

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. P-2009-2097639
	:	
PHILADELPHIA GAS WORKS	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. R-2009-2139884
	:	
PHILADELPHIA GAS WORKS	:	

**PHILADELPHIA GAS WORKS’
STATEMENT IN SUPPORT
OF THE
JOINT PETITION FOR SETTLEMENT**

Philadelphia Gas Works (“PGW” or the “Company”) hereby submits this Statement in Support of the Joint Petition for Settlement (“Settlement” or “Joint Petition”) filed in the above-captioned proceeding.

The Settlement is joined in by the Office of Trial Staff (“OTS”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Philadelphia Housing Authority (“PHA”), Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”), Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia (“TURN, *et al.*”), Clean Air Council (“CAC” or “Council”), and Retail Energy

Supply Association (“RESA”) (collectively, the “Joint Petitioners”) and resolves all of the issues by and among these active parties.

PGW believes that the Settlement is in the best interests of PGW and its customers, and furthers public policy goals with respect to energy efficiency and resource conservation. The Settlement is therefore in the public interest and should be approved expeditiously and without modification. The Settlement was reached after considerable review of PGW’s operations and the submission of extensive testimony by the active parties, and after a series of negotiations and discussions concerning all of the issues raised by PGW’s filing, including the appropriate level and allocation of the proposed rate increase, rate design and PGW’s proposed Demand Side Management (“DSM”) program.

PGW’s key goals in filing this rate request were to continue the improved financial performance resulting from the PUC’s \$60 million extraordinary rate order while at the same time obtaining increased rates in order to begin to fund its significant OPEB liability. In addition, PGW sought PUC permission to initiate its proposed five-year DSM program to help customers conserve natural gas and reduce their energy costs. As explained in greater detail below, the Settlement reflects a compromise of the various positions of the parties concerning these and other claims of PGW and the other parties raised in the proceeding. PGW submits that the Settlement represent a proper balancing of customer protections and the interests of PGW, its customers, competitive suppliers, and other stakeholders.

I. BACKGROUND

On December 18, 2009, PGW filed a proposed revision to its tariff, Supplement No. 36 to Tariff Gas - Pa. P.U.C. No. 2, that would implement a base rate increase designed to produce \$42.5 million in additional annual revenues. The rate increase was to fully fund PGW’s Other-

Post Employment Benefits (“OPEB”) liability on an accrual basis.¹ PGW also filed its revised five-year gas DSM program² for PUC approval.

By Order entered February 11, 2010, the Commission instituted an investigation into the lawfulness, justness and reasonableness of the proposed rate increase, as well as its existing rates and tariff. The Suspension Order, entered February 11, 2010, also consolidated PGW’s DSM program, Docket No. P-2009-2097639, with the investigation into the proposed Supplement No. 36 to Tariff Gas-Pa. P.U.C. No. 2 (at Docket No. R-2009-2139884). This consolidation was done in response to PGW’s previously filed Motion to Consolidate said proceedings.

Extensive formal and informal discovery was conducted throughout the proceeding. The active parties submitted direct, rebuttal and surrebuttal testimony. The active parties also engaged in extensive discussions to try to achieve a settlement of some or all of the issues in this case. As a result of those negotiations, the Joint Petitioners were able to reach the full Settlement set forth in the Joint Petition.

II. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED EXPEDITIOUSLY AND WITHOUT MODIFICATION

A. Revenue Requirement [Joint Petition, ¶ 16]

In its rate filing, PGW proposed to maintain the extraordinary rate increase of \$60 million annually (which was approved in the 2008 Extraordinary Rate Order) and to increase base rates to produce \$42.5 million in additional annual revenues.³ The additional revenues were proposed

¹ This rate filing was made in compliance with the Commission’s Order of December 19, 2008 in R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order entered December 19, 2008) (“2008 Extraordinary Rate Order”).

² The DSM program was previously filed in April 2009 at Docket No. P-2009-2097639. PGW first pledged to submit a DSM program as part of PGW’s 2008 Extraordinary Rate Petition (R-2008-2073938).

³ PGW St. 1 at 2-5; PGW St. 2 (Bogdonavage); PGW St. 4 (Kikla).

to be used to provide full funding for PGW's existing and projected OPEB liability on an accrual basis and to recover previously booked accrued OPEB amounts over five years.⁴

In response, there were recommendations suggesting that, rather than a rate increase, PGW should fund PGW's OPEB liabilities entirely out of existing rates, with no rate increase, which would have resulted in PGW not being able to make use of a significant portion of the extraordinary rate increase for general operations, cash working capital or debt reduction.⁵ PGW submitted responsive testimony to those recommendations showing that such a course would have had a seriously detrimental effect on PGW's financial performance and bond rating.⁶

PGW believes that the revenue increase under the Settlement represents a reasonable compromise of PGW's original proposal and the positions of the opposing parties. Under the Settlement, PGW will be permitted to maintain virtually all of the extraordinary rate increase by funding all but \$2.5 million of the agreed upon \$18.5 million OPEB funding from an incremental rate increase.⁷ The Settlement increase represents about 37.6% of the rate increase as originally requested by PGW.

⁴ *Id.*

⁵ Specifically, OTS proposed that PGW retain \$31.12 million of the extraordinary rate relief, and fund its OPEB obligation through a separate rider, in the amount of \$28.5 million in the first year. OTS St. 1 at 37. The OTS recommendation would have required PGW actually to reduce its rates by \$.3 million. *Id.* The OCA recommended that PGW maintains the \$60 million in extraordinary rate relief but recommended that PGW be required to use a portion of that rate increase to fund PGW's OPEB liabilities. OCA St. 1 at 6-7; OCA St. 2 at 4; OCA St. 3 at 5, 7. Thus, both recommendations required PGW to fund 100% of its OPEB obligation from existing rates. PGW St. 2R at 1-2.

⁶ PGW Sts. 2R (Bogdonavage), 3R (Bisgaier), 9R (Hanley).

⁷ Settlement, ¶ 16.

From PGW's perspective, the Settlement rate increase will permit PGW to maintain its key financial indicators at reasonable levels thereby preserving its existing bond rating with the potential of enhancement. PGW calculates⁸ that, on a *pro forma* basis, PGW's test year end net income will be reduced by \$25.4 million (\$54.3 million compared to \$79.7 million) compared to PGW's original, \$42.5 million proposal⁹; however, non-borrowed cash is projected to be \$53.5 million assuming a full year of collection at the Settlement rate increase, representing 28 days of O&M expenses. Further, PGW projects that, at Settlement rates, it will have its entire amount of short term borrowing capacity available at test year end for an additional 78 days of liquidity. In addition, PGW's pro forma test year debt to total capitalization ratio will be 80.9%, which is forecast to decline to 64.9% debt compared to total capitalization by FY 2015.¹⁰ While these results are still below the results for comparable municipal and private utilities, as presented by PGW witness Hanley,¹¹ the Settlement rates will result in a reasonable improvement in performance compared to its projected performance without the Settlement rate increase, or the financial results that PGW would have experienced if the positions of other parties were to have been adopted.¹² As explained in the testimony of PGW witnesses Bisgaier and Bogdonavage, financial improvement will reduce PGW's reliance on borrowing and will provide support for an improvement in PGW's bond rating, which will have positive benefits for PGW and its

⁸ See, Verified Statement of Joseph Bogdonavage, attached as Appendix "A".

⁹ Appendix "A," PGW Exhibit JRB-2A.

¹⁰ *Id.*

¹¹ See, PGW St. 9R, Exhibit FJH-1, Sch. 6 (Corrected).

¹² See, PGW St. 2R at 1-8; Exhibits. JRB-4, 5.

customers.¹³ Therefore, the Settlement rate increase is reasonable and amply supported by the record.

B. OPEBs [Joint Petition, ¶¶ 19 to 20]

The Settlement contains a number of important provisions related to PGW's OPEB liabilities.¹⁴ The private sector has been accounting for retiree OPEB liabilities under an accrual basis system since the issuance by the Financial Accounting Standards Board ("FASB") of Statement of Financial Accounting Standards ("SFAS" or "FAS") No. 106 in December 1990.¹⁵ Governmental Accounting Standards Board ("GASB") Statement No. 45 (Issued June 2004) brings the governmental accounting (applicable to PGW) for retiree OPEBs more in line with the accounting that was already required for the private sector.¹⁶

PGW's proposal in the case was to begin immediately the full funding of its annual OPEB costs.¹⁷ This would have required funding at \$21.022 million in the first year and decreasing amounts thereafter,¹⁸ for a total five-year funding of \$71.8 million.¹⁹ Additionally,

¹³ See, PGW St. 3 (Bisgaier), St. 9, 9R.

¹⁴ Settlement, ¶¶ 19 to 20.

¹⁵ PGW St. 2R, at 20.

¹⁶ PGW St. 2R, at 20-21. GASB 45 was issued to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governmental entities incur when they provide OPEBs as part of the compensation for services rendered by their employees. Under GASB 45, governmental entities, including PGW, follow an actuarial approach that entails paying an amount that is expected to be sufficient, if invested now, to finance the OPEB benefits of employees after they are no longer working for the governmental entity. This approach is used in FAS 106 and is commonly followed for determining pension contributions. See, PGW St. 4 (Kikla).

¹⁷ See, PGW St. 4.

¹⁸ The originally proposed funding levels for the UAAL are as follows: Year 1: \$21.5M; Year 2: \$18M; Year 3: \$14.3M; Year 4: \$11M; Year 5: \$7M (Exhibit SMK-5).

PGW originally proposed to amortize the existing \$105.1 million net OPEB obligation (the accrued expense that PGW had previously booked but had not funded or recovered in rates) over five years, or \$21.02 million per year.²⁰ PGW's actuarial expert explained that, by funding, its unfunded accrued liability PGW would be permitted to earn higher investment returns (since the funds are not held internally in general PGW assets), thereby permitting PGW to use a higher discount rate for determining plan liabilities.²¹ Funding also had the advantage of ameliorating PGW's debt to total capitalization ratio, as PGW would no longer be required to use its existing income to fund booked accruals.²² The two funding proposals accounted for PGW's proposed \$42.5 million rate increase request.

While the parties generally supported PGW's proposal to fund its OPEB obligation, they proposed that the obligation be funded on a more gradual basis.²³

Under the Settlement, PGW will be authorized to make a uniform annual contribution of \$15 million for Unfunded Actuarial Accrued Liability ("UAAL") in the first five years,²⁴ for a total of \$75 million. After this five year period, OPEB funding would be made at the amount required for full funding as determined by an actuarial study. The use of the Settlement's uniform funding approach results in more uniform rates and creates a reasonable transition

¹⁹ Exhibit SMK-5.

²⁰ PGW St. 4 at 8; Exhibit SMK-5.

²¹ PGW St. 4 at 7.

