

ORIGINAL

HOUSE OF REPRESENTATIVES  
COMMONWEALTH OF PENNSYLVANIA  
JUDICIARY COMMITTEE HEARING

IN RE: HOUSE RESOLUTION 100, PHILADELPHIA GAS WORKS  
(POST PUC) RATES, SERVICES AND OPERATIONS

KNOWLTON MANSION  
8001 VERREE ROAD  
PHILADELPHIA, PENNSYLVANIA

THURSDAY, JANUARY 31, 2002, 10:55 A.M.

BEFORE:

HON. THOMAS GANNON, CHAIRMAN  
HON. KEVIN BLAUM  
HON. PATRICK BROWNE  
HON. JOHN PALLONE  
HON. JAMES ROEBUCK

ALSO PRESENT:

HON. GEORGE KENNEY  
HON. JOHN PERZEL

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1                   CHAIRMAN GANNON: House Judiciary  
2 Committee will come to order, please. Our witnesses  
3 will be speaking to you and the House of  
4 Representatives about House Resolution 100 to  
5 investigate energy cost in Pennsylvania as well as  
6 the operations of the Philadelphia Gas Works with  
7 respect to rates, services and operations.

8                   Our first witness for today's hearing  
9 is the Honorable John Perzel, State Representative  
10 from the 172nd Legislative District, Philadelphia  
11 County, and the Majority Leader of the Pennsylvania  
12 House of Representatives.

13                   Welcome, Representative Perzel. You  
14 may proceed when you are ready.

15                   REPRESENTATIVE PERZEL: Thank you, Mr.  
16 Chairman. I would like to welcome you to the new  
17 172nd Legislative District here in the great  
18 northeast. I would like to thank the committee for  
19 traveling to Philadelphia for this hearing. And  
20 thank you for allowing me and other citizens of the  
21 city of Philadelphia the opportunity to speak to you  
22 about the ongoing concerns with the Philadelphia Gas  
23 Works.

24                   The high natural gas rates we  
25 experienced in Philadelphia have abated somewhat

1 since House Resolution 100 passed in March of last  
2 year. In fact, many of the things about the  
3 national natural gas market and about Philadelphia  
4 Gas Works have changed in recent months. At one PUC  
5 hearing I attended, one of the testifiers suggested  
6 that the Philadelphia Gas Works should change its  
7 customer service number to dial-a-prayer. At the  
8 time, it seemed like a reasonable solution to an  
9 overwhelming number of complaints about PGW service  
10 and its rates.

11 That no longer seems necessary, Mr.  
12 Chairman. My district office staff reports that the  
13 number of complaints received about PGW and its  
14 operations have dropped significantly since last  
15 year. Customers now seem to be billed in a timely  
16 fashion and in a reasonably accurate manner. I am  
17 still getting complaints from customers who have  
18 specific problems with the Philadelphia Gas Works,  
19 but the volume of complaints about inaccurate or  
20 missing bills and the inability to directly contact  
21 PGW by telephone has decreased.

22 I want to commend PGW's management and  
23 the Public Utility Commission for working together  
24 to achieve improvements in customer service and  
25 responsiveness.



1           It required a change in the regulatory  
2 structure for these improvements to occur.

3 Regulation is not a substitute for management, but  
4 regulation can set standards that management needs  
5 to meet. Placing the PGW under the Pennsylvania  
6 Utility Commission has meant that Philadelphia Gas  
7 Works is held to comparable standards with other  
8 utility companies across this state. It seems that  
9 the Philadelphia Gas Works' management and workforce  
10 has begun to respond positively to these challenges.

11           I want to recognize the improvement  
12 that has occurred, but I want the improvement to  
13 continue, and I continue to be concerned about the  
14 Philadelphia Gas Works. The PGW was not content to  
15 receive substantial increases in its gas cost rate  
16 last year. It filed and received an increase in the  
17 base rates. And, now, it is possible that PGW will  
18 be filing for another base rate increase.

19           I believe that the Philadelphia Gas  
20 Works' customers are still being asked to pay for  
21 the organization's mistakes. That's wrong. And  
22 it's time for PGW to become more accountable. I  
23 have supported and even led efforts to increase the  
24 accountability of the Philadelphia Gas Works.

25 Shifting PGW to state regulation and away from the

1 Philadelphia Gas Commission has made a big  
2 difference.

3 I pushed the PUC to perform a  
4 management audit of the Philadelphia Gas Works.  
5 That audit identified many potential cost savings  
6 and efficiency improvements. I am concerned the  
7 progress that has been made remains at risk. That  
8 risk comes from the Philadelphia Gas Works'  
9 management being politically based rather than based  
10 on true accountability to its customers.

11 As PGW is currently structured, the  
12 mayor appoints all the members of the Board of  
13 Directors, which hires the management team for the  
14 gas works. City council approves the capital budget  
15 of the gas works, while the Philadelphia Gas  
16 Commission is responsible for approving the  
17 operating budget and reviewing the capital budget.  
18 No matter how much they mean well, they are set up  
19 in a prescription for disaster, a disaster that led  
20 us to put Philadelphia Gas Works under the PUC's  
21 jurisdiction. The mayor's office knows this.

22 The report of the current mayor's  
23 transition team stated, and this is a quote,  
24 diffusion of responsibility has contributed to  
25 inaction in the face of poor decision-making at the

1 Philadelphia Gas Works and an obvious need for  
2 changes in the PGW management. That's the end of  
3 the quote.

4 The PUC understands that we need a  
5 different ownership and management structure for the  
6 Philadelphia Gas Works. That is clear from the  
7 management audit from a recent State Senate report.  
8 The Senate report went on to say: The current  
9 situation shifts responsibility and accountability,  
10 and it fails to provide clear direction of the  
11 expectations placed upon the Philadelphia Gas Works  
12 by both the city and the Philadelphia Gas Works'  
13 customers.

14 The PUC believed that the PGW should  
15 have retained independent, professional and  
16 experienced management for PGW by September 30,  
17 2001. That still has not been done. It isn't that  
18 I have a personal quarrel or issues with the current  
19 management team who I believe are trying. But the  
20 system is wrong. It is the root cause for much of  
21 PGW's problems. It must be changed.

22 The system leads to crisis management,  
23 to short-term decision-making, to bad trade-offs  
24 that have political benefit for players within city  
25 government, to shifting responsibility and

1 eventually cover-ups. That cannot be fixed until  
2 fundamental changes are made in how the PGW  
3 functions and is governed.

4 I urge you to develop a strategy which  
5 will lead to a system that guarantees that the PGW  
6 customers come first. My constituents know that,  
7 for many years, they have not come first or second  
8 or third. We can't let this happen again.

9 At this point, thank you, Mr.  
10 Chairman.

11 CHAIRMAN GANNON: Thank you,  
12 Representative Perzel. Any questions?

13 Representative Perzel, I appreciate  
14 you giving us the insight and the views of the  
15 people you represent in this part of Philadelphia.  
16 I'm sure its representative of the views of every  
17 citizen of Philadelphia with respect to some of the  
18 past history of Philadelphia Gas Works.

19 I can't help but comment that after  
20 House Resolution 100 was produced that there were  
21 some improvements. I would like to attribute that  
22 to the resolution, but I believe there were some  
23 things in the works prior to the introduction of the  
24 resolution. And the members of the committee had an  
25 opportunity to tour some of the gas works

1 facilities.

2 My observation, although I had not  
3 seen the facility prior to House Resolution 100,  
4 what was going on there, when the problems you  
5 referred to were at their height, but from an  
6 observation and speaking with some of the people  
7 down there, they informed me there seems to be an  
8 effort to make improvements. And the members from  
9 Philadelphia were at the tour and did indicate that  
10 the number of complaints that they were receiving  
11 were declining.

12 But, as you said, there is much, much  
13 more to be done. And the environment in which it's  
14 been operating from the start may not be the best  
15 for the type of progress that we would like to see  
16 and would like to see for the people of the city of  
17 Philadelphia. Thank you very much.

18 REPRESENTATIVE PERZEL: Thank you, Mr.  
19 Chairman.

20 CHAIRMAN GANNON: Representative  
21 Perzel, Representative Roebuck has a question.

22 REPRESENTATIVE ROEBUCK: I just want  
23 to ask one question if I could.

24 REPRESENTATIVE PERZEL: Sure. Go  
25 ahead.

1                   REPRESENTATIVE ROEBUCK: Do you have  
2 any specific kinds of suggestions? You talked about  
3 the need for change. Do you have any specific  
4 suggestions in mind that might give us some guidance  
5 as to where you see the process going?

6                   REPRESENTATIVE PERZEL: Really, if you  
7 think about the Philadelphia Gas Works, it is a  
8 function that should have been separated from the  
9 city a long time ago. It is something that really  
10 should have been run by private enterprise.

11                   Right now their collections are  
12 seriously backed up. Their income is not where it  
13 should be because they've allowed collections to get  
14 out of hand. A private enterprise would have never  
15 allowed that to occur.

16                   There were a number of management  
17 audit programs identified that could save money, but  
18 in the end the bottom line is it has to be run more  
19 like a business.

20                   REPRESENTATIVE ROEBUCK: Thank you.

21                   REPRESENTATIVE PALLONE:  
22 Representative Perzel, is the Philadelphia Gas Works  
23 managed as an authority?

24                   REPRESENTATIVE PERZEL: Basically,  
25 like an authority, yes.

1                   REPRESENTATIVE PALLONE: So it's the  
2 only authority in the Commonwealth that falls under  
3 the PUC?

4                   REPRESENTATIVE PERZEL: I don't know  
5 that answer. It's the only gas company that didn't  
6 fall under the PUC the way it was priorly done. Now  
7 we put it under the PUC. But if you look at as an  
8 authority, you're right.

9                   REPRESENTATIVE PALLONE: Do you know  
10 if there are other gas companies that are managed by  
11 government?

12                   REPRESENTATIVE PERZEL: To my  
13 knowledge, no.

14                   REPRESENTATIVE PALLONE: Thank you.

15                   REPRESENTATIVE PERZEL: Thank you.

16                   CHAIRMAN GANNON: Our next witness is  
17 Mr. Craig White, Interim Chief Operating Officer,  
18 Philadelphia Gas Works; and Thomas Knudsen, Interim  
19 President and CEO, Philadelphia Gas Works.

20                   Both Mr. White and Mr. Knudsen, you  
21 may proceed.

22                   MR. KNUDSEN: Thank you, Mr. Chairman,  
23 very much. I want to thank you and the members of  
24 the committee for having us today. I also want to  
25 thank you and several of you who had visited us

1 yesterday. We felt and feel that we have a story of  
2 progress to tell. And if you will bear with me, I'm  
3 not going to read from my testimony but I do want to  
4 summarize it for you. And then whatever questions  
5 you have, we'd be happy to answer.

6 PGW is a large enterprise. It's the  
7 largest municipally-owned gas utility in the  
8 country. It is the largest local distribution  
9 company in the state of Pennsylvania. We have over  
10 6,000 miles of mains and services, services being  
11 the pipe from the street to the house. And it  
12 represents about 25 percent of the mains and  
13 services in the state. So this is an important  
14 facility for Philadelphia, and it's a very important  
15 facility for the region as well.

16 May I start off by saying that there  
17 is no question that we all acknowledge that PGW's  
18 history over the last decade has not been a great  
19 one. The deterioration in service is obviously that  
20 to which Representative Perzel referred. We had  
21 incorrect bills. We didn't answer appointments.  
22 People couldn't get through to us on the phone. All  
23 of those things have contributed to a reputation  
24 that the company now enjoys that we are desperately  
25 trying to change, and we hope that we are doing so.



1           Where there were issues that were  
2 operational in nature, we have done everything we  
3 can to fix them. Representative Perzel made  
4 reference to the management audit. We took that  
5 very seriously. I was very pleased with  
6 participation of the firm. It was a terrifically  
7 professional group, and I think we benefitted  
8 largely. We are implementing those recommendations  
9 at present.

10           Where we have had problems with issues  
11 of law and culpability, we have taken every  
12 appropriate action that this company can and that  
13 the administration can to make sure that there is  
14 regress where people have misappropriated things or  
15 misrepresented things. And, for those people, there  
16 is criminal action pending. We are seeking regress  
17 from them as well.

18           That to me, though, is the history.  
19 We have moved beyond that, and I think that's the  
20 story for today.

21           When I came in March of 2000, the  
22 mayor was adamant in his instructions that PGW be  
23 reformed. The first responsibility I had was to  
24 give him a six-point program of reform, and we  
25 immediately started to act on those points. They

1 were such things as correcting the billing system,  
2 getting the financial position of the company  
3 strengthened. We had questions obviously of  
4 customer service. All of those I have enumerated in  
5 my testimony for you to read.

6 In July of 2000, the oversight for PGW  
7 shifted from the city council and the Philadelphia  
8 Gas Commission to the Public Utility Commission in  
9 three particular areas. One is in customer service,  
10 the second is in safety, and the third is in rates  
11 or prices charged for our services. Very clear and  
12 very important to understand that the budgeting was  
13 specifically left in the law as being the  
14 responsibility of the Gas Commission and the city  
15 council. So we are in the position we are because  
16 that is what the law requires us to do.

17 With regard to our rates, there are  
18 two components. There's the gas cost rate which is  
19 strictly the commodity portion of our effort, and  
20 the other is called the base rate. I'm sure you are  
21 all aware that gas costs themselves, the commodity  
22 portion, went up 70 to 80 percent across the state  
23 last year. We were not exempt. We had three  
24 increments of increases last winter -- December,  
25 January, February -- that raised our prices

1 substantially. We have had two reductions thus far  
2 and we are looking at a potential third reduction.  
3 So there were three steps up and three steps down.

4 Now, I will grant that the steps down  
5 do not take us to the premarket conditions prior to  
6 last winter, but they are substantially lower than  
7 they were last year.

8 The base rate is really the different  
9 issue. Our base rate is what controls the fate of  
10 the company. The gas costs are passed through on a  
11 dollar-for-dollar basis. We make no money on the  
12 commodity itself. We do make our money on the base  
13 rate portion, and that's the portion that covers  
14 labor, it covers the interest, it covers  
15 depreciation it covers the normal cost of doing  
16 business.

17 The customers of Philadelphia had no  
18 base rate increase for ten years, from 1991 -- from  
19 1992 to 2001. This is really quite extraordinary.  
20 In my prior professional life, I represented  
21 customer interests in public utility proceedings  
22 against the utilities. I have testified in  
23 proceedings almost for every utility in  
24 Pennsylvania. And the reason I'm here is because I  
25 represented the consumer advocate of Philadelphia in

1 proceedings against PGW.

2 The fact that there were no increases  
3 is one contributing aspect to the problem that we  
4 have right now. We needed to offset inflation, we  
5 needed to offset health care costs, we needed to  
6 offset labor costs, and that help did not come.  
7 There were no increases, as I say, over that period  
8 of time.

9 When I got there, it was very clear  
10 that we needed to raise the base rate. But the  
11 mayor was insistent, in fact adamant, that we fully  
12 justify whatever we were going to do and that he  
13 wanted to see the program.

14 The management committed to a \$25  
15 million cost reduction program over a two and a half  
16 year period, and that represented about 25 percent  
17 of what I will call the discretionary or nonfixed  
18 cost portion of our base rate, which is about \$100  
19 million. We have that underway. Part of the  
20 management audit benefits are tied in with that, and  
21 we are on schedule to meet that goal next year.

22 That cost reduction notwithstanding,  
23 we also had to then ask for the \$65 million of rate  
24 relief last year. Reluctantly so, I will tell you.  
25 The problem that we have -- let me come back to

1 that.

2 We got about half of what we needed  
3 from the PUC. They saw fit to give us \$33.6  
4 million. A lot of issues were raised as to whether  
5 we should have gotten even that. Some of the  
6 parties said, what have you done for customer  
7 service. Your customer service is lousy. You  
8 shouldn't get any money until you improve that.

9 I've prepared a series of exhibits for  
10 you. I hope you can see them. The first is what we  
11 call grade of service, which is the ability that PGW  
12 has to answer the phones and the PUC standard that's  
13 been assigned to us. Now, there are different  
14 standards for different companies as I now  
15 understand, which I didn't originally, is that we  
16 must answer 80 percent of our calls in 30 seconds.

17 Coming out of fixing the computer  
18 system last year, this was a priority that moved to  
19 the top of the heap. And, as you can tell, after a  
20 spring of developing systems and efforts, by July we  
21 implemented the program and by October we were  
22 consistently and remain consistently about the 80/30  
23 level.

24 We are very pleased with this. I  
25 think the response -- or the comments of

1 Representative Perzel earlier indicated that his  
2 office and, as the chairman indicated, other offices  
3 are not getting the kind of problem calls that they  
4 did before, largely because people can get through.  
5 And we now have a fully-trained staff, it's called a  
6 supervised staff, and fully-motivated staff to  
7 continue this program going forward.

8           What was most interesting is when we  
9 got into this, it was very clear that when you  
10 answer phone calls, you don't get more phone calls  
11 and that the volumes that we are dealing with are  
12 really about half of what they were last year. The  
13 rule of thumb that we developed and also determined  
14 was that for every missed call or every postponed  
15 call or lost call, you get three. So that we are  
16 now averaging about 4,000 calls a day. That still  
17 translates into almost 800 thousand to a million  
18 calls a year, but we are on top of that and able to  
19 respond.

20           And the inverse of the grade of  
21 service is what we call the abandonment rate. And  
22 as you can tell -- I'm sorry. The star up there is  
23 for the month of January. We abandoned 1.5 percent  
24 of the calls. That's well within the requirements  
25 of the PUC standard. I would only note, and I said

1 in my testimony, that we have a sister utility whose  
2 standard is only 70 percent of the calls in 30  
3 seconds. So we have been challenged, and I think we  
4 have met that challenge.

5 The second criticism we got was on  
6 billing; too many incorrect bills, too many problems  
7 that weren't being answered. I will report here  
8 that our computer system is fixed. The software  
9 works. And we were not alone with the problems of  
10 the billing system. There were a number of very  
11 large utilities around us and in other states that  
12 put in billing systems who had equally the number of  
13 problems that we did. Somehow after a period of  
14 time we have stumbled forward and we are where we  
15 are. And I think we are in good shape to continue.

16 That is not to say that all of the  
17 billing problems are behind us. We have a number of  
18 unique aspects to our operation that other utilities  
19 don't. We have the highest percentage of customers  
20 who have the meters in the basement of their homes.  
21 Suburban systems have them outside. You realize  
22 what that constitutes in terms of an operational  
23 expense and an operational difficulty. We can't get  
24 into those homes to read meters because people  
25 aren't there anymore. The culture has changed, and

1 women are working. No one is home.

2 So we put in what's called an  
3 automatic meter reading system, and that involves  
4 trucks riding up and down the streets. The  
5 representatives who were with us yesterday saw an  
6 example of that. And they read the meters  
7 automatically, but that's not a fail-safe system  
8 either. We have people who don't want this device  
9 in their homes and essentially don't let us in. We  
10 are making every effort to get there.

11 But to the extent that they don't let  
12 us in and we have to estimate their bills, the  
13 computer system ultimately says we ain't going to  
14 estimate anymore. You've got to go out and read  
15 these meters. That's what the software requires  
16 from us. That's a phone call. That's a problem.  
17 We have 150,000 of our customers who live at or  
18 below 150 percent of the federal poverty level for a  
19 family of four. That is larger than the city of  
20 Harrisburg.

21 People have problems paying their  
22 bills. We then have to negotiate with them, get a  
23 payment agreement, keep them on that payment  
24 agreement. And when they fall off that payment  
25 agreement, that's a phone call, that's a problem.



1 That's a billing concern that we have.

2           We can have the software working. We  
3 can have everything working in our own shop, and yet  
4 there are a number of problems that come to us as a  
5 result of some of these other factors. We received  
6 \$31 million in LIHEAP and Crisis grants last year.  
7 It's a phenomenal number for us. We have 66,000  
8 people who qualified for grants. We received 80,000  
9 grants. But the information for those grants wasn't  
10 necessarily put in by PGW personnel. It was put in  
11 by social service agencies. It might have been put  
12 in by the state itself. We didn't have control over  
13 a lot of the data that was in the computer. Those  
14 generated errors, those generated phone calls and so  
15 forth.

16           We still have a long way to go to make  
17 this absolutely flawless. And we are dedicated to  
18 doing that. But I want to report that we have made  
19 substantial progress on the question of billings.

20           The third area, of course, was  
21 collections. Representative Perzel referred to it  
22 as a problem for us. I would only report that I  
23 think the numbers are larger as reported out than  
24 actually exist. I know at one point this committee  
25 heard or the General Assembly heard that we had \$300

1 million outstanding on paper. That is not the case.  
2 As of August, which was the end of our fiscal  
3 period, that number was about \$90 million. We would  
4 normally expect to have about \$50 million of  
5 receivables at the end of the year, simply because  
6 of the way businesses work. And particularly  
7 utilities, you provide service well in advance of  
8 when you get money.

9 We are going after that \$40 million  
10 very seriously this year, and we are going to get  
11 it.

12 As I said, with the computer system  
13 being fixed, we have just finished the last module  
14 that had to be put in place, and that is the  
15 collection module. Again, our collections are a  
16 very complicated process. For the low-income  
17 customers, we must notify them, we must send out a  
18 series of mailings, and then we must go visit them;  
19 very expensive, very complicated, but we are  
20 dedicated to doing that. That is the process that  
21 our tariffs allow us, and we are going to pursue  
22 that to the extent that we can within that  
23 constraint.

24 Representative Perzel made reference  
25 to the fact that we are now going to file for

1 additional rate relief. That is correct. One can  
2 easily ask why \$33.6 million was not enough. The  
3 difficulty that PGW has right now and the picture  
4 that I'm about to paint in the next few minutes is  
5 that we have absolutely been decimated by weather.  
6 This chart shows you coming through the '90s. Now,  
7 remember, we did not get rate relief any time during  
8 this period.

9           It shows you the declining margins in  
10 blue. Those were the profit margins, the surpluses.  
11 We were fine basically through the middle of the  
12 decade. Then the weather starts to turn against us.  
13 In '97/'98, '98/'99, '99/2000, last year was  
14 somewhat normal, and this year is the warmest winter  
15 season on record in Philadelphia. We have lost \$20  
16 million since the middle of November, and we have to  
17 figure out how we are going to fill that hole in the  
18 meantime.

19           The combination of those red lines  
20 down there are the losses, and we had to finance  
21 those losses from our line of credit, our short-term  
22 debt, our credit card. As you can tell, with each  
23 successive year we borrowed more to stay alive.  
24 Last year because of the runup in gas costs, we had  
25 to go to the city council and borrow an additional

1       \$45 million.

2                   The \$33.6 million we've gotten makes  
3 us whole relative to the inflation, the cost  
4 increases and so forth during the 1990s. The  
5 additional amount that we asked for was to take care  
6 of this problem.

7                   It was to help us dig ourselves out  
8 from the debt, not as a result of inefficiencies  
9 particularly. Yes, that was an element of that, but  
10 largely because of the weather patterns in the last  
11 four out of the five years.

