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Statement
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

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:

Docket No. R-00061931

**DOCUMENT
FOLDER**

**SURREBUTTAL TESTIMONY OF
JUDITH L. MONDRE**

**ON BEHALF OF
THE SCHOOL DISTRICT OF PHILADELPHIA
INTERVENOR**

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PA PUBLIC UTILITY COMMISSION
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BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 : Docket No. R-00061931
 V. :
 :
 PHILADELPHIA GAS WORKS :

**SURREBUTTAL TESTIMONY OF JUDITH L. MONDRE ON BEHALF OF THE
SCHOOL DISTRICT OF PHILADELPHIA, INTERVENOR**

The School District of Philadelphia, Intervenor (the “School District”) submits the following surrebuttal testimony of Judith L. Mondre, President of Mondre Energy, Inc., pursuant to 52 Pa.Code §5.412.

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

2 A. My name is Judith Mondre. I am president of Mondre Energy, Inc., 1880
3 John F. Kennedy Blvd. (Ste. 1705), and Philadelphia, PA 19103.

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

6 A. I am responding to points raised in the rebuttal testimony of Craig White,
7 Steven Hershey, Joseph Bogdonovage, Howard Gorman, and William
8 Muntzer on behalf of Philadelphia Gas Works (“PGW”), and clarifying
9 certain aspects of my direct testimony on behalf of the School District.

10 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

11 A. I have responded to specific issues and incorporated my responses to the
12 above witnesses’ rebuttal testimony into my discussion of those issues.

13 **Mischaracterization of Ms. Mondre’s Testimony regarding PGW**
14 **Collections and Management Practices**
15

16 ***I. PGW’S OPERATIONAL INEFFICIENCIES***

17
18 **Q. DID MR. WHITE ACCURATELY CHARACTERIZE YOUR**
19 **TESTIMONY REGARDING PGW’S COLLECTION RATES AND**
20 **PRACTICES?**

21 A. No, he most assuredly did not. His testimony also is inconsistent with that
22 of his colleagues with respect to the actual collection rate. See
23 Bogdanovage at pp. 25-26.

24 Conversely, Mr. Bogdonovage states at page 26 of his rebuttal

1 testimony that although collections have been improving, they are
2 expected to drop as a result of the proposed increase. Mr. Hershey makes
3 the same observation at page 7 of his testimony. This appears to be a tacit
4 admission that the burden to customers of the requested increase will be
5 even more severe.

6 No matter whether Mr. White's or Mr. Bogdanavage's respective
7 assessments of the collection rate represent PGW's definitive position, I
8 did not state, as Mr. White suggests at page 18-19 of his rebuttal
9 testimony, that PGW's difficulties are due solely, or even principally, to
10 its present collection practices. It is apparent that PGW's collection rates
11 have been improving, but that is not the only part of the problem.

12 As Joyce Wilkerson of the City of Philadelphia suggests at page 3
13 of her rebuttal testimony on behalf of PGW, there is still room for PGW
14 to achieve further improvement in its financial and operational stability.
15 Moreover, Ms. Wilkerson states at pp. 6-8 of her rebuttal testimony that
16 the City cannot afford to provide more support to PGW than it already
17 does in the form of its forgiveness of the \$18 million payment PGW is
18 supposed to make to the City, and the City's ongoing forbearance on its
19 \$45 million outstanding loan to PGW.

20 When we consider the City's concessions in concert with the \$36
21 million and \$34 million rate increases granted PGW in 2001 and 2002,
22 along with the emergency bank bailout in 2006, it is clear that no
23 participant in this proceeding, including the City, the School District and

1 other intervenors, can afford to keep rescuing PGW, especially as these
2 organizations cut critical services of their own.

3
4 **II. PGW'S RETIREE HEALTH BENEFITS**

5
6 **Q. DID MR. WHITE ACCURATELY CHARACTERIZE YOUR**
7 **TESTIMONY WITH REGARD TO PGW'S MANAGEMENT**
8 **PRACTICES AND INEFFICIENCIES?**

9 A. No, he did not.

10 **Q. DO YOU AGREE WITH THE REBUTTAL TESTIMONY OF**
11 **PGW'S WITNESSES WITH REGARD TO PGW'S RETIREE**
12 **BENEFIT PRACTICES?**

13 A. No, I do not. First, however, I wish to clarify a portion of my direct
14 testimony. I stated at page 9 that PGW pays lifetime health benefits to its
15 retirees, and stated my opinion that such a practice was inconsistent with
16 other government agencies.

