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COUNCIL OF THE CITY OF PHILADELPHIA

3

CONTINUED PUBLIC HEARING

4

COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, April 7, 2004
2:10 p.m.

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RESOLUTION 040229 -

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BILL 040153 - An Ordinance approving the
Fiscal Year 2004 Capital Budget providing
for expenditures for the capital purposes of
the Philadelphia Gas Works...

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PRESENT:

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COUNCILWOMAN JANNIE BLACKWELL, Chair

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COUNCILMAN DAVID COHEN

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COUNCILMAN FRANK DICICCO

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COUNCILMAN RICHARD MARIANO

20

COUNCILMAN MICHAEL NUTTER

21

COUNCILMAN BRIAN O'NEILL

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COUNCILMAN JUAN RAMOS

23

COUNCILWOMAN BLONDELL REYNOLDS BROWN

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COUNCILMAN FRANK RIZZO

25

COUNCIL PRESIDENT ANNA C. VERNA

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BILL 040156

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2 COUNCILWOMAN BLACKWELL: Good
3 afternoon. We would like to thank you for
4 your patience and announce that the Committee
5 on Finance is now in order.

6 Today, it's a continuation of the
7 originally scheduled hearing on March 24th,
8 2004. The hearing was recessed in order for
9 PGW to come back today to address concerns
10 outlined in Resolution No. 040229, sponsored
11 by Councilman Brian O'Neill, which deals with
12 the Senior Citizen Discount.

13 I have two other questions on
14 another matter, but I'm happy to first defer
15 to my colleague, Councilman Brian O'Neill.

16 COUNCILMAN O'NEILL: Thank you,
17 Madam Chairwoman.

18 I believe that the negotiations with
19 my office and PGW have reached a positive
20 resolution. It involves the audit of Senior
21 Citizen Discounts, which is very proper. We
22 had a few years where it wasn't done. I'm
23 sure that won't happen again. And a removal
24 over the past several years of some
25 not-so-cost-effective locations in my district

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2 that require people going a much longer
3 distance to try to work out the discount being
4 kept after a senior member of the household
5 has died. So using the mini City Hall right
6 off of Welsh and the Boulevard, it's central
7 to the Northeast. It would be used just
8 during this period, one day a week for six to
9 eight weeks, and I think it will provide
10 enough service to people. If someone can't
11 get there, we'll know it's a true hardship and
12 we'll deal with that.

13 For the most part we're dealing with
14 seniors who are spouses of deceased Senior
15 Discount eligible people, and I think we'll
16 get a lot of people off the Senior Discount
17 who aren't seniors that have been riding on a
18 deceased family member's discount, which is
19 good for all ratepayers.

20 I want to thank PGW, although it
21 took a little bit longer than I would have
22 liked, it's all going to work out in time, I
23 think, for everybody to get what they need.

24 I would like to thank Mr. Knudsen
25 and Mr. Hershey, particularly, for working

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2 this out.

3 MR. KNUDSEN: Thank you, Councilman.

4 COUNCILWOMAN BLACKWELL: Thank you
5 very much.

6 Are there any questions from Members
7 of Council with regard to the Senior Citizen
8 Discount?

9 (No response.)

10 COUNCILWOMAN BLACKWELL: We will go
11 back to our discussion on the Capital Budget,
12 which is Bill No. 040153.

13 In that regard, I have two
14 questions. One is with regard to the
15 soft-off, because I was told today that there
16 were some issues with that, and I would like
17 you to explain what the soft-off is and go
18 from there.

19 MR. KNUDSEN: Madam Chairwoman,
20 soft-off is a process that we follow.
21 Essentially, what it means is that we don't
22 formally, physically turn someone off before
23 another. And it's usually a rental
24 circumstance where one tenant leaves, the next
25 tenant comes in. We don't formally turn them

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2 off. It's called a soft-off. We simply
3 recognize that the ownership of the account,
4 the accountability for the account has shifted
5 from one name to another. That's essentially
6 what it involves.

7 Since I'm not the technical person
8 on this question, I would be pleased to write
9 a formal explanation for you for the record on
10 this issue. But it's a process that was
11 followed for many years. We discontinued it
12 for a period of time, but it's more cost
13 efficient for us when we know when one party
14 is leaving and another party coming not to go
15 through all of the requirements of a formal
16 shutoff.

17 COUNCILWOMAN BLACKWELL: So this
18 means during that interim period then, neither
19 customer is billed, am I correct?

20 MR. KNUDSEN: Well, if that's the
21 case, PGW bills itself. It's less expensive
22 for us to bill ourselves than to actually
23 deploy people into the field to try and make
24 this. It involves a circumstance where we
25 know there's a change taking place.

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2 COUNCILWOMAN BLACKWELL: So then if
3 we have consumers or customers who have some
4 issues about that period, then I assume that
5 we can be in touch with PGW. We usually get
6 it when a person says, "I moved out and I
7 contacted PGW, and I moved out on April 10th,
8 and here it is January 15th and I'm being
9 billed."

10 MR. KNUDSEN: In that instance then
11 we rely on our phone records, which are quite
12 precise now, and we hold those records for a
13 long period of time. We go back and reference
14 those and establish the exact moment of the
15 time that the service was discontinued.

16 I feel inadequate to answer your
17 question, frankly, but I will provide for you
18 and for the record a detailed explanation of
19 soft-off.

20 COUNCILWOMAN BLACKWELL: Thank you.

21 Also, with regard to Mr. Harvey
22 Clark on the news, whenever I turn it on, and
23 all of the talk and on the radio every
24 morning, where are we with regard to rates?

25 I know you said at our last hearing,

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2 about two-thirds of the people who could be
3 contacted were, and are trying to apply for
4 LIHEAP grants. As you know, we had
5 legislation to try to apply to get more
6 dollars from the State. Where are we on that
7 whole issue of that and the additional
8 surcharge for the customers?

9 MR. KNUDSEN: Well, in terms of
10 LIHEAP, there's two initiatives in place right
11 now -- well, there's three. One is at the
12 federal level, making sure that the amount of
13 potential appropriation under the current
14 bills in Congress are moving from a level of
15 about \$1.8 billion, \$1.9 billion per year for
16 the entire country to \$3.4 billion. That will
17 ensure that we get an additional amount of
18 money in Pennsylvania.

19 The second initiative is to make
20 sure that Pennsylvania holds its proportionate
21 share of the money that's going to be coming
22 from the federal government.

23 And the third initiative is that we
24 in Philadelphia, specifically in PGW, most
25 specifically, get our fair share.

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2 So each of those is an initiative
3 that we've undertaken. I've testified at the
4 federal level. I've taken the case to the
5 state authorities. In fact, we met with
6 Secretary Richman the day before yesterday and
7 got her support for this kind of effort. And
8 I've also argued directly to Secretary Richman
9 of the need for PGW to have a fair allocation
10 of the resources for our needs. So each of
11 those is in process right now.

12 COUNCILWOMAN BLACKWELL: So at this
13 point, our ratepayers still don't have to look
14 forward to an increase, correct? We're still
15 investigating that and assessing our income?

16 MR. KNUDSEN: LIHEAP is one of our
17 sources of income. Let me repeat my
18 testimony. The proposed regulatory process
19 that I have in mind, which is the
20 Reconciliation Clause, is strictly right now
21 an insurance policy. We are doing everything
22 we can to collect from the customer. Only if
23 we fall short of our goal would we employ this
24 proposed reconciliation mechanism.

25 COUNCILWOMAN BLACKWELL: So we're

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2 still in the holding mode?

3 MR. KNUDSEN: We're still in a
4 holding pattern, that's right.

5 As I indicated to you at the last
6 hearing, I would come back to you in the June
7 time frame to let you know where we are and
8 what I thought we would or would not have to
9 do.

10 COUNCILWOMAN BLACKWELL: Thank you.

11 Before I ask my next question, let
12 me ask those Councilpersons who are on the
13 Finance Committee who are in the building if
14 they could come to the Council Chambers
15 because we are concluding our testimony.

16 My final question, Mr. Knudsen, is
17 that it is my understanding that PGW has
18 different rates for and various
19 classifications of users. Can you explain
20 what residential accounts are, commercial
21 accounts and PHA accounts, how they differ?

22 MR. KNUDSEN: I'm going go ask Mr.
23 White to explain this a little bit. Let me
24 just brief him because I haven't spoken with
25 him.

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2 Madam Chairwoman, my expert is here.

3 COUNCILWOMAN BLACKWELL: Thank you.

4 Would you identify yourself, Mr.

5 White?

6 MR. WHITE: Thank you. My name is
7 Craig White. I'm the Acting Chief Operating
8 Officer. I appreciate the accolades of being
9 an expert, but I'll do my best.

10 With respect to the PHA rate, there
11 are actually three different rates that PHA
12 facilities get billed under. There are PHA
13 scattered sites, which get billed under our GS
14 rate, our general service rate, just like any
15 other residential customer. It's the same
16 rate that applies to an individual homeowner.
17 And that's applied to the scattered sites.

18 They also have a certain amount of
19 dual fuel where they can burn both gas and an
20 alternative fuel other than gas, in most cases
21 oil. In that case most of those facilities
22 are on what we call our BPS rate, our boiler
23 plan service rate. That's an interruptible
24 rate.

25 Then there is a third rate, which is

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2 the PHA rate. The PHA rate is a rate that is
3 priced within -- if it's not identical, it's
4 within hundredths of a cent from the
5 commercial rate that we charge commercial
6 customers. Commercial customers pay what we
7 call a commercial general service rate, and in
8 both instances they pay a monthly customer
9 charge and then they pay the volumetric rate,
10 which is per MCF.

11 MR. KNUDSEN: It's based on how much
12 gas they actually consume.

13 MR. WHITE: Yes. And I guess the
14 point that I'd like to stress today, those
15 facilities are typically your multi-unit
16 apartment buildings that fall under the PHA
17 category, which would not be any different
18 than the commercial multi-unit buildings.
19 They get billed under our general service
20 rate.

21 COUNCILWOMAN BLACKWELL: My question
22 is -- if the scattered site rate is the same
23 as individual homeowners, that sounds fine.
24 But I take issue with PHA -- we all know that
25 PHA homeowners are low income people -- or

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2 home renters, I should say -- home renters or
3 homeowners are low income folks, and why would
4 they be charged a commercial rate? Can't we
5 charge them a regular residential rate?

6 MR. WHITE: They're not being
7 charged a commercial rate. They're being
8 charged the PHA rate, which is basically
9 identical to the commercial rate. If I'm an
10 apartment building owner and I have, say, 10
11 units in that building, I'm paying a
12 commercial general service rate. If I'm a PHA
13 building with 10 units, I'm paying a PHA rate.
14 The two rates are all but identical.

