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COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING - COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, May 25, 2005, 10:45 a.m.

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BILL 040876 - An Ordinance amending Section
19-2900 of Title 19 of The
Philadelphia Code entitled "Senior
Citizen Low Income Special Tax
Provisions" by expanding the
coverage of this Chapter to include
senior citizens who are eligible to
participate in the Commonwealth's
Pharmaceutical Assistance Contract
for the Elderly Needs Enhancement
Tier ("PACENET") program.

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BILL 050454 - An Ordinance amending Bill No.
040765, entitled "An Ordinance
Approving the Fiscal Year 2005
Capital Budget providing for
expenditures for the capital
purposes of the Philadelphia Gas
Works (including the supplying of
funds in connection therewith)
subject to certain constraints and
conditions, and acknowledging
receipt of the Forecast of Capital
Budgets for Fiscal Years 2006
through 2010," by approving a
revised Capital Budget for Fiscal
Year 2005.

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2 PRESENT:

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COUNCILWOMAN JANNIE L. BLACKWELL, Chair

COUNCILWOMAN BLONDELL REYNOLDS-BROWN

COUNCILMAN FRANK DiCICCO

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COUNCILMAN W. WILSON GOODE, JR.

COUNCILMAN RICHARD T. MARIANO

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COUNCILMAN BRIAN J. O'NEILL

COUNCILMAN JUAN F. RAMOS

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COUNCILMAN FRANK RIZZO

COUNCILWOMAN MARIAN B. TASCO

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3 P R O C E E D I N G S

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5 CHAIRWOMAN BLACKWELL: Good morning.

6 Thank you for your patience. The Committee
7 on Finance is being called to order.

8 To my left -- we have a quorum -- we
9 have Councilman Juan Ramos, Councilman W.
10 Wilson Goode; to my right, Councilman Frank
11 DiCicco, and to his right we have Councilman
12 Rick Mariano.

13 Also in the room we have Councilman
14 Frank Rizzo; and, of course, I'm Jannie
15 Blackwell, Chair of the Committee. And we're
16 happy to get started, so that we can have a
17 million other hearings subsequent to this.

18 Will the clerk please read the title
19 of the bill? And as he does, would Mr. Craig
20 White, Senior Vice President of P.G.W. come
21 to the witness table. Thank you.

22 CLERK: Bill Number 050454, an
23 ordinance amending Bill No. 040765, entitled
24 "An Ordinance Approving the Fiscal Year 2005
25 Capital Budget providing for expenditures for

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2 the capital purposes of the Philadelphia Gas
3 Works (including the supplying of funds in
4 connection therewith) subject to certain
5 constraints and conditions, and acknowledging
6 receipt of the Forecast of Capital Budgets
7 for Fiscal Years 2006 through 2010," by
8 approving a revised Capital Budget for Fiscal
9 Year 2005.

10 CHAIRWOMAN BLACKWELL: Thank you
11 very much.

12 Mr. White, please identify yourself
13 for the record and begin your testimony.

14 MR. WHITE: Yes. Thank you,
15 Chairwoman Blackwell.

16 CHAIRWOMAN BLACKWELL: Thank you.

17 MR. WHITE: My name is Craig White.
18 I'm the acting senior vice president and
19 Chief Operating Officer for Philadelphia Gas
20 Works.

21 I want to thank the committee for
22 giving us this opportunity. I know you have
23 a very full agenda today. And my opening
24 remarks are going to be very brief.

25 CHAIRWOMAN BLACKWELL: Thank you.

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2 MR. WHITE: I do have one correction
3 to my testimony. And it is on the last page
4 of the testimony. And it is in the second
5 paragraph from the bottom.

6 The sentence currently begins,
7 P.G.W. is asking the Committee on Finance for
8 a favorable report on amending Bill Number
9 050454.

10 It should read, P.G.W. is asking the
11 Committee on Finance for a favorable report
12 on this bill, Number 050454 which is amending
13 Bill 040765. And a parenthetical. 040765 is
14 the approved capital budget.

15 CHAIRWOMAN BLACKWELL: Okay.

16 MR. WHITE: Okay. Secondly, I would
17 ask for a suspension of the rules so that the
18 first reading can occur at the next City
19 Council -- next Finance Committee meeting.

20 With respect to comments on my
21 testimony, I will just indicate that the
22 testimony, the written testimony, is here for
23 your review, and I will certainly be
24 available to take questions.

25 I just had two comments to make.

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2 Number one, I want to report some very good
3 news. And that is that Philadelphia Gas
4 Works collection rates, less than three years
5 ago we were collecting about 86.7 cents on
6 the dollar.