17 I think it critical to make a distinction between providing a pension
18 or other forms of benefits to a retiree for the remainder of that retiree's
19 life, and providing health benefits to the retiree for life with no
20 requirement that the retiree contribute any portion of the cost of his or
21 her health coverage. Lifetime income remains a common practice; no-cost
22 lifetime health coverage is far less common, far more expensive, and a far

1 greater financial burden to PGW, for which it is asking its customers to
2 pay.

3 **Q. DID PGW'S WITNESSES ACCURATELY DESCRIBE THE**
4 **REASONS FOR ITS PRACTICE OF LIFETIME, COMPANY PAID**
5 **HEALTH BENEFITS?**

6 A. No, they did not. For example, Mr. White states at page 19 of his rebuttal
7 testimony that lifetime health benefits are, "in substantial part, a product
8 of and a requirement benefit under Collective Bargaining Agreements
9 imposing binding obligations on the Company." This is inconsistent with
10 information PGW has provided, and ignores certain commercial realities
11 equally applicable to government and private-sector organizations.

12 For example, PGW, in its response to OTS-RE-48 part A, a copy
13 of which is attached hereto as Exhibit A, states that no retirees, whether
14 union or management, made any contribution to their respective health
15 plans (with the exception of dental coverage), which cost the company
16 approximately \$11.6 million in FY 2007. PGW's statement is not
17 separated by union vs. non-union retirees, but if no one is paying a cent, it
18 is difficult to understand how this can be attributed entirely to CBAs.
19 Additionally, early retirees made contributions to two categories of health
20 plans.

21 Mr. White also insinuates that PGW is stuck indefinitely with each
22 of the health and retirement plans currently in place. That is simply not so.
23 Non-union employees' benefits are subject to change at any time. It is a

1 matter of common knowledge that organizations can, and do, change
2 benefit plans and require health care contributions after employees have
3 retired. These issues also are part of collective bargaining negotiations as
4 contracts come up for renewal. "My hands are tied" is not a valid
5 explanation for the continuation of this practice, just as it would not be to
6 the shareholders if PGW were a for-profit corporation.¹

7 There appears to be no regulatory requirement that PGW continue
8 to pay its retiree health benefits. The City Ordinance governing PGW's
9 retirement plans imposes no requirement that benefits be fully funded by
10 PGW; in fact, it requires PGW to provide sufficient funding for "current
11 benefit obligations" under the retirement schedules for retirees, and
12 "future benefit obligations" with respect to active employees and deferred
13 vested employees. See Philadelphia City Council Bill No. 020348, May
14 16, 2002, updating previous pension plans from PGW, annexed as Exhibit
15 AD-3 to the Rebuttal Testimony of Albert L. D'Attilio on behalf of PGW,
16 at Page 27. City Council also authorized PGW to amend the retirement
17 plans. Id. at 39.

18 ~~Q. WHAT IS YOUR UNDERSTANDING OF THE POLICIES AND~~
19 ~~PRACTICES OF OTHER GOVERNMENT AND PRIVATE~~
20 ~~ORGANIZATIONS WITH RESPECT TO RETIREE~~
21 ~~CONTRIBUTIONS TO HEALTH BENEFITS?~~

¹ Likewise, the payment of performance-based bonuses to PGW's executives in view of the current condition of the company would likely cause a shareholder revolt in private enterprise, and undoubtedly creates considerable resentment from the public in this case.

1 ~~A. Please note at the outset that I am not an employee compensation expert,~~
2 ~~and that the information included in the following responses was equally~~
3 ~~available to PGW. That being said, I am informed that fewer and~~
4 ~~fewer public and private employers are offering retiree health coverage at~~
5 ~~all, and nearly all employers either already require retirees to contribute to~~
6 ~~the cost or are planning to increase their retirees' contributions in the next~~
7 ~~few years.~~

8 ~~**Q. DOES THE COMMONWEALTH OF PENNSYLVANIA PAY**~~
9 ~~**HEALTH CARE COSTS FOR ALL RETIREES WITHOUT**~~
10 ~~**REQUIRING THEM TO CONTRIBUTE TO THE PREMIUM**~~
11 ~~**COST?**~~

12 ~~A. No, it does not. There are three categories in the Pennsylvania State~~
13 ~~Employees Retirement System for retiree health care benefits: Most~~
14 ~~employees retiring on or after July 1, 2005 must contribute an amount~~
15 ~~equal to one percent (1%) of their final year's salary to their premiums.~~
16 ~~Some retirees' health care costs are fully paid. Still others receive only \$5~~
17 ~~per month from the Commonwealth towards their premiums. As is the~~
18 ~~case with most retirement plans, the benefits available and their cost~~
19 ~~depend upon when the employee retired and how long s/he served. It is~~
20 ~~also important to note that the Commonwealth, like other employers, can~~
21 ~~change benefits at any time.~~

22 I am informed that the Public Utility Commission's employees
23 are covered by PSERS. Parenthetically, the School District of Philadelphia

1 does not offer health benefits to non-represented employees, and
2 unionized retiree coverage is dependent upon individual unions' health
3 and welfare fund practices.

