COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON FINANCE

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Room 401, City Hall
Philadelphia, Pennsylvania
Thursday, May 1, 2002
10:10 a.m.

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BILL 010554 - an ordinance amending Section 21-105 of the Philadelphia Code entitled "Hero Awards"...

BILL 020245 - an ordinance authorizing, generally, the continued issuance and sale by the City of Philadelphia of Gas Works Revenue Notes of the City...

BILL 020246 - an ordinance authorizing an amendment of the Philadelphia Facilities Management Corporation Agreement to extend the repayment period for temporary financing that the City may provide the Philadelphia Gas Works...

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PRESENT:

COUNCILWOMAN JANNIE BLACKWELL, Chair
COUNCILWOMAN MARIAN TASCO, Vice Chair
COUNCILMAN JAMES KENNEY
COUNCILMAN FRANK DI CICCO
COUNCILMAN BRIAN O'NEILL

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5/1/02 - FINANCE - BILL 010554

COUNCILWOMAN BLACKWELL: Good morning. Thank you, everyone, for your patients. This will begin the Finance Committee hearing with regard to Bill Nos. 010554, 020245 and 020246.

The Clerk will let me know before we begin that we have a quorum. To my right is the Vice Chair of the Committee Councilwoman Tasco. To my left is Councilman James Kenney. And we also have Councilman Frank DiCicco. Thank you very much.

We will now ask the Clerk to read the title of Bill No. 010554.

THE CLERK: Bill No. 010554, an ordinance amending Section 21-105 of the Philadelphia Code entitled "Hero Awards" by increasing the amount that may be awarded under that section to family members of fire fighters, police officers, and prosecution detectives killed in the course of performing heroic deeds and by making certain technical changes, all under certain terms and conditions.

COUNCILWOMAN BLACKWELL: Thank you very much. Even though it was really difficult to hear you, we do thank you.

We now have Sergeant Francis T. Healy,

Philadelphia Police Department, who will give testimony on this bill.

Is there anyone else who wants to testify on this bill?

Thank you, Sergeant. You have us to your yourself.

SERGEANT HEALY: Thank you, Councilwoman. Good morning, Members of Council. As was mentioned, my name is Sergeant Francis Healy. I'm an attorney and advisor for Police Commissioner Johnson in the Philadelphia Police Department and I've been asked to represent both the Commissioner and Police Department at these hearings today. First, let me extend the Commissioner's gratitude providing us the opportunity to voice our opinions regarding this amendment.

As you know, the Police Department is made up of regular men and women who respond tirelessly day in and day out, rain or shine to the City's calls for help. They are the front line defense against terrorism, against crime and violence, and against overall fear in the City. They're the men and women that you'll see in the middle of the night when you call for help. As we know, they are much more, so very much more. They are the first to respond when people are sick or injured to accidents and disasters. They're also the neighborhood problem solvers and confidants, referees, community activists, the finders of lost children and, at many times, the finders of lost pets as well. The list goes on and on.

But more importantly, what most people seem to forget, these officers merely human beings. They are mothers and fathers, sons and daughters, brothers and sisters, all with families who love them and meet both their emotional and financial support.

With this in mind, I can honestly say the biggest fear that most officers and firemen that I've ever known is not the danger that lurks in every shadow or in every fire, for that's just part of the job. The biggest fear of these men and women is not dying, but rather not being there to care for their families. It is not uncommon to hear close partners make packs among themselves -- and I'm actually kind of guilty of this myself -- to care for each others families in the event of tragedy. I'm sure the same is true for the firemen as well.

The inability to care for one's family is truly the firemen and police officers' biggest fear.

Although this amendment will not eliminate this fear completely, it will go far in the hearts and minds of all police and fireman. While money alone will never replace our lost heros to this City nor to their families, this amendment clearly shows Council's appreciation for the thankless deeds that both firemen and police officers perform day in and day out.

Clearly, the Commissioner and all the members of the Police Department, including myself, supports this amendment. But equally important, I would like to express collectively our appreciation for your care and concern for our families. Thank you.

Once again, please let me express the Commissioner's as well as the department's gratitude for giving us this opportunity. If you have any questions at this time, I'd be more than happy to answer any questions.

COUNCILWOMAN BLACKWELL: Thank you, Sergeant. Let me ask you if you can tell the committee members just what the increase is, what they get now and what this bill calls for and also what benefits a family can receive from other sources, maybe federal, maybe state.

SERGEANT HEALY: The best of my knowledge is there funds that come in from the state sources as well. I'm not exactly a hundred percent sure of the actually dollar values, but we receive money from the City, the state, and I believe the Feds as well. But I'm not exactly sure of the actual dollar values.

COUNCILWOMAN BLACKWELL: Thank you, Sergeant.

Councilman Kenney, would you explain on the record again -- he is the prime sponsor of this bill and we're asking him to just define a little for those in attendance what the bill calls for, what the increase is.

COUNCILMAN KENNEY: Thank you, Madam Chair. The bill basically changes or increases the initial award from $10,000 to $25,000 to surviving spouse or dependent children or dependent parents of the employees involved and it also increases the monthly sum from $200 to $500 a month for a period of 50 months. A.

Our hope is that we never have to spend any of this money, that we won't lose anybody in the future, but of course that's unlikely considering the danger of big cities these days. So it's just an effort to show these individual employees who do sacrifice so much every day for us that we do care about them and their families. And I think it helps with the morale of our police officers and fire fighters and other law enforcement personnel.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

Sergeant, you can verify that both Commissioners, the police and fire, support the legislation and have requested support for this.

SERGEANT HEALY: Yes, ma'am.

COUNCILWOMAN BLACKWELL: Thank you. Any other questions from members of the committee? Thank you very much, Sergeant.

SERGEANT HEALY: Thank you, Councilwoman.

COUNCILWOMAN BLACKWELL: The Clerk will now please the title of the next two bills, 020245 and 020246. These are PGW bills.

THE CLERK: Bill No. 020245, an

ordinance authorizing, generally, the continued issuance and sale by the City of Philadelphia of Gas Works Revenue Notes of the City, prescribing the forms of notes and providing for their execution and payment, pledging certain revenues of the Gas Works as security, adopting a rate covenant and directing the imposition and collection of rates and charges sufficient to comply therewith, prescribing the conditions precedent to the issue o specific series of notes, including a resolution passed by the Bond Committee providing for establishment of credit support for notes, providing for establishment of a sinking fund and its management, providing remedies upon default, and providing for amendments and modifications.

Bill No. 020246, an ordinance authorizing an amendment of the Philadelphia Facilities Management Corporation Agreement to extend the repayment period for temporary financing that the City may provide the Philadelphia Gas Works under certain terms and conditions, and authorizing the extension of the repayment date of a $45 million temporary advance previously made by the City pursuant to such agreement.

COUNCILWOMAN BLACKWELL: Thank you very much.

We now call to the witness stand the CEO OF Philadelphia Gas Works Thomas Knudsen. Thank you and good morning.

MR. KNUDSEN: Good morning.

COUNCILWOMAN BLACKWELL: Please begin your testimony.

MR. KNUDSEN: Good morning, Madam Chair and Members of the Finance Committee. My name is Tom Knudsen and I am the interim chief executive officer of the Philadelphia Gas Works. I'm here today in support of the bills that have just been referenced. Addressing the extension of time within which to repay the $45 million loan that was granted in November of 2000, the request if approved will allow management to return the borrowed amount to the General Fund after August 2003, as financial circumstances allow, but no later than August 2006. The Director of Finance has confirmed that such an extension of time is acceptable if accomplished within the current five-year plan.

City Council originally approved the advance, as I said, in October 2000 to allow the company to purchase gas at record high prices then being charged to all gas utilities and to finance the resulting accounts receivable balance until customers could pay their bills. The company was in desperate need of short-term financing since it had fully utilized its short-term debt facility. The company experienced loss in 1997, '98, and '99 due to the much warmer than normal weather and to meet capital requirements. That was the reason that much of the capital and short-term line was utilized. This trend toward warm weather resumed with a vengeance this past winter, further complicating our financial picture this year.

PGW has been aggressive pursuing additional rate relief from the Pennsylvania Public Utility Commission since it became subject to its jurisdiction in July 2000. Around the time PGW made the advance request to City Council, PGW had filed two petitions to the Pennsylvania PUC for a rate increase totally $65 million to rebuild PGW's financial position. These petitions resulted in an $11 million rate increase granted in February of last year and an additional $22.6 million increase in October of last year for a total of 33.6 million out of the $65 million requested. The amounts granted were sufficient to sustain ongoing operations following a decade of no basic rate changes for customers. What the company did not receive, however, were the incremental funds needed to pay back the $45 million and to pay back the holders of the commercial paper which is outstanding in the amount of $100 million.