15 COUNCILWOMAN BLACKWELL: I disagree
16 with that. PHA folks are low income folks.
17 Why wouldn't everybody be charged a
18 residential rate, the same rate? To live in
19 PHA, to move in PHA, you have to be low income
20 to begin with. So why would they be charged
21 the same rate as a commercial account?

22 MR. WHITE: The best I can do on
23 that answer is that since these facilities are
24 basically of the same structure or the same
25 make-up as the commercial accounts, they were

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2 categorized in our last rate case under the
3 PHA rate, and the PHA rate was viewed
4 appropriately representative of the cost
5 associated with those types of buildings.

6 I think the key here is that I think
7 in some cases it's been represented that PHA
8 is actually paying more money. PHA is paying
9 for scattered sites. Individual homes are
10 paying the same thing that other general
11 service customers are paying. In a multi-unit
12 building, they're paying a rate which is
13 basically the same as a multi-unit rate
14 building rate for commercially-owned property.

15 One last item, Councilwoman, if I
16 may. In our last rate case we had numerous
17 intervenors in the case. PHA was not one of
18 those intervenors. We didn't approach it in
19 any way to take advantage of PHA. As a matter
20 of fact, we kept it pretty much transparent
21 from where it was prior to falling under the
22 PUC. So it wasn't as if we took an
23 opportunity to change the rate when we fell
24 under the PUC. It was what it was for many,
25 many years.

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2 MR. KNUDSEN: As I indicated to the
3 Chairwoman, we would pleased to assist PHA in
4 making the appropriate applications to correct
5 what they perceive as being a problem here.
6 That's all we can do because the rates right
7 now are established by tariff before the PUC.
8 We'd have to open up a whole proceeding to
9 make the changes.

10 As I indicated to you earlier in
11 conversation, we're not talking about a lot of
12 money here. I think we calculated it's
13 something like \$75,000 as a result of their
14 paying a slightly different rate than they
15 would under the way they want to be charged.
16 We would be pleased to help them correct this
17 at a future time.

18 COUNCILWOMAN BLACKWELL: So you're
19 saying it's probably a form they need to fill
20 out?

21 MR. KNUDSEN: It's more than a form,
22 Councilwoman. They actually have to intervene
23 in the rate proceeding at the PUC to change
24 their rate.

25 COUNCILMAN DICICCO: Point of

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2 information.

3 COUNCILWOMAN BLACKWELL: Point of
4 information, Councilman DiCicco.

5 COUNCILMAN DICICCO: I'm not clear.
6 When we're speaking of PHA, Philadelphia
7 Housing Authority, and the rate at which
8 they're being charged, specifically on the
9 multi-family dwellings, that's a commercial
10 rate?

11 MR. KNUDSEN: It's very close to the
12 commercial rate. The buildings are treated --

13 MR. WHITE: The monthly customer
14 charge is identical and the per MCF rate is --

15 COUNCILMAN DICICCO: Is the charge
16 to the individual occupant or is it to the
17 Authority? Is it the Authority that's being
18 charged or is it the tenants?

19 MR. WHITE: It is the Authority
20 under the PHA rate.

21 COUNCILMAN DICICCO: I was concerned
22 with the Chair's question. I think the Chair
23 is under the impression -- and I was at first
24 -- that the customer, the individual customer,
25 is being charged the commercial rate when it's

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2 the Authority; is that correct?

3 MR. WHITE: We appreciate that
4 clarification. That is correct. The only
5 parties that are living in PHA housing that
6 get charged directly and are asked to pay us
7 directly are the scattered sites that receive
8 the general service rate, that's correct.

9 COUNCILMAN DICICCO: If I am a
10 tenant in a multi-unit apartment building, a
11 PHA apartment building as an example, I'm not
12 being charged the commercial rate for gas use;
13 The Authority is picking up the bill because
14 they're basically heating the entire building?

15 MR. WHITE: That's correct.

16 COUNCILMAN DICICCO: So it's not the
17 individual low income family that's paying.

18 COUNCILWOMAN BLACKWELL: But isn't
19 the tenant in PHA -- the renter receives a
20 rate, so they may not pay their utility
21 separately --

22 COUNCILMAN DICICCO: It could be
23 included in the rent.

24 COUNCILWOMAN BLACKWELL: So it's
25 included in their monthly bill.

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2 MR. WHITE: As I understand it, PHA
3 receives the federal dollars to pay the gas
4 bill on behalf of customers that are on PGW's
5 PHA rate. PHA also receives the federal
6 dollars to pay for the customers that are on
7 the general service rate. But the difference
8 is that PHA distributes the funds to the
9 individual consumer, and the consumer then has
10 the responsibility to pay the Gas Works.

11 With respect to the people who are
12 living in a PHA -- in my example, a multi-unit
13 facility, they are not seeing the check nor
14 are they paying the check. They're not seeing
15 the bill and they're not paying the bill.
16 That is a PHA function. Whereas, if you're in
17 scattered sites you actually receive the
18 contribution from PHA and you have a
19 responsibility to pay the bill directly to
20 PGW.

21 COUNCILWOMAN BLACKWELL: I'm not
22 sure that's correct. I'll call and get
23 verification. But if a tenant pays a bill
24 that includes their utilities, the tenant is
25 paying the bill. That bill is factored into

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2 what their rent is. So it's still the tenant
3 paying.

4 COUNCILMAN DICICCO: Well, it's the
5 cost of charging rent for living in the unit.
6 There is some --

7 COUNCILWOMAN BLACKWELL: I mean, if
8 that's \$75,000 that a low income tenant
9 shouldn't pay, then certainly we would rather
10 give it to the tenant associations or use it
11 for job training or other uses in the
12 facility, than paying a different rate.

13 MR. KNUDSEN: We can get back to you
14 specifically on this, but it's our impression
15 that the federal government pays this bill,
16 and I don't believe it goes to the tenant as
17 part of any kind of requirement. But we'll
18 clarify that for the record and get back to
19 you on that.

20 COUNCILMAN DICICCO: That would be
21 helpful.

22 MR. KNUDSEN: That's a PHA issue,
23 not ours.

24 COUNCILWOMAN BLACKWELL: Councilman
25 DiCicco.

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2 Let me note that Councilman DiCicco
3 is here, Councilman O'Neill to my left, and
4 Councilman Ramos to his left.

5 Councilman DiCicco.

6 COUNCILMAN DICICCO: When we talk
7 about delinquent customers to PGW, how does
8 PHA rank? Do they pay their bills on time?
9 Are they delinquent?

10 Does PHA have any of its facilities,
11 either multi-unit -- let's talk about
12 multi-unit. Are their bills delinquent? Are
13 they behind in any of their payments that we
14 know of?

15 MR. KNUDSEN: Councilman, on the
16 matter of the payments from PHA to us, we have
17 over time worked out a very efficient method
18 for recovery of cost from PHA directly.

19 COUNCILMAN DICICCO: So they're not
20 in that pool of, for lack of a better word,
21 which we are referring to as the deadbeats?
22 They're paying their bills pretty much on
23 time, regularly?

24 MR. KNUDSEN: Yes. PHA is, in fact,
25 paying its bill regularly.

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2 COUNCILMAN DICICCO: What about PHA
3 scattered sites?

4 MR. KNUDSEN: We have more
5 difficultly with the scattered sites.

6 COUNCILMAN DICICCO: Can anyone
7 quantify what that number may be on the number
8 of PHA scattered sites and the people who live
9 in those units about who is paying and who is
10 not paying?

11 MR. KNUDSEN: We have some
12 statistics and we can provide those for you
13 for the record.

14 COUNCILMAN DICICCO: That would be
15 very helpful.

16 I do have some other questions
17 relating to the medical questions that I asked
18 the other day, and your written testimony,
19 which I didn't get until an hour or so ago. I
20 really haven't had that much time to go
21 through it. So if anybody else has any
22 questions on the heating stuff and delinquent
23 payments, I'll hold off on these until that
24 time.

25 COUNCILWOMAN BLACKWELL: Let me note

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2 that the President is here, President Verna.

3 And I'm trying to call and get
4 clarification, so I'll defer to my colleagues
5 for their questions.

6 COUNCILMAN O'NEILL: I have a quick
7 question on the collection aspect.

8 As Chairlady referred to, it's hard
9 not to hear Mr. Clark's voice, particularly on
10 radio. But my question is we have some
11 process to go through now that we started the
12 campaign. A lot of people have asked me why
13 we didn't start it earlier so that we'd be at
14 the end of the process part when we were
15 permitted to do the shutoffs rather than
16 waiting until the beginning of the shutoff
17 period before we start the process. That has
18 some elements to it that take some time.

19 MR. KNUDSEN: Councilman, we did.
20 It's a question of degree, not of time. What
21 we did do is we started the process mid-March.
22 Understand, we can't turn people off
23 physically until the end of month.

24 COUNCILMAN O'NEILL: That's the end
25 of March?

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2 MR. KNUDSEN: End of March, April 1.

3 Now, the other part of that is that
4 we try to get sort of the bulk of them out,
5 but we cannot physically process all of them
6 at once. So what we do then is we try to
7 spill that a little bit out over the first
8 several weeks of April. But by the second or
9 third week of this month, we will have
10 everybody in the works. In other words, they
11 are then subject to five separate steps of
12 notification, and then a shutoff if they
13 haven't come in those five steps of
14 notification to make an agreement or to make a
15 payment.

16 COUNCILMAN O'NEILL: It's my very
17 point. If there's five or six steps of
18 notification, why would you be completing them
19 around April 1st rather than beginning them?

20 MR. KNUDSEN: It's a PUC set
21 requirement. So we were prepared to shut
22 people off the 1st of April when we notified
23 them 10 days ahead. We started that process.
24 A lot of them were eligible for turn off
25 immediately. But we cannot process them all

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2 at once. We spread that out over a couple
3 weeks. That's the only issue. Ideally,
4 everything would drop in place on April 1st.
5 Can the phones handle it? No. Can we process
6 the payments effectively in that reduced
7 period of time? The answer is, it's very
8 hard.

9 COUNCILMAN O'NEILL: When will your
10 catch-up period be?

11 MR. KNUDSEN: As I said, we are
12 fully in place in the first two weeks in
13 April.

14 COUNCILMAN O'NEILL: So it would be
15 soon?

16 MR. KNUDSEN: Oh, absolutely. We
17 have no interest in delaying this process at
18 all. We are right on top of it.

19 COUNCILMAN O'NEILL: I hope the
20 Chair won't mind if I actually ask a Capital
21 Budget question.

22 It's so hard to stay off the
23 operating side with collections and
24 everything. But the bill before us is the
25 Capital Budget. I want to give you one more

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2 on the collections.

