

Special Committee on Energy Opportunities
March 13, 2015

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COUNCIL OF THE CITY OF PHILADELPHIA
SPECIAL COMMITTEE ON ENERGY
OPPORTUNITIES

Room 400, City Hall
Philadelphia, Pennsylvania
Friday, March 13, 2015
10:25 a.m.

PRESENT:

COUNCILWOMAN MARIAN B. TASCO, CO-CHAIR
COUNCILMAN BOBBY HENON, CO-CHAIR
COUNCILMAN KENYATTA JOHNSON
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN ED NEILSON
COUNCILMAN DAVID OH

RESOLUTION 150072 - Resolution authorizing the creation of a "Special Committee on Energy Opportunities for Philadelphia," to continue to investigate the potential to establish the City of Philadelphia and the region as an energy hub.

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2 COUNCILWOMAN TASCO: Good
3 morning. This hearing on the Council's
4 Special Committee on Energy Opportunities
5 will come to order. I will recognize
6 that we have a quorum of the Committee.
7 There are five members. Councilman Oh,
8 Councilman Neilson. And Councilman
9 Kenyatta Johnson will soon join us, as
10 well as Councilman Henon. And let me
11 recognize Councilman Curtis Jones, the
12 Majority Leader, who has joined us in the
13 Chambers.

14 Let me ask the Clerk to please
15 read the bill -- the resolution.

16 THE CLERK: Resolution No.
17 150072, authorizing the creation of a
18 "Special Committee on Energy
19 Opportunities for Philadelphia," to
20 continue to investigate the potential to
21 establish the City of Philadelphia and
22 the region as an energy hub.

23 COUNCILWOMAN TASCO: Thank you
24 very much.

25 We now call on our first

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2 witnesses. We have Mr. Craig White, CEO
3 of Philadelphia Gas Works; Scott Rubin,
4 Public Utility Consultant; and we'll
5 have -- after they testify, Mr. Rinaldi,
6 we'll call on you to come up. You'll be
7 next.

8 (Witnesses approached witness
9 table.)

10 COUNCILWOMAN TASCO: And before
11 we start, I don't want to keep you here
12 all day. I do have some remarks that
13 we'd like to present.

14 Some of us here on November the
15 13th, 2014 -- we were here on November
16 the 13th, 2014 when City Council's
17 Committee of the Whole began two days of
18 hearings to publicly discuss the
19 Philadelphia region's potential as an
20 energy hub and how the Philadelphia Gas
21 Works could be an active participant in
22 potential energy and economic development
23 opportunities.

24 Our discussions then took place
25 in the shadow of the Nutter

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2 Administration's efforts to sell PGW to
3 UIL Holdings Corporation. In early
4 December, UIL terminated its asset
5 purchase agreement with the City. Less
6 than three months later, UIL was acquired
7 by a much larger utility company.

8 One of the many reasons my
9 Council colleagues and I were opposed to
10 the proposed sale was that the sale
11 agreement did not protect the City and
12 PGW's customers and employees from this
13 very possibility. The Inquirer, the
14 Daily News, the Committee of Seventy, and
15 other pundits purposefully ignored this
16 and all of our other well-founded
17 concerns. Instead, in their zeal to
18 protect the Administration's flawed,
19 shortsighted agenda, they kept up an
20 attack on this Council.

21 For some reason, they didn't
22 appreciate our commitment to take a
23 careful look at the specifics of the deal
24 and asking the tough questions. For some
25 reason, they didn't share our commitment

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2 to protecting customers and employees of
3 PGW while making sure that this deal was
4 in the best long-term interest of the
5 citizens of Philadelphia.

6 As a result, I was shocked when
7 the Daily News ran a very strong
8 editorial on February 27th criticizing
9 the republican leadership in Harrisburg
10 for not wanting to solve the state's
11 financial problems with a one-shot
12 infusion of cash from privatizing liquor
13 stores. Here is what they wrote: As
14 much revenue as it may raise, an asset
15 sale is one and done. You can't sell the
16 asset twice.

17 Sounds familiar? Yet, when
18 Council raised this same objection to the
19 Mayor's proposed sale of PGW, they had
20 blinders on. I've got news for you, my
21 friends: We on Council did our homework,
22 and we passed with flying colors. As we
23 made clear in November, Council's process
24 will include all stakeholders and explore
25 all possibilities.

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2 Today, we begin a more in-depth
3 look at where we go from here. We will
4 learn more about public-private and
5 public-public partnerships that have been
6 used in other cities, states, and other
7 countries to finance or jump-start
8 infrastructure, utility, and economic
9 development projects.

10 Through these hearings, we hope
11 to learn more about best practices and
12 lessons learned, which approaches have
13 worked and which ones have not. Armed
14 with this information, we will be able to
15 make smart decisions about which energy
16 opportunities Philadelphia should pursue,
17 how we should do so, and within that
18 context what direction should PGW take.

19 As the sale process showed, PGW
20 is a very valuable asset and it is now
21 positioned to achieve its untapped
22 potential as a major part of the region's
23 energy economy.

24 There is no question that these
25 are complex issues. They demand that we

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2 pay the same attention to detail we gave
3 to the City-UIL sale agreement so that
4 whatever the outcome once again, this
5 Council will get it right. And I want to
6 thank you.

7 I ask my colleagues if they
8 have questions or comments they'd like to
9 make at this time.

10 (No response.)

11 COUNCILWOMAN TASCO: Thank you
12 very much.

13 We will now begin with our
14 first witness, Mr. White.

15 MR. WHITE: Thank you. Good
16 morning, Chairwoman Tasco and members of
17 the Committee. My name is Craig White.
18 I am the President and Chief Executive
19 Officer of the Philadelphia Gas Works and
20 I have been asked here today to testify
21 regarding Resolution No. 150072.

22 First of all, I want to thank
23 you for the opportunity to address the
24 Committee and acknowledge the interest
25 you have expressed with respect to

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2 assisting PGW to grow into an even
3 stronger enterprise. As members of the
4 Committee have publicly stated in the
5 past, there is no question that PGW has
6 made measurably great strides as a
7 municipally owned utility in recent
8 years. PGW desires to capitalize on this
9 achievement and become a more resilient
10 operation for the benefit of the City and
11 its customers.

12 As you know, PGW is a gas
13 distribution operation with the ultimate
14 charge of providing safe and reliable
15 service to the citizens and businesses of
16 Philadelphia. PGW accomplishes this task
17 with over 1,600 employees who, among
18 other tasks, maintain and operate a 6,000
19 mile distribution system that consists of
20 over 3,000 miles of gas mains and 3,000
21 miles of service lines. In addition to
22 this extensive pipeline network, PGW's
23 gas workers, both union and non-union
24 alike, operate one of the largest
25 liquefied natural gas plants in the

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2 country. It is estimated that PGW's LNG
3 assets have saved PGW customers over \$2
4 billion since the facilities went online
5 in 1972.

6 In addition to pipeline and
7 plant operations, PGW operates five
8 neighborhood Customer Service Centers for
9 the benefit of its customers, provides
10 emergency response, answers over two
11 million customer phone calls per year,
12 provides programs for those in need, and
13 conducts a myriad of other activities
14 critical to the operation of a gas
15 distribution operation. These critical
16 operations demand focused performance,
17 and I believe that PGW employees work
18 hard every day to provide first-rate
19 operations and service to ratepayers.

20 Now, you will hear a lot of
21 witnesses after myself that will have to
22 establish their bona fides. I want to
23 make mention of the fact that in our
24 field operations, we have over 4,000
25 collective years of experience on the PGW

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2 system. So if the Committee leaves here
3 with anything today, I want them to be
4 assured that the folks back at PGW not
5 only have the expertise but the
6 experience to do the job that they've
7 been doing for many, many years.

8 Given the backdrop of PGW's
9 improved operating framework, it is our
10 good fortune, therefore, that we are
11 currently living in the most optimistic
12 and dynamic gas and energy environment in
13 U.S. history. Prices are stable,
14 fluctuating only within limited range,
15 and supply is available in multiples from
16 just a few years prior. Pennsylvania,
17 due to its location near the Marcellus
18 Shale, has begun to reap tremendous
19 advantages from the gas industry in terms
20 of jobs, technology advances, business
21 opportunities, et cetera. I would say,
22 therefore, that Philadelphia and PGW are
23 well-positioned to benefit from the boom
24 in the natural gas business and energy
25 sectors, but only if we are able to seize

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2 the moment and leverage opportunities.

3 Effectively, I'm referring to speed to
4 market.

5 PGW's future ability to
6 maintain safe and adequate service at
7 reasonable rates as well as to grow as a
8 regional energy business, bringing more
9 business opportunities and jobs to
10 Philadelphia depends on developing new
11 business strategies and approaches and
12 implementing them quickly.

13 An energy company that wishes
14 to survive and excel in the current
15 environment must have the financial and
16 operational flexibility to react quickly
17 to changes in regulatory policy and
18 economic conditions. To add some
19 context, PGW's current urgency to
20 consider and develop new revenue
21 opportunities and structures is based on
22 the significant advancements in gas
23 technology over the last decade. PGW's
24 residential, small commercial, and
25 industrial customers have used less

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2 natural gas annually than just a decade
3 ago. As a matter of fact, when I began
4 my career with PGW in 1980, the typical
5 residential customer utilized 45 percent
6 more natural gas annually than a PGW
7 customer does today. That is the direct
8 result of conservation and equipment
9 efficiency. We haven't lost customers.
10 We just have customers that operate much
11 more efficiently.

12 To offset this significant loss
13 of business, PGW has had to significantly
14 cut costs, including lowering staff
15 levels significantly over the years --
16 and when I started at PGW, we had 2,825
17 employees; today we have about 1,630 --
18 and raise rates. It hurts to say that,
19 but that's one of the realities of what
20 we've had to do. But the one mitigating
21 factor to raising rates is to constantly
22 strive to identify and acquire new
23 revenue opportunities.

24 PGW is currently considering a
25 number of opportunities and is weighing

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2 what is possible to achieve using PGW's
3 own resources and market reach.

4 Specifically, at this time PGW is
5 actively considering three primary
6 opportunities to grow top-line revenues,
7 and I would like to talk about them
8 briefly now.

9 Liquefied natural gas, LNG. To
10 provide some background, PGW has
11 maintained and operated LNG facilities
12 since 1972. Our operations include an
13 LNG liquefaction plant, three LNG storage
14 tanks, LNG vaporization, and LNG
15 truck-loading facilities. PGW has
16 extensive experience and expertise in the
17 purchase, transportation, liquefaction,
18 storage, and loading of LNG. This is
19 truly our sweet spot. These assets are
20 operated to provide uninterrupted service
21 to our residential, commercial,
22 industrial customers in the coldest of
23 winters. However, the reduction in
24 customer usage over recent decades has
25 resulted in PGW having certain

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2 underutilized or excess LNG capability.

3 This capability is in the form of excess

4 storage or space in our LNG storage

5 tanks. We do not have excess

6 liquefaction capabilities. Or said

7 another way, we have room to store LNG.

8 We do not have the ability to produce

9 more LNG than we currently make today.

10 With the above as a backdrop,

11 along comes a significant national move

12 to fuel long-haul trucking, high

13 horsepower equipment, and marine vessels

14 with LNG, and there is also interest in

15 LNG exportation. Although PGW only has

16 liquefaction capability to liquify enough

17 natural gas to meet customer requirements

18 in the coldest of winters, PGW has

19 benefited from the moderate to warm

20 winters of the recent past and has been

21 able to stockpile LNG inventory.

22 Therefore, during this warm period and

23 prior to this current winter, PGW amassed

24 significant inventory levels in its LNG

25 storage tanks well beyond the needs of

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2 its core customers, meaning well beyond
3 the needs of our customers if the coldest
4 winter occurs. We always have to have
5 enough LNG that if that very cold winter
6 occurs, our customers will have
7 uninterrupted supply.

8 PGW quickly took advantage of
9 market opportunities to sell LNG at PGW's
10 truck-loading rack with this excess LNG.
11 Over the past 20 months, PGW has
12 commercially sold 2,000 truckloads of
13 LNG. Each truck holds 10,000 gallons, or
14 approximately 800 Mcf of LNG per truck
15 load. The total margin generated from
16 these new sales has eclipsed \$8 million.

17 But this current heating
18 season, we experienced severe winter
19 temperatures and we had to stop truck
20 sales to ensure that we had sufficient
21 LNG inventory in our storage tanks to
22 meet core customer demand for the
23 remainder of this winter. As I said a
24 moment ago, we always have to have enough
25 storage, enough LNG in our tanks that if

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2 the weather goes extremely cold, we can
3 meet the customers' requirements. So
4 that's what we've done this year. We've
5 had to shut down our interruptible truck
6 deliveries because we needed that
7 inventory to service our residential,
8 commercial, and industrial customers.

9 The key point here is that PGW
10 has extensive underutilized space, but it
11 does not have excess LNG capability.
12 Therefore, in order to continue to
13 capitalize on the truck-loading business,
14 PGW must have greater liquefaction
15 capability.

16 This all said, I would like you
17 to leave here today with the
18 understanding that liquefying, storing,
19 and loading LNG is an expertise of PGW.
20 I mentioned it a moment ago, it's our
21 sweet spot. It truly is. We know how to
22 do it. We do it better than anyone in
23 the country. There's no other utility or
24 no other facility in the country that
25 does all of those aspects. You hear

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2 about Cove Point. They're not trucking
3 LNG. They're delivering LNG through a
4 pipeline network. So you'll hear about
5 many LNG facilities, but nobody does what
6 we do, which is very unique.

7 This all said, I would like --
8 I'm sorry. Today we capture 100 percent
9 of the margin from LNG truck sales
10 because 100 percent of the assets are
11 bought and paid for by our customers. We
12 will shortly be presenting a Business
13 Case to our Board of Directors to support
14 expanding our LNG liquefaction capability
15 to enable PGW to expand the LNG sales.
16 If our Board approves our request, we
17 will be filing the same as quickly
18 thereafter with the Philadelphia Gas
19 Commission. Once the Philadelphia Gas
20 Commission has reviewed our proposal, a
21 potential recommendation will be
22 submitted to Council for their review and
23 potential approval.

24 Another top-line revenue
25 opportunity is combined heat and power.

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Gas-fired combined heat and power, or another way of saying it, cogeneration, involves the simultaneous generation of electricity and thermal energy from gas for both heating and cooling. So why CHP? Why combined heat and power? It offers tremendous economies to customers who have CHP equipment since it is over 80 percent efficient, whereas the separate generation of electricity in the U.S. centralized grid system averages about 34 percent.

So for purposes of example, if you're generating electricity at some faraway plant and you're using natural gas to generate that electricity, you're getting 34 percent of the value of that natural gas when you plug in your electric dryer at your home.

Alternatively, if you have combined heat and power, the value you get out of that same Btu of natural gas is at an 80 percent level. So it's highly efficient.

The other significant benefit

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2 to CHP is the fact that there's a
3 tremendous security of supply, and I'll
4 get into that in a minute.

5 CHP offers greater energy
6 efficiency, lower greenhouse gases, and
7 much greater security of supply, with no
8 interruption for heavy winds, ice storms
9 or delayed fuel deliveries.

10 Equally important, CHP allows a
11 building operator to use only one fuel
12 source, natural gas, which has both
13 stable pricing and almost unlimited
14 availability to generate electricity and
15 thermal energy. The alternative or
16 traditional approach of purchasing
17 electricity off the grid, relying on
18 delivered oil or utilizing other
19 high-priced forms of energy, leaves the
20 building operator susceptible to price
21 swings and mother nature.

22 There are currently 10 large
23 facilities in the City utilizing CHP with
24 a net margin to PGW of some 400,000
25 annually. PGW considers this market as

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2 being in its infancy, with hundreds of
3 buildings as prime candidates for this
4 technology. The obvious best
5 applications are hotels, hospitals,
6 universities, museums, and even prisons.
7 The major challenge in this market is
8 first cost. PGW has programs to
9 partially address this aspect and is in
10 search of additional resources to support
11 potential CHP customers.

12 Third, compressed natural gas.
13 PGW has laid the groundwork for local
14 fleet operators to adopt compressed
15 natural gas, or CNG, as a source of fuel.
16 This groundwork includes increasing the
17 number of CNG vehicles in PGW's fleet,
18 training PGW mechanics and technicians to
19 service our CNG vehicles, and
20 constructing a PGW CNG fueling station.
21 These steps will help develop a local
22 market, because PGW is using its CNG
23 operations to show other fleet operators
24 how they can convert their fleet to CNG.

25 Additionally, PGW is supporting

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2 local CNG station owners like VNG and
3 Temple University by offering a rate
4 which makes it economically viable to
5 operate a public or private CNG station.
6 We consider this a start-up rate or a
7 rate in which we can stimulate this
8 market. PGW is committed to developing
9 this market in Philadelphia because
10 cities like Pittsburgh have been
11 extremely successful in promoting CNG as
12 a source of fuel, because CNG is cleaner,
13 provides long-term price stability,
14 reduces the reliance on foreign oil, and
15 creates statewide jobs.

16 As the foregoing suggests,
17 there are attractive business
18 opportunities in the market for LNG,
19 combined heat and power, and CNG that PGW
20 should and must explore quickly if it is
21 to remain a strong business. Some of
22 these initiatives may be suitable for
23 considering some form of public-private
24 partnership in either delivering,
25 managing or financing the project.

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2 Others may better lend themselves to
3 public-private partnerships; for example,
4 teaming up with the City of Philadelphia
5 or SEPTA in expanding our CNG-powered
6 fleets. In each case, it will be
7 necessary for PGW to evaluate the
8 financial, legal, and policy implications
9 of pursuing the new opportunity on our
10 own versus partnering with another
11 entity. Our door remains open to
12 considering with our stakeholders any new
13 business that will benefit both our
14 customers and the Gas Works.

15 PGW is hoping that Council can
16 continue to be of assistance in this
17 regard. PGW's ratepayers stand to
18 benefit tremendously if these
19 opportunities are successful, and we are
20 eager to explore all avenues to make
21 these opportunities a reality for
22 Philadelphia's consumers. As you know,
23 because PGW is entirely ratepayer funded,
24 any increased revenues ultimately benefit
25 our ratepayers.

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2 That concludes my testimony,
3 and I'm happy to answer any questions
4 that you may have regarding the
5 foregoing. PGW thanks you for this time.

6 COUNCILWOMAN TASCO: Thank you
7 very much for your testimony.

8 Let me recognize Councilman
9 Kenyatta Johnson and also let me add that
10 Councilman Curtis Jones sits on the Gas
11 Commission.

12 You have questions?

13 COUNCILMAN NEILSON: Good
14 morning. Thank you for coming to
15 testify.

16 COUNCILWOMAN TASCO: Councilman
17 Neilson.

18 COUNCILMAN NEILSON: Some of
19 the purposes of our hearing today is to
20 explore how we can expand Philadelphia to
21 be an energy hub here, and in your
22 testimony we talked about gas mains. We
23 hear about that up in Harrisburg a lot,
24 that they're worried about your gas main
25 replacement. The Mayor touted and some

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2 people touted that if we go private,
3 these gas mains and the safety factor
4 there.

5 If you can, Craig, can you talk
6 about the gas main problem, the gas main
7 issues, what you're doing to solve those
8 issues. Can you touch base on that a
9 little bit.

10 MR. WHITE: Certainly.

11 COUNCILMAN NEILSON: Because I
12 know you do a whole lot of stuff, but I
13 just hear the rumblings around the state
14 that they want to hold hearings and tell
15 us we're not doing our job protecting.

16 Is there a major concern that
17 we should have on the timeline and stuff?

18 MR. WHITE: Well, as an
19 operator, if I'm given the opportunity to
20 replace more cast iron, I'm going to take
21 advantage of that fact. But what we have
22 to do as Philadelphia Gas Works, we have
23 to balance safety and our ability to
24 afford the replacement program.

25 We have had a safe program for

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2 many years. As a matter of fact, not
3 more than 18 months ago the Public
4 Utility Commission approved our long-term
5 infrastructure plan, which specifically
6 identified that we would replace about 25
7 miles a year. Last year we replaced 28
8 miles of cast iron.

9 Now, I think the real notion
10 here is, how does that tie to the issue
11 of an energy hub, and I think you have to
12 take a step even outside of Philadelphia
13 and, that is, interstate pipeline is a
14 critical component to developing an
15 energy hub. Unless an interstate
16 pipeline is actually built to bring more
17 gas to Philadelphia, you're not going to
18 see an energy hub. It's just not going
19 to happen.

20 So when we talk about
21 Philadelphia Gas Works' infrastructure,
22 Philadelphia Gas Works' infrastructure
23 has been maintained for many years in a
24 safe and reliable manner. We don't have
25 any more incidents than anyone else. We

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2 do things in a very efficient and
3 expedited manner. We respond to 98
4 percent of our leaks in less than an
5 hour. So the fact of the matter is,
6 safety is not the issue that's related to
7 the energy hub. The energy hub -- safety
8 is an extremely important issue to me,
9 but with respect to the energy hub,
10 what's most important is, there has to be
11 a pipeline connection to Philadelphia.
12 If that pipeline gets here, that gas will
13 get distributed. There's not a dearth of
14 pipeline capacity inside the City of
15 Philadelphia. It's getting that pipeline
16 to pass to Philadelphia.

17 COUNCILMAN NEILSON: Thank you.

18 You spoke about the LNG assets.
19 Through your capital budget, PGW has
20 proposed installing a second LNG
21 liquefaction unit and preliminary costs
22 ranging from about 60 to 100 million.
23 You had an "open season" seeking
24 proposals from customers interested in
25 that. Can you tell us the results and

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2 how that's working out.

3 MR. WHITE: Well, as I
4 mentioned, we're going to be forwarding a
5 Business Case to the Board, but just to
6 give you a little bit of a heads-up on
7 that, the response we received to our
8 open season was very strong, far in
9 excess of what we're selling today. We
10 had designs on moving about 1.5 Bcf
11 through the program we have today, and
12 the responses we received were over 6
13 billion cubic feet.

14 So we believe that's a pretty
15 strong response. We're very hopeful that
16 this market will expand into the marine
17 business. I think you'll hear testimony
18 from other parties today. In my quick
19 scan of other witnesses' testimony, I
20 know that there will be some discussion
21 about the marine business. We believe
22 that that's a real fertile market for the
23 LNG usage in the future.

24 So, yes, we have preliminarily
25 put a number in our capital budget, but,

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2 of course, we need to back that up with
3 an appropriate Business Case to justify
4 any expenditures.

5 COUNCILMAN NEILSON: If you do
6 build a liquefier, how long will it take
7 PGW to realize a return? I mean, what
8 kind of net revenue would that bring in
9 for PGW?

10 MR. WHITE: Today you can build
11 these a lot quicker than you used to,
12 because they're actually brought in in
13 component parts. We can be up and
14 running, once we have approval, in 18
15 months. At that point, we would look for
16 binding contracts and we would provide
17 what we call firm service, which means
18 guaranteed service. The reason we can
19 guarantee the service, unlike today where
20 we have to reserve this capacity or
21 reserve the amount of liquefaction we
22 have for our firm customers in the
23 coldest of winter, if we build another
24 facility, it will strictly be used for
25 this merchant opportunity.

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2 Now, obviously if we had a
3 force majeure situation where our other
4 facility broke down, we would account for
5 that in the contracting with these
6 parties. But this additional facility
7 would be to make money, to offset
8 borrowing, to offset customers' future
9 rate increases. The net margins that
10 we'd be looking at, probably in the 12 to
11 20 million range, and that's pretty
12 preliminary, but...

13 COUNCILMAN NEILSON: Annually.
14 And that could also help with the gas
15 main replacement program?

16 MR. WHITE: Well, when we
17 replace mains, we either internally
18 generate funds or we borrow money. So
19 that's the two uses. So obviously any
20 dollars that come in could be earmarked
21 for that.

22 COUNCILMAN NEILSON: I guess in
23 some of the future testimony we're going
24 to hear about public-private partnerships
25 and along that way and see which way --

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2 is PGW looking to do any of this,
3 public-private partnerships? Have you
4 looked at it in the past to see the
5 viability?

6 MR. WHITE: We certainly will
7 look for any opportunity that could
8 expand our ability to replace pipe at a
9 cost that our customers can afford. As I
10 said before, we believe the system is
11 exceedingly safe right now. We've
12 increased our 18-mile program, which this
13 18-mile program is not something that we
14 just develop out of thin air. We've done
15 a lot of benchmarking. We bring in
16 experts in the area of determining risk.
17 And we had an 18-mile program that we
18 felt was extremely sufficient or very
19 sufficient. We then last year expanded
20 it to 23 miles and then this year 28
21 miles. So we've already taken our
22 program up 10 miles over the last two
23 years.

24 COUNCILMAN NEILSON: All right.
25 Well, I have no further questions at this

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2 time, Madam Chair.

3 Thank you, Craig.

4 COUNCILWOMAN TASCO: Thank you
5 very much.

6 Let me just add, I didn't tell
7 him not to ask a question. It's a
8 process here.

9 Let me ask a couple of
10 questions. In your testimony you talked
11 about the CNG. Has there been any effort
12 between PGW and the City to get the City
13 to use CNG gas?

14 MR. WHITE: The devil is always
15 in the details. We've had many
16 discussions with Transportation over at
17 the City, but you have expenditures above
18 and beyond just purchasing a vehicle, and
19 those are some of the things that the
20 City has to consider. You have to
21 make -- your garage facilities have to be
22 able to accommodate it. But I certainly
23 believe it's the wave of the future, and
24 I fully expect that fleets in the future
25 will largely utilize LNG.

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2 If you look at a fleet like
3 UPS, they have no gasoline or diesel in
4 Utah or in California. It's all natural
5 gas. If you look at a UPS truck here, it
6 will say hybrid. It's not using natural
7 gas. That's because the availability of
8 fueling stations is not what it needs to
9 be.

10 So CNG has always been a
11 chicken and egg type of issue. We'll buy
12 the vehicles if the stations are there.
13 We'll build the stations if you buy the
14 vehicles. So that's the type of dilemma
15 that we find ourselves in. But as the
16 cost of the equipment, as the cost of
17 building the fueling stations, and as the
18 cost of the vehicles themselves start to
19 fall, as they have, you're going to see
20 more people move into this direction.
21 But, yes, Chairwoman, we have had
22 numerous conversations with the City and
23 with SEPTA.

24 COUNCILWOMAN TASCO: Has there
25 been any financial analysis that you know

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2 of that could be helpful in determining
3 if it's worthwhile, if it will benefit
4 the City and PGW in terms of cost that
5 the City could move towards using natural
6 gas?

7 MR. WHITE: To my knowledge,
8 I'm not sure a cost-benefit analysis has
9 been done, but obviously when you look at
10 these things, you're looking at costs and
11 you're looking at what type of savings
12 and what your payback is on your added
13 cost. So if you're spending 25 percent
14 more for one of these vehicles, you want
15 to make sure that you drive it enough
16 miles that the differential between the
17 cost of gasoline and the cost of natural
18 gas gives you a sufficient payback. So
19 those are the types of things we look at
20 when we evaluate projects.

21 COUNCILWOMAN TASCO: So maybe
22 that's something we could pursue,
23 because --

24 COUNCILMAN NEILSON: The
25 difference between burning gasoline and

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2 natural gas, cleaner for the City?

3 MR. WHITE: Much cleaner.

4 COUNCILMAN NEILSON: For the
5 environment?

6 MR. WHITE: Much cleaner.

7 COUNCILMAN NEILSON: Can you
8 jump into that a little bit, because we
9 have people with that kind of concern in
10 our audience today.

11 MR. WHITE: I wish I could
12 throw some statistics at you off the top
13 of my head. I didn't come prepared with
14 that, but certainly when you're using
15 natural gas to generate electricity, you
16 take tons of harmful emissions out of the
17 air. Likewise with vehicles, you remove
18 a tremendous amount of harmful emissions
19 when you use natural gas, because it's
20 such a clean-burning fuel. But we can
21 certainly provide the Committee with
22 additional information regarding that.

23 COUNCILMAN NEILSON: Thank you.

24 COUNCILWOMAN TASCO: Thank you.

25 Concentric concluded that both

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2 liquefied natural gas, LNG, exports and
3 natural gas liquid sales were outside of
4 possible opportunities PGW can take
5 advantage of. Do you agree with these
6 conclusions? If so, why? If not, why
7 not?

8 MR. WHITE: I think certain
9 projects with respect to LNG are heavier
10 lifts than others. And what I mean by
11 that, whenever you start looking at these
12 projects, they start out with a
13 percentage of probability of coming to
14 fruition. Some projects have more
15 hurdles to leap over than others, but I
16 wouldn't say that I don't think that
17 these projects are doable. I mean,
18 obviously we were able to accomplish
19 something with LNG that a number of folks
20 would not have anticipated PGW doing, and
21 the reason we did that was certainly
22 because we were able to get to the market
23 very quickly because we had the assets.
24 They were all -- everything was approved.
25 There were no regulatory approvals

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2 necessary. We just took advantage of a
3 market opportunity.

4 So I would say that any of
5 these LNG opportunities have to be looked
6 at. We have a supply of natural gas in
7 the state that's almost -- I mean, every
8 time you turn around, you hear that the
9 current level that we're using natural
10 gas in this country, if you talk to
11 experts five years ago, they would have
12 said we have natural gas for 50 years.
13 Now the numbers are 150 years, 175 years.
14 And the technological advances in
15 horizontal drilling have just advanced
16 the ability to extract natural gas from
17 heretofore locations that they never
18 could have extracted it.

19 So I think that the low-cost
20 supply and the stability of that supply
21 and the level of inventory, people can't
22 help but look at natural gas. It's
23 just -- it's here to stay, and it's going
24 to be used in vehicles, it's going to be
25 used in the combined heat and power

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2 space, and it's certainly going to be
3 used for high horsepower equipment. It's
4 going to be used in the shipping
5 business. Think about it. A tugboat
6 uses 225,000 gallons of diesel a year.
7 That's their biggest operating expense.
8 If you can take 225,000 gallons and
9 reduce that by a dollar, you've just
10 almost saved yourself a quarter of a
11 million dollars in operating expenses,
12 and that's one small operator of a
13 tugboat.

14 So there's very persuasive
15 arguments for why natural gas is here to
16 stay.

17 COUNCILWOMAN TASCO: The
18 purpose of this hearing is to talk about
19 public-private partnership. What does
20 that mean to you and PGW, and is that
21 something that you think that is possible
22 in this region?

23 MR. WHITE: Well, I think the
24 attorneys would have to weigh in heavily
25 here. I'm sure anything is possible.

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2 And I believe that if there's a way to
3 infuse -- have an infusion of capital
4 that will enable us to do things that we
5 couldn't otherwise do that's in the
6 public's best interest, that won't cost
7 the public an inordinate amount of money,
8 I think it's something we should
9 certainly look at. And PGW is poised,
10 our legal staff and our team are poised
11 to look at any opportunity, and we have
12 been looking at it.

13 You know, in the past, we've
14 done arrangements with entities, but I'm
15 not sure you'd call them public-private
16 partnerships, but we've done some
17 significant work with privately owned or
18 investor-owned organizations. Take
19 Veolia. They have a very large
20 distribution line that we worked on with
21 them in such a way that they actually
22 paid for the line and we own it. So the
23 City owns the actual asset in the ground,
24 but it was paid for by the Grays Ferry
25 Partnership.

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2 So I'm certain there are ways
3 to do public-private partnerships. As I
4 understand it, there is about a thousand
5 different definitions for public-private
6 partnerships. So, as I said, we stand
7 poised ready to listen to any
8 alternatives that may be in our
9 customers' best interest.

10 COUNCILWOMAN TASCO: Are there
11 other questions?

12 Councilman Oh.

13 And let me recognize Councilman
14 Henon.

15 COUNCILMAN OH: Thank you very
16 much, Madam Chair.

17 So there are 17 members of
18 Council, and we don't all think alike,
19 but we all did come up with the same
20 conclusion, that we were not supporting
21 the UIL Holdings sale as the specific
22 terms and conditions that were put
23 forward.

24 I will state very clearly that
25 I am a big believer in the potential of

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2 natural gas to lift this city, and I
3 think it is very important that we as a
4 city look at it thoroughly and explore
5 its capacity fully.

6 It seems to me that we would
7 have to do that first in order to provide
8 the citizens of this city with an ability
9 to understand what their options are, but
10 there's probably, in my opinion, no
11 bigger opportunity for Philadelphia than
12 LNG exports.

13 So with that, I would say that
14 I was quite uninterested in UIL, which
15 had no money, no interest, no capital for
16 expanding or developing LNG exports or
17 furthering the capacity of PGW's LNG
18 capabilities. In addition to which I
19 didn't see that they had the capital to
20 replace pipe in the manner that they
21 described, nor was that in the contract.

22 With that, I want to go into an
23 exploration with you of just some
24 questions I have about PGW and LNG
25 specifically.

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2 You did talk about LNG in terms
3 of selling excess LNG by the truckload.
4 And there's already a limited capacity
5 for PGW, and it is currently that when we
6 reach a certain level of capacity, we
7 sell off some excess, we hold some for
8 emergency situations in the winter; is
9 that correct?

10 MR. WHITE: Yes. That's
11 correct.

12 COUNCILMAN OH: And
13 realistically with the existing
14 infrastructure that we have for
15 liquification, what would be our capacity
16 if we were to get an investment in to
17 increase our capacity, what would be our
18 capacity in terms of liquification?

19 MR. WHITE: Well, we have a
20 couple of different scenarios, but --

21 COUNCILMAN OH: Give me your
22 best scenario.

23 MR. WHITE: We believe the
24 best-case scenario is a plan --

25 COUNCILWOMAN TASCO: Could you

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2 speak into the mike.

3 MR. WHITE: We believe the
4 best-case scenario that fits the
5 marketplace for us is somewhere around
6 21,000 dekatherms a day. The existing
7 plant we have there today is about 15,000
8 to 16,000 dekatherms a day. And based
9 upon the number of days out of the year
10 that we can run that plant, it
11 produces -- if we were starting from a
12 completely empty tank, it produces enough
13 natural gas for our customers to be
14 secure in the coldest of winters.

15 COUNCILMAN OH: Okay. And if
16 you were to sell off the greatest amount
17 of capacity of your storage, how long
18 would that take before you were to fill
19 it, to reach capacity again?

20 MR. WHITE: If we had the
21 second liquefaction plant?

22 COUNCILMAN OH: Yes.

23 MR. WHITE: The second
24 liquefaction plant would allow us to
25 completely fill our storage within one

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2 operating season and actually go beyond
3 that. So we believe that if the market
4 were, say, 6 Bcf, we would have
5 sufficient capability. I mean, just take
6 21,000 a day and multiply it by the
7 number of days in a year. Now, of
8 course, we're down certain days for
9 maintenance purposes, but you approach
10 that 6 billion cubic feet. And the
11 margins, just to give you an idea, the
12 margins in this marketplace are the
13 second best margin we have other than
14 firm supply to residential, commercial,
15 and industrial.

16 COUNCILMAN OH: So basically 1
17 Bcf or 1 billion cubic feet basically in
18 terms of Btu's is about 1 trillion Btu's;
19 is that correct?

20 MR. WHITE: I'll go with your
21 math on that. I think you're correct.

22 COUNCILMAN OH: Well, I looked
23 it up, so it is accurate.

24 MR. WHITE: I kind of thought
25 you did.

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2 COUNCILMAN OH: But that's a
3 lot of energy.

4 So one of the things that I
5 will say publicly is, when I met with the
6 CEO and the leadership of UIL Holdings,
7 we talked about LNG export, and I
8 mentioned to them during our discussions,
9 which they did not apparently know, was
10 that the City of Philadelphia does not
11 have an export license. We never applied
12 for an export license. This body
13 actually did a resolution urging the
14 Mayor to pursue an export license in
15 2013. We had been discussing an export
16 license. That is simply to begin the
17 process of seeing if we could apply for
18 an export license.

19 As of today, has the City of
20 Philadelphia, PGW, has anyone applied for
21 an export license or began to put that
22 process together?

23 MR. WHITE: We are not in the
24 federal queue.

25 COUNCILMAN OH: Okay. So that

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2 means no and, therefore, we are not in
3 the lineup of cities or facilities that
4 have applied for an approval, and there
5 is a limited number of facilities that
6 are going to be approved, because once we
7 have enough export facilities, there just
8 is no more need for export locations; is
9 that correct?

10 MR. WHITE: That's the common
11 wisdom. I wouldn't say any cities are
12 applying for export terminal
13 authorization, but certainly there are
14 entities out there that are --

15 COUNCILMAN OH: Entities
16 located in or around cities, but for my
17 purpose, there's no application coming
18 from Philadelphia, from any private
19 entity or public entity in and around
20 Philadelphia; is that correct?

21 MR. WHITE: No. That's
22 correct.

23 COUNCILMAN OH: Are you
24 familiar with a company called KEPCO,
25 Korea Electric Power Co gas?

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2 MR. WHITE: Yes.

3 COUNCILMAN OH: Would you
4 understand them to be one of the largest
5 investment entities and developers of
6 natural gas facilities on a global basis?

7 MR. WHITE: I understand that
8 they're huge, yes.

9 COUNCILMAN OH: So I will say
10 that I met with them or, more
11 importantly, they met with me back in
12 2012, and I have had a very extensive
13 discussion with them since that time
14 about Philadelphia and its capability in
15 terms of being an export location. And
16 they felt, the people that I spoke with,
17 that Philadelphia has an ability to be an
18 export location, and we have gone through
19 some of the numbers of what the
20 investment, the technology and other
21 things would be.

22 I will also say that in
23 September of last year, 2014, when I did
24 a trade mission visit to Korea -- I will
25 say at my own expense, no City dollars

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2 involved here -- that I did meet with the
3 former Vice Minister of Trade, Industry
4 and Energy, and we discussed Philadelphia
5 and other projects around the world and
6 things like that. All of which is to say
7 that from those types of persons at that
8 level of investment and expertise, they
9 see Philadelphia as a very good location
10 for possible investment into PGW and its
11 LNG technology.

12 Has there been any
13 conversations or agreements or anything
14 between PGW and any other investment
15 entity or developer of liquid natural
16 gas?

17 MR. WHITE: One of your
18 witnesses today, Franc James from Penn
19 America, I think you'll hear quite a bit
20 of the discussion regarding that. Franc
21 actually contacted us prior to the sale
22 discussion, and then, of course, when the
23 sale process began, he stepped away. But
24 he has been back to talk to us quite a
25 bit.

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2 COUNCILMAN OH: When did he
3 first contact you, what year?

4 MR. WHITE: I would say
5 probably around 2010 or '11.

6 COUNCILMAN OH: 2010 or '11 he
7 came to talk to you about a private
8 investment of monies to invest in PGW,
9 not purchase PGW, invest in PGW, to
10 develop its export technology and its
11 capacity; is that correct?

12 MR. WHITE: Yeah. Yes. That's
13 correct.

14 COUNCILMAN OH: And I was
15 elected in 2011. I didn't take office
16 until 2012. So prior to my coming to
17 Council, he had already approached PGW.
18 What happened to that discussion? Why
19 didn't that go forward?

20 MR. WHITE: That didn't go
21 forward because of the fact that the
22 company was in a sale process.

23 COUNCILMAN OH: UIL Holdings,
24 something?

25 MR. WHITE: Well, it was the

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2 whole process. So, in other words, UIL
3 didn't surface until they became the
4 winning bidder. But prior to that, you
5 were in a process. I mean, there were
6 other things that we didn't move forward
7 at that time as well because of the fact
8 that we were in a sale process.

9 COUNCILMAN OH: Okay. So I'm
10 going to summarize it this way, which is
11 my understanding, but you can correct me
12 if I'm wrong. The direction that the
13 City went in, which is the direction of
14 the Administration of the City, which
15 ultimately is your boss kind of, was that
16 it was looking to sell the assets of PGW
17 to a company that would continue to
18 deliver gas to residences and businesses
19 and to get a purchase price, an excess
20 amount of which would go to fund a
21 portion of the Pension Fund in
22 Philadelphia, which turns out to be about
23 \$242 million at the end of the day with
24 UIL Holdings. Is that about correct?
25 It's not exactly correct.

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2 MR. WHITE: I would agree with
3 everything you said except for the 242.
4 My personal belief is the number was at
5 least double that.

6 COUNCILMAN OH: So 480?

7 MR. WHITE: But that's just me.

8 COUNCILMAN OH: Okay. I'm not
9 putting words in your mouth. So
10 everything is true except the end result
11 of the City might have been about a
12 little south of \$500 million?

13 MR. WHITE: Yeah.

14 COUNCILMAN OH: Okay. And if
15 the liquification -- so, in other words,
16 once the Administration had decided that
17 it was going to simply do a sale of the
18 assets to get some money to put into the
19 Pension Fund, there was no more
20 discussions about investment into LNG
21 capabilities and all the positive impact
22 that that would have done?