Coming into this calendar year then, PGW was positioned neither to pay off the short-term debt nor, as importantly, to cease relying 100 percent on long-term debt for needed capital improvements. Normally PGW and historically has provided about half of its capital requirements from internally generated funds. We have had no internally generated funds for almost a decade.

PGW thus prepared to file a third petition to the Pennsylvania Public Utility Commission for an additional $60 million of rate relate in February 2000 for a decision by this November. But in early February, Standard and Poors found that the company's financial situation was unacceptable. The analyst informed management that unless the outlook or the cash availability to pay down the debt and to sustain operations through 2003 improved, and they gave us a time limit of about 60 days, PGW bonds would be downgraded. The company's financial advisors believe the downgrade would be to a junk bond status with disastrous consequences first for PGW and then for the City. PGW immediately filed for that $60 million rate releaf and carved out $45 million as the emergency or the extraordinary rate relief needed to address the concerns of the financial communities as expressed by S & P.

During our discussions with S & P, the analysts specified to principal concerns. The first and major concern was the core ability of PGW to service the fixed financial obligations associated with over $1 bill of long and short-term debt. That concern was addressed with the granting of $36 million of additional rate relief by the Pennsylvania Public Utility Commission on April 11th. And parenthetically, we believe that that 36 out of the 44 does address of the financial portion of S & P's concerns.

The second issue, though, was the ability of PGW to repay the full amount of the $45 million at one time, given the financial outlook of the company over the next several years.

If the committee members will remember, we were to pay that $45 million back in one payment in January of next year.

The issue for the financial community, both the banks and the rating agencies was the strain such an action would put on the company's ability to operate with sufficient cash for its needs.

Just, again, parenthetically, we have been operating at the edge for so long that anything that affects our operations or our cash flows has immediate implications for t banks and agencies.

To address this second concern of the stress on our financials from having to pay back the $45 million, the Administration suggested that its current financial plan would allow PGW to extend the repayment of the advance for up to four additional years. This will smooth out the burden of repayment over three to four years as PGW rebuilds financially to make the burden manageable.

Moving to the second ordinance then, that would extend the authorized term of the short-term debt instrument for $100 million of borrowing capacity. The company will end the current Fiscal Year in August with an outstanding balance of $80 million. That will all that we will be allowed to borrow coming this coming Fiscal Year. Our plan is to reduce that balance by approximately 20 million per year for the next three years as well as to pay back the City loan over the same period.

I greatly appreciate the ongoing concern and interest in PGW that Council has evinced first in granting the 45 million in advance and most recently in your support of our efforts at reform. We are happy to report that many of these efforts have been successful, and we believe that the company has, in fact, turned around. We have made enormous strides in achieving excellent customer service, revamping our contractual relationships with the union, obtaining rate relief, and otherwise putting our house in order.

The loan was essential in keeping PGW afloat over the last two years. Management has always recognized and has made efforts to ensure that the regulator and the intervening parties to our rate proceedings also recognize that the City loan is a debt that must be repaid.

With your assistance at this juncture and building on the recent action of the Pennsylvania Public Utility Commission, we can sustain our debt rating and begin to rebuild the finances of PGW in a business-like manner.

Just as a point, I would ask at this juncture in order to expedite this matter and get as quick a resolution from the rating agencies as we can muster, we ask for a suspension of the rules at this time.

I thank you for your considering this matter. And I am available to answer any questions or concerns Councilmembers or their staffs might have.

COUNCILWOMAN BLACKWELL: Thank you very much.

Mr. Knudsen, could you explain PGW's progress with regard to its capital programs as well as your progress with union and non-represented personnel, and finally in this question talk a little bit about your customer call center.

MR. KNUDSEN: Sure. I'd be pleased to.

Let's start with the last first. We

have made enormous strides in customer access, as we call it. Specifically, that would be the call center. We have always had a very good record of answering emergency calls in a matter of seconds, but we had a disastrous and historically terrible experience answering the rest of the phone calls. Starting in August of last year, we began to and have consistently met since then a standard that was set by the Pennsylvania Public Utility Commission for us which is actually higher than that which is assigned to other utilities in the state, that is that we must answer 80 percent of our calls in 30 seconds.

COUNCILWOMAN BLACKWELL: How much?

MR. KNUDSEN: 80 percent of our calls must be answered in 30 seconds. And as I say, we have sustained that since August of last year.

I would also note in the context of customer access that we are processing calls received of customers in a much more timely way than we did as well, largely as a result of extensive training of call center representatives.

With regard to actual customer service, I would note that the field service personnel are now responding to requests for service with in one day or two days. It used to be a matter of 3, 4, five days. We have reduced the burden on the customer substantially.

With regard to billings, we are sending our correct bills. With regard to LIHEAP level of participation at the present time than PGW has ever experienced. We have 60 to 65,000 customers presently enrolled in the LIHEAP Crisis Program. Last year that resulted in PGW receiving about $31 million largely because of the effort that we made, but also the federal government had supplemented the funds available. This year we had more subscribers. We're not realizing as much of a benefit only because the federal subsidy is reduced. But we anticipate getting 16 to 18 million from LIHEAP which is also a historic record for a non-crisis period.

Overall then in terms of customer service, the customer surveys that we are doing on a regular basis indicate that the customers have a substantially improving attitude toward the company and some find us offering exceptional service at the present time.

With regard to the capital spending program, we have reduced our capital spending to what we consider core requirements only, and those are essentially the refurbishment of the liquefied natural gas facility at Richmond Point. This is approximately a 20 to $25 million program. We'll be bringing it to a close this summer, bringing that plant on stream. And if you will remember from prior testimony I've given, that facility, those two big tanks down there, save the customers about $70 million a year in rates.

We are also maintaining our program as mandated by the PUC to replace 18 miles of cast-iron mains on an annual basis.

I think one of the great changes that PGW over the last year has been the reforming of the union agreement. Two things specifically, the work rules are substantially different. For example, the amount of absences from the company have been substantially reduced from a level of about 17 days per year, we're experiencing something in the order of 10 days per year for union members. Management has always been in the area of about five days a year. This is none vacation.

More importantly flexibility in the collective bargaining agreement has allowed us to really do several of the things we've done. For example, we could not have prevailed in the call center and with customer access and in our collections activity had we not had the ability to dispatch people around the company as we required. And that is a new provision under the collective bargaining agreement.

With regard to our financials, the computer system is fully repaired. We are continuing to make enhancements, but it works according to the design that SPL, our vendor, presented to us to five years ago. We are financial reporting accurate information and our auditors issue an annual report that had pages and pages of criticisms of the company. Those have been eliminated or reduced substantially. We have been able to maintain the bond rating, which of course is the subject of this hearing. And we've been able to sell the needed paper and the bonds in order to keep the company afloat over the last 22 months since we came.

Lastly, I would only point out again an

internal change that has had substantial benefits to the company, and that is we reorganized almost from top to bottom bringing people with extraordinary abilities from within the company and giving them responsibilities. And I personally am taking enormous pleasure from the achievements of the staff that PGW has. They really are quite wonderful people.

That's the long-winded answer, Madam Chair, but that's the progress at PGW.

COUNCILWOMAN BLACKWELL: Thank you very much. You mentioned that Standard and Poors examined PGW's cash availability. Can you be more specific with the nature of the company's liquidity?

MR. KNUDSEN: Yes. We have a seasonal requirement for cash, most of it being in wintertime. And then we have a build-up of cash in the summer toward several requirements. Most of them deal with paying the end of this winter's gas bills, paying down the short-term debt for a very short period of time, and then we have end of summer major debt service requirements so that we normally end August with relatively little cash. But right now as a result of a number of factors, including our collection effort, we have about $80 million availably to us in liquidity which six months ago I would have said would have been impossible. And it puts us in a position of meeting the requirements of the covenant that is the subject of today's requirement, we have this requirement once a year that we have to take the commercial paper down to zero. We're going to be able to do that this year without any kind of extraordinary. We'll do it essentially from the $45 million loan from the City Council and the Administration and we will be able to do it from our own funds that we generated by ourselves. So to answer your question specifically, right now in the bank we have about $80 million of liquidity.

COUNCILWOMAN BLACKWELL: That's great. With the new restructuring of the debt and the progress PGW has made, is the company looking to issue any new bonds this year? If so, can you explain their purpose.