12                   What we plan to do is to request of  
13 the PUC -- and this is a mechanism that is accepted  
14 in other jurisdictions; New York and New Jersey  
15 specifically -- is a weather adjustment clause.  
16 What that allows us to do is to share the risks of  
17 warmer than normal weather with the customers when  
18 we're losing money, but also give it back to them  
19 when the weather is colder than normal, when we're  
20 making profits and we have more surplus.

21                   That's our answer to this weather  
22 problem. We have got to stabilize the company, and  
23 this is really the only way. Without investors we  
24 have no equity. Without the ability to have a deep  
25 pocket to go to, this is our answer to that issue.

1           The first requirement then is that we  
2 get out of short-term debt. The difficulty is that  
3 over these last few years, we also have not had any  
4 money to finance our capital investments long term.  
5 Now, we have an average capital requirement of about  
6 \$50 million. Year in, year out, that's the pipe in  
7 the ground. We have, as I say, 6,000 miles of pipe.  
8 A lot of that is cast iron. A lot of that is  
9 100-150 years old that has to be replaced. That  
10 budget and that capital requirement is relatively  
11 stable.

12           The problem is, as you see in the  
13 lower left-hand corner, in 1993, that was the last  
14 time we financed any of that capital from our own  
15 money. No one can do that. We all have to put a  
16 down payment on a house. We have to share in that  
17 burden in some way. We haven't been able to do  
18 that.

19           So, consequently, the last slide shows  
20 you -- and this is the reference that Representative  
21 Perzel made to our billion dollar debt -- between  
22 1990 or so and 2000, our long-term debt went from  
23 \$600 million to tipping a billion dollars, for the  
24 reason that we had no money to contribute to the  
25 capital program. It was all funded from long-term

1 debt.

2           So this combination -- yes, there were  
3 inefficiencies, there's no question about that. But  
4 what really sunk PGW financially was this weather  
5 pattern four out of the last five years. That is  
6 why I'm going back to the PUC and ask for their  
7 indulgence and the indulgence of the customers to  
8 get us back on some reasonable plane.

9           I think that's necessary for the other  
10 purposes that Representative Perzel raised, and that  
11 is the administration is actively studying the sale  
12 of this company. It's pretty hard to sell this  
13 company given the economics of what you've just  
14 seen, in addition to which fact there is a 165-year  
15 history of PGW. We used to manufacture our gas in  
16 22 sites around the city. That is what's called an  
17 unfunded liability. It adds to the billion dollars  
18 in terms of someone buying it, because someone is  
19 going to have to pay for the cleanup of some of  
20 those sites.

21           Now, they aren't as bad as some of the  
22 other utilities, because interestingly enough in the  
23 early years when gas was being manufactured, the  
24 by-products were sold so that nothing accumulated  
25 and a lot didn't sink into the ground, but we still

1 have the problem to deal with.

2           The other problem is that we have an  
3 unfunded liability with regard to what's called  
4 post-retirement benefits. A lot of private  
5 industries dealt with these years ago. We still  
6 have them. Those are health care benefits that are  
7 promised to people who are retired. We made no  
8 provision and had made no provision over the years  
9 to take care of that problem.

10           That's our story. I think we have  
11 done as much as I think this group of managers and  
12 employees could have done in the last 18 months  
13 since the PUC took over the regulation of the  
14 company. We are not stopping. We are continuing.  
15 I've got a list of ten major projects that have to  
16 be completed between now and the fall, culminating I  
17 hope in additional rate relief from the PUC.

18           We will continue to drive costs out of  
19 the company and out of the operations as best we  
20 can. But no matter what we do, our problems aren't  
21 in the millions. Our problems are in the tens of  
22 millions, and that's why another 5 percent increase  
23 in addition to the 5 percent we already got in terms  
24 of overall rates is what we require. Ten percent  
25 over a 12-year period, it seems to me, is not

1       unfair.  It's well below the rate of inflation.

2               So thank you very much for listening  
3       to my tale.  And Craig and I are certainly available  
4       to answer whatever questions you may have.

5               CHAIRMAN GANNON:  Thank you very much.  
6       Questions from the committee members?  
7       Representative Kenney.

8               REPRESENTATIVE KENNEY:  Thank you,  
9       Chairman Gannon.  Thank you for coming to  
10       Philadelphia.

11              CHAIRMAN GANNON:  He isn't a committee  
12       member, but we let him sit up here.

13              REPRESENTATIVE KENNEY:  I have a list  
14       of questions.  Mr. Knudsen, can you explain to the  
15       committee the management structure?

16              MR. KNUDSEN:  The governance  
17       structure?

18              REPRESENTATIVE KENNEY:  The governance  
19       structure.

20              MR. KNUDSEN:  Yes.  About six or eight  
21       months ago, CBS did a piece on the governance  
22       structure and me particularly.  And they showed a V,  
23       and I was at the bottom of the V.  And above there  
24       were about 30 or 35 people who literally in one way  
25       or another could pick up the phone and call me.  And



1 that included our own board, the PUC, the Gas  
2 Commission, members of city council, the mayor's  
3 staff. So that's the universe of folks who one way  
4 or another have a concern and/or a voice in PGW.

5 The Gas Commission clearly oversees  
6 our budgeting. City council approves our capital  
7 budget. The mayor obviously is what we call the  
8 owner, so we respond to them very quickly. Who else  
9 did I leave out there? Oh, the PUC. Obviously, we  
10 now are dealing with the commissioners, their staffs  
11 and the various bureaus in Harrisburg.

12 REPRESENTATIVE KENNEY: So if I  
13 understand it, we have all these players involved.  
14 So since 1992, the PGW doesn't ask for any rate  
15 increase until --

16 MR. KNUDSEN: 2001.

17 REPRESENTATIVE KENNEY: 2001. Now the  
18 PUC steps in because some of us in the Legislature  
19 believe this company was driven into oblivion and  
20 destroyed the -- not you, but the structure has been  
21 driven -- you know, customer service and uncollected  
22 debt. You look at these numbers, so since 1992 this  
23 debt is rising.

24 MR. KNUDSEN: Correct.

25 REPRESENTATIVE KENNEY: The same

1 structure exists today that existed in 1992, the  
2 governance issue?

3 MR. KNUDSEN: Well, the governance  
4 other than the PUC was not in that structure at that  
5 time.

6 REPRESENTATIVE KENNEY: Well, I want  
7 to say thank God the PUC finally stepped in and did  
8 something.

9 MR. KNUDSEN: Let me respond.

10 REPRESENTATIVE KENNEY: So you now  
11 come to the PUC and ask the same governance  
12 structure when you sat and watched this company -- I  
13 don't mean you, but they sat and watched this  
14 company go downhill. And now all of a sudden when  
15 the PUC takes over, they now come and ask for all  
16 these increases. I mean, is that accurate?

17 MR. KNUDSEN: It is accurate in its  
18 fact, but I don't think it's accurate necessarily in  
19 its interpretation. The issue I'll come back to.  
20 You can't run an organization like this without some  
21 cost increases. The fact that they are postponed,  
22 that is regrettable. Frankly, my partner here and I  
23 use to fight opposite sides because I was a witness  
24 against the company for all of this time until 2000.  
25 I did, in fact, recommend rate increases during that

1 period of time.

2 The judgments were made not to do  
3 that, but the fact now that we are at the end of the  
4 decade and we need to do something I don't think is  
5 necessarily overly onerous to ratepayers, because I  
6 don't think it represents all that much of an  
7 increase in terms of the inflationary effect of the  
8 request.

9 REPRESENTATIVE KENNEY: As a condition  
10 of receiving the \$20 million base rate increase, PUC  
11 management audit, which PGW agreed to hire an  
12 independent and experienced manager to run the gas  
13 works by September 30th, 2001?

14 MR. KNUDSEN: Right.

15 REPRESENTATIVE KENNEY: That hasn't  
16 been done?

17 MR. KNUDSEN: It has not. But that  
18 isn't to say that the administration -- the  
19 administration is actively and has been actively  
20 interviewing and recruiting top management. Here's  
21 the problem. If you have a situation like this  
22 where you have the pressures on the administration  
23 to consider a sale, when you have the issues of  
24 governance that have to get resolved relative to  
25 that sale, you don't have a lot of candidates who

1 are willing to step up and say I'm going to run the  
2 company. They want a contract, they want some sense  
3 of this thing is going to be around, that they're  
4 not going to be out looking for work again in a  
5 year.

6 So I need to be very clear that this  
7 is a terribly complex set of circumstances. The  
8 sale, the governance and the management are all  
9 linked depending upon how the thing starts to play  
10 out.

11 Now, I did talk with the mayor's chief  
12 of staff last night, and she is indicating to me  
13 that they are hoping that a lot of this will start  
14 to break up and get resolved in the not-too-distant  
15 future.

16 REPRESENTATIVE KENNEY: You keep  
17 mentioning the sale. Let me ask you this. I  
18 represent in my district employees that work there,  
19 constituents that work there, and that's their  
20 question. Is it the intent -- I mean, from  
21 listening to you, it sounds like you are heading --  
22 you're trying to get this company in a position to  
23 sell it. Is that your instructions?

24 MR. KNUDSEN: No, I don't have that  
25 instruction. My instructions are to get this

1 company running well. The sale question this  
2 management team has nothing to do with, no  
3 consultations as such, and that's appropriate. Our  
4 charge is to get PGW working. Let me just -- the  
5 administration has been pursuing this question for  
6 eight months now. They did retain Lehman Brothers  
7 to do the study.

8 The issues that I referred to earlier,  
9 the unfunded liability portions, are enormous issues  
10 relative to a sale, because those represent  
11 liabilities that have to get resolved some way. And  
12 is that the city's responsibility or is it someone  
13 who takes the asset over? How does that work  
14 through? So a lot of what was anticipated to be a  
15 fairly simple problem has now turned quite complex.

16 REPRESENTATIVE KENNEY: Do you know of  
17 any offers on the table to buy it?

18 MR. KNUDSEN: I don't.

19 REPRESENTATIVE KENNEY: You mentioned  
20 the unfunded liability. Would that include the  
21 pension funds?

22 MR. KNUDSEN: The pension --

23 REPRESENTATIVE KENNEY: You mentioned  
24 retirees. The benefit package, will that be around?

25 MR. KNUDSEN: Another issue. The

1 pension was funded all along. We have 2,500  
2 retirees, and that's set aside. But that's the  
3 pension portion. What you also have is the health  
4 care portion of the promises of employment. Those  
5 were never funded, so that's also part of this  
6 financial workout that I'm struggling with right  
7 now. There's a tension here. How much can we ask  
8 for in order to not put ourselves out of the  
9 marketplace?

10 Yet we need the money to address a  
11 number of these concerns in order to turn the  
12 company around either for sale, if that is  
13 ultimately what is desired, but certainly put it on  
14 an ongoing basis that's stable and we can live with.

15 REPRESENTATIVE KENNEY: Let me just  
16 switch gears. Those that don't pay their bills, the  
17 figure was how much?

18 MR. KNUDSEN: Well, you have to be --  
19 we have --

20 REPRESENTATIVE KENNEY: Uncollectibles  
21 that are over, let's say, 90 days.

22 MR. KNUDSEN: We have substantial  
23 problems, there is no question. When I indicated to  
24 you we have 150,000 people, customers, at or below  
25 150 percent of poverty, you can only imagine when

1 their bill went from \$700 or \$800 on an annual basis  
2 in 2000 to \$1,300 or \$1,400 last year that they had  
3 problems paying. That's what we are going back  
4 after now.

5 People's bills have come down. Their  
6 volumes are way off this winter. We would hope to  
7 collect whatever portion of their income they have  
8 set aside for utilities, that we collect this year  
9 on that money.

10 More to your point, though, is that  
11 because of this confusion with the billing system  
12 and the problems that we had resolving those, we  
13 didn't have all the tools we needed last year, which  
14 was my first year of collection activity. We do  
15 have those now, and we are going to go after that  
16 money as carefully but as completely as we can.

17 Last year, we were inhibited from  
18 going after the money both by the PUC and by folks  
19 downtown, by the administration and city council,  
20 because we couldn't prove adequately and accurately  
21 enough the substance of our claim that these people  
22 owed us money. We don't have that problem this  
23 year.

24 REPRESENTATIVE KENNEY: How much is  
25 owed?

1           MR. KNUDSEN: Well, as I say, at the  
2 end of August about \$90 million was owed. Normally,  
3 we would come out of August with about \$40 million  
4 or \$50 million. So there was an additional \$40  
5 million of receivables as a result of the weather  
6 and the runup in costs last year. All of that we're  
7 going after this year.

8           REPRESENTATIVE KENNEY: So you're  
9 going after all that. Now, you had a program, I  
10 guess, where your target was by zip code collection?

11          MR. KNUDSEN: I want to be real clear.  
12 That was a prior manager. We do not do that. What  
13 our program is, is that we try to figure out  
14 collection programs that separate those with  
15 agreements. That's a very proscribed process.  
16 There are those without agreements.

17          For those without agreements, we do  
18 not distinguish on a basis of income or locale. We  
19 print that out, and everybody gets on the phones and  
20 attempts to collect that money.

21          REPRESENTATIVE KENNEY: There is no  
22 point where you did target collections?

23          MR. KNUDSEN: This management does not  
24 target collections in the way you mean.

25          REPRESENTATIVE KENNEY: I have no



1 further questions.

2 CHAIRMAN GANNON: Thank you,  
3 Representative Kenney. Representative Browne.

4 REPRESENTATIVE BROWNE: Thank you, Mr.  
5 Chairman. Thank you for your participation today.

6 MR. KNUDSEN: Thank you.

7 REPRESENTATIVE BROWNE: Is there any  
8 private industrial gas utilities that you would --  
9 of a similar size that would benchmark your  
10 operation?

11 MR. WHITE: Washington Gas Light is an  
12 all gas utility. You have to be careful when you  
13 benchmark if you're benchmarking against a  
14 combination utility where many of the costs are  
15 dispersed and held at the corporate level, like  
16 PECO.

17 Years ago we used to compare ourselves  
18 to Boston Gas, Brooklyn Union which is about three  
19 times our size but, nevertheless, an inner city  
20 operation. But I would say at this juncture  
21 probably the best comparison would be against  
22 Washington Gas Light.

23 CHAIRMAN GANNON: Just identify  
24 yourself for the court reporter so it's on the  
25 record.

1                   MR. WHITE: My name is Craig White.  
2 I'm the Acting Chief Operating Officer, Philadelphia  
3 Gas Works.

4                   CHAIRMAN GANNON: Thank you very much.  
5 Sorry for the interruption.

6                   REPRESENTATIVE BROWNE: How does the  
7 base rate that you are charging -- the rate request,  
8 how does that compare against that?

9                   MR. WHITE: Well, I can't give you the  
10 comparison against Washington Gas, but we have  
11 looked at other utilities in the state. And, of  
12 course, our rates are on the upper end, once we  
13 would file for this rate increase would be on the  
14 upper end of the rates in the state of Pennsylvania.

15                   MR. KNUDSEN: That's one of the issues  
16 that this management is struggling with. It's what  
17 they elasticity, exactly how far can we drive the  
18 price up before people fall off the system or don't  
19 want to do business with us. So we're very  
20 sensitive to how this gets done now over the next  
21 little while.

22                   REPRESENTATIVE BROWNE: Part of the  
23 reason why you are requesting the rate increase is  
24 -- partially because of issues with the product, but  
25 also partially with issues of cost structure.

1           MR. WHITE:  If I could just stop you  
2           for a moment and clarify that.  What we are asking  
3           for is a base rate increase.  The base rate is  
4           separate and apart from the gas cost increase.  Now,  
5           we are not asking for a gas cost increase.  And to  
6           be more specific, last year the gas cost went up by  
7           \$230 million.  We've already reduced it \$195  
8           million.

9           We do have an advantage this year  
10          which should help us push rates down.  We are  
11          talking about gas cost.  It's not a snapshot that  
12          you have to consider.  There's fixed costs  
13          associated with it, renting space and so forth, also  
14          the cost of gas that is put in storage.  So we are  
15          benefiting from a lower cost, but not to the full  
16          extent because you have to buy gas at various points  
17          in time over the year.

18          But to get back to your point, the  
19          base rate is separate and apart, and strictly has to  
20          do with debt service labor.

21          REPRESENTATIVE BROWNE:  How does that  
22          base rate -- how does that compare against a private  
23          benchmark?

24          MR. WHITE:  Well, when I responded a  
25          moment ago, I was referring to the base rates.  And

1 when you add in our gas costs, we have been  
2 historically one of the lowest in the state and have  
3 been applauded by both the PUC and witnesses for the  
4 public advocate for running a very good operation  
5 with respect to the purchase of natural gas and the  
6 dispatch of that gas. So the gas cost component has  
7 always been done and handled very well at PGW.

8 Where we are and where I answered  
9 before, where I responded before, I was responding  
10 to the fact that our base rate component, which  
11 includes impacts of this debt service, includes  
12 impacts of an inner city operating system and the  
13 costs associated with that. That was the base rate  
14 and that was the response that I was giving earlier,  
15 to the fact that we are one of the higher cost  
16 companies in the state.

17 MR. KNUDSEN: There are seven local  
18 distribution companies that are kind of within our  
19 -- against whom we're measured. We are close to the  
20 top on that. We understand that.

21 REPRESENTATIVE BROWNE: Other  
22 utilities that you compare yourself against that  
23 serve inner city communities?

24 MR. WHITE: No, we're really referring  
25 to the seven across the state of Pennsylvania.

1     When you compare us to Equitable Gas in Pittsburgh,  
2     they are also at the top of the range, so we are not  
3     talking about a situation where we are comparing  
4     ourselves -- when we look at those seven, we are  
5     comparing ourselves to both rural gas companies,  
6     like a Penn Fuels which serves parts of Delaware  
7     County and parts of Berks and so forth. We are  
8     comparing ourselves also to those companies as well  
9     as to the inner city utilities like Equitable and  
10    People's Gas of Pittsburgh.

11                    REPRESENTATIVE BROWNE: Thank you.

12                    CHAIRMAN GANNON: Representative  
13    Roebuck.

14                    REPRESENTATIVE ROEBUCK: You  
15    referenced the problem in part as an inner city  
16    problem, part of economic conditions. I wonder,  
17    however, at least some of the complaints I get  
18    relate more broadly to landlords who don't pay gas  
19    bills and tenants are affected. What percentage is  
20    characterized as those who are in economic  
21    situations, economic disadvantage, and those who are  
22    just bad players, those who are either major  
23    whatevers who don't pay their gas bills or those  
24    that are landlords that don't pay the gas bills,  
25    that kind of situation?

1           MR. KNUDSEN: It is a hard question to  
2 answer. Let me phrase it this way. Several inner  
3 city companies who experience what's called bad debt  
4 or the provision for uncollectible accounts are in  
5 the 5 percent range. We are in the 7-8 percent  
6 range, so we are disadvantaged.

7           Now, to your question, a good number  
8 of those are folks who simply fall off the economic  
9 edge. They simply contract for their services and  
10 then can't pay for them. We try very hard to make  
11 sure that those people don't fall off the system.

12           In fact, this reference I had earlier  
13 to the \$31 million of LIHEAP, which you all very  
14 graciously made available for us, went a long way to  
15 keep that number down this last year. It would have  
16 been much higher were it not for the fact that we  
17 very aggressively went out and solicited these  
18 people. We have to ask them to participate in the  
19 program. We have to get out there and talk to these  
20 folks. It would have been much worse were it not  
21 for LIHEAP and Crisis.

22           This last year was particularly  
23 difficult because, as I say, rates went up so  
24 substantially that people's budgets, even if they  
25 could have paid it, if they wanted to pay it, they

1 didn't have the funds to do that.

2 REPRESENTATIVE ROEBUCK: So if I  
3 understand, the problem is almost exclusively the  
4 problem of those individuals who fought the economic  
5 age, not those who are just for whatever reason  
6 taking advantage of the system?

7 MR. KNUDSEN: I would say that. We  
8 haven't done that analysis specifically, and it's  
9 something that I would like to do so that we do  
10 understand exactly what the composition of the cost  
11 that we incur for folks who don't pay the bills.

12 REPRESENTATIVE ROEBUCK: If I could  
13 just ask one other question, and that is that given  
14 the nature of the market that you deal with,  
15 exclusively a Philadelphia market, what options are  
16 there to expand your service area so that you might  
17 bring in some more people? You seem to be producing  
18 product at a fairly good rate. You have wonderful  
19 facilities. As we saw yesterday, it suggests you  
20 have very good facilities to produce gas and store  
21 it and so forth. What options do you have to  
22 address part of this problem by the ability to  
23 expand the area that you service?

24 MR. WHITE: PGW is limited to the city  
25 of Philadelphia. In other words, we cannot install

1 distribution facilities in Montgomery County in  
2 PECO's territory.

3 REPRESENTATIVE ROEBUCK: By statute or  
4 by PUC regulation?

5 MR. KNUDSEN: No, by statute.

6 MR. WHITE: As we mentioned yesterday  
7 during our tour, we do look for alternatives or we  
8 do look to maximize our assets in any way we can  
9 when our firm customers don't need those assets. We  
10 are very careful about establishing a mix of  
11 expenditures that meet our firm customers'  
12 requirements on those very cold days and those very  
13 cold winters, but we don't want to spend money that  
14 we don't need to spend. And, therefore, we do not  
15 reserve assets that are in excess of what we need  
16 for those firm customers.

17 However, when you have a warmer winter  
18 and you have opportunities to sell off system, you  
19 can use some of those assets that you reserve on  
20 behalf of the firm customers and you can make  
21 opportunity sales. And we avail ourselves of those  
22 opportunities. And any dollars we make in that  
23 arena, we flow directly back into the firm customer.

24 We have no shareholders. There's no  
25 sharing. If you go into any other investor-run



1 utility in the state of Pennsylvania, they have a  
2 sharing mechanism for any off-system sales and for  
3 most alternative business. In point of fact, they  
4 have set up unregulated affiliates to spin off and  
5 actually protect as much of that revenue stream as  
6 they possibly can.

7 We do not do that. We take 100  
8 percent of any margin that we can generate through  
9 our assets and we roll it right back to the firm  
10 customers. And that includes the sale of gas to  
11 interruptible customers, which are larger dual fuel  
12 users in the city of Philadelphia. And 100 percent  
13 of the margin from those customers is used to  
14 support the items that we pointed out on these  
15 charts; debt service, labor and so forth.

16 REPRESENTATIVE ROEBUCK: Thank you.

17 CHAIRMAN GANNON: Representative  
18 Blaum.

19 REPRESENTATIVE BLAUM: Thank you, Mr.  
20 Chairman. Mr. Knudsen, as president and CEO, you  
21 talked about the fee. PGW, that's managed by a  
22 public board?

23 MR. KNUDSEN: No, it's a nonprofit  
24 corporation called the Philadelphia Facilities  
25 Management Corporation. And as Representative

1 Perzel observed, yes, the board is appointed by the  
2 mayor. It is a private nonprofit group.

3 REPRESENTATIVE BLAUM: Appointed by  
4 the mayor and confirmed by --

5 MR. KNUDSEN: No, there's no  
6 confirmation. It's just appointed by the mayor.

7 REPRESENTATIVE BLAUM: How many  
8 members?

9 MR. KNUDSEN: We presently have six.  
10 We're missing one member. Usually we have seven.

11 REPRESENTATIVE BLAUM: As President  
12 and CEO of PGW, do you have the sole authority to  
13 hire and fire?

14 MR. KNUDSEN: I have the authority to  
15 hire and fire in the main, but there are clearly  
16 senior positions that, as anyone would, go to the  
17 board and in this instance to the mayor to say, you  
18 know, is this person acceptable. But, by and large,  
19 we do our own hiring and firing.