3 I'm told that there are about
4 \$10 million worth of payroll involved in
5 collections of PGW, the staff that are doing
6 collections. Does that sound right?

7 MR. KNUDSEN: It wouldn't be
8 collections. It would be our entire customer
9 service area.

10 COUNCILMAN O'NEILL: It's not
11 accounts receivable and collections?

12 MR. KNUDSEN: We have what's called
13 our customer service department, and that
14 includes the phone center, our back office,
15 paper processing, mail receipts. And then on
16 the collection side we have a full phone
17 collection effort and a full back office, as
18 it were, collection effort as well. That
19 together may total --

20 COUNCILMAN O'NEILL: Give me a
21 ballpark on how you spend internally as
22 opposed to your outsourcing of your
23 collections.

24 MR. KNUDSEN: On collections alone?
25 It's hard to say because we shift the burdens

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2 between our customer service areas.

3 COUNCILMAN O'NEILL: I'm told you
4 spend \$10 million and get \$2 million back.

5 MR. KNUDSEN: No. No. No.

6 COUNCILMAN O'NEILL: It's kind of a
7 far cry from one to the other. If you can
8 give me some idea of what that effort costs
9 and what it produces, because somewhere you
10 have to be able to figure out internally where
11 you're picking from other areas that do other
12 things. How much of their time is allocated
13 to collections?

14 MR. KNUDSEN: This isn't a simple
15 process, because by maintaining our collection
16 function, we put pressure on all of our
17 customers to pay their bills. So whether they
18 are directly touched by our collection effort
19 or whether they just know that we're there and
20 ready to dun them or to turn them off when the
21 time comes, they pay their bills. So there's
22 a direct and an indirect involvement with our
23 collection department. It's not \$10 million.
24 I'd have to get you the number, but it's
25 substantially less than \$10 million simply for

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2 the collection effort itself.

3 COUNCILMAN O'NEILL: We have four
4 outside collection companies that we use right
5 now?

6 MR. KNUDSEN: We have four firms
7 that we have contracted with to essentially --
8 once we've written paper off or we have final
9 billed paper, final billed our bills, we give
10 it to them to collect. Yes.

11 COUNCILMAN O'NEILL: Do you do any
12 of that yourself?

13 MR. KNUDSEN: That piece we don't do
14 because we found it more effective for us for
15 outside firms to do that.

16 COUNCILMAN O'NEILL: If you don't
17 have it at your fingertips, I'll understand.
18 The names of the companies you have, can you
19 give us that now and then maybe the next time
20 you'll turn it in to us at some point?

21 Meaning, what I really want to know is how
22 much we pay them and how much they collect.

23 MR. KNUDSEN: I can give you that.

24 I don't have --

25 COUNCILMAN O'NEILL: Who are the

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2 four companies?

3 MR. KNUDSEN: I don't have the
4 information right now.

5 COUNCILMAN O'NEILL: Is there
6 somebody here who can tell us the four
7 companies?

8 MR. KNUDSEN: No. My vice president
9 for customer service didn't show today, so I
10 don't know. I'd have to get it for you. And
11 we have a straight analysis showing how much
12 paper we've placed with them and how much
13 they're collecting.

14 COUNCILMAN O'NEILL: We have two
15 very effective ones and two very ineffective
16 ones?

17 MR. KNUDSEN: No. If they're
18 ineffective, we don't use them again.

19 COUNCILMAN O'NEILL: On the Capital
20 Budget, what is in essence last year's Capital
21 Budget, the one that should have been approved
22 before July 1st?

23 MR. KNUDSEN: That's the one before
24 of you now.

25 COUNCILMAN O'NEILL: That's what's

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2 in front of us now. How much have you already
3 spent of what you're asking us to approve?

4 MR. KNUDSEN: Well, the bulk of our
5 investment is still in front of us for the
6 year.

7 COUNCILMAN O'NEILL: I didn't ask
8 you that.

9 MR. KNUDSEN: I understand. I'm
10 trying to remember. Subject to check -- and
11 I'll confirm this to you -- I think we would
12 have spent by March, 25 out of the 65 or so
13 that's in this budget.

14 COUNCILMAN O'NEILL: I have a
15 question I'm going to ask. The President is
16 here. The Finance Chair is somewhere in the
17 room. It would seem to me that if this were
18 the City Administration sitting in front of us
19 telling us that even though we haven't
20 approved the Capital Budget yet, they had
21 spent one third of it, we'd be turning the
22 tables over up here. I don't see any
23 difference when it's PGW doing the same thing.
24 We have to approve the Capital Budget. We
25 haven't approved it, and a third of it has

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2 already been spent.

3 There's such a great disconnect here
4 that I have trouble even believing it. Can
5 you explain how this happens?

6 MR. KNUDSEN: Well, I think it had
7 its origins about 10 years ago when the
8 budgets were handled separately and the
9 Capital Budget was brought in the spring time
10 for resolution before Council adjourned. I'm
11 not exactly clear what happened, but a
12 judgment was made that it was better for PGW
13 to have the Operating and the Capital Budget
14 dealt with at the same time because so much of
15 what we do is interlaced.

16 A process with the Gas Commission
17 evolved where we had and were granted, we
18 thought legitimately and I think they thought
19 legitimately, some kind of continuing spending
20 authority in the absence of formal authority
21 from the Council on our Capital Budget. That
22 process continued for a period of time, for 10
23 years at least. And we have been informed
24 that that is not acceptable. And we are now
25 preparing our Capital Budget for submission to

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2 the Gas Commission and to you for resolution
3 prior to your adjournment this year.

4 COUNCILMAN O'NEILL: I mean, if
5 \$25 million has already been spent, you can't
6 get it back. But you will agree from this
7 point on not to spend any Capital money that
8 hasn't been approved by the Council?

9 MR. KNUDSEN: Well, if you --

10 COUNCILMAN O'NEILL: I'm not just
11 talking about the upcoming '05 Fiscal Year,
12 I'm talking about the remainder of '04.

13 MR. KNUDSEN: In concept,
14 absolutely. There's some mechanical issues
15 here with things that have already been
16 committed to. But we desperately need the
17 approval of this City Council on this matter
18 immediately.

19 We have pipe that absolutely must go
20 in the ground for safety and reliability
21 purposes.

22 COUNCILMAN O'NEILL: We're going to
23 leave this hearing and go right into the
24 Capital Budget for the City's '05. We haven't
25 approved your '05 yet. Can you emphatically

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2 state that until your '05 budget is approved,
3 no money from that '05 budget will be spent?

4 MR. KNUDSEN: That I can commit to,
5 yes.

6 COUNCILMAN O'NEILL: Can you send
7 that to the President and the Chair of the
8 Committee in writing? I'd appreciate that
9 before I have to vote on this bill in final
10 passage. I think we'll probably vote it out
11 today. Some traditions have to change. I
12 don't think there's any question about it.

13 MR. KNUDSEN: Councilman, we are
14 absolutely on board with doing it
15 appropriately and doing it according to law.
16 We understood that we were okay with the
17 continuing spending authority. Since we're
18 not, obviously, we have to change the process.

19 COUNCILMAN O'NEILL: So you will put
20 it in writing?

21 MR. KNUDSEN: Yes.

22 COUNCIL PRESIDENT VERNA: Mr.
23 Knudsen, how many people do you have in your
24 PR department, and what is the budget for that
25 department?

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2 MR. KNUDSEN: We have three.

3 COUNCIL PRESIDENT Verna: How many
4 did you have last year?

5 MR. KNUDSEN: It's been about the
6 same. Since we restructured the company and
7 downsized most of the departments --

8 COUNCIL PRESIDENT Verna: What is
9 the budget for that unit?

10 MR. KNUDSEN: Something like
11 \$150,000. Just recognize that we do all of
12 our own artwork. We do all of our own
13 placement.

14 COUNCIL PRESIDENT Verna: Is that
15 \$150,000 for three people?

16 MR. KNUDSEN: That's about right,
17 yes. That includes benefits.

18 COUNCILMAN DICICCO: That can't be
19 right.

20 COUNCIL PRESIDENT Verna: The Chair
21 recognizes Councilman Rizzo.

22 MR. KNUDSEN: Councilman, I've
23 misspoken. I think we're going to have to get
24 you the appropriate number.

25 COUNCILMAN RIZZO: Mr. Knudsen, you

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2 just said something that got my attention.

3 We've been talking about the company

4 restructuring and doing things differently.

5 Do you think it's appropriate that you're

6 doing your own art work? Do you really

7 believe that there isn't a better way to

8 out-source some of that stuff?

9 MR. KNUDSEN: Councilman, we have a
10 very effective art person and we save a great
11 deal of money, a great deal of money, doing it
12 inside. Mr. Clark would be happy to answer
13 your questions, I'm sure.

14 COUNCILMAN RIZZO: Thank you, Madam
15 Chair. I hope you heard my question.

16 COUNCIL PRESIDENT VERNA: Yes, I
17 did.

18 COUNCILMAN O'NEILL: You are going
19 to get the information to the President and
20 the Chair on the collection firms, costs and
21 recovery?

22 MR. KNUDSEN: Yes.

23 I'm sorry, Madam President, to pull
24 you away from the conversation. We'll get you
25 the budget and the numbers of the full-time

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2 equivalents and what we spend our money on.

3 This is also an area that we've looked at.

4 COUNCIL PRESIDENT Verna: Do the
5 three people represent a company or are they
6 just employed individually or independently?

7 MR. Knudsen: We have three people
8 on payroll at PGW doing our public relations
9 communications efforts. This is all of our
10 internal organs, with the magazine that we
11 have inside, it's the bill stuffers, it's the
12 Get Good Gas News. All of that is done
13 inside. We do have an advertising budget in
14 order to place our notices for changes of
15 rates and so forth. We can give you an entire
16 breakdown, and I think you will find that it's
17 quite cost-effective.

18 COUNCIL PRESIDENT Verna: Thank you.

19 Mr. Knudsen, I believe that last you
20 testified you stated that PGW is \$1 billion in
21 debt. And I believe that was the same figure,
22 or we're being told that it was the same
23 figure used in October of 2000. The question
24 is, could it be possible that there is not any
25 dollars in debt that has been accrued since

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2 2000?

3 MR. KNUDSEN: I think my testimony
4 was that it was \$1.1 or \$1.15 billion before.
5 And, yes, there's been some growth in the debt
6 since that time. But understand, we pay debt
7 off regularly and we incur new debt. We did
8 have earnings as well over that period of
9 time. So, again, I can provide that
10 information to you. But just for purposes of
11 this discussion, our debt over the last
12 several years has been around \$1 to \$1.1
13 billion.