MR. KNUDSEN: Yes. With the action here by City Council were you to allow the restructuring of the $45 million loan and consequently S & P lifts its restrictions on our bond rating, we then have three things that fall into place immediately. We're able to finance the deficit from the warm weather. We're running an operating deficit of about $32 million this year. We'll be able to finance that in large part. We'll be able to renew the commercial paper program at an $80 million level. And lastly, to your point, we must sell a long-term debt this December in order to keep our capital program going. We spend somewhere on the order of 50 to $60 million a year. And for the next two years, as I indicated earlier, this is strictly for pipe in the ground and LNG facility. So in order to keep all of that moving until we can get these rates in place and start collecting money next winter as a result of this substantial increase in base rates that we've received from the Pennsylvania Public Utility Commission, until that time, we must sell these bond.

COUNCILWOMAN BLACKWELL: Finally from me, do you have any thoughts on the possibility of the sale of PGW?

MR. KNUDSEN: I'm not sure I'm the party to respond to that. I think Ms. Davis would respond to that.

COUNCILWOMAN BLACKWELL: Good morning.

MS. DAVIS: Good morning. I'm Janice Davis, the Finance Director for the City.

We are investigating a sale. It's a complex process. Much more complex, I think, than we even appreciated when we first took the assignment on. We've not received a final report from Lehman. There's still a whole lot of issues that have to be dealt with, not least of each is the debt and post employment benefits surrounding health insurance for employees and retirees. So we are not -- we've not abandoned our review, but we're not at a point yet to make a decision.

COUNCILWOMAN BLACKWELL: Thank you very much.

MS. DAVIS: Thank you.

COUNCILWOMAN BLACKWELL: Councilman Kenney, you have questions?

COUNCILMAN KENNEY: Thank you, Madam Chair.

MR. KNUDSEN: When you talked about some of the issues relative to the improvement of the labor contract situation, are any of those issues dealing with health benefits? We had health benefit restructuring or anything dealing with activity employees and also retirees. What's the health care situation?

From what I understood in the past, basically retirees were getting indemnity coverage.

MR. KNUDSEN: There's several layers there. Going into the negotiations last spring it was the position -- my position and others that we needed to restructure the medical benefits for the company. In that context then, management -- and I think it was probably about May of last year or maybe a little earlier -- actually cut back on their level of benefits.

COUNCILMAN KENNEY: In what way?

MR. KNUDSEN: Moving away from more expensive programs, restricting some of the benefits, essentially lowing the cost of the program.

COUNCILMAN KENNEY: By what amount?

MR. KNUDSEN: Personal Choice was removed as one of the benefits from management. And if you want to get Personal Choice right now, you have to pay an additional $250 a month to get that.

COUNCILMAN KENNEY: That's management,

right?

MR. KNUDSEN: That's management, sir.

Now, moving forward then, in the collective bargaining negotiation, essentially the program that existed for management and for the union over the last several years was retained for the union. So now we have a separation within the company. The union's level of medical benefits are essentially from the old program and are higher than management's at the present time.

COUNCILMAN KENNEY: Is that including the retirees?

MR. KNUDSEN: Let me get to the retirees. The retirees -- there are several levels of retire knees. It is not sort of a homogeneous issue. What we have are people who retired prior to --

COUNCILMAN KENNEY: If there's someone that -- I mean, I know there are a lot of numbers involved.

MR. KNUDSEN: I'll ask Abby Pozefsky who's general counsel. This is second nature to her and not to me right now.

MS. POZEFSKY: Good morning. For the

record, I'm Abby Pozefsky, general counsel for the Gas Works.

Councilman, there are a number of different issues associated with retiree and retiree benefits.

COUNCILMAN KENNEY: Excuse me. How many people are we talking about?

MS. POZEFSKY: For the retirees? We have roughly the same number of retirees -- 2200 retirees. And there are a number of different issues that we explored about retirees and their even entitlements to benefits. Because of legal constraints, at the moment what we are exploring is an option to offer incentive programs to retirees, to ask them to move off the more costly programs and into the lower cost programs.

COUNCILMAN KENNEY: What are the issues? I mean, for a company that's teetering time to time on insolvency, what legal issues would require you to maintain exorbitant health benefits for a certain class of former employees? Why would we not say, we simply as a company can't afford to pay these benefits and as other companies do, reduced them accordingly.

MS. POZEFSKY: Councilman, I would prefer to have this discussion with you off the record and in a private briefing session, I'd like to say that there are some issues about legal entitlements for retirees that we have explored.

COUNCILMAN KENNEY: Any question that I ask that you can't answer because of legal reasons, I'll understand. But I want to ask them anyway because I'm not sure where I'm not allowed to go or you wouldn't like me to go.

Of the 2200 retirees, are there still individuals receiving indemnity medical coverage?

MS. POZEFSKY: There are.

COUNCILMAN KENNEY: And what percentage of that 2200?

MS. POZEFSKY: I think there are about 7 or 800 of largely the older retirees that are still receiving indemnity coverage.

COUNCILMAN KENNEY: And the others are receiving what?

MS. POZEFSKY: The others are receiving a variety of different programs. The rule at PGW is whatever you -- the informal rule, the unwritten rule is that people went into retirement with the benefits that they had at the time of retirement.

COUNCILMAN KENNEY: But things change for all kinds of workers. I mean, fire fighters and police officers, I think, get four or five years of medical benefits and then wind up paying themselves. Other City employees do the same thing. It's difficult for me to understand why a company in serious fiscal constraints allows that continuation. Our own -- and I'm not complaining because our own medical Personal Choice co-pays doubled along with many other City employees, District Council 33, 47, I'm sure FOP and Local 22 also. But there seems to be a different standard for these retirees as opposed to our regular retirees from City service.

MS. POZEFSKY: Well, the retirees from City service, my understanding is that those folks get the benefits that, again, were in place pursuant to longstanding City practice and ordinance. It's the same thing with PGW. Retirees --

COUNCILMAN KENNEY: But the difference, in all fairness, is that the City can perhaps afford it and PGW perhaps can't.

MS. POZEFSKY: Again, Councilman, I would happy to explore with you the differences that we've identified with respect to PGW retirees.

And there's actually one thing I'd like to correct, an earlier that Mr. Knudsen made, which was during the union negotiation for new union hires, we have changed their coverage from the free Personal Choice to an HMO, which corresponds to what we're giving management, so there was one change.

COUNCILMAN KENNEY: So the 7 or 800 are getting indemnity retirement?

MS. POZEFSKY: Yes.

COUNCILMAN KENNEY: The rest of that cohort receives what?

MS. POZEFSKY: A combination of a lot of Personal Choice, some HMO.

COUNCILMAN KENNEY: Co-pay Personal Choice?

MS. POZEFSKY: No.

COUNCILMAN KENNEY: No co-pay.

MS. POZEFSKY: No co-pay.

COUNCILMAN KENNEY: So if you're not getting indemnity and you're retired, you're getting a Personal Choice that is not a co-pay?

I'm talking about the retirees. The 2200 retirees, 7 or 800 or so get indemnity.

MS. POZEFSKY: Right.

COUNCILMAN KENNEY: The rest of them get some type of Personal Choice, blue I guess, a blue plan or --

MR. KNUDSEN: It will have been whatever they retired with.

COUNCILMAN KENNEY: But there's no co-pay?

MR. KNUDSEN: There's no co-pay in any of the programs.

MS. POZEFSKY: The one change is that for retirees who retired after the date of the contract, if they want Personal Choice, they will have up to pay up to Personal Choice from an HMO. So we made some inroads not as substantial as we would have wanted.

COUNCILMAN KENNEY: How about active employees currently working, what are they receiving.

MS. POZEFSKY: With respect to management --

COUNCILMAN KENNEY: Not management. Management's already gone to a Personal Choice co-pay, right?

MS. POZEFSKY: Yes.

The new union employees come in under a HMO. But existing -- you know, pre-contract hires still have Personal Choice without any cost.

COUNCILMAN KENNEY: With no co-pay.

MS. POZEFSKY: That's correct.

COUNCILMAN KENNEY: Were we able to do an analysis or can we do an analysis of what we would save if all the retirees and all the current employees receive similar medical benefits than, say, the FOP or Local 22 or any of our other City employees, what would that annual savings be if they were treated like every other employee in the City of Philadelphia were treated.

MR. KNUDSEN: We can do that analysis for you.

COUNCILMAN KENNEY: Is there a number -- I mean, have you crunched these numbers? You know, what-if scenarios, if the world were perfect what would we be saving?

