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COUNCIL OF THE CITY OF PHILADELPHIA

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PUBLIC HEARING BEFORE COUNCIL COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, May 18, 2000
2:55 p.m.

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BILL 000280 - An ordinance approving the Fiscal
Year 2000 Capital Budget providing for
expenditures for the capital purposes of the
Philadelphia Gas Works, including the supplying of
funds to be obtained in connection with and
rejecting the forecasts for Fiscal Years 2001 to
2005.

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PRESENT: COUNCILWOMAN JANNIE L. BLACKWELL, Chair
COUNCILWOMAN MARIAN B. TASC0, Vice Chair
COUNCILMAN FRANK DICICCO
COUNCILMAN JAMES F. KENNEY
COUNCILMAN MICHAEL A. NUTTER
COUNCILMAN BRIAN J. O'NEILL

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VINCENT VARALLO ASSOCIATES, INC.
Registered Professional Reporters
Eleven Penn Center, Suite 600
Philadelphia, PA 19103
(215) 561-2220

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2 I N D E X

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4 PGW Witnesses:

5 Kumar Kishinchand, Interim Pres. and CEO. . . 4

6 Tom Knudsen, Interim Chief Financial Officer 17

7 Abby Pozefsky, Senior Vice President and. . . 32
8 General Counsel

9 Dennis Stinson, Vice President of Operations 39

10 Other Witnesses:

11 Joyce Wilkerson 49
12 Secretary, Strategic Planning

13 Steve Hershey, Esquire. 51
14 Deregulatory Counsel, Consultant

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

3 COUNCILWOMAN BLACKWELL: Good afternoon
4 thank you, everyone, for your patience.

5 We would like to begin our committee
6 hearing before the Finance Committee. We have a
7 quorum, I do believe. To my left is Vice Chair
8 Councilwoman Tasco; to my right, Councilman
9 DiCicco and Councilman O'Neill.

10 All right, we do have a quorum and,
11 therefore, we will begin our hearing on Bill
12 000280, dealing with PGW. The title reads as
13 follows: "An ordinance approving the Fiscal Year
14 2000 Capital Budget providing for expenditures for
15 the capital purposes of the Philadelphia Gas
16 Works, including the supplying of funds to be
17 obtained in connection with and rejecting the
18 forecasts for Fiscal Years 2001 to 2005.

19 Thank you very much.

20 (Witnesses come forward).

21 COUNCILWOMAN BLACKWELL: We will now
22 recognize Commissioner Kishinchand and others who
23 are here. We ask you to introduce yourselves for
24 the record and begin your testimony. And thank
25 you also for your patience.

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2 COMMISSIONER KISHINCHAND: Thank you
3 very much, Chairwoman Blackwell, and good
4 afternoon, members of the Finance Committee.
5 Thanks for giving us the opportunity to come
6 before you to testify about our Capital 2000
7 Budget, our Fiscal Year 2000 Capital Budget.

8 Before I get into the budget itself, I
9 think I should perhaps tell you that, you know,
10 I've been over there for about two months, and
11 I've been working with Tom Knudsen, the Chief
12 Financial Officer, who is on my left, and he has
13 joined at the table to help me during this
14 testimony, and Joyce Wilkerson, who is on the
15 Philadelphia Facilities Management Board and is
16 Secretary of Strategic Planning. She is here to
17 help with this particular testimony.

18 But before I get into the hard numbers
19 on the Capital Program itself, I just want to let
20 you know that we recognize the problems that exist
21 over there at PGW. I think specifically there are
22 issues that we deal with on the billing -- wrong
23 bills, bills not going out. There are issues that
24 we deal with on customer service, such as the call
25 center, people not getting into the phones. And

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2 then there are other issues that we need to deal
3 with such as governance when PUC jurisdiction
4 comes into place.

5 In terms of billing, I am disappointed
6 on how bad the system is. I need to tell you that
7 at this juncture, there are about 30,000 of our
8 customers that are not getting billed, and 20,000
9 of those happen to be the low-income customers
10 that get some assistance from the outside also to
11 pay their bills, but they are not being billed
12 because of the customer responsibility program,
13 which is not working on the billing system. And
14 we are trying to address that issue on an
15 automated basis, and we hope that perhaps by the
16 end of June, we will get all of those customers
17 back into the billing system.

18 In addition to that, there are about
19 10,000 regular customers who are not getting
20 billed at this time. Because of some exception
21 that occurs in their billing, they get kicked out
22 of the billing system and we can't bring them in,
23 except manually. But what we've done is, we are
24 addressing those issues, the last 10,000 that I
25 mentioned, addressing them manually. We've got 2

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2 teams of 10 people each addressing this, and we
3 hope to get them back into the system by the end
4 of June also and start billing with them.

5 This is not to say that the billing
6 system will be as it had been projected to operate
7 when it was first installed, but at least we hope
8 that we will be able to get the system to work to
9 do the minimum as far as billing our correctly is
10 customers concerned.

11 We, as I mentioned earlier, have a
12 problem with the customer-service issues,
13 particularly the call center. I do want to stress
14 that as far as the emergency responses concerned
15 on the telephones, we answer 99-plus percent
16 within 30 seconds, so I think you should rest
17 assured that the at least our emergency responses
18 are on time and adequate.

19 However, on the issues dealing with
20 billing, our response time is not very good, our
21 rate of response is not very good. It's
22 unacceptable, to put it bluntly. We accept
23 approximately 35 percent of the calls that come
24 in. The rest are abandoned. These, again, I want
25 to stress, are billing issues, not emergency

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2 issues.

3 We are trying to address that. We've
4 got a consultant on board who's going to help us
5 address many of these issues, using the
6 technology, the latest technology. In fact, a
7 couple of weeks ago, we had focus groups, and I
8 attended one of those focus groups and I watched
9 them talk about it -- I was behind a mirror so
10 they couldn't see me, to see what the reaction of
11 the customers is as far as their relationship with
12 PGW is concerned.

13 The major concern was, of course, that
14 they can not get through to get their questions
15 answered. But the positive thing was that they
16 felt that, you know, it has been -- it's been an
17 asset to the City that they value extremely but
18 what they would like to do is get some respect
19 from us. They would like at least, on the
20 minimum, be told how long they're going to be
21 waiting on the line before anybody answers the
22 question. It's a wait time, and I know that many
23 companies have that, and we are going to be
24 installing that, a system where we can at least
25 get them estimated time so that nobody's hanging

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2 on for 15 or 25 minutes before they get an
3 answer.

4 So those are some of the things that we
5 are going to be doing. We are going to be using
6 essentially technology to be able to get some of
7 those questions answered.

8 The other issue we've been struggling
9 with is -- as you know, PUC takes jurisdiction
10 over PGW starting July 1st so that they will be
11 responsible for rates and tariffs as well as
12 customer-complaint resolutions. We need to start
13 to develop an governance structure at that point
14 for PGW. And, in fact, the Mayor's Office has
15 established a task force to address that
16 particular issue. At the moment, the task force
17 is looking at the transition report what was
18 submitted to the Mayor seeing what options might
19 be available, and they'll be reconvening in the
20 next couple of weeks to discuss what options there
21 are.

22 So there are quite a few issues and the
23 financing issues, the cash-flow issues that we're
24 dealing with at that time. I don't have any
25 specific answers for you other than to say that we

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2 do have a plan that we are proceeding on, we have
3 folks on board that are going to help us improve
4 the customer service, we have folks on board that
5 are going to help us fix the billing system to the
6 point that it will do the billings correctly.

7 So that's what I can at least tell
8 you. And I recognize -- I think all of you, as
9 well as those of us at PGW, are agonizing over
10 providing a better service, how to provide that
11 better service to the public, and we appreciate
12 that. And I just want to let you know -- give you
13 some progress report as to what's been happening
14 over the last two months.

15 And today, of course, we are here with
16 a request that you give a favorable approval to
17 the Capital Budget for Fiscal Year 2000, which is
18 about three-quarters over almost right now.

19 I have provided a written testimony to
20 Council. If you would prefer that I just
21 summarize that testimony so than then you can
22 answer the questions, I can do that.

23 COUNCILWOMAN BLACKWELL: That will be
24 fine.

25 COMMISSIONER KISHINCHAND: Thank you.

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2 Essentially, the Capital Budget for
3 Fiscal Year 2000 that we presented to you requests
4 \$59,618,000, and this is for a number of
5 initiatives and programs that we have at PGW.
6 \$14.2 million is going to be for the liquefaction
7 plant for our natural gas liquification process.

8 This is one of the jewels of an asset
9 that PGW has. It permits us to liquefy gas to the
10 summertime, when the gas prices are so low and
11 then utilize it during the winter, when the gas
12 prices are high. And it also serves a second
13 service of shaving off any peak demands that we
14 have, and it permits to sort of limit the capacity
15 that we provide from the distribution companies.
16 The savings by utilizing this particular process
17 is about \$70 million a year.

18 The \$14.2 million that we are
19 requesting are for Fiscal Year 2000 will provide
20 us adequate funding for Phase I. There are two
21 phases to this particular project. The second
22 phase will be for Fiscal Year 2001.

23 In addition to that, we have requests
24 for \$28.4 million -- I'm rounding off these
25 numbers, the exact numbers are in my testimony --

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2 and that's for our distribution system, and that's
3 primarily to rehabilitate and replace our existing
4 infrastructure, particularly the underground
5 infrastructure, the pipes and the service lines
6 and to buy some regulators and corrosion-control
7 facilities. And this also includes any additional
8 new lines that we have to install in order to
9 serve new customers.

10 We have a request before you for
11 \$6.5 million for field services, and this includes
12 the funding for additional AMRs, automatic
13 meter-reading devices. This will give us the
14 ability to put in an additional 16,000 AMRs in
15 residential properties, and that will bring us to
16 about 496,000 AMRs that will have been installed.
17 Next year, we'll be coming to you for some more,
18 and I think we expect to get up to at least
19 516,000 next fiscal year. That will bring us
20 fairly close to saturating; there may be some
21 pockets here that we will not have filled in;
22 we'll do that on an ongoing basis.