20 REPRESENTATIVE BLAUM: Thank you very  
21 much.

22 CHAIRMAN GANNON: Representative  
23 Pallone.

24 REPRESENTATIVE PALLONE: Thank you,  
25 Mr. Chairman. I try to simplify things for myself.

1 I'm not always that smart. I think you said that  
2 the bill comes from two components. One is the gas  
3 cost which is based on the commodity price. While  
4 you may have reserves that you paid at a higher  
5 price, the ratepayer pays whatever that commodity  
6 price was?

7 MR. KNUDSEN: That's correct.

8 REPRESENTATIVE PALLONE: The second  
9 piece is the base rate which is your cost to do  
10 business. If I'm understanding that properly,  
11 Philadelphia Gas Company went ten years without a  
12 rate increase?

13 MR. KNUDSEN: That's correct.

14 REPRESENTATIVE PALLONE: But you still  
15 incurred regular economic cost of living increases,  
16 whether it be collective bargaining agreements,  
17 maybe some utility rates that you pay, electric,  
18 water, whatever else that you use in your  
19 facilities. And you paid for that with fund balance  
20 or what in the corporate cycle would be retained  
21 earnings?

22 MR. KNUDSEN: Yes. By and large, we  
23 paid for it with fund balance or retained earnings,  
24 that's correct.

25 REPRESENTATIVE PALLONE: So for ten

1 years there was no rate increase but you, for lack  
2 of a better term, suffered increases in your cost of  
3 doing business?

4 MR. KNUDSEN: That's right. The  
5 profit margin -- we don't have a profit but I'll use  
6 that term. The profit margin kept shrinking  
7 throughout the decade. We knew that we needed a  
8 rate increase or at least some of the public parties  
9 knew that we needed a rate increase, but none came.

10 REPRESENTATIVE PALLONE: My point is,  
11 is there in your industry or industry standard a  
12 fund balance or retained earning expectation? Is  
13 there a generally-accepted figure? If you do a  
14 million dollars worth of business, you should have  
15 \$10,000 in the fund balance? If you do a billion  
16 dollars worth of business, you should have a million  
17 dollars in the fund balance? Is there an industry  
18 standard?

19 MR. KNUDSEN: Let me turn it around.  
20 If this were an investor-owned utility, one would  
21 assume that we would have about 40 percent equity,  
22 something like that. On a billion dollars, let's  
23 say our assets would be \$400 million dollars, and  
24 you would be entitled to something on equity alone  
25 maybe 10 or 12 percent right now. I haven't done

1 one of the rate cases for a long time. So you would  
2 look at somewhere between \$40 million to \$50 million  
3 of surplus or profit that you would have expected to  
4 get from the customers. That's what an  
5 investor-owned utility in very gross terms would  
6 attempt to get.

7 REPRESENTATIVE PALLONE: My question  
8 is: What is the percentage of increase you are  
9 asking for with the PUC base rate? You want to go  
10 from what to what?

11 MR. KNUDSEN: You mean --

12 REPRESENTATIVE PALLONE: I am from the  
13 Pittsburgh area, not the Philadelphia area, so I'm  
14 not familiar with this company at all.

15 MR. KNUDSEN: To answer that question,  
16 it would be about a 10 to 12 percent increase  
17 overall, based on our total costs.

18 REPRESENTATIVE PALLONE: Have you  
19 extrapolated the figures more as an academic  
20 exercise to determine what your increases would have  
21 been had you had the agency or PGW done an annual  
22 increase in base price each year to cover normal  
23 operating costs annually instead of doing it in a  
24 decade?

25 MR. KNUDSEN: We have not done that.

1           REPRESENTATIVE PALLONE: So you don't  
2 know if it would have been much longer?

3           MR. KNUDSEN: This would have been a  
4 very different picture. The red line which is the  
5 long term debt, which sort of track the blue line  
6 which is the investment, it might have been flat or  
7 just slightly increased. And we would tried very  
8 hard to -- it wouldn't have been flat, but it would  
9 have been somewhere between the horizontal and the  
10 blue line.

11           We look to fund -- we should be  
12 looking to fund about half of that \$50 million to  
13 \$60 million from our surplus. We should be throwing  
14 off \$25 million to \$30 million a year. The problem  
15 is from that first chart which was the blue, we  
16 didn't have that surplus to contribute to the long  
17 term, to offsetting this long-term investment.

18           REPRESENTATIVE PALLONE: Is it safe to  
19 say because you did not increase rates each of the  
20 last ten years?

21           MR. KNUDSEN: We didn't increase rates  
22 each of the last ten years, yes, and we had these  
23 kind of -- this disastrous experience with weather  
24 starting in 1997. The combination of those has lead  
25 to these problems.

1                   REPRESENTATIVE PALLONE: That's what  
2 I'm not clear on. If we enjoyed warmer winters and  
3 we used less gas, if your base rate is indicative of  
4 what your cost of doing business is, that cost would  
5 be flat whether you produced and/or delivered gas or  
6 not. The only thing that would change would be the  
7 amount of gas that's used and the amount that the  
8 ratepayer pays for the gas that they consume. Your  
9 gas lines and maintenance and upkeep would be the  
10 same whether you're pumping gas at a higher rate or  
11 not.

12                   MR. KNUDSEN: That's exactly the  
13 issue. The rate is established assuming a normal  
14 weather pattern of what they call 4600 degree days.  
15 And that would assume a weather pattern right now  
16 where on the average the weather would in the 30s,  
17 the low 30s right now. We're not having that now.

18                   Now, when we sell fewer units, we  
19 don't recover all of the costs that we need to  
20 recover, because it's predicated on a normal winter.  
21 So as soon as those volumes start to go down, that's  
22 a direct impact on the bottom line. So we don't  
23 have the profits. Now let's reverse it.

24                   REPRESENTATIVE PALLONE: Your base  
25 rate is not a fixed cost at --

1 MR. KNUDSEN: No.

2 REPRESENTATIVE PALLONE: -- \$100 per  
3 client and then add on to that, it's based on the  
4 volume or cubic feet of gas?

5 MR. KNUDSEN: A portion of it is fixed  
6 in the way you mean it. Regardless of what happens,  
7 the customer has to pay a bill. For residential  
8 customers here, it's \$12 a month. But beyond that,  
9 the difference then is a variable --

10 REPRESENTATIVE PALLONE: There's three  
11 components?

12 MR. KNUDSEN: There's three  
13 components. From your perspective, there's three  
14 components, that's right.

15 REPRESENTATIVE PALLONE: Thank you. I  
16 have no further questions.

17 CHAIRMAN GANNON: Representative  
18 Kenney.

19 REPRESENTATIVE KENNEY: Mr. Knudsen,  
20 just to go back to the call center issue, do you not  
21 think calls -- you said that your calls are down?

22 MR. KNUDSEN: Yes.

23 REPRESENTATIVE KENNEY: I think people  
24 -- probably customers just refuse to call any more.  
25 They're so tired of calling.



1 MR. KNUDSEN: Well, I invite them to  
2 call.

3 REPRESENTATIVE KENNEY: How many calls  
4 does the PUC receive? Do you know? I don't know.

5 MR. KNUDSEN: You mean --

6 REPRESENTATIVE KENNEY: When they call  
7 me, I say call the PUC.

8 MR. KNUDSEN: Well, the PUC's volume  
9 of calls, which are either informal or formal  
10 complaints, have also dropped substantially. So  
11 that with people getting through in the last four to  
12 five to six months, all of these issues are getting  
13 resolved on a timely basis, and we don't have the  
14 same concern.

15 REPRESENTATIVE KENNEY: Do you know  
16 the number?

17 MR. KNUDSEN: I can get you the  
18 number. As I say, I think we are doing about 4,000  
19 calls a day. That's 20,000 a week. That's about a  
20 million calls a year. Now, we were one and a half,  
21 almost two times that in years past.

22 REPRESENTATIVE KENNEY: Representative  
23 Blaum made me think, because you know the story  
24 Philadelphians at least read in the paper about  
25 PGW's past management.

1 MR. KNUDSEN: Yes.

2 REPRESENTATIVE KENNEY: So when we say  
3 since 1995, \$800,000 in annual salaries and bonuses  
4 with three former managers; and \$1.4 million to move  
5 26 employees around; has all that gone away I hope?

6 MR. KNUDSEN: Yes.

7 REPRESENTATIVE KENNEY: Managers and  
8 consultants --

9 MR. KNUDSEN: We have -- our -- let me  
10 turn it around. Our management payroll has gone  
11 down each of the last two years overall. But within  
12 that, that means both a reduction in absolute  
13 numbers of managers, but those managers then to whom  
14 we gave more responsibility or expanded their  
15 departments, they may have gotten an increase.

16 But we have a plan, and it's a model  
17 of compensation developed by the Hay Group, which is  
18 a consulting firm we've used to do this kind of  
19 thing. And we are always making sure that we are  
20 within the requirements of the studies that have  
21 been done about us and comparable industries -- or  
22 comparable companies. Our pay structure is based on  
23 an industry look. It's just not PGW.

24 REPRESENTATIVE KENNEY: If I looked at  
25 the management salaries and bonuses in the last

1 couple years, would there be increases in those?

2 MR. KNUDSEN: Let me be very clear.  
3 There are no bonuses. They were bonuses promised as  
4 a matter of contract to the prior -- the folks who  
5 are now in trouble.

6 MR. WHITE: Well, to be clear, there  
7 were three positions; the CEO, the CFO and the COO;  
8 the chief operating officer, the chief financial  
9 officer and the chief executive officer. During our  
10 last set of permanent management -- now, this  
11 predates both Mr. Knudsen and Mr. Hill. This goes  
12 back to the time when Mr. Hawes was the CEO, Mr.  
13 Martin was the COO, and Mr. Sharbutt was the CFO.  
14 And those gentlemen all had a contract with a bonus.

15 There is no such thing at PGW today.  
16 Now, as far as managers at PGW, we have reduced  
17 managers, we have combined jobs. Yes, when we  
18 combine a job, when we ask an individual to take  
19 over not only the 400-person department that he's  
20 working in now but also another 400-person  
21 department and we don't change his title, but we  
22 change his salary, we change his salary in  
23 recognition of the added responsibility and the  
24 added work that we are asking this gentleman to do.

25 We have a lot of examples of that over

1 the last couple of years where we have combined  
2 positions, reduced staffing and promoted people  
3 through -- as a result of attrition. We do have a  
4 lot of retirees. When we have someone retire from a  
5 key position, we have to replace that position and  
6 we will provide them with an increase if it's  
7 someone from within.

8 MR. KNUDSEN: I think one of the most  
9 interesting statistics was in 1989 we had about  
10 27,050 employees. We are down to 1,750 right now.  
11 That's about a \$60 million reduction in the labor  
12 bill over that period of time as well. And, again,  
13 I want to be real clear. The salaries that we are  
14 paying are in conformance with a plan that also has  
15 within it a comparison to comparable companies in  
16 the area. So that we are not giving people  
17 compensation packages -- really, it's not a package,  
18 it's a salary -- that is way out of line.

19 The other thing that's not understood  
20 very well, I think, relative to a municipal utility  
21 is that people who come to PGW gain skills, have  
22 market value. They can leave us, all right. So it  
23 isn't like a municipal entity which one assumes  
24 there's a certain amount of stability and people are  
25 going to stay with you. This is a business and

1 other businesses like us like our talent. In fact,  
2 we are a source of talent for other gas utilities in  
3 the tri-state area. We are constantly trying to  
4 persuade our folks to stay. So that's another  
5 aspect of this compensation question.

6 REPRESENTATIVE KENNEY: How many union  
7 employees do you have?

8 MR. KNUDSEN: We have about 1,400  
9 union employees.

10 REPRESENTATIVE KENNEY: How many  
11 nonunion?

12 MR. KNUDSEN: Thank you for making  
13 that distinction. We have about 350 nonunion.

14 REPRESENTATIVE KENNEY: You service  
15 how many customers?

16 MR. KNUDSEN: About 520,000 customers.

17 REPRESENTATIVE KENNEY: And if I  
18 looked at an industry standard, I could go to a  
19 single source utility that just gives gas. Is there  
20 anyone that we can compare PGW to?

21 MR. KNUDSEN: Here you get in trouble,  
22 because we are the only one who has 4BCF with an LNG  
23 tag. So that's another what, 75 people.

24 REPRESENTATIVE KENNEY: I'm sorry,  
25 what was that?

1           MR. WHITE:  If I could take that in  
2 another direction, we do not do the outsourcing that  
3 you would find at Equitable and People's.  We have a  
4 no layoff clause for our union personnel.  Other  
5 companies, if you live in Montgomery or Bucks County  
6 and PECO is putting a new main down the street and  
7 services, you will oft times recognize that those  
8 folks are not PECO employees.  In most cases, PGW  
9 work is done by PGW employees, and we think that's a  
10 good thing.

11           REPRESENTATIVE KENNEY:  You understand  
12 the frustration of employees.  When I'm standing at  
13 a basketball game talking to my neighbors that work  
14 at PGW, I mean, over the years that's why I'm  
15 asking, has that changed?  We read the stories,  
16 whether it was three employees making \$800,000 or  
17 getting a million dollars in goodies for their home,  
18 that's what we read.

19           Then you hear about consultants doing  
20 this and the frustration of the men and women who  
21 work for PGW out there worrying about their job  
22 every day because they don't know where this company  
23 is headed.  Because management -- and I'll say it  
24 -- has driven this company into -- it's a disgrace.  
25 They are sitting there wondering.  Consultants doing

1 this and bringing in somebody to do that. They are  
2 frustrated, and I hear the frustration.

3 And Representative Pallone, I look at  
4 this, when you come sit there for ten years and do  
5 nothing, not you but the governance structure, and  
6 then appear at the PUC's door and say we need \$65  
7 million, they look at the legislators and say why  
8 don't you write to the PUC and ask for \$65 million,  
9 not under the management structure that I have seen.

10 MR. KNUDSEN: I see.

11 REPRESENTATIVE KENNEY: I think I  
12 reflect those men and women that work at PGW that  
13 are afraid for their jobs, but it's not their fault.  
14 It's the new structure. It's the governance  
15 structure. My fear is it will continue to be a  
16 governance structure, because the PUC says, hey, get  
17 somebody in charge to lead this company. It's so  
18 bad you're telling me you can't find somebody to  
19 lead the company.

20 MR. KNUDSEN: I can't go quite that  
21 far. I'm saying it's been difficult to do.

22 REPRESENTATIVE KENNEY: What the PUC  
23 has -- one of the reasons we wanted the PUC so the  
24 public could see, we are giving you this increase  
25 and we want these conditions met in exchange for

1 that rate increase. So when we say here is money to  
2 help you get you back going forward, and say by  
3 September of 2000, please put somebody in leadership  
4 in that place.

5 And here I sit at the end of January  
6 2002, you don't have anybody. There's nobody  
7 leading this place in the sense of what the PUC asks  
8 for. That's the frustration that I have and I think  
9 my constituents have.

10 MR. KNUDSEN: Let me just respond on  
11 the rate relief question. Had there been no shift  
12 to the PUC, this administration, this management,  
13 would have asked for from the Gas Commission the  
14 same amount of money. We have a requirement and a  
15 fiduciary responsibility to make sure that all of  
16 those bonds are serviced on a semiannual basis. We  
17 need the money to do that; otherwise, this place is  
18 insolvent.

19 And the problem -- and this is one of  
20 the most difficult messages for us to communicate to  
21 outside of Philadelphia, and that is that the  
22 general fund is not an equity investor in PGW.  
23 There is no deep pocket into which we can reach and  
24 say because the weather is what it is, cough up 20  
25 million bucks. There are no sources of funds like



1 that for us. So we have only the customers to go  
2 to. The customers are the owners of PGW in effect.  
3 And it is this relationship now that we have to  
4 reestablish and go forward.

5 I am very sympathetic, Representative,  
6 to the frustrations. We are, and this group and the  
7 folks behind us, are committed to preserving this  
8 asset and preserving the 1,750 jobs we've got the  
9 responsibility for both developing and husbanding  
10 and preserving.

11 REPRESENTATIVE KENNEY: The \$18  
12 million, is the PGW still sending that \$18 million  
13 to the city general fund?

14 MR. KNUDSEN: That is by statute. We  
15 have to forward those funds to the city.

16 REPRESENTATIVE KENNEY: I'm just  
17 asking.

18 MR. KNUDSEN: If you read the  
19 management audit, by the way -- this is a very  
20 interesting point -- they will say that that \$18  
21 million is much less than the city is entitled to as  
22 an owner, whether you call it payment in lieu of  
23 taxes, whether you call it a dividend. The problem  
24 that we have right now and that the city is facing  
25 is that that \$18 million, plus the \$45 million that

1 we borrowed, they need that money back. It is part  
2 of the overall financing structure of the city.  
3 They have a five-year plan. If they don't get our  
4 \$18 million, they're down practically a hundred  
5 million dollars in their plan for that five-year  
6 period.

7                   So as far as this management is  
8 concerned, we have no choice but to meet the  
9 requirements of the law which is to forward \$18  
10 million to the city on an annual basis.

11                   REPRESENTATIVE KENNEY: Thank you, Mr.  
12 Chairman.

13                   CHAIRMAN GANNON: Thank you,  
14 Representative Kenney. I'm still having some  
15 difficulty understanding. I think Representative  
16 Pallone brought out some good issues about these two  
17 ways that -- the two elements that come into play  
18 what to charge the customer, the cost pass through  
19 of the natural gas that you sell and then your  
20 operating other costs that are part of your base  
21 rate.

22                   I keep on thinking of the analogy of  
23 the two brothers that wanted to start a business of  
24 selling watermelons off the back of a truck. They  
25 went down to the food distribution center, bought

1 the watermelons for a dollar, drove up here to the  
2 boulevard, sold them off the back of the truck at a  
3 dollar a piece. And at the end of the day they  
4 said, we are not making any money, what are we going  
5 to do? They said, we will have to get more  
6 watermelons.

7 So just give me --

8 MR. KNUDSEN: To use your analogy, our  
9 watermelons are our gas, and their time in that  
10 truck and that gasoline is the base rate portion and  
11 their profit. So they should have charged the four  
12 things in addition to the buck, so they should have  
13 charged \$1.50 for the watermelons.

14 CHAIRMAN GANNON: I recognize that,  
15 there's the cost of insurance and other things that  
16 come into play. But what I don't -- and I think  
17 Representative Pallone asked the question. I'm not  
18 so sure I understood the answer, that it doesn't  
19 really matter what the cost of the gas is if you are  
20 selling it for whatever you are buying it for. That  
21 rate can go up or down, so your money is made on the  
22 base rate.

23 MR. KNUDSEN: That's correct.

24 CHAIRMAN GANNON: That could be  
25 relatively flat based on activity. So figuring when

1 the weather is warm like this, people aren't firing  
2 up their heaters, they're still cooking, whatever.  
3 That operating expense should be probably lower  
4 than --

5 MR. KNUDSEN: But not for us. For the  
6 customer, the customer is benefiting substantially  
7 right now because they are using less gas. And as  
8 Mr. White has just said, the cost of that commodity  
9 is down. So there's fewer watermelons and they are  
10 cheaper.

11 The issue for us is -- and I'll come  
12 back to the Representative's point -- if we only  
13 charge -- if we could charge a monthly charge of  
14 \$100 is his example, that recovered all of the fixed  
15 costs or the base rate kind of costs, we wouldn't  
16 care about the weather because we would be  
17 recovering everything we have that we need to  
18 recover for. The problem is that only a portion of  
19 our base rate is fixed on a monthly basis and has  
20 only recently gone from \$8 to \$12.

21 CHAIRMAN GANNON: If I could  
22 interrupt. What I'm hearing is that -- I'm not sure  
23 I understood this -- is that the base rate is  
24 somehow tied in with the amount of gas that you  
25 sell?

1 MR. KNUDSEN: Sure.

2 CHAIRMAN GANNON: So if the volume of  
3 gas that you sell goes down, your base rate goes  
4 down but those costs remain?

5 MR. KNUDSEN: That's right. The  
6 revenue goes down as a function of the volumes that  
7 go through the system.

8 CHAIRMAN GANNON: That's the third  
9 component, I guess, that's coming into play. So  
10 even though you have a base rate that's supposed to  
11 recover those costs plus a little extra, because the  
12 volume of gas is going down, actually revenues being  
13 generated by that are actually lower than your  
14 costs?

15 MR. KNUDSEN: That's right, and the  
16 costs stay at the higher level.

17 CHAIRMAN GANNON: That's what I didn't  
18 understand. What is being done internally within  
19 the company right now to improve your collections?  
20 What are you doing nuts and bolts, what are you  
21 actually doing here?

22 MR. WHITE: Well, what we are planning  
23 to do, as Mr. Knudsen said, our billing system has  
24 stabilized. And we have, as a result of last winter  
25 and as a result of the runup in gas prices and as a

1 result of the fact that the billing system was  
2 unstable at that point and there was a reluctance of  
3 the owner to allow us to move forward, and as Mr.  
4 Knudsen said, various members of city council to  
5 move forward with the shutoff policy without the  
6 assurance that the statistics backing it up are  
7 correct, we obviously allowed this amount of  
8 uncollectible to grow.

9 Moving forward, we are going to  
10 provide for collection strategies that will be  
11 year-round strategies. Before we get out of the  
12 moratorium season -- and as you may or may not know,  
13 we have a winter moratorium. We do not have the  
14 ability to shut off residential or human needs  
15 customers. However, we are going after commercial  
16 customers that are in arrears.

17 But, nevertheless, the ones that are  
18 -- customers that are residential or human needs  
19 customers, we don't have the ability to turn off gas  
20 until the end of the moratorium or April 1st. So  
21 what we are doing, we are preparing the context and  
22 to put the process in place that is required by  
23 tariff. So that when we get to April 1, we're at a  
24 position where we have already done the notice  
25 period and so forth. And we'll continue that on

1 well through the year.

2 CHAIRMAN GANNON: And this is  
3 something different than was done prior?

4 MR. KNUDSEN: The problem is this,  
5 with the billing system having been what it was for  
6 two plus years, we weren't able to effectively  
7 collect. Now we can and now we are going to.

8 CHAIRMAN GANNON: This is a two-prong  
9 question. What other types of services can you  
10 provide? Other than selling to your retail  
11 customers and your business customers here in  
12 Philadelphia, what other types of services could you  
13 provide to generate revenue? And would you need any  
14 statutory authority whether by ordinance or by the  
15 Legislature to be able to provide those services to  
16 generate other money other than directly from your  
17 own retail and business customers?

18 MR. WHITE: Certainly. As I touched  
19 on earlier, we have assets that meet our firm  
20 customer requirements, but some of those assets  
21 could be further maximized. And, as an example, we  
22 have an LNG facility that we fill currently in the  
23 summer.

