COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON PUBLIC PROPERTY AND PUBLIC WORKS

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Room 401, City Hall
Philadelphia, Pennsylvania
Thursday, February 8, 2001
2:40 p.m.

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RESOLUTION 000773 - Resolution authorizing City Council's Public Property Committee to hold public hearings on the potential benefits and drawbacks to the City of selling the Philadelphia Gas Works.

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PRESENT:
COUNCILMAN JAMES F. KENNEY, Chairman
COUNCILWOMAN JANNIE L. BLACKWELL
COUNCILMAN DARRELL CLARKE
COUNCILMAN DAVID COHEN
COUNCILMAN MICHAEL A. NUTTER
COUNCILMAN FRANK RIZZO

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I N D E X

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COUNCILMAN KENNEY: Good afternoon, Ladies and Gentlemen. The Council Committee on Public Property and Public Works is now in session. Due to the fact that this a hearing on a resolution, the hearing is purely informational in an effort to gather information from various segments of the community as it relates to the potential sale of PGW, the benefits and drawbacks to such a process and strategy. There is not a need for a quorum. Councilmembers have told me -- a few are in other meetings but will be returning as the testimony proceeds. So in the interest of time and with thanks to people in the audience for waiting, we're only about 11 minutes late, 12 minutes late. Thank you for your patience.

This is a committee hearing on Resolution No. 000773, authorizing City Council's Public Property Committee to hold public hearings on the potential benefits and drawbacks to the City of selling the Philadelphia Gas Works.

I would like to read the body of the resolution because I think it does layout at least my particular view on what has gone in the City relative to PGW for the past 30 years.

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Whereas, the Philadelphia Gas Works recent 4 percent rate increase for the typical homeowner will make their rates the highest in the country; and

Whereas, corporate patronage continues to take too large of a share of the Gas Works limited resources with millions of dollars over the last distributed to law firms and other politically connected companies without requiring competitive bidding for a single contract; and

Whereas, the Gas Works management still has not resolved the many problems with their computerized billing system, while only last year executives were abusing their expense accounts at the expense of the customers; and

Whereas, the future of the Gas Works looks even bleaker since the recent rate increases are merely "interim" and are likely to continue to increase due to future warm winters, enormous debt, increasing the worse bond ratings and deregulation while the City has become dependent upon the annual $18 million Gas Works contribution; and

Whereas, mismanagement, poor service, patronage, and the lack of accountability at the Gas

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Works have a long history going back to when the City first got into the gas business in 1835, yet despite many different reforms and structures over the years, the City has repeatedly demonstrated it is not capable of running a gas company effectively.

Whereas, the possibility of selling the Gas Works to a private corporation could guarantee rates and jobs and provide improved management and service to its half million customers while relieving the utility of choking debt and continuing some financial payment to the City.

Now, therefore, be it resolved by the Council of the City of Philadelphia that authority be given the Public Property Committee to hold public hearings on potential benefits and drawbacks to the City of selling the Philadelphia Gas Works.

The purpose of this hearing, despite my own personal opinion on this issue which has been well publicized, is to gather information, both positive and negative as it relates to the ongoing disposition of this public utility. The City of Philadelphia runs another utility, and that is the Water Department, and does so in a very capable manner; it collects its bills and delivers good quality water to the citizens of Philadelphia. The problem that the Water Department does not face that the gas company does face is in the northeast part of the United States, water is not a commodity in short supply. Part of difference between the water company and the Gas Works is that the Gas Works, due deregulation and other factors int he gas production industry, needs to be responsive in a business-like way to the changes, dynamic changes that happen in the gas purchasing business and the gas distribution business. In my opinion, because of the overlapping governance that the PGW must exist under, PFMC, the Gas Commission, the PUC, and the long history of political interference and political activity within that utility makes it almost impossible for this business to respond in an economically responsible way to the changes that almost happen daily in the gas production, gas purchase and gas distribution business.

So we would like to hear from everyone in the community who has an opinion on this. We don't believe that any opinion is right or wrong. What we would like to do is to be able to gather and put together a body of knowledge and information and opinion that could act as a City's strategic guide to what should be done in the very near future.

I would like to read a letter at this point from Joyce Wilkerson who is the Chief of Staff for the Mayor. They have declined to testify here today but at my request have offered a written letter to be read into the record, which I will do now.

"Dear Councilman Kenney: You have asked the Administration and the management of PGW to provide testimony on February 8, 2001 regarding the possible sale of PGW. Respectfully, we must decline your invitation. Recent comments by the Administration concerning the question of a sale have resulted in enormous anxiety for PGW employees, concern within the financial community, and among PGW's business partners.

"As the Mayor stated in his Budge Message to City Council on January 23, 2001, the City is considering the sale of the Philadelphia Gas Works. It is one of several options available to improve the quality and cost of natural gas service to the residents and businesses of Philadelphia.

"Well-operated, PGW might be of benefit

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to the City. City residents could receive lower gas rates that reflect the benefit of the City's tax-exempt status and its ownership of the largest LNG facility on the east coast. Unfortunately, in recent years, that has not been the experience. Instead, as a result of a number of factors, in recent months, PGW has become dangerously reliant on the City for financial assistance. Since November 2000, the city has had to loan PGW $45 million to enable it to address its cash flow problems as the price of gas soared 400 percent.

"Even if PGW were well run, however, it is unclear PGW can survive in a deregulated environment. With the participation of the PGW Recovery Collaborative Team comprised of representatives of City Council and the Philadelphia Gas Commission, the City will consider not only the myriad issues involved in a sale, but also the feasibility of permanent management both by qualified executives and a management company. The City has committed to complete its analysis and search by no later than this fall. Once the analysis is complete, the Administration will engage in a public process, before final decisions are

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made.

"Again, thank you for your invitation.

"Sincerely, Joyce S. Wilkerson, Chief of Staff"

We thank the Mayor's Chief of Staff for their input in the hearing.

We'd now like to call to the witness table Mr. John B. Kelly from Public Financial Management.

(Witness come forward.)

COUNCILMAN KENNEY: Good afternoon, Mr. Kelly. Please identify yourself for the record and proceed with your testimony.

MR. KELLY: Good afternoon. My name is John Kelly. I'm with Public Financial Management, which is a municipal consulting firm located here in Philadelphia.

Chairman, if it's all right, I'd like to read an opening statement and then open up to questions.

COUNCILMAN KENNEY: Please proceed.

MR. KELLY: Thank you.

In 1998, the City of Philadelphia hired Public Financial Management to research the issues surrounding the sale of PGW. This report was completed in January 1999.

Our direction from the City was to address the sale of PGW in terms of what price it might bring in the marketplace, what costs are involved in selling it and the ability of the sale to achieve the following four goals that have, for the most part, been achieved under City ownership. The four goals include the maintenance of the value of the City's 18 million contribution to provide competitive rates, maintain the social programs, and to maintain job levels.

Because the City wanted an independent view and did not want to start rumors that a sale was imminent, we were prohibited from discussing the issues with PGW staff and with any Wall Street-type financial professionals. Prior to publishing the report, we were allowed one interview with PGW executive to get its view on the ability to reduce costs at PGW. Therefore, our report was somewhat academic in nature and is based on publicly available information. The conclusion of our report was that financial limitations of what buyers would be willing to pay for PGW and the taxes and the return to shareholders that would flow out of PGW under of public ownership would it make it impossible for PGW -- excuse me, under private ownership. That would make it possible for PGW under private ownership to achieve the four goals laid out by the City at that time.

Under private ownership, either rates would be higher or there would be significant cuts in jobs or the social programs or the City would have to sell it at price that would not compensate it for the loss of the $18 million dividend.

Another way to look at it is that if the City were to make the policy decision to reduce employment at PGW, reduce social programs, or to cut its divide. Under City-ownership, these choices would accrue to the benefit of the ratepayers in terms of either lower rates or better service and infrastructure.

We recommended at that time that some of the benefits of privatization could be achieved through contract operations with private firms. One possible model is the UGI model under which PGW has managed for many years prior to the formation of PFMC. Or you could experiment with smaller or even

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larger scale contract operations. Efficiencies gained through these could enable the City to continue to achieve the four goals laid out and to keep benefits from foregoing any of these here within the City.

Since this report was produced in January of '99, many things have changed. Deregulation of the retail gas industry in Pennsylvania, PUC oversight of PGW, the rapid increase of cost of natural gas, among others. There have also been changes that directly affect our findings in the report, including the repeal of the State Gross Receipts Tax, increase in PGW's debt and a decrease in the cost of the feasance of the tax-exempt debt beyond the face value of the debt itself.

Going a little beyond the scope of the January '99 report, I'd like to make a few comments that may help in your deliberations.

First off, PGW bonds are revenue bonds. They are not debt of the City. There's no general obligation backing these bonds. The City has no obligation to pay PGW bonds if PGW defaults.

Second point is that the current crisis

affecting rates and cash flow for PGW is a nationwide crisis caused by precedented increases in natural gas prices. These costs are being passed on to ratepayers throughout the Commonwealth and throughout the country.

The third point I'd like to make is that it is in my opinion that deliberations should not focus on the immediate crisis, which will pass with time, but the longer term problems of PGW. The longer-term problems at PGW is the structure of its governance. This is not a criticism of the individuals involved, but rather the structure itself which has been in place for the past 30 years.

How can we Philadelphians expect PGW to be well-managed when the governance structure has left PGW with no management for long spells at a time and interim management for many other periods. In essence PGW is what we've asked it be, no more, no less.

Certainly, the sale of PGW is one solution to the governance problem. But there are also other ways to change PGW's governance that should also be considered.

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The City runs one of the finest water utilities in the country. Perhaps PGW could be restructured to resemble the governance of the Water Department. Many municipally-own utilities are structured, including gas utilities, are structured as departments of the City.

Another common structure is that of an independent authority. These options should also be explored and considered as solutions to the governance problem.

PFN and I are neither pro nor con to the sale of PGW. We have advised municipal clients that have privatized, and we have advised others that have municipalized various utilities. Each situation is unique and deserves its own consideration. Our role in writing the 99 report was to provide the City with information about the financial context of a sale. If my comments today may appear to lean away from a sale, it is only because there appears to be stampede toward sale under the assumption that private companies always do a better job than, quote, inefficient public bureaucracies.

Well, this is a popular view that is not always correct. There are many well-run municipal utilities, including the Water Department here in Philadelphia. And there are some poorly run private utilities. I think it's important to remember that we are still dealing what is necessarily a monopolistic utility structure. Even after deregulation, there will be no choice or competition in the local distribution of gas. And, therefore, there will be no pressure other than the PUC oversight to keep the private owner on its toes.

I suspect the customers of the municipally owned electric companies in California are very happy right now not to be served by California IOUs as an example of good municipal management of utilities. Of course, there are also very well-run private utilities. My point here is only to remember that there are other options.

That concludes my remarks and I'd be happy to answer any questions on our 1999 report.

COUNCILMAN KENNEY: Thank very much. Just one housekeeping question relative to your testimony and the '99 report.

You indicated that you were told you were not permitted to interview or have discussion

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with -- what was the group, PGW employees?

THE WITNESS: Sure. At the time we were engaged, I guess, was early fall of '98 when we spent a couple months researching it. During the time between then and when we actually published the report, those of us at the firm who were working on the report were not permitted to speak to PGW staff or executives nor to any Wall Street firms in terms of gathering information of other sales. We had to deal strictly from publicly available documents.

COUNCILMAN KENNEY: Who gave those directions?

MR. KELLY: The Mayor's Office at that time.

COUNCILMAN KENNEY: At that time, it was Mayor Rendell?

MR. KELLY: Yes.

COUNCILMAN KENNEY: What do you feel that that prohibition -- did it hamper you in any way in attempting to gain as much information as possible and what would you suppose would be the reasoning or rationale behind not allowing you or suggesting that you do not talk with PGW executives or with financial experts?

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MR. KELLY: The purpose of not talking to PGW was twofold. One is they wanted an independent review that was not biased by, you know, the self-interest of the people working at PGW.

Secondly, they also didn't want to creating fears and concerns that there was an imminent sale and, therefore, a flight of quality employees.

In terms of the Wall Street person, not to talking to Wall Street people, they didn't want to create rumors that there was a sale out there and then have the report biased by people trying to pitch in and trying to get part of a deal and making their fees on it by becoming part of it and making a deal happen that may not good for the City, but generates good fees for an investment firm.

COUNCILMAN KENNEY: Do you feel in any way that hampered your ability to do a thorough investigation or do you think that they were prudent suggestions?

MR. KELLY: I think in regards to us assessing potential values the companies would pay for PGW, I don't believe it inhibited our work in that area. I think the area that we could have used

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some more insight into PGW was assessing the validity of the ability to cut cost there by a private operator. Although talking to PGW may or may not have improved that, but we were working a little bit in the dark on that. We had to use the use of comparing ratios between PGW and other publicly-owned utilities, or investor-owned utilities may be a better word o use, to determine if their cost ratios were in line or if they were indeed high as everybody suspects them to be. So we were able to make some determinations, but I think that area improved if we had more access at that time.

COUNCILMAN KENNEY: You had mentioned that there are successful municipally-owned utilities, successful private-own and unsuccessful both municipal and private-run utilities. What are the areas of failing as it relates to the current operation of PGW? Besides the cost of natural gas, which has exacerbated the situation tremendously, where are the areas that you thing needed to be changed even if it's not sold? And where do you think the real failings are within the current operation of the company?

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MR. KELLY: Well, that's an area that was, I think, in detail is a little beyond what our work in the '99 report did. So I don't know if I'm qualified to say what departments or what specific areas.

COUNCILMAN KENNEY: I'm talking about not the issue of day-to-day operations, I'm talking about the issue of governance.

MR. KELLY: Oh, in governance? Again, we did not study it thoroughly to come up with a firm recommendation. I only observed that the structure that the Water Department is under appears to work much better. And there's two aspects that are different. One, it is reporting to one entity, to the City Administration instead two and now three at PGW where it's reporting to PFMC, the Gas Commission, and the Public Utility Commission. The other difference is that they have more control over their rates so that they are able to raise their rates in a timely manner to make improvements that need to be made in a timely manner, which I think in the long run achieves more efficient capital operation, at least. PGW has gone since I think 1992 without an increase in its base rates.

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COUNCILMAN KENNEY: That was probably a mistake; do you have an opinion on that?

I mean, part of the problem with this whole governance issue is that the Gas Commission at least on two separate occasions recommended modest gas increases during the '90s. Because, I believe, of political considerations and the lack of a desire for elected officials to absorb that criticism at the time, those relatively small increases were put off and, therefore, we find ourselves, at least on the base rates side, in a much more difficult situation primarily because of the political considerations of not raising rates on two separate occasions when recommended by Gas Commission staff. The Mayor through PFMC, Mayor Rendell at the time, made a determination that that was not a politically acceptable circumstance and, therefore, it never happened.

I guess what I'm trying to get to is that in the private sector or in an appropriately-run utility when staff recommends the need for modest rate increases in an effort to deal with changing industry dynamics and the politics of the situation determines that it's not going to

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happen, isn't that really kind of the crux of what our problem is in dealing with the management and successful operations of PGW?

MR. KELLY: I can't comment on the specific rate increase requested or suggestions by the Gas Commission at those times. I was not involved in it then.

COUNCILMAN KENNEY: Do you have an opinion as to whether or not there is a difference between running a water utility in the northeastern part of the United States as opposed to a gas or electric utility in the same area? Do you believe that they're equal or that there are some differences in -- and my question begs to water is not an unreasonable commodity in the northeast section of the country. I think if the Water Department were being run in southwestern United States, we may have a different set of standards. So do you think that there's a difference between the two?

MR. KELLY: There's certainly a difference. In the Water Department you are in control of your own supply. You pump it out of the river, clean it up, and deliver it to the homes.

With gas, you are dependent upon the interstate pipelines for getting your gas here. Other than that physical difference, though, I'm not sure that that would make a difference in how or whether or not the City can run it effectively.

The part that is under the control of the management of PGW are the pipes in the ground and the physical assets here. Now, the overall price to the customer will move up and down with the price of the gas off the interstate pipeline. But that's true for any gas company in the State of Pennsylvania, whether it's investor-own or publicly-owned.

COUNCILMAN KENNEY: Did PFM investigate at all the differences in collection technics, rates of collection of water bills of the City of Philadelphia, Water Department versus collection of outstanding receivables as it relates to PGW and also concurrent shutoff, moratorium shutoff regulations and the like.

MR. KELLY: We did not review that in the sale report of '99. It was an issue reviewed by some of my colleagues in the five-year plan that was done the subsequent year. At that time, I believe

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PGW had bad debt ratio of around 6 percent, and the Water Department had something around 4 percent, 4 and a half percent maybe.

COUNCILMAN KENNEY: Do you have an opinion or have you in any way researched or as a result of the your research do you have an opinion on what -- let me rephrase the question.

You indicated in your testimony that deregulation and competition here in Philadelphia is not an issue in PGW's ability to compete because of this monopolistic status?

MR. KELLY: Well, the deregulation of the gas in the retail gas market in Pennsylvania has to do with the gas portion of your bill. And that has been for many years here at PGW and in most utilities in Pennsylvania a pass-through cost. So from an economic point of view, deregulation in my opinion does not have a big effect on PGW other than how their rate structure is. Currently PGW includes in their gas cost recovery calculation some of their social programs and I believe a few other cost items are wrapped into that gas cost calculation. Under deregulation, PGW's at risk that they could lose some of the larger industrial and commercial customers to other gas suppliers. While they would still be delivering the gas to them and charging a pipes charge, they would not be able to recover -- if they continued to charge those costs as the gas cost, they would not be covering a share of those social programs and other costs that they embed into the gas cost from the customers who buy from other suppliers.