23 We have before you almost \$4.1 million
24 for transportation. This is for replacement of
25 vehicles, primarily for replacement of vehicles.

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2 Many of them are have old, and we haven't
3 purchased vehicles for three, four years at this
4 point. And there are quite a few of them that are
5 well in excess of 100,000 miles. And the
6 maintenance costs on those particular vehicles are
7 getting to be rather high, and I think that this
8 will help us put our fleet back in order. And in
9 addition to that, it will provide us some funding
10 for buying mobile equipment, such as mobile
11 radios, etc.

12 We have request in for \$2.1 million for
13 building services. In fact, I'll combine the rest
14 -- approximately \$6 million for building
15 services, for customers affairs, and other
16 departments. And some of the examples of the
17 projects on which we will be utilizing this
18 funding is construction of compressed natural gas;
19 we have an increasingly large fleet of compressed
20 natural gas vehicles for which we need a station.

21 There are a couple of applications,
22 computer applications, that we should be
23 purchasing. One of them is for management for
24 materials management. It's called "MAPS" --
25 Materials And Purchasing System.

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2 Another one is for human-resources
3 information system. Our human-resources
4 information system is inadequate at this point.
5 We don't even have an inventory of skills that we
6 have at that facility -- not at least in a fashion
7 in which we can easily access that information.

8 So those are some of the projects for
9 which we requested this funding. You will notice
10 that this is the minimum we should be doing to
11 keep our infrastructure in good shape and to
12 provide safe and reliable gas service to our
13 customers.

14 I think that pretty much covers our
15 Capital Program for this next year, and I am
16 prepared to answer any questions that you might
17 have.

18 COUNCILWOMAN BLACKWELL: Thank you,
19 Commissioner. Thank you also, Mr. Knudsen -- or I
20 should say interim president and CEO, as opposed
21 to "Commissioner." Mr. Knudsen, and certainly a
22 special thanks to Joyce Wilkerson, Secretary of
23 Strategic Planning and Initiatives for her
24 involvement and work on this issue.

25 Frankly, you anticipated many of the

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2 questions that we had and concerns we have when
3 you talked about customer service and billing and
4 those who haven't been billed and governance and
5 what happens from here, etc., etc. They are
6 issues that have concerned us very, very much in
7 the past, and we're glad that you addressed them.
8 We realize it has been just a short period that
9 you have been here, and we certainly look forward
10 to meeting with you again to get those issues
11 resolved.

12 Having said that, does anyone else this
13 want to testify?

14 (No response.)

15 COUNCILWOMAN BLACKWELL: All right,
16 then I will entertain questions from members of
17 the panel. Are there any questions?

18 Councilman Kenney.

19 COUNCILMAN KENNEY: Thank you,
20 Councilwoman Blackwell.

21 COUNCILMAN O'NEILL: I've got a few.

22 COUNCILWOMAN BLACKWELL: And then
23 Councilman O'Neill.

24 COUNCILMAN KENNEY: Thank you, Madam
25 Chair.

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2 Good afternoon, everyone. The issue of
3 -- I know there's a briefing this afternoon prior
4 -- post-Council session and prior to this
5 hearing, and I do apologize that I was not able to
6 attend, and some of these questions may have been
7 answered at that particular venue.

8 The annual payment to the City of
9 Philadelphia has traditionally been -- was it 18
10 -- I think 18 million or \$19 million is what has
11 been normally turned over annually to the City
12 from the Gas Works; is that correct?

13 COMMISSIONER KISHINCHAND: It's \$18
14 million.

15 COUNCILMAN KENNEY: It's 18 million.

16 COMMISSIONER KISHINCHAND: Mm-hmm.

17 COUNCILMAN KENNEY: What is the status
18 of that payment, as we sit here today, as far as
19 it being made to the City for this fiscal year?

20 COMMISSIONER KISHINCHAND: For this
21 fiscal year? It will be paid.

22 COUNCILMAN KENNEY: It will be paid.
23 How about next fiscal year?

24 COMMISSIONER KISHINCHAND: Next fiscal
25 year? Our projections are that we will pay it.

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2 COUNCILMAN KENNEY: Okay.

3 COMMISSIONER KISHINCHAND: In fact, all
4 of the assumptions that we are putting into our
5 budget planning process is that --

6 COUNCILMAN KENNEY: That payment.

7 COMMISSIONER KISHINCHAND: That payment
8 is included at this juncture. We have not
9 submitted a Fiscal Year 2001 Budget to the Gas
10 Commission at this point, so it's just a draft, an
11 in-house draft at this point.

12 COUNCILMAN KENNEY: But the intention
13 is that it's -- our expectation is that it's going
14 to be made.

15 COMMISSIONER KISHINCHAND: That's
16 correct, our expectation is we will continue to
17 pay that, yes.

18 COUNCILMAN KENNEY: The computer
19 problems that have created this, I guess, amazing
20 or large amount of backlog both in customers
21 service requests and in billing and all kinds of
22 problems, that computer system was purchased
23 when?

24 COMMISSIONER KISHINCHAND: It's my
25 understanding it was three years ago?

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2 MR. KNUDSEN: Yes. The initial
3 investments were made about three years ago.

4 COUNCILWOMAN BLACKWELL: Would you
5 identify yourself for the record, please.

6 MR. KNUDSEN: I'm sorry. This is Tom
7 Knudsen, and I am Interim Chief Financial Officer
8 of PGW.

9 COUNCILMAN KENNEY: That computer
10 system was purchased, or the process was begun
11 three years ago or it was purchased three years
12 ago, actually put on line three years ago?

13 COMMISSIONER KISHINCHAND: No. It was
14 put on line July 1st of 1999. It was purchased
15 then and I think they were doing modifications and
16 installations, etc.

17 COUNCILMAN KENNEY: What was the
18 company that provided the services?

19 COMMISSIONER KISHINCHAND: SBL.

20 COUNCILMAN KENNEY: And there was a
21 decision made, as I understand, to stop the use of
22 that computer and basically start somewhat over?

23 MR. KNUDSEN: No.

24 COUNCILMAN KENNEY: And that's what's
25 created this gap?

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2 MR. KNUDSEN: The essential issue was
3 that the software on the new equipment that we had
4 purchased, the software was not complete at this
5 time last year, and the then-management
6 determined, for whatever reasons, to begin the new
7 system without really dropping parallel with what
8 we call the "legacy system," which was the old
9 system. There was only a 10-day period of
10 overlap. And not having the ability to
11 essentially perfect the new while we kept doing
12 business on our core business with the old, that
13 was essentially the important decision that was
14 made.

15 COUNCILMAN KENNEY: Were we receiving
16 at the time professional consulting services?
17 'Cause I'm sure -- I mean, if you're running a
18 company, I'm sure you need that -- that you don't
19 have that innate expertise as to computer systems
20 and interface and compatibility. Were we
21 receiving advice from computer consultants or
22 anyone as to those decisions?

23 MR. KNUDSEN: Um. . .

24 COUNCILMAN KENNEY: Who made the
25 decision?

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2 MR. KNUDSEN: The prior management made
3 the decision to go live with the new system with
4 ten days of parallel running.

5 COUNCILMAN KENNEY: Okay.

6 MR. KNUDSEN: I don't know if they had
7 any in-house advice at that time. I know that
8 there were a number of parties on the outside,
9 including the Gas Commission, making -- you know
10 making serious requests for them to not do it.

11 COUNCILMAN KENNEY: So there was
12 outside consultants or outside experts that were
13 advising the prior management not to enter into
14 this?

15 MR. KNUDSEN: Yes. And internally, the
16 software developer itself, which was inside the
17 company, it's our understanding, was also advising
18 them.

19 COUNCILMAN KENNEY: And who made the
20 decision to run the system against advice?

21 COMMISSIONER KISHINCHAND: Well, I
22 don't -- I don't know who specifically the
23 individual might have been 'cause there was a
24 number of folks at the time in the company, but it
25 was the CIO or the COO or the CEO who made the

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2 decision. At least, I'm not aware of it.

3 COUNCILMAN KENNEY: Were there meetings
4 that took place? Are there minutes of meetings
5 or, I mean, did somebody just say, Flip the
6 switch? I mean, there's got to be some process
7 that to have been --

8 MR. KNUDSEN: Well, I think the best
9 record that we have is -- we have no internal
10 records of those decisions, but the best record I
11 think that exists is that testimony of the
12 then-management before the Gas Commission, when
13 this was thoroughly explored and the clear
14 indication was given that they were, in fact,
15 going to exactly do what they did do.

16 COUNCILMAN KENNEY: We entered and are
17 continuing to pursue the billing process --
18 meter-reading process by automated means; is that
19 correct?

20 COMMISSIONER KISHINCHAND: (Nods.)

21 COUNCILMAN KENNEY: My understanding is
22 -- and it may be incorrect -- that there is a
23 large number of people who are still receiving
24 estimated bills, which would seem not compatible
25 with the efforts we've made to read these

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2 automatically. And part of what was sold to us,
3 and is continuing to be sold to us, is that the
4 purpose of buying this equipment was to get the
5 meter-readings to be both accurate and automated,
6 and I understand that there's still large numbers
7 of people still receiving estimate bills; is that
8 --

9 COMMISSIONER KISHINCHAND: That is
10 correct. In my case, I don't know whether that's
11 the AMR system that's not working or there's
12 something in the billing system that is causing
13 that, 'cause I can tell you from my personal
14 experience that this last bill that I got a week
15 ago was an estimated bill, and my two neighbors
16 had an actual bill and I have an AMR in my system.

17 So it's -- you know, it's hard to say.
18 We need to sort of do a little bit more work on
19 that system, the billing system, and also see what
20 happened, let's say, in my case to be able to
21 separate out the bills, the AMRs that are not
22 working. As you know, the AMRs that are installed
23 are similar to the ones that the Water Department
24 has, so --

25 COUNCILMAN KENNEY: So do you think

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2 it's more computer-related than AMR-related?