7 We're at a point now we're north of
8 94 cents on the dollar. And we anticipate
9 and we estimate today that by the end of
10 August we will be at 95.2 cents on the
11 dollar, which is a significant improvement
12 over the last few years.

13 Second item I'd like to mention is
14 that the company has been the beneficiary of
15 the significant housing boom in the City of
16 Philadelphia. And, of course, that's one of
17 the purposes of this amendment.

18 We have quite an increased level of
19 new building in the City, and that has caused
20 P.G.W. to reevaluate the amount of funds
21 required to meet the needs of the building
22 community.

23 So, without any further ado, I would
24 certainly take any questions that the
25 committee may have.

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2 CHAIRWOMAN BLACKWELL: Thank you,
3 Mr. White.

4 Would you explain in a little more
5 detail what... since the increases in
6 distribution and field services, how that
7 breaks down, what it means, what the
8 amendment means.

9 MR. WHITE: I'd be happy to.
10 There's actually two major components driving
11 the need for that increase. The one is the
12 item that I just described.

13 We had anticipated new housing
14 somewhere in the 900 to 1,000 level. And
15 we're actually estimating now that we
16 probably have new buildings in excess of
17 1,600. So, that's a significant increase.

18 And as a result of that, we have
19 additional capital requirements for mains and
20 services.

21 The other component of that is,
22 obviously, as a component of our collections
23 program, we also have to reconnect or
24 reinitiate service or renew service for
25 customers.

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2 And in a lot of cases we have new
3 customers moving into homes that were
4 previously shut off or customers that have
5 restored service. And that has also
6 increased the amount of capital requirement.

7 So, they're the two major components
8 requiring the capital budget amendment.

9 CHAIRWOMAN BLACKWELL: So, the field
10 services is certainly giving -- and this
11 housing boom, giving more services to people.
12 That's field services, correct?

13 MR. WHITE: Well, the field services
14 component, Chairwoman, is obviously the need
15 for additional meters. And we certainly are
16 spending those dollars, as necessary, to make
17 sure that we have working both A.M.R. devices
18 which is your automatic meter reading device,
19 and a working meter in compliance with the
20 P.U.C. requirements.

21 CHAIRWOMAN BLACKWELL: And
22 distribution means what, again?

23 MR. WHITE: Distribution is
24 primarily your mains and services. And of
25 course, when we add new neighborhoods, we may

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2 have to increase the size of pipe in the
3 neighborhood to keep the pressure at an
4 appropriate level.

5 We may -- We also have to run the
6 service lines into the buildings. So, those
7 are the two major components in the
8 distribution area.

9 CHAIRWOMAN BLACKWELL: Thank you
10 very much.

11 And as the committee sees, we're
12 talking \$5,295,000.

13 The Chair recognizes that
14 Councilwoman Tasco is here as is Councilwoman
15 Blondell Reynolds-Brown, Vice Chair.

16 Are there any questions from members
17 of the committee?

18 And Councilwoman Tasco, Chair of the
19 Commission, assures me that things are in
20 order, and that they are supportive. She
21 said it the other day.

22 Councilman DiCicco.

23 COUNCILMAN DiCICCO: Thank you,
24 Madam Chair. And good morning.

25 MR. WHITE: Good morning.

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2 COUNCILMAN DiCICCO: Our success as
3 a City in attracting new residents and new
4 development, it actually costs us money. Go
5 figure, right?

6 It's kind of ironic that we've
7 turned the corner on attracting new residents
8 and yet P.G.W. has to bear some of the cost
9 of doing that.

10 Is there any... When it comes to
11 new construction, is P.G.W. reimbursed by the
12 developer for any of the work that is being
13 done?

14 MR. WHITE: Yes; absolutely. We
15 have a requirement in our tariff which is
16 very similar to other utilities. And that
17 is, we provide an allowance for a certain
18 amount of capital investment. And for
19 residential developments or residential
20 homes, we look at what they call the non-fuel
21 revenue. In other words, the revenue that we
22 received. It has nothing to do with the gas
23 cost. And we look at that over a five-year
24 period.

25 And we look at the anticipated

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2 usage. And the combination of those two
3 variables enable us to determine how much
4 money we will allow a consumer towards the
5 payment of those extra facilities.

6 So, for example, Councilman, if we
7 have a \$2500 installation, and that allowance
8 is a \$1500 allowance, we would charge the
9 customer \$1,000 and the company would pick up
10 \$1500 in accordance with its tariff.

11 COUNCILMAN DiCICCO: I guess I was
12 wondering if there was a way of... I
13 certainly don't want to penalize development
14 or developers... if there was a way in which
15 you could prorate some of the costs to the
16 developer, so that when the project is
17 complete, the collections for the usage or
18 whatever could be drawn down from that, some
19 sort of like an escrow account, which would
20 relieve some of the financial capital cost to
21 P.G.W. up front.