COUNCILMAN KENNEY: So therefore, the overall industrial user would potentially have the opportunity to get their gas delivered at a cheaper rate than PGW and, therefore, would decide to leave PGW for some potential competitor?

MR. KELLY: Under the current tariff. But most -- certainly, it would be my recommendation as you approach deregulation to take those costs out and only include in the gas cost recovery actual gas costs. And therefore, you would continue to collect all of your necessary cost out of the base pipes charge, which everybody will be paying. No one's going to come in here and lay another set of pipe in the street to deliver gas.

COUNCILMAN KENNEY: But the removal from the tariff or the ability to collect, the ability to

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spread the social programs partly to the industrial customer, if that is removed in a deregulation or competition scenario, would not then the base rate of the residential customer need to absorb that charitable arm or that charitable mission of the company?

MR. KELLY: Currently, everybody is contributing towards that through the gas cost rate. I think the recommendation in facing deregulation would be to move that charge to the base rate so that everybody continues to pay a share of that.

COUNCILMAN KENNEY: But if that is removed -- as it relates to industrial customers, not residential customers, it wouldn't make a difference at all?

MR. KELLY: Well, if you do not change the rate structure, by the fact that the large customers may find it beneficial to buy their gas somewhere else and have PGW deliver it for them, they can avoid that. And that's why it would be recommended that you move to the base rates so that no one can avoid it.

COUNCILMAN KENNEY: And would, in your opinion, the PUC allow that move to take place?

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MR. KELLY: I can't speak for the PUC. But the PUC has a social program in their program for --

COUNCILMAN KENNEY: Is that social program as generous as the social program that currently exist at PGW?

MR. KELLY: I haven't studied the others as closely as I've looked at PGW's, but I do not believe it's quite as generous. I can't give you any numbers on it.

COUNCILMAN KENNEY: Do you have an opinion on what the social program of PGW has, what effect that has on the company's fiscal condition and ability to operate in an effective manner?

MR. KELLY: It is certainly an expense. I think that's policy decision, you know, how generous you make that.

COUNCILMAN KENNEY: I didn't make it.

MR. KELLY: How generous the City Council as a whole or the City as a whole makes that decision.

COUNCILMAN KENNEY: Are you aware of any other social programs that are part of municipal gas delivery in other parts of the country?

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MR. KELLY: Most of them have some form of a low-income assistance program, yes.

COUNCILMAN KENNEY: Are any of the means tested?

MR. KELLY: I believe some are. I've not done a thorough survey.

COUNCILMAN KENNEY: Are you aware of any that are not means tested, other than Philadelphia?

MR. KELLY: I'm not aware -- I think in particular you might be thinking of the senior --

COUNCILMAN KENNEY: Yes, I'm talking about the senior citizen discount,.

MR. KELLY: THE senior citizen discount, because the low-income assistance, the customer responsibility program is means tested, is based on a income level relative to the poverty line. But the senior citizen program, I believe most are means tested; but, again, I have not done a thorough survey of all of them around the country.

COUNCILMAN KENNEY: Thank you.

Councilmember Blackwell.

COUNCILWOMAN BLACKWELL: Thank you very much. I hope I haven't missed some of the testimony. In your opinion, how would the sale of

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the Gas Works affect the ratepayer's bill? And given the fact that we've already committed to or given $45 million and in view of the fact that according to the Mayor in his budget address the cost of gas has gone up 400 percent and people are seeing their bills at least double, what would happen, in your opinion -- how would it effect the ratepayer's bill if this utility were sold? Do you have an opinion?

MR. KELLY: Sure. In our report in '99, and while there are some changes from then and it certainly would be appropriate to have us or someone update the study, at that time we believed that there was approximately a $90 million impact of a sale to a private entity in the form of required return to investors, additional taxes that would have to be paid to the state and the federal government. One line item in particular has changed. The state has repealed the gross receipts tax on gas sales, which PGW has never been subjected to, but a private intent would be. And that was 25 million of that 90. So part of that burden I know has gone than away. The rest of those numbers would have to be updated, though.

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But at that time we saw a $90 million burden that would have been to be absorbed or paid through either in higher rates or in increased efficiency, i.e., fewer jobs at PGW. Or, in fact, from the best indications we had, if they reduced their cost ratios down to similar levels above the utilities, that would have paid for the bulk of that 90 million but not all of it and there would have had to been cuts to the social program as well if you insisted on keeping rates the same.

COUNCILWOMAN BLACKWELL: I am certainly not an individual who necessarily agrees that we should raise rates. Many of us in Council are concerned because we've had no direct role, but constituents stop us on the streets and call us 24 hours a day because of the impact. Just today I talked with one of the vice president of the University of Pennsylvania complaining. Everybody's hit certainly with this increase, and if we're talking about a proposed increase, then I assume that means bills would go even more than they have, and they've doubled.

Is there some way that we could, through the $18 million that the City gets from PGW or through some other formula put a subsidy someplace so that the public doesn't see higher bills?

MR. KELLY: Well, the bulk of the increase that everybody is seeing right now and also the loan made by the City are both caused by the same factor, which is the higher cost of gas that PGW is buying to then deliver to the customers. There's not much that can be done about that. I mean, if you want gas to keep the system intact, you have to buy it off the pipelines, and the market prices have gone through the roof this year.

COUNCILMAN KENNEY: Then why -- I'm just piggy-backing on that question. Why was there a request for an increase in the base rate also? If the issue of higher rights is lack of availability and higher cost and lack of production last year, why then the need for a base rate increase requested in addition to the cost of gas?

MR. KELLY: I did say most of the increase -- well, actually, all the increases so far that have been passed on, I believe, is all gas cost related. There was a requested increase in the base rate I believe something around $50 million this past summer. I believe something around the effect

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of 11 approved but not been implemented yet. Although I may not be up to speed within the last week on that. But as of about a couple weeks ago, it had not yet been implemented.

COUNCILMAN KENNEY: What do you attribute that, in your opinion, to that need for a $50 million request in the base if it's all cost of gas generated?

MR. KELLY: That portion is not related to the cost of gas.

COUNCILMAN KENNEY: What do you attribute that to?

MR. KELLY: Their cost of increasing, and I have not done a detail study of their internal cost structure and what individual line items may be high relative to other utilities, but their costs have increased. In addition to that, and I know you've all heard it, but PGW and many gas companies have been affected by the sequence of warm winters that we've had prior to this current one. What's unfortunate is that while having a cold winter would normally be good because they sell more gas and a great deal of their revenue is more volume driven than their cost is. So typically in a cold winter they do better. Unfortunately, this year with the cost of gas jumping before they were able to get the gas cost rate increase, they were actually losing money on all that higher volume during the months of November, December. So after suffering through three warm winters, they've now had a problem at least during November and December where they were selling gas at a loss at a very high volume.

COUNCILWOMAN BLACKWELL: What do you think -- in your opinion, what would happen to a senior citizen discount, for example, if this utility were privatized? Would they not have -- would a company not have any particular responsibility in dealing with that as an issue or could something like that be written into an agreement, or what's your opinion on that?

MR. KELLY: Well, I'm not sure how the PUC would review things, but I know in other cases where we've assisted municipalities in privatizing assets or contracting out the work on assets, they are often able to put in restrictions on the behavior of the buyer, at least for a period of time, if that was the political or the policy choice of the selling entity. Again, I don't know how the

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PUC would -- whether they would allow that sort of cost into their cost recovery. But the impact of making those policy choices is going to be either higher rates or a lower price in the purchase price. They're only going to pay a certain amount so they can get a certain return. A private entity will only pay you a certain price and will be expecting a certain return. And if they aren't going to be able to charge the customers for something, then they'll lower their price that they would pay the City which would then either leave bonds unpaid or would leave the City without compensation for its current equity in PGW.

COUNCILWOMAN BLACKWELL: It seems to me that obviously we don't control the price of gas coming into our City so we didn't control the last increase, but at a time when the bills have so dramatically increased, I don't know how -- not that we have a direct role. I don't know how we could be expected to support customers paying more when they can't pay the bills they have now. We're really concerned about people using kerosine heaters which would cause many deaths, people using gas illegally. And then if caught, what can you do? They still

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can't pay it. So we're really, really concerned that all of this even comes at the same time.

Is it your role and have you made a decision on what your ultimate recommendation should be, or have you just kind of put the pros and cons on both sides of the issue?

MR. KELLY: I don't see our role as to recommending whether the City should sell or not sell. I think our role is to try to answer some of the financial questions so that the policy decision-makers can make their own way weighing of is this cost worth the benefits on the other side.

COUNCILWOMAN BLACKWELL: Thank you.

And I will say finally that we've talked a lot in here about advertising and letting the public know the role we play and do not play as a Council. But I don't think the word has gotten out there. I don't think that John and Jane Q Public understand that we don't control that and that we didn't do anything with, other than being citizens in the world, that we didn't control the cost gas coming into our country going up and I don't think that word and that the PR arm of it is going out, even though there is some PR. I think it asks

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people if they meet criteria to apply for grants, but I don't think it explains the problem. And so for those who are in that arena, we would certainly ask you to re-look at that because the word isn't out. The advertisements I've heard don't, in my opinion, adequately tell the picture.

Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Thank you very much.

Councilmember Rizzo.

COUNCILMAN RIZZO: Thank you, Mr. Chairman.

Again, I understand the position you're in and why you're here. We've heard earlier that possibly delaying some increases could have gotten us into some trouble, but I'm wondering if you're in a position to comment on -- we constantly hear people suggesting that we sell this company, and I'm wondering if you could comment on what we could do to structure this company, continue it being a municipally-owned utility company and make it run right, to make it run like we suggest the Water Department is managed and operated?

We've got some of the finest technicians working at PGW come from the utility industry,

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talked to some folks work in other utilities have come here to help during emergencies when our people were up against it, some of the finest talent that you could find in the utility industry, and it's hard for me to believe that we can't assemble a team of gas professionals to run this company like a business. What's the problem? Is it political tinkering, is it patronage? Is it the lack of rate increases?

I just can't believe that we can't assemble a team of people to run it based on the talent that we have there to run it and run it probable properly without going to the extreme of selling this company.

Do you think we can fix it and make it work the way it's supposed to work?

MR. KELLY: I think it's certainly possible to. You have done a good example in the Water Department that you can look to as a way possibly to structure it. I think you could look back in PGW's history. I was not in involved in the business back then, but my understanding was that under the UGI structure back in the '60s and '50s that it was well run. Whether the rate structure

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was good, I don't know. But I believe the company itself was well run under that, and that's where they contracted with a private company, the management of PGW. The employees I think were still PGW employees, but the management team was part of larger gas company, United Gas --

COUNCILMAN KENNEY: UGI.

MR. KELLY: Yes, UGI. I'm not exactly sure what UGI stands for.

COUNCILMAN KENNEY: They got the boot.

COUNCILMAN RIZZO: For the record, the UGI executives managed for PGW were hired by the City of Philadelphia to continue to manage the company at that time a significant savings. Rather than pay UGI a premium, those executives were hired to do the job that they were doing as an employee of UGI. That's the real deal.

But I'm just concerned that maybe considering selling this utility company is an extreme when we really I think our first effort to run it properly and make it the utility that it once was.

MR. KELLY: I would agree. You pointed to two examples here in Philadelphia. But the other

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thing you could do is look around the country and look at other municipally-owned utilities, both gas and other electric, water, and see what structures seem to work, which are the successful ones and what kind of governance structure they have. Before actually trying to hire managers, I would recommend at least addressing the governance structure.

COUNCILMAN RIZZO: Thank you.

Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Thank you. I agree with Councilmember Rizzo that we do possess in this company probably some of the best technical expertise on street service operations in the country. The problem has not been them. The problem has been middle level and upper level management through both ineptitude and political involvement that have run the company in a direction that the workers on the street and the people who are actually servicing the public have no control over. They're not listened to. They're ideas are not considered. And there's a major problem in the management of PGW. I mean, I know I listen to people from the Gas Workers Union, for example, who are actually on front line of dealing with people.

They're the ones who go into your house and fix the heater. They're the people that, because they can't answer the phone at PGW, that the public complains to. And they have very little or anything to do with the mess this company's in. So I think part of the problem is getting some direction whether it's a sale or whether it's management sons politics to allow these people to do their jobs. The problem has been that the ability to keep politics out of this process for the past 30 years is virtually impossible because of lack of a will. So in some respect I agree with Councilman Rizzo; but in the other respect, I don't think that we have the capability, fortitude, or the will to change something that the politicians have benefitted from for the past 30 years.

Councilmember Clarke.

COUNCILMAN CLARKE: Thank you, Mr. Chairman.

Good evening, Mr. Kelly. I apologize for missing the earlier part of your testimony, so I'll ask some questions. First, I'd like to know a little bit about your company. Are you a regional company, a national company?

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MR. KELLY: PFM is a national company headquartered here in Philadelphia. We serve exclusively -- almost exclusively, about 99 percent municipal clients, that is, city, county, and state government agencies and direct governments. We have two primary businesses. One is advising municipalities on the issuance of their bonds. The the other is in the investment of their funds out of our Harrisburg office. In addition to that, we do a great deal of consulting along the lines of this kind of study that we've done here for PGW -- we did this for the City but on the subject of PGW, as an adjunct to our bond business.

COUNCILMAN CLARKE: As we make our decisions -- well, I should speak for myself. As I make decisions in Council as it relates to pending legislation, one of the things I like to look at is comparables. And you representing a national company gives me a sense that you know a lot about the industry, a lot about various companies throughout the nation. Can you give me a sense and can you give me a comparable of the Philadelphia Gas Works across the board?

Let me tell you the reason I ask this.

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In interacting as an elected official, you talk to people on the street on a daily basis, and I think the majority of the people feel that this particular company is in the condition it is based solely on the inadequacies of the people who ran it or possibly some illegal activity of some of the people who ran that. And I guess I'd like to get a sense from you on a national level, where is the industry at in a comparable situation similar to Philadelphia?

MR. KELLY: I'm not sure exactly in terms of whether other municipally-owned gas utilities are --

COUNCILMAN KENNEY: Either municipally-owned or privately-owned. I guess I'm asking in terms of the size is there a comparable city the side of Philadelphia that has maybe a comparable work force, and if it's a private entity, is that entity being run more efficiently than the City of Philadelphia right now given the --

MR. KELLY: You could find -- in the investor-owned utilities, you could find many examples of other cities of this size or systems of this size or bigger of gas companies, and we

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attempted to do that in looking at some of their cost ratios. It's difficult to compare them because the features in each area are a little different, different labor costs and different characteristics of the environment. We attempted in the study to make the comparison to PECO's cost structure because we figured they're in the same economic region, it was a reasonable comparison. You could compare it to a number of them, and some cases, PGW stacks up okay. In others, it doesn't look so good against them. I don't have that many comparisons right here to rank them for you, but that certainly could be done.

COUNCILMAN CLARKE: It would be very helpful to me. I mean, to talk about PECO is one thing but, you know, this issue with respect to the gas company versus the water company, that's a commodity that we don't control. We have substantial amount of water in the City of Philadelphia, fortunately so we can kind of keep some regulatory powers as it relates to rates. But what I need to get a sense of is there -- I know often in the discussion people talk about Boston, they talk about other municipalities that are close to population and size probably with work forces close to size. And I guess what I want to see if there's a privately-owned facility in a City who's comparable in size. Where is that particular gas company at this point, given the uncertain advertise of the commodity being natural gas and oil, and is it solely based on the private nature of that or is it public? Because these are really -- the bottom line, we're talking about a decision. Should it be private or should it be maintained by the municipality of the Philadelphia? Personally I need to make that decision and I want to make sure that I've done that based some analysis of other situations.

MR. KELLY: Let me try to answer your question a little more then. On the gas purchase side, PGW is facing the exact same cost that other entities are. PGW has actually has an excellent reputation in that area. I think every gas company and local distribution company in the country is passing on similar costs on the gas purchase side.

On the costs that are under PGW's control, and this is an area that Chairman Kenney asked me about earlier in terms of whether we -- or

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I responded to his question about whether could have used more information when we were doing this report. And it is an area I think we certainly could have. But we did physical compare on thier financial reports as being publicly available data. For instance, compared to PECO, the operating costs at PGW of the controllable costs, excluding the gas costs were almost identical on a per customer basis. At first that looked like, well, then PGW is doing a good job. Anecdotally we kept hearing that PGW isn't do a good job, so we tried to scratch a little further. We looked a little deeper than cost for customer. We looked at the concept of Philadelphia being a little more densely populated than a lot of the PECO's territory for gas delivery. That perhaps PGW should have a lower cost because of the higher density, they have more customers per mile so they only have to maintain a certain amount of pipe or less pipe per customer. So we did those kind of comparisons. And we came up with some numbers that showed that PGW was less efficient than PECO with those adjustments put in place.

And this is a case where if we had had the opportunity to discuss it more with PGW

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executives or personnel at that time, we could have tested those ratios. Again, we did develop them on a very high level in terms of looking big numbers on their financial statements and not getting down to the nitty-gritty of how many people they have on a shift and how many people they have in a truck and that kind of thing. It was on a very high level financial statement level.

Although I think it was a pretty good comparison because the ratios we came up with showed that there was the potential at that time to perhaps cut PGW's operating expenses by 20 or 25 percent, I think it may have been. It is in the report. I believe you have copies of it. And that jives with other numbers that I've heard subsequently that PGW at that time was about 2000 employees and their target is to get down to about 1500. So that seemed at that time to be a reasonable number, about halfway there, I believe, now already in that progress. So they're making improvements and getting down towards that level of efficiency.