3 COMMISSIONER KISHINCHAND: It could
4 be. I think premature for me at this point to
5 say, but we can get back to you when we find out
6 and let you know what it is.

7 COUNCILMAN KENNEY: I have also
8 received anecdotal information from employees, and
9 I guess always take some of that with a grain of
10 salt, but there's some concerns about wasted
11 downtime on repair crews, not emergency repair
12 crews, but service repair crews, where they claim
13 to me that there are periods of an hour or two
14 hours, sometimes three hours, between time they
15 finish a job and the next time that they're sent
16 out on a particular call.

17 Do we have any kind of information
18 about complaints regarding that or any information
19 from management that there are lengthy delays and
20 service people waiting in trucks to be dispatched
21 and places that it takes them two and three hours
22 to get notice of?

23 COMMISSIONER KISHINCHAND: I've heard
24 those complaints. In fact, the union did come to
25 me and said that, you know, they do, when they

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2 have an extra hour, we tend not to send them to
3 any jobs because it may take them into overtime,
4 and management -- and we have, in fact, you know,
5 tried to control overtime.

6 I have looked into it and I'm assured
7 that that's not the case but I have asked -- in
8 fact, I met with the union and the management at
9 the same table and asked them to put a team
10 together to see how this can be worked around.

11 I think the issue is that the
12 work-order system, which goes to the PCCS also may
13 not be working very well, so we are going to put a
14 team together of both the union folks as well as
15 the management to see what kind of arrangements
16 they can make, so that if, for instance, they are
17 not getting the work orders from the headquarters,
18 that there is some other means of fully occupying
19 the --

20 COUNCILMAN KENNEY: So that's not been
21 confirmed or denied; it's just being investigated
22 at this point?

23 COMMISSIONER KISHINCHAND: That is
24 correct. I mean, there may be occasions, I'm
25 assured -- even the management tells me that there

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2 may be an occasion when somebody's finished on the
3 jobs before the time is up and doesn't have
4 anybody. Then what we are looking at is to see if
5 we are supplying adequate number of jobs for those
6 folks to cover the full day.

7 COUNCILMAN KENNEY: And I know, Mr.
8 Kishinchand, Commissioner, that you've just gotten
9 there. I think, as a matter of fact, the last
10 time we were here, I mentioned something about --

11 MS. WILKERSON: Yeah, it was your idea.

12 COUNCILMAN KENNEY: -- did you ever lay
13 on the couch and dream that maybe you'd run them
14 both. And at the time, you said No, I never did.
15 And about a week or so later, you were there. So
16 I'm sorry if I jinxed you in any way.

17 At some point in time, and I know
18 everybody's working very hard to kind of get this
19 thing back into some semblance of order and sense
20 and -- and sense. At some point in time, do we
21 have to look at, or are we looking at, a private
22 management company, similar-- and I'm not picking
23 them out in particular, but a PECO or a PECO-like
24 operation to come in and actually just, you know,
25 hire them as a contractor, have them come in, and

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2 just kind of run this place, as they would a
3 public utility, which is basically privately run?

4 COMMISSIONER KISHINCHAND: I think
5 that's an option that we should definitely look
6 at. There are a number of options that can, you
7 know, that should be on the table, that the
8 Council and the Administration ought to look at,
9 and that's one of those, whether we recreate a UGI
10 model or have an O&M model, you know, contract, or
11 do we first straighten this thing out, you know,
12 get it on the right track, and then hire folks who
13 really know how to run the gas business, and then
14 have that CEO appointed on a permanent basis and
15 let him or her choose who the CFO and COO are
16 going to be so that at least they can work
17 together. There will be that choice.

18 COUNCILMAN KENNEY: I recognize the
19 long-term history of the Gas Works as a public
20 utility, a municipal public utility. But, I mean,
21 we do certain things well and certain things we
22 don't do so well, and I'm wondering whether or not
23 we've just at some point in time just stretched
24 our ability to really perform in areas that
25 traditionally we just don't have the expertise to

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2 do, and that the expertise is out there in the
3 private sector, and our customers will be better
4 served and -- safer and better served if, in fact,
5 we kind of just kind of eased out of this a little
6 bit or altogether and had some oversight and some
7 function in some fashion but let the professionals
8 really kind of run this place.

9 COMMISSIONER KISHINCHAND: I hear you,
10 but I think, you know, there are other examples
11 where you will find that the public utilities can
12 run just as efficiently. I think, if you recall,
13 back in 1991, we essentially tried to privatize
14 the (unintelligible) recycling center in the Water
15 Department, where our costs were very high, we had
16 228 people over there, and I was ready -- in fact,
17 we hired a consultant, a consulting engineering
18 firm, to take a look at it and see how much a
19 private organization, if it took over its
20 operations and maintenance, would save. They came
21 back with a number of 30 percent.

22 I challenged the folks there and told
23 them, This is what the consultants said, what can
24 you do? They formed -- they worked out the
25 processes, they changed their work processes and

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2 whatnot. They reduced their budget within two
3 years from about \$31 million to about \$15.7
4 million, if I remember the numbers correctly.
5 They reduced the number of people that were
6 working there from 228 to about 128. And at that
7 juncture, all of the privateers disappeared
8 because there was nothing left for them to really
9 do much, okay?

10 So that -- I'm giving you that as an
11 example because that's where my experience has
12 been. I have not had enough experience with PGW
13 to say that that can be done over here also.

14 But I think the principle is there, I
15 think the government can operate efficiently. We
16 do need to keep in mind that part of the service
17 that PGW provides is a social service. There are
18 folks that are essentially are being subsidized to
19 some degree. So it's a fabric of society that
20 it's holding together also, and that is a function
21 that a private company, if you were to sell it,
22 would not necessarily be obligated to do.

23 COUNCILMAN KENNEY: Well, I guess the
24 problem is that the private company is not
25 obligated to do it; it's the ratepayer and the

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2 taxpayer that are obligated to do it. And I think
3 part of the problem is that -- I don't know
4 whether or not a utility should have a social
5 mission. I think that the social mission should
6 have social missions, and there should be ways for
7 nonprofit entities to provide the dollars
8 necessary to provide for people's well-being and
9 for their health and safety, but I don't
10 necessarily believe that the average taxpaying
11 family of four or five should be paying the
12 freight for those who cannot afford, or not
13 willing, to pay for that.

14 So I think that part of the long-term
15 problem, I guess, with this facility is that it's
16 kind of a -- it's got a social mission it may not
17 need to have, or should not have. I mean,
18 electric is, to me, as important, I guess, a
19 product, a utility product, as gas is, but it
20 seems that, you know, we get electric service
21 without a social mission, or water. I mean, the
22 Water Department is privately -- it's a publicly,
23 municipally-run facility but without that social
24 mission. And, water, I guess is just as critical
25 to life and safety as gas.

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2 COMMISSIONER KISHINCHAND: Yeah, to
3 some extent, even water has that social mission.
4 We have the senior citizen discount program,
5 except that we - it's income-tested; whereas, at
6 PGW, it's not. And we're looking at those kinds
7 of changes that we can provide. You know, are
8 they necessary, will they be acceptable? We
9 provide discounts to nonprofit organizations in
10 the Water Department -- the hospital, for
11 instance, and educational facilities.

12 So there is a component of social
13 services there. Now, whether it should or should
14 not be, I don't think the management of PGW is the
15 right folks to make a determination; I think that
16 lies outside.

17 COUNCILMAN KENNEY: Maybe it's the only
18 folks who can make a determination and do it in an
19 independent way.

20 But, okay, I appreciate your answers.
21 Thank you.

22 COUNCILWOMAN BLACKWELL: Thank you very
23 much.

24 The Chair notes that all members of the
25 Finance Committee are here because that was

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2 Councilman Kenney just speaking, and Councilman
3 Nutter is here and is sitting to my right.

4 But let me know that I'm glad,
5 Mr. Interim President and CEO, that you mentioned
6 a social mission, because, certainly, we who deal
7 with all the residents in the City who elect us,
8 people we represent expect those can who pay to
9 pay, and those who can't pay have to receive some
10 kind of consideration.

11 So the City should always maintain a
12 social mission in every respect. And in this day
13 of out-sourcing and -- it used to be
14 privatization, now it's out-sourcing, and I'm glad
15 to hear you say that government can do it as well,
16 because it's important some of us try to hold out,
17 because we realize when we're involved that John
18 and Jane Q. Public have a better opportunity to
19 receive service, they have somebody who is
20 accountable to them. And so we thank you for your
21 comments.

22 Having said that, Councilman O'Neill
23 had a few questions.

24 COUNCILMAN O'NEILL: Thank you, Madam
25 Chair.

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2 Kumar, the Capital Budget that's before
3 us, and those that have preceded it in recent
4 years, I understand that they're, by law, line-
5 item budgets, in that -- I mean, to make sure we
6 understand what I mean by line item, that when a
7 line item is approved as part of the budget, that
8 any change can't just be made administratively,
9 but has to come back for approval.

10 Could I have an explanation of that
11 from a legal standpoint?

12 COMMISSIONER KISHINCHAND: Okay. I'll
13 have to defer because within the City, I think we
14 can change the line item by up to 10 percent
15 without having to come back to Council, 'cause
16 that's the authorization that Council has given
17 us. But in PGW, I'll have to defer to someone who
18 knows --

19 COUNCILMAN O'NEILL: I'm thinking more
20 like if there's a \$2 million line item for a
21 warehouse and you spend 1.2 million on office
22 remodeling, that that's something that has to come
23 back for approval, that kind of thing, not
24 something where there's just a percentage change
25 in the amount.

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2 Could I get an answer on that?

3 (Witness comes forward.)

4 COMMISSIONER KISHINCHAND: This is Abby
5 Pozefsky, who's she's our counsel, and I'll ask
6 her to respond.

7 COUNCILMAN O'NEILL: Okay.

8 MS. POZEFSKY: Good afternoon. I'm
9 Abby Pozefsky, and I'm the general counsel for the
10 Gas Works.

11 COUNCILWOMAN BLACKWELL: Good
12 afternoon.

13 MS. POZEFSKY: Good afternoon.

14 I know that that was an issue that
15 Council has raised with us. In response to that,
16 we've prepared a reconciliation of what the
17 capital spending had been for the past three years
18 -- the budgeted versus the actual spending. And
19 we submitted that the to the Gas Commission,
20 which, I believe, at this point will incorporate
21 that into their review process of the next year's
22 budget.