23 MR. WHITE: That's correct.

24 There was no authorized expenditure while
25 the sale process was going on.

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2 COUNCILMAN OH: Okay. So when
3 I came into office, based on my meetings,
4 I had said many times to the
5 Administration that I was not interested
6 in looking at these type of sales, the
7 UIL Holdings sale, without knowing that
8 we had put it on a global marketplace,
9 that we have gone to the biggest
10 investors, that we were ensured that we
11 were providing the citizens of
12 Philadelphia with the opportunity to not
13 only own PGW but get investments that
14 would develop jobs and secure public
15 revenues for our schools and for our
16 cities beyond raising taxes at a rate
17 that seems to be significant with an
18 investment, a private investment, into
19 the LNG capability. And that's just for
20 your information.

21 So could you tell me that if we
22 were to export LNG, we were to get
23 private dollars in to bring a pipe into
24 Philadelphia, we were to maximize our
25 second liquification facility, we were to

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2 put that at a terminal, we were going to
3 ship it out, what is the range of money
4 to the City that we would benefit from?

5 MR. WHITE: If I may, PGW would
6 participate in a project like that from
7 the standpoint of our storage
8 capabilities. We wouldn't necessarily be
9 involved in the development or costs
10 associated with the pipeline connection,
11 and that would be -- incidentally, that
12 would be a tremendous benefit to the
13 development of an energy hub in
14 Philadelphia, because certainly if you're
15 bringing an interstate pipeline that
16 provides 700,000 dekatherms a day, you
17 might want to enlarge that to a million a
18 day and support other major industrial
19 initiatives in the City.

20 So from that standpoint,
21 obviously the development of an LNG
22 terminal would be very important. That
23 aspect of it would be part of that
24 investor group's responsibility. The
25 other piece that we would not necessarily

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2 participate in is obviously the
3 coordination with a foreign country, east
4 Europe or wherever we'd be delivering --
5 the partner would be delivering their
6 supply. So we'd probably keep our
7 component of it inside the fence line.
8 And if you look at the size of this
9 facility that could be built here, it's
10 probably a one-train facility, which
11 would be about 600,000 to 700,000
12 dekatherms of liquefaction per day, that
13 would bring a 135 cubic meter ship in
14 here about once a week, and you could
15 look at maybe anywhere from \$100 to \$200
16 million in net revenues to Philadelphia
17 Gas Works.

18 COUNCILMAN OH: So that is \$100
19 to \$200 million in net revenues to the
20 City of Philadelphia per year?

21 MR. WHITE: That's correct.

22 COUNCILMAN OH: And so in five
23 years, you're looking at \$500 million to
24 a billion dollars versus the one-time
25 sale and benefit of a number less than

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2 500 million if -- and that's a big if --
3 if we found a private investor to invest
4 in the development, do all this stuff,
5 which cost the taxpayers of Philadelphia
6 no money, we continue to own PGW and keep
7 it a public facility to ensure that
8 public interest is the primary interest
9 of PGW, but the development and the
10 commercial aspects of exporting is done
11 through a private company; is that
12 correct?

13 MR. WHITE: That would be
14 correct.

15 COUNCILMAN OH: What is the
16 typical length of year or term of year of
17 a contract between a private exporter and
18 a company overseas? Is that an annual
19 contract, a ten-year contract, a 20-year
20 contract? What kind of contract is that?

21 MR. WHITE: I would suspect
22 with the type of capital that would have
23 to be invested in a project like this, it
24 would have to be a long-term contract in
25 the neighborhood of 20 years.

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2 COUNCILMAN OH: So we would
3 lock in \$100 to \$200 million per year for
4 the next 20 years if this all worked out?

5 MR. WHITE: Probably, yes.

6 COUNCILMAN OH: Okay. So I
7 have a great interest that we at least
8 explore this and put this on the table to
9 the voters before we talk about selling
10 it to a company that doesn't have enough
11 capital, which had previously purchased
12 three small facilities from Iberdrola,
13 and now years later is purchased by that
14 same company as regulations and taxes in
15 Spain has changed. So they know each
16 other and they paid \$3 billion for UIL
17 Holdings, which is smaller in its
18 combined state than PGW, and PGW has a
19 tremendous asset, which is its
20 liquification capabilities.

21 That's all the questions I
22 have. Thank you very much.

23 COUNCILWOMAN TASCO: Thank you.

24 Councilman Henon.

25 COUNCILMAN HENON: Thank you,

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2 Madam Chair.

3 Good morning.

4 MR. WHITE: Good morning.

5 COUNCILMAN HENON: I apologize
6 if this question is redundant. I want to
7 ask quickly about the main replacement
8 plan, PGW's main replacement plan, and if
9 the plan is certain and what the
10 timelines are.

11 MR. WHITE: Well, as I said a
12 little earlier, we had an 18-mile
13 program. We availed ourselves of the new
14 legislative tool known as the DSIC, which
15 is a distribution improvement service
16 charge. I have that wrong, but it's
17 close. Anyway, that's a mechanism that
18 we used to expand our program, and this
19 past year we did 28 miles of pipe
20 replacement. At a 28-mile clip, we're
21 somewhere in the high 70's years of
22 replacement just to replace our cast
23 iron. That would be about 1,400-and-some
24 miles of cast iron replaced in that
25 timeframe.

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2 We have intentions and we will
3 be amending our capital budget rather
4 soon to ramp that up in '16 using another
5 \$8 million and then leveling out in '17
6 at about \$11 million a year going
7 forward. That's our game plan now. We
8 have not yet presented that to the
9 Philadelphia Gas Commission, but we will
10 shortly. Our Board has seen it and
11 approved that, and we should be amending
12 our budget. So in that regard, we
13 probably will be in the 50-year range of
14 removal of our cast iron inventory.

15 COUNCILMAN HENON: And in the
16 capital budget for PGW, you propose a
17 second LNG unit over the next couple
18 years. Preliminary costs range from \$60
19 to \$100 million. In the five-year plan,
20 the forecast, there's about \$20 million a
21 year in revenues could be as a result of
22 this liquification capital improvement.
23 And you recently had an open session with
24 seeking proposals for customers
25 interested in expansion of PGW's LNG.

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2 What were the results of that and what
3 impact would that have on PGW and the
4 customers?

5 MR. WHITE: The results were
6 very good. We received non-binding
7 requests for about 6.3 Bcf, billion cubic
8 feet. Now, our storage tanks hold about
9 3.9. So it gives you an idea that we'd
10 actually be filling the tanks and
11 distributing the natural gas currently by
12 truck-loading racks. In the future,
13 maybe rail cars. But nevertheless, we'd
14 be cycling the facility and getting a
15 little bit more value out of that storage
16 space that we have. That storage space
17 is a very critical component. It's
18 already sited. It's in operating
19 condition, and we have a real asset
20 there.

21 COUNCILMAN HENON: How long
22 will it take PGW to realize the return on
23 the cost of the installation of the new
24 liquification unit?

25 MR. WHITE: If it's approved,

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2 we would probably be -- we're likely
3 going to file an amendment. It will be
4 before Council in October. It's about 18
5 months from that point where we would be
6 online. So, you know, within a two-year
7 period.

8 COUNCILMAN HENON: As far as
9 the investment in the capital improvement
10 of that LNG, what would be the return on
11 that investment, like when would you
12 start to see some of PGW's additional
13 revenues forecasted in your assumptions?

14 MR. WHITE: Well, we would --
15 as the facility was approved, we would
16 immediately go out and look for binding
17 commitments. The fact that we
18 interrupted customers this year and were
19 only providing interruptible service is
20 pretty tough to get binding commitments.
21 Once we have authorization, if we get
22 authorization to build a facility, we
23 will then at that point be able to get
24 those binding commitments. And when the
25 facility comes online, we'll be making

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2 money immediately.

3 COUNCILMAN HENON: And how much
4 revenue would you project?

5 MR. WHITE: In the neighborhood
6 of 12 to 20.

7 COUNCILMAN HENON: 12 to 20 per
8 year?

9 MR. WHITE: Yes. It's an
10 entirely different scale than what
11 Councilman Oh was referring to.

12 COUNCILMAN HENON: I was just
13 informed that these are repetitive
14 questions.

15 MR. WHITE: I did better this
16 time because I practiced.

17 COUNCILMAN HENON: So I don't
18 know if this question has been asked,
19 and, again, I apologize. The length of
20 some of these open for business and
21 expression of interest, what would be the
22 length of the terms that they are
23 expressing interest in? Were they one
24 year? Are they multiple years? Are they
25 ten years, 15 years, 20 years?

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2 MR. WHITE: We would love them
3 to be 10 or 15 or 20 years, but I think
4 it will be whatever the prevailing market
5 conditions are at that time. If they
6 believe that their market is going to get
7 stronger over time, they're obviously
8 going to commit for a lot of liquid for a
9 long period of time, and I think that's
10 going to be the case. I think the market
11 is going to go in -- it's going to
12 continue to rise, particularly since this
13 market is long-haul trucking, high
14 horsepower equipment, and marine vessels.

15 So I think the answer to your
16 question is, I don't know, but the
17 variables that I'd consider would lead me
18 to the conclusion that it would be a
19 longer term contract.

20 COUNCILMAN HENON: Is there
21 anything prohibiting long-term contracts
22 right now, either through its government
23 structure or the way we are structured?

24 MR. WHITE: Well, we have
25 the --

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2 COUNCILMAN HENON: I mean,
3 there's obviously a lot of talk regarding
4 whether we need to be an authority or
5 whether you have the ability through its
6 current governance structure to enter in
7 long-term agreements, because I know you
8 have in the past entered into
9 public-private arrangements. In
10 particular, I don't think -- you can
11 answer this. I'm not sure if they ever
12 came to fruition, but you had the Hess
13 possibility, and that was in the -- that
14 was around 2001, and in the late '90s you
15 had, what was it, QST, if I recall, on
16 electricity?

17 MR. WHITE: Grays Ferry
18 Partnership. So we did a 20-year deal
19 with the Grays Ferry Partnership. It may
20 have even been 25, but we did it through
21 PAID, because most of these large
22 projects are project financed and they
23 won't -- they won't be able to borrow the
24 money if they don't have a committed
25 contractual situation. PGW can sign a

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2 long-term contract, but it can be null
3 and void after four years by virtue of
4 the four-year rule.

5 COUNCILMAN HENON: So is it
6 easier to enter into a P3 opportunity
7 regardless of whether you have the
8 ability to do long-term agreements now as
9 is or is it better to enter into a P3
10 agreement with an authority for capital
11 reasons, as you just stated?

12 MR. WHITE: I'm not sure I'm
13 going to give you the right answer for
14 that. I will say that the mechanisms we
15 have or the limitations we have with
16 procurement have a chilling effect when
17 you're bringing in a third party who is
18 used to doing business directly with the
19 entity that they're contracting with and
20 then you throw in front of them that they
21 have to do a contract with PAID, who in
22 turn does a back-to-back contract with
23 Philadelphia Gas Works. So that's an
24 unusual mechanism and it's not uncommon
25 for entities to say, I have scarce

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2 capital, why should I go through this
3 here in Philadelphia when I can take it
4 elsewhere.

5 I don't have good examples of
6 that, but I can tell you that in verbal
7 conversations with people who have been
8 interested in working with us, it's a
9 heavy lift. And I will say during the
10 Hess negotiations, which was for
11 importing of LNG, it did not come to
12 fruition. And I may preempt the
13 question, but that was due to not only
14 the procurement but also the transit up
15 the river at that time was considered a
16 heavy lift.

17 COUNCILMAN HENON: So currently
18 the way things are structured, whether
19 it's governance and the procurement or
20 the ability to go to market on capital,
21 is it a challenge to reach our full
22 potential as PGW exists?

23 MR. WHITE: It's a huge
24 challenge, because in this business, you
25 have to react quickly, and whether it's a

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2 regulatory change that opens up an
3 opportunity or whether it's a business
4 opportunity. Five years ago we didn't
5 anticipate having four times the amount
6 of natural gas in this country. We
7 didn't anticipate stable pricing for
8 decades, which is what we're looking at
9 right now. I mean, obviously I don't
10 have a crystal ball, but I think all the
11 variables indicate that you have more gas
12 than you know what to do with.

13 So, yeah, I think it's very
14 important that we -- if we're going to
15 have a utility in the City of
16 Philadelphia and we want to flourish, we
17 have to be quick to market.

18 COUNCILMAN HENON: Okay. Thank
19 you.

20 COUNCILWOMAN TASCO: Thank you
21 very much.

22 The Committee as well as
23 Councilmembers will have an opportunity
24 to further discuss the capital budget for
25 PGW and also come up with probably some

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2 recommendations of how we could possibly
3 make it easier for you to do business.

4 MR. WHITE: Thank you.

5 COUNCILWOMAN TASCO: Any other
6 questions?

7 Thank you very much.

8 Oh, I'm sorry, Councilman
9 Jones. You're sitting over there in the
10 wilderness. I'm sorry.

11 COUNCILMAN JONES: It's all
12 right. Thank you so much, Madam Chair,
13 and I just want to say thank you for your
14 attention to detail to this issue, not
15 just in your capacity here but as
16 Chairwoman of the Philadelphia Gas Works.
17 Thank you publicly for staying keenly on
18 top of this, and we look forward to you
19 continuing to do so from whatever
20 capacity.

21 I wanted to ask a couple of
22 questions, if I could, and a couple of
23 them are just clarification questions.

24 You said there are many
25 definitions of what an energy hub is. Do

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2 me a favor, take a stab at what you think
3 an energy hub like Philadelphia could be.

4 MR. WHITE: Well, I actually
5 said there are many definitions for a P3,
6 as I understand it. But with respect to
7 the energy hub, I think that in
8 Philadelphia we have significant refinery
9 capability. We have a workforce, both
10 educated workforce and a blue-collar
11 workforce, that is underutilized. And I
12 think if we can bring industry to
13 Philadelphia, obviously the energy
14 industry will be needed to support that.

15 You're not going to get an
16 interstate pipeline here if you don't
17 have demand, if you don't have someone
18 willing to pay for it. Interstate
19 pipelines are willing to think more
20 creatively than they did in the past. In
21 the past they didn't have binding
22 commitments. For every dekatherm of
23 capacity, they wouldn't build it.

24 I think you're going to find
25 that there's some more creative thinking

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2 coming out of interstate pipelines, and
3 when they get an anchor tenant, they
4 might be willing to spend a little bit of
5 their own capital. But this is not a
6 group that's typically -- I mean, they're
7 a risk averse operation, so they're going
8 to be a little fearful how they spend
9 their money. But I do think we have all
10 the makings here of using a lot of
11 energy, and I'm a big proponent of you
12 bring industry, you increase tax dollars;
13 you increase tax dollars, you start to
14 support schools and City services. So
15 that's what I think we all need to do.

16 COUNCILMAN JONES: So do you
17 believe that demand that you mentioned is
18 internal by developing clients within the
19 City's boundaries or more external export
20 or both?

21 MR. WHITE: We've lost most of
22 the industry in Philadelphia. We have to
23 bring it back. And to answer your
24 question then, it's external. I think we
25 need to bring industry into this

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2 environment, and we have to be creative
3 about how we do it, but one of the ways
4 to ensure that you'll have an energy hub
5 in the future is to attract that industry
6 and attract that interstate pipeline.

7 COUNCILMAN JONES: So I guess I
8 should rephrase it differently. If there
9 was a two-pronged strategy, one we need
10 to develop industrial clients within the
11 borders of City of Philadelphia. Twenty
12 years ago we had Acme Bakery on Upland
13 Way in my district. Used to bake bread.
14 You could get fat walking a block around
15 there just smelling the bread. They've
16 left, and one of the reasons was high
17 cost of energy.

18 If we could convert that back
19 and maybe provide them an affordable gas,
20 could we attract industry like that?

21 Then part two of that is, any
22 surplus, who's the customers out there
23 that would want to buy it from us, not in
24 Philadelphia?

25 MR. WHITE: Well, much of the

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2 pipeline capacity that we're talking
3 about with regard to an energy hub would
4 not necessarily be PGW capacity. There
5 may be direct links to refineries. There
6 may be a direct link from an interstate
7 pipeline to an electric-generating
8 facility. These facilities are huge
9 natural gas users.

10 Certainly if industry sites
11 within Philadelphia's boundaries, the Gas
12 Works distribution system will likely be
13 a part of that mix. But, as I said, it's
14 going to be a combination of natural gas
15 entering the City of Philadelphia and
16 going straight to the industry location.
17 Mr. Rinaldi is here today. I think maybe
18 he could amplify on that. If there's
19 some things he wants to do down there, he
20 may have direct feeds from the interstate
21 pipeline.

22 Similarly, you could
23 reestablish industry in neighborhoods in
24 the City of Philadelphia, and that
25 natural gas would be distributed through

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2 PGW's network.

3 COUNCILMAN JONES: So based on
4 liquification -- you used a really cool
5 term. Let me see if I wrote it down.
6 Liquefaction, I think it might have been.
7 Did I mispronounce it?

8 MR. WHITE: No. That's one
9 aspect of what we do.

10 COUNCILMAN JONES: So who is
11 the market for that particular product?

12 MR. WHITE: That market pretty
13 much at this time is outside of
14 Philadelphia.

15 COUNCILMAN JONES: So who are
16 they?

17 MR. WHITE: It's wholesale
18 operations that distribute liquefied
19 natural gas for the use in long-haul
20 truckers. So if you see a
21 tractor-trailer with a fuel tank on the
22 side that looks a little larger than what
23 you're used to seeing, that's probably an
24 LNG truck. And the LNG is being taken to
25 locales where they could load the LNG on

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2 these vehicles. And they have the same
3 cruising range as a diesel vehicle.

4 COUNCILMAN JONES: How big is
5 that market?

6 MR. WHITE: That market is --
7 you know, I don't have an exact feel for
8 how big it can get, but just the entities
9 that we reached out to with our open
10 season came back with about 6 billion
11 cubic feet, and that's primarily the
12 long-haul trucking market and, to a
13 lesser degree, high horsepower equipment
14 at drilling sites out in Western
15 Pennsylvania and Central Pennsylvania.
16 But the main market is the long-haul
17 trucking market.

18 COUNCILMAN JONES: Right now
19 currently we get our molecules from -- do
20 we get it from Western Pennsylvania or
21 from Texas?

22 MR. WHITE: We get about 45
23 percent from Marcellus, Western
24 Pennsylvania, and the other remaining
25 molecules are South Texas, Louisiana.

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2 COUNCILMAN JONES: How are they
3 delivered to you?

4 MR. WHITE: They're delivered
5 on interstate pipelines in which we have
6 contracts.

7 COUNCILMAN JONES: Those
8 contracts' terms are how -- typically --
9 let me go where I'm going. The typical
10 term of bringing that pipeline capacity,
11 we lease space on that pipeline?

12 MR. WHITE: That's correct.

13 COUNCILMAN JONES: And those
14 terms are usually 12 years?

15 MR. WHITE: They can range, but
16 historically they've been as long as 20
17 years, 20-year contracts.

18 COUNCILMAN JONES: And
19 currently for what reason -- what are our
20 current terms of those?

21 MR. WHITE: Many of those
22 contracts are in what you call an
23 evergreen status and some are in probably
24 five- to ten-year structures. But this
25 is capacity that we need for Philadelphia

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2 citizens. So this is capacity that we're
3 not giving up.

4 COUNCILMAN JONES: So currently
5 of the leased capacity within those
6 pipelines, how much do we actually
7 utilize?

8 MR. WHITE: In the coldest of
9 winters --

10 COUNCILMAN JONES: On average.

11 MR. WHITE: Well, on average
12 we're probably using, I'd say, 85 percent
13 a year.

14 COUNCILMAN JONES: On average?
15 So over the last three years, we've used
16 85 percent of that capacity?

17 MR. WHITE: That's not a number
18 that I typically think about. What I
19 need to do is, I need to make sure I have
20 enough capacity so that when the weather
21 gets extreme like it did this winter,
22 there are days that we're using every bit
23 of capacity that we have, plus we're
24 running our LNG and vaporizing hundreds
25 of thousands of dekatherms of LNG.

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2 COUNCILMAN JONES: So my
3 question is how much more capacity, if we
4 tilt full throttle, could we run through
5 that pipeline?

6 MR. WHITE: Oh, okay. I get
7 the question. We have physical
8 constraints. They're called gate
9 stations. Under contract we have about
10 480,000 a day. We physically believe
11 that we could get about 525,000
12 dekatherms through our gate stations.

13 Just to give you an idea, on
14 the coldest day, PGW uses close to
15 700,000. So we cannot get it from a gate
16 station. That's why that LNG facility is
17 so critical, and if you --

18 COUNCILMAN JONES: That's where
19 I was going.

20 MR. WHITE: Right. And if you
21 want to expand industry, you're going to
22 need to bring more capacity into
23 Philadelphia.

24 COUNCILMAN JONES: All right.
25 So we have -- if you were to say between

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2 1 and 100, we use about 85 percent of
3 that capacity. What does that 15 percent
4 expansion mean by way of dollars?

5 MR. WHITE: Well, it's not that
6 it's excess. It's just that you asked me
7 on average how I use it.

8 COUNCILMAN JONES: Correct.

9 MR. WHITE: If we had a
10 designed winter condition, we would use
11 it every day, but in the summer, we don't
12 need it.

13 COUNCILMAN JONES: So that's
14 where the opportunity to freeze it comes
15 in, right?

16 MR. WHITE: Right.

17 COUNCILMAN JONES: One last
18 question. Storage capacity, how much do
19 we have?

20 MR. WHITE: In our LNG
21 facility?

22 COUNCILMAN JONES: Yes.

23 MR. WHITE: A little over 4
24 million.

25 COUNCILMAN JONES: And you're

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2 planning to expand that?

3 MR. WHITE: No. We're not
4 planning to expand the storage. We're
5 planning to expand the machine that
6 actually takes the gas from a vapor state
7 into a liquid state, and it's called a
8 liquefaction plant. And there are a
9 variety of different technologies you can
10 use to do that, but you actually take the
11 natural gas down to about 250 degrees
12 below Fahrenheit.

13 COUNCILMAN JONES: Final
14 question is, if there was a city that was
15 the perfect energy hub, other than us,
16 what city would we look to?

17 MR. WHITE: Well, I don't think
18 anyone has the assets we have. Now,
19 having said that, you know, we have a
20 population and we have surrounding
21 communities that make it a little bit
22 more difficult to expand the energy hub
23 concept as opposed to places in Louisiana
24 and Texas where a stripping plant is
25 enhancing the appearance of the

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2 neighborhood.

3 So, you know, I think there are
4 areas -- there are cities, but -- I
5 should say there are geographic areas
6 that are probably better than
7 Philadelphia, but there aren't cities
8 that are better than Philadelphia.

9 COUNCILMAN JONES: Thank you,
10 Madam Chair.

11 COUNCILWOMAN TASCO: Thank you
12 very much.

13 Are there any other questions?

14 (No response.)

15 COUNCILWOMAN TASCO: Thank you.
16 He's going to ask you a short question,
17 because we have other people who have
18 been waiting.

19 COUNCILMAN HENON: And I
20 apologize to everybody. I will be caught
21 up to speed very shortly.

22 So City Council's consultant
23 during the process over the last year,
24 Concentric, concluded that both the
25 liquification, natural gas, exports and

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2 the NGL sales were outside the
3 possibilities of PGW to take advantage
4 of. Do you agree with these conclusions?

5 MR. WHITE: Well, we were
6 already taking advantage of it when that
7 study came out. So we were already
8 selling liquid by truckload in the
9 commercial market space. So maybe we're
10 talking past each other, meaning
11 Concentric and myself, but we certainly
12 believe that it's not beyond the
13 capabilities of the Gas Works.

14 COUNCILMAN HENON: Well, that's
15 good to know. Miscommunications there or
16 oversight.

17 And a general broader question
18 when it comes to the buzz word. In DC it
19 was the fiscal cliff and all these other
20 words. Here we have the energy hub,
21 which is actually real.

22 What role do you see PGW
23 playing in the broader context of an
24 energy hub in this region?

25 MR. WHITE: I think we are an

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2 absolute critical role to an energy hub.

3 Our distribution system is a vital

4 component to the development of industry

5 and new business in the City of

6 Philadelphia. So, you know, you can talk

7 all around this energy hub, but PGW is

8 squarely in the middle of it, and the

9 critical component to the development of

10 an energy hub is the expansion of an

11 interstate pipeline, expansion of assets

12 into Philadelphia.

13 COUNCILMAN HENON: And, lastly,

14 the employees, you work real close with

15 the employees. We employ so many

16 Philadelphia residents. To me that makes

17 our asset that much more valuable in

18 their knowledge. Can you talk about a

19 little on the employees and how important

20 it is in any succession plan or

21 acceleration plan for pipe replacements

22 and delivering the product economically

23 and in a safe manner.

24 MR. WHITE: Well, let me just

25 say this, that Keith Holmes, the union

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2 President, and myself have negotiated
3 four or five labor agreements over the
4 last 15 years. You have seen the
5 direction the company has taken over this
6 15 years. It's not due exclusively to
7 that. There's been support, rate support
8 and other things. But I will tell you
9 right now, if there wasn't a working
10 relationship between management and the
11 union, we would not have gotten off the
12 dime. So how we work with our 1,200
13 unionized employees and our 499
14 non-unionized employees is critical to
15 the success of the company. And we have
16 a labor agreement. We abide by that
17 labor agreement. But I will tell you
18 that it has been the order of the day
19 that our union has looked for ways to not
20 only support their membership but support
21 their membership by making the company a
22 better place and a better company,
23 stronger company.

24 COUNCILMAN HENON: Thank you.

25 COUNCILWOMAN TASCO: Thank you,

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2 Craig. Come prepared when we have the
3 capital budget hearing to probably answer
4 these same questions.

5 MR. WHITE: Thank you.

6 COUNCILWOMAN TASCO: Thank you.

7 We'll go now to our second --
8 because we have a lot of people here who
9 are waiting to testify and a lot of that
10 is for the record, but we'll be on the
11 record again in the spring. We're really
12 here to talk about public-private
13 partnerships, but also it's important to
14 discuss PGW's would-be role and the
15 ability to move forward.

16 Would you please state your
17 name for the record.

18 MR. RUBIN: Scott Rubin,
19 R-U-B-I-N.

20 COUNCILWOMAN TASCO: Would you
21 please proceed with your testimony.

22 MR. RUBIN: Thank you, Madam
23 Chair and members of the Committee, and
24 thank you for inviting me to appear
25 before you today. By way of brief

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2 background, I am a Pennsylvania attorney
3 who works exclusively on issues related
4 to the public utility industries as both
5 an attorney and consultant throughout the
6 United States and Canada. I've been
7 doing this type of work for more than 30
8 years, back to when I started as a staff
9 attorney with the Pennsylvania Consumer
10 Advocate.

11 I have been asked to provide
12 some background information concerning
13 the legal structure and economic
14 regulation of PGW and some possible
15 options for that moving forward.

16 Madam Chair, you properly
17 called PGW a very valuable asset this
18 morning. Let me flesh that out a little
19 to give us some perspective.

20 As you know, PGW is the largest
21 government-owned natural gas distribution
22 utility in the United States. According
23 to PGW's annual report for their most
24 recent fiscal year, which ended August
25 31st, PGW had total assets in excess of

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2 \$1.7 billion, of which the net value of
3 PGW's utility plant was almost \$1.2
4 billion. Those assets are supported by
5 about \$980 million in long-term debt. On
6 a net basis, the City's investment in
7 PGW, what we can think of as equity in
8 the business, was more than \$400 million
9 as of August 31st. In that most recent
10 fiscal year, PGW paid a distribution to
11 the City General Fund of \$18 million,
12 generated positive cash flow of \$166
13 million, and had net income of almost \$50
14 million.

15 So it is indeed a very valuable
16 asset, and I understand that the City may
17 be interested in exploring options to
18 unlock the value of that investment,
19 enable PGW to capitalize on some of its
20 valuable assets that are underutilized
21 today, enhance PGW's independence from
22 City government or generate additional
23 sources of revenue that could help
24 further improve PGW's financial condition
25 while investing in the replacement of

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2 aging infrastructure. The City may be
3 interested in pursuing some or all of
4 these types of opportunities while
5 retaining government ownership and
6 ultimate control over one of the City's
7 most valuable assets.

8 As you know, cities in
9 Pennsylvania have the ability to
10 establish municipal authorities for
11 certain purposes. The Municipality
12 Authorities Act sets out the specific
13 purposes for which an authority can be
14 established, as well as the powers and
15 duties of an authority. Creating an
16 authority to own or operate the assets of
17 PGW is a method the City may want to
18 explore to provide greater flexibility to
19 both the City and PGW while retaining
20 City ownership of the asset.

21 The Authorities Act itself does
22 not mention natural gas distribution as
23 an enterprise in which an authority can
24 engage, but in 1999 the Pennsylvania
25 General Assembly enacted the Natural Gas

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2 Choice and Competition Act that
3 specifically authorizes the City to form
4 an authority to provide gas service, but
5 with certain restrictions, which I'll
6 discuss briefly in a moment.

7 Under the Authorities Act, an
8 authority has broad powers to act
9 independently. A municipality creates an
10 authority by filing articles of
11 incorporation and following certain legal
12 and notice requirements.

13 Once created, an authority has
14 general corporate powers, including the
15 power to sue and be sued, acquire and
16 dispose of property, make investments,
17 borrow money, enter into contracts, use
18 the power of eminent domain, and
19 determine the fees it levies on
20 customers.

21 In addition, even though a
22 single municipality can create an
23 authority, the authority is allowed to do
24 business anywhere in the Commonwealth
25 and, in certain circumstances, to

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2 participate in projects in adjoining
3 states. When an authority owns real
4 property outside the boundaries of the
5 city that created it, it must either
6 receive permission from the other
7 municipality or agree to make payments in
8 lieu of taxes equivalent to property
9 taxes and other assessments in that
10 municipality.

11 Authorities are subject to
12 certain limitations. I'll mention a few.
13 An authority's corporate existence is
14 limited to 50 years, renewable for
15 additional terms of up to 50 years each.
16 An authority cannot issue bonds with a
17 term of more than 40 years, and an
18 authority cannot be created which
19 duplicates or competes with an existing
20 business.

21 In addition to these general
22 restrictions, the Gas Choice Act changes
23 some of these requirements and imposes
24 additional conditions and limits on PGW.

25 Now, as you know, the Gas

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2 Choice Act gave the Public Utility
3 Commission jurisdiction over the rates
4 and service of PGW. That jurisdiction
5 would not end if the City formed an
6 authority to own or operate PGW.

7 If the City decided to transfer
8 the ownership or operation of PGW to an
9 authority, the PUC would have limited
10 ability to review the financial aspects
11 of that transaction, the specific
12 creation of the authority, unless the
13 financing were limited only to the amount
14 needed to repay existing PGW debt.

15 Finally, if the City creates an
16 authority for PGW, the authority would
17 retain the power of eminent domain within
18 the City limits, but unlike other
19 authorities, it would not have that power
20 in other municipalities.

21 Transferring PGW's assets or
22 operations to an authority should not
23 result in significant changes in PGW's
24 utility operations other than providing
25 PGW with more flexibility to engage in

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2 activities outside the City's borders.

3 Of particular importance, the following

4 would not change under authority

5 ownership or operation:

6 PGW's limitations on liability

7 from tort actions would remain governed

8 by the municipal tort claims law;

9 The PUC's role regarding PGW's

10 rates and service would not be changed;

11 PGW would retain the ability to

12 place liens on real property for unpaid

13 gas bills;

14 And the rights of PGW's

15 employees, including pension rights and

16 collective bargaining agreements, should

17 not be affected.

18 Finally, while transferring

19 PGW's assets or operations to an

20 authority would be a large transaction,

21 it would not be unprecedented. In the

22 past two years, there have been two

23 significant transactions in Pennsylvania

24 involving the long-term lease of

25 municipal assets to an authority. Now,

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2 given our limited time today, I'll
3 provide just a very brief description of
4 each of those transactions.

5 First, in December 2013, the
6 City of Harrisburg leased its parking
7 assets to an authority for a 40-year
8 period. The up-front lease payment to
9 the city was about \$267 million. The
10 city did not retain any right to revenue
11 or transfer payments during the lease
12 term, but it retains ownership and some
13 responsibility for making capital
14 improvements during the lease term.

15 The second transaction is the
16 City of Allentown's lease of its water
17 and wastewater operations. I see that
18 you have Mayor Pawlowski here today, so I
19 won't say too much in detail about his
20 deal. But briefly, in August 2013,
21 Allentown leased its water and wastewater
22 operations to Lehigh County Authority, an
23 existing water and wastewater utility
24 operating in the Allentown suburbs and
25 neighboring areas.

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2 That was a 50-year lease that
3 gives the authority the right and
4 obligation to operate, use, maintain,
5 repair, and replace the water and
6 wastewater systems and to charge the
7 rates necessary to recover its costs.

8 It gave Allentown an up-front
9 lease payment of about \$211 million, plus
10 an annual concession fee, plus various
11 requirements for reserved funds that had
12 to be funded at the outset of the
13 transaction to make sure capital
14 replacements could be made as needed.

15 Now, obviously the Harrisburg
16 and Allentown transactions are
17 considerably smaller than a potential PGW
18 transaction. Those deals were on the
19 order of \$300 million each, while PGW's
20 assets are valued at several times that
21 amount.

22 These transactions are useful,
23 however, of examples of how existing City
24 assets can be monetized while allowing
25 the City to retain ownership and ultimate

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2 control of the assets over an extended
3 period of time.

4 The primary limitations on
5 lease transactions with an authority are
6 the maximum terms of 50 years for the
7 lease and 40 years for bonds issued by
8 the authority. Within those restrictions
9 as well as requirements imposed by the
10 Gas Choice Act, a lease concession type
11 of transaction may be one option to
12 provide the City with substantial
13 financial and operational flexibility
14 while retaining ownership of the PGW
15 assets.

16 Thank you again for asking me
17 to be with you today. I would be happy
18 to try to answer any questions you may
19 have.

20 COUNCILWOMAN TASCO: Thank you
21 very much.

22 Are there any questions?

23 (No response.)

24 COUNCILWOMAN TASCO: Thank you
25 for your testimony. You might want to

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2 stay around, if you can, for a little
3 bit, because we might want to come back
4 to you after we hear the other
5 testimonies.

6 MR. RUBIN: I'd be happy to.

7 COUNCILWOMAN TASCO: Thank you.

8 (Witness approached witness
9 table.)

10 COUNCILWOMAN TASCO: Still good
11 morning for about five minutes. Good
12 morning. Would you please state your
13 name for the record, please.

14 MR. RINALDI: Good morning. My
15 name is Philip Rinaldi.

16 COUNCILWOMAN TASCO: Would you
17 please proceed. Thank you for coming.
18 We appreciate it.

19 MR. RINALDI: Thank you. Good
20 morning or good afternoon, ladies and
21 gentlemen. Council President Clarke,
22 Special Committee on Energy Opportunities
23 for Philadelphia, Co-Chairs Henon and
24 Tasco, and members of the City Council
25 and the Committee, I offer my thanks and

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2 my appreciation for this opportunity to
3 provide testimony in support of the
4 Committee's investigation into the
5 potential of establishing our region as
6 the energy hub for the northeastern
7 portion of the United States.

8 This Committee has provided
9 guidance regarding today's testimony,
10 requesting that witnesses particularly
11 comment on matters pertaining to the use
12 of public-private partnerships and to the
13 business opportunities relating to
14 Philadelphia Gas Works. I hope that my
15 testimony will provide some issue insight
16 to the Committee.

17 I would be pleased to answer
18 any questions that you might have after I
19 complete reading this prepared statement
20 into the record.

21 My credentials and limitations
22 on the testimony, although many of you
23 know me, I'm going to introduce myself
24 for the record. I'm the Chief Executive
25 Officer of Philadelphia Energy Solutions,

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2 the company that owns and operates the
3 Point Breeze and Girard Point refineries
4 located on the former Sunoco Refinery
5 complex in South Philadelphia. Among
6 PES's business goals is the development
7 of a world-class energy port at the site
8 generally known as Southport, motivated
9 in part to take advantage of the
10 opportunities that would arise should the
11 northeast energy hub initiative come to
12 fruition.

13 I am also Chairman of the
14 Greater Philadelphia Energy Action Team,
15 a coalition of more than 80 key energy
16 industry executives operating in
17 collaboration under the auspices of the
18 Chamber of Commerce, the CEO Council for
19 Growth, and Select Greater Philadelphia.
20 GPEAT's mission is to prepare the
21 commercial, economic, and political
22 foundation that will stimulate
23 development of a major new project to
24 bring dry Marcellus Shale gas to the City
25 in a pipe or series of pipes adequately

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2 sized to meet both present and future
3 industrial needs.

4 My testimony today,
5 particularly as it relates to the future
6 business activities anticipated at
7 Philadelphia Energy Solutions, will be
8 circumscribed by the so-called "Quiet
9 Period" restrictions that are imposed on
10 the company by the Security and Exchange
11 Commission pursuant to the process
12 currently underway as we take the company
13 public.

14 A northeastern energy hub, why
15 Philadelphia? Philadelphia Energy
16 Solutions is presently two and a half
17 years old, and the Greater Philadelphia
18 Energy Action Team is just a bit younger.
19 During this time, I have been struck by
20 just how enthusiastically many of the
21 energy-centric ideas with which I'm
22 involved have been supported by
23 government at the local, state, and
24 national levels by many segments of
25 organized labor and by the regional

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2 business community at large. This
3 extraordinarily deep regional support is
4 one of the foundational pillars on which
5 the prospective creation of an energy hub
6 rests.

7 I frequently and passionately
8 advocate for the development of
9 Philadelphia's energy infrastructure to
10 take advantage of the proximity of
11 Pennsylvania's abundant Marcellus Shale
12 natural gas reserves. I will do so again
13 today because it is a matter of
14 importance and it is a matter of urgency.

15 Why is this important?
16 Locating a regional energy hub in
17 Philadelphia is important because that
18 would create an opportunity to redevelop
19 a meaningful manufacturing base in the
20 Philadelphia economy for the first time
21 in decades. And creation of a
22 manufacturing base is important because
23 the economic malaise that afflicts
24 Philadelphia casts a deep shadow over all
25 the amazingly unique and sensational

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2 attributes that Philadelphia has to
3 offer.

4 The economic stimulation that
5 follows a manufacturing rebirth is truly
6 transformational. Manufacturing creates
7 an extraordinary variety of jobs, jobs
8 that have rich content, jobs that pay
9 very well, and jobs that last for years
10 and years. Manufacturing creates jobs
11 that support strong family lifestyles.

12 Robust manufacturing is truly the
13 backbone of a thriving middle class. And
14 keep in mind that modern manufacturing is
15 far different from the factories of a
16 century ago that left some appalling
17 environmental scars. Modern
18 manufacturing is done by responsible
19 businesses that invest enormous amounts
20 of capital and commit themselves to
21 operating in community responsible ways.

22 And why is this urgent? The
23 opportunity to create an energy hub in
24 Philadelphia exists because the natural
25 gas reserve life in the Marcellus is

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2 measured in centuries, not years. The
3 value of that gas will remain trapped in
4 the shale unless and until new consumers
5 compel additional production. And major
6 new consumers cannot come to fruition
7 unless the resource comes to where it is
8 needed. The economic drivers to take
9 advantage of the abundance of Marcellus
10 gas are so strong that there are many
11 smart and well-capitalized companies
12 throughout the country working on
13 figuring out how to take advantage.

14 There is a proverbial window of
15 opportunity to make that location
16 Philadelphia, but make no mistake,
17 competition from gas short regions in New
18 England, from chemical production centers
19 like Houston, and from industrial centers
20 in Ohio, and export centers in Maryland
21 are causing that window to close. It is
22 a race. Let's win it for the home team.

23 I applaud the continued
24 interest that City Council has shown with
25 regard to developing the energy base in

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2 Philadelphia, and acknowledge your
3 essential role in ensuring that the
4 interests of the City broadly considered
5 are carefully weighed. Carefully, but
6 with an eye on that closing window of
7 opportunity.

8 The potential to have
9 Philadelphia serve as the natural gas
10 energy hub for the northeastern portion
11 of the country rests on three critical
12 elements:

13 One, Philadelphia's close
14 proximity to the reserves of Marcellus
15 gas that could be easily valorized by
16 creation of new demand;

17 Two, the already highly
18 developed regional infrastructure to
19 support a manufacturing-based economy,
20 including a strong base of energy and
21 chemical companies such as Philadelphia
22 Energy Solutions, Monroe Energy, PBF
23 Energy, Braskem, Honeywell, Sunoco
24 Logistics, PECO, and many others; access
25 to the sea and the rich export markets

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2 that gives access to; phenomenal rail
3 infrastructure; proximity to the greatest
4 consumer market in the world; industrial
5 building sites well suited to
6 manufacturing; and a regional history
7 steeped in manufacturing culture,
8 including human resources having all the
9 necessary job and professional skills;

10 And, three, the political will
11 to make it happen. At least that's the
12 state of affairs that we would like to be
13 true, but worry that maybe it isn't.

