 Counsel informs me that the OCA argued that universal service costs should be allocated
14 to all customer classes. However, the Commission rejected the OCA's proposal, stating:

15 *Universal service programs, by their nature, are narrowly tailored to the*
16 *residential customers and therefore, should be funded only by the residential*
17 *class. We note that neither the OCA nor Mr. Epstein have presented any*
18 *concrete evidence in the form of costs studies to support their respective*
19 *proposals that the universal service program cost should be more broadly*
20 *allocated. Accordingly, we will adopt the ALJ's recommendation on this*
21 *issue. (Order at pp. 97-98.)*

22 **Q. Has the Commission recently decided to continue its current policy that CAP costs**
23 **should be allocated to residential customers only?**

24 A. Yes it has, in the *Customer Assistance Programs: Funding Levels and Cost Recovery*
25 *Mechanisms Final Investigatory Order*, Docket No. M-00051923 (Ordered entered
26 December 18, 2006). Counsel informs me that the Commission decided it will continue
27 its current policy of allocating CAP costs only to residential customers, in that only
28 residential customers are eligible for universal service programs. Specifically, the
29 Commission stated:

1 After careful consideration of the comments and the arguments
2 presented, the Commission will continue its current policy of
3 allocating CAP costs to the only customer class whose members are
4 eligible for the program – residential customers. The Commission
5 believes that we should not initiate a policy change that could have a
6 detrimental impact on economic development and the climate for
7 business and jobs within the Commonwealth.
8

9 Since the Commission first encouraged utilities to initiate CAP
10 programs on a voluntary basis, it has allocated CAP costs to the
11 residential class, with a few exceptions. It is true that, in the early
12 stages of these programs, the Commission indicated the possibility
13 that this policy could change in the future. However, the
14 Commission has continued to follow this policy even after universal
15 service programs became mandatory with the passage of the
16 Competition Acts. In fact, less than two years ago, the Commission
17 held that '[u]niversal service programs, by their nature, are narrowly
18 tailored to the residential customers and therefore, should be funded
19 only by the residential class.'²⁸

20 **Q. Are you proposing to begin recovery of all CAP costs from residential customers**
21 **immediately?**

22 A. No I am not. PGW's annual reconciliation of the USEC affords the Commission with an
23 opportunity to phase out the USEC charges to non-residential customers on a regular and
24 gradual basis over a number of years. In light of the revenue allocation that I propose in
25 the previous section for base rates, I recommend that the adjustment to the USEC not
26 begin until PGW's 2008 GCR proceeding. At that time, I recommend that the
27 responsibility of the non-residential customers for the USEC be reduced by one-third. A
28 second one-third reduction would then take place in PGW's 2009 GCR proceeding, and
29 the phase-out would be complete in PGW's 2010 GCR proceeding.
30
31

²⁸ *Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms Final Investigatory Order*,
Docket No. M-00051923 (Ordered entered December 18, 2006) at 31-32.

1 Q. What kind of a rate impact would your proposal have on PGW's residential and
2 commercial customers in the 2008 GCR proceeding?

3 A. Table IEC-4 below shows the impact of my proposed change for 2008, assuming that
4 2008 GCR and USEC Surcharge costs are equal to those in PGW's 2007 GCR filing. For
5 the purpose of this exhibit, I assume that PGW's proposal for base rates revenue
6 allocation is adopted.

| | <i>Residential</i> | | <i>Commercial</i> | |
|---|--------------------|-----------------|-------------------|-----------------|
| | <i>Current</i> | <i>Proposed</i> | <i>Current</i> | <i>Proposed</i> |
| GCR | \$10.1812 | \$10.1812 | \$10.1812 | \$10.1812 |
| USEC Surcharge | 2.2985 | 2.5650 | 2.2985 | 1.5323 |
| Sub-Total GCR | 12.4797 | 12.7462 | 12.4797 | 11.7135 |
| <i>Percent Change</i> | | <i>2.1%</i> | | <i>-6.1%</i> |
| Base Rates | 7.8230 | 7.8230 | 7.3244 | 7.3244 |
| Total Bill | 20.3027 | 20.5693 | 19.8041 | 19.0379 |
| <i>Percent Change</i> | | <i>1.3%</i> | | <i>-3.9%</i> |
| Notes: As proposed by PGW, base rates include the Restructuring and Consumer Education Surcharge. Also included are average customer charge revenues per Mcf. Details of the calculations are shown in Exhibit IEC-7. | | | | |

7 Table IEC-4 demolishes a popular misconception. I have observed in previous PGW
8 proceedings that many parties believe that PGW's USEC Surcharge costs are so
9 enormous that it would be impossible to eliminate or even contemplate phasing out the
10 business class's responsibility for these costs without putting an enormous burden on
11 residential customers. Table IEC-4 demonstrates that "it just ain't so." While PGW's
12 CAP costs are indeed very high, the amount of those costs that are currently recovered
13 from non-residential customers is relatively low. That occurs because (a) residential firm
14 sales volumes are nearly three times as large as the total non-residential firm sales
15 volumes, and (b) none of PGW's interruptible or GTS transportation customers currently
16 contribute to the recovery of these costs. Thus, a one-third phase-out of the USEC
17 Surcharge for non-residential customers would result in only a 2.1 percent impact on the

1 residential rates at issue in next year's GCR, and only a 1.3 percent impact on a total bill
2 basis. Continuing the phase-out in 2009 and 2010 would have impacts of similar
3 magnitude in each of those years.

4 For those reasons, I conclude that bringing PGW's CAP funding into compliance with the
5 rest of the NGDCs in Pennsylvania does not constitute an insurmountable problem, and it
6 can reasonably be achieved in a three-year period without violating the principle of
7 gradualism.

8 **Q. Does this conclude your direct testimony?**

9 A. Yes it does.

EXHIBIT RDK-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT

ROBERT D. KNECHT

Robert D. Knecht specializes in the practical application of economics, finance and management theory to issues facing public and private sector clients. Mr. Knecht has more than twenty years of consulting experience, focusing primarily on the energy, metals, and mining industries. He has consulted to industry, law firms, and government clients, both in the U.S. and internationally. He has participated in strategic and business planning studies, project evaluations, litigation and regulatory proceedings and policy analyses. His practice currently focuses primarily on utility regulation, and he has provided *analysis and expert testimony in numerous U.S. and Canadian jurisdictions*. In addition, as Treasurer of IEc since 1995, Mr. Knecht is responsible for the firm's accounting, finance and tax planning, as well as administration of the firm's retirement plans. Mr. Knecht's consulting assignments include the following projects:

- For the Pennsylvania Office of Small Business Advocate, Mr. Knecht provides analysis and expert testimony in industry restructuring, base rates and purchased energy cost proceedings involving electric, steam and natural gas distribution utilities. Mr. Knecht has analyzed the economics and financial issues of electric industry restructuring, stranded cost determination, fair rate of return, claimed utility expenses, cost allocation methods and rate design issues.
- For independent power producers and industrial customers in Alberta, Mr. Knecht has provided analysis and expert testimony in a variety of electric industry proceedings, including industry restructuring, cost unbundling, stranded cost recovery, transmission rate design, cost allocation and rate design.
- For industrial customers in Québec, Mr. Knecht has prepared economic analysis and expert testimony in regulatory proceedings regarding cost allocation, compliance with legislative requirements for cross-subsidization, and rate design.
- As part of international teams of experts, Mr. Knecht has prepared the economic and financial analysis for industry restructuring studies involving the steel and iron ore industries in Venezuela, Poland, and Nigeria.
- For the U.S. Department of Justice and for several private sector clients, Mr. Knecht has prepared analyses of economic damages in a variety of litigation matters, including ERISA discrimination, breach of contract, fraudulent conveyance, natural resource damages and anti-trust cases.
- Mr. Knecht participates in numerous projects with colleagues at IEc preparing economic and environmental analyses associated with energy and utility industries for the U.S. Environmental Protection Agency.

Mr. Knecht holds a M.S. in Management from the Sloan School of Management at M.I.T., with concentrations in applied economics and finance. He also holds a B.S. in Economics from M.I.T. Prior to joining Industrial Economics as a principal in 1989, Mr. Knecht worked for seven years as an economic and management consultant at Marshall Bartlett, Incorporated. He also worked for two years as an economist in the Energy Group of Data Resources, Incorporated.

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EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|-------------|--|---|----------------|--|---|
| P-00072245 | Pennsylvania Public Utility Commission | Pike County Light & Power Company | March 2007 | Pennsylvania Office of Small Business Advocate | Default service procurement, rate design |
| R-00072043 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution Company | March 2007 | Pennsylvania Office of Small Business Advocate | Design day requirements |
| C-20065942 | Pennsylvania Public Utility Commission | Pike County Light & Power Company | November 2006 | Pennsylvania Office of Small Business Advocate | Wholesale power procurement by provider of last resort |
| R-3610-2006 | Régie de l'Énergie, Québec | Hydro Québec Distribution | November 2006 | AQCIE/CIFQ | Post-patrimonial generation cost allocation; cross-subsidization; rate design |
| P-00052188 | Pennsylvania Public Utility Commission | Pennsylvania Power Company | September 2006 | Pennsylvania Office of Small Business Advocate | Affidavit: POLR rates, wholesale to retail. |
| R-00061493 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution Corporation | September 2006 | Pennsylvania Office of Small Business Advocate | Rate of return, load forecasting, cost allocation, revenue allocation, rate design, revenue decoupling. |
| R-00061398 | Pennsylvania Public Utility Commission | PPL Gas Utilities Corporation | August 2006 | Pennsylvania Office of Small Business Advocate | Cost allocation, revenue allocation, rate design |
| R-00061365 | Pennsylvania Public Utility Commission | PG Energy/Southern Union Company | July 2006 | Pennsylvania Office of Small Business Advocate | Merger savings, cost allocation, revenue allocation, rate design. |
| R-00061519 | Pennsylvania Public Utility Commission | PPL Gas Utilities Corporation | July 2006 | Pennsylvania Office of Small Business Advocate | Design day weather and throughput forecasts; gas supply hedging. |
| R-00061518 | Pennsylvania Public Utility Commission | PG Energy/Southern Union Company | July 2006 | Pennsylvania Office of Small Business Advocate | Design day weather and throughput forecasts; gas supply hedging. |
| A-125146 | Pennsylvania Public Utility Commission | UGI Utilities, Inc., Southern Union Company | June 2006 | Pennsylvania Office of Small Business Advocate | Public benefits of proposed sale of PG Energy to UGI; asset management agreement. |
| R-00061355 | Pennsylvania Public Utility Commission | Columbia Gas of Pennsylvania | May 2006 | Pennsylvania Office of Small Business Advocate | Gas supply and hedging plan; procedural issues |
| R-00061296 | Pennsylvania Public Utility Commission | Philadelphia Gas Works | April 2006 | Pennsylvania Office of Small Business Advocate | Gas procurement and procedural issues. |
| R-00061246 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution | March 2006 | Pennsylvania Office of Small Business Advocate | Gas procurement; unaccounted for gas retention rates |

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|-------------------|--|---|---------------|--|--|
| 2005-002 Refiling | New Brunswick Board of Commissioners of Public Utilities | New Brunswick Power Distribution and Customer Service Company | February 2006 | New Brunswick Public Intervenor | Cost allocation, rate design |
| P-00052188 | Pennsylvania Public Utility Commission | Pennsylvania Power Company | December 2005 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design for POLR supplies. |
| R-3579-2005 | Régie de l'Énergie, Québec | Hydro Québec Distribution | November 2005 | AQCIE/CIFQ | Generation cost allocation; cross-subsidization; revenue allocation |
| 2005-002 | New Brunswick Board of Commissioners of Public Utilities | New Brunswick Power Distribution and Customer Service Company | August 2005 | New Brunswick Public Intervenor | Cost allocation, rate design |
| R-00050538 | Pennsylvania Public Utility Commission | PG Energy | July 2005 | Pennsylvania Office of Small Business Advocate | Gas procurement diversification |
| R-00050540 | Pennsylvania Public Utility Commission | PPL Gas Utilities Corporation | July 2005 | Pennsylvania Office of Small Business Advocate | Gas procurement, hedging, retention rates, sharing mechanism |
| R-00050340 | Pennsylvania Public Utility Commission | Columbia Gas of Pennsylvania | May 2005 | Pennsylvania Office of Small Business Advocate | Gas procurement, hedging and diversification. |
| R-3563-2005 | Régie de l'Énergie, Québec | Hydro Québec Distribution | April 2005 | AQCIE/CIFQ | Generation cost allocation; industrial demand response |
| R-00050264 | Pennsylvania Public Utility Commission | Philadelphia Gas Works | April 2005 | Pennsylvania Office of Small Business Advocate | Gas procurement, risk hedging, financing costs in the gas cost rate. |
| R-00050216 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution | March 2005 | Pennsylvania Office of Small Business Advocate | Gas supply procurement and forward pricing policies. |
| EB-2004-0542 | Ontario Energy Board | Union Gas Limited | March 2005 | Tribute Resources Inc. | Cost allocation and rate design for service to embedded storage pools. |
| R-00049884 | Pennsylvania Public Utility Commission | Pike County Light and Power (Gas Service) | January 2005 | Pennsylvania Office of Small Business Advocate | Fair rate of return, cost allocation, class revenue assignment. |
| R-00049656 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution | December 2004 | Pennsylvania Office of Small Business Advocate | Fair rate of return, uncollectibles costs, automatic rate adjustments, cost allocation, rate design. |
| R-3541-2004 | Régie de l'Énergie, Québec | Hydro Québec Distribution | November 2004 | AQCIE, CIFQ | Allocation of post-patrimonial generation costs. |

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|------------------------|--|---------------------------------------|----------------|---|--|
| C-20031302 | Pennsylvania Public Utility Commission | Columbia Gas of Pennsylvania | July 2004 | Pennsylvania Office of Small Business Advocate | Customer assistance program funding and cost allocation. |
| R-049255 | Pennsylvania Public Utility Commission | PPL Electric Utilities Corporation | June 2004 | Pennsylvania Office of Small Business Advocate | Transmission and distribution cost allocation, rate design, automatic distribution increases. |
| P-042090 et al. | Pennsylvania Public Utility Commission | Philadelphia Gas Works | June 2004 | Pennsylvania Office of Small Business Advocate | Collections and universal service cost issues. |
| RP-2003-0203 | Ontario Energy Board | Enbridge Gas Distribution | May 2004 | Vulnerable Energy Consumers Coalition et al. | Cost allocation, rate design for pipeline and storage costs |
| R-049157 P-042090 | Pennsylvania Public Utility Commission | Philadelphia Gas Works | April 2004 | Pennsylvania Office of Small Business Advocate | Cash receipts reconciliation clause |
| R-049108 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution | March 2004 | Pennsylvania Office of Small Business Advocate | Uncollectible cost responsibility for standby charges |
| Application 1306819 | Alberta Energy and Utilities Board | ENMAX Power Corporation | January 2004 | Calgary Industrial Group Calgary Building Owners | T&D cost allocation, rate design, ratepayer equity funding |
| R-3492-2002 Phase 2 | Régie de l'Énergie, Québec | Hydro Québec Distribution | November 2003 | AQCIE, CIFQ | Rate policy, cross-subsidization |
| R-038168 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution | July 2003 | Pennsylvania Office of Small Business Advocate | Cost allocation, deficiency assignment, rate design, pension cost reconciliation, rate of return |
| R-3492-2002 Phase 1 | Régie de l'Énergie, Québec | Hydro Québec Distribution | January 2003 | AQCIE, AIFQ | Cost allocation; maintenance of historical cross-subsidization |
| M-021612 | Pennsylvania Public Utility Commission | Philadelphia Gas Works | September 2002 | Pennsylvania Office of Small Business Advocate | Natural gas restructuring, cost allocation, rate unbundling |
| R-027385 | Pennsylvania Public Utility Commission | PG Energy (Southern Union) | July 2002 | Pennsylvania Office of Small Business Advocate | Purchased gas cost incentive mechanisms. |
| 1250932 | Alberta Energy and Utilities Board | Aquila Networks Canada (Alberta) Ltd. | July 2002 | Senior Petroleum Producers Association | Distribution plant and cost allocation, rate design. |
| R-027204 | Pennsylvania Public Utility Commission | Columbia Gas of Pennsylvania | May 2002 | Pennsylvania Office of Small Business Advocate | Purchased gas cost incentive mechanisms, rate design |

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|-------------|--|---|----------------|---|--|
| R-3477-2001 | Régie de l'Énergie, Québec | Hydro Québec Distribution | May 2002 | AQCIE, AIFQ | Classification/allocation of generation costs, subject to constant unit cost constraint. |
| 1248859 | Alberta Energy and Utilities Board | ESBI Alberta Limited | March 2002 | IPPSA | Transmission congestion management principles |
| R-016378 | Pennsylvania Public Utility Commission | Philadelphia Gas Works | August 2001 | Pennsylvania Office of Small Business Advocate | Cost of gas; commodity price forecasting |
| R-016179 | Pennsylvania Public Utility Commission | Columbia Gas of Pennsylvania | May 2001 | Pennsylvania Office of Small Business Advocate | Recovery of CAP costs; PGC treatment of pipeline credits |
| R-005277 | Pennsylvania Public Utility Commission | PFG Gas Inc. and North Penn Gas Company | November 2000 | Pennsylvania Office of Small Business Advocate | Cost allocation, rate design. |
| R-3443-2000 | Régie de l'Énergie, Québec | Société en commandite Gaz Métropolitain | November 2000 | Industrial Gas Users Association (ACIG) | Tariff unbundling |
| 990005 | Alberta Energy and Utilities Board | ESBI Alberta Limited | November 2000 | IPPSA | Location-based credits for transmission rates |
| R-005119 | Pennsylvania Public Utility Commission | PG Energy (Southern Union) | July 2000 | Pennsylvania Office of Small Business Advocate | Cost allocation, rate design, weather normalization |
| R-994788 | Pennsylvania Public Utility Commission | PFG Gas, Inc. and North Penn Gas Company | February 2000 | Pennsylvania Office of Small Business Advocate | Natural gas restructuring, retail access, tariff design |
| R-994785 | Pennsylvania Public Utility Commission | National Fuel Gas Distribution Corp. | December 1999 | Pennsylvania Office of Small Business Advocate | Natural gas restructuring, retail access, tariff design |
| R-994783 | Pennsylvania Public Utility Commission | PG Energy, Inc. | November 1999 | Pennsylvania Office of Small Business Advocate | Natural gas restructuring, retail access, tariff design |
| 99005 | Alberta Energy and Utilities Board | ESBI Alberta Limited (Transmission Administrator) | September 1999 | IPPSA | Transmission tariff cost allocation, rate design, industry restructuring |
| RE95080 | Alberta Energy and Utilities Board | Alberta Power Limited | December 1998 | Independent Power Producers Society of Alberta and SPPA | Electric industry restructuring, rate unbundling, cost allocation and rate design. |
| RE95081 | Alberta Energy and Utilities Board | TransAlta Utilities Corporation | November 1998 | IPPSA and Senior Petroleum Producers Assn. | Industry restructuring, cost allocation, rate design. |

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|---|--|--|----------------|--|--|
| Expansion Feasibility Test | Public Utilities Board of Manitoba | Centra Gas Manitoba | August 1998 | Simplot Canada Limited | Expansion feasibility and customer contribution methodology |
| R-984280 | Pennsylvania Public Utility Commission | PG Energy, Inc. | August 1998 | Pennsylvania Office of Small Business Advocate | Cost allocation, revenue deficiency assignment, rate design |
| EO97070455 | New Jersey Board of Public Utilities | Atlantic City Electric Company | February 1998 | New Jersey Board of Public Utilities | Industry restructuring, audit of unbundled rates |
| R-973981 | Pennsylvania Public Utility Commission | Allegheny Power (West Penn Power) | January 1998 | Pennsylvania Office of Small Business Advocate | Industry restructuring, cost unbundling, cost allocation, and rate design. |
| R-973954 | Pennsylvania Public Utility Commission | Pennsylvania Power & Light | August 1997 | Pennsylvania Office of Small Business Advocate | Restructuring, stranded costs, market price forecasting, cost allocation, and rate design. |
| 1996 Electric Utility Tariff Applications | Alberta Energy & Utilities Board | TransAlta Utilities, Alberta Power Edmonton Power, Grid Company of Alberta | October 1996 | Independent Power Producers Society of Alberta (IPPSA) | Industry restructuring; transmission cost allocation and rate design. |
| R-963612 | Pennsylvania Public Utility Commission | PG Energy, Inc. | October 1996 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design -- direct and rebuttal. |
| R-953444 | Pennsylvania Public Utility Commission | Trigen-Philadelphia Energy Corp. | November 1995 | Pennsylvania Office of Small Business Advocate | Steam energy cost rate -- direct and rebuttal. |
| R-953406 | Pennsylvania Public Utility Commission | T.W. Phillips Gas & Oil Company | October 1995 | Pennsylvania Office of Small Business Advocate | Weather normalization, cost allocation and rate design. |
| R-953297 | Pennsylvania Public Utility Commission | UGI Utilities, Inc. (Gas Division) | May 1995 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design -- direct and surrebuttal. |
| R-943271 | Pennsylvania Public Utility Commission | Pennsylvania Power & Light | April/May 1995 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design -- direct and rebuttal |
| EBRO 488 | Ontario Energy Board | Natural Resource Gas Limited | November 1994 | Natural Resource Gas Limited | Customer classification, cost allocation and rate design. |
| RE92071 | Alberta Public Utilities Board | Alberta Power Limited | November 1994 | Independent Power Producers Society of Alberta | Cost allocation and rate design for export transmission service. |
| R-942986 | Pennsylvania Public Utility Commission | West Penn Power Company | August 1994 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design. |

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS

| DOCKET # | REGULATOR | UTILITY | DATE | CLIENT | TOPICS |
|--|---|---|------------------------------|--|---|
| R-932862 | Pennsylvania Public Utility Commission | UGI Utilities, Inc. (Electric Division) | March 1994 | Pennsylvania Office of Small Business Advocate | Cost allocation and rate design -- direct, rebuttal and surrebuttal. |
| EBRO 485, and Generic Direct Purchase Hearings | Ontario Energy Board | Consumers' Gas Company, Ltd. | August 1993, September 1993. | Canadian Independent Gas Marketing Association | Classification and allocation of marketing and administrative costs. |
| Hearings for Cost of Service and Rate Design | Nova Scotia Utility and Review Board | Nova Scotia Power, Inc. | May 1993 | Bowater Mersey Paper Company, Ltd. | Classification of bulk power costs, rate design for interruptible service and other rate design issues. |
| Generic Hearing #4 | Board of Commissioners of Public Utilities, New Brunswick | New Brunswick Power Corporation | November 1991 | Large Power Users Group | Review of cost allocation and rate design. |
| EBRO-473 | Ontario Energy Board | Consumers' Gas Company, Ltd. | October 1991 | Ontario Energy Board Staff | Cost allocation and rate design |
| EBRO-470 | Ontario Energy Board | Union Gas, Ltd. | February 1991 | Ontario Energy Board Staff | Cost allocation and rate design; evaluation of load shifting study. |
| Rate Area Boundaries Hearings | Prince Edward Island Public Utilities Commission | Maritime Electric Co., Ltd. | February 1991 | PEI Island Department of Energy and Forestry | Customer classification by geographical area. |
| EBRO-467 | Ontario Energy Board | Centra Gas, Ltd. | January 1991 | Ontario Energy Board Staff | Cost allocation and rate design for technology, cogen and bypass. |
| Arbitration Hearings | Arbitrator | ARINC, Inc. | July 1990 | ARINC Inc. | Cost allocation and rate design for aircraft to ground data communications service. |
| EBRO-462 | Ontario Energy Board | Union Gas, Ltd. | January 1990 | Ontario Energy Board Staff | Seasonal cost allocation study, and allocation of costs to export markets. |
| NSPC-857 | Nova Scotia Board of Commissioners of Public Utilities | Nova Scotia Power Corp. | February 1989 | Interruptible industrial customers | Cost allocation and rate design of interruptible electric service. |

EXHIBIT RDK-2

REFERENCED INTERROGATORY RESPONSES

(in numerical order)

OSBA-I-2, 2A (Revised March 30, 2007)

OSBA-I-3 (Revised March 30, 2007)

OSBA-I-7

OSBA-I-10

OSBA-I-12

OSBA-I-13

OSBA-II-20

OSBA-II-34

OSBA-III-78

OSBA-III-79

OSBA-III-80

OSBA-III-81

OSBA-III-82

OSBA-III-85

OSBA-III-88

EXHIBIT IEc-3

DESIGN DAY DEMAND ANALYSIS

IEc Design Day Demand Analysis

A gas distribution utility generally must size certain aspects of its distribution system to meet the peak demands of its customers. The utility will usually construct the system to meet a measure of extreme demand that it is relatively unlikely to experience in any single year. This demand measure is usually referred to as "design day demand."

To allocate the costs associated with those components of the system that are sized to meet design day demand, the principle of cost causation dictates that these costs be assigned to each rate class in proportion to that class's contribution to the design day demand. Because demand-related costs are a significant share of a NGDC's overall distribution revenue requirement, it is important that the design day demand allocators be accurate.

In OSBA-I-7, the OSBA requested that PGW provide the workpapers that show the derivation of PGW's design day demand allocators. PGW's response referred to Exhibits HSG-6C, HSG-6D and HSG-6E, none of which provide any information about how the actual design day demands were calculated. For firm service customers, PGW referred the OSBA to Exhibit HSG-6C, which indicates that the design day demands were "provided by [the] PGW Gas Model." Undeterred, the OSBA again requested the details underpinning the design day allocators from the PGW Gas Model, in OSBA-III-88. In responding to that interrogatory, PGW indicated that the allocators were *not* derived in the PGW Gas Model. Also in that response, PGW provided a regression analysis of daily total throughput for firm service classes, which it uses to develop its *total* system design day. However, that analysis provides no information regarding how the *class-specific* design day demand allocators were developed.²⁹

As such, PGW has not provided any analysis showing how this critical allocator was developed. To test the reasonableness of the PGW figures, IEC conducted its own design day demand analysis.

In response to OSBA-I-7(b), PGW provided the monthly sales and monthly customer count for each rate class for the past five years, as well as the heating degree days for each month. From this data, the sales per customer for each month in the past five years were calculated. Using that information, various regression analyses were performed in the form:

$$S_{i,t} = a_i + b_i * HDD_t + e_{i,t}$$

²⁹ It is unlikely that PGW could prepare regression analyses based on daily throughput for each rate class, as class-specific information is generally not metered on a daily basis. Thus, if PGW has prepared any class-specific analysis, it would presumably use a methodology similar to the one developed by IEC, as explained below.

where:

S = gas sales per customer in Mcf

HDD = heating degree days³⁰

i = rate class

t = month

a = the estimated non-heating component of per-customer gas sales

b = the impact of one HDD on per-customer gas sales

e = statistical error term

For each firm sales rate class, IEC performed four regression analyses:

- All months for the past five years;
- All months for the past three years;
- Winter months (November to March) for the past five years;
- Winter months for the past three years.

Of these approaches, the winter-only analysis for the past three years is likely to be the most credible, because it focuses on the key season, and it is less affected by conservation trends that may be occurring throughout the estimation period.

With the estimated coefficients "a" and "b" from each regression, the design day demand can be estimated. For each customer, the design day demand is the sum of the daily non-heat demand and the heating demand under design conditions. The non-heat demand is simply the "a" coefficient divided by the average number of days in the month (approximately 30). The heating component of the design day demand is the "b" coefficient multiplied by the design day HDD. PGW uses 0 degrees Fahrenheit as its design temperature, and therefore the design HDD condition is 65. To translate per customer design day demands into class demands, the per-customer demand is multiplied by the test year customer count.

A summary of the results of these analyses is shown on the table included in this exhibit. That table also compares my design day calculations with the values used by PGW. As shown in that table, PGW's (unspecified) methodology produces a design day demand for residential customers that is lower (on a relative basis) than any of my analyses. Similarly, the analyses

³⁰ In any month, the reported gas sales tend to reflect consumption for some of the reported month and some of the prior month, due to staggered billing cycles. Therefore, to better match the sales data and the heating degree days, an average of the heating degree days for the sales month and the prior month was used. This approach produced a much better regression "fit" and therefore a more accurate estimate of design day demands.

indicated that the relative contribution of the non-residential classes is consistently lower than that used by PGW.

In short, based on the only class-specific analysis available, it is apparent that PGW's design day demand allocators under-assign costs to the residential class, and over-assign costs to the non-residential classes.

**Exhibit IEC-3
Summary of IEC Design Day Demand Analysis
Values in Mcf per Design Day**

| | Sub-Total | Residential Non-Heat | Residential Heat | Commercial Non-Heat | Commercial Heat | Industrial Non-Heat | Industrial Heat | Municipal Non-Heat | Municipal Heat | Housing Authority |
|--|---------------------|-------------------------|---------------------|------------------------|--------------------|------------------------|--------------------|-----------------------|--------------------|----------------------|
| PGW Allocator | | | | | | | | | | |
| PGW Design Demand (HSG-6C) Allocator | 723,500 100.000% | 14,076 1.946% | 543,043 75.058% | 11,730 1.621% | 110,174 15.228% | 3,150 0.435% | 9,827 1.358% | 3,215 0.444% | 16,535 2.285% | 11,750 1.624% |
| IEC Analyses | | | | | | | | | | |
| <i>Annual Regression Analyses</i> | | | | | | | | | | |
| 5-Year Design Demand Allocator | 663,208 100.000% | 15,354 2.315% | 504,093 76.008% | 11,534 1.739% | 97,067 14.636% | 2,667 0.402% | 8,999 1.357% | 3,100 0.467% | 13,941 2.102% | 6,453 0.973% |
| 3-Year Design Demand Allocator | 647,725 100.000% | 15,531 2.398% | 491,641 75.903% | 11,308 1.746% | 95,957 14.814% | 2,658 0.410% | 8,359 1.291% | 3,126 0.483% | 13,153 2.031% | 5,990 0.925% |
| <i>Winter Regression Analyses</i> | | | | | | | | | | |
| 5-Year Design Demand Allocator | 717,206 100.000% | 15,941 2.223% | 550,448 76.749% | 11,598 1.617% | 103,272 14.399% | 2,744 0.383% | 9,920 1.383% | 3,119 0.435% | 14,989 2.090% | 5,176 0.722% |
| 3-Year Design Demand Allocator | 696,405 100.000% | 15,973 2.294% | 534,772 76.790% | 11,260 1.617% | 100,676 14.457% | 2,624 0.377% | 9,227 1.325% | 3,138 0.451% | 13,603 1.953% | 5,132 0.737% |
| Most Credible IEC Allocator Percent Difference from PGW | 100.000% 0.000% | 2.294% 17.894% | 76.790% 2.308% | 1.617% -0.275% | 14.457% -5.066% | 0.377% -13.459% | 1.325% -2.450% | 0.451% 1.394% | 1.953% -14.530% | 0.737% -54.622% |
| Average of IEC Allocators Percent Difference from PGW | 100.000% 0.000% | 2.307% 18.594% | 76.363% 1.738% | 1.680% 3.605% | 14.577% -4.278% | 0.393% -9.746% | 1.339% -1.425% | 0.459% 3.261% | 2.044% -10.563% | 0.839% -48.332% |

EXHIBIT IEc-4

REVENUE ALLOCATION ANALYSES

EXHIBIT IEC-4: Table 4-A
PGW Proposed Base Rate Revenue Allocation at Full Rate Increase
\$000

| | Residential | Commercial | Industrial | Municipal | Housing Authority | Total |
|--|----------------|---------------|--------------|--------------|-------------------|----------------|
| Current Rates | | | | | | |
| Tariff Revenues | 231,546 | 49,991 | 5,232 | 4,269 | 4,147 | 295,185 |
| Other Revenues | 33,201 | 2,326 | 200 | 148 | 604 | 36,479 |
| Current Revenues | 264,747 | 52,317 | 5,432 | 4,417 | 4,751 | 331,664 |
| Allocated Cost Excl Return | 219,004 | 29,585 | 3,130 | 2,287 | 2,609 | 256,615 |
| Allocated Return Before Increase | 62,199 | 10,181 | 866 | 988 | 814 | 75,049 |
| Cost of Service Before Increase | 281,203 | 39,766 | 3,996 | 3,275 | 3,423 | 331,664 |
| Rate Base | 1,030,696 | 168,707 | 14,356 | 16,377 | 13,497 | 1,243,633 |
| Current Rates Income | 45,743 | 22,732 | 2,302 | 2,130 | 2,142 | 75,049 |
| Current Rate of Return | 4.4% | 13.5% | 16.0% | 13.0% | 15.9% | 6.0% |
| PGW Proposed Rates | | | | | | |
| PGW Rate Increase | 69,397 | 24,743 | 1,845 | 2,197 | 1,758 | 99,940 |
| Percent Increase (Tariff Revenues) | 30.0% | 49.5% | 35.3% | 51.5% | 42.4% | 33.9% |
| Proposed Revenues | 334,144 | 77,060 | 7,277 | 6,614 | 6,509 | 431,604 |
| Allocated Return After Increase | 145,027 | 23,738 | 2,020 | 2,304 | 1,899 | 174,989 |
| Cost of Service after Increase | 364,031 | 53,323 | 5,150 | 4,591 | 4,508 | 431,604 |
| Proposed Income | 115,140 | 47,475 | 4,147 | 4,327 | 3,900 | 174,989 |
| Proposed Rate of Return | 11.2% | 28.1% | 28.9% | 26.4% | 28.9% | 14.1% |
| Revenue Cost Ratio | | | | | | |
| Current - Simple | 94.1% | 131.6% | 135.9% | 134.9% | 138.8% | 100.0% |
| Current - Normalized | 94.6% | 127.7% | 137.3% | 125.2% | 137.1% | 100.0% |
| Proposed | 91.8% | 144.5% | 141.3% | 144.1% | 144.4% | 100.0% |
| Progress | -53% | -61% | -11% | -75% | -19% | NM |
| Subsidy | | | | | | |
| Current | (16,456) | 12,551 | 1,436 | 1,142 | 1,328 | - |
| Proposed | (29,887) | 23,737 | 2,127 | 2,023 | 2,001 | - |
| Progress | -82% | -89% | -48% | -77% | -51% | NM |
| Rate of Return Difference | | | | | | |
| Current | -1.6% | 7.4% | 10.0% | 7.0% | 9.8% | 0.0% |
| Proposed | -2.9% | 14.1% | 14.8% | 12.4% | 14.8% | 0.0% |
| Progress | -82% | -89% | -48% | -77% | -51% | NM |
| Proposed Rates Scaled Back | | | | | | |
| Scaled Back PGW Rate Increase | 41,622 | 14,840 | 1,107 | 1,318 | 1,054 | 59,940 |
| Percent Increase (Tariff Revs.) | 18.0% | 29.7% | 21.1% | 30.9% | 25.4% | 20.3% |
| Proposed Revenues | 306,369 | 67,157 | 6,539 | 5,735 | 5,805 | 391,604 |
| Allocated Return After Increase | 111,876 | 18,312 | 1,558 | 1,778 | 1,465 | 134,989 |
| Cost of Service after Increase | 330,880 | 47,897 | 4,688 | 4,065 | 4,074 | 391,604 |
| Proposed Income | 87,365 | 37,572 | 3,409 | 3,448 | 3,196 | 134,989 |
| Proposed Rate of Return | 8.5% | 22.3% | 23.7% | 21.1% | 23.7% | 10.9% |
| Revenue Cost Ratio | | | | | | |
| Current - Normalized | 94.6% | 127.7% | 137.3% | 125.2% | 137.1% | 100.0% |
| Proposed | 92.6% | 140.2% | 139.5% | 141.1% | 142.5% | 100.0% |
| Progress | -38% | -45% | -6% | -63% | -14% | NM |
| Subsidy | | | | | | |
| Current | (16,456) | 12,551 | 1,436 | 1,142 | 1,328 | - |
| Proposed | (24,511) | 19,260 | 1,850 | 1,670 | 1,731 | - |
| Progress | -49% | -53% | -29% | -46% | -30% | NM |
| Rate of Return Difference | | | | | | |
| Current | -1.6% | 7.4% | 10.0% | 7.0% | 9.8% | 0.0% |
| Proposed | -2.4% | 11.4% | 12.9% | 10.2% | 12.8% | 0.0% |
| Progress | -49% | -53% | -29% | -46% | -30% | NM |

EXHIBIT IEc-4: Table 4-B
IEc Proposed Base Rate Revenue Allocation: Full Revenue Requirement Method
\$000

| | Residential | Commercial | Industrial | Municipal | Housing Authority | Total |
|--|----------------|---------------|--------------|--------------|-------------------|----------------|
| Current Rates | | | | | | |
| Tariff Revenues | 231,546 | 49,991 | 5,232 | 4,269 | 4,147 | 295,185 |
| Other Revenues | 33,201 | 2,326 | 200 | 148 | 604 | 36,479 |
| Current Revenues | 264,747 | 52,317 | 5,432 | 4,417 | 4,751 | 331,664 |
| Allocated Cost Excl Return | 219,004 | 29,585 | 3,130 | 2,287 | 2,609 | 256,615 |
| Allocated Return Before Increase | 62,199 | 10,181 | 866 | 988 | 814 | 75,049 |
| Cost of Service Before Increase | 281,203 | 39,766 | 3,996 | 3,275 | 3,423 | 331,664 |
| Rate Base | 1,030,696 | 168,707 | 14,356 | 16,377 | 13,497 | 1,243,633 |
| Current Rates Income | 45,743 | 22,732 | 2,302 | 2,130 | 2,142 | 75,049 |
| Current Rate of Return | 4.4% | 13.5% | 16.0% | 13.0% | 15.9% | 6.0% |
| IEc Proposed Rates | | | | | | |
| IEc Rate Increase | 95,640.6 | 3,681.9 | 217.2 | 266.7 | 133.7 | 99,940.0 |
| Percent Increase (Tariff Revs.) | 41.3% | 7.4% | 4.2% | 6.2% | 3.2% | 33.9% |
| Proposed Revenues | 360,388 | 55,999 | 5,649 | 4,684 | 4,885 | 431,604 |
| Allocated Return After Increase | 145,027 | 23,738 | 2,020 | 2,304 | 1,899 | 174,989 |
| Cost of Service after Increase | 364,031 | 53,323 | 5,150 | 4,591 | 4,508 | 431,604 |
| Proposed Income | 141,384 | 26,414 | 2,519 | 2,397 | 2,276 | 174,989 |
| Proposed Rate of Return | 13.7% | 15.7% | 17.5% | 14.6% | 16.9% | 14.1% |
| Revenue Cost Ratio | | | | | | |
| Current - Simple | 94.1% | 131.6% | 135.9% | 134.9% | 138.8% | 100.0% |
| Current - Normalized | 94.6% | 127.7% | 137.3% | 125.2% | 137.1% | 100.0% |
| Proposed | 99.0% | 105.0% | 109.7% | 102.0% | 108.4% | 100.0% |
| Progress | 81% | 82% | 74% | 92% | 78% | NM |
| Subsidy | | | | | | |
| Current | (16,456) | 12,551 | 1,436 | 1,142 | 1,328 | - |
| Proposed | (3,644) | 2,675 | 499 | 92 | 377 | - |
| Progress | 78% | 79% | 65% | 92% | 72% | NM |
| Rate of Return Difference | | | | | | |
| Current | -1.6% | 7.4% | 10.0% | 7.0% | 9.8% | 0.0% |
| Proposed | -0.4% | 1.6% | 3.5% | 0.6% | 2.8% | 0.0% |
| Progress | 78% | 79% | 65% | 92% | 72% | NM |
| Proposed Rates Scaled Back | | | | | | |
| Scaled Back IEc Rate Increase | 57,361 | 2,208 | 130 | 160 | 80 | 59,940 |
| Percent Increase (Tariff Revs.) | 24.8% | 4.4% | 2.5% | 3.7% | 1.9% | 20.3% |
| Proposed Revenues | 322,108 | 54,525 | 5,562 | 4,577 | 4,831 | 391,604 |
| Allocated Return After Increase | 111,876 | 18,312 | 1,558 | 1,778 | 1,465 | 134,989 |
| Cost of Service after Increase | 330,880 | 47,897 | 4,688 | 4,065 | 4,074 | 391,604 |
| Proposed Income | 103,104 | 24,940 | 2,432 | 2,290 | 2,222 | 134,989 |
| Proposed Rate of Return | 10.0% | 14.8% | 16.9% | 14.0% | 16.5% | 10.9% |
| Revenue Cost Ratio | | | | | | |
| Current - Normalized | 94.6% | 127.7% | 137.3% | 125.2% | 137.1% | 100.0% |
| Proposed | 97.3% | 113.8% | 118.6% | 112.6% | 118.6% | 100.0% |
| Progress | 51% | 50% | 50% | 50% | 50% | NM |
| Subsidy | | | | | | |
| Current | (16,456) | 12,551 | 1,436 | 1,142 | 1,328 | - |
| Proposed | (8,772) | 6,628 | 874 | 512 | 757 | - |
| Progress | 47% | 47% | 39% | 55% | 43% | NM |
| Rate of Return Difference | | | | | | |
| Current | -1.6% | 7.4% | 10.0% | 7.0% | 9.8% | 0.0% |
| Proposed | -0.9% | 3.9% | 6.1% | 3.1% | 5.6% | 0.0% |
| Progress | 47% | 47% | 39% | 55% | 43% | NM |

EXHIBIT IEc-4: Table 4-C
IEc Proposed Base Rate Revenue Allocation with First Dollar Relief Methodology
\$000

| | Residential | Commercial | Industrial | Municipal | Housing Authority | Total |
|--|----------------|---------------|--------------|--------------|----------------------|----------------|
| Current Rates | | | | | | |
| Tariff Revenues | 231,546 | 49,991 | 5,232 | 4,269 | 4,147 | 295,185 |
| Other Revenues | 33,201 | 2,326 | 200 | 148 | 604 | 36,479 |
| Current Revenues | 264,747 | 52,317 | 5,432 | 4,417 | 4,751 | 331,664 |
| Allocated Cost Excl Return | 219,004 | 29,585 | 3,130 | 2,287 | 2,609 | 256,615 |
| Allocated Return Before Increase | 62,199 | 10,181 | 866 | 988 | 814 | 75,049 |
| Cost of Service Before Increase | 281,203 | 39,766 | 3,996 | 3,275 | 3,423 | 331,664 |
| Rate Base | 1,030,696 | 168,707 | 14,356 | 16,377 | 13,497 | 1,243,633 |
| Current Rates Income | 45,743 | 22,732 | 2,302 | 2,130 | 2,142 | 75,049 |
| Current Rate of Return | 4.4% | 13.5% | 16.0% | 13.0% | 15.9% | 6.0% |
| Proposed Rates with FDR | | | | | | |
| PGW Proposed Increase | 69,397 | 24,743 | 1,845 | 2,197 | 1,758 | 99,940 |
| Scaled Back Increase | | | | | | 59,940 |
| FDR: PGW Proposed Subsidies | | (21,873) | (1,631) | (1,942) | (1,554) | (27,000) |
| Increase After FDR | 69,397 | 2,870 | 214 | 255 | 204 | 72,940 |
| Scaled Back IEc Rate Increase | 57,028 | 2,359 | 176 | 209 | 168 | 59,940 |
| Percent Increase (Tariff Revs.) | 24.6% | 4.7% | 3.4% | 4.9% | 4.0% | 20.3% |
| Proposed Revenues | 321,775 | 54,676 | 5,608 | 4,626 | 4,919 | 391,604 |
| Allocated Return After Increase | 111,876 | 18,312 | 1,558 | 1,778 | 1,465 | 134,989 |
| Cost of Service after Increase | 330,880 | 47,897 | 4,688 | 4,065 | 4,074 | 391,604 |
| Proposed Income | 102,771 | 25,091 | 2,478 | 2,339 | 2,310 | 134,989 |
| Proposed Rate of Return | 10.0% | 14.9% | 17.3% | 14.3% | 17.1% | 10.9% |
| Revenue Cost Ratio | | | | | | |
| Current - Simple | 94.1% | 131.6% | 135.9% | 134.9% | 138.8% | 100.0% |
| Current - Normalized | 94.5% | 129.0% | 136.8% | 128.3% | 137.7% | 100.0% |
| Proposed | 97.2% | 114.2% | 119.6% | 113.8% | 120.7% | 100.0% |
| Progress | 50% | 51% | 47% | 51% | 45% | NM |
| Subsidy | | | | | | |
| Current | (16,456) | 12,551 | 1,436 | 1,142 | 1,328 | - |
| Proposed | (9,104) | 6,779 | 920 | 562 | 845 | - |
| Progress | 45% | 46% | 36% | 51% | 36% | NM |
| Rate of Return Difference | | | | | | |
| Current | -1.6% | 7.4% | 10.0% | 7.0% | 9.8% | 0.0% |
| Proposed | -0.9% | 4.0% | 6.4% | 3.4% | 6.3% | 0.0% |
| Progress | 45% | 46% | 36% | 51% | 36% | NM |

EXHIBIT IEC-4: Table 4-D
PGW Revenue Allocation: Supporting Data for Revenue Allocation Proposals
\$000

| | Present Rates | | | | | | | | | | | | |
|-----------------------|----------------|----------------|----------------|--------------------|-------------------------------|--------------------|--|-----------------------------------|---|------------------------------------|--|-------------------------------------|------------------|
| | Rate Revenues | USEC Costs | USEC Revenues | Net Other Revenues | Other Revenues Excl USEC Adj. | Base Rates Revenue | Alloc. Costs Excl. Interest and Return | Income Before Interest and Return | Interest and Return Costs Before Increase | Allocated Base Rates Costs Present | Interest and Return Costs After Increase | Allocated Base Rates Costs Proposed | Rate Base |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| Residential Non-Heat | 17,341 | 3,061 | 3,712 | 2,157 | 2,808 | 16,437 | 18,983 | (2,546) | 4,835 | 23,818 | 11,274 | 30,257 | 80,125 |
| Residential Heat | 311,866 | 77,470 | 93,949 | 13,914 | 30,393 | 248,310 | 200,021 | 48,289 | 57,364 | 257,385 | 133,753 | 333,774 | 950,571 |
| Commercial Non-Heat | 12,989 | 3,569 | 4,329 | (325) | 435 | 9,095 | 5,419 | 3,676 | 1,693 | 7,112 | 3,947 | 9,366 | 28,050 |
| Commercial Heat | 62,906 | 17,791 | 21,575 | (1,893) | 1,891 | 43,222 | 24,166 | 19,056 | 8,488 | 32,654 | 19,792 | 43,958 | 140,657 |
| Industrial Non-Heat | 2,537 | 723 | 877 | (97) | 57 | 1,717 | 853 | 864 | 242 | 1,095 | 563 | 1,416 | 4,002 |
| Industrial Heat | 5,438 | 1,538 | 1,866 | (185) | 143 | 3,715 | 2,277 | 1,438 | 625 | 2,902 | 1,457 | 3,734 | 10,354 |
| Municipal Non-Heat | 1,583 | 550 | 667 | (86) | 31 | 947 | 472 | 475 | 194 | 666 | 453 | 925 | 3,221 |
| Municipal Heat | 5,908 | 2,107 | 2,555 | (331) | 117 | 3,470 | 1,815 | 1,655 | 794 | 2,609 | 1,851 | 3,666 | 13,156 |
| Housing Authority GS | 6,254 | 1,737 | 2,107 | 234 | 604 | 4,751 | 2,609 | 2,142 | 814 | 3,423 | 1,899 | 4,508 | 13,497 |
| Firm Sales Excl. NGV | 426,822 | 108,546 | 131,637 | 13,388 | 36,479 | 331,664 | 256,615 | 75,049 | 75,049 | 331,664 | 174,989 | 431,604 | 1,243,633 |
| NGV | 1 | - | - | - | - | 1 | 1 | - | - | 1 | - | 1 | 4 |
| Interruptible Sales | 41,187 | - | - | 162 | 162 | 41,349 | 39,729 | 1,620 | 1,620 | 41,349 | 1,680 | 41,409 | 13,880 |
| GTS IT | 7,256 | - | - | 110 | 110 | 7,366 | 2,388 | 4,978 | 4,978 | 7,366 | 4,978 | 7,366 | 17,384 |
| Total | 475,266 | 108,546 | 131,637 | 13,660 | 36,751 | 380,380 | 298,733 | 81,647 | 81,647 | 380,380 | 181,647 | 480,380 | 1,274,901 |
| Sub-Total Residential | 329,207 | 80,531 | 97,661 | 16,071 | 33,201 | 264,747 | 219,004 | 45,743 | 62,199 | 281,203 | 145,027 | 364,031 | 1,030,696 |
| Sub-Total Commercial | 75,895 | 21,360 | 25,904 | (2,218) | 2,326 | 52,317 | 29,585 | 22,732 | 10,181 | 39,766 | 23,738 | 53,323 | 168,707 |
| Sub-Total Industrial | 7,975 | 2,261 | 2,743 | (282) | 200 | 5,432 | 3,130 | 2,302 | 866 | 3,996 | 2,020 | 5,150 | 14,356 |
| Sub-Total Municipal | 7,491 | 2,657 | 3,222 | (417) | 148 | 4,417 | 2,287 | 2,130 | 988 | 3,275 | 2,304 | 4,591 | 16,377 |

| | Revenue-Cost Performance Metrics: Present Rates | | | | | | Revenue-Cost Performance Metrics: Proposed Rates | | | | | | |
|-----------------------|---|------------------------|-----------------------------|--------------------|-------------------------------|----------------------|--|-----------------------|---------------------|------------------------|-----------------------------|--------------------|----------------------|
| | Return on Rate Base | Indexed Rate of Return | Differential Rate of Return | Revenue-Cost Ratio | Normalized Revenue-Cost Ratio | Dollar Cross-Subsidy | PGW Proposed Base Rate Increase | PGW Proposed Revenues | Return on Rate Base | Indexed Rate of Return | Differential Rate of Return | Revenue-Cost Ratio | Dollar Cross-Subsidy |
| | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) | (24) | (25) | (26) |
| Residential Non-Heat | -3.2% | -52.7% | -9.2% | 69.0% | 70.7% | (7,381) | 2,639 | 19,076 | 0.1% | 0.8% | -14.0% | 63% | (11,181) |
| Residential Heat | 5.1% | 84.2% | -1.0% | 96.5% | 96.8% | (9,075) | 66,758 | 315,068 | 12.1% | 86.0% | -2.0% | 94% | (18,706) |
| Commercial Non-Heat | 13.1% | 217.2% | 7.1% | 127.9% | 126.4% | 1,983 | 4,135 | 13,230 | 27.8% | 197.9% | 13.8% | 141% | 3,864 |
| Commercial Heat | 13.5% | 224.5% | 7.5% | 132.4% | 128.0% | 10,568 | 20,608 | 63,830 | 28.2% | 200.4% | 14.1% | 145% | 19,872 |
| Industrial Non-Heat | 21.6% | 357.8% | 15.6% | 156.9% | 157.8% | 622 | 590 | 2,307 | 36.3% | 258.2% | 22.3% | 163% | 891 |
| Industrial Heat | 13.9% | 230.1% | 7.9% | 128.0% | 129.5% | 813 | 1,255 | 4,970 | 26.0% | 184.8% | 11.9% | 133% | 1,236 |
| Municipal Non-Heat | 14.7% | 244.4% | 8.7% | 142.1% | 133.2% | 281 | 455 | 1,402 | 28.9% | 205.2% | 14.8% | 152% | 477 |
| Municipal Heat | 12.6% | 208.5% | 6.5% | 133.0% | 123.2% | 861 | 1,742 | 5,212 | 25.8% | 183.5% | 11.8% | 142% | 1,546 |
| Housing Authority GS | 15.9% | 263.0% | 9.8% | 138.8% | 137.1% | 1,328 | 1,758 | 6,509 | 28.9% | 205.4% | 14.8% | 144% | 2,001 |
| Firm Sales Excl. NGV | 6.0% | 100.0% | 0.0% | 100.0% | 100.0% | - | 99,940 | 431,604 | 14.1% | 100.0% | 0.0% | 100% | - |
| NGV | 0.0% | 0.0% | -6.0% | - | - | - | - | - | - | - | - | - | - |
| Interruptible Sales | 11.7% | 193.4% | 5.6% | - | - | - | 60 | - | - | - | - | - | - |
| GTS IT | 28.6% | 474.5% | 22.6% | - | - | - | - | - | - | - | - | - | - |
| Total | 6.4% | 106.1% | 0.4% | - | - | - | 100,000 | - | - | - | - | - | - |
| Sub-Total Residential | 4.4% | 73.5% | -1.6% | 94.1% | 94.6% | (16,456) | 69,397 | 334,144 | 11.2% | 79.4% | -2.9% | 92% | (29,887) |
| Sub-Total Commercial | 13.5% | 223.3% | 7.4% | 131.6% | 127.7% | 12,551 | 24,743 | 77,060 | 28.1% | 200.0% | 14.1% | 145% | 23,737 |
| Sub-Total Industrial | 16.0% | 265.7% | 10.0% | 135.9% | 137.3% | 1,436 | 1,845 | 7,277 | 28.9% | 205.3% | 14.8% | 141% | 2,127 |
| Sub-Total Municipal | 13.0% | 215.5% | 7.0% | 134.9% | 125.2% | 1,142 | 2,197 | 6,614 | 26.4% | 187.8% | 12.4% | 144% | 2,023 |

(1) Exhibit HSG-1; OSBA 2A (Revised); Line 9: Includes USEC at \$131.6 million.
 (2) Exhibit HSG-1; OSBA 2A (Revised); Line 17
 (3) Exhibit HSG-6S; Original Filing, updated March 30.
 (4) Exhibit HSG-1; OSBA 2A (Revised); Line 11
 (5) = (4) + (3) - (2) Revenue adjustments excluding USEC revenue adjustment
 (6) = (1) - (3) + (5) = (1) - (2) + (4) Cust charge, REC charge, Delivery Charge, other revs. excl. USEC adjustment.
 (7) Exhibit HSG-1; OSBA 2A (Revised); Lines 15 + 16.
 (8) = (6) - (7)

(9) All non-firm set equal to (8). Net firm cost of capital allocated in proportion to rate base, column (13)
 (10) = (7) + (9) Cost at present rates assuming return represents full cost
 (11) Total and non-firm return set equal to present return plus increase (9) + (20); firm allocated per rate base (13)
 (12) = (11) + (7)
 (13) Exhibit HSG-1; OSBA 2A (Revised); Line 29
 (20) Exhibit HSG-7C line 11 (Filed CCROSS)

EXHIBIT IEc-5

**ARITHMETIC IMPLICATIONS OF
THE INDEXED RATE OF RETURN METRIC**

Indexed Rate of Return

The indexed rate of return is purported to be a measure of progress toward cost-based rates in utility regulation. For each rate class, an indexed rate of return is calculated both at current rates and at proposed rates. If the index for a particular class moves closer to unity at proposed rates than at current rates, it is assumed that the class's revenues are more in line with costs at proposed rates. This section of testimony examines the arithmetic implications of this metric.