23 So to be responsive to that issue for
24 Council, we did, in fact, prepare a reconciliation
25 which, we understand, will be in the Gas

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2 Commission's process and then submitted to
3 Council.

4 COUNCILMAN O'NEILL: Okay. Well,
5 that's not exactly responsive, although I do
6 appreciate the response.

7 My question was, is a Gas Works PGW
8 budget in any given year a line-item budget that
9 should come back for approval if something other
10 than what was approved is going to be spent?

11 MS. POZEFSKY: I'm not sure of the
12 legality of that because I think that's sort of a
13 City Solicitor question, and I don't know whether
14 in practice each of those line items needs to come
15 back before Council.

16 I do know that it's been PGW's practice
17 in the past years to adhere to spending limits in
18 the aggregate but not necessarily with respect to
19 each of the individualized line items.

20 COUNCILMAN O'NEILL: Well, it's been my
21 understanding for years that this was, and is, a
22 line item budget clearly, not probably, not some
23 gray area. And I would -- I would ask if on
24 behalf of the Administration if Miss Wilkerson
25 could get me -- I'm sure there's -- not a new

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2 opinion would be necessary. I'm sure this has
3 been -- it's in the original agreement, the
4 facilities agreement with the Gas Works, and I
5 don't think it is in the least subject to
6 interpretation, in any way ambiguous.

7 What I do believe is that the gas
8 company has been violating it for years. In fact,
9 is it, something -- maybe you can clarify it. If
10 there's a three-year reconciliation of what was
11 approved as opposed to what was spent, is that
12 done every three years, or is usually done every
13 year, or was it something that was never done
14 before? I mean, that would be helpful.

15 MS. POZEFSKY: My understanding of this
16 is that for some period of time in the past, that
17 reconciliations were sought on an annual basis,
18 and that process was discontinued under prior
19 management. Council having brought that to --

20 COUNCILMAN O'NEILL: How far back does
21 "prior management" mean?

22 MS. POZEFSKY: To do this, I think we
23 need a better historian than I am because I've
24 been with the Gas Works for just short of two
25 years, and since I've been there, the

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2 reconciliation did not occur until Council brought
3 it to the attention of management in November, at
4 which point, the --

5 COUNCILMAN O'NEILL: So within two
6 years, you still don't know, from a legal
7 standpoint, whether you have a line-item budget or
8 an aggregate budget, and you're the attorney for
9 the Gas Works.

10 MS. POZEFSKY: What I do know is that
11 to be responsive to that, we did do the
12 reconciliation, and we attempted --

13 COUNCILMAN O'NEILL: Right, but there's
14 a basic question, as lawyer for the Gas Works, of
15 whether, from a legal standpoint, you've got an
16 aggregate budget or a line-item budget, and you're
17 telling me that we need a City Solicitor's opinion
18 today to tell us that, which means that you don't
19 know.

20 MS. POZEFSKY: It means that we're
21 attempting to bring back to Council a
22 reconciliation on a --

23 COUNCILMAN O'NEILL: Right, but you're
24 evading the question enormously. You, the lawyer
25 of the Gas Works, does not know whether there's a

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2 line-item budget that has to come back for
3 approval or whether it's an aggregate budget that
4 can be done as a courtesy, letting the Gas
5 Commission know what you spent and what you didn't
6 spend.

7 I think it's a threshold question when
8 you're dealing with a capital budget, and my
9 understanding has always been that it is a
10 line-item budget. So we won't dwell on that
11 anymore 'cause there's other issues here.

12 Kumar, back in the end of last year, we
13 approved a fairly controversial issue that many of
14 us were reluctant to vote for 'cause it was new
15 and unusual and cutting-edge, but Mr. Hayllar
16 convinced us that if we were to vote for the swap,
17 the famous swap, that \$8 million was going to go
18 -- or roughly 8 million, whatever came into the
19 Gas Works, was going to go to the most critical
20 safety issue, which is main replacement.

21 Now, can you tell me if the \$8 million
22 ever came in or anything close to it and if it has
23 been spent on main replacement? I see main
24 replacement in the Capital Budget of \$20 million
25 or so, but I'm really referring to the swap money

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2 that was really -- the linchpin was the main
3 replacement in terms of, I believe, the support,
4 the overwhelming support of Council.

5 COMMISSIONER KISHINCHAND: Okay. Tom
6 Knudsen has been looking at the financials a
7 little bit more closely. Tom, do you know?

8 MR. KNUDSEN: Yeah. The swap
9 transaction did occur and the company realized a
10 net benefit of about a little over \$8 million, so
11 the original estimate was correct.

12 I think prior management may have
13 intended that it be spent for prudent main
14 replacement, which is your reference. I can
15 report to you that it has not been spent that
16 way. It was taken into the company's books as
17 project revenue, as is appropriate. And because
18 of the operating deficits that we're going to
19 experience this year, one should infer that, in
20 fact, that money has been used to offset operating
21 deficits.

22 If it had not been for that money, we
23 would have had a more -- we are projecting losses
24 for this year, and we would have had a more severe
25 loss.

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2 COUNCILMAN O'NEILL: The main
3 replacement program, I mean, that's -- when I
4 think of the Capital Budget, that's the first
5 thing that comes to mind, and there's a whole lot
6 of things that you have described very well.

7 MR. KNUDSEN: Sure, mm-hmm.

8 COUNCILMAN O'NEILL: How do you
9 determine your most critical mains? In other
10 words, on a priority list, starting with number
11 one? I think I know how you do it, but I'm not
12 positive.

13 COMMISSIONER KISHINCHAND: There was an
14 engineering study conducted, and it was done by --

15 MR. KNUDSEN: Navigant (ph.).

16 COMMISSIONER KISHINCHAND: Navigant,
17 and perhaps I can ask our senior Vice president of
18 operations to come forward and --

19 COUNCILMAN O'NEILL: Mr. Kumar, let me
20 stop you. I don't need to know about the
21 consultant; I read about that.

22 COMMISSIONER KISHINCHAND: Okay.

23 COUNCILMAN O'NEILL: I'm talking about,
24 outside of a consultant's report, isn't there a
25 system within the company for establishing a

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2 priority list for gas main replacement that is
3 fairly simplified in terms of reported gas leaks?

4 COMMISSIONER KISHINCHAND: I believe
5 there is.

6 COUNCILMAN O'NEILL: Could I hear about
7 that one? I don't want to hear about the
8 consultants.

9 COMMISSIONER KISHINCHAND: Okay. I
10 think Denis Stinson, who's senior vice president
11 of operations, might be able to give you a more
12 detailed response than that. I know that there is
13 a system that exists. Exactly how it works, I
14 don't know at this point.

15 (Witness comes forward.)

16 MR. STINSON: I'm Dennis Stinson, Vice
17 President of Operations.

18 PGW has always had -- even if it wasn't
19 on the computer, has always had a system for
20 prioritizing main replacement. In 1995, with the
21 help of a consultant, we managed to get this on
22 the computer and expedite this prioritization and
23 perhaps make it a bit more efficient.

24 This past year, we had someone else
25 help us -- basically an outgrowth of the same guy

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2 from 1995 but working for a different firm -- help
3 us improve that a bit more and gear it more
4 towards prudent replacement rather than just
5 general replacement.

6 COUNCILMAN O'NEILL: Right, prudent
7 replacement as opposed to general replacement
8 would be targeting --

9 MR. STINSON: You're targeting main
10 that has outworn its useful life.

11 COUNCILMAN O'NEILL: Right. And --

12 MR. STINSON: The other replacement,
13 for the most part, is what they call "enforced
14 replacement," and that's driven by water and sewer
15 and street reconstruction projects.

16 COUNCILMAN O'NEILL: But to get down to
17 brass tacks, you prioritized based on reported gas
18 leaks on a block; isn't that correct?

19 MR. STINSON: There's about six or
20 seven different categories, which includes the
21 leak history and main breaks, yes, sir.

22 COUNCILMAN O'NEILL: Are they -- the
23 two that you just mentioned, are they of the five,
24 six, seven --

25 MR. STINSON: Yes, sir.

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2 COUNCILMAN O'NEILL: They're the most
3 important.

4 MR. STINSON: Broken mains is the most
5 important.

6 COUNCILMAN O'NEILL: Right. And leaks
7 would be right behind.

8 MR. STINSON: No, leaks are not.

9 COUNCILMAN O'NEILL: No?

10 MR. STINSON: No.

11 COUNCILMAN O'NEILL: What's right
12 behind --

13 MR. STINSON: A lot of cast-iron main
14 has got a joint every 12 foot in every City
15 street, and those joints may have a whisper leak
16 on them. We characterize those leaks, as far as
17 classification 1, 2 or 3, and they either end up
18 being repaired or they get re-checked on some
19 periodic basis. Many of those leaks don't have a
20 history or a problem with infecting any other part
21 of the structures in the City or the safety of the
22 City.

23 COUNCILMAN O'NEILL: Even multiple
24 leaks on a block?

25 MR. STINSON: It depends upon where the

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2 leak is. There's a couple of the streets in the
3 City that -- where there is no longer any houses
4 or businesses or anything on that the street, and
5 while it may have some leaks, there's nothing
6 that's endangered.

7 COUNCILMAN O'NEILL: Okay, I appreciate
8 that, but I'm talking about a residential street
9 with people living on it.

10 MR. STINSON: If you have a joint leak
11 that's out in the street, if you have multiple
12 leaks or the leak reaches a level where it infects
13 other structures like sewer or water manholes or
14 the shutoff box or the curb box for the individual
15 residences, then we work that leak. It depends
16 upon the level of the leak.