What we concluded in our report, though, was that the tax cost associated with a sale put a burden on the private owner that they would have to

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pass through or recapture either through higher rates or by achieving those efficiencies. But, in fact, those efficiencies were not quite enough to offset that wedge between private and public ownership. Fortunately, as I also discussed, that wedge is a little narrower now because Pennsylvania repealed the gross receipts tax which was $25 million out of a $90 million wedge. And there may be other changes. For instance, the cost of defeasing the tax exempt debt was 50 million at that time two years ago. It is now down to 25 million because PGW has refinanced the higher coupon bonds since then.

So there are a number of features that are making the financial wedge between public ownership and private ownership a little narrower. At the same time, they're methods for paying for that through higher efficiencies may be getting narrower as well, as PGW has improved and reduced its own work force.

So again, to get a precise answer, you'd have to update the study again. But at that time, we did make that comparison to PECO at least and saw that at least under that comparison of ratios that

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at that time it looked like PGW could be more efficient.

COUNCILMAN CLARKE: Is there any either municipally or publically-owned or privately-owned gas company in the United States that is not in a position of either close to where we are as it relates to -- I understand the cost associated with the rising cost of gas, but at least in terms of structurally, can you give me an example? Give me a couple of examples of some very well-run gas companies that, although the rates are increasing that's based solely on the fact the cost of fuel is extremely high, but other than that.

THE WITNESS: Everybody's costs, because of the pass-through gas costs, are pushing everybody's rates up. But, yeah, there are a number of good -- there are some higher rated gas companies, municipally-owned gas companies around the country and the higher ratings reflect the fact that the rating companies at least like their governance structure better, like their financial performance better.

COUNCILMAN CLARKE: Do they tend to be on a private side or on a publicly-owned side?

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MR. KELLY: Both. There are some better rated ones on the investor-owned side, and there's some weaker ones rated on investor-owned side. And there is certainly both on the municipally-owned owned side as well. Philadelphia is the largest municipally-owned one in the country.

COUNCILMAN CLARKE: Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Thank you.

Thank you very much. Thank you for your testimony. I don't think there are any other questions. Thank you.

David Thornburgh, please.

(Witness comes forward.)

COUNCILMAN KENNEY: Good afternoon. Thanks for waiting. Please identify yourself for the record.

MR. THORNBURGH: David Thornburgh, Executive Director of Pennsylvania Economy League here in Philadelphia.

COUNCILMAN KENNEY: Please proceed.

MR. THORNBURGH: Good afternoon, Mr. Chairman and Members of City Council. I appreciate the chance to share some thoughts with you giving

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some of the information and analysis that the Economy League has developed about the Gas Works over the years. When I say over the years, I mean over the years. The Economy League's roots go back to early part of the last certainty and I would wager that about every 15 or 20 years we would wade into some aspect of the provision of gas in the City of Philadelphia which I think demonstrates that there's a continuing and ongoing sense of urgency and these kinds of questions about this utility and the way it's performed.

I wanted to, if I could, share with you a couple things. One is some summary conclusions by the two most recent pieces of work that we've done on PGW. One was in 1989 and one 1995, and I may have some more insight or answers to some of the questions that you asked in terms of comparables and so forth and so on.

The 1989 report -- I won't spend a whole lot of time on except to note that that report which I would be more than happy share either of these with you and your staff, however you'd like, but that report was focussed on the consequences of selling PGW at that time to both taxpayers of

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Philadelphia and to the ratepayers of the Gas Works. Went through a number of comparables, worked through some of the tax implications, some of the implications on rates. I won't spend much more time on that because, frankly, 11 years ago, a number of things, significant things have changed. The gross receipts tax being one. The PUC's entry into the governance process this last July. What is striking, though, about that report is that much of the same -- many of the themes that we're talking about today in terms of deterioration of the company, in terms of the deterioration of the base, in terms of the governance difficulties, were true then as they remain true today. And that led us in 1989 to a strong recommendation that the City pursue the sale of the Gas Works. And our estimate at that time, and there have been other estimates in this same range, although today is a different market, the estimate at that time was that would net the City something on the order of $200 million from the sale of those assets.

But what I wanted to spend some more time on today is the work that we did in 1995 with the cooperation of the Administration, the Mayor's office and the PFMC Board, the Phoenix Management Company that had been hired to help turn the Gas Works around, and that was centered on this issue of governance because I think most people involved in the intricacies of the gas business in Philadelphia pretty quickly acknowledge that that's one of the core problems. And so we spend some time looking at other utilities, other municipally-owned Gas Works across the country trying to shed some light on those tissues, develop some scenarios as to how the City of Philadelphia might address those.

Let me just kind of -- I think you should have a copy of some what I call relevant highlights from that report, so I'm going to do a double summary of those and then end with some concluding thoughts.

I think the first thing just to kind of reiterate, the first thing that shocked us in that analysis is that when you look at this picture over time, given the best intentions of some very talented public officials, some very talented people at the Gas Works, that the continuing sense of crisis at the Gas Works really have to be seen as Simmons of problems in the governance process, in

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the governance structure. That there was simply not a political framework and an economic framework that forced the Gas Works to deliver efficient service and a high level of customer service to both its residential and commercial customers.

At the same time, I think -- and when we did this in '95, we were recognizing even at that point some of the changes in the regulatory environment that were going to force those changes one way or the other. That actions at the federal level and at the state level in terms of deregulation as we said within three to five years were going to open markets to new entrants and new players and were going to force entities like PGW to act in a very different way. Whether or not, frankly, the weather is warm, the weather is cold, I think as has been noted, we have no control over that. What we do have control over is how this entity responds to challenges like that.

So as I said, these changes were going to force PGW to drastically change its practices and that in order to respond quickly, which is another characteristic of more competitive markets, you have to move quickly. That in order for PGW to be able to be able to move quickly and effectively that changes would have to be made in the governance structure, the process of making decisions about PGW. And frankly, if that was not possible, then we return to our conclusion in 1989 which is to say sell the Gas Works and, frankly, let other entities deal with managing in a much more volatile environment.

I said earlier that the core problem of governance for PGW was that there were not sufficient economic incentives to perform and there were not sufficient political lines of responsibility to perform. You can think about those are the things that motivate people, I think, most often is pocketbook issues or, frankly, issues of power and responsibility.

One of the things that we noted in terms of the economic incentives is that the payment to the City, the 18 million so-called dividend hadn't changed since 198O. And if you think about it, given how the cost of living and the rate of inflation has changed since 1980, with every year there was less and less of pressure put on the utility to respond to its owners, if you will, the

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Citizens of the City of Philadelphia. If that payment had just tracked the increase in the cost of living in that period of time, it would have been on the order about $30 million a year. So that was one signal to us that this was not, let's say, performance based relationship and that there wasn't that kind of pressure on PGW to perform.

What's also illuminating is comparing that $18 million payment to the payment that other municipally-owned Gas Works make to their host governments, if you will -- and I didn't reprint that but it's included in our report -- just quick note, the City of Philadelphia's ownership of a municipal gas works is such an anomaly that comparisons with other municipal gas works is almost not meaningful. It's 60 percent larger than the next biggest one which is in San Antonio. The next biggest one is in Memphis. And you know San Antonio and Memphis don't have to deal with things like cold winters. They're selling gas to people for cooking and heating. So these are different animals. Nonetheless, in 1994, which was the benchmark year we picked, that $18 million payment from PGW to the City represented about 3 percent of the utility's gross revenues. The payment in San Antonio represented about 14 percent of the gross revenues of the utility. And in Memphis, it was about 5 percent. So right away there's another angle on the sense that PGW did not have the financial pressure, the economic pressure on it to deliver to its owners at the City level at nearly the same rate in other jurisdictions.

Turning to the political side, one of the things that we also did was take a look at those other municipalities and map literally some decisions that are made in the course of operating a utility, passing a capital budget, hiring a CEO, those kinds of things. And frankly, the City of Philadelphia's looked like a nice bowl of spaghetti. There were so many players and so many arrows and so many lines going in all directions that that was a good visual reminder of why decision-making takes so long and is so cumbersome in PGW's case.

Many people have pointed out the fact that in the early '90s PFMC literally went five years without a CEO. Well, that's the best example that there is, I think of a decision-making process that is cumbersome, convoluted, has probably too

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many cooks trying to create that meal, if you will. And, in fact, you can look at other utilities where there's a municipally-owned Gas Works where there's a much cleaner process of decision-making for those kind of major decisions.

Let me get to kind of our summary conclusions. I think we came to the clear sense that if PGW does not have the economic incentives to perform as maybe other utilities in other cities do and lacking clear lines of authority which, frankly, has been made more complicated by the PUC's entry into the game last July, but lacking either one of those it was hard to see how the utility was going to be able to right itself and perform effectively and efficiently at the same time when the competitive wolves were at the door, as it were. And this was not a choice. It wasn't a choice that we could make to say, we're going to take our time to do this or we're going to react a little more slowly or it's okay if it takes five years to higher a CEO because the people that we were playing the game with weren't laboring under those same obligations. So ultimately and in increasing rapid period of time, we were likely to deteriorate.

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Again, as I said, no matter what the weather is doing, we were going to have a hard time competing.

That led us to three possible alternatives. One is to say, well, you can make a really good concerted effort to clean up these lines of accountability and decide what the Gas Commission's going to do, what the PUC's going to do, what the Mayor's going to do, what the City Council is going to do, what the advocate's going to do, what PFMC's going to do, and if you get it right and follow some other models in other cities, you might improve things.

At the same time, you might want to restructure the financial relationship between the City and the PGW. So that, for instance, rather than being on a flat basis of $18 million a year, you put it on a basis of 5 percent of the gross revenues of PGW or 8 percent, pick a number, and that, I think, would have added some economic pressure.

So those -- I wouldn't underestimate the dramatic nature of those two changes by themselves. And if you could do them, I think our research suggested, you would be a lot better shape. That's a significant "if," and I'll come back to that.

Option two is sort of a more less ambitious role. It just says, well, let's hire a new management team. Let's not try to tinker too much with the basic structure here, but surely good people, we'll do a nationwide search. We'll find some good people who have some experience in these kinds of things. We'll put them to work. They should be able to rise above the problems with the governance structure and do a good job. And that, frankly, was the path that we took in 1995 and '96. And we hired CEO Haas and his management team, and frankly, that hasn't worked out so well. I think would be an under statement.

Then the third option is also a dramatic one. It's one that would have some high impact to it and it is one that has a certain amount of complexity to it, political, economic, fiscal, etcetera. That is to say that given the trouble, the challenge, the time it would take to work through these changes in governance, changes in economic structure, given the fact that the wolf is at the door in terms of the competitive environment, that this is a task that is essentially and

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functionally not doable by the City of Philadelphia, that the job of righting the ship of PGW, of improving its customer service, its billing, taking care of its debt, trimming payroll, cutting operating costs and so forth is best left in the hands of those folks who are in the gas business all the time, do it for a living and, therefore, that would lead us to what we've now returned to, which is to say, sell PGW. Leave that obligation responsibility in the hands of those who are equipped to do it.

As a reminder of where we are right now with PGW, let me just pull a couple of numbers out of the five-year plan came out just last week or a couple weeks ago. To my mind, there is a sense of incredible urgency about these numbers because, frankly, this was all well and good as long as the utility was sending its check for $18 million a year and we didn't have to worry that much about -- there was always going to be this problem of customer service and so forth, but as long as that $18 million came in, there wasn't a pressure on the City's budget, it wasn't asking us to do a whole lot more. But that picture's changed quite a bit.

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Let me just run through these. There's been an 11 percent drop in annual sales of gas. There continues to be $51 million in low-income and senior citizen discounts loaded into PGW's cost structure. Receivables at the end of Fiscal Year '99 were up to 12 percent from 9 percent in 1971. Payroll costs as a percentage of revenue ae 50 percent higher than investor-owned utilities with similar characteristics. Payroll costs are 50 percent higher, which if you look at it, is not that PGW's are much better paid, it's just that there are a lot of more of them than there are in investor-owned utilities. Long-term debt per customer is highest among comparable firms. The newspapers clearly have been filled with stories about the problems with PGW billing, collection, and customer service system. They have aging infrastructure. The utility is only able to replace half the cast-iron pipe per year that it should be replacing to maintain service levels which ultimately conjures up images of major, at the least, disruptions of service, if not other emergencies. And finally, we're left with the decision that you had to make, which is the request for the $45 million loan to tide PGW over, we hope. So clearly the tide has turned on that score. It's one thing to have $18 million coming in your direction and quite another to have $45 million going in the other direction.

So five summary, I guess, conclusions from all that and then I'll be happy to take your questions. First is that -- and this is a fairly straightforward observation. These problems have been longing in the making. They have intensified significantly within the last five years. Five years ago when did this, we thought we were on the right track. We though we had the game plan that you hire the management team and, frankly, the City spent in the millions of dollars hiring consultants and search firms and doing a national search and so forth and some on. And we're now back to square one.

I guess the second conclusion that we have is that when you look over the long-term history of PGW, major overhauls of management structure, operating costs, policies, and governance have successfully resisted the best efforts of every Mayor and Councilmember and millions of dollars of consulting fees over at least the last dozen years. You could probably extend that dozen years much longer that.

Third fairly obvious conclusion, we believe that PGW's plight now represents a significant threat to the City's fiscal stability.

The fourth point, I guess, which may be a subtle one, that PGW's current state occupies an inordinate amount time and focus on the part of the Mayor, on your time and other members of the Administration that in other cities your counterparts don't have to deal with. They can spend more of their time looking at issues that people really care about: Schools, crime, jobs, neighborhoods, taxes, those kinds of things. So at some point it seems to me just the fact that, frankly, you wouldn't have to have to hold a hearing like this and devote the time and the energy to trying to figure out what's going on in the gas business, I think is worth recognizing in and of itself.

And the fifth question, I guess, is maybe our bottom line. We said in that 1995 report that if we're not able to fix the problems with the

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governance structure, if we're not able to fix the economic incentives for PGW in the face of the competitive changes, then it's in the best interest of the City and its citizens to sell PGW for whatever gain we can realize lest the utility become a long-term drag on Philadelphia's future.

I'll end on that note and I'll be happy to answer questions.

COUNCILMAN KENNEY: Thank you for your testimony.

One bullet point you have on page 4 indicates an 11 percent annual sales of gas. That is attributed, in your opinion, what factors?

I think I know the answer, but I'd like to hear yours.

MR. THORNBURGH: Well, you've a declining population base and a commercial base and an industrial base in the City. One of the challenges that PGW has is it's got a constrained market. It can only operate in the City of Philadelphia. So there's that and then there is the competitive piece which is to the say for the larger commercial industrial concerns they have much more of an option, essential cut their own deal with

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other suppliers and therefor, fall out of PGW's network.

COUNCILMAN KENNEY: Mr. Kelly testified that -- and maybe if you heard his analysis, you can comment on the layoff, for example, of social programs and discounts to the cost of gas as opposed to the base rate that we apply for when we go to the PUC or Gas Commission for rate increase. He said that if we laid -- I'm trying to rephrase exactly what he said. If the social programs and the discounts laid off to the base, that would make a negligible difference of the impact of competition from an industrial side. Did you follow that line?

MR. THORNBURGH: I have a little trouble, frankly. And I'm not sure I could comment.

COUNCILMAN KENNEY: Let me go back. What effect long-term will intense competition have on both the industrial customer that PGW has and the residential customer?

MR. THORNBURGH: Well, I think the industrial customers will be the first to leave. They're the most attractive ones from a competitive standpoint. Clearly, when you can sign up a higher volume gas user -- I think most people suggests that the same kind of competition that's come to electricity will at the very least be long in coming to retail customers in the gas business. So you might see a decay, even a rapid decay among larger industrial commercial users, which is a real problem for PGW because -- the residential customers are the hardest and the most expensive to serve. They're small users, there's a higher level of service. So that's not an attractive proposition from PGW's standpoint.

COUNCILMAN KENNEY: And obviously, the loss of population and loss of jobs in the last decade, 15 years have put a significant dent.

MR. THORNBURGH: Yep.

COUNCILMAN KENNEY: And I guess this is the problem that we struggle with, this is in a issue of providing gas service to varied segment to our population, but it's the same problem we deal with in our budgeting for City services and we've had this discussion as the course of the budget hearings have proceeded with the Administration, and that is that despite the fact we've lost between 180 and 200,000 residents in the past seven or eight years, the size of our municipal government is

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practically the same as it was seven or eight years ago. Sometimes higher or sometimes lower, but usually within a thousand members of the government, a thousand personnel, we're about the same as we were. I sense a similar dire formula here in the Gas Works in that we're losing population, obviously losing customers, losing jobs or at least lost jobs for a period and now kind of stabilized, although I wonder whether or not that job uptick has been a increase in gas use because it's in the service sector, I guess, hotels use. It's a changing type of user.

MR. THORNBURGH: That's another longer term but significant challenge for PGW is that, you know, economic activity -- there's not as much manufacturing as there was. The growth has not been in the manufacturing sector and, therefore, there isn't, let's say, the same energy usage per employee as there once was. So you might see more economic growth in the City, but it's service companies, information technology companies that are not high gas users. They actually -- sometimes IT companies can be quite significant electricity users, but they're not buying gas.

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COUNCILMAN KENNEY: So if I coupled the loss of residents, which seem not -- the tide is continuing to leave, and the change in the jobs that are done within the City, that the future potential marketing opportunities coupled with deregulation could be a disastrous scenario.

MR. THORNBURGH: And one of the criticisms that was made about PGW which, again, if you're not playing in the competitive environment you don't see the need to do this, but some gas companies have had a decent amount of -- have had some decent experience in trying to promote the use of gas for other uses, for clean natural gas vehicles, for other kinds of things. So essentially aggressively marketing the use of natural gas to replace other kinds of energy uses.