The indexed rate of return is defined as the ratio of the class rate of return to the system average rate of return. Algebraically, it is therefore:

$$(1) \quad IRR_i = [(R_i - C_i) / RB_i] / [(R_t - C_t) / RB_t]$$

where:

IRR = Indexed Rate of Return

R = Revenues

C = Allocated Costs (excluding capital costs)³¹

RB = Rate Base

i = Rate Class indicator

t = System Total indicator

Define the IRR at current (CIRR) and proposed (PIRR) as follows:

$$(2) \quad CIRR_i = [(R_i - C_i) / RB_i] / [(R_t - C_t) / RB_t]$$

$$(3) \quad PIRR_i = [(1 + B_i)R_i - C_i] / RB_i / [(1 + B_t)R_t - C_t] / RB_t]$$

where:

R = Current Rates Revenues

B = Proposed Revenue Increase Percent

From a common sense perspective, if a rate class gets the same percentage increase as the system average (i.e., $B_i = B_t$), the indexed rate of return at current and proposed rates should be the same. That is, an across-the-board increase in rates should not imply that any progress is being made toward cost-based rates, nor should it imply that rates are moving further away from costs.

³¹ Note that income taxes are not explicitly modeled in this analysis, because PGW is a municipal utility exempt from income taxes. However, if the income tax rate is the same for each rate class and system average, it simply drops out of the indexed rates of return calculation shown in equation (1).

This issue can be analyzed two ways. First, consider the implications of no change occurring between $CIRR_i$ and $PIRR_i$, regarding the relative magnitudes of B_i and B_t . That is, if the indexed rate of return at proposed rates is exactly the same as the indexed rate of return at current rates, what does that imply for the relationship between B_i and B_t .

Algebraically, this goes as:

$$(4) \quad CIRR_i = PIRR_i$$

substituting

$$(5) \quad [(R_i - C_i)/RB_i]/[(R_t - C_t)/RB_t] = [((1+B_i)R_i - C_i)/RB_i]/[((1+B_t)R_t - C_t)/RB_t]$$

reducing

$$(6) \quad (R_i - C_i)/(R_t - C_t) = ((1+B_i)R_i - C_i)/((1+B_t)R_t - C_t)$$

multiplying out

$$(7) \quad ((1+B_i)R_i - C_i)(R_t - C_t) = ((1+B_t)R_t - C_t)(R_i - C_i)$$

$$(8) \quad R_i R_t + B_i R_i R_t - R_i C_t - B_i R_i C_t - C_i R_t + C_i C_t = R_t R_i + B_t R_t R_i - R_t C_i - B_t R_t C_i - C_t R_i + C_t C_i$$

simplifying

$$(9) \quad B_i(R_i R_t - R_i C_t) = B_t(R_t R_i - R_t C_i)$$

$$(10) \quad B_i R_i (R_t - C_t) = B_t R_t (R_i - C_i)$$

$$(11) \quad B_i = B_t [(R_t - C_t)/R_t] / [(R_i - C_i)/R_i]$$

To interpret this equation, it is useful to think of the $(R-C)/R$ expression as current rates income as a percent of current rates revenues or a margin percentage; call it $M\%$. That is, it is a measure of the relative profitability of each rate class at current rates. In general, rate classes that exhibit higher margin percentages at current rates are those that provide subsidies to other classes, and those that exhibit lower margin percentages are the recipients of the subsidies. The equation can then be simplified to:

$$(12) \quad B_i = B_t (M\%_i) / (M\%_t)$$

With that simplification, this equation tell us that for the class indexed rate of return to stay the same, the rate increase for the class must be the system average rate increase multiplied by the ratio of the $M\%$ for the class to the $M\%$ for the system.

Therefore, if a class is already over-recovering its allocated costs, its $M\%$ is almost certainly higher than system average. Under those conditions, for the indexed rate of return to

remain exactly the same, it will need to be assigned a rate increase above system average. Moreover, the larger the current rates over-recovery, the larger will be the rate increase for the class. Similarly, for those classes that are under-recovering allocated costs (with $M\%_i$ being below $M\%_t$), the rate increase that is necessary to keep the indexed rate of return constant is below the system average increase. And, of course, the lower the current return for the class, the greater the discount necessary to simply break even.

Table 5-A attached to this exhibit shows the implications of this analysis for PGW's Commercial class. At current rates, the margin percentage for the Commercial class is 43.5 percent, compared to a system average of 22.6, a ratio of about 1.92. At current rates, the Commercial IRR is 223 percent. System-wide, PGW's \$100 million proposed increase translates into an average percentage revenue increase of 30.1 percent.³² The breakeven analysis indicates that assigning a 57.9 percent increase (the 1.92 times the 30.1 percent) to the Commercial class will keep its indexed rate of return at 223 percent. Any increase below 57.9 percent for the Commercial class will result in a lower indexed rate of return, and will therefore imply progress toward cost-based rates. Thus, PGW's proposed increase for the Commercial class of 47.3 percent causes the IRR metric to drop from 223 percent to 200 percent. Thus, the IRR metric implies that progress is being made toward cost-based rates for the Commercial Class, despite the fact that it is assigned a rate increase much higher than the system average of 30.1 percent.

The other approach to analyzing the IRR metric is to show the implications of an across-the-board rate increase. That is, set $B_i = B_t = B$. Algebraically:

$$(13) \quad CIRR_i = [(R_i - C_i)/RB_i] / [(R_t - C_t)/RB_t]$$

$$(14) \quad PIRR_i = [((1+B)R_i - C_i)/RB_i] / [((1+B)R_t - C_t)/RB_t]$$

by inspection

$$(15) \quad PIRR_i = CIRR_i [((1+B)R_i - C_i) / (R_i - C_i)] / [((1+B)R_t - C_t) / (R_t - C_t)]$$

simplifying and substituting

$$(16) \quad PIRR_i = CIRR_i (1+B/M\%_i) / (1+B/M\%_t)$$

³² This value is slightly different from that reported in Exhibit HSG-7C page 1 because the current revenues include "other revenues and adjustments" and RCEC revenues, whereas Mr. Gorman excludes those revenues in his calculation of the percentage increase. These revenues are included in this example to be consistent with PGW's method for determining class IRR.

This equation then shows that an across-the-board rate increase will cause the IRR to change between current and proposed rates. For those rate classes whose margin percentage is above system average ($M\%_i > M\%_s$), the proposed indexed rate of return will be lower than the current IRR, despite the fact that an across-the-board increase has been assigned. Conversely, for rate classes whose margin percentages are below system average, an across-the-board increase will cause the IRR to rise between current and proposed rates. Thus, the IRR metric will tend to move closer to unity for all rate classes using an across-the-board rate increase, despite the fact that common sense suggests that an across-the-board increase should be neutral in terms of cost recovery.

As shown in Table 5-A, this effect can be substantial. For PGW's Commercial Heat class, an across-the-board rate increase of 30.1 percent would cause the class IRR to fall from 223 percent to 162 percent. Not surprisingly, the IRR metric implies that an across-the-board increase would result in "even more" progress toward cost-based rates for the Commercial Heat class than the increase proposed by PGW.

Other Metrics

The tables attached to this exhibit evaluate the following alternative metrics for evaluating progress toward cost-based rates:

- Dollar cross-subsidy;
- Differential rate of return;
- Revenue-cost ratio;
- Normalized revenue-cost ratio.

All four of these metrics are evaluated using the "breakeven analysis." That is, the arithmetic shows what rate increase for each class will result in no change in the particular metric. For example, for the dollar cross-subsidy metric, a class increase that is equal to the system average increase multiplied by the system revenue to rate base ratio divided by the class revenue to rate base ratio will produce no change in the dollar cross-subsidy between current and proposed rates. Algebraically, for that metric, the breakeven class increase is:

$$(17) \quad B_i = B_s(R_s/RB_s)/(R_i/RB_i)$$

The breakeven algebra for the other metrics is reported on the attached tables. Based on that analysis, it is clear that all of the other metrics are far superior to the indexed rate of return for evaluating progress toward cost-based rates.

First, the constant dollar cross-subsidy and the differential rate of return methodology exhibit the identical results from the breakeven analysis. For these metrics, the rate increase necessary to result in no change in the subsidy metric will generally require the rate increase for an over-recovering class to be slightly less than system average. Thus, in the example shown, to maintain a constant dollar cross-subsidy from the commercial class, it is necessary to assign a 25.9 percent increase which is slightly below the system average increase.

Second, for the non-normalized revenue-cost ratio³³ metric, the breakeven analysis indicates that the rate increase necessary to maintain a constant revenue-cost ratio between current and proposed rates will be slightly different from the system average increase, depending on the relationship between costs allocated to the class and rate base allocated to the class. In the special case where a class's allocated costs are the same as the class's share of allocated rate base, a class increase equal to the system average increase will result in no change in the revenue-cost ratio between current and proposed rates.

Finally, the normalized revenue-cost ratio metric is the most credible of all approaches. If an across-the-board rate increase is assigned, the normalized revenue-cost ratio remains exactly the same at current and proposed rates. That is, this approach is most consistent with common sense, because an across-the-board rate increase will result in no progress toward cost-based rates, nor will it suggest that rates are moving farther away from cost-based rates. For that reason, this metric is assigned the greatest credibility for revenue allocation in Section 5 of this testimony.

³³ The non-normalized or "simple" revenue-cost ratio at current rates is calculated as the ratio of current rate revenues to allocated *current* costs, where the return to capital in current costs includes only the actual return provided. In effect, that metric tends to understate the actual capital-related costs of the utility. The normalized revenue-cost ratio metric for current rates is based on the ratio of current revenues to *proposed* costs, including the utility's proposed return on capital. Because that metric will necessarily be less than unity, the results for all classes are normalized to equal an average of 100 percent. As shown in the attached arithmetic, this approach produces common-sense results. Note also that, at proposed rates, the non-normalized and normalized approaches produce the same values.

Supporting Calculations for Exhibit IEc-5: Table 5-A
Indexed Rate of Return
\$ millions

| | Current Rates | | Breakeven Increase | | Across-the-Board Increase | | PGW Proposal | |
|-----------------------|----------------------|-------------------|---------------------------|-------------------|----------------------------------|-------------------|---------------------|-------------------|
| | Class (i) | System (t) | Class (i) | System (t) | Class (i) | System (t) | Class (i) | System (t) |
| Revenue | 52.3 | 331.7 | 82.6 | 431.6 | 68.1 | 431.6 | 77.1 | 431.6 |
| Cost | 29.6 | 256.6 | 29.6 | 256.6 | 29.6 | 256.6 | 29.6 | 256.6 |
| Return | 22.7 | 75.0 | 53.0 | 175.0 | 38.5 | 175.0 | 47.5 | 175.0 |
| Rate Base | 168.7 | 1,243.6 | 168.7 | 1,243.6 | 168.7 | 1,243.6 | 168.7 | 1,243.6 |
| RoR | 13.5% | 6.0% | 31.4% | 14.1% | 22.8% | 14.1% | 28.1% | 14.1% |
| Indexed RoR | 223% | | 223% | | 162% | | 200% | |
| Capital Cost Current | 10.2 | 75.0 | | | | | | |
| Capital Cost Proposed | 23.7 | 175.0 | 23.7 | 175.0 | 23.7 | 175.0 | 23.7 | 175.0 |
| Subsidy \$ | 12.6 | - | 29.3 | - | 14.8 | - | 23.7 | - |
| Differential RoR | 7.4% | | 17.3% | | 8.7% | | 14.1% | |
| Revenue-Cost Ratio | 132% | | 155% | | 128% | | 145% | |
| Normalized R/C Ratio | 128% | | 155% | | 128% | | 145% | |
| Income % of Revenue | 43.5% | 22.6% | 64.2% | 40.5% | 56.5% | 40.5% | 61.6% | 40.5% |
| RoR Increase | | | 17.9% | 8.0% | 9.3% | 8.0% | 14.7% | 8.0% |
| Revenue Increase | | | 57.9% | 30.1% | 30.1% | 30.1% | 47.3% | 30.1% |

Breakeven Class Increase = System Average Increase *
Class Income % of Revenue / System Income % of Revenue

Breakeven Algebra:

$$CIRR_i = [(R_i - C_i) / R_{Bi}] / [(R_t - C_t) / R_{Bt}]$$

$$PIRR_i = [((1 + B_i)R_i - C_i) / R_{Bi}] / [((1 + B_t)R_t - C_t) / R_{Bt}]$$

Breakeven at $CIRR_i = PIRR_i$

With a little algebra, solve for B_i :

$$B_i = B_t * [(R_i - C_i) / R_i] / [(R_t - C_t) / R_t]$$

This example is based PGW Total and Commercial Heat class, using values from Exhibit IEc-5. Note that both revenues and operating costs exclude USEC and interruptible volumetric charges/costs. Percentage changes are based on total revenues and not only tariff revenues.

**Supporting Calculations for Exhibit IEC-5: Table 5-B
Dollar Subsidy/Differential RoR
\$ millions**

| | <i>Current Rates</i> | | <i>Breakeven Increase</i> | |
|-----------------------|----------------------|-------------------|---------------------------|-------------------|
| | <i>Class (i)</i> | <i>System (t)</i> | <i>Class (i)</i> | <i>System (t)</i> |
| Revenue | 52.3 | 331.7 | 65.9 | 431.6 |
| Cost | 29.6 | 256.6 | 29.6 | 256.6 |
| Return | 22.7 | 75.0 | 36.3 | 175.0 |
| Rate Base | 168.7 | 1,243.6 | 168.7 | 1,243.6 |
| RoR | 13.5% | 6.0% | 21.5% | 14.1% |
| Indexed RoR | 223.3% | | 152.9% | |
| Capital Cost Current | 10.2 | 75.0 | | |
| Capital Cost Proposed | 23.7 | 175.0 | 23.7 | 175.0 |
| Subsidy \$ | 12.6 | - | 12.6 | - |
| Differential RoR | 7.4% | | 7.4% | |
| Revenue-Cost Ratio | 132% | | 124% | |
| Normalized R/C Ratio | 128% | | 124% | |
| Income % of Revenue | 43.5% | 22.6% | | |
| RoR Increase | | | 8.0% | 8.0% |
| Revenue Increase | | | 25.9% | 30.1% |

Breakeven Class Increase = System Present Revenue to Rate Base/
Class Revenue to Rate Base

Breakeven Algebra:

$$\begin{aligned} \text{CSUB}_i &= R_i - C_i - r\text{RB}_i \\ \text{PSUB}_i &= (1+B_i)R_i - C_i - (r+d)\text{RB}_i \\ \text{Note } d &= B_t R_t / \text{RB}_t \\ \text{PSUB}_i &= (1+B_i)R_i - C_i - (r+B_t R_t / \text{RB}_t)\text{RB}_i \\ \text{Breakeven at PSUB}_i &= \text{CSUB}_i \\ \text{PSUB}_i - \text{CSUB}_i &= B_i R_i - B_t R_t / \text{RB}_t \text{RB}_i = 0 \\ B_i &= B_t (R_t / \text{RB}_t) / (R_i / \text{RB}_i) \end{aligned}$$

Similarly, for Differential RoR

$$\begin{aligned} \text{CDRR}_i &= (R_i - C_i) / \text{RB}_i - (R_t - C_t) / \text{RB}_t \\ \text{PDRR}_i &= ((1+B_i)R_i - C_i) / \text{RB}_i - ((1+B_t)R_t - C_t) / \text{RB}_t \\ \text{PDRR}_i - \text{CDRR}_i &= B_i R_i / \text{RB}_i - B_t R_t / \text{RB}_t = 0 \\ B_i &= B_t (R_t / \text{RB}_t) / (R_i / \text{RB}_i) \end{aligned}$$

**Supporting Calculations for Exhibit IEC-5: Table 5-C
Non-Normalized R/C Ratio Example
\$ millions**

| | <i>Current Rates</i> | | <i>Breakeven Increase</i> | |
|-----------------------|----------------------|-------------------|---------------------------|-------------------|
| | <i>Class (i)</i> | <i>System (t)</i> | <i>Class (i)</i> | <i>System (t)</i> |
| Revenue | 52.3 | 331.7 | 70.2 | 431.6 |
| Cost | 29.6 | 256.6 | 29.6 | 256.6 |
| Return | 22.7 | 75.0 | 40.6 | 175.0 |
| Rate Base | 168.7 | 1,243.6 | 168.7 | 1,243.6 |
| RoR | 13.5% | 6.0% | 24.0% | 14.1% |
| Indexed RoR | 223.3% | | 170.9% | |
| Capital Cost Current | 10.2 | 75.0 | | |
| Capital Cost Proposed | 23.7 | 175.0 | 23.7 | 175.0 |
| Subsidy \$ | 12.6 | - | 16.8 | - |
| Differential RoR | 7.4% | | 10.0% | |
| Revenue-Cost Ratio | 132% | | 132% | |
| Normalized R/C Ratio | 128% | | 132% | |
| Income % of Revenue | 43.5% | 22.6% | | |
| RoR Increase | | | 10.6% | 8.0% |
| Revenue Increase | | | 34.1% | 30.1% |

Breakeven Algebra:

$$CRCi = Ri / (Ci + rRi)$$

$$PRCi = (1 + Bi)Ri / (Ci + (r+d)Ri)$$

$$\text{Note } d = Bt * Rt / RBt$$

$$\text{Set } CRCi = PRCi$$

With a little algebra, solve for Bi:

$$Bi = Bt * (Ri / RBt) / ((Ci + rRi) / Rt)$$

Note if $Ri / RBt = Ci / Ct$

$$Bi = B$$

**Supporting Calculations for Exhibit IEC-5: Table 5-D
Normalized R/C Ratio Example
\$ millions**

| | <i>Current Rates</i> | | <i>Breakeven Increase</i> | |
|-----------------------|----------------------|-------------------|---------------------------|-------------------|
| | <i>Class (i)</i> | <i>System (t)</i> | <i>Class (i)</i> | <i>System (t)</i> |
| Revenue | 52.3 | 331.7 | 68.1 | 431.6 |
| Cost | 29.6 | 256.6 | 29.6 | 256.6 |
| Return | 22.7 | 75.0 | 38.5 | 175.0 |
| Rate Base | 168.7 | 1,243.6 | 168.7 | 1,243.6 |
| RoR | 13.5% | 6.0% | 22.8% | 14.1% |
| Indexed RoR | 223.3% | | 162.2% | |
| Capital Cost Current | 10.2 | 75.0 | | |
| Capital Cost Proposed | 23.7 | 175.0 | 23.7 | 175.0 |
| Subsidy \$ | 12.6 | - | 14.8 | - |
| Differential RoR | 7.4% | | 8.7% | |
| Revenue-Cost Ratio | 132% | | 128% | |
| Normalized R/C Ratio | 128% | | 128% | |
| Income % of Revenue | 43.5% | 22.6% | | |
| RoR Increase | | | 9.3% | 8.0% |
| Revenue Increase | | | 30.1% | 30.1% |

Breakeven Class Increase = System Increase

Breakeven Algebra:

$$CNRCi = (Ri / (Ci + (r+d)RBi)) / (Rt / (Ct + (r+d)RBt))$$

$$PNRCi = ((1+Bi)Ri / (Ci + (r+d)RBi)) / ((1+Bt)Rt / (Ct + (r+d)RBt))$$

$$PNRCi = (1+Bi) / (1+Bt) CNRCi$$

$$\text{Set } PNRCi = CNRCi$$

$$Bi = Bt$$

EXHIBIT IEc-6

IMPLICATIONS OF THE INDEXED RATE OF RETURN METRIC

ACROSS RATE PROCEEDINGS

Impact of Indexed Rate of Return Metric Across Rate Proceedings

Table 6-A attached to this exhibit demonstrates the fallacy of PGW Witness White's argument about making steady progress toward cost based rates by gradually lowering the indexed rate of return in each proceeding. It consists of three calculations of the indexed rate of return for the commercial class:

- At current rates; i.e., *going into* the current rate proceeding;
- At PGW proposed rates, scaled back to a \$60 million overall rate increase; i.e., *coming out* of the current rate proceeding;
- At current rates *going into* the next base rates proceeding, assuming that PGW's costs and rate base increase such that the PGW rate of return returns to the level it exhibits going into the current proceeding.

As shown in the left-most two data columns of the table, the class rate of return for the commercial class at current rates is 13.5 percent, compared to the system average return of 6.0 percent, implying an indexed rate of return *going into* this proceeding of 223.3 percent.

The middle two data columns show the rate increase proposed by PGW, scaled back to \$60 million. That proposed increase is much larger for the commercial class at 28.4 percent than it is for the system average of 18.1 percent. As shown, and as PGW has testified, this proposal has the counter-intuitive effect of decreasing the commercial class indexed rate of return *coming out* of this proceeding to 205.2 percent. As such, this metric appears to indicate that progress is being made toward cost-based rates.

However, the last two data columns show the fallacy of PGW's thinking. In those columns, I assume that the operating costs and the rate base for the commercial class and all of PGW firm sales increase by 18.2 percent. As shown, this increase results in a system average rate of return *going into* the next proceeding of 6.0 percent, exactly the same as it is *going into* the current proceeding. However, the exhibit also shows that the commercial class rate of return *going into* the next proceeding will be 16.1 percent, implying an indexed rate of return of 268.7 percent.

Therefore, on an apples-to-apples comparison basis, PGW's proposal for the commercial class results in an indexed rate of return going into this proceeding of 223.3 percent moving to an indexed rate of return going into the next proceeding at 268.7 percent.

This example also demonstrates why PGW cannot, as PGW's Mr. White suggests, simply keep lowering the indexed rate of return in each proceeding. Although the indexed rate of return

may move closer to unity *within* this proceeding, it will automatically move further away from unity *between* proceedings. As such, Mr. White's argument is hopelessly flawed.

EXHIBIT IEC-6: Table 6-A
Impact of Indexed Rate of Return Across Rate Proceedings
\$ millions

| | <i>Current Rates</i> | | <i>PGW Proposed Rates -- Scaled Back to \$60 mm</i> | | <i>Next Proceeding</i> | |
|--|----------------------|-------------------|---|-------------------|------------------------|-------------------|
| | <i>Commercial</i> | <i>Firm Sales</i> | <i>Commercial</i> | <i>Firm Sales</i> | <i>Commercial</i> | <i>Firm Sales</i> |
| (1) Revenue | 52.3 | 331.7 | 67.2 | 391.6 | 67.2 | 391.6 |
| (2) Cost | 29.6 | 256.6 | 29.6 | 256.6 | 35.0 | 303.3 |
| (3) Return | 22.7 | 75.0 | 37.6 | 135.0 | 32.2 | 88.3 |
| (4) Rate Base | 168.7 | 1,243.6 | 168.7 | 1,243.6 | 199.4 | 1,470.0 |
| (5) RoR | 13.5% | 6.0% | 22.3% | 10.9% | 16.1% | 6.0% |
| (6) Indexed RoR | 223.3% | | 205.2% | | 268.7% | |
| (7) Cost and rate base percent increase for next case. | | | | | 18.2% | |
| (8) Rate increase in current proceeding | | | 28.4% | 18.1% | | |

EXHIBIT IEc-7

**RATE IMPLICATIONS OF PHASING OUT
NON-RESIDENTIAL USEC RESPONSIBILITY**

**Exhibit IEC-7
PGW GCR Impact Analysis**

| | Volumes (mmcf) | Delivery Revenue (\$000) | GCR per mcf) | (\$ USEC per mcf) | (\$ GCR Rate (\$ per mcf) | Sub-Total GCR Rate (\$ per mcf) | Delivery Average (\$ per mcf) | Average Total Bill (\$ per mcf) |
|-----------------|-------------------|--------------------------------|-----------------|----------------------|---------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| Residential | 38,468.8 | 300,943 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 7.8230 | 20.3027 |
| Commercial | 10,203.5 | 74,734 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 7.3244 | 19.8041 |
| Industrial | 1,080.2 | 7,077 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 6.5518 | 19.0315 |
| PHA | 829.7 | 5,905 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 7.1173 | 19.5970 |
| Municipal | 1,269.3 | 6,464 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 5.0926 | 17.5723 |
| Total | 51,851.4 | 395,123 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 7.6203 | 20.1000 |
| Non-Residential | 13,382.6 | 94,180 | 10.1812 | 2.2985 | 12.4797 | 12.4797 | 7.0375 | 19.5172 |

| | Proposed USEC (\$ per mcf) | Sub-Total GCR Rate (\$ per mcf) | GCR Percent Increase | Average Total Bill (\$ per mcf) | Total Bill Percent Increase |
|-----------------|----------------------------------|---------------------------------------|-------------------------|--|-----------------------------------|
| Residential | 2.5650 | 12.7462 | 2.1% | 20.5693 | 1.3% |
| Commercial | 1.5323 | 11.7135 | -6.1% | 19.0379 | -3.9% |
| Industrial | 1.5323 | 11.7135 | -6.1% | 18.2653 | -4.0% |
| PHA | 1.5323 | 11.7135 | -6.1% | 18.8308 | -3.9% |
| Municipal | 1.5323 | 11.7135 | -6.1% | 16.8062 | -4.4% |
| Total | 2.2985 | 12.4797 | 0.0% | 20.1000 | 0.0% |
| Non-Residential | 1.5323 | 11.7135 | -6.1% | 18.7510 | -3.9% |

Sources:

Volumes/Delivery Revenue: HSG-6T (PGW Proposed Rates, including customer charge revenue)

GCR/USEC: 53.64(a) Sch. 9, Docket No. R-00072110

Note: Sub-total GCR Rate is the rate that is adjusted in a GCR proceeding, including the GCR and USEC.

5/22/07
Philadelphia
WJH

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No. R-00061931

DOCUMENT
FOLDER

Rebuttal Testimony of
ROBERT D. KNECHT

On Behalf of the
Pennsylvania Office of Small Business Advocate

DOCKETED
AUG 20 2007

Topics:

Cost Allocation
Revenue Allocation
Retail Gas Supply Competition

Date Served: May 4, 2007

Date Submitted for the Record: _____

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

REBUTTAL TESTIMONY OF ROBERT D. KNECHT

1 **1** **Overview**

2 **Q. Mr. Knecht, please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I submitted direct testimony earlier in this proceeding,
4 and my qualifications were presented in Exhibit IEC-1 attached to that testimony.

5 **Q. What issues do you address in this rebuttal testimony?**

6 A. This testimony provides my analysis of the cost allocation and revenue allocation
7 recommendations offered by Mr. Joseph Kubas on behalf of the Office of Trial Staff
8 ("OTS") and Mr. Richard Galligan on behalf of the Office of Consumer Advocate
9 ("OCA"). In addition, I respond to various proposals offered by Mr. Parisi on behalf of
10 Interstate Gas Supply, Inc. ("IGS") with respect to promoting competition in gas supply
11 in PGW's service territory.

12 **Q. Please summarize the conclusions from your analysis.**

13 A. In summary, my conclusions are as follows:

- 14 • The Commission should not adopt the cost allocation methodology used by Mr.
15 Kubas in this proceeding, because it (a) improperly includes non-base rates costs, (b)
16 inaccurately assumes that Commission precedent precludes classifying mains costs
17 into both demand and customer components, (c) miscalculates the average-and-excess
18 ("A&E") demand allocator, and (d) fails to adjust all of the allocation factors to be
19 consistent with his adjusted volume assumptions.
- 20 • The Commission should not adopt the cost allocation methodology used by Mr.
21 Galligan in this proceeding, because it (a) improperly includes non-base rates costs,
22 (b) incorrectly assumes that there are no scale economics in mains costs associated
23 with larger customers, and (c) incorrectly assumes that mains are sized primarily on
24 the basis of annual throughput rather than on the basis of peak demand.
- 25 • Mr. Kubas correctly recognizes that his cost allocation methodology, like the one filed
26 by PGW, implies that PGW's revenue allocation is hopelessly flawed. Mr. Kubas

1 offers a first dollar relief ("FDR") proposal that is reasonably similar to the one I
2 presented in my direct testimony. As such, I conclude that Mr. Kubas's FDR
3 proposal is reasonable if the Commission sets PGW's overall base rate increase at or
4 below \$70.3 million.

- 5 • Mr. Galligan's proposal for the average rate increase for the residential class is not
6 consistent with even his own cost allocation study, much less with the studies
7 submitted by PGW. Moreover, Mr. Galligan does not offer an alternative revenue
8 allocation proposal *for all rate classes* to reflect his revised cost allocation
9 methodology; he concludes only that PGW's proposed residential class increase is
10 reasonable. However, his recommendation implicitly requires that the non-residential
11 firm sales customers provide enormous and increasing cross-subsidies to interruptible
12 sales, transportation and residential customers. As such, his recommendation is not
13 consistent with any cost of service analysis presented in this proceeding, and it is
14 particularly inequitable to the non-residential sales customer classes.

- 15 • Mr. Parisi's recommendation that PGW credit none of its capacity release revenues
16 and off-system sales margin to GCR customers is not consistent with sound
17 ratemaking, nor is it consistent with the "level playing field" for gas supply
18 competition that Mr. Parisi advocates.

- 19 • Mr. Parisi's recommendation that PGW invest in a new billing system to promote
20 competition should not be adopted until IGS or other competitive natural gas
21 suppliers ("NGSs") credibly demonstrate that they can overcome the substantial other
22 impediments to retail competition that currently exist at PGW.

- 23 • Mr. Parisi's recommendation that an arbitrary percentage of PGW's customers be
24 transferred to alternative NGS service should be rejected unless (a) the NGSs
25 demonstrate that remaining PGW GCR customers would not be saddled with stranded
26 costs, and (b) the NGSs to whom such customers would be assigned can credibly
27 demonstrate that they provide gas supply at rates that are at or below PGW's GCR.

1 **Q. How is your rebuttal testimony organized?**

2 A. Section 2 addresses the issue of revenue allocation, Section 3 addresses cost allocation
3 issues. Section 4 takes on the IGS proposals regarding competition.

4 **2 Revenue Allocation**

5 **Q. Mr. Knecht, before we get into the cost allocation details, let's take on the revenue**
6 **allocation issue. In your direct testimony, you indicated that the revenue allocation**
7 **problem was more related to the constraints of gradualism than to the differences**
8 **among cost allocation methodologies. Do the analyses presented by Messrs.**
9 **Galligan and Kubas bear out that conclusion?**

10 A. Yes they do. There is remarkably little difference in allocated costs for the major firm
11 sales customer classes among the various cost allocation methodologies submitted in this
12 proceeding. I have summarized the class rates of return (at present rates) for each of the
13 methods relied upon in this proceeding in Table IEC-R1 below. As shown, every study
14 shows that all non-residential firm sales customer classes produce rates of return well
15 above system-average, and that the residential class is the beneficiary of a substantial
16 subsidy. The only material difference is that the cost allocation studies relied upon by
17 Mr. Galligan and Mr. Kubas imply that the rates of return for the interruptible sales and
18 GTS/IT rate classes are substantially lower than those implied by PGW's methodology.
19 However, as I explained in my direct testimony, PGW has very little latitude for
20 increasing the rates that it currently charges to either interruptible sales or GTS/IT
21 customers, because those rates must reflect market conditions. Therefore, shifting costs
22 to the interruptible sales or GTS/IT rate classes in the cost allocation study would not
23 reduce the burden on firm sales customers -- it would simply mean that PGW would need
24 to increase the subsidies provided from the firm sales rate classes.¹

25 Thus, for practical revenue allocation purposes, all of the cost allocation studies provide
26 the same directional price signal: rates for the residential class should increase by more
27 than system average, and rates for the non-residential classes should increase by less than
28 system average, or not at all.

¹ Some utilities, such as T.W. Phillips, formally reallocate the cross-subsidy from customer classes whose rates are set by market conditions.

| Table IEC-R1 Comparison of Cost Allocation Study Results Class Rate of Return at Present Rates | | | | |
|--|-------------|-----------------------|----------------|-------------|
| | PGW Bundled | PGW Base Rates (OSBA) | Galligan (OCA) | Kubas (OTS) |
| Residential | 4.1% | 4.4% | 4.9% | 4.6% |
| Commercial | 12.6% | 13.5% | 11.8% | 12.0% |
| Industrial | 14.5% | 16.0% | 13.1% | 12.4% |
| Municipal | 9.5% | 13.0% | 9.3% | 8.7% |
| Housing Authority | 13.7% | 15.9% | 13.9% | 13.3% |
| <i>Firm Sales</i> | <i>5.6%</i> | <i>6.0%</i> | <i>6.3%</i> | <i>6.0%</i> |
| Interruptible Sales | 4.2% | 11.7% | 1.9% | 3.3% |
| GTS/IT | 19.9% | 28.6% | -0.8% | 7.9% |
| Total | 5.8% | 6.4% | 5.8% | 5.8% |
| Sources: Exhibit HSG-1 (revised), Exhibit IEC-4 Table 4A, OCA Statement No. 3, Exhibit RAG-1, OTS Exhibit 3 Schedule 4. | | | | |
| Note: PGW's unbundled study has a slightly higher system average rate of return because PGW incorrectly functionalizes some rate base to the GCR, as discussed in my direct testimony. | | | | |

1 **Q. Does Mr. Kubas's revenue allocation proposal recognize these cost signals?**

2 A. Yes it does. Mr. Kubas proposes to move rates closer to allocated costs with an FDR
3 mechanism. As I explained in my direct testimony, the FDR mechanism begins with
4 PGW's proposed rate increase for each class at the full proposed \$100 million base rate
5 increase, and then assigns the first "X" dollars in any reductions from that increase to a
6 specific rate class or set of classes. Mr. Kubas's FDR proposal assigns the first \$28.345
7 million in any reduction as an offset to the rate increases for the Commercial, Industrial,
8 and Housing Authority rate classes.² If the Commission reduces PGW's base rates
9 revenue increase below \$71.655 million, Mr. Kubas's proposal will assign a zero rate
10 increase to those three rate classes. Mr. Kubas then proposes that the next \$1.317 million
11 in any reduction to PGW's proposed increase be assigned to the Municipal rate class,

² The \$28.345 million consists of the \$3.426 million associated with incremental margins from additional residential heating customers and the \$24.919 million in the FDR scaleback. See OTS Statement No. 3, pages 21 and 24.

1 which represents about 60 percent of that class's proposed increase.³ Any further
2 reductions from PGW's proposed increase would be shared proportionally among the
3 Residential and Municipal rate classes. Mr. Kubas does not propose that any adjustments
4 be made to PGW's very modest proposed customer charge increases for Interruptible
5 Sales customer classes. Note that Mr. Kubas's proposal will not result in base rate
6 reductions for any rate class.

7 **Q. How does Mr. Kubas's FDR proposal compare with the FDR proposal presented in**
8 **your direct testimony?**

9 A. Despite the fact that he relies on a very different cost allocation methodology, Mr.
10 Kubas's FDR proposal is reasonably similar to mine. In general, Mr. Kubas's proposal is
11 a little more aggressive than mine in providing relief to some rate classes, in that he
12 proposes that the magnitude of FDR be \$29.7 million, compared to the \$27.0 million
13 presented in my direct testimony. In addition, Mr. Kubas's proposal is different from
14 mine in that he does not assign the Municipal class a proportionate share of the FDR,
15 whereas I did. (This difference is primarily due to cost allocation differences, since Mr.
16 Kubas's methodology assigns proportionately higher costs to the Municipal class -- see
17 Table IEC-R1.) And finally, Mr. Kubas's proposal will result in zero rate increases for
18 the other non-residential firm sales rate classes at an overall increase below \$71.6
19 million, whereas my approach retains modest rate increases for those classes.

20 A comparison of Mr. Kubas's proposal with my FDR proposal, at an overall base rates
21 increase of \$60 million, is shown in Table IEC-R2 below.

³ Note that this proposal is directionally consistent with Mr. Kubas's cost allocation study, which indicates that the Municipal class's rate of return is somewhat lower than that of the other non-residential firm sales rate classes.

| Table IEC-R2 | | | | |
|---|----------------------------|-----------------|--------------------------------|--------------|
| Comparison of FDR Revenue Allocation Proposals | | | | |
| \$60 Million Base Rates Increase | | | | |
| | <i>Rate Increase \$000</i> | | <i>Percent Tariff Increase</i> | |
| | <i>Knecht</i> | <i>Kubas</i> | <i>Knecht</i> | <i>Kubas</i> |
| Residential | 57,028 | 59,189 | 24.6% | 25.6% |
| Commercial | 2,359 | 0 | 4.7% | 0.0% |
| Industrial | 176 | 0 | 3.4% | 0.0% |
| Municipal | 209 | 751 | 4.9% | 17.6% |
| Housing Authority | 168 | 0 | 4.0% | 0.0% |
| <i>Firm Sales</i> | <i>59,940</i> | <i>59,940</i> | <i>20.3%</i> | <i>20.3%</i> |
| Interruptible Sales | 60 | 60 | NM | NM |
| GTS/IT | 0 | 0 | NM | NM |
| Total | \$60,000 | \$60,000 | NM | NM |
| Sources: Exhibit IEC-4, Table 4-C; FDR reductions from OTS Exhibit No. 3, Schedule 8 plus proportional scaleback to \$59,940,000 for firm sales rate classes. | | | | |

1 **Q. What do you conclude from your review of Mr. Kubas's proposal?**

2 A. Mr. Kubas's revenue allocation proposal is reasonably consistent with moving toward
3 cost-based rates under any cost allocation study filed in this proceeding, if the overall
4 approved rate increase is at or below \$70.3 million. For the reasons detailed in my direct
5 testimony, if the rate increase is substantially higher than \$70.3 million, the FDR
6 approach is inferior to my "full revenue requirement" recommendation.

7 **Q. Let's turn to Mr. Galligan's testimony. What is his proposal for revenue allocation?**

8 A. Mr. Galligan does not offer a revenue allocation proposal. He opines only that PGW's
9 proposed rate increase for the Residential class is reasonable, based on the results of his
10 class cost of service study ("CCOSS").

11 **Q. Is Mr. Galligan's conclusion reasonable?**

12 A. No it is not. Based on his own CCOSS, the average Residential class rate of return at
13 present rates is 4.9 percent, compared to a system average rate of return of 5.8 percent.

1 PGW's proposed base rate tariff increase for the Residential class (at the \$100 million
2 overall increase) is 30.0 percent, compared to a system average of 33.9 percent. That is,
3 Mr. Galligan argues in favor of assigning a class (i.e., Residential) with a below-average
4 rate of return a rate increase that is below system average. As I explained in my direct
5 testimony, in PGW's proposal (endorsed by Mr. Galligan), the cross-subsidy to the
6 Residential class gets larger, and rates have moved farther away from allocated costs.

7 In addition to this obvious point, Mr. Galligan's approach to this issue includes a more
8 insidious problem. In PGW's cost allocation methodology, the interruptible sales and
9 GTS/IT customer classes exhibit revenues that exceed allocated costs at present rates, by
10 about \$4.6 million, and at proposed rates, by about \$2.2 million. However, in Mr.
11 Galligan's cost allocation methodology, the revenues from these classes vastly under-
12 recover allocated costs, by \$6.0 million at present rates and \$13.9 million at proposed
13 rates. In effect, Mr. Galligan's cost allocation methodology results in a vast shift of costs
14 to the interruptible sales and GTS/IT rate classes.

15 Unfortunately, as I explained in my direct testimony, PGW has no reasonable way to
16 raise the rates for these classes. Moreover, Mr. Galligan does not make any specific
17 proposal in that respect, nor does he offer any evidence that PGW would be able to
18 impose such an increase. Thus, when Mr. Galligan concludes that the rate increase for
19 the residential class is reasonable, he implicitly requires that the non-residential firm sales
20 customers absorb the large and growing subsidies to the interruptible sales and GTS/IT
21 customers as well as the large and growing subsidies to the residential class.

22 Table IEC-R3 below shows the cross-subsidy implications of PGW's rate increase
23 proposal at present and proposed rates, if Mr. Galligan's CCOSS methodology is
24 adopted. Note that a negative number in the subsidy column of this table implies that the
25 rate class is receiving a subsidy, and a positive number indicates that the rate class is
26 providing a subsidy.

| Table IEC-R3 Implications of OCA CCOSS Methodology and PGW Revenue Allocation On Rate Class Dollar-Value Cross-Subsidies | | | |
|--|---------------------------|-----------------------------------|------------------------------------|
| | Tariff Rate Increase % | Subsidy at Present Rates \$000 | Subsidy at Proposed Rates \$000 |
| Residential | 30.0% | (9,693) | (14,267) |
| Commercial | 49.5% | 12,325 | 22,541 |
| Industrial | 35.3% | 1,348 | 1,876 |
| Municipal | 51.5% | 753 | 1,437 |
| Housing Authority | 42.4% | 1,264 | 1,913 |
| Firm Sales | 33.9% | 5,997 | 13,500 |
| Interruptible Sales | NM | (1,483) | (4,114) |
| GTS/IT | 0.0% | (4,512) | (9,384) |
| Total | NM | 0 | 0 |

Source: OCA Statement No. 3, Exhibit RAG-1; IEC calculations.
Note: In preparing a cost allocation study for OCA, PGW inexplicably modified its revenue allocation proposal to reduce the rate increase for residential customers and to increase it for other customer classes. As that did not appear to be Mr. Galligan's intent, I re-estimated the subsidies at proposed rates based on PGW's original deficiency allocation. Therefore, both the tariff rate increases and subsidy at proposed rates are based on PGW's original revenue allocation proposal, and they are therefore different from those reported in the PGW IR response. If PGW's revised proposal were adopted along with the cost allocation change, the cross-subsidies from the non-residential firm sales customers would all be worse.

1 As Table IEC-3R shows, even if Mr. Galligan's CCOSS methodology is adopted by the
2 Commission, his proposed rate increase for the Residential classes results in an increase
3 in the cross-subsidy to those classes of some \$4.6 million, from \$9.7 million to \$14.3
4 million. This, of course, implies that rates are moving further away from costs. Of equal
5 importance, however, Mr. Galligan's cost allocation methodology also implies that the
6 Interruptible Sales and GTS/IT transportation customers are subsidized by some \$6.0
7 million at present rates. Unless Mr. Galligan can offer a proposal for increasing the rates
8 for those classes, it must be assumed that the subsidies to those classes will rise to \$13.5
9 million at PGW's proposed revenue requirement, and that the non-residential firm sales
10 classes will be required to provide the entire \$13.5 million.

11 Therefore, even relying on the OCA CCOSS methodology, Mr. Galligan implicitly
12 proposes that the subsidy from the non-residential firm sales rate classes, to the

1 residential and GTS/IT classes, rises from a current-rates level of \$15.7 million to \$27.8
2 million. It must therefore be concluded that Mr. Galligan does not agree that cost of
3 service is the polestar criterion for revenue allocation.

4 **3 Cost Allocation**

5 **Q. Let's turn to the issue of cost allocation. In your direct testimony, you explained**
6 **why PGW's "bundled" approach to preparing a CCOSS was not appropriate for**
7 **deriving distribution base rates in this proceeding. Do Messrs. Galligan and Kubas**
8 **rely on unbundled CCOSSs?**

9 A. No they do not. Both of these witnesses include GCR-related costs in their cost
10 allocation analyses, and both witnesses use a cost allocation methodology for GCR costs
11 that is not consistent with the volumetric methodology used to derive rates in PGW's gas
12 cost proceedings. As I explained in my direct testimony, the allocation of GCR-related
13 costs should not influence the development of base rates.⁴ For that reason, the CCOSSs
14 relied upon by Messrs. Kubas and Galligan are not appropriate for revenue allocation in
15 this proceeding.

16 **Q. Both Messrs. Galligan and Kubas argue that PGW incorrectly *classifies* a portion of**
17 **its mains costs as customer-related. Before you address the details of their**
18 **arguments, please explain why PGW's proposal to include a customer component in**
19 **its mains classification is reasonable.**

20 A. I believe that PGW's proposal is reasonable for a number of reasons. First, it is
21 consistent with cost causation. Second, the methodology results in a common-sense
22 recognition of the economies of scale of serving larger customers. Third, the
23 methodology used by PGW for classifying mains costs is consistent with industry
24 practice. Fourth, it represents a "middle ground" approach among the competing
25 methodological alternatives.

⁴ Counsel advises that this principle is consistent with the recent Commonwealth Court decision in *Lloyd*, which states, "Section 2804(3) of the Competition Act mandates rates for services as unbundled charges for transmission, distribution and generation and requires that rates and rate structures be set for each service primarily on a cost-of-service study." See *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006).

1 Q. Please explain what you mean by PGW's method being consistent with cost
2 causation.

3 A. Cost allocation analysts generally agree that the most important principle for allocating
4 costs is to assign them to the customer classes which cause those costs to be incurred.
5 For example, the costs associated with each meter can be assigned directly to the
6 customer at which the meter is installed, based on utility plant records.

7 However, for cost categories and facilities that apply to more than one rate class, the
8 allocation of costs is less obvious. The object of a cost allocation analysis is to identify
9 the factor or factors that *cause* the costs to be incurred, and then to distribute the costs
10 among rate classes based on each class's contribution to each of those factors. These
11 steps are generally referred to as the *classification and allocation* of costs. For example,
12 purchased gas costs are generally deemed to be incurred in proportion to the volumes of
13 gas purchased, and therefore these costs are typically *classified* as commodity-related,
14 and then *allocated* among rate classes in proportion to each class's gas commodity
15 purchases.

16 In the case of gas distribution mains, several factors contribute to cost causation. When it
17 constructs a gas distribution system, the NGDC must accomplish two goals. First, it
18 needs to interconnect every customer in the network with an upstream gas transmission
19 pipeline (or other gas supply source). Second, it needs to design the system such that the
20 *capacity* of the mains is sufficient to meet the peak demands of customers under extreme
21 weather and other maximum demand conditions. In essence, the cost of mains is
22 significantly affected by two factors: the overall *length* of the mains needed to
23 interconnect all of the customers and the *size* of the mains needed to meet peak demands
24 downstream of each main.

25 Because it is difficult to exactly link the *length* of mains cost driver to specific rate
26 classes, many rate analysts use *number of customers* as a proxy for the length of mains.
27 As a general rule, over the historical period when the gas distribution network was
28 constructed, the overall length of the distribution system needed to grow to interconnect

1 new customers. Thus, it is reasonably common for cost allocation analysts to *classify*
2 mains costs into both peak demand and customer components.

3 **Q. Can you explain what you mean by PGW's method being consistent with a**
4 **common-sense understanding of economies of scale?**

5 A. The economist's concept of "economies of scale" is that it is often less expensive, *per*
6 *unit of demand*, to serve a large customer than to serve a small customer. For that reason,
7 many prices in both regulated and unregulated markets include volume discounts. A
8 similar situation applies to distribution mains. It is very likely that an NGDC will need to
9 install many more feet of distribution main to serve 50 residential customers, each with a
10 design day demand of 1.5 Mcf per day, than it would to serve one commercial customer
11 with peak demand of 75 Mcf per day. Therefore, it will cost the NGDC more, per unit of
12 peak demand, to serve the 50 residential customers than to serve the one commercial
13 customer.

14 The methodology adopted by PGW, in which mains costs are classified into demand and
15 energy components, recognizes these economies of scale. Table IEc-R4 below shows an
16 illustrative example of how the scale economies are recognized, based on PGW's
17 classification of mains costs into 75 percent demand and 25 percent customer
18 components. (The other figures in the example are loosely based on PGW's firm sales
19 customer classes, split between residential and non-residential customers.)

20 In the example, the average demand for the larger customers is about 4.5 times the
21 demand for the smaller customers. Therefore, while the small customer class represents
22 about 90 percent of the total customer count (450,000 of 500,000), it is responsible for 67
23 percent of the peak demand (540,000 of 810,000).

24 By splitting the \$540 million in mains costs into a 25 percent customer component and a
25 75 percent demand component, the average cost per unit of demand (shown in line 8) is a
26 little above system average for the small customer class and somewhat below system
27 average for the larger customer class. This lower cost per unit of demand reflects the
28 economies of scale of serving the larger customers. Of course, on a per-customer basis,

1 the costs for the larger customers are much higher than the cost for smaller customers,
 2 reflecting the fact that most of the mains costs are causally related to peak demand.

| Table IEC-R4 | | | |
|--|-----------------|------------------|---------|
| Mains Cost Classification Example | | | |
| | Small Customers | Larger Customers | Total |
| (1) Number of Customers | 450,000 | 50,000 | 500,000 |
| (2) Peak Demand/Customer (Mcf/day/Cust) | 1.2 | 5.4 | |
| (3) Peak Demand (Mcf/day) | 540,000 | 270,000 | 810,000 |
| (4) Mains Costs (\$mm) | | | \$540.0 |
| (5) Customer Component @ 25% | \$121.5 | \$ 13.5 | \$135.0 |
| (6) Demand Component @ 75% | \$270.0 | \$135.0 | \$405.0 |
| (7) Allocated Cost (\$mm) | \$391.5 | \$148.5 | \$540.0 |
| (8) Unit Cost (\$ per Mcf/day) | \$725 | \$550 | \$667 |
| (9) Cost per Customer (\$/customer) | \$870 | \$2,970 | \$1,080 |
| Notes: | | | |
| (1), (2), (4) Example assumptions | | | |
| (3) = (1) * (2) | | | |
| (5) = 25% * (4), allocated per (2) | | | |
| (6) = 75% * (4), allocated per (3) | | | |
| (7) = (5) + (6) | | | |
| (8) = (7) / (3) | | | |
| (9) = (7) / (1) | | | |

3 **Q. Is it common practice for NGDCs to classify mains costs into both demand and**
 4 **customer components?**

5 A. There is, of course, no standard practice for classifying mains costs, and there is some
 6 diversity among NGDCs and regulators regarding the methodologies chosen. With that
 7 caveat, however, the approach put forth by PGW is well within industry norms. In its
 8 text, Gas Rate Fundamentals, the American Gas Association ("AGA") indicates
 9 distribution mains have both a peak demand and customer component.⁵ That text details
 10 the cost causation rationale as follows:

11 The closer a plant item (e.g., a meter and service line) is located to a
 12 customer, the more that particular item is related to the specific

⁵ Gas Rate Fundamentals, Fourth Edition. American Gas Association, 1987. See Table 7-4 at page 142 and the example cost allocation study at page A-17. The implied demand/customer classification split for joint-use distribution mains in the AGA sample study is 68 percent demand, 32 percent customer.

1 requirements of that customer. Thus, the customer component of
2 distribution costs reflects the theoretical distribution system that would be
3 needed to serve customers at nominal or minimal load conditions.⁶

4 In addition to AGA, NARUC's "Gas Distribution Rate Design Manual" recognizes that
5 segregating mains costs into demand and customer components is one of the standard
6 classification methodologies used in the industry. Moreover, in its cost allocation
7 example, the NARUC manual splits distribution mains costs into 80 percent demand, 20
8 percent customer components.⁷

9 In addition, some Pennsylvania NGDCs use a demand-customer classification split for
10 mains costs. PGW has used it in past filings, and therefore its proposal in this proceeding
11 does not represent a departure from past practice. Of the other NGDCs in my experience
12 in Pennsylvania, I observe that PG Energy (now UGI Penn) and NFGD present cost
13 allocation analyses in their base rates filings that include a customer component for mains
14 classification, while PPL Gas does not.⁸

15 Moreover, the issue of cost classification applies also to the electric distribution plant,
16 where similar arguments are made both in support of and opposed to demand-customer
17 classification splits. For example, in the last PPL Electric base rates case, the
18 Commission generally relied on a cost allocation study that used a "minimum system"
19 approach for classifying distribution costs into customer and demand components.⁹

20 **Q. What are the various methods used for classifying mains costs into demand and**
21 **customer components?**

⁶ *Id.*, page 136.

⁷ National Association of Regulatory Utility Commissioners, "Gas Distribution Rate Design Manual," 1989, page 46.

⁸ Note that NFGD includes four different cost allocation analyses in its filing, two of which include a demand-customer classification split and two of which do not.

⁹ Opinion and Order, Pennsylvania Public Utility Commission, Docket No. R-00049255, entered December 22, 2004, pages 81 to 82. Note also that the Commission more explicitly approved the use of cost allocation studies that included demand-customer classification splits for electric distribution, at Docket No. R-00922378 (pages 198-202) for West Penn Power and Docket No. R-00943271 (pages 193-198) for Pennsylvania Power & Light Co.

1 A. In my experience, there are three general approaches, which range from the lowest to the
2 highest customer components:

3 100 Percent Demand --> Zero-Intercept Method --> Minimum System Method

4 The 100 percent demand method, of course, assumes that there is no customer component
5 to mains costs. By definition, this method produces the lowest customer component.

6 At the other extreme, in the minimum system method, the customer component of mains
7 costs is determined by calculating the cost of constructing the entire distribution network
8 using the smallest diameter main that is currently being installed in the system. Thus, for
9 example, the customer component of costs would be calculated based on the cost of
10 installing a 2-inch main throughout the entire distribution system. Of the methods in use,
11 this approach produces the highest customer component of costs. It is, however, often
12 criticized because the minimum system has some load-carrying capability, and therefore
13 implicitly has a demand component to it.

14 The zero-intercept method produces a customer component of costs that lies between the
15 two extremes. It is similar in concept to the minimum system method, except that it is
16 based on a "zero-diameter" pipe being used as the minimum system. The calculated cost
17 of a zero-diameter pipe is based on a statistical relationship between mains diameter and
18 cost. By using a zero-diameter pipe as the minimum system, the complaint that the
19 minimum system retains load carrying capability is eliminated.