²² PGW St. 2 at 12. With funding, PGW's debt to total capitalization ratio was projected to improve from 82% debt to 80%, reducing to 61% in five years. *Id.*

²³ *See*, OCA St. 3 at 6 (Catlin); OTS St. 1 at 37 (Morrissey).

²⁴ Settlement, ¶ 19.

period from “pay-as-you-go” funding to the full funding of OPEBs.²⁵ In fact, the funding PGW’s OPEB obligations in the manner proposed by the Settlement would reduce the present value of the UAAL in a manner similar to PGW’s original proposal. Under the Settlement’s uniform funding approach, ratepayers would save approximately \$188 million (reducing the present value liability to approximately \$465,658 million from \$653,753 million).²⁶ This compares favorably to the projected savings of \$200 million²⁷ under PGW’s original proposal for immediate full funding. By way of further comparison, it should be noted that the Settlement OPEB funding proposal is projected to result in a UAAL of \$436 million in FY 2016. *See*, Appendix “B,” Verified Statement of Samuel Kikla (hereinafter “Kikla VS”) Without funding, PGW’s UAAL in FY 2016 was projected to be \$731 million.²⁸

The Settlement also changes the amortization period for the Net OPEB Obligation compared to PGW’s original proposal. Under the Settlement, the Net OPEB Obligation will be amortized over a thirty year period.²⁹ With the thirty year amortization, \$3.503 million is required annually. As noted, originally, PGW proposed to amortize the Net OPEB Obligation over a five year period, which would have required \$21.022 million annually.³⁰ For comparison,

²⁵ *See* Appendix “B,” hereto (Verified Statement of Samuel Kikla).

²⁶ Compare the UAAL for the FY ending on August 31, 2011 in Exhibit SMK-3 and Appendix B hereto, Exhibit SMK-6.

²⁷ Compare the UAAL for the FY ending on August 31, 2011 in Exhibit SMK-3 and Exhibit SMK-5.

²⁸ Kikla VS; Exhibit SMK-3.

²⁹ Settlement, ¶ 19; Appendix B, Kikla VS; Exhibit SMK-6.

³⁰ Exhibit SMK-5.

PGW's net OPEB Obligation in FY 2016 is projected to be \$96.6 million.³¹ Without funding, the Net OPEB Obligation was projected to be \$246 million.³²

The Settlement provides that PGW shall deposit on a monthly basis into an irrevocable trust the funds charged for that purpose through the OPEB Rider.³³ PGW shall not begin to collect the rate increase specified for OPEB funding until it files with the Commission the finalized OPEB trust and informs the PUC that the trust is finalized.³⁴ During the initial five year period of the OPEB trust, PGW has agreed to provide a quarterly report and a yearly summary to the Commission and the active parties to this case concerning deposits into the trust.³⁵ This ongoing monitoring will resolve the concerns raised by the active parties and will provide ongoing and meaningful information on PGW's progress towards funding the OPEB trust.

C. Revenue Allocation and Rate Design [Joint Petition, ¶¶ 22 to 23]

PGW believes that the revenue allocation and rate design under the Settlement³⁶ represent a fair and reasonable compromise of the various positions advanced by the parties. The settlement increase in revenues, including the rate increase for OPEB funding, (via an OPEB Rider) will be allocated to the classes such that the Residential rates will be increased by \$20

³¹ Exhibit SMK-6.

³² Exhibit SMK-3.

³³ Settlement, ¶ 20.

³⁴ Settlement, ¶ 19(a). The Trust is being finalized and will be filed as soon as it is completed.

³⁵ Settlement, ¶ 19(c).

³⁶ Settlement, ¶¶ 22-23.

million and the Commercial, Municipal, Industrial, and Public Housing Authority classes will receive net rate decreases as follows:

Commercial	(\$3,055,000)
Industrial	(\$357,000)
Municipal	(\$148,000)
PHA	(\$440,000)
Interruptible	\$0
GTS/IT	\$0

The allocation (Exhibit 1 to the Settlement) is consistent with the goal of gradualism and balances the interests of all customers.

As shown in the following table, which is also contained in Mr. Gorman’s attached Verified Statement (Appendix “C” hereto), the allocation makes progress towards unity for all rate classes:

Class	Relative Return at Present (After \$60M) Rates	Relative Return at Settlement Rates	Progress Towards Unity
Residential	0.77	0.89	51%
Commercial	1.90	1.43	52%
Industrial	2.38	1.76	45%
Municipal	1.57	1.26	54%
PHA	2.51	1.77	49%
Total	1.00	1.00	

As a result of the Settlement, Residential rates will increase by 5% on an overall basis. An average residential heating customer will see her bill increase by 2.9%. However, including recent reductions in PGW’s GCR, the average residential heating customer will see the following changes, and as compared to PGW’s charges in 2008:

<u>Date</u>	<u>Dist. Charge</u>	<u>Total GCR</u>	<u>Total Per Mcf</u>	Yearly Cost		
				<u>92 Mcf</u>	<u>% Change</u>	<u>% Change from 3-1-08</u>
3/1/2012	9.0773	8.0054	17.0827	\$1,715.61	1.9%	-5.70%
3/1/2011	9.0773	7.6611	16.7384	\$1,683.93	1.8%	-7.44%
3/1/2010	9.0773 ³⁷	7.3455	16.4228	\$1,654.90	-3.4%	-9.04%
3/1/2009	8.6320	8.4192	17.0512	\$1,712.71	-5.9%	-5.86%
3/1/2008	7.4878	10.7226	18.2104	\$1,819.36		

As it has promised in past cases, PGW intends to file rate allocation proposals in future distribution base rate cases that make continued progress towards unity for all rate classes. However, it should be noted that none of Joint Petitioners has waived their right to oppose or take other positions concerning such proposals by PGW.

D. Stay Out Provision [Joint Petition, ¶ 18]

The Settlement contains a stay-out provision whereby PGW agrees not to file for a distribution rate increase within 24 months after the Commission’s approval of the Settlement.³⁸ However, PGW will retain the ability to seek extraordinary or emergency rate relief from the Commission.³⁹ This promotes rate continuity while assuring that PGW will be able to respond in the event of unforeseen emergencies.

E. Debt Reduction [Joint Petition, ¶ 17]

The Settlement contains a number of important provisions relating to PGW’s efforts to reduce its debt obligations. Specifically, PGW has committed to principal debt repayments in the amount of \$276.6M; including \$15 million in discretionary debt repayments in FY 2015. It

³⁷ Current Distribution Charge adjusted for Settlement rate increase.

³⁸ Settlement, ¶ 18.

³⁹ *Id.*

also agreed that it will not sell new money bonds (after the issuance that is currently scheduled for approximately July, 2010) for at least 3 years.⁴⁰ Additionally, PGW has agreed to keep the Commission and the active parties informed on PGW's debt repayments. During the Stay Out (described above), PGW will provide quarterly reports to the Commission and the active parties to this case on PGW's periodic debt repayments.⁴¹ This ongoing monitoring will resolve the concerns raised by the active parties and keep the Commission and the active parties informed of PGW's progress and any changes in PGW's financial condition.

F. Swap Agreement [Joint Petition, ¶ 21]

The Settlement contains a number of important provisions related to the PGW's existing interest rate swap agreement. The termination of PGW's current swap agreement has the potential to generate a large termination fee (*e.g.*, the cost of terminating the entire swap agreement was \$70,000,000 in November 2008).⁴² Under the Settlement, PGW has agreed that no one-time termination/cancellation/unwinding or exit fee(s) will be included in any request for future rate relief.⁴³ However, this limitation does not apply to debt service costs associated with financing (*e.g.*, issuing debt) to pay any swap termination fee.⁴⁴

In addition, PGW has also agreed: 1) during the next two years, to provide to the OTS and the OCA monthly reports of the status of the swap agreement;⁴⁵ 2) for three years after the

⁴⁰ Settlement, ¶ 17(a).

⁴¹ Settlement, ¶ 17(b).

⁴² PGW St. 3 at 6.

⁴³ Settlement, ¶ 21(a).

⁴⁴ *Id.*

⁴⁵ Settlement, ¶ 21(c). *See also* Settlement, ¶ 21(b) (PGW will monitor its options with regard to the swap agreement).

approval of this Settlement, not to enter into a new swap agreement without providing at least sixty (60) days notice to the Commission and to the active parties to this proceeding.⁴⁶ This combination of advanced notice and ongoing monitoring will resolve the concerns raised by the active parties and will keep the Commission informed on the status of the swap agreement and PGW's financial condition.

G. DSM Program [Joint Petition, ¶ 24]

PGW proposed a five year Demand Side Management (“DSM”) Plan comprising seven programs modeled after successful DSM efforts from the Northeastern US, Midwestern US, California and Canada and designed according to best industry practices.⁴⁷ PGW supported the cost-effectiveness of the proposed DSM portfolio from two perspectives: total resource costs and gas system costs.⁴⁸ The Settlement authorizes PGW to implement its proposed, five year Demand Side Management (“DSM”) program, but contains modifications to the program to address concerns raised by the active parties.⁴⁹ Under the Settlement, after FY 2011, PGW shall make an annual filing with the parties and the Commission to report on the progress of its program to date and describe its operational plans and budget for the next year.⁵⁰ Parties shall have the right to submit comments to PGW's future plans and proposed budget for the upcoming year to which PGW shall respond.⁵¹ Any party may request the Commission to resolve any issue

⁴⁶ Settlement, ¶ 21(d).

⁴⁷ PGW St. No. 10 (Plunkett) at 6, 14-16; PGW Exhibits. JJP-2, JJP-3, JJP-6 at 31-46; PGW St. No. 10R at 3-6, 16; PGW Exhibits JJP-8 and JJP-9.

⁴⁸ PGW St. No. 10 at 23-25; PGW Exhibits JJP-4, JJP-5, JJP-6 at 46-59; Technical Appendix to Exh. JJP-6; PGW St. No. 11 (Chernick) at 5-14.

⁴⁹ Settlement, ¶ 24.

⁵⁰ Settlement, ¶ 24(a).

raised by the annual filing that was not resolved through the comment process.⁵² PGW also agreed to cap its annual DSM budgets in the first two years of the plan (FY 2011 and FY 2012) at 1% of its total gross intrastate operating revenues⁵³ and to make several other modifications that various parties suggested to make the program reasonable from their standpoint.⁵⁴

PGW will be permitted to establish an automatic adjustment clause mechanism to recover its costs of implementing its DSM program.⁵⁵ PGW agreed, for the first two years of the program, not to request recovery of any lost revenues that it might experience as a result of its DSM program.⁵⁶

PGW believes that, overall, the Settlement provisions regarding its DSM program reasonably resolve the issues raised associated with its proposal while achieving the important result of permitting the full program to move forward expeditiously so as to deliver substantial benefits to PGW customers.