4 ~~Q. DOES THE FEDERAL GOVERNMENT PROVIDE HEALTH~~
5 ~~INSURANCE TO ALL ITS RETIREES WITHOUT REQUIRING A~~
6 ~~CONTRIBUTION FROM THE RETIREE?~~

7 A. No, it does not. Federal employees' retirement health benefits are
8 administered either through the Federal Employees Health Benefits
9 System ("FEHB") or the Civil Service Retirement System ("CSRS").
10 Retirees purchasing health insurance under either system pay the same
11 premiums they did while on the job.

12 ~~Q. DO OTHER REGULATED UTILITIES IN PENNSYLVANIA~~
13 ~~REQUIRE RETIREES TO CONTRIBUTE TO THEIR HEALTH~~
14 ~~CARE COSTS?~~

15 A. Yes, they do. Duquesne Power and Pennsylvania Power and Light, who
16 rank among the Commonwealth's largest utility companies, both require
17 retiree contribution. SEC filings for both companies also state their
18 respective intentions to lower or eliminate company contributions to
19 retiree health care in the relatively near future.

20 ~~Q. WHAT IS YOUR UNDERSTANDING OF THE PRACTICES OF~~
21 ~~OTHER EDUCATIONAL INSTITUTIONS AND NON-PROFIT~~
22 ~~ORGANIZATIONS WITH REGARD TO RETIREE HEALTH~~
23 ~~CARE CONTRIBUTIONS?~~

1 ~~A. My general understanding is that educational and non-profit organizations~~
2 ~~are requiring greater retiree contributions than they already charge. A~~
3 ~~November 2006 report from TIAA-CREF Institute, an organization~~
4 ~~providing retirement benefits to employees in higher education and other~~
5 ~~non-profit services, stated that even more colleges and universities,~~
6 ~~traditionally regarded as "paternalistic" and generous with regard to~~
7 ~~retirement benefits, are turning to increased retiree contributions or~~
8 ~~eliminating health care benefits for future (and occasionally current)~~
9 ~~retirees in order to control their costs. This is, in part, because retiree~~
10 ~~health care costs grew at a faster rate than those for active workers.²~~

11 ~~**Q. WHAT IS YOUR UNDERSTANDING OF THE PRACTICES AND**~~
12 ~~**POLICIES OF PRIVATE EMPLOYERS WITH REGARD TO**~~
13 ~~**REQUIRING THEIR RETIREES TO CONTRIBUTE TO THEIR**~~
14 ~~**HEALTH CARE COSTS?**~~

15 ~~A. According to the Employee Benefit Research Institute ("EBRI"), the~~
16 ~~percentage of employers offering health care benefits to either~~
17 ~~Medicare or non-Medicare-eligible retirees at any cost~~
18 ~~declined from 20 percent in 1997 to 13% in 2002.³ At the same time~~
19 ~~private sector employers are reducing the scope of the coverages they do~~
20 ~~offer, some 56% of large private sector employers are "very likely" to~~
21 ~~increase retiree contributions and require higher coinsurance and~~
22 ~~copayments from employees by the end of the decade. EBRI at 11.~~

² TIAA-CREF Institute, "The Retiree Health Care Challenge," November 2006 at ii, 2, 7.
³ Employee Benefit Research Institute Issue Brief No. 279, March 2005.

1 ~~I am also informed by various employee benefit and insurance~~
2 ~~professionals that private employers in the Philadelphia region are~~
3 ~~attempting to control their health care costs by raising retiree health care~~
4 ~~contributions, requiring retirees to bear the entire cost of their health~~
5 ~~insurance, or eliminating such coverage altogether.~~

6 **Q. BASED ON THE FOREGOING, HAVE YOU FORMED AN**
7 **OPINION REGARDING THE REASONABLENESS OF PGW'S**
8 **EXPENDITURES OF APPROXIMATELY \$11,609,657.00 ON**
9 **RETIREE HEALTH BENEFITS?**

10 A, Yes, I have, and I continue to believe these expenditures are not
11 reasonable, given that the cost of such benefits is being borne by people
12 who do not enjoy the same privileges.