20 **Q. What approach does PGW propose in its filing?**

21 A. In its filing, PGW proposed to use a judgmental cost classification split at 25 percent
22 customer, 75 percent demand based on the experience of its experts. PGW provided
23 additional support for that proposal in its responses to OSBA-II-20 and OSBA-III-80, in
24 the form of both zero-intercept and minimum system analyses. In those responses, PGW
25 calculated a zero-intercept customer component of costs between 21 and 27 percent, and
26 a minimum system customer component of costs between 47 and 55 percent of costs.

1 Thus, I conclude PGW's proposal in its filed CCOSS for a 25 percent customer
2 component represents a reasonable middle ground among the various methods of
3 classifying mains costs.

4 **Q. Mr. Kubas asserts that including a customer component in mains cost classification**
5 **is inconsistent with the Commission's decision involving a water utility at Docket**
6 **No. R-00932670. Is he correct?**

7 A. No he is not. The decision referenced by Mr. Kubas relates to *rate design*, not cost
8 allocation. In particular, the issue in that matter related to whether a utility should be
9 permitted to include certain costs that are classified as customer-related in the cost
10 allocation study as part of the cost basis for the monthly customer charge in the tariff.
11 That is, the issue in that case focused on the *rate design implications* for certain *indirect*
12 costs that were properly classified as customer-related in the cost allocation study. It
13 addressed only whether it was or was not reasonable to consider those costs for setting
14 the customer charge, and did not address cost allocation issues.

15 In addition, it is useful to note that the Commission's decision in that case cited the use of
16 the "basic customer method" for setting the customer charge for electric utilities. As I
17 mentioned earlier, the Commission has explicitly relied on cost allocation studies for
18 electric distribution costs that use a minimum system classification approach.

19 Therefore, the case cited by Mr. Kubas might be relevant for deciding whether the
20 customer component of mains costs should be included in PGW's monthly customer
21 charge. However, it is not relevant for determining whether or not there is a customer
22 component to mains costs.

23 **Q. Mr. Kubas also indicates that "the quantity of and investment in mains does not**
24 **change significantly if one customer joins or leaves the system." Does that**
25 **conclusion support his cost classification methodology?**

26 A. No, it does not. First, Mr. Kubas appears to be applying a marginal or incremental cost
27 allocation methodology, by focusing on the incremental cost of adding or dropping a
28 customer from the existing system. In my experience, the Pennsylvania Public Utility
29 Commission does not use marginal cost analysis for cost allocation. Cost allocation

1 analyses in Pennsylvania are generally *embedded cost* allocation analyses, in which all
2 historical book costs are allocated among the rate classes. Therefore, the question is not
3 whether current changes in the customer count will cause costs to change *now*; the
4 question is whether changes in the customer count over the long term have affected the
5 overall size and cost of PGW's network. And, as I explained earlier, the answer to that
6 question is "yes."

7 Second, Mr. Kubas ignores the fact that most mains costs are fixed in the short run, and
8 are therefore not related to *any* causation factor. For example, it can be said with equal or
9 perhaps even greater accuracy that "the quantity of and investment in mains does not
10 change significantly if demand on the system increases." Under Mr. Kubas's logic,
11 mains costs could therefore not be classified as demand-related, as commodity-related or
12 as customer-related. Unfortunately, the embedded cost allocation methodology requires
13 that these costs be classified and allocated. As such, Mr. Kubas's logic is not appropriate
14 in an embedded cost jurisdiction such as Pennsylvania.

15 **Q. Mr. Kubas also argues that "the cost of mains cannot be assigned to one specific**
16 **customer." Is that reason to reject PGW's method?**

17 A. No it is not. The issue is not whether a specific length of pipe is assigned to a specific
18 individual customer; the issue is whether system-wide mains costs are, in part, causally
19 related to the number of customers served. This principle is, in fact, supported by the
20 very case that Mr. Kubas uses as precedent. In that case, certain indirect costs that were
21 not directly associated with individual customers were classified as customer-related in
22 the cost allocation study. These costs did not represent specific pieces of equipment
23 related to individual customers -- they related to general plant costs that were deemed to
24 be causally related to the number of customers on the system. Thus, even using Mr.
25 Kubas's citation, the Commission has recognized that costs can be classified as customer-
26 related without necessarily being assigned to individual customers.

27 **Q. At page 10 of his testimony, Mr. Galligan presents a citation from Principles of**
28 **Public Utility Rates in support of his contention that mains costs do not include a**
29 **customer component. Can you respond to Mr. Galligan's assertion?**

1 A. First, I note that the quotation presented by Mr. Galligan relates to electric distribution
2 systems. As I noted earlier, the Commission apparently does not agree either with
3 Professor Bonbright or Mr. Galligan's interpretation thereof, in that it has relied on cost
4 allocation analyses that incorporate customer-demand classification splits for electric
5 distribution costs. Second, Principles of Public Utility Rates provides scant evidence in
6 support of the allegation that electric distribution costs are not causally related to the
7 number of customers, relying only on a 1980 article in *Public Utilities Fortnightly*.¹⁰
8 That analysis has little relevance to PGW in 2007. Third, being a good economist,
9 Professor Bonbright concludes that while a customer component may not be consistent
10 with cost causation, he provides no recommendation for how these costs should be
11 classified. He most certainly does not adopt Mr. Galligan's recommendation, which is to
12 arbitrarily classify these costs as commodity related. In fact, being a proponent of
13 marginal cost methods, he concludes that these costs should not be classified into any
14 causation category. As such, his recommendation is not consistent with the embedded
15 cost allocation method used in Pennsylvania.

16 Finally, I note that Mr. Galligan excluded one observation from that section of the
17 Bonbright text, in which the authors admit:

18 In actual practice, the vast majority of utilities utilize some form of
19 minimum system to classify costs, which is in line with the FERC
20 accounts.¹¹

21 Thus, it can be inferred that most utilities believe that distribution costs are, in fact,
22 causally related to both peak demands and numbers of customers on their systems.

23 **Q. Mr. Galligan argues that mains costs cannot have a customer component because**
24 **PGW is not required to connect a customer who uses little or no gas. Does this**
25 **argument justify excluding a customer component?**

¹⁰ Principles of Public Utility Rates, Second Edition, Bonbright, Daniels, Kamerschen, Public Utility Reports, pages 490-492, 1988. Note that I rely on the second edition, and Mr. Galligan's quotation apparently comes from the first edition. The second edition contains a very similar quotation.

¹¹ Id., page 492.

1 A. Of course not. PGW would not install either a service line or a meter to a customer who
2 used no gas, yet Mr. Galligan's CCOSS recognizes that both services and meters costs
3 are related to the number of customers.

4 Consider a different example, by applying Mr. Galligan's logic to the purchase of an
5 automobile. Obviously, no one would purchase an automobile if he did not intend to
6 drive it anywhere. Following Mr. Galligan's logic, the price of that car should therefore
7 be based on the number of miles that the car will be driven, rather than on the cost of the
8 car.

9 At a conceptual level, the issue is whether the number of customers has a causal effect on
10 cost incurrence. One way to evaluate this issue is to ask two questions. First, all other
11 things being equal, will increases in the demand for gas with no increases in the number
12 of customers cause the NGDC to incur higher costs? The answer to that question is
13 clearly affirmative, because the NGDC would need to install larger diameter mains to
14 serve the higher peak loads. The second question is, will increases in the number of
15 customers with no increase in overall demand cause the NGDC to incur higher costs?
16 Again, the logical answer is yes, since the NGDC would need to extend the distribution
17 system to serve the new customers.

18 Thus, it is not unreasonable to recognize that mains costs are causally related to both
19 demand and to the number of customers.

20 **Q. Let's turn to the issue of allocating mains costs. What are the various positions of**
21 **the experts in this proceeding?**

22 A. As I discussed above, in the classification stage of the CCOSS, the cost allocation analyst
23 determines what portion of the mains costs should be classified as "demand-related" and
24 what, if any, portion is "customer-related." These *classified* costs must then be allocated
25 to each rate class. While it is relatively simple to allocate the customer-related costs,
26 there are various methods that may be used to allocate the demand-related costs. Three
27 different methods are on exhibit in this proceeding.

1 In its CCOSS, PGW proposes to allocate the demand-related costs in proportion to class
2 design day demand. The logic of this approach is relatively simple -- PGW must size its
3 distribution mains in order to accommodate design day demands, and therefore design
4 day demand is the cost causation factor.

5 Mr. Kubas proposes to use a variant of the "average & excess" ("A&E") allocation
6 methodology described in AGA's Gas Rate Fundamentals text for the demand
7 component of mains costs. The A&E method is a hybrid allocation methodology,
8 consisting of an "average demand" component and an "excess demand" component. Mr.
9 Kubas proposes a 50/50 weighting of these components.

10 Mr. Galligan proposes to use a "peak & average" ("P&A") allocation methodology. The
11 P&A method is also a hybrid allocation methodology, consisting of an "average demand"
12 component and a "peak demand" component. Mr. Galligan proposes an 80 percent
13 average, 20 percent peak weighting scheme.

14 **Q. Are the A&E and P&A methods similar?**

15 A. Despite the similarity in names, it is very important to recognize that they are not. In
16 practice, particularly for natural gas utilities, the A&E method will usually produce
17 results that are much closer to the results of a peak demand method (such as that used by
18 PGW) than to the P&A method (such as that used by Mr. Galligan).

19 **Q. Why does the A&E method produce a result that is similar to a peak demand
20 method?**

21 A. Remember that the A&E allocator represents a weighting of an *average* demand
22 component and an *excess* demand component, where excess demand represents peak
23 demand *minus* average demand. Thus, conceptually, the A&E consists of an average
24 component, and a *peak minus average* component. Because the average component is
25 deducted from excess demand, the overall allocator is conceptually similar to a peak
26 methodology.

27 In fact, in its pure form, and in the absence of any demand diversity, the A&E allocator is
28 identical to a peak demand allocator. The specific formula for the A&E allocator is:

1
$$A\&E_i = w * A_i/A_t + (1-w) * (P_i - A_i)/(P_t - A_t)$$

2 where: "w" is the average demand weighting factor, "A" is average demand, "P" is non-
3 coincident peak demand, and "i" and "t" represent a class and the system total.

4 In the pure form of the A&E method, the weighting factor is set equal to the system load
5 factor. Because, in the absence of any load diversity between rate classes (which is
6 relatively common for NGDCs), rate classes all tend to peak during extreme weather
7 conditions, we can substitute:

8
$$w = A_t/P_t$$

9 into the preceding equation. It is relatively easy with a little algebra to simplify the
10 expression to:

11
$$A\&E_i = A_t/P_t * A_i/A_t + (1 - A_t/P_t) * (P_i - A_i)/(P_t - A_t)$$

12
$$A\&E_i = A_t/P_t + ((P_t - A_t)/P_t) * (P_i - A_i)/(P_t - A_t)$$

13
$$A\&E_i = P_i/P_t$$

14 That is, the A&E allocator for each class is exactly equal to each class's share of peak
15 demand.

16 Thus, the approach advocated by Mr. Kubas is conceptually much closer to that advanced
17 by PGW than the method presented by Mr. Galligan.¹²

18 **Q. Do you agree with Mr. Kubas regarding the use of the A&E allocator?**

19 A. I agree with Mr. Kubas that the A&E allocator is a reasonable and accepted approach for
20 allocating demand-related mains costs. Conceptually, it is appealing because it
21 recognizes that costs are generally incurred in proportion to a measure of system peak
22 demand. Moreover, in contrast to Mr. Galligan's P&A method, the excess demand

¹² In fact, as shown in his workpapers, when Mr. Kubas calculates the excess demand factor, he assumes that there is not demand diversity (i.e., that there is no difference between class non-coincident peak demand and class coincident peak demand). Thus, had Mr. Kubas used the standard weighting methodology, his A&E demand allocator would be exactly the same as PGW's peak demand allocator.

1 component of the allocator subtracts out average demand, and it therefore does not
2 unreasonably double-count average demand in the calculation.

3 Unfortunately, Mr. Kubas has applied the methodology incorrectly. In fact, he misquotes
4 his source text, with respect to the proper weighting factor in the A&E method. At page
5 13 of his testimony, Mr. Kubas indicates that the AGA's Gas Rate Fundamentals text
6 describes the A&E allocator as being based on "50% of the cost is allocated to the
7 various rate classes based on the average volume of gas delivered to that class and 50%
8 of the cost is allocated to the various classes based on the peak demand above the system
9 average demand (excess over average)." In fact, what the AGA text says regarding the
10 A&E weighting is as follows:

11 Under the A&E method, also called 'used and unused capacity,' capacity
12 costs are allocated by a two-part formula. It recognizes both the average
13 use of capacity and responsibility for the capacity required to meet the
14 maximum system load. Used capacity costs are calculated *by multiplying*
15 *total capacity costs by the system load factor*. These costs are allocated to
16 the various classes in proportion to their respective use (Mcf sold).
17 *System load factor is the ratio, expressed as a percentage, of used*
18 *capacity (Mcf sold) to total capacity*. The remainder of the capacity costs
19 represent the costs associated with the unused portion of capacity (i.e., that
20 portion above *average* requirements). These costs are allocated to the
21 various classes in the ratio that the individual group demands, in *excess* of
22 used demands, bear to the summation of such excess demands.¹³
23 *(emphasis added)*

24 That is, the text upon which Mr. Kubas relies does not support his proposal for a 50/50
25 weighting of the average and excess demand components -- it supports a system load
26 factor weighting method. Because PGW's system load factor is some 24 percent, Mr.
27 Kubas's calculations overstate the average demand portion of costs. Had Mr. Kubas used
28 the correct weighting factor, his allocator would produce results identical to those from
29 PGW's design day demand allocator.

¹³ Gas Rate Fundamentals, Fourth Edition. American Gas Association, 1987, pages 144-145.

1 **Q. In contrast to Mr. Kubas, Mr. Galligan argues that mains demand costs are related**
2 **to both peak demand and average demand on the system, with the primary**
3 **emphasis (80 percent) being based on average demand. Do you agree?**

4 A. No. No NGDC sizes its mains to meet some arbitrary combination of peak demand and
5 average demand. If PGW were to do so, it would not have sufficient distribution capacity
6 to meet its design day requirements, and its temperature-sensitive customers would be
7 without sufficient gas when it is most needed.

8 The simple fact is that the cost to PGW of installing a main that is capable of serving
9 downstream load of 500 Mcf per day under peak conditions is the same regardless of its
10 average operating level. That is, the issue of whether that main operates at 500 Mcf
11 every day, or that main must meet 500 Mcf per day under design conditions but operates
12 at an average demand of 100 Mcf per day over the course of the year, simply has no
13 impact on the cost of installing the main. There is simply no reason to charge a higher
14 price to a customer who uses the main more efficiently over the course of the year than to
15 a customer who uses it less efficiently.

16 **Q. Can you provide an example of the implications of Mr. Galligan's logic?**

17 A. I will reprise one from an earlier piece of testimony. Take the case of a sports utility
18 vehicle ("SUV"), designed to carry at least six people. It is a large car, and the
19 manufacturer incurs greater costs to be able to seat that many passengers comfortably and
20 to transport the significant weight. Customer A wants to buy the SUV because he drives
21 a car pool of six adults into the office every day, or some 230 days per year. Customer B
22 plans to use the SUV to take his six-person family on family vacations for 15 days out of
23 the year, and commute by himself to work on workdays. If SUV sales were regulated, I
24 think it would be difficult to find a reasonable person who would argue that Customer A
25 should pay more for the SUV than Customer B. Most people would be opposed to the
26 idea of subsidizing the less efficient behavior of Customer B. However, that is exactly
27 the implication of Mr. Galligan's proposal. Mr. Galligan's logic would dictate that a
28 larger car such as an SUV is not built only to serve maximum demand, but also to serve
29 average demand. His logic would therefore lead to the conclusion that the pricing for a
30 large vehicle should be higher for the customer who, on average, uses the full capacity at

1 a higher rate. That logic would also imply a lower price for the customer who uses the
2 full capacity for only relatively short periods of time.

3 Returning to the world of utility regulation, the demand-related cost of the mains, like the
4 cost of the SUV, is a function of the size of the mains. The size of the mains, in turn, is
5 determined by the maximum demand of the customers, regardless of whether that peak
6 occurs one day per year or hundreds of days per year. And like the SUV example, the
7 average demand simply has no impact on the cost of the mains.

8 **Q. Mr. Galligan argues that mains costs should be allocated partly on the basis of**
9 **average demands, because PGW earns revenues through volumetric charges. Does**
10 **that logic justify the P&A approach?**

11 A. No it does not. Mr. Galligan's logic is backwards, in that he uses rate design to justify
12 cost allocation. Rate design should flow from cost allocation; not the reverse. Because it
13 is impractical for most NGDCs to recover their demand-related costs from demand
14 charges to small customers, they recover those costs using volumetric charges. However,
15 this limitation on rate design in no way implies that costs are causally related to average
16 demands.¹⁴

17 **Q. Mr. Galligan also argues that much of the cost of installing mains is not**
18 **proportional to peak demand, but is, in fact, fixed. Does this justify his proposed**
19 **method?**

20 A. No it does not. Like Mr. Kubas, Mr. Galligan attempts to apply a marginal cost argument
21 in an embedded cost jurisdiction. If, in fact, the costs that Mr. Galligan cites are fixed
22 and therefore not proportional to peak demand, *they are not proportional to average*
23 *demand either*, and are therefore not allocable. (As I discussed earlier, some of these
24 costs may be related to the length of installed mains, and therefore proportional to the
25 number of customers.) Unfortunately, an embedded cost allocation study requires that
26 these costs be classified and allocated. Mr. Galligan has simply chosen to assume that
27 these unallocable fixed costs should be assigned among the various rate classes on the

¹⁴ In fact, some NGDCs do use demand charges to recover distribution costs from larger customers, typically based on contract peak demands. Mr. Galligan's logic fails completely in these circumstances, since the revenues are in fact totally determined by the contract demand requirement.

1 basis of annual volumes. There is no cost causation basis for such classification,
2 although it is an allocation approach that favors the rate class that he represents.

3 **Q. There is one more cost allocation issue. Can you comment on Mr. Kubas's**
4 **modifications to the cost allocation study associated with additional residential heat**
5 **customers?**

6 A. In his testimony, Mr. Kubas concludes that PGW has understated both the number and
7 the load associated with Residential Heat customers in its test year forecasts. To reflect
8 this additional volume, Mr. Kubas adds some \$7.1 million in revenues to the Residential
9 Heat class, and he deducts \$3.4 million in variable gas costs associated with that supply.
10 He makes no other adjustments to the cost allocation study.

11 Mr. Kubas's adjustment is not consistent with normal cost allocation practice. To make
12 the adjustment correctly, Mr. Kubas should have recognized that the customer allocators
13 within PGW's CCOSS must be adjusted upward to reflect the additional Residential Heat
14 customers that he assumes. Second, Mr. Kubas should have adjusted the demand
15 allocators (including his A&E allocator) to reflect the higher expected demands of the
16 Residential Heat class that he assumes.

17 Had Mr. Kubas correctly made these adjustments, the base rates costs allocated to the
18 Residential Heat class would be materially higher than those reported in his cost
19 allocation analysis. Thus, in considering Mr. Kubas's cost allocation study results, it
20 must be recognized that they understate the cost of providing service to the Residential
21 Heat class.

22 **Q. Please summarize your conclusions regarding the cost allocation analyses presented**
23 **in this proceeding.**

24 A. First, I conclude that the only relevant cost allocation study for setting base rates is an
25 unbundled study that excludes GCR costs. The only such study presented in this
26 proceeding is the one I used in my direct testimony. Second, for the reasons detailed in
27 my direct testimony, PGW's methodology contains a number of biases that cause the
28 costs assigned to non-residential firm sales customers to be overstated. Third, PGW's
29 methodology for classifying and allocating mains costs is consistent with cost causation

1 principles and it represents a middle-of-the-road approach among the various cost
2 allocation methods employed in the industry. The proposals of Messrs. Galligan and
3 Kubas to eliminate the customer component of costs are not consistent with cost
4 causation principles, nor is Mr. Galligan's proposal to allocate the lion's share of mains
5 costs on the basis of average demand. Finally, Mr. Kubas's adjustments to the cost
6 allocation study to reflect higher Residential Heat customers and demands are
7 incomplete, and therefore the results of his analysis understate the costs of providing
8 service to those customers.

9 **4 Promoting Retail Gas Supply Competition**

10 **Q. At pages 6 to 7 of IGS Statement No. 1, Mr. Parisi recommends that PGW retain all**
11 **of its capacity release revenues and off-system sales margins, because those**
12 **revenues/margins are earned from facilities that are paid for by all ratepayers. Do**
13 **you agree with this proposal?**

14 **A.** No I do not. Mr. Parisi's proposal is not consistent with the principle of matching costs
15 and revenues, and it is not consistent with Commission precedent.

16 Regarding the matching of costs and revenues, it must be recognized that PGW is
17 obligated to procure upstream pipeline and storage capacity to meet the needs of its GCR
18 customers. To do so, it must size that capacity to meet the demands of those customers
19 under design day and design winter weather conditions. Because the design parameters
20 represent extreme weather conditions that PGW is unlikely to experience, PGW almost
21 always has more pipeline and load balancing capacity than it needs to meet the GCR
22 customer requirements. However, PGW can earn additional revenues to offset the cost of
23 that capacity by either releasing some of that capacity to other market participants or by
24 using that capacity to transport gas for non-GCR customers. In either event, PGW is only
25 able to earn those additional margins because GCR customers have already paid for the
26 capacity. Therefore, any offsetting credits associated with this capacity should also be
27 provided to GCR customers. This full-credit approach is the method that is currently
28 applied to PGW.

1 Regarding Commission precedent, I recognize, of course, that the Commission departs
2 from the pure form of linking revenues and costs at other Pennsylvania NGDCs. In the
3 case of most Pennsylvania NGDCs, these revenues/margins are shared between the
4 NGDC shareholder and the PGC ratepayer, with typical sharing being a 75 percent credit
5 to the PGC ratepayers and a 25 percent retention by the NGDC shareholders.
6 Nevertheless, I am informed by OSBA counsel that the Commission deems that crediting
7 PGC ratepayers for these revenues/margins is an integral component of an NGDC's least-
8 cost procurement policy. The Commission permits the NGDC owners to share in the
9 benefits of this activity to create an economic incentive for them to maximize the total
10 credit to PGC customers. For example, the Commission recently ruled:

11 We will deny Equitable's Exception regarding our authority to direct a
12 specific sharing mechanism for PBR revenues. While Equitable is correct that
13 Section 1307(f) does not provide a specific statutory directive, Equitable
14 ignores two basic points. First, Section 1307(f) must be read in conjunction
15 with Section 1318's direction that an NGDC pursue a least cost procurement
16 policy. We agree with the OCA's analysis on this point. Thus, a directed
17 sharing mechanism is well within Section 1318's directive regarding least cost
18 procurement principles.

19 In addition, Equitable conveniently forgets the genesis of this entire issue. As
20 the OTS (and the OSBA in its Reply Exceptions) correctly reminds us, the
21 type of incentive mechanism at issue was initiated precisely to encourage
22 NGDCs to maximize their use of excess or idle capacity and off-system
23 opportunities in order to 'recover a portion of fixed costs and reduce the
24 overall PGC rate.' (OTS M.B. at 19). The sharing mechanism is not designed
25 to reduce revenues to which Equitable is entitled; it is designed to encourage
26 Equitable to 'maximize efforts in the management of capacity release and off-
27 system sales by permitting utilities to make a profit.' (Id.). Again, consistent
28 with Section 1318, that profit is to be shared with PGC customers in order to
29 reduce the overall PGC rate. We agree with both the OCA and OTS positions
30 on this issue. This Commission has full authority to direct the appropriate
31 sharing mechanism in a Section 1307(f) proceeding.¹⁵

32 Thus, the objective of the Commission's incentive mechanism is to result in *larger*
33 credits to PGC/GCR customers than they would obtain without a sharing mechanism.
34 Mr. Parisi's proposal that GCR customers be provided with zero credit is therefore
35 inconsistent with established Commission policy.

¹⁵ Pennsylvania Public Utility Commission, Opinion and Order, Docket No. R-00050272, pages 33-34.

1 **Q. Please respond to Mr. Parisi's argument that crediting the GCR with these revenues**
2 **and margins tilts the playing field, such that shopping and non-shopping customers**
3 **are not treated consistently.**

4 A. As I explain below, I recognize that there are a number of factors that create an uneven
5 playing field in retail gas supply between PGW and NGSs. However, for this particular
6 cost credit, Mr. Parisi has the argument exactly backward. His proposal will tilt the
7 playing field, whereas the existing approach is competitively neutral.

8 Suppose, for example, IGS were supplying a large number of PGW residential and small
9 commercial customers. It would need to procure gas supply, pipeline transportation and
10 load balancing capacity to meet the needs of those customers, even under extreme
11 conditions. Like PGW, IGS would therefore have excess capacity in most periods. Since
12 it has that capacity, it would presumably also release or use that capacity whenever it
13 could to offset its costs. Moreover, if the market for gas supply were competitive, IGS
14 would need to reflect those cost offsets in its pricing, or some other NGS would be able
15 to take its customers away.

16 In effect, when PGW provides a credit to its GCR for those revenues/margins, it is doing
17 exactly the same thing that an NGS would do. Because an NGS would not provide the
18 revenues from capacity release or off-system sales to PGW as a credit to base rates, there
19 is no reason to require PGW to do so. Thus, the existing policy is consistent with a level
20 playing field and Mr. Parisi's recommendation is not.

21 **Q. Let's turn to Mr. Parisi's recommendation that PGW upgrade its billing system. Do**
22 **you agree with his proposal?**

23 A. I will happily defer to Mr. Parisi regarding whether PGW's current billing system design
24 is *one of the* impediments to significant retail competition in PGW's service territory.
25 However, I very much doubt that it is *the only* or even *the primary* impediment to retail
26 competition.

27 The issues related to leveling the playing field for retail competition were debated at
28 some length in PGW's restructuring proceeding, docketed at M-00021612. Based on my

1 participation in that proceeding, I conclude that the following significant impediments to
2 retail competition continue to exist in PGW's service territory:

- 3 • Uncollectibles costs (which are unusually high for PGW compared to other NGDCs)
4 associated with the gas supply function are excluded from PGW's GCR, and they are
5 recovered in base rates. A competitive NGS would presumably be responsible for its
6 own uncollectibles costs.¹⁶

- 7 • Working capital costs associated with the gas supply function are excluded from
8 PGW's GCR, and they are collected in base rates. A competitive NGS would be
9 responsible for its own working capital costs.

- 10 • PGW's interruptible sales customers are afforded what is essentially zero-cost
11 delivery service, since virtually all revenues from these customers are credited to the
12 GCR through PGW's "interruptible revenue credit" ("IRC") mechanism. However, if
13 these customers wanted to switch to an NGS, they would no longer be eligible for the
14 zero-cost delivery service. To be competitive, the NGS price would actually need to
15 be substantially below PGW's price. Moreover, a competitive NGS is unlikely to be
16 able to obtain credits similar to PGW's IRC to hold down firm gas sales rates.

- 17 • A significant portion of PGW's load balancing costs that are associated with its LNG
18 facilities are recovered in base rates and are not recovered in the GCR. Unless PGW
19 can somehow provide the same level of balancing services from the LNG facilities to
20 NGSs, the NGS is at a substantial competitive disadvantage. I note that Mr. Parisi
21 testifies that NGSs are not afforded equal balancing services from the LNG
22 facilities.¹⁷

23 Unless and until these issues are resolved, or Mr. Parisi can present evidence that NGSs
24 can be competitive in PGW's service territory even with these problems, I see no reason

¹⁶ Mr. Parisi suggests that this problem could be avoided by making PGW retain responsibility for the NGS's uncollectibles, at least during the "pilot" stage of his proposal. He offers few details on how such a plan would work.

¹⁷ IGS Statement No. 1, page 2.

1 to require PGW ratepayers to bear the cost of an upgrade to PGW's billing system to
2 facilitate retail competition that is unlikely to materialize.

3 **Q. Please respond to Mr. Parisi's proposal that customers "be randomly assigned to**
4 **willing suppliers to serve those customers at some discount below the GCR rate for .**
5 **. . 3 years."**

6 A. I am somewhat skeptical that any NGSs would be willing suppliers under those
7 conditions, in light of the impediments to competition that I listed above. Again, I
8 recommend against PGW making any substantial expenditure of capital or management
9 time for this proposal until an NGS can demonstrate that it can be price competitive
10 under these conditions.

11 However, one may reasonably ask what harm there is in adopting Mr. Parisi's proposal if
12 NGSs are required to set prices below the GCR and if there are no material administrative
13 costs. There is, however, potential harm in the form of stranded costs. If customers are
14 transferred to alternative suppliers, PGW will have (even more) excess upstream pipeline
15 and storage capacity. Unless PGW can readily divest itself of that upstream capacity, or
16 proportionately transfer it to the NGSs who are assigned new customers, it is possible
17 that the remaining GCR customers will "be left holding the bag" in the form of a higher
18 GCR. Thus, before Mr. Parisi's proposal can be approved, procedures must be adopted
19 for equitable sharing of stranded costs between shopping and non-shopping customers.

20 **Q. Does this conclude your rebuttal testimony?**

21 A. Yes it does.

OSBA STATEMENT NO. 3

BEFORE THE

5/22/07
Philadelphia

WJH

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PHILADELPHIA GAS WORKS

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Docket No. R-00061931

DOCUMENT
FOLDER

Surrebuttal Testimony and Exhibits of

ROBERT D. KNECHT

On Behalf of the

Pennsylvania Office of Small Business Advocate

DOCKETED
AUG 20 2007

Topics:

Revenue Allocation
Universal Service Cost Responsibility

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

SURREBUTTAL TESTIMONY OF ROBERT D. KNECHT

1 **1 Introduction**

2 **Q. Mr. Knecht, please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I submitted direct testimony and rebuttal testimony earlier
4 in this proceeding, and my qualifications were presented in Exhibit IEc-1 attached to my
5 direct testimony.

6 **Q. What is the purpose of this surrebuttal testimony?**

7 A. This testimony addresses issues of revenue allocation and the cost responsibility for
8 PGW's universal service programs. Regarding the former issue, this testimony responds
9 to the revenue allocation rebuttal testimony of Mr. Craig White of PGW and Mr. Richard
10 Galligan on behalf of the OCA. Regarding the latter issue, this testimony responds to the
11 rebuttal testimony of Mr. Steve Hershey of PGW, Mr. Roger Colton on behalf of the
12 OCA, and Mr. Harry Geller on behalf of Action Alliance et al.

13 **2 Revenue Allocation**

14 **Q. At page 16 of his rebuttal testimony, PGW Witness Mr. White states, "OSBA**
15 **Witness Knecht also takes issue with PGW's allocation of increase, claiming that for**
16 **the commercial classes not enough progress is being made toward cost-based rates."**

17 **Can you comment on Mr. White's statement?**

18 A. Mr. White badly misstates my testimony. My testimony does not indicate that PGW's
19 revenue allocation proposal would result in any progress at all toward cost-based rates.
20 To the contrary, it is my testimony that PGW's proposal moves the rates for commercial
21 customers farther away from allocated costs.

22 Every cost allocation study submitted in this proceeding indicates that the commercial
23 class produces a rate of return far in excess of system average at present rates. Table IEc-
24 R1 in my rebuttal testimony indicates that the commercial class rate of return at present
25 rates ranges from 11.8 percent to 13.5 percent, compared to a system average of 5.8
26 percent. (And Mr. Galligan's rebuttal testimony contains yet another cost allocation
27 study, which also indicates that the commercial class rate of return at present rates is 11.8

1 percent, which is far above the system average of 5.8 percent.) Nevertheless, PGW
2 proposes to increase the distribution rates for commercial customers by some 49.5
3 percent, compared to a system average increase of 33.8 percent. PGW's proposal does
4 not and cannot move rates for commercial customers any closer to allocated costs.

5 **Q. In his rebuttal testimony, Mr. Galligan states, "Mr. Knecht's ratio and difference**
6 **method nowhere relates class return to the allocated investment that is deemed**
7 **necessary to provide service to each class." Please comment.**

8 A. Mr. Galligan is simply wrong. Both the revenue-cost ratio metric and the revenue-cost
9 difference metric rely on total cost, at both present and proposed rates. The total cost
10 measure that I use explicitly *includes* the costs related to the return on capital. My
11 calculation of total cost is fully consistent with the total cost analysis prepared by PGW's
12 Mr. Gorman, as shown at Exhibit HSG-1 line 21 (regarding current return costs) and line
13 24 (regarding the incremental return cost proposed by PGW). Both Mr. Gorman and I
14 explicitly allocate the return costs in proportion to allocated rate base, rendering Mr.
15 Galligan's complaint false. We both explicitly consider the cost of capital in these
16 calculations.

17 **Q. Mr. Galligan indicates that it is "inconsistent to consider return costs in the**
18 **determination of one's revenue adequacy measures . . . but then to advise the**
19 **Commission to omit from consideration the adequacy of class returns from a**
20 **determination of how to spread any Commission-authorized increase." Can you**
21 **respond?**

22 A. For the reasons detailed in my direct testimony, I believe that a revenue-cost ratio
23 approach is the least biased metric for evaluating progress toward cost-based rates.
24 However, if the Commission accepts Mr. Galligan's arguments regarding the need to
25 explicitly consider rate of return, I recommend that the Commission rely on the
26 "differential rate of return" metric, rather than the "indexed rate of return metric." The
27 differential metric is much less likely than the indexed rate of return metric to result in
28 bizarre and counter-intuitive results.

1 In the differential rate of return approach, each class's rate of return is compared to the
2 system average return by taking the difference, rather than by computing a ratio. Thus,
3 for example, under current rates the Commercial class differential rate of return is the
4 class rate of return (13.5 percent in my unbundled COSS) *minus* the system average firm
5 service rate of return (6.0 percent), or 7.4 percent (adjusted for rounding). Following Mr.
6 Galligan's logic, we can then compare that differential rate of return at current rates to the
7 value at proposed rates, to see if PGW's proposal makes any progress toward cost-based
8 rates. To show progress, the differential rate of return must be moving closer to zero.

9 When applied in this proceeding, the differential rate of return metric shows that PGW's
10 revenue allocation proposal moves rates in the wrong direction for all firm sales rate
11 classes. For example, under PGW's proposed rates, the Commercial class exhibits a
12 return of 28.1 percent, compared to system average of 14.1 percent, for a differential rate
13 of return of 14.1 percent. Thus, the differential rate of return approach indicates that the
14 Commercial class was producing excess return of 7.4 percent at current rates, and PGW's
15 revenue allocation proposal will increase that excess return to 14.1 percent.

16 While I did not highlight this method in the text of my direct testimony, I provided the
17 calculations supporting this metric in Exhibit IEc-4 attached to my direct testimony, for
18 PGW's revenue allocation proposal as well as for my two revenue allocation proposals.

19 Table IEc-S1 below shows the differential rates of return for the firm sales rate classes
20 under PGW's revenue allocation proposal, which Mr. Galligan supports. A negative
21 number means that a class's rate of return is below system average; a positive number
22 indicates the class return is above system average. Table IEc-S1 shows that PGW's
23 revenue allocation proposal will result in all differential rates of return moving farther
24 away from zero.

| Table IEC-S1 | | | | |
|---|-----------------------------|-----------------------|------------------------------------|-----------------------|
| PGW Revenue Allocation Proposal | | | | |
| Differential Rate of Return Analysis | | | | |
| | <i>Class Rate of Return</i> | | <i>Differential Rate of Return</i> | |
| | <i>Current Rates</i> | <i>Proposed Rates</i> | <i>Current Rates</i> | <i>Proposed Rates</i> |
| Residential | 4.4% | 11.2% | -1.6% | -2.9% |
| Commercial | 13.5% | 28.1% | 7.4% | 14.1% |
| Industrial | 16.0% | 28.9% | 10.0% | 14.8% |
| Municipal | 13.0% | 26.4% | 7.0% | 12.4% |
| Housing Auth. | 15.9% | 28.9% | 9.8% | 14.8% |
| Total | 6.0% | 14.1% | 0.0% | 0.0% |
| Source: Exhibit IEC-4, Table 4-A | | | | |

1 **Q. Mr. Knecht, surely you recognize that the Commission and other Pennsylvania**
2 **utilities have relied upon the indexed rate of return metric for many years. How can**
3 **the Commission have relied upon a metric that produces results that are at odds**
4 **with common sense, and with the results of the other metrics that you present?**

5 **A. I can speak only to the Pennsylvania base rate proceedings in which I have been involved.**
6 Based on that experience, however, I observe that utilities and the Commission have
7 historically relied upon both the indexed rate of return metric *and* common sense. That
8 is, when they prepared their rate filings, utilities would apply judgment and common
9 sense. Consequently, they would propose to assign above-average rate increases to
10 classes that were providing subsidies, and to assign below-average increases to classes
11 that were receiving subsidies. The utilities would then calculate the indexed rate of return
12 metric, which would indicate that progress was being made toward cost-based rates.
13 While the indexed rate of return metric may have overstated how much progress was
14 being made, it was not producing counter-intuitive results. That is, the indexed rate of
15 return has not *always* been producing illogical results; however it can produce illogical
16 results if a utility makes an illogical proposal, i.e., assigning an above-system average rate
17 increase to a class that is already providing a subsidy.

1 Recent experience with the PPL utilities demonstrates this point. Going back into
2 history, in the 1994 base rates case (Docket No. R-00943271) for PP&L Electric Utilities
3 (“PPL”), the indexed rate of return for the GS-1 rate class (one of PPL’s commercial rate
4 classes) was 197 percent at then-current rates. In its filing, PPL proposed to assign a rate
5 increase to the GS-1 class of 3.9 percent, compared to a system average increase of 11.7
6 percent. That is, because the GS-1 class was over-recovering allocated costs, PPL
7 logically proposed to assign it a below-average rate increase. PPL’s COSS analysis
8 indicated that this proposal would reduce the indexed rate of return for the GS-1 class
9 from 197 percent to 154 percent. The indexed rate of return metric did not produce a
10 counter-intuitive result, because PPL did not make a counter-intuitive proposal.¹

11 Unfortunately, I have observed recently that some utilities are abandoning common sense
12 and relying solely on the indexed rate of return metric. For example, PPL’s gas
13 distribution affiliate (“PPL Gas”) recently offered an illogical proposal, in which its GS-
14 Small rate class was assigned a proposed rate increase that was modestly in excess of
15 system average, despite the fact that it exhibited the highest class rate of return.² PPL Gas
16 attempted to justify that proposal on the basis of the indexed rate of return metric. In that
17 matter, the Commission rejected PPL’s approach in favor of “first dollar relief” for the
18 GS-Small class, which the Commission found to be consistent with *Lloyd v.*
19 *Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006).³

20 In the current case, PGW offers an even more extreme version of the PPL Gas approach.
21 PGW’s only defense for its proposal, and the only defense offered by Mr. Galligan, is that

¹ These values are derived from OSBA Statement No. 1 at Docket R-00943271, page 5 and Exhibit 4. The “current rates” values are also shown in Exhibit JMK-Remand 5, Attachment 3. In my testimony at the time, I opined: “*Note that movement of the indexed rate of return toward unity does not necessarily imply true progress toward cost-based rates. Using more neutral methods, the GS classes also exhibit progress toward cost-based rates. My citing of the indexed rate of return measure herein should not be construed as acceptance of this metric -- I cite it because of its widespread use in this jurisdiction.*”

² See OSBA Statement No. 1, Docket No. R-00061398, page 25.

³ Pennsylvania Public Utility Commission, Opinion and Order, Docket No. R-00061398, pages 134-135.

1 the approach results in indexed rates of return that are closer to unity at proposed rates
2 than they are at current rates.

3 Therefore, in my view, the problem that we observe in this proceeding is not that the
4 Commission has, in the past, relied partly on a poor metric; it is that some utilities have
5 abandoned common sense entirely and are imprudently basing revenue allocation
6 proposals *only* on this one metric. This change *by the utilities* has caused the indexed rate
7 of return to go from a metric that merely overstated progress toward cost-based rates to
8 one that implies that there is progress toward cost-based rates when the reverse is true.

9 **Q. In light of your analysis of the rebuttal testimony of Mr. White and Mr. Galligan,**
10 **what metrics do you recommend that the Commission consider in base rates**
11 **proceedings for evaluating whether a revenue allocation proposal moves rates more**
12 **into line with allocated costs?**

13 A. In light of the trend toward unreasonable revenue allocation proposals from utilities, I
14 recommend that the Commission consider all of the metrics that I present in my direct
15 testimony. But more importantly, I think, the Commission should apply a healthy helping
16 of common sense and judgment when evaluating competing revenue allocation proposals.

17 To move rates into line with allocated costs, rate classes that under-recover allocated
18 costs should face above-average rate increases; rate classes that over-recover costs should
19 face below-average or zero increases (or, in extreme cases, rate decreases). How much
20 progress toward cost-based rates can be effected in any particular proceeding is a matter
21 of judgment, based on rate shock, value of service, and other relevant practical
22 considerations.

23 It should be as simple as that.

24 **3. Universal Service Cost Responsibility**

25 **Q. Mr. Hershey, Mr. Colton and Mr. Geller all argue that your proposal to recover**
26 **universal service costs only from residential customers is not consistent with**
27 **Commission precedent. For example, Mr. Hershey cites the Commission's decision**
28 **in PGW's restructuring proceeding in support of his argument. Can you comment?**

1 A. In general, I leave the issue of the implications of prior Commission decisions to OSBA
2 counsel. Whether the Commission has affirmatively approved PGW's proposal, or it has
3 simply allowed PGW's historical practice to continue without directly addressing the
4 issue, is a matter for the attorneys to argue.

5 The only clear fact is that PGW's proposal is not consistent with Commission policy for
6 universal service cost recovery at all other Pennsylvania NGDCs.

7 **Q. Mr. Hershey, Mr. Colton and Mr. Geller argue that the universal service programs**
8 **benefit the entire community, and therefore firm business gas customers should pay**
9 **for them. Can you respond?**

10 A. I have two major disagreements with the logic of this argument:

- 11 • Assigning costs on the basis of vague and unquantified indirect social benefits is not
12 consistent with sound regulatory policy.
- 13 • PGW's proposal represents a pretty poor effort at matching the direct costs of these
14 programs with the alleged indirect beneficiaries.

15 **Q. If there is a social benefit associated with these programs that benefits all members**
16 **of society, why is it inappropriate for the Commission to require businesses to pay**
17 **for them?**

18 A. Using indirect social benefits as a cost allocation criterion is an invitation to open
19 Pandora's box to other similarly vague cost allocation proposals in regulatory
20 proceedings. While it can perhaps be argued that the universal service programs result in
21 indirect social benefits, it can also be argued that having a healthy and cost competitive
22 small business community will result in indirect social benefits to individuals. As Mr.
23 Colton recognizes, healthy small businesses provide employment for low-income
24 individuals. Therefore, under the "who benefits" standard for cost allocation, it can
25 readily be argued that residential customers should provide a subsidy to small businesses.

26

1 In practice, it makes more sense for utility regulators to rely on hard cost causation
2 principles for cost and revenue allocation, rather than indirect social benefits. The issue
3 of balancing social benefits with the cost responsibility for those benefits is better left to
4 government spending and tax policymakers, who have more options and greater
5 flexibility.

6 **Q. Mr. Hershey argues that you surely “would not object to residential customers**
7 **picking up the burden when PGW provides a discounted rate to a small business.”**
8 **Can you address his point?**

9 A. In fact, I would object to such a proposal, and I have objected to such proposals in the
10 past, except when it can be quantitatively demonstrated that such discounted rates provide
11 hard financial benefits to the classes who must make up the shortfall.

12 Mr. Hershey refers to economic development rates or bypass rates. In my experience,
13 these rates are offered, not to small business customers, but to larger business customers.
14 As such, it would be relatively unusual for small business customers to be offered these
15 rates in the first place. Small businesses are most often targeted as the source for the
16 subsidies, rather than the beneficiaries of the discounts.

17 Nevertheless, it is my view that economic development and bypass rates should only be
18 justified on the basis that, if the discount were not offered, the utility would lose the
19 volume. And if the utility loses volume, it loses the financial margin that would
20 otherwise be provided by those customers. The shortfall resulting from the lost margin
21 would then be shifted to other ratepayers. Thus, by providing the discount, the utility
22 retains at least some of the distribution margin that it would otherwise lose, thereby
23 providing a specific and quantifiable cost savings to the other ratepayers.

24 PGW’s universal service costs do not meet this standard. CRP revenues are insufficient
25 to recover the incremental cost of purchasing gas, much less make any contribution to
26 fixed costs. In addition, PGW offers no evidence that its CRP, its SCD or its CWP
27 customers would discontinue gas service if the programs were eliminated.

28 Mr. Hershey’s assertion therefore provides yet another reason to reject PGW’s proposal.

1 **Q. Do Mr. Colton, Mr. Geller or Mr. Hershey offer any quantitative analysis to**
2 **demonstrate the specific magnitude of the social benefits that they believe businesses**
3 **receive from PGW's universal service programs?**

4 A. No. None of these witnesses provides any quantification of the benefits that they allege
5 accrue to the non-residential customers who have been paying the bills for the programs.

6 **Q. Let's turn to your second concern about the social benefits argument, namely the**
7 **matching of benefits and costs. Why do you conclude that PGW's proposal**
8 **represents a poor match?**

9 A. To respond to this question, I will assume that the universal service program will provide
10 the social benefits alluded to by Messrs. Hershey, Geller and Colton. Mr. Geller argues
11 that the costs of these benefits should be distributed as widely as possible, because the
12 benefits are widely distributed. Unfortunately, PGW's proposal represents a pretty poor
13 effort at matching the broad benefits with broad cost recovery.

14 First, as Messrs. Geller, Hershey and Colton recognize, PGW's service territory is a
15 relatively low-income service territory, and PGW's universal service program is
16 considerably larger and more expensive than those of other NGDCs. These witnesses
17 also generally agree that municipal ownership of PGW must be recognized in evaluating
18 how the costs of the program should be recovered. In effect, they argue that the social
19 welfare and tax policy of the City must be considered by the Commission in this decision.

20 Unfortunately, recovering the costs of this social welfare program through a volumetric
21 tax on gas consumption represents dubious tax policy at best. With respect to taxes on
22 individuals, even if we assume that all of the citizens of Philadelphia would be subject to
23 this tax, the burden of an energy tax tends to fall disproportionately on lower income
24 individuals. As a percentage of household income, energy costs are higher for low-
25 income families than for higher income families. Thus, at the start, PGW is proposing to
26 recover these costs with what economists call a *regressive* tax.

27 Second, the indirect social benefits of these programs presumably accrue to all businesses
28 and citizens of Philadelphia, and not only those that consume natural gas. However, the
29 USEC can only apply to gas consumers. In effect, PGW's proposal allows individuals

1 and businesses that are not gas consumers to be "free-riders" for the social welfare
2 benefits associated with PGW's programs.

3 Third, PGW proposes to continue to exempt over half of the throughput to business
4 customers from the "responsibility" to contribute to these costs. Of PGW's 30.5 Bcf of
5 annual non-residential throughput, some 3.3 Bcf (11 percent) goes to interruptible sales
6 rate classes and 13.3 Bcf (44 percent) goes to GTS/IT transportation customers. Neither
7 the interruptible sales rate classes nor the GTS/IT customers are subject to PGW's USEC
8 charge. While I recognize that it is unlikely that PGW could recover universal service
9 costs from these classes, it must be recognized that PGW's proposal allows the majority
10 of its business load to be a free-rider for the social benefits. Also, because PGW's
11 proposal is not consistent across the business rate classes, it is anti-competitive. PGW's
12 proposal will have the effect of providing cost advantages to certain businesses,
13 particularly those that are large enough to use transportation service, at the expense of
14 smaller business customers.

15 Fourth, even within the subset of business customers that it proposes to tax, PGW offers
16 no evidence that the social benefits of the universal service program are proportional to
17 gas consumption. It would be more logical to assume that any such benefits would be
18 more related to a company's revenues, profits or employment levels than they are to gas
19 consumption. Again, PGW's proposed matching of direct costs and indirect benefits is
20 poor.

21 Thus, rather than proposing a broad-based recovery mechanism, the City of Philadelphia,
22 through its municipally-owned gas utility, proposes a narrow, regressive and anti-
23 competitive tax burden on a subset of its gas consumers.

24 **Q. Mr. Knecht, are you proposing that the Commission set tax policy for the City of**
25 **Philadelphia?**

26 **A.** No I am not. In fact, I propose just the reverse. I propose that the Commission treat
27 PGW in the same manner that it treats every other NGDC in the Commonwealth.
28 Moreover, I propose that the Commission apply the regulatory standard of cost causation
29 to the allocation of these costs, rather than adopting a tax policy to recover social benefits.

1 If the Commission takes my proposed approach, the City of Philadelphia will retain the
2 responsibility for the policy decision regarding how large a benefit it should provide
3 through PGW, and how much of a benefit it should provide through other means. In
4 effect, the City will retain the responsibility to determine how large a universal service
5 cost burden should be imposed on residential gas ratepayers, and how much of the cost of
6 low-income assistance programs should be funded through alternative means.⁴ If the City
7 chooses to recover the costs of those programs through narrow, regressive and anti-
8 competitive taxes, it should take that responsibility upon itself.

9 My proposal leaves tax policy in the hands of the City of Philadelphia. Messrs. Hershey,
10 Geller and Colton want the Commission to either be an active participant in the process,
11 or to simply issue a rubber stamp approval of the City's policy despite its inconsistency
12 with Commission policy.

13 **Q. Mr. Colton argues that the restructuring act for the natural gas industry ("the Act")**
14 **requires that universal service charges be non-bypassable, which he interprets to**
15 **require that all customers pay for those costs. Can you comment?**

16 A. In my experience, the reference to "non-bypassable" in utility industry restructuring
17 usually means that customers cannot avoid the charge by leaving utility supply service
18 and switching to an alternative supplier. It does not refer to the issue of which rate
19 classes are responsible for any particular cost item. However, I am informed by OSBA
20 counsel that this issue is now before the Commonwealth Court. Because my proposal on
21 this subject does not go into effect until late in 2008, I assume that the Commonwealth
22 Court will have resolved this issue by that time. There is therefore no reason to reject my
23 proposal in the current proceeding. If my proposal were adopted and the Commonwealth
24 Court subsequently ruled that all classes must pay for universal service programs, my
25 proposal would simply not go into effect.

26 There is, however, an intriguing aspect to Mr. Colton's argument. As Mr. Colton
27 indicates, the Act requires that the universal service costs be "appropriate nonbypassable

⁴ Assistance to low-income customers is, of course, also the purview of the state and federal governments. I expect that the City of Philadelphia would also avail itself of funding from these sources to the extent possible.

1 competitively neutral” charges. As I explained earlier, PGW’s current USEC charges
2 simply fail the test of being competitively neutral, in that some business customers are
3 subject to the charges and some are not. PGW’s approach therefore provides competitive
4 advantages to some business customers over others. Thus, based on Mr. Colton’s reading
5 of the Act, PGW would need to modify its policy such that all customers are subject to
6 the USEC. Based on PGW’s testimony in this proceeding, I expect that such a change
7 would cause PGW to lose all of its GTS/IT load.

8 **Q. Mr. Colton argues that universal service costs should be borne by business**
9 **customers because PGW’s residential customers did not benefit from industry**
10 **restructuring, whereas business customers did. Is his argument persuasive?**

11 A. No. First, I have some difficulty understanding how the benefits of industry restructuring,
12 as measured by shopping statistics, are relevant to cost causation for universal service
13 costs. However, if I accept Mr. Colton’s line of reasoning for the sake of argument, then
14 PGW’s cost recovery mechanism is exactly backwards. PGW imposes USEC costs only
15 on businesses that do not shop, and it does not impose the USEC on transportation
16 customers who do shop. Under Mr. Colton’s logic, the reverse should be true.

17 **Q. Mr. Colton also argues that the City of Philadelphia provides large cost savings to**
18 **PGW through the use of eminent domain, and that these cost savings are passed on**
19 **to ratepayers of all classes. Does this argument justify assigning universal service**
20 **costs to all rate classes?**

21 A. No it does not. PGW’s proposed distribution rates, even without universal service costs,
22 are far in excess of those at any other Pennsylvania NGDC. Thus, it is hard to see how
23 the City’s power of eminent domain has resulted in any material rate benefits to
24 ratepayers. It is likely that PGW’s historical inefficiencies, that may or may not be related
25 to municipal ownership, have drowned out whatever benefits that accrue from the power
26 of eminent domain. Moreover, I note that Mr. Colton provides zero quantitative analysis
27 in support of the specific magnitude of the eminent domain benefits. As such, Mr. Colton
28 has no basis to conclude that these benefits offset the costs of contributing to universal
29 service costs, in whole or in part.

1 **Q. Mr. Geller and Mr. Hershey complain that your proposal to phase-out USEC**
2 **charges over three years masks a large deleterious impact on residential ratepayers.**
3 **Are they correct?**

4 A. No they are not. While I retain my proposal for a three-year phase-out, I show the
5 implications of a one-year phase-out in Exhibit IEc-S1. Even under that proposal, the
6 impact on the residential class is \$0.80 per Mcf, which represents about 6.4 percent of the
7 costs involved in a PGW GCR proceeding and about a 3.9 percent increase on a total bill
8 basis. Such an increase, spread over three years, is simply not rate shock.

9 Moreover, if Mr. Hershey does consider an increase of \$0.80 per Mcf spread over three
10 years to be rate shock for residential customers, the impact of PGW's proposed rate
11 increase on commercial customers of \$2.42 per Mcf in a single year would have to be
12 considered tantamount to getting the electric chair.

13 **Q. Does this conclude your surrebuttal testimony?**

14 A. Yes it does.

5/27 07
Phila. wj/d

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION :

v. :

Docket No. R-00061931

PHILADELPHIA GAS WORKS :

DIRECT TESTIMONY AND EXHIBITS OF HARRY S. GELLER

ON BEHALF OF ACTION ALLIANCE et al.