H. Customer Responsibility Plan (“CRP”) [Joint Petition, ¶ 25]

Pursuant to a separate settlement at Docket No. M-00072021 (Order entered October 23, 2009), PGW will be filing a proposal to implement further changes to PGW’s Customer Responsibility Plan (“CRP”). That Settlement implemented changes to PGW’s Universal Service Plan pursuant to directives from the Department of Public Welfare (“DPW”) modifying

⁵¹ *Id.*

⁵² *Id.*

⁵³ Settlement, ¶ 24(b).

⁵⁴ Settlement, ¶¶ 24(c) to 24(g).

⁵⁵ Settlement, ¶ 24(g).

⁵⁶ *Id.*

the application of discounts applied to CRP participants. As a condition of this Settlement,⁵⁷ PGW agreed to include in its CRP modification filing a proposal to create a positive incentive to encourage conservation by CRP participants. This future proposal will help alleviate the concerns of some of the parties that CRP recipients were not sufficiently incentivized to conserve natural gas even though there is documentation that CRP customers participating in the CWP reduced their consumption.⁵⁸ PGW expects to file a petition proposing revisions to its existing CRP program in the next several weeks.

I. Bad Debt Offset [Joint Petition, ¶ 26]

PGW has agreed to implement a Bad Debt Expense Offset (“Offset”). This is a substantial concession by PGW. Under the Settlement, PGW shall offset incremental CRP credit amounts and pre-program arrearages by 7.1% on a monthly basis.⁵⁹ The Offset shall be applied to the CRP credit associated with incremental CRP participants over 84,000 participants, with the level reset in each distribution base rate case.⁶⁰ This Offset will serve to adjust PGW’s overall bad debt expense recovery to reflect the positive effect on Company bad debt expense that appears to accrue when a low income customer moves from paying PGW’s regular tariff charges to the CRP rate.

⁵⁷ Settlement, ¶ 25.

⁵⁸ PGW St. No. 10R at 7-14 [discussing “Impact Evaluation of Philadelphia Gas Works’ Conservation Works Program Calendar Year 2006 and Comprehensive Treatment Pilot”, November 19, 2008 (“Blasnik Report”)]; PGW Exh. JJP-10 [“Long Term Study of Pennsylvania’s Low Income Usage Reduction Program: Results of Analyses and Discussions”, Consumer Services Information System Project, Penn State University, January 2009 (“Shingler Report”)].

⁵⁹ Settlement, ¶ 26.

⁶⁰ *Id.*

J. Employee Benefit Expenses [Joint Petition, ¶ 27]

PGW has worked extremely hard to reduce the overall compensation and benefits costs that it incurs, which accrues, 100% to the benefit of ratepayers.⁶¹ PGW intends to continue these efforts. Under the Settlement, at the time of filing its next distribution base rate case, PGW will report on its efforts to control the claimed employee benefit expenses so as to continue providing employee benefits that do not unduly burden PGW and its ratepayers.⁶² Such report must include documentary evidence of PGW's efforts including the measures investigated.⁶³ This will provide meaningful information to the Commission and stakeholders on PGW employee benefits.

K. Tariff Rule on Meter Relocation [Joint Petition, ¶ 28]

PGW proposed a tariff revision to provide that meters may be relocated outside of a building at the expense of the unauthorized user in instances of theft.⁶⁴ TURN, *et al.*, opposed this tariff revision claiming that the revision was too broad.⁶⁵

Under the Settlement, PGW will amend its tariff language to address the concerns of TURN, *et al.* If PGW discovers that the meter has been tampered with, interfered with or bypassed two times within a twelve month period, PGW may, in its sole judgment and where physically feasible, elect to move the meter from inside the building to an outside, above ground meter location and may charge the Customer being supplied through such equipment the labor

⁶¹ PGW St. 12 at 4-5.

⁶² Settlement, ¶ 27.

⁶³ *Id.*

⁶⁴ PGW St. 6, at 6-7.

⁶⁵ TURN, *et al.*, St. 1, at 7, 39-48.

costs of moving the meter.⁶⁶ (A customer retains the right to file a complaint with the Commission to dispute PGW's determination.) With this change in its tariff, PGW would have an improved ability to both ensure public safety and block efforts to steal utility service. Thus, the change adopted in the Settlement is reasonable and fully supported by the record.

L. Tariff Rule on Establishing Prior Occupancy [Joint Petition, ¶ 29]

PGW proposed a tariff revision to establish methods for proving prior occupancy (in addition to those specifically identified in Chapter 14) because PGW is frequently faced with new applicants for residential service who appear to have lived for some time at the premises for which service has been requested and are attempting to avoid responsibility for the arrearage, at those premises, or to assist another occupant in avoiding gas debt liability by applying for service as a new applicant.⁶⁷

TURN, *et al.*, opposed this tariff revision, claiming that these changes could erect a barrier to Applicants seeking to obtain a life-essential service.⁶⁸

Under the Settlement, when an Applicant is a person who resided at the same premises for which application for service is requested, the Company may require payment of the portion of the outstanding balances which accrued during the time that the Applicant resided at those premises.⁶⁹ (The customer or applicant has the right to file a complaint with the Commission disputing PGW's determination.) PGW may establish that an applicant previously resided at those premises through the use of any of the following:

⁶⁶ Settlement, ¶ 28.

⁶⁷ PGW St. 6, at 2-6.

⁶⁸ TURN, *et al.*, St. 1, at 6-7, 27-39, 60.

⁶⁹ Settlement, ¶ 29.

- Mortgage, Deed or Lease Information
- Commercially Available Consumer Credit Reporting Service information
- Driver's License or PennDOT Identification Card

PGW anticipates that this tariff change will strengthen PGW's ability to combat this problem. This result is reasonable and in the best interest of PGW's ratepayers because it is unfair to require other customers to pay for an occupant's use of service at a premises when the occupant applies for service for that premises and there is clear evidence that the Applicant had been living at the location for which service is requested. Thus, the change adopted in the Settlement is reasonable and fully supported by the record.

M. Collection Issues [Joint Petition, ¶¶ 30 to 31]

The Settlement contains a number of important provisions related to collection issues in response to expressed concerns of TURN, *et al.*⁷⁰ Specifically, PGW agreed to waive the collection of a security deposit from a Level 1 income non-CRP applicant.⁷¹ PGW also agreed that an applicant or customer who is no longer eligible for CRP will be offered one additional Payment Arrangement by PGW, regardless of the customer or applicant's prior payment agreement history.⁷² These changes will enhance the ability of customers to comply with payment agreements and to maintain continuous service, and thus, are reasonable.

N. Competitive Issues [Joint Petition, ¶¶ 32 to 33]

Although competitive suppliers now provide 92% of PGW's interruptible load,⁷³ PGW believes that the Settlement will further enhance retail competition. Under the Settlement, PGW

⁷⁰ See, TURN, *et al.*, St. 1 (Geller); TURN, *et al.*, St. 1-SR, at 18-21.

⁷¹ Settlement, ¶ 30.

⁷² Settlement, ¶ 31.

⁷³ PGW St. No. 13 (Moser) at 4.

agreed to make changes in the imbalance management rules to: (1) increase the tolerance for daily imbalances; (2) increase the number of data points used to calculate monthly imbalances; (3) eliminate the carryover of monthly imbalances; and (4) address the use of inaccurate or modified data on PGW's electronic bulletin board (EBB) for the monthly imbalance penalty calculation.⁷⁴ PGW will also convene a collaborative with the purpose of identifying the systems (*e.g.*, EDI) and billing improvements (*e.g.*, utility consolidated billing) that PGW needs to make in order to implement a retail Purchase of Receivables (POR) Program, as well as a time line for implementing the necessary systems and billing changes.⁷⁵ The collaborative will give PGW and the other active parties time to thoughtfully evaluate the implementation and cost of necessary systems and billing changes. As a whole, these steps will encourage the entry of new suppliers in the market and will support existing suppliers in the market.

O. Compliance Tariff [Joint Petition, ¶ 34]

PGW has attached proposed tariff modifications (as Exhibit 3 to the Settlement) and a proof of revenues (as Exhibit 4 hereto), for approval by the ALJ and the Commission and to effectuate the provisions of the Settlement.

III. CONCLUSION

The Settlement provides a reasonable means of resolving all of the issues raised by the active parties in this proceeding. It also reduces the administrative burden on the Commission and the litigation costs of all of the active parties. Accordingly, for the reasons set for the above

⁷⁴ Settlement, ¶ 33; *See also*, Joint Petition, at Exhibit 2.

⁷⁵ Settlement, ¶ 32.

and in the Joint Petition, PGW submits that the Settlement is in the public interest and should be approved without modification.

PGW respectfully requests the ALJ and the Commission:

- a) expeditiously review and approve the Settlement, without modification, in order that the rates can be implemented as soon as possible;
- b) Mark the complaints of the Parties to this Settlement closed;
- c) After providing appropriate notice and an opportunity to be heard, dismiss or mark closed the complaints filed by consumers filed in response to PGW's proposed rate increase;
- d) Take any other action deemed to be in the public interest.

Respectfully submitted,



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Philadelphia, PA 19122

Attorneys for Philadelphia Gas Works

Dated: May 19, 2010

Appendix A
To PGW Statement In Support

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	Docket No. P-2009-2097639
PHILADELPHIA GAS WORKS	:	
	:	
	:	
PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	Docket No. R-2009-2139884
PHILADELPHIA GAS WORKS	:	
	:	

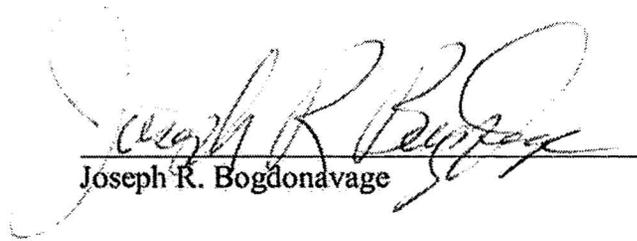
VERIFIED STATEMENT OF JOSEPH R. BOGDONAVAGE

I, Joseph R. Bogdonavage, an adult individual, hereby states as follows:

1. I am employed by Philadelphia Gas Works (“PGW” or “Company”).
2. My position is Senior Vice President – Finance. A complete description of my qualifications and experience is set forth in PGW St. 2.
3. As indicated, I previously submitted testimony on behalf of PGW in the above-mentioned proceeding (PGW St. 2, St. 2R).
4. I have had an opportunity to review the Joint Petition for Settlement (“Settlement”) filed by the Joint Petitioners. Under the Settlement, PGW be permitted to increase its level of annual distribution revenues by \$16 million. The Settlement further requires PGW to make deposits of \$18.5 million for funding its Other Post-Employment Benefits (“OPEB”) obligations.
5. The schedules attached to this Statement show the *pro forma* impact of the Settlement (i.e., the rate increase and OPEB funding levels) on PGW in the test year. These schedules also include five year, post-test year forecast.