COUNCILMAN KENNEY: Could you talk a little bit about the issue of the 12 percent receivable up from 9 percent in '71 and how that compares to collection rates, if you know of comparable privately-run utilities, say a PECO or PSE&G? Do you have any information as to what the average annual receivable rate is.

MR. THORNBURGH: I don't have that --

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COUNCILMAN KENNEY: Let me preface my question. It seems as if a electric utility in the City of Philadelphia would be serving predominately the same type of customer that the Gas Works is serving and that argument that somehow the Gas Works portfolio of customers are poorer, older, and less able to pay seems not to jive with PECO's experience that they are serving basically the same age population, income population, and there seems that the receivable levels are probably substantially different. I don't know if they are or not, but I'm wondering if they are.

MR. THORNBURGH: I suspect they are. I can't recall where I saw some numbers to that effect. But I think you're right. Yeah, there's no reason on the face of it that PGW's experience should be much worse than the Water Department or PECO. The other way to look at that is particularly relative to the Water Department. There could be potential efficiencies on the collection to be gained by some kind of joint or coordinated effort. But these are systems issues, management issues, leadership issues, and I think seemingly for -- I've been in this City for 15 years, and for as long as

I've been here, we've never approached the kind clarity of decision-making or the incentives, political or economic, to pursue these kinds of things.

COUNCILMAN KENNEY: As far as the discussion of sale now?

MR. THORNBURGH: No, I'm talking about the kinds of efficiencies that you're talking about trying to realize.

COUNCILMAN KENNEY: Councilmember Clarke.

COUNCILMAN CLARKE: Thank you Mr. Chairman. Good evening.

THE WITNESS: Good evening.

COUNCILMAN CLARKE: Mr. Thornburgh, you indicated in 1989 you issued a report. Are you issuing a report currently? In reference to the document, is that a report?

MR. THORNBURGH: There are two documents that my organization produced. One was in 1989. That was focussed on the consequences, costs, and benefits of selling the Gas Works. And then there was a piece we did in 1995 that was specifically looking at the governance issues.

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COUNCILMAN CLARKE: Okay. I wasn't sure. I thought it was one more recent than that.

MR. THORNBURGH: No.

COUNCILMAN CLARKE: You talked about in 1995 we did some things locally, we hired the people, we did the national search. Now, would you say that was -- you talked about three options. What option would you say that was, one, two or three?

MR. THORNBURGH: That, I would classify as sort of the -- it's option two, it's the less aggressive one. It says, we can't figure out nor do we want to spend the political capital to make some dramatic changes here. We're going to hire a turnaround company to try to turn this around. We're going to hire a new management team and our bet is essentially that that new management team sheer force of personality and skill we'll be able to right this ship. I frankly took the path of least resistance.

COUNCILMAN CLARKE: That's the lesser of the options.

MR. THORNBURGH: Yes.

COUNCILMAN CLARKE: You referenced

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Memphis and San Diego was --

MR. THORNBURGH: San Antonio.

COUNCILMAN CLARKE: San Antonio. I'm sorry. (Continuing) the second and third largest his municipally-own gas companies in the northern part of the --

MR. THORNBURGH: No. They're not in the northeast and there only three among the top 25 cities in the country. That's what I said, we're such an anomaly that I don't think we quite understand that.

COUNCILMAN KENNEY: The other thing I want to add for emphasis is that the other two, one is in San Antonio and the other is in Memphis. And I believe Mr. Thornburgh testified that the issue of cold water there is not a substantial consideration. Memphis sometimes gets cold. I don't know about San Antonio.

COUNCILMAN CLARKE: The $51 million in low-income and senior citizen discount, what percentage of that in your estimation would be effective if there was means based discount program in place?

MR. THORNBURGH: I don't know the answer

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to that question. I would say, though, that the issue of subsidies for lower-income citizens or senior citizens are often issues taken up in the budget and appropriations process, in other areas of City administration and budget. So the option to address the subsidies, even preserve those subsidies, even expand those subsidies remain no matter what happened.

COUNCILMAN CLARKE: I understand you made reference to a means base. That is actually on the table as we speak in these discussion.

MR. THORNBURGH: I believe the revenues of PFMC are in the $500 million range so call it about 10 percent of their gross revenues would be those subsidies, but I don't know what would happen if you means tested the senior citizens discount.

COUNCILMAN KENNEY: What level of means test it is, what the number is.

COUNCILMAN CLARKE: There are certain things, there were discussions of various levels of means test, and I just wondered if you did an analysis. You referenced this particular number, and I thought you did an analysis and categorized what it would be, but you haven't done that.

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There was another statement with respect to employees. Can you clarify? You said 50 percent higher in net was based on the number of employees?

MR. THORNBURGH: Yes. The statistic, and again, this is just taken directly from the five-year plan. PGW's payroll costs are 50 percent higher than comparable investor-owned utilities. So not San Antonio and Memphis, but investor-owned utilities probably in the northeast. When you look at those payroll costs, they're 50 percent higher not because PGW employees are making a lot more money than other employees, it's just there are many more of them than in those.

COUNCILMAN CLARKE: Are there 50 percent more?

MR. THORNBURGH: Well, the payroll cost for a function of the number of people and their annual compensation. So I can't say I don't know that there are 50 percent more people.

COUNCILMAN CLARKE: Well, you're throwing these numbers out and you don't seem to have any level of detail to support the numbers. I'm just a little concerned about that. You say 50 percent higher, the first thing inclination is for

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somebody to think that, oh, PGW employees are getting paid 50 percent more than everybody else. You're saying that's not the case. You're now saying there are more employees. And I'm trying to get a sense of, you know...

MR. THORNBURGH: I would think -- let's just say this, if PGW employees were getting paid the same as they were in those investor-owned utilities then there would be in fact 50 percent more of them, yeah. But these numbers came from one of -- let's say one of the numerous reports produced by one of the numerous consultants that have been hired over the course of the last half dozen years to look at various aspects of this.

COUNCILMAN CLARKE: I hear what you're saying. I'm just, you know, you throw these numbers out ther and I would have hoped you would have had a little more detailed information or tell me where I could get a little more detailed information as it relates to supporting the evidence associated with these numbers. Is there something that I can get that you can refer me to?

MR. THORNBURGH: Again, I took these from the five-year plan, so I would think that the

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best source would be to come from the folks at PGW, I would assume, who contributed that piece of the five-year plan.

COUNCILMAN KENNEY: In all fairness to Mr. Thornburgh we could have had some detail if executives from PGW people and the Administration who have some involvement with PGW would have been willing to come here to testify today. We may have been able to question them on these issues. But since they are not here, it's difficult to suppose. But if they were at the table, we could have either had the issue debunked or we could have had it confirmed, but having this Chair empty makes it difficult to do that.

COUNCILMAN CLARKE: Respectfully, Mr. Chairman, when you put numbers out there, particularly numbers that talk of such magnitude, and you're talking about employees and you're talking senior citizens, you in fact know those are flash point issues as we move ahead in the discussion, it's my hope that you would have some level of specificity as it relates to those numbers.

COUNCILMAN KENNEY: It says on the handout that fundamental issues for PGW from the

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City's Fiscal Year 2002-2006 Five-year Financial Plan. Are those bullet items from that?

COUNCILMAN CLARKE: I understand that, but the City is not submitting that evidence in the record today. If the City would do that, I would expect them to have that information also. The gentleman before us is submitting that information.

COUNCILMAN KENNEY: Did you have an opportunity to read the five-year financial plan from the City or did someone in your staff.

MR. THORNBURGH: Yes.

COUNCILMAN KENNEY: And this is where this information came from?

MR. THORNBURGH: Yes.

COUNCILMAN CLARKE: Well, you don't have what you don't have. That's okay.

Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Councilmember Rizzo.

COUNCILMAN RIZZO: Thank you.

David, thanks for being here today.

MR. THORNBURGH: Sure.

COUNCILMAN RIZZO: I'm looking at the conclusions and recommendations again for the PGW's future. PGW should be sold for whatever gain can be

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realized lest the utility become a long-term drag on Philadelphia's future. That was in the 1995 PEL report?

MR. THORNBURGH Yes.

COUNCILMAN RIZZO: Could you comment on that statement? That's great for the City in itself to get rid of the company and that long-term drag be no longer their problem. But could you comment on what you believe would be the ramification for the ratepayer, the customer? How could we as elected officials assure that selling the gas company would be good for the ratepayers, the customers, not just the City itself.

MR. THORNBURGH: Well, first, we haven't done a current analysis of that particular issue. You'd have to factor in sales price, the structure of the sales, what kind of -- one way that you could guarantee or protect against some increase in rates is to structure that into the sale. So I can't -- I don't have the numbers, I haven't done an analysis, and it depends on the nature of the agreement.

We did try to address that issue in 1989 and sketched out three scenarios, one of which -- i.e., sort of high, medium, low scenario. One of

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which had modest, maybe predictably, one had modest decreases, one was the rate stayed about the same, and one had modest increases. But didn't really go further than that because, again, it's very dependent on exactly what kind of a deal you cut.

COUNCILMAN RIZZO: You noted that millions of dollars have been spent studying this utility company's problems, but I want to not be -- I don't want to identify the particular company, but many people have had conversations with executives of PGW, representatives of the Administration, and a lot of private companies, utility companies, investor-owned utility companies have wasted millions and millions of dollars studying it, restudying it, making presentation, and basically being just turned away saying, we're not interested in a management agreement. They're not interesting in selling the utilities. These companies have finally said, look, if you want to have a conversation, you call us because we're not calling you. So by some of the things that I've heard, it convinces me that this current management and the Administration aren't really sincere about trying to fix some of the problems that we're dealing with

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here today and all along. So it's upsetting when you hear people discuss the fact that they've expressed an interest and basically just discard it and a lot of money wasted.

MR. THORNBURGH: Well, I'm afraid I can't really comment on that. It's just to say that, you know, ideally and maybe even theoretically, the City would love to approach a possible sale from a position of strength, that you'd like to have, as it were, fattened up the turkey before you took it to market.

COUNCILMAN KENNEY: The problem is there's not a piece of meat left on the bone.

COUNCILMAN RIZZO: And you used the right animal.

COUNCILMAN KENNEY: It's like after Thanksgiving in a large family; it's gone.

To comment on Councilmember Rizzo's question as to why after all these studies from private utilities and management agreements and other things, why no one took the bait was because there was too much meat left on the bone at that particular time. And now we're again, as governments always are, seemingly always are, at point of crisis. We are now dealing from a position of weakness as opposed to a position of strength.

MR. THORNBURGH: But I think in making this decision, you have to compare the alternatives and you have to say, what would it take? Is it possible, and I look back over just the last 28 years of PGW's path, do I really think it's possible to fix PGW, to hire new management structure, give them the incentives to perform, clean up the governance issues that have been mentioned here today in a reasonably short period of time? And frankly, that was the assumption in 1995 and it didn't turn out to work that way. So you have to balance the sense of the possible and, again, the time and effort that you have to allocate to these kinds of questions and sort of ultimately decide what's the shortest and best distance between two points.

COUNCILMAN RIZZO: So based on the 1995 recommendation, that's still the recommendation?

MR. THORNBURGH: Well, yeah. And what we said there is, here's what you have to do in order to make this work as a City-owned utility. But, frankly, if you can't do that, then sell it.

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And I think since the six years, the five and a half years since we did that have convinced us that it may be theoretically possible to engineer those kinds of changes, but it doesn't seem practically possible.

COUNCILMAN RIZZO: Well, that confirms my thought because when I knew of efforts to manage the company and even share in the profits that could be realized by a private management agreement, when that was rejected, I just couldn't believe that a sharing of the profits and a management team coming in that has experience in this region operating a local gas utility company and not, as Councilman Kenney said, biting on that, I just realized that there wasn't a sincere effort to repair or salvage the meat that was on that turkey. Thanks.

MR. THORNBURGH: You're welcome.

COUNCILMAN KENNEY: Thank you very much for your testimony.

MR. THORNBURGH: Thank you, Councilman.

COUNCILMAN KENNEY: Mr. Bertocci, please.

(Witness comes forward.)

COUNCILMAN KENNEY: Thank you very much

for your patience. Please identify yourself for the record.

MR. BERTOCCI: My name is Philip Bertocci. I'm the supervising attorney of the Energy Community Legal Services. I'm testifying today as the Public Advocate under a charge from the Philadelphia Gas Commission to advocate on behalf of residential ratepayers of the Philadelphia Gas Works. I've submitted some testimony in writing. And I'm not going to give all that testimony today because I know that you can read it. You know who I am. And also some of the things that I'm going to say would just repeat what Mr. Kelly has said concerning the effects of the sale of PGW. So I'll try to truncate a little bit of my testimony, knowing that there are other people behind waiting in line also.

COUNCILMAN KENNEY: Thank you.

MR. BERTOCCI: I do want to say that I was invited to provide this testimony by Councilman Kenney who is the Chair of the City Council Committee on Public Property. Although I strongly oppose the sale of PGW, I appreciate the efforts of Councilman Kenney and others in City Council to

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provided a public forum for discussion of PGW matters other than the shameful scandals of the last few years. This is a valuable opportunity to identify PGW's current most pressing needs. It's a opportunity to increase public understanding of the policy choices which must be confronted by PGW, and if I may say so, I believe that this is an opportunity to identify misconceptions which may prevent clear thinking about PGW's problems.

Changes have occurred in PGW's situation which require new analysis and new approaches. We have a situation where PGW and the City have become particularly subject to forces not within the City's immediate control or even within any control at all. I'm referring to the new run-up in gas costs which have increased customers bills by over 50 percent and there's the transfer of jurisdiction to the PUC. That transfer has occurred under circumstances in which the City has really lost control, at least temporarily, of one of the most important mechanisms for controlling and managing the utility, the structuring and setting the rates.

I want to say something which I think can never be repeated enough. Tens of thousands of

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Philadelphians live in financial circumstances where they have difficulty paying for the most fundamental necessities of life, including utility service. PGW's problems may not be seen just in terms of management abstractions - cash flow, debt equity ratios, debt service coverage, average time of response to a service call. When PGW costs too much, fails to provide efficiently the basic services needed to keep row houses warm, fails to provide consumer protections which are routinely provided throughout the state, when PGW does these things or fails to do these things, it inflicts real suffering on our own Philadelphia families.

As a municipality, we cannot allow ourselves to lose site of that human reality. Even with the consumer protections provided in the PGW's tariff. PGW terminated gas service to over 25,000 customers between May and October of last year, a fact that should give pause to those who would like to believe that PGW's financial problems could be resolved by more widespread use of termination as a collection device.

By way of introduction, I'd like to look at the question which Councilman Kenney has squarely paused. In recent weeks, there have been various reports that various parties have expressed interest in purchasing PGW from the City. We don't know much about what kinds of expressions of interest there have been, and so we're not really in a position to talk about any particular proposal that's been made. And as you all know, the devil is often in the details.

In this testimony, I'm simply going to focus on three subjects which commonly come up when sale is discuss. One, if PGW is sold, will rates go down? Two, if PGW is sold, will the costs of PGW's low-income, senior citizen, and consumer protection programs be eliminated or reduced? And three, will a decision to sell PGW resolve the issues involving PGW that must be resolved in the next nine months? Such issues as whether the City should commit to grant back the 18 million City payment? What cost and productivity savings should be sought through the negotiations with the Gas Workers Union in collective bargaining which is to take place in May. And the issues related to PGW governance and management.

On the first issue, the one as to

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whether rates will go down, I think the best information suggests that if PGW were sold to an investor-owned utility, rates will inevitably go up, ratepayers will inevitably pay more. And I think that you have heard basically the reasoning that's been presented by Mr. Kelly on that subject. There's someplace between 50 and 70 million dollars annually in savings that come from municipal ownership. And that just to stand even, any privately-owned utility that acquired PGW would have to achieve 50 to 70 million dollars in savings just to keep rates where they are or where they will be at the time PGW is acquired.

COUNCILMAN KENNEY: I don't mean to interrupt, but I wanted to just verify. I think Kelly at the end of his testimony indicated due to a PGW bond refinancing, that gap on the municipal bond status may be as low $25 million, not 50.

MR. BERTOCCI: Well, he didn't explain how he arrived at that conclusion and I'm really not in a position to comment on it. I will say, however, that that's not the only study that's recently been done. PGW had an expert who has provided pre-file testimony to the PUC which

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estimates about 50 million, the Luken study. And if you have difficulty acquiring that, I'll be glad to get a copy of that for you.

COUNCILMAN KENNEY: Okay.

MR. BERTOCCI: So I'm still working with a $50 million figure. If the figure turned out to be less than that and everything is up for debate and discussion, then that would be a figure that we'd have to look at and then we would have to make our judgments based on whether if it was only $50 million -- if it was only 25 rather than 50, then it might change the conclusions that we were draw.

COUNCILMAN KENNEY: Okay. I'm sorry to interrupt.

MR. BERTOCCI: That's fine. Everyone is welcome to interrupt -- or to ask questions; I won't call it an interruption when it comes from Councilman Kenney.

COUNCILMAN KENNEY: Thank you.

MR. BERTOCCI: In my judgment, at this particular point, it does not seem that the savings that could be realized, that there's really room for a savings at PGW that could make up that difference. And one of the reasons is that the main area of savings that would have to be targeted are really wages and benefits. $108 million of PGW's budget goes for about 11 or 13 percent goes for wages and benefits. That's about 33 percent of the non-gas cost. PGW has already estimated that it's going to try save 20 million in operating costs going forward. We're not sure that it can do that. But in order for an investor-owned utility that acquired PGW, they would have to achieve additional savings on top of even the savings that PGW claims that it can make in order to break even.