(ACTION ALLIANCE OF SENIOR CITIZENS
OF GREATER PHILADELPHIA AND
TENANT UNION REPRESENTATIVE NETWORK)

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

TABLE OF CONTENTS

| | | |
|-------------|--|----|
| I. | QUALIFICATIONS | 1 |
| II. | INTRODUCTION AND SUMMARY | 3 |
| III. | TERMINATION OF SERVICE STATISTICS SHOW THAT PGW FAILS TO PROVIDE REASONABLY CONTINUOUS SERVICE. | 5 |
| IV. | WEAKNESSES IN CRP, CARES AND PGW HARDSHIP FUND EXPOSE LOW INCOME CUSTOMERS TO UNREASONABLE LOSS OF SERVICE | 8 |
| | Inadequate CRP Enrollment, Education and Termination Avoidance | 11 |
| | Inadequate CARES Program | 16 |
| | Inadequate Hardship Funds..... | 19 |
| V. | PGW'S MISUSE OF DISCRETION PROVIDED BY CHAPTER 14 CAUSES UNREASONABLE LOSS OF SERVICE BY LOW AND LOWER INCOME CUSTOMERS | 20 |
| | Barriers To Reconnection | 22 |
| | <i>Total Outstanding Balance From Customers as a Condition of Reconnection...</i> | 22 |
| | <i>Reconnection Fee</i> | 28 |
| | Barriers To Termination Avoidance | 31 |
| | <i>No Second Payment Agreements</i> | 31 |
| | <i>Medical Emergency Policy</i> | 33 |
| | <i>Budget Billing</i> | 34 |
| VI. | OBJECTIONS TO PROPOSED TARIFF REVISIONS | 38 |
| VII. | CONCLUSION | 46 |

EXHIBITS

| | | |
|--------------|--|-----|
| HSG-1 | Cold Weather Survey, Form A, December 1, 2005 | P.1 |
| HSG-2 | Cold Weather Survey, Form A, December 1, 2006 (PGW Response to Interrogatory AA-II-1) | P.3 |
| HSG-3 | Number of Confirmed Low-income PGW Customers (PGW Response to Interrogatory AA-II-16) | P.6 |

EXHIBITS

| | | |
|--------|--|------|
| HSG-4 | Number of CRP Participants (PGW Response to Interrogatory AA-II-31) | P.7 |
| HSG-5 | PGW Payment Arrangement Guidelines (PGW Response to Interrogatory AA-I-19) (3 pages total, poster reduced on 1st page then enlarged on following 2 pages) | P.8 |
| HSG-6 | PGW Pre- and Post-Termination Notices (PGW Response to Interrogatory AA-I-14) | P.11 |
| HSG-7 | PGW CARES Brochure (PGW Response to Interrogatory AA-I-9) | P.18 |
| HSG-8 | No Dedicated CARES Staff ((PGW Response to Interrogatory AA-I-10) | P.20 |
| HSG-9 | Universal Services Manual, pp. 59-61, (from PGW Response to AA-I-1) | P.22 |
| HSG-10 | No CARES “Short Term Affordable Payments Based on Ability to Pay” (PGW Response to Interrogatory AA-III-4) | P.25 |
| HSG-11 | Contributions to UESF from PGW Employees and Customers, 2000-2006 (PGW Response to Interrogatory AA-I-12) | P.26 |
| HSG-12 | PGW Promotion of UESF (PGW Response to Interrogatory AA-I-13) | P.27 |
| HSG-13 | Broken Payment Agreements Counting Against Future Eligibility for a Payment Agreement to Restore Service (PGW Response to Interrogatory AA-I-18) | P.28 |
| HSG-14 | A Broken CRP Agreement, Broken Payment Arrangement (PGW Response to Interrogatory AA-I-17) | P.29 |
| HSG-15 | Reconnection Fees of Pennsylvania Natural Gas Companies | P.30 |
| HSG-16 | “Change in Income,” No Information Available (PGW Response to Interrogatory AA-III-5) | P.32 |
| HSG-17 | “Significant Change in Circumstances,” No Information Available (PGW Response to Interrogatory AA-III-6) | P.33 |
| HSG-18 | “Life Events,” No Information Available (PGW Response to | P.34 |

EXHIBITS

| | | |
|--------|---|------|
| | Interrogatory AA-III-7) | |
| HSG-19 | No Equitable Arrangement, CRP Medical Certifications (PGW Response to Interrogatory AA-I-4) | P.35 |
| HSG-20 | No Equitable Arrangement , Non-CRP Medical Certifications (PGW Response to Interrogatory AA-I-5) | P.36 |
| HSG-21 | Budget Billing, True-Up Billing (PGW Response to Interrogatory AA-I-43) | P.37 |
| HSG-22 | Universal Service Reporting Requirements, 2006 (PGW Response to Interrogatory AA-II-33) | P.39 |
| HSG-23 | “PGW’s Sole Discretion” and “Satisfactory Assurance” (PGW Response to Interrogatory AA-I-41) | P.53 |
| HSG-24 | PGW Tariff Section 2.4.C, Discussion (PGW Response to Interrogatory AA-I-45) | P.54 |
| HSG-25 | Residential Credit Statement | P.55 |
| HSG-26 | PGW Tariff Section 8.3.D, Discussion (PGW Response to Interrogatory AA-I-47) | P.56 |
| HSG-27 | USTRA-Type Statute (PGW Response to Interrogatory AA-I-48) | P.57 |

1 be maintained, or access obtained, is the implementation and structure of the Company's
2 Universal Service Programs (Customer Assistance Programs, CARES, Hardship Funds,
3 and LIURP), and the affordability of payment agreement and reconnection agreement
4 terms, including upfront payment, security deposit and monthly payment going forward.
5

6 I presently serve on the following Pennsylvania state-wide advisory boards, work groups
7 and/or task forces. Almost all address issues of access to and affordability of utility
8 service:

- 9 • Chairman, Low-Income Home Energy Assistance Program (LIHEAP) Advisory
10 Committee to the Secretary, Pennsylvania Department of Public Welfare;
- 11 • Pennsylvania Public Utility Commission, Consumer Advisory Council;
- 12 • President, Pennsylvania Energy and Weatherization Consortium;
- 13 • Coordinator, Pennsylvania Legal Services Utility/Energy Work Group;
- 14 • Member, Weatherization Advisory Committee to the Department of Community
15 and Economic Development;
- 16 • Member, PECO Universal Service Advisory Committee;
- 17 • Member and past consumer chairman of the Natural Gas Universal Services Task
18 Force.

19
20 I have previously testified as an expert on lower income and low-income consumer utility
21 payment concerns in the United States District Court for the Eastern District of
22 Pennsylvania (Maldonado v. Houston, 177 F.R.D. 311 (E.D. Pa. 1997), aff'd, 157 F.3d
23 179 (3rd Cir. 1998)) and before the Pennsylvania Public Utility Commission
24 Investigation into Financial and Collection Issues Regarding the Philadelphia Gas Works,
25 Docket Nos. P-00042090, R-00049157, M-00021612, P-00032061, Order entered
26 October 27, 2004), the Joint Application of PECO Energy Company and Public Service
27 Electric and Gas Company for Approval of the Merger of Public Service Enterprise
28 Group Incorporated with and into Exelon Corporation, Docket No. A-110550F0160, and
29 the Joint Application of Equitable Natural Gas Company and The Peoples Natural Gas
30 Company d/b/a Dominion Peoples for approval of the transfer of all stock and rights of
31 The Peoples Natural Gas Company d/b/a Dominion Peoples to Equitable Resources, Inc.

1 and for the approval of the transfer of all stock of Hope Gas, Inc. d/b/a Dominion Hope
2 to Equitable Resources, Inc., Docket No. A-122250F5000.

3
4 I am a member of the Pennsylvania and Dauphin County Bar Associations and of the
5 Pennsylvania Bar Association Utility Law Section.

6
7
8 **II. INTRODUCTION AND SUMMARY**

9
10 **Q. What is the purpose of your testimony?**

11
12 **A.** The purpose of my testimony is to provide the Pennsylvania Public Utility Commission
13 (“PUC” or “Commission”), based upon my long experience with lower income and low-
14 *income consumer utility programs, with an assessment of the adequacy and*
15 *reasonableness of service to the lower income and low-income customers of Philadelphia*
16 *Gas Works (“PGW” or “Company”). I will recommend steps which PGW should take to*
17 *assure that – should the base rate increase be approved in whole or in part – lower income*
18 *and low-income customers receive adequate and reasonable service. Specifically, PGW*
19 *must improve its policies for lower income and low-income customers so that they may*
20 *obtain and maintain utility service, and gain reconnection of utility service on reasonable*
21 *and affordable terms.*

22
23 There are approximately 157,000 low-income households in PGW’s service territory who
24 would be negatively impacted by a permanent base rate increase of 44%.¹ Without the
25 adoption of prospective safeguards, the requested base rate increase should be denied.

26
27 **Q. Please summarize the major conclusions contained in your testimony.**

28
29 **A.** In my testimony I reach the following conclusions:
30

¹ 2005 Report on Universal Service Programs and Collections Performance, Pa. PUC, at 7-8.

- 1 1. Of the natural gas heating customers in Pennsylvania terminated for non-payment
2 in 2006, who had not succeeded in obtaining reconnection by December 1, 2006,
3 more than half, over 9,000, were PGW customers. More than half of these
4 customers were low-income. PUC universal service standards and the Public
5 Utility Code require that service be reasonably continuous. In light of the results
6 as set forth in Cold Weather Survey statistics, PGW's service is not reasonable.
7
8 2. In light of the number of low-income customers, CRP and non-CRP, without
9 service as shown by Cold Weather Survey statistics, PGW's low-income programs
10 are inadequate.
 - 11 a. Inadequate in enrollment in CRP to reduce likelihood of service
12 terminations due to non-payment of unaffordable bills.
 - 13 b. Inadequate in terms of informing customers of the existence of CRP.
 - 14 c. Inadequate in terms of explaining the importance of maintaining
15 payments, reducing arrearages, and avoiding service termination.
 - 16 d. Inadequate in terms of managing the special needs of lower income and
17 low-income customers, such as the vulnerable elderly and disabled, in a
18 properly functioning CARES program.
 - 19 e. Inadequate in terms of promoting hardship fund contributions to increase
20 funding and availability to customers in need.
 - 21 f. Inadequate in failure to address the number of customers who have been
22 terminated before winter by refusal to restore service promptly to all
23 customers terminated for non-payment upon the customer's successful
24 application for a LIHEAP Crisis grant, and by refusal to make payment
25 agreements ever in these dire circumstances.
 - 26 g. Inadequate in the flawed method it uses to apply LIHEAP Cash grants
27 assigned to it by CRP customers.
- 28
29 3. In light of the number of low and lower income customers unable to restore
30 service before the start of winter, PGW has misused the discretion provided by
31 Chapter 14, resulting in unreasonable service.

- a. Unreasonable in reconnection terms, too often demanding upfront payment of the total outstanding balance from terminated customers.
- b. Unreasonable upfront payments and payment agreement terms for customers whose service is on.
- c. Unreasonable reconnection fee and charges.
- d. Unreasonable deposit requirements from Level I low-income applicants and customers.
- e. Inadequate procedures aimed at assisting customers to retain service, including customers with medical certifications.
- f. Unreasonable impediments to expansion of budget billing.

4. PGW's proposed changes to its Tariff:

- a. Are contrary to due process principles;
- b. Unreasonably deprive customers of a written statement of the Company's interpretation of the law; or
- c. Unreasonably deprive customers of certain consumer protections in the current Tariff.

III. TERMINATION OF SERVICE STATISTICS SHOW THAT PGW FAILS TO PROVIDE REASONABLY CONTINUOUS SERVICE

Q. Please summarize the PGW results of the Cold Weather Survey for 2006 and 2005.

A. In 2005² and 2006,³ PGW reported over 9,000 total households, for each year, who used gas to fuel a central heating source, who had been terminated during the calendar year, and who had not succeeded in obtaining restoration of service by December 1, the

² Cold Weather Survey, Form A, December 1, 2005, attached as Exhibit HSG-1.

³ Cold Weather Survey, Form A, December 1, 2006, attached as Exhibit HSG-2.

1 beginning of the Cold Weather period.⁴ These numbers do not include two categories of
2 account premises: those in which service was terminated during the course of the year
3 and subsequently vacated by the time of the survey and those households who had service
4 terminated during a prior calendar year and were never reconnected. Even with the
5 exclusion of these two categories, these numbers of households without heat are very
6 high by any standard. In 2005, the 9,015 PGW households without service represented
7 51% of all the natural gas heating customers state-wide who were without service.⁵ In
8 2006, the 9,298 PGW households without service represented 55% of all natural gas
9 heating customers state-wide who were without service.⁶ In contrast, PGW heating
10 customers represent a little less than 20% of all natural gas customers state-wide.⁷

11
12 Even more troubling, in both these years, almost half these households without service
13 were low income households, with incomes below 150% of the Federal Poverty Level
14 (FPL), and therefore eligible for LIHEAP Crisis grants (of up to \$600 in 2005-2006 and
15 up to \$400 in 2006-2007) payable to PGW to be used to assist them to make a payment
16 agreement and obtain restoration of service. In 2005, PGW reported that at least 5,391
17 low income heating customers did not have service as of December 1, 2005, 3,485 of
18 whom were customers who had been participating in PGW's CAP program, known as
19 CRP.⁸ In 2006, PGW reported that at least 4,747 of those heating customers without
20 service as of December 1 were low income heating customers, of which 3,023 were CRP
21 participants.⁹

22

⁴ In 2006, PGW terminated 36,951 residential customers (Exhibit HSG-1). In 2005, PGW terminated 40,663 residential customers. Pennsylvania Public Utility Commission, First Biennial Report to the General Assembly and the Governor Pursuant to Section 1415, Table 17. In 2005, PGW had the highest termination rate of any natural gas utility in the state.

⁵ Cold Weather Survey, Form A, December 1, 2005, attached as Exhibit HSG-1.

⁶ Cold Weather Survey, Form A, December 1, 2006, attached as Exhibit HSG-2.

⁷ These termination figures represent a substantial increase above 2004 (6,241) and the four year average for Pennsylvania 2000-2003 (4,722). Public Utility Commission First Biennial Report to the General Assembly and the Governor Pursuant to Section 1415, Table 25.

⁸ Cold Weather Survey, Form A, December 1, 2006, attached as Exhibit HSG-2.

⁹ Ibid.

1 As a point of comparison, PECO Energy, which provides electric service to
2 approximately 1.4 million customers, including all the residential customers in PGW's
3 service territory, reported only 53 customers without electric and/or natural gas heat-
4 related service as of December 1, 2005, and only 207 customers without heat-related
5 service as of December 1, 2006.

6
7 **Q. In light of these statistics concerning the numbers of PGW heating customers who**
8 **had service terminated and who, after termination, were not able to obtain**
9 **restoration of service, what is your conclusion concerning the reasonableness of**
10 **PGW service?**

11
12 **A.** This is a serious deficiency. Under the Public Utility Code, a public utility has a
13 fundamental duty to provide service that is "reasonably continuous and without
14 unreasonable interruptions or delay." This requirement extends not just to maintaining
15 the operating capacity to provide sufficient natural gas, electricity or water, but also to
16 assuring through its rules and procedures that utility service is reasonably available to all
17 customers. The Natural Gas Choice and Competition Act makes clear that natural gas
18 utilities have a duty to fulfill universal service requirements. Universal service is defined
19 in Section 2202 of the Act to include "policies, practices and services" that help
20 residential low-income customers to maintain gas service, and also that help non-low
21 income customers experiencing temporary emergencies maintain such service. These
22 universal service requirements are not merely theoretical. They are intended to obtain
23 objective results. A utility must adopt policies which give customers and applicants a
24 reasonable opportunity to maintain continuous service without unreasonable interruptions
25 or delays.

26
27 Chapter 14 did not provide a license for utilities to set aside the universal service
28 requirements contained in the Gas Choice Act or to escape the Public Utility Code
29 Section 1501 requirement that the utility provide "reasonably continuous service." As
30 the Commission recently stated in its order concerning review of Equitable Gas
31 Company's Universal Service and Energy Conservation Plan, utilities must implement

1 Chapter 14 in a manner which is consistent with the continuing requirements of Chapter
2 22 and Section 1501.¹⁰

3
4 I submit that the numbers of PGW customers terminated for non-payment who once
5 terminated, have been unable to obtain restoration of critical heat-related service at the
6 approach of winter demonstrate that PGW's service is unreasonable.

7
8 **IV. WEAKNESSES IN CRP, CARES AND PGW HARDSHIP FUND EXPOSE LOW**
9 **INCOME CUSTOMERS TO UNREASONABLE LOSS OF SERVICE**

10
11 **Q. What relevance do Universal Service issues have in this proceeding?**

12
13 **A.** PGW must show that it is providing adequate and reasonable service to its customers.
14 PGW's customers include an estimated 157,000 low-income households¹¹ in PGW's
15 service territory. At least 32% of PGW's customers are low-income.¹²

16
17 **Q. What does PGW state regarding its fulfillment of its Universal Service obligations?**

18
19 **A.** Randall Gyory, Vice President – Customer Affairs, and Cristina Coltro, Director of
20 Regulatory Compliance, testify that customer rights will not change in these proceedings
21 and that the low-income programs have been successful.

22
23 1. “Through [Universal Service] programs, PGW has been successful in keeping
24 thousands of low-income residents and seniors on the system, with safe and
25 affordable gas bills, while seeking to maximize individual contributions from

¹⁰ Equitable Gas Company's Universal Service and Energy Conservation Plan Submission Pursuant to 52 Pa. Code § 62.4, Docket No. M - 00061959 (Order entered December 21, 2006), at 9 (“In the Commission's judgment, the comments and reply comments raise a number of disputed factual issues regarding the design an operation of the company's universal service plan consistent with Section 1501 and Chapters 14 and 22 of the Public Utility Code”).

¹¹ 2005 Report on Universal Service Programs and Collections Performance, Pa. PUC, at 7-8.

¹² Ibid.

1 those customers, considering the economic realities in which they find
2 themselves.”¹³

3
4 2. “PGW began offering the Customer Assistance Referral and Evaluation Programs
5 (“CARES”) in September 2003. CARES is designed to help customers with
6 special needs, such as those who have recently experienced a family emergency,
7 divorce, unemployment, or a medical emergency.”¹⁴

8
9 3. “PGW is updating its tariff in this proceeding to make it consistent with the
10 current regulatory requirements.... These changes will not change any of our
11 present practices which, in my view, are consistent with the requirements of the
12 law.”¹⁵

13
14 **Q. Do you agree with PGW’s conclusions concerning the adequacy of its Universal
15 Service programs?**

16
17 **A.** No. Since adequacy and reasonableness of service to the vulnerable low-income
18 population in PGW’s service territory represent significant factors in determining
19 whether a base rate increase should be approved, PGW was correct to attempt to address
20 this issue. However, the statements PGW makes to support its conclusion are not
21 supported by its past actions nor the present petition for a base rate increase.

22
23 **Q. Please provide necessary background concerning PGW’s CAP Program, its CARES
24 Program and its Hardship Fund.**

25
26 **A.** *Customer Assistance Programs (CAPs):* CAPs are payment plans designed for low-
27 income customers. CAPs are intended to serve as an affordable alternative to the
28 traditional customer billing and collection process. The goal is to encourage regular

¹³ Testimony of Cristina Coltro, PGW St. 7, at 2-3.

¹⁴ Ibid at 8.

¹⁵ Testimony of Randall Gyory, PGW St. 6, at 13.

1 payment practices by customers by billing a monthly amount that is less than the standard
2 tariff. In Pennsylvania, the Commission has set Guidelines for the operation of CAPs and
3 the payment structure to be imposed. PGW's program is called the Customer
4 Responsibility Program ("CRP").

5
6 In addition, CAPs contain an arrearage forgiveness component, in which obligations that
7 occurred prior to the date the customer entered the program and began to receive
8 affordable monthly bills, are forgiven over time as the customer demonstrates good
9 payment behavior by making full, timely payments in accord with the CAP Guidelines.
10 In the case of PGW's CRP, 1/36th of the customer's pre-CAP arrearage is forgiven at the
11 time of each timely monthly CAP payment. This arrearage forgiveness component is a
12 significant benefit of the program and, when understood by the customer, acts as an
13 incentive for the development of good payment practices.

14
15 *Customer Assistance Referral and Evaluation Program (CARES):* The Commission
16 requires utilities to have a CARES program to provide a casework approach to selected
17 customers who are experiencing difficulty in paying their bills. CARES is intended to
18 assist specific customers through direct customer interaction in a supportive manner. The
19 essential element of CARES is case management and referral when necessary after an
20 evaluation of the conditions which are causing the household payment difficulty.

21
22 *Hardship Funds:* Hardship Funds, often referred to as "fuel funds", are programs
23 designed to assist customers who may be receiving other assistance, such as LIHEAP
24 grants, but continue to have difficulty paying their bills and are either without or about to
25 lose service. Hardship Funds are generally obtained through a combination of customer
26 and business charitable contributions obtained through solicitation, and donated to a non-
27 profit organization designated to administer and distribute the funds to the payment
28 troubled applicants. The utility companies match these donations and pay the
29 administrative costs of the non-profit organization. PGW provides hardship funds
30 through the non-profit Utility Emergency Service Fund ("UESF"). (PGW St. 7, at 8).

1 Inadequate CRP Enrollment, Education and Termination Avoidance

2
3 **Q. You have emphasized the unacceptably high levels of customers terminated for non-**
4 **payment who have been unable to obtain restoration of service by the beginning of**
5 **December. What are the implications of these statistics for your assessment of the**
6 **adequacy of PGW's CRP, CARES and Hardship Funds?**

7
8 **A.** PGW does not know the income levels of all of those customers, but the Company does
9 know that over one-half are low-income and that many are CRP customers. On the most
10 general level, PGW must increase its CRP enrollment. At a CRP participation level of
11 76,000, PGW currently enrolls only about half of its 153,000 confirmed low income
12 customers.¹⁶ One way to assure that fewer households terminated for non-payment are
13 without service at the approach of winter is to enlarge the numbers receiving more
14 affordable bills and thereby avoiding termination in the first place.

15
16 **Q. Does PGW adequately inform low-income customers of the availability of CRP?**

17
18 **A.** No. Based on the enrollment level and the numbers of terminated customers without
19 service at the onset of the cold weather season, PGW does not take full advantage of the
20 many opportunities that it has through customer contacts, bills and written notices to
21 inform and educate applicants and customers about the availability and the significant
22 benefits of the CRP Program. New applicants for service should be surveyed for CRP
23 eligibility or at least provided with CRP information, so that the first time they hear about
24 PGW's discount bill program is in a proactive manner and not through the termination
25 process.

26
27 The CAP Policy Statement states that the utility "should make automatic referrals to CAP
28 when a low-income customer calls to make payment arrangements" (52 Pa. Code
29 69.265(6)(i)). However, PGW procedures fall far short of implementing this policy.

¹⁶ PGW Responses to Interrogatories AA-II-16 and AA-II-31, attached as Exhibit HSG-3 and HSG-4, respectively.

1 When a customer calls PGW for assistance or to negotiate terms to prevent service
2 termination or reconnect service, PGW's customer service representatives (CSRs) should
3 be trained to ensure customers are enrolled in the CRP program if eligible. Instead, the
4 "PGW Payment Arrangement Guidelines," the basic reference for PGW, instructs CSRs
5 that they must ask first for the full amount due.¹⁷

6
7 PGW's pre-termination shut-off notices should make clear and specific reference to a
8 "discount bill program" instead of a vague "special assistance program." PGW's pre-
9 and post-termination notices were provided in response to Interrogatory AA-1-14, and are
10 attached as Exhibit HSG-6.

11
12 PGW's post-termination notices which are used year around only make vague reference
13 to the "special assistance program" under the "winter shut-off provisions." In non-winter
14 seasons, a customer terminated for non-payment is not likely to read this section.

15
16 A low-income customer can obtain reconnection of service in some circumstances by just
17 enrolling in CRP and paying the reconnection fee,¹⁸ but PGW's post-termination notice
18 suggests that the overdue bill and security deposit must also be paid in all circumstances.
19 PGW should include a prominent message in all its pre-termination notices that the CRP
20 discount bill program is available for low-income customers and enrollment can prevent
21 termination. Post-termination notices should include the availability of the CRP discount
22 bill program and state that CRP-eligible customers can reconnect service without
23 payment of the overdue balance or a security deposit. Otherwise, these vulnerable
24 customers can be left without proper information about how to prevent termination or
25 obtain reconnection.

26
27 **Q. Does PGW provide CRP participants with information which would help to**
28 **incentivize timely payments, maximize arrearage forgiveness, and minimize service**

¹⁷ The chart entitled "PGW Payment Arrangement Guidelines," provided in PGW's Response to Interrogatory AA-I-19, is attached as Exhibit HSG-5 (After obtaining income level, "Ask for FULL AMOUNT first, and then negotiate your way down").

¹⁸ Exhibit HSG-5.

1 terminations?
2

3 A. No. The CAP Policy Statement provides that a “complete and thorough explanation of
4 the CAP components should be provided to participants” (52 Pa. Code § 69.265 (6)(iv)).
5 In order to build a strong CAP program, utilities must undertake a thorough, continuing
6 and repetitive educational process to ensure that CAP customers understand all the
7 benefits of timely CAP payments. PGW’s educational effort is inadequate. An
8 independent evaluation of the PGW CRP program found that customer service
9 representatives often omitted information about key CRP components such as arrearage
10 forgiveness.¹⁹ In terms of CRP program administration and procedures, the APPRISE
11 Report included recommendations that PGW provide additional training for
12 representatives, emphasizing that they educate CRP enrollees on arrearage forgiveness,
13 termination for lack of payment, LIHEAP, energy conservation, and make-up payment
14 required if they re-enroll in the CRP. APPRISE also recommended that PGW make
15 arrearage forgiveness received more prominent in the customer’s bill.²⁰
16

17 PGW’s CSRs should not miss any opportunity to educate new and existing CRP
18 customers about the benefits of arrearage forgiveness. For instance, the customer should
19 repeatedly be reminded that each time s/he pays the CRP in full and on time, s/he will
20 also receive X dollars in arrearage forgiveness. For large pre-program arrearages, the
21 monthly forgiveness could be greater than the CRP bill payment itself. PGW’s CRP bills
22 should clearly reflect how much arrearage forgiveness a customer is receiving each
23 month, which should act as a continuing incentive to keep up with timely payment of
24 CRP bills. When the customer receives no arrearage forgiveness in a particular month,
25 the next bill should plainly indicate that no forgiveness was provided because the
26 customer was in arrears.
27

28 Further, since recent changes in the law have limited the options of CRP participants,
29 PGW should provide effective education to its current CRP enrollees of their obligations.

¹⁹ PGW St. 7, Exh. CC-2, “APPRISE Report.”

²⁰ Ibid., pp. xv and 132-135.

1 For instance, PGW should be systematically informing all CRP customers that timely
2 payments are essential because payment agreements for CRP customers are not available.
3 This message should be repeated as part of 10-day shut-off notices provided to CRP
4 customers. CRP customers who fall behind on bills are at greater risk of being shut off
5 and taken off the CRP program. Once off the CRP program, the pre-program arrearages
6 come forward and become payable. A slight increase in income could make a customer
7 ineligible for CRP. Under the Commissions' current informal interpretations of Chapter
8 14, such a former-CRP customer may not be eligible for a payment agreement for these
9 CRP arrearages. A fully-informed CRP customer could prepare for such circumstances
10 and be incentivized to do his/her best to reduce pre-program arrearages through timely
11 CRP payments.

12
13 **Q. Under Chapter 14, the Commission is precluded from making Commission**
14 **established payment agreements for participants in PGW's CAP, the Customer**
15 **Responsibility Program (CRP). Do you believe that PGW has used its discretion**
16 **wisely with regard to CRP customers whose service has been terminated?**

17
18 **A.** No. As I indicated, PGW's policies have had the result that in each of the past two years,
19 over 3,000 CRP households terminated for non-payment were unable to obtain
20 restoration of service by the beginning of the cold weather season. PGW's policy has
21 been to require CRP households terminated for non-payment for the first time, to pay the
22 reconnection fee plus 1/24th of the total outstanding balance (which includes any
23 unforgiven pre-CRP arrearages). For at least one quarter of CRP participants, this
24 amount is clearly unaffordable, because their pre-CRP arrearages are above \$2000.²¹ For
25 the past two winters, PGW has followed a policy of refusing to restore service until the
26 customer has assembled the required amount, including a LIHEAP Crisis grant of \$300-
27 600 and any ancillary grants made available by the City of Philadelphia and by the state
28 government. PGW persisted in this policy despite its knowledge that there was
29 inadequate coordination between the various granting agencies, which delayed service

²¹ The APPRISE Report states for a treatment group of low income customers enrolling in CRP in 2003, 25% had pre-CRP arrearages between \$1000 and \$2000, and 25% had pre-CRP arrearages over \$2000. PGW St. 7, Exh. CC-2, APPRISE Report, at 30.

1 reconnection, if any, well into the winter. A more reasonable policy would have been for
2 PGW to reconnect service to these customers upon the Department of Public Welfare's
3 approval of the LIHEAP Crisis application, with the added requirement that the customer
4 apply for and assign to PGW other specified grants as they may become available.
5

6 As an alternative, CRP customers without service at the onset of winter should be given
7 one payment agreement to catch-up on CRP arrearages. Such payment arrangement
8 should allow the CRP customer to pay their CAP arrearages over twelve to twenty-four
9 months. The APPRISE Report showed that current CRP customers are not aware of the
10 requirements of the CRP program. The requirements should not be strictly enforced until
11 PGW has met its obligation to provide a "complete and thorough explanation" of the
12 CRP requirements. One payment agreement to current CRP customers to catch up on
13 CRP arrearages will provide the needed transition buffer to prevent many unfortunate
14 terminations due to lack of adequate information.
15

16 **Q. Do you have any other recommendations to address the high number of CRP**
17 **customers terminated for non-payment and still without service at the onset of**
18 **winter?**
19

20 **A.** Yes. I think that PGW could do more to avoid the necessity of terminating CRP
21 customers in the first place. One approach, already discussed, is to increase the numbers
22 of CRP customers who are incentivized through arrearage forgiveness to pay their bills in
23 full and on time. Another supplementary approach, beneficial to both PGW and to its
24 CRP customers, is to increase the number and the total amount of LIHEAP cash
25 assignments that PGW receives from CRP customers over existing levels while at the
26 same time providing those CRP customers who assign their LIHEAP cash grant with
27 protection from termination. One way to do this would be to adopt a policy of providing
28 greater flexibility concerning termination of service to CRP customers who have applied
29 for a LIHEAP cash grant and assigned it to PGW.
30

31 A flaw in PGW's CRP program is that a LIHEAP cash grant is not applied to the

1 individual customer's bill, but rather is treated as a credit to the general CRP fund, which
2 reduces the overall amount to be recovered through PGW's Universal Service Charge.
3 As a result, CRP customers often feel cheated, because they see no personal tangible
4 effect of their LIHEAP application.

5
6 Although CRP customers are required to apply for a LIHEAP cash grant and assign it to
7 PGW, they are excused from this requirement when they assign the grant to a secondary
8 heating source like PECO. Since PECO applies the LIHEAP cash grant directly to the
9 individual account and credits that account, the PECO customer sees a personal tangible
10 benefit not provided to a CRP participant. As a result, there is a disinclination to apply for
11 a LIHEAP cash grant and assign it to PGW. Therefore, the policy of providing no direct
12 personal positive result to a CRP participant for applying for a LIHEAP Cash grant and
13 assigning it to PGW reduces the totality of LIHEAP Cash Grants which PGW receives
14 and undermines the positive public relations and customer relationship the company is
15 attempting to develop within CRP.

16
17 PGW could turn this negative situation around and create a "win/win" situation which
18 would increase LIHEAP Cash assignments from CRP participants, eliminate CRP
19 customer perception of being deprived of the benefit of LIHEAP cash grants, and address
20 the problem it has with its high numbers of terminated customers. I recommend that
21 PGW create and publicize a CRP "LIHEAP Awards" component which provides
22 reasonable extensions of time and/or payment agreements for those CRP customers who
23 have assigned their LIHEAP cash grant to PGW. The CRP participant will receive a
24 tangible benefit, PGW will improve its LIHEAP cash grant receipts and public relations
25 image and CRP service termination levels will be reduced.

26
27 Inadequate CARES Program

28
29 **Q. Does PGW have an adequate CARES Program?**

30
31 **A.** No. Compared to other CARES programs at other utilities in Pennsylvania, the PGW

1 CARES program is severely limited in scope. PGW's CARES program does not provide
2 the necessary support to low and lower income consumers. This is a serious deficiency
3 given the problems that many low and lower income households terminated for non-
4 payment experience when trying to obtain reconnection. The CARES program
5 component is intended to serve those CRP and non-CRP customers who require
6 additional assistance to maintain their utility service and to help address health and safety
7 concerns related to utility service. Anyone familiar with utility customer service
8 recognizes that there are certain customers, who due to mental or emotional problems,
9 household dynamics, physical health issues, low housing quality, and poverty are likely
10 to lose service unless a utility representative can actively assist them to deal with both
11 utility requirements and other social service agencies. This assistance may be in the form
12 of case evaluation and on-going management, social service referral, community agency
13 networking and training, and/or other services specifically designed to achieve the
14 customer's goal of affordably maintaining utility service. Although PGW's CARES
15 program purports to serve these functions in its written materials, it is strictly a referral
16 program.

17
18 PGW has no designated CARES staff. Supposedly all customer service representatives
19 do CARES work.²² In contrast, PECO Energy, Philadelphia's primary electricity
20 provider, has a CARES program staffed by three (3) full-time CARES workers, in
21 addition to other full-time Universal Services staff.

22
23 The Company's procedures provide for the tracking of CARES "Quick-Fix" case
24 referrals and "Case Management" case referrals.²³ However, the Company admits that it
25 does not track CARES referrals.²⁴ PGW's CARES brochure lists budget counseling as a
26 CARES service.²⁵ However, PGW does not provide formal budget counseling. The

²² PGW Responses to AA-I-9 and AA-I-10, attached as Exhibits HSG-7 and HSG-8, respectively.

²³ Universal Services Manual, pp. 60-61, from PGW Response to AA-I-1, excerpts attached as Exhibit HSG-9.

²⁴ PGW Response to AA-I-10, attached as Exhibit HSG-8.

²⁵ PGW Response to AA-I-9, attached as Exhibit HSG-7.

1 Company also claims in its literature that the CARES program provides protection from
2 service termination and short-term affordable payments based on "ability-to-pay,"²⁶ but it
3 admits that it does not actually provide such arrangements in practice.²⁷ The program
4 purports to give special consideration to those with special needs, but in discovery
5 responses, it is evident that the Company applies the same strict service termination
6 policies and payment agreement terms to all customers regardless of special needs.²⁸
7

8 Home visits by utility personnel are one component of a CARES program. They allow a
9 utility employee to meet with a customer in situations where the customer is unable to
10 come to a PGW office. PGW's Universal Services Manual acknowledges that home
11 visits are a necessary aspect of a CARES program.²⁹ The Company's CARES brochure
12 also makes reference to home visits.³⁰ The APPRISE Report states that PGW personnel
13 were completing about twenty (20) CRP applications per week by means of home visits
14 at some time in 2003.³¹ However, the emphasis in the Manual is on defining when a
15 home visit will not be provided rather than communicating a recognition that such visits
16 are necessary to fulfilling the CARES function. Moreover, in its proposed Tariff, PGW
17 has deleted a provision that explicitly allowed for home visits, in appropriate
18 circumstances.³²
19

20 **Q. What is your recommendation concerning CARES at PGW?**
21

22 **A.** I believe that utilities with high numbers of low and lower income customers cannot

²⁶ PGW Response to AA-I-1 and AA-I-9, attached as Exhibits HSG-9 and HSG-7, respectively.

²⁷ PGW Response to Interrogatory AA-III-4, attached as Exhibit HSG-10.

²⁸ PGW Responses to Interrogatories AA-III-4 and AA-I-19, attached as Exhibits HSG-10 and HSG-5, respectively.

²⁹ Universal Services Manual, pp. 59-61, from PGW Response to AA-I-1, excerpts attached as Exhibit HSG-9.

³⁰ PGW Response to AA-I-9, attached as Exhibit HSG-7.

³¹ PGW St. 7, Exh. CC-2, "APPRISE Report.," at 7.

³² Proposed Tariff Section 2, First Revised Page No. 18, Supplement 16.

1 provide adequate service without a strong CARES program. PGW does not have even a
2 foundation for such a program. The current system of "assigning" CARES work to all
3 customer service representatives is inadequate. I recommend that PGW start the process
4 of laying this foundation by creating at least 2 or 3 CARES representative positions by
5 January 1, 2008. PGW needs to create job descriptions, program philosophy and hiring
6 qualifications to insure that supervision and staff have a social services, helping
7 orientation. The focus of a CARES worker is different from that of most CSRs whose
8 primary function is credit and collections. Therefore, the unit supervisor should have a
9 social services degree or experience.

10
11 Inadequate Hardship Funds

12
13 **Q. Has PGW taken adequate steps to assure that low-income customers have access to**
14 **adequate levels of hardship funds?**

15
16 **A.** No. PGW's promotional efforts for UESF have been truly inadequate. During the 2002-
17 2006 period, the average annual total raised by PGW in contributions to the hardship
18 fund was only \$1632.³³ This amount represents the lowest total amount to hardship funds
19 compared to all the other regulated gas and electric utilities in the state, according to the
20 2005 PUC Report on Universal Service Programs and Collections Performance.³⁴ While
21 we commend PGW employees for contributing to UESF last year through a bowling
22 tournament and a book sale,³⁵ PGW could do much more among its customers to promote
23 UESF. Due to the size of its customer base, PGW has many customers capable of
24 making monthly contributions by means of a bill check-off. PGW currently includes
25 information about UESF in a bill insert only about 2 times a year.³⁶

26
³³ Contributions to UESF from PGW Employees and Customers, 2000-2006 (PGW Response to Interrogatory AA-I-12), attached as Exhibit HSG-11.

³⁴ Universal Service Reporting Requirements, 2005 Report,
http://www.puc.state.pa.us/general/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2005.pdf

³⁵ PGW Promotion of UESF (PGW Response to Interrogatory AA-I-13), attached as Exhibit HSG-12.

³⁶ Ibid.

1 Q. What are your recommendations in regard to UESF?

2
3 A. 1. Contributions check-off on bills: PGW should implement a contributions check-
4 off on each PGW bill for customers to sign up for UESF on all its bills. In
5 addition, a system needs to be in place for electronic direct-payment customers to
6 be able to have notice and access to the check-off.

7
8 2. Adjusting matching grants and maximum grants: Given the changing and
9 growing needs of PGW low income customers, grants must be higher than \$500
10 and the agreed PGW credit match must also be above \$500. Grants need to be
11 readjusted to a maximum of \$1,000, which requires a PGW credit match of up to
12 \$500 to match the up to \$500 grant. PGW should work with UESF to raise the
13 limits for PGW customers.

14
15
16 V. **PGW'S MISUSE OF DISCRETION PROVIDED BY CHAPTER 14 CAUSES**
17 **UNREASONABLE LOSS OF SERVICE BY LOW AND LOWER INCOME**
18 **CUSTOMERS**

19
20 Q. **PGW claims that PGW follows Chapter 14 guidelines for payment agreements,**
21 **reconnection agreements, termination procedures, and deposits. It therefore implies**
22 **that its collections practices satisfy any requirement that service be reasonably**
23 **continuous. Do you agree that collection practices which comply with Chapter 14**
24 **are necessarily reasonable?**

25
26 A. No. First, I do not think that PGW's policies are fully compliant with Chapter 14, but I
27 recognize that many Chapter 14 interpretive issues have not yet been fully resolved.
28 However, even if PGW's actions are facially consistent with Chapter 14, I submit that, as
29 it concerns low and lower income customers, it is unreasonably and unacceptably
30 utilizing the discretion entrusted to it by the legislature.

31

1 **Q. Please explain.**

2
3 **A.** It is important to remember the stated intent of Chapter 14 was to “achieve greater equity
4 by eliminating opportunities for customers capable of paying to avoid the timely payment
5 of public utility bills.” (Section 1403). The General Assembly explicitly affirmed its
6 intent to “ensure that service remains available to all customers on reasonable terms and
7 conditions.” Greater opportunity for, attention to, and ease of collection from those
8 customers with the ability to pay never meant that low-income consumers without the
9 ability to pay would suffer increased levels of service termination. Specifically in regard
10 to PGW, the legislature sought to assure that PGW would provide natural gas “for the
11 benefit of the residents of the city,” not just those residents who are capable of always
12 paying their bills in full and on time. As the Commission recognized in its recent
13 decision concerning Equitable Gas Company’s universal service plan, a utility must
14 implement Chapter 14 in a manner which does not nullify the obligations to provide
15 reasonably continuous service to all, as required by Section 1501 and Chapter 22 of the
16 Public Utility Code.³⁷

17
18 **Q. Getting down to specifics, has PGW’s approach to Chapter 14 implementation been**
19 **reasonable?**

20
21 **A.** No. With regard to low and lower income customers, PGW’s service has not been
22 reasonable, as demonstrated in the numbers of service terminations and especially, the
23 numbers of terminated customers who have been unable to restore heat related service at
24 the approach of winter. There are many areas in which Chapter 14 provides PGW with
25 increased collection tools in order to receive greater collections from those with the
26 ability to pay. In the areas of payment agreements for customers receiving service but
27 threatened with termination, Chapter 14 allows utilities to limit the number of payment
28 agreements to be granted, without fear of being overruled by BCS. For customers whose
29 service has been terminated, Chapter 14 allows utilities in many cases to demand the total

³⁷ Equitable Gas Company’s Universal Service and Energy Conservation Plan Submission Pursuant to 52 Pa. Code § 62.4, Docket No. M - 00061959 (Order entered December 21, 2006), at 9.

1 outstanding balance as a condition of reconnection, and in other cases, to impose
2 conditions on service reconnection agreements which would be unaffordable for many.
3 However, importantly, while allowing utilities a much broader range of discretion, and
4 cutting back on the authority of BCS to intervene, Chapter 14 does not release a utility
5 from doing all it can to reduce termination of service among those without the ability to
6 pay and from the obligation to act in a manner which assures reasonable continuity of
7 service to all customers. In many areas, it is clear that PGW is systematically misusing
8 the discretion which the Act provides.

9
10 Barriers To Reconnection

11
12 *Total Outstanding Balance From Customers as a Condition of Reconnection.*

13
14 **Q. Have you reviewed PGW's policies regarding customers whose service has been**
15 **terminated for non-payment?**

16
17 **A.** Yes. I believe that PGW is misusing the discretion granted by Chapter 14 by imposing
18 patently unaffordable reconnection terms on many low and lower customers terminated
19 for non-payment. When PGW reconnection terms are unaffordable, as they often are,
20 these demands are bound to have an effect on the number of heating customers
21 terminated for non-payment who have been unable to obtain reconnection. Evidence of
22 this effect is particularly strong at the approach of cold weather. Few customers want,
23 after all, to be without a central heating source in their homes in cold weather. When
24 service is not restored, it is not a question of refusal or unwillingness to pay, but of
25 inability to pay.

26
27 **Q. Please explain.**

28
29 **A.** Although many contested areas of Chapter 14 interpretation have not yet been resolved
30 by the Commission or the courts, there can be no doubt that Chapter 14 broadened the
31 scope of utility discretion concerning termination of service and the terms for

1 reconnection of service for customers and applicants whose service had been
2 disconnected for non-payment.³⁸ Chapter 14 authorizes a utility to require a customer or
3 applicant terminated for non-payment who has “defaulted” on more than one payment
4 agreement to pay upfront the total outstanding balance as a pre-condition of reconnection.
5 For participants in low income programs, Chapter 14 bars the Commission from
6 establishing a payment agreement necessary to catch up on payments, avoid service
7 termination and achieve reconnection. Low and lower income Level 1 and Level 2
8 customers in this situation may thus be denied service until they make full payment of the
9 total outstanding balance, pay PGW’s high reconnection fee, and pay a deposit
10 installment equal to one month’s estimated budget bill. In comparison with the pre-
11 Chapter 14 period, most customers whose service has been terminated for non-payment
12 have been less able, due to Chapter 14 limitations, to obtain relief from these conditions
13 by means of an appeal to the Commission’s Bureau of Consumer Services. PGW’s
14 interpretation of Chapter 14 and its use of discretion is now critical to the maintenance
15 and reconnection of service to the low-income.

16
17 **Q. PGW justifies its collection policies by stating that it is only following Chapter 14**
18 **“guidelines.” Is this a valid justification?**

- 19
20 **A.** No. First, even if PGW’s policies regarding reconnection terms are not specifically
21 prohibited by Chapter 14, they are not reasonable if they result in:
- 22 a. the existing high levels of terminations of low and lower income households,
 - 23 b. the inability of low-income households to afford to reconnect to service; and
 - 24 c. the high numbers of low income households without heat related service at the
25 approach of cold weather during the past two years.
- 26

³⁸ Important examples of the expanded discretion granted by Chapter 14 to utilities with regard to customers terminated for non-payment concern the permission provided to utilities to impose short repayment periods for reconnection agreements. For instance, with regard to Level 2 non-CAP customers (lower income customers with household income in the 150-250% FPL range), a utility may require that the total outstanding balance be paid in not more than 12 monthly installments. For Level 1 customers, low-income customers who would not benefit from PGW’s CRP program, PGW may require full payment of the outstanding balance within 24 months. These standards are harsh, by comparison with the Chapter 14 standards for Commission ordered payment agreements for customers whose service has not been terminated.

1 Second, PGW has taken advantage of the unresolved status of Chapter 14 interpretation
2 in many areas to impose overreaching Chapter 14 interpretations which aggravate further
3 its ongoing misuse of the expanded discretion actually provided by Chapter 14.
4

5 **Q. Please give examples.**

6
7 **A.** First and foremost, the provisions of Chapter 14 are intended to increase collection from
8 those able to pay for utility service but who do not. Chapter 14 is not intended to increase
9 collection activity which results in service termination of the low and lower income.
10 PGW's policies need to reflect this.
11

12 One important example is the way PGW interprets the phrase "defaulted on two or more
13 payment agreements" in Chapter 14 Section 1407. PGW has adopted a position which
14 unreasonably increases the number of low and lower income terminated customers who
15 are deemed to have "defaulted" on more than one payment agreement. According to
16 PGW, a customer who is on a payment agreement, and falls two payments past due is
17 deemed to have "defaulted" on a payment agreement, even if the customer subsequently
18 cured the default prior to service termination.³⁹ In my view, in light of the Commission's
19 recognition that a customer who has defaulted on a payment agreement may prevent
20 termination by curing that default prior to termination, a more reasonable interpretation
21 of applying Chapter 14 to low and lower income households would acknowledge that a
22 payment agreement default that has been cured prior to termination is not to be
23 considered a "default" for the purposes of determining whether a customer who has been
24 terminated may be required to pay the total outstanding balance as a condition of
25 reconnection. Consider PGW's present policy for a customer who is on a twenty-four
26 month payment agreement. That customer might become two payments past due, in
27 months 5 and 6, but then might cure his/her default without termination – and then
28 several months later, after making timely payments, might default again and be
29 terminated. Under PGW's present policy, that customer would be required to pay the

³⁹ PGW Response to Interrogatory AA-1-18, attached as Exhibit HSG-13.

1 total outstanding balance as a pre-condition of reconnection, because the cured default in
2 months 5 and 6 would still be counted against the customer.

3
4 A second important example is the way that PGW has interpreted the term “payment
5 agreement” in the same phrase in Chapter 14 Section 1407. PGW has adopted a position
6 which unreasonably increases the number of low and lower income customers terminated
7 for non-payment who are deemed to have defaulted on “two or more payment
8 agreements.” According to PGW, a person who has been on CRP and has been
9 terminated for non-payment is deemed to have defaulted on a payment agreement for
10 reconnection purposes.⁴⁰ Under Chapter 14, in which both “Customer Assistance
11 Program” and “payment agreement” are defined terms, it seems clear that a CAP is not a
12 “payment agreement” for any purpose, including determining reconnection terms.

13
14 Under PGW’s interpretation, former CRP Level 1 customers and former CRP Level 2
15 customers, both with a previous service termination or terminations while participating in
16 CRP, are likely to be required to pay the total outstanding balance as a condition of
17 reconnection. CRP customers often have pre-CRP outstanding balances and a history of
18 defaults on payment agreements before they entered CRP. They also often have pre-CRP
19 arrearages that can be in the thousands of dollars.⁴¹ When CRP customers’ income rises
20 nearer to the upper limit 150% FPL, they are likely to go off CRP, because they no longer
21 benefit from it, or if their income rises above 150% FPL, they are no longer income
22 eligible for CRP. Such low income customers then must confront a monthly bill which
23 includes the unforgiven part of their pre-CRP arrearage, as well as any other arrearages.
24 Given their prior history, any instance in which they suffered a service termination when
25 under CRP counts, in addition to pre-CRP payment agreement defaults, as a default
26 precluding the customer from obtaining reconnection for less than upfront payment of the
27 total outstanding balance.

⁴⁰ PGW Response to Interrogatory AA-I-17, attached as Exhibit HSG-14.

⁴¹ Although one aspect of CRP provides for forgiveness of the customer’s pre-CRP arrearage over a three year period, CRP customers often do not obtain even that forgiveness because they are unable to pay their CRP bill in full and on time month after month. Whenever they are carrying any arrearage on their CRP current charges, they do not receive the monthly forgiveness they would otherwise receive if they were current.

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Q. Aside from these examples, have you identified any other PGW policies which are likely to increase the number of payment agreement defaults of the low and lower income – with the ultimate result that a customer terminated for non-payment will be required to pay the total outstanding balance as a condition of reconnection?

A. Yes. Overall, in its payment agreement policies, PGW has placed much more emphasis upon obtaining agreements for the maximum amounts of payment on arrearages in the shortest time periods, rather than upon making a concerted effort to assure that a payment agreement is affordable for and sustainable by the low and lower income customer. The most dramatic example of this attitude is the situation where a customer whose service is on agrees to make an up-front payment as part of a payment agreement, and then fails to make that payment. PGW counts that failure as a defaulted payment agreement.

Q. Do you think that the standards and procedures that PGW uses in order to make payment agreements with customers whose service is on is likely to maximize the number of successful agreements?

A. No. This deficiency is important because prior payment agreement defaults directly impact whether a low or lower income customer whose service has been terminated for non-payment will be required to pay the total outstanding balance as a pre-condition of reconnection. PGW claims that 90% of its payment agreements are broken within 12 months of the time they are made. Although this precise claim has not to my knowledge been adequately substantiated, I believe that PGW's standards and procedures need improvement with the goal of more frequently achieving agreements that a customer has a reasonable chance of keeping. I highlight here only some features of PGW's current standards and procedures which unduly hinder customers in their efforts to maintain their payment agreements.

Q. Please identify some of these current standards and procedures.

1 A. I offer the following for consideration:

2
3 1. PGW states that when there is a first contact between PGW and a low or lower
4 income customer without an active payment agreement about an arrearage or a pending
5 service termination, PGW first asks for the total outstanding balance. If the customer
6 says that he/she can not pay that amount, a negotiation follows. The problem is that a
7 customer who is anxious about a pending termination is usually more interested in
8 avoiding the most immediate threat – termination of service, with the increased costs that
9 go with reconnection – than in making a realistic assessment of what can be afforded on a
10 monthly basis going forward. In addition, the customer is without any knowledge of
11 PGW’s standards and may offer more than PGW would actually have required.

12
13 2. PGW customer service representatives utilize a detailed chart entitled “PGW
14 Payment Arrangement Guidelines” which sets forth minimum payment agreement
15 requirements for customers according to the various household income levels.⁴²
16 Although the Commission has made clear that utilities must consider the Chapter 56.97
17 individualized factors including the “ability of the ratepayer to pay” which go beyond
18 simply “household income level,” in making a payment agreement, the PGW Guidelines
19 are exclusively quantitative, and do not communicate an intention by PGW to attempt to
20 assure to the extent possible that the payment agreement is one that the low or lower
21 income customer can afford to make.⁴³

22
23 3. The PGW Payment Arrangement Guidelines require minimum upfront payments
24 of the following percentage of the outstanding bill from non-CRP customers: Level 1
25 (20%), Level 2A (40%), Level 2B (50%).⁴⁴ Thus, customers between 150%-250% FPL

⁴² PGW Response to Interrogatory AA-I-19, attached as Exhibit HSG-5.

⁴³ Chapter 56 Section 56.97 states that in making a payment arrangement: “The utility, through its employees, shall exercise good faith and fair judgment in attempting to enter a reasonable settlement or payment agreement or otherwise equitably to resolve the matter. Factors to be taken into account when attempting to enter into a reasonable settlement or payment agreement include the size of the unpaid balance, the ability of the ratepayer to pay, the payment history of the ratepayer and the length of time over which the bill accumulated.....”

1 are required to pay 40% to 50% of their arrearage up-front to avoid termination of
2 service. For low income and lower income customers, who do not have flexibility in their
3 household budgets, such potentially large upfront payments may achieve the immediate
4 goal of preventing termination, but at the cost of a default in the next few months, as
5 customers strive to pay other household expenses that they let slide in order to make the
6 upfront payments necessary to avoid termination.

7
8 It is to be noted that there is nothing in Chapter 14 that specifically authorizes utilities to
9 require that customers whose service is on and who are seeking a payment agreement pay
10 a substantial percentage of the outstanding balance upfront. In adopting its upfront
11 payment requirements, PGW may not draw on any standards of reasonableness set forth
12 in Chapter 14. Moreover, the Commission's interpretation of Chapter 14 Section 1407 is
13 precedent for the position that the failure of the General Assembly to mention upfront
14 payments for the payment agreements and/or reconnection agreements means that
15 utilities have not been granted the discretion to require such upfront payments.

16
17 4. The PGW Payment Arrangement Guidelines require minimum monthly payments
18 on arrears of \$40 monthly for Level 2A (150-200% FPL) and \$60 monthly for Level 2B
19 (201-250% FPL). Even though the Chapter 14 Section 1405 standards for BCS
20 established agreements provide a standard allowing twenty-four months over which a
21 customer may pay arrearages, PGW has determined to set monthly minimums, which,
22 especially when combined with substantial upfront payments, would result in a
23 requirement that the arrearage be paid off in less time than the General Assembly
24 determined to be reasonable. Here, as so often through its collection standards and
25 procedures, PGW appears to impose requirements without regard for their likely effect on
26 the ability of customers to comply with the payment agreement.