I, Joseph R. Bogdonavage, hereby state that: (1) I am the Senior Vice President – Finance for PGW; (2) I am authorized to make this verification on behalf of PGW; and (3) the facts above set forth in the foregoing document are true and correct (or are true and correct to the best of my knowledge, information and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Dated: 5/18/10


Joseph R. Bogdonavage

PHILADELPHIA GAS WORKS
STATEMENT OF INCOME
(Dollars in Thousands)

Exhibit JRB-2C
(Settlement)
Page 1

	ACTUAL 2006-07	ACTUAL 2007-08	ESTIMATE 2008-09	BUDGET 2009-10	Pro Forma Adjustments	ADJUSTED BUDGET 2009-10	FORECAST 2010-11	FORECAST 2011-12	FORECAST 2012-13	FORECAST 2013-14	FORECAST 2014-15
OPERATING REVENUES											
Non-Heating	\$91,131	\$78,687	\$66,596	\$50,190		\$50,190	\$49,736	\$48,355	\$46,752	\$45,600	\$43,377
Gas Transport Service	12,949	19,215	25,358	30,084		30,084	32,145	34,294	35,759	36,864	37,777
Heating	732,084	723,535	828,245	742,086		742,086	791,622	820,156	835,690	856,785	867,707
Proposed Base Rate	-	-	-	-	16,000	16,000	16,000	16,000	16,000	16,000	16,000
Weather Normalization Adjustment	6,438	11,922	-	-		-	-	-	-	-	-
Unbilled Adjustment	(2,497)	(1,931)	596	(1,037)	177	(860)	931	328	166	231	(99)
Total Gas Revenues	840,105	831,428	920,795	821,323	16,177	837,500	890,434	919,133	934,367	955,480	964,762
Appliance Repair & Other Revenues	9,398	8,607	8,745	8,972		8,972	9,151	9,334	9,521	9,712	9,906
Other Operating Revenues	9,848	9,592	10,553	9,114	183	9,297	10,130	10,463	10,639	10,878	10,988
Total Other Operating Revenues	19,246	18,199	19,298	18,086	183	18,269	19,281	19,797	20,160	20,590	20,894
Total Operating Revenues	859,351	849,627	940,093	839,409	16,360	855,769	909,715	938,930	954,527	976,070	985,656
OPERATING EXPENSES											
Natural Gas	539,296	511,938	546,951	420,056		420,056	463,521	494,153	511,506	535,273	545,178
Other Raw Material	4	38	20	20		20	20	20	20	20	20
Sub-Total Fuel	539,300	511,976	546,971	420,076		420,076	463,541	494,173	511,526	535,293	545,198
CONTRIBUTION MARGINS	320,051	337,651	393,122	419,333		435,693	446,174	444,757	443,001	440,777	440,458
Gas Processing	16,240	14,436	16,584	14,297		14,297	14,721	15,743	15,857	16,495	17,212
Field Services	36,100	37,126	36,121	34,682		34,682	35,815	36,829	37,816	38,919	39,921
Distribution	17,119	17,319	20,779	19,889		19,889	20,335	20,814	21,352	21,926	22,635
Collection	8,157	8,441	9,122	9,446		9,446	9,686	9,883	10,181	10,510	10,870
Customer Service	11,783	12,305	13,470	14,410		14,410	14,673	14,963	15,282	15,657	16,064
Account Management	7,064	7,006	7,480	7,879		7,879	7,974	8,118	8,290	8,581	8,835
Bad Debt Expense	40,000	37,000	47,111	43,399	(1,385)	42,014	38,768	36,646	35,245	34,505	34,242
Marketing	2,418	2,628	3,652	4,536		4,536	4,056	4,062	4,066	4,138	4,210
Administrative & General	38,846	44,001	44,773	52,615	(1,000)	51,615	50,014	50,530	51,033	51,512	52,362
Health Insurance	36,111	34,226	37,300	41,139		41,139	46,926	51,377	56,234	61,730	67,964
Capitalized Fringe Benefits	(10,449)	(10,331)	(9,214)	(10,572)		(10,572)	(12,225)	(13,024)	(13,617)	(14,266)	(15,009)
Capitalized Administrative Charges	(7,689)	(7,180)	(6,731)	(7,181)		(7,181)	(7,618)	(8,143)	(7,714)	(7,686)	(7,674)
BT Supply Chain Initiative	-	-	-	-	(155)	(155)	2,184	758	(1,979)	(2,614)	(3,251)
Pensions	15,217	14,258	15,531	24,062		24,062	23,805	23,533	23,279	23,022	22,692
Taxes	6,730	5,677	6,609	6,875		6,875	7,019	7,165	7,313	7,455	7,603
Other Post Employment Benefits	26,421	25,834	25,952	25,223	1,682	26,905	21,386	20,145	18,582	16,631	14,237
BT Lite Costs/(Benefits)	-	-	3,000	-		-	-	-	-	-	-
Cost / Labor Savings	-	-	(1,419)	(2,503)		(2,503)	(1,957)	(1,202)	(561)	(230)	(235)
Sub-Total Other Oper. & Maintenance	244,068	242,746	270,120	278,196	(858)	277,338	275,562	278,197	280,659	286,285	292,678
Depreciation	37,166	40,021	39,280	40,409		40,409	41,907	43,506	44,858	46,088	47,188
Cost of Removal	2,542	2,847	3,000	3,000		3,000	3,000	3,000	3,000	3,000	3,000
To Clearing Accounts	(3,328)	(3,344)	(4,419)	(4,802)		(4,802)	(5,398)	(5,631)	(5,808)	(5,872)	(6,254)
Sub-Total Other Oper. & Maint. & Deprecia	280,448	282,270	307,981	316,803	(858)	315,945	315,071	319,072	322,709	329,501	336,612
TOTAL OPERATING EXPENSES	819,748	794,246	854,952	736,879	(858)	736,021	778,612	813,245	834,235	864,794	881,810
OPERATING INCOME	39,603	55,381	85,141	102,530	17,218	119,748	131,103	125,685	120,292	111,276	103,846
Other Income	13,073	15,732	9,785	9,218	3,551	12,769	12,049	12,255	11,362	11,099	10,432
INCOME BEFORE INTEREST	52,676	71,113	94,926	111,748	20,769	132,517	143,152	137,940	131,654	122,375	114,278
INTEREST											
Long-Term Debt	52,146	56,075	63,436	52,771	9,000	61,771	59,717	56,997	54,734	52,338	49,757
Other	11,411	6,812	5,864	11,558	64	11,622	14,928	15,638	15,563	15,546	15,528
Swap Termination Payment	-	-	3,791	-		-	-	-	-	-	-
AFUDC	(408)	(338)	(399)	(865)		(865)	(925)	(984)	(825)	(822)	(813)
Swap Termination Payment	-	-	-	-		-	-	-	-	-	-
Loss From Extinguishment of Debt	5,631	5,457	5,181	5,734		5,734	5,495	5,238	5,001	4,603	4,148
Total Interest	68,780	68,006	77,873	69,198	9,064	78,262	79,215	76,889	74,473	71,665	68,620
NET INCOME	(\$16,104)	\$3,107	\$17,053	\$42,550	\$11,705	\$54,255	\$63,937	\$61,051	\$57,181	\$50,710	\$45,658

**PHILADELPHIA GAS WORKS
CASHFLOW STATEMENT
(Dollars in Thousands)**

	ACTUAL 2006-07	ACTUAL 2007-08	ESTIMATE 2008-09	BUDGET 2009-10	Pro Forma Adjustments	ADJUSTED BUDGET 2009-10	FORECAST 2010-11	FORECAST 2011-12	FORECAST 2012-13	FORECAST 2013-14	FORECAST 2014-15
SOURCES											
Net Income	(\$16,104)	\$3,107	17,053	\$42,550	\$11,705	\$54,255	\$63,937	\$61,051	\$57,181	\$50,710	\$45,658
Depreciation & Amortization	44,427	46,660	45,520	46,520	64	46,584	47,805	49,113	50,152	50,967	51,595
Earnings on Restricted Funds	(6,650)	(11,851)	(177)	(4,285)	(3,801)	(8,086)	5,409	5,503	6,696	1,750	227
Elimination of Accrued Interest on Refunded Debt	728	-	-	-	-	-	-	-	-	-	-
Increased/(Decreased) Other Assets/Liabilities	27,963	25,403	28,649	22,052	(818)	21,234	(6,725)	(10,292)	(948)	(3,104)	(4,955)
Available From Operations	50,364	63,319	91,045	106,837	7,150	113,987	110,426	105,375	113,081	100,323	92,525
Funds Required for Capital	65,000	70,000	45,000	50,000	-	50,000	50,000	40,000	25,000	24,878	-
Grant Income	18,000	18,000	18,000	18,000	-	18,000	18,000	18,000	18,000	-	-
FY 2009 Actual Cash Adjustment	-	-	31,649	-	-	-	-	-	-	-	-
Release of Sinking Fund Asset	6,624	-	-	-	-	-	-	-	-	-	-
Temporary Financing	-	38,400	-	5,000	-	5,000	-	-	-	-	-
TOTAL SOURCES	139,988	189,719	185,694	179,837	7,150	186,987	178,426	163,375	156,081	125,201	92,525
USES											
Net Construction Expenditures	70,018	61,742	55,591	72,120	-	72,120	80,398	85,608	71,743	71,470	70,737
Funded Debt Reduction:											
Revenue Bonds	36,675	40,400	41,280	44,480	2,000	46,480	36,284	35,127	45,489	47,494	50,706
Revenue Bond Subordinate Debt	1,370	1,430	1,500	1,565	-	1,565	1,640	1,715	1,805	1,890	-
FY 2010 Pro Forma Expenditure Adjustment	-	-	-	-	-	-	(11,000)	-	-	-	-
Equity Bond Contribution/ Debt Reduction	-	-	1,209	-	-	-	-	-	-	-	15,000
Temporary Financing Repayment	3,400	-	90,000	-	5,000	5,000	-	-	-	-	-
City Loan Repayment/Status	2,000	43,000	-	-	-	-	-	-	-	-	-
Distribution of Earnings	18,000	18,000	18,000	18,000	-	18,000	18,000	18,000	18,000	18,000	18,000
Additions To (Reductions of) Non-Cash Working Capital	(36,476)	27,507	13,702	7,221	(3,172)	4,049	(23,770)	4,210	8,791	14,034	11,705
Cash Needs	94,987	192,079	221,282	143,386	3,828	147,214	101,552	144,660	145,828	152,888	166,148
Cash Surplus (Shortfall)	45,001	(2,360)	(35,588)	36,451	3,322	39,773	76,874	18,715	10,253	(27,687)	(73,623)
TOTAL USES	139,988	189,719	185,694	179,837	7,150	186,987	178,426	163,375	156,081	125,201	92,525
Cash - Beginning of Period	6,697	51,698	49,338	13,750	-	13,750	53,523	130,397	149,112	159,365	131,678
Cash - Surplus (Shortfall)	45,001	(2,360)	(35,588)	36,451	3,322	39,773	76,874	18,715	10,253	(27,687)	(73,623)
ENDING CASH	51,698	49,338	13,750	50,201	3,322	53,523	130,397	149,112	159,365	131,678	58,055
Outstanding Commercial Paper	51,600	90,000	-	5,000	-	-	-	-	-	-	-
City Loan Outstanding	43,000	-	-	-	-	-	-	-	-	-	-
Internally Generated Funds	-	-	-	22,120	-	22,120	30,398	45,608	46,743	46,592	70,737