So I think that at this point, from the information that I have, the conclusion is unavoidable that the sale of PGW is likely to result in an increase in the customer's overall bill at least in the range of 5 to 10 percent above any rate increase that would otherwise take place. And such a rate increase would be more like an increase in state and federal taxes on PGW customers because most of the process of the rate increase would flow to the state and federal government to compensate for the increased tax burden which ratepayers would have imposed upon them through the pass-through of those tax costs to the ratepayers. Increased gas

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rates would increase the burden on Philadelphia's struggling households without significantly, therefore, benefiting the City's General Fund. At same time from an economic development point of view, higher rates for energy, as you know, would not stimulate the development of business in the City.

On the second issue, the cost of PGW's low-income programs, I believe the sale of PGW to an investor-owned utility will not significantly reduce the cost of those programs. Discussions about PGW often include the view that if PGW were privatized, the cost of PGW's universal service programs would be reduced. I use the term "universal service" because that's the term that the PUC uses to designate low-income programs. Particularly, PGW's customer responsibility program called CRP, a program which for most participants provides gas at a discount base on ability to pay. CRP also includes a conservation works program. That's a weatherization program which through customer education and various improvements reduces consumption of low-income customers with particularly high usage.

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The aim of these programs is to provide reduced rates and weatherization assistance so as, in the PUC's terminology, to assist low-income retail gas customers to afford natural gas services. These costs vary from year to year. That is, the cost of the low income program, depending on the volume of gas consumed and the price of natural gas. PGW's latest estimate of a total CRP discounts in Fiscal Year 2001 is $40 million.

Let me say at the outset that neither PGW's low-income programs or the senior citizen discount are the cause of the current crisis at PGW. in fact, there is substantial expert authority to support the view that PGW's low-income program, that's CRP program, makes economic sense, that it reduces collection costs by charging low-income customers a price that is affordable and enables PGW to recover all its variable costs and something against the fixed costs of maintaining people on the system as a whole.

Even if you don't agree with that theory underlying the CRP program, nevertheless, the hard fact is that these costs are unlikely to significantly change if PGW is privatized. It's

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important to keep in mind that even in an investor-owned utility will still be a company regulated by the PUC. And PUC regulations and even the Gas Deregulation Act itself require that a national gas distribution company, whether municipally owned or whether investor owned maintain at a minimum existing levels of consumer protections and policies and services to assist low-income customers to afford natural gas services. In other words, the Gas Choice Act requires that universal service provisions be maintained, and I quote, "at the same level of quality under retail competition as in existence before the passage of the Gas Deregulation Act."

So really what we're having and what you'll see is that the low-income program, the customer responsibility that PGW has is a program that is likely to be maintained by the PUC at the same levels as it is today. Moreover, no one should think that the PUC is going back away from that. In fact, our experience has been with PECO, for instance, in the electric restructuring, PECO's customer assistance program went from 30,000 people up to 90,000 customers with a program cost of

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approximately $50 million annually.

So turning to the senior citizen discount program, I want to point out to you that the sale of PGW in itself will not bring about changes in the senior citizen discount program either. When the legislature passed the Natural Gas Choice in Competition Act, the General Assembly grandfathered the senior citizen discount as of the fall of 2003. Unless Council acts between now and then, senior citizens becoming 65 after the fall of 2003 will not be able to apply for the senior citizen discount. However, the Deregulation Act also provides that any change in the senior citizen discount program is a matter to be addressed not by PGW, not by PFMC, not by the Gas Commission, but by the Philadelphia City Council.

COUNCILMAN KENNEY: We know.

MR. BERTOCCI: And I'm saying if PGW were to be sold, the buyer will not have the legal authority to alter the existing senior citizen discount unless that was actually in the terms of the sale. And City Council, I believe, would have to approve the sale of PGW as it's part of the Home Rule Charter.

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Did you have a follow-up question you wanted to ask me?

COUNCILMAN KENNEY: No. I'm sorry. We are painfully aware of that responsibility. I wasn't here when it happened, but I'm here now so...

MR. BERTOCCI: The third point I want to make is that the sale of PGW is not a quick fix. The sale of PGW will not eliminate the need to resolve the issues facing PGW in the next nine months. We would all like to have a natural gas utility company in Philadelphia which is expensive efficient and safe and which will further the welfare of Philadelphia residential customers and the economic development of the City. Even if a decision is made to sell PGW, that sale would likely take months, if not years to negotiate and accomplish, including probably approval by the PUC.

While I commend the Councilmembers for providing a forum for discussion of PGW's problems and elevating the level of public understanding, discussion of sale of PGW does not address PGW's most immediate and pressing needs. There are important problems calling out for resolution and I'm highlight just a few.

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First, the City as the owner of PGW must accept the challenge in addressing the crisis at PGW, a crisis which as the Mayor himself has stated in his recent budget address has been caused by, quote, years of poor management compounded by a monumental computer system failure, unquote. The most basic need is for the various parts of PGW governance to work together in the fulfillment of the City's ownership responsibilities.

COUNCILMAN KENNEY: You will agree that's easier said than done.

MR. BERTOCCI: It's easier said than done, but when we look at Los Angeles, for instance, as form PUC Commissioner Hanger pointed in a recent article, you look at Los Angeles and you say there's Los Angeles with all the chaos in California, Los Angeles is sitting pretty because it has an electric municipal utility which has shielded the citizens of Los Angels from all the problems that have been experienced in California. And I say to myself, are we -- what's the matter with us in Philadelphia that we can't achieve the same things that can be accomplished here in Los Angeles. Certainly, we're not a second class City. And certainly, we have the same resources in terms of intelligence, in terms of civic spirit, in terms of commitment that they have out there. And so I don't buy the notion that somehow or another there's something about Philadelphia that makes it just allergic to running a gas utility efficiently.

COUNCILMAN KENNEY: Not to interrupt again. I've done this a couple times. But the one thing we're missing that Los Angeles has is population. That's one of our major problems I think in this whole issue of both gas issues and city service issues. If I had the population of LA, I could do a lot of things with gas and schools and others that we simply can't do because of the continuing reducing size of our tax base and our ratepaying base.

MR. BERTOCCI: Well, I think that is a factor, although I think it can be exaggerated. The reduction in the rate base of PGW has been relatively small over the last decade. It's still significant and we'd like to see it expanding because the more customers you have with a constant network, usually the less burden on each customer or maintaining a network as a whole.

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COUNCILMAN KENNEY: But if we've lost, say, 200,000 people for argument sake in the last eight years, that would probably represent if we did four on average in the house, divide that and that will tell you the number of customers we lost which I would think is substantial and they're probably paying customers, people who have the ability to pay at least.

MR. BERTOCCI: That's right.

I think that in recent weeks we've seen the City taking positive steps in that direction, in the direction of acting as a real owner and accepting its ownership responsibilities. I think that the City Council's action in providing the $45 million advance was one of those steps. And I strongly disagree with those who say that the City will not get this money back. I think that the City has the capacity to assure that the Gas Works is provided a leadership structure and takes the steps necessary to have the efficiency and productivity which would guarantee that this money would be paid back. And I think we come into -- just to comment on what was said before by Mr. Thornburgh, I think one of the problems has been that people have thought, well, if we appoint a competent management, that's all that we need to do. The problem is not just a matter of getting an competent management, but it's also supporting that that management in a way which really is constructive in clearing the way for that management and protecting management from having perhaps some of demands which have been on managements in the past. It's not a magic thing to appoint some people and throw them into a situation and then say, okay, guys, you're the professionals, get to work and don't expect further support.

I think really we've reached a stage at PGW where we have to recognize that PGW is not a low maintenance operation on the part of the political establishment in Philadelphia. That if we are going to make the commitment to not to sell PGW and to hold on to PGW, it's going to require continuing cooperative efforts between a professional management and essentially the owner, which is the City of Philadelphia.

The second issue of the three issues that I think we have to face is the allocation of the economic burdens created by prior PGW mismanagement. Is the City going to continue to

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insist that ratepayers pay through rates for the full cost of this mismanagement? Or will the City resolve to grant back the $18 million City payment for this year and as necessary until PGW gets back on its feet?

And I want to say here, I don't think that anyone can responsibly say that the General Fund indefinitely should be subsidizing PGW, but the fact is, for years, PGW has been subsidizing the General Fund to the tune of $18 million a year. It's only reasonable to think that in this transition period where essentially the City was caught and where the governance structure is unwieldy, that the City is going to have to recognize that -- or at least I urge the City to recognize that you just can't get the 18 million every year, and the thing to do is to try to get PGW into a situation where it can reliably provide that 18 million but that that may not be possible in the short term.

The third issue involves upcoming labor negotiations of PGW. What will the City attempt to achieve between now and May in its negotiations of a new collective bargaining agreement with the Gas

Workers Employees Union, an agreement which should lay the foundation for productivity and cost savings which are absolutely critical to the survival of a municipally-owned utility. This is a situation which, again, calls for a full political support of the political community, some kind of consensus as to what needs to be done. Too often, I think, in the past we've had situations where labor management decisions have ended not being made really in the interest of the long-term survival of PGW as a municipally-owned entity.

A fourth issue concerns future PGW governance, management, and strategic planning. How should the City approach the need to obtain professional non-interim management for PGW, and through the development of a strategic plan, set a direction which takes the most important contingencies into account. That's not an easy thing to do. It really calls for continued attention by City Council and by the Mayor.

In conclusion, the City cannot afford to sell PGW. It is an invaluable asset of the City of Philadelphia which if properly managed has real potential to assist this City in furthering

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municipal, economic development goals and legitimate social priorities. It is a gross oversimplification to portray the issue of sale as one of governmental control versus free enterprise. After sale PGW will still have a monopoly on distribution services in Philadelphia and its rates will be set not by market forces, but by the Pennsylvania Public Utility Commission.

I think it's gross oversimplification to suggest that the sale of PGW will free the company and its ratepayers from the economic burdens associated with government-run enterprises. In fact, sale of PGW will mean that PGW customers will indirectly pay more in state and federal taxes than they pay now. I think it's a gross oversimplification to suggest that sale will result in significant reductions in discounts and consumer protections and provided to low-income customers for the reasons that I think I've elaborated on enough. That's going to be carried on most likely by the PUC.

And I want to point, by the way, that the Winter Moratorium, for instance which is always pointed to as somehow a uniquely Philadelphia phenomenon and something which is contained with the Chapter 56, the regulations which govern throughout the State of Pennsylvania. No utility with the commission of its regulatory body can shut off a heating customer between the between December 1st and April 1st. And in the same way, utilities everywhere have systems of medical certifications for people who are facing the shut off of service. All those social protections are going to be here regardless of whether PGW is municipally-owned or not municipally-owned.

Finally, again, I think it's important that we have this hearing. Once we've recognized the value of PGW for all Philadelphians, we can focus on the immediate steps needed to be taken in or to refurbish PGW. If we learn from past mistakes, we will recognize that the burdens created by PGW's present condition must be truly shared by the Mayor, City Council, management and labor at PGW and should not be pushed off on already overburdened and frustrated residential ratepayers.

So I thank you for giving me the opportunity to present this testimony. I'll be glad to answer any questions.

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COUNCILMAN KENNEY: Thank you very much. There are just a few issues I'd like to clarify and maybe get some insight from you.

You indicated in your testimony on Page 3 that PGW has terminated service to over 25,000 customers between May and October last year. Do you know whether or not in all those instances there was actually a resident living in the dwelling or the service was terminated? I'm just trying to figure out whether or not these were people actively living 25,000 different houses or does this also include shutoffs at vacate properties, shutoffs at, you know people aren't living in the property or the property is dilapidated and they shut it off for safety reasons. How many of those 25,000 are actually flesh and blood human beings living in a property?

MR. BERTOCCI: Well, the source of that information was a statement which was submitted in the PUC proceedings. It was in the context of information abut collection activity. I assumed that those were current -- those were active customers, it wasn't just discontinuing service to an abandoned property where gas service had been provided and people had moved away. That could be

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further clarified by PGW. I think PGW would clarify a question if you ask them the question.

COUNCILMAN KENNEY: I'd like to ask them that today, but I'll ask them that, I guess, by letter.

I agree with your assertion on Page 2 that you made a statement that you were going to say some that will never be repeated enough. And I want you to understand that I don't think there's a lack of sensitivity. I know there's not a lack of sensitivity on my part to individuals in our City that don't have the ability to pay, that are disabled, that are elderly, that are poor, that are alone. And I think we can find the capacity in our hearts to truly take care of those people in just about any circumstance, and I think that in many ways we do. I guess the other side of that issue, having said that have already, is that it doesn't come free. Charity is charity and it's altruistic and it's good, but it's not free. A family of four or five making 50,000 a year certainly are not in the dire straights that that elderly, disabled, or indigent person is, but they're struggling, too. And they're paying tuitions and they're paying their

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auto insurance, unlike 50,000 drivers in the City who don't pay thier auto insurance, they're paying their gas bills, they're paying their water bills and they're trying to make their way in the world like everyone else. And I think what happens in many ways, this social mission that PGW has adopted over the years, however fine it is, and I think it should be maintained as best we can, does impact on the wherewithal of people who are making 45, 50, raising three or four kids to stay in the City. It's similar to the situation that I mentioned on auto insurance. People tell me I must be a dope to pay my auto insurance because there's people flying around the City without it. My rates are a thousand dollars more than they are in the suburbs -- not me this is the anecdotal information. Somebody carries that burden. What I am fearful of is that as we lose population, as we lose customers, there's less and less people available to carry that burden and, therefore, a larger impact on their particular bottom line and potentially another, as I call it, brick on the load for deciding whether or not they want to remain within the confines of the City of Philadelphia. So I'm not making a qualitative argument that one is more important than the other. But it is an important aspect of what we deal with in attempting to keep this City vibrant and a decent place to live and raise families. So I'm discounting at all what your position is and I happen to agree with it. I just think that there's another side of that which require people to pay for that particular charitable desire.

MR. BERTOCCI: I understand what you're saying and I think it's really important. I think a lot about the people that are just above, say, 150 percent of poverty who don't have the benefit of the CRP program, for instance, and yet I really hurt by increases in gas rates whether it be due to increase in natural gas costs or increase in base rates.

I do think we have to step back a little bit further and say, you know, here we a municipal utility that should be able to provide service to people here pretty much as in other cities. And yet we have essentially 50 to 70 million, if my estimates are correct, we have about 50 to 70 million more to play than a City which served by an investor-owned utility. That 50 to 70 million is like a cushion. And it can go to serve a number of

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different social purposes. To my mind, when we're looking at a utility which has performed so inadequately in so many areas, I'm concerned sometime when it's easy for people to say, well, we have to get rid of these social programs and we really have to cut back on them. That's first focus. And to my mind, that really should be the last place that we look. We really should be looking first to, do we have an efficient management? Do we have -- are we getting competent management? Are we getting the productivity that we've paid for in rates? And only after you've answered all those questions, then you say, well, can you really afford sorts of discounts? And that's a policy debate which is a legitimate and it's a matter of the resources of this community and I'd like to see that debate richen and go forward. But I resist to some degree anyone who first wants to focus on the social programs. I say let's recognize that those help a lot of people who are very needy and let's recognize that there are some other things that we can do first which may go along way toward righting refurbishing this utility.

COUNCILMAN KENNEY: And I think that I

do agree with you. That 50 to 70 million dollar arguable cushion in past years has not been used to improve the service levels to indigent and poor and elderly people and middle class families. A lot of resources of PGW has gone the social service programs of high-powered law firms and consultants and other people who have been politically active through the course of the last 25 or 30 years.

So, I main, I absolutely agree with you. The question that I have as it relates to this utility and its political involvement and political running, there is the ability but is there the will? And then I think is the real question here. While I don't think that private investor-owned companies is a panacea for anything. I do believe in many ways it takes it out of the hands of political considerations as it relates to the operation of the company. And that's what I'm worried about in this effort to stabilize, to right the ship, to fix it. Not that anyone's intentions are bad or that anyone is evilly intended, but the pure nature of politics is such that it makes us make decisions sometimes that in the private sector or outside of politics we wouldn't normally make. And I think that is philosophical concern that I have is that are we capable, and I'm pointing to myself too, are we capable of really fixing it? Do we have the political will to do? And if we don't, it ought to be taken off our hands.

MR. BERTOCCI: Well, that's the challenge, Councilman Kenney, that I pose to you as a political insider. I'm on the outside. And what I would say is that for the citizens of Philadelphia, that's the real challenge of leadership. And you and your colleagues have a wonderful opportunity to show that you're able to recognize -- and perhaps the present crisis helps us to focus better, to recognize that PGW has to be treated as an asset and it has to be protected as an asset and that to some degree some of the normal aspects of politics just cannot be allowed to infiltrate or have to be sort of banished from that particular area because this is area which is providing an absolutely fundamental service, fundamental necessity of life to the citizens of Philadelphia.

COUNCILMAN KENNEY: I've been in elected office 9 years, I've been involved in politics more

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than 20, and the thing that I worry about is maybe I'm too jaded to think that it's possible and would rather try to find another way to do it.

Let me ask you a question about the issue about the senior discount. It is a 20 percent discount and it is given regardless of income. Do you have an opinion about the efficacy of that? I mean, thankfully in our society or in our City we have senior citizens that have invested well, worked hard, earned a pension and can take care of themselves. We also are of senior citizens that are on the other end of that scale and absolutely need our help. Is there some level, politics aside, that's really morally fair or not fair for someone to be getting 20 percent discount on their gas rates? I know in our political decision we'll eventually have to deal with it.

MR. BERTOCCI: Suppose you just say, well, any senior citizen with an income of over $50,000 a year shouldn't get the discount. The problem with that is you'd probably say, well, it's still too costly. So then we go to the next question; well, what about the senior citizens discount in general.