13 **III. PGW'S REAL ESTATE PURCHASES AND DEVELOPMENT PLANS**

14
15 [DELETED]

16 [DELETED]

17 [DELETED]

18 [DELETED]

19 [DELETED]

20 [DELETED]

21 [DELETED]

22 **Q. DID YOU REVIEW MR. WHITE'S REBUTTAL TESTIOMNY**
23 **REGARDING THE PURCHASE PRICE OF THE A TRACT OF**

1 **LAND FOR “PLANT SECURITY” AND THE BASIS FOR**
2 **RELATED EXPENDITURES?**

3 A. Yes, I did, and the substance cast further doubt on the reasonableness of
4 the entire transaction. For example, at pp. 19-20 of his rebuttal testimony,
5 Mr. White testified that PGW purchased a tract of land for \$265,000. I
6 wish to correct my direct testimony and a prior interrogatory answer
7 stating that the tract adjoined the Passyunk plant. It was unclear from the
8 budget entries as to the exact plant in issue (see line Section G-3, line item
9 3-03-1-01 of PGW’s FY 2006 budget for its Gas Processing
10 Department) to acquire land “to enhance plant security” in the amount of
11 \$900,000, but, as the following discussion makes clear, I continue to
12 believe it was an unreasonable expenditure. The basis for the additional
13 expenditure level appeared to be a recommendation from an unidentified
14 security consultant that if a third party purchased and developed the
15 property (which has not happened either at Passyunk or at the Richmond
16 plant to which Mr. White suggests PGW was really referring), the
17 consultant would recommend the construction of a wall around the
18 property, at a cost estimated by PGW’s engineers of \$900,000. White at
19 20.

20 Even assuming that the purchase was for the Richmond plant,
21 given that PGW has been engaged for years in discussions about
22 selling its Richmond LNG plant, but has yet to do so, and given that the

1 wall construction requirement is hardly set in stone, it hardly seems
2 reasonable to seek the funds from ratepayers for such a project now.

3 **Q. MR. WHITE STATES IN HIS REBUTTAL TESTIMONY THAT**
4 **THE PURPOSE OF THE REQUEST FOR PROPOSALS (“RFP”)**
5 **FROM POTENTIAL DEVELOPERS FOR THE PASSYUNK**
6 **TRACT IS TO ATTAIN THE “BEST AND HIGHEST USE” FOR**
7 **THE SITE. WHAT POTENTIAL USES WERE INCLUDED IN THE**
8 **RFP?**

9 A. At Page 28-29 of the RFP, PGW outlines a list of potential uses for the
10 property, including, but not limited to, construction of electricity or other
11 alternative energy source transmission, processing and/or delivery
12 services. It is difficult to understand how providing land and infrastructure
13 assistance to non-natural gas energy suppliers to distribute competing
14 energy commodity products (which, presumably, will produce lengthier
15 income streams for the developers that PGW will derive from the sale
16 price of the property), can be deemed the “best and highest use” of PGW’s
17 property.

18 PGW’s prior history in business ventures also casts doubt
19 upon its likelihood of succeeding as a developer. The company has
20 invested corporate resources into non-natural gas projects including
21 electricity sales, compressed natural gas stations, demand-side services,
22 and merger-related activities, none of which has been successful. There is
23 no track record of entrepreneurial achievement to inspire confidence in

1 PGW's abilities to realize benefits either to itself or its ratepayers in this
2 latest undertaking.

3 **The School District's Compliance with Section 10 Eligible Agreements**

4 **Q. MR. WHITE STATES AT PAGE 23 OF HIS REBUTTAL**
5 **TESTIMONY THAT THE SCHOOL DISTRICT WAS**
6 **OBLIGATED TO USE NATURAL GAS EXCLUSIVELY IN**
7 **CERTAIN PROPERTIES, AND THAT THE SCHOOL DISTRICT**
8 **HAS FAILED TO COMPLY WITH CONTRACT TERMS IN SUCH**
9 **A MANNER AS TO MAKE IT INELIGIBLE FOR SECTION 10**
10 **CREDITS. DO YOU AGREE WITH HIS STATEMENTS?**

11 **A.** No, I do not. Mr. White's rebuttal testimony does not accurately
12 characterize the course of dealings between the School District and PGW.

13 Mr. White primarily refers to disputed transactions from nearly a
14 decade ago. It is important to place these disputes in their proper historical
15 and commercial context. The School District and PGW engaged in more
16 than a year's worth of ultimately fruitless negotiations in 1999-2000
17 relating to contracts from the early and mid-1990s.. There were
18 approximately 35 total accounts in dispute (representing less than 10% of
19 the School District's total account roster). Ms. Mondre was advised that
20 PGW's claimed losses were excessive, that PGW's own delays and
21 mismanagement hampered the School District's ability to purchase
22 required amounts, and that PGW had engaged in activities such as
23 threatening to sue over expired contracts. One of those concurring in those

1 assessments was Stephen P. Hershey, Esq., who was then MEI's legal
2 consultant on behalf of the School District and is now Vice President –
3 Regulatory and External Affairs for PGW.