MS. POZEFSKY: Yes, we did a number of those analysis before we went into the union negotiations so that there would be a basis on which to negotiate. And we could do additional analyses .

COUNCILMAN KENNEY: I'm all for people getting as much from their employer as possible in negotiation process, however, when we have similar employees in other governmental units who are getting what the City can afford to pay, it seems that other employees in other governmental units, I guess quasi-governmental units like PGW, are getting what PGW can't afford to pay. And I don't mind extending loans. I don't mind allowing you to run up more debt, but if we're not treating all of our employees the same, I don't understand what we're gaining. And how long is this contract will be in place for.

MR. KNUDSEN: The contract is three years, starting last May.

COUNCILMAN KENNEY: So we can't change anything over the next three years.

MR. KNUDSEN: For a couple years, for two years.

COUNCILMAN KENNEY: Are we talking a substantial amount of money.

MR. KNUDSEN: Yes, you are talking substantial money. And we'll get you those numbers because I don't want to misquote the studies here.

COUNCILMAN KENNEY: I have respect for all workers, whether they're PGW workers or whether they're City workers, but I can't see treating a fire fighter or a police officer any different than a PGW working and I think that's just a general feeling that I have.

MR. KNUDSEN: I think that's a fair observation.

COUNCILMAN KENNEY: Is it available, the audit criticisms? You said there were numerous pages of audit criticisms. Are they available?

MR. KNUDSEN: From prior years. It's a management letter that's issued annually by the auditor after the audit is issued formally. Yes, we can get you --

COUNCILMAN KENNEY: I'm just curious as to what they were and what's been changed.

MR. KNUDSEN: That's fine.

COUNCILMAN KENNEY: As a general statement, as I go through your testimony, I read what need seems to be some dire concerns and issues relative to change in climate and collections and revenue that we were anticipating in not getting. Our cash flow, the ability to go to PUC to get these rate increases, and then I get to the end of and it's almost as if all that stuff doesn't matter but we still need to borrow more money.

I guess the question is, if PGW were a stand-alone company not back upped by the City of Philadelphia's full faith and credit, would any lender be lending money to this company?

It seems that the City strength is what's allowing PGW to even be in the market in the first place especially with the level of debt that it has now.

MR. KNUDSEN: Clearly, this is municipal utility and it's viewed differently with the City as kind of a backstop. There's no question that the two are viewed together.

It has been my position historically, first as a public advocate and now as an executive of the company, to be sure that PGW stood on its own. That is its responsibility both to the bond holders as well as to the banks as well as to the City itself. There's a distinction that has to be made. The problem that PGW has is that it is essentially borrowed out. It is maxed out. And it will only be over next 12 to 18 to 24 months that the rate relief that we started to receive in any real amount in October, really in November, and now we get another triage in March, we'll start seeing those benefits next winter.

COUNCILMAN KENNEY: Regardless of the type of winter we have? If we have a winter like we had this year --

MR. KNUDSEN: Then we're in serious trouble, but we have an application before the PUC right now for a weather normalization clause which essentially adjusts rates depending if it's colder than normal, we give money back to the customer; if it's warmer than normal, we asked for a supplemental amount in order to keep the company whole. That is a practice that's common in New Jersey and New York. It's not that common in Pennsylvania.

COUNCILMAN KENNEY: So even in general if we do all what was being to do and we have a similar winter that we had last year, we're in trouble again?

MR. KNUDSEN: Not if we get the weather adjustment clause.

COUNCILMAN KENNEY: And when is that supposed to be?

MR. KNUDSEN: Well, we're in litigation with that right now. If the full process was played out, we would know in November and we would be in a position to put it in for next winter.

Now, let me come back. The money that we're receiving from PUC is there to pay back the $45 million and to pay back the bank. We have a total of about $135 million outstanding. You take 35 or 40 million that we've received into that for the next three to four years, most of our liquidity, most of our available cash is going to service the shorter portion of our debt. We must continue to borrow for the long-term portion which is to sustain the capital expenditure program going forward. So there's two issues here that we're trying to address at the same time.

COUNCILMAN KENNEY: If the worse case scenario, we move down this road over the next two to three years and the weather doesn't get worse and our revenue collections remain flat or go lower even with the weather adjustment, does it not devalue the company or the value of the company even further for the potentiality of a sale or some swap or some arrange with a private entity? I mean, does the value of the company continue to decline and our debt either stay the same or rise, does that not put us in a more difficult position a year, two, three years from now when we have no other choice but to try to get rid of the company?

MR. KNUDSEN: Here's my optimistic scenario. We have the rate relief that we requested a year ago. Our projection show us that weather aside, if we had normal weather --

COUNCILMAN KENNEY: I'm sorry. I don't mean to interrupt, but normal whether being normal winter or --

MR. KNUDSEN: Normal winter. With a normal winter, going forward then, our projection show us starting to have internally generated funds so that we don't have to borrow long-term all of the time and we will have paid down a substantial portion of the short-term debt, part of the City, part of the banks. In four years time, we are out of the banks out of the City and generating about 50 percent of our internally --

COUNCILMAN KENNEY: Are you talking about our long-term billion dollar debt?

MR. KNUDSEN: Yes.

COUNCILMAN KENNEY: In four years?

MR. KNUDSEN: No. I'm saying we're not adding to it at all. It will be static. And in fact, we will start to at that point reduce our outstanding long-term debt because the fund balance portion of our balance sheet, fund balance or equity and the long-term debt will start to shift and be much more normal, much more acceptable. To your point then, it would be more attractive both to the City to keep, in one instance, or for the City to sell in another.

Now, let's come back to the weather question. If we don't get the weather adjustment clause, then, yes, there is an element of risk that remains out there that tends to reduce the value of the company going forward. If we get that weather adjustment clause, I think the company looks very attractive both as a municipal utility to retain if that's your choice or more attractive to sell if in fact that's where you and the Administration want to go.

COUNCILMAN KENNEY: Let me ask question in that regard relative to the capital expenditures and the capital program. What's the ideal capital program amount for a company this size with the age of the asset, the age of pipes, and the way this company delivers its service? What is the optimum -- I wouldn't say optimum because optimum is probably giving you too wide a range. What's minimal safety level of expenditure annually on replacement of pipes, not just the LNG plant which I understand is a money-maker for us, but on just the safety issues relative to the capital program. How much should we be spending?

THE WITNESS: Our studies that we've had done by outside engineers suggest that we should be replacing one percent per year of the cast-iron main that's in the City. And we have the largest percentage of cast-iron main of any of the cities. That comes out to about 35 to $40 million a year.

COUNCILMAN KENNEY: And what are we spending now?

MR. KNUDSEN: We're spending it under the streets of Philadelphia.

COUNCILMAN KENNEY: I'm saying are we spending at that level now?

MR. KNUDSEN: Yes, we are spending that this year.

COUNCILMAN KENNEY: AND that's part of our -- what finances that expenditure?

MR. KNUDSEN: Long-term debt finances that.

COUNCILMAN KENNEY: Long-term debt.

MR. KNUDSEN: That's correct.

COUNCILMAN KENNEY: Is that an appropriate vehicle to finance that?

MR. KNUDSEN: Well, as I indicated earlier, I would like not to spend a hundred percent of long-term debt every year meeting that requirement. What we need to do is to throw off a higher level of profit or fund balance and begin to put some of that cash against that 40 or $50 million a year so that we're only taking half of the requirement out of long-term debt and the other half from our own operations.

COUNCILMAN KENNEY: I mean, I'll relinquish my microphone right now for some other questions. I may want to come back. My overall concern is that this is an extremely risky endeavor, as you know because you've been in the midst of it and doing your best to try to correct it. But a lot of it has to do with the fact that we can't control the weather. And there's nothing that I've seen lately that would indicate that that's going to change and we're not becoming Minnesota anytime soon as far as I can see. So I do have a real serious concern about the extension of allowing us to borrow more money, extending the free payments.

By the way, are we still paying the 18 million to the City?

MR. KNUDSEN: Yes.

COUNCILMAN KENNEY: Why is that?

MR. KNUDSEN: That's not for me to answer. It is an ordinance.

COUNCILMAN KENNEY: Rhetorically I'm asking this. I mean, considering the condition of the company, would it not seem likely that a dividend, so to speak, shouldn't be made in a year where we're broke or almost broke.

MR. KNUDSEN: Certainly, you're not alone in making that argument.

COUNCILMAN KENNEY: Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you.

Councilwoman Tasco.