14 COUNCILMAN DICICCO: Thank you,
15 Madam President.

16 Earlier when I asked about some
17 statistics on the number of PHA scattered site
18 customers, if you would include -- and you may
19 intend to do that, but I'd like to make
20 certain that you include the number of PHA
21 customers, residential customers, and what
22 percentage of those customers fall within the
23 non-paying population, if you will.

24 MR. KNUDSEN: Yes. I understood
25 your question.

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2 COUNCILMAN DICICCO: Another
3 question I had, are you aware of the letter
4 that was sent to Councilwoman Tasco from
5 District Attorney Lynne Abraham?

6 MR. KNUDSEN: I am not aware of it.

7 COUNCILMAN DICICCO: I received it
8 yesterday, I believe. In it, the District
9 Attorney raises a question about the shutoffs,
10 and I will read the line where she says what
11 Mr. Knudsen failed to say, again concerning
12 shutoffs and the shutoff involving the PUC, is
13 he failed to say -- and no one has, to my
14 knowledge, put on the table -- is the fallacy
15 of the statement about the PUC's position on
16 shutoffs. Mr. Knudsen made his statement as
17 if the PUC has the final word on this and
18 other issues, when that is far from the case.

19 From this question or comment, I'd
20 like to hear from you who has the final say in
21 shutoffs.

22 MR. KNUDSEN: The PUC regulations
23 are very specific, and we get fined when we
24 are in variation with Chapter 56, which is the
25 guiding legislation. The rules are very

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2 specific about who may be shut off, under what
3 conditions, after what amount of noticing. So
4 we follow those to the letter in order that we
5 don't take a financial penalty.

6 That being said, obviously we shut
7 people off. So we have notice for 130,000
8 potential shutoffs. We're in the what we call
9 our credit and collection path, that's the
10 five to six steps that people have to go
11 through prior to being shut off. And when
12 that is over and if they haven't paid, we shut
13 them off. That is in accordance with the PUC
14 requirements or guidelines.

15 COUNCILMAN DICICCO: Has PGW ever
16 been in a position where shutoffs occurred and
17 the PUC has ruled against those shutoffs, to
18 the best of your knowledge?

19 MR. KNUDSEN: Let me answer the
20 question. The circumstance normally arises
21 when we have shut someone off, they have
22 appealed, what's called an either informal or
23 formal appeal, to the PUC and the PUC has
24 effectively required that we put somebody on
25 that we might think they ought not.

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2 COUNCILMAN DICICCO: So the PUC
3 basically reversed the decision of PGW to turn
4 off the service?

5 MR. KNUDSEN: We would disagree over
6 turning somebody on, but we follow the PUC
7 requirements on that.

8 COUNCILMAN DICICCO: Has PGW ever
9 filed an appeal to the Commonwealth Court or
10 any other court in the Commonwealth to
11 overturn what the PUC's decision to overturn
12 your decision was in the first place?

13 MR. KNUDSEN: Let me just check,
14 Councilman. Again, if I'm not correct, I'll
15 submit something to the record. We have
16 appealed some of these decisions to the PUC
17 itself. We have not gone beyond the PUC to
18 the courts. Other people in the state have,
19 and we rely on the precedence of other
20 utilities.

21 I'll give you a case in point.
22 Recently, PECO got a ruling from the PUC that
23 there should be only one agreement per
24 customer per violation. We're relying on the
25 PECO determination here as precedent for us.

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2 So I'm sure at some point one of our decisions
3 before the PUC will be precedent for others.

4 COUNCILMAN DICICCO: I appreciate
5 the report on the questions I have concerning
6 the medical unit. As I said earlier, I really
7 didn't get a chance to go through this at all
8 in any thoroughness. I do have a question,
9 though.

10 On Page 1, workforce qualifications,
11 where the medical unit performs disability
12 evaluations. Is the employee mandated to come
13 through that process or can they opt to go to
14 a private physician or their family physician?

15 MR. KNUDSEN: Just a second.
16 Forgive me. I don't know the answer to that.

17 COUNCILMAN DICICCO: I think that
18 would be helpful for us. I understand, from
19 what I was able to glean from your report
20 here, some of the savings by being able to do
21 it in-house. I'm not suggesting at all that
22 it doesn't make sense, but I'm just curious.
23 If I'm an employee and I'm not mandated to go
24 through that process, I choose an outside, so
25 what do I need that doctor for?

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2 MR. KNUDSEN: Well, understand, we
3 like to have things confirmed as well, so...

4 COUNCILMAN DICICCO: Again, on Page
5 3 of your testimony, you outline present
6 structure and alternative structure. Do I
7 take alternative structure to mean out-house
8 and not in-house? I'm not sure of that. What
9 does that mean?

10 MR. KNUDSEN: I'm sorry. Could you
11 read the context?

12 COUNCILMAN DICICCO: On Page 3 of
13 your testimony, you give us a financial
14 breakout of the cost of the nurses, the
15 doctors, et cetera. Present structure versus
16 alternative structure. What is alternative?

17 MR. KNUDSEN: The alternative was a
18 proposed outsourcing, that's correct.

19 COUNCILMAN DICICCO: I thought so.
20 I just wanted to be clear on that as well.
21 There's really no difference in your
22 estimation, there's no real savings, it's
23 basically dead even?

24 MR. KNUDSEN: Well, in that regard,
25 it is. But I think also at the end of page --

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2 I think it's on Page 4 -- where we indicate a
3 dozen or so additional issues that haven't
4 been quantified.

5 COUNCILMAN DICICCO: Again, I
6 quickly tried to read this as I was walking up
7 from my office to this meeting.

8 MR. KNUDSEN: I apologize.

9 COUNCILMAN DICICCO: I do apologize
10 also.

11 MR. KNUDSEN: We tried to make it as
12 thorough as we could for you.

13 COUNCILMAN DICICCO: And I think it
14 is thorough and I'll have some more time to go
15 through it in the next couple of days.

16 On a totally different issue -- and
17 I think this comes up just about every year --
18 the number of vehicles in the PGW fleet, my
19 real concern is for those vehicles that are
20 non-essential vehicles to the operation of
21 PGW. I'm not talking about maintenance
22 trucks, emergency vehicles, what-have-you.
23 I'd like to have some information on those
24 vehicles and the number of people who are
25 permitted to take those vehicles at home and

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2 the rationale for that.

3 And does the fuel, the gas that
4 operates these vehicles, does that come from a
5 fuel depot that you have or do they go to a
6 City installation?

7 MR. KNUDSEN: It's from our fuel
8 depot.

9 COUNCILMAN DICICCO: You have many,
10 or one?

11 MR. KNUDSEN: Basically, the one at
12 the headquarters at Ninth and Montgomery.

13 COUNCILMAN DICICCO: Is it the
14 system that we now have with the City with the
15 computerized system that has the chip in it
16 and all that stuff that better monitors that?

17 MR. KNUDSEN: That's correct. We
18 just had a major review of this at the Gas
19 Commission and we have also committed at the
20 Gas Commission to a whole fleet evaluation.
21 We're looking at this entire area constantly
22 and we'll be making some additional changes
23 soon.

24 COUNCILMAN DICICCO: You may have
25 read in the paper about the Philly Car Share

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2 Program that the City is now involved with.
3 I've been involved with that group for a
4 couple years now. I've actually helped get
5 them some grant money. I think it's
6 something, if you haven't already decided, you
7 might want to look into. Some people wonder
8 if they're paying for someone to be able to
9 take a vehicle that belongs to PGW. It's like
10 for personal use. That's not job related.

11 MR. KNUDSEN: This is our concern as
12 well. We do have requirements that people on
13 call be able to get to an Ogontz situation as
14 quickly as possible. It's not only people on
15 duty at that time, but others come when
16 there's an accident of that nature, and that's
17 really what some of this is designed to
18 provide for. But there's no question, this
19 always has to be evaluated and we're doing
20 that.

21 COUNCILMAN DICICCO: And I
22 understand that you need certain personnel at
23 emergency times to be at a location, and I can
24 appreciate that. I guess my concern is --
25 because I think I may have raised these same

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2 concerns over the last few years -- is that
3 that same person could get from their home to
4 that site in their personal vehicle and it may
5 be less expensive to reimburse them for the
6 fuel.

7 I worked for PennDOT many, many
8 years ago as a construction inspector, and I
9 was given mileage, 16 cents a mile, I think it
10 was, and then a dollar for every hour I was on
11 the road, which could be less expensive than
12 having that vehicle, insuring the vehicle,
13 purchasing the vehicle, maintaining the
14 vehicle. And again, I'm not talking about
15 vehicles that are necessary to deal with the
16 emergency at hand, the truck with the
17 equipment in it that is necessary to shut the
18 gas off and do whatever else that has to be
19 done; I'm just talking about an employee who
20 is a supervisor, as an example, goes from
21 point A, which is his or her home, to point B
22 for the purpose of that emergency or whatever
23 other normal business, for that matter.
24 Putting emergencies aside, that has to be
25 very, very expensive.

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2 MR. KNUDSEN: It is and we're
3 looking into that. I think your observations
4 are well taken.

5 COUNCILMAN DICICCO: Mr. Knudsen, I
6 think you know that I'm not one to go for
7 anyone's jugular vein, but we have been
8 talking about this for about as long as I've
9 been in City Council and we keep hearing,
10 we're working on this.

11 MR. KNUDSEN: We have been shrinking
12 the fleet consistently. Your criticism is
13 heard.

14 COUNCILMAN DICICCO: Thank you.

15 I have no further questions at this
16 time.

17 MR. KNUDSEN: Thank you.

18 COUNCILWOMAN BLACKWELL: The Chair
19 notes that Councilman Mariano is here as well.

20 To get back to this whole issue --
21 we did have a bit of a sidebar. And the issue
22 for PHA becomes -- they said in the last
23 several years, in five years it cost them
24 \$2 million, and that the issue is that PHA be
25 charged the municipal or residential rate and

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2 not the commercial rate. These are low income
3 people. And we are requesting that you find
4 some way to help drive their request with the
5 PUC and to put it forward and to consider that
6 this client base are low income people. I
7 don't even know how we ended charging PHA
8 customers more. It just really doesn't make
9 sense to me.

10 COUNCILMAN DICICCO: This is just on
11 the multi-family dwelling. We're not talking
12 about the scattered sites.

13 COUNCILWOMAN BLACKWELL: We're
14 talking about PHA accounts. PHA pays a
15 different rate than other customers. They pay
16 a PHA rate and their rate is a commercial
17 rate. They're PHA, so they should pay a
18 residential or a municipal rate and not a
19 commercial rate.

20 COUNCILMAN DICICCO: Again, Madam
21 Chair, if I may. Point of information.

22 There are two -- and maybe more than
23 two, but at least two that I'm thinking of,
24 customers that we're talking about. We have
25 the PHA who resides in the scattered site,

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2 single family home, that pays residential
3 rate; is that correct?