17 COUNCILMAN O'NEILL: What does it mean,
18 you work that leak?

19 MR. STINSON: Dig it up and replace
20 whatever's leaking, or repair whatever is leaking.

21 COUNCILMAN O'NEILL: All right. Now,
22 how many -- worst-case scenario, I'm looking at
23 your 100 highest prioritized main replacements
24 that are to be done.

25 MR. STINSON: Yes, sir.

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2 COUNCILMAN O'NEILL: What would be the
3 highest number of gas leaks on a block that I
4 would find in any one of those 100 reported gas
5 leaks?

6 MR. STINSON: Since broken mains is our
7 main listing, the worst one, I believe, has 13
8 broken mains.

9 COUNCILMAN O'NEILL: 13 broken mains?

10 MR. STINSON: Over the life of that
11 main. That main may have been there for. So for
12 over 100 years, you've had 13 breaks.

13 COUNCILMAN O'NEILL: If you were able
14 to do what you believe is best, meaning financial,
15 at what point, for instance, of that 13 break main
16 would want to replace it?

17 MR. STINSON: That particular one is up
18 on Flat Rock Road. It basically serves one
19 customer; there are no other customers on this
20 piece of main.

21 COUNCILMAN O'NEILL: What's your worst
22 one in my situation where I've got people living
23 on both sides of the street?

24 MR. STINSON: You probably have eight
25 breaks, something like that, six or seven or eight

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2 breaks.

3 COUNCILMAN O'NEILL: Okay. And, again,
4 when would you want to replace that?

5 MR. STINSON: If it's within the top
6 50, 75. It depends upon, obviously, the cost per
7 block to replace. They ought to be done this
8 summer. And we've increased the budgeting for
9 prudent cast-iron replacement rather dramatically
10 in the last couple of years.

11 COUNCILMAN O'NEILL: I didn't make
12 myself clear.

13 MR. STINSON: Okay.

14 COUNCILMAN O'NEILL: On that particular
15 case that we just described that you're saying
16 will be done this year.

17 MR. STINSON: Yes, sir.

18 COUNCILMAN O'NEILL: Having your
19 druthers, when would you replace it in the cycle
20 of breaks that has now reached seven or eight?

21 MR. STINSON: The sooner, the better.

22 COUNCILMAN O'NEILL: Okay. Would you
23 normally wait till seven or eight breaks?

24 MR. STINSON: No, sir.

25 COUNCILMAN O'NEILL: Okay. Just give

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2 me a preference of when you would like to fix
3 replace it if you could. I mean, not fix it,
4 replace it.

5 MR. STINSON: Several years ago, when
6 we apparently had more money to spend on
7 everything, we had reached a point where I think
8 we had no block in the City with more than five
9 breaks. And our intention, obviously, was to get
10 working the inventory of all blocks with multiple
11 many breaks down at any given time.

12 If we can use the 2001 Budget, which
13 you haven't seen and you're not looking at today,
14 as an example, and that incorporates the Navigant
15 results, we can probably get most of the high-
16 priority blocks out of the system in five to eight
17 years, which would be a dramatic improvement over
18 where we have been over the last three or four
19 years.

20 COUNCILMAN O'NEILL: So this budget
21 calls for about \$20 million in main replacement?

22 MR. STINSON: The 2000 Budget?

23 COUNCILMAN O'NEILL: The 2000.

24 MR. STINSON: Something in that
25 neighborhood, yes, sir.

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2 COUNCILMAN O'NEILL: Something in that
3 range?

4 MR. STINSON: Yes, sir.

5 COUNCILMAN O'NEILL: How does that
6 compare with prior years? I'll just go back five
7 or seven years.

8 MR. STINSON: It's the total
9 distribution budget, which supports a lot of these
10 same activities that reduce leaks and fix leaks or
11 repair leaks, is \$28,369,000 in the 2000 Budget.
12 I believe it goes up in 2001 to around
13 \$32 million.

14 It and would have been more if the
15 budgets had been preserved, let's say, from the
16 early 1990s. We used to spend between 30 and
17 \$35 million a year in the early 1990s, and if you
18 had let inflation be added on to this number, it
19 probably would have been, in maybe the high 30s,
20 low 40s by this time. We did not apparently have
21 the money financially to support that kind of a
22 budget.

23 COUNCILMAN O'NEILL: We're in a rather
24 precarious situation from a main replacement --

25 MR. STINSON: I think we have

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2 recognized that and I think we've begun to address
3 that. Even though the dollars fungible and have
4 been intermixed with the company's general funds,
5 we have increased the budgets going out to take
6 advantage of this swap fund, or whatever it was
7 called, to get those dollars, or dollars from
8 somewhere, put back into the cast-iron replacement
9 program.

10 COUNCILMAN O'NEILL: Okay, thank you.

11 Kumar, how long has this -- these
12 30,000 customers that we know are not getting
13 billed, how long has that been going on?

14 COMMISSIONER KISHINCHAND: I think it
15 may have very well started in July of 1999 when
16 the new system went into place. Whether those are
17 the same customers that are not being billed or
18 whether some of them were put back and these are
19 new ones, I'm not sure what kind of a mix it is.

20 COUNCILMAN O'NEILL: Was everybody that
21 we're giving gas to being billed prior to that? I
22 mean, everyone we're supplying gas to was getting
23 a bill prior to that?

24 COMMISSIONER KISHINCHAND: I would
25 assume so, that would be my assumption. If we

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2 know that these 30,000 are not being billed, then
3 I'm assuming that all of them were being billed at
4 one time.

5 MR. KNUDSEN: Let me just comment that
6 when the transition occurred between the legacy
7 and the new system, there were accounts that
8 appeared under the new system that were apparently
9 not in the old system, and that had to do with
10 identifying meters and so forth. So there were a
11 number that were caught up as we moved into the
12 new system.

13 COUNCILMAN O'NEILL: The computer
14 system that you've mentioned, that was originally
15 priced at about \$9 million? Was that what the
16 budget was originally?

17 MR. KNUDSEN: It was originally
18 conceived as part of an overall program and priced
19 by IBM in an initial study done that was done like
20 6 years ago at about 9.7 million. And I think
21 that was what the request for the appropriation
22 was initially.

23 COUNCILMAN O'NEILL: And it came in at
24 about 30?

25 MR. KNUDSEN: Of direct capital

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2 charges, that is correct. It's about 31 --

3 COUNCILMAN O'NEILL: Again, it will be
4 reconciled soon, in the --

5 MR. KNUDSEN: Well, we are continuing
6 -- well, we have reconciled through the end of
7 December of 199, and we'll continue to provide you
8 with an update. I mean, this system is a work in
9 progress. It is not done yet, and that total cost
10 is still building.

11 COUNCILMAN O'NEILL: There's three
12 people running the Gas Works right now. I mean,
13 Kumar, I know your title is Interim President and
14 Chief Executive Officer, but I remember when the
15 announcement was made, it was kind of a triangle,
16 plus one.

17 MS. WILKERSON: Kumar is the interim
18 CEO, Tom is interim CFO. Steve Hershey is the
19 third person that was mentioned at the time, you
20 know, the interim team was appointed. Steve has
21 been a link between the Administration and PGW,
22 helping us in particular with the deregulatory
23 issues. As you know, Harrisburg enacted
24 legislation that compels the deregulation of PGW.
25 July 1st, we fall under the auspices of the Public

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2 Utility Commission.

3 So there has been, you know, ongoing
4 negotiations and discussions with the Public
5 Utility Commission, and we're trying to work
6 through a host of issues that impact every aspect
7 of the company's operation, and Steve Hershey, the
8 third person of the team, has been, you know, the
9 glue that's kept that process moving, and he's
10 been advising the City and advising the company
11 and working with our regulatory counsel and
12 others.

13 COUNCILMAN O'NEILL: Okay. I know,
14 Commissioner, you have -- or, Mr. President, are
15 you making the same money you made as Water
16 Commissioner? Or did they bump you up, or how did
17 you --

18 COMMISSIONER KISHINCHAND: They did
19 give me a raise. I was making \$108,000 when I was
20 at the Water Department. And my salary has been
21 increased to the maximum that the Water
22 Commissioner make, which is \$125,000.

23 COUNCILMAN O'NEILL: Okay. So we're
24 still saving a sizeable amount of money with you,
25 and you live in the City, I assume, still. You

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2 haven't moved out since you moved to the Gas
3 Works, right?

4 (Laughter.)

5 COUNCILMAN O'NEILL: You can't wait to
6 get back to the Water Department probably.

7 Now, Mr. Knudsen and Mr. Hershey, are
8 you full-time an employee as Kumar is, or are you
9 consultants on a --

10 MR. KNUDSEN: No, no. I am a full-time
11 employee of PGW.

12 COUNCILMAN O'NEILL: Okay. And how
13 about Mr. Hershey?

14 MR. HERSHEY: I'm retained by the
15 City. I have a law practice, and the City is one
16 of my clients, and I spend a sizeable bit of time
17 working on this, but I'm not full-time and I'm not
18 directly at the Gas Works.

19 COUNCILMAN O'NEILL: Okay. Mr.
20 Knudsen, how are you compensated under this
21 arrangement, as an employee?

22 MR. KNUDSEN: My contact is \$20,000 a
23 month, and I have a contract for six months.

24 COUNCILMAN O'NEILL: Okay. But it's
25 full-time, it's exclusive, you don't do anything

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2 else. Well, you're not an employee, is what I'm
3 saying.

4 MR. KNUDSEN: Oh, I am an employee, and
5 it's more than full-time.

6 COUNCILMAN O'NEILL: Okay. So you get
7 regular sick benefits and you get pension taken
8 out and all that?

9 MR. KNUDSEN: No. Pension is not taken
10 out, but benefits, I do have. I have health and
11 so forth.

12 COUNCILMAN O'NEILL: Okay. So you're
13 not a consultant, but you're not quite an employee
14 like Mr. Kishinchand.

15 MS. WILKERSON: He has the same status
16 as the previous management, so he has basically
17 the same contract Sharbutt had, who was, you know,
18 identified by PFMC, hired for the purpose of being
19 the company's CFO. It's indistinguishable, I
20 believe, from that arrangement.