COUNCILWOMAN TASCO: Going to those

benefits. The benefits for the retirees are lifetime?

MR. KNUDSEN: That's correct.

COUNCILWOMAN TASCO: In relationship to the senior citizen's discount, we've been talking about for a number of years not eliminating the discount but means testing as we do with the Water Department. Have you looked at that lately? Are there any studies going on to figure out how much it would generate in terms of dollars?

MR. KNUDSEN: Let me answer that question first. The senior citizen discount not generate any benefit for PGW. What it does is it simply changes who pays the bill. In other words, if you have a senior citizen who has $1,000 bill a year and he gets the 20 percent reduction so he pays 800, that $200 is then put on everybody else's bill. So when you do away with the senior citizen discount, you simply pull money back from those who are being charged and you charge the senior citizen again, but that's all. We on the balance sheet are on the operating statement see no benefit to that. It's simply a question of who pays for that requirement, whether it's all the other customers who are not seniors or whether the seniors pick up their portion of it again.

COUNCILWOMAN TASCO: But if you have senior citizens who shouldn't receive the discount --

MR. KNUDSEN: Well, that's another issue.

COUNCILWOMAN TASCO: That's what I mean. In terms of trying to -- people who are 65 and over who can afford to pay should pay, and those who don't pay, they get the discount. Everybody is getting a discount now.

MR. KNUDSEN: That's correct. I was addressing the circumstance where everybody gets a discount. Clearly, if people are means tested and they then are charged, then what you will see will be a small credit on everybody else's bill. We do not male any money. We'd have know benefit from the senior citizen discount. But if people who can afford to pay do pay, then what's called rate design, what the rate design requires is that everybody else's bill is reduced slightly and the wealthier senior citizens now pay the full bill.

Councilman, I'm confusing you.

COUNCILMAN NUTTER: No, you're not confusing me. I think I understand full well what you're saying. I think -- and I'm going to say this with every respect. You and I have done a number of things together. There's no personal issue and you didn't start the senior citizen discount program. What you're saying is, in essence, we don't really care who pays. If the senior who can pay doesn't pay, we're just going to shift it to the other suckers who actually do pay their bill and we're going to spread it around among that group of people. And so as long as we get the money, what you're saying is it doesn't affect our balance sheet because the last stupid people who do actually their PGW bills are going to pay anyway.

MR. KNUDSEN: That is the way the system is set up.

COUNCILMAN NUTTER: I understand that. This is a fairness issue. It's not just a bottom line do-you-get-the-money issue. It is not fair to the people who do pay their bills to, in essence, pay the bills of other people who can pay. I'm not talking about people who can't afford to pay. We're talking about people who can pay but because we have this whacky system, they're not paying, having reached a stage of life -- you know, I look forward to the day of possibly being eligible for the senior citizen discount. There probably won't be a company left by that time so I'm not going to worry about it too much. But there is reason for some people who have the means to get a discount simply because of age. And the company's response, again, not directed to you personally, is that, well, it doesn't really matter, it's a thousand dollars and we're going to get $800 from that person because they're going to get the 20 percent or whatever the percentage is discount and we're going to take the other 200 and spread it around to everybody else. Well, I don't have anything to do with that $200. I want to pay my bill for what I use in my house, not somebody else's bill who has the ability to pay. It is not fair. It generates ill will between the people who do pay and the company. So I don't care whether it affects your bottom line or not. You shouldn't be charging other people for other people's bills who can pay. That's the issue.

MR. KNUDSEN: That is a matter for the City Council to determine because it is a City

Council requirement that we do this.

But let me come back to Councilwoman Tasco's question. We are in the process now of filing on July 1st a restructuring, a deregulation filing for PGW in which the senior citizen's discount will be addressed. PFMC and management are now formulating a proposal that we will have to bring to City Council either for means testing or for a potential phase out of the program completely. So we're not indifferent. We understand very clearly the burdens that this program represents to many people. For a lot of people who at the margins who live at or above 175, 200, 250 percent of poverty to receive an additional requirement to subsidize other people who may be able to pay is inherently unfair.

COUNCILMAN NUTTER: I understand that. That let me just understand one think you said. And I appreciate -- I mean, if you want to be technical about it and Council created something and Council needs to take some action. It would be irresponsible at the same time, I think, for Council without consultation with PGW or without the benefit of some proposal from PGW or PFMC to arbitrarily change or eliminate the program without any input from the company. So now do I understand you to be saying that you're going to send something to City Council for our action?

MR. KNUDSEN: Yes.

COUNCILMAN NUTTER: That is fine. That is appropriate. And then if we don't do anything, you can then charge us with not doing anything. But I don't think it appropriate for us to take an action having had no benefit of the company's current perspective on what we should do it or how we should do it or what your capacity is to run a means test program. We shouldn't give you a mandate to do something and not know of your capacity to do it. It's a shared responsibility so I think you'd like to possibly amend your statement that you only do it because Council requires you to do it.

MR. KNUDSEN: I will amend my statement. We have not come to you with any redress of the situation. We are preparing to do so.

COUNCILMAN NUTTER: Okay. Great. Thank you.

COUNCILWOMAN TASCO: Now, that answer would have saved you a whole lot of grief.

MR. KNUDSEN: Councilman, we will file something with you this summer specifically for you to deal with September.

COUNCILMAN NUTTER: Okay.

COUNCILWOMAN TASCO: I was trying to give you an opportunity to address the issue because it has been on the table for a long time. Certainly, there is some benefit to restructuring the whole senior citizen discount program as we've talk about for many, many, many, many, many years. But when you bring it to us, you have to bring the documentation that gives us the rationale for doing it.

MR. KNUDSEN: You will have the entire analysis that we've been working at for a period of time now. Several months we've been at this.

COUNCILWOMAN TASCO: I'm finished.

COUNCILWOMAN BLACKWELL: Thank you, Councilwoman.

Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Mr. Knudsen. I had a couple questions before I read your testimony and then after I read it I had a few more. My initial question is, what is the long-term future of PGW? And I had written that question before I read your testimony. And on what appears to be Page 4 toward the bottom, you also say, "We believe that the company has in fact turned around." So I guess now I want to ask the long-term future of PGW question in the context of your view or belief the company has turned around. And I guess I'd like to better understand your definition of "turned around."

MR. KNUDSEN: Well, coming back to Councilman Kenney's point about a risk profile of PGW, my position as chief executive officer is to value for PGW and for the City. To do that as a municipal utility because we're not investor owned, there are no deep pockets, there's no one to go to.

COUNCILMAN NUTTER: Just us.

MR. KNUDSEN: We come to you and unless you have a deep pocket I don't know about --

COUNCILMAN NUTTER: Real shallow.

MR. KNUDSEN: In that circumstance, we have to act in a way that reduces the risks of ownership. Coming back to Councilman Kenney's question about the weather, we specifically put into this latest filing a weather normalization clause. There are none in Pennsylvania right now. There are in New Jersey, there are in New York, there are in Ohio, there are in a lot of other places, but there are not Pennsylvania. This will be a stretch for the Public Utility Commission. But what a weather adjustment clause does is it reduces the risks of ownership as we go through a warmer, much warmer than normal winter as we have four out of the last five years.

COUNCILMAN NUTTER: If you explain that in detail and I missed it, don't explain it again. But if you didn't, please do.

MR. KNUDSEN: Well, all it says is that when weather is warmer than normal, we ask the customers during the course of the winter to increase their rate slightly in order to make up for that weather differential.

COUNCILMAN NUTTER: Increase their what?

MR. KNUDSEN: We would increase their rates to adjust for the loss of margin or the loss of revenues associated with warmer than normal winter. Conversely if it's a colder than normal winter, we will then adjust rates and give money back to the customer because they will essentially be paying more than the regulation then would allow. So that removes one layer of risk. The other risk we have is in gas purchasing. And we're looking at mechanisms right now that will reduce that risk profile, the riskiness of ownership for PGW. If we can address those two aspects and we manage the company well, PGW can go forward. Then if you choose to sell it or keep it, it will have value of and by itself as an operating entity and enterprize.

To answer your question, you're asking the long-term outlook. If we can reduce the immediate risks of ownership which are weather and fuel costs -- let's say we take those off the board, what are the long-term risks of PGW? The long-term risks of PGW are those associated with the long-term risks of Philadelphia because we need sales, we need people to buy gas from us. We are seeing a declining level of sales over the last three to four years. We're losing a portion of our sales each year. That is the threat to PGW in the long-term. Again, assuming that these operational risks are off the table.