4 MR. KNUDSEN: That's correct.

5 COUNCILMAN DICICCO: So I think what
6 the Chair is speaking to is the PHA customer
7 who is in a highrise, multi-family unit where
8 PHA is paying commercial rate. They're two
9 different, distinct issues.

10 MR. KNUDSEN: That is correct. I
11 will get back to the Chair on this question
12 and we'll clarify with PHA so that we're
13 absolutely on the same page. I don't want any
14 confusion on this.

15 COUNCILWOMAN BLACKWELL: In fact,
16 the highrises, PHA has tried to do away with
17 highrises. So the highrises are generally the
18 older buildings. They don't want to pay more
19 for highrises than people don't want to live
20 in them, if they have to move into a new
21 brand-new unit like the Lucien E. Blackwell
22 Homes or some other place like that.

23 However, it just doesn't make sense
24 to me to have a PHA tenant pay a commercial
25 rate. It just doesn't make sense. And I'm

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2 not saying that it started with you.

3 Obviously, it didn't. It started before that.

4 But we're here now and we want to try to

5 rectify it and we need your help to do so.

6 This whole issue of somebody paying

7 more, it doesn't make sense because the

8 customers don't have anything. So their rent

9 is based on what their utilities cost too. So

10 ultimately it still comes back to the tenant,

11 one of those 80,000 people who live in PHA.

12 We would like your assurances that

13 if it has to go to the PUC, that you will put

14 forward the argument -- the question, maybe,

15 is a better word -- of PHA paying municipal or

16 residential rates for these customers.

17 MR. KNUDSEN: We will assist PHA in

18 making their application.

19 COUNCILWOMAN BLACKWELL: We want you

20 all to lead it. I don't want PHA to assist it

21 because I don't know if they know. I mean,

22 you all are the gas company. So we need you

23 to put forward the argument and they'll do

24 whatever it is they need to to support it, to

25 legally support it.

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2 MR. KNUDSEN: We can do that.

3 COUNCILWOMAN BLACKWELL: Thank you.

4 Questions from my colleagues?

5 President Verna.

6 COUNCIL PRESIDENT VERNA: Thank you.

7 Mr. Knudsen, I'm referring again to
8 the District Attorney's letter.

9 COUNCILMAN DICICCO: Do you want a
10 copy of that?

11 MR. KNUDSEN: Yes.

12 COUNCIL PRESIDENT VERNA: She
13 indicates, "Mr. Knudsen never denied that this
14 'new surcharge' proposal is not new at all,
15 and that in fact ratepayers are already being
16 surcharged for those who don't pay."

17 I would like your comments on that,
18 please.

19 MR. KNUDSEN: This surcharge is new.
20 Up until now we have only had base rate
21 proceedings, firm cost proceedings. Within
22 our base rates are now locked in several
23 provisions: Bad debt, which is part of the
24 conversation that we're having right now, this
25 has now changed; Conservation; And as Mr.

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2 White clarified for me, the structure of the
3 Senior Citizen Discount flows through a new
4 kind of surcharge that came with
5 restructuring. But it is essentially a base
6 rate proceeding.

7 The difference between this proposal
8 and what is in base rates right now or what is
9 billed to customers is that this will not take
10 effect if we're able to collect the money. We
11 have no other provision like that in our
12 tariffs. This is a brand-new idea. It's a
13 new idea to Pennsylvania. It's not a new idea
14 to some of the other states who have been
15 struggling with these same issues and have
16 come up with a flexible answer.

17 So to answer Ms. Abraham's
18 statement, it is a new proposal of a new
19 mechanism that is flexible and is not fixed.
20 That's what's different about it.

21 COUNCIL PRESIDENT VERA: We're just
22 having a sidebar.

23 COUNCILMAN O'NEILL: Isn't there
24 about 20 or 25 percent of what gas customers
25 pay today, before any talk about a surcharge,

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2 I'm talking about the approved rate, that pays
3 for other people's gas?

4 MR. KNUDSEN: It's not that high.
5 It's about 18 percent, 19 percent. That's the
6 bad debt plus what's called the universal
7 service charges, which are CRP, Senior Citizen
8 Discount, conservation.

9 COUNCILMAN O'NEILL: How much of it
10 is paying for people that don't pay, not
11 conservation, not Senior Discount,
12 percentage-wise?

13 MR. KNUDSEN: Eight or nine percent.

14 COUNCILMAN O'NEILL: So about half
15 of the number you mentioned?

16 MR. KNUDSEN: That's correct.

17 COUNCILMAN O'NEILL: And what
18 percentage is the surcharge asking for?

19 MR. KNUDSEN: If we were to get the
20 entire surcharge, about 5 percent, 4 percent.

21 COUNCILMAN O'NEILL: So about 50
22 percent of it is already being charged to the
23 base rate?

24 MR. KNUDSEN: Well, we would go from
25 18 to, say, 22 percent.

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2 COUNCILMAN O'NEILL: I just think
3 most people don't realize that are hitting the
4 ceiling, that are feeling their nerves being
5 frayed by PGW, don't realize that they're
6 already paying twice as much today as they're
7 being asked for to pay additionally tomorrow
8 if the surcharge were to go through for other
9 people's bills. And I know that's how the
10 system has to work, but I don't think people
11 realize how much of that bill every month is
12 for that. Everybody expects it to be
13 something, but they expect it to be something
14 very low.

15 COUNCIL PRESIDENT VERNA: So in
16 essence, Councilman, this is not a new
17 proposal. It's an existing proposal.

18 COUNCILMAN O'NEILL: It's the old
19 proposal in a new form.

20 COUNCIL PRESIDENT VERNA: So they're
21 just giving it a different name.

22 COUNCILMAN NUTTER: It's what we
23 experienced, to some extent, in cable TV when
24 they made them unbundle the charges. And when
25 you found out that you were also paying for

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2 the box, the remote and a whole bunch of other
3 things, which originally had been just a part
4 of your monthly thing, then people starting
5 calling. "Why am I paying for this? Why am I
6 paying for that?" Well, you were always
7 paying for it. We just gave it a new name.

8 COUNCILMAN O'NEILL: At the Water
9 Department years ago we split the bill, water
10 usage, service charge. People went ballistic.
11 They didn't realize how much they were paying
12 for service. It was already being paid, but
13 it wasn't split up. Maybe we should have it
14 split out so people know.

15 COUNCILWOMAN BLACKWELL: Where are
16 we on commercial accounts? Are they all paid
17 up, commercial and other accounts?

18 MR. KNUDSEN: No. We have an
19 ongoing collection effort with our commercial
20 accounts as well.

21 COUNCILWOMAN BLACKWELL: Well, how
22 come everybody tells the poor residential
23 customer, you're paying for your neighbor and
24 nobody talks about the commercial accounts? I
25 said it at our last hearing. Nobody says to a

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2 commercial account, if you employ one person
3 you could be paying for a business who employs
4 50 people. Nobody talks about business
5 accounts. Everybody says that some poor
6 little old lady is paying for somebody or a
7 senior is paying for a woman with a houseful
8 of kids.

9 The whole argument is very unfair
10 and it pits poor people against poor people or
11 people who are average wage earners against
12 other average wage earners. It's not fair. I
13 think it's an unfair argument and I don't
14 think you can make it, at least until you give
15 us a full picture. Let's help everybody who
16 owes gas and talk about who owes and then we
17 can have a legitimate question. But to be all
18 over the place blaming one neighbor for
19 another neighbor is not fair. I think it's
20 wrong. I think it's immoral. I think it's
21 unfair, absolutely unfair, to just tell the
22 residential customer, you're paying for the
23 next one. Well, give us some numbers on the
24 commercial stuff.

25 MR. KNUDSEN: About 10 percent of

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2 the problem is commercial.

3 COUNCILWOMAN BLACKWELL: So how much
4 is that? About 10 percent? So you're saying
5 90 percent of it is residential?

6 MR. KNUDSEN: 90 percent of it is
7 residential.

8 COUNCILWOMAN BLACKWELL: So what
9 does that mean to us in dollars?

10 MR. KNUDSEN: Well, if we're talking
11 \$150 million, \$135 is residential related and
12 \$15 million is commercial related.

13 COUNCILMAN O'NEILL: Is the
14 delinquency rate the same, though, for
15 commercial and residential?

16 MR. KNUDSEN: It's about 25 percent.
17 Again, these are numbers I don't have right at
18 my fingertip. We can get you a schedule that
19 shows exactly what the relevant contributions
20 are to the problem. It's a substantial
21 contribution.

22 COUNCILMAN O'NEILL: I thought you
23 said last week or the week before when we were
24 sitting here that commercial delinquencies,
25 forgetting what percentage they are of the

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2 total, were just as poor as residential
3 delinquencies.

4 MR. KNUDSEN: What I said was that a
5 lot of these delinquencies are of two kinds.
6 One, they are very small businesses that are
7 on margins; pizza shops, dry cleaners, those
8 kinds of establishments. And there are also
9 rental buildings fitting within -- just as the
10 PHA has a commercial rate, small multiple-unit
11 dwellings are commercial customers. We have a
12 substantial problem with some of those as
13 commercial customers.

14 COUNCILMAN O'NEILL: You just
15 mentioned two businesses that we all have in
16 our districts and are all over the City, that
17 when one moves out, the other moves in right
18 away. There aren't any vacant dry cleaners.
19 There aren't any vacant pizza shops. And
20 landlords who are crying poor in this market
21 are just using you as a bank. That's my
22 suggestion.

23 MR. KNUDSEN: Councilman, the people
24 who move out are our problems. It isn't the
25 ones who move in.

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2 COUNCILMAN O'NEILL: Once that
3 happens, the landlord should be responsible
4 for the utilities.

5 MR. KNUDSEN: Well, that is a
6 proposal that we would like Council to
7 consider.

8 COUNCILMAN O'NEILL: Give it to us.

9 MR. KNUDSEN: Okay. You will have
10 it.

11 COUNCILWOMAN BLACKWELL: We have had
12 some issues where a person says they moved, a
13 person or business, and that they called in
14 and then they're told, well, the utility says
15 they didn't get the call and then they're
16 charged an exorbitant amount and they're
17 stuck. So I think that we have to be careful
18 when we talk about doing that.

19 Also, if commercial accounts have a
20 commercial rate, which is obviously higher
21 than a residential municipal rate, where does
22 that affect all of this about what they owe?
23 Is it that you are more apt to shut off
24 commercial accounts or are you more aggressive
25 in contacting them?