4 I disagree that the School District was “contractually obligated” to
5 PGW to use natural gas exclusively at its dual fuel properties during the
6 period in question, for the reasons set forth below.

7 For example, when the School District met its purchase
8 requirements for natural gas, it was permitted to burn oil. Indeed, PGW
9 authorized the School District to burn oil at 17 such properties by letter
10 dated February 11, 1999 from Abby Pozefsky, PGW's Vice President and
11 General Counsel, to Mr. Hershey, a copy of which is attached hereto as
12 Exhibit B.

13 The School District also experienced a number of operational
14 problems caused by PGW's delays and contract mismanagement that
15 prevented it from burning gas as the parties had contemplated. In some
16 instances, these difficulties forced the School District to use fuel oil in
17 some of its schools when PGW did not conduct and/or complete final
18 inspections and certifications of the gas service systems at new schools
19 and/or schools adding new service. Without certification, the School
20 District could not begin using gas to meet purchase requirements.

21 In those extremely limited circumstances (approximately 7
22 accounts) in which the School District did not meet its purchase
23 requirements due to low demand, PGW reassigned the subject

1 accounts to more costly MS and/or BPS-S rate classes, thus covering any
2 revenue shortfalls it might have experienced.

3 Finally, Mr. White's statements are misleading insofar as they
4 suggest that the School District was required to "to use natural gas
5 exclusively" in all its facilities. The School District had a substantial
6 number of facilities (the current number is approximately 150) that use
7 only fuel oil and cannot burn natural gas. Obviously, those facilities
8 would fall outside the scope of any PGW contracts for gas service. The
9 School District currently has 420 accounts at the MS rate for facilities that
10 burn natural gas exclusively. The natural gas-only facilities were and are
11 irrelevant to PGW's claims, because the School District could not have
12 burned oil in them.

13 The School District currently has 62 accounts capable of
14 interruptible service allowing the use of either natural gas or fuel oil
15 (collectively Dual-Fuel Facilities"). Fifteen of these accounts are on the
16 BPS rate and the remaining 47 are on a transportation rate for gas
17 purchased from a third-party supplier.

18 With respect to PGW's denial of Section 10 benefits, it merits
19 mention that PGW has had the use of the School District's cash "up front"
20 payments for several years without having done anything in return.
21 Moreover, for the reasons described above, the School District denies that
22 it is in breach of any agreements that PGW could invoke as an excuse to
23 its obligations under Section 10.

1
2 PGW'S dismissive attitude and refusal to exercise its
3 discretion in the School District's favor when it has granted such benefits
4 to private customers,⁴ and when it extols the benefits of granting such
5 incentives to attract new services, is both particularly galling to the School
6 District and another unfortunate example of its lack of concern for
7 financially distressed institutional customers.
8

9 **PGW's Mischaracterization of the School District's Testimony**
10 **Regarding Metering Charges**
11

12 **Q. MR. WHITE ALSO DISCUSSED PGW'S REFUSAL TO**
13 **EXERCISE ITS DISCRETION TO REDUCE OR ELIMINATE**
14 **CERTAIN METERING AND SERVICE CHARGES. DO YOU**
15 **AGREE WITH HIS TESTIMONY?**

16 **A.** No, I do not. The School District's centralized administration of its PGW
17 accounts eliminates the need to prepare multiple bills, as Mr. White
18 conceded. He also fails to state in what respect granting the School
19 District an accommodation in metering and service charges would not
20 cover PGW's costs. It appears, however, that most, if not all, meters are on
21 AMR service, thus meter readings are made electronically and no one has
22 to visit the sites for that purpose. Furthermore, to the extent PGW has been
23 including in its metering charges the cost of its acquisition of the meter

⁴ See Exhibit OTS 2, Schedule 13, pp. 2-3 to the Direct Testimony of Janet Markovich on behalf of the Office of Trial Staff.

1 units, it should identify how much of that original acquisition cost remains
2 outstanding.

3 Simply stated, Mr. White takes the position that PGW can and will
4 do as it pleases, notwithstanding its customers' attempts to cut costs.

5 **PGW's Activities with regard to Third Party Suppliers and IT Rates**

6 **Q. MR. WHITE'S REBUTTAL TESTIMONY ALSO SUGGESTS**
7 **THAT PGW'S EFFORTS TO SOLICIT THIRD PARTY**
8 **SUPPLIERS ARE IRRELEVANT TO ITS CURRENT RATE**
9 **PROCEEDING. DO YOU AGREE?**

10 **A.** No, I do not. It is relevant in several respects, and is a further indicator of
11 PGW's apparent wish to let its ratepayers solve its cash shortages instead
12 of taking the initiative to generate cash from lower-cost activities.