COUNCILMAN NUTTER: Again, you mention

in your testimony, I think on Page 3, you had discussions with Standards and Poors, I'm going to assume somewhat recently.

MR. KNUDSEN: Yes, in February.

COUNCILMAN NUTTER: They were threatening downgrade potentially the junk bond status. You say that they raised two concerns. A billion dollars in long- and short-term debt. You address that concern with the granting of $36 million of additional rate relief by the PUC on April 11TH. You've got the $45 million; we'll talk about that in a few minutes. And the second concern was extending the repayment of the $45 million. Again, what is the long-term financial outlook and turnaround for this company? How does $36 million in rate relieve address a billion dollars worth of the debt.

MR. KNUDSEN: Good question. We committed to a program two years ago of stripping $25 million of cost out of the operation. And we're pretty much on target for that. Last year we got $33.6 million of rate relief. This year we got another 36 million. So together we've gotten 70 million of rate relief --

COUNCILMAN NUTTER: I'm sorry to cut across you. When did the PUC take over.

MR. KNUDSEN: July of 2000.

COUNCILMAN NUTTER: How many filings have you made to the PUC since July of 2000 for various rate relief requests.

MR. KNUDSEN: Well, a whole host of them, but for your purposes we filed almost immediately for $55 million of which we were granted 11. And we filed again, sort of a supplement to that, we asked for 65 million of which we were granted an additional 22.6. So that gave us our 33.6. That wasn't enough. As I was explaining to the Councilman, that let us continue to operate; that didn't give us anything to pay you back, pay the banks back, and keep going. So we then filed again in February of which 44 million of $60 million we designated as extraordinary or emergency of which they've given us 36. Now, we still have right on the table right now and we are in litigation for 24 million more of rate relief. So we've had three different filings that have almost been continuous because -- and this is with respect to the Pennsylvania Public Utility Commission, they had to get to know us. We had to get to know them. We are a very stange duck to these guys. We are not an investor-owned utility. None the rules that apply to those folks apply to us. We are accounted for differently and so forth. But that being said, we've now gotten to know one another and they understand where we are. And this last 36 million that we got on April 11th, they were very forthright in saying, we want to give you what you need to make this company work.

COUNCILMAN NUTTER: I guess increasingly, Mr. Knudsen, some of our actions related to PGW are right on the edge of fitting perfectly the definition that's laid out by Albert Einstein of insanity. We do seemingly continue to do the same thing over and over and over again expecting a different result.

MR. KNUDSEN: I understand -- with regard to regulation, is that your comment, or with regard to PGW generally?

PGW generally I would say that we have broken that mold. We are not doing the same things over and over again. We have fixed a lot of the problems. We have gone to get problems that were not touched for years. For example, unremediated gas manufacturing sites. We avoided that question for a long time. We're now starting to address that. I express myself to the PUC chairman as saying PGW is 165 house with a lot of rooms and we have gone into each room one at a time, cleaned it out, and made sure that it got a fresh coat of paint we moved on. And we did that with our customer affairs, we did that with the computer, we're doing that with field services, we're doing that with operations. So we're getting through. So to your point -- and I don't mean to be argumentative here -- we are not doing the same thing again.

With regard to regulation --

COUNCILMAN NUTTER: I didn't think we were being argumentative, we're just having a good conversation.

MR. KNUDSEN: Thank you. With regard to regulation, it has the appearance of that. But I think, again, it's this question that we needed to educate these folks as to how we account for things as a municipal utility. They didn't know and it took a long time for them to understand. They've got it now, and I don't think we'll have this problem.

COUNCILMAN NUTTER: Well, let me then ask -- I guess, my main question for the day is given all that's happened, all the success that you've had, the education of the PUC, if things are starting to turn around at least from your perspective, I'll take that for the moment, I am still left, I guess, with one important question which is, why are we still in this business? And I understand that we own all the assets and the infrastructure and the like. But as a government, provider of a variety of services, we're obviously in the gas business. For whatever reason we're not in the electric business we're not in a number of other types of business. Certainly, we're in the water business, but we don't seem to be having the same level of difficulty. A lot of physical plant, a lot of pipes in the ground and the like. Is this a business that the government, owner of the assets should still be in?

MR. KNUDSEN: Two points. If you get the risk, the operating risks out of the business with these regulatory conventions, I think you can be in the business.

COUNCILMAN NUTTER: Why do we want to be in the business?

MR. KNUDSEN: Let me answer that separately. The first question is, can you do it. I think the answer is yes with the right provisos. Do you want to be is another issue, and I think that's a political issue. And my response to that is having been on the other side and having appeared before Chairwoman Tasco for many, many years representing essentially the low income of Philadelphia, you're in the gas business over a long period of time. You evolved into this responsibility. You are heating the homes of a lot of people who really can not afford this service. Were this to be sold, what we call a sort of social premium which is to say 75, 80, 85, $90 million that would leave Philadelphia completely, it would be paid to the government, it would be paid to Harrisburg in terms of state taxes. You would get some residual real taxes for sure. A higher cost of capital would go to New York and a dividend payment on stock would go for whomever owned the stock of the Philadelphia Gas Corporation. Those funds stay within the City right now and they support --

COUNCILMAN NUTTER: Which funds are we talking about.

MR. KNUDSEN: The money that's not leaving to pay for taxes, higher cost of capital, dividens and so forth.

COUNCILMAN NUTTER: Where is that money going now?

MR. KNUDSEN: That money is going to support 80 to 100,000 families on average every year.

COUNCILMAN NUTTER: Well, let me ask this question. I know we've lost a lot of population. And there's a current debate about more recent statistics. I mean, are we the only City in America that has poor people living in it? And how do poor people in other cities get their homes heated?

MR. KNUDSEN: I think if you look at only at Pennsylvania, and those are the statistics that I'm most comfortable with, we have about a third of our customer base in this situation. If you look at Pittsburgh or you look at Erie or you look at Scranton or Chester, it's a much smaller proportion. We have most of the poor of

Pennsylvania here in Philadelphia.

Now, shift to Brooklyn, Brooklyn Union Gas or you shift to Baltimore Gas and Electric. Yes, they have large proportions of poor. But in Baltimore it's a combined utility as is PECO for the urban areas around Philadelphia. You can do a great deal more for those folks without the burden being quite as directly felt because you've got a large industrial group that you can spread these costs over.

Now, if you sell it and someone else can effect those same kinds of changes, well then you might have addressed some of the problem. But right now you have this issue that has to be addressed some way.

COUNCILMAN NUTTER: The issue being how do you heat the homes of 80 to 100,000 poor people.

MR. KNUDSEN: Right.

COUNCILMAN NUTTER: So if you just did the kind of the pure balance sheet write on any piece of paper that you want, the pluses and the minuses, the plus for us being in this business is that we ensure that 80 to 100,000 people get their homes heated at whatever the rate it's going to be which we don't control, we get $18 million a year, and what else? What are the other benefits of us being in this business?

MR. KNUDSEN: Not a lot of benefits. A lot of headaches. I think those are essentially -- that's essentially the calculus for this.

COUNCILMAN NUTTER: That's it?

MR. KNUDSEN: You're providing a social service, much like water, and you are getting a dividend or payment in lieu of taxes or a franchise fee.

By the way, that $18 million has been evaluated by the folks who did our management audit, and it was determined that that is below market rates. In other words, if you were owned as a privately invested -- if it was a private invested situation, that would be under market in terms of a level dividends.

COUNCILMAN NUTTER: You don't have to be Warren Buffet to figure out that. I mean, it's been 18 million for about 20 years, hasn't it.

MR. KNUDSEN: '72, 30 years.

COUNCILMAN NUTTER: I don't know where the number came from and it's probably going to stay that number. But I had to figure that that number didn't make any sense. In the current context, if it's been the same number for the last 30 years, nobody takes a divide from somebody that's going to be virtually the same for the last 30 years. You're either going to dump the stock or find another investment.

MR. KNUDSEN: Well, we've made that argument and we have argued for the continued payment of the 18 million as a fair return to the City on its investment.

COUNCILWOMAN BLACKWELL: Excuse me, Councilman, for one moment. The Chair notes that Councilman O'Neill is here. Thank you.

COUNCILMAN NUTTER: Is there a report or has there been a report prepared or is somebody working on a report looking at alternative operational structures, i.e., the City not being in the gas business? What's the status of that?

MS. DAVIS: Councilman, we have engaged Lehman Brothers to look at.

COUNCILMAN NUTTER: I'm sorry. Who?