27
28 *Reconnection Fee*
29

⁴⁴ The PGW Payment Arrangement Guidelines divide customers by income levels in the same way as the current BCS Guidelines. However, BCS Level 2A (151-200% FPL) is called Level 2. BCS Level 2B (201-250% FPL) is called Level 3.

1 **Q. Discuss the impact of PGW's reconnection fee on the ability of customers to obtain**
2 **service reconnection.**

3
4 **A.** PGW's reconnection fee of \$123.23 is by far the largest for any gas utility in the state.
5 The average for the nine natural gas utilities is \$58.58, and the median is \$50.00.⁴⁵
6 Chapter 14 allows and PGW requires that the reconnection fee be paid upfront with other
7 charges as a condition of service reconnection. As Governor Rendell recognized in his
8 press conferences introducing the Pennsylvania Stay Warm Campaign in the fall of 2005,
9 utility reconnection fees represent an obstacle to reconnection of service. He urged
10 utilities to reduce or waive such fees, where heat-related service is involved and at the
11 approach of cold weather. At a time when a customer without service must pay an
12 upfront payment on arrears, as well as at least a portion of a deposit equal to twice the
13 estimated monthly bill, PGW's very large reconnection fee is an unwarranted impediment
14 to service reconnection.

15
16 **Q. Has PGW taken any steps to lessen the impact of the reconnection fee on customers'**
17 **access to service?**

18
19 **A.** No. It has taken no steps to reduce the charge and has maintained this charge in the
20 proposed Tariff for this proceeding. However, for Level 1 and Level 2 customers, a
21 charge in this amount is not reasonable. It is important to recall that CRP and CRP
22 eligible customers seeking service reconnection will be required to make monthly
23 payments which are at the upper limits of affordability under PUC affordability
24 standards. Level 1 customers who do not qualify for CRP, even though their household
25 income is below 150% of federal poverty, are still very low income, usually larger
26 households to clothe and feed. Even when PGW may not require payment of the total
27 outstanding balance upfront, PGW insists on recovering the total outstanding balance
28 from such households over the minimum period allowed by Chapter 14 – 24 months.
29 Under such circumstances, PGW's large reconnection fee is an added burden which can
30 hinder the household from tendering the upfront payment necessary for service

⁴⁵ Reconnection Fees of Pennsylvania Natural Gas Companies, attached as Exhibit HSG-15.

1 reconnection and/or from getting off on the right foot with full and timely payments on
2 any reconnection payment agreement. As for Level 2 households, between 150-250%
3 FPL, when requiring the full outstanding balance upfront is not permitted, PGW insists
4 on recovering the total outstanding balance over the minimum period allowed by Chapter
5 14 - only 12 months. These households, which include the working poor, are hard
6 pressed under Chapter 14 standards to pay the outstanding balance and/or to maintain
7 timely payments on reconnection agreements which would require arrearages to be paid
8 off within twelve months. Unduly large reconnection charges hinder the ability of low
9 and lower income customers to obtain service reconnection, and once service is
10 reconnected, to maintain their reconnection agreements. For that reason, I recommend
11 that PGW's reconnection fee be reduced to \$50.

12
13 **Q. Please comment on PGW's "dig-up charge."**

14
15 **A.** PGW charges a "dig-up charge" of \$372 in addition to the \$123.23 reconnection fee
16 when reconnecting previously terminated service, when the termination was
17 accomplished by a digging up the street, rather than shutting off service at the meter or at
18 a curb valve that is accessed outside the account premises. Between April 1 and
19 December 31, 2006, PGW performed about 1600 non-payment shut-offs by means of
20 digging up the street. PGW utilizes this method when no one is home at the time of
21 termination and the account premises are not equipped with a curb valve. PGW has not
22 provided a curb valve for over one half of its residential customers. PGW requires that
23 customers whose service has been terminated by a "dig-up" pay the \$372.00 up front as a
24 condition of reconnection. This is a charge which is unaffordable for low-income and
25 lower income customers, and a barrier to service reconnections. I recommend that PGW
26 waive the dig-up charge for Level 1 low-income customers and allow Level 2 customers
27 to pay the dig-up charge as part of the remaining balance to be paid in monthly
28 installments pursuant to the reconnection agreement.

29
30 **Q. Do you have other concerns related to reconnection of service to households which**
31 **are below 150% FPL?**

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A. Yes. PGW generally follows the schedule of deposits in installments which was suggested in the Commission's Advanced Notice of Proposed Rulemaking concerning the amendment of Chapter 56 to comply with the provisions of Chapter 14. However, in light of the high number of verified low income customers whose service has been terminated and who have been unable to obtain reconnection with the approach of winter, I believe that PGW should adjust its deposit requirements with regard to terminated Level 1 customers. Consistent with Chapter 14, PGW does not require deposits from CRP customers whose service has been terminated for non-payment or from terminated low income customers who are income eligible for CRP, who will benefit from CRP and who are enrolling in CRP at the time of reconnection. However, because PGW's CRP program is a percentage of income program, there are customers who due to large household size and relatively low usage level (or a combination of the two) have household income under 150% FPL, but who nonetheless would not benefit from CRP.⁴⁶

Given the fact that these households are as indisputably low income as other households who benefit from CRP, and that undue numbers of PGW households have a demonstrated financial inability to obtain service reconnection even with the approach of winter, it is unreasonable to require a deposit from Level 1 customers as a condition of service reconnection.

Barriers To Termination Avoidance

No Second Payment Agreements

Q. Your testimony has focused on issues related to reconnection of service for customers terminated for non-payment. Do you think that PGW has placed enough emphasis on adopting policies which enable customers to avoid service termination in the first place?

⁴⁶ An example would be a household of four persons with income of \$2500 per month. Ten percent (10%) of this household income, the CRP bill, would result in a monthly bill of \$250 or an annual bill of \$3,000 for gas service, well above the average amount that would be paid by a household not on CRP.

1
2 A. No. Due to its function as a basic necessity of life, utility service absolutely must be
3 continuous and not unreasonably interrupted. Needless to say, utility service
4 terminations can be the cause of death and injury to customers, and damage to property,
5 stemming from fires caused by the use of alternative unsafe heating sources like electric
6 space heaters and kerosene heaters. Absence of heat can pose a serious health risk to
7 frail, sick and disabled customers, especially the very young and the elderly. For that
8 reason, utilities should adopt all reasonable means to avoid service terminations. PGW's
9 actions do not appear to give sufficient weight to the policy considerations of avoiding
10 termination of low and lower income customers and the dangers inherent in service
11 terminations.

12
13 Q. **Please explain.**

14
15 A. PGW's Payment Arrangement Guidelines allow customers only one payment
16 agreement.⁴⁷ A customer who is under a payment agreement and has defaulted on that
17 agreement who calls PGW will be required to cure the default on the payment agreement
18 prior to service termination. PGW does not grant short extensions of time to customers
19 who may not be able to pay the required amount by the termination date, but could make
20 the payment even a few days later. Although the Payment Arrangement Guidelines
21 provide for the granting of a second or subsequent payment agreement when statutory
22 "Change of Income" requirements have been met, PGW does not track the numbers of
23 such second payment agreements that have been granted.⁴⁸ The same is true for
24 extensions based on a statutory "Significant Change in Circumstances" and a "Life
25 Event."⁴⁹

26
27 PGW maintains that in following this policy, it is in compliance with Chapter 14
28 Guidelines. However, Chapter 14 does not prohibit utilities from granting second or

⁴⁷ CRP customers are not allowed any payment agreements.

⁴⁸ PGW Response to Interrogatory AA-III-5, attached Exhibit HSG-16.

⁴⁹ PGW Responses to Interrogatories AA-III-6 and 7, attached as Exhibits HSG-17 and HSG-18, respectively.

1 subsequent payment agreements, rather than pushing forward with a service termination
2 expensive both for the Company and for the customer. In fact, Chapter 14 Section
3 1405(d) specifically states that a “utility may, at its discretion, enter into a second or
4 subsequent payment agreement with a customer.” In the General Assembly’s view, there
5 were circumstances in which a second utility established payment agreement was
6 reasonable, and the utility was to be trusted to identify those circumstances. There is no
7 room in PGW’s Payment Arrangement Guidelines for such an exercise of reasonable
8 discretion.

9
10 *Medical Emergency Policy*

11
12 **Q. Is PGW administering its medical certification program in a way that minimizes the**
13 **likelihood that households with medical emergencies will be able to avoid**
14 **termination?**

15
16 **A.** No. The Commission has traditionally recognized that utilities bear a special
17 responsibility to assist a customer household with a person who is seriously ill or has a
18 medical condition which will be aggravated by service termination. Under Chapter 56
19 Section 56.116, a customer who has obtained a suspension of service termination or a
20 service reconnection by means of a medical certification has an “obligation to equitably
21 arrange to make payment on all bills.” The purpose of an “equitable arrangement” is to
22 assure that sick, disabled and medically vulnerable customers are not endangered by a
23 service termination, regardless of what their arrearages might be and regardless of
24 whether they have defaulted on more than one payment agreement.

25
26 PGW, however, does not consider that the “equitable arrangement” requirement entails
27 anything more than a suspension of termination for the period of time not to exceed three
28 months, depending on the number of 30 day medical certifications that the customer has
29 already had.⁵⁰ PGW should, at a minimum, allow customers with medical certifications

⁵⁰ PGW Responses to Interrogatories AA-I-4 and 5, attached as Exhibits HSG-19 and HSG-20, respectively.

1 to maintain service or obtain reconnection regardless of whether they have exhausted
2 three monthly medical certifications, so long as they make monthly equitably arranged
3 payments on current bills. Such customers should automatically be referred to CARES,
4 which should provide ongoing case management, not merely referrals. As discussed in
5 the part of this testimony which deals with CARES, PGW has not given the attention to
6 sick, disabled and medically vulnerable that the “equitable arrangement” provision
7 requires.

8
9 *Budget Billing*

10
11 **Q. The Commission has strongly endorsed budget billing as a critical tool in assuring**
12 **the on-going affordability of utility service, especially heat-related or cooling-related**
13 **service, in which there are marked seasonal swings in consumption. Budget billing**
14 **helps customers to avoid the overwhelmingly unaffordable bills that can lead to**
15 **service termination. Has PGW taken the necessary steps to make budget billing**
16 **attractive to customers who are not required to participate in budget billing as part**
17 **of a payment agreement?**

18
19 **A.** No. Despite its name as the “Easy Way Budget Plan,” PGW’s budget billing program
20 does not appear to attract the number of customers that one would expect in a service
21 territory with so many low and lower income customers. PGW reports relatively few
22 participants in budget billing. PGW states that 215,000 or approximately one half of its
23 residential heating customers have trouble paying their monthly bill in full and on time.
24 If one subtracts from this figure the 75,000 low income customers who receive the
25 monthly levelized CRP bills, that leaves 140,000 customers who could benefit from
26 budget billing. However, as of July, 2006, PGW had approximately 34,000 customers on
27 budget billing.⁵¹ Of those 34,000 customers, 29,600 were participating in Commission
28 established or utility established payment agreements, where budget billing is

⁵¹ PGW Response to Interrogatory AA-I-43, attached as Exhibit HSG-21.

1 compulsory.⁵² In my view, PGW's budget billing policies are flawed, and these flaws
2 contribute to the low participation levels.

3
4 **Q. Please explain.**

5
6 **A.** PGW advertises the Easy Way Budget Plan as a plan that "can help average out your bills
7 over a 12-month period so you pay the same amount each month." It would appear that
8 the general view among PGW customers is that the promise of equal monthly bills is not
9 kept.

10
11 Advocates who talk with customers about PGW's budget billing program relate that it is
12 not uncommon for such customers to report having participated in budget billing in the
13 past, but to have discontinued budget billing at some point, with a negative impression.
14 Invariably, the reason given is that the budget billing program did not meet the
15 expectation of relatively uniform monthly bills. Rather, customers reported unexpectedly
16 receiving a bill or bills which were substantially greater than the bills received in
17 previous months.

18
19 This common complaint raises the question whether PGW has given sufficient
20 consideration to how to make budget billing more closely fulfill its promises.

21
22 **Q. Can you identify flaws in PGW's budget billing which could be corrected to make
23 the program more attractive?**

24
25 **A.** Yes. In its proposed Tariff, PGW has added the provision that "[t]he Company shall
26 review accounts at least once yearly to bill for actual usage, pursuant to a true-up bill."⁵³
27 This provision would authorize PGW in every twelve month period to issue a bill which
28 includes not only the normal budget amount, but a request for payment for any shortfall
29 that may have occurred when monthly billings over the previous twelve month period,

⁵² PGW Response to Interrogatory AA-II-33, attached as Exhibit HSG-22.

⁵³ Ibid.

1 even as adjusted, were less than the actual cost of gas service that was provided. While
2 PGW has deemed it necessary to assert its right to collect for previous unbilled gas
3 provided budget billing customers via a true-up, it makes no provision to accommodate
4 those customers who would receive a significant true-up bill.

5
6 **Q. Is this a significant problem?**

7
8 **A.** Yes. According to PGW, out of 34,000 budget billing customers in July, 2006, about one
9 half were underbilled in the prior twelve month period and therefore owed a true-up
10 amount.⁵⁴ The average true-up amount was \$165. Roughly speaking, that amount was
11 the equivalent of an average monthly bill for a typical heating customer. About 4300
12 customers had true-up amounts greater than \$200. For significant numbers of budget
13 billing customers, perhaps as many as one half, budget billing resulted in a large surprise
14 bill, exactly the thing that budget billing is supposed to avoid. This type of result has a
15 negative effect on the credibility of PGW's budget billing program, and will cause
16 customers who due to their limited and/or fixed incomes should be on budget billing to
17 shy away from the program, even at the risk of service termination.

18
19 **Q. Does PGW appear to be addressing this problem?**

20
21 **A.** No. In its June 1, 2006 Final Interpretative Order concerning budget billing, the PUC
22 opined that when the "annual true-up is 100% or more of the monthly billing amount, the
23 customer should be allowed to roll that amount into the next budget billing period for
24 payment over 12 months. We expect utilities to exercise good judgment in dealing with
25 these situations."⁵⁵ The Commission has stated that when the true-up is less than one
26 budget bill, "ordinarily, the customer should be given 3-6 months to pay off a true-up
27 amount." When the true-up amount is large, "100% or more of the monthly billing
28 amount, the customer should be allowed to roll that amount into the next budget billing

⁵⁴ PGW Response to Interrogatory AA-I-43, attached as Exhibit HSG-21.

⁵⁵ In re: Insuring Consistent Application of 52 Pa. Code § 56.12(7) Equal Monthly Billing, PUC Docket No. M - 00051925 (Final Interpretive Order, dated June 2, 2006).

1 period for payment over 12 months.”⁵⁶ In my view, PGW’s failure to take necessary
2 steps to avoid this unpleasant surprise billing is likely to deter customers from enrolling
3 in the program, and thereby protecting themselves from the development of arrearages
4 which all too often lead to service terminations. In addition, this policy can also be
5 expected to have a very negative effect on the vast majority of budget billing customers
6 who are under a payment agreement. For these customers, the monthly bill already
7 includes a payment on arrears, in addition to the current monthly payment. The demand
8 for a true-up amount in one lump sum in the amount of an additional budget bill or more
9 can be expected to force some customers into default on their payment agreements.⁵⁷

10
11 PGW justifies its failure to provide in its Tariff for payment of the true-up amount in
12 installments by stating that there is no “legal” requirement that it provide for such
13 installment payments. Although there may not be a legal requirement for such
14 installment payments, PGW’s policy is not reasonable.⁵⁸ I believe that PGW’s actions
15 deter customers from enrolling in PGW’s budget billing program, a program which helps
16 customers do avoid defaults, terminations and the difficulties and added costs associated
17 with obtaining service reconnection.

18
19 **Q. Have you identified any more barriers to enrollment in PGW’s Easy Way Budget**
20 **Plan?**

21
22 **A.** Yes. PGW imposes unnecessary barriers to enrollment into the Easy Way Budget Plan
23 on customers who have relatively small arrearages and are not on a payment agreement.
24 PGW’s policy is to require that a person seeking to enroll in budget billing be virtually
25 current on his or her bill. According to PGW parlance, if a customer has any unpaid
26 balance that is in the “30 day + bucket” (a balance outstanding more than thirty days after

⁵⁶ Ibid, at 18-19.

⁵⁷ I am aware that PGW may have allowed customers who protested the true-up bill to pay it off in a few installments. However, it is not good policy for PGW to persist in unreasonable conduct, and only back off when the customer complains. When budget billing results so often in a demand on 20 days notice for a supplemental payment equal to one month’s budget bill, the credibility of PGW’s “Easy Way Budget Plan” is bound to suffer.

⁵⁸ PGW Response to Interrogatory AA-1-43, attached as Exhibit HSG-21.

1 the billing date, or, in other words, more than ten days past due), that bill must be paid
2 before the customer may enroll, or the customer must make a payment agreement for that
3 amount, before the customer may enroll. This requirement represents a recent tightening
4 of PGW policies, which previously allowed entry into budget billing without the
5 requirement of a payment agreement so long as they did not have any outstanding
6 balance in the "60 day + bucket," or up to 40 days past due. PGW should do everything
7 that it reasonably can to enhance the attractiveness of budget billing. Rather than ask
8 customers to make a payment as a pre-condition of entry into budget billing, PGW should
9 be rolling bills up to 70 days past due into the monthly budget amount.

10
11 **VI. OBJECTIONS TO PROPOSED TARIFF REVISIONS**

12
13 **Q. PGW has submitted testimony in this filing that the Company has revised its**
14 **existing Tariff "to eliminate the recitation of rules and requirements which are**
15 **already set out in the law," and to reflect the on-going process of Act 201**
16 **interpretation by the Commission and the Courts. PGW St. 6, at 13. As a result,**
17 **PGW proposes to eliminate many existing provisions in its Tariff which govern**
18 **extensions of credit, payment agreements and service terminations. In PGW's view,**
19 **"[i]t is more helpful for the customer to know that a PGW billing and collection**
20 **policy is dictated by Act 201, the current version of Chapter 56, PUC/BCS formal**
21 **and informal decisions interpreting these legal rules, and any other legally binding**
22 **norm or requirement." Do you agree that all of the proposed changes are**
23 **appropriate?**

24
25 **A. No. In general, the changes would: (1) increase the instances in which PGW may claim**
26 **that a particular Company action is consistent with "applicable law" when it may not be;**
27 **(2) deprive the customer of the ability to see existing law governing customer service**
28 **regulations translated into discrete Tariff provisions by his/her utility company; or (3)**
29 **deprive customers of certain existing protections explicitly set forth in PGW's current**
30 **Tariff.**

1 Q. What proposed changes would have the effect of allowing PGW to claim that a
2 particular action is consistent with “applicable law” when it may not be?
3

4 A. The Definitions section of proposed Tariff contains a definition of “Applicable Law”
5 which is extremely broad.⁵⁹ The definition includes, as one might expect, the present and
6 future Public Utility Code, PUC regulations, legally binding decisions interpreting this
7 body of law and regulations.⁶⁰ However, the definition of Applicable Law also includes
8 “Company Policy” as amended from time to time. This is inappropriate for many
9 reasons.

10
11 First, under state law, an approved Tariff has the force of law. It has the force of law
12 because it is deemed to have been approved by the Commission. While PGW has
13 submitted a revised Tariff in this proceeding, it has not submitted even one, let alone all
14 its company policies for approval.

15
16 Second, even if PGW had submitted its present company policies for approval, and they
17 had been reviewed and approved by the Commission, that approval would not extend to
18 those policies as amended in the future.

19
20 Third, in discovery, PGW has clarified that Company Policy includes not only present
21 and future written policies, but even unwritten policies. When customers are denied
22 service, denied payment agreements, subjected to service terminations and denied
23 reconnections based on Company Policy never reviewed by the Commission and
24 sometimes never even reduced to writing, PGW has strayed very far not only from due
25 process, but from the rule of law itself.

26
27 Q. The Definitions section of the Tariff specifies that “Company Policy” shall be
28 “designed” in accordance with existing and future law and regulations and legally

⁵⁹ Proposed Tariff, Definitions, First Revised Page No. 10, Supplement No. 16.

⁶⁰ In addition, the definition includes existing and future “executive orders” and City ordinances. From our review, references to Applicable Law in the Tariff do not address any subjects over which the Mayor and/or City Council would have jurisdiction.

1 binding decisions of the PUC interpreting such law and regulations.⁶¹ Is this a
2 meaningful qualification?

3
4 A. Absolutely not. As written, the Tariff would confer presumptive legality on PGW
5 interpretations of existing law and regulations, without any prior PUC review. PGW
6 interpretations of the law are just that – interpretations– and should therefore not be
7 considered to have the force of law without prior PUC review and approval.

8
9 Q. Do you accept the Company's claim that the proposed substitution of a reference to
10 "Applicable Law" for specific, more detailed provisions in the proposed Tariff
11 revisions are intended to adjust for the ongoing process of Chapter 14
12 interpretation?

13
14 A. Not entirely. In at least one instance, PGW proposes to incorporate in its Tariff its own
15 interpretation of Chapter 14, which has been contested in the Chapter 14 Rulemaking. I
16 am referring to the definition of "Customer" and the related definition of "Tenant"
17 contained in the Definitions section of the Proposed Tariff. Chapter 14 defines a
18 "customer" to include in addition to the person primarily responsible for payment the
19 name of any adult occupant "Whose name appears on the mortgage, deed or lease of the
20 property for which the residential utility service is requested."⁶² In contrast, PGW
21 proposes to include in the definition of "customer" not only an adult occupant whose
22 name appears on a mortgage, deed or lease, but also "any adult occupant who is a tenant
23 in a Residential building (for which the residential utility service is provided) pursuant to
24 an oral agreement" (emphasis added). In Chapter 14, the term "customer" is critical,
25 because it impacts what classes of occupants can be held liable for a bill. It is not
26 reasonable for PGW to insert its self-serving interpretation of the term in its Tariff, which
27 will be a potential source of confusion if the Commission does not ultimately accept this
28 interpretation.

⁶¹ Proposed Tariff, Definitions, First Revised Page No. 11, Supplement No. 16.

⁶² 66 Pa.C.S. § 1403 ("Customer").

1
2 **Q. Section 8.3.B of the proposed Tariff, which addresses the terms of reconnection for**
3 **applicants or customers whose service has been terminated for unauthorized use,**
4 **has been amended to state that it shall be in the “sole discretion” of PGW to**
5 **determine whether “satisfactory assurance” has been given that “no damage or**
6 **unauthorized interference or diversion or use will be caused in the future.”⁶³ Is this**
7 **an appropriate amendment?**

8
9 **A. No. As PGW admits in discovery, the Commission ultimately has jurisdiction over**
10 **whether an applicant or customer seeking reconnection has provided the necessary**
11 **“satisfactory assurance.”⁶⁴ This provision is not an accurate interpretation of existing**
12 **law. A customer confronted with this amended Tariff provision might well conclude that**
13 **the words “sole discretion” mean that even the Commission has not been granted the**
14 **authority to review an adverse determination by PGW concerning what is necessary to**
15 **provide “satisfactory assurance.”**

16
17 **Q. The proposed Tariff contains several provisions making reference to “unauthorized**
18 **usage,” (Section 2.1.B), “unauthorized use” (Sections 6.1, 6.1.B), “unauthorized**
19 **...use” (Sections 8.3.A, 8.3.B) and “used Gas Service without PGW authorization”**
20 **(Section 2.4.B). For instance, Section 2.4.B of the proposed Tariff states that “PGW**
21 **may reject requests for Gas Service in accordance with any right set forth in**
22 **Applicable Law including but not limited to the failure to comply with the**
23 **application of this Tariff or if PGW can demonstrate that the Applicant has**
24 **tampered with the meter or other utility equipment or used Gas Service without**
25 **PGW authorization.”⁶⁵ Are these references to unauthorized use of gas sufficient to**
26 **provide an adequate description of PGW’s rights especially with regard to**
27 **residential customers?**

28

⁶³ Proposed Tariff Section 8.3.B, First Revised Page No. 44, Supplement 16.

⁶⁴ PGW Response to Interrogatory AA-I-41, attached as Exhibit HSG-23.

⁶⁵ Proposed Tariff Section 2.4.B, First Revised Page No. 18, Supplement 16.

1 A. No. When viewed in the context of the Commission’s residential customer service
2 Chapter 56 regulations and Commission interpretation of Chapter 14, PGW’s claim that it
3 has the right to reject an application for residential service on the grounds that the
4 applicant has “used Gas Service without PGW authorization” and to treat unauthorized
5 users as persons guilty of theft and/or fraud is misleading. The Commission has
6 consistently maintained, most recently in the Advanced Notice of Proposed Rulemaking
7 for the revision of Chapter 56 that public utilities must distinguish applicants/customers
8 who have engaged in unauthorized physical alterations of meters and supply equipment
9 (self-turn-on, meter tampering or meter bypass, all forms of unauthorized use) from
10 residential applicants who are “users without contract.” Such users without contract are
11 not subject to “immediate” termination without prior written notice and may not be
12 required to pay upfront the total amount that they owe and give assurances of no further
13 unauthorized use as a condition of receiving service.

14
15 If PGW’s Tariff interprets existing provisions in Chapter 56 and Chapter 14 concerning
16 the Company’s rights in the context of reconnection of applicants who are deemed
17 responsible for self turn-ons, meter tampering or meter bypass, it must also for the sake
18 of clarity specifically carve out an exception for users without contract. It would suffice
19 for PGW to incorporate in its Tariff the Chapter 56 provision that a residential occupant
20 who has “taken or accepted utility service without the knowledge or approval of the
21 utility” without self turn-on, meter tampering or meter bypass is not to be considered a
22 person who has “used Gas Service without PGW authorization” for the purposes of this
23 Tariff.

24
25 **Q. PGW’s current Tariff Section 2.4.E provides very specific requirements concerning**
26 **the written “notification of rejection,” setting forth what actions the applicant must**
27 **take and an itemization of payments which the customer must make in order to**
28 **obtain service. Proposed Section 2.4.C retains a written notice requirement, but**
29 **provides that the content of the notice shall be whatever is required by “Applicable**
30 **Law.”⁶⁶ Is this a reasonable amendment?**

⁶⁶ Proposed Tariff Section 2.4.C, First Revised Page No.19, Supplement 16.

1
2 A. No. PGW's existing notice requirement is more useful to applicants seeking service or
3 customers/applicants seeking service reconnection because it addresses the full range of
4 actions and payments which PGW is requiring in order for the applicant/customer to
5 obtain service. The existing PGW notice is important for customers, because it requires
6 PGW to set forth exactly what is required for service reconnection. Often, substantial
7 time will elapse between the initial application for service and the time when the
8 customer is able to meet all the requirements. Without the written notice, customers may
9 misunderstand or forget certain specific requirements. Or, also, when the customer
10 without a written notice reaches the point where he/she believes he can satisfy PGW's
11 requirements, he encounters what are or appear to be a different sum to be paid or actions
12 to be taken from what had originally been stated or understood. In my years of
13 experience talking with advocates for utility customers, there is universal agreement
14 concerning the importance for all concerned of a detailed written notice of rejection.

15
16 In addition, because PGW is a municipally owned utility, it has a constitutional
17 obligation to provide full written notice prior to terminating or denying service.
18

19 **Q. In its response to an Interrogatory on this issue, PGW contended that "Applicable**
20 **Law" as represented by Chapter 56 Section 56.36 basically serves the same interest,**
21 **by requiring a written notification of denial of credit.⁶⁷ Is this correct?**
22

23 A. No. The Section 56.36 notice focuses only on the issue of whether a deposit will be
24 required, the reasons for the deposit requirement, the amount of the deposit and the
25 schedule according to which the deposit must be paid. It does not address such issues as
26 the itemization of any outstanding balance. A copy of PGW's existing Residential Credit
27 Statement, which is required by the existing Tariff, is attached as Exhibit HSG-25. This
28 written notice is an important customer protection. Especially for a utility which
29 terminates service to such a large number of customers, and where so many

⁶⁷ PGW Response to Interrogatory AA-I-45, attached as Exhibit HSG-24.

1 customers/applicants are unable to easily obtain service reconnection, it is important to
2 maintain a notice requirement which makes it easier for applicants/customers to obtain
3 and/or reconnect service.
4

5 **Q. Section 8 of PGW's current Tariff addresses issues which arise where there has**
6 **been unauthorized use (self turn-on, meter tampering and meter by-pass), including**
7 **PGW's rights to refuse to provide service to a dwelling on the grounds there has**
8 **been a self-turn on, meter tampering or meter by-pass. Section 8.3.D, however,**
9 **provides the customer protection that "[t]he Company shall not refuse to provide**
10 **Gas Service to an Applicant who is not responsible for the damage or for the**
11 **unauthorized use of Gas." In the proposed Tariff, PGW proposes to delete Section**
12 **8.3.D.⁶⁸ Do you believe that this proposal is reasonable?**
13

14 **A.** No. This is another historical customer protection which assumes particular importance
15 for a utility in which so many customers whose service has been terminated experience
16 difficulty obtaining reconnection. PGW claims that this provision is not necessary
17 because "current law and regulations do not seek to hold innocent persons responsible for
18 tampering or theft. Thus, there is no change in the rights of customers as a result of this
19 revision."⁶⁹ While I agree that the right of "innocent" persons to receive service at an
20 address where unauthorized use has occurred is implicitly protected under the common
21 law obligation to serve, neither the Public Utility Code, Chapter 56 nor any Commission
22 or court decisions explicitly recognize this right. The existence of the right is therefore
23 made clearer, for PGW customers, by continuing to recognize it explicitly in the Tariff.
24

25 **Q. Proposed Sections 5.2.B, 5.5.A, 5.6.A state that PGW will comply with the state**
26 **USTRA (Utility Service Tenants' Rights Act) statute.⁷⁰ Please comment.**
27

⁶⁸ Proposed Tariff Section 8, First Revised Page No.44, Supplement 16.

⁶⁹ PGW Response to Interrogatory AA-I-47, attached as Exhibit HSG-26.

⁷⁰ Proposed Tariff Section 5, First Revised Page No.33, 35, Supplement 16.

1 A. PGW has conceded that as a public utility regulated by the PUC, the Company is no
2 longer subject to the Utility Services Tenants' Rights Act, 68 P.S. §§ 399.1 et seq., and is
3 now subject to the USTRA-type statute, Discontinuance of Service to Leased Premises,
4 66 Pa.C.S. §§ 1521 et seq.⁷¹ The proposed Tariff should be amended to reflect this
5 correction.

6
7 **Q. PGW's current Tariff Section 2.1.D addresses applicants with disabilities, providing**
8 **that "[a]ny Applicant for Gas Service who cannot complete his/her application by**
9 **telephone or mail, and for whom a personal visit to one of PGW's Customer Service**
10 **Centers is a severe hardship due to disability, may request that a PGW Customer**
11 **representative complete the application at the Applicant's residence."**⁷² **In the**
12 **proposed Tariff, PGW deletes this provision. Please comment.**

13
14 A. Elimination of the provision is not reasonable and not in the public interest. The
15 provision implicitly requires that a PGW customer representative make a home visit to
16 assist an applicant to complete an application for service in cases where there is severe
17 hardship, and the application can not be completed by telephone or by mail. This is the
18 type of individualized service that the Commission has recognized that utilities must
19 provide to the sick, infirm and vulnerable. Earlier in this testimony, I have addressed the
20 serious deficiencies of the CARES part of the Company's universal service obligations.
21 Such elimination is inconsistent with the Gas Choice Act which requires that the level of
22 universal service programs be maintained.

23
24 PGW's reasons for eliminating this provision are not convincing. It claims that since
25 PGW has an "established policy" concerning these home visits, nothing is lost by
26 eliminating it from the Tariff. However, at the same time, it states that other than the
27 Tariff, there is no legal obligation to maintain this policy. By eliminating it from the
28 Tariff, it would be free to "change" or "modify" the policy without having to obtain
29 Commission approval.

⁷¹ PGW Response to Interrogatory AA-I-48, attached as Exhibit HSG-27.

⁷² Proposed Tariff Section 2, First Revised Page No. 18, Supplement 16.

1
2 In fact, PGW does have a legal obligation to maintain the policy under the Gas Choice
3 Act and the universal service programs required under the Act. For the Commission to
4 authorize PGW to remove this provision from its Tariff is to move in the wrong direction,
5 at a time when PGW should be taking steps to strengthen its woefully weak CARES
6 program.

7
8
9 **VII. CONCLUSION**

10
11 **Q. What are your recommendations?**

12
13 **A.** The high annual numbers of low and lower income service-terminated PGW customers as
14 well as the high number of those without heat related service at the approach of winter
15 demonstrates the inadequacies of the Company's universal service programs.

16
17 Moreover, PGW has failed to use the inherent discretion provided within Chapter 14 to
18 create meaningful policy distinctions between those customers with the ability to pay and
19 low-income customers without the ability to pay. Specifically:

- 20
21 a) PGW's policies impose unrealistic payment terms for low and lower income
22 customers currently receiving service. Because they are unrealistic, the payment
23 terms are likely to be broken, and lead to high levels of service termination;
- 24 b) PGW's policies impose and maintain barriers to reconnection which, for many
25 low and lower income households, have placed service reconnection beyond their
26 financial reach; and
- 27 c) PGW's policies maximize upfront payment for payment agreements and
28 reconnection agreements and minimize the length of these agreements without
29 serious regard for a household's actual ability to pay.
- 30

1 In this testimony, I have identified multiple inter-related areas where a comprehensive
2 reassessment of PGW collection policies and practices is needed. In addition, in the
3 course of preparing this testimony, I have identified a limited number of specific
4 measures which I recommend that PGW take immediately. Relief granted in this
5 proceeding should be specifically conditioned upon adoption of the following
6 recommendations:

- 7
- 8 1. Reduce reconnection fee to \$50 for all customers/applicants with adult household
9 income at or below 250% FPL.; eliminate required payment of the \$372 "dig-up"
10 charge for customers/applicants with adult household income at or below 150%
11 FPL; allow customers/applicants with adult household income between 150%-
12 250% FPL to pay the "dig-up" charge as part of remaining outstanding balance to
13 be paid under the reconnection agreement.
- 14
- 15 2. Reconnect service to CRP customers terminated for non-payment upon DPW
16 acceptance of the LIHEAP Crisis grant.
- 17
- 18 3. Create a "LIHEAP Awards" component within CRP to maximize the receipt of
19 LIHEAP Cash grants, minimize customer ill-will and reduce the level of CRP
20 terminations.
- 21
- 22 4. Eliminate the deposit requirement for Level 1 non-CRP customers terminated for
23 non-payment who seek reconnection of service.
- 24
- 25 5. Do not count a prior "default" on CRP as a default for the purposes of
26 determining payment agreement terms for a former CRP customer whose service
27 is on, or reconnection terms for a former CRP customer terminated for non-
28 payment.
- 29
- 30 6. Allow customers who obtain a medical certification to maintain service regardless
31 of whether they have exhausted 3 monthly medical certifications so long as they

1 make equitable monthly payments on current bills. Automatically assign such
2 customers to CARES for on-going case management.

3
4 7. Accept new applicants for Budget Billing who have arrearages in the "0-30 day
5 bucket, the 30-60 day bucket or the 60-90 day bucket without requiring an upfront
6 payment or a payment agreement. The pre-Budget Billing arrearage should be
7 rolled into the Budget Bill and not counted as a payment agreement for Chapter
8 14 purposes.

9
10 8. Automatically allow Budget Billing customers who owe a "true-up" amount to
11 pay this amount in 6 equal monthly installments. Automatically allow Budget
12 Billing customers who owe a "true-up" amount equal or greater than the budget
13 bill to have that amount automatically rolled over for payment in 12 equal
14 installments over the next budget billing year.

15
16 9. Accept the recommendations contained in Section VI of this Testimony
17 concerning PGW's proposed Tariff revisions.

18
19 **Q. Does this conclude your testimony?**

20
21 **A. Yes.**

EXHIBITS HSG-1 through HSG-27

| | | |
|---------------|--|------|
| HSG-1 | Cold Weather Survey, Form A, December 1, 2005 | P.1 |
| HSG-2 | Cold Weather Survey, Form A, December 1, 2006 (PGW Response to Interrogatory AA-II-1) | P.3 |
| HSG-3 | Number of Confirmed Low-income PGW Customers (PGW Response to Interrogatory AA-II-16) | P.6 |
| HSG-4 | Number of CRP Participants (PGW Response to Interrogatory AA-II-31) | P.7 |
| HSG-5 | PGW Payment Arrangement Guidelines (PGW Response to Interrogatory AA-I-19) (3 pages total, poster reduced on 1st page then enlarged on following 2 pages) | P.8 |
| HSG-6 | PGW Pre- and Post-Termination Notices (PGW Response to Interrogatory AA-I-14) | P.11 |
| HSG-7 | PGW CARES Brochure (PGW Response to Interrogatory AA-I-9) | P.18 |
| HSG-8 | No Dedicated CARES Staff ((PGW Response to Interrogatory AA-I-10) | P.20 |
| HSG-9 | Universal Services Manual, pp. 59-61, (from PGW Response to AA-I-1) | P.22 |
| HSG-10 | No CARES “Short Term Affordable Payments Based on Ability to Pay” (PGW Response to Interrogatory AA-III-4) | P.25 |
| HSG-11 | Contributions to UESF from PGW Employees and Customers, 2000-2006 (PGW Response to Interrogatory AA-I-12) | P.26 |
| HSG-12 | PGW Promotion of UESF (PGW Response to Interrogatory AA-I-13) | P.27 |
| HSG-13 | Broken Payment Agreements Counting Against Future Eligibility for a Payment Agreement to Restore Service (PGW Response to Interrogatory AA-I-18) | P.28 |
| HSG-14 | A Broken CRP Agreement, Broken Payment Arrangement (PGW Response to Interrogatory AA-I-17) | P.29 |
| HSG-15 | Reconnection Fees of Pennsylvania Natural Gas Companies | P.30 |

EXHIBITS HSG-1 through HSG-27

| | | |
|---------------|---|------|
| HSG-16 | “Change in Income,” No Information Available (PGW Response to Interrogatory AA-III-5) | P.32 |
| HSG-17 | “Significant Change in Circumstances,” No Information Available (PGW Response to Interrogatory AA-III-6) | P.33 |
| HSG-18 | “Life Events,” No Information Available (PGW Response to Interrogatory AA-III-7) | P.34 |
| HSG-19 | No Equitable Arrangement, CRP Medical Certifications (PGW Response to Interrogatory AA-I-4) | P.35 |
| HSG-20 | No Equitable Arrangement , Non-CRP Medical Certifications (PGW Response to Interrogatory AA-I-5) | P.36 |
| HSG-21 | Budget Billing, True-Up Billing (PGW Response to Interrogatory AA-I-43) | P.37 |
| HSG-22 | Universal Service Reporting Requirements, 2006 (PGW Response to Interrogatory AA-II-33) | P.39 |
| HSG-23 | “PGW’s Sole Discretion” and “Satisfactory Assurance” (PGW Response to Interrogatory AA-I-41) | P.53 |
| HSG-24 | PGW Tariff Section 2.4.C, Discussion (PGW Response to Interrogatory AA-I-45) | P.54 |
| HSG-25 | Residential Credit Statement | P.55 |
| HSG-26 | PGW Tariff Section 8.3.D, Discussion (PGW Response to Interrogatory AA-I-47) | P.56 |
| HSG-27 | USTRA-Type Statute (PGW Response to Interrogatory AA-I-48) | P.57 |

*2005 Cold Weather Survey
The Pennsylvania Public Utility Commission
Bureau of Consumer Services*

1. 40,663 Number of heat-related residential properties terminated between 1/1/05 and 11/30/05.
2. 15,798 Number of heat-related residential properties to be surveyed. (Those that your records show as not reconnected).

Survey Results

Place each of the properties from Item #2 above into one of the following categories:

- A. 1,438 Number of vacant premises (reasonably sure).
- B. 5,309 Number of accounts where contact was made and service was reconnected with a payment/settlement agreement, or where service was connected in a new name.
- C. 36 Number of accounts where unauthorized use was discovered. No payment agreement established, service will remain on (with or without contact).
- D. 6,256 Number of accounts where no contact was made and premises appear to be occupied.
- 2,716 (i) Number of accounts identified as non low income customers or income is unknown.
- 1,296 (ii) Number of these accounts identified as low income customers.
- 2,244 (iii) Number of these accounts identified as CAP customers who defaulted on their agreement.
- E. 2,759 Number of heat-related premises that are occupied and the regulated utility service has not been reconnected.
- 908 (i) Number of accounts identified as non low income customers or income is unknown.
- 610 (ii) Number of these accounts identified as low income customers.
- 1,241 (iii) Number of these accounts identified as CAP customers who defaulted on their agreement.

E. (continued)

1,438 (iv) Number of these accounts who are using an alternative heating source. Identify the heating source below.

Heating with:

1. 182 kerosene heater
2. 1,217 electric space heater
3. 0 wood/coal stove or furnace
4. 0 fireplace
5. 3 kitchen stove/oven
6. 6 oil-filled space heater
7. 30 other (specify) _____

PGW
Company Name

Cristina Coltro, Director Regulatory Compliance
Phone: (215) 684-6778

Company Contact Person and Telephone Number

| Form A | |
|---|-----------------------|
| 52 Pa. Code § 56.100 Requirements | |
| Company Name: Philadelphia Gas Works | |
| Year: 2006 | |
| Survey Results | Total # of Properties |
| 81. Total # of properties terminated | 36,951 |
| 82. Total # of properties to be surveyed. | 20,076 |
| 83. Total # of properties reconnected with a payment agreement | 7,933 |
| 84. Total # of properties with unauthorized usage | 31 |
| 85. Total # of properties using other primary heating source: | |
| # of coal or wood-burning stoves or furnaces | |
| # of propane furnaces | |
| # of natural gas wells | |
| # of electricity or natural gas central heating sources | |
| 86. Total # of vacant properties. | 2,542 |
| 87. Number of accounts where no contact was made and premises appear to be occupied by income category: | |
| # of properties where income is unknown | 3,454 |
| # of properties where income is verified non low-income | 517 |
| # of properties where income is verified non CAP, low-income | 1,165 |
| # of properties where income is verified CAP low-income | 2,134 |
| 88. Total # of properties using potentially unsafe heating sources: | |
| # of electric, oil-filled or kerosene space heaters | |
| # of fireplaces | |
| # of kitchen stoves or ovens | |
| # other | |
| 89. Number of heat-related premises that are occupied and gas service has not been reconnected by income category: | |
| # of properties where income is unknown | 652 |
| # of properties where income is verified non low-income | 200 |
| # of properties where income is verified non CAP, low-income | 559 |
| # of properties where income is verified CAP low-income | 889 |
| 90. Total # of properties with red-tagged furnaces and service line | |
| Number of red-tagged furnaces and service lines - 2006 | 6,249 |
| Subset of 89: Occupant Informed PGW of Using other Heating Source | 1,142 |
| <i>Electric Furnace</i> | 251 |
| <i>Oil/Propane Furnace</i> | 19 |
| <i>Coal/Wood Furnace</i> | 2 |
| <i>Kerosene /Oil Space Heater</i> | 100 |
| <i>Electric Space Heater</i> | 745 |
| <i>Kitchen stove/oven</i> | 9 |
| <i>Fireplace</i> | - |
| <i>Natural Gas Well</i> | NA |
| <i>Other</i> | 16 |

Company contact person and telephone number:
Cristina Coltro
Director, Regulatory Compliance
800 Montgomery Avenue
Philadelphia, PA 19122
(215) 684-6785

Definitions**Cold Weather Survey**

81. Number of properties terminated. Number of heat-related residential properties terminated between January 1 and November 30 of the current calendar year. Heat-related is defined as any electric account since heating equipment needs electricity to function, any natural gas heating account, or any water account that requires water for the heating system to function.
82. Number of heat-related residential properties without utility service at the time of the survey. If a premise has been turned off in 2005, your utility should include that premise in the survey regardless of the reason for the shut off or the length of time the premise has been off. In other terms, the designation of applicant or ratepayer does not determine whether your company must survey the premise. Likewise, the reason for the termination is not relevant in determining whether your company must survey the premise.
83. Number of reconnected accounts. Number of accounts where contact was made and service was reconnected with a payment agreement or where service was connected in a new name.
84. Unauthorized usage. Number of accounts where unauthorized usage was discovered, and service will remain on (with or without personal contact with the occupant.)
85. Using other central heating source by category. Number of properties that have switched to another central heating source. Defined central heating source categories for other heating sources are coal or wood-burning stove or furnace, propane furnace, natural gas well, electricity or natural gas central-heating.
86. Vacant properties. Numbers of properties that your company is reasonably sure are vacant.
87. No contact with occupied properties without a central heating source by income category. Number of properties that appear to be occupied by income category and no personal contact has been made. Defined income categories are income unknown, non low-income, non CAP low-income and CAP low-income.

88. Use of potentially unsafe heating source by category. Defined categories for potentially unsafe heating source are electric, oil-filled or kerosene space heaters, fireplace, kitchen stove or oven, or other.

89. Occupied properties without a central heating source by income category. Number of properties where contact was made and the company and occupant failed to reach a payment agreement by category. *Include* properties that are using potentially unsafe heating sources in this response. *Exclude* properties that are using another central heating source as defined in No. 85. Defined income categories are income unknown, non low-income, non CAP low-income and CAP low-income.

90. Red-tagged equipment. Number of properties where a customer's service line or furnace equipment has been red-tagged. This number should be a subset of the data response to Number 81 - Number of properties terminated. *Include any property that remains off, as of December 1, due to red-tagged issues regardless of the reason for termination.*

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set II-16: The Bureau of Consumer Services' Report on 2005 Universal Service Programs & Collections Performance states that PGW has 155,308 confirmed low income customers as of the end of calendar year 2005. Please update this number as of the end of calendar year 2006, and provide a break down between heating customers and non-heating customers.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW estimates this information based on US Census Bureau data. Generally, PGW receives from and/or confirms the information for Philadelphia with the PUC's BCS for use in the Universal Services Reporting Requirement. Most recently, we confirmed with the BCS the figures for Philadelphia (see chart below). We then calculate the estimated number of households below 150% of the FPL based on the same percentage for Philadelphia. This will be the information that PGW will report in the 2006 Universal Services Report.

| US Census Bureau | | | |
|------------------------------------|---------------------------|-------------------------------|--------|
| | Estimated # of Households | Imputed Households < 150% FPL | % |
| Philadelphia | 580,784 | 185,091 | 31.87% |
| PGW Avg Residential Customers 2006 | 478,646 | 152,540 | |

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set II-31:** Please provide the following information as of January 1, 2007:
- a. The number of CRP participants;
 - b. The number of CRP participants who have who have been enrolled in CRP for 36 months or more, and provide a breakdown as follows:
 - i) The number of CRP participants who have received full pre-program arrearage forgiveness;
 - ii) The number of CRP participants who have received between 24 and 36 months of arrearage forgiveness;
 - iii) The number of CRP participants who have received between 12 and 24 months of arrearage forgiveness;
 - iv) The number of CRP participants who have received between 6 and 12 months of arrearage forgiveness; and
 - v) The number of CRP participants who have received between 0 and 6 months of arrearage forgiveness.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response:

- a. As of January 2006 there were 76,363 CRP participants.
- b. PGW does not track CRP data as requested. The table below shows the monthly participation level, the number customer receiving forgiveness and the total forgiveness amount.

PGW Payment Arrangement Guidelines

- ▶ Always obtain & document monthly household income & occupancy prior to negotiating.
- ▶ If a customer refuses to provide income and occupant information, he/she should be treated as a Level 5.
- ▶ Ask for FULL AMOUNT first, and then negotiate your way down.
- ▶ Commercial accounts are not eligible for PAR. Payment in Full is required.

| Family Size FPL | Level 1 (Below 150%) | Level 2 (151-200%) | Level 3 (201-250%) | Level 4 (251-300%) | Level 5 (Over 301%) |
|------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 1 | \$0 - 1,276 | \$1,277 - 1,702 | \$1,703 - 2,127 | \$2,128 - 2,552 | \$2,553 + |
| 2 | 0 - 1,711 | 1,712 - 2,282 | 2,283 - 2,852 | 2,853 - 3,422 | 3,423 + |
| 3 | 0 - 2,146 | 2,147 - 2,862 | 2,863 - 3,577 | 3,578 - 4,292 | 4,293 + |
| 4 | 0 - 2,581 | 2,582 - 3,442 | 3,443 - 4,302 | 4,303 - 5,162 | 5,163 + |
| 5 | 0 - 3,016 | 3,017 - 4,022 | 4,023 - 5,027 | 5,028 - 6,032 | 6,033 + |
| 6 | 0 - 3,451 | 3,452 - 4,602 | 4,603 - 5,752 | 5,753 - 6,902 | 6,903 + |
| 7 | 0 - 3,886 | 3,887 - 5,182 | 5,183 - 6,477 | 6,478 - 7,772 | 7,773 + |
| 8 | 0 - 4,321 | 4,322 - 5,762 | 5,763 - 7,202 | 7,203 - 8,642 | 8,643 + |
| Each Additional Person | 0 - 435 | 436 - 560 | 561 - 725 | 726 - 890 | 891 + |

Gas On Accounts

| TERMS | Level 1 (Below 150%) | Level 2 (151-200%) | Level 3 (201-250%) | Level 4 (251-300%) | Level 5 (Over 301%) |
|---|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| I. Enter CRP (Unless a PAR is more affordable) | | | | | |
| II. Entering PAR: (More affordable than CRP) | | | | | |
| UP-FRONT PAYMENT | | | | | |

Gas Off Accounts

| SERVICE RECONNECTION | Level 1 (Below 150%) | Level 2 (151-200%) | Level 3 (201-250%) | Level 4 (251-300%) | Level 5 (Over 301%) |
|----------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| I. Customer Entering CRP | | | | | |
| II. Customer Entering PAR | | | | | |

| RESTORATION, THEFT/FRAUD, etc. | NEW APPLICANT: | Deposit |
|--|--|--|
| 2 x Actual Suggested Budget Installment: 50, 25, 25 | 2 x Actual Suggested Budget Installment: 50, 25, 25 | 2 x Actual Suggested Budget Installment: 50, 25, 25 |

Exceptions: CII, SCIC & Life Event

| Change in Income (CII) Needed to Get New PAR | 10% | 10% | 20% | 20% |
|--|---------------------------|---------------------------|---------------------------|-----|
| Significant Change in Circumstances (SCIC)- Valid to Extend PAR? | Yes 6 months extension | Yes 6 months extension | Yes 6 months extension | No |
| Life Event - 3 month Extension | No | No | No | Yes |

PGW Payment Arrangement Guidelines

- ▶ Always obtain & document monthly household income & occupancy prior to negotiating.
- ▶ If a customer refuses to provide income and occupant information, he/she should be treated as a Level 5.
- ▶ Ask for **FULL AMOUNT** first, and then negotiate your way down.
- ▶ Commercial accounts are not eligible for PAR. Payment in Full is required.

| Family Size FPL | Level 1 (Below 150%) | Level 2 (151-200%) | Level 3 (201-250%) | Level 4 (251-300%) | Level 5 (Over 301%) |
|------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 1 | \$0 - 1,276 | \$1,277 - 1,702 | \$1,703 - 2,127 | \$2,128 - 2,552 | \$2,554 + |
| 2 | 0 - 1,711 | 1,712 - 2,282 | 2,283 - 2,852 | 2,853 - 3,423 | 3,424 + |
| 3 | 0 - 2,146 | 2,147 - 2,862 | 2,863 - 3,577 | 3,578 - 4,293 | 4,294 + |
| 4 | 0 - 2,581 | 2,582 - 3,442 | 3,443 - 4,302 | 4,303 - 5,163 | 5,164 + |
| 5 | 0 - 3,016 | 3,017 - 4,022 | 4,023 - 5,027 | 5,028 - 6,032 | 6,034 + |
| 6 | 0 - 3,451 | 3,452 - 4,602 | 4,603 - 5,752 | 5,753 - 6,903 | 6,904 + |
| 7 | 0 - 3,886 | 3,887 - 5,182 | 5,183 - 6,477 | 6,478 - 7,773 | 7,774 + |
| 8 | 0 - 4,321 | 4,322 - 5,762 | 5,763 - 7,202 | 7,203 - 8,643 | 8,644 + |
| Each Additional Person | 0 - 435 | 436 - 580 | 581 - 725 | 726 - 870 | 871 + |

Gas On Accounts

| TERMS | Level 1 (Below 150%) | Level 2 (151-200%) | Level 3 (201-250%) | Level 4 (251-300%) | Level 5 (Over 301%) |
|---|---|---|---|---|---|
| I. <u>Enter CRP (Unless a PAR is more affordable)</u> | | | | | |
| II. <u>Entering PAR: (More affordable than CRP)</u> | If PAR: at least \$20 + Budget Bill (& Terms up to 60 months) | If PAR: at least \$40 + Budget Bill (& Terms up to 24 months) | If PAR: at least \$60 + Budget Bill (& Terms up to 24 months) | If PAR: at least \$80 + Budget Bill (& Terms up to 12 months) | If PAR: at least \$100 + Budget Bill (& Terms up to 6 months) |
| UP-FRONT PAYMENT | I. <u>Entering CRP</u> First CRP: No up-front payment After 1 or more CRP, request catch-up/cure amount | First PAR: request 40% up-front After 1 or more PAR or CRP, request catch-up/cure amount | First PAR: up to 50% up-front After 1 or more PAR or CRP, request catch-up/cure amount | First PAR: up to 50% up-front After 1 or more PAR or CRP, request catch-up/cure amount | First PAR: up to 80% up-front After 1 or more PAR or CRP, request catch-up/cure amount |
| | I. Customer Entering CRP Heating customers enter CRP | | | | |

Gas Off Accounts

After 1 or more PAR or CRP,
request catch-up/cure amount

Gas Off Accounts

SERVICE RECONNECTION
*Deposits are waived for customers entering CRP

I. Customer Entering CRP

Heating customers enter CRP unless PAR terms are more affordable

Joining CRP & No CRP after 9/2003:
Reconnection Fee*
No up-front payment for 1st time CRP customers

After one CRP:

- 1/24 of total arrears = up-front payment
- Plus Reconnect Fee*
- CRP terms

After two broken CRP agreements:

- Cure amount = up-front payment
- Plus Reconnect Fee*
- CRP terms

II. Customer Entering PAR

First PAR or after 1 Broken PAR/CRP:

- 1/24 of arrears = up-front payment
- Term up to 24 months
- Plus Security Deposit
- Plus Reconnect Fee

After 2nd Broken Par/CRP:

- 100% of Arrears
- Plus Security Deposit
- Plus Reconnection Fee

First PAR or after 1 Broken PAR/CRP:

- Term up to 12 months
- 1/12 of arrears = up-front payment
- Plus Security Deposit
- Plus Reconnect Fee

After 2nd Broken PAR/CRP:

- 100% of Arrears
- Plus Security Deposit*
- Plus Reconnection Fee

First PAR or after 1 Broken PAR/CRP:

- Term up to 12 months
- 1/12 of arrears = up-front payment
- Plus Security Deposit
- Plus Reconnect Fee

After 2nd Broken PAR/CRP:

- 100% of Arrears
- Plus Security Deposit*
- Plus Reconnection Fee

First PAR or after 1 Broken PAR/CRP:

- Term up to 12 months
- 1/12 of arrears = up-front payment
- Plus Security Deposit
- Plus Reconnect Fee

After 2nd Broken PAR/CRP:

- 100% of Arrears
- Plus Security Deposit*
- Plus Reconnection Fee

100% of Arrears

- Plus Security Deposit
- Plus Reconnect Fee

Deposit

RESTORATION, THEFT/FRAUD, etc.