14 As this Council well knows, the
15 recent track record regarding the attempt
16 to privatize Philadelphia Gas Works has
17 cast doubt on the ability to get a major
18 deal done. That doubt is compounded in
19 some quarters by the perceived present
20 tensions in Harrisburg over energy
21 development matters.

22 Personally I am confident that
23 the Wolf Administration will ultimately
24 be an enabling force to stimulate the
25 kind of development needed to create a

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2 regional energy hub in Philadelphia. So
3 I applaud the Council's courageous
4 willingness to take on the issue of PGW
5 once again at this time. It is no
6 exaggeration to say that the eyes of the
7 business community are watching keenly
8 and hopefully.

9 Why is an energy hub important
10 to Philadelphia Energy Solutions? Once
11 Marcellus gas is abundantly available in
12 the Greater Philadelphia region,
13 industries that depend on natural gas
14 either for its energy content or for its
15 utility as a chemical feedstock will take
16 root and grow, creating an intense level
17 of new economic activity that will
18 benefit PES as well as the rest of the
19 region.

20 But on a more particular basis,
21 PES has identified several high-quality
22 projects that can add great economic
23 value to natural gas.

24 First, the steam system at our
25 refineries is costly to maintain and

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2 requires considerable redundancy to
3 ensure that the refineries' steam demands
4 are continuously met. It would be
5 beneficial to replace the old fired
6 boilers with state-of-the-art combined
7 heat and power generation equipment.
8 That would be a large-scale project, 120
9 megawatts if just our own needs are met,
10 larger if we add some merchant power
11 capability to serve neighboring
12 industries.

13 Next, the methane can be
14 converted to hydrogen and that hydrogen
15 used to materially upgrade the quality,
16 marketability, and profitability of some
17 of our products. The steam/methane
18 reformer and the hydrocracker projects
19 would be world scale in scope.

20 Once we have the capability to
21 generate Marcellus gas-based hydrogen, we
22 could convert the hydrogen to
23 agricultural chemical products, such as
24 anhydrous ammonia, urea ammonium nitrate,
25 and granular urea.

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2 The hydrogen could also be
3 converted to methanol and the methanol
4 sold as a merchant product or further
5 converted to forms of synthetic
6 transportation fuels.

7 This substantial increase in
8 PES's productive capabilities ties in
9 directly with our interest in creating a
10 world scale energy port at the Southport
11 property managed by the Philadelphia
12 Regional Port Authority. This site, up
13 to 273 acres in size depending on parcel
14 division, would be a material asset to
15 PES as a place where petroleum could be
16 received by ship or moved to export
17 markets by ship. The property is just a
18 few miles from the PES refinery complex
19 and is easily connected by pipelines that
20 would run through industrial property.

21 The highly refined products
22 that would be made possible by the
23 hydrogen production noted a few moments
24 ago would fetch a premium in European
25 markets, so it becomes a great export

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2 addition. Granular urea is a dry bulk
3 commodity that is shipped to markets
4 around the world, expanding export
5 capabilities for value-added product, not
6 just for raw materials.

7 And, of course, once there is
8 abundant natural gas availability in
9 Philadelphia, a vigorous LNG business can
10 be conceived. And LNG businesses are
11 natural to be located at an energy port.
12 Large-scale LNG exports are not very
13 practical from Philadelphia for a variety
14 of reasons, including the fact that the
15 deepened river will not be deep enough
16 nor the bridges high enough to allow
17 passage of international class LNG ships.
18 Nevertheless, there can be a coastal
19 trade in LNG supplying the short New
20 England market. There are novel
21 containment systems that would allow
22 transport of LNG in container ships to
23 supply boutique markets. There will be a
24 growing business to supply LNG to fuel
25 ships as they phase out of burning bunker

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2 fuel in the coastal zone. It is possible
3 to think about local fueling options like
4 fueling fleet vehicles or creating retail
5 LNG or CNG fueling stations.

6 So why is PGW important to
7 energy hub development? Basically for
8 two reasons. First, how resolution of
9 PGW's situation is handled will send
10 strong signals to the investment
11 community as to whether or not there is
12 the political will to progress energy
13 business in Philadelphia. Thankfully,
14 this Special Committee is breathing new
15 life into this opportunity.

16 Second, and more tangibly,
17 there are certain assets in PGW like its
18 LNG plant, LNG storage facilities, and
19 pipeline interconnections that could play
20 a central role in Philadelphia's energy
21 future. Whatever form the future takes
22 for PGW, those assets will need to be
23 available for development, free from the
24 historic restrictions inherent in PGW's
25 current ownership structure as a

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2 municipally owned utility.

3 PGW and the private-public
4 partnership. I have often expressed both
5 privately and publicly that the
6 development of Philadelphia's energy
7 future does not depend on whether PGW's
8 regulated residential gas business
9 becomes privately owned or remains
10 municipally owned. The important issue
11 here is how to best get the developable
12 assets of PGW into constructive
13 ownership.

14 There is an illustrative
15 example of why PGW cannot compete in the
16 commercial world operating as a
17 quasi-governmental entity. Two years ago
18 as PES began to develop our North Yard
19 Rail Terminal, it looked like we would
20 need a 20-foot right-of-way along a PGW
21 fence line in order to run a large
22 diameter crude oil pipeline. The
23 property in question was unused, had not
24 been used for many years, and there were
25 no plans for its use. Nevertheless, PGW

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2 advised that it would take probably six
3 months to get all the necessary
4 approvals, first from its management,
5 then from its Board, then from the City's
6 governing board, followed perhaps by
7 review of the City Council at large.

8 Whew! Needless to say, that's not a very
9 commercial path and we found another way.
10 As a footnote, we also discovered that
11 the property for which we were trying to
12 obtain a right-of-way was actually owned
13 by PES. The PGW fence line was built on
14 PES property.

15 So where would an energy hub be
16 located? One possibility is that certain
17 property presently owned by PGW has great
18 proximity to a primary new gas customer,
19 Philadelphia Energy Solutions, and that
20 property is already crossed with many
21 pipelines to support distribution from
22 the hub. That is not the only site that
23 could host the hub. Southport Energy
24 Port would be another great candidate,
25 but the PGW site has many advantages that

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2 cannot be tapped under present structure.

3 PGW's existing gas liquefaction
4 plant and LNG storage tanks are the other
5 assets with great commercial potential.

6 Once hub gas is available, PGW
7 would be in an excellent position to be
8 the gas supplier to the industrial
9 customers, greatly expanding its revenue
10 potential.

11 A public-private partnership
12 would be an effective structure to get
13 those assets into the commercial form
14 that would be capable of developing them
15 while still keeping the City involved
16 economically so that it can have a stake
17 in future success.

18 I can think of no conceptual
19 reason why a P3 could not be made to work
20 for the regulated side of PGW's business;
21 that is, the supply and distribution of
22 residential gas. But it is difficult to
23 see how there could be enough profit and
24 profit growth potential in that part of
25 the business to attract private capital.

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2 This is especially true since the
3 residential gas supply portion of PGW's
4 business fulfills worthwhile but
5 non-remunerative social goals that
6 reduces cash flow, and there is a
7 significant latent capital expenditure
8 burden to bring its pipe network up to
9 current standards that further reduces
10 net cash flow.

11 Thank you for hearing my views.
12 I'll be pleased to answer any questions
13 that you might have.

14 COUNCILWOMAN TASCO: Thank you
15 very much.

16 Would you just kind of describe
17 for me what is a hub. What is a hub? I
18 keep hearing this word. What does that
19 mean in layman's terms so I can explain
20 it to our constituents here in the City?

21 MR. RINALDI: I'm not surprised
22 to hear that question, because I get that
23 question a great deal. So by an energy
24 hub, what we're really talking about is a
25 place where very large supplies of

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2 Marcellus gas are brought down and then
3 redistributed from that hub. So it is as
4 if it were the hub on a wheel and it had
5 a single feeder coming in from the
6 Marcellus and then many outlets going to
7 serve industries that will develop
8 different companies and those businesses.
9 So it's in that sense that it's a place
10 to aggregate and then redistribute that
11 it becomes a hub. That's in one sense.

12 The other sense of it being a
13 hub is that by taking this Marcellus gas,
14 which is constricted from the market
15 right now -- basically the market is
16 already satisfied, so if they try to
17 produce more of those reserves, the only
18 way they can do that is by reducing price
19 further and trying to drive some other
20 molecule out of the market. That's not
21 very good. But if you can create new
22 demand and you do that from a center and
23 that center becomes that hub, the place
24 where people look. So natural gas right
25 now in this country is priced off of

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2 Henry Hub on the Gulf Coast. And so
3 we're using the term "hub" to really kind
4 of hark back to that Henry Hub place,
5 because we think this could become the
6 pricing point for natural gas along the
7 eastern portion of the country rather
8 than looking at Henry Hub and the
9 translocational differences in those
10 prices. You have it priced right here
11 and this becomes the place from which
12 energy is priced and then redistributed.

13 COUNCILWOMAN TASCO: And just
14 for my clarification, how does -- and you
15 kind of stated it, but I want it in
16 layman's term. What is the role of PGW
17 in the energy hub?

18 MR. RINALDI: So I think --

19 COUNCILWOMAN TASCO: Can the
20 energy hub take place without PGW? What
21 if we didn't have a PGW?

22 MR. RINALDI: Yes, I think an
23 energy hub could take place without PGW.
24 I think that would be a shame for
25 Philadelphia and I think we would be

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2 leaving assets on the table that help
3 make the place unique, but, yes, I think
4 it could.

5 COUNCILWOMAN TASCO: No. That
6 question is not to talk about the value
7 of the hub, but it's been so much
8 pressure or talk about PGW being
9 essential to the hub, and my question is,
10 if we didn't have PGW, could you still
11 have the hub given all the other entities
12 that are involved, and what you need is
13 the pipeline, right?

14 MR. RINALDI: Yeah. Absolutely
15 you need the pipeline. So that's number
16 one. You need the pipeline. Number two,
17 you need a terminal point for that
18 pipeline. And, in fact, that terminal
19 point, because the scale is going to be
20 so large, that terminal point is going to
21 have to be new. So whether that's new
22 built in PGW or new built in some other
23 entity. It could be either. And then
24 you're going to have to redistribute out,
25 because that's the other -- the final

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2 function of the hub, is to act as a
3 redistributor. And that's a place where
4 PGW has a very unique standing to be able
5 to participate. It already owns and
6 controls and operates a very impressive
7 redistribution network. So it's more
8 effective if you have PGW involved in
9 that portion of the business.

10 Secondly, a lot of the activity
11 that would benefit from it is LNG and
12 LNG-based businesses. And since PGW
13 already has a substantial head start in
14 those businesses, it's a great way to be
15 able to get in without having all that
16 kind of new capital. You'd have assets
17 in place.

18 And then I think the third
19 thing that's important for this Committee
20 to feel is that if this all becomes
21 successful, if there is an energy hub
22 here and it really does stimulate the
23 kind of manufacturing rebirth and now you
24 have all this industrial demand, who is
25 in a better position to be the supplier

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2 of that industrial gas than PGW? And now
3 you've taken the kind of revenue stream
4 of old PGW and you've moved it
5 substantially up to a higher platform.

6 COUNCILWOMAN TASCO: Okay. So
7 during our discussion of the possible
8 sale of PGW -- let me think about my
9 question first. I got to think about
10 this question.

11 Go ahead. Councilman Henon.

12 COUNCILMAN HENON: Thank you,
13 Madam Chair, and, Mr. Rinaldi, thank you
14 for coming in as always. You've been
15 here many times.

16 You know, I have several
17 questions, and it's always good to ask
18 them again even though they're answered
19 in your testimony. But it was
20 interesting you had talked about the
21 energy hub as being a distribution point,
22 and we heard from Craig White earlier of
23 PGW talking about we receive 40 percent
24 of its -- correct me if I'm wrong -- LNG
25 from or its natural gas from shale?

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2 MR. RINALDI: I believe he said
3 it's 45 percent of the natural gas coming
4 from Western Pennsylvania and 55 percent
5 from the Gulf Coast.

6 COUNCILMAN HENON: Coming from
7 the Gulf Coast. If we were a
8 distribution point, would we still need
9 to go elsewhere to bring natural gas into
10 the City of Philadelphia and in this
11 region?

12 MR. RINALDI: So it would be
13 Phil Rinaldi's personal hope that you
14 bring in Marcellus gas and back out Gulf
15 Coast gas and keep the revenue and keep
16 the dollars here in the state.

17 COUNCILMAN HENON: It doesn't
18 seem very complicated. I mean, there are
19 other complicated things that we need to
20 discuss, like whether we should have P3s
21 or P3s open up to other opportunities,
22 things like that, but to me it seems very
23 simple. Let's liquify, let's expand the
24 pipe, and let's distribute from here as
25 opposed to -- I mean, there must be a

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2 tremendous amount of costs involved with
3 receiving natural gas, 45 percent of what
4 we need, and then it being diverted to
5 Texas, only to come back to the City of
6 Philadelphia and the region for
7 distribution. I mean, that has to be a
8 tremendous amount of transportation
9 costs.

10 MR. RINALDI: There's certainly
11 tremendous amounts of transportation
12 costs on the big interstate pipeline that
13 you have to pay. You're running an extra
14 thousand miles or 1,500 miles, but the
15 more cross-sticking point is that you're
16 not taking the molecules out of the
17 ground here in state. And Governor Wolf
18 is very committed to creating an
19 extraction tax of some sort. Isn't it
20 better to be increasing the volume of the
21 things which you can levy a tax against?
22 It helps keep the rate of the tax down
23 while expanding the dollar volume of that
24 gas. It seems really simple arithmetic
25 to me.

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2 COUNCILMAN HENON: And it does,
3 and I'm glad we're talking about this in
4 as simplistic form as possible. Let's
5 keep our local resources and revenues
6 here and put it back into the communities
7 where we live when we have budget
8 shortfalls, not only throughout the
9 Commonwealth but right here in
10 Philadelphia. I mean, the Superintendent
11 just asked the Mayor and City Council for
12 another \$110 million for our schools. If
13 we could defray some of those costs or
14 have some sort of arrangement with the
15 Commonwealth, which I believe Governor
16 Wolf is looking to do, maybe we could
17 receive more resources for basic
18 education for the City of Philadelphia
19 and create jobs. And I would imagine
20 that by having a pipeline, a bigger
21 pipeline, to transport molecules here to
22 distribute will create and spur economic
23 development and create hundreds, if
24 not -- hundreds upon hundreds of new
25 jobs, which will be going right back to

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2 our communities.

3 MR. RINALDI: The economic
4 impact is really quite substantial. I
5 don't have ready to present today, but
6 I'll tell you one of the work products
7 that the Greater Philadelphia Energy
8 Action Team is working on right now is,
9 we're kind of creating a study which
10 talks about the impacts of this pipeline
11 and the impacts of the energy hub, and
12 we'll discuss what kind of disturbances
13 are likely to have by running a pipeline
14 so that we can address those issues and
15 people understand them a little bit and
16 the economic benefits that you'll have
17 during the construction in collateral
18 businesses.

19 Part of the issue becomes one
20 of how do you deal with the economic
21 consequences. People in the Marcellus in
22 Northeastern Pennsylvania where most of
23 this dry gas is, they kind of get it, you
24 know. If they can get new markets and a
25 new opportunity, that means more

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2 drilling, more production, more business.

3 They get it. I think here in

4 Philadelphia, the business community

5 certainly gets it. You have that

6 resource to work on. You're building new

7 enterprise. That's creating construction

8 jobs. It's creating permanent jobs.

9 It's creating economic vitality.

10 But then the piece that's in

11 between is not quite so apparent. What

12 about all the good people who live

13 between the place where it's being

14 drilled and the place where it's being

15 used and they're dealing with that

16 disturbance. So we're trying to create a

17 document which is going to demonstrate --

18 because we believe this is good for the

19 population of the entire State of

20 Pennsylvania. Maybe disproportionately

21 beneficial here in Philadelphia, but I

22 think there's a lot of wealth to be

23 spread around.

24 COUNCILMAN HENON: Mr. Rinaldi,

25 you are the Chair of the Greater

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2 Philadelphia Energy Action Team and you
3 had just stated that you're forming an
4 impact study on this conversation and
5 possibilities. You just had a summit at
6 the end of last year. Can you explain to
7 me what the overall sense of enthusiasm
8 in Philadelphia becoming an energy hub
9 and how much participation was at that
10 summit and how much, again, enthusiasm
11 are they looking for to come to the City
12 of Philadelphia and, more importantly,
13 investing their financial resources.

14 MR. RINALDI: Thank you. Yeah.
15 It's quite true. On December 5th, we
16 hosted something called an Energy Summit.
17 It was hosted at Drexel University, and
18 they had some facilities and we used --
19 they had really very, very nice
20 facilities, but the Fire Marshal
21 prevailed. We had a 200-person
22 limitation on the space, and the Fire
23 Marshal told us 200 means 200, not 201.
24 And that allowed us to have an absolutely
25 sold-out -- there was no charge, but an

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2 absolutely sold-out kind of conference.

3 And, in fact, there were many people who
4 would have benefited from hearing that
5 could not be invited just because there
6 was not enough room, and that includes
7 many political people where we have some
8 followup to do and many people in the
9 media as well.

10 But that was extremely well
11 received, very enthusiastic. It was a
12 full-day event. Our target for that was
13 to bring in decision-makers from
14 companies primarily in Western Europe,
15 but in general in places where natural
16 gas was high in cost and perhaps
17 politically unstable, and we wanted to
18 show them why maybe they want to come and
19 commit here where you can have low cost,
20 politically stable, stably priced
21 resource.

22 We had 20 people, 20 entities
23 in that category who were the main
24 quarry, if you will, of the event. We
25 had their attention for a full day.

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2 That's a lot of talking. And we held
3 their attention and they stayed
4 throughout.

5 The response was tremendous,
6 and Select Greater Philadelphia and Matt
7 Cabrey and his team are doing the
8 follow-up work as they kind of continue
9 to cultivate those resources. We thought
10 that was an extremely successful event.

11 COUNCILMAN HENON: I'm going to
12 yield some of my time and questions after
13 some of the other members on Council has
14 an opportunity. Thank you for your time.

15 MR. RINALDI: Thank you.

16 COUNCILMAN NEILSON: Thank you
17 for coming, Mr. Rinaldi. I want to go
18 back to the pipeline a little bit, if we
19 could. Last time we all got together on
20 this issue we talked about capacity and
21 how there's no more capacity in the
22 pipeline. Is that currently being
23 addressed? Because we can't become this
24 hub unless that pipeline gets to where it
25 needs to be, and the capacity is an

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2 important part of that and PGW has a
3 major share in that. Is that such the
4 interest of some of the energy companies,
5 getting that capacity in that pipe?

6 MR. RINALDI: So it's the
7 understanding of that pipeline capacity
8 which is at the heart of the issue, and
9 Craig White was addressing this a little
10 bit. The big interstate pipelines that
11 are moving from the Gulf Coast and
12 ultimately up into New York and New
13 England, they move an awful lot of gas
14 and there's, frankly, a lot of room in
15 those pipes to move gas.

16 Inside Philadelphia, I think I
17 heard the testimony that the pipes are
18 perfectly adequate, but there is that
19 interconnection, that interconnection
20 into the kind of Philadelphia gate where
21 the bottleneck exists and you get limited
22 on gas, and we've seen that manifestation
23 now in two successive winters, last
24 winter and this winter.

25 But the price of natural gas,

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2 not to the consumer because that's always
3 a levelized kind of a pricing, but for
4 industrial consumers where you're much
5 more spotty in a gas market and you're
6 absolutely spotty in terms of access
7 through that gate, January a year ago,
8 that last week in January where you
9 recall it got really, really frigid and
10 the price of natural gas in Henry Hub had
11 spiked from \$4 to \$6 because it was cold
12 throughout the country, the price of
13 Marcellus gas started to tweak up. It
14 was 3.50 at the time. It started to
15 tweak up. But here in Philadelphia
16 because you had to pay that premium
17 transmission to get through the gate, the
18 prices actually got to \$120, \$120, not
19 \$3, \$120. Insane. It was only for a
20 couple of days, but those days are really
21 important.

22 Fast forward another year, we
23 have another pretty cold winter, not
24 quite as spiky, but we had substantial
25 periods of time this winter where that

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2 spot price for the transmission in
3 through the Philadelphia gate was costing
4 \$30 to get through. You're buying a
5 commodity for 3 bucks and then you got to
6 pay \$30 of shipping and handling. You
7 know, this --

8 COUNCILMAN NEILSON: Where does
9 that go to? I'm sorry.

10 MR. RINALDI: So that's the
11 pipeline --

12 COUNCILMAN NEILSON: Who gets
13 that \$30?

14 MR. RINALDI: So what happens
15 is, you're bidding for capacity, and the
16 price gets set by the -- it's a
17 commodity, that capacity, and the price
18 gets set by the neediest consumers. So
19 when gas is really -- when the demand is
20 high, the pipe is now full and choking,
21 the users think about hospitals. They
22 can't afford to allow the hospitals to go
23 cold. So they're going to pay whatever
24 they have to pay in order to keep that
25 up, and that's what begins to set the

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2 price. It's that most difficult portion
3 of the curve. That's because there's a
4 capacity constraint.

5 So the energy hub is -- the
6 idea is to do a completely prog over
7 that. It's not only to get rid of the
8 bottleneck, but it's to ensure that at
9 least for the foreseeable future you have
10 pipelines that are big enough that you
11 have zero opportunity to have a capacity
12 bottleneck.

13 COUNCILMAN NEILSON: Is that
14 bottleneck owned by PGW currently? The
15 pipeline that comes in, you say it's
16 choked off at Philadelphia. Is that
17 choke-off point owned by PGW --

18 MR. RINALDI: No.

19 COUNCILMAN NEILSON: -- or
20 another entity?

21 MR. RINALDI: No. It's owned
22 by the pipeline companies, pipelines that
23 come in.

24 COUNCILMAN NEILSON: Do you
25 know the name of that company that owns

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2 that?

3 MR. RINALDI: Just because I
4 don't want to be wrong, I'm reluctant to
5 say. I don't think it's a company. I
6 think it's multiple companies.

7 COUNCILMAN NEILSON: Okay.
8 Thank you, sir.

9 I have no further questions,
10 Madam Chair.

11 COUNCILMAN OH: Good afternoon.

12 MR. RINALDI: Councilman Oh.

13 COUNCILMAN OH: So let me just
14 look at the three issues that were
15 discussed, and the first is that you said
16 we are in a race. And I would like you
17 to just briefly explain to the public why
18 are we in a race and what's our time
19 period.

20 MR. RINALDI: So the idea of
21 why is there a race, this all starts with
22 the producers of natural gas in the
23 Marcellus region. At the moment, there
24 is insufficient market to take away all
25 of the gas that they can produce from

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2 existing drilling, let alone the gas that
3 could be produced from new drilling,
4 which is the lifeblood of that business.
5 And because that's the case, there's a
6 high degree of incentive on the part --
7 incentive for those producers to support
8 a system to deliver more gas when you can
9 offer substantially more market.

10 Once they become satisfied,
11 once that is flowing at some normal kind
12 of rate, all of the sudden they're not
13 particularly incentivized. Now you're
14 just another player in the market. So
15 the opportunity to get the kind of
16 concessions that you need in order to
17 establish a hub disappear. And so where
18 are those other places? What can happen?
19 So what can happen is in the U.S. Gulf
20 Coast where, frankly, the petrochemical
21 industry was born, but then that
22 petrochemical industry kind of went
23 through -- it's not down. It's still
24 important, but definitely a slump,
25 because it grew in other areas, in Saudi

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2 Arabia, in the Far East where gas was
3 abundant and the markets were okay. But
4 if you start building more new chemical
5 plants there in Houston, they're going to
6 dry up that capacity of the Marcellus
7 gas, and who else is looking at that kind
8 of gas? The NGLs which drive the
9 plastics businesses that are trying to
10 come into Western Pennsylvania, Ohio,
11 they do that. Gas to go out in massive
12 LNG exports through Cove Point are going
13 to put pressure that way. And pipelines
14 just simply to take the resource out of
15 the Marcellus and move it up to be burned
16 in New England are another race.

17 So the idea that this race is
18 really about being the entity that can
19 give to those producers the carrot that
20 they're looking for and that helps
21 support the development of this hub.

22 COUNCILMAN OH: Okay. Thank
23 you.

24 I'd like to ask you, are you
25 familiar with Cheniere Energy?

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2 MR. RINALDI: I know who they
3 are.

4 COUNCILMAN OH: Okay. And so
5 at the Louisiana Sabine Pass project,
6 they invested \$12 billion into the first
7 phase, 12 billion, and I understand that
8 in Freeport, the Freeport LNG export
9 terminal in Texas, it's somewhere around
10 20 billion at this point in time, and
11 they're coming to Philadelphia. They're
12 coming to Philadelphia because they're
13 interested in Philadelphia as an export
14 location.

15 Blackstone is also a well-known
16 investment company, around \$28 billion, I
17 think; is that correct?

18 MR. RINALDI: Blackstone is
19 very large.

20 COUNCILMAN OH: Okay. So they
21 also are coming to Philadelphia in April.
22 They're both coming to Philadelphia
23 because they're interested in
24 Philadelphia as an LNG export location.

25 The reason I say that is

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2 because the issue has come up as to
3 whether or not the kind of money and
4 investment and expertise is really
5 interested in Philadelphia and available
6 such that we should look at it.

7 And then, finally, I'd like to
8 just make a statement. It's not a
9 question. Because you raised the issue
10 about the business community and having
11 some doubts, and I understand that,
12 doubts about the will of City Council
13 regarding natural gas energy hub because
14 the UIL Holdings deal in its specific
15 terms and conditions was not moved
16 forward, and particularly I've heard from
17 people who said you should have had a
18 hearing at least. And I'd like to point
19 out that we are elected not to hold
20 hearings so that people can hear the
21 things and then tell us what they want us
22 to do. We're elected to review for
23 months and months volumes of paperwork,
24 meet with consultants, meet with the
25 representatives, and be able to come to

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2 the first line, which is, does anyone
3 support the terms and condition of the
4 sale. And if even one person on City
5 Council does, we shall now have a
6 hearing, because someone introduced the
7 bill.

8 I will not introduce the bill
9 because I don't support the sale on those
10 terms and conditions, and I thought it
11 was a risky, bad deal. But I want to put
12 into context that I will not be
13 introducing the bill to increase the
14 property taxes 9.3 percent. Somebody
15 else can do that if they believe that
16 will work. And I'm not saying we
17 shouldn't have that discussion. All I'm
18 saying is, I won't be the one putting
19 that forward. If nobody puts that
20 forward, we will not be talking about a
21 9.3 percent real estate increase in the
22 City. But if someone puts that forward,
23 it's because they believe in it and
24 they're going to advocate for it and they
25 believe -- and I'm fine with that, but

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2 that's how that works.

3 In the situation that we dealt
4 with, it was not for the lack of an
5 interest in looking for the best
6 situation for Philadelphia. It was
7 because the first line, the first litmus
8 test of whether or not we even went in
9 that direction was not passed by the
10 people who reviewed and went through that
11 material. And I will guarantee that I
12 have read all the material. I've gone to
13 every meeting, every briefing. I've met
14 with UIL on numerous occasions any time
15 they wanted to meet with me and their
16 lobbyists and everyone else. I do not
17 support, did not support those terms and
18 conditions and, therefore, I would not
19 introduce the bill.

20 And that is how that works.
21 But anyone can ask me why not. I'll be
22 happy to tell anybody what I reviewed,
23 what I saw, but I want to ensure the
24 business community, because I've spoken
25 to business people, that that is not a

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2 reflection of a lack of support for the
3 energy hub that you're talking about.

4 And certainly if we get to that level, we
5 can have that discussion and people can
6 raise the issues that some people are
7 raising today about the climate and about
8 the dangers and all that. We can do that
9 at that point in time. But first we
10 wanted to ensure that we put good deals
11 and realistic deals in front of the
12 people of Philadelphia.

13 But thank you very much.

14 MR. RINALDI: Thank you.

15 Councilman Oh, also just to allay
16 interest, we certainly understood in that
17 process that there were genuine
18 objections to the deal. It was not about
19 that. And because that was the case, the
20 Energy Action Team spent a long time
21 expressing to people that there were
22 issues inside here, but there was real
23 support. Council President Clarke went
24 through the effort of coming and
25 attending the Energy Summit to show

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2 tangible support from the City Council.

3 Mayor Nutter has stepped up and shown

4 tangible support as well, and we're

5 getting that kind of support at the

6 government level. So we have no issue

7 about where the things are. Optics are

8 one thing.

9 I would like to comment about

10 Cheniere and Blackstone and \$12 billion

11 and \$20 billion and export LNG business.

12 This is a very personal opinion, but you

13 will never ever hear me advocate for that

14 business. I think that's a crazy

15 business. I have to tell you just in

16 general. It's very expensive to liquify,

17 to store, to transport, then to regasify

18 and then redistribute. And so the

19 driving force in the market for that is

20 someone wanting to get lower price gas

21 and they're chasing lower price gas

22 through an extremely expensive route. I

23 think there are a couple of pockets in

24 the world where that makes some sense. I

25 don't believe for a moment that 15 would

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2 work. But from a technical point of
3 view, frankly, I can't see how that works
4 in Philadelphia, 45 foot channel. A
5 world scale LNG vessel can't go in a 45
6 foot channel. It needs a deeper channel,
7 and it can't fit underneath the bridges
8 that are here. So I really don't get it,
9 unless you're going to take these
10 facilities much further down the river
11 than in Philadelphia.

12 But I can tell you also for \$20
13 billion, you would have built here many,
14 many factories making all sorts of things
15 out of natural gas that will stimulate
16 much more business for Philadelphia.

17 COUNCILMAN OH: I appreciate
18 your opinion, and I think the good thing
19 is, we will have the people explain that,
20 and I'm sure we're reaching out to you
21 right now to get your opinion at that
22 time.

23 Thank you.

24 COUNCILWOMAN TASCO: You heard
25 Craig White talk about some of the

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2 obstacles that PGW has in terms of
3 probably moving in another direction,
4 regulatory issues. And, of course, I
5 think UIL would have had the same
6 problem.

7 What can the business community
8 do to create a political will to lobby
9 for changes in some of the regulations
10 that give PGW the ability to certainly
11 enter into other markets or things of
12 that nature?

13 MR. RINALDI: That's a terrific
14 question and, you know, certainly we
15 would be supportive of trying to do those
16 things. We think that definitely PGW
17 that has the ability to act much more
18 commercially is a healthy thing. I don't
19 see any downside to that, and I'm sure
20 the business community would help. I
21 think the Chamber has provided some
22 testimony with some very specific kind of
23 legislative concepts in it, and I think
24 there would be broad, broad support in
25 the business community.

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2 COUNCILWOMAN TASCO: Have you
3 talked to PGW at all about the idea of an
4 energy hub?

5 MR. RINALDI: Yes.

6 COUNCILWOMAN TASCO: You've met
7 with the -- did you meet with Craig
8 White?

9 MR. RINALDI: Yeah. So, you
10 know, for full disclosure, Craig is an
11 old friend and --

12 COUNCILWOMAN TASCO: What about
13 the Board, PGW Board?

14 MR. RINALDI: I have not ever
15 addressed the PGW Board in any formal
16 capacity. I think I had met the Chairman
17 just in a casual setting.

18 COUNCILWOMAN TASCO: So what it
19 would take would be collaboration. And
20 you're going to have a new Administration
21 next year. I don't know who that will
22 be, but certainly that discussion has to
23 take place with not only who will be
24 Mayor but who will be on City Council.
25 So we may not take any action right now

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2 because you have this change coming up.

3 You'll probably know in May what's going
4 to happen. But those discussions have to

5 take place, because selling PGW to some
6 other entity that would have to go

7 through the same rigorous applications,
8 in my mind, would be not the best thing

9 to do. I think enhancing what we have, a
10 valuable asset that we have, to work with

11 whatever we decide to do in this region,
12 energy hub and how they would fit into

13 that, would be better to -- how do we
14 change the way we do business is

15 important. If we're looking towards the
16 future, then we can't have the same rules

17 governing what has governed PGW and

18 utilities forever. Certainly you have to
19 approach the government about that as

20 well as the state, and I think those are
21 steps that have to be taken before we

22 even entertain PGW's involvement to the
23 degree that you might need. And I'm not

24 an expert in this stuff, but just my
25 sense is that there's got to be more

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2 political input into this.

3 MR. RINALDI: So when I first
4 arrived here on the scene and began to --
5 as we were putting the Philadelphia
6 Energy Solutions transaction together and
7 I started to meet with Mayor Nutter, with
8 Council President Clarke and some larger
9 field, the very first things that I said
10 at those moments is that there are really
11 important assets in PGW; namely, that LNG
12 and some of that stuff, that really
13 should be in a commercial way. They
14 said, Well, we can't do that here because
15 it's a municipally owned utility. So, of
16 course, I had the benefit of being
17 ignorant. I said, Well, let's just
18 change the rules, you know. Well, it's
19 not that easy, it was pointed out to me,
20 to do that.

21 But I have to tell you here
22 some three years later, I still say let's
23 change the rules, you know. I mean, we
24 make rules in order to make our lives
25 work better, and it really looks like

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2 it's so much better to have a commercial
3 strong leg at PGW, I think it's perfectly
4 legitimate to want to try to change those
5 rules.

6 COUNCILWOMAN TASCO: Councilman
7 Johnson.

8 COUNCILMAN JOHNSON: Thank you,
9 Madam Chair.

10 Thank you, Mr. Rinaldi, for
11 taking time out of your schedule being
12 here today and giving your expert
13 testimony on the City of Philadelphia
14 becoming an energy hub. But I also thank
15 you and your staff for keeping open the
16 lines of communication and working with
17 my office to address whatever issues of
18 concerns or misconceptions or even ideas
19 on how we could improve your operations
20 with the local communities that I
21 represent, being that you're a part of
22 the 2nd Councilmanic District. So I do
23 want to thank you publicly for that and
24 also you and your team stepping up to the
25 plate and working with various elected

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2 officials and saving some jobs of some
3 constituents in which I represent out at
4 the former Sunoco refinery.

5 Just three things I just wanted
6 to ask. One, under the Energy Action
7 Team which you chair, if you could just
8 make sure as y'all create the economic
9 impact study available to myself as
10 Chairman of Public Utilities and
11 Transportation, that would be very
12 helpful as well.

13 Two, will there be, for better
14 or worse, an environmental component that
15 will be a part of that study for the long
16 term just to take a look at anything that
17 we may want to look at in terms of
18 improving, enhancing, paying attention to
19 as we grow toward becoming an
20 environmental hub in the City of
21 Philadelphia, something to take into
22 consideration of? Because obviously I
23 will have constituents who will -- I like
24 to separate fact from fiction, and
25 obviously even based upon my resolution

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2 yesterday, I'm always looking at our
3 relationship with CSX, because that's
4 pretty much where the entity I've held
5 accountable, because that's my primary
6 concern from a public safety standpoint,
7 and I always will be very public on where
8 I stand on the issues. But if you could
9 take a look at those two impact studies
10 and provide me some information in their
11 future.

12 And the last thing most
13 importantly is the customer, the
14 consumer. Talk about this energy hub in
15 the future when you talk about liquid
16 natural gas and Marcellus Shale energy
17 coming to our region. How does that
18 impact the consumer, just from your
19 perspective?

20 MR. RINALDI: Okay. Councilman
21 Johnson, that's a long question. So I
22 can assure you this, that this little
23 book, study, whatever it is that we're
24 putting together, is definitely going to
25 touch at a high level environmental

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2 impacts of a pipeline and a hub and what
3 does it mean. It's not to be confused
4 with a literal environmental impact
5 statement. That's way premature to do.
6 It's not going to have that kind of
7 detail. But from a conceptual level,
8 we're going to have some frank discussion
9 about what happens and what does it look
10 like, so that you just can see what are
11 the ways, what's the benefit, what's the
12 cost. You know, that's kind of what
13 we're going to do, and certainly those
14 will be made available to everybody that
15 it needs to be made available to.

16 On the -- now I've forgotten
17 that third question.

18 COUNCILMAN JOHNSON: Consumer.

19 MR. RINALDI: On the consumer.

20 So now that's a little difficult. So
21 from the natural gas consumer, I don't
22 know. That's interworkings of PGW, for
23 which I'm really not very privy. I've
24 got to believe that if you have enormous
25 quantities of gas here, that's got to

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2 make the gas acquisition cost for PGW
3 better than it has been. Whether that is
4 a tiny impact or a modest impact or a
5 nice impact, I don't know. I can't size
6 it up. But you're going to have gas in
7 that kind of quantity around. How that
8 passes through the consumer, I don't
9 know. But the more that you have other
10 people bearing the cost of these
11 distribution networks -- and that's
12 what's going to happen in here, because
13 industries are going to support the kind
14 of cost of these pipelines, because if
15 they're going to be the primary user of
16 that amount of gas, I think there's a
17 benefit that happens there.

18 Then, secondly, what else
19 happens for the consumer, the whole
20 general economy ought to be able to
21 inflate pretty nicely because of the
22 amount of business activity. I know
23 that's not exactly what you meant by the
24 question, but that consumer I think is
25 going to benefit by having more jobs in

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2 the neighborhood, more workers working,
3 more people that need to eat pizza and
4 need to get their hair cut and do all of
5 those kind of collateral things.

6 COUNCILMAN JOHNSON: When you
7 talk about the P3 -- and I know you are
8 very direct regarding the former proposal
9 regarding PGW in the past and what the
10 City of Philadelphia could have benefited
11 from it. Nevertheless, we as members of
12 Council did our due diligence and decided
13 to go in a different direction, but
14 decided to move forward at least for the
15 discussion on where do we go in the
16 future in terms of still evaluating our
17 options with PGW. Just be clear from
18 your perspective what a P3 looks like.

19 Two, I'm also -- and I don't
20 know if you will be the individual to
21 actually answer this question. I'm also
22 concerned about how we -- if we talk
23 about energy hub, we include minority
24 participation in terms of companies who
25 also have an opportunity to participate

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2 in this dialogue in terms of
3 manufacturing jobs, building the
4 pipeline. I know PES has a program of
5 young people, correct, where they're
6 learning the industry from an engineering
7 standpoint, specifically urban school. I
8 want to point that out to be quite clear,
9 because oftentimes that's not put out
10 there on the table about African American
11 young children or minorities just in
12 general from the inner City learning a
13 particular trade where they'll be able to
14 raise themselves up out of poverty by
15 having a good-paying -- more than
16 good-paying job and so forth.

17 So can you just elaborate from
18 the P3 standpoint. You may be able to
19 touch on the minority participation
20 component or not, but those are some
21 things that have been on my mind, not
22 even on this discussion but even during
23 the last evaluation of the PGW proposal,
24 but it wasn't always put out there, to be
25 quite frank with you, only with some

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2 certain individuals.

3 MR. RINALDI: You know, I think
4 one of the --

5 COUNCILMAN JOHNSON: And one
6 other last thing. The other proposal
7 that talked about PGW had a significant
8 dollar amount attached to it. I think it
9 was like one point something billion, if
10 I'm correct. Do you lose money -- well,
11 I'm not going to say lose money. Give me
12 your idea of projected or what a
13 hypothetical P3 revenue-generating
14 proposal looks like from that aspect as
15 opposed to just getting one major sum by
16 selling off an asset.

17 MR. RINALDI: I'll --

18 COUNCILMAN JOHNSON: If that's
19 clear.

20 MR. RINALDI: Your question is
21 clear. How I'm going to answer it is
22 less clear. So, first of all, the P3, I
23 think Craig White really alluded to the
24 issue. While it's a little bit difficult
25 to talk about what is an energy hub, it's

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2 even more difficult to say what is a P3,
3 because I don't think there is one thing
4 that's a P3. That's the beauty of it.
5 It's a public-private partnership, and I
6 think virtually every one is different.
7 There's not a cookie cutter. You don't
8 go in and just adopt the P3 mold. It's
9 the private guy and the public guy
10 sitting and negotiating what's right for
11 them in that circumstance. And,
12 Councilman Johnson, I got to think that
13 kind of minority participation in the
14 business, in the construction of the
15 business, in the operation of the
16 business is certainly an extremely
17 legitimate thing to discuss as one forms
18 a P3. I know of no reason why there
19 should be an impediment.