**PHILADELPHIA GAS WORKS
DEBT SERVICE COVERAGE**
(Dollars in Thousands)

	ACTUAL 2006-07	ACTUAL 2007-08	ESTIMATE 2008-09	BUDGET 2009-10	Pro Forma Adjustments	ADJUSTED BUDGET 2009-10	FORECAST 2010-11	FORECAST 2011-12	FORECAST 2012-13	FORECAST 2013-14	FORECAST 2014-15
FUNDS PROVIDED											
Total Gas Revenues	\$840,105	\$831,428	\$920,795	\$821,323	16,177	837,500	\$890,434	\$919,133	\$934,367	\$955,480	\$964,762
Other Operating Revenues	19,246	18,199	19,298	18,086	183	18,269	19,281	19,797	20,160	20,590	20,894
Total Operating Revenues	859,351	849,627	940,093	839,409	16,360	855,769	909,715	938,930	954,527	976,070	985,656
Other Income Incr. / (Decr.) Restricted Funds	6,423	3,881	9,608	4,933	(250)	4,683	17,458	17,758	18,058	12,849	10,659
City Grant	18,000	18,000	18,000	18,000	-	18,000	18,000	18,000	18,000	-	-
AFUDC (Interest)	408	338	399	865	-	865	925	984	825	822	813
TOTAL FUNDS PROVIDED	884,182	871,846	968,100	863,207	16,110	879,317	946,098	975,672	991,410	989,741	997,128
FUNDS APPLIED											
Fuel Costs	539,300	511,976	546,971	420,076	-	420,076	463,541	494,173	511,526	535,293	545,198
Other Operating Costs	280,448	282,270	307,981	316,803	(858)	315,945	315,071	319,072	322,709	329,501	336,612
Total Operating Expenses	819,748	794,246	854,952	736,879	(858)	736,021	778,612	813,245	834,235	864,794	881,810
Less: Non-Cash Expenses	66,246	68,898	69,034	68,818	(14,318)	54,500	50,414	50,772	50,571	49,881	50,326
TOTAL FUNDS APPLIED	753,502	725,348	785,918	668,061	13,460	681,521	728,198	762,473	783,664	814,913	831,484
Funds Available to Cover Debt Service	130,680	146,498	182,182	195,146	2,650	197,796	217,900	213,199	207,746	174,828	165,644
1975 Ordinance Bonds Debt Service	35,359	34,225	32,313	30,101	-	30,101	30,691	32,110	30,521	28,963	27,261
Debt Service Coverage 1975 Bonds	3.70	4.28	5.64	6.48		6.57	7.10	6.64	6.81	6.04	6.08
Net Available after Prior Debt Service	95,321	112,273	149,869	165,045	2,650	167,695	187,209	181,089	177,225	145,865	138,383
Other Capital Leases	-	-	-	-	-	-	-	-	-	-	-
Net Available after Prior Capital Leases	95,321	112,273	149,869	165,045	2,650	167,695	187,209	181,089	177,225	145,865	138,383
1998 Ordinance Bonds Debt Service	47,611	59,695	70,995	65,439	-	65,439	68,290	71,040	70,034	71,290	73,686
New Proposed Bond Debt Service	-	-	-	-	11,000	11,000	-	-	-	-	-
Total New Debt Service	47,611	59,695	70,995	65,439	11,000	76,439	68,290	71,040	70,034	71,290	73,686
Debt Service Coverage 1998 Bonds	2.00	1.88	2.11	2.52		2.19	2.74	2.55	2.53	2.05	1.88
Net Available after 1998 Debt Service	47,710	52,578	78,874	99,606	(8,350)	91,256	118,919	110,049	107,191	74,575	64,697
1998 Ordinance Subordinate Bond Debt Ser	1,987	1,986	1,990	1,986	-	1,986	1,986	1,984	1,990	1,985	-
Debt Service Coverage Subordinate Bonds	24.01	26.47	39.64	50.15		45.95	59.88	55.47	53.86	37.57	-
Net Available To Service Aggregate Debt Serv	115,885	136,809	159,895	176,443	6,451	182,894	188,972	183,944	177,111	167,044	159,025
Aggregate Debt Service including TXCP	93,055	100,005	108,301	100,521	11,000	111,521	107,312	112,224	109,635	109,328	108,037
Fixed Coverage Charge	1.25	1.37	1.48	1.76	(0.12)	1.64	1.76	1.64	1.62	1.53	1.47
Fixed Coverage Charge Including \$18.0 City Fee	1.04	1.16	1.27	1.49	(0.08)	1.41	1.51	1.41	1.39	1.31	1.26

**PHILADELPHIA GAS WORKS
BALANCE SHEET
(Dollars in Thousands)**

	ACTUAL 8/31/08	ESTIMATE 8/31/09	BUDGET 8/31/10	Pro Forma Adjustments	ADJUSTED BUDGET 8/31/10	FORECAST 8/31/11	FORECAST 8/31/12	FORECAST 8/31/13	FORECAST 8/31/14	FORECAST 8/31/15
ASSETS										
Utility Plant Net	\$1,062,095	\$1,078,406	\$1,110,117		\$1,110,117	\$1,148,608	\$1,190,710	\$1,217,595	\$1,242,977	\$1,266,526
Sinking Fund Reserve	106,198	109,285	112,609	11,489	124,098	120,575	117,988	115,295	114,992	114,677
Capital Improvement Fund	111,207	63,326	14,289	139,912	154,201	98,459	55,476	26,403	-	-
Restricted Investment Workers' Compensation Fund & City of Philadelphia	2,383	2,594	2,634		2,634	2,687	2,755	2,824	2,910	2,999
Debt Reduction Funding	-	-	-		-	-	-	-	-	-
Cash	49,338	13,750	50,201	3,322	53,523	130,397	149,112	159,365	131,678	58,055
Gas	222,880	235,582	225,165	(7,486)	217,679	208,878	200,139	195,211	193,924	195,354
Other	8,714	9,150	9,425		9,425	3,550	3,450	3,350	3,250	3,150
Accrued Gas Revenues	8,145	8,741	7,704	177	7,881	8,812	9,140	9,306	9,537	9,438
Reserve for Uncollectible	(140,435)	(137,820)	(133,619)	1,385	(132,234)	(124,902)	(116,498)	(107,693)	(99,148)	(91,340)
Accounts Receivable:	99,304	115,653	108,675	(5,924)	102,751	96,338	96,231	100,174	107,563	116,602
Materials & Supplies	187,539	134,922	127,758		127,758	129,859	136,735	143,770	151,744	154,624
Other Current Assets	2,317	5,989	6,296		6,296	6,427	6,555	6,686	6,819	6,955
Deferred Debits	3,309	7,317	8,190	2,752	10,942	3,742	2,942	2,586	2,277	2,227
Unamortized Bond Issuance Expense	38,738	27,469	24,961	1,460	26,421	24,059	21,751	19,575	17,531	15,626
Unamortized Extraordinary Loss	47,902	53,742	47,391		47,391	41,896	36,659	31,658	27,054	22,906
Deferred Environmental	12,650	12,961	12,961		12,961	12,961	12,961	12,961	12,961	12,961
FY 2009 Actual Cash Adjustment		(31,649)	(31,649)	-	(31,649)	(31,649)	(31,649)	(31,649)	(31,649)	(31,649)
Other Assets	6,685	3,828	2,163		2,163	1,892	1,624	1,463	1,484	1,508
TOTAL ASSETS	1,729,665	1,597,593	1,596,596	153,011	1,749,607	1,786,251	1,799,850	1,808,706	1,788,341	1,744,017
EQUITY & LIABILITIES										
City Equity	226,408	243,461	286,011	11,705	297,716	361,653	422,704	479,885	512,595	540,253
Revenue Bonds	1,162,455	1,121,345	1,075,300	148,000	1,223,300	1,187,376	1,150,534	1,103,330	1,053,946	1,003,240
TECA Accretions	15,314	16,818	18,434		18,434	10,933	-	-	Debt Reduction	(15,000)
Unamortized Discount	(4,951)	(3,719)	(3,323)	(876)	(4,199)	(3,850)	(3,500)	(3,190)	(2,895)	(2,616)
Unamortized Premium	30,375	28,221	24,961		24,961	23,322	21,033	18,839	16,777	14,851
Long Term Debt	1,203,193	1,162,665	1,115,372	147,124	1,262,496	1,217,781	1,168,067	1,118,979	1,067,828	1,000,475
Notes Payable	90,000	-	5,000	(5,000)	-	-	-	-	-	-
City Loan	-	-	-		-	-	-	-	-	-
Accounts Payable	67,508	38,645	37,250		37,250	47,816	49,336	51,430	52,003	52,370
Customer Deposits	7,325	3,250	3,350		3,350	3,750	4,000	4,250	4,500	4,750
Other Current Liabilities	8,264	1,145	1,174		1,174	1,748	1,896	2,050	2,805	2,937
Deferred Credits	24,317	23,883	4,997		4,997	2,983	1,836	1,714	1,690	1,681
Accrued Interest	12,391	11,000	10,675		10,675	14,848	14,486	13,970	13,465	12,980
Accrued Taxes & Wages	3,430	3,021	3,315		3,315	3,380	3,482	3,585	3,689	3,734
Accrued Distribution to City	3,000	3,000	3,000		3,000	3,000	3,000	3,000	3,000	3,000
Other Liabilities	83,829	107,523	126,452	(818)	125,634	129,292	131,043	129,843	126,766	121,837
TOTAL EQUITY & LIABILITIES	1,729,665	1,597,593	1,596,596	153,011	1,749,607	1,786,251	1,799,850	1,808,706	1,788,341	1,744,017
CAPITALIZATION										
Total Capitalization	1,429,601	1,406,126	1,401,383	158,829	1,560,212	1,579,434	1,590,771	1,598,864	1,580,423	1,540,728
Total Long Term Debt	1,203,193	1,162,665	1,115,372	147,124	1,262,496	1,217,781	1,168,067	1,118,979	1,067,828	1,000,475
Debt to Equity Ratio	0.842	0.827	0.796		0.809	0.771	0.734	0.700	0.676	0.649
Capitalization Ratio	5.31	4.78	3.90		4.24	3.37	2.76	2.33	2.08	1.85
Total Capitalization Excluding Leases	1,429,601	1,406,126	1,401,383		1,560,212	1,579,434	1,590,771	1,598,864	1,580,423	1,540,728
Total Long Term Debt Excluding Leases	1,203,193	1,162,665	1,115,372		1,262,496	1,217,781	1,168,067	1,118,979	1,067,828	1,000,475
Debt to Equity Ratio	0.842	0.827	0.796		0.809	0.77	0.73	0.70	0.68	0.65
Plant in Service	1,681,313	1,732,562	1,788,153		1,788,153	1,860,273	1,940,671	2,026,279	2,098,022	2,169,492
Capital - 106&107	51,249	55,591	72,120		72,120	80,398	85,608	71,743	71,470	70,737
Total Plant	1,732,562	1,788,153	1,860,273		1,860,273	1,940,671	2,026,279	2,098,022	2,169,492	2,240,229
Accumulated Depreciation	(670,467)	(709,747)	(750,156)		(750,156)	(792,063)	(835,569)	(880,427)	(926,515)	(973,703)
Net Utility Plant	1,062,095	1,078,406	1,110,117		1,110,117	1,148,608	1,190,710	1,217,595	1,242,977	1,266,526

Appendix B
To PGW Statement In Support

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
 :
 v. : **Docket No. P-2009-2097639**
PHILADELPHIA GAS WORKS :
 :
 :

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
 :
 v. : **Docket No. R-2009-2139884**
PHILADELPHIA GAS WORKS :
 :

VERIFIED STATEMENT OF SAMUEL M. KIKLA, F.S.A.