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My main position has been for all social programs is that, first of all, you have to begin with good information. We don't know, for instance, how many senior citizens if they didn't get the senior citizen discount would be eligible for CRP.

COUNCILMAN KENNEY: I've asked for that information for the last five years. You can't get it.

MR. BERTOCCI: And in some ways, one of the most unfortunate things about this computer debacle that we've experienced is that we thought that by now we would be in a position with the BCCS system to have PGW able to generate much more precise information about profiles of its customer base and be able to give us information which would make it possible to look and understand truly what the effects would be of a particular action.

So my first step has been to say, well, don't do anything without good information. Do everything to try to get the company to a position where it has that information so that when Council makes a decision, it's not based simply upon speculation. And at that point, there are concerns that I have particularly with the senior citizens discount which is that I know that seniors by and large especially in Philadelphia stay in the house, they're inside, they don't get out very much. And we know that most public benefit programs, only about 50 percent of the people that are eligible ever apply. As soon as you make senior citizens have to go through a means testing process, you will know that there are going to be senior citizens out there that should be getting the senior citizens that will not get it. Partly because more than any group in the population, they are less likely to depart from established habits of behavior.

Now, that's something that we say and I'd like to see that explored a little bit more. I'd like to see more expert testimony on that. I'd like to see more concrete kinds of facts presented to support what I have as a theory but which I'm not ready to present to you as absolute fact.

COUNCILMAN KENNEY: Also, are you familiar with any CRP programs, privately run investor owned utilities? Does PECO have, for example, a CRP program?

MR. BERTOCCI: PECO has something called the Customer Assistant Program.

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COUNCILMAN KENNEY: How is it different from PGW's.

MR. BERTOCCI: It's different in -- the structure is different. Throughout the State of Pennsylvania, there are some general guidelines established by the PUC for customer assistance programs and you have to comply with those guidelines, but within those guidelines different utilities have different kinds of systems.

PECO's system is one in which people that are, I think, between 150 and 100 percent of poverty get a discount of 25 percent on the first 500 kilowatt hours. The first 500 kilowatt hours really isn't quite the average usage of a household of four, so it's really too low.

COUNCILMAN KENNEY: Household of four?

MR. BERTOCCI: A family of four. A household with four people in it.

COUNCILMAN KENNY: Are you talking about seniors or just people --

MR. BERTOCCI: I thought you were talking now about --

COUNCILMAN KENNEY: I'm sorry.

MR. BERTOCCI: I was getting back to --

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we left senior citizens and we were just talking about the analog of the CRP program from PGW low-income customers is PECO's Customer Assistance Program or CAP program. It has two parts. If you're between 100 and 150 percent of poverty, then you get a 25 percent discount on the first 500 kilowatts. It's a little bit below what an average family of four would use. If you are 100 percent of poverty or less, then you get a 50 percent discount. We believe that the 50 percent discount is not a bad discount for the people between 100 percent poverty and 50 of poverty, but for the very poor that's really just totally inadequate. It doesn't help them -- it helps them, but it doesn't help them sufficiently to afford electric service.

PECO is currently under a mandate from the PUC to investigate more fully the adequacies of its CAP program for those very low-income people. The cost of that program right now for PECO has in rates about $50 million a year. That's in their -- you're asking, well, does that come out of base rates? I'm talking about an electric utility here, not the gas utility. But it's not really -- the $50 million is in base rates, but what's anticipated in

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restructuring is that there be a separate, what they call, reconcilable customer assistance which would mean that would be like a surcharge on the bill. All customers would be charged or all residential customers would be charged a certain amount as the so-called universal service surcharge. If PECO collected by that surcharge more than its low-income program's cost then it would be refunded to customers as credit in the subsequent year. That's the way that program operates.

COUNCILMAN KENNEY: Finally, my understanding of the major raise in the cost of gas this year has to do with the cost of the gas purchase. That as a result of lack of production in the prior year because of the lack of demand; is that how it cyclicly works? You have a warm winter. In winters the producers of natural gas start cranking down their operation. All of a sudden now we have a cold winter. The supplies aren't there. The quantity is down, the demand is up, therefore, the price skyrockets?

MR. BERTOCCI: I think you've touched at least on one element which is after two or three warmer than normal winters with gas prices

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relatively low, there was less incentive on the part of producers to drill for more, and as a result supplies go down. And then when you have an increased demand then you have what you would expect the price going up. But I think there are a lot of other factors, the national economy. You simply can't ignore the fact that the price of oil is going up. Oil competes with gas. As oil goes up, the gas people say, hey, this is chance. We can still compete and we just follow oil as it goes up and we're still sitting pretty and we're making more.

COUNCILMAN KENNEY: Now, a forecast would indicate that maybe next year is going to be as cold a winter it was this year. In the course of this spring and summer, fall, the gas producers start, I would assume because the demand is up, start generating more production and more supply of gas. Therefore, it would seem likely that in an additional cold winter, the cost of gas would go down and that rate that we pay for the cost of gas would also go down.

MR. BERTOCCI: That's right, and that's the way it traditionally has, although I would expect that next year it's going to go down very significantly because this year, remember, we're using a lot of gas that was bought at prices well below what we currently have to pay for it. And we'll be buying for next year in this year's market at prices which are going to be really reflect this run-up in gas prices.

COUNCILMAN KENNEY: So we'll still have another bump perhaps or at least less of a reduction. But if we experience theoretically three cold winters in a row, by the second winter we'll be back to some normalcy?

MR. BERTOCCI: Well, you and I may know about the same. We read the New York Times and maybe the Wall Street Journal and we have some general views, but you need to talk to an economist more about all the factors which play.

There's one thing I would want to say about gas cost which I think is something that's not understood very well in Philadelphia at all by most people. And that is, natural gas is truly a pass-through by PGW. I compare it to the situation where you go to a garage and you buy a carburetor and you pay the garage for the cost of the carburetor, you pay also a markup on a carburetor

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and then you pay the garage to put the carburetor in your car. It's not the same with PGW and natural gas. What PGW charges you is only what it bills -- only what it pays for natural gas. It's not marking up any kind of profit. It's not making any money on the natural gas itself. You say, well, then why is my bill more per MCF than what PGW pays for it? Well, the difference between the price that PGW pays per MCF and your bill is the add-on cost of maintaining that whole system of pipes, billing, metering, you know, all of the costs of maintaining the system. But they're not making money on the gas itself. They're not acting as a middleman for the gas. And I think that's important for people to understand. The real problem here is, again, to say we need a national energy policy. We need more involvement by both state and federal government in terms of dealing with the issues of customer assistance, the LIEAP program, for instance. We need a state equivalent of the LIEAP program. That's Low Income Energy Assistance, cash assistance, perhaps increasing the levels above that 150 to 200 percent of poverty would be good.

When you're talking about utilities,

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you're always talking about millions and of dollars. You're never talking about small change.

COUNCILMAN KENNEY: Thank you very much. Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Mr. Chairman.

I have to make this comment that when we look at the senior citizens discount at the same time we look at the fact that our senior citizens pay real estate taxes that fund the school district. Most of those senior citizens don't have any kids in that system. So I would hope on the same track that we would look at that before we start tinkering with something that could affect their lives.

MR. BERTOCCI: I think the point is well taken. It's part of that whole policy debate. I don't think this is a simple thing. That's my main point, because it's not a simple issue and this is an issue which would really challenge City Council. And I hope that it's going to be based on the development of really good information and a broad base kind of information of the sort that --

COUNCILMAN KENNEY: As soon as we get that computer system straightened out, we'll have

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all that information available at our fingertips.

Thank you very much for your testimony.

Mr. Frank Redding.

I'm sorry, Councilmember Cohen.

COUNCILMAN COHEN: I agreed with everything said until the very end when you said it's not a simple matter. I happen to think it's a very simple matter. I think that what is happening in one area is that those who have always been against an municipally-owned utility for whatever reason they may have are now seizing upon the troubles of PGW, however they were caused, to push the concept of sale of the utility.

I think those have us felt that the government has a responsibility for the welfare of its citizens, not only the welfare of the business segment of the City of Philadelphia, but the people who live in the City, I think that those of us feel that the government would be advocating it's, what I regard, is its really major obligation and that is to be responsible for the lives of those who live within the boundaries of the City of Philadelphia. That's what we're talking about.

Those who advocate the sale have always

felt that the real problem is the senior citizen discount and perhaps that special discount for low income citizens. Often they were also against the shutoff because they thought that would interfere with bill collection.

And so to me, it's a simple thing. The City has a responsibility, not only for the bookkeeping of its budget, but for the lives of its citizens. And gradually over the last 20 or 30 years there has been a movement in the direction that go back to the Middle Ages: Every citizen fends for himself, the government's responsibility is only the most elemental one, that of cleaning the streets, furnishing police and fire protection. And I reject that. To me it's simple. We got to make PGW work. I agree with you when you called it, I believe a treasurer or a gem of the City government. I believe that's the case. I think we've got to make it work. And when we look at it, the real problem that I see financially more than any other matter is that PGW has been looted by the City government for $18 million a year, year after year. If, say, for the last 10 years the City government had not done it, there would be a pool of $180 million which largely would be sufficient to deal with the existing problems that we have.

So to me, the final answer is simple. Maybe adjusting the right knobs, finding the right keys to push may be complex, but the simple question is the responsibility of the City. And I believe and I'm as dead set against getting rid of PGW as I am the conversion of City Hall into some private industrial business. I think these belong to the people of Philadelphia and I am strongly opposed to any solutions except the good solutions.

PGW is not alone historically. And I guess Councilwoman Verna and I and maybe Councilman Longstreth would be the only ones who know that historically and covering at least the last 35 years, there have been three agencies that were always at bottom of the list of the City. That may refer to the question of political will that Councilman Kenney referred to. The schools, nobody in City government wanted any responsibility. They said, Don't bother us, we won't bother you. We'll not bother with looking at the conditions of the schools. The Philadelphia housing authority and the Gas Works. Those three agencies largely serve, and this I agree with Councilman Kenney, serve the political purposes of whichever party or whichever branch of whatever party was in power. It served the patronage needs.

Apparently, the reform movement with the Home Rule Charter that established a strong civil service, limited patronage. Other ways were found. We developed this concept of authorities and separate operations which then freed the City which ran all these separate agencies, but it freed them from the restrictions on patronage deals. But the Gas Works, we never looked at it back in 1968 when I first joined the City Council. Nobody was interested in anything except is that $18 million going to be there. "PGW, you give us that money, you can run your own show. PHA, don't ask us for a penny. You can do whatever you want. Just make sure if call upon you for political purposes, you know, you're recorded as being present, active, and supporting."

And the same thing with the school system. As long as we satisfied the coal miners up in Scranton, Anderson, you know, the historic legendary figure who ran the schools' finances was

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satisfied, you then got the votes of the representatives of the coal areas for state share of the school budget.

I think you're right on political will and I think it's our responsibility to develop that political will. Any that don't have that will are choosing not to have it. We could have it. We have the power. And when we go out to campaign, we tell everybody we have power, we tell everybody we're going to exercise it in the public interest, and then we get into office and we come to grips with the realities of public life and things happen. I think this needs a lot of study. I think it's good we're talking about it, though I think that putting this matter before the City Council serves both a good and a bad purpose.

It serves the bad purpose of vindicating that there is a general view of selling the Gas Works because most of us in public life have not uttered any criticism of the Mayor's statement advocating the sale. Maybe this the first voice speaking out loudly against it. I'm against the sale. I will fight it with every vestige of whatever I can find to fight it with. I think it's

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a bad idea because I think its motivation is not a good motivation. The motivation is bad because it wants to eliminate in any way it can or weakened the senior citizen, the low-income discount and I think we have an obligation as a government to provide those purposes. And so I think you're right in trying to get the facts.

Incidentally, Councilman Kenney, if I may just discuss one other item, and that is the senior citizen discount. Every study I know of shows that if you demand income information from senior citizens, you cut down enormously the percentages of senior citizens who are willing to apply. Senior citizens, it will happen to all of you and I can tell you the alternative is worse if it doesn't happen to you. Will get older. And in the process of aging, every study shows that overwhelmingly senior citizens become less secure in their feeling and they don't want the government prying into their activities or they're fearful that somebody's going to charge them with doing the wrong thing. Whenever you apply a means test, you cut down enormously the aid to the poorest of citizens. My personal guess is -- don't you have to apply to

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get the senior citizen discount?

MR. BERTOCCI: Yes, you do.

COUNCILMAN COHEN: I would think that when the studies are finally made, if there's any way of getting it, you will find very few affluent people who apply who take the positive step of saying, Give me that senior citizen discount." And that is to my understanding as to why senior citizens organizations all over the country opposed so-called means testing. On the surface it seems fair to say -- and you know, he's no longer among us so he won't be concerned, but maybe his relatives were. We had used to say you should Freddie Mann, get a 20 percent discount for gas. He was the favorite pan whipping boy in this situation.

Obviously, on the surface it seems wrong and the 50,000-a-year folks that Councilman Kenny talks about are hurt by that kind, but I'll bet there is very little dipping of that kind by affluent citizens.

The PGW has records. I don't know whether they could be made available or not, but I would like to see such a study because I think that that theory that we're letting rich people get away

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with a lot, it just sounds like President Bush talking about his tax plan, you know, that where the great bulk of the tax increase, the dollars, the actual dollars and only a small portion will come to the less affluent.

So I congratulate you for your analysis here in general and I congratulate Councilman Kenney on probably raising it from the positive point of view, and maybe I am critical of him for raising it to the extent it represents the negative point of view. But I think it requires a lot of attention and study and I'm listening intently to everybody's point of view, but from whatever I hear as of now, this voice is going to be loud, probably strident, probably confrontational, probably everything because I think the problems that senior citizens face in Philadelphia economically is a very desperate situation. And just the threat that this senior citizen discount or low-income discount may be revised downward is a terrible thing to force upon senior citizens. Thank you. I thought it was going to start with a question, but I couldn't resist, Councilman Kenney. Forgive me for that statement. But I think your analysis is excellent.

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And I understand the other analysis and there ought to be a to be a broad and I hope everybody knows that out in the hinterlands, I don't think there's very much support for the concept of sale of the Gas Works. I think it's all of these upper echelon groups that have always wanted the sale of the Gas Works that are advocating it today.

Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Thank you Councilman Cohen.

(Applause.)

COUNCILMAN KENNEY: Thank you very much Mr. Bertocci. I appreciate your testimony.

Mr. Frank Redding, would you please come to the table to testify. The stenographer needs a two minimum break.

(Brief recess.)

COUNCILMAN KENNEY: Thank you very much. We're now back in session. I want to apologize the length of the delay. I realize that only one or two people can testify at the time and the testimony has been lengthy through the course of the day, so I appreciate your attendance.

Please identify yourself for the record

and proceed.

MR. REDDING: My name is Frank Redding, I'm president of the Gas Works Employees Union, Local 686.

COUNCILMAN KENNEY: Thank you. Please proceed.

MR. REDDING: Since 1841 until the present, the City has maintain ownership of PGW. Throughout its history. While surviving every recession and economic downturn, including the Great Depression in the 1930s, this City never seriously entertained the sale of the Gas Works. Instead, in the best interest of the citizens of Philadelphia, it was retained to ensure continued safe and reliable service. It also remained the profit center for the City for all of those years. To this very day, members of Local 686 strive to provide a high level of service. It seems almost ironic that at this point in time on the heels of the best economic period our country has ever experienced, that PGW might end up on the auction block. In my following remarks, I hope to convey the reasons why it would not be prudent to sell PGW despite the current and temporary financial hardships our

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company is facing. I would also ask for a moment you disregard PGW's recent difficulties, avoid committing to a sale because it is the easy thing to do or suddenly a popular choice. And instead examine the devastating affect the sale would have on the work force, their families and our fellow citizens.

When I say that I represent 1400 members, you must add to that figure their families and dependents which number 10,000 people, all who rely either directly or indirect on PGW as their primary or only source of income. In today's society, one can not ignore the existence of non-traditional extended families and the fact that gainfully employed people also often support grandchildren and/or elderly relatives. In a city such as Philadelphia, where one-third of its citizens are below the federal poverty level, I can assume you that our members routinely assume these obligations. In addition, the sale of PGW would have a devastating impact on all of the people who work ther and would run counter to the City's goals of increasing its tax base and eliminating urban blight. Only by keeping decent paying jobs in

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Philadelphia will its citizens be able to purchase and maintain homes, and financially support vital City services. The sale of PGW would definitely be a step in the wrong direction that would eventually lead to the loss of those jobs despite whatever initial promises are made by any potential buyer.

When I speak of the people that I represent, I would like Council to know that the PGW Union work force is one of the most culturally diverse anywhere to be found. Historically, PGW's hiring practices have proportionally reflected the cultural diversity of the City. Especially in the last 15 years with the changing demographics of Philadelphia, PGW has more than met the challenge of equal opportunity in hiring and promotion. Through its policy of non-discrimination and its commitment to fully and fairly represent all of our members, the union has always supported PGW in this goal. Unlike other neighboring utilities that only display diversity in advertisements, PGW's success in diversity hiring is, I believe, a direct result of City ownership. I would challenge any potential buyer to prove that it hires as fairly as PGW has consistently done.

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Nothing is more important than the health and safety of the citizens of Philadelphia. As a large metropolitan community, with older row-home type residential and commercial structures making up most of the dwellings in the City, special consideration should be given to the emergency service work force that PGW has always made sure was available for the safety of its customers. PGW has always provided a committed, safety conscious, efficient and highly skilled work force to provide safety-sensitive duties. Our members turn on and shut off gas, replace old mains and house lines, service and repair customer appliances at costs far below what many independent contractors will charge. In fact, many older cast iron house heaters, that will virtually never crack, are repaired by PGW. Many other utilities refuse to fix those types of heaters and contractors are all too happy to completely replace them at exorbitant costs. In Philadelphia, with one-third of its population below the federal poverty level, these services ensure that the homes those furnaces heat remain safe and habitable.