20 Again, I think a P3 is an
21 entirely voluntary structure. So you
22 make out of it what you can.

23 One of the benefits for the
24 City of that kind of thing -- you know, I
25 live in a world of mergers and

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2 acquisitions and we have a slightly rude
3 saying sometimes for a kind of thing. We
4 talk about -- let's see here, how am I
5 going to make this sound right -- idiot
6 insurance or something like that. So
7 sometimes when you're dealing with
8 someone who is selling a property and
9 they're really not quite sure of the
10 value, you know, you arrange to have kind
11 of a continuing economic interest, and
12 this helps prevent for the seller having
13 that they wake up and say, Oh, my God,
14 look what the buyer did. He made 18
15 gabillion dollars out of it and I walked
16 away with nothing. So they have some
17 continuing interest, and that kind of
18 helps align the interests of the parties
19 at the table.

20 My PES transaction has a very
21 large component of that. Sunoco was
22 given a large retained interest in here,
23 so they never had to confront what maybe
24 an economic value was at the moment of
25 the transaction. They're getting to

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2 harvest that value at a much better point
3 in time, and I think that's one of the
4 things that becomes an advantage if you
5 do a public-private partnership. You
6 kind of get out of part of the -- you
7 capitalize -- you valorize part of the
8 business, but you retain an interest so
9 you have some kind of ongoing
10 participation. I think that's a
11 beneficial thing, but I don't think it's
12 the only way to do it and I don't think
13 it's necessary.

14 COUNCILMAN JOHNSON: Did you
15 call it idiot insurance?

16 MR. RINALDI: Well, when we're
17 not on the microphone, I'll tell you the
18 real world. It starts with an S and it's
19 got a Yiddish component.

20 COUNCILMAN JOHNSON: Thank you
21 very much.

22 COUNCILWOMAN TASCO:
23 Mr. Rinaldi, in your testimony you talked
24 about the City under the Natural Gas Act,
25 it authorizes the City to form a

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2 municipal authority to provide natural
3 gas supply and/or distribution services.
4 You also spoke about the potentiality of
5 transferring PGW's assets or operations
6 to that authority. Transferred is a
7 broad term, especially if you're talking
8 about transferring assets.

9 Would the new municipal
10 authority have to issue revenue bonds in
11 order to pay off PGW's existing debt at
12 the time of transfer? If so, would it
13 pay any different interest rate than PGW
14 does as a tax-exempt municipal entity?

15 MR. RINALDI: I'm afraid I'm
16 just not familiar enough with the
17 particulars of that. I can't give -- I
18 mean, I can give you my personal guess,
19 but I can't give you a learned answer to
20 that.

21 COUNCILWOMAN TASCO: Okay.

22 Councilman Henon.

23 COUNCILMAN HENON: Thank you,
24 Madam Chair. And this is more of a
25 statement, because I loved what I heard

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2 from you, aside from your testimony and
3 some of the questions. Change the rules.
4 And it is simple as -- and I'm really
5 trying to keep this from a pragmatic
6 approach. If we can -- if there's rules
7 that need to be changed, we change the
8 rules around here all the time. We
9 change the Charter all the time, and
10 sometimes it sets us back. We go
11 backwards. We need to see and know what
12 the big vision is. When we can change
13 the rules to put people back to work, to
14 create more PGW jobs, to create new jobs
15 and new opportunities for smaller
16 contractors or folks who need a second
17 chance to create jobs from our public
18 schools to work kind of programs, we have
19 the chance right here to change the rules
20 so we could be responsible with our
21 environment and we can change the rules
22 so we can generate new revenue
23 opportunities to deal with our unfunded
24 liability in our pension system and our
25 underfunded schools.

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2 So I am in full support of your
3 knowledge and everyone else's here who
4 has prospect opportunities and creative
5 and innovative ideas to generate revenue
6 and put Philadelphians back to work so we
7 can go forward instead of backward. So
8 sometimes changing the rules is just that
9 simple.

10 MR. RINALDI: Thank you.
11 Councilman Henon, I want to point out,
12 though, there is one thing that the City
13 is not changing. There's three light
14 bulbs up here. The same three were out
15 last time I was here.

16 COUNCILWOMAN TASCO: We see
17 them every Thursday.

18 COUNCILMAN HENON: Well, I got
19 out of the electrical business, so that
20 will not be me.

21 COUNCILWOMAN TASCO: I think
22 that it's not a simple effort, but it
23 could and should probably have the
24 discussion about how it all works,
25 because not only do we need permission

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2 from the state, we also have to go to the
3 feds. So what I would have liked to have
4 seen was the dialogue about how we do
5 this rather than let's just sell it.
6 Because we have a very valuable asset
7 here.

8 MR. RINALDI: Yes, you do.

9 COUNCILWOMAN TASCO: And so why
10 give it away, and then next week you see
11 that it's going off to Spain some place.

12 So we are all open to a
13 discussion -- so please don't
14 misunderstand me -- about what we can do
15 to move and be progressive and move into
16 the next level. So that's what I want to
17 say about trying to create an energy hub.
18 And if PGW is to be a part of that
19 discussion, I think that not only the
20 Council, the Mayor, and the Board of PGW
21 have to all be a part of that discussion
22 so that we come out with maybe one
23 recommendation for how we move forward.
24 And so I hope that you will appreciate
25 our actions here in terms of having that

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2 discussion, which I believe personally
3 should have taken place before we moved
4 to sell a valuable asset like that.

5 MR. RINALDI: I absolutely do,
6 Madam Chair. I meant what I said in my
7 prepared testimony. I applaud this
8 Committee for taking on this issue right
9 now, and I think it's timely and I think
10 it's important and, you know, we want to
11 be able to help with that.

12 COUNCILWOMAN TASCO:
13 Councilman, do you have a question?

14 COUNCILMAN OH: No. Thank you
15 very much.

16 COUNCILWOMAN TASCO: Thank you
17 very much. We appreciate it. I'm sure
18 we'll be seeing you again as we move
19 forward.

20 We have our Mayor of Allentown
21 who is here, and knowing his schedule,
22 we'd like to call him up. And then the
23 next person will be Mr. Douglas Wheeler.
24 Where is he? Okay. All right. After
25 the Mayor. And then we have four others

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2 that are on the schedule. Now, there may
3 be other people who want to testify.

4 (Witness approached witness
5 table.)

6 COUNCILWOMAN TASCO: Good
7 afternoon, Mr. Mayor.

8 MAYOR PAWLOWSKI: Good
9 afternoon, Councilwoman. Thank you for
10 allowing me to come and speak to you this
11 afternoon. I appreciate it.

12 COUNCILWOMAN TASCO: Thank you.
13 Would identify yourself for the record,
14 please, and you may proceed.

15 MAYOR PAWLOWSKI: Mayor
16 Pawlowski of the City of Allentown.

17 COUNCILWOMAN TASCO: Would you
18 like to proceed with just talking about
19 how you in your city --

20 MAYOR PAWLOWSKI: Sure. What I
21 wanted to really do today is give you
22 sort of an overview of what we were able
23 to accomplish in Allentown.

24 Allentown, just to give you a
25 sense, we're the third largest city in

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2 the state. We had the same problems,
3 just on a smaller scale, that you're
4 grappling with here. We had a pension
5 problem that was really overshadowing
6 everything else in the city's finances
7 and eating up the vast majority of our
8 general fund revenue on a yearly basis,
9 and we had a crisis. And when you look
10 at the crisis that we had, we were trying
11 to address significant legacy costs. We
12 had long-term labor contracts when I
13 first came in to the Mayor's Office. We
14 had crippling pension costs due to early
15 retirement. Two-thirds of my entire
16 police force retired the day that I
17 stepped into office. Over 50 percent of
18 my Fire Department retired. Many of them
19 retired at about 35 to 40 years of age,
20 getting anywhere from 90,000 to 100,000
21 for the rest of their life, with full
22 healthcare benefits and the ability to
23 pass it on to their surviving spouse.

24 Needless to say, that shot up
25 our pension costs dramatically. We went

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2 from a fund that was about 90 percent
3 funded to a fund that was about 45
4 percent funded in a very short period of
5 time. You combine that with the
6 recession that hit us all in 2008,
7 increased healthcare costs, decreasing
8 revenues, a stock market plunge that
9 resulted in less revenues, and you had a
10 very difficult scenario regarding our
11 pensions, just like you have here in
12 Philadelphia.

13 In fact, when you look at our
14 pension costs, if I had done nothing by
15 this year, 2015, over 30 percent, 30
16 percent of our entire city revenue would
17 have been just dedicated to our MMO, our
18 minimum municipal obligation. Now, as
19 you all know, that's like the minimal
20 payment on a credit card. That doesn't
21 address the unfunded pension liability.
22 It doesn't really lower our MMO in any
23 way, shape or form. It was just paying
24 off our minimum payment on our pension
25 fund.

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2 We have been down to about 48
3 percent funded. As you know, just like
4 Philadelphia, we were legally required to
5 pay that MMO annually, and on top of
6 that, we had an additional amount of
7 pension bonds that were taken out back in
8 the '90s that were -- we've had
9 refinanced, but was adding another 2.4
10 million additionally onto the cost of our
11 MMO.

12 We needed a dramatic increase
13 in revenue to fill that pension gap, and
14 I was looking at a couple different
15 scenarios. I was looking at bankruptcy,
16 because if you took all of our property
17 tax revenue, it would not even equal the
18 amount that was needed to pay the MMO,
19 the 30 percent, just our property tax
20 revenue on it. That's not counting all
21 the other - earned income tax, the
22 business privilege tax. But it would
23 have ate up all our property taxes in the
24 City of Allentown.

25 I would have had to raise taxes

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2 probably close to 150 to 170 percent just
3 to make the minimal municipal obligation
4 payment. That would have driven pretty
5 much every business and every homeowner,
6 middle-class homeowner, out of the City
7 of Allentown and would have put us on a
8 downward economic spiral that I don't
9 think we would have been able to come out
10 of. So we needed to look for other
11 options, and we needed to close that
12 pension gap, and we approached it really
13 in two ways.

14 First, I had to stop the
15 hemorrhaging that was happening with our
16 funds. And so we did that by
17 renegotiating our major components in the
18 Fire and Police contract, which was
19 successfully completed. So things that
20 were causing us -- we had strange
21 provisions in our collective bargaining
22 agreements, like any 30-day period they
23 can use 100 percent of their overtime and
24 it would go into the basis of their
25 pension. So you had folks -- and, of

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2 course, the most senior folks got first
3 crack at the overtime, so you had folks
4 there were working like dogs for 30 days
5 and obviously they'd shoot up their
6 pension costs dramatically and retire
7 with astronomical pension benefits. In
8 fact, the majority, as I said, were
9 retiring anywhere between \$80,000 and
10 \$120,000 a year in pensions and at the
11 age of about anywhere from 35 to 42 years
12 of age. I used to tell my folks that
13 that's even better than winning the
14 Pennsylvania Win for Life Lottery,
15 because you only get \$50,000 a year for
16 that. We were giving out close to
17 \$100,000 a year to our retired fire and
18 police and it was just unsustainable.

19 So we successfully negotiated
20 those aspects out of the contract and we
21 stopped the hemorrhage, but then we had
22 to address the tumor, and we were in the
23 same position that you are. How do we
24 lower this unfunded pension liability.
25 How do we get at that huge, huge number

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2 to really lower our MMO on a yearly basis
3 and thus put more money back into the
4 general fund. And so we looked at a
5 number of different scenarios. We looked
6 at raising property taxes, which I said
7 was significant for us, and would have
8 been close to anywhere between 100 to 170
9 percent to basically pay for that MMO;
10 issuing more pension bonds, which was not
11 the best scenario by any stretch of the
12 imagination because we were exchanging
13 one debt for another debt; you know,
14 leasing our parking, leasing assets like
15 our golf course or leasing out our water
16 and sewer utilities. And so we actually
17 ended up looking at each of these options
18 and determined that the best course of
19 action for us was to try to monetize our
20 assets.

21 Now, we were in the same
22 position that you folks were. We looked
23 at the asset that we had, and it was a
24 significant asset. It was generating a
25 significant amount of revenue, because we

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2 had the water and sewer infrastructure
3 for the entire region in the Lehigh
4 Valley, which is about a million folks,
5 and we were generating some significant
6 income, but because of the way that the
7 state law was structured, we couldn't use
8 any of that revenue to affect the one
9 thing that was killing us, which was our
10 pension costs. That's what was eating up
11 most of that money in the general fund,
12 but according to state law, we could not
13 utilize those dollars to address that
14 particular issue.

15 So we looked at ways to do
16 this, and we determined that the best way
17 to structure this was a modernization of
18 the asset. And we came to the same
19 conclusion that you did. You were just
20 talking about it and the last gentleman
21 that was giving testimony, that we didn't
22 really want to sell the asset. I'm not a
23 believer in just selling off city assets
24 when we don't have to.

25 And so we looked at a number of

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2 models across the country. And we looked
3 at Chicago and we looked at what happened
4 in Pittsburgh and we looked at some
5 cities on the West Coast, and what they
6 were doing was their assets and how they
7 structured -- and a number of projects
8 that happened in New Jersey, and we hired
9 some of the best consultants that were
10 around to really sort of analyze these.
11 And we looked at what was the positive
12 about those deals and those transactions,
13 what were the negatives. And in some
14 cases like Chicago and leasing of the
15 parking, there were significant
16 negatives. I mean, it pushed up the cost
17 of parking dramatically. It actually
18 started driving business out of their
19 downtown. And even though they got a
20 huge up-front payment from leasing their
21 parking assets, it became a detriment
22 overall, where now you have the new Mayor
23 trying to actually buy that asset back
24 and/or get out of the lease that they
25 have.

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2 So we wanted to learn from the
3 cities that were out there, and we
4 learned a couple of unique things that we
5 tried to build into our lease concession.

6 Now, to my knowledge, we are
7 the only city in the State of
8 Pennsylvania that has structured a
9 successful P3. And we did that because
10 we came about it, I think, in a different
11 way than most folks have approached this
12 process. We looked at it as we had an
13 asset, we wanted to keep that asset. Our
14 particular asset didn't have a lot of
15 deferred maintenance, so it was a
16 valuable asset in that respect. But we
17 had this issue of our pension payments
18 that had to be solved and had to be
19 resolved or it was going to kill us
20 financially as a city, and then it
21 wouldn't matter how many assets we had at
22 that point if we weren't able to pay our
23 bills. It would have detrimentally
24 affected us financially. And so we
25 approached it from that aspect, that we

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2 wanted to keep the asset.

3 We wanted to be able to retain
4 the jobs, because there were significant
5 jobs that were associated with that
6 aspect. We had significant concerns
7 about labor and labor agreements that
8 were associated with that particular
9 asset, and all that had to be addressed.
10 So we went about this -- I'll back up to
11 that.

12 We went about this in a way
13 that was literally unique. Most of the
14 cities -- in fact, all the cities that we
15 looked at across the country came from a
16 perspective of here's the asset, this is
17 what our end goal wants to be, we want to
18 get dollars, right, to pay for either
19 replacing or rebuilding the deferred
20 maintenance on the infrastructure or in
21 the case of Allentown, the case of
22 Philadelphia, looking at ways to solve
23 our pension crisis.

24 And so we're going to put it
25 out for bid and we're going to then take

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2 that highest bidder and then work with
3 that bidder to work on putting a P3
4 concession together. And from everything
5 that we looked at, that was not the way
6 to approach this scenario. Every city
7 that we looked at across the country lost
8 in that particular -- if they approached
9 that transaction in that particular way.
10 So we looked at it from a different
11 vantage point, and our vantage point was
12 this: We decided -- and we spent a long
13 time, almost a year, putting together the
14 lease. We crafted the lease first. We
15 said we don't want to sell it. We know
16 it's going to be a long-term lease if
17 we're going to get the amount of dollars
18 that we want. And instead of paying us a
19 year-to-year lease payment, we want them
20 to pay us one big up-front payment with
21 smaller payments on a yearly basis, an
22 up-front payment that would have been big
23 enough to actually reduce our overall
24 unfunded pension liability and
25 dramatically drop that MMO payment on a

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2 yearly basis.

3 And so we did things like --
4 there was no transfer of title of the
5 asset. We weren't going to sell it off.
6 We didn't want it to even look like we
7 were selling it off to any particular
8 entity. We were going to lease it for a
9 longer period of time. We ended up
10 settling on a 50-year lease of this
11 particular asset. The city would always
12 maintain ownership of the water supply
13 and sources, and that was critical for
14 us, similar to what you were just talking
15 about. We wanted to make sure that we
16 had this great asset, we were supplying
17 that asset to the municipalities around
18 us. And the Lehigh Valley in particular
19 has become a huge hub of a lot of balers.
20 Nestle has a million square foot plant up
21 there, same with Ocean Spray, same with
22 Coors and others, and Sam Adams has huge
23 facilities up in the Lehigh Valley and
24 they were using a lot of water. They
25 were using our water. And so we wanted

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2 to make sure that any future sales, we
3 would still have the benefit of reaping
4 some of those profits from the future
5 sales and it wouldn't just go to the
6 company that was leasing our particular
7 asset. So we built that in.

8 The lease was approximately 50
9 years. We anticipate all the existing
10 labor agreements would be maintained and
11 remain in force. No one lost a job to
12 this transaction in any way, shape or
13 form. The workforce would have to be
14 assumed by the lessee. The city would
15 not be liable for any future operating or
16 capital costs. The city would retire
17 approximately \$30 million of water and
18 sewer debt. So we had additional debt
19 that we had taken out through the water
20 and sewer bonds. We had to retire that
21 debt if we were actually going to do a P3
22 transaction. So that retirement of debt
23 had to be taken into account. The city's
24 revenue share with the lessee on any new
25 water or sewer service agreements, the

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2 net proceeds would go to substantially
3 reduce the MMO.

4 And we approached it then in a
5 very different way. We first put out a
6 request for qualifications. And I
7 brought Council in from the very get-go
8 on this process. We had several
9 Councilmembers that worked with us all
10 along the way in crafting the lease and
11 working with our consultants in crafting
12 that lease. We then put out an RFQ
13 process, but before we did that, I took
14 that lease, the general parameters of the
15 lease, to City Council, and we got almost
16 a unanimous vote. It was six to one. We
17 have seven folks on our City Council. So
18 it became six to one in that respect.
19 But that helped us in the long run,
20 because what it did, it showed all the
21 potential bidders that were going to look
22 at this lease transaction that we had the
23 political will to go through to the end
24 with this deal.

25 We then did an RFQ process

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2 before we even put out the lease, and we
3 looked for qualified bidders. And we
4 ended up with about 30 folks, 30
5 different companies from across the
6 country and, quite honestly, across the
7 globe that then looked at -- put in
8 requests for qualifications. We looked
9 for certain things - did they have the
10 ability obviously to enter into this
11 agreement, did they have operations that
12 were the same size, what were their
13 operating experience in handling the
14 system of our size, and also did they
15 have the money, did they have the
16 resources to provide the overall end
17 lease payment that we were looking to
18 achieve.

19 We narrowed that down from
20 about 30 to nine. We asked all nine to
21 come back. And, again, it was a joint
22 committee between the Administration and
23 Council that we -- and our consultants
24 that we interviewed all these nine
25 groups, and we let them go back and

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2 forth. This took almost eight months,
3 where they would give us suggestions
4 based on the lease document that they had
5 in front of them, and we would give our
6 comments back to them. So in some cases,
7 they had good comments. In some cases,
8 their comments were outrageous of what
9 they wanted us as far as liability that
10 they wanted us to assume. At the end of
11 the day, we took about 5 percent of their
12 comments that we thought were decent
13 comments that wouldn't really affect the
14 deal in any substantive way and
15 incorporated them into the lease
16 document, into the transaction.

17 At the same time while we were
18 doing this, we also did an operation
19 procedures policy that was being
20 conducted at the same time. So we
21 actually codified how we want the system
22 to be managed, from everything, how they
23 manage the staff, how the water is being
24 managed, the type of quality that we were
25 currently getting versus we wanted to

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2 make sure that our quality and our
3 operation didn't diminish in any way,
4 shape or form. In fact, we wanted it to
5 improve. So we put forth a manual, a
6 document, an operations document that was
7 an attachment, if you will, to the lease
8 document itself, so that the potential
9 bidder knew exactly what we expected.

10 There were fines and penalties
11 associated if they didn't live up to the
12 parameters of the agreement and to our
13 operational standards that we had put
14 forth, and all that was outlined. So
15 there was no surprises to the potential
16 bidder of what they were going to expect
17 once this arrangement was put forth.

18 We put it out for bid after we
19 had brought it to City Council and gotten
20 their approval of the general parameters
21 of that contract. We then put it out for
22 bid. And I had no idea if anyone was
23 going to bid. I mean, we had a lot of
24 requirements in there. We had a
25 requirement they had to assume our

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2 workforce. They had a requirement they
3 had to assume our collective bargaining
4 agreements. We had PLA requirements put
5 on for any major projects that were over
6 a certain amount of dollar range, major
7 construction projects associated, as we
8 had in the past with the city.

9 So I had no clue who was going
10 to bid on this particular asset. I did
11 know it was worth a specific amount based
12 on all the consultation I received from
13 our consultants and the fact that I
14 looked at other types of deals of this
15 size and magnitude across the country. I
16 knew that there was worth built up in the
17 transaction, but based on the parameters
18 that we had outlined in the contract, I
19 wasn't sure who was going to bid.

20 Long and behold, out of those
21 nine, we actually had five companies that
22 bid, four national companies and one was
23 the county.

24 Now, before I became Mayor, I
25 actually was the Director of Community

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2 and Economic Development for the city for
3 several years, and I remember meeting
4 with the county over a decade ago, and
5 they wanted to regionalize our water and
6 sewer operation, and at that point, they
7 wanted to give us about \$10 million for
8 the system. I said, Well, guys, I'm
9 Polish, that doesn't make me dumb. I
10 know it's worth more than \$10 million.
11 It turned out to be worth a lot more than
12 \$10 million.

13 At the end of the day, we had a
14 process that was put into place, that we
15 went through this RFQ process, we went
16 through the lease process, we accepted
17 their comments, we put it out for bid, we
18 got these five bidders that bid
19 competitively, and we also had a BAFO
20 process also built into the contract that
21 if any of the two bidders got within a 10
22 percent range of the bid, they would then
23 go to best and final offer concept, where
24 it would be based primarily just on
25 price, what they were giving, nothing

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2 else. Because we've already cleared them
3 at this point. They've already been
4 cleared of their capacity to run the
5 operation and they knew what we were
6 expecting of them.

7 We ended up with a BAFO process
8 between American Water and the county,
9 believe it or not. The county bid. And
10 we ended up getting an additional \$28
11 million as a result of that BAFO process.
12 The overall bid was \$220 million. We
13 were able to pay off all 150 million of
14 our unfunded pension liability. Now,
15 ours is just as significant as yours.
16 Your numbers -- you just have a few more
17 zeros put into your scenario, but you
18 also have a much bigger asset to get a
19 few more zeros.

20 We were able to pay off our
21 unfunded pension liability to the tune of
22 now we're close to 98 percent funded.
23 Our MMO went basically down almost 95
24 percent. We went from about \$22 million
25 a year in our MMO to 2. We were able to

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2 pick all that money back up into the
3 general fund, and we didn't lose a single
4 job as a result of it. And it's now been
5 a year since that process has taken
6 place, and, of course, everyone was
7 claiming that Armageddon was going to
8 befall the City of Allentown. You know,
9 the toilets weren't going to work and
10 they weren't going to flush and the water
11 wasn't going to come out of the tap. And
12 none of that has happened. In fact,
13 consumer satisfaction has been as high as
14 ever. In fact, we won a national award
15 from Bond Buyer Magazine for the best
16 deal in the Northeast last year for this
17 particular transaction. And when the
18 reporter from Bond Buyer came by and he
19 said, Well, how does the transaction
20 work, I took him to the bathroom in my
21 office and I said, See, the toilet still
22 flushes, the water still flows. Nothing
23 has changed. What has changed is, we
24 have solved our pension problem.

25 We're one of the few

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2 municipalities in the state now with an
3 almost fully funded pension. We've
4 dramatically reduced our MMO. That extra
5 amount in our general fund has allowed us
6 to provide more services as a result of
7 that to our residents. Our bond rating
8 went up. We had an unprecedented -- we
9 had our first bond review by Standard and
10 Poor's, an unprecedented three grade
11 upgrade. We went from B plus to a AA
12 plus by Standard and Poor's. I can't
13 remember the last time I've ever seen a
14 municipality go three grades in one
15 review, but we did in the City of
16 Allentown and it was a tremendous,
17 tremendous transaction for us, and it's a
18 transaction model that I believe could be
19 followed here.

20 We put together a great project
21 team. In fact, some of the folks came
22 from right here in Philadelphia. Our
23 consultants, our lead consultants who
24 helped us craft this deal, are right
25 across the street in Dilworth Plaza,

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2 Dilworth Paxson. We had PFM, Public
3 Financial Management, was our FA on this.
4 We hired some special consultants from
5 Chicago, Katten Muchin, who did a
6 tremendous job in bringing us that
7 information that we needed from across
8 the country in analyzing those different
9 proposals that existed out in the
10 marketplace. And at the end of the day,
11 we ended up leasing it to Lehigh County.

12 That wasn't -- we had no clue
13 who we were going to lease it to. It was
14 a transaction. It wasn't structured as a
15 transaction between a public and public
16 entity. It happened to work out that way
17 because they bid the most.

18 So the way the lease is
19 structured, they paid us a huge up-front
20 payment. We paid down our unfunded
21 pension liability. We get a smaller
22 payment each year. We share 50 percent
23 of any new revenues that they have and
24 any new water and sewer connections as
25 the rest of the region builds out, and

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2 overall we have a scenario where our
3 rates have not gone up and they will not
4 go up for three years. In fact, they're
5 projecting that our rates, when that
6 provision of the contract ends, will
7 probably actually stay the same or go
8 down as a result of this particular
9 transaction.

10 So it was good for our
11 consumers. It was good for the city. It
12 was good for our pensioners, and it
13 overall was good for the Commonwealth,
14 because it took one city that had a
15 severe pension deficit and took it from a
16 negative to a positive.

17 In summary, it addressed a huge
18 financial issue that was affecting the
19 City of Allentown. They had
20 public-private sector interest and
21 expertise in managing the water and
22 wastewater systems, provided an immediate
23 financial relief and long-term
24 enhancements to the city through ongoing
25 investments in water and sewer

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2 infrastructure. We eliminated our
3 unfunded pension liability. We
4 stabilized and reduced our debt. In
5 fact, our debt went down overall because
6 we were able to get rid of all that water
7 and sewer debt as well. Our overall debt
8 went down 30 percent overall in the city.
9 So we reduced our debt, we eliminated our
10 unfunded pension liability, and we
11 stabilized our tax rate for years. In
12 fact, because of that and because of some
13 of the other things we were able to
14 accomplish, Allentown has not raised
15 property taxes in ten years.

16 So it has been a positive
17 transaction for us, but it took time. It
18 was something that took us almost a year
19 and a half to two years to actually
20 implement, really working hand in hand
21 with our consultants and City Council to
22 craft this to come to something that we
23 were all in agreement about that we all
24 had the political will to actually
25 execute at the end, which I want to point

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2 out is critical.

3 No one is going to -- you're
4 not going to get the serious bidders that
5 you need and that you want on this
6 transaction unless they see that you as
7 Council as well have the political will
8 at the end of the day to execute this
9 transaction. Nobody, especially in the
10 case of PGW, is going to spend hundreds
11 of millions in your case -- it was tens
12 of millions for us, but hundreds of
13 millions for you -- to do the due
14 diligence that's going to be needed to
15 really give you a solid bid unless they
16 know that you have the political
17 wherewithal and political will at the end
18 of the day to execute on that agreement.

19 So I think what you're doing in
20 trying to figure out how you craft that
21 early on is a good move. I think you all
22 need to come to a resolution with whoever
23 the next Mayor may be and the next
24 Administration and figure out how you
25 take this asset, monetize it, utilize it

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2 for the best benefit of the workforce
3 that's there and the residents that you
4 serve and solve this problem, because
5 it's only going to get bigger, as you
6 know, the pension problem. It's only
7 going to continue to eat up more and more
8 of your resources, and it's going to
9 allow you to do a lot less for the
10 citizens and the community unless you
11 solve this problem.

12 I think you got a huge
13 opportunity. You got a tremendous asset.
14 I think if you structure it the right
15 way, you can also be the second
16 successful P3. We've always been first.
17 Second successful P3 in the State of
18 Pennsylvania.

19 I'll take any questions.

20 COUNCILWOMAN TASCO: Thank you
21 so much for taking the time to come down
22 and share that story. You know, it's
23 been all over the place in terms of the
24 discussion, and we applaud you for your
25 leadership in Allentown and also the

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2 support and leadership of your Council to
3 come to a resolution that ended up
4 benefiting your community. And it does
5 take time. It's not a fly-by-night kind
6 of discussion. So I applaud you for your
7 success.

8 MAYOR PAWLOWSKI: And I
9 understand all of your concerns. You're
10 concerned about the workforce that works
11 there and you're concerned about the
12 residents who are paying the bills and
13 you're concerned about how this is going
14 to affect the community, and you don't
15 want to just give up an asset that may be
16 producing dollars in the future. Those
17 are all legitimate concerns. The
18 question is, how do you get those
19 concerns addressed and put them into a
20 document that will reflect all of your
21 concerns and all of the diverse concerns
22 that you all have on City Council and get
23 an outcome that will benefit the City.

24 I think the way to do that is
25 by doing that lease first, structuring

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2 the lease and even voting on the lease
3 before you even put it out for bid so
4 that everybody is on the same page.

5 There's no -- and from my
6 experience, the bidders appreciated that.
7 They may not -- they didn't say that at
8 the beginning of the process, but at the
9 end of the process they did, because they
10 knew what to expect. It wasn't a
11 surprise. We weren't playing games at
12 the end after they already put in bids
13 trying to rework something that then
14 worked out into addressing the needs and
15 the concerns that different
16 constituencies had. We tried to address
17 as many of those up front before we even
18 got to the process where they were
19 bidding, and my sense is they appreciated
20 that process immensely. And we got
21 better bids. We got higher amounts,
22 unprecedented amounts for the asset that
23 we have.

24 COUNCILWOMAN TASCO: Thank you
25 very much.

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2 The Chair recognizes Councilman
3 Henon.

4 COUNCILMAN HENON: Thank you,
5 Madam Chair.

6 Mayor, I appreciate you
7 trekking down here to the City of
8 Philadelphia, as you are no stranger to
9 this city and region. Quite impressive.
10 I'm sitting here. You're not reading
11 testimony or anything like that. I mean,
12 you're sharing your experience and
13 results of something creative and new.

14 A few simple questions. First,
15 you recognized that there was a severe
16 problem with the unfunded pension
17 liability that you had within Allentown,
18 and now as a result of your efforts with
19 a whole lot of partners, 95 percent of --
20 you were saying the pension bills are --

21 MAYOR PAWLOWSKI: Unfunded
22 pension liability, the MMO was reduced by
23 about that.

24 COUNCILMAN HENON: You reduced
25 the MMO by 95 percent. That's

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2 significant, and I'm sure the dollars
3 that have been freed up in the general
4 fund as a result of that for economic
5 development maybe in every area, creating
6 jobs --

7 MAYOR PAWLOWSKI: Everything
8 from police services to it's allowing us
9 to actually borrow. For the first time
10 in a long time we've been able to borrow.
11 We reduced our debt by 30 percent, but
12 we're also borrowing to fix long-term
13 infrastructure needs and equipment needs
14 that we haven't just -- we really have
15 not had the dollars in the past to
16 address.

17 And so it's given us the
18 financial flexibility that we need to
19 really operate as a city the way and the
20 level that we want to operate, providing
21 additional police services, fixing our
22 infrastructure, providing resources,
23 everything from replacing our pools in
24 our neighborhoods to fixing bridges.

25 So, I mean, it's given us the

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2 flexibility that we didn't have before to
3 be able to embark on some major
4 infrastructure projects and real capital
5 projects that we just didn't have the
6 resources to even think about embarking
7 on in the past.

8 COUNCILMAN HENON: I was
9 looking at your summary there, and you're
10 talking about the P3 opportunities. How
11 did you begin to think like this is the
12 direction we should go in when it comes
13 to a P3?

14 MAYOR PAWLOWSKI: Well, I mean,
15 we looked at a lot of different models,
16 as I said. We examined -- I realized
17 that we were not going to be able to
18 solve it through traditional means. We
19 couldn't tax our way out of this problem.
20 We couldn't borrow our way out of this
21 problem. There was no help. There was
22 no knight in shining armor coming from
23 Harrisburg. No one was going to help us
24 solve this problem. And it was a looming
25 problem that was approaching us like a

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2 freight train rather quickly. By 2015,
3 as I said, if I didn't solve this
4 problem -- we started back in 2011. If I
5 didn't solve this problem in a few years,
6 that freight train would have hit us and
7 we would have had a real financial
8 disaster. In fact, you would have been
9 reading about Allentown not in a positive
10 vein, but that we were following the same
11 track as Detroit, because that was our
12 only alternative at that point.

13 And so we had to really try to
14 look at it from a creative way, how do we
15 utilize our assets. And we looked at all
16 the assets that we had and, you know,
17 I'll be very honest, the first thing I
18 looked at was selling things off. I did
19 not like that idea. It didn't fit well
20 with me. It didn't -- it wasn't
21 stomached real well by a lot of the folks
22 in City Council, but I didn't know what
23 else to do. But as I started researching
24 out and as we started bringing folks in
25 and expanding our consultant base and

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2 really sort of bringing that expertise to
3 the table, I realized that if we monetize
4 the asset, if we leased it and we were
5 able to monetize that asset, take the
6 value of the asset out, utilize it for
7 the one thing that was killing us, which
8 was the pensions, we didn't have to sell
9 it. We could create a scenario that
10 really was a win-win scenario. It had
11 never been done before in the State of
12 Pennsylvania. And the last gentleman
13 said, Well, we just have to rework the
14 rules, and we tried that too, you know.
15 It's not very easy to rework the rules,
16 and I came to the conclusion very quickly
17 very early on in that process that
18 Harrisburg was not going to rework the
19 rules for us. What we did is, we looked
20 at the rules that existed and tried to
21 figure out a framework that would address
22 the problem that we had while remaining
23 in the context of the rubric of rules
24 that were placed on us by Harrisburg, and
25 the lease concession option fit that

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2 mold. It fit the build in that respect.

3 It allowed us to still stay within the

4 framework and the rubric of the rules

5 that were placed upon us, with at the

6 same time being able to monetize that

7 asset and pull out the dollars that we

8 needed to really address this problem.

9 And it worked. You know, it worked, as

10 you can see.

11 A year later our bond rating

12 has gone up. Our MMO has gone down. Our

13 workforce is still there. No one lost a

14 job. Our people are happy. No one is

15 complaining about their water and sewer

16 service. Our rates have stabilized, and

17 we were able to really avert a

18 catastrophe.

19 COUNCILMAN HENON: Good job.

20 Congratulations on all your efforts.

21 COUNCILWOMAN TASCO: Councilman

22 Henon -- I mean --

23 COUNCILMAN NEILSON: She got me

24 last time.

25 Neilson.

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2 She was calling me Bobby last
3 time.

4 Good afternoon, Mayor. Thank
5 you so much for sharing your story and
6 coming down and making the trek down to
7 Philadelphia and trying to share with us
8 your experiences, as you have done
9 before. I had your testimony up in
10 Harrisburg a few times, educating the
11 trek you make around the state to try and
12 share the experiences with all of us so
13 we can do better things for our
14 constituents.

15 I was curious when you talked
16 about how the rates didn't go up, because
17 a lot of people when you sell the asset
18 like this and do a little partnership,
19 they automatically think my rates are
20 going to double. It's somewhat of a
21 scare tactic that's used, say, Hey, your
22 rates are going to go up, your rates are
23 going to go up, but you said you had
24 three years no --

25 MAYOR PAWLOWSKI: So what we

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2 did is, we built the rate regime into the
3 lease agreement itself. So our rate
4 regime -- we looked at it over the last
5 50 years, what our rates were in our
6 water and sewer, and, you know, like this
7 city and any other city, some years it
8 was zero, some five, one year 20, 15, 10.
9 They were all over the place. Every year
10 was different, right, depending on what
11 City Council approved that particular
12 year.

13 But when we averaged it out
14 over a 50-year period, it came out to
15 about 5.8 percent increase on an annual
16 basis, is what we were experiencing as
17 far as a rate increase. And so we
18 structured into the lease that the
19 lessee, the concessionaire, can only
20 raise the rates at an annual rate of 2
21 percent, plus the year with CPI, which
22 over the last couple years was only at
23 the very most 2.5 percent. In fact, the
24 last couple years it's been zero, it's a
25 negative. But over the last 10 to 15

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2 years, the highest it was was about 2.5
3 percent. So we figured even at the
4 worst-case scenario, the ratepayer would
5 only be paying about 4.5 percent, which
6 is actually less than what they were
7 paying on an average. So we structured
8 the rates into the lease itself.

9 We also had for any major
10 construction projects over a certain
11 dollar amount, they have to come back to
12 the city and City Council for approval.
13 They can't just go out and spend money,
14 because obviously it would be tied -- any
15 additional costs for any significant
16 infrastructure improvement would
17 obviously affect that cost. We would
18 have to approve that. The city would
19 have to approve that first.

20 And so we built that rate
21 regime into the lease agreement itself.
22 In fact, we even built in -- so going out
23 of that 2 percent, it actually drops to
24 1.5 percent, and then 0.5 percent goes
25 into a sinking fund that then accumulates

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2 over the course of the later years,
3 because obviously there's going to be
4 capital costs as you go further out in
5 time, right? And that money actually
6 then pays for those capital costs as the
7 system ages and gets older, and then any
8 money left at the end of the day would
9 revert back to the city at the end of the
10 lease, and the lease -- the contract
11 itself says they have to give us the
12 asset back in as good a shape or better
13 than what we gave it to them.

14 So we spent a long time
15 quantifying the asset that we were then
16 giving to the lessee. So we get it back.
17 Now, in 50 years I'll be really old or
18 dead, but, you know, my kids can -- if
19 they're involved in city government, they
20 can do it all over again.

21 COUNCILMAN NEILSON: They won't
22 have to drink brown water. The water
23 still will be there.

24 MAYOR PAWLOWSKI: They can
25 re-lease the whole thing again if they

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2 wanted to. But it gave us a way to then
3 structure the rates so that we had
4 still -- we had control of the rate
5 structure.

6 Now, it was a structure that
7 still allowed the concessionaire to make
8 a profit. It just wasn't a profit that
9 was on the backs of the ratepayers.

10 COUNCILMAN NEILSON: I'm sure
11 like your city, like ours, we have some
12 programs for those in need.

13 MAYOR PAWLOWSKI: Right.

14 COUNCILMAN NEILSON: Do you
15 have any such programs?

16 MAYOR PAWLOWSKI: Sure.

17 COUNCILMAN NEILSON: And how
18 did this deal affect --

19 MAYOR PAWLOWSKI: They were all
20 built into the lease.

21 COUNCILMAN NEILSON: All built
22 into the lease.

23 MAYOR PAWLOWSKI: They were all
24 built into the lease. So they knew going
25 in what they were expecting, and they

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2 priced it knowing that they had these
3 commitments that they had to address. So
4 we have senior citizen discounts just
5 like you do and, you know, other types of
6 programs that over the years have
7 evolved. Some of them, you know, we
8 just -- no one was utilizing, but some of
9 them they were being utilized quite
10 aggressively, and we built those into the
11 lease.

12 But doing the lease first and
13 structuring it the way we structured
14 it -- and, again, I'm talking about water
15 and sewer, but this can be done for gas,
16 it could be done for parking, it could be
17 done for whatever asset the City wants to
18 lease out. The bidder knew what they
19 were bidding on going into this. So when
20 they priced it, when they were able to do
21 their own pro formas, they knew that they
22 had some set-asides, some special
23 programs, some discounts that the city
24 had in place and it wasn't a surprise.
25 It wasn't like we came to the table and

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2 said, Oh, by the way, we want the senior
3 citizen discount too, and they would then
4 sit back and say, Well, then we're going
5 to have to lower our price. No. They
6 knew exactly what was in it from the
7 get-go. All that was outlined in the
8 lease. Now, you can imagine, the lease
9 document is a pretty lengthy document.

10 COUNCILMAN NEILSON: Oh, no
11 doubt.

12 MAYOR PAWLOWSKI: It took us a
13 year to basically make that document, but
14 by doing it that way, it took any
15 surprises out from the potential bidders.