21 COUNCILMAN O'NEILL: Okay. Now, when
22 the prior management was in, Kumar was running the
23 Water Department. I believe -- I'm not sure if
24 both Mr. Knudsen and Mr. Hershey were consultants
25 to the Gas Works?

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2 MR. KNUDSEN: No, I --

3 COUNCILMAN O'NEILL: Or had some
4 consultancy with the Gas Works?

5 MR. KNUDSEN: Yes, you're correct.

6 COUNCILMAN O'NEILL: I just want to --

7 MR. KNUDSEN: I was -- have been a
8 consultant to the Public Advocate, who is, in
9 turn, contracted with the Gas Commission.

10 COUNCILMAN O'NEILL: Okay.

11 MR. KNUDSEN: And I have been a witness
12 for the Public Advocate and also the Commission
13 for 15 years. And that's the background that I
14 brought to PGW and was understanding of the
15 financing and the operations over that period of
16 time.

17 Mr. Hershey was the public advocate and
18 is part of Community Legal Services until two
19 years ago, when he then left and joined a private
20 law firm.

21 COUNCILMAN O'NEILL: Okay. Mr.
22 Knudsen, do you live in the City?

23 MR. KNUDSEN: I do.

24 COUNCILMAN O'NEILL: Good.

25 Thank you, that's all I have.

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2 COUNCILWOMAN BLACKWELL: Thank you,
3 Councilman.

4 The Chair recognizes Councilman Nutter.

5 COUNCILMAN NUTTER: Thank you, Madam
6 Chair.

7 COUNCILWOMAN BLACKWELL: You're
8 welcome.

9 COUNCILMAN NUTTER: Mr. Kishinchand,
10 Mr. Knudsen, and Miss Wilkerson, good afternoon to
11 you.

12 MR. KNUDSEN: Good afternoon.

13 COMMISSIONER KISHINCHAND: Good
14 afternoon.

15 COUNCILMAN NUTTER: Is there a Capital
16 Budget book? I have a copy of a bill and I have a
17 copy of testimony. Is there an actual document?

18 MR. KNUDSEN: You should be in receipt
19 of the -- there are two books: there is a summary
20 of the Capital Budget and then there is a separate
21 volume of work orders that support the requests
22 that are being made.

23 COUNCILMAN NUTTER: Okay, and they have
24 been transmitted to us?

25 MR. KNUDSEN: I'm assuming, since this

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2 was last November, that this was originally
3 brought to the Council's attention, so I'm
4 assuming it's here.

5 MS. WILKERSON: I believe it was
6 transmitted when the bill was introduced.

7 COUNCILMAN NUTTER: The current one or
8 the one from last year?

9 MR. KNUDSEN: Well, I beg your pardon.
10 I understand it was resubmitted in --

11 MS. WILKERSON: It was resubmitted
12 within the last few weeks for FY 2000.

13 COUNCILMAN NUTTER: Okay.

14 MR. KNUDSEN: But it would be the same
15 documents that you received in the fall.

16 COUNCILMAN NUTTER: Okay, great.

17 Now, you're on a September 1 fiscal
18 year?

19 MR. KNUDSEN: That's correct.

20 COUNCILMAN NUTTER: Okay. What has
21 been the impact -- I mean, I guess, under normal
22 circumstances, the calendar or operating budget of
23 an entity would be submitted oftentimes, I guess
24 shortly, before the end of the current fiscal year
25 for the upcoming fiscal year. My recollection is

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2 that your FY 2000 Capital Budget came, I guess,
3 sometime last fall, and I think we actually -- did
4 we have a hearing?

5 MR. KNUDSEN: No. The process -- well,
6 let me answer. I think your question goes to the
7 process, and let's use this year as an example.
8 We are in the process of completing our 2001
9 Fiscal Year Budget and Operating Budget.

10 COUNCILMAN NUTTER: Right.

11 MR. KNUDSEN: And we will be submitting
12 those to the Commission for their review probably
13 next week or certainly the first week of June.
14 That begins the calendar, and normally, then, we
15 would have hearings at the Gas Commission in June
16 and July, briefs would come in in August, and the
17 Commission would make its decision in September.

18 In that context, then, as soon as the
19 Commission ruled on the Capital Budget, it would
20 be conveyed to here, so you should have it by
21 October of every year.

22 COUNCILMAN NUTTER: Okay, all right.
23 What's been the impact on the company, if any,
24 with the Capital Budget just coming in now? Has
25 there been a material impact on the company?

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2 COMMISSIONER KISHINCHAND: This is the
3 2000 budget you're talking about that's before you
4 today?

5 COUNCILMAN NUTTER: Mm-hmm.

6 (Mr. Kishinchand consults with
7 colleague off record.)

8 COMMISSIONER KISHINCHAND: Yeah, I
9 believe PGW got a letter from Chairwoman Blackwell
10 to go forward with the Capital Program not to
11 exceed the previous year's allotted, you know,
12 appropriated capital amount. And we kept to that,
13 we have not exceeded that, to my knowledge at this
14 point.

15 COUNCILMAN NUTTER: So you had a
16 borrowing?

17 MR. KNUDSEN: No. I think what he's
18 saying is that we had a borrowing last summer for
19 \$100 million, and we had the capital funds, but we
20 have spent, under this program that's before you,
21 according to the Chairwoman's request, but only up
22 to an amount as had previously been approved by
23 the Council.

24 COMMISSIONER KISHINCHAND: I was
25 responding to the appropriation authority, rather

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2 than the cash issue.

3 COUNCILMAN NUTTER: All right. Well,
4 the bill in front of us seems to indicate that you
5 are -- Section 2, Spending Authorization, in part
6 reads: ". . . shall be available for expenditure
7 upon the effective date of this ordinance for
8 Fiscal Year 2000, defined as September 1, '99
9 through August 31, 2000 in the amount of
10 \$57,331,277."

11 Are you planning to have a borrowing
12 for the FY 2000 Capital Budget?

13 MR. KNUDSEN: We had the borrowing last
14 summer, we had the --

15 COUNCILMAN NUTTER: You did the
16 borrowing already?

17 MR. KNUDSEN: Yeah. We have the money
18 in the bank right now for this program, and we
19 have the money in the bank for most of next year's
20 program.

21 COUNCILMAN NUTTER: So this would
22 merely approve what you have already done?

23 MR. KNUDSEN: This would be to approve
24 the program, and we have incurred expenditures
25 against these projects awaiting your approval, in

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2 accordance with the Chairwoman's letter.

3 COUNCILMAN NUTTER: What's the debt
4 level of the company at this point?

5 MR. KNUDSEN: It's about a billion
6 dollars.

7 COUNCILMAN NUTTER: I'm sorry?

8 MR. KNUDSEN: It's about one billion
9 dollars.

10 COUNCILMAN NUTTER: Okay. That's a
11 number that's getting used a fair amount these
12 days.

13 MR. KNUDSEN: It's a staggering amount.

14 COUNCILMAN NUTTER: That billion dollar
15 figure.

16 Can you provide to us, through the
17 Chair, a listing of the debt obligations of PGW,
18 the years of the borrowing and a schedule showing
19 your debt service?

20 MR. KNUDSEN: Yes, we can do that. The
21 annual report contains most of the information you
22 want and we'll provide a supplementary schedule
23 showing coverages or indenture requirements.

24 COUNCILMAN NUTTER: Okay. Now, what is
25 your debt-service coverage ratio right now?

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2 MR. KNUDSEN: We are forecasting under
3 what we're calling "a probable scenario for this
4 year," which is to say that the program we have
5 underway right now is, in fact, realized, we're
6 showing a little over 1.5 on the 1998 indenture,
7 which is the controlling document.

8 COUNCILMAN NUTTER: Well --

9 MR. KNUDSEN: I'm sorry, the 1975
10 indenture, which is the controlling document.

11 COUNCILMAN NUTTER: But the fact that
12 you are making this statement with that level of
13 specificity, does that mean that the debt-service
14 ratio on other borrowings is some other figure?
15 Or is there an overall debt-service ratio for all
16 of the debt?

17 MR. KNUDSEN: Let me express it in a
18 different way. There was a change in the way the
19 long-term debt has been treated in 1998. They
20 effectively separated out the new debt from the
21 old debt and using this sort of double indenture
22 technique. If it had -- if we had not known that,
23 we would not make the 1.5 coverage for the 1975
24 indenture this year. In other words, it would be
25 about 1.3.

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2 COUNCILMAN NUTTER: Okay. And you said
3 you've already made the borrowing for FY 2000.
4 And what do you anticipate the Capital Budget for
5 2001 to be?

6 MR. KNUDSEN: We're estimating right
7 now slightly under \$50 million. Most of that is
8 contained in two projects: the L and G plant,
9 which is the continued refurbishment of the
10 liquefaction equipment and prudent main
11 replacement.

12 COUNCILMAN NUTTER: There was a
13 gentleman up at the table earlier; I didn't catch
14 his name.

15 MR. KNUDSEN: Mr. Stinson?

16 COMMISSIONER KISHINCHAND: Dennis
17 Stinson.

18 COUNCILMAN NUTTER: Yes. Could you
19 come back up, please.

20 (Mr. Stinson returns to witness table.)

21 MR. STINSON: Yes, sir.

22 COUNCILMAN NUTTER: You had made a
23 statement in response to a question by Councilman
24 O'Neill and I just took down the essential words,
25 and I wanted to try to get a better understanding

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2 of what you meant.

3 You used the phrase "fungible
4 dollars." What did you mean by that? What does
5 "fungible dollars" in the --

6 MR. STINSON: I'm not a finance person,
7 but as far as I know, an influx of funds through
8 this swap deal comes into the General Fund at
9 PGW. And as Mr. Knudsen explained, because of the
10 ongoing financial problems, those dollars, perhaps
11 if they were routed to pay for other items or
12 bills that came through or whatever was going on
13 at the company at the time.