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2 MR. KNUDSEN: We have issues turning
3 off multiple units. There are renters in the
4 units and so there's a whole other legal set
5 of restrictions on us. That's what makes
6 shutting off some of these accounts difficult
7 because when you shut them off, you're
8 shutting off people in their homes and that's
9 what we don't do.

10 COUNCILMAN DICICCO: Who may be
11 paying the rent on time.

12 MR. KNUDSEN: Who may be paying the
13 rent.

14 COUNCILMAN DICICCO: But the
15 landlord or the owner who isn't paying his or
16 her bills.

17 MR. KNUDSEN: The landlord may not
18 be paying us, but the renter is paying the
19 landlord.

20 COUNCILWOMAN BLACKWELL: Yes,
21 Councilman?

22 COUNCILMAN RIZZO: Coming from a
23 utility background, don't tell me that you've
24 never heard that there's a process where you
25 approach the people that are the tenants and

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2 the tenants at some point start paying the
3 bill? There is a process where you can turn
4 the service off, negotiate with the tenants in
5 the building and they start paying for the
6 usage from at least some point forward and
7 then the landlord is responsible for the debt.
8 Am I correct that there is a process like
9 that?

10 MR. KNUDSEN: There is a process.
11 Councilman, could I have Mr. Hershey respond,
12 if he might?

13 This is Steve Hershey. He's our
14 Vice President For Community Initiatives.

15 MR. HERSHEY: Councilman, you're
16 referring to the Utility Services Tenants
17 Rights Act, which does provide a mechanism and
18 a whole set of requirements on the utility.
19 The way that works is that the utility, prior
20 to shut off, must post a notice on the
21 building and give tenants the opportunity to
22 organize as a group, then approach the utility
23 and agree to pay the utility bills from that
24 date going forward. It's an Act which sounds
25 wonderful in theory, but, in fact, is very

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2 cumbersome and not terribly workable from the
3 perspective of the tenants. It has worked on
4 occasion.

5 I know that PGW has worked, for
6 example, directly with the Tenants Action
7 Group to assist tenants. And within the last
8 month, I personally had conversations with the
9 Tenants Action Group to try to organize other
10 mechanisms that go even further than the Act
11 that we've referred to. The Act has not been
12 an overwhelming success for tenants, and it's
13 very difficult to work.

14 COUNCILMAN RIZZO: Well, I recollect
15 PECO Energy was very successful in making that
16 work, so I don't know why it would work for an
17 electric utility and not a gas utility. I'm
18 curious, how many times have you pulled the
19 trigger on that process on multi-apartment
20 complexes? In other words, do you ever try to
21 do it?

22 Again, that's an example of not
23 using all the tools of the trade to collect
24 your money. I mean, just to allow the debt to
25 continue and continue, at least you're

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2 collecting the money going forward. It just
3 sounds like you're not using some of the
4 authority that you have through the PUC. I
5 believe that's a PUC process, the posting, et
6 cetera.

7 MR. HERSHEY: Councilman, in
8 response to that, I can tell you that during
9 the 22 years that I worked at Community Legal
10 Services as an energy attorney and
11 coordinating with the Housing people
12 representing Tenants Action Group and other
13 community organizations, the difficulties that
14 I've cited with implementing that Act were
15 uniform for all utilities that were subject to
16 the Act in this City.

17 The success and ability to implement
18 that and make it work so that the tenants
19 organized varies from building to building,
20 landlord to landlord, year to year. It
21 depends on who's in the building, how many
22 tenants there are, how well those tenants get
23 along with each other. There are certainly
24 some success stories.

25 COUNCILMAN RIZZO: Thank you.

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2 Thank you, Madam Chair.

3 COUNCILWOMAN BLACKWELL: Thank you.

4 The Chair notes that Councilwoman
5 Blondell Reynolds Brown is here as well.

6 Getting back to that very issue that
7 Councilman Rizzo discussed, you have slum
8 landlords and landlords who don't pay where
9 tenants end up in an escrow rent thing under
10 that kind of system. So generally, if they're
11 not paying the utilities, they're not taking
12 care of tenants, and tenants have the right to
13 escrow their rent and place their rent with
14 the escrow agent. That is acceptable. I
15 mean, that's a process that's open to anybody.
16 The tenants still pays, but that happens
17 anywhere where you end up with an
18 irresponsible or a bad landlord, one who won't
19 keep up repairs and that sort of thing.
20 That's a process, period.

21 Whenever there's a problem, tenants
22 have rights. Sure, they do have a right to
23 escrow their rent and they end up with utility
24 problems and all of that, but that is what it
25 is. You know, you do what you have to do if

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2 you end up with a slum landlord who won't do
3 that. It's always a lot of work and a lot of
4 meetings and a lot of everything, but that is
5 what it is.

6 It still seems to me that we have
7 different standards for different people. PHA
8 pays in advance, pays on time, and yet they're
9 put in a business account status. I don't
10 agree with that. I don't think it's fair.
11 And it seems to me that we don't have uniform
12 standards for all. It looks to me like we
13 don't have fair standards for all, and that's
14 my concern.

15 Councilman DiCicco.

16 COUNCILMAN DICICCO: Thank you,
17 Madam Chair.

18 My final question. In the pool of
19 people, I think it was 130 or 135,000 people
20 who fall into that category of delinquent,
21 default, what-have-you?

22 MR. KNUDSEN: Qualifying for
23 shutoff.

24 COUNCILMAN DICICCO: How many of
25 those customers have received shutoff notices?

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2 MR. KNUDSEN: I would say based on
3 what I know about the timing of this, a vast
4 majority have already. And we will be
5 notifying the remainder over the next week or
6 so.

7 COUNCILMAN DICICCO: Of those that
8 have already been given shutoff notices, how
9 many of those actually have had a shutoff
10 occur?

11 MR. KNUDSEN: I'd have to get you
12 that because it's changing by the day. In
13 some respects, we have just begun the actual
14 turnoff because we are restricted -- for
15 example, we can't turn off today because
16 tomorrow is a holiday. I can get you that
17 number. We have started to shut them off.

18 Mr. Clark tells me 50,000 of the
19 130,000 have been notified and we are shutting
20 off 4,500 a week.

21 COUNCILMAN DICICCO: You are doing
22 it? You are shutting off?

23 MR. KNUDSEN: Yes.

24 COUNCIL PRESIDENT VERNA: The Chair
25 recognizes Councilman Nutter.

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2 COUNCILMAN NUTTER: Thank you, Madam
3 Chair.

4 Mr. Knudsen, at a previous hearing,
5 maybe it was two weeks ago now, either in
6 Finance or in Transportation and Public
7 Utilities where we had back-to-back hearings,
8 I asked you about the longer-term prospect of
9 the company and its current operations, and
10 more a statement than a question, that at
11 least from my perspective we can't continue to
12 run PGW the way that it has been. This is not
13 a commentary on your leadership at the
14 company. It's really more about the financial
15 situation that the company finds itself in,
16 the inability to control some factors that
17 affect the company and whatever its ability is
18 to control other factors that should be within
19 its control.

20 Earlier today in the Fiscal
21 Stability hearing, I formally asked the
22 Finance Director, Ms. Davis, and the Mayor's
23 Chief of Staff, Ms. Wilkerson, to look into
24 utilizing both the PFMC Board, the financial
25 advisors for PGW, the Finance Office, and the

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2 prospect of any other advisory consultants to
3 come back to us with a plan of options that
4 would show both the financial and managerial
5 turnaround within the next three to five
6 years, taking into account the social issues
7 that we're faced with because the easier or
8 even less brilliant options would be, well,
9 why don't we just get out of the business. We
10 could turn it over to someone else, take it
11 back into the City. But I don't necessarily
12 know that that option serves all of our
13 interests.

14 It's not in our interest to have
15 people without gas. It's not in our interest
16 to have people forced out of their homes
17 because they don't have gas because now we're
18 going to run the company in a particular way.
19 So how do you deal with the social cost issues
20 and other goals that we have as a humane
21 government, the financial impact to the City
22 of Philadelphia, the potential loss of the
23 \$18 million, the potential non-repayment of
24 the \$45 million, a billion dollars in debt
25 that the company is having, the employees who

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2 have their own union, their own pension plan,
3 their own work rules, and a whole series of
4 issues?

5 So now I'd like to formally ask you
6 if you would join in with the Director of
7 Finance and the Mayor's Chief of Staff in a
8 cooperative effort to try to get an answer to
9 the question.

10 What I posed to you two weeks ago is
11 that we can't continue to do what we do.

12 Today, the conversation was, why are
13 we in this business as a municipal government?
14 And comparing Philadelphia to places like
15 Pittsburgh, Boston, New York or other major
16 cities in the northeast corridor who are faced
17 with the same climate issues, variations in
18 gas prices -- most of whom I believe are not
19 owners of gas companies or gas utilities --
20 how do they insure that their citizens are not
21 forced out of their homes or dying in the
22 street or have all of these other scenarios?

23 Can you give your perspective on
24 your participation in such an effort to get to
25 these issues?

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2 MR. KNUDSEN: Councilman, I'd be
3 pleased to join that kind of an effort. It
4 certainly is the single most important
5 question before PGW right now. I'd be pleased
6 to join that effort.

7 COUNCILMAN NUTTER: I greatly
8 appreciate it.

9 Now, you may have responded to this
10 earlier. I know you made reference to
11 \$150 million in response to one of my
12 colleague's questions. Unfortunately, I
13 didn't hear the question. I only heard the
14 answer. What's the \$150 million that you were
15 responding to? You said it was 135 for
16 residential and 15 for commercial.

17 MR. KNUDSEN: At about 19 percent or
18 20 percent of our total revenues or our total
19 costs, we have a transference from those who
20 pay to those who don't pay. I was using the
21 example of \$150 million. I was indicating
22 that about 10 percent of the problem that we
23 have is of a commercial nature and 90 percent
24 or so is residential.

25 COUNCILMAN NUTTER: Let's run

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2 through some numbers. What are your total
3 revenues?

4 MR. KNUDSEN: Approximately
5 \$800 million.

6 COUNCILMAN NUTTER: And what is the
7 split of the 800 between commercial and
8 residential?

9 MR. KNUDSEN: It's about \$40 million
10 commercial and the balance is residential.

11 COUNCILMAN NUTTER: Forty million
12 commercial?

13 MR. KNUDSEN: Yes. I'm going to
14 confirm all of these, but for purposes of
15 conversation --

16 COUNCILMAN NUTTER: Are there any
17 industry standards on -- I mean, that seems to
18 be a tremendously disproportionate
19 relationship. Or is that the norm?