I, Samuel M. Kikla, an adult individual, hereby states as follows:

1. I am employed by Brown & Brown Consulting as a Consulting Actuary.
2. I have served as Brown & Brown’s lead benefit consultant to Philadelphia Gas Works (“PGW”) since 2001. A complete description of my qualifications and experience is set forth in PGW St. 4.
3. As indicated, I previously submitted testimony on behalf of PGW in the above-mentioned proceeding (PGW St. 4).
4. I have had an opportunity to review the Joint Petition for Settlement (“Settlement”) filed by the Joint Petitioners. Under the Settlement, PGW’s Annual OPEB Cost (“AOC”) will be funded at the previous pay-as-you-go amount, plus a level agreed-upon in Settlement, namely, \$15 million annually for an initial five year period to fund the Unfunded Actuarial Accrued Liability (“UAAL”) and \$3.503 million annually, which represents a 30-year amortization period for the Net OPEB Obligation of \$105.1 million as of FYE 2010. Exhibit SMK-6 shows my projection of the effects of the Settlement funding levels on PGW’s OPEB liabilities for the first five years.

5. The Settlement changes the timing of full funding of PGW's annual OPEB costs. PGW proposed to immediately begin full funding of its annual OPEB costs. This would have required a total of \$21.022 million in the first year and decreasing amounts thereafter.¹ See PGW Exhibit SMK-5. Under the Settlement, PGW will use a uniform contribution of \$15 million for UAAL in the first five years. After this five year period, OPEB funding would be made at the amount required for full funding as determined by an actuarial study. The use of the Settlement's uniform funding approach creates a reasonable transition period from "pay-as-you-go" funding to the full funding of OPEBs.

6. For comparison, the Settlement OPEB funding proposal is projected to result in a UAAL of \$436 million in FY 2016. In comparison, without funding, PGW's UAAL in FY 2016 was projected to be \$731 million (PGW Exhibit SMK-3). Assuming the invested funds earn 8.0%, the settlement is expected to save ratepayers \$188 million on a present value basis over 30 years.

7. The Settlement changes the amortization period for the Net OPEB Obligation. PGW originally proposed to amortize the existing \$105 million Net OPEB Obligation over five years. Under the Settlement, the Net OPEB Obligation will be amortized over a thirty year period. See Exhibit SMK-6 (attached). With the thirty year amortization, \$3.503 million is required annually. Originally, PGW proposed to amortize the Net OPEB Obligation over a five year period, which would have required \$21.022 million annually. See Exhibit SMK-5.

8. The amount required under the Settlement can also be compared to (a) the fifteen year amortization proposed by the Office of Trial Staff ("OTS"), which would have required \$7.022 million annually (OTS St. 1, p. 37); and, (b) the twenty year amortization proposed by the

¹ The originally proposed funding levels for the UAAL are as follows: Year 1: \$21.5M; Year 2: \$18M; Year 3: \$14.3M; Year 4: \$11M; Year 5: \$7M (Exhibit SMK-5).

Office of the Consumer Advocate (“OCA”), which would have required \$5.256 million annually (OCA St. 3, p. 6).

I, Samuel M. Kikla, hereby state that: (1) I am a Consulting Actuary at Brown & Brown; (2) I am authorized to make this verification on behalf of PGW; and (3) the facts above set forth in the foregoing document are true and correct (or are true and correct to the best of my knowledge, information and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Samuel M. Kikla, F.S.A.

Dated:

PHILADELPHIA GAS WORKS POSTRETIREMENT WELFARE PLAN

Projection of GASB 45 Costs and Other Items Assuming PGW Partially Funds the AOC beginning fiscal year ending August 31, 2011

FISCAL YEAR ENDING AUGUST 31:	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarial Accrued Liability (AAL), BOY	557,944	573,734	591,599	635,792	465,658	482,888	500,119	517,104	533,569	549,184
Interest on AAL	27,897	28,687	29,580	31,790	37,253	38,631	40,010	41,368	42,686	43,935
Normal Cost with Interest	7,179	7,915	8,311	8,793	5,297	5,721	6,179	6,673	7,207	7,784
Benefit Payments	(18,816)	(18,280)	(20,057)	(22,070)	(24,346)	(26,078)	(28,081)	(30,362)	(32,960)	(35,782)
Interest on Benefit Payments	(470)	(457)	(501)	(552)	(974)	(1,043)	(1,123)	(1,214)	(1,318)	(1,431)
Actuarial (Gain)/Loss During Year	0	0	26,860	(188,095) *	0	0	0	0	0	0
AAL, EOY	573,734	591,599	635,792	465,658	482,888	500,119	517,104	533,569	549,184	563,690
Market Value of Assets, BOY	0	0	0	0	0	19,240	40,019	62,461	86,698	112,874
Trust Fund Contributions (\$18.5 Million)	0	0	0	0	18,500	18,500	18,500	18,500	18,500	18,500
Contributions (Pay-As-You-Go)	18,816	18,280	20,057	22,070	24,346	26,078	28,081	30,362	32,960	35,782
Benefit Payments	(18,816)	(18,280)	(20,057)	(22,070)	(24,346)	(26,078)	(28,081)	(30,362)	(32,960)	(35,782)
Investment Income	0	0	0	0	740	2,279	3,942	5,737	7,676	9,770
Market Value of Assets, EOY	0	0	0	0	19,240	40,019	62,461	86,698	112,874	141,144
UAAL	557,944	573,734	591,599	635,792	465,658	463,648	460,100	454,643	446,871	436,310
Normal Cost with Interest	7,179	7,915	8,311	8,793	5,297	5,721	6,179	6,673	7,207	7,784
Amortization of UAAL	37,322	37,322	38,484	41,359	41,363	41,551	41,634	41,576	41,339	40,873
Annual Required Contribution (ARC)	44,501	45,237	46,795	50,152	46,660	47,272	47,813	48,249	48,546	48,657
Interest on Net OPEB Obligation	0	1,284	2,613	3,910	8,409	8,640	8,772	8,779	8,629	8,288
Adjustment to the ARC	0	(1,671)	(3,399)	(5,087)	(9,337)	(9,679)	(9,922)	(10,035)	(9,978)	(9,705)
Annual OPEB Cost (AOC)	44,501	44,850	46,009	48,975	45,732	46,233	46,663	46,993	47,197	47,240
Net OPEB Obligation, BOY	0	25,685	52,255	78,207	105,112	107,998	109,653	109,735	107,866	103,603
AOC	44,501	44,850	46,009	48,975	45,732	46,233	46,663	46,993	47,197	47,240
Contributions	18,816	18,280	20,057	22,070	42,846	44,578	46,581	48,862	51,460	54,282
Net OPEB Obligation, EOY	25,685	52,255	78,207	105,112	107,998	109,653	109,735	107,866	103,603	96,561

NOTES

Assumes PGW will contribute an additional \$18.5 million per year in excess of retiree actual costs beginning in the fiscal year ending August 31, 2011.

Amortization method prior to the 2010-11 fiscal year based on an open 30 year period

Amortization method changed to a closed 30 year period beginning with the 2010-11 fiscal year

Cumulative difference between AOC and employer contributions is Net OPEB Obligation and is carried as a liability on the balance sheet

Medicare Part D Retiree Drug Subsidy may be used to reduce employer contributions

Updated to reflect actual retiree costs through 8/31/09

* Change in liability at September 1, 2010 due to change in discount rate to 8.00% to reflect PGW's commitment to partially fund the AOC beginning September 1, 2010

Appendix C
To PGW Statement In Support

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
: **Docket No. P-2009-2097639**
v. :
PHILADELPHIA GAS WORKS :
:
:

PENNSYLVANIA PUBLIC UTILITY COMMISSION :
: **Docket No. R-2009-2139884**
v. :
PHILADELPHIA GAS WORKS :
:
:

VERIFIED STATEMENT OF HOWARD S. GORMAN

I, Howard S. Gorman, an adult individual, being duly sworn according to law, deposes and says that:

1. My name is Howard Gorman. I previously submitted PGW Statements 8, 8A and 8R in this proceeding. In statements 8, I presented the unbundled, fully allocated class cost of service study (the "PGW COSS") that I prepared for PGW. In statement 8A (filed on March 17, 2010) I presented a revised version of that COSS. In this Verified Statement, I present the cost of service results of the rate increase proposed in the Joint Petition For Settlement between PGW, the Office of Consumer Advocate ("OCA") the Office of Trial Staff ("OTS") the Office of Small Business Advocate ("OSBA") and several other parties.