24 CHAIRMAN GANNON: What is an LNG  
25 facility?

1                   MR. WHITE: Oh, I'm sorry. That is a  
2 liquefied natural gas facility. And what we, in  
3 essence, do is we take gas off of the interstate  
4 pipelines. We reduce the temperature of that gas to  
5 268 degrees below zero, and we actually put the gas  
6 in a liquid state. And, by doing that, we actually  
7 can store 860 times the volume of gas in one cubic  
8 foot. So, in other words, if it's in a gaseous  
9 state and you reduce it to a liquid state, you've  
10 got 860 times more available to you, which we then  
11 turn into a gaseous state in the winter for our  
12 customers' use.

13                   That's liquefied natural gas. It's  
14 gas turned into a liquid, turned back into a vapor  
15 in the winter operating season. PGW has a facility  
16 that's got 4 billion cubic feet, and that facility  
17 is located over in the Richmond section of  
18 Philadelphia. It's been there and operational since  
19 1969. We are in the process at this time of  
20 replacing one of the components of that facility,  
21 and that is the component that actually turns the  
22 gas into a liquid state.

23                   That new facility will allow us to  
24 liquefy gas not only in the summer, but it will  
25 allow us to liquefy gas year-round. So if we have



1 warm periods of time in the early part of the  
2 winter, we can liquefy that gas. And if we have  
3 more gas in storage, we may be able to generate  
4 additional revenues. This is one additional revenue  
5 stream.

6 Other things that we are looking at  
7 that are much more speculative are the possibility  
8 of shipping LNG up the Delaware River, from the  
9 Delaware Bay up the Delaware River, and off-loading  
10 it into our facility. We could fill the facility  
11 two-thirds of the way up in 24 hours. Right now it  
12 takes 214 days to fill that facility. So by having  
13 the ability to ship gas to that facility, we could  
14 turn that facility or use that natural gas to make  
15 money through the year. So there are opportunities  
16 that we are investigating at all times.

17 In addition to that electric  
18 generation, we have been contacted on numerous  
19 fronts by companies that were interested in siting a  
20 natural gas-fired generating facility in the city of  
21 Philadelphia. They coordinate that with the  
22 Philadelphia Industrial Development Corporation,  
23 PIDC, and there's certain lots in the city of  
24 Philadelphia that are available that have various  
25 tax advantages and so forth.

1                   We work with these people to encourage  
2                   them to come into the city of Philadelphia. One of  
3                   these facilities would really turn our load around  
4                   if we could encourage them into the city of  
5                   Philadelphia. Those types of opportunities are out  
6                   there. We're pursuing them. There's a lot of  
7                   components to the success of those facilities. But  
8                   to answer your initial question, is there anything  
9                   that this particular committee could do, offhand I  
10                  can't come up with a specific direction that you  
11                  could help us out with.

12                  MR. KNUDSEN: But we'll think about  
13                  it.

14                  MR. WHITE: We'll certainly give it  
15                  some additional thought.

16                  CHAIRMAN GANNON: I just came across  
17                  this information -- I don't know whether it's  
18                  accurate or not -- last evening. I was talking to  
19                  one of my constituents who works in the  
20                  transportation business. And he told me that there  
21                  was -- I believe it's on Tangier Island in the  
22                  Chesapeake Bay, a liquid gas facility. Does that  
23                  ring a bell in the Chesapeake Bay?

24                  MR. WHITE: He might be referring to  
25                  the Williams Company's Cove Point liquefied natural

1 gas facility.

2 CHAIRMAN GANNON: Maybe that's what it  
3 is. Is that located on Tangier Island?

4 MR. WHITE: I'm not quite sure if it's  
5 on Tangier Island.

6 CHAIRMAN GANNON: He seemed to  
7 indicate that that was not operating. Is that true?

8 MR. WHITE: That facility has recently  
9 been purchased by Williams, and they're trying to  
10 get the approvals from the Federal Energy Regulatory  
11 Commission to continue to operate or to restart that  
12 facility. That facility will be handled much like  
13 the Distra Gas Facility in Boston. The Distra Gas  
14 Facility in Boston, they are about the same size as  
15 PGW's facility, and they turn over the inventory 40  
16 times a year with ship deliveries from Algiers and  
17 some other middle eastern countries.

18 CHAIRMAN GANNON: Algiers. But you  
19 can't do that right now with the facility that you  
20 have the way it's configured?

21 MR. WHITE: We can't off-load ships at  
22 PGW's facilities, so we can't take in LNG from other  
23 countries. What we do to fill our LNG facility is  
24 strictly take gas off of the interstate pipelines,  
25 and that gas is coming from the producing regions in

1 Louisiana and Texas onshore and offshore.

2 So all the gas that we buy currently  
3 is domestic and it's being moved to Philadelphia  
4 within two interstate pipelines which we reserve  
5 space in and we liquefy that gas.

6 CHAIRMAN GANNON: My point was  
7 wouldn't it be beneficial or could you get involved  
8 in that shipping aspect of it? You just can't do it  
9 because of --

10 MR. WHITE: We don't have the  
11 authority to do that presently, but we have been  
12 approached by individuals that are discussing those  
13 issues with us. So we will continue to discuss  
14 those along with -- we'll interact with the city and  
15 the owner on that particular issue.

16 CHAIRMAN GANNON: So that you are  
17 looking at that and it's not something restricted by  
18 law, it's just a matter --

19 MR. KNUDSEN: We are exploring all of  
20 those options. There may, in fact, be legal  
21 impediments but we aren't there yet.

22 CHAIRMAN GANNON: That's what I was  
23 getting to.

24 MR. KNUDSEN: Now, if what you're  
25 suggesting is we come to you for help when we get to

1       that point, maybe that's --

2                   CHAIRMAN GANNON:   That's exactly what  
3       I was thinking.   If you needed that kind of help  
4       from us, then that would help generate your other  
5       revenue.   Because from what you're telling me is the  
6       more gas you sell, no matter what the weather is,  
7       that keeps that relationship between your operating  
8       expenses and your revenues.

9                   Just a comment, gas generating  
10       stations, particularly those that use gas during the  
11       summer, if they're using gas supplied by PGW, your  
12       volume of sales go up, even if your residential  
13       sales are flat?

14                   MR. WHITE:   That's correct.

15                   MR. KNUDSEN:   The whole idea of  
16       distributed generation, which is what you are  
17       referring to, electric generation and/or gas summer  
18       air conditioning, those are two things that would  
19       help us out enormously.

20                   CHAIRMAN GANNON:   Are you permitted to  
21       borrow money from your pension fund?

22                   MR. KNUDSEN:   No.

23                   CHAIRMAN GANNON:   You talked about the  
24       governance structure, and I was not fully aware of  
25       this.   But is that presently the way that exists

1 right now, with the mayor and his staff, city  
2 council, the Gas Commission, the PUC and then this  
3 nonprofit corporation, all pointing on top of your  
4 head, is that the way it is currently?

5 MR. KNUDSEN: And the Gas Commission,  
6 that is correct, that is the structure right now.

7 CHAIRMAN GANNON: It seems to me that  
8 that makes your job extremely difficult. Somebody  
9 calls up and says I'm the secretary to so and so and  
10 I've got a nephew at such and such a place and I  
11 want you to go out there tomorrow and fix that  
12 problem.

13 MR. KNUDSEN: It ain't easy. As I  
14 have tried to indicate or I have indicated in my  
15 testimony, this is a legal structure. Unless that's  
16 changed, we live with that. And we have come to  
17 understand the rules and how one does these things,  
18 and we attempt to meet the needs of all of the  
19 groups. Were it more simple, my job would be more  
20 simple. But that's not what I'm getting paid for.

21 CHAIRMAN GANNON: I'm not asking to  
22 note your job isn't too easy. Respond to policy.  
23 You are more from the technical administrative  
24 management. But it seems strange to me that you  
25 have a Gas Commission and then you have this

1 nonprofit corporation which owns this company. It  
2 doesn't seem to make sense to me that you have these  
3 two entities, so to speak.

4 MR. KNUDSEN: Let's be real clear.  
5 Prior to the move to the PUC, the Philadelphia Gas  
6 Commission had a similar slate of responsibilities.  
7 They had to look at safety. They were responsible  
8 for customer service. They were responsible for  
9 rates. They were responsible, in addition, where  
10 the PUC is not involved on an annual basis, the Gas  
11 Commission is our budgeting vehicle. We would have  
12 a budgeting requirement with the city anyhow as a  
13 municipal entity.

14 So what has changed then is that the  
15 PUC took customer service rates and safety. It  
16 still left the budgeting question. And as a city  
17 entity, there is a requirement in our management  
18 agreement that the budgets be evaluated outside of  
19 the structure of PGW. So that's why we are where we  
20 are right now.

21 CHAIRMAN GANNON: With respect to rate  
22 increases and request for rate increases or  
23 adjustments, logistically how does that occur? Does  
24 the nonprofit corporation, or do you go to the  
25 nonprofit corporation and say, we need X number of

1 dollars, we need a rate increase, and they go to the  
2 Gas Commission?

3 MR. KNUDSEN: No, no. They are our  
4 Board of Directors. What we will do, like any other  
5 -- if we were an investor-owned utility, we would do  
6 the same thing. We would go with a plan, a  
7 financial plan, that says here is our requirement,  
8 here are the deficits we need to fill or whatever,  
9 here is the amount of rate request that management  
10 is recommending. The board then gives its approval,  
11 and then the board is out of the picture.  
12 Management then prepares the filing and that then  
13 goes to the PUC.

14 CHAIRMAN GANNON: The Board of  
15 Directors has to approve that?

16 MR. KNUDSEN: That's correct.

17 CHAIRMAN GANNON: Then the next step  
18 is for the Gas Commission prior to the PUC becoming  
19 involved?

20 MR. KNUDSEN: No, the Gas Commission  
21 does not get involved in that aspect. The Gas  
22 Commission only gets involved in establishing the  
23 budgets for PGW once a year.

24 CHAIRMAN GANNON: I'm talking about  
25 prior to the PUC.



1           MR. KNUDSEN: Oh, yes, prior to the  
2 PUC. Then it would have gone to -- the filing would  
3 not have gone to the PUC as it does now. It would  
4 have gone to the Gas Commission.

5           CHAIRMAN GANNON: The Gas Commission,  
6 how many people?

7           MR. KNUDSEN: There are five. There  
8 are two appointments from the mayor, two  
9 appointments from city council and the city  
10 controller's representative.

11          CHAIRMAN GANNON: So essentially the  
12 city of Philadelphia would have to approve or  
13 disapprove?

14          MR. KNUDSEN: That's correct.

15          CHAIRMAN GANNON: Do you know, say, up  
16 until 1992, up until the time that the PUC took over  
17 that function, how many requests were made or were  
18 there any requests made?

19          MR. KNUDSEN: There were no formal  
20 requests for a rate increase placed before the Gas  
21 Commission in that period of time.

22          CHAIRMAN GANNON: Could the Gas  
23 Commission on its own after -- I'm sure there's a  
24 lot of interaction. The Gas Commission is only  
25 responsible for one utility in the whole world and

1 that is the Philadelphia Gas Works. Did they on  
2 their own come down and say, you guys need some more  
3 money?

4 MR. KNUDSEN: I'm not clear on that  
5 question. I can get back to you with that. My  
6 sense was that we couldn't, that the Gas Commission  
7 could not do that on its own initiative. I will get  
8 back to you on that.

9 CHAIRMAN GANNON: I don't understand  
10 that with the PUC, because the PUC oversees all of  
11 the utilities in Pennsylvania; telephone service,  
12 water service, electricity and gas. It just struck  
13 me that you have this one entity which is so closely  
14 interrelated with the city which owns your utility.

15 MR. KNUDSEN: I'll get back to you on  
16 that.

17 CHAIRMAN GANNON: Don't misunderstand  
18 me. I'm not trying to politicize it. I'm just  
19 trying to figure out what was going on here.

20 One of the things, too, I notice in  
21 the charts, I'll go back to July, particularly with  
22 the service responses, which is where a lot of  
23 criticism was coming with respect to telephone  
24 service. Back in July, at least in the charts, look  
25 pretty bad in terms of the calls that were lost,

1 abandoned, and the response time and all that. Then  
2 there is pretty dramatic improvements. Is that when  
3 you came on board?

4 MR. KNUDSEN: No.

5 CHAIRMAN GANNON: I'm trying to give  
6 you credit for this.

7 MR. KNUDSEN: I'll take it anyhow.  
8 No, the issue that we had was -- and one of our  
9 officers has likened PGW to a 165-year-old house  
10 with a lot of rooms and you could only go room to  
11 room. The issue of the call center had to wait  
12 until we got the billing system repaired.

13 As of last December -- and we had been  
14 at it almost a year then to repair the billing  
15 system. As of last December, I was comfortable that  
16 it was time to really look at the call center and  
17 customer service situation with much more intent.  
18 We then put together a program of development of the  
19 change over the spring and then implemented it in  
20 July. And then the thing took off.

21 CHAIRMAN GANNON: Well, getting back  
22 to my original thought, and that is I see a big mess  
23 in July and then there's improvement. Then October  
24 seemed to be a benchmark month.

25 MR. KNUDSEN: Yes.

1                   CHAIRMAN GANNON: It seemed like a  
2 couple of things happened. A big improvement, but  
3 then there was a spike where there was a big falloff  
4 which occurred over a matter of a day or so.

5                   MR. KNUDSEN: Right.

6                   CHAIRMAN GANNON: I have been told  
7 that that was -- we have like a -- there's a couple  
8 of things that happened. I'm talking about the cold  
9 spike.

10                  MR. KNUDSEN: Right.

11                  CHAIRMAN GANNON: We had a cold spike  
12 in the weather. And that when that happens, a lot  
13 of people try to avoid that cost, so that's the day  
14 they turn on their heater and that's the day they  
15 find out it doesn't work. Then you can see in  
16 October --

17                  MR. KNUDSEN: October the 1st.

18                  CHAIRMAN GANNON: Now, that's the  
19 explanation. Then all of a sudden it goes up, a  
20 little fluctuation, now we have relatively warm  
21 weather. What have you done in terms of or do you  
22 know what would happen, let's suppose tomorrow the  
23 temperature drops to 15 degrees and all of a sudden  
24 people are cranking up the heater again. Would we  
25 see another big spike like that, or do you have

1 built into the system so that -- that those  
2 anticipated -- that heavy quality period, where  
3 people are all of a sudden are excited about heating  
4 their house, that we won't see a spike quite like  
5 that?

6 MR. KNUDSEN: I will go on record as  
7 saying you won't see a spike like that. That  
8 October 1st was two things. It was the first really  
9 cold day. We call it linoleum day when people's  
10 feet hit the ground in the morning and they run for  
11 the thermostat. There was also the issue of our  
12 ability under the old collective bargaining  
13 agreement which expired on that day to not dispatch  
14 people freely who had similar abilities to handle  
15 phone calls.

16 What you see there, the dips that you  
17 see are Mondays. That's when people call. We've  
18 been able to address the Monday problem by invoking  
19 the flexibility clauses in the collective bargaining  
20 agreement that allow us to put people with similar  
21 abilities on this problem alone for a concentrated  
22 period of time, a couple hours. We don't need them  
23 much more than that. And then they go back and do  
24 what they did before, whether it was in the district  
25 offices which we can remotely deal with in terms of

1 the phone system, or whether it was in our  
2 collections department which also we don't need to  
3 move physically around. We just need to be able to  
4 dispatch people within the phone system.

5 So being able to do that, we have been  
6 able to eliminate those Monday dips. To answer your  
7 question, if we got a very cold day, it is likely  
8 that we would get a volume of calls that would drop  
9 that down. I would hope not down to 0, but probably  
10 maybe in the 50 or 60 range.

11 But here's the issue. Our requirement  
12 is that we average 80 percent of the calls in 30  
13 seconds. So even if we have a dip on a day like  
14 that, under the standard we are allowed to  
15 essentially average that into our overall  
16 performance.

17 The interesting thing is that once  
18 you've addressed that sort of spike requirement,  
19 then it normalizes off over the rest of the week.  
20 You can see if you follow the days there, as you go  
21 through the week it gets lighter and lighter.

22 MR. WHITE: And, certainly, we track  
23 the weather forecast.

24 CHAIRMAN GANNON: Okay.

25 MR. KNUDSEN: Yes. We are ready to

1 dispatch people depending upon what the weather  
2 forecast is.

3 CHAIRMAN GANNON: My understanding is  
4 you have two types of calls. One is a service call,  
5 a routine call; the other being an emergency where  
6 somebody senses some potential danger with a gas  
7 leak, for instance.

8 MR. KNUDSEN: There's three. Then  
9 there are the billing issues as well.

10 CHAIRMAN GANNON: What is your average  
11 percentages right now as of today, do you know that?

12 MR. KNUDSEN: Yes. Right in the heavy  
13 months of repair requirement, which is like November  
14 through January, the service is about 30 percent of  
15 the calls. The rest of the year, February and March  
16 through the fall, it tends to drop to about 12  
17 percent.

18 So then the inverse of that is the  
19 billing, 70 going up to 88 percent. The emergencies  
20 tend to be fairly constant, and they are 300 to 400  
21 calls a day.

22 CHAIRMAN GANNON: Now, what is your  
23 percentage on your response time? I understand you  
24 have a 30-second response time?

25 MR. KNUDSEN: The emergencies we must

1       respond to in 10 seconds, and we are within standard  
2       on that. And the remaining calls, all of them,  
3       whether they are service or billing, we must respond  
4       to 80 percent of them in 30 seconds.

5                   CHAIRMAN GANNON: What is the  
6       percentage on that, on those two different types of  
7       calls, the response time?

8                   MR. KNUDSEN: Why don't you answer  
9       that because you have the data.

10                  MR. WHITE: Certainly. At the present  
11       time, we're answering the phone in 5 to 6 seconds  
12       after a customer makes his or her decision as to  
13       whether they are calling on a billing or service  
14       call. If they call on our emergency split, the  
15       standard there is 10 seconds. It's not 30 seconds.  
16       And we are doing better than 98 percent of the calls  
17       that we get in that 10-second time frame.

18                  CHAIRMAN GANNON: You are answering --  
19       98 percent of the time you are answering those  
20       emergency calls within 10 seconds?

21                  MR. WHITE: Yes.

22                  CHAIRMAN GANNON: What about the other  
23       calls?

24                  MR. WHITE: The other calls, we want  
25       to manage to 80 percent. We have an 80 percent



1 standard. If we're answering 99 percent of the  
2 calls in 30 seconds or less, the chances are we have  
3 people that are sitting around without a full plate  
4 of work to do. So what we're trying to do is we  
5 want to manage to the 80 percent. So if we find  
6 that we have staffing that is pushing up the  
7 percentage of calls well beyond the 80 percent, we  
8 want to get that staffing back on to other  
9 functional responsibilities; for instance,  
10 collection or work in the district office, whatever  
11 group we have drawn from.

12 CHAIRMAN GANNON: What is the  
13 percentage average right now? Where are you with  
14 respect to that 80 percent?

15 MR. KNUDSEN: What does that show?

16 CHAIRMAN GANNON: 89 percent.

17 MR. KNUDSEN: 89 percent, that's the  
18 January summary numbers.

19 CHAIRMAN GANNON: That's probably a  
20 little higher?

21 MR. KNUDSEN: That's right, because  
22 that's a cost. That difference between 80 and 89 is  
23 a cost of people not being fully deployed. What we  
24 want to do now is whatever billing problems --  
25 remember, these are experts of bills. We can bring

1 other billing problems to them to resolve while  
2 they're waiting for the call to come.

3 CHAIRMAN GANNON: Prior to, let's say,  
4 back in July and August, what were those  
5 percentages?

6 MR. KNUDSEN: Well, 0 to 1 or 2 or 3  
7 percent.

8 CHAIRMAN GANNON: So you were --

9 MR. KNUDSEN: We were abandoning 40  
10 percent of our calls. The next slide would show you  
11 we're abandoning less than 1 percent or 1 percent.

12 CHAIRMAN GANNON: It would seem to me  
13 it was pretty dismal back prior to August of 2000.

14 MR. KNUDSEN: There's no question.

15 CHAIRMAN GANNON: Now you are at 89,  
16 less than 2 percent of the calls abandoned. And  
17 abandoned, as I understand it, and correct me if I'm  
18 wrong, it wasn't that you abandoned calls, it was  
19 just that the customer hung up before --

20 MR. KNUDSEN: Before a representative  
21 picked up. They made their choice, what they  
22 wanted, but they hung up before the person could  
23 answer.

24 CHAIRMAN GANNON: And that could be  
25 for any number of reasons?

1 MR. KNUDSEN: Yes.

2 CHAIRMAN GANNON: Including they just  
3 felt they waited too long.

4 MR. KNUDSEN: By and large not. If  
5 you're waiting -- what we found is that people will  
6 wait 5 or 10 or 15 seconds once they've made their  
7 selection. They won't go anything more than that.  
8 What we're sort of confused about is why you would  
9 hang up in 5 seconds unless the baby was crying.

10 CHAIRMAN GANNON: I had heard that  
11 what was frequently happening -- what did not happen  
12 infrequent was that a person would want a service  
13 call; for example, they might want their heater  
14 started, they were having trouble with their heater.  
15 They would call and say, you know, I think I smell  
16 gas which then goes into an emergency call. So  
17 somebody would be diverted, run out to that  
18 residence, and the person would then utilize that  
19 situation to do what they really wanted to do. Is  
20 that true? Did that happen? How do you handle that  
21 type of situation today?

22 MR. WHITE: In point of fact, that did  
23 happen, and it happened more as a frustration issue  
24 for our customers. Because they couldn't get  
25 through on the service line, they chose to call

1 through the emergency line and basically gain the  
2 system. Obviously through the improvement in the  
3 response time, in the call response time, we have  
4 reduced those situations where the system is being  
5 gained.

6                   However, when it does happen and our  
7 man is dispatched, we always dispatch a service  
8 technician on an emergency call. If the individual  
9 gets out there and uses their discretion -- and  
10 these are experienced technicians. They get out  
11 there and the customer says, well, I really didn't  
12 want you out here for an emergency, I just have a  
13 problem with my range. Basically, what we'll do in  
14 that instance is tag the range and inform the  
15 customer they can call back through the service line  
16 and arrange an appointment.

17                   The problem for that is it's a problem  
18 for the customer and it's a problem for us. The  
19 customer didn't get through on the service line  
20 previously and used this technique, and this  
21 technique costs us a number of visits to get the  
22 same single visit issue addressed.

23                   Now that we have reduced this number,  
24 it's saving the company money and it's also, due to  
25 the fact that the customer can get through to us on

1 the phone, the customer doesn't have to use these  
2 types of actions to get a response from PGW.

3 CHAIRMAN GANNON: Just another  
4 clarification. Representative Roebuck's not here.  
5 He had discussed something that his constituents had  
6 complained about, an experience they were having,  
7 and I guess maybe some of the other Philadelphia  
8 members too, where the customer would have some type  
9 of a contract, a service contract, with your  
10 organization. And then they would have a service  
11 call and they would be charged some type of \$50 fee,  
12 even though they had a service contract. What was  
13 happening there with that type of situation?