13 First, both Mr. Bogdonovage and Mr. White identify PGW's gas
14 purchase costs as the biggest source of its cash shortage, and that these
15 costs place a particularly heavy burden on PGW's cash requirements from
16 September through January each year. Bogdonovage at 8, White at 21. By
17 contrast, PGW does not incur gas costs on its distribution services for third
18 party suppliers.

19 Mr. White conceded in his rebuttal testimony that Interruptible
20 Transportation business is better than no business, and that PGW makes
21 the same margin on transportation arrangements no matter who is
22 supplying the gas. White at 21. It stands to reason that if PGW could save
23 gas purchase costs and make the same amount of money on IT distribution

1 services, it should be making an effort to do so instead of making excuses
2 why it should not.

3 Most troublingly, Mr. White is quick to point out that PGW is
4 under no statutory obligation to aggressively solicit third party suppliers.
5 White at 21. Even without a statutory mandate, basic business practice
6 would suggest that a company with cash problems such as those of which
7 PGW complains is hardly in a position to wait for the world to come to its
8 door.

9 **Q. WILLIAM MUNTZER'S REBUTTAL TESTIMONY DISCUSSED**
10 **PGW'S EDI AND BILLING CAPABILITIES AS THEY RELATE**
11 **TO THIRD PARTY TRANSPORTATION SERVICES. DO YOU**
12 **AGREE WITH HIS SUGGESTION THAT EDI CAPABILITY**
13 **ALONE SHOULD STREAMLINE THE EXCHANGE OF**
14 **INFORMATION NECESSARY TO MAKE TRANSPORTATION**
15 **SALES EASIER AND MORE EFFICIENT?**

16 **A.** No, I do not. No matter how good an electronic system may be, it is of
17 limited value when a customer cannot locate a live human to respond to
18 problems using the system, and when marketing representatives are
19 informed that they are not authorized to address such problems. PGW's
20 delays in data coordination for implementing new firm and interruptible
21 service arrangements cost the School District approximately \$258,000 in
22 utility savings.

1 **Q. DO YOU AGREE WITH MR. GORMAN'S REBUTTAL**
2 **TESTIMONY WITH REGARD TO THE ALLOCATION OF**
3 **INCREASES TO THE MS RATE CLASS?**

4 A. No, I do not. Mr. Gorman states at page 22 of his testimony that the MS
5 class requires an increase of \$712,000 to meet its fully allocated cost of
6 service at the system average rate of return, and that this increase is
7 unrelated to the results of the residential class's increase. This is difficult
8 to understand when the MS rate class, as well as the other non-residential
9 rate classes, appeared to show a positive balance according to Mr.
10 Gorman's calculations,⁵ even without the inclusion of interest and surplus
11 revenues.

12 If we take Mr. Gorman's analysis at face value, and the School
13 District represents one-half of MS rate usage, its increased gas cost at the
14 \$100+ million requested rate increase would effectively be capped at half
15 the \$712,000 projected amount, or \$356,000, instead of the School
16 District's having to pay approximately \$1.19 million if the full rate
17 increase were granted. This would also mean that the District should
18 receive a pro rata reduction of that \$356,000 total if the approved rate
19 increase is less than the \$100 million PGW has requested.

20 Mr. Gorman also states that PGW cannot separate good payors
21 from bad within particular rate classes. Gorman at 23. That may be the
22 case when there are thousands of customers within a rate class, but at the

⁵ In addition, Roger Colton, at page 22 of his rebuttal testimony on behalf of the Office of Consumer Advocate, stated that MS rate class customers were meeting their full cost of service.

1 MS rate, there appear to be only two, the School District and the City,
2 both of whom pay their bills timely and in full, and one of whom, the
3 City, also has granted PGW \$18 million in annual accommodations on
4 payments due the City and granted extensions of time for PGW to
5 pay back its loan from the City.

6 The unmistakable message to the School District and others is that
7 being able to pay one's own way is of no value to PGW.

8 **Q. MR. WHITE CHARACTERIZED THE SCHOOL DISTRICT'S**
9 **PROJECTED FINANCIAL SHORTFALL AS "UNEXPLAINED."**
10 **DO YOU AGREE WITH THAT DESCRIPTION?**

11 A. No, I do not. The School District's budget documentation, which is a
12 matter of public record, and to which Mr. Vallas referred in his testimony,
13 describes the measures the School District is taking to reduce expenses,
14 and sets forth the challenges the School District has faced. It should also
15 be noted that the budget process, and the School District's efforts to cut
16 costs, are ongoing.