22 MR. WHITE: Well, we typically enter
23 into a number of different types of
24 agreements, but... I don't know whether this
25 is helpful, but there are developers in the

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2 City that may indicate that they're going to
3 build 750 homes, and there may be three
4 phases to that.

5 And what we will do is, we will make
6 sure that the company is covered in the event
7 that those other 500 homes, say Phase II and
8 III are not built. So, we insure, through
9 our contracting requirements, that dollars
10 are recovered.

11 I'm not sure I'm answering your
12 question. But certainly I want you to be
13 aware of the fact that we are very diligent
14 in making sure that we provide as much
15 flexibility to the developing community, but
16 at the same time we protect our firm
17 customers by not picking up costs that we
18 shouldn't.

19 COUNCILMAN DiCICCO: Very good.
20 Thank you.

21 No further questions. Thank you.

22 CHAIRWOMAN BLACKWELL: Thank you
23 very much.

24 The Chair notes that Councilman
25 O'Neill is here. So, all members of the

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2 Finance Committee are present.

3 Are there further questions from
4 members of the committee?

5 The Chair recognizes Councilman
6 O'Neill.

7 COUNCILMAN O'NEILL: Just a question
8 on an initiative that you discussed earlier,
9 a month or so ago, about trying to get
10 developers to use gas when they're getting
11 government city -- particularly city
12 subsidies.

13 MR. WHITE: Yes.

14 COUNCILMAN O'NEILL: Could you
15 elaborate on that a little bit, first of all,
16 the initiative or the issue, and the
17 initiative you'd like to undertake and where
18 you are with it.

19 MR. WHITE: Certainly. We look at
20 it from a very fair standpoint, we believe.
21 And that is, we are not asking developers to
22 put in a fuel source that is at the end of
23 the day inefficient or more costly.

24 We are looking for a fair bite of
25 the apple or our piece of the pie, so to

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2 speak. And we believe that if the city is
3 providing tax incentives, that there's an
4 opportunity that gas should be considered.

5 And what we are looking at is what
6 they use in the financial community as a
7 life-cycle analysis. And right now that has
8 not been totally incorporated in any type of
9 legal documents, as I understand it.

10 COUNCILMAN O'NEILL: Craig, could
11 you explain right now what goes on where the
12 developer, by bypassing P.G.W. or gas
13 service, does it cheaper, but the end user,
14 the business that moves into the space, winds
15 up paying more. Could you just give us a
16 background on that?

17 MR. WHITE: Absolutely. Absolutely.

18 If I use steam as an example, or
19 even if I use electric as an example, the
20 first cost is very small, and the ongoing
21 operating costs are extremely high.

22 So what we have is, we have a
23 developer, who could be a Philadelphia
24 developer but in many cases is not a
25 Philadelphia developer. Could be a company

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2 out of Chicago. They come in. They build a
3 building. They receive tax incentives from
4 the city. And they put in the cheapest cost
5 first -- the cheapest first cost.

6 And then, of course, our residents
7 or our businesses then occupy the space and
8 have to pay the operating and maintenance
9 costs which include the cost of the fuel.

10 So, if any of those fuels are more
11 expensive than natural gas, in essence the
12 developer has left town, sold his property or
13 otherwise, and our residents or our
14 commercial properties are paying the higher
15 fees associated with a fuel that may be much
16 more expensive than natural gas.

17 The benefit to that developer is, he
18 did not have to spend the initial dollars to
19 put in gas-fired equipment. And that's where
20 the difference comes in.

21 And what we do as a company, we
22 provide incentives, but the incentives have
23 to be justified by the revenues that we're
24 going to receive from that customer.

25 But we cannot -- We would like to

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2 see added assistance on that front, in that
3 if the city is providing tax incentives, and
4 if it is cheaper to use natural gas, that
5 developer should be putting in natural gas.

6 COUNCILMAN O'NEILL: And that's the
7 life cycle analysis you referred to?

8 MR. WHITE: Yes, sir.

9 COUNCILMAN O'NEILL: Now, where are
10 you with the Commerce Department, if you are
11 anywhere with the Commerce Department?

12 MR. WHITE: There's been a number of
13 discussions. I would have to get back to the
14 committee on specifically where that is.

15 We believe we're getting much closer
16 on this entire issue. And we believe, as I
17 indicated in my opening remarks, it's a fair
18 and equitable way to look at what fuel source
19 should be used by a developer.