20 MR. KNUDSEN: No. No. No. Going
21 back to your earlier question of what cities
22 have in terms of revenue bases, most of the
23 investor-owned utilities for these large
24 metropolitan areas incorporate substantial
25 industrial, large commercial, as well as

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2 residential, both suburban and urban. And
3 therefore, they are able to absorb some of the
4 social issues, social costs that we cannot.
5 Our commercial and industrial load is
6 relatively quite small relative to some of the
7 other utilities. There's just no question of
8 that.

9 COUNCILMAN NUTTER: Why is that?

10 MR. KNUDSEN: Because we don't have
11 gas consuming industries left in Philadelphia.
12 We have about 500 major consumers of our
13 interruptible rate, and the rest of them are
14 small commercials, as we've just been talking,
15 which are largely small establishments or
16 landlord/tenant situations.

17 COUNCILMAN NUTTER: Forgive my lack
18 of information on this area, but how are all
19 these larger commercial or industrial entities
20 heating their buildings?

21 MR. KNUDSEN: They may be using gas,
22 but there aren't that many, is my point.
23 Relative to the size of the residential load,
24 we provide the heat for 80 percent of the
25 residential customers of Philadelphia.

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2 COUNCILMAN NUTTER: In terms of
3 bills, what's the outstanding at the moment
4 uncollected revenue for the company?

5 MR. KNUDSEN: Our net receivable
6 right now is about \$260 million coming off the
7 winter. Understand that that will fall now as
8 we come through May and June.

9 COUNCILMAN NUTTER: Because?

10 MR. KNUDSEN: Because people are now
11 paying bills. They're paying their February,
12 March bills in April, May, June.

13 COUNCILMAN NUTTER: Because the
14 moratorium has ended?

15 MR. KNUDSEN: No. But people who
16 incurred their costs in March are billed on
17 the 1st of April. They have until the end of
18 April.

19 COUNCILMAN NUTTER: But you've got
20 260 outstanding right now?

21 MR. KNUDSEN: That's right.

22 COUNCILMAN NUTTER: What again would
23 you estimate the split to be on the 260
24 between residential and commercial?

25 MR. KNUDSEN: I don't know offhand

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2 right now. I haven't looked at the numbers.

3 COUNCILMAN NUTTER: In your
4 testimony from last week, my recollection is
5 that you're now saying that you went from 92
6 percent collectable on the dollar to 87?

7 MR. KNUDSEN: A little less than 87,
8 yes.

9 COUNCILMAN NUTTER: And what's the
10 split again between residential and commercial
11 customers in terms of percentage of paying?

12 MR. KNUDSEN: There the problem is
13 about 10 percent of the problem. Presumably
14 out of that 5 percentage points, a half a
15 percent would be commercial.

16 COUNCILMAN NUTTER: So they're
17 small?

18 MR. KNUDSEN: Yes.

19 COUNCILMAN NUTTER: Now, I don't
20 want to reopen this discussion, so just give
21 me the really short version of the answer.
22 Why is PHA on a commercial rate?

23 MR. KNUDSEN: It's not. The
24 precedent for this was established some years
25 ago when we had our rate case. There was no

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2 intervention for PHA to change the way they
3 were so designated and it simply came forward
4 into our present tariff.

5 As I've indicated to the Chairwoman
6 we'd be happy to help PHA straighten out
7 whatever it feels its inequities are right
8 now. We can't do that alone. We have to go
9 to the PUC to do that.

10 COUNCILMAN NUTTER: Now, the
11 programs that we have, say the CRP -- what's
12 that, Customer Responsibility Program?

13 MR. KNUDSEN: Customer
14 Responsibility Program, that's right.

15 COUNCILMAN NUTTER: And that is for
16 low income --

17 MR. KNUDSEN: Percentage of income
18 program.

19 COUNCILMAN NUTTER: When you come in
20 to get your service, does someone tell you
21 about this program, that it exists, or do you
22 just have to know that it exists and you ask
23 someone about it? How does that work?

24 MR. KNUDSEN: Well, there is both
25 some notification through our customer

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2 communications of one sort or another. But
3 there's also, when people call in for an
4 arrangement, the conversation quickly goes to
5 income levels and then it can either go to a
6 CRP discussion or it may go to a regular
7 arrangement.

8 COUNCILMAN NUTTER: How do you
9 determine whether someone is eligible for the
10 program?

11 MR. KNUDSEN: On the basis of the
12 income information that's presented.

13 COUNCILMAN NUTTER: What do you have
14 to present? Is this an in-person interview or
15 over the phone?

16 MR. KNUDSEN: Well, they have to
17 come into one of our DOs to qualify. They
18 have to bring appropriate documentation in.

19 COUNCILMAN NUTTER: What's a DO?

20 MR. KNUDSEN: I'm sorry. District
21 office.

22 COUNCILMAN NUTTER: Okay. So you
23 come in. What information do you have to
24 have?

25 MR. KNUDSEN: Pay stubs, tax returns

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2 if you have them, indications of social
3 security, something that will establish
4 your --

5 COUNCILMAN NUTTER: As the person
6 conducting the interview, do they make the
7 determination or does it go to someone else?

8 MR. KNUDSEN: No. It would be
9 determined between our customer service reps
10 to take this information and act on it.

11 COUNCILMAN NUTTER: Then my last
12 question will be -- go back to the start of
13 this. Do you have any sense, Mr. Knudsen, on
14 how long it would take to have this options
15 plan put together that would give us, for lack
16 of better words, a bit of a menu that we might
17 be able to -- or series of options that we
18 might be able to pick from in terms of putting
19 in place a PGW that serves customers well, is
20 functional, doesn't negatively impact the
21 citizens or the City of Philadelphia
22 financially?

23 MR. KNUDSEN: We're in the midst
24 right now of putting our budgets together in
25 our Five-Year Plan. We can thread these

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2 options on top of it, so I would say a matter
3 of months. We can give you a quick look at
4 something shorter, but something more
5 comprehensive would take us a couple months
6 yet.

7 COUNCILMAN NUTTER: I'd greatly
8 appreciate it if you forward it to the Chair.
9 As I said a couple weeks ago, I don't think we
10 can just keep doing what we're doing.

11 MR. KNUDSEN: I agree. And part of
12 this discussion, I think, is a necessary one.
13 And my proposed clause, I think, brought some
14 of these problems to the floor and I'm glad of
15 that.

16 COUNCILMAN NUTTER: Thank you.
17 Thank you, Madam Chair.

18 COUNCILWOMAN BLACKWELL: Thank you.
19 Councilman Rizzo.

20 COUNCILMAN RIZZO: Mr. Knudsen, I
21 honestly, believe it or not, I really feel bad
22 about having to have this exchange that we
23 have. You just said something that makes me
24 feel that you accept the comments that we make
25 to you, so I don't really feel as bad as I

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2 thought I would because it's tough for you to
3 sit there and hear criticism. And some, it's
4 justified; Most of it.

5 What I wanted to ask you, can you
6 describe any effort -- and I know three years
7 ago -- I checked my notes -- I suggested that
8 possibly your fleet management and the City
9 Fleet Management talk. I checked with a
10 person that I think is reliable in our Fleet
11 Management and asked, was any significant
12 effort made to really work together, to buy
13 together, to pool resources. Can you just
14 describe, using that as an example, of how
15 many efforts have been made to really try to
16 buy smart by combining buying power, to use
17 Fleet Management to do some of the work that
18 maybe you send out? Where are you with some
19 of these joint efforts? Because I was told by
20 Fleet Management -- again, a reliable
21 source -- that they don't know of any effort
22 ever to get together.

23 MR. KNUDSEN: Mr. White is better
24 prepared than I.

25 MR. WHITE: Councilman, the only

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2 thing I can report back on that specific
3 issue -- I believe you and I spoke about that
4 at one of the affairs a couple of years ago,
5 and I immediately asked our director of
6 transportation, materials management and
7 building services, Joanne Nunez (ph), to
8 contact Reilly -- and I apologize. I can't
9 remember --

10 COUNCILMAN RIZZO: He's deceased.

11 MR. WHITE: I understand that.
12 Reilly and Joanne had a conversation on a
13 number of fronts, and the feedback that I got
14 was that they didn't see that there were
15 synergies there that would really save money.

16 COUNCILMAN RIZZO: No synergies in
17 fixings trucks?

18 MR. WHITE: Well, that's the
19 response that I got. I didn't get into the
20 details as to why that was decided by those
21 two.

22 COUNCILMAN RIZZO: I just called
23 Reilly and he said he never got a call.

24 MR. WHITE: I'm sorry neither of us
25 can do that. But I can report that we did

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2 have the contact. I just can't --

3 COUNCILMAN RIZZO: To save time,
4 could we really sincerely revisit it? Because
5 you have construction equipment. The City of
6 Philadelphia, the Water Department has
7 vehicles very similar to what you do. I'm not
8 suggesting we collapse your vehicle
9 maintenance, but I feel that both of you do
10 hydraulics, that there's a way that you could
11 get together and maybe both save some money.
12 I know there's turf over there, and you've got
13 to get beyond the turf.

14 MR. WHITE: We will certainly go
15 back and look at it again.

16 COUNCILMAN RIZZO: I will call the
17 Deputy Managing Director of Fleet Management,
18 Jimmy Muller and ask him to -- how about if I
19 start off by asking him to give you call?

20 MR. WHITE: That would be fine.

21 COUNCILMAN RIZZO: Thank you.
22 Because both of you do a great job, and I
23 think together you could even do a better one.
24 That is an area that I think you would really
25 do well.

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2 MR. WHITE: Thank you, Councilman.

3 COUNCILWOMAN BLACKWELL: If it is
4 acceptable to Members of the Committee, a
5 recess is requested since we have to go back
6 into further discussion requested around the
7 cars issue that Councilman DiCicco raised, the
8 PHA issue I raised and also the issue of where
9 we are on the report, where we are with the
10 issue of collecting money aggressively so
11 that, hopefully, we don't have to do a
12 surcharge.

13 Councilman Cohen, you wanted to
14 speak before we recessed?

15 COUNCILMAN COHEN: Was there any
16 discussion today about Tom Ferrick's column in
17 the Inquirer? I was wondering what you
18 thought about his analysis of the situation.

19 He has a column this morning
20 indicating that there's nothing new about the
21 idea because basically it was built into every
22 rate base, the factor of whether a certain
23 number of people will not be paying their
24 bills, paying their bills or paying them on
25 time. So already customers are now paying for

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2 the expected default of certain people, and
3 that this seems to be a second level of
4 payment by the good payers against those who
5 could not pay.

6 MR. KNUDSEN: Councilman, we just
7 recently had that conversation, and I thought
8 the piece of Mr. Ferrick's article that dealt
9 with the substance of PGW's questions and
10 issues was right on.

11 Yes. In fact, in base rates as we
12 just discussed there is a major provision for
13 costs that are essentially transfers from
14 those who pay to those who don't pay.