16 We have in our agreement that
17 there's PLAs for any projects that are
18 over, I think it's, \$5 million. So
19 any -- maybe it's 3. I think we actually
20 went a little bit lower. I think it's \$3
21 million. So any major construction
22 projects, infrastructure projects that
23 are done that are over \$3 million, we had
24 a PLA agreement that was attached right
25 to the lease.

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2 Now, this wasn't a surprise for
3 the potential bidders. They knew this,
4 and they priced it accordingly, based on
5 knowing that once they got over that
6 dollar amount, they were going to do a
7 major infrastructure project that
8 whatever cost -- I don't believe there
9 was that much cost attached to a PLA, but
10 whatever cost they would presume, they
11 knew that going into the deal and they
12 priced their deal accordingly.

13 Now, with all those provisions,
14 as I said, I had a very sleepless night
15 when we put this thing out for bid. I
16 could have had real egg on my face
17 sitting here, and then I wouldn't be
18 sitting here talking to you. No one
19 could have bid, right? I mean, there
20 could have been no potential bidders. In
21 fact, it was interesting because some of
22 the bidders -- remember, we had the RFQ
23 process first and we had about 30
24 companies and we narrowed it down to
25 nine, and then we kept going back and

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2 forth with those nine looking at the
3 lease and getting their input. Many of
4 them, almost all of them, said, Oh, you
5 know what, these provisions -- no one is
6 ever going to bid on this. Well, long
7 and behold, they still bid. They still
8 bid on it.

9 COUNCILMAN NEILSON: Do you
10 have --

11 MAYOR PAWLOWSKI: And they bid
12 quite aggressively, to the point where we
13 had a BAFO process where two of them got
14 within a competitive amount and bid an
15 additional \$28 million, and in that
16 transaction, it was 220 million. That
17 was a pretty significant amount that we
18 were -- so it was a pretty competitive
19 bidding process even at the end.

20 So I think using the structure
21 that we utilized is a good way to address
22 your needs and your concerns up front,
23 provide stability to the potential bidder
24 that there's no surprises, they know
25 exactly what you're expecting of them, so

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2 that they don't get to a hearing where
3 City Council is voting and say, Well, we
4 want this, and they're like, Well, hey,
5 we never built that into our pro forma.
6 No. They knew exactly what we wanted
7 from the get-go. Everybody had agreed on
8 that, and they also knew that at the end
9 of the day, we were going to execute that
10 agreement if they came in with a decent
11 price and they followed the parameters
12 that we outlined in that lease.

13 COUNCILMAN NEILSON: So it took
14 eight months for you, the Mayor, and City
15 Council to come up with a proposal that
16 was put in front of City Council?

17 MAYOR PAWLOWSKI: Yes.

18 COUNCILMAN NEILSON: It wasn't
19 something just introduce it today, vote
20 tomorrow.

21 MAYOR PAWLOWSKI: No. We
22 worked on that for -- it actually
23 probably took longer than that, because
24 we started the process when I started in
25 my office and then we brought our

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2 consultants together, and then as
3 Councilman Henon was asking me, I then
4 came to the conclusion that this was the
5 way I wanted to go. So we probably took
6 an additional six months on top of that
7 before we even brought the concept to
8 City Council and said, This is where we
9 want to go, this is how we want to
10 structure it.

11 We then -- we brought
12 everybody in. The Controller was at the
13 table with us. Everybody was there.
14 Everybody had to be on board. We wanted
15 to make sure that there was -- that
16 everybody's needs for their constituents
17 were addressed, because the last thing we
18 wanted to do is bring something to the
19 table and then say, Well, hey, you know
20 what, you never thought about this, this
21 is a huge need for my constituents and I
22 don't want to go through with this
23 because it doesn't really address this
24 aspect. I didn't want that to happen. I
25 saw it over and over again as I

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2 researched out and looked at other
3 municipalities, that at the end of the
4 day that was the biggest achilles heel
5 that they had, that there just wasn't
6 that political buy-in, and the only way
7 we were going to get that political
8 buy-in was if everybody was really
9 involved.

10 Now, not every Councilperson
11 was involved. There's some that were
12 involved more than others. Out of my
13 seven, there were two that were actively
14 involved, and the Controller was there
15 pretty much the whole time, but they had
16 the ability to be involved as much or as
17 little as they wanted and we shared with
18 them every aspect along the way.

19 COUNCILMAN NEILSON: Did --

20 MAYOR PAWLOWSKI: Every month
21 or so we would then meet with as many
22 Council folks as wanted to meet and we
23 would update and say, Okay, this is where
24 we're at, this is what we've done so far,
25 this is where we're at, and by the way,

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2 if you have any other questions, also
3 talk to your colleagues because they've
4 also been involved in the more detailed
5 process, the folks who had the time to
6 give to that process.

7 COUNCILMAN NEILSON: How about
8 public input, Mr. Mayor? Did you have
9 public hearings on all this to state it
10 to the public?

11 MAYOR PAWLOWSKI: What we did,
12 we voted on it twice. We did the RFQ
13 process. We drafted that lease, as I
14 talked about. We brought it to City
15 Council. We had them vote on it before
16 we put it out for an RFP, but before we
17 put it out -- had them vote on it for an
18 RFP, we also then took it to the public.
19 So I had literally probably 30 or 40
20 public meetings. I mean, listen, we had
21 public meetings everywhere, from
22 community groups to rotary clubs to Boy
23 Scouts. I mean, anybody that wanted a
24 public meeting, we had a public meeting
25 for them.

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2 COUNCILMAN NEILSON: Got it.

3 MAYOR PAWLOWSKI: Of course, I
4 like a PowerPoint, as you can see, so I
5 took our show on the road. We had all
6 our consultants with us. We had multiple
7 venues where they could give us input.
8 We heavily promoted on social media, and
9 I personally answered every question that
10 people posed to me. Sometimes I felt
11 like I was answering the same question
12 50,000 times. I probably was answering
13 the same question 50,000 times. But we
14 tried to address everybody's concerns.

15 Now, at the end of the day,
16 there was still a group of folks that
17 just -- they didn't want to see anything
18 done, but they also didn't have any
19 solutions. I continually asked at the
20 end of the process, that last vote, that
21 second vote, Okay, you don't like it,
22 then what is your plan? Tell me. You
23 know, you got a better idea, please put
24 it forth, because this is the best
25 concept that we have been able

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2 collectively to come up with.

3 But because we addressed so
4 many of the issues that folks had, the
5 issue for us -- because it's water and
6 sewer. People get very passionate about
7 their water, right? So water quality was
8 a big issue for us. Because we
9 simultaneously with the lease put
10 together this operations manual on how
11 they had to operate the facility, you
12 know, some of those issues went away.

13 Because we incorporated the
14 collective bargaining agreement into the
15 lease itself and they were going to
16 basically assume the entire workforce at
17 their current salaries and benefits, that
18 issue went away.

19 So, I mean, we tried to
20 basically look and systematically take
21 those issues that everybody had one by
22 one and try to figure out ways to address
23 it. I think there was only a couple
24 issues that we just couldn't -- you know,
25 we just couldn't solve. We couldn't make

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2 everybody happy, but I would say that
3 probably 95 percent of the issues that
4 folks had, whether they were on Council
5 or in the general public or workforce, we
6 were able to address those issues.

7 So that process -- not only did
8 we do a public process, you know, I did
9 several meetings with our workforce where
10 we allowed them to ask questions, because
11 obviously they were anxious. They didn't
12 know what was going to happen. They had
13 no clue what was going to happen to their
14 jobs. They didn't know how it was going
15 to affect their families. They needed to
16 be clear that they weren't going to lose
17 the benefits that they had accumulated
18 over the years, and we wanted to make
19 sure that they didn't. We didn't want --
20 my goal wasn't to negatively affect
21 anybody's life. My goal was to solve a
22 problem and move the city forward.

23 So over the course of crafting
24 that, we tried to address all those. And
25 then we sold it. I was out there selling

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2 it, and some of the Council folks were
3 out there selling it as well. And then
4 we, of course, had a very long -- I think
5 the Council meeting for the last vote
6 lasted, I don't know, ten hours or so,
7 where we just allowed anybody who wanted
8 to talk, they got up, they gave their
9 three minutes and they were -- the line
10 was a mile long. The line was a mile
11 long, where we listened to everybody, and
12 we then tried to answer their questions.
13 And all I can say is, it took us a long
14 time to get through that process, but it
15 worked. It worked. No one can say that
16 they were not heard.

17 COUNCILMAN NEILSON: Well,
18 again, thank you --

19 MAYOR PAWLOWSKI: They may say
20 it, but they were heard in the process.

21 I also just want to say, you
22 know, I head up -- because we had a major
23 gas explosion in Allentown a few years
24 back, killed six folks, I actually chair
25 a national council on pipeline safety,

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2 and we are going to have a conference
3 here in Philadelphia in May at the
4 Constitution Center, the first one, the
5 first national conference on pipeline
6 safety.

7 So I've been involved with the
8 gas industry as well, only because of
9 necessity, because of the amount of cast
10 iron pipe that's under my city. Unlike
11 you, we don't own the utility. It's a
12 privately owned utility. But it has been
13 a real issue for us, and I know it's an
14 issue for you as well here in
15 Philadelphia.

16 So I invite you all to come out
17 to that conference. It's going to be the
18 14th and 15th of May here at the
19 Constitution Center.

20 COUNCILMAN NEILSON: Thank you,
21 Mr. Mayor, and thanks again for coming
22 down and sharing your story with us
23 today.

24 MAYOR PAWLOWSKI: My pleasure.

25 COUNCILWOMAN TASCO: Thank you

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2 so much, Mr. Mayor. We appreciate your
3 coming and sharing with us, and thank you
4 for the PowerPoint.

5 MAYOR PAWLOWSKI: I did leave
6 you some articles just on the process.

7 COUNCILWOMAN TASCO: Oh, good.
8 We have them. Thank you very much.

9 To our guests, when we have
10 hearings, it takes some time. We give
11 everybody their due, but we also have to
12 give our stenographer her due. She needs
13 a break for about five minutes. And so
14 we'll come back shortly. Thank you.

15 (Short recess.)

16 COUNCILMAN NEILSON: We are
17 going to get ready to get started again,
18 so if everybody can get back to their
19 seats.

20 Doug Wheeler and Franc James.

21 (Witnesses approached witness
22 table.)

23 MR. WHEELER: Doug Wheeler and
24 Adrian Pellen.

25 COUNCILMAN NEILSON: Okay. If

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2 you're wondering why we're going off the
3 agenda a little bit, it's because some
4 people have flights and we're trying to
5 change it around a little bit.

6 Please state your name for the
7 record and begin your testimony.

8 MR. WHEELER: Great. Thank
9 you. Madam Chair and the members of City
10 Council, good afternoon. On behalf of
11 Aon, thank you for letting us testify
12 today to you on public-private
13 partnerships. I'm Doug Wheeler. I'm
14 joined with Adrian Pellen, and we're
15 going to speak on P3s and be available to
16 answer questions.

17 Very quickly, I'm the Regional
18 Managing Director of Construction
19 Services Group for Aon here in
20 Philadelphia, serving construction and
21 energy projects. Briefly, we provide
22 advisory and brokerage services for risk
23 and performance security matters, heavily
24 involved with the public-private
25 partnership model.

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2 I'm going to pass over to
3 Adrian now to introduce himself and then
4 collectively we'll discuss just at a high
5 level P3s.

6 MR. PELLEN: Thank you again
7 for the opportunity to speak with you
8 today.

9 COUNCILWOMAN TASCO: Speak into
10 the mike.

11 MR. PELLEN: Thank you again
12 for the opportunity to speak with you
13 today. Again, my name is Adrian Pellen.

14 COUNCILMAN NEILSON: You just
15 pushed the microphone away from you
16 again. If you could say your name also
17 for the record. So pull the microphones
18 close, because we can't hear, please.
19 Thank you.

20 MR. PELLEN: My name is Adrian
21 Pellen. Is that better?

22 COUNCILMAN NEILSON: Yes.

23 MR. PELLEN: Great. So I work
24 at Aon Infrastructure Solutions. We're a
25 risk advisory firm, as Doug mentioned. I

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2 spend my entire time focusing on
3 public-private partnerships across
4 various industry segments, particularly
5 in the civil infrastructure space in both
6 Canada and U.S. I've been doing this for
7 seven years. I've lived through a number
8 of cities, and currently I'm in Chicago
9 and have most recently worked on a number
10 of projects in the East Coast. There was
11 a project in Pennsylvania that was
12 commissioned by PennDOT for the rapid
13 bridge replacement. That was a P3 model.

14 So what we wanted to chat about
15 today is, we wanted to be very brief, but
16 just provide a summary of kind of the P3
17 world as how we see them essentially, and
18 obviously I think it's best to kind of
19 describe a P3 just to a very brief
20 extent. I know we've had the Mayor
21 previously commented on their recent
22 transaction. We also wanted to talk
23 about various responsibilities between
24 the public sector and private sector in
25 P3s, how do we mitigate risk, and

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2 essentially what does the market
3 currently look like to some degree.

4 So just looking at the next
5 slide, we talked about privatization a
6 little bit earlier. Obviously a
7 public-private partnership at its core is
8 not privatization. There are many
9 different levels of a P3. When we think
10 about construction, we think
11 traditionally about design-bid-build.
12 There are various mechanisms in between
13 there, delivery methods in between,
14 design-bid-build and privatization. I
15 think the most common concept when we
16 think about a public-private partnership
17 is one in which there's
18 design-build-financing as well as
19 operation and maintenance of a public
20 asset that is performed by the private
21 sector.

22 So this is really just a
23 comparison of the existing delivery
24 methods. Again, looking at the left-hand
25 side, we have a traditional procurement,

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2 one in which the government retains an
3 engineer to design a project. Then we'll
4 outsource the design and construction to
5 a contractor. They'll generally
6 obviously secure their own debt to pay
7 for the construction, and often either
8 we'll outsource the operations and
9 maintenance of the asset or have city
10 employees. They also retain a lot of the
11 risk for that performance.

12 Looking at traditional P3 when
13 we talk about design-build-finance-
14 operation-maintenance, we have our
15 government entity as a procuring sponsor
16 initiating the project and basically
17 outsourcing the responsibilities, as I
18 highlighted, to the concessionaire, who
19 then arranges for debt and partners with
20 equity to finance the construction, and
21 whether or not they have their own firm
22 to actually build the asset -- often
23 these concessionaire entities do -- they
24 will build it and then maintain it for 25
25 to 50 years.

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2 I just wanted to pass it over
3 to Doug just to comment on this issue.

4 MR. WHEELER: As we heard
5 earlier today in previous testimony, P3s
6 take various type of forms. So some you
7 will have availability payments for
8 tolling, as it's often referred to,
9 payments which might be similar to
10 utility charges. This is an example of
11 an energy savings program whereby savings
12 is actually the compensation for the
13 government agency. So you would partner
14 with them to develop energy savings.
15 This has been widely accepted by the
16 Department of Energy and sponsored, and
17 it just offers a different type of model
18 for alternative project delivery,
19 suggesting that as people come to the
20 city, there are different mechanisms to
21 develop this type of a structure.

22 MR. PELLEN: So, again, talking
23 about the financing of P3s, which we
24 obviously think are quite important, this
25 is typically a structure of how a

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2 concessionaire entity would finance the
3 project. Ten to 40 percent and typically
4 10 percent in North America of their own
5 equity is used, and obviously the rest
6 would be commissioned through debt.

7 Obviously I think when we think
8 about P3s, I think one of the biggest
9 challenges that we continue to discuss at
10 least commercially is, the cost of
11 capital is really the deciding factor in
12 determining whether or not we move
13 forward with the P3. Governments
14 obviously can procure capital using
15 tax-exempt debt. It's not always the
16 case with the private sector, and
17 obviously that becomes an important role
18 in determining whether or not to proceed
19 with the project.

20 So this is where we often get
21 very much involved, not necessarily doing
22 the analysis but when it comes down to
23 risk allocation, we're risk advisors.
24 And the ultimate study that is usually
25 commissioned on behalf of a procuring

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2 authority to evaluate whether or not to
3 proceed with a public-private
4 partnership, whether it's a design-build
5 or design-build-operate and maintain or
6 including the financing, is to commence a
7 study called the Value for Money
8 Assessment or Value for Money Study.

9 This is often the case for most projects
10 and is a tool that's actively used
11 currently in the state by the PennDOT.

12 For example, on the left-hand
13 side, we look at a traditional delivery
14 method where the government or sponsoring
15 authority who's maintaining a public
16 asset, building an asset, has a number of
17 various risks. So obviously there's
18 financing risks. They're retaining
19 various other risks where we get very
20 much involved in. We talk about
21 environmental risk. We talk about
22 construction risk, operation and
23 maintenance force majeure risk, et
24 cetera. The comparison in these studies
25 really comes down to comparing a

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2 traditional procurement method and trying
3 to quantify the various risks associated
4 with that traditional procurement method
5 versus some form of public-private
6 partnership.

7 So on the right-hand side, you
8 look at the alternative procurement
9 method, which would be a design-build-
10 finance-operate and maintain, and
11 basically a lot of the risk that the
12 public sector would normally retain under
13 a normal project or delivery method is
14 passed to the private sector. So it
15 reduces the overall cost of risk to the
16 project. Obviously the financing cost is
17 generally higher in the private sector,
18 as I highlighted earlier, but this is
19 really a mechanism which is used to
20 compare whether or not to proceed with
21 one procurement method or the other.

22 MR. WHEELER: And this is
23 specifically referring to a typical civil
24 project, a specific project in civil
25 infrastructure, but it has application,

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2 again, the Value for Money, looking at
3 other things that might come up from a
4 utility standpoint or other type of
5 concession agreements.

6 MR. PELLEN: There are no hard
7 and fast rules on risk allocation and
8 what risks are borne by the private
9 sector or retained or shared. Very much
10 we get involved with the commercial
11 negotiation of those risks and how
12 they're allocated. Insurance is usually
13 an integral tool to manage or transfer
14 those risks to third parties thereafter.
15 But, again, looking at it from a much
16 more high level perspective, the
17 left-hand side of this slide compares the
18 traditional risks in a normal procurement
19 that will be maintained by the owner or
20 sponsoring entity.

21 We talked about design.
22 Obviously designers typically have very
23 low limits on their limitation of
24 liability. There's financing exposure,
25 facility management, et cetera.

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2 Looking at alternative
3 procurement methods such as P3, usually
4 the owner sets the performance
5 specifications, but pushes to the private
6 entity the financing, design risk,
7 construction risk. So if there are any
8 errors or cost overruns resulting out of
9 those issues, obviously it's borne by the
10 private sector. And there's lifecycle
11 costs. So they obviously are responsible
12 for maintaining the asset. So if there
13 are routine maintenance costs, capital
14 expenditures, they will be responsible
15 for those in the long term over the
16 course of 20 to 50 years depending on the
17 project.

18 Just to kind of cap off, I'm
19 obviously being very sensitive to time,
20 but there are a number of challenges I
21 think it's important to highlight. I
22 think fundamentally we talk about
23 public-private partnership and it is
24 really a matter of risk allocation and an
25 equitable balance of risk. There's not

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2 one tool or a hard and fast rule for this
3 risk allocation methodology depending on
4 where the project is located.

5 Environmental issues are obviously very
6 important depending on where you are. It
7 could be natural weather perils, et
8 cetera. So there are a number of risks
9 that I think need to be considered.

10 If there's an equitable risk
11 transfer, the project is most likely to
12 get off the rails. Principally we've
13 dealt with a lot of projects where
14 there's been inaccurate forecasts around
15 traffic, for example, and we've seen
16 bankruptcy of various tolling entities.

17 So there are a lot of aspects
18 to it that have had some challenges. I
19 mean, this has resulted in renegotiated
20 deals or partners walking away. And we,
21 on very few occasions, have actually seen
22 public assets falling into disrepair, but
23 it's obviously something to consider.

24 That is really the end of our
25 discussion. We left some additional

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2 slides for you just for your own review
3 on the current state of the market and
4 P3s in the U.S., the size of the market
5 globally, and obviously are available for
6 any questions that you may have.

7 Thank you.

8 That happens in the insurance
9 industry.

10 COUNCILMAN HENON: Madam Chair,
11 if I may.

12 COUNCILWOMAN TASCO: Yes.

13 COUNCILMAN HENON: I mean, this
14 is a lot to digest, at least it is for
15 me, just paging through this, but do you
16 see just from a general perspective a
17 good opportunity here in the City of
18 Philadelphia for a P3 opportunity?

19 MR. WHEELER: Clearly --

20 COUNCILMAN HENON: And to what
21 level would you think that opportunity is
22 available to us?

23 MR. WHEELER: Clearly it's
24 worth investigating. When you listen to
25 the Mayor speak before about solving

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2 pension issues and the increase in the
3 credit rating of the city has a very
4 substantial impact on total debt cost.
5 So it's not just monetizing the asset and
6 looking at what your other limitations
7 are. You're compounding that by a
8 potential increase in the credit rating
9 of the City if that were to occur.

10 So the monetization aspect is
11 not just the impact of that asset, but
12 the overall impact of debt for the City.
13 So we have seen the P3 process has
14 developed a maturity of risk management,
15 and that's contractual risk, performance
16 security, the performance of the project,
17 and lifecycle quality. So much more so
18 today people are looking at the
19 integrity, whether it be pipelines or
20 concrete and infrastructure quality, and
21 the P3 has some accountability on that.
22 They're building with operations and
23 maintenance costs in mind as well.

24 COUNCILMAN HENON: And there's
25 a tremendous amount of risk, I would

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2 imagine, if there were to be a P3
3 negotiated, and then I guess that will
4 all take place in your design management
5 trying to structure the deal.

6 Now, would the City -- so in
7 the P3 opportunity specifically with PGW,
8 would the private entity assume all the
9 risk or is that negotiated?

10 MR. WHEELER: Typically
11 negotiated.

12 MR. PELLEN: It's negotiated.
13 I mean, I think early on in the process
14 you would probably retain outside
15 advisors, who would obviously be industry
16 experts on obviously the gas industry in
17 particular on P3s, to help put out a
18 request for qualifications from various
19 parties interested in participating in
20 the project. Usually in that study there
21 would be an outline of the various risk
22 allocation methodologies in there. So
23 normally what I would expect to see is on
24 almost a checklist basis various types of
25 risks that would be retained by the City

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2 and then the other risks that would
3 expect to be transferred or some that are
4 shared. And sometimes we've seen --
5 sharing can be very beneficial where you
6 have a certain layer up to a threshold
7 that the City would retain a risk and
8 then beyond that point it would be the
9 private sector. So it's very much a
10 commercial discussion.

11 I think usually what happens
12 is, the initial point comes across, goes
13 out to the private sector, and then the
14 bidder would negotiate with the
15 sponsoring entity thereafter to ensure
16 that there was a commercial agreement on
17 what the appropriate risk allocation
18 would be.

19 COUNCILMAN HENON: Man, you
20 talk fast.

21 Can you talk about the risk in
22 the debt aspect in your pyramid slide
23 that you have there. I mean, that seems
24 like a lot of risk. How would you see
25 that -- is that standard when it comes to

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2 structuring a P3?

3 MR. WHEELER: I'll take that,
4 sure. It is common to have an equity
5 piece where someone is putting in their
6 personal investment and then using
7 lenders to come forward. We have found
8 through many of the public-private
9 partnerships that we consider the debt to
10 be more cautious, because they are
11 putting in a less secured position than
12 the typical asset holder. So they're
13 looking for certainty around insurance
14 items. There are lender technical
15 advisors making sure that the project is
16 constructible if it's a new type of
17 construction or that the deal is
18 feasible, so they can understand whether
19 it be tolling or tariffs or the inbound
20 revenue from, let's say, even the gas
21 clientele. They're looking at all those
22 measurables to make sure that there is
23 some certainty around that.

24 So debt is common. The
25 insurance industry also has performance

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2 security options that can be in the form
3 of a surety bond. Sometimes a letter of
4 credit can be utilized, and that works as
5 a base to meet certain core requirements
6 to make sure that there's financial
7 adequacy to protect the City to make sure
8 that the asset or the investment doesn't
9 fall into disrepair.

10 COUNCILMAN HENON: Are there
11 limits? I mean, you see the range from
12 10 to 40 percent in equity. Are there --
13 I guess you set that as a part of the
14 structured deal, but are there regulated
15 limits for the amount of equity that they
16 can invest in in a P3?

17 MR. WHEELER: Not that I'm
18 aware of. That would be the proposing
19 team and how they come forward to make
20 the proposal and then how they make the
21 financial package viable. And often the
22 debt, though, is rated by the rating
23 agencies and there needs to be sufficient
24 quality in that to make sure that the
25 debt is priced in a manner that's

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2 sufficient to be competitive.

3 COUNCILMAN HENON: Okay. I
4 have no further questions.

5 COUNCILWOMAN TASCO: Councilman
6 Oh.

7 COUNCILMAN OH: Thank you very
8 much, Chairwoman.

9 I just wanted to clarify that I
10 appreciated the Mayor's success and his
11 success in the P3. I did want to,
12 however, clarify for the public that we
13 don't have an asset that we could sell or
14 lease to resolve the financial debts of
15 this city that we're facing. 242 million
16 or 400 million, that does not come near,
17 anywhere near, the financial issues that
18 we face. Up until 2003, our pension
19 payments were about \$200 million, and
20 last year and in the foreseeable future,
21 they're around \$600 million. So from
22 \$200 million to \$600 million. So there's
23 a \$400 million increase that we're
24 dealing with because of the MMO and some
25 other things that have to be dealt with.

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2 And because of the school debt and other
3 things, even though that's not our
4 responsibility as a city, you see the
5 cigarette tax, the property tax proposal,
6 and other things.

7 So I'm only saying that because
8 I think the public has to understand when
9 they're looking at how they prioritize
10 and what the issues are that they want us
11 to resolve, that we don't have something
12 to sell, lease, cut expenses, increase
13 taxes on. We really -- if we have an
14 asset or an opportunity to create new
15 revenues, we would be very interested if
16 they were able to produce a certain
17 amount of money for us to move forward on
18 that. However, we don't have the funds
19 to finance it, and what you're talking
20 about the P3 opportunity is something
21 that we would be very interested in
22 exploring and putting together so that
23 not using public funds but private funds
24 and, as you said, bearing the risk, we
25 could get new dollars in that could be

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2 applied to the issues that we have to be
3 responsible for in providing public
4 services.

5 So thank you very much.

6 MR. WHEELER: Thank you.

7 MR. PELLLEN: Thank you.

8 COUNCILWOMAN TASCO: The Mayor
9 created lease arrangements with the
10 county. Does this apply to a deal such
11 as what he did with Allentown?

12 MR. PELLLEN: I would agree
13 that -- I'm not familiar intimately with
14 that transaction, but from what he's
15 described, the Mayor described, I would
16 say, yes, it's very similar to the
17 process we've described here today.

18 COUNCILWOMAN TASCO: So tell me
19 what would the plan look like going with
20 PGW if PGW were to be involved in a deal,
21 since that's sort of like the asset that
22 folks want to get rid of.

23 MR. PELLLEN: I mean, I think
24 ultimately -- and I'm certainly not the
25 expert in this space as it relates to

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2 PGW, but what I would suggest is that a
3 feasibility study be commissioned to
4 evaluate the various procurement
5 methodologies such as P3, for example,
6 and I think that would be an important
7 way to really flesh out the various
8 issues and I think to determine whether
9 or not it would be eligible for a P3,
10 frankly.

11 You know, I think when we think
12 about this P3 model, there are various
13 methods in which it can work. One, as
14 Doug had highlighted, was an availability
15 payment. So that's essentially just a
16 payment for making the asset available,
17 which is traditionally used in other
18 industry segments such as water and other
19 assets like highways, bridges, et cetera.
20 I think when it comes to obviously a gas
21 utility, it's a little bit different.
22 It's probably tied to throughput. I'm
23 certainly not an energy expert, but I
24 would imagine there would have to be some
25 level of revenue sharing.

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2 So I think ultimately you would
3 need a feasibility study to basically
4 determine the validity of using this type
5 of model.

6 COUNCILWOMAN TASCO: So what
7 would a company like yours bring to the
8 table in all of this discussion?

9 MR. PELLEN: I mean, today
10 obviously we came as advisors in P3. For
11 me personally, my area of expertise is in
12 risk advisory. So really evaluating the
13 various risks. That's our -- I most
14 often represent concessionaire entities.
15 I have colleagues who work with
16 government agencies in particular. So
17 they're involved much earlier on in the
18 process. But I'm involved from the
19 get-go on once a document is released,
20 such as an RFP, we evaluate the risk
21 allocation, help them negotiate on things
22 that they believe not to be commercially
23 available. We evaluate whether or not
24 they are commercial and then determine
25 where can we transfer those risks to

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2 third parties, whether it's an insurance
3 company or some other contractual
4 methodology to transfer the risks that
5 are assumed, to the extent those aren't
6 business risks, so weather risk, et
7 cetera.

8 MR. WHEELER: Perhaps I can add
9 just quickly, some states allow for
10 unsolicited proposals where you could
11 have a party come to you and make a
12 recommendation that this might be a
13 valuable option to look at the asset that
14 you hold. Other times the government
15 agency will specifically develop the RFP
16 process and outline their own
17 specifications, this is exactly what
18 we're looking for, to have measurable
19 bids submitted. So there's two different
20 approaches there. And then as far as
21 Aon's interactions, we said at times we
22 work with government agencies helping to,
23 in the early stages, develop risk
24 mitigation RFP-type measurements. Other
25 times we're working with the

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2 concessionaires to help them purchase and
3 sell that risk into the insurance capital
4 marketplace and provide performance
5 security to make sure there's certainty
6 in the delivery of the contractual
7 obligations.

8 So our typical business is core
9 to insurable risk and performance
10 security, working with the P3 marketplace
11 both for the concessionaires and the
12 government agencies, helping them
13 articulate what's necessary and how to
14 best allocate those items.

15 COUNCILWOMAN TASCO: Thank you
16 very much.

17 MR. WHEELER: Thank you.

18 COUNCILWOMAN TASCO: Thank you
19 very much.

20 Okay. Now we have next
21 Mr. Franc James and -- Mr. Franc James.

22 (Witnesses approached witness
23 table.)

24 COUNCILWOMAN TASCO: Good
25 afternoon.

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2 MR. JAMES: Good afternoon.

3 How are you? I'm Franc James. I
4 represent Penn America Energy Group. And
5 I just wanted to do something that's
6 slightly irregular, if I may. My partner
7 sitting to the left here, Mr. Sam
8 Hammons, flew in from Oklahoma. He
9 represents our firm there in Oklahoma and
10 heads that office. Unfortunately, he has
11 a flight to catch at 4:50. So I would
12 like to give Sam a moment to make an
13 introduction, if I may, because he will
14 have to excuse himself in a few minutes.

15 COUNCILWOMAN TASCO: Sure. Go
16 ahead, please.

17 MR. HAMMONS: I apologize, but
18 it is indeed a pleasure to be here.

19 COUNCILWOMAN TASCO: Next time
20 you come to Philadelphia for a hearing,
21 take the whole day.

22 MR. HAMMONS: I will definitely
23 do that.

24 Franc wanted me to share a
25 little of my background and tell you what

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2 my component of this proposed project is.

3 I started in government as
4 well, was Administrative Assistant for
5 Energy and Natural Resources --

6 COUNCILWOMAN TASCO: Tell us
7 who you are.

8 MR. HAMMONS: Sam Hammons,
9 H-A-M-M-O-N-S. Worked for Governor David
10 Boren, later U.S. Senator. Some of you
11 may have known him. And did his energy
12 and natural resources work on his staff;
13 then the subsequent Governor, the
14 Governor that followed him, Governor
15 George Nigh, same position; then Director
16 of the Oklahoma Department of Energy and
17 later Secretary of Energy for Oklahoma,
18 and, of course, that's a critical
19 industry in our state, the energy
20 industry; left there and headed the
21 Natural Gas Contracts Division of
22 Resource Analysis and Management Group,
23 an energy consulting firm; left there,
24 started Clinton Gas Transmission, which
25 was a natural gas marketing company, and

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2 we did the first natural gas marketing
3 transactions, open access, free market
4 transaction in the U.S.; then sold that
5 company, practiced energy law for several
6 years, retired a few years ago, now work
7 on various energy-related projects here
8 and internationally.

9 I've joined Penn American. My
10 component of this is to get gas from
11 where it is produced to Richmond gate
12 here in Philadelphia for use, and you'll
13 hear more from them about the use of that
14 gas in liquification. But as you know,
15 there are a lot of variables involved in
16 buying gas, buying it on a spot basis,
17 seeing if we can lock in financeable
18 contracts, possible prepayment of
19 volumetric production in the future. So
20 there are a lot of variables. So you've
21 got a well head cost, then you got the
22 cost of transporting the gas.

23 As you know, the space getting
24 into Philadelphia right now is full.
25 It's reserved. If we're able to move

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2 quickly enough on this idea, then we can
3 maybe take some space on some proposed
4 new additions. As you know, Transco has
5 proposed Atlantic Sunrise Loop, which
6 will bring more Marcellus gas in. There
7 will still need to be some facility
8 infrastructure there, and those are quite
9 expensive and there are a lot of
10 regulatory hurdles one must cross. So
11 dealing with buying the gas and
12 transporting the gas will be my part of
13 this proposed project.

14 And so I'll be happy to take
15 any questions, even though it's probably
16 a little premature because you haven't
17 heard about the whole project yet, but
18 that's my role, that's who I am, that's
19 my background. I'll be glad to appear at
20 another time or take questions now.

21 COUNCILWOMAN TASCO: Councilman
22 Oh.

23 COUNCILMAN OH: Thank you,
24 Chairwoman.

25 How does the gas come into

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2 Philadelphia? Is there only one option
3 or more than one option to get the pipe
4 in?

5 MR. HAMMONS: No. There are
6 more than one option right now.
7 Basically you're talking about Spectra or
8 Transco. Transco is owned by Williams
9 Companies of Tulsa, Oklahoma, and I'm
10 very familiar with those folks. And so
11 to do any sort of an energy hub project,
12 you're just going to have to increase
13 that capacity to get it into the City.

14 COUNCILMAN OH: Could you give
15 us examples, because you're also being
16 televised to the public, so that they
17 could understand what are the
18 opportunities to actually get the gas
19 into Philadelphia physically. How would
20 it come in?

21 MR. HAMMONS: Well, we're
22 looking at basically a couple of options.
23 On the Transco option, we would be
24 negotiating for space for this particular
25 project on Transco's line. If we feel

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2 like it's worth going forward and
3 certainly the merits of the project are
4 there, but if we felt like the City was
5 interested in going forward with this
6 group, then we would commence serious
7 negotiations about the additional
8 pipeline space which we would need, which
9 as Franc will point out will be about 700
10 Mmcf per day. But if you've got a line,
11 if you've got a right-of-way and you've
12 already, for example, come under the
13 Delaware River, as Transco has, then you
14 already have a pathway and you solve a
15 lot of problems that would be inherent in
16 trying to go through neighborhoods and
17 laying a whole new pipeline.

18 MR. JAMES: If I could add to
19 that.

20 COUNCILWOMAN TASCO: State your
21 name for the record.

22 MR. JAMES: Franc James.
23 The Spectra line is, from what
24 we understand, there would be a 30-mile
25 extension into the gate station at PGW,

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2 the Richmond plant. The work that we've
3 done preliminarily with Williams is, it's
4 about a six-mile extension from their
5 Trenton-Woodbury lateral. So from our
6 perspective, it presents an extraordinary
7 value proposition.

8 MR. HAMMONS: But we're
9 negotiating, so we don't want to say
10 we're settled on anything in particular
11 at this point.

12 COUNCILMAN OH: Right. Well, I
13 appreciate that. I just wanted to make
14 it clear that it's not simply going
15 through neighborhoods. There's at least
16 one other or some other options of
17 getting the pipe into Philadelphia.

18 Thank you very much.

19 MR. HAMMONS: Thank you for
20 your time. I'm sorry to have to run.

21 COUNCILWOMAN TASCO: Go ahead.

22 MR. HAMMONS: I will be back,
23 and I'll spend more money next time I
24 come back.

25 COUNCILWOMAN TASCO: Okay.

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2 Thank you.

3 MR. JAMES: Again, my
4 apologies -- Franc James.

5 My apologies for the
6 irregularity.

7 Give you a little idea as to
8 who we are and the genesis of this
9 project. I myself, my background is in
10 iron ore mining. I've been a partner in
11 an iron ore mining operation in India.
12 I've lived there for a number of years
13 and developed close relationships with
14 the former administration headed by Prime
15 Minister Manmohan Singh, and those
16 relationships extended to a specific
17 cabinet post.

18 As most of the world is aware
19 of the extraordinary energy boom that we
20 are experiencing here in the United
21 States, it was brought to my attention
22 that specifically the Republic of India
23 was looking to procure additional gas.
24 We worked very closely with the Gas
25 Authority of India Limited, which is

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2 GAIL, which currently has two SPA
3 agreements, one with Cheniere, Sabine
4 Pass project, and one with the Dominion
5 Resources project. But that really was
6 the seed that was planted for our company
7 about three years ago.

8 We were created actually from
9 inception to be a single-purpose entity.
10 We were dedicated ultimately to realizing
11 this opportunity. And the opportunity
12 that we're trying to develop with the
13 City of Philadelphia is expanding PGW's
14 liquefaction capability and building a
15 Pennsylvania-based, Philadelphia-based
16 LNG world-class export terminal. That's
17 our goal.

18 So in doing that, there's -- as
19 you can imagine, it's an extraordinary
20 feat. There are many variables to
21 consider, many stakeholders to pull
22 together, but it was important that from
23 the very beginning, being a
24 single-purpose entity, that we assemble a
25 leadership team that has the diverse

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2 capability to enable us to hopefully
3 successfully build out this project.

4 Our executive leadership
5 committee is myself. I was the Managing
6 Director of Indo America Energy Group.
7 That was the namesake. That was the
8 company that was specific to the trade
9 that we were approaching the City of
10 Philadelphia about three years ago. That
11 company was, again, focused solely on a
12 transaction, a sovereign-based contract
13 between the Republic of India, a
14 state-owned entity, GAIL, and a structure
15 that we had not identified but we'll
16 refer to it as a Philadelphia-based
17 entity, whether it was PGW or a P3. We
18 weren't able to flush out the appropriate
19 structure.

20 I was also head of -- I was the
21 CEO of United Group Holdings, which I
22 mentioned was an iron ore mining
23 operation. We also have an asset in
24 Mexico, which is a copper mine, a copper
25 processing plant, very small. And to

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2 round out the executive team, it was very
3 important for us to bring on a firm,
4 specifically Ridge Global, founded and
5 headed by former Governor Tom Ridge.
6 That firm and that leadership brings
7 extraordinary capability and competence
8 for us from the planning perspective,
9 from the strategic perspective and
10 working with the diverse government
11 agencies that we have to work with.

12 I would like to pass to James
13 Seif, who is a partner with Ridge Global,
14 and have him make an introduction.

15 MR. SEIF: I'm Jim Seif,
16 S-E-I-F, head of the Energy and
17 Environmental Practice Group with Ridge
18 Global. I started as a prosecutor in
19 Pittsburgh with Dick Thornburgh way back
20 when. I have held the post of Regional
21 Administrator of the Environmental
22 Protection Agency here in Philadelphia,
23 six-state region, and also under Governor
24 Ridge, the Environmental Secretary
25 position.

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2 COUNCILMAN HENON: James, can
3 you bring the microphone a little closer.
4 Thank you.

5 MR. SEIF: My current practice
6 includes natural gas clients, startups
7 and so on.

8 My interest today is to address
9 any of your questions about regulatory
10 and other issues that may be involved
11 here. The guts of the proposal and the
12 guts of what I would have to say is just
13 this, that sometimes a person gets smart
14 and sometimes they get lucky.

15 Philadelphia is now coming up on being
16 both. Smart means that you have a PGW
17 and, as Craig says, 4,000 years of worth
18 of experience. You have a port that you
19 know how to use and it's been in use
20 since Stephen Girard sailed it. You have
21 iron in the ground, which means the
22 facility at in this case PGW. You have
23 excess capacity of Pennsylvania gas, and
24 you know that you have it, and that's
25 smart.

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2 Luck is that the Marcellus vein
3 will run for another hundred years. It
4 will change the energy complexion of the
5 entire planet, whether you live in Poland
6 or Canonsburg, PA, the need in Europe,
7 the need for us all to fight global
8 warming, as the President and Governor
9 Wolf pointed out, the need to develop new
10 technology now available for the safe
11 production of gas and the safe transport
12 of it -- I mean pipelines, not rail --
13 and all of the new technologies that call
14 for the use of gas, 18-wheelers and
15 tugboats and so on.

16 What we have to do is not
17 realize that we're lucky and smart and be
18 proud of ourselves, but seize the moment.
19 I don't think we have time for the kind
20 of exercise that Mayor Pawlowski had to
21 involve. I think with his blazing the
22 trail, we sort of know how to do it and
23 could do it faster.