More important than the economic

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benefits of an adequate serve force to the citizens of Philadelphia is the fact that the same personnel are trained and available to respond to the overwhelming number of gas leaks that PGW's aging cast iron main system suffers. PGW has roughly 3,000 miles of gas main in the City of Philadelphia. Over 50 percent of the system is composed of antiquated, cast iron pipes. In the PGW five-year financial and management plan, Fiscal Years 2000-2004, the author of the report, Public Financial Management, Inc., states that this represents the highest percentage of cast iron main in any system in the United States. Therefore, the PGW main system is brittle and prone to breakage. As an example, on a daily basis PGW has a minimum of 700 known gas leaks in the streets of Philadelphia that it does not have time to promptly repair. In the colder weather, the number of such leaks increases dramatically. Understandably, our service forces primarily exist to respond to those leaks in order to protect human life and customer property. Our work force has a unique, vested interest in protecting the lives of Philadelphians. They are our family members, friends and neighbors. You

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won't find this kind of commitment from a private utility and its contract employees. As I have already stated, Philadelphia is unique in this area as to the close proximity of residential dwellings, and it has only been through use of our professionally trained and competent work force that we have kept the number of explosions and other incidents to a minimum. Our other departments such as Transportation, Office and Allied, and Gas Supply also play critical roles in serving the Philadelphia public. Many of the employees in those departments have gas leak emergency experience and are willing and ready to assist if ever needed.

No other utility or buyer of PGW will make the same commitment to staffing levels as PGW has done. This is demonstrated by the fact that other local utilities in the Philadelphia area have downsized so dramatically that they no longer have enough employees to cover their own territories. Frequently, when customers of those utilities call for service, they are talking to a person in another state who then refers the work order to a non-utility suburban contractor who has competitively bid for the right to receive that

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referral. Consequently, it is cost, not safety, that is the major determinant of the extent and quality of the service ultimately rendered. This kind of inadequate staffing and the utilization of a private utility's employees or those of a contractor, would inevitably compromise the welfare and safety of the citizens of Philadelphia who live in older homes and do not have the economic resources to upgrade their gas piping and heating systems. And while these practices may be profitable for any privately-owned successor to PGW, they would do nothing to provide jobs for the people who live in Philadelphia.

Additionally, some of the potential buyers of PGW that have been publicly mentioned have also demonstrated a strong anti-union bias and have spent millions of dollars to thwart union certification elections. As I have previously stated, Local 686 is partly responsible for PGW's diversity in hiring practices and the preservation of jobs. Any sale to such an anti-union entity, without unconditional recognition of Local 686 and assumption of its contract, would definitely lead to the loss of many jobs impacting many families.

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I would never purport to have the ability to explain the other impediments to the sale of PGW, such as the cost and tax ramifications associated with the conversion of tax-free municipal bonds or any of the other legal complexities associated with the sale of a major City asset. I wouldn't belabor these facts even if I understood them. I have tried to explain the cost in more human terms, such as the loss of jobs to many families, the diminished service to PGW customers, and risks to the safety of the general public inherent in the loss of qualified professional utility workers in a large city such as Philadelphia. However, I would like to mention that natural gas as a commodity has the propensity to also decline in cost. In the 1970s and the '80s, we experienced similar sharp increases in gasoline prices until they eventually leveled off and became more affordable. The economic forces of deregulation of natural gas at the well head coincident with the storage and transportation problems across the country that has led to the recent unprecedented gas cost increases, may only be temporary in nature. At present, we may be seeing

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high tide of the cycle.

Additionally, any proposition stating that the sale of PGW will result in lower prices for Philadelphia customers is erroneous. The cost of natural gas has risen comparably for all natural gas companies resulting in higher prices throughout the country. The Public Utility Commission, in its order dated November 22, 2000, Docket No. R-00005619, in Section VIII, Tariff Sections 1.2 and 11.3, recognized the potential for falling natural gas prices in the future. Let's not be too hasty to sell a major City asset that has survived the Great Depression, remained a profit center, and served the people of Philadelphia for 160 years. Please remember that our commitment to the safety of our workers and all of Philadelphia's citizens cannot be summarily supplanted by an outside entity which is all too willing to jettison hard-working employees and take shortcuts which compromise safety, simply to save money and increase its own profitability.

City Council has always been supportive of the hard working men and women who work at PGW and of organized labor. We look forward to working with Council on this critical issue.

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Thank you, I'll be happy to try to answer any questions.

COUNCILMAN KENNEY: Thank you very much for your testimony.

First, I'd like to make a couple comments. We are examining here today all the possibilities dealing with this utility. It is my position that over the course of last 25 or 30 years, people in positions of office like myself and others have used this utility for their own ends., have in many ways taken the opportunities that were presented to them when revenues to the company were much greater than they are now, where issues relative to the shrinking and declining population base and ratepaying base was better than it is today. And I think that in many ways you are suffering from the political, the lack of political will to do things differently.

I agree with you, your members, perhaps some of the most efficient and qualified and trained people in this government. They wouldn't allow you to open a street, deal with such a volital commodity as gas, go into people's home and restart their heaters and clean out -- all the things that you guys do every day. And I also recognize that you are the first line of complaint when it comes to people complaining. As I said before, if we could get anybody to answer the phone, they could complain to them, but when you go into their house to fix their heater, they're, I'm sure, in your ear telling you about how terrible the bill is and how it's gone up and how bad the service is. And I know it can be a frustrating situation for you on a day-to-day basis, and morale then suffers because of the kind of interaction with citizens on daily basis.

Where you and I differ in this situation is that I don't think politicians have the ability or the will to change things substantially. I think they have the desire to keep things pretty much the status quo and will try to maintain the all the perks that political control that entity has. And I just would like your opinion as to what the quality of management has been in that utility in the last five -- how long you been to with the company?

MR. REDDING: Twenty-six years.

COUNCILMAN KENNEY: In the last 10 years, what is the quality middle level, upper level been at that place and how frustrated have you been

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in trying to get do things done and to do things differently that you know you need to do?

MR. REDDING: Well, I don't know if you're aware of it, but I'm just recently elected as of December 1st, and I don't have experience in dealing with management on a firsthand basis as a new official. It's been a short experience for me.

COUNCILMAN KENNEY: I don't mean as president of the union, I mean as just a person who works every day and has skills and needs to deal with this company on a regular basis. And if I'm putting you in an awkward position, vis-a-vis your employer, I apologize and you don't have to answer. But anecdotally, what I get from your members in their discussion with me is that it is an extremely frustrating situation to see things going on that they know are dead wrong, that they are in the wrong direction of the company, having the inability to change it and still have to suffer the consequences, potential consequences of bankruptcy that is facing this company now? You guys are probably the most efficient and effective people in the company. You're dealing with people who aer sometimes totally incompetent.

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MR. REDDING: Well, I can say this: I think our people have been looking forward to having permanent long-term management. I think we've been through a sea of changes and we've had different administrations at the top, but I don't think they've actually been given the chance, at least this interim team, to make some of the changes they proposed. From my part, I've done my best to convey to them that the union is there and willing to work with them to try to implement changes.

So with respect to how I feel about management in general, I think --

COUNCILMAN KENNEY: Not particular this particular crew, but those you've seen.

MR. REDDING: Even in the past, as I said before I had no firsthand dealings with upper management. But I think middle level management, a lot of those people had graduated to those jobs. They came from the ranks of the union. All of those people are hard working, too. I would sit here and criticize them.

COUNCILMAN KENNEY: I understand. What I want you to understand also that no matter what happens, whether the government has the ability to

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write to company and stabilize it and things better, whether or not they do ultimately entertain a sale, I agree with you that this Council will not permit a sale unless there's some provision for your particular membership that meets your acceptance. We're not going to force anything on you. And let me tell you my motivation in even raising this issue. I'm concerned about he same -- probably not as concerned as you are personally, but I'm not any less concerned as you are with the families and the members that you represent and the families that they're raising. I am fear fearful that this company's in such dire financial straights that at some point in time a person who maybe has spent 10, 12 years as a union member employee of PGW may not see at opportunity retire out that company. And despite the fact that they are hard issues and despite the fact that I can sit here and tell you what I think you might want to hear, that's not going to change the reality of what we're dealing with today and what we have do deal with the over the next six to eight months. And I just want you to know from my personal perspective, I'm as interested in maintaining the quality of life and income and dignity that your members desire to retain while at the time ensuring that they're not unemployed. That's just a personal comment from me. We'll examine every potential option.

Councilman Rizzo.

COUNCILMAN RIZZO: As you know and you've heard earlier, I echo those sentiments. Something very interesting that I picked up in your presentation and you have as an example, on a daily basis PGW has a minimum of 700 known gas leaks in the streets of Philadelphia. Fortunately, I have a little background in that. I know that certainly isn't desirable in many case. It's not as dangerous as it sounds. But I want to get a feel for, we know how precious this product is and how expensive it has gotten. Do you think there's any way we can calculate the loss of revenue on 700 known gas leaks minimum. That could be 2,000 in any one time.

I'd be interest to know what kind of money we're allowing to escape into the atmosphere. Do you think the company has a feel for what we're squandering there by not fixing these leaks.

MR. REDDING: I think if they could assess the volume of gas that's actually being lost and the cost associated with that. I think they would probably not have the time to repair them. No, I don't think they could determine that. But from a safety perspective, I think they really need to address that at some point in the future. Once we get caught up, I think --

COUNCILMAN RIZZO: Well, I know we have a representative of PGW here, and I know we have a representative of PGW here. And I'd be interested to know what type of revenue is lost based on th fact that we're not responding to these gas leaks because I remember a story where the water company had a known water main breakage in Fairmount Park and thousands of gallons were cascading -- millions of gallons were cascading on a daily basis into the Wissahickon Creek. The fish didn't know how to react. But I'd be curious to know, and I'm going to ask PGW to let us know what that revenue loss is to the ratepayers.

COUNCILMAN KENNEY: Some of that may a direct result of the use of capital dollars to conduct the operations of the business over a period of a couple years. And witnesses are correct, the major issue here is safety. When you're using

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capital dollars to run company because you're incompetent and incapable of running the company, the dollars that could be going in to replacing mains aren't going into it.

COUNCILMAN RIZZO: Mr. Chairman, they were talking about the dangers associated with cast iron gas mains. PECO Energy had a very, very bad situation, as you remember, in West Conshohocken when an entire neighborhood was devastated, just terrible, terrible explosion due to a cast iron pipe that broke. And I think we all come from this industry remember how devastating that was actually the result of a cast iron gas main breaking and I believe that PECO Energy has removed almost all of the cast iron that's in the ground at this point. I know we have a substantial amount of it left here in the City of Philadelphia.

Again, thanks for all you do.

COUNCILMAN KENNEY: Thank you very much.

Councilman Cohen.

COUNCILMAN COHEN: I think spoke for all members of Council, with respect gas workers, we are proud of the many, many years of their work. Where perhaps we differ is the question of private ownership. I find that the complaints that Councilman Kenney enumerated, questions that he has learned about from others about the failings of the Gas Works official. That's repeated constantly in every area of private business. Actually, the worst excesses of the failures of the Gas Works followed the employment by the Gas Works of utility executives were chosen after a national-wide search when it was explained to everybody, finally, we've got real utility executives in and they did apparently what executives do. On the company credit card, they used it for all kinds of purposes. And when that was reported by the District Attorney in the news article, there were many statements made by the utility executives saying, what did they do wrong? That's what we do everywhere. The difference was this was public money, and the private utility executives had never realized that.

I don't think there's any one way of being the best way. It depends a lot on the will, on the management, on the training and on the feeling of closest that the people who do the work, Gas Works employees have for the people they're doing the job for.

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So I think if Councilman Kenney's position becomes a position of the union that no sale will be approved unless it has the kind of guarantees for the work force as well for the people of Philadelphia to assure their safety and welfare, I think we're going to have to solve the problem while PGW remains a City utility.

Thank you very much.

COUNCILMAN KENNEY: Thank you, Councilman. I just want to say finally that whatever scenario recovery comes in, whether it's a public sector scenario or a private sector scenario, you're probably the safest employees in the company because you're the most needed. I can't image a private sector scenario under the right negotiating conditions for us to approve it that would allow -- that would not need every member of your compliment to be opening the street, fixing the mains, doing the things that even a company that bought it that didn't do gas traditionally don't have the employees trained to be able to do. So there may be middle management that's at risk, there may be upper level management that's at risk, certainly most of what you represent, of who you represent would be an absolute requirement in either scenario.

COUNSEL: If I could just add one point, representing utility employees both in public sector and private sector. One would hope that's the case. Unfortunately, that hasn't always been the case recently, at least not in Pennsylvania. In one of the feeders we have, even if there were protections built into the agreement is from our prospective we have to look for wolves in sheep's clothing and a lot of the private utilities have cut essential areas of the work force including field service and distribution areas like that and have, in fact, used private contractors in their stead. So that's of some comfort what you said and we appreciate it, but we'd ask that you consider that and look carefully at it because a lot of what we hear to be the potential suitors of PGW have slashed, cut, and burned and there have been some safety ramifications as a result.

COUNCILMAN KENNEY: Using your analogy of a wolf in sheep's clothing, I can tell you that the condition at PGW right now is a wolf without a disguise. It is right out there, you know what it is, and it's a real desperate situation. And I am

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seriously concerned about the future of this utility as it relates to being able to employ people as talented and qualified as you are membership.

Thank you.

Any other questions?

Thank you very much.

(Witness comes forward.)

Please identify yourself for the record.

MS. RUBIN: My name is Ann Rubin. I'm the President Greater Philadelphia Association of Realtors, and because of the hour, you have my testimony and I don't feel I need to read the whole thing. I do want to state publicly that we are in support of the sale. We feel that there's a lot of benefits for the sale. At the least is possibly bringing in revenue that can go towards our school system. Our school system is the greatest problems in selling real estate in Philadelphia. And if we're to improve our school system, I think we'll begin to not hold on to the residents, but we'll be able to see some people possibly returning since we do have good affordable housing.

On a personal note, I deal at the settlement table constantly with PGW and PGW issues

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and I'd like to share just one of thousands of stories that have happened last week. I represented a buyer on the purchase of a home in Philadelphia. It was an investment property that a gentleman owned and the gentleman was coming to the table with $11,000, the seller was coming to the table $11,000 in order to make this sale happen. At the table at the Title Clerk we found out that he supposedly owned $2700 in PGW bills. He had called PGW when the last tenant moved out which was about nine months prior and told them that they could discontinue service. The buyer called to put gas in her name and was told that there was no gas service to the property. Upon the pre-settlement inspection that morning, there was in fact gas service to the property. And when we called from the table, PGW still claimed that, No, I'm sorry. There is no gas service to the property and there are back bills of $2700. I won't bore you with the details, but here I was faced with a problem that we potentially would not be able to close this settlement, the buyer having a truck full of stuff that was ready to move in that afternoon because the seller was unaware that there was this $2700 bill and he only had

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$11,000 with him.

These problems are constantly there and I hear from the consumers, PGW, PGW, PGW with nothing but problems at all levels. Customer service, a little bit of an oxymoron for PGW. We, I will say, almost never hear a problem with PECO. It doesn't interfere with the sale of a property. And what I have found since the change, and I don't remember the date, I'm sure you know it, is that the real estate community has become the bill collectors for PGW and the consumers have been hit hard with it and I think that if we begin to talk to the people on the streets about how they would feel, I think they would be happy to have it turned over to somebody else running it.

COUNCILMAN KENNEY: Thank you for your testimony.

Tina Nelsen.

(Witness comes forward.)

MS. NELSEN: My name is Tina Nelsen and I'm speaking on behalf of CEPA, The Consumer Education and Protective Association. There are no pros to selling PGW. I ask each and every Councilperson to consider the following: It is

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possible that this Council can make a difference and turn PGW into an efficiently-run City-owned and operated utility company. If Memphis and Indianapolis can, so can we. Tie the $18 million payment from PGW to it City on the condition of productivity and accountability from this point forward; it's a start.

If sold to an investor-owned utility company simply means that the people of Philadelphia will pay for that quote/unquote Gas Works twice. It's like purchasing a house for 30 years and then selling it and having to rent again and the proceeds of the sale goes to the third party.

All city and federal development agencies should require all businesses that receive tax breaks or low-cost financing to use PGW as their primary fuel.

Thank you for your time.

COUNCILMAN KENNEY: Thank you. I'm sorry to have you to struggle through that testimony. We've heard you before and you didn't struggle as much. So I know you must be feeling ill. Thank you.

MS. NELSEN: Can I just make one

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comment?

COUNCILMAN KENNEY: Yes.

MS. NELSEN: I believe this Council can make a difference. I've heard from past stories that the past Council, it's been on the political view. I think this Council if they seriously listen to the people of Philadelphia and hear their cries for help that selling PGW is not a solution. And I think that each and every one of the Councilmembers can make a difference and turn PGW around into an efficient utility company.

COUNCILMAN KENNEY: I do believe the ability is there.

MS. NELSEN: This is a start.

COUNCILMAN KENNEY: The issue is whether there is the will. And it's not just Council, there's second floor involved and the second floor and this extremely strong mayoral form of government sometimes has the upper hand. From when the initial problem started 30 years ago, the second floor drove the train in many ways and is driving the train today.

MS. NELSEN: I think it's about time to switch the tracks.

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COUNCILMAN KENNEY: Well, we need a charter change to do that.

Thank you very much. Thanks for your patience.

Action Alliance.

(Witness comes forward.)

COUNCILMAN KENNEY: Please identify yourself for the record.