MS. DAVIS: We've engaged Lehman Brothers to look at alternative operating formats for the company. We have not, because of the complexity of the issue, had a final report nor have we made a determination. This issue is much more complex than even we envisioned when we first started out. And many of the issues that you've mentioned are issues that are being addressed as we move forward. And as soon as we have a final report, we'll share it with City Council.

COUNCILMAN NUTTER: What was the scope of the report? What were they asked to do?

MS. DAVIS: They were asked to look at all possible alternatives for the operation of the gas company.

COUNCILMAN NUTTER: Is there a draft report?

MS. DAVIS: There's no report issued.

COUNCILMAN NUTTER: When do you expect to have it?

MS. DAVIS: I don't know at this point. I'd have to check with Lehman and see when we're going to get something. We've not been actively engaged. We've been working through some of the numbers that have been presented to us before. We thought that there were some issues with verifiability of some of their numbers and so we've not had a report.

COUNCILMAN NUTTER: I'm sorry. Issues of what?

MS. DAVIS: They couldn't verify all of the numbers. We have some issues with post employment, health benefits. There are issues with the pension liabilities and the funding status of the pension plan that need to be addressed before we move forward and the disposition of the assets of the pension plan.

COUNCILMAN NUTTER: When did they start doing the work?

MS. DAVIS: I think about a year ago.

COUNCILMAN NUTTER: And when do you anticipate the work being done.

MS. DAVIS: I would hope in the next few months.

COUNCILMAN NUTTER: Next few months?

MS. DAVIS: Yes.

COUNCILMAN NUTTER: Who's paying for the report?

MS. DAVIS: The City is.

COUNCILMAN NUTTER: How much is it?

MS. DAVIS: I think it's $250,000 for the review.

COUNCILMAN NUTTER: But we don't have a set end date to this?

MS. DAVIS: We've gone through a number of meetings with them. At this point, it's in our court to finalize some of the additional questions we have for them, and I'm hoping that we'll have a final report in the next few months.

COUNCILMAN NUTTER: Now, Ms. Davis, this is not going to be similar to the exercise that we went through with regard to the agreement on the school side between the Mayor and the Governor, the unending search for the never-to-be-produced report?

MS. DAVIS: No. The Administration is very interested in bringing this to conclusion. We share your frustration with the gas company and with the results and we, too, feel that there is some value in our disposing of the company, but we need to do it in a way that does not unnecessarily burden the City with any of those liabilities that we've thus far identified, especially for post-employment health benefits.

COUNCILMAN NUTTER: Lastly, I need you

to within some range to give me a date.

MS. DAVIS: Let me get back to you with a date. I'd like to talk to the Chief of Staff and some of the other people involved.

COUNCILMAN NUTTER: All right. If you would communicate that through the Chair, I would appreciate it.

MS. DAVIS: I will.

COUNCILMAN NUTTER: Thank you, Madam Chair.

I'm sorry, lastly, the $18 million, is that expected to be paid in this -- are you anticipating an $18 million in this Fiscal Year?

MR. KNUDSEN: Yes.

COUNCILMAN NUTTER: Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

Councilman O'Neill and then Councilman Kenney.

COUNCILMAN O'NEILL: I'll yield.

COUNCILWOMAN BLACKWELL: Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chair.

The answer to the question that you made to Councilman Nutter is -- I'm trying to remain calm, but it's upsetting because what you described in Brooklyn and in Baltimore was tentatively talked about two years ago here. As I understand why a dual utility can get the economies of scale necessary when it comes to staffing and delivery and customer relations, customer service, all those things, describe what quietly a company in Philadelphia was attempting to do, PECO, to have discussions with some members of Council and people in the Administration to talk about a potential acquisition back then and were chased away. We're basically told don't talk about it. And when I tried to raise it again with them through some of their representatives, they said, Oh, we can't talk about this. We already got taken to the wood shed by the Administration on this so we're not talking about it any more.

Now, to me, it's extremely frustrating to continue on down this very difficult road. Now, of course, when asked, the Administration will say they had no formal discussions with anybody, but there were discussions that were going on and there were some feelers and meetings that were set up because I attended them, to have them talk about doing something like that which would have given us the economies of scale, which would have taken us out of this business, would have been able to reduce the cost and if we could structure the debt in a way that would have kept the City not for being liable for it or some pay-out or buy-out of it over a period of time, we'd be out of this mess by now. So now we have Lehman Brothers doing $250,000 study. We don't when it's coming. We had a company in Philadelphia that's strong, solid, dependable, and deliverer of utilities in a similar grid that the Gas Works is delivering, but two years ago we basically chased them away. I don't understand why two years later we're still waiting for a report while the company is getting worse -- maybe structurally getting better through your efforts, but fiscally not getting any better necessarily. And then we'll be back in the same boat we were two years ago. And I'm telling you, I remember going to a representative of PECO who was talking to me about this, and when I raised the issue, the guy said, "Under no circumstance am I allowed to talk about this. We already got beaten up pretty much by the

Administration because we even suggested it happening. And then you tell me the Brooklyn, Baltimore scenario, I said, What are we, nuts? It just doesn't make any sense.

MR. KNUDSEN: The issues that you raise, I can't address. I don't know what the conversations were.

COUNCILMAN KENNEY: I understand. I'm putting on the record because I know they existed. I know what happened. And I know they were chased. And now we're back spending money for consultants to do something that could have been done through negotiation two years ago perhaps taking us out this morass that we seem to be in every six months to a year. It's extremely frustrating to have that happen. It's not your fault, I understand. But it's just for the record, this could have been resolved with a reputable company in Philadelphia that delivers to utilities that were willing to talk and were told basically to take a hike, don't even talk about it. And now we're sitting back here waiting for a Lehman Brothers report. They'll probably tell us the same damn thing. It's just absolutely ridiculous and it's a waste of ratepayers' money and a waste of taxpayers' money in the end.

Let me just ask you a question about the size of the company because we talked a little bit about the health benefits that were not -- is it safe to say that the health benefits were not resolved the way in which you envisioned them to be resolved?

MR. KNUDSEN: Yes.

COUNCILMAN KENNEY: Do we more customers in PGW now than we did five years or less.

MR. KNUDSEN: Fewer.

COUNCILMAN KENNEY: Did we have any layoffs in the company?

MR. KNUDSEN: Yes.

COUNCILMAN KENNEY: How many?

COUNCILMAN KENNEY: When I came two years ago plus, we had about 200 more people than we do right now.

COUNCILMAN KENNEY: And where were they.

MR. KNUDSEN: Across the company.

COUNCILMAN KENNEY: Across the company?

MR. KNUDSEN: Yes.

COUNCILMAN KENNEY: And are we doing

also issues dealing with not replacing people that retire or is there a hiring freeze?

MR. KNUDSEN: Well, as I indicated in my comments about reorganization, we're attempting continuously to revise processes and procedures and to put in new technologies in order to keep the number of people declining. And we have a forecast, I think it's out two or three years, where we're down to about 1500. We're about 1750 right now. We can't get there overnight.

COUNCILMAN KENNEY: I understand. I'm happy to hear it.

MR. KNUDSEN: Let me put a caveat on that. The only problem I'm facing right now is that the PUC is putting additional mandates on us for things that we don't do now.

COUNCILMAN KENNEY: Like what?

MR. KNUDSEN: Well, for example, they want a meter change-out, which is to say you have to physically go in and take the meter out and calibrate it and so forth. They want that over an accelerated period of time, eight, nine years. We do it 15.

COUNCILMAN KENNEY: Let me ask you just

one final question on revenue and the way people pay their bills. I would assume it would be advantageous for -- it is advantageous when people decide to go on a budget that they pay the same amount per month through the whole 12 months of the year. It's a better cash flow situation?

MR. KNUDSEN: For us and for them.

COUNCILMAN KENNEY: What percentage of our customers, do you have any idea, pay on a monthly budget? I know I do.

MR. KNUDSEN: It's come down slightly because of the computer problem and we're trying to get it back up. It used to be at about 80,000, and it's now at about 60,000. So we're talking --

COUNCILMAN KENNEY: So if we go in the higher direction, it's better for the company.

MR. KNUDSEN: Oh, absolutely.

COUNCILMAN KENNEY: Is there a way to incentivise financially that situation?

I mean, it would seem to be theoretically that if everybody in the City was on a better budget, you would be having consistently steady cash flow throughout the 12-month period, not having these rises and dips in collections.

MR. KNUDSEN: Well, that's assuming that you can forecast your gas cost, but that's right. Theoretically, that is correct, in a stable circumstance.