14 But what we did in the capital
15 budgeting process was presume that those dollars
16 were, or dollars to replace them, would be made
17 available; and, therefore, we budgeted to spend at
18 a higher level for cast-iron replacement in 2001
19 and going forward.

20 COUNCILMAN NUTTER: That's a very
21 interesting response. You lost me a little while
22 ago.

23 Are you saying that dollars that should
24 have gone to the Operating Budget were spent on
25 capital items?

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2 MR. KNUDSEN: Let me respond. The
3 intent on the swap money, the \$8.4 million, was to
4 be spent -- the intent was to use that money in
5 the Capital Program, but it comes into the books
6 of the company as a revenue, as it's called, as
7 "project revenue" by legal definition. That
8 money is treated in the books as --

9 COUNCILMAN NUTTER: What is project
10 revenue?

11 MR. KNUDSEN: Well, as opposed to
12 customer rates or customer service revenues. It
13 comes in -- it has another source than customers.

14 The way the books work is that that
15 money then works its way through the operating
16 statement and, effectively, the intent at the
17 time, I think, was that we would have an operating
18 surplus and that money would be used for the
19 Capital Program.

20 COUNCILMAN NUTTER: Why do you continue
21 to use the term "intent"? What does that have to
22 do with anything?

23 MR. KNUDSEN: Because the intention was
24 not realized. We did not use that money -- there
25 was no money -- there is no profit in PGW this

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2 year that that money was intended to generate, so
3 that that money was used for the operations. It
4 never got to the bottom line, it never got to be
5 retained earnings that would then be devoted to
6 the Capital Budget. It ended up inside the
7 company paying for operating bills.

8 COUNCILMAN NUTTER: Is that like if we
9 were to sell the building and we received certain
10 dollars for it and we're supposed to receive that
11 into a capital account, and you're saying that it
12 worked its way through the system and it never
13 ended up on the capital side and it ended up on
14 the operating side? Is that what you're saying?

15 MR. KNUDSEN: In your example, had you
16 sold the building and it went into a capital
17 account, it would have been reserved for capital
18 charges and capital purposes.

19 COUNCILMAN NUTTER: Right.

20 MR. KNUDSEN: The way this particular
21 transaction is accounted for, it goes into the
22 operating statements of the company. It didn't
23 get segregated or put aside for a capital project
24 only.

25 COUNCILMAN NUTTER: What was the

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2 original purpose of this transaction?

3 MR. KNUDSEN: I don't know. I mean,
4 the statement of Mr. Hayllar was that it was going
5 to be used for investment in prudent main
6 replacement. If he had any other intent at that
7 time, I don't have a clue.

8 COUNCILMAN NUTTER: So you're saying
9 that that's what we were told at the time, that
10 was the basis for the presentation and the
11 decision that many of us would have made at that
12 time based on what --

13 MR. KNUDSEN: I was present the day
14 that he made his statements on this issue.

15 COUNCILMAN NUTTER: Okay.

16 MR. KNUDSEN: And I think that was how
17 I was reading him at the time.

18 COUNCILMAN NUTTER: And so the purpose
19 for which we were asked to vote and support that
20 particular transaction, which was for main
21 replacement and hard things in the ground, you're
22 saying that those dollars ended up on the
23 operating side?

24 MR. KNUDSEN: I'm saying -- yes, that's
25 correct.

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2 Now, that isn't to say, as Mr. Stinson
3 was saying, that we aren't going ahead and using
4 and meeting that level of investment. We're
5 simply borrowing more long-term to do that.

6 COUNCILMAN NUTTER: Well, did anyone at
7 the company think maybe to come back and tell City
8 Council that you -- that the company had been
9 deceptive in its testimony about that particular
10 item?

11 COUNCILWOMAN TASC0: Point of order.

12 I believe that -- and I'm not sure, but
13 we can check the notes of testimony -- when the
14 former CEO, Mr. Hayllar, testified, I believed we
15 asked the question, Did the funds have to be spent
16 on capital projects? And he said no. He said no,
17 that could be used for operating budget.

18 COUNCILMAN NUTTER: Could be used for
19 it.

20 COUNCILWOMAN TASC0: Because that was a
21 concern that was raised by the Commission.

22 COUNCILMAN NUTTER: Okay. I know you
23 answered some -- thank you, Mr. Stinson.

24 I know you gentlemen had answered some
25 questions earlier about the IT system, and

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2 hopefully this is not redundant, but is there a
3 projected timetable for getting that particular
4 matter cleaned up and fixed?

5 COMMISSIONER KISHINCHAND: There is a
6 projected timetable, but not for a complete
7 cleanup of that. As I said, by the end of June,
8 we should be able to bill everybody by the end of
9 August. The number of, you know, modules might
10 start working.

11 COUNCILMAN NUTTER: The number of
12 what? I'm sorry.

13 COMMISSIONER KISHINCHAND: The number
14 of modules. I'll have Tom Knudsen, who's taking
15 over the ownership, I guess, of BCCS to answer
16 that. He's obviously (inaudible).

17 MR. KNUDSEN: The program right now is
18 to get to August 31st and have auditable
19 statements of PGW. To do so, we must bill our
20 customers. Our timeline right now is to have the
21 system billing by the end of June. We'll use July
22 to clean up whatever issues or process are still
23 involved, and then we want to have the month of
24 August to essentially clean up for the entire
25 year.

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2 So to answer your question in the
3 specific, we will improve part of the program
4 through August. The remainder of the improvements
5 to BCCS, we are looking at that right now to
6 determine whether we can afford to do that or what
7 the options are. We have Arthur Anderson, which
8 is now Anderson Consulting, looking at this whole
9 question.

10 COUNCILMAN NUTTER: What do you mean
11 "the remainder"? What does that mean?

12 MR. KNUDSEN: Well, beyond simply the
13 billing function of the customer information
14 system, there are a number of other things that it
15 should do well. And the question is --

16 COUNCILMAN NUTTER: Are they important
17 to the company's operations?

18 MR. KNUDSEN: Sure they are, but they
19 are not necessarily important to its survival, and
20 that's what we are talking about right now; we're
21 talking about it's financial survival. And we
22 need two things: we need billings and we need
23 financial statements.

24 COUNCILMAN NUTTER: What happens if
25 things go well and August comes and it's a better

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2 operation, what happens to the 30,000 or so people
3 if you catch up with them?

4 MR. KNUDSEN: The tariff --

5 COUNCILMAN NUTTER: I mean, do they get
6 some enormous bill, do they just, you know, kind
7 of start with a blank slate and say, Well, you
8 know, glad you finally caught me, and I'm, you
9 know, pleased to see you? Or do they get some
10 huge bill and then now they're in a fight with you
11 about it? I mean, what happens?

12 MR. KNUDSEN: Well, I think that's a
13 fair question, a fair representation. We may, in
14 fact, end up with some fights, but the tariff
15 allows that for as long as it took us to bill a
16 customer, they have to pay without any penalties,
17 without any interest. So that -- and, yes, in
18 fact there will be large bills, but the tariff has
19 anticipated just this kind of a problem.

20 COUNCILMAN NUTTER: Okay.

21 COMMISSIONER KISHINCHAND: They can
22 take as long to pay off that back-charge as it
23 took us to bill them. So in the eight months --
24 they have another eight months to pay it off.

25 COUNCILMAN NUTTER: Well, I understand

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2 that, but I think I may have mentioned this at one
3 of the other meetings. I mean, how successful do
4 you think you're going to be at proving that the
5 person owes it under the present circumstances?

6 MR. KNUDSEN: That the person owes the
7 bill itself?

8 COUNCILMAN NUTTER: Whatever you sent
9 out. I mean, you know --

10 MR. KNUDSEN: Right. Well, we have --
11 we have some real faith that the bulk of the bills
12 that are going out are correct. I mean, we can
13 run some analyses to demonstrate that. We have
14 problems with the system such that -- as Kumar
15 indicated, he didn't get properly billed simply
16 because the AMR did not read properly at his
17 house. I mean, those are ongoing problems, but
18 there are these --

19 COUNCILMAN NUTTER: Was that an AMR
20 problem or was that a software problem of the
21 system reading what the AMR received?

22 COMMISSIONER KISHINCHAND: We don't
23 really know at this point. In fact, Councilman
24 Kenney asked that question, and I don't think
25 we're prepared at this point to say whether it's

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2 the system that's not working or whether it's the
3 AMR that's not working. We need to do some
4 investigation of that.

5 COUNCILMAN NUTTER: Okay. Last
6 question. In the exchange between Councilman
7 O'Neill and Miss Pozefsky, again, I took down part
8 of the response, and the response was, Well,
9 that's a Law Department question. And I thought I
10 had read or heard somewhere that PGW, one, has a
11 somewhat recently fairly beefed-up legal counsel
12 office or kind of a law operation as well as, I
13 guess, access to outside attorneys. So I didn't
14 really understand what that response meant.

15 MS. POZEFSKY: Councilman Nutter,
16 Councilman O'Neill, and Chairwoman, I've had the
17 opportunity to caucus with PGW and with the Gas
18 Commission to come to an agreement on the
19 interpretation of the agreement and what it
20 provides for with respect to budgets in the past
21 15 minutes.

22 COUNCILMAN NUTTER: I understand that,
23 and I'm sure Councilman O'Neill will want to come
24 back and get the answer to that. My question had
25 more to do with your response to his inquiry,

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2 which was, That's the Law Department question. I
3 mean, you are the general counsel for PGW?

4 MS. POZEFSKY: I am, sir.

5 COUNCILMAN NUTTER: Okay. How many
6 lawyers are there at PGW?

7 MS. POZEFSKY: Six and a half. Six
8 lawyers and a part-time person, a part-time
9 lawyer.

10 COUNCILMAN NUTTER: Is that half-person
11 a --

12 MS. POZEFSKY: The lawyer is a full
13 person who works part-time, I'm sorry.

14 COUNCILMAN NUTTER: Very good. What
15 did you mean by that in your response to
16 Councilman O'Neill?

17 MS. POZEFSKY: What I meant that,
18 Councilman, is there have been historic
19 differences of opinion as to how this particular
20 provision is interpreted, with PGW, at times past,
21 having had a different opinion than the Gas
22 Commission.