17 **Q. DO PGW'S REBUTTAL WITNESSES EXPRESS ANY OPINIONS**
18 **REGARDING THE FAIRNESS OF IMPOSING THE BURDEN OF**
19 **PGW'S REQUESTED INCREASES UPON CUSTOMERS SUCH AS**
20 **THE SCHOOL DISTRICT?**

21 A. Yes, they do, and their comments are disturbing.

22 For example, Mr. Hershey states at pp 2-3 of his rebuttal testimony
23 his belief that "all parties, at all levels, would be looking to find a

1 solution” to PGW’S problems with rising commodity costs. Organizations
2 such as the School District have well-documented problems of their own.
3 Unlike PGW, however, the School District is making the difficult and
4 painful decisions to cut work forces, cut spending for anything but the
5 most student-focused programs and services, and to take a more
6 aggressive position in collective bargaining with its unionized employees.
7 Unlike PGW, the School District cannot go to its “customers” for a
8 bailout. The School District is certainly not the only PGW customer with
9 some aging buildings in its system, and it is making concerted efforts to
10 improve the energy efficiency of its facilities. The School District cannot
11 and should not be expected to pay to help PGW put its own house in
12 order before PGW has proven that it has exhausted all measures to reduce
13 its costs, something it has not come close to doing in this proceeding.

14 The School District has suffered the consequences of PGW’s
15 intransigence in a number of ways. In recent years, when the School
16 District has attempted to negotiate transactions with PGW that would
17 produce greater revenues for PGW, PGW’s operating executives have
18 continually referred to long-past acts by now-departed School District
19 officials as a basis to complicate and delay negotiations and the eventual
20 closure of such deals.

21 Perhaps PGW’s financial difficulties would evoke more sympathy
22 and a greater willingness on its customers’ part to accommodate its
23 problems if they were an unprecedented occurrence, but they are not. Mr.

1 Bogdonovage describes PGW's repeated trips to the PUC and its lenders
2 even after receiving a rate increase of \$33.6 million in October 2001,
3 including an emergency increase of \$36 million in 2002. Bogdonovage at
4 16. Mr. Hershey adds to the litany of crises by describing a City grantback
5 to PGW in April, 2004 of PGW's \$18 million annual obligation to the
6 City, and a loan from a consortium of banks in January 2006, when PGW
7 was unable to pay for its January gas purchases. Hershey at 2. There is
8 little to any sign that PGW has taken successful steps to correct
9 recurring problems, and there is a very real question as to how severe
10 PGW's claimed cash shortage is in the first place,⁶ yet it is seeking even
11 more financial help from its customers. This begs the question of whether
12 the ratepayers are being asked to throw good money after bad.

13 Mr. White's response to non-residential customers'
14 complaints that they are being asked to subsidize residential service also is
15 troubling. He writes at page 18 of his rebuttal testimony that "every
16 customer will have a different reason that utility rates cannot go up, and
17 the Company cannot be held hostage to them." This, on the heels of his
18 accounts of PGW's consistent refusal to exercise discretion in the School
19 District's favor, evidences an attitude that is particularly offensive to the
20 School District, and does nothing to create an atmosphere in which the
21 parties to this proceeding can resolve their disputes in a professional

⁶ See Direct Testimony of Robert Plonski on behalf of OTS at pp. 12-13; Robert Knecht, Industrial Economics, Inc. on behalf of OSBA at p.25, and Michael Bleiwcis on behalf of OCA at pp. 5,6 and 12.

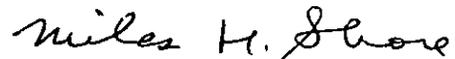
1 manner. Instead, it causes ratepayers to ask, "Who is holding
2 *whom* hostage?"

3 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

4 **A.** Yes, it does.

5

Respectfully Submitted,



Miles H. Shore
Attorney I.D. No. 03274
Assistant General Counsel
The School District of Philadelphia
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(215)400-5162
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mhshore@phila.k12.pa.us
Attorney for Intervenor
The School District of Philadelphia

Dated: May 15, 2007

6

VERIFICATION

I, Judith L. Mondre, President of Mondre Energy, Inc., verify that the facts set forth in the attached Surrebuttal Testimony on Behalf of the School District of Philadelphia are true and correct to the best of my knowledge, information and belief, and that this Verification is made subject to the penalties of 18 Pa. C. S. A. §4904 relating to unsworn falsification to authorities.