20 COUNCILMAN O'NEILL: What's the
21 benefit to the company? You mentioned the
22 benefit to the end user, if they get the
23 cheaper product in the long run after the
24 developer has left or just left them with a
25 long-term lease. But what is the benefit to

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2 P.G.W. and its other customers, if any?

3 MR. WHITE: There's a huge benefit
4 to Philadelphia Gas Works. First of all, we
5 make the dollars that cover our operating
6 capital expenses by the gas that moves
7 through the pipe. We don't make a margin on
8 the gas itself. We make the margin on what
9 they call the through-put.

10 So, when we meter at your location a
11 cubic foot of gas moving through that meter,
12 that's what we're charging for.

13 So, any new customer that comes into
14 the city and uses natural gas, that's that
15 many more dollars that we have to support all
16 the things that P.G.W. has to cover, not only
17 its own operating and maintenance, not only
18 its own capital, but obviously there's a
19 portion of bad debt embedded in our rates,
20 and we also have a lot of customers that are
21 challenged in their ability to pay bills.

22 So, what this would do is, it would
23 reduce some of the cost shifting to those
24 customers who can afford to pay their bill.

25 COUNCILMAN O'NEILL: Thank you.

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2 CHAIRWOMAN BLACKWELL: Thank you
3 very much, Councilman.

4 Are there any questions from members
5 of the committee?

6 (No response.)

7 CHAIRWOMAN BLACKWELL: Is there
8 anyone else would like to testify with regard
9 to this bill?

10 (No response.)

11 CHAIRWOMAN BLACKWELL: Seeing none,
12 this completes the hearing.

13 (Public hearing concluded at 11:01
14 a.m.)

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3 COUNCIL OF THE CITY OF PHILADELPHIA
4 PUBLIC MEETING - COMMITTEE ON FINANCE

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6 Room 400, City Hall
7 Philadelphia, Pennsylvania
8 Wednesday, May 25, 2005, 11:01 a.m.

9 - - -

10 BILL 040876 - An Ordinance amending Section
11 19-2900 of Title 19 of The
12 Philadelphia Code entitled "Senior
13 Citizen Low Income Special Tax
14 Provisions" by expanding the
15 coverage of this Chapter to include
16 senior citizens who are eligible to
17 participate in the Commonwealth's
18 Pharmaceutical Assistance Contract
19 for the Elderly Needs Enhancement
20 Tier ("PACENET") program.

21 BILL 050454 - An Ordinance amending Bill No.
22 040765, entitled "An Ordinance
23 Approving the Fiscal Year 2005
24 Capital Budget providing for
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1 Finance - 5/25/05

2 PRESENT:

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COUNCILWOMAN JANNIE L. BLACKWELL, Chair

COUNCILWOMAN BLONDELL REYNOLDS-BROWN

COUNCILMAN FRANK DiCICCO

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COUNCILMAN W. WILSON GOODE, JR.

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5 CHAIRWOMAN BLACKWELL: And we will
6 enter the stated meeting.

7 The Chair recognizes Councilwoman
8 Tasco for a motion with a suspension of the
9 rules, with regard to Bill Number 050454.

10 COUNCILWOMAN TASCO: Madam Chair, I
11 move that Bill 050454 be reported out of
12 committee with a favorable recommendation,
13 and with a recommendation of a suspension of
14 the rules so this bill could be read at the
15 next calendar.

16 UNIDENTIFIED COUNCIL PERSON:
17 Second.

18 CHAIRWOMAN BLACKWELL: It has been
19 moved and seconded that Bill Number 050454 be
20 reported out of committee with a favorable
21 recommendation; and furthermore, that the
22 rules be suspended so as to permit first
23 reading at our next session of Council.

24 All in favor?

25 (Chorus of "ayes.")

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2 CHAIRWOMAN BLACKWELL: Opposed?

3 (No response.)

4 CHAIRWOMAN BLACKWELL: The ayes have
5 it. The bill passes and is reported out of
6 committee.

7 That completes our business. Thank
8 you very much.

9 We may also note there was another
10 bill to be heard today, Bill Number 040876.
11 It is being held at the call of the Chair, at
12 the request of the sponsor.

13 Again, we thank everyone for coming.
14 And all of those who are here for the
15 Committee of the Whole, we will begin
16 shortly.

17 Thank you very much.

18 MR. WHITE: Thank you.

19 (Public meeting concluded at 11:02
20 a.m.)

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CERTIFICATE

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I HEREBY CERTIFY that the proceedings and evidence are contained fully and accurately in the stenographic notes taken by me upon the public hearing and public meeting of The Philadelphia City Council, taken on May 25, 2005, and that this is a true and correct transcript of same.

DAVID A. DEIK, RPR and
Commissioner of Deeds

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