15 COUNCILMAN COHEN: So you basically
16 agree with his analysis that this would be a
17 second level of payment by good paying
18 customers to make up for those that are not
19 good paying customers?

20 MR. KNUDSEN: Yes.

21 COUNCILMAN COHEN: Did you agree
22 further with his final conclusion that the
23 incident he referred to was an indication of
24 mismanagement that he believed has existed at
25 PGW a long, long time, long before your

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2 involvement apparently?

3 MR. KNUDSEN: Councilman, we take
4 1,750,000 calls a year. It is impossible for
5 us to be perfect. So there will be incidences
6 of -- regrettable incidences, I would say, of
7 people who have a problem. But we try very
8 hard to make sure that that is at the absolute
9 minimum. I know of no utility that can
10 deliver flawless service. In this instance,
11 there was a customer who was unhappy, and I
12 understand that.

13 COUNCILMAN COHEN: Do you have any
14 figures on the number of calls that the
15 Philadelphia Electric Company, PECO, gets?

16 MR. KNUDSEN: I don't know, sir.
17 They're substantially larger than we, so I
18 don't know, but I could call there and find
19 out for you.

20 COUNCILMAN COHEN: Because it would
21 be interesting to see whether the level of
22 calls is roughly equal, where they get more or
23 we get more, and if so, why. I suspect that
24 we may get more and I'm wondering why. And
25 I'm wondering how our collection rate agrees

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2 with that of PECO. Apparently, your statement
3 last week was that the collection rate of PGW
4 is about the same as the City of Philadelphia
5 generally. Is that right?

6 MR. KNUDSEN: You used a figure of
7 10 or 12 percent, or 88 cents on the dollar,
8 and I think the testimony was, if that was the
9 case for the City as a whole, then, yes, we
10 were consistent with that.

11 COUNCILMAN COHEN: Do you think the
12 Water Department gets more service and more
13 help in the City of Philadelphia than the gas?

14 MR. KNUDSEN: I have no way of
15 knowing, Councilman Cohen.

16 COUNCILMAN COHEN: Have you ever
17 tried to find out?

18 MR. KNUDSEN: No.

19 COUNCILMAN COHEN: Do you have any
20 idea how you benefited -- for example, if the
21 City of Philadelphia took over the Gas Works
22 and you became like the Water Department, the
23 Gas Department or a part of a utility
24 department, do you have any thoughts on that
25 matter?

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2 MR. KNUDSEN: Well, as I indicated
3 to you in testimony last week, were that
4 conversion to take place, the problems would
5 be the same and the financial obligations
6 would essentially remain. I don't know how
7 you would pass to someone else the obligations
8 for a billion dollars' worth of debt. So the
9 essence of PGW would have to continue. It's
10 gas through a pipe to a burner tip and a bill
11 that gets paid. That's the business. It's
12 very simple.

13 COUNCILMAN COHEN: Well, it's not
14 really that simple, is it? Becasue you seem
15 to be determined -- and the whole emphasis is
16 the desire for PGW to be recognized by the
17 Association Utilities. It seems to be very
18 important for you and PGW to feel it's
19 recognized as a utility rather than look at
20 the problems as a municipal utility.

21 Don't you think that your relation
22 to the City taxpayers and City residents might
23 be different than that of a for-profit
24 utility? It's a different kind of utility.
25 Because I gather you were very proud of the

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2 fact that you believe that PGW's finally
3 getting recognized as a utility and not as a
4 City utility, but as a utility. That was
5 somewhat troublesome because I don't know that
6 it's Philadelphia business to run utilities.
7 I know it is the business of Philadelphia to
8 provide services. And in connection with
9 providing services I think as a municipality,
10 Philadelphia has a greater responsibility than
11 a private company. Philadelphia has a
12 responsibility as the owner to see that the
13 needs of Philadelphians are met. Now, they
14 may have a greater responsibility for the
15 so-called social aspect of the rate. The fact
16 that some people can't pay, the fact you have
17 to have different rates for people in the
18 lower income than a private utility may be
19 concerned about because it essentially is a
20 business, but this is much more than a
21 business. And I'm wondering under those
22 circumstances, what do we gain by being a
23 separate utility or seeking recognition from
24 other utilities? I don't think that's
25 anything to be working toward. I think what

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2 we want to work toward is that Philadelphians
3 feel proud about having ownership of this Gas
4 Works and finding a special good out of the
5 fact that it's City-owned. And yet I felt you
6 were rejecting that. You wanted to be
7 recognized as a utility. That may be the
8 reason why there are differences in the way in
9 which the City treats employees who work for
10 this so-called utility as against City
11 workers.

12 So I'm concerned that your emphasis
13 on the utility recognition rather than on the
14 acceptance of responsibility as a City-owned
15 organization that you have a very special
16 responsibility to the taxpayers of
17 Philadelphia.

18 MR. KNUDSEN: Well, let me directly
19 answer that question. There is no question in
20 my mind that this is a municipal utility, that
21 we have special responsibilities to meet the
22 needs of the citizen customer owners of this
23 utility. That's very much in the forefront in
24 my mind.

25 Now, that being said, we operate in

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2 a real world. We are part of the American
3 Public Gas Association. We are the largest
4 member of a group of 600 municipal utilities,
5 and we work with this group, for example, on
6 getting LIHEAP funding. We were able to use
7 our offices with this group to bring some
8 political pressure on Washington to get the
9 amount of the potential appropriation
10 increased from a billion eight or nine now to
11 a potential 3.4 billion. It helps us to be
12 part of an organization that can bring
13 leverage on a group in Washington. That's the
14 kind of connection that we look for as being
15 members -- being a utility identified as a
16 utilitya but in a municipal context with
17 fellow or sister utilities across the country,
18 sister and brother municipality utilities
19 across the country.

20 COUNCILMAN COHEN: Well, aren't
21 there other municipal utilities, other
22 municipalities that furnish gas services?

23 MR. KNUDSEN: Yes.

24 COUNCILMAN COHEN: Is there an
25 association of those?

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2 MR. KNUDSEN: That's what I'm
3 saying. That's the reference that I'm making.
4 There are 600 municipal utilities of various
5 sizes of which we are the largest.

6 COUNCILMAN COHEN: Now, in your
7 testimony last week, were you talking only of
8 utilities that were municipal utilities when
9 you indicated you were being recognized?

10 MR. KNUDSEN: No. Again, we operate
11 in the real world. As a utility, we have very
12 specific requirements, federal requirements,
13 local requirements. We are part of the State
14 PUC function. They will not -- they deal with
15 us as an identifiable utility of record with
16 specific processes and procedures that they
17 will oversee.

18 Now, we are within the municipal
19 structure which causes a lot of this -- it
20 causes a lot of confusion with many of the
21 groups in Harrisburg because they haven't
22 dealt with somebody that looks like us, but
23 we're trying to get through all that. But in
24 those instances, it also helps us to be make
25 common cause with some of the other

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2 investor-owned utilities in Pennsylvania
3 because our problems are the same and the
4 administrators of these issues are the same
5 for us all, and we would like some of these
6 problems solved.

7 COUNCILMAN COHEN: Are you in an
8 executive position with PGW at the time the
9 PUC took over control from the Gas Commission?

10 MR. KNUDSEN: I was part of the
11 administration of the PGW at the time which
12 was July of 2000. I was not part of that
13 group when the decision was made in 1999 to so
14 do.

15 COUNCILMAN COHEN: Because I think
16 one of the real problem with the Gas Works is
17 this separation that seems to exist between
18 PGW and rest of the City. For example, the
19 Mayor would not have as much a hands-off
20 position on the operation of PGW if it's a
21 separate municipal utility as you would have
22 in guiding the rest of the departments. And
23 it seems to me, even though I may frequently
24 disagree with the Mayor, nonetheless I think
25 it would be good if the same kind of concern

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2 were expressed by this Mayor and other past
3 mayors about PGW. It seems to me that mayors
4 historically have taken advantage of the fact
5 that they claim PGW is a separate company and
6 therefore they don't need to worry about it
7 as long as they get their \$18 million for the
8 Gneral Fund. And I wonder how that compares
9 to the contribution the Water Department makes
10 and why don't we get the same kind of sense
11 about the Water Department. What's so
12 different between the Water Department and the
13 Gas Department that justifies the City owning
14 and operating one and not the other?

15 MR. KNUDSEN: Well, to answer the
16 first part of your question, I don't remember
17 in my 18 years of exposure both as a
18 consultant to community legal services and
19 then as an executive of this company, I don't
20 remember an administration being more
21 involved, more caring about where this company
22 is headed and how it gets there than this
23 Administration. Both Ms. Wilkerson and Ms.
24 Davis sit our on our Board of Directors. We
25 meet regularly.

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2 COUNCILMAN COHEN: Well, that's
3 because your current financial position which
4 has lasted the number of years you've been in
5 it and probably for some period before you
6 took over as Chief Executive Officer. You've
7 been on life support all through the last four
8 or five six years, haven't you?

9 MR. KNUDSEN: Well, as you said to
10 you at the outset of these hearings, were it
11 not for that gas costs increased 300 percent
12 of a three-year period, we were on target to
13 deliver this utility into some state of
14 solvency and we were going to be able to pay
15 the 45 million off and keep paying 18 million
16 and still not borrow ourselves blind. The
17 fact that bills for customers went up 60
18 percent over two years has laid us low, and
19 that's why we're here.

20 But to come back to your point about
21 this Administration, whether we were in
22 extremists or whatever word you want to use,
23 this Administration has been very attentive to
24 the needs and certainly responsive to any --

25 COUNCILMAN COHEN: Other than in the

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2 physician area?

3 MR. KNUDSEN: Oh, absolutely.

4 They're very supportive of all of our
5 policies, whether it's the extent to which we
6 put mains in the ground to how we treat our
7 customers. They were very instrumental in the
8 initial initiatives that we undertook to
9 assure that customer service improved so
10 materially as it did, very involved. We were
11 meeting weekly for many months

12 COUNCILWOMAN BLACKWELL: If I may,
13 gentleman. We still have to get to the rest
14 of our Capital Budget hearings today. We are
15 going to continue this discussion, if it's
16 okay, Councilman. We did mention three issues
17 that were raised: One being cars, one being
18 PHA rate, and the other being the rate of
19 money collected by the company in terms of the
20 surcharge, which none of us really wants, but
21 at any rate...

22 So we would like to recess this
23 subject to the call of the Chair. But the
24 President is asking everybody stay put so that
25 we can begin the rest of our hearing

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2 immediately, our Capital hearing.
3 (Council adjourned at 3:55 p.m.)
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RE: COMMITTEE ON FINANCE

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Lisa C. Bradley, RPR

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