14 MR. WHITE: We have what we call a  
15 parts and labor plan. It's an insurance plan. We  
16 typically have about 110,000 people on that plan.  
17 This year we have about 85,000 people on the plan.  
18 We got a late start. We obviously couldn't put the  
19 plan out until we knew we had a labor agreement. We  
20 actually didn't initiate the plan until after the  
21 October 2nd time frame. Typically, we would have  
22 already had a mailing out well in advance of October  
23 2nd, and we would have followed up with a second  
24 mailing. So that did hurt our participation this  
25 year.

1           But, nevertheless, if a customer has a  
2 parts and labor plan and it covers -- for instance,  
3 one of our parts and labor plans and our most  
4 popular plan is heater/water heater combination.  
5 It's an \$89 plan. They call us and we get out there  
6 and it's to fix their range. Well, their range  
7 isn't covered under the plan. Our first 45 minutes  
8 on the job is a \$50 service fee. That would be an  
9 instance that I believe that that would occur.

10           If the person has a parts and labor  
11 plan and we're out there to fix a particular range  
12 or a particular piece of equipment that is under  
13 that parts and labor plan, they are not going to get  
14 charged.

15           CHAIRMAN GANNON: I have no further  
16 questions. Any questions from any other members?  
17 Representative Blaum.

18           REPRESENTATIVE BLAUM: Mr. Knudsen,  
19 you mentioned earlier that you used to testify  
20 against this committee. And you were a consumer  
21 advocate of some sort?

22           MR. KNUDSEN: I am a financial expert,  
23 and I was retained by the Office of Consumer  
24 Advocate in Harrisburg for other utilities in  
25 Pennsylvania. But I was retained by the Consumer

1 Advocate of Philadelphia for the Philadelphia Gas  
2 Works, and I started doing that in 1986.

3 REPRESENTATIVE BLAUM: You mentioned  
4 that the previous group had some difficulties. When  
5 were you brought in, and were you brought in as some  
6 type of reform movement?

7 MR. KNUDSEN: Yes. I was brought in  
8 at the time of the change of administration. I was  
9 part of an advisory to a transition effort, and the  
10 mayor then decided that he would keep me on in a  
11 financial capacity at the time. He also brought  
12 over the water commissioner, who is a man with great  
13 respect within the city of Philadelphia, in order to  
14 send a signal that things were going to be  
15 different.

16 And as I indicated to you in my  
17 comments earlier, the first thing he asked was I  
18 want a six-point program for reform. And we  
19 immediately started down that inventory of concerns,  
20 and that then led into some of the early stuff with  
21 the PUC when the PUC stepped into the picture in  
22 July of that year. But we were already underway  
23 three or four months before then.

24 REPRESENTATIVE BLAUM: I see. Thank  
25 you, Mr. Chairman.

1                   CHAIRMAN GANNON: Well, I want to  
2 thank you very much, Mr, White and Mr. Knudsen, for  
3 testifying before the committee and taking  
4 additional time to answer questions.

5                   MR. KNUDSEN: Mr. Chairman, thank you  
6 very much. We would certainly like to invite all  
7 the members who didn't take the tour yesterday to  
8 come see us again.

9                   MR. WHITE: Thank you.

10                  MR. KNUDSEN: Thank you.

11                  CHAIRMAN GANNON: Our next witness is  
12 Carol F. Pennington, Acting Small Business Advocate,  
13 Office of Small Business Advocate.

14                  Thank you, Ms. Pennington. You may  
15 proceed.

16                  MS. PENNINGTON: Good afternoon,  
17 gentlemen. I first want to say I am the Acting  
18 Small Business Advocate. Some of you may have known  
19 Mr. Ryan who was the Small Business Advocate who  
20 retired in July, and I have been appointed the  
21 acting.

22                  CHAIRMAN GANNON: Thank you.

23                  MS. PENNINGTON: I want to say, first  
24 of all, that the Office of Small Business Advocate  
25 has been representing small businesses in all the



1 gas cost proceedings before the Commission in recent  
2 history since it's been instituted. And these  
3 include, of course, the PGW proceedings.

4 In general, the Office of Small  
5 Business Advocate agrees with the findings of Senate  
6 Environmental Resources and Energy Committee  
7 pursuant to Senate Resolution 75. In other words,  
8 the price fluctuations faced by Pennsylvania gas  
9 consumers were the result of supply and demand  
10 factors affecting the wellhead price of natural gas.  
11 And Pennsylvania gas utilities, including  
12 specifically PGW, were not at fault.

13 I might note that the management audit  
14 of PGW which was prepared for the PUC was highly  
15 critical of PGW's management. However, it concluded  
16 that PGW is acquiring gas at a reasonable cost.  
17 PGW has an appropriate gas supply management  
18 strategy.

19 Nevertheless, there have been  
20 financial tools utilized by many of the gas  
21 companies in recent times, particularly hedging  
22 where you can have a variety of contracts which will  
23 establish a band of risk which a company is willing  
24 to accept. And, however, when you reduce the  
25 company's ability to react to the market, sometimes

1 you reduce their flexibility and then the company  
2 can't always take advantage of the cheapest kind of  
3 gas.

4           Basically, companies are better off  
5 with a balanced portfolio; long-term instruments,  
6 short term contracts and spot prices. We believe  
7 that if a competitive market can be developed at the  
8 retail level, residential and small business  
9 customers both will benefit from the lower prices  
10 associated with aggressive competition, but also  
11 from the wider array of gas supply products that  
12 have alternative risk options. In other words, a  
13 person can get a price for a year or they might be  
14 able to go with the spot market, the daily market or  
15 a monthly market.

16           Therefore, the Office of Small  
17 Business Advocate reiterates its support for the  
18 development of competitive marketplace for retail  
19 gas supply to potentially allow smaller customers  
20 more flexibility for assuming gas price risk.

21           This committee has requested  
22 information about PGW's oversight by the PUC. I  
23 might remark that I believe we concur with the  
24 remarks made by Representative Perzel where we think  
25 that the customers have been better off with this

1 PUC oversight.

2 We have also been asked to give our  
3 views of PGW's delivery of services and their  
4 experiences and perceptions concerning corporate  
5 responsiveness to customer concerns. These issues  
6 are very important to my office and to small  
7 business, specifically because small business  
8 customers of PGW pay a customer charge of \$18 per  
9 month as well as a usage charge of \$7.12 per MCF.

10 Now, these two charges constitute the  
11 current base rates for PGW. Customers must also pay  
12 a charge for the actual cost of gas which is  
13 delivered to them. And the Office of Small Business  
14 Advocate is unaware of any gas distribution company  
15 in the Commonwealth with overall base rates for  
16 small business customers that are as high as those  
17 of PGW.

18 On the other question about customer  
19 service, we have reviewed the management audit that  
20 was done for PGW. We can't comment yet on the  
21 improvement in customer service. We believe that  
22 there is some. And, as I understand it, the  
23 Commission will be reviewing PGW's customer  
24 performance by the end of March and will make a  
25 decision then.

1           We believe that publicly-owned  
2 utilities require as much regulatory oversight with  
3 associated public scrutiny as privately-owned  
4 utilities. And we believe that PUC regulatory  
5 oversight will provide both short and long term  
6 benefits to the vast majority of PGW's customers.

7           We fully support the decision to  
8 subject PGW to PUC oversight and eventually hope  
9 that PGW will be up to industry performance  
10 standards because of it. How long that process  
11 takes is uncertain, and part of that is due to PGW's  
12 reaction to PUC decisions. Specifically, in the  
13 short time that PGW has been under PUC oversight,  
14 the company has filed both interim and permanent  
15 petitions for increases in base rates and exercised  
16 its right of appeal to Commonwealth Court. And, of  
17 course, this does delay some of the process of  
18 regulation.

19           One thing that we are looking forward  
20 to in my office is the filing of PGW of its  
21 restructuring filing with the Commission by July  
22 1st, 2002. In that proceeding, PGW will require to  
23 unbundle its rates, so that the monopoly portion of  
24 the business is priced in one package and then the  
25 competitive gas supply portion is on the other side.

1                   In the best of all possible worlds,  
2 PGW's unbundled rates will be cost based in order to  
3 facilitate shopping and maximize the potential for  
4 savings for ratepayers.

5                   The OSBA will continue to work with  
6 all the other parties to the proceedings to reform  
7 PGW and to bring it up to industry standards. And  
8 we look forward to helping in that process.

9                   And we thank you, sir.

10                  CHAIRMAN GANNON: Thank you very much,  
11 Ms. Pennington. Questions?

12                  Yes.

13                  REPRESENTATIVE PALLONE: Thank you,  
14 Mr. Chairman. Ms. Pennington, are you suggesting  
15 that the bill that the ratepayer gets does not break  
16 out the two different cost components that we  
17 discussed with the last speaker?

18                  MS. PENNINGTON: Are you talking about  
19 the gas portion versus the base rate portion?

20                  REPRESENTATIVE PALLONE: Yes.

21                  MS. PENNINGTON: They are generally  
22 broken out. There is a customer charge. For PGW,  
23 that's \$18. For the small business customer, that's  
24 \$18 a month and that's a fixed price per month.  
25 Then you have a volumetric charge. With an ordinary

1 company, there is simply the customer charge and one  
2 volumetric charge, and the volumetric charge is for  
3 the cost of gas. And there's no profit in the cost  
4 of gas portion, but there is in the base rates.

5 With PGW, it's my understanding they  
6 collect their base rates in two ways; the customer  
7 charge plus a volumetric charge and then again  
8 there's a volumetric charge for the actual cost of  
9 gas.

10 REPRESENTATIVE PALLONE: Then the  
11 third component as we discussed, which is the actual  
12 commodity, the gas cost, which I'm assuming it could  
13 be purchased on any other market under deregulation?

14 MS. PENNINGTON: Yes, that would be  
15 the portion that is subject to deregulation.

16 REPRESENTATIVE PALLONE: So they do  
17 show all three components on the bill?

18 MS. PENNINGTON: I am not certain. I  
19 have not seen the bill. Unfortunately, sir, I am  
20 not the attorney who worked on this case.

21 REPRESENTATIVE PALLONE: You seemed to  
22 have suggested that.

23 MS. PENNINGTON: It's included in  
24 there. It's all included in there.

25 REPRESENTATIVE PALLONE: Thank you.

1                   CHAIRMAN GANNON: Thank you very much,  
2 Ms. Pennington, for appearing before the committee  
3 and sharing this information from the perspective of  
4 the Small Business Advocate.

5                   MS. PENNINGTON: Thank you, sir.

6                   CHAIRMAN GANNON: Thank you.

7                   Our next witness is Phillip A.  
8 Bertocci, Supervising Attorney, Community Legal  
9 Services, Inc.

10                   Welcome, Mr. Bertocci. Proceed when  
11 you are ready.

12                   MR. BERTOCCI: Thank you. Community  
13 Legal Services provides free legal assistance to  
14 low-income Philadelphians, including many senior  
15 citizens, and for years has been involved with the  
16 Philadelphia Gas Works in several different ways.  
17 We have an attorney and two paralegals who spend  
18 almost their full-time dealing with PECO, PGW and  
19 the Philadelphia Water Department for individual  
20 client service problems for low-income people.

21                   CLS also has served for over a decade  
22 as a public advocate for proceedings before the  
23 Philadelphia Gas Commission, representing  
24 residential ratepayers. So in that sense we are the  
25 Philadelphia public advocate.

1           We also represent low-income groups in  
2 PGW's rate proceedings in Harrisburg before the PUC,  
3 CEPA, that's the Consumer Education and Protective  
4 Association, TAG which is a Tenants' Action Group,  
5 ACORN which I'm sure you're familiar with, and also  
6 Action Alliance for Senior Citizens.

7           I'm going to try to -- you already  
8 heard a lot about PGW. And I'm going to try to  
9 avoid repeating those things, except in situations  
10 where it will help to accentuate some of the themes  
11 that I want to stress.

12           I think one of the most important  
13 facts about PGW is we do have 150,000 people  
14 essentially, our customers that are at or below the  
15 poverty level, out of 450,000 to 500,000 residential  
16 customers. I think -- and PGW has one of the  
17 largest low-income programs in the state, which  
18 provides discounted service for low-income people.

19           The collections problem I see  
20 particularly is one of identifying those folks in  
21 Philadelphia who can pay but won't. And PGW,  
22 especially in the last couple years due to the  
23 problems that it's had with its computer systems,  
24 has not been able to really execute a strategy which  
25 would focus on the collections problems that have



1     been caused primarily by simply the technological  
2     difficulties they experienced. And that really goes  
3     to the burdens which are presently posed on this  
4     company by past mismanagement.

5             As far as the present levels of rates,  
6     I agree with everybody who says that essentially  
7     PGW's gas procurement policies are strong. And they  
8     have an additional advantage. The LNG facility  
9     enables them, in fact, to do better than most  
10    natural gas companies because they're able to buy  
11    gas when it's cheap, liquefy it and then instead of  
12    buying expensive gas on the spot market, use this  
13    gas in the winter when it's really expensive. So  
14    that that's an advantage for PGW customers.

15            The fact remains, however, that we had  
16    a peak, a runup in gas prices, which increased  
17    prices by 50 percent, and those prices have  
18    moderated. But, as we speak today, PGW customers  
19    are still paying 30 percent more than they paid at  
20    the beginning of November 2000 for gas.

21            Now, I'm talking about their overall  
22    rate. We have heard discussions of the combination  
23    of the customer charge, the gas cost rate and the  
24    base rate. I think I have a footnote in my  
25    testimony where I break that out for you so you can

1 see that.

2           This 32 percent increase is not going  
3 to be -- even though natural gas prices are going  
4 down, we don't expect to see this 32 percent be  
5 further moderated any time soon, because PGW even by  
6 buying gas prudently has in storage a substantial  
7 amount of gas that was bought at a time when gas was  
8 more expensive. They had to do that to protect  
9 themselves, but that means that we are not going to  
10 see an immediate downward flow in gas costs in this  
11 coming year, between now and say the beginning of  
12 the next heating season.

13           And I will say that rates are under  
14 continued pressure because of PGW and the city's  
15 policy decisions, really the city. I mean, Mr.  
16 Knudsen is right. He is a particular point in a  
17 hierarchy where there are a good number of folks  
18 above him. But the city has made the policy  
19 decision to try to essentially refurbish PGW through  
20 ratepayers' funds alone and not through any  
21 contribution of equity by the city itself.

22           I think it's important from my  
23 perspective to -- and this may repeat a little bit  
24 of what has been said by others, too -- to underline  
25 the degree to which the present situation is the

1 product of prior mismanagement. And we can talk all  
2 we want about the weather, we can talk all we want  
3 about no rate increases over a period of ten years,  
4 but we are where we are today and you are where you  
5 are today, essentially because on the one hand we  
6 had really a meltdown of management and fiscal  
7 controls which led to a series of scandals and  
8 misappropriations of funds.

9 But probably much more seriously, we  
10 had really a breakdown of management itself for PGW,  
11 so that we had, as the year 2000 began, and with all  
12 the concerns of Y2K, we had an effort to implement a  
13 new billing system, a new information system, at a  
14 time when essentially the new system was not tested,  
15 was not ready to go.

16 Nevertheless, it was implemented, and  
17 it led to hundreds of thousands of bills being  
18 incorrect, a tremendous crisis in confidence on the  
19 part of customers as to the accuracy of their bills.  
20 And even today -- PGW has made substantial progress  
21 since that time of that meltdown. But even today  
22 there are still problems in getting certain systems  
23 to work. We still have problems getting, for  
24 instance, histories of accounts, something called a  
25 statement of account going back four years; which

1 allows a customer who wants to know, well, just  
2 exactly how did my bill get to be \$2,000 or \$1,500.

3           That information is still hard to get.  
4 What we get is something that looks much more like,  
5 well, this is what the computer says. But we say,  
6 well, show us. On this record, where were our  
7 payments made, what was our bill, how does it all  
8 come out to this final number. That's still a  
9 problem for PGW. They were better than they were  
10 before, but that's still a problem.

11           As management has told you, they are  
12 at the point now where they recognize -- and I  
13 credit them for this. They recognize they need a  
14 comprehensive plan for collections. The Gas  
15 Commission, in fact, has underscored that and picked  
16 up on something the PGW themselves have said and  
17 that we have been saying and asked them to submit to  
18 the Gas Commission, which has a managerial function  
19 within the PGW system, to present a comprehensive  
20 collections plan.

21           And what we're hoping that this  
22 comprehensive collections plan will do, which will  
23 identify more than PGW has ever done, essentially  
24 segment the population of PGW customers into the  
25 various categories, and to develop strategies to

1 best collect from the particular category of  
2 customers. There are customers that can but won't.  
3 There are customers that usually can but sometimes  
4 have problems. There are customers that are simply  
5 low-income customers who really should be on a  
6 low-income program. There are a good number of  
7 low-income customers in Philadelphia who aren't on  
8 the low-income program.

9 And we anticipate that there's going  
10 to be a development of a strategy to essentially  
11 approach customers in a way which is designed to  
12 maximize what can be obtained from those customers  
13 and to do it at a cost which is not prohibitive to  
14 PGW. It does not make sense to pay \$100 to collect  
15 a \$60 debt. I mean, it's makes no more sense for  
16 PGW than it would for PECO.

17 Since the transfer of jurisdiction  
18 over PGW's tariff to the PUC, as I said, the city  
19 has continually sought base rate increases to pay  
20 for past mismanagement, and they have not provided,  
21 we think, adequate assurance that service or  
22 operational efficiency will improve.

23 What we have had really is three -- or  
24 we're in the process of our third base rate  
25 increase. We have had a request for an interim base

1 rate increase. That was in the beginning of -- in  
2 2000. Then we had a permanent base rate increase in  
3 January 2001. And I read in the newspapers that PGW  
4 is about to -- is poised to ask for another \$30  
5 million to \$50 million in additional base rate  
6 increases next month.

7 The effect so far of those increases  
8 has been to provide PGW with about \$30 million in  
9 base rate increases for 2001 and fiscal 2002; \$30  
10 million, and they've generally been asking for  
11 between \$52 million and \$65 million. So the PUC  
12 basically has given them in one way or another in  
13 what -- we call it base rate, but there were some  
14 things that were done that act as the equivalent of  
15 a base rate increase for those years, but we are not  
16 technically speaking base rate increases.

17 As I say in my testimony, the requests  
18 for base rate increases have been presented as what  
19 I term the present administration's "in your face"  
20 style and have drawn sustained opposition from  
21 consumers. In the PUC public input hearings, PGW  
22 customers already pressed by increases caused by the  
23 runup in natural gas prices expressed outrage that  
24 they should be expected to make further payments  
25 when levels of service were so unacceptable.

1           In hearings before the PUC, the Office  
2 of Consumer Advocate and the Philadelphia consumer  
3 groups have also opposed PGW's rate requests on the  
4 grounds that they were excessive under any standard.  
5 They've also insisted that no additional rate  
6 increases should be granted until PGW has achieved  
7 reasonable levels of service and achieved  
8 substantial cost reductions also, cost and  
9 productivity savings.

10           Consumers have also taken the position  
11 that customers should not be required to fund PGW's  
12 cash flow needs through increased rates when they  
13 have already been providing and still provide as we  
14 speak a hundred million dollar commercial paper  
15 program which PGW has exhausted over the past  
16 decade.

17           Customers have also pointed out that  
18 PGW's repeated requests for a "cushion" to assure  
19 compliance through rates with their bond covenants  
20 is not appropriate in a situation where the city  
21 continues to budget -- or PGW continues to budget  
22 for and pay \$18 million annually to the city  
23 essentially as a return on equity. What  
24 privately-owned company in PGW's operational and  
25 financial condition would continue to make

1 distributions to its shareholders as if nothing were  
2 wrong.

3 I think you've heard about some of the  
4 other things that I was going to say on that  
5 subject. Let's just take a look at the \$18 million  
6 payment itself, the city payment. PGW will -- and  
7 the city will say on a regular basis, well, you  
8 can't cut into -- we are not making any money. You  
9 can't cut into this \$18 million.

10 But this \$18 million really is a  
11 payment which is made regardless of PGW's  
12 performance to the city. And it's a payment that's  
13 being made when we've seen the costliness of the  
14 mistakes which have been made. So that despite the  
15 kinds of mistakes which have been made, which I  
16 think I've documented in my testimony, PGW is  
17 saying, well, we are fixing that, and part of our  
18 problem now is that we are tapped out as far as our  
19 borrowing is concerned and we need to pay down our  
20 debt. We want ratepayers to pay down that debt, but  
21 at the same time we want you to keep paying us the  
22 \$18 million year after year after year.

23 The fact remains that as a  
24 municipally-owned utility and not an investor-owned  
25 utility, the city has the same need and



1 responsibility as a private owner of a monopoly  
2 service to develop and maintain workable systems of  
3 governance which focus on accountability rather than  
4 disperse and eliminate that. One of the problems  
5 that we're seeing is that the focus that the PUC has  
6 had on governance, for instance, on streamlining  
7 governance systems, making the governance system  
8 work, we don't see that right now. We don't see the  
9 PGW governance system, the interaction between the  
10 mayor, the Gas Commission and city council. We  
11 don't see an improvement in that interaction despite  
12 the crisis.

13           If anything, we see more stalemate and  
14 a passing on of the rate request to the PUC. And  
15 I've heard a recognition on your part, you are  
16 really -- the PUC is really -- the state now is  
17 being asked to provide cover for various parts of  
18 the city of Philadelphia ownership, who among  
19 themselves are not able -- who have not been able  
20 so far to live up to their responsibility to work  
21 out their differences and provide a cooperative  
22 management of this municipal utility.

23           This municipal utility -- and I think  
24 that's a substantial responsibility of the city  
25 leadership, because this municipal utility is of

1       tremendous value to Philadelphia ratepayers.

2                       We estimate, and every time that an  
3       investigation is made of selling PGW, it's  
4       recognized that there's about \$50 million in savings  
5       to ratepayers annually that comes from the fact that  
6       the gas works is municipally owned. Now, the  
7       benefits of municipal ownership are not really  
8       passed on to ratepayers because of the  
9       inefficiencies and dysfunctions that have been  
10      allowed to develop.

11                      But the fact is that if PGW was sold,  
12      that so far -- and maybe there will be a new report  
13      that will come out tomorrow that I'll have to look  
14      at. But so far, it looks as if anything, the  
15      purchaser of PGW would have to find \$50 million of  
16      savings in running this company just to keep it  
17      even. We just don't think that there is \$50 million  
18      in savings that can be rung out of this company,  
19      operational savings.

20                      So that's the dilemma that we're in.  
21      We have a municipal gas works just as we have a  
22      municipal water department. The water department at  
23      most takes \$4 million a year from ratepayers and  
24      pays it to the city; the gas works, \$18 million.  
25      And look at the difference in service.

1           In conclusion, at this point I'm  
2     saying, well, I think there's been some progress  
3     from the absolute lowest level at the time of the  
4     effort to transfer over to the new billing system in  
5     July of 1999. But I don't think that PGW has really  
6     turned the corner. Some of the basic structural  
7     problems are still there as far as management is  
8     concerned. We don't have permanent management.  
9     There's been no move to make interim management  
10    permanent.

11           We recognize that there are a lot of  
12    people at PGW who are very dedicated and hardworking  
13    citizens of Philadelphia working for their municipal  
14    utility. They deserve to have and to be recognized  
15    for the effort that they are making. But the system  
16    itself has been broken, and so that much of that  
17    goodwill has been in some way squandered, not by  
18    them but by the framework in which they've been  
19    required to operate.