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

NEW APPLICANT:

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

2 x Actual Suggested Budget
Installment: 50, 25, 25

Exceptions: CH & SCIC & Life Event

| | | | | | |
|---|--|--|--|--|--|
| | 10% | 10% | 20% | 20% | 20% |
| Change in income (CI) Needed to Get New PAR | First time no proof needed Second time must provide proof | First time no proof needed Second time must provide proof | First time no proof needed Second time must provide proof | First time no proof needed Second time must provide proof | First time no proof needed Second time must provide proof |
| Significant Change in Circumstances (SCIC)- Valid to Extend PAR? | Yes 6 months extension | Yes 6 months extension | Yes 6 months extension | Yes 6 months extension | No |
| Life Event - 3 month Extension | No | No | No | No | Yes |

PHILADELPHIA GAS WORKS
 800 W. MONTGOMERY AVENUE
 PHILADELPHIA, PA 19122-0050

MM/DD/YY-date of notice
 Account Number:
 Customer Name:
 Premise Address:
 Past Due Amount: \$

10-DAY SHUT-OFF NOTICE
Your Gas Service May Be Shut Off !

Because your bill is past due, we will shut off the gas to _____ on or after 8: 00 AM on _____, This notice will remain effective for 60 days. To talk about your bill or this notice, please call our office at 215-235-1777.

We will not shut off the gas if you do ONE of the following:

- Arrange to pay your past due amount of \$ _____.
- Pay the amount you owe on your payment plan.
- Show us a paid receipt for the past due amount.
- Make a payment arrangement or you may be eligible for a special assistance program.
- Contact us to dispute the bill.

If we shut off your gas service, you may have to pay all of the following before we turn your service on:

| | |
|------------------|-----------|
| Past Due Amount | \$ _____ |
| Security Deposit | \$ _____ |
| Turn On Charge | \$ 123.23 |
| Total | \$ _____ |

(Plus \$372.00 if we must dig up the street to shut off the gas).

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. **WE WILL NOT SHUT OFF YOUR SERVICE** provided you:

1. Have your licensed physician or nurse practitioner certify in phone or in writing that such an illness exists and that it may be aggravated if your service is shut off. Written certification is needed within 7 days; and
2. Make arrangements to pay this bill. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification.

IMPORTANT TO KNOW – BEFORE WE SHUT OFF YOUR GAS SERVICE

- If you have questions or need more information, please call us today at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC may delay the shutoff if you file the complaint before the shut-off date. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.
- If you have a valid Protection From Abuse order from a court, there are additional protections available to you. Call us immediately at 215-235-1777. You will be required to provide us with a copy of the order.
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
 - Call us if your landlord pays your utility bill you have certain legal protections.
 - If you have trouble understanding or speaking English call us for free interpretation.
- If your service is shut off you may be required to pay any additional bills that have become past due to restore your service.

- All adult occupants of the premise whose names are on the mortgage deed or lease are considered the 'customer' and are responsible for payment of the bill.
- If service is shut off ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.
- If your service is shut off, you must contact us after your payment has been made to be sure you have met all conditions to have the service turned back on and to arrange access to your premises. It may take up to seven days to have your service restored.

WINTER SHUT OFF PROVISIONS Dec. 1-March 31

- Contact us before the shut off date to give us household and occupant information to see if you qualify for any assistance programs.
- If you are low income there are special rules about whether we may shut off your gas in the winter. Add together the monthly income in your household. Look at the chart below to determine your group. You may need to provide us with proof of income.
- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. We will notify you prior to shutting off service if we ask the PUC for permission to terminate your gas service.
- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut off your service if one of these conditions apply to you:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your household income toward the gas bills.

Federal Poverty Guidelines (FPG) 2007

| Household Size including Children: | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of the FPG if it is: |
|------------------------------------|---|--|
| 1 | \$1,276 or less | \$1,277 - \$2,127 |
| 2 | \$1,711 or less | \$1,712 - \$2,852 |
| 3 | \$2,146 or less | \$2,147 - \$3,577 |
| 4 | \$2,581 or less | \$2,582 - \$4,302 |
| Each additional Person | \$435 | \$436 - \$725 |

- If we shut off your service during the winter months (between December 1 and March 31) we will restore your service within 24 hours of your meeting all requirements to have service reconnected. Where street digging is required, it may take up to 7 days.

PHILADELPHIA GAS WORKS
 800 W. MONTGOMERY AVENUE
 PHILADELPHIA, PA 19122-0050

MM/DD/YY-date of notice
 Account Number:
 Customer Name:
 Premise Address:
 Past Due Amount: \$

3-DAY SHUT-OFF NOTICE
 Your Gas Service May Be Shut Off !

Because your bill is past due, we will shut off the gas to _____ on or after 8:00 AM on _____ . To talk about your bill or this notice, please call our office at 215-235-1777.

We will not shut off the gas if you do ONE of the following:

- Arrange to pay your past due amount of \$ _____.
- Pay the amount you owe on your payment plan.
- Provide a paid receipt for the past due amount.
- Make a payment arrangement or you may be eligible for a special assistance program.
- Contact us to dispute the bill.

If we shut off your gas service, you may have to pay all of the following before we turn your service on:

Past Due Amount \$ _____
 Security Deposit \$ _____
 Turn On Charge \$ 123.23
 Total \$ _____

(Plus \$372.00 if we must dig up the street to shut off the gas).

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. **WE WILL NOT SHUT OFF YOUR SERVICE** provided you:

1. Have your licensed physician or nurse practitioner certify in phone or in writing that such an illness exists and that it may be aggravated if your service is shut off. Written certification is needed within 7 days; and
2. Make arrangements to pay this bill. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification.

IMPORTANT TO KNOW - BEFORE WE SHUT OFF YOUR GAS SERVICE

- If you have questions or need more information, please call us today at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC may delay the shutoff if you file the complaint before the shut-off date. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.
- If you have a valid *Protection From Abuse* order from a court, there are additional protections available to you. Call us immediately at 215-235-1777. You will be required to provide us with a copy of the order.
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
 - Call us if your landlord pays your utility bill. You have certain legal protections.
 - If you have trouble understanding or speaking English call us for free interpretation.
- If your service is shut off you may be required to pay any additional bills that have become past due to restore your service.

- All adult occupants of the premise whose names are on the mortgage deed or lease are considered the 'customer' and are responsible for payment of the bill.
- If service is shut off ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.
- If your service is shut off, you must contact us after your payment has been made to be sure you have met all conditions to have the service turned back on and to arrange access to your premises. It may take up to seven days to have your service restored.

WINTER SHUT OFF PROVISIONS Dec. 1-March 31

- Contact us before the shut off date to give us household and occupant information to see if you qualify for any assistance programs.
- If you are low income there are special rules about whether we may shut off your gas in the winter. Add together the monthly income in your household. Look at the chart below to determine your group. You may need to provide us with proof of income.
- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. We will notify you prior to shutting off service if we ask the PUC for permission to terminate your gas service.
- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut off your service if one of these conditions apply to you:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your household income toward the gas bills.

Federal Poverty Guidelines (FPG) 2007

| Household Size including Children: | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of the FPG if it is: |
|------------------------------------|---|--|
| 1 | \$1,276 or less | \$1,277 - \$2,127 |
| 2 | \$1,711 or less | \$1,712 - \$2,852 |
| 3 | \$2,146 or less | \$2,147 - \$3,577 |
| 4 | \$2,581 or less | \$2,582 - \$4,302 |
| Each additional Person | \$435 | \$436 - \$725 |

- If we shut off your service during the winter months (between December 1 and March 31) we will restore your service within 24 hours of your meeting all requirements to have service reconnected. Where street digging is required, it may take up to 7 days.

THREE (3) DAY SHUT OFF NOTICE – Gas User Without Contract

Address: _____

3-Day Date: _____ Emp. Name & #: _____

2-Day Date: _____ Emp. Name & #: _____

Post Termination Date: _____ Emp. Name & #: _____

PGW is going to shut off gas service to this premise on or after _____ because we have received information that the customer of record listed for this premise no longer resides at this location. A responsible person who resides at this premise must contact PGW immediately to apply for service.

To apply for gas service, the responsible person must call PGW at (215) 235-1000 or visit one of PGW's six (6) Customer Service Centers listed below. The responsible person will need the following documentation in order to apply for service:

- Two forms of personal identification including at least with a one picture ID. Your ID can be a driver's license, a social security card, medical assistance card, Public Welfare card, passport, birth certificate or similar items as allowed by PGW.
- Proof of legal residency for the last two years. This proof can be a copy of a deed, settlement papers, initial lease, receipt for rent payment or security deposit, a letter from a rental agent or landlord or similar document indicating prior residency elsewhere as allowed by PGW.

To get gas service, you may also need to pay or make arrangements to pay:

- All or a portion of any overdue balance you owe PGW;
- A Security Deposit which is approximately two times the average bill.

If service is shut off you will also need to pay:

- A turn on charge of \$123.23;
- And, if PGW had to dig up the street to shut off the service, there will also be a charge of \$372.00.

If you have questions or need more information, please call us today at 215-235-1000.

After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC may delay the shutoff if you file the complaint before the shut-off date. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265

Call us if your landlord pays your utility bill you have certain legal protections

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. WE MAY NOT SHUT OFF YOUR SERVICE provided you:

1. Have your licensed physician or nurse practitioner certify by phone or in writing that such an illness exists and that it may be aggravated if your service is shut off. Written certification is needed within 7 days; and
2. Make arrangements to pay this bill. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification.

PGW's Customer Service Centers are open Monday through Friday, between 9 AM and 5 PM. The Customer Service Centers are located at:

- | | |
|---|---|
| • Center City - 1137 Chestnut Street - Mon., Tues., Thur., Fri. | • North Philadelphia - 1337 W. Erie Avenue - Mon., Wed., Thur. |
| • Frankford - 4410 Frankford Avenue - Tues., Thur., Fri. | • South Philadelphia - 1601 S. Broad Street - Mon., Wed., Thur. |
| • Germantown - 210 W. Chelton Avenue - Tues., Wed., Fri. | • West Philadelphia - 5230 Chestnut Street - Mon., Tue., Wed., Fri. |

If you are low-income, you may qualify for PGW's Customer Assistance Program (CRP). To apply for CRP, you must bring proof of income and social security cards for everyone living in the property.

PHILADELPHIA GAS WORKS
 800 W. MONTGOMERY AVENUE
 PHILADELPHIA, PA 19122-0050

AA-Set I-14

MM/DD/YY-date of notice
 Account Number:
 Customer Name:
 Premise Address:
 Past Due Amount: \$

2 DAY SHUT-OFF NOTICE
 Your Gas Service May Be Shut Off!

Because your bill is past due, we will shut off the gas to _____ on or after 8:00 AM on _____ without further notice. To talk about your bill or this notice, please call our office at 215-235-1777.

We will not shut off the gas if you do ONE of the following:

- Arrange to pay your past due amount of \$ _____.
- Pay the amount you owe on your payment plan.
- Show us a paid receipt for the past due amount.
- Make a payment arrangement or you may be eligible for a special assistance program.
- Contact us to dispute the bill.

If we shut off your gas service, you may have to pay all of the following before we turn your service on:

Past Due Amount \$ _____
 Security Deposit \$ _____
 Turn On Charge \$ 123.23
 Total \$ _____

(Plus \$372.00 if we must dig up the street to shut off the gas).

- All adult occupants of the premise whose names are on the mortgage deed or lease are considered the 'customer' and are responsible for payment of the bill.
- If service is shut off ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.
- If your service is shut off, you must contact us after your payment has been made to be sure you have met all conditions to have the service turned back on and to arrange access to your premises. It may take up to seven days to have your service restored.

WINTER SHUT OFF PROVISIONS Dec. 1-March 31

- Contact us before the shut off date to give us household and occupant information to see if you qualify for any assistance programs.
- If you are low income there are special rules about whether we may shut off your gas in the winter. Add together the monthly income in your household. Look at the chart below to determine your group. You may need to provide us with proof of income.
- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. We will notify you prior to shutting off service if we ask the PUC for permission to terminate your gas service.
- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut off your service if one of these conditions apply to you:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your household income toward the gas bills.

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. WE WILL NOT SHUT OFF YOUR SERVICE provided you:

1. Have your licensed physician or nurse practitioner certify in phone or in writing that such an illness exists and that it may be aggravated if your service is shut off. Written certification is needed within 7 days; and
2. Make arrangements to pay this bill. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification.

IMPORTANT TO KNOW - BEFORE WE SHUT OFF YOUR GAS SERVICE

- If you have questions or need more information, please call us today at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC may delay the shutoff if you file the complaint before the shut-off date. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.
- If you have a valid Protection From Abuse order from a court, there are additional protections available to you. Call us immediately at 215-235-1777. You will be required to provide us with a copy of the order.
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
 - Call us if your landlord pays your utility bill you have certain legal protections.
 - If you have trouble understanding or speaking English call us for free interpretation.
- If your service is shut off you may be required to pay any additional bills that have become past due to restore your service.

Federal Poverty Guidelines (FPG) 2007

| Household Size including Children: | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of the FPG if it is: |
|------------------------------------|---|--|
| 1 | \$1,276 or less | \$1,277 - \$2,127 |
| 2 | \$1,711 or less | \$1,712 - \$2,852 |
| 3 | \$2,146 or less | \$2,147 - \$3,577 |
| 4 | \$2,581 or less | \$2,582 - \$4,302 |
| Each additional Person | \$435 | \$436 - \$725 |

- If we shut off your service during the winter months (between December 1 and March 31) we will restore your service within 24 hours of your meeting all requirements to have service reconnected. Where street digging is required, it may take up to 7 days.

PHILADELPHIA GAS WORKS
 800 W. MONTGOMERY AVENUE
 PHILADELPHIA, PA 19122-0050

AA-Set I-14

MM/DD/YY-date of notice
 Account Number:
 Customer Name:
 Premise Address:

YOUR GAS HAS BEEN SHUT-OFF

WE SHUT OFF YOUR GAS BECAUSE:

- You did not pay your past due bill.
- You did not pay your security deposit.
- You did not give us access to your meter.
- You did not meet the requirements and/or complete the application for service process.
- Theft of service or tampering with utility equipment.
- Rejected payment.
- Fraud/Material misrepresentation.

TO HAVE YOUR SERVICE TURNED BACK ON YOU MUST DO ALL OF THE FOLLOWING:

Arrange to pay your overdue bill of \$ _____
 Pay a Turn On Charge of \$123.23 (Plus \$372.00 if we must dig up the street to shut off the gas).
 Pay a Deposit (if required) of \$ _____
 Other: _____

- You must contact us after your payment has been made to be sure you have met all conditions to have the service turned back on and to arrange access to your premises.

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. **WE MAY RESTORE YOUR SERVICE** provided you:

1. Have your licensed physician or nurse practitioner certify in phone and in writing that such an illness exists and that it may be aggravated if your service is not restored.
2. Make arrangements to pay this bill. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification. Call us at 215-235-1777.

IMPORTANT TO KNOW

If you have questions or need more information, please call us at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC will attempt to help you with your problem. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.

WINTER SHUT-OFF PROVISIONS (Dec. 1-Mar. 31)

- We will restore your service within 24 hours of your meeting all requirements to have service reconnected. Where street digging is required, it may take up to 7 days.
- If you are low-income, there are special rules about whether we may shut off your gas in the winter. Add together the monthly income for the household and look at the chart below to determine your group.
- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. If you did not

receive notification that we obtained permission from the PUC, call us immediately.

- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut off your service if:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your income toward the gas bills.

| Federal Poverty Guidelines (FPG) 2007 | | |
|---------------------------------------|---|--|
| Household Size including Children: | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of the FPG if it is: |
| 1 | \$1,276 or less | 1,277 - \$2,127 |
| 2 | \$1,711 or less | 1,712 - \$2,852 |
| 3 | \$2,146 or less | 2,147 - \$3,577 |
| 4 | \$2,581 or less | 2,582 - \$4,302 |
| Each additional Person | \$435 | \$436 - \$725 |

- If you have a valid Protection From Abuse order from a court, there are some additional protections available to you. Call us immediately at 215-235-1777. (You will be required to provide us with a copy of the order.)
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
- If your landlord pays your utility bill you have other legal protections. Please call us at 215-235-1777.
- If you have trouble understanding or speaking English please call us at 215-235-1777 for free interpretation.
- All adult occupants of the premise, whose names are on the mortgage, deed, or lease are considered the customer and are responsible for payment to restore service.
- ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.
- To get service on as soon as possible, you must contact us after your payment has been made to be sure you've met all conditions to have the service turned back on and to arrange access to your premises.

IMPORTANT SAFETY INFORMATION

- For heating purposes use only equipment that is made for home heating. Use all types of heaters carefully and follow all directions for safe use. NEVER use your oven, grill or clothes dryer to heat your home. This could cause a fire or dangerous carbon monoxide gas.
- Please be aware that using candles, portable heaters, or generators may also be dangerous.

PGW POST TERMINATION NOTICE – Gas User Without Contract

Address: _____

3-Day Date: _____ Emp. Name & #: _____
 2-Day Date: _____ Emp. Name & #: _____
 Post Termination Date: _____ Emp. Name & #: _____

WE SHUT OFF THE GAS BECAUSE:

The responsible person failed to apply for service.

TO HAVE SERVICE TURNED BACK ON YOU MUST DO ALL OF THE FOLLOWING:

Apply for gas service by calling PGW at (215) 235-1000 or by visiting one of the Customer Service Centers. You must provide:

1. Two forms of personal identification including at least one picture ID. Your ID can be a driver's license, a social security card, medical assistance card, Public Welfare card, passport, birth certificate, or similar items as allowed by PGW.
2. The applicant must provide proof of legal residency for the past two years. This proof can be a copy of a deed, settlement papers, initial lease, receipt for rent payment or security deposit, a letter from a rental agent or landlord or similar document indicating prior residency elsewhere as allowed by PGW.
3. Arrange to pay all or a portion of any overdue balance you owe PGW.
4. A Security Deposit which is approximately two times the average bill.
5. A turn on charge of \$123.23 (Plus \$372.00 if we dig up the street to shut off the gas).

To get service on as soon as possible, contact PGW at 215-235-1777 for the amount you need to pay and/or make payment and to arrange access to your premise after all conditions have been met.

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. WE MAY RESTORE YOUR SERVICE provided you:

1. Have your licensed physician or nurse practitioner certify by phone and in writing that such an illness exists and that it may be aggravated if your service is not restored.
2. Make arrangements to pay the amounts owed. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification. Call us at 215-235-1777.

IMPORTANT TO KNOW

If you have questions or need more information, please call us at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC will attempt to help you with your problem. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.

WINTER NON-PAYMENT SHUT-OFF PROVISIONS (Dec. 1-Mar. 31)

- We will restore your service within 24 hours of your meeting all requirements to have service connected. Where street digging is required, it may take up to 7 days.

- If you are low-income, there are special rules about whether we may shut off your gas in the winter. Add together the monthly income for the household and look at the chart below to determine your group.
- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. If you did not receive notification that we obtained permission from the PUC, call us immediately.
- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut off your service if:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your income toward the gas bills.

| Federal Poverty Guidelines : 2007 | | |
|------------------------------------|---|--|
| Household Size, Including Children | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of FPG if it is: |
| 1 | \$1,276 or less | \$1,277 - \$2,127 |
| 2 | \$1,711 or less | \$1,712 - \$2,852 |
| 3 | \$2,146 or less | \$2,147 - \$3,577 |
| 4 | \$2,581 or less | \$2,582 - \$4,302 |
| Each Additional Person | Add \$435 | Add \$436 - \$725 |

- If you have a valid Protection From Abuse order from a court, there are some additional protections available to you. Call us immediately at 215-235-1777. (You will be required to provide us with a copy of the order.)
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
- If your landlord pays your utility bill. You have other legal protections. Please call us at 215-235-1777.
- If you have trouble understanding or speaking English please call us at 215-235-1777 for free interpretation.
- All adult occupants of the premise, whose names are on the mortgage, deed, or lease are considered the customer and are responsible for payment to restore service.
- ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.

IMPORTANT SAFETY INFORMATION

- For heating purposes use only equipment that is made for home heating. Use all types of heaters carefully and follow all directions for safe use. NEVER use your oven, grill or clothes dryer to heat your home. This could cause a fire or dangerous carbon monoxide gas.
- Please be aware that using candles, portable heaters, or generators may also be dangerous.

PGW POST TERMINATION NOTICE – Unauthorized Users

Address: _____

3-Day Date: _____ Emp. Name & #: _____

Post Termination Date: _____ Emp. Name & #: _____

WE SHUT OFF THE GAS BECAUSE:

Theft of service or tampering with utility equipment and safety issues.

TO HAVE YOUR SERVICE TURNED BACK ON YOU MUST DO ALL OF THE FOLLOWING:

Arrange to pay the bill for any unauthorized usage and all or portions of any overdue balance you owe PGW (Dollar amount to be determined)

Pay a Deposit if required (Dollar amount to be determined)

Pay a Turn On Charge of \$123.23 (Plus \$372.00 if we dig up the street to shut off the gas).

To get your service on as soon as possible, contact PGW at 215-235-1777 for the amount you need to pay and/or make payment and to arrange access to your premise after all conditions have been met.

MEDICAL EMERGENCY NOTICE

Let us know if someone living in your home is seriously ill or has a medical condition. WE MAY RESTORE YOUR SERVICE provided you:

1. Have your licensed physician or nurse practitioner certify by phone and in writing that such an illness exists and that it may be aggravated if your service is not restored.
2. Make arrangements to pay the amounts owed. You must provide us with household income and occupant information to determine your payment terms while protected under the medical certification. Call us at 215-235-1777.

IMPORTANT TO KNOW

If you have questions or need more information, please call us at 215-235-1777. After you talk with us, if you are not satisfied, you may file a complaint with the Public Utility Commission (PUC). The PUC will attempt to help you with your problem. To contact them call (800) 692-7380 or write to: Pennsylvania Public Utility Commission, Box 3265, Harrisburg, PA 17105-3265.

WINTER NON-PAYMENT SHUT-OFF PROVISIONS (Dec. 1-Mar. 31)

- We will restore your service within 24 hours of your meeting all requirements to have service connected. Where street digging is required, it may take up to 7 days.
- If you are low-income, there are special rules about whether we may shut off your gas in the winter. Add together the monthly income for the household and look at the chart below to determine your group.

- If your income is 150% of the federal poverty guidelines or below, we must first ask the PUC for permission to shut off your service. If you did not receive notification that we obtained permission from the PUC, call us immediately.
- If your income is above 150% but does not exceed 250% of the federal poverty guidelines, we will not shut your service off if:
 1. Someone in your household is 12 or younger or 65 or older; or
 2. You have paid at least one-half of your last two monthly gas bills; or
 3. If over the last two months you have paid at least 15% of your income toward the gas bills.

Federal Poverty Guidelines : 2007

| Household Size, Including Children | Your income is 150% of the FPG or below if it is: | Your income is between 151-250% of FPG if it is: |
|------------------------------------|---|--|
| 1 | \$1,276 or less | \$1,277 - \$2,127 |
| 2 | \$1,711 or less | \$1,712 - \$2,852 |
| 3 | \$2,146 or less | \$2,147 - \$3,577 |
| 4 | \$2,581 or less | \$2,582 - \$4,302 |
| Each Additional Person | Add \$435 | Add \$436 - \$725 |

- If you have a valid Protection From Abuse order from a court, there are some additional protections available to you. Call us immediately at 215-235-1777. (You will be required to provide us with a copy of the order.)
- You may be eligible for a payment agreement or special assistance programs. Call 215-235-1777 right away to provide us with household income and occupant information. Documentation of your income may be required, such as pay stubs or tax documents.
- If your landlord pays your utility bill you have other legal protections. Please call us at 215-235-1777.
- If you have trouble understanding or speaking English please call us at 215-235-1777 for free interpretation.
- All adult occupants of the premise, whose names are on the mortgage, deed, or lease are considered the customer and are responsible for payment to restore service.
- ANY adult occupant who has been living at the premise may have to pay all or portions of this bill to have service restored.

IMPORTANT SAFETY INFORMATION

- For heating purposes use only equipment that is made for home heating. Use all types of heaters carefully and follow all directions for safe use. NEVER use your oven, grill or clothes dryer to heat your home. This could cause a fire or dangerous carbon monoxide gas.
- Please be aware that using candles, portable heaters, or generators may also be dangerous.

Philadelphia Gas Works Cares

What is Cares

Customer Assistance Referral Evaluation Services (CARES) is a referral and information service for payment troubled low-income customers.

About CARES

CARES provides effective assistance to customers who have special needs and have temporary personal or financial hardship that affects payment of their utility. These hardships include serious medical or mental condition, recent unemployment, single parent issues, aging factors, etc.

Program Components

- Budget counseling.
- Energy education and referral to weatherization.
- Referral to community, state, and federal resources for direct and indirect monetary assistance.
- Referral to appropriate social service agencies.
- Follow-up education and print material that clearly explain CRP objectives, expectations and lists contact phone numbers.
- Periodic phone contact and monitoring of payment history and referral follow through, with additional home visits as needed.
- The continued involvement of other agencies that provide supportive services and home care.
- Protection from service termination during program.
- Short-term, affordable payments based on "ability-to-pay".

Eligibility Criteria

- Evidence of payment-trouble by missed payments or anticipated payment stoppage due to personal crisis resulting in financial hardship.
- Income at or below 150% of the federal poverty level.
- Exceptions will be made to borderline customers. (Income below 200% FPL)

For information on PGW's Special Assistance Program call our hotline at (215) 684-6100 or visit our website at www.pgworks.com.

Agencies and Programs

Conservation and Repair Services:

BSRP - (215) 448-2160
(Basic Systems Repair Program for low-income homeowners)

Heater Hotline (215) 568-7190
(Heater repairs for low-income home owners)

WAP - (215) 448-2160
(Weatherization Assistance Program for low-income renters and homeowners)

Fuel Grants:

CRISIS - (215) 686-2590
(Federal grant that helps pay heating costs in a heating emergency)

LIHEAP - (215) 560-1583
(Federal grant that helps pay heating costs)

UESF - (215) 977-5170
(Utility Emergency Service Funds - private grant to help pay utility bills)

Senior Citizens:

Action Alliance of Senior Citizens of Greater Philadelphia (215) 557-0756

PCA Senior Helpline - (215) 765-9040

Other Resources:

Blind Relief Fund - (215) 487-1444

Children's Services, Inc. - (215) 546-3503

Domestic Violence Hotline - 1-800-779-SAFE

DPW - (215) 560-2900
(Department of Public Welfare)

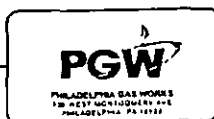
First Call for Help - United Way - (215) 568-3750
(Free all purpose information and referral services)

National Resource Center in Domestic Violence
1-800-537-2238

"No Heat" Complaints for Tenants (215) 686-2590
(Dept. of Licenses & Inspections Program)

REACH - (215) 336-3511
(Homelessness Prevention Program for owners or renters)

State Bldg - Homeless Prevention (215) 560-1976



RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set I-10:** Please provide the following information as of January 1, 2007:
- a. The number of staff dedicated and/or assigned, in whole or in part (please indicate percentage of time), to the CARES program;
 - b. The resumes of the staff persons in a.;
 - c. The active number of CARES cases handled by each staff person;
 - d. If the Company has a detailed budget for the CARES Program, please provide that detailed budget as of January 1, 2007;
 - e. A description of the activities performed by CARES staff; and
 - f. A description of the process of how applicants and/or customers are identified for CARES enrollment, and subsequently screened and enrolled.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response:

- a. PGW does not have staff dedicated and/or assigned specifically to CARES. The CARES program entails providing referrals to customers. Referrals are made by all customer service representatives (CSR) in Customer Service. CRS may refer customers to any program available, including LIHEAP and Crisis, or to an agency outside of PGW. PGW does not track the percentage of time its representatives spent on referrals. Occasionally

CSRs in the call center of customer service center will escalate the call to a universal service representative for additional discussion. In these infrequent cases, the universal service representative will call the customer back and also call a particular agency to link the parties. That is the full extent of the program.

- b. Resumes of PGW's staff are not available.
- c. PGW does not track the number of CARES referrals by each employee.
- d. PGW does not have a budget for the CARES program.
- e. PGW does not have dedicated CARES staff with specific CARES job descriptions. All PGW's CSRs may provide referrals to customers during phone or person-to-person interactions. See response to item a.
- f. There is no enrollment process for CARES. CSRs either identify the need to refer customers to available programs or the customer asks the CSRs for referrals.

Process for CRP and Liheap home visit Request

Home visits are scheduled for those customers who are homebound or frail senior citizen when a customer calls to apply for CRP and/or Liheap.

- √ Determine if a home visit is necessary by asking customer questions.
- √ Check if customer have a family member or friend who could bring information to Customer Service Center for him/her.
- √ Verify that the reason for not visiting a Customer Service Center is valid.

Reasons a customer does NOT qualify for a home visit:

1. Pregnancy.
2. Has a cold.
3. Broken leg.
4. Doesn't want to wait in the Customer Service Center.
5. Doesn't have the time
6. COR is homebound but there is another member in household who is able to bring information to office
7. Bad weather, unless customer is a frail senior citizen

After determining that a home visit is needed:

- Inform customer that someone will contact them before they visit.
- Enter Customer Contact stating the reason the customer requested the visit
- Send Tickler to the Collection Supervisor group dated for today

CARES

I. Background

The Customer Assistance and Referral Evaluation Services (CARES) is a referral and information service. It provides effective assistance to customers who have special needs and have temporary personal or financial hardship that affects payment of their utility bills. These hardships include serious medical or mental condition, recent unemployment, single parent issues, aging factors, etc.

PGW's CARES program will have two components: the "Quick-Fix" and the "Case-Management" approaches.

1) "Quick-Fix" Approach

A "quick-fix" is accomplished by the customer service representative while on the phone or talking with the customer in person at the district offices. PGW customer services and district office representatives currently provide referrals to various agencies, in a level of effort to be termed as "Quick Fix". This level of effort is given all customers who indicate the need for help during their interactions with PGW.

In order to track the number of "Quick-Fix" case referrals, it will be necessary that representatives select the "Quick-fix" option from the CARES drop down menu located in the "MISC" tab of the Account page in BCCS. The date of referral will be displayed next to the drop down menu.

2) "Case-Management" Approach

The "Case-Management" approach requires initial and follow-up supportive phone calls by a designated CARES representative or case-manager. Customers who are identified as experiencing special hardships are referred to the CARES representative by PGW's customer service representatives, outside agencies, PUC cases, other utilities, City agencies, etc.

The PGW CARES representative will follow-up with phone calls and will make special referrals and arrangements for assistance beyond those provided under the CRP, CWP, and grants programs. Periodic phone contact will be maintained to ensure that the hardships are being addressed and issues are being resolved. Other agencies and supportive services can be called in to access the home as needed. The CARES

UNIVERSAL SERVICES PROGRAMS

representative will actively communicate and coordinate services with outside agencies, such as the Philadelphia Housing Development Corporation (PHDC), Community Legal Service (CLS), Homelessness Prevention Programs, Heater Hotline, Senior Programs, Programs for the Blind and Disabled, etc., to offer the customer comprehensive referrals and assistance. In some cases, home visits will be offered to homebound, critically ill customers, frail seniors or those with limited mental ability, in order to facilitate entrance to the CRP or grant programs.

In order to track the number of "Case Management" case referrals, it will be necessary that representatives select the "Case Management" option from the CARES drop down menu located in the "MISC" tab of the Account page in BCCS. The date of referral will be displayed next to the drop down menu.

II. CARES Key Objectives:

- Increase in payment rate
- Reduced credit/collection costs
- Reduced commission complaints
- Customer satisfaction
- Community development

III. Program Components:

- Budget counseling
- Energy education and referral to weatherization
- Referrals to community, state, and federal resources for direct and indirect monetary assistance
- Referrals to appropriate social service agencies
- Follow-up education and print materials that clearly explain CRP objectives, expectations and lists contact phone numbers.
- Periodic phone contact and monitoring of payment history and referral follow-through, with additional home visits as needed.
- The continued involvement of other agencies that provide supportive services and home care
- Protection from termination during program
- Short-term, affordable payments based on "ability-to-pay"

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set III-4:** *With reference to the CARES brochure provided in response to AA-I-8:*
- a. Please state how many times in FY2006 PGW provided “[s]hort-term affordable payments based on ‘ability-to-pay.’”
 - b. Please state how the listed hotline number (215) 684-6100 serves to provide access to PGW’s CARES program.
 - c. Please state how many times in FY2006 PGW provided CARES eligibility exceptions to “borderline customers. (Income below 200% FPL).”

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response:

- a) PGW has not provided short term affordable payments based on ability to pay. Rather, PGW provides the CRP option for as long as the customer is eligible for the program. Aside from CRP, PGW offers Chapter 14 payment arrangements and budget billing programs.
- b) CARES is a referral and informational service. PGW’s hotline provides referrals to LIHEAP, Crisis, and CRP. It also provides information regarding these programs as well as Conservation Works. Therefore, the hotline provides CARE services.
- c) PGW does not have this information available.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-12: Please provide the dollar amounts that PGW has received in contributions to UESF from employees and customers in each fiscal year since FY2000.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: Please see response in table below.

| | Customer Contributions | |
|----------------|------------------------|--------------|
| 2000 | \$ | 2,785 |
| 2001 | \$ | 1,710 |
| 2002 | \$ | 1,890 |
| 2003 | \$ | 1,214 |
| 2004 | \$ | 1,560 |
| 2005 | \$ | 1,567 |
| 2006 | \$ | 1,922 |
| Average | \$ | 1,807 |

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-13: Please describe how the Company currently promotes UESF, internally and externally, including but not limited to the number and frequency of bill stuffers, description of fundraiser events, description of initiatives to solicit PGW employees, etc.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW refers eligible customers to the UESF program year round. This is done primarily in the Call Center and Customer Service Centers. Additionally, PGW promotes UESF information in its web site at www.pgworks.com; in brochures and flyers distributed during outreach campaigns via special mailings, customer service centers, and in community based organizations. PGW also promotes information approximately two times per year in its bill insert, the Good Gas News. PGW is a member of UESF Board and participate in most of its fund raising events. Last year, PGW promoted two PGW-UESF fund raising events: the Bowling Tournament and the Book Sale event at PGW.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set I-18:** Please indicate which of the following scenarios constitute broken payment agreements that would count against future eligibility for a payment agreement to restore service:
- a. The Company extends the due date for a bill and the customer does not make the payment in time.
 - b. A customer falls behind on a payment agreement or a payment arrangement, but makes it up later before termination.
 - c. A customer falls behind on budget billing bills.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

- Response:**
- a. PGW does not extend the due date of a bill. The due date of a bill is 20 days after the issuance of that bill.
 - b. If the original agreement is broken, it is counted towards the number of broken agreements. A payment arrangement is broken if the customer misses two payments while enrolled on a payment arrangement.
 - c. A budget-billing program that does not involve arrears is not considered a payment arrangement. Therefore, it is not counted as such.

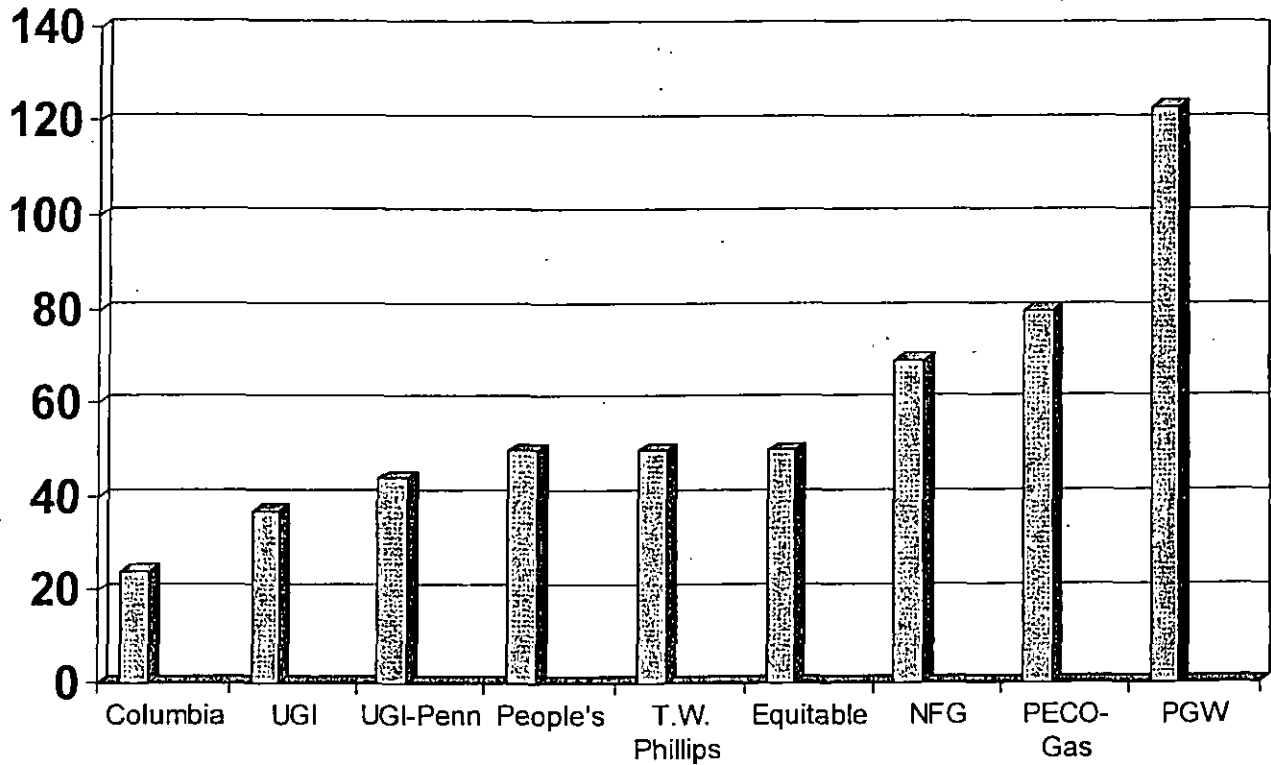
RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-17: Does the Company consider an uncured default on CRP payments to be a payment agreement default for purposes of determining reconnection terms after service termination?

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: Yes. A broken CRP agreement is considered a broken payment arrangement. This means that the CRP customer defaulted on payments and had service disconnected as a result. However, PGW allows CRP customers to pay the full CRP cure amount upfront plus reconnections fees as a precondition to service restoration.

RECONNECTION FEES OF PENNSYLVANIA NATURAL GAS COMPANIES



RECONNECTION FEES OF PENNSYLVANIA NATURAL GAS COMPANIES

| | Columbia | UGI | UGI-Penn | People's | T.W. Phillips | Equitable | NFG | PECO-Gas | PGW |
|------------------|----------|------|----------|----------|---------------|-----------|------|----------|----------|
| Reconnection Fee | \$24 | \$37 | \$44 | \$50 | \$50 | \$50 | \$69 | \$80 | \$123.23 |

SOURCES WHERE RECONNECTION FEE AMOUNTS WERE FOUND

1. Columbia: Columbia Gas of Pennsylvania, Inc., Rates and Rules for Furnishing Gas Service, Supplement No. 101 to Tariff Gas—Pa. P.U.C. No.9 (Jan. 1, 2007) at 60, available at <http://www.columbiagaspa.md.com/documents/CPA%20January%202007%20Tariff.pdf>
2. UGI: Telephone conversation with UGI customer service representative on March 23, 2007.

3. UGI-Penn: Telephone conversation with UGI-Penn customer service representative on March 23, 2007
4. People's: The Peoples Natural Gas Company, Rates and Rules Governing the Furnishing of Natural Gas Service to Retail Gas Customers, Supplement No. 82 to Gas—Pa. P.U.C. No. 43 (January 1, 2007) at 20, *available at* <http://www.dom.com/customer/pdf/pa/tariff.pdf>.
5. T.W. Phillips: T.W. Phillips Gas & Oil Company, Rates, Rules and Regulations for Natural Gas Service, Supplement No. 4 to Tariff Gas—Pa. P.U.C. No. 6 (Jan. 20, 2007) at 17, *available at* <http://www.twphillips.com/tariff/CurrTariff/CurrTariff.pdf>.
6. Equitable: Equitable Gas Company, Schedule of Rates, Rules and Regulations, Supplement No. 53 to Gas—Pa. P.U.C. No 22 (Jan. 1, 2007) at 17, *available at* http://www.eqt.com/equitable_gas/company_information/tariff/PaPg6_39.pdf.
7. NFG: National Fuel Gas Distribution Corporation, Rates, Rules and Regulations Governing the Furnishing of Natural Gas Service, Supplement No. 69 to Gas—Pa. P.U.C. No. 9 (Feb. 1, 2007) at 21, *available at* <http://www.nationalfuelgas.com/marketers/PATariffs/Current.pdf>.
8. PECO-Gas: Telephone conversation with PECO customer service representative on March 30, 2007.

Compiled by: Maripat Pileggi

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set III-5: With reference to PGW's practices concerning second or subsequent payment agreements as provided for in Chapter 14 Section 1405(d), please state how many times PGW granted a second or subsequent payment agreement in FY2006 based on a "change in income."

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW does not have this information available.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set III-6:** With reference to PGW's practices concerning extensions of payment agreements based on a "significant change in circumstance" as defined in Chapter 14 Section 1403:
- a. Please state how many initial extensions PGW granted in FY2006 based on a "significant change in circumstance."
 - b. Please state how many times PGW extended the initial extension period based on a "significant change in circumstance" for an additional period of time up to six months.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: a. and b.) PGW does not have this information available.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set III-7: With reference to PGW's practices concerning reconnection terms for customers or applicants experiencing "life events" within the meaning of Chapter 14 Section 1407(c)(2), please state how many times in FY2006, PGW allowed a customer or applicant with household income exceeding 300% FPL who was seeking reconnection of service to pay the outstanding balance over a period of not more than three months, instead of by means of an upfront payment.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW does not have this information available.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-4: For a CRP customer who falls behind on bills and submits a medical certification to suspend termination, is a payment agreement or payment arrangement available as an equitable arrangement. If yes, what would be the terms or conditions of such an equitable arrangement? If no, explain why not.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW does not offer a payment arrangement within the CRP agreement. CRP customers applying for medical certification must cure their CRP agreement in order to remain in the program.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-5: For a *non-CRP* customer who defaults on a payment agreement or payment arrangement and submits a medical certification to suspend termination, is a payment agreement or payment arrangement available as an equitable arrangement. If yes, what would be the terms or conditions of such an equitable arrangement? If no, explain why not.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: Payment arrangements are available to non-CRP customers *regardless if they are applying for medical certification.* The payment arrangement terms are based on income and occupancy. Terms are also based on the number of previous broken arrangements.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set I-43: With reference to proposed Tariff Section 4.5 contained at First Revised Page No. 27, Supplement No. 16, concerning budget billing:

- a. Please explain why has PGW not provided for payment of the true-up amounts in installments?
- b. Please provide a schedule showing the number of customers in calendar 2006 who were billed true up amounts under \$50, between \$50 and \$100, between \$100 and \$150, between \$150 and \$200, between \$200 and \$250, and over \$250.

Response Provided By: Randy Gyory, VP Customer Affairs

Response:

- a. PGW is not legally required to provide for the payment of true-up amounts in installments. *See Order In re: Insuring Consistent Application of 52 Pa.Code § 56.12(7) entered November 14, 2006 at page 10 (Docket No. M-00051925).* Because PGW is in a precarious financial situation and has substantial cash flow needs, PGW's tariff must allow the company the opportunity to legally enhance cash flow.
- b. Attached is a spreadsheet which shows the number of customers who were billed a true up in calendar year 2006. The break down provided were based on reporting requirements developed for the program and do not exactly match what is requested.

True Up Easy Way Plans - July 2006 Run Statistics

| Bill Cycle | Easy Way Plans Reviewed | Easy Way Plans Processed | Total True Up Amount | Average True Up Amt | Nbr of True Ups <= \$100 | % of True Ups <= \$100 | Nbr of True Ups <= \$200 | % of True Ups <= \$200 | Nbr of True Ups > \$200 | % of True Ups > \$200 | Easy Way Accounts with Credit | Accounts Not Updated |
|------------|-------------------------|--------------------------|----------------------|---------------------|--------------------------|------------------------|--------------------------|------------------------|-------------------------|-----------------------|-------------------------------|----------------------|
| 1 | 1928 | 1109 | \$198,802.00 | \$179.26 | 562 | 50.68% | 271 | 24.44% | 276 | 24.89% | 697 | 0 |
| 2 | 1751 | 867 | \$126,174.00 | \$145.53 | 544 | 62.75% | 158 | 18.22% | 165 | 19.03% | 868 | 0 |
| 3 | 1540 | 1063 | \$197,282.00 | \$185.59 | 418 | 39.32% | 322 | 30.29% | 323 | 30.39% | 459 | 0 |
| 4 | 967 | 550 | \$102,008.00 | \$185.47 | 252 | 45.82% | 135 | 24.55% | 163 | 29.64% | 409 | 0 |
| 5 | 946 | 519 | \$94,799.00 | \$182.66 | 248 | 47.78% | 131 | 25.24% | 140 | 26.97% | 411 | 0 |
| 6 | 1001 | 570 | \$94,421.00 | \$165.65 | 291 | 51.05% | 144 | 25.26% | 135 | 23.68% | 416 | 0 |
| 7 | 2459 | 1196 | \$150,046.00 | \$125.46 | 723 | 60.45% | 268 | 22.41% | 205 | 17.14% | 1242 | 0 |
| 8 | 2167 | 1045 | \$149,299.00 | \$142.87 | 602 | 57.61% | 233 | 22.30% | 210 | 20.10% | 1100 | 0 |
| 9 | 2059 | 972 | \$154,747.00 | \$159.20 | 524 | 53.91% | 201 | 20.68% | 247 | 25.41% | 1068 | 0 |
| 10 | 1205 | 622 | \$143,026.00 | \$229.95 | 251 | 40.35% | 161 | 25.88% | 210 | 33.76% | 559 | 0 |
| 11 | 1784 | 891 | \$171,372.00 | \$192.34 | 479 | 53.76% | 199 | 22.33% | 213 | 23.91% | 859 | 0 |
| 12 | 1938 | 956 | \$154,060.00 | \$161.15 | 484 | 50.63% | 252 | 26.36% | 220 | 23.01% | 935 | 0 |
| 13 | 1279 | 653 | \$118,686.00 | \$181.75 | 267 | 40.89% | 174 | 26.65% | 212 | 32.47% | 593 | 0 |
| 14 | 1251 | 625 | \$125,789.00 | \$201.26 | 293 | 46.88% | 147 | 23.52% | 185 | 29.60% | 594 | 0 |
| 15 | 1473 | 726 | \$133,792.00 | \$184.29 | 328 | 45.18% | 178 | 24.52% | 220 | 30.30% | 713 | 0 |
| 16 | 2428 | 1184 | \$164,098.00 | \$138.60 | 630 | 53.21% | 331 | 27.96% | 223 | 18.83% | 1183 | 0 |
| 17 | 1479 | 793 | \$138,221.00 | \$174.30 | 350 | 44.14% | 211 | 26.61% | 232 | 29.26% | 631 | 0 |
| 18 | 1893 | 897 | \$142,181.00 | \$158.51 | 470 | 52.40% | 208 | 23.19% | 219 | 24.41% | 883 | 0 |
| 19 | 2142 | 1153 | \$159,445.00 | \$138.29 | 637 | 55.25% | 289 | 25.07% | 227 | 19.69% | 934 | 0 |
| 20 | 2146 | 1022 | \$154,105.00 | \$150.79 | 575 | 56.26% | 161 | 15.75% | 286 | 27.98% | 1038 | 0 |
| TOTAL | 33836 | 17413 | \$2,872,353.00 | \$164.95 | 8928 | 51.27% | 4174 | 23.97% | 4311 | 24.76% | 15592 | 0 |

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set II-33: Please provide the information required to be filed with the Commission by April 1, 2007 pursuant to 52 Pa. Code § 62.5 concerning calendar year 2006 residential collections and universal service and energy conservation programs.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: This information will be available after April 1, after it is filed with the PUC pursuant to pursuant to 52 Pa. Code § 62.5.

Phil Bertocci

From: Clearfield, Daniel [DClearfield@WOLFBLOCK.com]
Sent: Monday, April 02, 2007 5:28 PM
To: Phil Bertocci
Cc: Coltro, Cristina; Stunder, Gregory
Subject: FW: USRR 2006

Here is the data from the universal services report as you requested during our informal discovery session. This is, in effect, unaudited data, and we are only providing it to you at this point just to minimize the hassle of distributing more widely and then having to adjust. Of course we will let you know if such adjustment is necessary..

Daniel Clearfield
WolfBlock
213 Market St.
PO Box 865
Harrisburg, PA 17108-0865
(717) 237-7173
(fax) (717) 237-2753

-----Original Message-----

From: Coltro, Cristina [mailto:Cristina.Coltro@pgworks.com]
Sent: Monday, April 02, 2007 5:18 PM
To: Gyory, Randall J; Clearfield, Daniel; Stunder, Gregory
Subject: USRR 2006

We have completed entering the data for the Universal Services Reporting Requirements into the PUC website. Attached is a copy of the report I pasted into Excel. My understanding is that you need to send this report to some of the parties. There are 5 tabs on the spreadsheet. Note that the BCS will review these figures, ask questions, and sometimes we need to modify the data accordingly. Let me know if you have questions. Thanks.