23 And ordinarily, when there's a
24 difference of opinion between PGW and the Gas
25 Commission, it would be the Law Department that

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2 would come in and make a formal decision as to
3 what would be the binding interpretation. In this
4 particular instance, however, that probably would
5 not be necessary, because we've had an opportunity
6 to caucus since the last discussion.

7 COUNCILMAN NUTTER: Tell us about the
8 caucus.

9 MS. POZEFSKY: Okay. With respect to
10 the interpretation as to how the budgets --
11 whether the budget are, in fact, line items and
12 whether approval is needed if changes are made,
13 PGW, at this point in time, having discussed this
14 with the Gas Commission and understanding that the
15 Gas Commission is, in fact, able, subject to its
16 own rules and regulations, to determine whether or
17 not a line-item budget is necessary, the Gas
18 Commission at this point in time has no formal
19 rules and regulations but has, in fact, in orders
20 -- the Gas Commission has, in fact, stated that
21 they would like to see PGW return to the Gas
22 Commission for approval of transfers between line
23 items.

24 It's not a formal rule and regulation,
25 and that was, in fact, what the agreement appeared

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2 to require. The Gas Commission certainly could
3 promulgate a rule or regulation instead of doing
4 it in the form of an order. PGW will come back to
5 the Gas Commission for line item approvals if the
6 line items are changed during the course of the
7 budget.

8 COUNCILMAN NUTTER: How long has this
9 been -- first, actually, I understood very little
10 of what you said but, you know, I'll reread the
11 notes of testimony.

12 But, second, how long has this been an
13 outstanding question or a difference of opinion
14 between the Gas Commission and PGW?

15 MS. POZEFSKY: Councilman, I don't
16 know. I was made aware of the issue in November
17 when the last Council hearing on this subject came
18 up. In terms of how long it's been an issue and
19 in terms of what of interpretation has been, my
20 understanding has been that PGW's practice over
21 the years has not been to come back to the Gas
22 Commission when there are line items changes in
23 the budget.

24 COUNCILMAN NUTTER: And they chose not
25 to come back based on what?

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2 MS. POZEFSKY: I believe, based on
3 their understanding, that as long as there was no
4 overspending in the aggregate, there could be some
5 flexibility of spending and changes within
6 categories, among categories.

7 COUNCILMAN NUTTER: And here today, as
8 a result of a question asked by Councilman
9 O'Neill, and after what did you say, a 13-minute,
10 a 15-minute caucus, you've now resolved the
11 issue?

12 MS. POZEFSKY: Yes.

13 COUNCILMAN NUTTER: Okay, so if that's
14 the agreement or the understanding -- and as I
15 said, you lost me a little while ago about some of
16 the orders and who tells who what to do -- what
17 does that now mean?

18 MS. POZEFSKY: Let me tell you what the
19 management agreement says what the issues were and
20 what I think it now means.

21 The management agreement says that all
22 expenditures and commitments for the Gas Works
23 shall be made pursuant to, quote, such approved
24 budgets and subject to rules and regulations, if
25 any, promulgated by the Gas Commission in

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2 connection therewith.

3 My understanding is that the Gas
4 Commission has never formally promulgated a rule
5 or regulation that requires the budgets to be
6 line-item budgets that are approved, and that all
7 the spending needs to adhere to the line item
8 category, but that the Gas Commission -- and
9 Carlton Williams, who was the budget examiner for
10 this purpose says, that the Gas Commission has in
11 fact, in orders, stated that line items should be
12 adhered to. Based on the fact that the Gas
13 Commission certainly could promulgate in a rule or
14 regulation the content of the orders that Carlton
15 Williams has said he has issued --

16 COUNCILMAN NUTTER: Hold on for a
17 second, 'cause, I mean, as you know, this is
18 nowhere near any level of serious expertise. Am I
19 understanding you to say that the Gas Commission
20 could issue an order to PGW about whatever that
21 order is about? And my am I understanding your
22 language to mean that PGW can then operate within
23 that order? And are you using the term
24 "promulgate" some regulations or processes or
25 procedures or rules about how they're going to

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2 adhere to that particular order? Is that what
3 you're saying?

4 I mean, these aren't trick questions.
5 I mean, I just don't know.

6 MS. POZEFSKY: This is not a process
7 with which I am particularly familiar, which, I
8 think, is fairly evident from the level of some of
9 this discussion. The first time that I had looked
10 at this carefully, spoken with the Gas Commission
11 and spoken with our folks about the budget has
12 been today, because our assumption was that filing
13 with the Gas Commission, the reconciliations for
14 the last few years, which was done in February of
15 this year, would address this issue. So,
16 Councilman, I'm attempting to give you a quick
17 answer to a question that was posed here today.

18 We can get back to you with a better
19 analysis of what the agreement says and what the
20 Gas Commission and PGW agreed to do within fairly
21 short order, and I think that -- you know, I make
22 that proffer now.

23 COUNCILMAN NUTTER: Okay.

24 COUNCILMAN O'NEILL: I just -- again,
25 the order mentioned that the Gas Commission has

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2 ordered line items but they haven't formally filed
3 the ruling, and I guess a fair inference is that
4 rules have to be followed but their orders don't?

5 MS. POZEFSKY: (Shakes head.)

6 COUNCILMAN O'NEILL: That seems like a
7 logical follow-up to that because if they --

8 MR. KNUDSEN: Let me respond to that.
9 It is this management's intention to follow the
10 orders of the Commission. The order as it stands
11 right now is that we will follow a line-item
12 approach to this budget and to the next. It is my
13 understanding that if we were to want to change
14 anything in terms of redirecting resources within
15 the approved budget, that we can go to the
16 Commissioner, and that they can give us that kind
17 of approval.

18 But right now, it is our intention to
19 follow the letter of the budget line by line.

20 COUNCILMAN O'NEILL: Okay. Now, I
21 understand that from this day forward, where we
22 have a line-item budget, even though no one agrees
23 that it's written anywhere that that has to be,
24 it's just everybody agreeing to do it if that's
25 what the Gas Commission wants, okay.

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2 And we just had a discussion about a
3 swap of 8.4 million that was everybody's intention
4 to use for gas mains, but it didn't work out.
5 And, obviously, there was nowhere that forced that
6 money -- nowhere was it written that that money
7 had to be used for gas mains; it's just what was
8 told to this legislative body.

9 So I want to know what the law is. If
10 the law isn't line-item budgets but you're
11 agreeing because the Gas Commission wants it and
12 could make it law, that's fine, I understand that
13 part of it. But I want to know if it is currently
14 the law. And I'd also like to know, since I'm now
15 learning about orders versus rules, if the Gas
16 Commission has ever ordered or filed an order for
17 line items and how often and how recent they have
18 filed.

19 The management agreement go backs to
20 the '70s?

21 MR. KNUDSEN: 1972.

22 COUNCILMAN O'NEILL: '72, okay. So
23 it's about a 28-year history where it should be
24 pretty obvious whether we ever had line-item
25 budgets and why, and also whether there's a City

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2 Solicitor opinion anywhere on this.

3 I mean, in some brief discussions with
4 my colleague, who is a member of the Gas
5 Commission for some time -- has been a member of
6 the Gas Commission for some time now, Councilwoman
7 Tasco indicates that this actually has been a
8 request a long time. I didn't grill her on how
9 long that is, but it's not like it just came up
10 this morning.

11 So I would like some historical -- and
12 I really don't want to -- I don't have any problem
13 with this budget, I mean, which was better news on
14 the gas mains, but I can vote for this budget to
15 start getting things done since it's taken so
16 long. But we don't have a Council meeting for two
17 more weeks, and I don't want to vote on budget
18 unless I know whether it's a line-item budget by
19 law, and I think that's only fair.

20 So if you could get back to me in the
21 next two weeks, I would appreciate it.

22 MS. WILKERSON: I will take the
23 responsibility for getting a City Solicitor
24 opinion on that and also for developing the record
25 on --

1 /00 FINANCE

2 COUNCILMAN O'NEILL: The record,
3 please.

4 MS. WILKERSON: -- what the historic
5 practice has been and what orders have come from
6 the Gas Commission with respect to line items.

7 COUNCILMAN O'NEILL: I'm actually very
8 upset that there's this much question about it. I
9 mean, this is not an significant matter, when
10 someone can get approval for \$9 million for a
11 computer system that costs 30 or 2 million for a
12 warehouse that becomes office repairs. This is
13 not how -- because these budgets just don't come
14 to the Gas Commission; they come to City Council,
15 and the reconciliation doesn't -- won't be just
16 coming to the Gas Commission, I hope it will be
17 coming to City Council, and I think it also should
18 have, at least my understanding. So the
19 historical part would be very important.

20 Thank you.

21 COUNCILWOMAN TASC0: Thank you.

22 Are there any other questions from
23 members of the committee?

24 (No further questions.)

25 COUNCILWOMAN TASC0: The Chair will be

1 /00 FINANCE

2 with us shortly.

3 (Chairwoman Blackwell returns to
4 chambers.)

5 COUNCILWOMAN BLACKWELL: Thank you very
6 much, everyone. Thank you.

7 What the Chair would like to do at the
8 request of some members of the committee is to
9 continue this hearing until June 1st, at 9 a.m. so
10 That means we will skip a week and we don't have a
11 session next week. And then we'll reconvene the
12 following Thursday, before we go into Council, at
13 9 a.m.. And if that's acceptable to everybody,
14 then we will be recessed until then.

15 COMMISSIONER KISHINCHAND: That will be
16 fine. We will be here.

17 COUNCILWOMAN BLACKWELL: Thank you,
18 thank you very much. Thanks, everyone, for
19 coming.

20 MR. KNUDSEN: Thanks.

21 COMMISSIONER KISHINCHAND: Thank you.

22 (Adjourned at 4:25 p.m.)

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RE: COUNCIL COMMITTEE ON FINANCE

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JOSEPHINE CARDILLO,

Registered Professional Reporter