20           One of the things from the legislative  
21    standpoint that you can do -- and I mention it just  
22    at the end of my testimony -- is to support the  
23    recommendations of the Natural Gas Universal Service  
24    Task Force. You may recall in the Gas Choice Act  
25    there was a provision which said that there would be

1 established a Natural Gas Universal Task Force made  
2 up of essentially representatives of consumer  
3 interest and utilities, to consider the  
4 affordability of gas service in the Commonwealth and  
5 to make recommendations, even recommendations to the  
6 Legislature about the possibility of the use of the  
7 general fund, the state general fund, to support  
8 under some circumstances low-income programs,  
9 low-income customers to make utility service  
10 affordable.

11 I made a copy of that report and I  
12 circulated it to you. I think that that is a way to  
13 -- one thing that can be done. But on a day-to-day  
14 basis, the most important thing is that PGW and the  
15 city of Philadelphia have to be encouraged and  
16 continually pressured, I think, to make the utility  
17 function and fulfill the promise that it has as a  
18 municipally-owned utility. Thank you.

19 CHAIRMAN GANNON: Thank you very much,  
20 Mr. Bertocci. This was very interesting information  
21 to the committee. I appreciate you giving us the  
22 views of Community Legal Services with respect to  
23 the operations of the Philadelphia Gas Works. Thank  
24 you very much.

25 MR. BERTOCCI: Thank you.

1                   CHAIRMAN GANNON: Our next witness is  
2 Mr. Francis Redding, President of SEIU Local 686,  
3 Gas Works Employees' Union.

4                   MR. REDDING: Thank you, gentlemen,  
5 for the opportunity to testify here today.

6                   CHAIRMAN GANNON: Thank you, Mr.  
7 Redding. You may proceed when you are ready.

8                   MR. REDDING: I have James Lennox on  
9 my right. He's an employee in our office in Allied  
10 Division. Shawn Plunkett is in the Field Services  
11 Department. Feel free to redirect some of those  
12 questions about the call center and about service to  
13 these two, because the jobs that they do are almost  
14 exclusively with customer contact. So instead of  
15 hearing the theory, you will hear about the actual  
16 practices.

17                   I'm President of Local 686, SEIU,  
18 AFL-CIO. I represent approximately 1,400 members  
19 which include about 400 union employees in the  
20 Distribution Department who excavate city streets to  
21 repair and replace old and leaking gas mains and  
22 services for the businesses and residents within the  
23 city limits.

24                   There are also about 400 union members  
25 in the Field Services Department who on a daily

1 basis respond to emergency gas leaks and carbon  
2 monoxide complaints, along with providing appliance  
3 service. Also, they have provided a very important  
4 heating repair service to over 500,000 residential,  
5 commercial and industrial customers.

6 The balance of our members include our  
7 gas supply workers who keep the gas flowing through  
8 our two plants, Richmond in the northern end of the  
9 city and Passyunk in the southern end. In December  
10 of 2000, you may recall an explosion that occurred  
11 at our Passyunk facility. Subsequently, our members  
12 were recognized along with the city firefighters by  
13 Philadelphia City Council for doing some important  
14 things that day. They shut off some critical valves  
15 and were credited with averting a major catastrophe.  
16 One of our guys, Mike Duffy, he was injured during  
17 that explosion and he continued to work through that  
18 and perform very admirably.

19 Other 686 members kept the gas flowing  
20 through the mains and visited thousands of homes and  
21 businesses and investigated gas leaks. And they lit  
22 pilots to protect and ensure the health and safety  
23 of Philadelphia citizens at that time, along with  
24 protecting our property.

25 We also represent meter readers, field

1 and office collection, transportation, materials  
2 management, accounting, building services, district  
3 office and call center personnel. Although our  
4 members who work in the call center provide an  
5 important emergency function, the other departments  
6 in the past have been utilized to provide a vital  
7 supplemental emergency workforce by visiting  
8 customers' homes to investigate gas leaks during  
9 prolonged and severely bitter winter cold spells in  
10 our past.

11 Our office and field collection and  
12 our district office members have generated millions  
13 of dollars for PGW by securing state and federal  
14 dollars through LIHEAP and Crisis grants, thereby  
15 assisting needy families and offsetting potentially  
16 higher uncollectibles that would unduly impact other  
17 PGW customers. Please note that PGW is attempting  
18 to reduce the hours and close some of our district  
19 offices that many customers not wealthy enough to  
20 have checking accounts rely on to personally visit  
21 and pay their bills.

22 The district offices should remain  
23 open, as they are a vital service to PGW ratepayers.

24 My principal reason for testifying  
25 here today is to raise the consciousness of the

1 state Legislature regarding the critical services  
2 our members perform for the citizens of Philadelphia  
3 and apprise this committee of some of the negative  
4 changes that we know are taking place at PGW that  
5 adversely affect PGW ratepayers who have relied on  
6 those services through the history of PGW.

7 I am sure that this committee is aware  
8 of the problems that PGW had with its call center  
9 last year, published reports of customers waiting  
10 excessive amounts of time attempting to get through  
11 on the phone lines for emergencies and service, left  
12 the impression that PGW employees were not working  
13 as hard as they could to meet the needs of their  
14 customers.

15 Although I would submit to you that  
16 Local 686 members have always put their best effort  
17 forward in the past as well as today and that the  
18 actual problems with the new \$100 million cost  
19 computer system that also created tens of thousands  
20 of billing errors, the fact is that the reason we  
21 believe the call center appears to be properly  
22 working at this juncture is because less people are  
23 calling PGW.

24 This reduction in calls is due to the  
25 fact that Philadelphians are rapidly discovering



1 that PGW no longer wants to provide those very  
2 services they have come to rely on for decades.  
3 Examples of services that are no longer available  
4 are residential appliance service and repair,  
5 including heater repairs for customers who are not  
6 low income or do not have the PGW parts and labor  
7 plan.

8           Due to political pressure, exceptions  
9 were made for senior citizens about a month into the  
10 current heating season. This is unfortunate because  
11 not only does this policy subject over 80 percent  
12 of PGW customers to the use of private contractors,  
13 who many times are much more interested in selling  
14 \$3,000 heating systems than replacing \$100 parts, it  
15 also ignores an important revenue source for a  
16 company that continually states that it is currently  
17 in a serious financial crisis.

18           In a city like Philadelphia, where  
19 one-third of its population is at or near the  
20 federal poverty level, many citizens who struggle  
21 and pay their bills and who in large part live in  
22 older homes with older heater systems will be  
23 subject to calling a contractor who realistically  
24 cannot make a living, much less a profit, doing  
25 minor maintenance on heating appliances.

1           A great many heaters in Philadelphia  
2 have cast iron cores that virtually can last forever  
3 if some entity is willing to replace minor parts  
4 that wear out, like pilots and safety switches. I  
5 can personally attest to the fact that when heating  
6 systems fail in many Philadelphia residences, it is  
7 sometimes the last functioning necessity in that  
8 home and renders those customers to the use of more  
9 dangerous alternatives, such as kerosene heaters, or  
10 virtually evicts families who ultimately turn to the  
11 state for more costly help such as new housing.  
12 This will eventually require the raising of state  
13 taxes to provide such assistance.

14           More importantly are the safety  
15 implications for the reduction in services. Since  
16 PGW has curtailed appliance services, it is being  
17 reported from our field technicians that there  
18 appears to be a higher incidence of carbon monoxide  
19 incidents resulting in hospitalizations and even  
20 deaths. How accurate statistics to verify these  
21 occurrences could be obtained should be investigated  
22 and pursued.

23           The alarming thing about the new PGW  
24 policy is that there has been a deliberate effort by  
25 PGW to reduce gas leak complaints that would

1 minimize such incidents. On the premise that PGW  
2 customers are acculturated to call in bogus gas  
3 leaks to obtain expedited heater service in cold  
4 weather, PGW has instituted policies that require  
5 that technicians provide no service on such calls  
6 despite the outside temperature or special age or  
7 health circumstances of the occupants.

8 The more important PGW agenda is to  
9 educate those people not to call. Unfortunately,  
10 the fact that people would call for any reason in  
11 the past triggered chimney inspections and carbon  
12 monoxide checks that saved many lives. Many times  
13 PGW leak investigators were able to make minor  
14 adjustments on such calls that alleviated problems  
15 that would have rapidly become worse and injured  
16 unsuspecting customers.

17 As you know, carbon monoxide is  
18 odorous, as is natural gas, without a chemical  
19 additive. Again, I would emphasize the age and  
20 disrepair of Philadelphia dwellings and the level of  
21 income of citizens. Unfortunately, Philadelphians  
22 do not have the financial resources to properly  
23 maintain their chimneys and heating appliances as  
24 their suburban counterparts do, but instead have  
25 relied up until now on PGW.

1           The elimination of heater inspection  
2 services, additional hidden charges for parts and  
3 labor customers, and a seven-day wait for service  
4 that was in effect until a week ago for parts and  
5 labor customers are dissuading PGW customers from  
6 calling the company for service. Such measures have  
7 been responsible for reduction in just one year in  
8 the parts and labor plans from 116,000 to 85,000  
9 customers. All of these measures are leading to a  
10 future reduction in manpower that will compromise  
11 the safety of Philadelphia citizens by reducing the  
12 number of gas leak investigators who are also the  
13 appliance technicians.

14           The primary purpose of maintaining  
15 appliance service all those years was to maintain a  
16 year-round experienced and qualified leak  
17 investigation force. The city of Philadelphia has  
18 over 3,000 miles of gas main. Over half of it is  
19 antiquated cast iron main susceptible to serious  
20 breakage. The return of a cold winter, such as the  
21 kind that we experienced in the 1980s, will result  
22 in catastrophic consequences for the city and its  
23 citizens. Leaks of the magnitude that result in  
24 fatal explosions will proliferate, posing a threat  
25 to life and property that cannot be measured merely

1 in dollars and cents.

2 Our 400-man distribution force that  
3 does an excellent job of excavating and repairing  
4 the system will rise to the task as they always have  
5 in the past. However, individual appliance  
6 technicians who use leak detection equipment to  
7 measure levels of natural gas and evacuate residents  
8 when necessary make the initial responses.

9 Reductions in appliance service will  
10 result in the reduction of manpower that does this  
11 emergency response work. Recall that there are only  
12 400 emergency/appliance service technicians for over  
13 500,000 PGW customers who live in older homes, row  
14 homes in many cases, with older and antiquated gas  
15 mains and pipes. This is a formula for disaster  
16 given one normally cold winter and PGW's excessive  
17 amount of cast iron pipe. It would be  
18 unconscionable to allow a reduction in services that  
19 you know will result in a decline in emergency  
20 response personnel.

21 Reliance on private contracting will  
22 not be sufficient either. The sporadic incidence of  
23 cold winters in recent years will make it impossible  
24 to predict how many emergency workers will be needed  
25 and trained. Due to cost constraints, contractors

1 will definitely underestimate the number of workers  
2 needed. When an emergency unexpectedly strikes, as  
3 it has in the past, Philadelphians will risk injury  
4 and death for profitability determinations by  
5 contractors. Permanent full-time trained and  
6 experienced utility workers are the only option in a  
7 city such as Philadelphia with its closely quartered  
8 population and its antiquated cast iron main natural  
9 gas system.

10 As an example, what would have  
11 happened in New York on September 11, 2001 if  
12 experienced unionized city response personnel were  
13 not available? More people would have either died  
14 or have been seriously injured.

15 In Philadelphia, Local 686 members as  
16 employees of PGW are an important part of the city's  
17 emergency response forces.

18 How can anyone ignore the possibility  
19 that an antiquated natural gas distribution system  
20 such as the one owned by PGW could be a target for  
21 either domestic or foreign terrorism? Given this  
22 new fact of life that we never know where or when  
23 such forces will strike, we can ill afford to allow  
24 a company that possesses such an experienced and  
25 competent emergency workforce to gradually disband

1 that force by eliminating a part of its job that  
2 ensures that the employees who make up that force  
3 are adequate in numbers and competent in what they  
4 do. Regardless of the means of PGW customers, they  
5 deserve no less.

6 I'd just like to say one other thing.  
7 Whatever happens, please don't let PGW managers  
8 borrow from our pension fund. Even if I'm ever  
9 afforded the opportunity to have a seat on that  
10 little V that hovers above Tom Knudsen's head,  
11 please don't ever let that happen.

12 We would be happy to answer any  
13 questions. As I said previously, Shawn here is a  
14 field services guy. Jimmy works in the office. We  
15 would like to speak to some of the issues you raised  
16 with some of the other witnesses.

17 CHAIRMAN GANNON: Any questions?  
18 Representative Blaum.

19 REPRESENTATIVE BLAUM: No.

20 CHAIRMAN GANNON: I'm sorry. I  
21 appreciate you coming in and offering your  
22 testimony. I'm going to ask the staff to follow-up  
23 on some of the issues that you've raised in your  
24 testimony. But, just briefly, I would like to have  
25 your reaction with respect to this issue of the call

1 service center and billing service and the  
2 interchangeability or the new interchangeability of  
3 these employees between those two systems from your  
4 perspective.

5 MR. REDDING: I'm not receiving  
6 reports on it to what extent they're using  
7 flexibility, but I do know that they've hired a  
8 number of people in the call center, 30 to 40 more  
9 people.

10 CHAIRMAN GANNON: Would those people  
11 be members of your union?

12 MR. REDDING: They are members of our  
13 union. I would suggest that perhaps that the reason  
14 that the number of calls are reduced possibly are  
15 due to the weather conditions, people aren't calling  
16 because of the weather. Some people are being  
17 educated to the fact that we don't do as much  
18 service as we used to do. As I said in my  
19 testimony, we used to do appliance service for  
20 non-parts and labor plan customers for a charge, and  
21 I think that if a study were done you would probably  
22 find that that's a potential revenue source for PGW,  
23 a profit can be made from that. There has been a  
24 lot of goodwill established over the years with the  
25 Philadelphia public and our service technicians.



1           I think it's suffered with some of the  
2 problems that we have had, particularly with that  
3 computer system that I think was primarily  
4 responsible for the issues with the call center, but  
5 I think that the main reason that the call center is  
6 improved is basically because of the weather, the  
7 added personnel, and the fact that people don't call  
8 us for services as they used to.

9           CHAIRMAN GANNON: Thank you very much,  
10 Mr. Redding, for appearing before the committee and  
11 presenting as a representative of the employees of  
12 PGW your perspective on the service that PGW  
13 provides to the citizens of Philadelphia and  
14 incorporate those remarks in the record. I am going  
15 to ask my staff to follow-up on some of the issues  
16 that you raised in your testimony.

17           MR. REDDING: Okay. Thank you.

18           CHAIRMAN GANNON: Thank you very much.  
19 Next, we have another series of witnesses, all of  
20 whom are identified as PGW customers. And perhaps  
21 it might be more efficient and better for the  
22 committee if those individuals would appear as a  
23 panel and provide us with their comments.

24 Betty-Ann Workman, PGW Customer; Nancy Houston, PGW  
25 Customer; Maria Dirkson, PGW Customer; and Michael

1 DeVincent, PGW Customer.

2 Why don't we start, if we could, what  
3 I would like to do since this is a panel, it may be  
4 helpful, is if you could give us a summary of the  
5 highlight of the points that you want to make to the  
6 committee for the record, because what you are going  
7 to be saying is going to be transcribed by the  
8 reporter. And that will remain as part of our  
9 record with respect to our report back to the  
10 General Assembly. So if you could highlight those  
11 points that are critical to you.

12 And we'll start with Ms. Workman and  
13 go through. And when we're done with that, we can  
14 go back if you wanted to reemphasize something or  
15 highlight something or explain something. So we'll  
16 start with Ms. Workman.

17 MS. WORKMAN: I wasn't aware that I  
18 was going to be part of the panel because I have a  
19 lot to say. I live in one of those old houses that  
20 the gentleman just described built in 1902. And we  
21 have lots of old creeping places where air comes in.

22 I have sent to you, delivered to you,  
23 my final draft of a revised draft dated 31 January.  
24 When we think about computers, we know the kind of  
25 errors computers can make, so I'm a little bit used

1 to the rationale that the computers weren't doing  
2 their jobs. Clearly, the computer wasn't doing its  
3 job.

4 I am Betty-Ann Workman. I am a widow  
5 for eighteen and a half years. I am retired from a  
6 full-paying job. But as you can see at the top of  
7 this document, I am still doing education consulting  
8 which sends me away from my house several times a  
9 month for two days, three days, four days sometimes.  
10 I'm not going to bore you with that because it is in  
11 the document. I wanted to warn you that most of my  
12 testimony is personal, it's anecdotal and it's  
13 intuitive.

14 I'm a native Philadelphian as was my  
15 late husband, so I'm pretty familiar with the  
16 workings of city agencies, including the utilities.  
17 During the last five or ten years, I have written  
18 some dismal documents concerning services across the  
19 board, including those of the Philadelphia Gas  
20 Works, which is the reason for being here today.

21 My first clear notice of the initial  
22 services occurred when I signed up for the parts and  
23 labor plan. Since I live alone and my children are  
24 grown, I took the precaution and believed the gas  
25 company and what the job limitations say, that the

1 service and labor plan would cover any emergencies  
2 which would occur during the course of the heating  
3 season, certainly for my appliances and certainly  
4 for the heater and the hot water system.

5 And I depended on the gas company to  
6 keep its word. Sure enough, an emergency did occur.  
7 In 1999, I woke up one morning and the house was 56  
8 degrees. I knew something was wrong. I pulled out  
9 my service contract and called the number and asked  
10 for someone to come and see what was wrong with the  
11 heater. I was very abruptly and rudely told -- this  
12 was a Thursday morning. I was abruptly and rudely  
13 told that I could not receive service until the  
14 following Tuesday.

15 When I questioned the young woman as  
16 to why her report didn't match the documentation on  
17 the service contract, she said, we only provide  
18 service Monday through Friday as business days and  
19 you're too late. The contract said Monday through  
20 Friday, including Saturday when there is an  
21 emergency. I was paying at that time \$75 for this  
22 plan, and it went up as the years went by.

23 When I continued to argue with this  
24 young woman who I realized was only part of the  
25 system, she said the only thing I can do is to put

1 out a work order for Tuesday, and that's all that  
2 I'm prepared to do and dismissed me summarily.

3 Now, the epilog to that incident was  
4 that even after Tuesday arrived, PGW support never  
5 did. It was that year, 1999, that I decided I  
6 needed no longer to enroll in the service and labor  
7 plan because it didn't work. The PGW's concern and  
8 attention to customer service was as dismal and  
9 minimal as ever, and that its only interest was in  
10 bilking citizens out of more money.

11 While I was outraged by it, I wasn't  
12 surprised. PGW has demonstrated on many occasions  
13 its total disregard for customer service. Rates  
14 have increased astronomically in the course of the  
15 last ten years. The simplistic claim by the  
16 management, senior management, of PGW of the  
17 fluctuations in energy prices doesn't account for,  
18 as far as I'm concerned, does not account for the  
19 dramatic increases in consumer cost and the obvious  
20 diminishing of customer service.

21 So my appearance here today, as I  
22 said, is personal, it's anecdotal. I want to share  
23 my experience with you, which I am clear is not just  
24 my experience. So I'm testifying not only for  
25 myself but for the citizens of Philadelphia, which I

1 consider myself a good one, most of whom because of  
2 shifting demographics are now either minority  
3 residents, senior citizens -- I'm one -- or  
4 dispossessed or all three. And I believe we have  
5 all been shallowly treated, ignored or poorly  
6 serviced by PGW.

7 It's an open secret that some of our  
8 political leaders have escaped or ignored the PGW  
9 dragnet or have been exempted by the Philadelphia  
10 PGW bureaucracy. Every once in a while, an article  
11 will appear in one of our local ordinances or the  
12 city paper that attests to that.

13 So I count myself among these hapless  
14 groups who are being so poorly serviced by the PGW.

15 Now, my current and running dispute  
16 with PGW over the last two years involves not only  
17 unrealistic bills which PGW claims I owe them, but  
18 the failure of PGW to post bills to my residence.  
19 If you refer to the document, you will see that I  
20 have a mailing address 201 East Sedgwick Street.  
21 Please be mindful of the fact that I have been in  
22 this house for 36 years at that same address. My  
23 legal address is 7003-05-07 Boyer Street. The gas  
24 company uses the legal address and so does PECO, the  
25 electric company.

1           Over in 2001, in the year 2001, I  
2     received only nine bills from PGW. When I called to  
3     ask where these bills were going, I got not anywhere  
4     close to a rational explanation. So I wrote a  
5     letter which I think is either attached to your  
6     document or is on the table, to that effect.

7           Imagine now, no bills. I'm not in the  
8     habit of letting my bills slide, even though my  
9     income is greatly reduced as a result of my early  
10    retirement. At PGW here this last spring, I raised  
11    the same concern, and I was assured that it was  
12    going to get better and that it would be looked  
13    into. The only satisfaction I got was one call from  
14    somebody or other who assured me that, indeed, I did  
15    owe \$2,975, which I continue to dispute to this  
16    moment.

17           I think it's fascinating, and I want  
18    to call your attention to this egregious error, the  
19    fact that I was not receiving the bills. Then the  
20    blame was shifted to the post office. Now, the  
21    mystery to me is how in 34 years preceding that the  
22    bills arrived on time, posted, and how PECO which  
23    uses that same address at 7007 Boyer Street manages  
24    to get its bills posted to my house on time.

25           So the only conclusion I can draw is

1 that it is not the post office's fault. It is the  
2 fault of PGW, which is part of my ongoing dispute.

3 The latest insult around this dispute  
4 came in January, when on 14 January another bill  
5 collector, following hot pursuit behind the  
6 collector that came in December, appeared at my door  
7 claiming I was in arrears and he was here to  
8 collect. You haven't sent a payment since last  
9 October, claimed he. I was too outraged and too  
10 upset to get into it with him, since I knew it  
11 wasn't his fault anyway. So I gave him a check for  
12 \$300 which I thought would have sent him on his  
13 happy way.

14 Despite the fact, now January 3rd --  
15 can we go back -- December 11th I believe it was.  
16 January 3rd, I paid for gas on this horrific bill  
17 \$300. Another collector appears on my doorstep on  
18 the 14th saying they haven't received a payment  
19 since October. How does that square with this  
20 wonderful description from the senior managers who  
21 testified so long that things are all going better  
22 with the gas company, that accounts are now settled  
23 easily, that the computer system is up and running  
24 and that everything is coming up roses?

25 Well, it's not coming up roses in my



1 life. That additional \$300 that I gave to this  
2 third collector had been allocated to another part  
3 of my budget. But in order to keep him from, quote,  
4 cutting off my gas, I gave him the check for \$300.

5 It used to be that largely no matter  
6 how large they were, were amortized, and the  
7 gentleman spoke to this, over the heating months  
8 from September 15th, whatever it is, till March 15th  
9 or April 1st, and then there was justifiably demand  
10 for payment. I find it hard to have the gas company  
11 explain to me why three collectors came to my house  
12 within a course of five and a half weeks during the  
13 heating season to, quote, cut off my gas, demanding  
14 payment.