COUNCILMAN KENNEY: Is there a percentage discount, for example, that could be given that would make sense?

MR. KNUDSEN: Two ten net 30, something like that?

COUNCILMAN KENNEY: Yes.

MR. KNUDSEN: We're looking at all sorts of options right now. That is one.

COUNCILMAN KENNEY: Because I think it's any better for the ratepayer too. Certainly, if we do have a severe winter, I mean, people do get -- I think a lot of our arrearage is based on people never being able to catch up after a period of time. If people can have a consistent amount of money, whether it's 30, $40 a month that they know they're paying as opposed to getting whacked with a $600 bill for February, it seems to be a win/win for everybody.

MR. KNUDSEN: I think in theory it's an excellent program and we try to encourage it. There are some problems with evening our cash flows, but as a concept, it's very good one.

COUNCILMAN KENNEY: Is there any value in financial incentivising?

MR. KNUDSEN: I can't say that right now. I'd have to look at it. We're looking at all the options right now in terms of encouraging revenues.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BLACKWELL: Councilman O'Neill.

COUNCILMAN O'NEILL: Good morning. I apologize. I was speaking to some senior citizens about PGW, actually. I have no problem with this legislation. I don't think we're ever going to get the money. So I have no problem pushing back the date. But I think somebody else is going to own the company before we get this money, whether it's 2006, 2009 or sometime sooner. I just have a question.

Are there any other cities, particularly cities with a mix of people below the poverty line as we have that own their own utility, whether they manage it themselves or contract out the management, that we can look to for any comparatives or best practices or are we it at this point?

I know there's a lot of publicly owned gas companies, but the jurisdictions are a lot smaller than ours and much different demographics oftentimes.

Are there any that have our mix or even anything close to it?

MR. KNUDSEN: There's none that have the geographic and demographic mix that we do. It's a very small service territory and you have this high concentration of poor. I mean, you can say downtown Brooklyn. Well, that doesn't work because you've got Queens and sections of Long Island. Or you go to Baltimore, Center City, yes, but BG&E is not restricted to the city limits. So you don't have anything quite the same as we have here. And we've been struggling with that. We are the largest local distribution company of gas in the country by an order of magnitude, I mean, it's much larger than the next one.

COUNCILMAN O'NEILL: Thank you.

COUNCILWOMAN BLACKWELL: You're welcome.

Councilwoman Tasco, you had a follow-up question?

COUNCILWOMAN TASCO: I want to kind of follow-up on that. While you mentioned Pittsburgh and other places that may have of public utilities, but even though they may not be to the scale of Philadelphia, they do have a difference in economic classes. So who do these companies, whether it's one-third or whatever, how do they handle low income citizens who can't pay their bills? Are there provisions for them? What provisions do they provide to address that issue?

MR. KNUDSEN: The Customer Responsibility Program, the CRP, that you're familiar with is a model similar to that write exists in the rest of the State. So let's take Pittsburgh, for example. There is what's called a CAP program, Customer Assistance Program, much like our CRP. And they enroll people and they administer it much the same we do. And if people can't pay, it falls to the bottom line, which is to say it is a loss which is the same that we're experiencing. The difference is that the orders of magnitude, the number of people involved is much smaller so that the companies are less impacted. At least, that's my impression from what studies we've been able to do. And when we come forward with this re-filing, with this restructured filing, you'll see a lot of that kind of comparative analysis as to why -- where we fit into the overall picture in Pennsylvania.

But to answer your question as directly as I can, we have so many poor relative to other areas and other utilities in terms of demographics and geographic dispersion. And we don't have, which many utilities do, a very industrial base. We simply don't have that here to help support the low income people as well.

COUNCILWOMAN TASCO: Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any other questions from members of the committee?

Seeing none, this will end our public hearing part of this committee hearing.

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COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC MEETING

COMMITTEE ON PUBLIC PROPERTY AND PUBLIC WORKS

- - -

Wednesday, May 1, 2002

- - -

Public Meeting conducted by the Committee on Finance, held in Room 696, City Hall, Philadelphia, Pennsylvania, on the above date, to consider action on the following:

BILLS 010554, 020245, 020246

- - -

PRESENT:
COUNCILWOMAN JANNIE BLACKWELL, Chair
COUNCILWOMAN MARIAN TASCO, Vice Chair
COUNCILMAN JAMES KENNEY
COUNCILMAN FRANK DI CICCO
COUNCILMAN BRIAN O'NEILL

- - -

COUNCILWOMAN BLACKWELL: We will not enter into our public meeting part of this hearing.

The Chair recognizes Councilman Kenney with a motion regarding Bill No. 010554.

COUNCILMAN KENNEY: Thank you, Madam Chair. I move the Bill No. 010554, be reported out of the committee favorably and a request made for rules suspension to allow First Reading at our next Council Session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill No. 010554 be reported out of committee with a favorable recommendation and also a recommendation for suspension of the rules so as to permit this bill being considered at our next Session of Council.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and so this has been done.

The Chair recognizes now Councilwoman Tasco with regard to an amendment to Bill No.

202245.

COUNCILWOMAN TASCO: Madam Chair, I offer an amendment to the bill, Article II, Section 2.05, Powers Reserved. It says, "Nothing in this Ordinance is intended to or shall be construed to affect the authority of the Gas Commission under Section 5-902 of the Philadelphia Home Rule Charter or the Management Agreement, to the extent consistent with the Natural Gas Choice and Competition Act."

COUNCILWOMAN BLACKWELL: There is an amendment to this bill that is on the floor.

Are there any questions in this regard?

Councilman Nutter.

COUNCILMAN NUTTER: Madam Chair, no question on that amendment, but in our packages we have it appears two other amendments.

COUNCILWOMAN TASCO: This is on 020245. I have an amendment on the other bill.

COUNCILWOMAN BLACKWELL: Councilwoman Tasco.

COUNCILWOMAN TASCO: One amendment had been circulated earlier and it has been renegotiated and the amendment that I read is the amendment that we have offered.

COUNCILWOMAN BLACKWELL: The Chair recognizes Councilwoman Tasco for a motion for the adoption of the amendment.

COUNCILWOMAN TASCO: I move for the adoption of amendment.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that an amendment to Bill No. 020245 be adopted.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it, so the amendment adopted.

The Chair recognizes Councilwoman Tasco regarding Bill No. 020245, as amended.

COUNCILWOMAN TASCO: Madam Chair, I move that Bill 020245, as amended, be reported out of committee with a favorable recommendation with a suspension of the rules.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been

moved and seconded that Bill No. 020245, as amended, be reported out of committee with a favorable recommendation and also a recommendation that the rules be suspended so as to permit consideration at our next Session of Council.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and so this bill will be reported out of committee.

The Chair recognizes Councilwoman Tasco with regard to an amendment to Bill 020246.

COUNCILWOMAN TASCO: Madam Chair, I have an amendment for Bill 020246, Section 2. It reads, "The City is hereby authorized to extend the principal repayment date of that certain temporary advance made to the Philadelphia Gas Works in the amount of $45 million, as memorialized in that certain loan agreement dated November 27, 2000, to a date no later than August 29, 2006." This is the appended part: "Provided that during the extended term of such temporary advance, PGW shall continue to file with the City Council, the Gas Commission, and the Director of Finance no later than the fifth business day of each month:

"a. Monthly updates to its 'Budget of Cash Receipts and Disbursements' reports for the preceding month and

"b. Monthly status reports regarding achievement of PGW management's stated goals for productivity/cost savings and collection of billed revenues."

COUNCILWOMAN BLACKWELL: Are there any questions?

Seeing none. The Chair recognizes Councilwoman Tasco with regard to the adoption of amendments to this bill.

COUNCILWOMAN TASCO: I move for the adoption of this amendment.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that the amendment to Bill 020246 be adopted.

All in favor of the amendment of this bill?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it. The amendment is adopted.

The Chair recognizes Councilwoman Tasco for motion on Bill 020246, as amended.

COUNCILWOMAN TASCO: I move that Bill No. 020246, as amended be report out of committee with a favorable recommendation and a request for suspension of the rules so this bill can be heard at the next Session of Council.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill No. 020246, as amended, be reported with a favorable recommendation and also a recommendation that the rules be suspended as to permit First Reading at our next Session of Council.

All in favor?

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: Therefore, the ayes have it. The bill will be reported out with a favorable recommendation.

We thank you all for coming. Thank you.

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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 May 1, 2002, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON FINANCE

Lisa C. Bradley, RPR
and Notary Public