Cristina Coltro
Director, Regulatory Compliance
Philadelphia Gas Works
Phone: (215) 684-6785
Fax: (215) 684-6258

Report Year: 2006 Collection Bottom

| Description | All Residential | Conf. Low Income |
|--|-----------------|------------------|
| 1. Total Number (#) - Payment Arrangements | 70,350.00 | 22,733.00 |
| 2. Total Number (#) - Successful Payment Arrangements | 12,482.00 | 5,206.00 |
| 3. Annual Collection Operating Expenses (\$) | \$9,629,280.1 | \$1,444,392.0 |
| 4. Total Dollar Amount (\$) - Gross Residential Write-Offs | \$94,470,467 | \$27,029,576 |
| 5. Total Dollar Amount (\$) - Net Residential Write-Offs | \$83,913,534 | \$82,051,049 |

| 6. Total Number (#) Residential Customers - By Month | | |
|--|------------|------------|
| January | 482,303.00 | 138,308.00 |
| February | 484,015.00 | 138,734.00 |
| March | 484,936.00 | 139,621.00 |
| April | 481,105.00 | 140,438.00 |
| May | 479,379.00 | 140,984.00 |
| June | 477,525.00 | 141,150.00 |
| July | 474,389.00 | 140,966.00 |
| August | 472,239.00 | 140,569.00 |
| September | 472,166.00 | 139,299.00 |
| October | 476,316.00 | 138,092.00 |
| November | 478,966.00 | 137,243.00 |
| December | 479,791.00 | 136,240.00 |

| 7.A. Total Number (#) Residential Accounts in Arrears on Agreements - by Month | | |
|--|-----------|-----------|
| January | 16,799.00 | 7,782.00 |
| February | 19,212.00 | 9,262.00 |
| March | 22,932.00 | 10,866.00 |
| April | 25,185.00 | 11,749.00 |
| May | 28,566.00 | 13,041.00 |
| June | 30,300.00 | 13,937.00 |
| July | 29,593.00 | 13,771.00 |
| August | 26,500.00 | 12,541.00 |
| September | 23,223.00 | 11,154.00 |
| October | 20,128.00 | 9,857.00 |
| November | 17,501.00 | 8,732.00 |
| December | 15,565.00 | 7,842.00 |

| 7.B. Total Number (#) Residential Accounts in Arrears not on Agreements - by Month | | |
|--|------------|-----------|
| January | 107,866.00 | 21,975.00 |
| February | 112,846.00 | 22,182.00 |
| March | 142,452.00 | 22,424.00 |
| April | 146,085.00 | 22,613.00 |
| May | 134,823.00 | 22,795.00 |
| June | 117,700.00 | 22,904.00 |
| July | 100,197.00 | 23,001.00 |
| August | 85,518.00 | 23,114.00 |
| September | 79,600.00 | 23,297.00 |
| October | 65,316.00 | 23,410.00 |
| November | 69,836.00 | 23,532.00 |
| December | 79,005.00 | 23,630.00 |

| 8.A. Total Dollar Amount (\$) Residential Accounts in Arrears on Agreements - by Month | | |
|--|--------------|---------------|
| January | \$17,750,831 | \$9,504,945.0 |
| February | \$22,396,285 | \$12,246,030 |
| March | \$28,399,524 | \$15,446,841 |

| | | |
|---|--------------|--------------|
| April | \$30,579,278 | \$16,705,391 |
| May | \$29,214,352 | \$15,716,522 |
| June | \$26,354,014 | \$14,412,038 |
| July | \$22,754,164 | \$12,612,884 |
| August | \$18,616,686 | \$10,609,557 |
| September | \$15,692,635 | \$9,213,695 |
| October | \$13,492,269 | \$8,084,860 |
| November | \$12,646,340 | \$7,783,895 |
| December | \$12,820,037 | \$7,862,254 |
| 8.8 Total Dollar Amount (\$) Residential Accounts in arrears, not on Agreements By Month | | |
| January | \$50,278,423 | \$15,843,695 |
| February | \$63,774,903 | \$17,586,585 |
| March | \$78,283,042 | \$19,138,171 |
| April | \$77,317,125 | \$20,570,789 |
| May | \$68,818,731 | \$20,214,790 |
| June | \$55,092,028 | \$19,505,397 |
| July | \$41,876,488 | \$18,897,192 |
| August | \$33,837,099 | \$17,906,690 |
| September | \$30,071,547 | \$17,563,561 |
| October | \$20,145,221 | \$17,202,156 |
| November | \$21,877,348 | \$17,180,358 |
| December | \$28,106,207 | \$18,524,031 |
| 9 Total Number (#) Residential Payment troubled customers by month | | |
| January | 48,723.00 | 29,045.00 |
| February | 47,739.00 | 28,087.00 |
| March | 46,648.00 | 27,366.00 |
| April | 45,559.00 | 26,406.00 |
| May | 43,783.00 | 24,853.00 |
| June | 42,802.00 | 23,760.00 |
| July | 41,737.00 | 22,983.00 |
| August | 41,374.00 | 22,513.00 |
| September | 41,252.00 | 22,372.00 |
| October | 40,790.00 | 21,900.00 |
| November | 40,303.00 | 21,470.00 |
| December | 39,575.00 | 20,832.00 |
| 10 Total Number (#) Terminations by Month | | |
| January | 373.00 | 3.00 |
| February | 4.00 | 1.00 |
| March | 35.00 | 14.00 |
| April | 4,655.00 | 1,780.00 |
| May | 5,176.00 | 2,488.00 |
| June | 5,899.00 | 2,473.00 |
| July | 5,338.00 | 2,815.00 |
| August | 6,226.00 | 3,234.00 |
| September | 4,763.00 | 2,668.00 |
| October | 3,556.00 | 1,876.00 |
| November | 926.00 | 665.00 |
| December | 193.00 | 4.00 |
| 11 Total Number (#) Reconnections by Month | | |
| January | 1,039.00 | 59.00 |
| February | 950.00 | 67.00 |
| March | 754.00 | 46.00 |

| | | |
|-----------|----------|----------|
| April | 1,127.00 | 532.00 |
| May | 1,444.00 | 1,071.00 |
| June | 1,373.00 | 1,110.00 |
| July | 1,249.00 | 1,048.00 |
| August | 2,234.00 | 1,456.00 |
| September | 2,353.00 | 1,833.00 |
| October | 4,527.00 | 2,027.00 |
| November | 3,540.00 | 1,435.00 |
| December | 2,283.00 | 635.00 |

| | | |
|---|------------|--|
| Total Number (#) Low Income Households (Accounts) (Estimated) | 152,540.00 | |
| Submit Estimation Methodology in a Separate Document | | |

| | | |
|--|--------------|--------------|
| 12.B. Annual Residential Revenues (\$) | \$632,699,25 | \$75,932,910 |
|--|--------------|--------------|

| Report Year: 2006 | LIURP Bottom |
|--|----------------|
| Description | Value |
| 13. Program Costs (\$)/Actual Spending for the Year Just Completed | \$2,118,621.00 |
| 14. Number of Household Members Under Age 18 | 0.73 |
| 15. Number of Household Members Over Age 62 | 0.16 |
| 16. Household Size | 2.28 |
| 17. Income (\$) | \$11,231.00 |
| 18. Source of Income | |
| Employment | 755.00 |
| Public Assistance | 221.00 |
| Pension/Retirement | 736.00 |
| Unemployment Compensation | 82.00 |
| Disability | 804.00 |
| Other (includes Missing Data) | 149.00 |
| 19. Participation Levels By Month (#) - Reporting Year | |
| Heating Jobs | |
| January | 186.00 |
| February | 199.00 |
| March | 277.00 |
| April | 264.00 |
| May | 213.00 |
| June | 269.00 |
| July | 331.00 |
| August | 128.00 |
| September | 261.00 |
| October | 201.00 |
| November | 223.00 |
| December | 195.00 |
| Water Heating Jobs | |
| January | 0.00 |
| February | 0.00 |
| March | 0.00 |
| April | 0.00 |
| May | 0.00 |
| June | 0.00 |
| July | 0.00 |
| August | 0.00 |
| September | 0.00 |
| October | 0.00 |
| November | 0.00 |
| December | 0.00 |
| Baseload Jobs | |
| January | 0.00 |
| February | 0.00 |
| March | 0.00 |
| April | 0.00 |
| May | 0.00 |
| June | 0.00 |
| July | 0.00 |
| August | 0.00 |

| | |
|--|-----------------------|
| September | 0.00 |
| October | 0.00 |
| November | 0.00 |
| December | 0.00 |
| 20. Projected Spending for Current Year (\$) | \$2,200,000.00 |
| 21. Projected Annual Production Number (#) - Current year | |
| Heating Jobs | 2,500.00 |
| Water Heating Jobs | 0.00 |
| Baseload Jobs | 0.00 |
| 22. Average Job Costs (\$) | |
| Heating Jobs | \$771.00 |
| Water Heating Jobs | \$0.00 |
| Baseload Jobs | \$0.00 |
| 22.A. Source of Intake | |
| Distribution Company | 2,747.00 |
| Community-Based Organization | 0.00 |
| Other | 0.00 |
| 22.B. Participants in Multiple Programs | |
| LIURP and CAP | 2,738.00 |
| LIURP and CARES | 0.00 |
| LIURP and Hardship Fund | 4.00 |
| LIURP, CAP and CARES | 0.00 |
| LIURP, CAP and Hardship Fund | 5.00 |
| LIURP, CARES and Hardship Fund | 0.00 |
| LIURP, CAP, CARES and Hardship Fund | 0.00 |
| Top | |

| Report Year: 2006 | CAP Bottom |
|---|-----------------|
| Description | Value |
| 23. Program Costs - Administration (\$) | \$2,400,000.00 |
| 24. Program Costs - CAP Credits (\$) | \$90,229,925.00 |
| 25. Program Costs - Preprogram Arrearage Forgiveness (\$) | \$10,103,188.00 |
| Program Costs - CAP Accounts in Arrears - (\$) | |
| 26.A. Program Costs - CAP Accounts in Arrears - not on a Payment Agreement (\$) | \$0.00 |
| 26.B. Program Costs - CAP Accounts in Arrears - on a Payment Agreement (\$) | \$0.00 |
| Program Costs - CAP Accounts in Arrears - (#) | |
| 27.A. Program Costs - CAP Accounts in Arrears - not on a Payment Agreement (#) | 0.00 |
| 27.B. Program Costs - CAP Accounts in Arrears - on a Payment Agreement (#) | 0.00 |
| 28. Number of Household Members Under Age 18 | 0.83 |
| 29. Number of Household Members Over Age 62 | 0.11 |
| 30. Household Size | 2.42 |
| 31. Income (\$) | \$10,373.00 |
| 32. Source of Income | |
| Employment | 23,291.00 |
| Public Assistance | 10,375.00 |
| Pension/Retirement | 15,457.00 |
| Unemployment Compensation | 2,502.00 |
| Disability | 20,100.00 |
| Other (includes Missing Data) | 4,958.00 |
| Participation Levels By Month | |
| 33. Income at or below 50% of Poverty (#) | |
| January | 18,211.00 |
| February | 18,461.00 |
| March | 18,231.00 |
| April | 19,084.00 |
| May | 19,149.00 |
| June | 19,252.00 |
| July | 19,272.00 |
| August | 19,250.00 |
| September | 19,186.00 |
| October | 19,363.00 |
| November | 19,402.00 |
| December | 19,495.00 |
| 34. Income between 51% and 100% of Poverty (#) | |
| January | 36,693.00 |
| February | 37,902.00 |
| March | 38,140.00 |
| April | 39,492.00 |
| May | 39,712.00 |
| June | 39,792.00 |
| July | 39,879.00 |
| August | 39,729.00 |
| September | 39,439.00 |
| October | 39,559.00 |

| | |
|--|-----------|
| November | 39,711.00 |
| December | 40,230.00 |
| 35. Income between 101% and 150% of Poverty (#) | |
| January | 14,044.00 |
| February | 14,791.00 |
| March | 15,119.00 |
| April | 15,647.00 |
| May | 15,874.00 |
| June | 15,993.00 |
| July | 16,004.00 |
| August | 15,904.00 |
| September | 15,673.00 |
| October | 15,718.00 |
| November | 15,980.00 |
| December | 16,320.00 |

| | |
|--|------------|
| 36. Participation Levels : Default Exits - Income at or below 50% of Poverty (#) | 8,040.00 |
| 37. Participation Levels : Default Exits - Income between 51% and 100% of Poverty (#) | 13,892.00 |
| 38. Participation Levels : Default Exits - Income between 101% and 150% of Poverty (#) | 6,963.00 |
| 39. Participation Levels : Exits other than Defaults (#) | 9,169.00 |
| 40. Energy Assistance Benefits (\$) | 16,763,675 |
| 41. Energy Assistance Benefits (#) | 59,892.00 |

| | |
|---|-----------|
| 42. Number of Full CAP Payments by Month | |
| January | 22,172.00 |
| February | 21,890.00 |
| March | 26,237.00 |
| April | 22,976.00 |
| May | 25,287.00 |
| June | 24,196.00 |
| July | 21,825.00 |
| August | 22,795.00 |
| September | 21,233.00 |
| October | 23,417.00 |
| November | 21,300.00 |
| December | 19,423.00 |

| | |
|---|--------------|
| 43. Total Annual CAP Billed Amount - (used to calculate Average CAP Bills) (\$) | \$70,259,821 |
|---|--------------|

| | |
|--|-----------|
| 44. Total Number of CAP Bills Rendered by Month (#) | |
| January | 68,948.00 |
| February | 71,154.00 |
| March | 71,490.00 |
| April | 74,223.00 |
| May | 74,735.00 |
| June | 75,037.00 |
| July | 75,155.00 |
| August | 74,883.00 |
| September | 74,298.00 |
| October | 74,640.00 |
| November | 75,093.00 |

| | |
|--|-------------|
| December | 76,045.00 |
| 45. Total Cash Payments by CAP Customers (\$) | \$63,125.16 |
| 46. Number of Full On-Time Payments (#) | 0.00 |
| 46.A. Source of Intake | |
| Distribution Company | 885,701.00 |
| Community Based Organization | 0.00 |
| Other | 0.00 |
| 46.B. Participants in Multiple Programs | |
| CAP and LIURP | 2,425.00 |
| CAP and CARES | 34.00 |
| CAP and Hardship Fund | 382.00 |
| CAP, LIURP and CARES | 0.00 |
| CAP, LIURP and Hardship Fund | 5.00 |
| CAP, CARES and Hardship Fund | 0.00 |
| CAP, LIURP, CARES and Hardship Fund | 0.00 |
| Top | |

Report Year: 2006 CARES Bottom

Description Value

| | |
|--|-------------|
| 47. Program Costs (\$) | \$0.00 |
| 48. Number of Household Members Under Age 18 | 10.94 |
| 49. Number of Household Members Over Age 62 | 10.05 |
| 50. Household Size | 2.98 |
| 51. Income (\$) | \$10,958.00 |

52. Source of Income

| | |
|-------------------------------|-------|
| Employment | 12.00 |
| Public Assistance | 9.00 |
| Pension/Retirement | 9.00 |
| Unemployment Compensation | 1.00 |
| Disability | 13.00 |
| Other (includes Missing Data) | 19.00 |

53. Participation Levels By Month

| | |
|-----------|-------|
| January | 1.00 |
| February | 2.00 |
| March | 4.00 |
| April | 2.00 |
| May | 2.00 |
| June | 1.00 |
| July | 1.00 |
| August | 5.00 |
| September | 2.00 |
| October | 4.00 |
| November | 32.00 |
| December | 7.00 |

54. Energy Assistance Benefits (\$) - LIHEAP Cash Grants (CARES) \$4,215.00

55. Energy Assistance Benefits (#) - LIHEAP Cash Grants (CARES) 17.00

56. Energy Assistance Benefits (\$) - LIHEAP Crisis Grants (CARES) \$6,479.00

57. Energy Assistance Benefits (#) - LIHEAP Crisis Grants (CARES) 15.00

58. Energy Assistance Benefits (\$) - Outreach Efforts - LIHEAP Cash Grants (Total) \$15,382,970

59. Energy Assistance Benefits (#) - Outreach Efforts - LIHEAP Cash Grants (Total) 65,157.00

60. Energy Assistance Benefits (\$) - Outreach Efforts - LIHEAP Crisis Grants (Total) \$8,494,206.00

61. Energy Assistance Benefits (#) - Outreach Efforts - LIHEAP Crisis Grants (Total) 21,593.00

62. Direct Dollars Applied to CARES Accounts (\$) \$10,694.00

63. Direct Dollars Applied to CARES Accounts (#) 32.00

64. CARES Benefits (#) - Number of Customers Referred to CARES 32.00

65. CARES Benefits (#) - Number of Customers Accepted into CARES 32.00

65.A. Source of Intake

| | |
|------------------------------|-------|
| Distribution Company | 63.00 |
| Community-Based Organization | 0.00 |
| Other | 0.00 |

65.B. Participants in Multiple Programs

| | |
|-------------------------------------|-------|
| CARES and LIURP | 0.00 |
| CARES and CAP | 34.00 |
| CARES and Hardship Fund | 0.00 |
| CARES, LIURP and CAP | 0.00 |
| CARES, LIURP and Hardship Fund | 0.00 |
| CARES, CAP and Hardship Fund | 0.00 |
| CARES, LIURP, CAP and Hardship Fund | 0.00 |
| Top | |

Report Year: 2006 Hardship Funds Bottom

| Description | Value |
|--|----------------|
| 66. Program Costs (Administrative Costs Only) | |
| Administrative Costs from Rate Base (\$) | \$1,693,398.00 |
| Administrative Costs from Shareholders (\$) | \$0.00 |
| 67. Number of Household Members Under Age 18 | 0.53 |
| 68. Number of Household Members Over Age 62 | 0.03 |
| 69. Household Size | 3.00 |
| 70. Income (\$) | \$10,416.00 |
| 71. Source of Income | |
| Employment | \$249.00 |
| Public Assistance | \$147.00 |
| Pension/Retirement | \$136.00 |
| Unemployment Compensation | \$40.00 |
| Disability | \$209.00 |
| Other (includes Missing Data) | \$497.00 |
| 72. Participation Levels By Month (#) | |
| November | \$51.00 |
| December | \$1.00 |
| January | \$3.00 |
| February | \$1.00 |
| March | \$0.00 |
| April | \$17.00 |
| May | \$97.00 |
| June | \$221.00 |
| July | \$190.00 |
| August | \$192.00 |
| September | \$218.00 |
| October | \$192.00 |
| 73. Ratepayer/Employee Contributions (\$) | \$1,922.00 |
| 74. Special Contributions (\$) | |
| Citizens Energy Corporation | \$0.00 |
| Companies Other Than Utilities | \$0.00 |
| Settlements and fines | \$0.00 |
| Other | \$0.00 |
| 75. Utility Contributions (\$) - Initial grant (excluding admin. \$ and grants dependent on ratepayer match) | \$265,114.00 |
| 76. Utility Contributions (\$) - (excluding #66 and #75) | \$0.00 |
| 77. Utility Contributions (\$) - (dependent upon a match from customer contributions) | \$0.00 |
| 78. Outreach Contacts (Name of Agency, Address and Telephone #) | |
| This is a general list | |
| Hardship Fund Benefits | |
| 79. Cash Benefits (#) | 1,283.00 |
| 80. Cash Benefits (\$) | \$586,490.00 |
| 80.A. Source of Intake | |

| | |
|--|----------|
| Distribution Company | 0.00 |
| Community-Based Organization | 1,283.00 |
| Other | 0.00 |
| 80:B: Participants in Multiple Programs | |
| Hardship Fund and LIURP | 4.00 |
| Hardship Fund and CAP | 382.00 |
| Hardship Fund and CARES | 0.00 |
| Hardship Fund, LIURP and CAP | 5.00 |
| Hardship Fund, LIURP and CARES | 0.00 |
| Hardship Fund, CARES and CAP | 0.00 |
| Hardship Fund, LIURP, CAP and CARES | 0.00 |
| Top | |

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-I-41: With reference to proposed Tariff Section 8.3.B. contained at First Revised Page No. 44, Supplement No. 16:

a. Does the addition of the words "in PGW's sole discretion" mean that the Commission has no authority to review the Company's determination concerning what constitutes "satisfactory assurance ...that no damage or unauthorized interference or diversion or use will be caused in the future"?

b. If the answer to the previous question is affirmative, please provide the statutory authority and/or Commission precedent justifying this response.

Response Provided By: Randy Gyory, Vice President of Customer Affairs

Response: a. No. A reference to "PGW's sole discretion" means that no other person or entity, other than the Commission in response to a complaint or its own investigation, shall have input into the decision.

b. N/A

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-I-45:

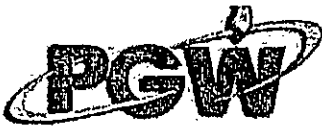
PGW's current Tariff Section 2.4.C. provides:
"Notification of Rejection. Where PGW rejects an application for Gas Service, PGW shall inform the Applicant in writing of: (1) the specific reason(s) why service is not being provided, (2) any conditions that must be met in order to obtain service; (3) an itemization of the amount for any charges that must be paid in order to obtain service; (4) a description of the process by which the Applicant can Dispute PGW's decision." The proposed Tariff eliminates this provision. Other than the policy determination that PGW does not want to be bound by any customer service rules and regulations other than those set forth in the PUC rules and regulations, the Public Utility Code, and legally binding Court and PUC decisions interpreting those rules, regulations and law, why does PGW believe that it is unreasonable to be required to provide such a written notice?

Response Provided By:

Randy Gyory, Vice President of Customer Affairs

Response:

PGW is not seeking a wholesale removal of the "Notification of Rejection" provision. The proposed new "Notification of Rejection" language reads: "2.4.C. Notification of Rejection. Where PGW rejects and application for Gas Service, PGW shall inform the Applicant as required by Applicable Law." The revised provision seeks to conform the Tariff to applicable law (as defined in the proposed Tariff), 52 Pa.Code § 56.36 currently requires that PGW provide written notification to applicants whenever an applicant's credit application is denied, providing the reasons for such denial. PGW has determined that the principal bases for denying an applicant's request for service generally implicate a denial of credit and therefore PGW's procedure is to provide a written notification of denial. PGW's current denial of application letter is attached. The letter sets for the circumstances in which this written denial is provided.



Philadelphia Gas Works

Residential Credit Statement

Date: 03/16/2007

Account Number:

Name:

Service Address:

After reviewing your application for service, PGW is unable to provide you with gas service because you have failed to satisfy one or more of the following conditions:

- Conditions for service denial: pay debt, provide ID, documentation, credit standards.

In order to establish your account you must do the following:

- Requirements for account establishment: pay fees, pay balance, cash deposit, ID, residency, credit standards, sponsor.

Remarks:

Representative
Customer Service Center

Payroll Number

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-I-47: PGW's current Tariff Section 8.3.D states: "Service. The Company shall not refuse to provide Gas Service to an Applicant who is not responsible for the damage or for the unauthorized use of Gas." Other than the policy determination that PGW does not want to be bound by any customer service rules and regulations other than those set forth in the PUC rules and regulations, the Public Utility Code, and legally binding Court and PUC decisions interpreting those rules, regulations and law, why does PGW believe that it is unreasonable to retain a provision which protects persons who are innocent of any tampering or theft of service from being charged for gas provided as a result of self turn-on, meter tampering or meter by-pass committed by another person?

Response Provided By: Randy Gyory, Vice President of Customer Affairs

Response: PGW's position -- and the goal of its proposed tariff changes -- is that its Tariff should reflect all legally required customer service procedures imposed by current law and regulations (as well as any future modifications/amendments). Any procedures which are not required by current law, etc. may appropriately be reflected in PGW's policies, which can be more easily modified if circumstances or needs change. Current law and regulations do not seek to hold innocent persons responsible for tampering or theft. Thus, there is no change in the rights of customers as a result of this revision.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-I-48:

With reference to Tariff Section 5.2.B ("Prior to termination of any Tenant-occupied property with Residential Gas Service, PGW will comply with the provisions of the PA. Utility Services Tenants Rights Act, 68 P.S. § 399.1 et seq."):

- a. Please explain why PGW does not reference the "USTRA-type" statute contained at 66 Pa.C.S. § 1521 et seq. which is applicable to utilities regulated by the PUC;
- b. Please provide a copy of the termination notice to landlords which PGW utilizes in situations where the landlord is responsible for utility service provided to tenants;
- c. Please provide a copy of the first termination notice to tenants which PGW utilizes in situations where a landlord is delinquent on bills for utility service provided to tenants.

Response Provided By:

Randy Gyory, Vice President of Customer Affairs

Response:

- a. Pursuant to section 1.3 of the proposed Tariff, the "USTRA-type" statute, 66 Pa.C.S. § 1521, et seq., is made part of this Tariff.
- b. PGW is in the process of revising and updating this notice and USTRA non-payment terminations are currently suspended.
- c. PGW is in the process of revising and updating this notice and USTRA non-payment terminations are currently suspended.

5/22/07
Phil
W.J.H

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY
COMMISSION :

v. :

Docket No. R-00061931

PHILADELPHIA GAS WORKS :

REBUTTAL TESTIMONY OF HARRY S. GELLER

ON BEHALF OF ACTION ALLIANCE et al.

(ACTION ALLIANCE OF SENIOR CITIZENS
OF GREATER PHILADELPHIA AND
TENANT UNION REPRESENTATIVE NETWORK)

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PA PUBLIC UTILITY COMMISSION
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1 that all members of the public, particularly those who would not otherwise be able to
2 afford utility service, may share in the benefits derived from the rights granted under law
3 to utility companies.

4
5 Universal service programs are public purpose programs, which are made necessary by
6 the fact that our economic and social structure does not, in itself, assure that all citizens
7 will always have the economic resources to pay for the basic necessities of life. It is not
8 appropriate to think about allocating the costs of universal services programs as if the
9 causes of these costs could be allocated to a particular class. Poverty (often aggravated
10 by ill-health and disabilities) is a result of general economic and social forces in which all
11 customer classes participate, and the cause of the inability of the participants in PGW's
12 CAP programs to pay standard residential rates should not be attributed only to the
13 residential class as opposed to the non-residential classes. For this reason, universal
14 service costs should always be allocated to all firm service classes. This is especially true
15 for a municipally owned utility like PGW. In a 2002 independent evaluation of the PGW
16 universal service programs, the evaluators noted that the Philadelphia Gas Works'
17 universal service programs are "a key component of the economic security of the City of
18 Philadelphia."¹ In proposing to continue to allocate universal service costs to all customer
19 classes, the City of Philadelphia, as PGW's owner, fully recognizes the public purpose
20 nature of these costs.

21
22 Moreover, universal service costs benefit not just the customers who participate in
23 universal service programs, but all customer classes. For the low-income workforce,
24 unaffordable utility bills and service terminations produce frequent mobility of
25 households and more frequent illnesses for family members. These results, in turn,
26 impact negatively on an employee's productivity due to missed work days and household

¹ *Philadelphia Gas Works Universal Service Programs: A Long-Term Perspective for Universal Services at PGW*, June 17, 2002, p. 1. This testimony is part of the record in Re: Philadelphia Gas Works Restructuring Proceeding, Docket No. M- 00021612, PGW ST. No.8 (Cristina Coltro), Exhibit CC-2, Report 3, contained in Supporting Documentation, Prepared Direct Testimony, Volume I(B).

1 related stress. Increased workforce productivity benefits all customer classes,
2 commercial, industrial and residential.

3
4 **Q. Do you agree with Mr. Knecht's testimony that the Commission's Final**
5 **Investigatory Order in Customer Assistance Programs: Funding Levels and Cost**
6 **Recovery Mechanisms, Docket No. M – 00051923 (Order entered December 18,**
7 **2006) requires that the Commission allocate universal service costs only to the**
8 **residential class (OSBA St. 1, at 30)?**

9
10 **A.** No. The issue of allocation of universal service costs for PGW, the only municipally
11 owned utility regulated by the PUC, remains an open question. In PGW's restructuring
12 case, the Commission specifically deferred consideration of this issue on the grounds that
13 allocation proposals which could result in inter or intra class cost shifting were barred
14 from consideration in a restructuring case.² In the recent investigation concerning CAP
15 funding levels and cost recovery mechanisms, the Commission declined to adopt a policy
16 of requiring investor owned electric and gas utilities to allocate universal service costs to
17 all customer classes; to initiate such a policy change, the Commission stated, could have
18 a detrimental impact on state economic conditions.³ In contrast, the longstanding
19 historical policy at PGW, has been to allocate universal service costs to all firm customer
20 classes. For the Commission to restrict allocation of universal service costs to the
21 residential class would, in PGW's case, involve not an affirmation of the current policy,
22 but rather the unwarranted extension of a policy preference without regard to the unique
23 circumstances of PGW as a municipally owned utility with an extraordinary number of
24 low-income customers in need of the benefits provided by its substantial CRP programs.

25
26 **Q. What weight should the Commission give to PGW's municipally owned status in**
27 **addressing this issue?**

² PA PUC v. Philadelphia Gas Works, Docket No. M – 00021612 (Order entered March 31, 2003), at 19-21, 62-64.

³ Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms, Docket No. M – 00051923 (Order entered December 18, 2006), at 31.

1
2 A. PGW's status as a municipally owned utility is important and must be considered,
3 especially where as here, PGW itself proposes to continue to allocate universal service
4 costs over all firm customer classes. Importantly, although the Natural Gas Choice and
5 Competition Act transferred jurisdiction over PGW to the Commission, the Act
6 nevertheless specified the intent not to limit the City of Philadelphia as owner of PGW to
7 determine the "powers, functions, budgets, activities and mission" of PGW including its
8 "governance, management or control."⁴

9
10 As I have stressed in my Direct Testimony, the vitality of PGW's universal service
11 programs is especially important in Philadelphia, where about a third of the company's
12 customers are estimated to have incomes which would qualify them for participation in
13 PGW's CAP program. In specifically preserving the City's authority to determine
14 PGW's "mission," the General Assembly recognized that the City, as the owner and the
15 government responsible for the social and economic welfare of the City's inhabitants,
16 should be allowed, subject to constitutional limitations, to tailor PGW's rate structure in
17 order to maximize support for universal service programs essential to the public welfare,
18 helping the poorest and most vulnerable Philadelphians to afford needed gas service.

19
20 In the case of PGW, the utility's owner, the City of Philadelphia, is also charged, along
21 with the commission, with serving an important public interest concerning a community
22 of well over one million people, not merely a private interest. In proposing that universal
23 service costs should continue to be allocated to all firm customer classes, PGW asserts
24 not a private profit-making interest, but a governmental determination focused on the
25 public welfare. In light of the extreme poverty of one third of PGW's customer base, the
26 City has determined that the substantial burdens associated with PGW's universal service
27 programs must be spread as widely as possible. The City is no doubt fully aware of
28 generalized economic development concerns and capable of determining that
29 contribution by all classes addresses these concerns. For this reason, PGW's proposals

⁴ 66 Pa.C.S. § 2212(s).

1 concerning universal service cost allocations are entitled to substantial deference from the
2 PUC.

3
4 **Q. In your view, do the sheer numbers of low-income PGW customers (as a percentage**
5 **of all PGW customers) weigh in favor of accepting PGW's proposal that universal**
6 **service costs be recovered from all firm customer classes, not just the residential**
7 **class?**

8
9 **A.** Yes. As the Commission's 2005 Report on Universal Service Programs & Performance
10 indicates, the demographics of PGW's residential customer base are truly extraordinary,
11 when compared to other Pennsylvania natural gas utilities. For instance, in 2005, PGW
12 had 157,000 low-income residential customers (customers with household incomes at or
13 below 150% FPL), constituting 33% of its customer base.⁵ By contrast, the natural gas
14 utility with the second highest percentage of low-income customers is Dominion, with
15 24%, which in absolute numbers represents only half as many low income customers as
16 PGW.⁶ Overall, PGW excluded, low-income natural gas customers represent 18% of the
17 customer base for Pennsylvania natural gas utilities.⁷ On the electric side, Penelec has
18 the highest percentage of low-income customers, who constitute 24% of the company's
19 customer base; statewide, low-income customers constitute 19% of the total number of
20 electric customers.⁸ These demographics would justify as in the public interest, a
21 continuation of the present policy to promote universal services through contribution by
22 all classes.

23
24 National experience shows that under circumstances where customer demands on
25 universal service programs are exceptionally large, regulators have recognized the
26 advisability of spreading the costs of those programs as widely as possible. For example,

⁵ 2005 Report on Universal Service Programs & Collection Performance, Pa. PUC, at 8.

⁶ Id., at 8.

⁷ Id., at 7, 8.

⁸ Id., at 8.

1 as the Office of Consumer Advocate reported in the Commission's investigation
2 Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms, the
3 states with the largest low-income assistance programs invariably recognized the need to
4 allocate the substantial costs of those programs to all firm customer classes, not just the
5 residential class.⁹ Similarly, given the substantial size of PGW's CAP program, and the
6 obvious need to increase enrollment further, the Commission should support the utility's
7 proposal to allocate universal service costs to all customer classes.
8

9 **Q. Mr. Knecht suggests that reallocation of universal service costs from all firm
10 customer classes to the residential class over three years would not impose an
11 "insurmountable" problem for residential customers. Do you agree?**
12

13 **A.** No. Mr. Knecht's Table IEC-4 provides the incremental percentage increase for
14 residential customers for the first year of a three year phase in, not the total incremental
15 percentage increase on monthly bills above current levels that would occur in the second
16 and third year due to his proposed reallocation of universal service costs.¹⁰ PGW
17 residential customers already pay the highest rates in the state.¹¹ PGW is requesting a
18 substantial base rate increase which would increase residential monthly bills by almost
19 10%. Residential customers should not be made to assume in addition the exclusive
20 burden of paying the public purpose costs of universal service.
21

22 **Q. Please summarize your testimony.**
23

24 **A.** The Commission should reject the OSBA's recommendation that universal service costs
25 for PGW customers be allocated only to the residential class. Neither the Public Utility
26 Code, the Gas Choice Act, nor Commission precedent mandates that the Commission
27 reject PGW's proposal to continue its longstanding, historical method of allocating such

⁹ Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms,
Docket No. M – 00051923 (Order entered December 18, 2006), at 28-29.

¹⁰ OSBA St. 1, at 32.

¹¹ OCA St. 1, Schedule 4.

1 costs on a volumetric basis to all firm customer classes. The Gas Choice Act recognizes
2 PGW's uniqueness as the sole municipally owned utility under PUC jurisdiction, and
3 acknowledges that as owner of PGW, the City of Philadelphia retains the prerogative to
4 utilize PGW in a way that coordinates best with the City's efforts to further universal
5 service and the public welfare. The sheer numbers of PGW low-income customers, as a
6 percentage of PGW's customer base, in comparison to all other utilities in Pennsylvania,
7 justifies adoption of a rate design for universal services funding which spreads universal
8 service costs as broadly as possible. In my Direct Testimony, I stressed that the annual
9 level of service terminations and the inability of thousands of low-income customers to
10 obtain service reconnection even as the cold weather approaches compels the
11 Commission to take a fresh approach to evaluating the reasonableness of PGW's service
12 and the adequacy of methods heretofore utilized to achieve universal service goals.
13 Consistent with this testimony, the Commission should recognize PGW's unique
14 circumstances and the City's interest in continuing its present policy and method of
15 funding universal service. As PGW emphasizes, the public welfare in Philadelphia
16 requires that the utility's universal services program be funded by all rate classes, not just
17 the residential class.

18
19 **Q. Does this conclude your testimony?**

20
21 **A. Yes.**

Action Alliance Statement No. 1-SR

5/22/07

Phls

WJH

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :

v. :

Docket No. R-00061931

PHILADELPHIA GAS WORKS :

SURREBUTTAL TESTIMONY OF HARRY S. GELLER

ON BEHALF OF ACTION ALLIANCE et al.

(ACTION ALLIANCE OF SENIOR CITIZENS
OF GREATER PHILADELPHIA AND
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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

1 **Surrebuttal Testimony of Harry S. Geller**

2
3 **Q. Please state your name, occupation and business address.**

4
5 **A.** My name is Harry S. Geller. I am Executive Director of the Pennsylvania Utility Law
6 Project (“PULP”). My business address is 118 Locust St., Harrisburg, PA.
7

8 **Q. Have you previously submitted testimony on behalf of Action Alliance et al. in this**
9 **proceeding?**

10
11 **A.** Yes.
12

13 **Q. Have you had an opportunity to review the Rebuttal Testimony of Randall Gyory**
14 **(PGW St. 6R) and the Rebuttal Testimony of Cristina Coltro (PGW St. 7R) filed on**
15 **behalf of the Philadelphia Gas Works in this proceeding?**

16
17 **A.** Yes.
18

19 **Q. Please explain the purpose of your Surrebuttal Testimony.**

20
21 **A.** The purpose of my testimony is to respond to portions of the Rebuttal Testimony offered
22 by PGW witnesses Randall Gyory and Cristina Coltro. I will first address the Rebuttal
23 Testimony of Randall Gyory concerning his criticisms of some of my conclusions
24 underlying my assessment that PGW is violating the Public Utility Code’s Section 1501
25 requirement that it provide service which is “reasonably continuous and without
26 unreasonable interruptions and delay.” I will then address the Rebuttal Testimony of
27 Cristina Coltro concerning the adequacy of PGW’s customer assistance programs,
28 including the Customer Responsibility Program (CRP), CARES and Hardship Fund
29 contributions.

1
2 **SURREBUTTAL TESTIMONY ADDRESSED TO REBUTTAL TESTIMONY OF**
3 **RANDALL GYORY**
4

5 **Q. Do you agree with PGW's overall characterization of your testimony? (Gyory, at 2,**
6 **lines 6-22).**

7
8 **A.** No. PGW mischaracterizes the main emphases of my testimony in several respects.

9
10 First, PGW suggests that my basic point is that PGW terminates service to too many
11 customers. However, my basic point is that PGW policies have resulted, for each of the
12 past two years, in over 9,000 customers, about half of whom are low income, being
13 without heat related service at the beginning of the Cold Weather months. While it is true
14 that many customers have suffered service terminations, I have focused on the fact that
15 significant numbers of customers are terminated, who, having been unable to avoid
16 termination, have also been precluded from obtaining service reconnection, even at the
17 time of year when service reconnection is most necessary. Mr. Gyory's rebuttal does not
18 even address the fact that 9,000 customers were without service at the time of the Cold
19 Weather Survey.

20
21 Second, PGW suggests that I have accused PGW of systematic violation of Chapter 14
22 provisions, and reproaches me with presenting no evidence of any violations. However,
23 while I express doubts about PGW's interpretation of certain Chapter 14 standards, my
24 primary focus is that 9,000 PGW customers were unable to obtain service reconnection at
25 the onset of Cold Weather and that the company has failed to adjust its policies to
26 respond to this fact. This level of households without service entering the winter is
27 unreasonable and unacceptable and should be addressed by policy modifications. This
28 situation constitutes a violation of Public Utility Code Section 1501 – which mandates
29 that public utilities provide “reasonably continuous service without unreasonable
30 interruptions or delays.” This result, repeated two years in a row, also calls into question

1 whether PGW is meeting its universal service obligations as set forth in the Gas Choice
2 Act § 2203(7).

3
4 Third, PGW claims that I have misrepresented its operating procedures and inaccurately
5 depicted the opportunities provided to PGW's low income customers. However, the
6 issue is not merely what PGW has done up to now to assist low and lower income
7 customers, but rather whether those actions adequately address the admittedly substantial
8 needs of PGW's customer base. The fact that so many low and lower income customers
9 were unable to avoid termination, and once terminated, were unable to obtain service
10 reconnection before the onset of winter speaks for itself. Policy changes are clearly
11 needed.

12
13 **Q. Do you accept PGW's claim that you have provided no evidentiary support for your**
14 **claim that the Company has given insufficient weight to the important policy**
15 **reasons for minimizing residential terminations? (Gyory, at 5:18-24; 6:1-2).**

16
17 **A.** No. PGW's response focuses on the size and affordability of its CAP program, the
18 Customer Responsibility Program (CRP). In my testimony, I have identified PGW
19 policies and practices which are likely to result in unaffordable payment agreement terms,
20 unnecessary terminations, and even more unaffordable reconnection terms.

21
22 **Q. Do you agree with PGW's criticisms of your discussion of the Company's policies**
23 **regarding reconnection terms for CRP customers and Level 2 customers who have**
24 **previously been on CRP and have CRP arrearages? (Gyory, at 6: 21-24).**

25
26 **A.** No. My criticism is not with the CRP program itself, as PGW suggests, but with how
27 PGW has handled the needs of terminated CRP customers who even by the beginning of
28 winter, have not been able to meet PGW's terms for reconnection. According to the Cold
29 Weather Survey, there were 3,023 CRP customers whose service had been terminated in

1 2006 and who were still without service as of December 1, 2006. By any standard, this
2 high number of low-income households without service has to be a cause for concern and
3 calls into question the reasonableness of PGW's policies. Although the CRP program is
4 of enormous assistance to many low income PGW customers, it is based on affordability
5 standards which are a significant challenge to many CRP participants. PGW appears not
6 to have even collected data necessary to understand how this situation has developed.¹
7

8 It is not reasonable for PGW to deny responsibility for this situation, which it has allowed
9 to develop, on the superficial grounds that no specific provision of Chapter 14 or Chapter
10 56 requires that these customers be offered payment terms that they are able to satisfy.
11

12 **Q. Do you agree with PGW's claim that its reconnection fee is reasonable because it**
13 **reflects the actual cost incurred to reconnect a customer who has been terminated**
14 **for non-payment? (Gyory, at 7:19-23; 8:1-4).**

15
16 **A.** No. PGW impermissibly ignores the context within which it levies its reconnection fee.
17 The issue is whether the amount of the reconnection fee unduly impairs access to service
18 reconnection. Once service has been terminated, low and lower income customers have
19 difficulty obtaining reconnection. PGW's high number of customers without service at
20 the onset of winter attests to that fact. PGW's reconnection fee, when compared to that of
21 other utilities, is very high. This is a barrier to reconnection that could be lowered,
22 without significant adverse effect on PGW's financial stability.
23

24 **Q. Do you agree with PGW's criticisms of your recommendation that PGW waive its**
25 **\$372 dig-up charge for low-income customers, and allow Level 2 customers to pay it**
26 **in installments? (Gyory, at 8:7-22; 9:1-6).**

27
28 **A.** No. The amount of the excavation charge is three times greater than the reconnection

¹ See the Response to AA-Set II-13, attached as Exhibit HSG-28.

1 charge, and is an even greater barrier to service reconnection for low and lower income
2 customers. Moreover, it impacts customers who, through no fault of their own, happen to
3 inhabit a residential dwelling which does not have a curb valve. Only about one half of
4 the residential properties served by PGW are equipped with curb valves. PGW even
5 rejects the suggestion that the excavation charge should be made payable in installments
6 for Level 2 customers, asserting that such a requirement would make their reconnection
7 agreements unaffordable. In light of the numbers of terminated customers without service
8 at the onset of winter, I question whether PGW has given appropriate weight and taken
9 appropriate action to ameliorate the significant risks which result when customers are
10 forced to delay or forego heat-related service in the winter months.

11
12 **Q. Are you satisfied with PGW's claim that the evidence shows that PGW always**
13 **enrolls Level 1 customers in CRP when "appropriate," i.e., when they can benefit**
14 **from such participation? (Gyory, at 10: 5-13).**

15
16 **A.** No. The evidentiary basis for my judgment that PGW's CRP enrollment practices and
17 procedures are inadequate is three-fold. First, there are the Cold Weather Survey results.
18 In 2006, there were 1700 verified low income households who were not CRP
19 participants, whose service had been terminated and who still had no service as of
20 December 1. PGW provides no explanation why such a large number of low-income
21 customers without service were somehow "inappropriate" for CRP enrollment and
22 participation. Second, the "PGW Payment Arrangement Guidelines" (HSG-5), which is
23 used by PGW Customer Service Representatives, clearly does not indicate that a
24 customer who has provided monthly income and household income information showing
25 low income status should be immediately considered for enrollment in CRP. Third, I
26 have identified in my testimony instances where PGW could better publicize the benefits
27 of CRP, both in terms of stressing the discounts offered and the availability of arrearage
28 forgiveness.

1 **Q. Regarding PGW's procedures for making payment agreements for customers whose**
2 **service is on, do you agree that you are "implying that CSRs should ask each**
3 **customer what he/she wants to pay under a payment agreement, and, without any**
4 **negotiation, accept those terms as indicative of what the customer has the ability to**
5 **pay"?** (Gyory, at 11:23-24; 12:1-2).
6

7 **A.** No. As the Commission stated in its first Implementation Order, under Chapter 14, PGW
8 continues to have the Chapter 56.97 obligation to consider not only income level and
9 household composition, but also the size of the unpaid balance, the payment history, and
10 the period of time over which the balance accumulated. The "PGW Payment
11 Arrangement Guidelines" make no mention of these considerations as relevant factors in
12 a "negotiation." The use of the terms "request" and "suggested" in the Guidelines
13 actually express PGW's minimum requirements. In the case of the minimum upfront
14 payments and minimum monthly payments on arrears, these terms do not represent
15 standards set forth in Chapter 14 or Chapter 56.
16

17 **Q. What is your response to PGW's assertion that its Payment Arrangement**
18 **Guidelines are not an abuse of discretion?** (Gyory, at 12:16-22).
19

20 **A.** PGW is incorrect. In light of the PGW's Cold Winter Survey results, it is clear that
21 substantial numbers of PGW customers have not been able to satisfy the financial terms
22 dictated by PGW's Guidelines, and as a result, have been deprived of necessary heat-
23 related service at the approach of winter. Chapter 14 provides PGW with the ability to
24 use its discretion to ameliorate the dangers inherent in the absence of heat in the winter.
25 The issue is not whether the PGW standards comply with the letter of the law. Even if
26 they do so comply, even if PGW is not forbidden by Chapter 14 to make the demands set
27 forth in its Guidelines, they are nevertheless a misuse of discretion because they result in
28 violation of the Public Utility Code requirement that service be reasonably continuous.
29

1 **Q. Do you agree that PGW's current policy of requiring that customers who are more**
2 **than ten days past due make a payment agreement as a pre-condition of enrolling in**
3 **budget billing is "the same or better than" your proposal that PGW allow customers**
4 **to enroll in budget billing without a payment agreement so long as their outstanding**
5 **arrears are less than 70 days past due? (Gyory, at 14:12-13).**
6

7 **A.** No. PGW omits from its statement that in order for a Level 2 customer to obtain a
8 payment agreement, the customer must make an upfront payment under PGW's Payment
9 Arrangement Guidelines of 40% or 50% of the arrearage. This requirement is an
10 impediment to instant enrollment in budget billing. If the goal is to increase budget
11 billing enrollment, then PGW should seek to minimize any pre-conditions. In addition,
12 most residential customers with arrears less than 70 days past due are not likely to obtain
13 a payment agreement for more than twelve months, assuming that PGW requires
14 (consistent with its Payment Agreement Guidelines) minimum payments on arrears of
15 between \$40 and \$60 per month. Customers with arrearages not more than 70 days past
16 due will usually not owe more than \$500. A customer who makes a payment agreement
17 would not, therefore, be likely to have monthly bills that would be less than if PGW
18 simply rolled the past due amount into the budget bill.
19

20 **Q. Are you persuaded by the justifications that PGW has offered for incorporating**
21 **Company Policy, present and future, in its proposed Tariff? (Gyory, at 16:9-17).**
22

23 **A.** No. Because an approved Tariff has the force of law, to incorporate such policies by
24 reference into a Tariff would give such policies the color of legality, which they should
25 not have, as they have not been individually reviewed and approved by the Commission.²
26 Customers should not be given the impression by PGW Customer Service
27 Representatives that PGW policies have the force of law when, in fact, they are only

² Stiteler v. Bell Commw., 32 Pa. Cmwlth 319, 379 A.2d 339 (1977); Brockway Glass Co. v. Pa. Public Utility Commission, 63 Pa. Cmwlth 238, 437 A.2d 1067 (1981).

1 policies and not approved Tariff provisions. And informal and formal complainants
2 before the PUC should not have to overcome PGW arguments that challenged Company
3 actions are consistent with corporate policy and therefore, by definition, PUC endorsed.
4

5 PGW claims that I recommend that the PUC approve “each and every one” of PGW’s
6 policies. That is not correct. Rather, I maintain that policies not reduced to Tariff
7 language and future, as yet unadopted, policies should not be incorporated in PGW’s
8 Tariff at all. In response to our discovery request for a copy of all its current policies,
9 PGW has declined even to place these policies on the record so that they might be
10 reviewed for conformity with existing law and regulation.³ For the Commission to
11 approve this provision would be tantamount to delivering a blank check.
12

13 **Q. Regarding Section 8.3.B of PGW’s proposed Tariff, in which PGW claims that it has**
14 **“sole” discretion to determine whether a customer who has been terminated for**
15 **unauthorized use has provided “satisfactory assurance” that the unauthorized use**
16 **will not reoccur, has PGW provided an adequate justification for the use of the**
17 **word “sole”? (Gyory, at 16:21-24; 17:1-6).**
18

19 **A.** No. PGW claims that any impression that might be conveyed that even the PUC can not
20 overrule such a determination will be dispelled by providing notice to the customer that
21 an adverse determination may be appealed to the Commission. Even if such notice is
22 provided, this type of notice in oral or written form does not correct the misinformation
23 and potential confusion caused by the use of the word “sole.” A customer who takes the
24 word “sole” literally may justifiably decide that there is no reasonable grounds to appeal a
25 decision which the Tariff states is exclusively within PGW’s authority.
26

27 **Q. Is PGW correct that existing law does not require it to distinguish between “users**
28 **without contract” and “unauthorized use”? (Gyory, at 17:11-20).**

³ See Response to AA-Set 1-35, attached at Exhibit HGS-29.

1
2 A. No. The Commission has repeatedly held that Chapter 14 did not abrogate the historical
3 Chapter 56 distinction between “user without contract” and a person who committed
4 “unauthorized use” (theft of service through tampering, self-turn-on or meter bypass).
5 The opinions expressed in this part of PGW’s rebuttal testimony have been expressly
6 rejected by the Commission.⁴ PGW claims that it is not its “intent” to incorporate its
7 “own” interpretations of Chapter 14 into its Tariff, but this claim is contradicted in this
8 instance. PGW’s refusal to accept this important distinction is an example of how it
9 seeks to use its Tariff not merely to reflect existing law, but to give the appearance of
10 Commission approval of its own incorrect interpretations of existing law.
11

12 **Q. Does the elimination of current Tariff Section 2.4.E, which requires detailed**
13 **description concerning the “notification of rejection” actually bring PGW’s Tariff**
14 **into conformity with the requirements of existing law, as PGW claims? (Gyory, at**
15 **18:5-11)**
16

17 A. No. PGW’s premise is incorrect. The proposed amendment does not in fact conform
18 PGW’s Tariff to existing law. As a municipally owned utility, PGW must comply with
19 federal, constitutional due process standards when it denies service to applicants. When
20 PGW denies service, whether for reasons of credit, or for other reasons not related to
21 credit, it must provide a written statement of reasons and a description of the steps
22 necessary to obtain service. This is a historical protection enjoyed by PGW customers,
23 and I can envisage no benefit to customers which could possibly flow from eliminating
24 such a reasonable provision. Moreover, provision of such a notification assists applicants
25 seeking to obtain service and customers/applicants seeking service reconnection. It is
26 particularly important that a utility with so many customers who have difficulty in
27 maintaining service and obtaining service reconnection have procedures in place to

⁴ See Re: Chapter 14 Implementation, PUC Docket No. M – 00041802 F0002 (Order entered March 4, 2005), at 8-10; Re: Chapter 14 Implementation, PUC Docket No. M – 00041802 F0002 (Order entered June 2, 2005), at 10-13.

1 facilitate communication concerning how service may be obtained or restored.

2
3 **Q. Is PGW on point in its rebuttal to your recommendation that the Company be**
4 **required to retain current Tariff Section 8.3.D which prohibits the Company from**
5 **requiring persons not “responsible” for meter tampering or theft at their dwelling**
6 **to pay for the gas consumed by means of such illegal actions? (Gyory, at 18:5-11).**
7

8 **A.** No. PGW claims that current law and Commission regulations do not allow PGW to
9 refuse to provide service to consumers “innocent” of theft or tampering. However, my
10 point is that specificity and clarity to customers are needed. There is no express
11 prohibition in the Public Utility Code or in PUC regulations. PGW does not cite any such
12 provisions. PGW has retained in Sections 6 and 8 of its Tariff many provisions
13 concerning its rights against those who have committed theft or tampering. It is only fair
14 to leave intact the historical protection in the Tariff which specifies and clarifies those not
15 “responsible” for theft or tampering may not be required to pay for the stolen service.
16

17 **Q. Do you agree that current Tariff Section 2.1.D regarding home visits for persons**
18 **with disabilities is not “legally required”? (Gyory, at 19:4-9).**
19

20 **A.** The issue is not whether PGW should be required “to place” in its Tariff this provision
21 providing for home visits to assist a disabled and homebound person who can not
22 complete his/her application for service by mail. Rather, it is whether PGW has
23 demonstrated that this provision no longer serves a useful purpose, given the strength of
24 its universal service programs, particularly its CARES function as embedded within an
25 approved universal service plan. Due to the inadequacies of PGW’s CARES function,
26 this point has not been reached. To remove this provision would be to decrease the level
27 of universal service protections which Gas Choice Act Section 2203(7) requires to be
28 maintained. This provision is the type of individualized service which appropriately falls
29 within the CARES function.

1
2 **SURREBUTTAL TESTIMONY ADDRESSED TO REBUTTAL TESTIMONY OF**
3 **CRISTINA COLTRO**
4

5 **Q. Do you agree with PGW that it is unfair to compare PGW to PECO? (Coltro, at**
6 **3:1-19; 4:1-11).**

7
8 **A.** No. PECO and PGW serve the same Philadelphia customers so are appropriate subjects
9 of comparison. CARES programs are meant to address the problems and special needs of
10 a utility's vulnerable, low and lower income customers. The Commission policy
11 guidelines do not distinguish CARES services as between electric or natural gas
12 providers.

13
14 **Q. Did PGW properly characterize the Action Alliance et al. interrogatory response to**
15 **PGW's Set II, Question 9 when it states that "Mr. Geller admits that there is no**
16 **legal duty for PGW to provide the type of services within its CARES program that**
17 **Mr. Geller recommends"?**

18
19 **A.** No. PGW itself should recognize its legal duties to provide universal service programs,
20 including CARES, as provided by the Gas Choice Act, 66 Pa.C.S. § 2201 et seq., and the
21 accompanying regulations at 52 Pa. Code § 62.1 et seq. In its interrogatory, PGW only
22 asked about its CARES obligations under Chapter 14, Chapter 56 or any PUC orders with
23 regard to CARES. In regard to universal services, including the CARES component, the
24 scope of its duties extends beyond collection laws and regulations. "CARES" is defined
25 as a program that "provides a casework approach." 52 Pa. Code § 62.2.

26
27 **Q. Beyond the Gas Choice legislation and the example of PECO's CARES program,**
28 **what other support is there for your recommendations with regard to PGW's**
29 **CARES program?**
30

1 A. A 2002 independent evaluation of PGW's Universal Service programs provided PGW
2 with information about the history of CARES programs and included recommendations
3 for CARES that were similar to the recommendations in my direct testimony. See
4 *Philadelphia Gas Works Universal Service Programs: Pathways to Compliance*, June
5 17, 2002, pp. 55-61 (attached as Exhibit HSG-30).

6
7 The Evaluation Team informed PGW that the "PA PUC 'strongly endorsed' the
8 guidelines that these [CARES] services 'should not be done by company employees who
9 perform responsibilities related to billing, credit, or collections.'" The evaluation cited to
10 PUC Secretarial Letter M-84-403, Jerry Rich, May 31, 1985, which is attached as Exhibit
11 HSG-31.

12
13 The evaluators noted that such CARES job descriptions should include "a social service
14 background or a combination of experiences and education that include listening and
15 communication skills and a compassionate and caring attitude towards the needs of the
16 low-income utility customers." The evaluation cited to PA PUC Secretarial Letter, John
17 G. Alford, Secretary, November 30, 1992, which is attached as Exhibit HSG-32.

18
19 Further, the Evaluation Team noted that, at the time, PGW customer service provided
20 referrals to various agencies, in a level of effort termed "Quick Fix." The Evaluation
21 Team recommended that "PGW move immediately toward incorporating the
22 'Intermediate Case Management Approach' into the CRP. This includes designating a
23 CARES representative assigned to provide personal care management."

24
25 **Q. Does PGW takes a "casework approach" in its CARES program as stated in its**
26 **rebuttal? (Coltro, at 2: 16-19).**

27
28 **A.** No. Just because PGW states it provides a casework approach does not make it true.
29 PGW itself has stated that referral to other agencies is the "full extent of the [CARES]

1 program.” PGW Response to AA-Set I-10a (attached as Exhibit HSG-33). This present
2 CARES approach, no matter how it is characterized, is clearly not sufficient in light of the
3 numbers of low income households who are having difficulty maintaining service even
4 after the onset of winter.