15 Aside from the fact that I'm outraged  
16 by all this, you can tell by the quiver in my voice  
17 I'm absolutely outraged. As I said, not just for  
18 myself, but I'm in a constant state of pique. Every  
19 time my doorbell rings I'm saying, oh, it's the gas  
20 company again, a constant state of pique at best  
21 and in a constant state of stress at worse.

22 Now, despite some lean times over the  
23 course of the last 36 years when my husband and I  
24 were in graduate school and raising kids and trying  
25 to keep life together, we also were aware that we

1 had certain responsibilities. One was to maintain  
2 our property in some level of decency, and the other  
3 was to meet our financial obligations, particularly  
4 those surrounding or concerning our home; our taxes,  
5 our mortgage, utility bills.

6 And so this current circumstance with  
7 the gas company has me in a real state.

8 It's not my intention to try to  
9 squeeze out from whatever my legal and absolutely  
10 correct responsibilities are. But my intention is  
11 to have you gentlemen and lady pay real attention to  
12 what's going on in the city of Philadelphia with its  
13 few remaining citizens.

14 What I fear is that the gas company  
15 with its simplistic explanations of what's going on  
16 and how it's managing itself has decided to clear up  
17 all the years of mismanagement on the backs of those  
18 who can least afford it; the elderly, the minorities  
19 and the dispossessed. We cannot allow this to keep  
20 happening.

21 For a few years, we would receive  
22 estimated bills. We would receive estimated bills.  
23 I paid it as close to it as I could. When they  
24 discontinued sending estimated bills and discovered  
25 that there was an overage on our account, some \$700,

1 which has never been returned to us and has never  
2 been applied to current bills. I don't know how you  
3 even manage like that. It has never been returned  
4 and never been applied to current bills.

5 I have two concerns. One is that I  
6 have A plus credit records at the moment. I went  
7 into a store once with my platinum America Express  
8 card and the salesperson said, whoa, you could buy a  
9 house with this. And I'm very proud of that. It  
10 took us a long time to get to this spot, and I'm not  
11 about to have the gas company ruin that for me.  
12 But, at the same time, I will not tolerate the  
13 harassment that the PGW is putting me through.

14 When we were an intact family, two  
15 kids, husband with a job, motherhood for several  
16 years and then I had a market place, and everybody  
17 was taking at least one shower a day, when I was  
18 doing three loads of laundry every day or at least  
19 two times a week, when I was cooking three full  
20 meals a day for a family of four on the gas stove no  
21 less, my bills came nowhere close to where they are  
22 now, where they average somewhere around \$500 a  
23 month.

24 Now I'm in a place that I've always  
25 called home, where I take one bath a day under the

1 usual circumstances, where I cook when I feel like  
2 it which isn't too often, where I do laundry three  
3 loads every two weeks, I cannot explain how I get a  
4 bill for \$2,975.

5 I'm away a lot of the time during my  
6 consultancies. And when I leave home, I turn the  
7 thermostat back to 60 degrees. When I am home, I  
8 the thermostat is usually at 65 which is cool, but  
9 I'm usually upstairs in my little office and I don't  
10 care. So I'm really baffled. One person who came  
11 to my house, I posed this question to him. He said,  
12 well, it's because of my pilot light. The pilot  
13 lights are causing me \$500 a month?

14 I hope you can understand the mystery  
15 that PGW has shrouded itself in on how it conducts  
16 business. Now, I am not a legal expert by any  
17 stretch of the imagination; therefore, I can't fully  
18 have any real expertise in this subject. I can only  
19 hope that the accumulated testimony that you've  
20 heard today and which you will continue to hear be  
21 read into the record and serve to collect the  
22 requisite data to improve the workings of PGW or,  
23 quote, to uncover violations which will be open to  
24 the careful scrutiny.

25 No public service agencies should be

1 allowed to conduct public visits in the way PGW has  
2 done. I'm not aware what recommendations this body  
3 is or will be prepared to make at the conclusion of  
4 this hearing. One thing I'm sure of is that the  
5 public, especially the most vulnerable among us,  
6 must be protected from these furious practices. We  
7 deserve nothing less. PGW has defied and betrayed  
8 the public trust. We deserve better.

9           They are an embarrassment to the city  
10 of Philadelphia and the citizens who have chosen to  
11 remain. I know some of you are not Philadelphians  
12 and you are not real sure of what I'm talking about.  
13 But the whole structure of the city in terms of city  
14 services and delivery of city services has caused  
15 many people to leave the city. I'm not going to  
16 leave. 7007 is my home. And as long as I can walk,  
17 I will be there. I don't think I have to be  
18 subjected to the kind of harassment that PGW has put  
19 me through.

20           The Philadelphia Gas Works, in  
21 addition to betraying the public trust, has  
22 abrogated its responsibility to provide efficient,  
23 cost effective and customer friendly services to the  
24 citizens of Philadelphia. PGW has, to my way of  
25 thinking, committed serious violations, not only in

1 its business practices, but in its moral behavior.  
2 It suffers from incompetent management -- I can see  
3 why they can't get a senior manager. That would be  
4 like calling me up and saying, would you like to be  
5 the captain of the Titanic?

6 The percentage increases for gas  
7 consumers in the Philadelphia area are  
8 unconscionable. In the interest of public trust,  
9 PGW must be called to task for all of its past  
10 misdemeanors. The Judiciary Committee has a  
11 monumental and important task in front of it. And  
12 that's to bring PGW back to some modicum of fairness  
13 and to execute justice for the citizens of  
14 Philadelphia. We are depending on you. Thank you.

15 CHAIRMAN GANNON: Thank you, Ms.  
16 Workman. Two things. We have asked some folks from  
17 PGW to be at this hearing today. They have told us  
18 that they will have folks here to talk to you after  
19 the hearings.

20 MS. WORKMAN: That's what they told me  
21 last spring, but thank you.

22 CHAIRMAN GANNON: Specifically about  
23 the problems that you personally raised. The other  
24 aspect is that you made some points that generally  
25 perhaps affected you, but some of those issues could

1 be affecting a lot of folks that live in the city  
2 that may not have had the resources to get here  
3 today or the ability to come here today to provide  
4 that information to the committee.

5 And I'm going to ask the staff to  
6 follow-up on those issues to make certain that that  
7 type of situation that you are talking about, given  
8 the changes that have taken place within PGW in the  
9 past year, quote, improvements in services.

10 I notice most of your problems  
11 initiated back to 1999, apparently things --

12 MS. WORKMAN: Yes, there were things  
13 before that, but 1999 was the worst.

14 CHAIRMAN GANNON: And see where the  
15 apple fell from the tree. But in light of some of  
16 the improvements, we still want to make certain that  
17 every possible customer get the services that  
18 they're entitled to and that they're paying for.  
19 And I'm going to ask my staff to follow-up on those  
20 issues and see how PGW does as this investigation  
21 continues.

22 MS. WORKMAN: Well, as I said at the  
23 beginning of my recitation, this was a personal  
24 account. And, granted, when I was at the hearings  
25 last spring, held in downtown Philadelphia, in a

1 ballroom full of people, and the stories were  
2 similar to mine, they all rested in the same place.  
3 The thing that I think hurt me the most was the  
4 number of senior people. Some were even on walkers  
5 who struggled to this hearing because they wanted to  
6 have their voices heard.

7           And from the other end of the  
8 community, Latinos and African-Americans  
9 specifically, who raised some of these same issues.  
10 And that's why I decided to make my testimony very  
11 personal, because in some ways I feel I'm speaking  
12 not just for myself, but for my peers around the  
13 city.

14           CHAIRMAN GANNON: Thank you. The next  
15 testifier is Ms. Nancy Houston, PGW Customer.

16           Nancy, you may proceed.

17           MS. HOUSTON: I'm just going to  
18 paraphrase. I can reiterate a lot of the things  
19 that Mrs. Workman has said. I, too, lived in the  
20 city my whole life. I have a large family. My  
21 parents grew up in the city. My husband and I  
22 really enjoy the city. We bought our first house in  
23 May of 1999, which is bad timing.

24           And my story is a story about a person  
25 who wanted to pay their bill and couldn't, and that



1 led to all of my problems for the next two and a  
2 half years which is ridiculous. Imagine not being  
3 able to pay a bill for almost a year, and then  
4 having hearings and hearing things all the time that  
5 they have to charge more money because they have no  
6 money, but they wouldn't take payment from me.

7           Again, too, I'm not here -- I wasn't  
8 even -- it's hard, like she said, to just put it  
9 brief because we've struggled for two and a half  
10 years with our problems, a lot of us. And I'm not  
11 even here so much because I was so angry about my  
12 own situation, but because of so many people I have  
13 seen suffer around me as a result of the  
14 mismanagement of PGW. And I mean suffer, like my  
15 secretary and my baby-sitter.

16           And, as I mentioned in my testimony,  
17 my husband and I, this has put a strain on our  
18 budget and taken a lot of time away from me. But we  
19 have the means to pay our bills one way or another.  
20 I just paid off the last two and a half years last  
21 month finally, but I'm surrounded by people who  
22 don't. And that's really hard for me, that's really  
23 hard to see, when my baby-sitter who is an older  
24 woman, a senior citizen, never, ever had a problem  
25 before and now lives in a cold house. Her heat is

1 turned off. And she has to go into her basement to  
2 fill kerosene heaters so her pipes don't freeze.  
3 And she's got arthritis in her legs and has to take  
4 showers at my house. And it's just hard.

5           Anyway, in May of 1999, we purchased  
6 our first house in the city of Philadelphia. Again,  
7 I've always had very good credit, too. I keep  
8 track. I can show you every bill I ever had. I  
9 have everything on file.

10           When I didn't receive a bill by July,  
11 I called. And they said they would bill me in time.  
12 Well, they didn't. I called every month for seven  
13 months. The first piece of paper I got in the mail  
14 from PGW was a shutoff notice telling me the  
15 importance of paying my bills on time in February of  
16 2000. I was told so many things on the phone. I  
17 actually felt sorry for some of the people I talked  
18 to from PGW. I felt sorry that they probably had to  
19 listen to stuff like this all day. Some of them  
20 were very nice. I didn't really have that much  
21 complaint with the service I got. I was never mean  
22 to anybody on the phone. I was just trying to find  
23 a way for them to help me.

24           Nine months after we move in, I got  
25 that shutoff notice. It said that I had to pay



1 apartment one at a time, move from one to the other.  
2 So when we lived in one apartment, they had the  
3 bills together. They told me that they could not  
4 separate the heat bills from the apartment. So when  
5 we moved to our first floor to try to fix up that  
6 apartment and my third floor tenants moved in, I  
7 couldn't get gas put in their name. I was told I  
8 couldn't.

9                   After -- I mean, it was just comical.  
10 Fortunately, I have a job that I can put a call on  
11 speakerphone and it tells you how long you have been  
12 on hold. Several calls, most of them over an hour  
13 wait, I would just leave it on speakerphone. I  
14 would have the people in my office help me watch the  
15 phones while I was going about my day, maybe minimum  
16 45 minutes. I finally paid the gas bill and just  
17 increased the rent a bit on my third floor tenants.

18                   But in December of 2000, we purchased  
19 a new property down the street. It is a private  
20 one-family residence. When my first floor tenants  
21 moved in, they, too, could not get their gas turned  
22 on. Now, in this time I stuck with the budget plan,  
23 usually paying more than they asked, never missed a  
24 payment. My first floor tenants were told that they  
25 could not have their gas turned on, meaning their

1 hot water heater and their stove, until my bill was  
2 paid in full for the entire building.

3 I said, well, I'm still paying off a  
4 bill because you didn't bill me for an entire year.  
5 I made so many phone calls, nobody could help me,  
6 nobody could help me, in the meantime paying the gas  
7 for my tenants again.

8 Finally, I got a very nice woman on  
9 the phone who literally said to me that she was not  
10 allowed to do this but she felt so sorry for me,  
11 that she did something and separated the bills for  
12 me. That's what she told me. She said, I'm not  
13 allowed to do this, but I can see your predicament.  
14 I figured if I kept calling, somebody might be able  
15 to help me.

16 Meanwhile, I'm fighting with PGW all  
17 this time, my bills are skyrocketing. I tried to  
18 compare them to last year's bills, but I never got a  
19 bill last winter, so I don't even know if they are  
20 appropriate or not because I never got a bill. I  
21 just got a lump shutoff notice payment. That was  
22 very frustrating.

23 Meanwhile, my husband and I are living  
24 in a house that's 58 degrees, wearing sweats. We  
25 work a lot so it was no big deal. I don't mind

1 being cold. I have my heater set so it would go  
2 down to 55 during the day, and those bills were  
3 outrageous. Unfortunately, I can't do that this  
4 year, because I have a 3-month old infant at home.  
5 So I have to keep my heat on.

6 My fourth, not giving appropriate  
7 notification and timing between rate increases. I  
8 do realize that although my bills might be  
9 outrageous, like I said, I do have the means to pay  
10 them. There are many hardworking people in the city  
11 that don't, like my secretary and my baby-sitter.  
12 My secretary last year had a three-year-old  
13 daughter. Her gas was cut off. She had to move in  
14 with her mother because she couldn't pay her bill.  
15 Elderly people, I have two great aunts that were in  
16 their 90s, lived a long time. I know their budgets.  
17 I know that they couldn't afford those increases.

18 If I could help some of these people,  
19 I would. But PGW didn't bill people for a long  
20 time. They neglected to bill people. Then they got  
21 these huge bills. Most people cannot pay those  
22 bills. And if they try to make payment  
23 arrangements, they have to go to work during the  
24 day. They can't sit on the phone for an hour and  
25 wait to make payment arrangements with somebody, so

1       then their bills go delinquent.

2                   So now people have high bills, bad  
3       credit, and they want to increase it again. I mean,  
4       yes, their billing system is better now and some  
5       things have improved. But they've put so many  
6       people in a bad situation that give them a chance to  
7       climb out of it before you go and increase the rates  
8       again. I'm not even talking the money itself,  
9       increasing the rates. I'm talking about their  
10      mismanagement has put people in some really bad  
11      situations. My baby-sitter has a bill of over  
12      \$2,000. She will never be able to pay that. She is  
13      living in a house with no heat, like I said. It's  
14      just really sad, I think.

15                   Just fifth, overall poor customer  
16      service. I just implore you not to allow any  
17      proposed increases until not only customer service  
18      is accessible, but people are given the opportunity  
19      to crawl out of the holes that they've been put in  
20      by PGW and catch up on their bills and have their  
21      heat turned back on. You are just going to make a  
22      really bad situation so much worse. That's  
23      basically it.

24                   CHAIRMAN GANNON: Thank you very much,  
25      Mrs. Houston. As I pointed out, we have some PGW

1 people here. Perhaps they can address some of your  
2 specific questions relative to you.

3 Our next testifier is Mrs. Maria  
4 Dirkson. You may proceed.

5 MS. DIRKSON: I want to say good  
6 afternoon, and it's a very big privilege that you  
7 invited me to come to share my problem that I have  
8 with PGW gas works. Well, my problem this year is  
9 not so bad as it was the following year. But last  
10 year I paid for a parts and labor service. And I  
11 asked them to come and clean my stove out and they  
12 never came. And so when it came to September when  
13 it got real cold, my heater wouldn't come on and I  
14 called them. And they wouldn't answer the phone. I  
15 was on the phone two hours and a half. And then  
16 when the girl answered, she told me you can't get no  
17 service until two weeks from now.

18 Then finally when the guy came out he  
19 said, this is wrong, that is wrong, we don't cover  
20 this, parts and service don't cover this. You have  
21 to get an outside person to do this. So he left.  
22 And I got an outside contractor, it cost me \$250,  
23 which my daughters had to pool the money to give me  
24 because I am on an income of \$500.

25 Well, so I didn't buy no parts and



1 labor this year because they messed me up last year.  
2 Well, I went on and I called them and asked them to  
3 come clean my stove in September. They still didn't  
4 come again this year. Thanksgiving it gave out.  
5 Thanksgiving day I called. I called for two hours  
6 and a half. And the girl got on the phone and said,  
7 I'm sorry but we can't come out this Thanksgiving  
8 day. We don't have people to serve you. We only  
9 have two people on service, so they can't come.  
10 They will come Thursday and service you.

11 I said, oh, my God, this is  
12 Thanksgiving day. I just come from the hospital,  
13 which I was in the hospital and just came home from  
14 a surgery. So I waited two hours and I called back  
15 again. I called back again and she said, oh, we'll  
16 send somebody out in about an hour, but it's going  
17 to cost you \$200 because you don't have no parts and  
18 service. I said, okay, come out. So he came out  
19 and looked at it and he fixed it. It was a new  
20 thermostat that had to go in, and he put that in.

21 He said, well, we are going to put  
22 \$500 on your bill because you should have had parts  
23 and service. And, Miss, you know you should have  
24 had parts and service, you ought to know better than  
25 that. He looked at my daughter and he said, you got

1 enough money, you need to pay it. And he walked  
2 out.

3 My complaint is that the service that  
4 they give us is terrible. They need to do better in  
5 answering their phones and better all the way  
6 around. Plus they did send me a \$200 bill in this  
7 bill for me to pay besides \$85 for my regular bill.  
8 And I'm on the CAT program as it is. I can't pay no  
9 \$200. I got \$500 to work with. I got to pay  
10 electric, I got to pay the telephone bill and I got  
11 to pay my room. Everything that I have I have to  
12 pay. So it's nobody but me, so what they trying to  
13 do.

14 That's all I got to say. The whole  
15 thing need to be looked over and done better. I'm  
16 not the only one. I have neighbors that complain.  
17 I am the committee person in that area, and at least  
18 25 blocks or more has the same complaint of senior  
19 citizens just like me. Thank you.

20 CHAIRMAN GANNON: Thank you very much,  
21 Ms. Dirkson. Our next testifier is Michael  
22 DeVincent, PGW customer.

23 MR. DeVINCENT: Good afternoon. I  
24 just wish to comment on some of the things people  
25 are saying here.

1           It is true that waiting on the phone  
2 is ridiculous, because when I questioned my bill I  
3 was able to read the newspaper, have my lunch and  
4 watch two TV shows while I'm on hold. It's  
5 ridiculous. When they get you, when they answer the  
6 phone, they say we're sorry, we don't have an answer  
7 and they hang up. Or if you wait like two hours or  
8 so, they pick up the line and you hear them talking  
9 and laughing and carrying on and they disconnect  
10 you. And you are right back to square one again.

11           And it is true, though, that when you  
12 try to pay your bills they don't want your money. I  
13 don't understand that, because that's what led up to  
14 my dispute.

15           What I'm here to talk about is I made  
16 a revision of my papers here, because it was such  
17 short notice I got, I just threw it together and  
18 faxed it right away because I wanted to be heard.  
19 I spoke at the PUC meeting back in March of last  
20 year, and I presented to the committee my figures  
21 here. I wouldn't go into drastic detail because you  
22 can read it. But prior to this, I had called the  
23 gas company questioning my bill. And I said, you  
24 know, it doesn't look right. I said, my gas bill  
25 went like from \$112 and was \$400 for a month. And I

1 said, what gives? They said that we were given a 24  
2 percent increase. I said, well, it doesn't look  
3 right.

4 So the following month they got  
5 another increase of 21 percent. So what I did was I  
6 sat down -- and I work for a major other public  
7 utility company. And when we split with -- well, I  
8 work for Verizon. But when we split from AT&T, we  
9 had to calculate a lot of tariff changes and things  
10 like that. And from my old training, I just took  
11 out a calculator and I started playing around with  
12 it. And I went, wait a minute, 24 percent of such  
13 and such amount is only like 2 and a half cents.  
14 Well, PGW calculated 19 and a half cents. That's a  
15 big increase. So that came out, instead of a 24  
16 percent increase, PGW actually charged the customer  
17 a 277 percent increase for one bill.

18 The following month the PUC had said  
19 they gave them a 24 percent increase, when in fact  
20 it was approximately another 203 percent increase  
21 that PGW charged us. So then what I did was I  
22 called the gas company and was put on hold many  
23 times, finally got through. They looked at my  
24 calculations and said, oh, you should be our  
25 accountant because something looks wrong here. But

1 they couldn't give me an answer.

2           Then what I did was I called the PUC  
3 in Harrisburg. I sat down and I told the person, I  
4 said, this is what I'm coming up with in the  
5 calculation, could you check it? She said, yes,  
6 certainly. She went over and she told me what the  
7 rates would increase. She said, okay, a 24 percent  
8 increase, this is what your bill should reflect. I  
9 said, no, it reflects this amount. She said, no,  
10 it's wrong, where are you getting this amount from?  
11 I said, from my bill.

12           So after talking for about 20 minutes  
13 with this representative from the PUC, she got a  
14 supervisor on the line. And she, too, did the  
15 calculations and found out that they were all wrong.  
16 So then I took my calculations and I went to the  
17 Bustleton office up in the northeast. When I went  
18 there, I went to the front desk, and the gentleman  
19 said, what do you want? I said, I want to speak to  
20 someone. I have the calculations here and a blank  
21 check. I said, I would like to present someone to  
22 send these papers into someone to look at my figures  
23 and tell me what I actually owe, and I wish to pay  
24 at least half of my gas bill right now.

25           The gentleman says, do you have a

1 problem with your gas bill? I said, yes. He told  
2 me -- excuse the expression because there's ladies  
3 here -- get the hell out of here. I said, what do  
4 you mean? I said, I just want to give somebody  
5 these papers here. And I have a blank check and I  
6 want to give money. He said, don't pay us. I said,  
7 well, I want to give my papers to somebody.

8 Now, this is up at the Bustleton  
9 office here. He, in turn, told me he would call the  
10 police and have me thrown out of there if I didn't  
11 get out there and don't pay my bill. And I told  
12 him, I said, excuse me, I think you are working for  
13 me, I pay your salary. So he told me where to put  
14 it, so I left.

15 In turn, then I went to the PUC  
16 meeting that was held up in the northeast in March.  
17 And I presented to the PUC representative and the  
18 panel there my figures. Now, prior to -- I spoke.  
19 But when I went in there, PGW saw me walking in.  
20 They, in turn, said, are you here for a dispute? I  
21 said, yes. Can we look at your records first? I  
22 said, yes. They took me in the room, they looked at  
23 my records, and they said, oh, yes, you are in  
24 dispute. May I see the papers you want to present?  
25 I showed them.

1                   Wow, something might be wrong here.  
2           I'll tell you what. This was the vice president or  
3           something with the supervisor there. He said, I'm  
4           going to call you back and I'll tell you your right  
5           charges. He says, what we will do is we'll look  
6           into this for you. Would you mind if we check this  
7           out for you? I said, no, I want to pay. I had a  
8           blank check that night, too. He said, no, don't pay  
9           us anything. Wait until we find out what is wrong  
10          with the bill. I said, thank you.

11                   I started leaving. Instead of making  
12          a left, I was making a right. The gentleman comes  
13          out, grabs me by the arm. Where are you going?  
14          Into the meeting. You don't have to tell the PUC  
15          anything. Why not? We are going to handle this at  
16          the gas company. I said, I can go in there, it's an  
17          open meeting. So I went over and signed the paper  
18          and spoke. He did not like that at all, because he  
19          stood behind the room and gave me the dagger look.