24 And now here I must
25 respectfully disagree with Phil Rinaldi,

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2 who knows more about this than I do, but
3 I do think that turning the assets that
4 we are lucky enough to have and smart
5 enough to recognize; namely, the export
6 capacity at Port Richmond, ought to be
7 done. It may be that you can't get the
8 very biggest ships under a bridge or over
9 the bottom of the Delaware at this
10 moment, but you could very productively
11 and very profitably use that facility
12 for, as we heard already, weekly
13 shipments of Marcellus gas to Europe that
14 desperately needs it. If that could be
15 put together and if the tolling
16 arrangement proposed here could be
17 effectuated, you would have the kind of
18 assets that you need on an ongoing basis
19 to do a great job. If you want to talk
20 about safety and experience elsewhere and
21 so on, I'd be happy to do that too.

22 MR. JAMES: Thank you.

23 Sam obviously has given his
24 introduction. A gentleman Francis Casale
25 is part of our team.

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2 This is Franc James now. I'll
3 get used to that.

4 Francis actually is one of our
5 lead bankers. Francis is already -- he's
6 done extraordinary work. He's one of the
7 managing partners of a firm NRDC with
8 Chuck Baker. They were very successful
9 in raising about \$8 billion in the last
10 five years for the acquisitions of Saks
11 Fifth Avenue, Hudson Bay in Canada, Lord
12 and Taylor, and he's truly an expert on
13 structure, building the model. And he's
14 done extraordinary work with us and he
15 holds a very important position with our
16 firm and has reached out to a number of
17 potential financial funders for this
18 project. So unfortunately Francis could
19 not be here for today.

20 Our Advisory Board actually has
21 been dimensionalized by a gentleman John
22 Imle. John is an oil and gas expert.
23 John has held positions with
24 International Oil and Gas Technology,
25 Nations Petroleum, and he brings a great

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2 deal of expertise to our team.

3 Sitting to my left is Steven
4 Spence, and I will allow Steven to make
5 his introduction.

6 MR. SPENCE: My name is Steven
7 Spence. I am on the Advisory Board to
8 Penn American. I've been in the
9 financial industry for over 30 years,
10 various capacities, both in the United
11 States and abroad. I've worked for
12 Merrill Lynch for 17 years where I set up
13 a number of operations for them
14 throughout Europe in the Asian markets,
15 both on the derivative side and financing
16 businesses. I've managed globally their
17 derivative operations before ending my
18 career at Merrill as the COO for their
19 international financing businesses, at
20 which time I left in 2003, and since that
21 time I've been working as an advisor and
22 consultant to various businesses
23 throughout the United States and the
24 world, developing integrated plantations
25 throughout emerging markets. Most

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2 recently I joined Dominick and Dickerman
3 based in New York City, an investment
4 banking and merchant banking operation
5 where we focus on, in a broad sense, as
6 generalists helping middle market firms
7 grow and take them to the next level. I
8 have been working with Franc on this
9 particular project almost since its
10 conception, for over three years now, and
11 do look at it very much the way we look
12 at our clients that I work with on a
13 day-to-day basis, which is being able to
14 take a company that is very strong, with
15 fantastic attributes, and finding the
16 right investments and pieces that help
17 that entity grow to something that they
18 never could have achieved on their own.

19 MR. JAMES: Great.

20 Our offices, we're located in
21 New York, 40 Wall Street. We also are
22 represented at the Ridge Global offices
23 in Washington, DC, and Sam actually
24 handles our Oklahoma operations. Sam's
25 role in the organization and based in

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2 Oklahoma is really upstream, working with
3 the midstream energy companies and the
4 energy companies at source.

5 As you obviously understand,
6 what we want to do as what we believe is
7 really unleash the true value proposition
8 of Philadelphia Gas Works. As I
9 mentioned earlier in the presentation,
10 the impetus, the inspiration for this
11 project was to identify an opportunity
12 here in the U.S. that we could develop
13 quickly. That's a term which is a loaded
14 term. I'll explain quickly. But that we
15 could develop some sort of traction and
16 momentum for the development and
17 production of LNG for export.

18 So what we tried to do is
19 really look at the global market,
20 understand the appetite, and also look at
21 pricing globally. Looking at this
22 project three years ago, we were intent
23 on exporting LNG to the Republic of
24 India. We had interest from two Japanese
25 trading groups, early interest, that is,

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2 from Marubeni and Mitsubishi. We had
3 some interest from SK. But the challenge
4 obviously that is inherent to this
5 project is, it's not a public company
6 like a Cheniere who decides they want to
7 build out an LNG project. What we had
8 identified obviously is a unique
9 opportunity with a municipally owned
10 asset. So there are different challenges
11 obviously that are inherent to the
12 project, and the process is different.

13 So, again, getting back to what
14 I was originally saying, my apologies,
15 is, we were looking at Asia, South Asia
16 from the prospect of they are paying more
17 for gas. It's probably -- the economics
18 represent a better opportunity, but
19 really Europe, from our perspective,
20 represents an even better option just
21 based on logistics, where PGW is
22 positioned on the Mid-Atlantic, the
23 opportunity to load a vessel and have it
24 sail to Europe in four-plus days versus
25 30-plus days, having an LNG vessel loaded

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2 here in the Mid-Atlantic and sailing for
3 South Asia or Asia.

4 There's so much counterparty
5 risk inherent to that. So many
6 conditions can change, logistics --
7 issues related to logistics, fuel costs,
8 a number of variables that could
9 certainly interrupt a 20-year contract
10 where an off-taker will declare a force
11 majeure and interrupt that contract.

12 So there are other issues also
13 that have emerged recently in Europe; for
14 example, what has happened with Russia
15 and the Ukraine and the national security
16 concerns and interests of much of North
17 and South Europe. So that also changed
18 the optics of this project for us, and
19 based on logistics and also based on the
20 national security interests of the United
21 States and our allies in Europe, it
22 really forced us to look at the project
23 differently.

24 In place today in Europe spread
25 throughout Europe are anywhere between 25

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2 to 28 regasification terminals. There is
3 one liquefaction terminal in place in
4 Norway, and there's a plan right now in
5 place to build an additional ten
6 regasification terminals in Europe. And
7 obviously the intention is to, for most
8 of these North and Southeastern European
9 nations, is to diversity their risk,
10 because it's a national security concern.
11 If you look at what has happened with the
12 Ukraine and the national security
13 concerns that they have -- because energy
14 is obviously a key component. It has
15 certainly been well documented within the
16 media that the foreign ministers of both
17 Poland and Germany have visited here in
18 the United States. They've reached out
19 to the State Department, and the goal is
20 to see how Europe can take advantage of
21 this extraordinary opportunity that we're
22 living through here in the U.S.

23 Our main objective, as I
24 mentioned, is PGW, and what we're trying
25 to do is something extremely simple,

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2 simple from the perspective of structure,
3 that is. Penn America desires to be a
4 long-time customer of Philadelphia Gas
5 Works and purchase the annual equivalent
6 of 100 billion cubic feet a year of
7 natural gas processed in the form of LNG.
8 So we're looking at it actually quite
9 simply, and what we say is, if PGW today
10 has 500,000 customers, what we hope to be
11 is the 500,001 customer. The only
12 difference is, our goal is to purchase
13 150 billion cubic feet of gas. Certainly
14 a big proposition.

15 So looking at the asset, we're
16 very excited three years ago when,
17 through Governor Ridge's efforts and the
18 team in Washington, had identified this
19 extraordinary jewel that had yet to be
20 untapped and, that is, PGW. PGW has two
21 25 million gallon LNG storage tanks that
22 are FERC approved. That's not to say
23 there won't be challenges in terms of
24 FERC applications, because based on
25 today's regulatory requirements for those

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2 tanks, they are just a smidgeon too close
3 together actually.

4 The other opportunity that we
5 see is that PGW has demonstrated
6 extraordinary expertise and capabilities
7 over the last 40-plus years in producing
8 LNG without any incident. We have what I
9 understand to be a very perfect safety
10 record. And I actually applaud Council
11 for ensuring that you held on to that
12 asset, because it's an extraordinary
13 asset, and it will be a game-changer here
14 in Philadelphia.

15 So what we're hoping to do is
16 the following: Our goal is to bring --
17 is to contract with PGW, is to fund and
18 manage the expansion of the existing
19 Philadelphia Gas Works Richmond LNG plant
20 into a world-class LNG export terminal,
21 as I mentioned. The following functions
22 Penn America will provide:

23 One is, we will work on the
24 permitting. We've identified a law firm
25 in Washington, DC that will handle the

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2 permitting component. That is Hogan
3 Lovells. Hogan Lovells was successful in
4 getting the Dominion Resources project
5 permitted with FERC and the Department of
6 Energy. We are very fortunate in that
7 the woman who heads that practice, the
8 energy practice for them, Mary Anne
9 Sullivan, was former general counsel for
10 the Department of Energy. And why we
11 selected Hogan is primarily because of
12 the obstacles that Dominion was faced in
13 bringing their project forward. They had
14 issues regarding environmental,
15 litigation, and many, many, many
16 challenges and concerns, and they were
17 able to successfully navigate around
18 those obstacles.

19 We will handle the engineering,
20 procurement, and construction, known as
21 the EPC. We've identified two potential
22 EPCs, one being Bechtel, who actually was
23 the EPC for the Sabine Pass-Cheniere
24 project. We've given them complete
25 visibility to the project, as well as

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2 many of the challenges that were
3 enumerated in a feasibility study that
4 was contracted by PGW with CH4, and they
5 know the plant actually quite well. From
6 what I understand, they were involved in,
7 I guess -- PGW would actually give you
8 more visibility, but they had shared with
9 me that that initial cascade unit that
10 was built out about 40 years ago, that
11 was their project. Anyway, nonetheless,
12 don't hold me to that, but they know the
13 asset, they know the plant very well, if
14 I may.

15 Our goal is to bring also a
16 20-year SPA agreement with a qualified
17 counterparty. That is obviously a
18 contract, as well as a 20-year source of
19 fee gas, which Sam had commented is 700
20 million cubic feet a day. So that would
21 be our responsibility, and certainly the
22 structure and manage the commercial
23 transaction and provide the financial
24 instrument to require not only to fund
25 the transaction in terms of the

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2 transaction with the off-taker, but also
3 bring the funding to fund the LNG
4 terminal, the expansion of PGW's LNG
5 terminal.

6 If you look at this image, it
7 basically demonstrates the asset, how we
8 look at it, and what is critical to the
9 success of this project is that
10 underutilized Tioga terminal that is
11 adjacent to the PGW facility. That is a
12 key component to the success of this
13 project. Without that terminal, this
14 project will not be able to move forward.
15 So that's a key component. As I
16 mentioned earlier, the tanks, FERC
17 approved, and obviously experience of
18 PGW.

19 Looking at an overhead view of
20 the site analysis, the feasibility study
21 that CH4 had constructed enumerated a
22 number challenges. One I mentioned
23 already, and, that is, issues related to
24 the positioning of the tanks and are they
25 compliant with FERC rules or could they

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2 be grandfathered in. Another issue was
3 the proximity of the tanks to the port,
4 and then other issues inherent here are
5 private property issues.

6 What you can see highlighted in
7 yellow on the screen is PGW property.
8 What is highlighted in red, which I guess
9 looks maroon, is government property,
10 Philadelphia-owned property, as we
11 understand, and what's highlighted in
12 blue is private property.

13 It is our understanding that
14 the private property that is present
15 there is not a major obstacle in that
16 there are solutions there. However, I do
17 have to point out that there are a few
18 street closures that would have to happen
19 if indeed the project were to go forward.
20 Most notably, I believe it's Delaware
21 Avenue, which is the street that
22 separates PGW and the Tioga terminal, and
23 another one is Castor Avenue, which
24 separates the 54-acre site that is
25 adjacent to the existing terminal or PGW

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2 liquefaction plant. That site is
3 important because that's the footprint
4 where we propose to expand and build out
5 a new liquefier.

6 Another issue which is a major
7 issue was -- and I mentioned it
8 earlier -- the hazardous exclusionary
9 zone, and how I mentioned it was that
10 there would be some modifications
11 required to the Tioga terminal. If we
12 were to berth a vessel right along the
13 bulkhead of the Tioga terminal today --
14 and you can see a vessel tied up -- the
15 hazardous exclusionary zone, the radiuses
16 would extend too far and really come
17 very, very, very close to residential
18 areas. So the solution that CH4 has
19 provided in their study -- and I've also
20 been working with them to date as well,
21 but they've proposed evacuating and
22 excavating some of the landfill so that
23 we can move a vessel closer to the tanks,
24 as a result decreasing the radius of the
25 hazardous exclusionary zone.

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2 As we mentioned earlier,
3 pipeline capacity is key. There were two
4 options that we were considering. One
5 was the Spectra line, which is roughly,
6 as we understand, about 31 miles away
7 from the PGW gate station. And I'm only
8 referring to the Richmond plant. We've
9 experienced, through our research, a
10 little bit of a negative headwind with
11 that because of the three districts that
12 that pipe would have to follow. Although
13 there are -- there is a right-of-way in
14 place because there is existing pipeline
15 in place. We thought that we should look
16 at another opportunity, and that is an
17 opportunity that Sam had mentioned with
18 Williams, and that is the
19 Trenton-Woodbury lateral that I mentioned
20 earlier today.

21 So there is a great deal of
22 work, but what was exciting to us is
23 there is a six-mile stretch of pipe
24 that's a 16-inch pipe that comes into the
25 Richmond plant. That certainly will not

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2 give us the quantity of gas that we would
3 require on a daily basis, but it pointed
4 us what we believe is in the right
5 direction and in the best interest of the
6 residents of Philadelphia.

7 An overhead view of this
8 project, you can see the two tanks in the
9 middle of the screen. That is the PGW
10 plant. Adjacent to the right or south is
11 the Kinder Morgan terminal. That
12 terminal discharges ethanol and stores
13 ethanol there at that terminal, and from
14 what I understand, that terminal -- that
15 storage facility may be expanded. This
16 is what I understand. But why that's
17 important from our perspective is, there
18 have been concerns about the type of
19 cargo we're working with, which is LNG,
20 and that type of cargo navigating the
21 waterway, and what we've done is through
22 the work of our partners in Washington,
23 we've reached out about two-plus years
24 ago to the Coast Guard and tried to
25 really understand the reality of one

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2 135,000 cubic meter LNG vessel a week
3 moving and navigating up the river. And
4 what we were told is that -- keep in
5 mind, Philadelphia through the Sunoco
6 plants has been an energy hub, if you
7 will, in terms of that type of product
8 for probably close to a hundred years.
9 So there have been volatile materials
10 moving up and down the Delaware River on
11 a routine basis.

12 Adjacent to this facility, as I
13 mentioned, is an ethanol plant, and the
14 work that we've done in trying to
15 calibrate the volatility of ethanol
16 compared to LNG, they're both volatile
17 products. Their characteristics are
18 different, but nonetheless, they present
19 the same challenges. So the issue
20 obviously is what are the security
21 measures in place and also the type of
22 vessels that are carrying those products
23 up and down the river.

24 Another issue that we had to be
25 cognizant of are, there are four bridges.

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2 There's the Ben Franklin Bridge, which is
3 a gating factor, which I'll discuss in a
4 few minutes. There's the Walt Whitman
5 Bridge. There's the Commodore Barry
6 Bridge, and there's the Delaware Memorial
7 Bridge. So it was very important for us
8 knowing the access to the Atlantic Ocean
9 what the challenges would be downstream
10 and could we benchmark any programs or
11 any transit, if you will, of LNG in the
12 United States today, are there any other
13 platforms in place, and we identified
14 one. This demonstrates the path to the
15 Atlantic Ocean.

16 Important benchmarks for
17 consideration, one is in Boston, there is
18 a Distrigas LNG regasification terminal
19 that has been operating successfully
20 since 1971 without any incident. And why
21 is that an important benchmark? Well,
22 the City of Boston is there. There are
23 three bridges that LNG vessels have to
24 navigate under. There's Logan Airport.
25 There's a deep water channel that runs

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2 extremely close to the shoreline, and
3 compared to the Philadelphia shoreline,
4 it's a much more grand and built-up
5 shoreline with commercial and residential
6 property.

7 I mentioned the Kinder Morgan
8 discharge terminal, which has been
9 operating successfully without any issue
10 adjacent to the existing plant, and as I
11 mentioned earlier, the extraordinary
12 history that Philadelphia has with
13 refining and the transport of other
14 materials.

15 So here we are. This is a
16 picture taken on a beautiful sunny day
17 that I hope we see here in Philadelphia
18 soon of a vessel, one that travels on a
19 weekly basis and has been doing so
20 successfully since 1971. We think
21 there's a direct correlation between that
22 and what we are proposing here in
23 Philadelphia.

24 The routes that they take,
25 although are not as long to the mouth of

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2 the Atlantic Ocean, but you'll see
3 similarities in the slides that I'm going
4 to show you. That happens to be the
5 loading arms and cryogenic lines that
6 when LNG is discharged, that's where it's
7 placed. That's where the berthing is.

8 Just to move you forward, you
9 can see the City of Boston, Logan Airport
10 to the right of your screen and the
11 pathway that a vessel will take to leave
12 the city.

13 This is the Kinder Morgan
14 discharge and storage terminal that I
15 mentioned earlier.

16 So this is the value
17 proposition, the value proposition for
18 the City of Philadelphia. The project
19 that we are proposing, Philadelphia Gas
20 Works will remain a public asset. There
21 will be no capital investment from the
22 City of Philadelphia, and based on the
23 structure of the transaction, which will
24 be based upon a tolling agreement, we are
25 estimating that it will bring to the City

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2 about \$150 million a year in -- excuse
3 me; it will bring to PGW \$150 million a
4 year in revenue through a 20-year SPA
5 agreement with an off-taker, with a
6 rollover provision. That, we think, is
7 an extraordinary proposition.

8 I want to just talk through and
9 bring us back to some of the questions
10 that you've asked in relationship to a P3
11 structure and how that structure relates
12 to our project, and I think it's
13 important to note. A public-private
14 partnership structure is not the desired
15 structure due to the following
16 considerations for our proposal:

17 A P3 structure will transfer
18 public assets into a private entity. A
19 P3 structure will privatize public job
20 opportunities. We worked through this
21 with a law firm here in Philadelphia
22 headed by Bill Sasso, Stradley Ronon, and
23 we've discussed different options that we
24 should consider. Three years ago when we
25 approached PGW, that happened to be the

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2 structure that has been discussed,
3 variations of a P3. And based on the
4 nature and context of what we are
5 offering the City, for us it represents
6 something that's suboptimal. There's a
7 lot of change in governance that we
8 believe will have to happen, and for us
9 it's a longer road. Timing for us is
10 critical.

11 So what is our goal? Our
12 collective goal should be to establish
13 the appropriate platform, and we're
14 referring to it as a public and private
15 collaboration. And we believe that
16 there's more work that needs to be done
17 with the City Solicitor as well as
18 counsel for PGW and with Stradley Ronon's
19 team and really trying to come up with
20 the best structure.

21 As I mentioned, Penn America
22 will fund the expansion of the existing
23 PGW Richmond plant with an established --
24 with an estimated capital cost of \$2.1
25 billion. Penn America Energy will own

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2 the asset, meaning we will own the plant,
3 the actual physical apparatus, the steel
4 and iron. The actual plant, the ground,
5 will be owned by the City or owned by
6 PGW. The only reason why we're proposing
7 this structure is to get this project
8 funded, we need to be able to position
9 the depreciation with our bankers. The
10 City cannot write off that depreciation,
11 but our investors can write off that
12 depreciation.

13 What our proposal is is to
14 build out a 4.5 MTPA, which is million
15 tons per annum, liquefier. That happens
16 to be, as Bechtel refers to this, as an
17 off-the-shelf design. That happens to be
18 the liquefier designed that they are
19 building in the Gulf. That is the design
20 for the Cheniere-Sabine Pass project.
21 It's a 4.5 MTPA liquefier. They are
22 building out six liquefiers. We are
23 looking to build out one.

24 Philadelphia Gas Works will not
25 be privatized and it will remain an

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2 independent public utility. A land lease
3 agreement between the lessor,
4 Philadelphia Gas Works, and the lessee,
5 Penn America Energy, will be the
6 structure that we're looking to put in
7 place. And my belief, there was a
8 gentleman who testified earlier, Mr.
9 Rubin, if my memory is correct, and
10 benchmarked -- is it Mr. Rubin? I'm
11 sorry. Yeah. He had disclosed some
12 other projects that were in place whereby
13 the utility would be able to lease to
14 Penn America. So the land, that 54-acre
15 plot that's adjacent to the existing
16 plant, is the site that we're proposing
17 for this project.

18 So PGW and the City of
19 Philadelphia will continue to own the
20 land. It will remain a public asset.
21 What we're proposing is through a service
22 contract between the seller, Philadelphia
23 Gas Works, and the buyer, Penn America
24 Energy LP, the buyer will pay the seller
25 a tolling fee for liquefaction and

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2 stevedoring services. All we've done is
3 benchmark the project that Dominion
4 Resources has, and Dominion Resources is
5 paid a fee per million Btu's to process
6 LNG and to load it through a stevedoring
7 process onto an LNG vessel. So we're
8 ultimately looking to benchmark that same
9 service, that same structure. So PGW
10 will ultimately be the operator of the
11 facility, PGW will produce the LNG, and
12 PGW will load the vessel.

13 COUNCILWOMAN TASCO: And you
14 will own the tank?

15 MR. JAMES: No, ma'am. PGW
16 owns the tank.

17 COUNCILWOMAN TASCO: I thought
18 you said earlier that you would own the
19 tank.

20 MR. JAMES: No, ma'am. What we
21 will do is, we will own the actual plant,
22 the steel, the actual plant itself, not
23 the ground, because what's important to
24 the financing of this project is, the
25 depreciation is a key component to this,

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2 and a municipality cannot write off that
3 depreciation, but an investor can write
4 off that depreciation. So that's a very
5 important component to funding this
6 project.

7 MR. SEIF: The tanks are
8 different from the plant. The plant
9 turns gas that comes from the pipelines
10 we've discussed into liquid. Liquid is
11 then stored with the priority use for
12 Philadelphia customers on the cold of
13 winter, is then stored to tanks, which we
14 would not propose to own. City already
15 does. They've been there 40 years and
16 they're working fine. So that only --
17 and would not own the land on which the
18 liquefying equipment is placed, that
19 54-acre plot.

20 MR. JAMES: Our intention is
21 not to privatize anything. If I misspoke
22 or I confused you, I do apologize. It's
23 the actual liquefier when I refer to the
24 plant.

25 COUNCILWOMAN TASCO: Just tell

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2 me, because I'm a little slow right now,
3 it's something to 3:00, what is it you
4 would own? The tank?

5 MR. JAMES: No, ma'am. The
6 tanks will continue to be owned by PGW
7 and the City of Philadelphia.

8 COUNCILWOMAN TASCO: What would
9 you own?

10 MR. JAMES: We will build a
11 liquefier, the actual apparatus, the
12 structure, the actual machine, if you
13 will.

14 So, as I mentioned earlier, the
15 structure that we're proposing is a
16 tolling fee. It's a fee to be paid to
17 PGW for the process of liquefying natural
18 gas into LNG. So the -- yes, ma'am.

19 COUNCILWOMAN TASCO: So if you
20 own the liquefier and you and your
21 investors decide to pull out, what
22 happens?

23 MR. JAMES: It would be secured
24 by contract with the City actually,
25 ma'am.

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2 COUNCILWOMAN TASCO: For how
3 long?

4 MR. JAMES: Well, the benefit
5 of this project -- well, the term that
6 we're looking at is a 20-year term, with
7 a rollover provision for another ten or
8 another 20 years. It's such an
9 extraordinary opportunity for the
10 investors. To pull out would not be in
11 their best interest actually. The return
12 on investment will be extraordinary over
13 20 years. It would be foolish for an
14 investor to pull out of this project
15 early. It's going to take us anywhere
16 between, I'd say, three to five years to
17 build out the project. So there's a
18 great deal of capital that will be
19 invested in this project in the early
20 going.

21 Did you want --

22 MR. SPENCE: I just wanted to
23 interject. The commitment to the project
24 in the investor's perspective is twofold.
25 There is the contractual agreement with

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2 PGW, with the City on a 20-year basis,
3 but in order to finance this development,
4 there is going to be commitments and
5 obligations to banks, institutions who
6 are funding it from a debt structure, and
7 they'll be bound into the agreement on at
8 least 20 years as well from that
9 perspective as well. So it will be
10 virtually impossible for the investors to
11 back out of this once that commitment is
12 made.

13 MR. JAMES: How the \$150
14 million --

15 COUNCILWOMAN TASCO: You're
16 going to have to kind of sum up, because
17 we have another set of people to testify.
18 Because we're not negotiating the deal
19 here today. We're just listening to the
20 whole idea of what it brings.

21 MR. JAMES: Yes, ma'am. I'm
22 going to articulate then just what we
23 believe the key value proposition is.

24 Philadelphia Gas Works remains
25 a public asset. There would be no

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2 capital investment from the City of
3 Philadelphia. It's an estimated \$150
4 million per year in additional revenues
5 generated by PGW through a 20-year
6 contract. If you just look at that
7 number, what we believe is, it provides
8 an extraordinary solution to the City
9 regarding aging infrastructure. As we
10 understand, just an investment on PGW's
11 part of \$25 to \$50 million per year could
12 collapse the 80-year or 60-year timelines
13 to replace existing cast iron aging pipe
14 in the system. From also what we
15 understand, just a \$50 million investment
16 will reduce the calculated gas rate for
17 the citizens of the City.

18 Certainly you will be expert in
19 analyzing the dividend, but our belief is
20 is that if the dividend is changed, it
21 will address City pension funds, as well
22 as schools, as well as neighborhood and
23 communities, and also it will assist in
24 the infrastructure development required
25 here in the City to bring additional pipe

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2 into the City.

3 Public jobs will not be
4 privatized. Certainly there will be jobs
5 created in building out an LNG terminal.
6 Those are not long-term jobs; they're
7 short-term. There will be jobs created
8 for plant operations, but we believe the
9 greatest value is the jobs created to
10 replace 1,800 miles of aging pipe in the
11 system, as well as the trickle-down
12 economic benefits.

13 There's one thing that I want
14 to leave you with that is very, very
15 important, and, that is, this is a
16 municipal project. Compared and
17 contrasted to the Cheniere project or the
18 Dominion project, these are projects that
19 are pioneered by publicly traded
20 companies. This is a municipal project.
21 The true shareholders we believe in this
22 project are the citizens of Philadelphia.
23 They are not who purchase the stock. The
24 benefits, the direct beneficiaries of
25 this project are the citizens. So I

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2 think that's very important.

3 Another important point for you
4 to really consider is geopolitically
5 what's happening here in the United
6 States and what's happening in Europe.

7 There's a firm that we're working with in
8 Washington, DLA Piper. There's a
9 representative who is sitting here with
10 us today from their New York office.

11 We've been working very closely with them
12 in trying to identify, from a national
13 security perspective, does this municipal
14 project in Philadelphia further the
15 national security interests of the United
16 States and our allies in Europe, and it
17 does. And it does. So it's an
18 extraordinary opportunity and what we
19 believe is a game-changer here in
20 Philadelphia.

21 So we seek your support, and
22 we're excited to come back to
23 Philadelphia. We've been away.
24 Actually, we reengaged this project in
25 December of 2014. We have an

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2 extraordinary legal team in place. We
3 have been working very closely with CH4.
4 They will be our lead in terms of project
5 management for this project. This is
6 right in their wheelhouse and they know
7 this. They know Philadelphia. They know
8 PGW extremely well. We work with their
9 office in Baltimore. And there are
10 certainly hurdles, but we're prepared and
11 we think there are solutions for every
12 hurdle.

13 Thank you very, very much for
14 your time.

15 MR. SEIF: Thank you.

16 COUNCILWOMAN TASCO: I just
17 have two questions. Your project would
18 involve an LNG vessel coming up and down
19 the Delaware River to the Richmond site
20 once a week. Would it be correct that
21 all other traffic on the river would be
22 shut down during this period?

23 MR. JAMES: No, ma'am. We've
24 benchmarked the project in Boston, as you
25 saw from the slide that I showed you.

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2 There are security measures in place.

3 There are marine police. There's Coast

4 Guard both in the water and in the air.

5 Measures they've taken is, they've closed

6 the bridge there for ten minutes until

7 the vessel passes underneath the bridge.

8 So there are certainly provisions in

9 place that have been benchmarked and that

10 have not been that disruptive.

11 COUNCILWOMAN TASCO: Your plan

12 requires obtaining the use of the Tioga

13 Marine Terminal. How would you go about

14 getting the use of this terminal, and

15 what existing commercial uses of this

16 terminal would have to end to permit your

17 project to go forward?

18 MR. JAMES: I can't speak to

19 the business functions of that terminal

20 today. What I understand is that it's an

21 underutilized terminal, but I can't speak

22 accurately as to the amount of cargo that

23 move through that terminal on a weekly

24 basis. That I cannot tell you.

25 There was another question. I

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2 apologize. Can you repeat it, ma'am.

3 COUNCILWOMAN TASCO: I think
4 that was it. You answered it.

5 MR. JAMES: Oh, you asked me
6 about who we -- I guess we would speak to
7 the Delaware River -- or the Philadelphia
8 Regional Port Authority about that
9 terminal specifically. Am I correct,
10 Councilman Henon? I think we talked --
11 no?

12 COUNCILWOMAN TASCO: No.

13 MR. JAMES: No? Okay.

14 COUNCILWOMAN TASCO: Thank you
15 very much.

16 MR. JAMES: Thank you very much
17 for your time.

18 COUNCILMAN HENON: Excuse me,
19 fellas.

20 MR. JAMES: I'm sorry?

21 COUNCILMAN HENON: I do have --
22 I just want to -- just another question.
23 So on the line of government approvals,
24 what would you need from the city, state
25 or federal government to make your

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2 project a reality?

3 MR. JAMES: Well, certainly a
4 key trigger for us is to establish an
5 exclusivity period for this project. We
6 need to move quickly. That seems to be
7 the trigger for us today, not only with
8 our banks but also with our off-takers.
9 We've been working with Vital, Glencore,
10 Trafigura. These are potential
11 off-takers, and they're clients of mine
12 today actually, Glencore and Trafi. And
13 what everyone has been concerned about,
14 honestly speaking, if I may, is the
15 history here in Philadelphia regarding
16 the sale of PGW and what has transpired.
17 It's something that is certainly not
18 going to cast a negative shadow, but it's
19 very clear that we need to demonstrate
20 that the City of Philadelphia,
21 specifically Council and the Mayor, are
22 prepared to move this project forward
23 based on the merits that I've
24 articulated.

25 There's a lot that needs to get

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2 done. This is, as I said, a \$2.1 billion
3 project. It involves 75 percent debt; 25
4 percent of it will be equity. We have
5 some investors already interested in the
6 project in terms of the equity component.
7 We've had conversations with Citibank and
8 Credit Suisse, cities interested in being
9 the lead bank and putting together the
10 syndicate for this project. But
11 everyone, whether it's banker, law firms
12 that we're working with, counterparties,
13 are looking at the first hurdle, and the
14 first hurdle here is how can we get
15 aligned with the City of Philadelphia on
16 this project.

17 So certainly we would want to
18 enumerate within that exclusivity period
19 certain milestones that have to be met
20 from our part to ensure the duration of
21 that period. But that will give us the
22 credibility to move forward with the
23 bank, to move forward with the government
24 of Portugal or the government of Spain.
25 And you may say, Well, why are you

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2 referring to government? That's our
3 strategy. Our strategy is a top-down
4 diplomatic strategy, considering the
5 national security concerns of Europe
6 today. Their goal is to diversify their
7 risk from Gazprom and Russian, what they
8 term, as aggression in Europe. So that's
9 a key component, and based on our
10 conversations with DLA Piper, the law
11 firm who will handle government affairs
12 for us on this project, they said
13 actually that's the key component that
14 will make this project a success and get
15 the Obama Administration to embrace this
16 project, because of the national security
17 interest and that it's our nation's only
18 municipal project.

19 COUNCILWOMAN TASCO: Let me
20 just say this and you may leave. The
21 gentleman who had to take the plane
22 talked about the regulatory hurdles that
23 we have to overcome.

24 MR. JAMES: Yes, ma'am.

25 COUNCILWOMAN TASCO: So we have

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2 to take that into mind.

3 MR. JAMES: Absolutely.

4 COUNCILWOMAN TASCO: Thank you
5 very much.

6 MR. JAMES: Thank you for your
7 time. Have a wonderful weekend.

8 COUNCILWOMAN TASCO: Thank you.

9 Now we have the -- I'm so
10 sorry. Liberty Energy Trust.

11 (Witnesses approached witness
12 table.)

13 COUNCILWOMAN TASCO: Good
14 afternoon. Thank you for waiting and
15 being so patient.

16 MR. RYAN: Thank you for having
17 the time to listen.

18 COUNCILWOMAN TASCO: You know
19 how these hearings run, and we appreciate
20 your patience.

21 MR. RYAN: Well, we want to
22 thank you, Madam Chairwoman and Chairman
23 Henon, the other members of Council, for
24 giving us a chance to talk to you today
25 about Philadelphia's energy strategy. My

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2 name is Charlie Ryan. This is Boris
3 Brevnov. We hope that today we can
4 propose some ideas to address concerns
5 presented by PGW's aging infrastructure,
6 the urgent need to lower costs for the
7 City's residents and what they pay for
8 their gas, and the need to increase the
9 availability of gas for City residents,
10 businesses, and we also want to talk
11 about some strategies to mobilize private
12 capital and private initiative to partner
13 with the City in your vision for
14 developing an energy hub.

15 We do believe that the best way
16 to approach these objectives is to create
17 a public-private partnership, including
18 PGW. The essential idea behind our
19 proposal is to stop thinking about PGW as
20 a liability to be managed, but rather
21 start thinking about it as a key part of
22 the energy hub and an engine of economic
23 development. The idea would be to use it
24 to get the gas here for businesses and
25 customers so it's readily available and

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2 inexpensive.

3 In a few months since Council
4 began this process of conducting
5 hearings, we've continued to refine our
6 understanding of the opportunity, and
7 we're really grateful for the chance to
8 come back today and tell you what we've
9 learned and make some suggestions and
10 answer some questions.

11 So as I said, I'm Charlie.
12 This is Boris. I grew up here, and for
13 the last 25 years, I've worked around the
14 globe on various energy and
15 infrastructure issues. I've helped
16 governments, utilities to modernize and
17 expand their capacities, and I'm also
18 directly involved today in the energy
19 business. I serve on the boards of some
20 companies. One company actually is one
21 of the larger shippers of LNG on the
22 planet, and also some not-for-profits
23 that work in this space.

24 Boris spent his entire career
25 in energy and finance. His most relevant

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2 experience that we mentioned at the last
3 hearing had to do with Peoples Energy
4 Corporation in Chicago. It's a company
5 that, as we talked about, has some of the
6 exact same challenges and opportunities
7 that are present at PGW, including
8 crucially the cast iron replacement
9 program. So Peoples Gas has already
10 begun its program in 2011. Thus far,
11 they have replaced 35,000 service pipes
12 and they have retired 245 miles of cast
13 iron conductor. This company, Peoples
14 Gas, continues to proceed with this
15 program. They plan to replace about
16 2,000 miles of cast iron mains and
17 300,000 service pipes and meters in the
18 next 20 years. So definitely a lot
19 shorter than the plan we have going on
20 today here in Philly.

21 Last November, we testified
22 before Council in support of a
23 public-private approach to developing
24 Philadelphia into a next generation
25 energy hub, and we discussed some

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2 concrete opportunities, and I'm glad to
3 report we made progress on them. I hope
4 we can explain a bit more today what we
5 found and what we would suggest.

6 So a few weeks after that
7 testimony in November, we participated in
8 the "Greater Philadelphia: The Next
9 Energy Hub" conference that was sponsored
10 by the CEO Council for Growth, part of
11 the Philadelphia Chamber of Commerce.

12 And there was an event that united
13 business, labor leaders under this vision
14 of how to leverage the City's unique
15 potential. Today more than ever, I think
16 we got an opportunity and a
17 responsibility to combine public and
18 private effort in positioning
19 Philadelphia as this new energy hub.

20 A key focus of the conference
21 was on infrastructure improvements to
22 address safety, bring less expensive and
23 cleaner energy to existing new customers,
24 lower customers' bills, and create jobs.
25 There are three, not just one, but three

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2 critical bottlenecks today that exist.

3 The first is this intrastate transport
4 pipeline. This is these big pipes that
5 people are talking about to get the gas
6 to the City.

7 However, I think probably not
8 as much attention but a lot of additional
9 attention should be paid to the second
10 bottleneck, which are the lateral
11 pipelines, the regional pipeline network.
12 And then clearly the final bottleneck is
13 the local distribution network, the PGW
14 network.

15 I think we need to be clear
16 that as we look at how to improve the
17 situation and how we look to solve some
18 of the problems, we have to think about a
19 comprehensive approach to looking at
20 solving these three separate bottlenecks.

21 So we continue to believe, as
22 we mentioned in our prior testimony, in a
23 stakeholder approach, combining
24 communities; local and global capital;
25 labor expertise; business;

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2 not-for-profits and combine this in a
3 citywide effort to build and grow
4 Philadelphia -- the Philadelphia energy
5 hub and provide a platform for success.
6 Liberty brings together a bunch of these
7 stakeholders - local investors and
8 businesses; the AFL-CIO providing a
9 partnership of labor and labor capital;
10 Philadelphia-based endowments and
11 foundations putting up capital; and
12 industry expertise that's complementary
13 to the outstanding expertise that today
14 exists at PGW.

15 We believe a logical next step
16 would be for a platform like ours to
17 engage directly with the City and PGW and
18 see how we could translate a common
19 vision into actual project blueprints and
20 form a framework for a partnership.

21 Private participation in PGW's
22 future, we feel, is essential to
23 improving this aging infrastructure and
24 providing this economic growth. We think
25 it would unlock true economic development

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2 potential in the City. PGW's management
3 team has done a remarkable job in keeping
4 the system operating smoothly and safely,
5 with a prudent annual maintenance budget,
6 all the while, however, working within
7 existing financial and organizational
8 constraints. And as has been correctly
9 reported, the schedule to fix the
10 infrastructure is not acceptable to
11 anyone. Seventy years is way too long.
12 PGW has hazardous leak rates that are
13 high compared to national average. The
14 Philadelphia Office of Sustainability
15 estimates that the City's -- leaks in the
16 City's network contribute about 120,000
17 cars worth of emissions to the
18 atmosphere. Duke and Boston University
19 researchers say that these gas leaks from
20 U.S. gas utilities are the country's
21 largest human-caused source of methane,
22 contributing some \$3 billion of --
23 accounting for \$3 billion of natural gas
24 that's lost every year. So there's an
25 environmental component as well to

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2 improving the third bottleneck, the local
3 distribution system.

4 So without fresh capital,
5 flexible financing; streamlined,
6 business-minded decision-making
7 processes; innovation and
8 entrepreneurship, we feel it will be
9 difficult to achieve the goals that many
10 have expressed today and I hope we all
11 have in mind. And we think there's
12 unique opportunity today to rethink and
13 redesign how the City approaches these
14 challenges, and we think that's through a
15 public-private partnership.

16 The good news is, we don't have
17 to reinvent the wheel here. We can
18 successfully build and improve on
19 existing best practices and leverage
20 Philly's competitive advantages. Other
21 cities are doing very similar things
22 today. Gas utilities in the country
23 spend about \$19 billion a year annually
24 to upgrade their systems and improve
25 safety. In the introduction, I mentioned

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2 Chicago, which is planning on doing their
3 upgrade in 20 years. In New York,
4 National Grid is currently in the program
5 to replace 1,900 miles of mains and
6 25,000 services over the next 25 years.
7 Philadelphia's distribution network needs
8 to be upgraded more rapidly too. And,
9 again, we think it should be also not
10 just upgraded, but re-imagined as an
11 economic development opportunity, and
12 that's what gets us excited.

13 I think there's a lot of ways
14 people might ship gas around the world,
15 but truth of the matter is, we feel that
16 the key path to getting jobs created in
17 the City is to figure out a way to
18 improve and increase the availability of
19 gas for people to build businesses here,
20 and we -- and I'll come to it in a
21 moment. If we could increase the load in
22 the system going to corporate and
23 industrial customers, it also, experience
24 proves, would help to reduce rates for
25 residential customers.

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2 So when utilities are
3 establishing these major replacement
4 programs like some of the ones that I had
5 mentioned, they'll obviously investigate
6 the possibility of upgrading the service
7 territory from low pressure to medium
8 pressure in advance of sizing the
9 diameter of the replacement mains.