2. The following exhibits are included with my verified statement:

- | | |
|-----------------------------|--------------------------------|
| Exhibit HSG-1 (Settlement) | Summary of Results |
| Exhibit HSG-1A (Settlement) | Total Class Allocation |
| Exhibit HSG-2 (Settlement) | Revenue Allocation- Settlement |

3. The proposed settlement term sheet specified an overall increase of \$16 million, that Residential rates will be increased by \$20 million and that the Commercial, Municipal, Industrial and Public Housing Authority (“PHA”) classes would receive rate decreases that total \$4 million.
4. The Settlement revenue allocation was computed as follows: An overall increase of \$16 million implies Income Before Interest and Surplus (i.e., Return of Rate Base) of 9.3% for PGW [Exhibit HSG-2 (Settlement), line 22]. The summary pages from the COSS run that produced these results are attached as Exhibit HSG-1 (Settlement). This is the March 17 COSS revised to reflect the Settlement revenue requirement. Next, it was computed that the \$20 million increase for Residential moves their relative rate of return from 0.77 times the current system average return of 8.0%, to 0.89 times the proposed settlement average return of 9.3% (line 22). Then, the proposed revenue allocation was developed by spreading the decrease among Commercial, Municipal, Industrial and PHA classes in accordance with the Settlement.
5. The Settlement allocation results in each class (Residential, Commercial, Municipal, Industrial and PHA) making about the same progress towards unity (ranging from 45% to 54%) [Exhibit HSG-2 (Settlement), line 29] and the two largest classes, Residential and Commercial, make virtually the same progress towards unity (51% and 52% respectively):

Class	Relative Return at Present (After \$60M) Rates	Relative Return at Settlement Rates	Progress Towards Unity
Residential	0.77	0.89	51%
Commercial	1.90	1.43	52%
Industrial	2.38	1.76	45%
Municipal	1.57	1.26	54%
PHA	2.51	1.77	49%
Interruptible Sales / GTS / IT	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

6. Exhibit HSG-2 (Settlement) (which is also attached to the Joint Petition for Settlement as Exhibit 1) relies on the Updated PGW COS filed March 17, 2010 (St. 8A). While the classes do not achieve full cost of service, and some classes would receive subsidies and others would pay subsidies, the proposed settlement revenue allocation would allow each class to make significant progress towards unity. The class whose revenues are below cost (the Residential Class) receives a greater than average rate increase (5% versus 3.1%) while all other firm rate classes receive a rate decrease from existing rates (weighted average (3.8%)).
7. The results are similar from the standpoint of both the \$60 million Extraordinary Rate increase and the \$16 million Settlement rate increase combined. Considering both increases (even though the \$60 million rate increase has already been awarded) the Residential class will receive a greater than system average rate increase (19.39% versus a system average increase of 16.55%). All other firm classes will receive lower than system average increases, averaging 8.12%.
8. This completes my verified statement.

1 I, Howard Gorman, hereby state that: (1) I am an Associate Consultant for Black
2 & Veatch Corporation; (2) I am authorized to make this verification on behalf of
3 PGW; and (3) the facts above set forth in the foregoing document are true and
4 correct (or are true and correct to the best of my knowledge, information and
5 belief) and that I expect to be able to prove the same at a hearing held in this
6 matter. I understand that the statements herein are made subject to the penalties
7 of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

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Date: 5/13/2010


Howard Gorman

Philadelphia Gas Works
Allocated Class COS Study - 2009 Settlement
Future Test Year Ended August 31, 2010 (\$000s)

SUMMARY OF RESULTS

	Total	Resid. Non-Heat RC-1	Resid. Heat RC-2	Comm. Non-Heat RC-3	Comm. Heat RC-4	Indu. Non-Heat RC-5	Indu. Heat RC-6	Muni Non-Heat RC-7	Muni Heat RC-8	PHA RC-9	Interr. Sales RC-10	GTS / IT Trans only RC-18
<u>Full tariff Revenues at Current Rates</u>												
1 Gas revenue	7,920	0	0	0	0	0	0	0	0	0	7,920	0
2 Non-gas revenue	511,161	10,489	386,613	13,142	69,030	2,092	5,643	1,672	6,205	6,336	94	9,844
3 Total full tariff revenue	519,080	10,489	386,613	13,142	69,030	2,092	5,643	1,672	6,205	6,336	8,014	9,844
4 Other revenue / Adjust.	16,400	953	15,331	(51)	(56)	(8)	(16)	(15)	(92)	(12)	41	324
5 Net revenues	535,480	11,442	401,945	13,091	68,974	2,084	5,627	1,656	6,113	6,324	8,055	10,168
6												
<u>Operating Expenses</u>												
8 Supply, Storage & Trans.	39,818	344	27,566	577	4,657	106	298	154	442	542	5,134	0
9 Other Operating expenses	300,312	14,012	239,228	6,079	26,601	788	2,071	593	1,833	1,841	952	6,314
10 Univ. Serv. & Engr. Cons.	98,834	1,283	72,477	3,017	16,337	493	1,338	501	1,902	1,487	0	0
11 Total Operating Expenses	438,964	15,639	339,270	9,674	47,594	1,386	3,708	1,248	4,176	3,870	6,086	6,314
12												
13 Income before Interest & Surplus	96,516	(4,196)	62,674	3,418	21,380	698	1,920	408	1,937	2,454	1,969	3,854
14 Interest & Surplus	115,016	3,873	86,587	2,365	13,206	324	987	391	1,391	1,164	530	4,198
15 Update 3-14: Current Revenue Over (Under)	(18,500)	(8,070)	(23,913)	1,053	8,174	374	933	17	546	1,290	1,439	(344)
16 Total Revenue Requirement	553,980	19,512	425,858	12,039	60,800	1,710	4,695	1,639	5,567	5,034	6,616	10,512
17 Revenue increase (decr.) for full cost of service	3.6%	76.9%	6.2%	(8.0%)	(11.8%)	(17.9%)	(16.5%)	(1.0%)	(8.8%)	(20.4%)	(18.0%)	3.5%
18												
19 Rate Base	1,205,020	40,581	907,174	24,777	138,363	3,394	10,339	4,098	14,571	12,193	5,552	43,979
20												
21 Return (before interest & surplus) on rate base at current rates	8.0%	(10.3%)	6.9%	13.8%	15.5%	20.6%	18.6%	10.0%	13.3%	20.1%	35.5%	8.8%
22 Relative Return	1.00	(1.29)	0.86	1.72	1.93	2.57	2.32	1.24	1.66	2.51	4.43	1.09

Philadelphia Gas Works
Allocated Class COS Study - 2009 Settlement
Future Test Year Ended August 31, 2010 (\$000s)

Exhibit HSG-1A (Settlement)
Page 1 of 6

Account Description	Account Code	Total Allocated Dollars	TOTAL Class Allocation										
			Resid. Non-Heat RC-1	Resid. Heat RC-2	Comm. Non-Heat RC-3	Comm. Heat RC-4	Indu. Non-Heat RC-5	Indu. Heat RC-6	Muni Non-Heat RC-7	Muni Heat RC-8	PHA RC-9	Interr. Sales RC-10	GTS / IT Trans only RC-18
1 I. GAS PLANT IN SERVICE													
2 A. INTANGIBLE PLANT	301-303	0	0	0	0	0	0	0	0	0	0	0	0
4 B. PRODUCTION PLANT													
5 Land and Land Rights	304	1,453	13	1,163	20	191	4	12	7	19	23	0	0
6 Structures & Impr.	305	19,287	170	15,442	270	2,542	52	164	94	253	300	0	0
7 Boiler Equipment	306	2,872	25	2,300	40	379	8	24	14	38	45	0	0
8 Other Power Equip	307	229	2	183	3	30	1	2	1	3	4	0	0
9 L.P.G. Equipment	311	1,425	13	1,141	20	188	4	12	7	19	22	0	0
10 Other Equipment	320	21,979	194	17,598	307	2,897	59	187	107	289	342	0	0
11 Subtotal-Production	304-338	47,246	417	37,827	661	6,226	127	401	230	621	735	0	0
12													
13 C. STORAGE PLANT (Mostly LNG Plant)													
14 Land and Land Rights	360	328	3	262	5	43	1	3	2	4	5	0	0
15 Structures & Impr.	361	8,381	74	6,711	117	1,105	23	71	41	110	130	0	0
16 Gas Holders	362	33,729	298	27,005	472	4,445	91	286	165	443	524	0	0
17 Purification Equip	363	251	2	201	4	33	1	2	1	3	4	0	0
18 Liquefaction Equip	364	31,084	275	24,887	435	4,096	84	264	152	408	483	0	0
19 Vaporizing Equip	365	13,503	119	10,811	189	1,779	36	115	66	177	210	0	0
20 Compressor Equip	366	16,204	143	12,973	227	2,135	44	138	79	213	252	0	0
21 Meas & Regul Equip.	367	6,220	55	4,980	87	820	17	53	30	82	97	0	0
22 Other Equipment	368	17,751	157	14,212	248	2,339	48	151	87	233	276	0	0
23 Subtotal-Storage	360-368	127,450	1,126	102,043	1,782	16,796	344	1,082	622	1,674	1,981	0	0
24													
25 E. DISTRIBUTION PLANT													
26 Land and Land Rights	374	101	1	74	2	15	0	1	1	2	1	1	3
27 Structures & Impr.	375	2,683	18	1,955	41	407	8	34	18	60	37	33	70
28 Mains	376	594,025	5,094	394,152	11,703	85,002	2,065	6,942	3,233	11,346	7,776	7,147	59,564
29 Mains- Direct Assign	376Direct	7,574	0	0	0	0	0	0	0	0	0	0	7,574
30 Compressor Sta. Equip	377	1,255	10	884	22	187	4	15	8	26	17	15	65
31 Meas & Reg Sta. Equip	378	16,623	129	11,716	293	2,481	54	202	102	349	227	205	863
32 Services	380	556,823	35,804	469,544	8,815	31,725	755	1,839	541	1,944	3,031	859	1,966
33 Meters	381	57,008	4,006	40,850	2,179	7,670	163	393	162	415	365	141	665
34 Meters Install.	382	98,585	6,928	70,643	3,768	13,264	282	679	280	718	632	243	1,150
35 House Regulators	383	1,814	129	1,686	0	0	0	0	0	0	0	0	0
36 House Regulator Install.	384	4,718	334	4,384	0	0	0	0	0	0	0	0	0
37 Indu Meas & Reg Sta. Equip	385	314	0	0	0	0	66	161	0	0	0	0	86
38 Other Equipment	387	5,670	39	4,133	86	861	18	73	38	127	79	70	147
39 Subtotal-Distribution	374-387	1,347,193	52,491	1,000,020	26,907	141,614	3,415	10,340	4,382	14,988	12,167	8,715	72,153