20                   I presented to the PUC and also the  
21          panel my figures. I haven't heard a word from  
22          anybody. Then I, in turn, kept calling PGW. I  
23          forget the gentleman's name. I said, this man  
24          called me, he is not answering my phone calls,  
25          what's happening with my bill? You owe a lot of

1 money. But you don't want my money. Nobody wants  
2 my check. Well, we see it's in dispute. Forget  
3 about sending us any money, we don't want it yet,  
4 because if you send your money in now it's going to  
5 get lost. I said, what do you mean it's going to  
6 get lost, you just put it on my account. No, if you  
7 send any money in and it's misplaced and it's  
8 cashed, it's not our responsibility if we keep your  
9 money and it's misplaced. So I don't know what's  
10 going on there.

11 So then what I did was I finally ended  
12 up filing with the PUC. The PUC investigated this.  
13 They called me back. Mr. DeVincent, we have had  
14 several accountants at the PUC in Harrisburg look  
15 over these rates. Your rates are correct. Where  
16 did the PGW get these astronomical high charge  
17 rates? I said, can somebody tell me.

18 So Mr. Angelucci was handling the  
19 matter, took it to five major meetings to PGW and  
20 presented my figures. They're using my figures in  
21 Harrisburg as examples of these astronomical rates  
22 that are being charged. Now, five major meetings  
23 with these top executives, accountants and  
24 everything from PGW. Mr. Angelucci said, we want an  
25 answer. He never got one to this day. They can't



1 answer the rates that are calculated by PGW.

2 In the meantime, PGW got another 9  
3 percent increase in April. Now, they must have  
4 gotten their computers fixed because the 9 percent  
5 increase was correct. They did charge an additional  
6 9 percent but at their high rate but it still came  
7 out to 9 percent.

8 Now, Mr. Angelucci sent me a letter  
9 saying -- he called me up and said, Mr. DeVincent,  
10 you have to have all your late payment charges taken  
11 off and they have to recalculate your bill. I said,  
12 why? They said, because you won the dispute because  
13 they can't prove that your calculations are  
14 incorrect, they can't prove that theirs are correct.  
15 So by our standards you have gone by our guidelines  
16 and you have to be charged the rates that you are  
17 quoting them.

18 But, in the meantime, how much can you  
19 afford to put onto this bill until they settle it?  
20 Well, I'm a one paycheck family. My wife is home  
21 raising a family. I said, well, I really can't  
22 afford it because I've got a mortgage, I've got the  
23 electric bill, I've got my own phone bill I've got  
24 to pay. I work for the company. I have all my  
25 bills, too. So he says, okay, tell you what, \$25 a

1 month until it's paid. I felt like saying that's  
2 still too much. I wanted to give \$1 a month like  
3 John Street did at one time. And he owed \$55,000  
4 and he got away with it.

5 But the fact is to this day I've  
6 called PGW, what is my correct rate? We don't know.  
7 My latest bill says I still over \$1,000 back bill,  
8 but that's not right. What my revised copy shows is  
9 that one month I was overcharged by the correct PUC  
10 rate. I don't know whether you've got the right  
11 copy now. I just put it on this when I came in.

12 I was overcharged in January \$18.22.  
13 That's by the calculations the PUC told me were  
14 correct. The following month in February I was  
15 charged \$100.35 overbilled by the right  
16 calculations. Now, all through this time the rates  
17 have gone up and down and up and down.

18 Now, about a month ago the  
19 Philadelphia Inquirer and the news media said, PGW,  
20 oh my God, it must have been a miracle, out of the  
21 blue has discovered that in the past year they have  
22 overcharged their customers millions and millions of  
23 dollars. But guess what? They don't have that  
24 money to give us back.

25 So the PUC agreed, you've got to lower

1 some of your rates. The PGW says agreed, we don't  
2 have to pay the customer back, we will start  
3 lowering our rates a little bit.

4 Last week it was announced, PGW needs  
5 more money now, they want to raise their rates  
6 because we didn't use enough gas this year, but yet  
7 they have our millions of dollars already.

8 Then also it's the customer service  
9 charges now. It started at \$2 or \$4 years ago.  
10 Then \$6, \$8. It's like \$16 now. I challenged that  
11 rate myself years past. What is it for? That's to  
12 send you a bill. I said, well, guess what? I can  
13 just go to the office. You tell me what I owe, I'll  
14 write out a check and hand it to you. And I can  
15 save that money, can't I? Oh, no, we want that  
16 money from you.

17 And now charges are changing all right  
18 and left. They keep going up and up and up, but  
19 they are going against what the PUC says, and  
20 they're not going by what was granted to them. And  
21 they're admitting now that they overcharged us. But  
22 what is my correct bill? You're saying the people  
23 are back there. I went over to get a cookie, and a  
24 woman comes over by me, hello, Mr. DeVincent. I  
25 looked at her and said who are you, I don't

1 recognize you. She turned around and says, I'm from  
2 the gas company. Well, guess what? I haven't seen  
3 her since last March. Where's she been?

4 You want me to go back there and talk  
5 to them? No, you talk to them and you get my bill  
6 straightened out. Somebody's got to get my bill  
7 straightened out, because I don't owe them all that  
8 money, and I proved it. And this should be  
9 reflected on everybody's bill. This has to be  
10 recalculated. They have to be investigated to find  
11 out why they got an exorbitant rate. And there is  
12 absolutely even by the PUC in Harrisburg has proven,  
13 there is nobody in PGW who can justify these rates.  
14 And they are nothing but a big rip-off. We're all  
15 sitting here with the same complaints.

16 And, I mean, no reflection on this  
17 young lady here about minorities and all. It  
18 doesn't reflect just minorities and elderly. It's  
19 reflected in all of us. And the thing is, just like  
20 this lady here, because of her age, senior citizens,  
21 utility companies know one thing, and I can't say  
22 about my company because I don't know what they do  
23 with elderly people. But the gas company, here is  
24 this elderly woman, pays her bills on time, lives by  
25 herself. Oh, let's scare her. Give us, give us,

1 give us. They go after people who pay their bills  
2 but not people who don't pay their bills.

3 I mean, here's somebody like me waving  
4 a check, hello, let me sign this, what can I give  
5 you? Don't give us anything. Years ago I paid a  
6 bill in person. The line was too long so the  
7 deposit box, I put it in there. Do you know they  
8 lost it? It took them seven months to find it. Do  
9 you know where it was? They took the bag that  
10 night, stuck it in the store room and forgot about  
11 it. Seven months later they finally posted it. I  
12 have a double payment on my bill.

13 They said they can't help it if they  
14 lose bills. I said, it's in your own office, what  
15 would you do with it? We found the bag, Mr.  
16 DeVincent, we found your bill in there. You did pay  
17 it on time. We'll fix your credit rating. Hello,  
18 what do you mean my credit rating? It's only in a  
19 room right there and you're losing it.

20 They are losing bills. They don't  
21 want your money. They miscalculate things. People  
22 aren't getting bills. People come after the senior  
23 citizens. They are not honoring anything. This is  
24 a big rip-off. This is what's turning into -- well,  
25 at the time I said, what's going to happen? This is

1 last year at the PUC meeting. I said, what's going  
2 to happen? Are they going to declare bankruptcy and  
3 everybody that paid all that exorbitant money, they  
4 lost it all? Well, guess what? They don't have my  
5 money yet, so if they go bankrupt they ain't going  
6 to get it.

7 But this is turning into another  
8 Enron. Everybody is hiding their facts. The fact  
9 is these absorbant rates which were calculated and  
10 has been proven by Harrisburg, the rates that I came  
11 up with by my calculations are true and correct.  
12 And PGW in all fact and matter, they're false. And  
13 they're passing it onto us as a higher rate.

14 That's all I have to say.

15 CHAIRMAN GANNON: Thank you very much,  
16 Mr. DeVincent. It was very helpful. Your remarks  
17 are included in the record. I will ask my staff to  
18 follow-up on some of the issues in general. Thank  
19 you very much, all of you. I appreciate all of you.

20 MR. ROYAL: My name is James Royal.  
21 I'm the First Vice President of the Urban Leadership  
22 Council. I was in there the day along with Marie to  
23 represent the Urban Leadership Council and our  
24 President, Reverend Bruce Edwards.

25 Everything that occurred today we

1 already know. If you remember last year when  
2 Reverend Edwards and the coalition organizations was  
3 fighting the rate increase, the 400 percent increase  
4 that people were receiving. As I heard earlier  
5 testimony today, it is very clear that our work is  
6 not done. We were asking about the people that were  
7 cut off. But we was also asking about the people  
8 that were already shut off and did they get back on  
9 or could they get back on.

10 I, not like the rest of these folks  
11 here today, I have an agreement. I don't agree with  
12 the bill. And let me just say this to the  
13 committee. PGW has been late and has not been  
14 working in our best interest. And we were asked to  
15 be here this morning at 10, and we didn't get  
16 started until 11. So all I'm just saying to you is  
17 that we always were where we're supposed to be.

18 It's important that, as we heard the  
19 testimony earlier from the management of PGW, that  
20 all these folks are above his head. Nowhere in the  
21 characterization was the customer, the ratepayer,  
22 the person that makes this whole process move  
23 forward.

24 We believe there has been great  
25 changes. And there was a misnomer or whatever that

1 PGW may or may not be sold. We want the public  
2 stuff to stay in public hands, because we were  
3 attempting to take PGW to court and then we found  
4 out there is nobody responsible. We couldn't  
5 legally put our hands on somebody and make them fess  
6 up or what have you.

7           When that new computer system went in,  
8 we understood what happened, stuff just got lost in  
9 the hundreds of millions of dollars. So we are  
10 going to -- we didn't have time either to put down a  
11 very clear response to the question that was sent  
12 out to us in the mail because of short notice. We  
13 will send it to you.

14           But we want to be clear that this  
15 fight is not over. We want these things -- the  
16 state has taken over too many things now. I think  
17 someone said earlier, it is too political in the  
18 city of Philadelphia. It's too political  
19 everywhere, because if I was part of Enron and my  
20 friend here, you'd have the national guard at that  
21 building where nothing is getting straightened out.  
22 But right now stuff is getting straightened out  
23 hopefully because of politics.

24           We don't believe that PGW is like  
25 Enron. We just think it's for this maneuver. I



1 think during the '90s everything was great and fine,  
2 and folks were just happy so the base rate didn't  
3 get raised. But we believe that in order to  
4 straighten this process out, just like it happened  
5 in the city of Philadelphia when Ed Rendell became  
6 mayor, he straightened out the budget on the backs  
7 of the workers. And PGW is fundamentally trying to  
8 do the same thing. But how do you get blood out of  
9 a rock?

10 I know this is a statewide issue. I  
11 know that you don't live here per se, but you want  
12 oversight. Well, the ultimate oversight, we still  
13 think it ought to stay in the domain of the public.  
14 And so the Urban Leadership Council is going to work  
15 to make that happen, because just so many things  
16 that came across the table today that we were aware  
17 of and many we weren't.

18 But let me tell you this. When we  
19 start -- we have 180 organizations that are part of  
20 the ULC. When we got on this gas issue, that number  
21 went over 500. And I was laughing to myself when  
22 the brother was making these comments, because  
23 policemen, firemen were coming into our office  
24 saying, get'em. Lawyers, I was surprised they were  
25 coming in and saying, get'em. And so at some point

1 getting them turns around and gets us. If we fool  
2 around, everybody will be sitting in the cold.

3 So we have to fix this thing so that  
4 the workers, because this is still a union town. So  
5 if the workers are concerned and they work for the  
6 company, I'm glad that the president didn't say  
7 everything is great. Well, he just said things are  
8 getting better and I agree. To some degree they are  
9 getting better.

10 But the point is if this thing  
11 continues the way it's going and whoever has any  
12 involvement in it, one of the things that you don't  
13 hear consistently, and this agenda was clear about  
14 it, you put all the technical people first and the  
15 people that pay the rates last. The ratepayers  
16 should have been at the beginning. So that when the  
17 technicians come up and are painting all these  
18 pictures, then question them and give them to you  
19 from the people that pay the bills or can't pay the  
20 bills, then you can say to them, well, what about  
21 this question, what about this thing?

22 The idea is we want better service, we  
23 want to be able to pay our bills. I'm telling you a  
24 secret. A little more than a month ago, I thought I  
25 owed \$800. \$800 was at the top, but after you pull

1 that thing off there, down at the bottom it was  
2 \$1,600. I caught a deep breath. I said, wait a  
3 minute, just three months ago I only owed \$800.

4 So I said, what do I do now? See, I  
5 only did that one or two times. I ain't calling.  
6 I'm not going to do that. I went to the office.  
7 They didn't know what I was talking about, and you  
8 have to stand in a long line. I said, just pay,  
9 just pay. That's what a lot of people try to do.  
10 But we are at a point where people can't pay. I saw  
11 a man's \$5,000 gas bill. He said you want that,  
12 come and cut it off. He said I'll build a campfire  
13 first.

14 But there's other older people. There  
15 are people who keep talking about the area of  
16 responsibility, people off of welfare. Where are  
17 they going? When the working people got two or  
18 three jobs that we know, you're talking about 400 or  
19 500 people we're talking about. We're talking about  
20 the hundreds of thousands in this city that has  
21 nothing to do with color or anything else. It's  
22 just an average citizen that wants to pay their  
23 bills and can't; those that try to give the money  
24 and they reject it, and those that want to give the  
25 money and don't have it.

1                   And then you got a few people that are  
2 slick. You got a few folks that own apartments and  
3 things like that, not like this young lady here.  
4 They wouldn't pay a dime on a dead man.

5                   I'm just saying this to you because  
6 it's deeper than you think and harder than you  
7 think. But people are just tired. They've given up  
8 on fighting city hall because they believe it  
9 doesn't do any good. We believe it does. Thank  
10 you.

11                   CHAIRMAN GANNON: Thank you very much.

12                   REPRESENTATIVE BLAUM: Good job.

13                   CHAIRMAN GANNON: I think you made a  
14 very important statement that can't be emphasized  
15 enough, and that is that the company is really the  
16 customers. You are right. We heard from a lot of  
17 people today, including you folks representing the  
18 customers. There has been a lot of hearings on this  
19 issue before, several hearings in Philadelphia. We  
20 are following up as a result of a sense of the  
21 General Assembly. They want the committee to look  
22 into -- this is part of an overriding issue in  
23 Pennsylvania with respect to energy costs and  
24 services that we get from companies that supply this  
25 to us.

1           But I think it's important, as you  
2 emphasized, that we always have to go back to the  
3 customer and what they are paying for and what they  
4 are getting for what they are paying for and what  
5 those services are and the quality of the services.

6           I think everybody agrees that we have  
7 talked to that there has been improvement since last  
8 year. And I think that's a combination of things.  
9 Energy prices have gone down, but also there have  
10 been changes, particularly at PGW with respect to  
11 the management and the operations of the company  
12 with regard to improvements. But I think -- and I  
13 agree with one of the testifiers -- they haven't  
14 quite turned the corner yet. We are going to be  
15 watching that very closely. I'm going to have my  
16 staff, as I said before, follow-up with PGW on the  
17 issues that were raised by your folks here.

18           MR. ROYAL: Let me ask you a question.  
19 Something came up one day about people's gas had  
20 been shut off -- see, my gas in my house has been  
21 shut off for about six years. I just said, come on  
22 in and cut it off. We are just not going to deal  
23 with this. And about three or four months ago, they  
24 were coming through the block. And because there  
25 was no service, the guy from the gas company said,

1 this is a state law, the state had come to them  
2 saying, if there's no activity in this particular  
3 house, then the gas has to be shut off from the main  
4 because it may become hazardous. And he said on all  
5 of these houses we came to, they were abandoned  
6 properties. I said, okay.

7 I just happened to be going out of the  
8 house to take a friend of mine to the hospital, and  
9 these guys drove up with this jack. And I said,  
10 what are you doing? We are going to cut your gas  
11 off. I said, what are you talking about? I said,  
12 did you notify me? He said, I came by yesterday and  
13 there was a young lady standing in the door and I  
14 told her I'd be back today to turn off the gas. But  
15 in the next breath he said, this house was  
16 abandoned. I said, well, then who did you talk to  
17 in the doorway if this house was abandoned and  
18 you're going to cut the gas off today. If I hadn't  
19 had to go to the hospital, right where he drew that  
20 circle, I would have put a chair there and sit  
21 there. I said, go get the cops.

22 So I'm concerned, is that true, is  
23 that some kind of mandate that the state has with  
24 the gas company or the city or whoever, that if  
25 there is no service -- because I know houses that

1 have been vacant for 15 or 20 years. They never dug  
2 up the street until last year. Then they came by  
3 and I said they just paved the street and now here  
4 we have potholes. But is that true?

5 CHAIRMAN GANNON: I don't know the  
6 answer to that question. But you raise an  
7 interesting point, because I do understand that in  
8 order to shut off the street in most cases they  
9 actually have to dig up the street. They don't have  
10 shutoff valves like they do for your water.

11 MR. ROYAL: Yes, they do.

12 CHAIRMAN GANNON: In order to shut off  
13 your gas from outside the house, they have to dig up  
14 the street.

15 MR. ROYAL: The follow-up to that,  
16 does the customer have to pay for it when he wants  
17 his gas back on?

18 CHAIRMAN GANNON: We can go off the  
19 record unless what you want to say --

20 MS. WORKMAN: No, I don't want it to  
21 be off the record. I don't think any of this  
22 deserves to be off the record. I'm sorry to be so  
23 tiresome, but I was a teacher for many, many, many  
24 years. And I don't let anything slide by me,  
25 because that's how I do things.

1           So I have a couple questions. One is  
2 a concern, that the presences of the folks sitting  
3 at this table, I don't really know why they left  
4 when the suggestion came to me it was this was a  
5 full meeting of the Judiciary Committee and the  
6 citizens of Philadelphia.

7           CHAIRMAN GANNON: I can't speak for  
8 the other members of the committee and whether or  
9 not they attend the hearing.

10          MS. WORKMAN: Whether they?

11          CHAIRMAN GANNON: Whether or not they  
12 attend the hearing.

13          MS. WORKMAN: They were here. They  
14 left.

15          CHAIRMAN GANNON: I can't speak to why  
16 they would leave. You have to talk to them  
17 directly. They may have other commitments.

18          MS. WORKMAN: That raises another  
19 question for me. What other commitment is more  
20 important than this one? You know, you have lots of  
21 jobs to do. What other commitment is more important  
22 at this moment than taking care of the city and  
23 county of Philadelphia around the very serious  
24 issues?

25          CHAIRMAN GANNON: I don't have an



1 answer for that.

2 MS. WORKMAN: Just put it in your  
3 little journal and you can answer it when you feel  
4 like it.

5 The other is that in the academic  
6 committee when --

7 CHAIRMAN GANNON: Excuse me just a  
8 moment.

9 REPRESENTATIVE BLAUM: I was just  
10 going to say, Mr. Chairman, the stenographer here is  
11 doing a great job without a break all this time.  
12 That information, every word you say, is made  
13 available to every member of the committee who may  
14 have had other responsibilities.

15 MS. WORKMAN: You're saying that, but  
16 I also notice --

17 CHAIRMAN GANNON: I want to make a  
18 point. I think this addresses what you are saying.  
19 The members of the General Assembly, this is not the  
20 only job that they do. I know this is a very  
21 important issue for you, and we are very concerned  
22 about it and very interested, but that's why we have  
23 a court reporter here today to take down the  
24 testimony. And that is made available to every  
25 member of the committee. A copy of that record is

1 given to every member of the committee and it's made  
2 available to every member.

3 And this committee will issue a report  
4 to the General Assembly perhaps with some of the  
5 recommendations based on the policy questions that  
6 you raised in your testimony. We won't necessarily  
7 address your specific problems.

8 MS. WORKMAN: I understand that. I'm  
9 not asking for that.

10 CHAIRMAN GANNON: But we are mostly  
11 concerned about some of the policy issues that were  
12 addressed with respect to your specific problem.  
13 But we expect members not staying for the entire  
14 meeting. There are demands on their time that are  
15 unbelievable and I'm sure they had a good reason to  
16 leave, but I can't speak for them. I know their  
17 demands are very extreme. They do have other  
18 commitments they have to keep, and that's why we  
19 keep a record of the proceedings so that they have  
20 it available to them.

21 MS. WORKMAN: I understand all of  
22 that, and I wanted that in the record, my  
23 disconcertedness, if you will, about their absence.  
24 I understand.

25 Let me just make one more point. In

1 the academic community where I live, if a professor  
2 loses, misplaces, does something, whatever with your  
3 work, that's a problem. You know what happens when  
4 a professor messes up.

5 So I want to know just for the record  
6 how PGW will give this community, its citizens, its  
7 automatic aid?

8 CHAIRMAN GANNON: Thank you.

9 MS. HOUSTON: I just had a quick  
10 question and it probably -- my quick question is  
11 just like hers. I just want you to remember, you  
12 said that changes are being made, improvements are  
13 being made, and I'm glad to hear that. Just keep in  
14 mind, almost every person I know out there has  
15 bills, like us, over several thousand dollars. I  
16 know these people, some of them bring in maybe \$200  
17 a week. If they ever think they're going to see  
18 that money, are they going to have their gas off  
19 forever?

20 And also someone like myself, I paid  
21 over \$5,000 to PGW just in the last 12 months, and  
22 that is just for my rental unit heat, not the other  
23 gas in the house and not my private residence. I  
24 have to pay that or the tenants will be without  
25 heat. I never saw any evidence ever where that came

1 from. Like this gentleman here, too, at the time I  
2 saw my bill go up and up and up.

3 I could not send them a check because  
4 they would lose my money so that's --

5 CHAIRMAN GANNON: I'm saying that  
6 service has improved, the call center has improved,  
7 I have been told that by a lot of folks, including  
8 you sitting at the table, that there have been  
9 improvements. So I'm merely reflecting what I've  
10 been told.

11 I'm not a customer of PGW and I don't  
12 live in the city of Philadelphia, so I'm simply  
13 reflecting what I've been told, that improvements  
14 have been occurring. But most of the folks like  
15 yourself, the corner hasn't been turned yet. We  
16 want to keep on top of that.

17 MR. DeVINCENT: Can I say one thing,  
18 one very brief thing?

19 CHAIRMAN GANNON: Very brief.

20 MR. DeVINCENT: Very brief. She can  
21 stop -- you can stop typing. It's all right. It's  
22 off the record.

23 CHAIRMAN GANNON: Let me just say that  
24 I want to thank you all for attending the hearing  
25 and presenting your testimony. And this meeting is

1 adjourned.

2 (The hearing concluded at 2:45 p.m.)

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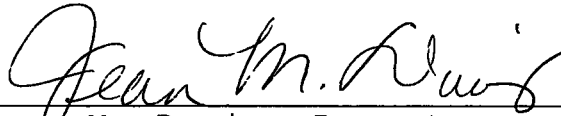
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I hereby certify that the proceedings  
and evidence are contained fully and accurately in  
the notes taken by me on the within proceedings and  
that this is a correct transcript of the same.



Jean M. Davis, Reporter  
Notary Public

Notarial Seal  
Jean M. Davis, Notary Public  
Derry Twp., Dauphin County  
My Commission Expires Mar. 29, 2004  
Member, Pennsylvania Association of Notaries