Judith L. Mondre

Date: May 15, 2007

PGW Health and Welfare Costs

OTS-RE-48-part A

PGW Healthcare Budget for FYE 2007

Union	Gross	Employee	Employer
Personal Choice	\$ 2,424,982.00	\$ 508,648.00	\$ 1,916,334.00
Keystone	\$ 6,983,168.00	\$ -	\$ 6,983,168.00
Aetna	\$ 1,406,277.00	\$ 128,854.00	\$ 1,277,423.00
Rx	\$ 3,378,128.00	\$ -	\$ 3,378,128.00
Dental	\$ 757,583.00	\$ 284,051.00	\$ 473,532.00
Vision	\$ 34,704.00	\$ 10,782.00	\$ 23,922.00
			Total: \$ 14,060,525.00

Management	Gross	Employee	Employer
Personal Choice	\$ 1,297,544.00	\$ 312,677.00	\$ 984,867.00
Keystone	\$ 2,492,027.00	\$ -	\$ 2,492,027.00
Aetna	\$ 478,498.00	\$ 72,415.00	\$ 406,083.00
Rx	\$ 1,014,518.00	\$ -	\$ 1,014,518.00
Dental	\$ 257,532.00	\$ 92,138.00	\$ 165,394.00
Vision	\$ 17,378.00	\$ 4,708.00	\$ 12,668.00
			Total: \$ 5,075,557.00

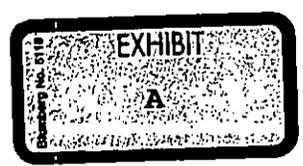
Early Retiree	Gross	Employee	Employer
Personal Choice	\$ 3,383,620.00	\$ 439,428.00	\$ 2,944,192.00
IBC	\$ 1,458,999.00	\$ -	\$ 1,458,999.00
Keystone	\$ 611,454.00	\$ -	\$ 611,454.00
Aetna	\$ 504,683.00	\$ 21,038.00	\$ 483,647.00
Rx	\$ 3,086,294.00	\$ -	\$ 3,086,294.00
Vision	\$ 13,302.00	\$ -	\$ 13,302.00
			Total: \$ 8,597,888.00

Regular Retiree	Gross	Employee	Employer
Personal Choice	\$ 339,293.00	\$ -	\$ 339,293.00
IBC	\$ 4,499,304.00	\$ -	\$ 4,499,304.00
Keystone	\$ 67,632.00	\$ -	\$ 67,632.00
Aetna	\$ 29,510.00	\$ (15,069.00)	\$ 44,579.00
Rx	\$ 6,172,589.00	\$ -	\$ 6,172,589.00
Dental	\$ 675,079.00	\$ 189,025.00	\$ 486,054.00
Vision	\$ 206.00	\$ -	\$ 206.00
			Total: \$ 11,809,657.00

13,649,529

Medicare Subsidy: \$ (1,450,000.00)

Grand Total: \$ 37,883,627.00



Philadelphia Gas Works

Abby L. Pozefsky
Senior Vice President and General Counsel



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E-mail: abby.pozefsky@pgworks.com

February 11, 1999

**VIA FAX (215) 851-8383
AND U.S. MAIL**

Stephen P. Hershey, Esq.
Connolly Epstein Chicco Foxman
Oxholm & Ewing
1515 Market Street, 9th Floor
Philadelphia, Pennsylvania 19102

Re: School District Interruptible Contracts

Dear Steve:

As we discussed yesterday, PGW has reviewed your request of February 3, 1999, regarding schools that the School District would immediately prefer to switch to oil. We are able to confirm that with the exception of the Wilson School, whose contract term expires in February 2001, all schools listed in your letter are no longer subject to exclusive use requirements. However, as we noted in our December correspondence, problems remain with respect to the Emlich, Rhawnhurst, Lingelbach, Edmonds, Meade, Sharswood, and Sayre schools. For these schools it appears that the School District did not use sufficient gas during their initial terms to qualify for the BPS rates that were afforded (see December spreadsheet data). If that is the case, an adjustment to the appropriate rate and an accounting for sums due is in order.

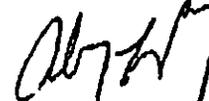
PGW continues to await a response from the School District regarding sums due for a large number of school contracts. This data, which was provided to you in December, reveals a fairly large number of schools for which sums are due. Because the School District is a valued customer, we did not issue a demand for all of these sums in December. Rather, we asked that you try to meet us halfway in constructing alternatives to increase gas usage to make up for the delinquent sums. Your complete lack of response to our December suggestions, coupled with your February 3 letter indicating that you want to use even less gas, is moving us away from rather than toward an amicable resolution of our issues. If the School District continues to take actions that leave fewer opportunities to negotiate future gas usage as a remedy for sums due it leaves PGW no alternative but to demand immediate payment of these sums. PGW does not believe that this is in the best interests of either party, but we are not being offered any constructive response.



Stephen P. Hershey, Esq.
February 11, 1999
Page 2

We are very concerned about this matter. Your immediate response is requested.

Sincerely yours,



Abby L. Pozefsky

cc: Ben Hayllar, Interim President and CEO
Craig White, Interim Vice President
Raquel N. Guzman, Senior Attorney