MS. WILLIAMSON: My name is Leray Williamson and I am testifying today on behalf of Action Alliance of Senior Citizens.

Action a lines is opposed to the sale of Philadelphia Gas Works. As a former PUC Commissioner John Hanger stated that in yesterday's article in the editorial page of the "Inquirer," any buyer who purchases PGW will have to achieve $50 million a year in savings just to hold base rates at the same level as at the time of purchase. This is because a privatized PGW would have to pay $50 million more in taxes, mostly state and federal than PGW currently pays. We do not think that there is any chance of achieving this level of savings.

At the same time, we expect that the buyer will come to City Council with a bill to

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abolish the senior citizens discount. Since the buyer will not be able to make the profit it wants through added efficiency, it will try to make it on the backs of some of the community's most vulnerable citizens.

We have had the senior discount for almost a quarter of a century. Philadelphia should be proud of that discount. The existence of that discount says that the City stands up for its seniors, recognizes what they have contributed to our community over years of hard work, and lends them all a helping hand in the years when their income is pretty much fixed, even decreasing in purchasing power. You can expect that the buyer will be asking City Council to eliminate the senior citizens discount. They can't do it without your permission.

We disagree that the City cannot manage PGW well. You just have to put your mind to it, Council, the Mayor, the Gas Commission and PGW. If the City of Los Angeles can run an electricity utility efficiently, why can't we manage a gas utility? As a City, we just have not focused on the problem. You have to now. And you have to be

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willing to accept reasonability for the terrible mismanagement that has taken place here. Customers are already paying over 50 percent more in gas bills this year than last year. That includes all seniors. How can you ask them to pay more, when the City is still taking $18 million a year out of PGW. Even when that comes from money that the company has borrowed and that ratepayers will have to pay back.

We hope that the problems of PGW can be resolved without an additional financial burden being placed on the shoulders of the ratepayer. Thank you

COUNCILMAN KENNEY: Thank you for your testimony and for your patience.

Please identify yourself for the record and proceed.

MR. SETSMAN: Frank Setsman. I represent the Home Owners Association of Philadelphia and we support your resolution to explore the sale of PGW.

City Council approved $45 million for PGW this past October and we feel that the private ownership of the gas company will relieve the City of its PGW obligation, it will eliminate patronage,

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it will also improve what is now a very poor customer service. Real estate owners can almost never reach PGW people on the telephone. In fact, the gas company is so inefficient that we have an associate who's been getting an estimated bill for his burned-out property for the last five years and when trying to sell the property to somebody who would come in to develop the property, the gas company is holding out for $11,000 worth of past gas bills that they said they can resolve by sending somebody out to read the meter, obviously, having never sent out there to read the meter.

The money saved by good private management of the gas company can be used in a way that will benefit the City, the residents and the business community. Savings from the sale of the gas company can be used to upgrade and improve the City schools. Better schools give 3,000 members a better chance at renting and selling low and moderate income homes and more taxes will be paid to the City. We also feel the difference in the electric company and the gas company, one privately-owned one publicly-owned is incomprehensible. The gas company is so inefficient; the electric company is very efficient.

We supports your important resolution on the sale of PGW.

COUNCILMAN KENNEY: Thank you very much for your testimony and for your patience in waiting.

(Witness comes forward.)

COUNCILMAN KENNEY: Good evening. Thank you for your patience. Please identify yourself for the record.

MS. SUSSHOLTZ: You're welcome. This has been an education. I confess I've not been in this Chamber before. I've seen bits and pieces on television. I think this has been good. I appreciate the tone of these proceedings. What we have been saying on both sides has been considerate and in a considerate manner. I'm here as an individual. I worry about City Council relinquishing any kind of control that it currently has over what's been happening at PGW. I will not quarrel because I have also been a victim of inefficiency, bad meter reading, strange billing and all the rest. But I think that I have less faith than I may have once have in competition in the capitalistic system in providing the best service to customers of any sort and especially in this situation in which there is no chance for competition, no other sources of what we need.

I want the City to stay in this arena. I want better management, certainly, and much better oversight. This will put more strain, if it actually is done, on City's resources because we will have to employ good people to do these very necessary jobs. I think it can only be returned in the goodwill, the shock surprise, the pleasant surprise of customers who will get better service from PGW.

I actually have a tri-part presentation here. The second is a statement from another concerned individual. May I read it, sir?

COUNCILMAN KENNEY: Please.

MS. SUSSHOLTZ: I am speaking in his voice as he dictated this to me.

"I would like to thank Councilman Kenney and the City Council for the opportunity to speak before you today. My name is Craig Roberts. I'm a retired orthopedic surgeon and live in Phoenixville, Northern Chester County. My wife works full time in Center City and I have a son and daughter who are residents of Philadelphia. I have many friends in the City. What brings me here today is my personal contact with and knowledge of individuals and families in the City who are working in low-income jobs without benefit or are on disability or are elderly or are on fix income who are struggling on a daily basis just to survive, who are suffering the most from the recent precipitous increases in energy rates, particularly in gas.

"I know that this hearing is not about gas rates, I think that the so-called crisis in energy rates and policy is one reason that we are all here today. Many people in Philadelphia are literally forced to choose between paying for gas and electric and food and medicine. To call this a life or death situation for some is not a hyperbolic claim or an exaggeration. I believe the current crisis in Philadelphia swirling around PGW and its management and gas rates is not being caused by mismanagement, rate caps, faulty rules of deregulation or supply and demand. In our so-called booming for some economy, there have been expanding natural production in the United States. Natural gas and electric energy producers make unprecedented

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profits. Wall Street is salivating.

"Three out-of-state energy companies are attempting to get permits to build gas-powered electric generation plants within 20 miles of my house. What is the justification for massive wholesale price increases of gas coming from Appalachia and the Gulf of Mexico? I think that there is no justification for it, but there is a reason for it. Similar to the OPEC oil crisis of 20 years ago, the energy producers of this country are creating a crisis to push for more deregulation and, in our case today, privatization of PGW to ensure more control unregulated rates and profits.

"Three years ago, in order to secure loans from the IMF and from rural banks, Costa Rica privatized their school system and health system. Today, fewer children are in school there and fewer have access to health care.

I certainly expect the Mayor and the City Council to correct any mismanagement and corruption at PGW. I fear that privatization at PGW might just be a way for the City government to not only shed a headache, but also shed a responsibility to the people of Philadelphia and to place many

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people in jeopardy of spiralling gas rates, increasing health problems and, yes, death."

COUNCILMAN KENNEY: I'm sorry. You didn't state your name formally for the record.

MS. SUSSHOLTZ: I'm sorry. Judith Sussholtz, S-U-S-S-H-O-L-T-Z. I'm an adjunct professor of english at Community College of Philadelphia.

COUNCILMAN KENNEY: Please continue.

MS. SUSSHOLTZ: I hope that after this, you won't find the third and last part of this trivial. It is a more general concern of the results of increased gas rates. I am privy to two specific instances of its impact upon the arts in this City.

I am a member of Mendelson Club of Philadelphia founded by the same person who later began the organization which became the Philadelphia Orchestra. We are in our 127th season. I'm also a patron of the Sedgwick Cultural Center on in Mount Airy on Germantown Avenue. Both of these organizations produce, present, create opportunities for art. Art is one of those drawing cards of this City. But not too many people beyond the City know

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what we have here. It certainly is one of the selling points when we're trying to attract businesses which must convince people, their executives if you'd like, of the value of the City in general. Mendelson Club was approached by two different orchestras in Caracas, Venezuela, to do a very quick tour this June, this coming June. We would be singing two different programs, two different orchestras, two different venues. We'd be down there for perhaps seven days at most, which means that almost all of our time would be in rehearsal and performance. This is not a tourist jaunt.

We accepted, but it was predicated upon our being able gather in enough people to sing the music. We were three people above our minimum last week. Last night's rehearsal break gave us a chance to talk. We had all received our PGW bills over the weekend. Hair was whiter last night than it had been a week before. And some of the people who had hoped to be able to go down to Venezuela -- and I should say it's on our own money. We must pay our way for both fare and hotel bills and all other costs. This is on us. What the City of

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Philadelphia gets is word is spread, we are here. This is our base. And we are a valuable commodity. After last night, we're not sure we have the number of people who can say, yes, this June we will be able to reach into our pockets for about 1400 bucks to spend that one week in Caracas as, if you'd like, good will ambassadors to a foreign country.

The other organization is Sedgwick Cultural Center. It's a converted movie house on Germantown Avenue which has been in existence about six years now. There are classes for children from nearby schools and not necessarily affiliated with schools. There is an art gallery. There are all kinds of performances, plays by local playwrights who also happen to be nationally known, musicians, everything from jazz, classical, hip hop, everything. It is a place for the community to gather and it happens that despite Mount Aire's wonderful ambiance, it hadn't had a gathering place. Ther it is, and it's there connected with the arts, for the arts. The director of the Sedgwick Cultural Center received a gas bill for the performance space in December of $1800. The most recent bill, the January bill is $3,000. They have to close the space for the rest of the winter because they cannot afford to heat it. This not a matter of life and death, but it certainly does impact upon the quality of life of many people in this City.

These are two instances that I personally know about presenting them to you this evening as a consequence -- it's not a direct consequence, but it certainly is caused directly by the increase in gas rates. I think that such effects must be considered by City Council whenever you are taking into consideration what to do about PGW.

Thank you very much.

COUNCILMAN KENNEY: Thank you very much for your testimony.

Mr. Hill. Please identify yourself.

MR. HILL: My name is Roy Hill. I'm the director of the Robert B. Hill Company. Thank you.

COUNCILMAN KENNEY: You're welcome. Thank you for waiting. Thank you for your patience.

MR. HILL: Our reason for being here is that our company in concert with another Cedar Rapids, Iowa, the Darting Group, believe that we've come with a solution for your crisis. That

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solution -- and I'm going to leave a number of packages here for Councilmembers and staff members.

COUNCILMAN KENNEY: Thank you.

MR. HILL: We believe that the Philadelphia Gas Works financial delima can be resolved through a method of financing that will allow the City of Philadelphia to sell PGW and refinance the debt of PGW, including the retirement of all City of Philadelphia tax-exempt bond financings that are related to PGW.

Our method of financing will accomplish the following: Provide a 100 percent of financing of the PGW accumulated debt including all fees and associated costs. Allow the City of Philadelphia to lease the PGW utility to a major utility company. Structure the repayment term to equal the lease term given to the major utility company.

We would structure the financial transaction as a sale leaseback transaction. This would mean that the City of Philadelphia would sell PGW for an amount that would retire all the outstanding PGW liabilities. And as I noted before, including all tax except financings. The final transaction amount, of course, would include, as I said before, all costs of the transaction.

Additionally, the entity that would be created to by PGW with the investor-related funding would be paid an annual administrative fee to cover cost of annual audits and other expenses to protect the investor financing. All of these related activities would be contracted with firms based in the City of Philadelphia which would increase City of Philadelphia business tax revenues as well as employment.

One of the truly positive aspects of this type of financing proposal would allow the City of Philadelphia to restructure the debt without the utilization of any direct funding from the City of Philadelphia general revenues or any additional bond financing.

Additionally, our financial relationship has indicated that this transaction may qualify and could be structured as a tax free sale leaseback which would lower the cost of the transaction on a going forward basis for debt service coverage over the approximate 30-year term that we would envision.

After listening to a number of comments here, Mr. Chairman, a couple thoughts came to my

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mind, the concerns that have been addressed by some of the Councilmembers, the head of the union at PGW. In this transaction, and there's a pullout schematic that shows the breakdown. What happens is that we would create an entity. We would buy PGW. We would lease it back to the City of Philadelphia. Our proposal is based on the fact that you don't want to be in the business of operating a utility. At that point, you would lease it to a major utility. Within that lease contract, I would believe that you would take the negotiating position to protect to the best of your ability, not only the citizens of the City, the workers of PGW, but also the people that do get discounts for elderly, low income, etcetera. All of this can be accomplished in this type of transaction with a lot of due diligence on the part of the City in its negotiations with a major utility.

We have discussed this and made the appropriate arrangements with two significant financial relationships. One of which is the Blackford Development Company, and that company has a long history and track record in providing financial support and monies for the funding of sale

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leaseback transactions. And as well as the investment banking house of Tucker Anthony, Incorporated, which last year, as noted in their letter that much accompanies this proposal, was 17th among municipal underwriters nationally last year. And they have done quite a number of municipal bond financing here in the Commonwealth of Pennsylvania and in the eastern part of the United States. It's a highly respected and regarding investment banking house.

I would just like to finish that we would be more than happy at any given time to bring the appropriate people in to discuss with you the ramifications of this type of proposal and as to whether it would be something that the City of Philadelphia would be interested in pursuing.

Thank you.

COUNCILMAN KENNEY: Thank you for your testimony. We'll be happy to present this initial concept top financial staff here at Council and also refer to the Mayor's Finance Director for comment.

Have you had any contact or conversation with the City Administration, the Mayor's Office or anyone in the Mayor's Office?

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MR. HILL: Back in October in reference to a related issue before the City because we believe that the concept would have worked in stadium financing, we did send a copy of a proposal that was similar to this at this that time. So far, we have not had a response.

COUNCILMAN KENNEY: I wouldn't expect one back on the stadium at this point.

We'll see if we can't get you an appropriate response to this particular proposal at least in its infant stage and then see if they will flush it out a little more. But I do appreciate your testimony and we will refer this to appropriate technical staff for review.

MR. HILL: Thank you very much.

COUNCILWOMAN BLACKWELL: We met with Mr. Hill. He was referred by Lee Tolbert, one of our strongest community leaders, and certainly we thank him for his commitment to trying to help solve the problem.

MR. HILL: Thank you very much, Councilwoman.

COUNCILMAN KENNEY: Could you please identify yourself for the record?

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MR. COHEN: My name is Alfonso Cohen.

COUNCILMAN KENNEY: Sir, could you spell your last name for the stenographer.

MR. COHEN: Yes. C-O-H-E-N.

COUNCILMAN KENNEY: Thank you. Please proceed.

COUNCILMAN COHEN: I've lived here in the City of Philadelphia since about 1922 and I haven't left the City except for four years which has been in the service. And I worked in common industry for approximately 40 years for one company. I worked 40 years for three generations at one company, and I retired at the age of 67. And I'm also a member of Benefit Workers Council, Philadelphia, which is South Philadelphia.

I have never been on Welfare or incarcerated for jail. But after working, I found myself with a lot of physical problems health-wise, arthritis, heart trouble, whatever. But up until that time of retirement, I paid bills. Each year it seemed to get harder. The dollar doesn't buy anything. Today, I find it most difficult because of the medical problems and the bills that the gas company is killing me.

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When I started with the gas company, I lived in the same house for 50 years and better. My gas bill was approximately $40. Now it's over $300 or $400 a month, and Social Security doesn't cover that and each month I seem to keep falling behind. There's just no way out. What I used to buy for the dollar, I need $5 to buy it now. This is where it's at.

But I'm not the only one in this situation because all us seniors are in this crunch. We don't get enough money to cover it. And when you raise these bills up to 300 and $400 a month, you may as well just send us to die because we can't afford it. I hope and pray that the City of Philadelphia will contain and keep the gas company, but make it affordable for the people that live here on the income that they have.

In the old days, we had work that paid a decent wage. Poor people today are working two jobs, three jobs, and this is only killing them.

COUNCILMAN KENNEY: Sir, are you involved at all with the LIEAP program? Do you receive any his assistance? Are you enrolled in any of those programs at PGW?

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MR. COHEN: I've tried. They said, Your income is too big, you're above the guidelines, but they still send the bills. And you don't have control over everything. I don't have control of the water, the gas, the electric, the telephone. I'm 79 -- not 79, but 89. I wish I was 79; I had no trouble then. But at 89, it's hard to move around. I've tried to stay from Welfare and all those other things, but today I would welcome them.

COUNCILMAN KENNEY: We appreciate your insight into the situation.

(Applause.)

COUNCILMAN KENNEY: Do you have any testimony to add? Could you identify yourself for the record.

MS. FIGUEROA: Hello, my name is Luis Figueroa. I'm here with the Philadelphia Workers Benefit Council, and there's two people who weren't here today who have very short statements that I'd like to read, if I may.

COUNCILMAN KENNEY: Please.

MS. FIGUEROA: "My name is Dorothy Farabee. I live in North Philadelphia and I'm a retired secretary. The divestiture of public assets

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by thier sale to private entities is not in the public interest. How will people live if they're confronted with rate increases that have no ceiling and they have to struggle without money to pay rent and buy food? And we're not just talking about those of marginal income. Will they be hostage to the interest of bondholders? Would it not be in our best interest to hold on to public ownership?

"If the deregulation takes place, that means no regulation which means anything goes. We do not want to follow the path of California which spells disaster. We demand affordable energy and no privatization."

The next one is from Helen H. Cutner.

"My name is Helen H. Cutner. I live in Center City and retired and living to social security with very little savings. And then I got the bill with 50 percent increases in the rates for the natural gas that put it about $65 dollars more than it would be. So I am having to pay out of my savings and keeping the thermostat about 50 degrees. It's ridiculous, but I don't know what else to do. I can't afford this. I've already cut most of my expenses to the bone. I have no choice but to live

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without heat or just enough to keep from freezing. I thought this was a regulated company. You're just giving them card blanche to charge whatever they want to charge."

Thank you.

COUNCILMAN KENNEY: Thank you very much for your testimony. Thank you for your attendance here this evening and your patients. This hearing is recessed until the call of the Chair. Thank you.

(Hearing adjourned at 6:25 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of February 8, 2001, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON PUBLIC PROPERTY AND PUBLIC WORKS

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Lisa C. Bradley, RPR
and Notary Public