10 Higher pressure systems not only make the
11 system more robust, but it also allows
12 for smaller diameter pipes to be used in
13 the replacement. And what this means
14 then is, you can insert these smaller
15 mains into the existing cast iron mains
16 to -- it allows you to speed up the
17 process and for there to be -- there's
18 some discussion, but less disruption.
19 This has not only been commonplace in
20 Chicago, but it's just what National Grid
21 is doing in New York and other utilities
22 are doing around the country.

23 So initially city gas
24 distribution networks were created for
25 two simple purposes - for street lights,

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2 the old-fashioned street lights, and to
3 heat buildings. In the U.S., the load
4 represented by this original purpose of
5 heating people's houses is really only
6 about a third of the current demand for
7 natural gas. The rest of it, as you can
8 see from this chart, is for new things -
9 industrial uses, generating electric
10 power, Phil Rinaldi talked about CHP
11 units that could be put in place, and for
12 commercial. And you can see vehicles are
13 quite small, but we feel that some of
14 those CNG opportunities and LNG
15 opportunities that Craig and others spoke
16 about are only going to increase and we
17 think increase pretty dramatically.

18 So these modern networks are
19 specifically designed to handle some of
20 these new applications, including
21 combined heat and power, gas fuel cells,
22 as I mentioned, CNG. And having this
23 higher pressure network would allow PGW
24 to expand the customer base and increase
25 volumes that not only would help pay for

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2 the upgrade, but also, as I mentioned
3 previously, drive down costs for the
4 community. So every industrial
5 resolution is driven by, we feel, an
6 energy revolution.

7 PGW has one of the lowest
8 shares of commercial and industrial
9 customers today among U.S. gas utilities,
10 and we think that if we rethink how we're
11 going to replace the cast iron by
12 thinking about also upgrading the
13 pressure potential within the system, we
14 could not only do something to drive
15 economic development, but also do
16 something for the City's residents.

17 COUNCILWOMAN TASCO: Just to
18 interrupt you, I think that's partly our
19 fault for not insisting that new
20 businesses coming into the City use gas.

21 MR. RYAN: I like that idea.
22 And it is interesting today when you look
23 around at who is using electricity. You
24 know, think about that bakery that
25 Councilman Jones was talking about

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2 earlier. There are a lot of businesses
3 today that simply can't operate in the
4 modern economy if they have to run on
5 electricity, and certainly if we could
6 increase not only the price -- it's
7 really the availability of gas today
8 that's a problem, and that's why we think
9 that in addition to replacing the cast
10 iron for safety purposes, we would
11 recommend looking at improving or
12 increasing the pressure that can be
13 handled in the system to permit larger
14 volume of gas to get into the City.

15 So in addition to cast iron,
16 though, there's also another issue, which
17 is that PGW has about 500 miles of
18 cathodically non-protected steel lines,
19 so these also have to be replaced. And
20 at this point, PGW, we understand, is
21 putting together a plan for replacing
22 these cathodically unprotected steel
23 lines, and they need to be, because like
24 cast iron, they have another safety
25 issue. They can rust in unpredictable

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2 locations to the point where they don't
3 perform.

4 Currently, only about one mile
5 a year of these steel lines are being
6 replaced, and certainly it's clear that
7 the plan isn't to take a 500-year
8 approach to replacing that part of the
9 network. As I said, we understand the
10 company is putting together plans to
11 replace these mains, but if you put that
12 on top of the cast iron program, you
13 start talking about a timeframe where the
14 process of replacing these is simply not
15 acceptable in terms of timeframe.

16 We looked at other programs at
17 other utilities in the country. Dominion
18 East Ohio and Columbia Gas of Ohio both
19 have programs that they describe as
20 25-year programs to replace their mains.
21 Columbia Gas of Ohio actually exceeded
22 that in 2012. Their programs are
23 considered to represent best practice.
24 Bay State Gas and Niagara Mohawk are also
25 conducting accelerated replacement

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2 programs. Boston Gas has recently said
3 they're going to increase their rate of
4 replacement of cast iron and
5 non-cathodically protected steel from 150
6 miles per year in 2013 to 190 miles per
7 year beginning in '16.

8 Basically the message here is
9 that Philadelphia needs a similar kind of
10 program to keep pace with these other
11 cities and these other regions.

12 If we continue existing --
13 continue under the existing constraints;
14 that is, relying exclusively on debt
15 financing and an incremental approach,
16 we'll spend about \$45 million a year
17 replacing pipe. We won't finish it for
18 70 years, and when we're done, the
19 network will end up with in 70 years,
20 after all that time and investment, still
21 won't be able to support modern
22 applications and businesses. That's why
23 we have to rethink the cast iron program
24 through the frame of economic development
25 and being able to increase the amount of

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2 gas we deliver to new and existing
3 customers.

4 So we feel that an alternative
5 approach to this would be to design a
6 modern energy delivery platform capable
7 of providing gas to these new
8 applications, and execute it within a
9 25-year timeframe, and do this on an
10 integrated basis, with an upgrade of the
11 lateral transportation pipelines that are
12 essential to support growth in the City.
13 Then the project is not simply driven by
14 liability management, but it's an
15 exciting, well-engineered and
16 thought-through multi-billion-dollar
17 investment program that, in addition to
18 the jobs associated directly with the
19 program, could create a lot of jobs for
20 the businesses that could make use of
21 that cheap and more readily available
22 energy.

23 We're very confident that PGW's
24 experienced engineering and planning
25 groups would be a leader in this effort.

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2 Is there really another program of the
3 same magnitude, public or private, that's
4 currently available to the City that
5 could have this kind of multiplier
6 effect? We really feel that this is a
7 big opportunity that we need to take
8 advantage of and look at building a
9 consensus among the various stakeholders
10 to try and do it right away.

11 So a public-private partnership
12 is how we think the City could remove
13 some of these constraints that are
14 currently the underlying causes of the
15 basic requirement to have this
16 incremental approach; namely, financial
17 and organizational constraints. We think
18 that this new programmatic approach under
19 a public-private partnership would allow
20 the City to deploy the best technologies,
21 practices, reduce the cost of investment,
22 and create attractive and sustainable
23 jobs.

24 One of the truisms that we're
25 basing our analysis on is that a

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2 billion-dollar infrastructure investment
3 would create about 18,000 jobs, and for
4 every dollar that you spend on these
5 sorts of infrastructure investments, you
6 get about a \$1.44 plowed back into the
7 economy. So there's a real multiplier
8 effect to this sort of investment.

9 So I wanted to spend a couple
10 moments on the Concentric report and deal
11 with some of the concerns that they
12 raised about an outright sale and how a
13 P3 would do a better job of addressing
14 some of these concerns that Concentric
15 brought up, how it would mitigate them.

16 So the first concern had to do
17 with employees, specifically related to
18 the collective bargaining agreement and
19 retaining employees. Well, certainly if
20 we're talking about a
21 multi-billion-dollar transition from a
22 70-year program to 25 years, replacing
23 the cast iron, on top of that replacing
24 the non-cathodically protected steel, and
25 converting the system from low pressure

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2 to medium or high pressure, we're
3 certainly not worried about being able to
4 maintain the employment that's currently
5 involved with PGW, and obviously it was
6 always part of -- and clearly as the
7 Mayor said earlier, inside of a P3, if it
8 was done under a lease, it could be done
9 in a spoke way that would clearly protect
10 the collective bargaining agreement.

11 Certainly rate-related
12 commitments, including social programs,
13 in the same way that we heard the Mayor
14 this morning talking about how they wrote
15 in to their lease arrangement protections
16 for things that were important to them.
17 One of the nice things about a P3 is that
18 it gives you the opportunity to create a
19 bespoke program that is sensitive to the
20 things that matter to the City and give
21 the City an opportunity to retain their
22 voice on the things that they feel they
23 have to, while at the same time
24 permitting private capital initiative to
25 come in to the areas of the program where

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2 perhaps they would offer something new
3 that would allow us to expedite this.

4 Economic and growth-related
5 questions were raised by Concentric, an
6 Economic Opportunity Plan, a commitment
7 on headquarters and a local presence.
8 Well, at least maybe as a plug for
9 Liberty. We're a locally based group,
10 representing local investors. We haven't
11 gone anywhere. We're not going anywhere.
12 We're going to be here, and we hope we're
13 going to be a part of what you choose to
14 do in proceeding.

15 Clearly, local government
16 oversight is a somewhat obvious one. And
17 then the last point from Concentric was
18 to think of a way to accelerate the cast
19 iron program. That's really what we've
20 been talking about.

21 So in summary, on
22 public-private partnerships as it relates
23 to upgrading the distribution network,
24 this third bottleneck of the current
25 infrastructure, we feel that it could

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2 implement a best practice, accelerated
3 replacement program, modernize the system
4 in 25 years. It will require an
5 additional \$90 to \$100 million a year of
6 funding. Private investors are ready to
7 provide that funding and, at the same
8 time, if done under a P3, provide that
9 funding in a way that's coordinated with
10 the City and with the community, so their
11 voices are heard in creating an optimal
12 investment schedule and design of the
13 program.

14 The additional capital spending
15 would be partially recovered through
16 higher sales volumes and savings on
17 operational and maintenance expenses due
18 to reduced leakage and repair. These
19 potential savings shouldn't be
20 underestimated. Atlanta Gas and Light
21 through its integrated program cut pipe
22 replacement costs by 40 percent and its
23 annual gas leak repair costs have
24 declined by 80 percent as they've
25 implemented their program, and they

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2 embarked on a 15-year program to replace
3 2,700 miles of pipeline, a program that
4 included extension of the network to
5 serve new customers and, again,
6 integrated into the replacement program a
7 thought around how to create economic
8 opportunities to spur growth.

9 A public-private partnership
10 would also allow Philadelphia to attract
11 much-needed capital and expertise for
12 system improvement, while preserving the
13 City's right to participate in overseeing
14 PGW's important social programs.

15 There are different ways you
16 can structure the P3 to meet the City's
17 goals. Liberty is ready to engage with
18 the City to assist in designing a P3
19 framework to finance a network
20 modernization program. It would also
21 allow the City to significantly reduce --
22 to receive a significant up-front payment
23 to reduce the pension deficit, which
24 would equal or exceed the net proceeds of
25 an outright sale and potentially allow

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2 the City to continue to receive its
3 annual dividend.

4 The point here is that if we're
5 going to structure a lease like the Mayor
6 was describing earlier today, their focus
7 was around maximizing this up-front
8 payment. That would have to be something
9 that the City would determine that they
10 wanted to do. What we're saying is that
11 under the -- with the analysis that we've
12 conducted, we actually think that even
13 while preserving the City's prerogatives
14 related to social programs and protecting
15 labor, we think that the kind of cast
16 iron program we're talking about, this
17 shift to a higher pressure network that
18 would allow then more customers to come
19 into the system, we think that could
20 permit a larger up-front payment to the
21 City than even it would have gotten under
22 an outright sale, while retaining
23 ownership of the asset.

24 And clearly the goal of the P3
25 would be to assure a continued protection

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2 of consumers, vulnerable customers and,
3 through economic development, increase
4 rather than reduce the number of critical
5 employees and jobs.

6 So this P3 platform is suitable
7 not only for the gas distribution
8 business, so just real briefly -- and I
9 know you've been here a long time -- I
10 wanted to talk about how a P3 could be
11 also connected to the LNG business.

12 The LNG market is very
13 promising economically and
14 environmentally, and it is largely
15 untapped thus far in Philadelphia.
16 Certainly the leader thus far has been
17 the work that Craig and his team has done
18 to use that excess LNG capacity at port
19 Richmond. Liberty Energy is currently
20 working with a consortium of local,
21 national, international partners to
22 develop Delaware Valley as a leader in
23 LNG infrastructure.

24 We're seeking to expand the LNG
25 Marcellus liquefaction platform in the

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2 Philadelphia port, with the objective to
3 develop liquefaction and a multi-nodal
4 hub. The project is meant to lay the
5 groundwork for Philadelphia to serve as a
6 provider of marine -- LNG as a marine
7 fuel, complementary to existing port
8 operations. We're also planning to
9 expand the market for Philadelphia LNG by
10 delivering to customers in ISO
11 containers. These are just a few
12 examples of how LNG can act as a catalyst
13 for economic development in the
14 Philadelphia region. And if only a 10
15 percent share of the target market were
16 to be achieved, annual economic savings
17 could be more than \$200 million. The
18 project brings public and private
19 participants from Pennsylvania, New
20 Jersey, and Delaware in order to
21 facilitate LNG development with marine,
22 bunkering, and fleet vehicle fueling as a
23 critical first step.

24 Our proximity to Marcellus and
25 Utica Shale and their abundant reserves

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2 of gas and natural gas by-products,
3 coupled with the navigable shipping
4 channel on the Delaware River, ready
5 access to road and rail commerce, allow
6 for an ideal scenario for innovative
7 energy projects to emerge.

8 But it's important to act now.
9 We want Philadelphia to take a leadership
10 position in modernizing energy
11 infrastructure, pursuing economic growth
12 opportunities with natural gas. We owe
13 Philadelphia customers the delivery of a
14 low-cost, reliable, and safe energy
15 product. As we said earlier,
16 Philadelphia is uniquely positioned. We
17 don't have a monopoly on the
18 opportunities arising from Marcellus, and
19 it's clear that others recognize
20 Marcellus's potential and there's a rapid
21 acceleration of investment and
22 development around the region.
23 Philadelphia should take its spot as a
24 leader in this.

25 We strongly believe that

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2 Philadelphia can add value to this gas
3 and do it in a socially and
4 environmentally sustainable way. Liberty
5 would like to join in the effort to unite
6 the community with capital, labor,
7 entrepreneurial initiative, experience
8 and with PGW. We feel the best way to do
9 this is unite stakeholders under a
10 public-private partnership.

11 And thank you very much once
12 again for being patient with us and
13 listening to our ideas.

14 COUNCILWOMAN TASCO: Thank you
15 for being patient with us.

16 Do you have questions?

17 COUNCILMAN NEILSON: Yes.

18 COUNCILWOMAN TASCO: Are you
19 going to testify, Boris?

20 MR. BREVNOV: Just joining.
21 Thank you.

22 COUNCILMAN NEILSON: Thanks for
23 coming. Thanks for your help today and
24 thanks for your patience.

25 You were talking about the

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2 different programs that we have here in
3 the City. Every year something comes up
4 different. Under a public-private
5 partnership, under the P3, say we came up
6 with a new program. Would that be
7 something that you could come up and
8 talk? I mean, is that something we can
9 do? Because every year we see a
10 different program come up and different
11 changes in our economy and stuff like
12 that. How would that address if
13 something came up that we thought we
14 needed to address? Have you seen
15 anything like that in the past? I mean,
16 you've been part of these.

17 MR. RYAN: Well, I think the
18 way I would answer it -- and jump in and
19 interrupt me if I'm off on the wrong path
20 here. But if I listened earlier today to
21 the Mayor and he talked about the lease
22 having a mechanism in it where they had
23 to go back and inform City Council in
24 Allentown and then get -- they had a
25 voice in discussing the cap-ex program, I

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2 think an analogy for like how I could see
3 that working here would be that -- and
4 clearly part and parcel of what we're
5 describing here is creating sort of
6 islands inside the network where you
7 could have high pressure.

8 So, for example, you know, two
9 examples of this would be if you look at
10 Center City, Avenue of the Arts. On one
11 end you've got the Museum of Art that
12 today has relatively high energy costs
13 because they don't have access to gas.
14 On the other end across Broad you've got
15 the Convention Center. They're running
16 on two diesel generators. You could
17 create an island there and if Council
18 said, you know, We want Avenue of the
19 Arts to have gas, that's a place we'd
20 like to prioritize some of the early
21 cap-ex in upgrading the network to make
22 that a place where you could have high
23 pressure.

24 Equally, someone could say, We
25 have all this sort of brown field

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2 development opportunity down on the
3 riverbank. What we'd like to see is,
4 we'd like to see the cap-ex program to
5 focus on -- and this could be the new
6 one. So this could be down the road as
7 the P3 is coming back and informing
8 Council of what it's up to, and clearly
9 Council would have and the City would
10 have a voice anyway as a partner in the
11 project. If the new idea was to create
12 an area of high pressure that would be
13 able to deliver lots of gas to a segment
14 of these sort of brown field sites on the
15 river, then that could be a change, a new
16 initiative that then would get integrated
17 in the cap-ex budget, the public-private
18 partnership, and basically put forward as
19 a priority for the next round of cap-ex
20 that was going to upgrading the system.

21 COUNCILMAN NEILSON: So a lot
22 of the things that we heard today about
23 capacity, you can put these high pressure
24 and increase the capacity along the route
25 is what you're saying?

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2 MR. BREVNOV: Correct. And
3 that's exactly what --

4 COUNCILMAN NEILSON: That's
5 choked that everybody has been talking
6 about. This releases those chokes.

7 MR. BREVNOV: Right. We are
8 talking about an integrated approach.
9 Exactly right. And that's why we talk
10 about three bottlenecks. We talk about
11 transportation, lateral pipelines, but
12 the most important from a City Council
13 point of view is obviously the last mile
14 that takes it to the customer, right?
15 Because primary responsibility of the
16 Council, primary responsibility of the
17 PGW is customer, Philadelphia customer.
18 So addressing this last mile bottleneck
19 is important and the approach, to your
20 point, how to think about programs.

21 The program of cast iron
22 replacement, all in one way or the other,
23 is about 3.5 billion. It's a sizable
24 investment that the City is going to make
25 one way or another way. Question is, if

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2 you're going to spend 3.5 billion and if
3 you believe that it's a worthwhile
4 program, do we need to wait 88 years to
5 see the results of this or do we want to
6 do it sooner, think through this program,
7 and to really mobilize all the resources
8 and execute on this program, bringing
9 private and public efforts together.

10 COUNCILMAN NEILSON: Thank you.
11 I have no further questions. Thank you
12 very much.

13 COUNCILMAN HENON: Just quick
14 questions here. Hopefully the answers
15 are quick. But three. One, you talk
16 about pressure and the gas pressure that
17 we have here existing in the City of
18 Philadelphia. I think you said it was
19 low pressure, and in order to get five --
20 or in order to get moderate to high
21 pressure gas throughout the City, how
22 would you do that? What is your economic
23 plan, economic development plan on
24 delivering mid to high pressure to the
25 end users and how would that be

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2 accomplished? Because I'm intrigued by
3 your pipe replacement without digging up
4 our rights-of-way.

5 MR. BREVNOV: Most of such
6 replacements are done with a step up in
7 pressure. I mean, we talk a little bit
8 about Chicago. In Chicago, the pressure
9 pipes have been increased by a factor of
10 hundred or thousand times. That's a
11 sizable change in throughput. That
12 allows the change that they have. And,
13 frankly, that also allows the change
14 sensitive to money thrown in and
15 observation of the network, because then
16 if you have any breaks, if you have any
17 leakage, you can see changes in pressure.
18 So it's a different modern energy
19 delivery platform. It does require
20 comprehensive analysis. In all other
21 cities you also have to fulfill
22 requirements of Public Utility Commission
23 and take all the gas meters outside of
24 the houses, outside of the homes, and
25 bring them on the street. In all of the

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2 cities, it has been done. Really one of
3 the most impressive efforts was done in
4 (unintelligible). Similar efforts are
5 happening in Boston, Washington across
6 the nation, and I think as Philadelphia
7 we can really take advantage of this.

8 I try to follow up on your
9 question regarding economics, because if
10 you take into account only safety, if
11 you're swapping one pipeline for another
12 pipeline and then obviously new pipeline
13 88 years down the road will become an old
14 pipeline. So we can start over.

15 And, second, obviously this new
16 pipeline does not really change the
17 economics. If you can move to high
18 pressure pipes, if you can increase
19 deliverability by a factor of ten or
20 hundred, you can serve more customers.
21 You have more voidance. The same type
22 will be applied for a bigger base, and
23 that creates opportunities for combined
24 heat and power. That creates
25 opportunities for CNG. I mean, let's ask

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2 why do we have only one CNG station in
3 Philadelphia? Frankly, because we don't
4 have high pressure gas with us. That
5 amounts for reasons obviously, but that's
6 one underlying pressure -- one underlying
7 issue.

8 So this plant does allow to
9 implement best engineering solutions and
10 it also allows to create additional
11 economics for this. Think about this.
12 Not only residential customers pay for an
13 upgrade, but also commercial and
14 industrial customers pay for an upgrade
15 and takes advantage of some of this
16 upgrade.

17 So this design to bring
18 residential customers, citizens, and the
19 businesses together not only to consume
20 but also finance a build, that feels like
21 a private-public partnership.

22 COUNCILWOMAN TASCO:
23 Councilman.

24 COUNCILMAN OH: Thank you very
25 much, Chairwoman.

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2 So I just want to make sure I
3 understand. So there's a cast iron pipe.
4 You're not replacing the pipe. You're
5 inserting a high pressure pipeline into
6 the existing pipe?

7 MR. BREVNOV: In a general
8 case, yes. In some cases it still has to
9 be replaced, but in most of the cases,
10 yes.

11 COUNCILMAN OH: So that would
12 reduce the cost of the change or is that
13 less important than the fact that you
14 have increased the capacity through a
15 more technologically advanced delivery
16 system?

17 MR. RYAN: I think that's where
18 you got it right, which is the idea is
19 that the engineering plan would approach
20 it from the perspective of we need to
21 create a modern network, a modern network
22 that could support all these economic
23 development opportunities, CHP, CNG, et
24 cetera, and then you get down to a much
25 more sort of granular level of in this

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2 particular street the pipe is in okay
3 shape, this one we can do by running a
4 plastic high pressure pipe inside the
5 existing pipe. At another location the
6 analysis might prove that the pipe is not
7 really something you want to still have
8 sticking around under the streets and you
9 have to rip that one out.

10 So it's not like one could
11 guarantee that it would be consistently
12 the same everywhere, but it certainly
13 presents an opportunity to, over a
14 material portion of the replacement
15 project, to do it in this way, which is
16 simply sleeving the new pipe inside the
17 old.

18 COUNCILMAN OH: So when the
19 pressure is increased a hundred, a
20 thousand times, there is the delivery of
21 the gas, and the existing equipment in
22 the homes and the businesses can handle
23 that increased pressure?

24 MR. BREVNOV: You will have
25 additional valves that would be built in.

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2 You will have step down in pressure, same
3 as an electric network. So you move from
4 high voltage to medium voltage to low
5 voltage.

6 COUNCILMAN OH: Okay. Just
7 real quick. So I like the idea, but let
8 me just ask you. So if I own a home and
9 there is a new high pressure system
10 coming in, how do I get the high pressure
11 gas into my house? Do I need to hire
12 someone to make some adjustments? Is
13 that done in the street? How does
14 that --

15 MR. BREVNOV: It will be done
16 by PGW. So they will handle it all the
17 way to the customer. So you will not
18 have to do anything specific. But in
19 this case, let's say, for example, if
20 it's your home and, for example, you can
21 have also an opportunity to refuel your
22 CNG car at home, that would be
23 possibility. You would be able to run
24 small cogen unit at your home. That
25 would be, as Craig said, twice more

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2 efficient. So you have additional
3 applications or you might switch to a gas
4 fuel cell. So you'll have more efficient
5 applications, more modern applications
6 that this network would be able to
7 support, but it would be the same way
8 handled by PGW.

9 And we want to be clear too, we
10 are not really trying to teach PGW how to
11 do the business. They know engineering.
12 They have best engineers on staff. They
13 know the network. What we want to be
14 sure that we help them to unlock
15 financing opportunities, opportunities
16 based on programmatic approach,
17 opportunities based to take advantage of
18 best practices. Because it's a big step
19 up. That's why we call it private-public
20 partnership. Step up, which is also
21 comprehensive in some cases. In most of
22 the cases, we would want to coordinate
23 this effort with Comcast, with water
24 utilities. If you doing such major
25 energy delivery platform upgrade, you

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2 want to perhaps upgrade some other
3 networks. So that would be efficient way
4 to proceed with the City, and that's why
5 you cannot do it just on the private side
6 of the business. It does require
7 extensive permitting. It does require
8 extensive regulatory involvement, and you
9 want to address a lot of utilities when
10 you're doing this approach.

11 COUNCILMAN OH: Thank you very
12 much.

13 Thank you.

14 COUNCILWOMAN TASCO: Thank you.

15 I must announce that I've been
16 told by our Chief Clerk that we have to
17 be out of here by 5 o'clock. So I think
18 I have a couple more people and then we
19 have some public testimony. So we will
20 ask that you -- we're not here today to
21 make any decisions. Today is to gather
22 information, and certainly there will
23 be -- we will not adjourn, we will
24 recess, because we may need to come back
25 and I'm sure we need to come back,

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2 because there are a lot of questions that
3 have to be asked. I just have one right
4 quick.

5 What is your inclusion strategy
6 for MBE/WBE/DBE enterprises? Do you have
7 any of these enterprises as part of your
8 P3 team? What is your minority
9 participation?

10 MR. RYAN: You know, when we
11 put together the original investment
12 consortium that participated in the prior
13 process, we put together on the investor
14 side certainly a very, very diverse group
15 of local investors, and what has
16 interested us so far has been that for a
17 lot of those folks, the attractiveness to
18 the project always wasn't just because it
19 could generate a good return, but also
20 because it looked like to them an
21 exciting way to do something they thought
22 would generate economic development in
23 the City.

24 So if you go -- if you were to
25 look at that group of investors that we

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2 had put together previously, it does
3 reflect and look like the people in our
4 community.

5 In terms of partners, we have a
6 longstanding relationship with Chariot,
7 who is going to testify subsequently, and
8 to be honest, we have always assumed that
9 in terms of moving from -- we'd like to
10 offer suggestions for you then to tell us
11 what you intend to do. Certainly we
12 already have had lots of conversations
13 with various local suppliers,
14 contractors, players, investors, et
15 cetera, who, again, include participants
16 in our consortium that certainly would
17 meet any good standard and the kind of
18 standards that you demand for diversity
19 and for minority participation, and we
20 can provide you with some of these names
21 of the folks that were involved
22 originally in our project and have told
23 us that they're willing to continue with
24 us. But to be frank, until we know what
25 you want to do, we're a little bit

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2 reluctant to say exactly who we're going
3 to be working with, only because we're
4 not certain what the project is we're
5 working on.

6 So that's kind of maybe a
7 somewhat funny answer, but the answer I
8 hope is that in the same way that we were
9 committed to maintaining and achieving
10 the highest standards on that in the bid
11 we put together in the prior process, it
12 would be the same if you decided to
13 initiate a new one.

14 COUNCILWOMAN TASCO: So we have
15 a staff of two right now?

16 COUNCILMAN NEILSON: If I can
17 follow up.

18 No matter which way we go, it
19 looks like there's some infrastructure,
20 no matter what direction we go, and City
21 Council has a long history to make
22 certain that we use local contractors and
23 we have as part of the procurement
24 process, we make certain that our
25 minority businesses are well represented

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2 within. Isn't that something we would
3 put in the partnership agreement so that
4 you would have to adhere to on an annual
5 basis? I mean, like come back and report
6 and say, Hey, look, we did a million
7 dollars of work this year, we've given
8 XYZ. I mean, because that's moving
9 forward. There's a lot of jobs that come
10 out of there, and we want to make sure
11 that those jobs do look like our city if
12 that happens. But that's something we
13 would put in the partnership agreement,
14 correct?

15 MR. BREVNOV: It's somewhat
16 already even in the partnership
17 agreement, in our partnership agreement,
18 because one of our investors is Union
19 Life Labor Insurance Company. They have
20 very similar high standards requirements
21 related to diversity, related to
22 involvement of labor union and unionized
23 labor in this effort. So to some extent,
24 you already have some of the segments
25 built into a partnership, but as Charlie

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2 say, you'll be looking for --

3 COUNCILMAN NEILSON: We look
4 for a little more here at City Council.
5 We want to make certain that --

6 MR. RYAN: I think, Councilman,
7 you're absolutely right. This is exactly
8 a place where, again, you get to decide
9 because you had a seat at the table in
10 creating the public-private partnership.
11 And even if you want to tweak the
12 standards that you want to see applied in
13 this particular program, you do it by
14 putting it in the lease agreement.

15 COUNCILMAN NEILSON: Right
16 inside the lease agreement. Thank you
17 very much.

18 COUNCILWOMAN TASCO: Councilman
19 Henon.

20 COUNCILMAN HENON: And for the
21 record, for any interested party -- and
22 certainly everybody here today is
23 extremely credible and has the experience
24 of putting together a great team or you
25 wouldn't be here today. Some you'll see

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2 will be 100 percent minority-owned
3 business enterprise, but we as a city
4 take it very serious, and in any plan
5 moving forward, in any type of
6 public-private partnership or arrangement
7 will have a very lofty goal to reflect
8 the City of Philadelphia and the
9 opportunities that we deserve as we
10 deliver a high-quality service to the end
11 users.

12 So thank you.

13 COUNCILWOMAN TASCO: Any other
14 questions?

15 (No response.)

16 COUNCILWOMAN TASCO: Thank you
17 very much for your testimony.

18 MR. BREVNOV: Just one last
19 question related, because we talk a lot
20 today about LNG and we discussed what
21 would be the most exciting opportunity
22 related to LNG in this room, and I want
23 to really briefly in a few sentence to
24 share our vision, because obviously LNG
25 gas from the United States going in Asia,

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2 going into Europe, going in Latin America
3 and, frankly, replacing oil or replacing
4 LNG in this oil in a lot of these places.
5 But the most exciting opportunity is,
6 frankly, at home, because the biggest
7 consumer in the world is United States of
8 oil. So we are consuming the most of the
9 oil in the world, and oil is the biggest
10 polluter in the United States. So we
11 have a unique opportunity to kill two
12 birds with one stone in this case.

13 We don't want to exclude the
14 strategy to catch up with 37 other
15 terminals that are underway to ship U.S.
16 gas overseas, but we can continue to
17 build on the leadership when we are
18 bringing in LNG gas for U.S.
19 applications, U.S. transportation,
20 marine, rail or other stuff, because,
21 frankly, this is the biggest market. It
22 is our competitive advantage. PGW
23 uniquely positioned to do it, and we
24 should be building on this competitive
25 advantage and advancing it to the

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2 neighboring regions.

3 COUNCILMAN HENON: I think you
4 make a great point on the way out. Not
5 just exports, but domestic use and reuse.
6 And the petrochemical industry has been a
7 critical and vital employment and
8 opportunities for people to work here,
9 and it's been an economic engine for our
10 region and we want to continue to support
11 their capital improvement in delivering
12 the products that they do safely and with
13 the highly trained workforce that they
14 have. And I want to let everybody know
15 as well we as a city are ready to train
16 people and put people to work. So
17 whatever opportunities we could do to
18 enhance that and prepare for what is in
19 front of us, we're ready to go.

20 COUNCILWOMAN TASCO: Thank you.

21 MR. BREVNOV: Thank you.

22 COUNCILWOMAN TASCO: Now, have
23 all of the public-private partnership
24 groups spoken yet?

25 Come on up, please. I'm sorry.

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2 I have the name here --

3 MS. SAX: You got three
4 minutes. How about three minutes for
5 these guys, please. Thank you.

6 COUNCILWOMAN TASCO:
7 Mr. Vasquez.

8 MR. VASQUEZ: Yes.

9 COUNCILWOMAN TASCO: Yes. I'm
10 sorry.

11 (Witness approached witness
12 table.)

13 MR. VASQUEZ: Let me start by
14 thanking you for the invitation.

15 COUNCILWOMAN TASCO: Thank you
16 for coming and thank you for being
17 patient, and we hope that you can sort of
18 like summarize, because this is not the
19 only discussion. I mean, you know, we're
20 not here to make any decisions today
21 about anything.

22 MR. VASQUEZ: I'm happy to
23 return. I flew up yesterday from Puerto
24 Rico, and I'll fly back any time you want
25 me.

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2 So my company specializes in
3 the energy area. Our specialty is in
4 program management, valuation, and
5 funding advisory services.

6 Just a little background on
7 myself. I've spent about a third of my
8 career in the government sector. I
9 started out in strategic planning for the
10 largest utility in the United States many
11 years ago. I worked in worldwide
12 strategic planning for probably the
13 number one oil and gas company in the
14 world. Later in my career, I ended up as
15 a Senior Managing Director, which was a
16 partner level at Bear Stearns. I've
17 probably been the lead banker in many,
18 many, many, many billions of dollars of
19 energy financings and been part of the
20 senior management team in multiples of
21 that.

22 In my career I've been the lead
23 advisor in many projects. Many years ago
24 I did some things down here in Chester
25 with the shipyard with Sun Oil Company or

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2 Helios, which is owned by Sun. But I was
3 the advisor in an LNG terminal. I was an
4 advisor, the lead advisor, in a 500
5 megawatt gas-fired combined cycle plant,
6 500 -- 450 megawatt coal-fired plant, and
7 I had the opportunity to develop some
8 ideas that I have come across in my P3
9 experience. And I proposed, developed,
10 and 100 percent financed a telecom
11 company with the utility in Puerto Rico,
12 and what was interesting about that was
13 that my concept and my proposal to them
14 was in many of these initiatives, you
15 have intrinsic and intangible values that
16 are worth a lot of money, and they
17 allowed me and a non-for-profit to put
18 together a telecom company without a dime
19 of equity, without any guarantees from
20 them. We financed it totally with debt.
21 We hired all the contractors. We built
22 it. We put it together. That company is
23 worth many hundreds of millions of
24 dollars today. It's expanded throughout
25 the United States, through Europe,

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2 through part of the Middle East, and it
3 will be worth a lot more money in the
4 future.

5 The underlying concept is, in a
6 lot of these P3s -- you know, we tend an
7 evaluation basis to look at what is the
8 most obvious thing. The most obvious
9 thing is how much cash flow does the
10 company generate and what are the
11 possibilities and what are the synergisms
12 that you get from that, but there are
13 other values which very often tend to be
14 overlooked.

15 I couldn't help this morning --
16 this is the first time I met your CEO,
17 but I've looked at PGW and, you know, you
18 have a management team -- I think he had
19 30 years of experience. You have an
20 infrastructure. You have a whole set of
21 values there that you don't get when you
22 sell a company like that. You don't get
23 the value for that. What you get the
24 value for is from the cash flow and
25 what's projected within their own

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2 framework.

3 I am proposing to you that
4 before you do P3s, because P3s or
5 privatizations are going to be important
6 for you to optimize the value of PGW, but
7 before you do that, you pre-position PGW
8 in a very careful transition to a
9 for-profit entity and you use -- or
10 entities. It may end up being more than
11 one entity, because you have different
12 profit centers in there, and that you use
13 as a basis for what you're doing is the
14 public market, in an IPO.

15 For instance, if you were to go
16 out and do a 20 percent IPO for whatever,
17 after you've done your strategic planning
18 on this, you then get to negotiate with
19 the P3 counterparty or your joint venture
20 by separating management, technology, and
21 capital. If you sit down at the table
22 and you're the one without the capital
23 and your counterparty has all the
24 capital, you start off at a dramatic
25 disadvantage. In the structure that I'm

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2 proposing, look at the alternatives that
3 you have.

4 Let's suppose that you did --
5 let's suppose just for the moment that
6 it's an integrated entity, one entity,
7 and you sold 20 percent in the public
8 market. You get to hold the other 80
9 percent and hold that as an asset. You
10 get to issue the remaining 80 percent in
11 the public market or you get to sit down
12 with your P3 counterpart and negotiate a
13 merger or a joint venture or whatever
14 else that you want to put together. You
15 have now done two really important
16 things. One is, you've converted this
17 entity into a securitization that you --
18 when I say "you," I mean the City of
19 Philadelphia -- gets to manage the
20 securities, but you have freed up your
21 experts here to go and get the most value
22 for this company.

23 For instance, I'm not as good
24 as your CEO in the diplomacy of words,
25 but one of the things he was suggesting

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2 is many opportunities here, but I'm
3 working inside a government structure
4 that has all of this time delays and RFP
5 requirements and blah, blah, blah, blah,
6 blah, et cetera, but you know what, in a
7 public company, he would have different
8 pressures. In a public company, he would
9 be able to -- and he's your expert and
10 his team are your experts. They'd be
11 able to make decisions a lot more
12 quickly.

13 Let me just do a couple of
14 numeric exercises here. I think you have
15 my paper. I listed a number of companies
16 in the downstream gas market, downstream
17 we call regulated gas market, and what
18 you see is that most of them have a price
19 earnings ratio somewhere in the 20's,
20 which is -- by the way, the buyer, the
21 potential buyer of your entity, UIL
22 Holdings, has a P/E ratio of 21. A lot
23 of these companies do more than just gas,
24 but they're in the regulated industry.
25 Usually a company like PGW would be

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2 valued based on its cash flow, not based
3 on a P/E, but just to, if you forgive me
4 for a moment, to make the jump on that,
5 we were talking this morning about \$50,
6 \$60 million bottom line. Your management
7 in the Concentric report was suggesting
8 that there are a number of
9 straightforward initiatives to generate
10 another 30. So you're talking about a
11 company with a potential of maybe \$90
12 million, P/E ratio of 20, 21. One point
13 eight billion makes sense for a local
14 distribution company operating in the
15 downstream gas market.

16 But now let's take a step back
17 and take a look at the midstream market.
18 The midstream market has -- midstream
19 meaning liquefaction and pipeline
20 distribution, et cetera -- have P/E
21 ratios of between 74 and 111. That's
22 from an NYU database. They had 85
23 companies. I took a quick look at them.
24 They're all in that kind of midstream.
25 Three to five times the value of the

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2 local distribution company. There's
3 clearly opportunities here and there's
4 challenges.

5 I mean, it's clear that on the
6 liquefaction side, you have aging, you
7 have logistics problems, you have all
8 kinds of problems. What I'm suggesting
9 is, as a venue, that you think seriously
10 about creating -- there's many venues
11 that could be used with this model, but
12 I'm suggesting you think seriously about
13 creating a trust or a fund very similar
14 to what New York state did in the Public
15 Asset Fund, which I happen to have been
16 one of the five members on the Board,
17 unstaffed, by the way, and what their
18 responsibility was to convert
19 non-for-profits into for-profit entities.
20 And on the first assignment, New York
21 state expected to earn something like
22 \$500 million. It was Empire Health. And
23 when I left -- now, I wasn't there for
24 the whole thing, but I was there for a
25 number of years. When I left, the asset

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2 value was 5 billion through a series of
3 moves similar to what I put here.

4 What I'm suggesting is that you
5 think seriously about this fund, and it
6 begins freeing him up -- it puts a lot of
7 pressure on him too. Remember, when you
8 trade in the public market, suddenly you
9 get effectively a step out -- a step up
10 in, I'll use the word, value of your
11 entity. Why? Because it's now liquid.
12 Okay? If you have a private company over
13 here, it's not that easy to sell. It's
14 not that easy to deal with it. But you
15 get a step up because of liquidity. You
16 get a second step because of your access
17 to the market. But in a public entity,
18 you have disclosure and you have some
19 other benefits in the implementation of
20 this that you could really add
21 significant additional value at the
22 underwriting stage of this thing.

23 So I'm not saying you would do
24 that. What I'm saying is that I'm a big
25 believer in processes and I'm a big

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2 believer in clarity. I think you start
3 off with a clear set of objectives. You
4 identify all of your stakeholders
5 involved in this, and then you perform a
6 situation analysis, and you make sure in
7 that situation analysis that you look at
8 the profit centers jointly and
9 separately, so you get an idea of whether
10 this company is worth more as an
11 integrated unit or if it's worth more
12 broken up, and you include in that
13 assessment a situation analysis, a risk
14 analysis, and a labor analysis, which in
15 everything I've ever done has always been
16 a critical component. That situation
17 analysis leased with strategic plan and
18 then to implementation.

19 So that's kind of it. I was
20 trying to be fast because I know you're
21 running out of time, and I think I've
22 covered the main point.

23 COUNCILWOMAN TASCO: Well, you
24 let me just say -- and we didn't expect
25 it to go this long and we have a time

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2 schedule for our stenographer.

3 This is not the only discussion
4 about this issue. It's very complicated,
5 a lot of pieces to it, and we wanted to
6 get a flavor of what people think a P3
7 would look like.

8 So we appreciate your coming,
9 and we have your testimony, which we will
10 share with our colleagues and --

11 MR. VASQUEZ: I'd be happy to
12 come back any time. You know, what I've
13 said to my other clients -- and they're
14 not all cities, but the equivalent of
15 what I said to all of them, in terms of
16 these initiatives, start thinking of
17 yourself as a nation city. Okay? And
18 what's the value of this asset outside
19 the borders of this town?