**Philadelphia Gas Works
 Allocated Class COS Study - 2009 Settlement
 Future Test Year Ended August 31, 2010 (\$000s)**

Exhibit HSG-1A (Settlement)
 Page 3 of 6

Account Description	Account Code	Total Allocated Dollars	TOTAL Class Allocation										Interr. Sales RC-10	GTS / IT Trans only RC-18
			Resid. Non-Heat RC-1	Resid. Heat RC-2	Comm. Non-Heat RC-3	Comm. Heat RC-4	Indu. Non-Heat RC-5	Indu. Heat RC-6	Muni Non-Heat RC-7	Muni Heat RC-8	PHA RC-9			
76	I. OPERATION & MAINTENANCE EXPENSE													
77	A. PRODUCTION EXPENSES													
78	1. Manufactured Gas Production													
79	Operations Labor	701	115	1	92	2	15	0	1	1	2	2	0	0
80	Steam Gen-Fuel	702	182	2	146	3	24	0	2	1	2	3	0	0
81	Misc. Steam Expenses	703	317	3	254	4	42	1	3	2	4	5	0	0
82	Maint Structures	706	31	0	25	0	4	0	0	0	0	0	0	0
83	Maint Boiler Equip	707	192	2	154	3	25	1	2	1	3	3	0	0
84	Maint Steam Other	708	2	0	2	0	0	0	0	0	0	0	0	0
85	Other Elec Gen	712	1,151	10	921	16	152	3	10	6	15	18	0	0
86	Steam & Elec Cr Other	734	(2,054)	(18)	(1,645)	(29)	(271)	(6)	(17)	(10)	(27)	(32)	0	0
87	Plant Protection	735	1,019	9	816	14	134	3	9	5	13	16	0	0
88	Maint. Struct & Impr	741	111	1	89	2	15	0	1	1	1	2	0	0
89	Maint Prod Equip	743	171	2	137	2	23	0	1	1	2	3	0	0
90	Subtotal-MGP	710-743	1,236	11	990	17	163	3	11	6	16	19	0	0
91														
92	2. Other Gas Supply Expenses													
93	Natural Gas Purchases	804	5,134	0	0	0	0	0	0	0	0	0	5,134	0
94	Natural Gas Oper Exp	807	25,259	346	19,550	656	3,612	108	227	73	286	401	0	0
95	Natural Gas from Stor	808	0	0	0	0	0	0	0	0	0	0	0	0
96	Gas-Other Util Ops	812	(17,612)	(241)	(13,631)	(458)	(2,518)	(75)	(158)	(51)	(199)	(280)	0	0
97	LNG-Other Util Ops	812LNG	(11,549)	(102)	(9,247)	(162)	(1,522)	(31)	(98)	(56)	(152)	(180)	0	0
98	LNG Oper Exp	813	14,926	132	11,951	209	1,967	40	127	73	196	232	0	0
99	Subtotal-Prod exp	710-813	17,395	146	9,613	263	1,702	45	108	45	147	193	5,134	0
100														
101	B. NATURAL GAS STORAGE, TERMINALING & PROCESSING EXPENSES													
102	LNG Oper Exp Admin	840	946	8	757	13	125	3	8	5	12	15	0	0
103	Training	841	2,107	19	1,687	29	278	6	18	10	28	33	0	0
104	Fuel- LNG Power	842	798	7	639	11	105	2	7	4	10	12	0	0
105	Maint Exp- Admin	843	5,152	46	4,125	72	679	14	44	25	68	80	0	0
106	Oper Exp Admin	850	777	7	622	11	102	2	7	4	10	12	0	0
107	Subtotal-Storage	840-850	9,780	86	7,830	137	1,289	26	83	48	128	152	0	0

Philadelphia Gas Works
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 Future Test Year Ended August 31, 2010 (\$000s)

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Account Description	Account Code	Total Allocated Dollars	TOTAL Class Allocation										
			Resid. Non-Heat RC-1	Resid. Heat RC-2	Comm. Non-Heat RC-3	Comm. Heat RC-4	Indu. Non-Heat RC-5	Indu. Heat RC-6	Muni Non-Heat RC-7	Muni Heat RC-8	PHA RC-9	Interr. Sales RC-10	GTS / IT Trans only RC-18
109 D. DISTRIBUTION EXPENSES													
110 Oper Supv & Eng	870	726	22	532	14	83	2	6	3	9	7	6	42
111 Gas Control	871	1,278	17	974	33	180	5	11	4	14	20	19	0
112 Mains and Services Exp	874	3,096	110	2,324	55	314	8	24	10	36	29	22	166
113 Natural Gas Oper Exp	875	1,144	9	806	20	171	4	14	7	24	16	14	59
114 Meas/Reg Exp- CG Sta	877	401	3	282	7	60	1	5	2	8	5	5	21
115 Meter & House Regulator E:	878	16,116	1,133	11,686	591	2,081	44	107	44	113	99	38	180
116 Cust. Install- Gas Bus	879	4,895	348	3,549	189	666	14	34	14	36	32	12	0
117 PLP Costs	879PLP	4,376	308	4,042	0	0	0	0	0	0	26	0	0
118 Other expenses	880	10,490	400	7,819	203	1,089	26	80	34	116	95	68	560
119 Distribution Rents	881	7	0	5	0	1	0	0	0	0	0	0	0
120 Maint Supv & Eng	885	981	29	719	19	112	3	8	4	13	10	8	57
121 Maint. Mains	887	7,164	61	4,754	141	1,025	25	84	39	137	94	86	718
122 Maint. Meas/Reg. Sta.-Gen.	889	1,030	8	726	18	154	3	13	6	22	14	13	54
123 Natural Gas Equip	891	428	6	326	11	60	2	4	1	5	7	6	0
124 Maint. of Services	892	2,280	147	1,922	36	130	3	8	2	8	12	4	8
125 Maint. Meters & House Reg:	893	3,251	228	2,357	119	420	9	21	9	23	20	8	36
126 Subtotal-Distribution exp	870-893	57,662	2,830	42,824	1,458	6,545	149	418	179	563	486	308	1,902
127 Total - OPERATION & MAINTENAN		84,837	3,062	60,267	1,858	9,536	221	609	271	839	831	5,442	1,902
128													
129 II. CUSTOMER ACCOUNT													
130 Customer Serv-Adm	901	411	21	348	8	30	1	1	0	0	2	0	0
131 Meter Reading exp	902	811	32	660	16	76	2	5	2	6	8	4	0
132 Cust Records & Coll exp	903	29,630	1,484	25,084	552	2,200	44	99	12	20	110	4	21
133 Uncollectible Acct	904	34,917	782	33,664	67	363	13	27	0	0	0	0	0
134 Uncollectible Acct CRP	904CRP	8,482	110	6,220	259	1,402	42	115	43	163	128	0	0
135 Total - CUSTOMER ACCOUNTS EX		74,251	2,429	65,976	901	4,072	102	248	56	189	247	8	22
136													
137 III. CUSTOMER SERVICE & INFORMATIONAL EXPENSES													
138 Cust Assist-Marketing	908	6,011	354	4,640	29	105	179	437	2	3	30	0	232
139 CAP Costs	908CAP	2,330	30	1,709	71	385	12	32	12	45	35	0	0
140 CRP Shortfall	480CRP	77,492	1,006	56,826	2,366	12,809	386	1,049	392	1,491	1,166	0	0
141 Senior Discounts	480Sen	10,530	137	7,722	321	1,740	53	143	53	203	158	0	0
142 Total - CUSTOMER SERVICE & INF		96,362	1,527	70,896	2,788	15,040	630	1,660	459	1,742	1,389	0	232
143													
144 Total - CUST. ACCTS, SERVICES &		170,613	3,956	136,872	3,689	19,112	732	1,908	516	1,931	1,636	8	254
145													

**Philadelphia Gas Works
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Account Description	Account Code	Total Allocated Dollars	TOTAL Class Allocation										PHA RC-9	Interr. Sales RC-10	GTS / IT Trans only RC-18
			Resid. Non-Heat RC-1	Resid. Heat RC-2	Comm. Non-Heat RC-3	Comm. Heat RC-4	Indu. Non-Heat RC-5	Indu. Heat RC-6	Muni Non-Heat RC-7	Muni Heat RC-8					
182	VIL TAXES OTHER THAN INCOME TAXES														
183	Payroll Taxes	408	6,875	329	5,344	158	713	16	44	17	49	51	21	134	
184															
185	TOTAL EXPENSES		438,964	15,639	339,270	9,674	47,594	1,386	3,708	1,248	4,176	3,870	6,086	6,314	
186															
187	V. REVENUES														
188	Distribution Revenue	480-483	389,278	9,034	304,453	9,721	50,511	1,533	4,126	1,104	4,050	4,650	94	0	
189	GCR Revenue	80-483GC	0	0	0	0	0	0	0	0	0	0	0	0	
190	Interruptible Sales	480-483Int	7,920	0	0	0	0	0	0	0	0	0	7,920	0	
191	USEC Revenue	80-483USC	110,827	1,439	81,271	3,384	18,319	553	1,501	561	2,132	1,667	0	0	
192	REC Revenue	80-483RE	1,212	16	889	37	200	6	16	6	23	18	0	0	
193	Finance Chge	487	8,780	181	7,785	115	621	25	53	0	0	0	0	0	
194	Misc Discounts	488	199	5	156	5	26	1	2	1	2	2	0	0	
195	GTS / IT	489	9,844	0	0	0	0	0	0	0	0	0	0	9,844	
196	Gas Revenues- Adj	495	(902)	(12)	(698)	(23)	(129)	(4)	(8)	(3)	(10)	(14)	0	0	
197	Revenue Adjustments	495Adj	(13,668)	(179)	(10,099)	(409)	(2,218)	(67)	(177)	(65)	(248)	(207)	0	0	
198	Subtotal Gas Revenues, n		513,489	10,483	383,757	12,830	67,331	2,047	5,514	1,605	5,949	6,117	8,014	9,844	
199															
200	Bill Paid Turn Ons & Dig Uj		1,972	131	1,722	22	78	1	2	1	2	11	1	1	
201	Appliance Service, Other	879Rev	7,000	493	6,465	0	0	0	0	0	0	42	0	0	
202	Subtotal Other Oper Rev		8,972	624	8,187	22	78	1	2	1	2	53	1	1	
203															
204	Total Operating Revenues		522,461	11,107	391,944	12,851	67,408	2,048	5,516	1,606	5,951	6,170	8,014	9,845	
205															
206	Interest Income	418	8,844	298	6,658	182	1,015	25	76	30	107	89	41	323	
207	Capacity Release Credits	421	4,175	37	3,343	58	550	11	35	20	55	65	0	0	
208	Total Non-Oper Income		13,019	335	10,001	240	1,566	36	111	50	162	154	41	323	
209															
210	Total Revenue		535,480	11,442	401,945	13,091	68,974	2,084	5,627	1,656	6,113	6,324	8,055	10,168	
211															
212	Income before Interest & Surplus		96,516	(4,196)	62,674	3,418	21,380	698	1,920	408	1,937	2,454	1,969	3,854	
213															
214	Interest-Long-term debt	427	79,127	2,665	59,569	1,627	9,086	223	679	269	957	801	365	2,888	
215	AFUDC	432	(865)	(29)	(651)	(18)	(99)	(2)	(7)	(3)	(10)	(9)	(4)	(32)	
216	Surplus Requirement		36,754	1,238	27,669	756	4,220	104	315	125	444	372	169	1,341	
217	Total Interest & Surplus		115,016	3,873	86,587	2,365	13,206	324	987	391	1,391	1,164	530	4,198	
218	Other	436	0	0	0	0	0	0	0	0	0	0	0	0	
219	Total Interest & Surplus,		115,016	3,873	86,587	2,365	13,206	324	987	391	1,391	1,164	530	4,198	
220															
221	Over (Under) Total Requirements		(18,500)	(8,070)	(23,913)	1,053	8,174	374	933	17	546	1,290	1,439	(344)	