5
6 **Q. How do you respond to PGW’s citing of the PUC 2005 Universal Service Programs
7 & Collections Performance Report to support an argument that the CARES
8 casework approach is not necessary when the utility’s CAP program has expanded?
9 (Coltro, at 14: 8-15).**

10
11 **A.** PGW now claims that the expansion of CARES services is unnecessary because of the
12 size of its CRP program. If increased CRP enrollment was accompanied by a low level of
13 service terminations, the need for more intensive CARES service may not be necessary.
14 But with over 4700 low income customers entering the winter without gas service, PGW
15 cannot claim that there is no need for a casework approach or case management services.
16 A CARES program should be structured to meet the needs of its customers.

17
18 **Q. Do you agree with PGW’s rebuttal statement that 85% of its estimated low income
19 customer base is enrolled in assistance programs? (Coltro, at 4-5).**

20
21 **A.** No. PGW assumes that all of the 46,000 customers receiving a senior citizen discount are
22 low income, which is defined as below 150% of the poverty level. Eligibility for the
23 senior citizen discount (which is no longer open to new participants) was based solely on
24 age and no income criteria apply. PGW inappropriately uses the senior citizen discount
25 enrollment number to buttress its CRP enrollment level.

26
27 **Q. Why is it not adequate for PGW to have about half of its low income customers
28 enrolled in CRP?**

1 A. PGW should not be content with a 50% enrollment level, especially when it has so many
2 low income non-CRP customers entering the winter without gas service. Low income
3 customers who contact PGW about preventing termination or restoring service should
4 automatically be assessed for CRP eligibility and enrolled if eligible. PGW's current
5 guidelines instruct customer service representatives to demand the full amount and then
6 negotiate down, even after obtaining the household and income information.

7
8 **Q. Do you agree with PGW's rebuttal that your recommendations to reform the way
9 PGW handles LIHEAP grants are improper? (Coltro, at 9-10).**

10
11 A. No. PGW has misinterpreted my recommendations. My recommendations with regard to
12 LIHEAP were in the context of providing clear incentives to CRP customers to apply for
13 LIHEAP and maximizing the number of LIHEAP grants that are assigned to PGW. As of
14 April 2007, PGW received only about 50,000 LIHEAP cash grants. All of PGW's 76,000
15 CRP customers would be income eligible for LIHEAP, since both CRP and LIHEAP
16 have eligibility set at 150% of poverty. PGW received at least \$13 million in LIHEAP
17 cash grants this past winter. For every additional 4,000 CRP customers who apply for
18 and assign a LIHEAP cash grant to PGW, PGW would receive an additional \$1 million.

19
20 PGW also misinterprets the PUC regulations (citing 52 Pa. Code § 69.265(9)(ii)-(iii)) in
21 asserting that PGW is required under regulation to use LIHEAP cash grants to reduce the
22 amount of CAP credits. Nothing in this set of regulations prohibits a utility from using
23 LIHEAP cash grants to reduce CAP arrears or pre-CAP arrears. Reducing either CAP
24 arrears or pre-CAP arrears would provide a significant incentive to CRP customers to
25 apply for LIHEAP and assign a cash grant to PGW, since the customer would actually
26 experience a personal tangible benefit.

27
28 **Q. PGW states that it approved 95% of LIHEAP Crisis requests. Does this change
29 your testimony regarding PGW's refusal to restore service with a Crisis grant?**

1 (Coltro, at 11: 1-6).

2
3 A. No. This 95% figure is misleading because it represents the percentage of Crisis grants
4 approved as of the *end* of the winter season, after many customers already experienced
5 days, weeks or months without heat-related gas service in the cold weather months. At
6 the *beginning* of the winter season, PGW persisted in its policy to require more than a
7 Crisis grant when the \$300 grant did not meet PGW's demands.

8
9 Q. **Is PGW's characterization of your recommendation as to UESF correct? (Coltro, at**
10 **16, line 7).**

11
12 A. No. It may not have been clear but I did not intend to recommend that PGW increase its
13 credit match *above* \$500. I recommended that the UESF grant maximum be adjusted
14 from \$500 to \$1000, which would require PGW to adjust its 50% credit match from a
15 maximum of \$250 *up to* a maximum of \$500.

16
17 Q. **Do you agree with PGW's characterization of your recommendation concerning the**
18 **obligation for "equitable arrangements" for medical certification recipients as**
19 **"misguided and inconsistent with current Commission regulation"?** (Coltro, at
20 **16:18-23; 17:1-17)**

21
22 A. No. This proposal addresses serious public health concerns. It is also not inconsistent
23 with current Commission regulation. Chapter 56 Section 56.116 makes explicit reference
24 to the fact that a customer receiving service under a medical certification has a duty to
25 "equitably arrange to make payment on all bills." This provision requires that in light of
26 the fact that there is a person in the customer's household with an ongoing medical
27 emergency, certified to on a monthly basis by a medical professional, the utility and the
28 customer must mutually work something out. The paramount value to be protected by
29 maintenance of utility service is the health of the sick or disabled household member.

1 There must be an equitable arrangement – and that requirement is independent of
2 whatever payment agreements or reconnection terms might be available to the customer
3 under Chapter 14.⁵
4

5 In addition, no Commission regulation forbids a utility from agreeing with a customer
6 that termination will be stayed so long as the customer pays current bills going forward,
7 and provides the appropriate certifications from a medical professional. Situations where
8 the medical emergency continues for more than three months are precisely the “hard
9 cases” which require individualized attention by the utility, through CARES casework
10 approach. There is nothing “misguided” about this proposal.
11

12 **Q. How do you respond to PGW’s comments concerning your recommendation that**
13 **some customers with medical certifications should be handled by PGW CARES**
14 **personnel? (Coltro, 14:16-22; 15:1-3)**
15

16 **A.** Ms. Coltro understood my testimony to mean I was recommending that all medical
17 certification recipients should be referred to PGW CARES personnel for a casework
18 approach. That was not my intent. I was referring to that unfortunate subset of sick
19 and/or disabled low income persons who have utilized three medical certifications, but
20 have been unable to make a payment agreement or a reconnection agreement. Under
21 PGW’s current policies, service to households with sick and disabled persons would
22 apparently be terminated when their medical certifications expire, regardless of whether
23 or not the medical condition which gave rise to the medical certificate continuing. I
24 recommend that one form of “equitable arrangement” that PGW should propose to such
25 customers is to allow them to retain service, so long as they pay for current service going
26 forward. This is the type of household which requires the kind of individualized in-house
27 utility attention which CARES should provide.

⁵ I also take issue with Ms. Coltro’s statement that the Chapter 56 medical emergency provisions are meant to address only situations where the customer’s income has been diminished by the medical emergency. Coltro, at 17:3-6. Lack of service to a household with a certified medical condition is not in the public interest. This is true

1

2 **Q. Does this conclude your testimony?**

3

4 **A. Yes.**

5

regardless of household income. Medical emergency provisions exist to protect individuals within all income levels.

EXHIBITS

- HSG-28 Response to AA-Set II-13
- HGS-29 Response to AA-Set I-35
- HSG-30 *Philadelphia Gas Works Universal Service Programs: Pathways to Compliance*,
June 17, 2002, pp. 55-61
- HSG-31 PUC Secretarial Letter M-84-403, Jerry Rich, May 31, 1985
- HSG-32 PA PUC Secretarial Letter, John G. Alford, Secretary, November 30, 1992
- HSG-33 PGW Response to AA-Set I-10a

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-Set II-13: With regard to PGW's Cold Weather Survey Form A filed December 1, 2006, line 89, concerning the "# of properties where income is verified CAP low-income" (which had not been terminated for unauthorized use), what was the average amount, including reconnection charge and deposit, that PGW was requiring as a condition of service reconnection.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response: PGW does not track that information.

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

Question AA-I-35: With reference to the definition of "Company Policy" contained at First Revised Page No. 11, Supplement No. 16 of the proposed Tariff, please provide copies of all written PGW policies included within this definition.

Response Provided By: Randy Gyory, Vice President of Customer Affairs

Response: PGW has a substantial amount of policies, including guidelines and standards, in multiple formats, which it utilizes in implementing its regulated and unregulated practices. These policies are voluminous in nature, involve every aspect of company operations, and are evolving based on current needs and changes in the law and industry. Due to the extensive scope of these policies and their transformative status, and the sheer volume of policy documentation, it is not possible to provide all of the written company policies.

VI. CARES

The Evaluation Team recommends that PGW strengthen its Customer Assistance Referral and Evaluation Services (CARES) component of Universal Service to provide clear designation and accountability for these services.

A. History of CARES

Historically, special payment programs for "payment-troubled" customers sprung from a changing economy in Pennsylvania in the mid to late 1980's. The demise of the manufacturing and steel industry gave rise to the "new poor", a term used to characterize former middle class working men and women who were thrown into a regional economy which offered little but minimum wage jobs and welfare assistance. In Southwest Pennsylvania, a region that was hit especially hard by mill closures, it has been estimated that for every manufacturing/steel job that was lost in the mid-1980's, there were seven other jobs lost as a spin-off effect in the local economy. This meant the lay-off and permanent plant/mill closures for tens of thousands of workers in the region. Utility CARES programs are an indication of increased awareness and sensitivity to the needs of the new poor, the under-employed, the low-skilled minimum wage worker, and seniors and disabled persons on fixed incomes. The utility CARES programs have traditionally responded to the needs of a changing community with customers experiencing hardship in difficult economic times.

In the Pittsburgh region coalitions were built between utilities and social service advocates to address the needs of those affected by the depressed economy. It became increasingly clear that the new poor would not quickly find a remedy for the new economic situations in which they found themselves. These were unique situations where persons could no longer be rationalized or profiled as the "dead-beat" customer. Among the symptoms were mounting utility arrearages and terminations, severe income deficits when compared to basic monthly living expenses, mortgage foreclosures, automobile repossession, family disruption and increased emotional stress and depression.

It was out of this great regional, economic need that CARES programs emerged. Utilities understood their commitment to a fair and compassionate approach to address "special needs" customers. This was a unique opportunity to offer services that were traditionally not in the realm of utility services. The Pennsylvania Public Utility Commission took a proactive position in "strong advisement" directives to regulated utilities, particular to CARES and its implementation.

Early CARES programs varied in the way in which utilities designed and implemented this service. Some utilities were in the unique position to hire and use the services of professional social workers, and entire utility "in-house" CARES departments were created. Other utilities contracted with traditional Community Based Organizations (CBO's) that offered the services of case-managers who made referrals to customers in a

"total case management" approach. But a strong thread that wove itself throughout the program design was that the PA PUC "strongly endorsed" the guidelines that these services "should not be done by company employees who perform responsibilities related to billing, credit or collections."⁵¹ In other words, the CARES programs are to stand apart from traditional credit and collections and instead be administered by social service personnel within the utility or contracted (out-sourced) to the community advocacy sector.

As communities in Pennsylvania "stabilized" economically, there still existed a large segment of the population that subsisted in an entrenched, low-wage, service sector economy that replaced the higher-paying manufacturing jobs. This situation led to a chronic regional demographic of reduced job structures and lower and pay scales. The CARES programs evolved over time and the service is typically offered to customers who are experiencing the loss of income due to an injury, illness, death of a primary wage earner, those waiting for SSI or disability, customers experiencing marital or family problems, those with high medical bills, and loss of a job or unemployment benefits.

In the early 1990's, utilities recognized the need to provide long-term remediation and relief for payment-troubled, chronically low-income, delinquent customers with mounting arrearages. Hence, the PUC provided regulatory guidelines for the implementation of Customer Assistance Programs. However, in many life situations, CARES is still the program that provides appropriate short-term assistance to customers with temporary, special needs. Utilities can custom-design the CARES program based on the individual needs of the customer and the company, as well as on the demographic profile of the community. In special cases, for example, utilities may offer temporary CARES services to customers who have a negative ability to pay with incomes over the 200% FPL "special needs" threshold.

The backbone of CARES services are the referrals to community services and assistance that can leverage low monthly income and provide more available income for necessities, even utility bill payment. For example, if a customer can receive a food voucher at a local food pantry worth \$50 per month, that may make an additional \$50 available for utility payment each month. The goal is to find resources that assist customers in order to maximize their ability to pay their utility bill. Energy Assistance, Utility Hardship Grants and Fuel Funds also serve as vital supplements to customer payments. Energy Conservation in the form of energy education and weatherization is a key component in the CARES referral. Weatherization and energy education can give customers increased comfort in their homes while using less energy, thus lowering the utility bills.

Utilities have had the autonomy to structure a CARES program that may or may not decrease monthly payments for customers who cannot pay the full amount of their utility bill. CARES services may include a home visit, although not necessary or

⁵¹ PA PUC Secretarial Letter M-840403, John G. Alford, May 31, 1985.

effective in all cases,⁵² a “customer-friendly walk-thru” energy audit, energy education, budget counseling, energy assistance and fuel hardship fund grants, and referrals to social service agencies that are specific to the customers’ needs or that provide “leverage” sources for bill payment.

B. Pennsylvania’s Policy Advisement on CARES Programs

CARES programs have historically been categorized under the “policy umbrella” of “strong advisement” with much flexibility in design, rather than the stricter interpretation of the Pennsylvania Code, Title 52, which mandates Universal Service Programs. However, the Universal Services Policy Statements since utility restructuring include the implementation of CARES programs. Provisions under Title 52, §62.1(A), Statement of purpose and policy, “mandate that the Commission ensure Universal Service and energy conservation policies, activities and services...”⁵³ of which CARES is included. In the same Subchapter A, the definition of CARES is as follows:⁵⁴

CARES—Customer Assistance and Referral Evaluation Services—A Program that provides a cost-effective service that helps selected, payment-troubled customers maximize their ability to pay utility bills. A CARES program provides a casework approach to help customers secure energy assistance funds and other needed services

Specific Universal Service plans, including CARES, are to be submitted to the Commission for approval by each NGDC every 3 years beginning in February 28, 2002.⁵⁵ As noted in the prior section of this report, PGW will file a restructuring plan in mid-2002.

⁵² Janice Hummel, PA PUC, BCS, paraphrase from quote of August 22, 2001:

⁵³ PA PUC § 52 Code, Chapter 62. Natural Gas Supply Customer Choice, Subchapter A. Universal Service and Energy Conservation Reporting Requirements, §52.62.1, Statement of purpose policy.

⁵⁴ Ibid., §52.62.2. Definitions.

⁵⁵ Ibid., §52.62.4, (b), (1)-(11) Universal service and energy conservation plans, and §52.62.5, Annual residential collection and Universal Service and energy conservation program reporting requirements.

The Commission released four recommendations in a Secretarial Letter dated November 30, 1992 that provide guidelines for a CARES program.

The Commission recommends the following guidelines for a CARES program:

Utilities should continue to operate and develop their CARES programs as recommended.

Utilities should communicate annually with the BCS on the status of their CARES program.

Utilities which currently require senior citizen status to be eligible for CARES should expand eligibility criteria so as to include special needs low-income payment troubled customers who have extenuating circumstances.

Utilities should include, *inter alia*, the following seven elements in a CARES program:

- Staff training in communication skills.
- Staff training regarding the program design of CARES.
- Home visitation, one at a minimum, and preparation of an energy audit in most cases for CARES recipients.
- Intensive tracking and referral services for CARES participants.
- Maintenance of confidential files for CARES participants.
- Expansion and maintenance of the customer service network.
- Inclusion as one of the job description criteria for a CARES representative, a social services background or a combination of experiences and education that includes listening and communication skills and a compassionate and caring attitude towards the needs of the
- low-income utility customers.⁵⁶

⁵⁶ Authority for CARES resides at the level of a Secretarial Letter, rather than (as for other compliance requirements) in the Pennsylvania Code. PA PUC Secretarial Letter, John G. Alford, Secretary, November 30, 1992.

C. Toward an Effective CARES Program for PGW

The following descriptions of CARES programs present three levels of effort. PGW customer services and district office representatives currently provide referrals to various agencies, in a level of effort termed below as "Quick Fix". This level of effort is given all customers who indicate the need for help during their interactions with PGW. The Evaluation Team recommends that PGW move immediately toward incorporating the "Intermediate Case Management Approach" into the CRP. This includes designating a CARES representative assigned to provide personal case management. The Evaluation Team further recommends designing a CARES program that includes all three levels of effort described below and including it in the CAP Design Plan that will be filed during the restructuring proceedings in mid-2002. All three levels of effort include the "Quick-Fix Approach," the "Intermediate Case Management Approach," and the "In-depth Case Management Approach." A comprehensive CARES program depends on establishing the capability to provide all three levels.

1. The "Quick-Fix" Approach

A "quick-fix" is accomplished by the customer service representative while on the phone or talking with the customer in person at the district offices. The success of this approach depends on adequate training and comprehensive understanding of the available energy assistance programs and social service referrals that exist. It is vital that the PGW representatives have the skills to match the customer's need with the correct referral. Generally, the "Quick-Fix" requires minimal on-going support of CARES representatives.

2. The Intermediate Case-Manager Approach

The intermediate approach requires initial and follow-up supportive phone calls by a designated CARES representative or case-manager. The customer demonstrates that he/she can clearly and easily follow-through with energy assistance and other recommended social service referrals without the need of a caseworker physically present in the home. Periodic phone contact is maintained to give encouragement and address issues as they are presented. Other agencies and supportive services can be called in to access the home as needed. The CARES representative should actively communicate with and coordinate services with outside agencies, such as Area Office on Aging Services, Home-Health Care, Meals on Wheels, etc., to offer the customer comprehensive referrals and assistance.

3. The In-Depth Case-Manager Approach

The in-depth approach gives homebound, critically ill customers, frail seniors or those with limited mental ability, the support and needed observation required by a home

visit. A CRP CARES representative or case-manager conducts the home visit.⁵⁷ The home visit should include (but not be limited to) providing the following:

- Budget counseling
- Case-management assessment
- Energy education and referral to weatherization
- Referrals to Energy Assistance and Hardship Funds
- Referrals to appropriate social service agencies
- Follow-up education and print materials that clearly explain CRP objectives, expectations and lists contact phone numbers.
- Periodic phone contact and monitoring of payment history and referral follow-through, with additional home visits as needed.
- The continued involvement of other agencies that provide supportive services and home care, such as Office on Aging, Meals on Wheels, Visiting Nurses Assoc., mental health counseling, etc.

D. Coordination and Training

For a CARES program to be effective and successful, it is essential to utilize the coordination efforts of a designated CARES manager or representative. One such person should be identified within PGW's Universal Service structure (currently CRP and CWP). This person may or may not also be the designated CARES case-manager.

It is crucial that thorough training and education regarding the CARES program be provided to all customer service representatives, district office representatives, meter readers, field personnel including repairmen and CWP contractors who access customer's homes, and other out-sourced contractors within CWP and CRP. This training should include communication and sensitivity skills, observational skills and CARES program design, implementation and objectives.

An effective program depends on the sensitivity of trained PGW representatives who can discern the difference between a phone call that involves supportive empathy and a quick referral, and one that requires more comprehensive involvement from a CARES caseworker with on-going personal contact.

PGW should be proactive in forming new partnerships and strengthening existing partnerships with community agencies. This includes on-going communication,

⁵⁷ PGW currently provides some support for homebound visits.

providing basic information about CARES, and promoting CARES (along with CRP) to community-based organizations, social service providers, aging services, government groups and faith-based organizations. In addition to contact with social service agencies, the CARES program can be promoted to customers through outreach in bill inserts, by utility phone "on-hold" messages and within the CRP script that PGW district office and phone representatives use.

The Evaluation Team recommends that PGW strengthen its Customer Assistance Referral and Evaluation Services (CARES) component of Universal Service to provide a staffing assignment with clear designation and accountability for these services.



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

IN REPLY PLEASE
REFER TO OUR FILE

May 31, 1985

M-80403

TO ALL CLASS A ELECTRIC & GAS COMPANIES

Dear Sir:

In Public Session on May 24, 1985 the Commission reviewed and approved the recommendations of the Bureau of Consumer Services related to waiving late payment charges, budget counseling, and customer "Cares" positions. These are recommendations based on the report "Recommendations for Dealing with Payment Troubled Customers."

I am advising you, via this letter, that the Commission urges you to consider waiving residential late payment charges for customers with a limited ability to pay for utility services. These charges can present an insurmountable barrier to good payment for customers with limited abilities to pay.

I am also advising you that the Commission (strongly) endorses the use of budget counseling for those customers with some ability to pay and a willingness to have their financial affairs managed by a credit counseling agency. The Commission has established the following guidelines for companies in establishing or arranging for budget counseling.

1. These services should not be provided by company employees who perform responsibilities related to billing, credit or collections. Budget counseling involves close and detailed work with customers, and the existence of responsibilities in those areas could conflict with the goals of budget counseling.
2. Companies should view the fee charged by the agencies in question in light of the risk of default. Thus, a customer with a history of nonpayment represents a significant risk of loss. Thus, a fee which results in a great likelihood of good payment is a more cost effective use of resources than avoiding the fee (and the service) and causing a high probability of default.

3. Careful attention must be paid to quality in order for budget counseling to be productive and legitimate. Thus, companies must insure that budget counseling agencies are producing results and must be able to demonstrate this to the Commission.

I am also advising you that the Commission, suggests that you consider the establishment of a customer "Cares" program to assist selected, deserving, payment troubled customers maximize their ability to meet their obligations for the payment of utility bills.

Thank you for your attention to these matters.

Very truly yours,

Jerry Rich
Secretary



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

IN REPLY PLEASE
REFER TO OUR FILE

November 30, 1992

SEE ATTACHED LIST:

Dear Sir or Madam:

At Public Meeting on November 24, 1992, the Commission reviewed and adopted four recommendations of the Bureau of Consumers Services relating to Customer Assistance and Referral Evaluation Services (CARES) programs. These recommendations were initially addressed in the Final Report on the Investigation of Uncollectible Balances, Docket No. I-900002 which was released by the Commission on April 23, 1992. The report proposed a total of 83 recommendations to address the problems of payment troubled customers and uncollectible balances. The four recommendations which the Commission adopted on November 13, 1992 are designed to improve the impact that CARES programs have on uncollectible balances.

The Commission recommends the following guidelines for a CARES program:

1. Utilities should continue to operate and develop their CARES programs as recommended.
2. Utilities should communicate annually with the BCS on the status of their CARES program.
3. Utilities which currently require senior citizen status to be eligible for CARES should expand eligibility criteria so as to include special needs low income payment troubled customers who have extenuating circumstances.
4. Utilities should include, inter alia, the following seven elements in a CARES program:
 1. Staff training in communication skills.
 2. Staff training regarding the program design of CARES.
 3. Home visitation, one at minimum, and preparation of an energy audit in most cases for CARES recipients.
 4. Intensive tracking and referral services for CARES participants.
 5. Maintenance of confidential case files for CARES participants.
 6. Expansion and maintenance of the customer services network.

7. Inclusion as one of the job description criteria for a CARES representative, a social services background or a combination of experiences and education that includes listening and communication skills and a compassionate and caring attitude towards the needs of the low income utility customers.

For further clarification regarding this letter or for answers to any questions you may have regarding the Commission's position on CARES programs, please contact Janice Hummel with the Bureau of Consumer Services. Her telephone number is (717) 783-9088.

Yours truly,

John G. Alford
Secretary

RESPONSE TO ACTION ALLIANCE DATA REQUEST
REGARDING PGW'S BASE RATE FILING
DOCKET NO. R-00061931

- Question AA-Set I-10:** Please provide the following information as of January 1, 2007:
- a. The number of staff dedicated and/or assigned, in whole or in part (please indicate percentage of time), to the CARES program;
 - b. The resumes of the staff persons in a.;
 - c. The active number of CARES cases handled by each staff person;
 - d. If the Company has a detailed budget for the CARES Program, please provide that detailed budget as of January 1, 2007;
 - e. A description of the activities performed by CARES staff; and
 - f. A description of the process of how applicants and/or customers are identified for CARES enrollment, and subsequently screened and enrolled.

Response Provided By: Cristina Coltro, Directory, Regulatory Affairs

Response:

- a. PGW does not have staff dedicated and/or assigned specifically to CARES. The CARES program entails providing referrals to customers. Referrals are made by all customer service representatives (CSR) in Customer Service. CRS may refer customers to any program available, including LIHEAP and Crisis, or to an agency outside of PGW. PGW does not track the percentage of time its representatives spent on referrals. Occasionally

CSRs in the call center of customer service center will escalate the call to a universal service representative for additional discussion. In these infrequent cases, the universal service representative will call the customer back and also call a particular agency to link the parties. That is the full extent of the program.

- b. Resumes of PGW's staff are not available.
- c. PGW does not track the number of CARES referrals by each employee.
- d. PGW does not have a budget for the CARES program.
- e. PGW does not have dedicated CARES staff with specific CARES job descriptions. All PGW's CSRs may provide referrals to customers during phone or person-to-person interactions. See response to item a.
- f. There is no enrollment process for CARES. CSRs either identify the need to refer customers to available programs or the customer asks the CSRs for referrals.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-00061931
Philadelphia Gas Works :

STIPULATION

Philadelphia Gas Works ("PGW") and Action Alliance of Senior Citizens of Greater Philadelphia and Tenant Union Representative Network("Action Alliance") agree to submit the testimony of Cristina Coltro (PGW St. 7 & 7R) and Harry ^{Geller} (AA St. No. ^{Land} 1-SR) into the evidentiary record of this proceeding without cross-examination. PGW and AA also stipulate as follows:

PA3

The Commission's regulations and policies impose an obligation on both the utility and the customer to deal in good faith.¹ A utility is obligated to provide safe, adequate, and reasonable service in accordance with the law, Commission regulations and its legally approved tariff. The customer's concomitant obligation is to satisfy any applicable payment obligations including any payment arrangements entered into with the utility.

DOCUMENT
FOLDER

AGREED TO BY:

Daniel Clearfield
Daniel Clearfield
For Philadelphia Gas Works

Date: 5/22/07

Philip A. Bertocci
Philip A. Bertocci
For Action Alliance, et. al.

Date: 5/22/07

PA3

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AUG 20 2007

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JUN 22 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

^{29.}
¹ See, 52 Pa. Code § 56.1, 56.97.

PGW Hearing Exhibit 2
5/22/07
Phila wgh

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Docket No. R-00061931

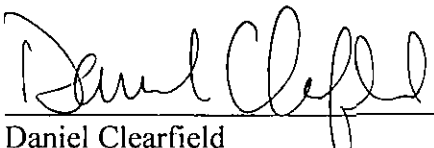
DOCUMENT
FOLDER

STIPULATION

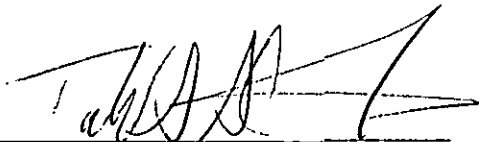
Philadelphia Gas Works ("PGW") and Interstate Gas Supply, Inc. ("IGS") agree to submit the testimony of William Muntzer (PGW St. 11) and Vincent Parisi (IGS Statement No. 1) into the evidentiary record of this proceeding without cross-examination. PGW also stipulates as follows:

PGW acknowledges that a competitive market for commodity services in its service territory could provide benefits for consumers at all customer levels, including but not limited to residential and small commercial consumers of natural gas. Increased use of transportation by PGW customers may also reduce PGW costs. PGW welcomes natural gas suppliers on its system.

AGREED TO BY:


Daniel Clearfield
For Philadelphia Gas Works

Date: 5/19/2007


Todd S. Stewart
For Interstate Gas Supply, Inc.

Date: 5/22/07

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JUN 22 2007

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AUG 20 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF

STEVEN P. HERSHEY

DOCUMENT
FOLDER

ON BEHALF OF

PHILADELPHIA GAS WORKS

DOCKET No. R-00061931

DOCKETED
AUG 20 2007

December 2006

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

1 I. **QUALIFICATIONS AND PURPOSE OF TESTIMONY**

2 Q. **PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

3 A. I am Steven P. Hershey. My title is Vice President Regulatory and External Affairs.

4 Q. **HOW LONG HAVE YOU HELD THIS POSITION?**

5 A. I was promoted to this position in January, 2006.

6 Q. **PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

7 A. I have been employed with PGW since January, 2004. Prior to that, I was an attorney at
8 Community Legal Services from 1976 to 1998. During that time I served as the Public
9 Advocate, representing PGW's residential customers, from 1986 to 1998. I practiced
10 law, specializing in energy and utility matters, at the firm of Eckert Seamans Cherin &
11 Mellott from 1998 through December, 2003.

12 Q. **PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

13 A. I earned my B.A. from Hamilton College in 1966 and a law degree from Georgetown
14 University Law Center in 1969.

15 Q. **HAVE YOU EVER TESTIFIED BEFORE ANY REGULATORY AGENCIES?**

16 A. No.

17 Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE PROCEEDINGS?**

18 A. The purpose of my testimony is to provide an overview and roadmap of PGW's filing,
19 including a summary of the reasons for the increase, and a summary of the testimony to
20 be presented by other witnesses. I will also provide support for PGW's proposal to help
21 fund needed capital improvements by utilizing revenue from natural gas off system sales
22 and capacity release transactions.

23 II. **OVERVIEW OF REASONS FOR RATE INCREASE REQUEST**

24 Q. **WHY IS PGW REQUESTING THIS RATE INCREASE?**

1 A. PGW is seeking this rate increase for three reasons. First, as described in detail by Mr.
2 Bogdonavage, PGW has experienced a significant increase in non-gas operating expenses
3 and interest expense since its last fully litigated case. PGW seeks rates that appropriately
4 reflect those increased expenses.

5 Second, as described in detail by Mr. Bogdonavage, without a substantial rate
6 increase, PGW will have inadequate earnings in FY 2009 to meet its debt service
7 obligations and will fall below "investment grade" coverage levels in FY 2008. Ms.
8 Bisgaier explains the dire implications if such a failure were to occur. Since 1992, PGW
9 has been completely dependent on borrowed funds both for long term investment in plant
10 as well as for short term liquidity. It is essential that the Company maintain access to the
11 long-term debt markets and to its Tax Exempt Commercial Paper Program to ensure
12 adequate cash for operating purposes and for capital spending.

13 The third reason for seeking a rate increase is to ensure that, in the long term,
14 PGW has adequate liquidity when needed without having to resort continually to
15 borrowing. PGW must break the ever-more expensive cycle of cash deficits which
16 require one-time fixes and even more borrowing. PGW is billing just under \$1 billion in
17 revenues and yet, for fourteen years, has had no internally generated funds. The
18 company has limped from one crisis to the next, never having the resources to address its
19 structural financial problems. In the last few years, PGW has found itself with only the
20 slimmest of cash balances – in one instance just \$4 million – and all of it from borrowed
21 funds. PGW cannot survive unless it is able to borrow, but, borrowing has only pushed
22 PGW and its customers deeper into the hole.

23 PGW has come to resemble the customer of a pay day lender who is unable to

1 sustain a cash flow sufficient to pay expenses and meet financial needs and is compelled
2 to borrow to make it to his next paycheck, piling on the cost of borrowing, and making
3 the situation worse. PGW is requesting sufficient funds so that, for the first time in a
4 generation, it can be a self-sustaining, viable gas distribution enterprise. Indeed, as Ms.
5 Bisgaier and Mr. Krellenstein testify, unless this downward spiral is meaningfully
6 addressed, PGW is in real danger of collapsing from the weight of its debt burden and the
7 enormous risk this situation imposes upon the Company and its customers.

8 **Q. HOW WILL THE PROPOSED INCREASE MITIGATE THESE RISKS?**

9 A. As Mr. Bogdonavage shows, over the next 5-6 years, the overwhelming bulk (96%) of
10 the rate increase plus the proceeds from off-system sales that PGW is proposing it be
11 permitted to retain will be used to fund necessary construction needed to maintain safety
12 and reliability or to maintain adequate customer service, and to pay off existing
13 outstanding debt and other loans. A summary of the information detailing the projected
14 "sources and uses" of the requested rate increase is set out in Exhibit SPH-1, attached
15 hereto.

16 There has been a lot of public conversation about PGW for more than ten years.
17 The question is always the same: "When is PGW going to be fixed?" This rate case is
18 intended to answer the question: now!

19 **Q. WHEN DID PGW LAST RECEIVE A BASE RATE INCREASE?**

20 A. PGW received its last rate increase in 2002.

21 **Q. WHY DID PGW NOT FILE EARLIER FOR A RATE INCREASE IF THE**
22 **SITUATION IS AS YOU AND OTHER WITNESSES DESCRIBE?**

23 A. Management has a special responsibility guiding the largest gas distribution company in
24 the state which is also a municipal, public enterprise. The first and most important

1 requirement is that management must ensure that the distribution system is safe and
2 reliable and that there are sufficient resources to maintain the system in that condition.
3 No customer is well-served if the system cannot be maintained. Second, management
4 must ensure that the price of providing service is fair and reasonable, that all possible
5 efficiencies have been realized, and that bills are paid by customers.

6 Until recently, management could not say that the collection effort was effective,
7 or that there were not material efficiencies that could still be realized. While there is
8 always room for improvement, management believes that, while the collection rate is
9 much improved, that rate is reaching its limit, related in part to the constraints of our
10 service territory. In addition, it is clear that greater efficiencies from operations cannot be
11 the remedy to PGW's problems.

12 PGW has delayed this filing until it was clear, not only that the need for rates
13 could be well-established, but also that reducing costs alone could no longer sustain the
14 Company. The City administration has done more for PGW than any in my memory, but
15 that effort, while substantial, has only served to stay the inevitable in the face of the
16 dramatic increase in commodity costs.

17 In summary, PGW is facing a looming crisis that, if not addressed now, will
18 threaten its ability to continue to operate as a going concern. While painful to all, the
19 only viable approach is to act now. Awarding PGW rates sufficient merely to avoid the
20 financial defaults that it will experience in FYs 2008 and 2009 will not serve PGW or its
21 customers well. Rates must be sufficient to address the systemic deficiencies that now
22 require borrowing for cash flow and the capital program. Failure to do so imposes higher
23 costs on customers through the debt service and multiplier effect of the debt coverage

1 requirement, does nothing to reduce risk and maintains PGW on a downward spiral of
2 failure that will inure to the detriment of its customers, its employees and the City and
3 Region.

4 **III. OFF SYSTEM SALES/CAPACITY RELEASE PROPOSAL**

5 **Q. WHAT IS PGW'S PROPOSAL FOR TREATING THE PROCEEDS**
6 **ASSOCIATED WITH OFF-SYSTEM SALES AND CAPACITY RELEASE**
7 **TRANSACTIONS?**

8 A. PGW proposes to change the regulatory treatment of revenue derived from these
9 activities. Instead of mandating that the proceeds flow through as a credit to the GCR,
10 PGW proposes that the proceeds flow through to customers by making them available to
11 fund necessary construction projects, rather than having to fund them through the
12 issuance of additional long term debt.

13 **Q. WHY IS PGW MAKING THIS PROPOSAL?**

14 A. PGW's situation is unique. Lowering gas costs by applying revenue from these sales
15 certainly helps customers in the short term, but it does nothing to change the underlying
16 financial structure of the Company, which would provide more fundamental benefit to
17 customers over the long term. Living off one's credit card increases risk. In this case,
18 PGW's "credit card" is pushing the Company and its customers deeper into a hole. PGW
19 must change that pattern in order to improve. Funding its construction program and
20 reducing its outstanding debt from these proceeds is cheaper to customers than the
21 present value of the stream of payments associated with issuing additional long term debt.
22 One need only look at the multiplier effect of the debt service coverage requirements, the
23 increasing costs of debt transactions, and the debt service required to carry the debt to
24 recognize the problem. Those issues are addressed by Mr. Bogdonavage, Ms. Bisgaier,
25 and Mr. Krellenstein.

1 In addition, as stated by Mr. Krellenstein and Ms. Bisgaier, using these proceeds
2 in this manner will help PGW's debt/equity ratio thereby reducing PGW's financial risk
3 and providing a better profile to the bond rating agencies.

4 **IV. SUMMARY OF FILING**

5 **Q. PLEASE INDICATE WHO THE WITNESSES WILL BE FOR PGW IN THIS**
6 **PROCEEDING AND THEIR RESPONSIBILITIES FOR THE FILING?**

7 A. PGW has two financial policy witnesses. The first is Ms. Barbara Bisgaier (PGW
8 Statement 3), a Managing Director of Public Financial Management, Inc. She has been
9 PGW's financial advisor for 14 years. She also a Financial Advisor to the
10 Commonwealth of Pennsylvania. She is familiar both with PGW's history and the
11 initiatives undertaken by this management to rebuild the utility. She is an expert on
12 financial markets and financial instruments, Ms Bisgaier testifies to the continuing risks
13 PGW is running without sufficient liquidity to operate safely and to the consequences of
14 there not being a plan for PGW to start to produce internally generated funds in order to
15 emerge from under the burden of its present debt. She describes the financial profile
16 PGW needs to attain in order to extricate itself from its liquidity crisis and why the entire
17 amount of the requested rate increase is needed if it is to achieve these goals.

18 The second financial policy witness is Mr. Gary Krellenstein (PGW Statement 4).
19 Mr. Krellenstein is a Managing Director of J. P Morgan who has participated in
20 structuring both our short term loans and long term bond sales over the last six years.
21 Mr. Krellenstein testifies as a representative of those who buy our bonds, rate our bonds
22 and insure our bonds. His testimony goes to the heart of PGW's need for rate relief to
23 assure continued access to the financial markets and to the need to reduce the costs that
24 the customer is bearing for the breadth and level of debt that the company has had to

1 undertake to survive. Mr. Krellenstein testifies that, today, PGW is viewed by the
2 financial community as the lowest rated large municipal utility in the Nation and a failure
3 to address PGW's structural deficiencies creates a very serious risk that the Company will
4 find itself barred from reasonable access to capital which will precipitate a major crisis.

5 The third witness is Mr. Joseph Bogdonavage, Senior Vice President for Finance
6 (PGW Statement 2). Mr. Bogdonavage provides the financial details that support the
7 need for the rate increase, shows the consequences of a failure to provide rate relief and
8 displays PGW's financial results both in the test year and for the next five years if it is
9 granted the rate relief requested.

10 The fourth witness is Mr. Craig White, Acting Chief Operating Officer of PGW
11 (PGW Statement 5). Mr. White's testimony explains PGW's proposal for allocating the
12 rate increase among customer classes. His testimony also supports the sales forecast and
13 the basis for PGW's interruptible sales and transportation rates. Finally, he describes the
14 impact of current resource constraints on PGW's capital budget.

15 The fifth witness is Mr. Randy Gyory, Vice President for Customer Affairs (PGW
16 Statement 6). My Gyory proposes various changes to the PGW tariff to conform tariff
17 language to Act 201 as well as to simplify and make less complex PGW's customer rules.
18 He also provides a progress report on PGW's collection practices and responds to a
19 Commission directive to describe PGW's use of credit scoring and several other
20 customer-service related items. Finally, Mr. Gyory provides testimony on the
21 appropriateness of a proposal to require mandatory Electronic Funds Transfers for certain
22 delinquent customers.

1 The sixth witness is Ms. Cristina Coltro, Manager, Customer Affairs (PGW
2 Statement. 7). Ms. Coltro describes PGW's existing universal service programs and
3 projects the number of customers who will be enrolled in PGW's CRP program at the end
4 of the future test year. Her testimony also discusses data prepared for PGW which
5 analyzes whether PGW experiences increased expenses or expense offsets as the number
6 of customers enrolled in PGW's CRP program changes.

7 The last witness is Mr. Howard S. Gorman (PGW Statement. 8), a Principal
8 Consultant with R.J. Rudden Associates, a unit of Enterprise Management Solutions
9 Black & Veatch Corporation. Mr. Gorman testifies to the unbundled, fully allocated
10 class cost of service study that he performed as well as the assignment of the total costs
11 and other elements of the revenue requirements of the Company to each Rate Class. The
12 Cost of Service Study is Volume III of the Filing. In addition to these statements, PGW
13 is submitting data required by the PUC's filing requirements (Volume IV) and its Tariff
14 Supplement No. 16, (Volume I) which sets forth all of the changes and rate increases
15 proposed by PGW as part of this case.

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

17 **A. Yes.**

Rate Increase Spending
FY 2007 to 2012

| | <u>BUDGET</u> <u>2006-07</u> | <u>FORECAST</u> <u>2007-08</u> | <u>FORECAST</u> <u>2008-09</u> | <u>FORECAST</u> <u>2009-10</u> | <u>FORECAST</u> <u>2010-11</u> | <u>FORECAST</u> <u>2011-12</u> | <u>Total</u> | <u>Annual</u> <u>Div. by</u> <u>6 years</u> | <u>% of</u> <u>Rate Incr</u> <u>+ C/R OSS</u> | |
|--|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|--|---|---|--------|
| Rate Increase | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 600,000 | 100,000 | | |
| Capacity Release/Off-system Sales | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 60,000 | 10,000 | | |
| | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 660,000 | 110,000 | | |
| Less: Net Income | 114,963 | 103,194 | 102,963 | 104,894 | 106,423 | 105,229 | 637,666 | 106,278 | | |
| Increase in Expenses | (4,963) | 6,806 | 7,037 | 5,106 | 3,577 | 4,771 | 22,334 | 3,722 | 3.4% | |
| Distribution of Earnings w/o Grant Income | | | | | 18,000 | 18,000 | 36,000 | 6,000 | 5.5% | |
| Debt Reduction Funding | 40,000 | 15,000 | 55,000 | 35,000 | 20,000 | 40,000 | 205,000 | 34,167 | 31.1% | |
| Temporary Financing Repayment | | 40,000 | 20,000 | 10,000 | | | 70,000 | 11,667 | 10.6% | |
| City Loan Repayment | 2,000 | 43,000 | | | | | 45,000 | 7,500 | 6.8% | |
| Internally Generated Funds | - | - | 47,912 | 70,818 | 61,587 | 59,920 | 240,237 | 40,040 | 36.4% | |
| Funded Debt Reduction - Revenue Bonds - Amount Greater Than Test Year | - | 10,335 | 9,855 | 11,245 | 2,804 | (655) | 33,584 | 5,597 | 5.1% | |
| TOTAL | 37,037 | 115,141 | 139,804 | 132,169 | 105,968 | 122,036 | 652,155 | 108,693 | 98.8% | |
| | | | | | | | Difference between rate increase and total | 7,845 | 1,307 | 1.2% |
| | | | | | | | Total rate increase | 660,000 | 110,000 | 110.0% |

Source: \$100.0M Rate Increase + 10.0M Off-System Sales - 95% - New Pension/New Capital - Cashflow Statement

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

STEVEN P. HERSHEY

**DOCUMENT
FOLDER**

ON BEHALF OF
PHILADELPHIA GAS WORKS

DOCKET No. R-00061931

DOCKETED
AUG 20 2007

May 4, 2007

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JUN 22 2007

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

1 Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.

2 A. I am Steven P. Hershey. My title is Vice President Regulatory and External
3 Affairs.

4 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS
5 PROCEEDING?

6 A. Yes.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. I will respond to testimony by Mr. LeLash, Mr. Yocca, and Mr. Knecht.

9 Q. THE OTS AND THE OCA HAVE EACH RECOMMENDED THAT PGW
10 SHOULD RECEIVE ONLY 25% OF THE REQUESTED RATE
11 INCREASE. WHY DO YOU BELIEVE THAT THE PARTIES HAVE
12 FAILED TO UNDERSTAND THE FRAGILITY OF PGW'S SITUATION?

13 A. I'm not sure. There is broad public understanding of the "perennially financially-
14 troubled" PGW, broad understanding within the General Assembly, the
15 Governor's office, the PUC, City Hall and the Philadelphia newspapers that the
16 core issue has been the lack of cash flow/internal generation for years. There is
17 no lack of information about PGW. Since the last rate increase in 2002, the
18 three fold increase in the commodity cost of gas, increases in interest costs,
19 increases in benefit costs and the price elasticity of gas which has our customers
20 conserving and which thereby has reduced our margins have all severely
21 diminished the cash available to PGW to pay its bills on time.

22 Two crises, precipitated by inadequate cash, nearly spelled disaster for the
23 Company: the first was in April, 2004 when within hours PGW would have been
24 downgraded to junk status without the City agreeing to grant back its legally
25 permitted \$18 million payment and, the second, in January, 2006, when, but for a
26 last minute loan from the bank consortium, PGW would have not had funds to

1 pay for its December gas purchases. At that moment the City could not have
2 bailed PGW out as it did in 2001. One would think that all parties, at all levels,
3 would be working to find the solution for what will be a long term problem for
4 PGW as long as commodity costs stay at record levels.

5 There is nothing in Pennsylvania regulatory law to allow this level of risk
6 for a regulated utility. The most alarming problem presented by these testimonies
7 is what appears to be the perception that PGW is not in crisis so long as the
8 Company is able to borrow funds sufficient to meet operating expenses in a
9 timely manner. This Commission cannot make that same mistake. There are four
10 important reasons that demonstrate the erroneous nature of the OTS/OCA
11 approach. All of these reasons have been ignored - without comment - by the
12 parties.

13 First, there is a finite limit to the amount of debt that PGW can assume.
14 The presumption in the OTS and OCA testimony that, regardless of the timing of
15 or the amount of cash needs, particularly in the dead of winter, there will be a
16 place from which to borrow is misplaced, at best. As made clear by Mr.
17 Bogdonavage, a \$25 million rate increase results in less financial flexibility than
18 PGW received five years ago and, as the forecasts show, can result in a crisis as
19 early as next year. Ms. Bisgaier and Mr. Krellenstein make clear the risk that the
20 banks could pull back in this situation as they did in 2002, reducing our allowable
21 borrowings from \$100 million to \$80 million.

22 Second, as explained by Mr. Bogdonavage, borrowing, particularly when one
23 factors in the multiplier effect of the coverage requirement, is more expensive.

1 The greater expense inflates debt service payments, erodes liquidity and ability to
2 pay bills, thus increasing the need to borrow. PGW has no stockholders, so when
3 one says that borrowing is more expensive, that means that it is the customers
4 who must pay.

5 Third, as explained by Mr. Bogdonavage, the lack of internally generated
6 funds does not leave sufficient flexibility, even with current short term borrowing
7 limits, to ensure the ability to meet operating requirements during periods of
8 dramatic volatility in prices of natural gas etc. No ratemaking methodology, and
9 certainly not Pennsylvania law applicable to PGW, could leave a utility in such
10 straights given the enormous risks that such a situation creates that the Company
11 will not be able to provide safe and adequate service.

12 Last, as explained by Ms. Bisgaier, the investment community has already
13 informed her and PGW that continued reliance on borrowing is seen as risky for
14 PGW and is likely to result in dramatically increased cost of borrowing both long
15 and short term. As Mr. Krellenstein testified, the situation could be even worse if
16 the market becomes so saturated that there is no ability of PGW to sell its bonds.
17 In that situation, with no internally generated funds and no ability to borrow,
18 PGW would cease to function.

19 All of these risks are increased, of course, with the inability of the City to
20 step forward as it did with the City loan and the grant back of the \$18 million
21 annual payment, as described by Ms. Wilkerson and Mr. Dubow.

1 One additional statement must be made on this issue. As Mr.
2 Bogdonavage states in his rebuttal testimony as part of his response to the OTS
3 and OCA proposals:

4 ... common sense and general ratemaking theory would mandate the
5 conclusion that permitting a company to earn less than 40% of the amount
6 that was authorized five years previously, particularly when the
7 Company's expenses have increased and its net revenues have gone down
8 in the interim, cannot possibly be reasonable.

9 Bogdonavage Rebuttal at 19.

10 Indeed, this case is starting to follow the pattern that occurred in 2001-02.
11 In 2001, accepting the recommendations of OCA and OTS, the Commission
12 granted PGW less than half of a request that was designed to improve its cash and
13 liquidity deficiency. As a result, six months later, PGW had to apply for and
14 recover a \$36 million emergency rate increase in order to stave off a total
15 financial collapse. I suspect that this is not a scenario that anyone wishes to have
16 to go through again.

17 **Q. MR. LELASH TESTIFIES THAT CUSTOMERS WILL NOT BE ABLE TO**
18 **AFFORD THE RATE INCREASE AND THEREFORE ALL OR MOST OF**
19 **THE REQUESTED INCREASE SHOULD BE DENIED. DO YOU**
20 **AGREE?**

21 **A.** No. There are several problems with his position. First, he assumes that
22 affordability is the only factor or the most important factor in determining
23 whether or not to grant a rate increase. The standard is whether the rates are fair
24 and reasonable and sufficient to allow the utility to provide safe and reliable
25 service. Neither the customers nor the public interest is served if PGW does not
26 have funds sufficient to provide safe and reliable service.

1 Second, PGW has done as much, if not more, than any other utility in
2 Pennsylvania to protect its vulnerable customers and we continue to improve on
3 those initiatives. PGW maintains open enrollment in its Customer Responsibility
4 Program and aggressively promotes it, encouraging every eligible customer to
5 participate. Customers in CRP will remain unaffected by the rate increase.
6 In addition, approximately 45,500 customers receive a senior citizen discount
7 which is 20% off the normal general service rate.

8 PGW is the most successful utility in Pennsylvania in its efforts to obtain
9 LIHEAP Cash and Crisis grants for its customers. In addition to these LIHEAP
10 grants, PGW persuaded the City to create a special fund for low income
11 customers (those below 125% of the federal poverty standard) to provide grants to
12 help customers avoid shut-off or to restore service. PGW also partnered with
13 ACORN to persuade Commonwealth leaders to create a special grant program to
14 help PGW customers with incomes up to 250% of poverty restore service during
15 the winter.

16 PGW has leveraged external funds to provide an emergency chimney
17 repair program for low income customers to mitigate carbon monoxide problems
18 associated with poor ventilation of the house heater and water heater. The
19 program is expected to begin by mid-summer. Once in place, a PGW serviceman
20 who has identified the problem will be able to simply give the customer a card
21 with an emergency hotline number to obtain free, prompt repair in order to ensure
22 heat during the winter.

1 PGW has an extensive low income weatherization program and, in
2 addition, annually sponsors free neighborhood weatherization workshops to teach
3 people the benefits of weatherization, how to use caulk, window covering and
4 other materials, and to distribute those materials without charge.

5 PGW is prepared to dramatically enlarge its weatherization program if the
6 Commission provides adequate resources in this proceeding and if the
7 Commission were to remove the existing disincentives to expanding PGW-funded
8 programs for conservation.

9 Third, Mr. LeLash's testimony on this issue is inconsistent with that of
10 Mr. Bleiweis who testifies that PGW will likely continue to collect from
11 customers at the rate achieved last year when commodity costs were higher than
12 they have been for the test year. Mr. Bleiweis apparently believes that PGW will
13 continue to collect at the current rate of 96+% and therefore uses that position to
14 try to show that we will have adequate funds without the rate increase.

15 PGW has projected a lower collection rate, believing that the natural
16 response to such an increase is a fall-off in collections, but that fall-off has
17 multiple causes. While some customers will certainly struggle at the higher rates,
18 there is no corroboration for Mr. LeLash's position.

19 **Q. SEVERAL WITNESSES RECOMMEND REJECTION OF THE**
20 **PROPOSED RATE INCREASE BECAUSE, IN ADDITION TO TEST**
21 **YEAR DATA, PGW USED A FIVE YEAR FORECAST TO**
22 **DEMONSTRATE THE NEED DURING THAT PERIOD FOR APPROVAL**
23 **NOW OF ITS REQUESTED RATE INCREASE. HOW DO YOU**
24 **RESPOND?**

25 **A.** The testimony provided by these witnesses is wrong, internally inconsistent, and
26 not good regulatory policy. Repayment of the \$45 million City loan also falls

1 outside the test year, but these witnesses recognize the need for those funds as a
2 known and measurable event and recommend providing rates sufficient to repay
3 the loan. They treat the equally known and measurable events – inadequate
4 liquidity, violation of the bond covenant and increasingly higher debt percentages
5 – identified by Mr. Bogdonavage, differently, but without explaining the rational
6 basis for the distinction. The only real distinction is that loan repayment is a
7 requirement whose date is written on a piece of paper, while the inadequate
8 liquidity, violation of the bond covenant, and predictable impact of the continued
9 increase in long term debt in the capital structure are known and measurable as a
10 derivative of a written, legal mandate and a simple calculation.

11 Though the writings related to these latter problems are equally real and
12 equally known and measurable, the parties ignore them. The further irony is that
13 the problems being ignored are more serious, but if resolved, would help “fix”
14 PGW. At the same time that the parties ask the City to pay more, those same
15 parties look to repayment of the City loan as the only known and measurable
16 event outside the test year that justifies modest rate relief.

17 **Q. WHY IS IT BAD REGULATORY POLICY TO USE THE TEST YEAR AS**
18 **A BASIS FOR REJECTION OF RELIEF FOR PGW'S MULTIPLE**
19 **FINANCIAL PROBLEMS?**

20 A. Those witnesses who would ignore the debt levels, bond covenant and the
21 liquidity problems because they are beyond the strict limits of the test year,
22 inappropriately deprive the Commission of an essential regulatory tool needed to
23 solve a problem. By doing so, they make it impossible to solve the problem.

1 If, as argued by these witnesses, rate relief could be granted only for a
2 problem that occurred during the test year,¹ most problems could not be resolved
3 when the utility uses the cash flow method of rate making that is mandated for
4 PGW. The Public Utility Code prescribes a nine-month ratemaking process.
5 Using that process and assuming that PGW were to file on the first day of its test
6 year – September 1st is the beginning of PGW’s fiscal year – PGW could not
7 expect a decision from the Commission until May of the following calendar year.
8 PGW would then have to collect any allowed increased revenue sufficient to solve
9 the problem in the remaining months of the fiscal year/test year, but those would
10 be the months with the lowest level of sales. There would be no substantial
11 contribution to earnings or cash until well into the late fall or early winter of the
12 following year. By then the fate of the utility would have been sealed.

13 This Commission must, now, apply appropriate regulatory tools to avoid
14 failure and protect the public interest. Traditionally, courts and regulatory
15 agencies will interpret existing precedent in a manner that permits resolution of a
16 problem that might otherwise escape review and resolution. However, if certain
17 regulatory practices and principles that were designed for investor owned utilities
18 don’t fit the case for cash flow companies, that fact must be acknowledged and an
19 appropriate solution found to solve the problem.

¹ While there is an apparent recognition of the principle of allowing for known and measurable expenses incurred beyond the test year, these witnesses apply the principle in a narrow manner that erodes its significance.