20 The energy hub, the advantage
21 of the energy hub is regional. It's not
22 specific. You have to decide if you're
23 going to participate. What's the
24 advantage of this hub is that you have
25 almost 20 percent of the population in

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2 the United States within 200 miles of
3 here and you're right across the Atlantic
4 Ocean from the west coast of Europe. So
5 that's a major advantage.

6 But the other advantage you
7 have is this infrastructure that's built.
8 You are one of the largest public gas
9 distribution companies in the United
10 States, but you're a fairly modest-sized
11 company if you look at the private
12 sector. Why can't -- and I'm not making
13 recommendations here. I'm just kind of
14 pointing out some things.

15 Why can't the expertise of this
16 company begin doing what many people have
17 been presenting here today in other
18 cities, in other regions of the United
19 States? Why can't this be a major gas
20 distribution -- you have the expertise.
21 You have the infrastructure. They can do
22 things throughout the U.S., right? So
23 let's think -- forgive me for saying it
24 this way, but let's think about
25 ourselves. We're a city nation. Outside

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2 these borders we're going to figure out
3 how to exploit the expertise that we
4 have.

5 So that's it. That's my --

6 COUNCILWOMAN TASCO: Thank you
7 very much. We do have a great company
8 and we do have great expertise, and we do
9 need to really realize that. Thank you
10 for coming, and certainly we will
11 probably call you back.

12 MR. VASQUEZ: I'd be happy to
13 come any time.

14 COUNCILWOMAN TASCO: Thank you.

15 I have another company,
16 Chariot. And is Penn Energy here?

17 COUNCILMAN OH: We did Penn.

18 COUNCILWOMAN TASCO: We did
19 Penn Energy. I'm sorry.

20 (Witnesses approached witness
21 table.)

22 MR. HENRY: Good evening.
23 We'll try to be as fast as possible.

24 COUNCILWOMAN TASCO: Please.

25 MR. HENRY: Since we're on the

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2 clock.

3 My name is John Henry. I'm the
4 Chairman, Founder, and CEO of Chariot
5 Companies. I have with me to my right
6 Dr. Cecilia Cardesa-Lusardi. She is our
7 Chief Strategy Officer.

8 Before I get into the
9 testimony, I kind of wanted to summarize,
10 since we're last, what we've heard today.
11 We've heard from a lot of smart folks,
12 and the City of Philadelphia is in a very
13 blessed and in an enviable situation.
14 You have a whole lot of sophisticated
15 people with deep pockets chasing after
16 you talking about P3s, public-private
17 partnerships, but the one thing in a
18 public-private partnership, in our view,
19 is process, people, and place. And one
20 thing that no one has talked about today
21 is people. People is driving all these
22 decisions. The why we're here is the
23 people.

24 The Lazard report spells it out
25 in 2012. It identified certain social

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2 costs. The Concentric report does the
3 same thing.

4 All these people today have
5 talked about the technical stuff, and all
6 that stuff is great. We can talk about
7 it too. We got money too. But I want to
8 focus on the people, because if everyone
9 that testified before me put the effort
10 in to solving the social cost of the City
11 of Philadelphia, they would be done. The
12 solutions would be there.

13 I'm a very small company, very
14 lean staff. We put together a model that
15 the City of Philadelphia can utilize to
16 solve the problems. Instead of looking
17 at it as a transaction and economics
18 first, solve the social last, we switched
19 the game up. We said here's a certain
20 set of conditions in the City of
21 Philadelphia. We need to solve these
22 problems. And to the extent we can solve
23 these problems, there's going to be
24 benefits to PGW. Solve the social costs
25 first.

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2 So I ask you before I get into
3 my written speech, ask where's the beef?
4 We're different from everybody else. We
5 have all that technical stuff, but we
6 actually have solutions around the
7 people, and at the end of the day, that's
8 what all this stuff, this testimony,
9 these hearings, that's what it's about.

10 Thank you. Now I'm going to
11 start my written testimony.

12 It is very rare in this life to
13 work with not one but a few of your
14 heroes. Ernie Green is one of my heroes.
15 On September 25th, 1957, Ernie Green was
16 the sole senior among a group of
17 courageous children, the Little Rock
18 Nine, who risked his life to attend
19 Central High School.

20 Now, I'd have to imagine that
21 when a young Ernie Green woke up that
22 morning in 1957 and made his way to
23 Central High, confronted by hostile
24 crowds and escorted by the Screaming
25 Eagles of the 101st Airborne, heroics

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2 were not on his mind. See, this conflict
3 wasn't a clash of armies, but it was
4 rather a clash of wills, a contest to
5 determine that which lies at the core of
6 America. The 1954 Brown versus Board of
7 Education decision eliminated racial
8 discrimination in public schools, but
9 Ernie's courage tested the strength of
10 that decision. No matter how much doubt,
11 fear or anticipation was in the air,
12 nothing was going to prevent him from
13 gaining equal access to opportunities,
14 not even enduring daily harassment and
15 violence.

16 And because of people like
17 Ernie Green, the principle of a just and
18 fair America and an inclusive America,
19 that ideal ultimately triumphed. His
20 actions not only mobilized Americans to
21 ensuring that access to a quality
22 education was granted to all, but they
23 helped define the Civil Rights Movement.

24 Ernie's decision in 1957 led
25 African Americans and other civil rights

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2 leaders on a mission to change America.

3 Ernie's legacy and work continues today

4 by serving on my Board of Directors of

5 the Chariot Companies, and I'm very proud

6 of that. He embodies the spirit that the

7 plain and humble people, the forgotten,

8 the downtrodden and overlooked, we can

9 shape history. He's living proof.

10 Members of the Energy

11 Committee, I invite you to channel that

12 sort of humble and plain spirit today,

13 become history-makers like Ernie. Define

14 the Philadelphia Energy Hub movement by

15 reshaping the socioeconomic landscape of

16 Philadelphia for generations to come.

17 City Council must ensure that our youth,

18 especially children of color, are

19 equipped with the knowledge and skills

20 they need to become future leaders and

21 participate in Philadelphia's emerging

22 new energy economy.

23 A movement is indeed afoot in

24 Philadelphia. Forged in the crucible of

25 social equality and economic opportunity,

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2 Chariot stands on the shoulders of giants
3 like Ernie and others by seeking to
4 transform Philadelphia Gas Works through
5 a P3.

6 Anticipating the Philadelphia
7 Energy Hub, we began our journey in 2011,
8 seeking to address Philadelphia's
9 systemic challenges generally, and more
10 particularly, those facing PGW. The new
11 PGW P3, if in the hands of the right
12 visionaries, can indeed make Philadelphia
13 a jobs juggernaut. I believe that
14 Chariot is the right visionary, and
15 here's why:

16 Companies have often overlooked
17 opportunities to meet societal needs and
18 misunderstood how societal harms and
19 weaknesses affect value chains. The
20 field of vision has simply been too
21 narrow. What has been missed is the
22 profound effect that people, place, and
23 process can have on the productivity and
24 innovation.

25 Councilmembers and the Special

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2 Committee, there are places and moments
3 in Philadelphia's history that have
4 shaped America's destiny, but perhaps
5 none greater than the decision you
6 consider today, whether to support
7 Philadelphia as an energy hub, and to the
8 extent that you do, what P3 opportunities
9 exist with PGW that can maximize
10 operational efficiencies, generate new
11 revenues, provide strategic visioning for
12 an energy hub and, importantly, bake in
13 economic and social benefits to all
14 Philadelphians.

15 With such an effort, we can
16 make sure our new energy economic system
17 serves all and not just some. Together,
18 we can raise the level of economic
19 prosperity in the region for all
20 Philadelphians. Together, we can address
21 unfair and oftentimes unequal workforce
22 opportunities through Chariot Labs and
23 STEAM-based education.

24 For the record, we've submitted
25 that energy action plan, and Dr. Lusardi

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2 will be discussing that here momentarily.

3 Together, we can reduce poverty
4 rates in Philadelphia and demolish
5 barriers to opportunity by making sure
6 that every Philadelphian willing to work
7 in this new energy economy has access to
8 pathways for targeted energy industry
9 education, workforce development, life
10 skills training, and wraparound services.
11 These pathways lead to careers, generous
12 wages, and sturdier rungs on the ladder
13 into the middle class.

14 There are many opportunities
15 both to leverage a PGW P3 to use the
16 natural resources and infrastructure of
17 Philadelphia to create an economic
18 vehicle that will impact all sectors of
19 the Philadelphia economy and social
20 fabric. A true energy hub creates value
21 by connecting things in ways that make
22 them worth more than the sum of their
23 parts.

24 In our P3 effort, each party
25 brings different skills and resources to

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2 bear, and they're more powerful than any
3 program that either party by themselves
4 individually could come up and develop.
5 Our shared value creation model powers
6 change, not just at the level of an
7 organization or an industry, but we go
8 through the whole value chain and diverse
9 ecosystems. We dig deep and go far.

10 There are five conditions of
11 collective impact that must guide any
12 potential P3: common agenda; shared
13 measurement; mutually reinforcing
14 activities; continuous communication; and
15 backbone support.

16 A Chariot P3 could deliver
17 avenues for creating shared value that
18 are mutually reinforcing. For example,
19 building a world-scale LNG expansion
20 project at the port terminal and
21 promoting fully developed and integrated
22 downstream supply chains to monetize dry
23 gas through storage, commercial sales,
24 and other outlets.

25 PGW can expand its liquefaction

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2 capacity. Opportunities like the leasing
3 or the potential P3 of -- or the sale of
4 LNG involve competitive markets, and
5 execution risks are very different than I
6 believe the ones that PGW are currently
7 comfortable with taking. Consequently,
8 Chariot brings the capital and marketing
9 competencies to a P3 and is willing to
10 assume these risks.

11 The potential to lower the cost
12 of gas to PGW customers could result in
13 lower customer gas bills, especially for
14 those struggling to pay their bills. PGW
15 will benefit from lower customer
16 responsibility program costs and a
17 reduction in bad debt expense through our
18 Utility Trust Fund.

19 For example, PGW has 70,000
20 low-income residential customers enrolled
21 in the CRP and nearly 23,000 customers in
22 its senior citizen discount program at an
23 annual cost of \$80 million. These same
24 program participants must use -- well, a
25 Chariot P3 will ensure that the PGW

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2 efforts to reduce CRP customers' usage
3 since their bills are based on their
4 income level rather than on the amount of
5 natural gas they use, we are uniquely
6 qualified and possess the expertise to
7 design and implement programs that target
8 these qualifying customers.

9 For example, \$80 million, if we
10 saved 20 percent, that's \$16 million a
11 year in savings to the CRP program. That
12 essentially equates to about nine or ten
13 miles of additional pipeline replacement
14 each year. How do we do that? We
15 introduced -- and actually I just met
16 yesterday with Governor Wolf's staff
17 about this. I met with them about the
18 Utility Trust Fund and a host of other
19 things.

20 How you do it is, you have to
21 expand LIHEAP. Right now the 70,000
22 people that are participating in CRP,
23 they have to apply for LIHEAP. But we
24 have to dig deeper. There's no LIHEAP
25 money there. Pennsylvania's allocation

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2 of LIHEAP is \$16 million from the feds.

3 It's a Block Grant. The average

4 allocation -- cash Emergency Assistance

5 Grant per DHS is about \$230 per family.

6 That's about 70,000 families right now.

7 If you look at the numbers, PGW, my

8 understanding, has about 150,000

9 customers, of which about 100,000 are in

10 these programs, the CRP. So there's an

11 opportunity. We're missing 50,000 people

12 that are falling through the cracks

13 somewhere.

14 Secondly, to the extent that

15 they're in these programs, the CRP

16 programs and the like, we need to have a

17 Utility Trust Fund, because right now,

18 rate-paying customers are subsidizing the

19 low-wealth communities, and that's a big

20 number, a very big number. It's

21 achievable. We're doing it at scale. It

22 saves money. It helps build up the

23 middle class. These are all things that

24 Philadelphians need.

25 I want to switch up now to

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2 describe and talk a little about who we
3 are.

4 We testified back in November.
5 We've been at this for a long time here
6 in Philadelphia. I was raised in Mount
7 Airy. All my family is from
8 Philadelphia.

9 So passion is the currency of
10 creation. The energy that comes with
11 diverse stakeholders collaborating to
12 address specific community issues can be
13 a powerful force for change. That's why
14 we advocate with so much passion and
15 conviction, because we know our efforts
16 matter. Time is of the essence.

17 Chariot's managed by a seasoned
18 team of energy, infrastructure, real
19 estate, and investment professionals who
20 average more than 30 years of experience
21 in each discipline. We bring a wealth of
22 diverse world-class experience, insight,
23 and agility, entrepreneurial spirit and
24 shared value creation to any PGW P3. To
25 follow are a few highlights of our team:

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2 We have the first African
3 American Chairman of the Pennsylvania
4 Public Utility Commission on our team.
5 And these are all of our Board members.
6 Former Executive Deputy of the New York
7 State Public Service Commission; one of
8 the "75 Most Powerful Blacks on Wall
9 Street" from Black Enterprise Magazine;
10 Executive Committee of the Congressional
11 Black Caucus; the Congressional Gold
12 Medal, the highest honor ever given to a
13 U.S. citizen; White House Task Force on
14 Minority Business Enterprises;
15 presidential appointment as Assistant
16 Secretary of Labor under Carter;
17 presidential appointment as Assistant
18 Secretary of Education under Clinton;
19 Presidential appointment as Associate
20 Director of Outreach for White House
21 Office of Faith-Based Initiatives, GW
22 Bush.

23 We have reach, but the reach
24 that we have is not just energy reach.
25 It's educational reach. It's labor and

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2 employment reach. These people led our
3 nation. These are on our team. That's
4 why we distinguish ourselves from
5 everyone else that went before us today,
6 because we have the social community, the
7 people component that no one else can
8 deliver, in my humble opinion.

9 Now I want to transition to
10 Dr. Ceci Lusardi, Chariot's Chief
11 Strategy Officer. She will share our
12 STEAM-based energy action plan that
13 reconnects working-class families to
14 Philadelphia's economic renaissance.

15 Thank you.

16 DR. LUSARDI: Thank you, John.

17 Good afternoon. My name is Dr.
18 Ceci Cardesa-Lusardi. I serve as
19 Chariot's Chief Strategy Officer, and I
20 want to walk you briefly through the
21 Summer Energy Academy, which is a
22 pipeline for workforce development
23 readiness and training in Philadelphia's
24 energy hub.

25 COUNCILWOMAN TASCO: You have

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2 to speak into the mike. I can't
3 understand a thing you say.

4 DR. LUSARDI: Can you hear me
5 now?

6 COUNCILWOMAN TASCO: Yes. A
7 little closer.

8 DR. LUSARDI: Closer?

9 COUNCILWOMAN TASCO: And could
10 you kind of summarize this, because I'm
11 trying to figure out how does the social
12 part fit in with -- and how do you make
13 that work for PGW. You know, we have the
14 testimony here.

15 MR. HENRY: Okay.

16 COUNCILWOMAN TASCO: So how
17 does all this come together to help the
18 financial condition of PGW?

19 MR. HENRY: Well, I mean, there
20 are a host of reasons. In the context of
21 a P3, we believe that we're the only
22 entity that really has the best interest
23 of Philadelphians from a private-sector
24 perspective, because we're a certified
25 community development entity, and that's,

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2 by definition, what we do. That's why we
3 created the Utility Trust Fund. I
4 modeled it after the Housing Trust Fund.
5 We needed that innovation. How does that
6 translate? Basically it translates
7 through a contractual arrangement. Like
8 I said earlier, everyone here that has
9 testified has the requisite skill set.
10 In fact, Councilman Henon even suggested
11 everyone here has the threshold limit or
12 test, met the standard to have this
13 discussion with you and potentially
14 participate in this transaction.

15 From our standpoint, the social
16 costs are very important - the Utility
17 Trust Fund, creating jobs, energizing the
18 community through education and
19 STEAM-based education. Ceci can talk
20 about some statistics now through STEAM,
21 but, frankly, there is a dearth of
22 qualified candidates, frankly, as
23 identified by the American Petroleum
24 Institute and other trade groups based on
25 a host of issues, one of which is the

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2 educational problems incidental to our
3 country but, more importantly, the aging
4 demographic, the aging populations, the
5 whole lot of challenges. In fact, Ceci
6 can get into that right now.

7 DR. LUSARDI: And we talk a lot
8 about job creation and what that will
9 mean, but for us as a minority-owned
10 organization from a Latino perspective,
11 we're saying, Well, how are we going to
12 fulfill those jobs? Where are they
13 coming from? And are we ready? And it's
14 a self-audit to look at our energy hub in
15 light of STEM/STEAM-based education,
16 preparing the workforce to supply those
17 jobs. And we feel that through the
18 Summer Energy Academy, through our
19 individual work, again, to John's point,
20 this is not a "one of" transaction. It's
21 not what we do. It's about sharing
22 opportunities for community
23 transformation, whether it is -- John has
24 created a pool of history-makers, and we
25 are making history ourselves. We come

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2 from a human rights perspective, a
3 women's equality perspective, a youth
4 development perspective. If we look at
5 the social aspect of it, we want to
6 make -- of the P3, we want to make sure
7 that not only are we part of a P3 with
8 City Council and making history together,
9 but are we also considering different
10 aspects of the population from a social
11 perspective, from a Latino perspective,
12 African American perspective, gender
13 perspective. Are we going as wide and
14 thoughtfully as we can be? And for us,
15 it's an opportunity to be at that table
16 and reference that interest that are not
17 only going to move the needle forward,
18 but we think that the transparency of who
19 Chariot Companies is as an organization
20 brings so much value through our
21 partnerships, through not just what we
22 do, but what we achieve together, whether
23 it is at Stadium Village, providing
24 internship opportunities, working with
25 the Climate Center at Penn through an

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2 internship program to evaluate the work
3 that we're doing, working in partnership
4 with the Department of Energy to
5 cultivate what this model could look like
6 as an action plan.

7 And so I go back to we love
8 Philly. We love being from this area,
9 living here, working here, and we want to
10 walk down the street with the same level
11 of respect when I was teaching GED
12 classes in Kensington that I can also
13 walk into a fortune 50 board with that
14 same level of credibility to say, We are
15 representing the whole amalgam of issues
16 related to a PGW P3 that -- it's been a
17 long day. PGW P3. My apologies. That's
18 what we're here, to widen and deepen that
19 conversation. I know the City is looking
20 also at people, places, and processes,
21 and we wanted to be a Venn diagram, an
22 interconnected conversation so we can
23 together look at what PGW means, what a
24 P3 can look like, what that impact can
25 have in the community long term and not

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2 forgetting where we come from.

3 There is thoughtfulness. There
4 is intentionality about everything that
5 we do, but there's also a period and
6 element of bridge building, and we can
7 have this business acumen and
8 sophistication to look at operations,
9 cost reduction programs and, you know,
10 complex financial operation can be, but
11 at the same time, we can go into the
12 community and talk to children whose
13 parents are incarcerated and they have --
14 they're living with grandparents, and
15 through the Summer Energy Academy, we can
16 talk with them about careers in energy.
17 Sometimes, and I know from my
18 perspective, as a Latino and immigrant,
19 we're not as used to math and science,
20 and our role is to say science can be fun
21 and look at the real-world applications
22 in energy. You don't have to go to Penn
23 or MIT to make \$85,000. You can be a
24 pipe fitter. You can work in the gas
25 industry and provide for your family.

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2 And so we work -- again, we
3 want to -- our premise is to make sure
4 that the left hand talks to the right
5 hand. It is time that we not only make
6 history together, but we invite you to
7 consider walking with us far and wide so
8 that all of the aspects of this beautiful
9 interconnectivity is looked at with a
10 level of respect it deserves for all
11 involved. We can make a lot of profit
12 and we can make a lot of good, and that's
13 our proposition to you.

14 COUNCILWOMAN TASCO: Well,
15 thank you very much. We certainly have
16 your testimony, and as we are in a
17 discussion, certainly your perspective is
18 worthwhile and it does reach out to the
19 community, and we just have to figure out
20 how all this comes together.

21 MR. HENRY: Thank you.

22 DR. LUSARDI: Thank you very
23 much.

24 COUNCILWOMAN TASCO: Thank you
25 very much.

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2 MR. HENRY: Enjoy your weekend.

3 COUNCILWOMAN TASCO: I hate to
4 rush you. Next time you're first.

5 We have some people who want to
6 testify. I think I've done all the
7 panels. We have Mr. Matt Walker.

8 COUNCILMAN NEILSON: He'll call
9 them.

10 COUNCILWOMAN TASCO: You'll
11 call them?

12 COUNCILMAN NEILSON: Let the
13 Clerk call them.

14 COUNCILWOMAN TASCO: All right.
15 I'm sorry. Yes, sir.

16 (Witness approached witness
17 table.)

18 MR. WALKER: Hi. My name is
19 Matt Walker and I'm the Community
20 Outreach Director with Clean Air Council.
21 We're an environmental health
22 organization dedicated to protecting
23 everyone's right to breathe clean air,
24 and we've been working on that mission
25 since 1967. Thanks for letting me speak

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2 here today.

3 The Council and its members are
4 seriously concerned about the proposal to
5 transform Philadelphia into a fossil fuel
6 energy hub. The Philadelphia economy is
7 driven by its tourism, medical services,
8 and higher education. It's a progressive
9 city that leads the rest of Pennsylvania.

10 Everyone in this room knows
11 full well the devastating global and
12 local environmental and public health
13 impacts that are associated with the
14 continued use of fossil fuels.

15 Philadelphia today is at a crossroads.
16 Is its future one that promotes fossil
17 fuels or is it one that embraces the
18 energy and jobs of the 21st century such
19 as energy efficiency, solar, and public
20 transportation and others? Hopefully
21 Philadelphia will choose to be a leader
22 and prioritize public health, safety, and
23 welfare and the environment.

24 Philadelphians are exposed to
25 chronic elevated levels of air pollution.

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2 The region is not in attainment of the
3 federal standards for ozone, smog, and
4 particulates. A fossil fuel energy hub
5 as it's currently being considered will
6 include expanding refineries, LNG, and
7 gas liquid pipelines, and petrochemical
8 manufacturing. Increasing the number of
9 such facilities would reverse the
10 progress the City has made in cleaning up
11 its air by reinvigorating and ramping up
12 many of the same types of pollutant
13 sources as those largely responsible for
14 Philadelphia's history of poor air
15 quality.

16 New or expanded infrastructure
17 such as the expanded PES and Marcus Hook
18 refineries and others would significantly
19 increase harmful air pollution in the
20 region. A fossil fuel energy hub would
21 also increase the potential risk to
22 public welfare should an accident occur.
23 Center City residents are already uneasy
24 about the rail cars carrying oil that
25 crisscross the City. Two derailments in

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2 Philadelphia in a year is not reassuring.

3 The proposed fossil fuel hub
4 would hinder the chance our city has to
5 excel in an environmentally sustainable
6 economy that could provide many more
7 good-paying and long-lasting jobs while
8 promoting clean air and water and curbing
9 climate change.

10 It is shortsighted to base
11 Philadelphia's future economy on natural
12 gas and related products. The price of
13 Marcellus Shale gas is volatile and is
14 projected to increase. While there are
15 varying opinions about how much gas could
16 be extracted, newer projections about
17 supplies are substantially smaller than
18 initial optimistic estimates. City
19 Council must avoid financially risky
20 business partnerships and should not
21 allow large corporate interests to
22 control Philadelphia's future.

23 It is financially risky for PGW
24 to consider acting as an anchor customer
25 of natural gas so that pipeline companies

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2 can build this proposed pipe dream
3 pipeline from Northeast Pennsylvania to
4 Philadelphia and expand additional
5 infrastructure from it.

6 There are a growing number of
7 pipeline explosions and leakages
8 occurring across the country. A
9 private-public partnership to invest in a
10 natural gas pipeline would substantially
11 add to the City's risk since this
12 infrastructure is inherently dangerous
13 and could result in negative public
14 health and environmental impacts. A
15 private-public partnership would also
16 transfer investment risk in pipeline
17 companies to the City. City Council
18 should be extremely cautious of entering
19 into agreements with limited liability
20 corporations like PES and Liberty Energy
21 Trust, both of which have a limited track
22 record.

23 Clean Air Council rejects the
24 idea that City Council can pursue both a
25 fossil fuel energy hub as well as promote

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2 a green economy and continue to strive to
3 be the most sustainable city in America.

4 If Councilmembers took action to truly
5 promote Philadelphia's green economy,
6 they would be leading the charge on
7 promoting the expansion of sectors like
8 solar efficiency and public transit.

9 Instead, concrete advancements on these
10 sectors get moved to the bottom of the
11 priority list.

12 What the purpose and agenda of
13 this public hearing today appears like
14 City Council has already made up its mind
15 clearly about pursuing a fossil fuel
16 energy hub, a decision that will lock
17 Philadelphia into years of pollution and
18 health impacts. It seems like the real
19 purpose of these hearings is to smooth
20 away for a fossil fuel energy hub.

21 Councilmembers have so far done a poor
22 job of asking for and acting on community
23 input or concerns, and that has got to
24 change. How much effort has City Council
25 put into reaching out to businesses that

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2 have a vision for developing Philadelphia
3 as a sustainable energy hub?

4 While companies and elected
5 officials see the present gas glut as an
6 opportunity to make use of the
7 gas-related products, it is shortsighted
8 to base our city's economic future on
9 such a volatile commodity like natural
10 gas. Gas is a non-renewable resource,
11 and projections about the supplies have
12 plummeted from initial estimates.

13 City Council should actively be
14 pursuing a sustainable economy that would
15 provide long-term liveable-wage jobs and
16 revenue to the City without the negative
17 environmental or economic impacts.

18 The Council's concern that the
19 fossil fuel energy hub concept will
20 result in mostly short-term jobs that
21 aren't guaranteed for Philadelphia
22 workers while leaving the City with
23 environmental and economic costs for
24 decades to come. There are easily over
25 10,000 living-wage job opportunities in

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2 sectors like expanding public transit,
3 energy efficiency, and renewable energy
4 in the next ten years. The American
5 Council for an Energy Efficient Economy
6 completed a study in 2009 that found with
7 the right policies, energy efficiency and
8 solar could spur the growth of at least
9 9,000 jobs in Philadelphia by 2025 in
10 installing energy efficiency and solar
11 measures. Based on National Renewable
12 Energy Laboratory data, the Council
13 estimates that in Philadelphia
14 cost-effective rooftop solar could
15 produce over 20 percent of the City's
16 energy, electricity needs; provide more
17 than 4,000 well-paid jobs; and increase
18 grid reliability.

19 There are many more jobs in
20 these green sectors than the short-term
21 construction jobs or even the limited
22 amount of long-term jobs being touted at
23 refineries. Hundreds and hundreds I
24 heard earlier today. And you don't even
25 have to change the rules, as some were

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2 suggesting earlier today.

3 In addition, avoiding the
4 fossil fuel energy hub would ensure that
5 major job sectors in the City like
6 healthcare, the arts, hospitality, and
7 education are not threatened.

8 People decide to stay or move
9 to a city because of quality of life
10 issues. Increases in toxic air pollution
11 from energy hub infrastructure may cause
12 some people to move away, may cause
13 parents to think twice about sending
14 their children to our colleges and
15 universities, and may hurt the sectors
16 that currently provide a lot of jobs and
17 revenue to the City.

18 The Philadelphia region has the
19 potential for 8,700 megawatts of rooftop
20 solar, equivalent to about 25 percent of
21 the region's energy usage. Over 20
22 years, this equates to \$1.3 billion in
23 direct economic activity annually for the
24 Philadelphia area. The indirect economic
25 benefits -- the annual economic activity

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2 would increase the number to \$1.95
3 billion to the region annually, and
4 Philadelphia could potentially get about
5 5 percent of this in the form of
6 property, sales, wage taxes. It would
7 equate to about 97.5 million, about the
8 same as earlier today. I think someone
9 asked the question about LNG, how much
10 would that bring in. It's about the same
11 amount.

12 It does not make economic sense
13 to make such a substantial capital
14 investment in expanding fossil fuel
15 infrastructure when there's so many other
16 more fruitful options and healthy and
17 safe options. Clean Air Council urges
18 City Council to reject the plan to turn
19 Philadelphia into a gas energy hub and to
20 embrace an economy for Philadelphia based
21 on public health, education, and the
22 environment.

23 Thank you.

24 COUNCILMAN NEILSON: Thank you
25 for your testimony. I just want to,

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2 before you leave the table, let you know
3 that the goals of these hearings is to
4 examine all different parts, and none of
5 us have made up our mind. We made up our
6 mind not to sell PGW, which ended up to
7 be a good choice. Okay? But we have to
8 move forward and we have to see what's
9 best for the City. So we are doing this
10 and this Committee was formed for the
11 best interest of the City and the people.

12 We are being very cautious,
13 thus the hearings. We were blind-sided
14 last time without having the education.
15 And Mayor Pawlowski came and spoke about
16 Allentown. If you noticed, a lot of us
17 focused on him having hearings throughout
18 the city, the 30, 40 hearings and all.
19 So we want to make certain that we take
20 the correct steps here.

21 So we are being very cautious.
22 I'm glad you want us to be cautious,
23 because that's exactly what we're doing.

24 Thank you again for your
25 testimony and have a great weekend.

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2 MR. WALKER: Thanks. You too.

3 COUNCILWOMAN TASCO: Thank you.

4 COUNCILMAN NEILSON: Will the
5 Clerk call the next witness, please.

6 THE CLERK: Giving limited
7 time. I apologize, but the remainder of
8 the guests are going to have to abide by
9 a three-minute rule.

10 Sam Bernhardt.

11 (Witness approached witness
12 table.)

13 MR. BERNHARDT: Good afternoon,
14 evening, afternoon. One of those.

15 COUNCILMAN NEILSON: Good day,
16 Sam. How is that?

17 MR. BERNHARDT: My name is Sam
18 Bernhardt. I'm the Senior Pennsylvania
19 Organizer for Food and Water Watch.
20 We're a national advocacy organization
21 working to champion healthy food and
22 clean water for all.

23 To that end, we are extremely
24 concerned regarding the plan being put
25 forward by the oil and gas industry to

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2 scale up fossil fuel infrastructure in
3 and around our city for several reasons,
4 but the reason I'm here today is to voice
5 concern that this plan threatens
6 Philadelphia's fiscal health through its
7 reliance on public-private partnerships
8 that are risky for this city.

9 Food and Water Watch has
10 expertise on the issue of public-private
11 partnerships -- I'll just refer to them
12 as P3s -- through our work on water
13 privatization, which increasingly
14 presents itself in the form of P3s.

15 P3s are intrinsically risky for
16 municipalities, as they
17 disproportionately expose the public side
18 of these deals to risk. Limited
19 liability corporations can shield
20 themselves from the fallout of financial,
21 environmental or public safety
22 catastrophes. Academic reviews of P3s
23 have found that many U.S. P3s are a means
24 of transferring investment risk from the
25 private sector to the public sector. And

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2 that's a quote. In addition to the
3 uncontrollable market forces or accidents
4 or catastrophes, complexity and
5 uncertainty involved in P3s leaves
6 municipalities at an inherent
7 disadvantage.

8 P3s involving fossil fuels and
9 energy infrastructure represent an
10 increased level of risk due to their
11 potential for accidents, with large
12 environmental or public health impacts.
13 Gas pipelines leak. LNG being
14 transported on trucks leaks. Explosions
15 happen. This is one of the reasons why
16 energy ventures are frequently moved
17 forward using special purpose vehicles,
18 so these LLCs.

19 We don't need to look very far
20 to see what this looks like. Harrisburg
21 has been crippled by debt resulting from
22 a badly planned deal intended to increase
23 the city's revenues by making upgrades to
24 its incinerator, making upgrades to
25 energy infrastructure. Does that sound

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2 familiar? Harrisburg's P3 around the
3 incinerator was meant to create a cash
4 cow for the city. Instead, it dragged
5 the city into receivership. Now
6 proponents of Philadelphia's oil and gas
7 industry are presenting Council with P3s
8 that could flood the City's coffers with
9 new revenues from environmentally sound
10 projects. This sounds eerily similar.

11 It's important to remember that
12 these advocates for the oil and gas
13 industry or really anyone who spoke
14 before myself and Mr. Walker here today
15 are motivated by one thing, and it's
16 their own bottom line. They're not
17 motivated by the interest of the people
18 of Philadelphia.

19 My third quick thing to touch
20 on is that more specifically to energy
21 being risky is that the people who spoke
22 before me here in this room are
23 inherently risky. Mr. Rinaldi has a very
24 limited track record with PES. Two years
25 is not a lot for the City of Philadelphia

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2 to bank its future on.

3 One last thing I'd like to say
4 is, Mr. Pawlowski, Mayor Pawlowski --

5 COUNCILMAN NEILSON: Hold on,
6 hold on, hold on. Your three minutes are
7 up. Before we start going into speaking
8 badly about a Mayor or something else,
9 I'd rather you not. Thank you for your
10 testimony here today, Sam. We appreciate
11 it.

12 MR. BERNHARDT: Thank you.

13 THE CLERK: Chris Hoeppepner.

14 (No response.)

15 THE CLERK: Zein Nakhoda.

16 (Witness approached witness
17 table.)

18 COUNCILMAN NEILSON: Hi, Zein.
19 Can you pull the mike close to you and
20 say your name for the record before you
21 start your testimony.

22 MR. NAKHODA: Yes. My name is
23 Zein Nakhoda, Z-E-I-N, N-A-K-H-O-D-A, and
24 I appreciate the chance to speak today.
25 And it's made me very curious about the

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2 procedure for today, because I really
3 appreciate the chance to speak and the
4 space that these hearings create, but I
5 know there are many folks in my
6 constituency who couldn't afford to stay
7 all day to testify. And I appreciate it
8 a lot, and I just wish that -- I'm
9 furious why there isn't more time and
10 public voice isn't more of a priority in
11 these hearings. I've been waiting very
12 patiently today.

13 COUNCILWOMAN TASCO: It's
14 called the ability to endure 18 hours.

15 MR. NAKHODA: But I will move
16 quickly to my testimony.

17 COUNCILMAN NEILSON: We'll be
18 able to come back at a future date if
19 you'd like to leave your written
20 testimony. We'll put in the record, and
21 we can have you back here for the next
22 one, because today, as the Chairwoman
23 spoke, this is not over yet and there's
24 no decisions being made here today, just
25 so everybody knows. So, please, whatever

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2 you choose.

3 MR. NAKHODA: Great. Thank
4 you.

5 So my name is Zein Nakohoda and
6 I'm speaking on behalf of the 215
7 People's Alliance and the Maypop
8 Collective for Climate and Economic
9 Justice. 215 People's Alliance is an
10 emerging coalition focused on building a
11 progressive vision for working people
12 across Philadelphia, and we believe
13 Philadelphia's energy future and the
14 adaptations to changing environmental
15 conditions is increasingly important to
16 working families' health, safety, and
17 economic security over the long term.

18 For this reason, we support
19 Council defending municipal ownership of
20 PGW and we uphold public ownership in
21 local governance as paramount to the
22 democratic energy future we need.

23 The acquisition of UIL Holdings
24 validates Council's concerns around
25 selling PGW. Consumers and workers

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2 should not be without a say or knowledge
3 about decision-making of our utility
4 services. And the proposed sale of UIL
5 put good jobs, protections for seniors
6 and low-income customers at risk with
7 inadequate protections for Philadelphia's
8 workforce.

9 As a publicly owned utility,
10 PGW is obligated to protect the rights of
11 low-income residents and working
12 families. Philadelphians can keep PGW
13 accountable through our elected officials
14 in the case of increased rates, poor
15 services, and in shaping the direction of
16 our energy economy.

17 While we applaud efforts to
18 retain municipal ownership of PGW, we're
19 concerned about proposals to have PGW
20 grow a fossil fuel energy hub in our
21 city. Philadelphia must engage broader
22 challenges of energy transition to
23 protect against economic and
24 environmental threats associated with
25 fossil fuel extraction and transport and

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2 resulting climate change.

3 Proposed fossil fuel
4 infrastructure, including pipeline
5 networks, oil by rail, gas liquefaction,
6 and compressing stations, pose
7 significant health and safety risks to
8 Philadelphia residents and workers, with
9 questionable economic return to
10 Philadelphians.

11 Climate change, a product of
12 decades of fossil fuel use, increasingly
13 threatens Philadelphia's financial
14 security and infrastructure. The
15 frequency and magnitude of super storms
16 is increasing, along with the frequency
17 of severe floods.

18 THE CLERK: Thank you.

19 MR. NAKHODA: I'm sorry?

20 COUNCILMAN NEILSON: Your three
21 minutes are up, Zein.

22 MR. NAKHODA: Thanks for the
23 opportunity.

24 COUNCILMAN NEILSON: Zein,
25 would you give us that testimony so we

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2 can put it completely on the record for
3 us for the other members so we can have
4 that?

5 MR. NAKHODA: Sure. Is there a
6 place I can e-mail another copy? This
7 one is marked up pretty heavily.

8 COUNCILWOMAN TASCO: Sure. You
9 can e-mail it to --

10 COUNCILMAN NEILSON: To me,
11 Ed.Neilson@phila.gov.

12 MR. NAKHODA: Thanks so much.

13 COUNCILWOMAN TASCO: It's
14 online.

15 THE CLERK: Steve Masters.

16 (No response.)

17 COUNCILWOMAN TASCO: Meenal
18 Raval.

19 (Witness approached witness
20 table.)

21 COUNCILMAN NEILSON: Thank you
22 for coming and thank you for your
23 patience. I know you've been here --

24 COUNCILWOMAN TASCO: All day.

25 COUNCILMAN NEILSON: -- all

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2 day.

3 MS. RAVAL: Yup. Thank you
4 all. I didn't know you all put such long
5 days in. I'm impressed.

6 I'm Meenal Raval. I'm honored
7 to be here today. Firstly, Councilman
8 Johnson is not here, but I'd like to
9 thank him and all of you, I guess, for
10 acknowledging the risks of oil trains and
11 the resolution you all passed yesterday.

12 I represent a strong coalition
13 of groups, groups that you may have heard
14 of such as the Clean Air Council, which
15 was founded in '67; Clean Water Action
16 founded in '72; the Delaware Riverkeeper
17 Network in '88; Food and Water Watch in
18 '05; and the Pennsylvania Interfaith
19 Power and Light representing 43 member
20 congregations; a group called Protecting
21 Our Waters in '09; and Physicians for
22 Social Responsibility. It goes on and
23 on. And some groups you may not have
24 known of, which is the Moms Clean Air
25 Force and their Naptime Activism; the

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2 Maypop Collective for Climate and
3 Economic Justice; the Philadelphia Jewish
4 Climate Action Network; and EDGE,
5 Encouraging Development of a Green
6 Economy.

7 As you can see, we're quite a
8 diverse group of Philadelphia residents.
9 Like most of America, we look to you, our
10 elected officials, as well as ourselves
11 to step up to the challenge of our times.
12 The challenge we speak of, our changing
13 climate and the need for carbon
14 reduction. There's even a PennFuture
15 poll amongst Pennsylvanians which shows
16 that 82 percent want to cut carbon, 93
17 want help with energy efficiency, and
18 over 60 percent believe switching to
19 clean renewable energy will create jobs.

20 So we're concerned about
21 building on to the fossil fuel-based
22 economy that people talked about today,
23 one that emits additional greenhouse
24 gases, that contaminates our rivers, our
25 drinking water by fracking for gas, and

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2 the overall polluting and unsafe
3 infrastructure around this economy. In
4 our vision, a moral vision we like to
5 think, for a vibrant, healthy future,
6 fossil fuels have been left in the last
7 century. We see us as building a green
8 economy based on energy efficiency,
9 conservation, and clean renewable energy
10 sources.

11 When there's a solar spill,
12 people simply say it's a nice day. I
13 like that.

14 So with the Greenworks' goal of
15 making Philadelphia the greenest city in
16 the country, what are we waiting for? We
17 have a low carbon transition economy to
18 build.

19 Thank you.

20 COUNCILWOMAN TASCO: Thank you
21 very much.

22 COUNCILMAN NEILSON: Thank you
23 very much for your testimony today.

24 THE CLERK: Tamara Clements.

25 (No response.)

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2 THE CLERK: Susan Saxe.

3 (Witness approached witness
4 table.)

5 COUNCILMAN NEILSON: Good
6 evening, Susan.

7 MS. SAXE: Thanks for putting
8 up with me. My name is Susan Saxe. I'm
9 a member of many of the groups that
10 Meenal just mentioned, probably some
11 more. I'm here to speak about something
12 you may not have heard of, which is how
13 the same systemic racism that uses urban
14 as a code for black and brown and guts
15 our schools so that the rich and powerful
16 don't have to pay their fair share of
17 taxes also fuels the plan to sacrifice
18 the health, safety, and future of our
19 city so that a dying industry can grab
20 the last drop of profit in its race to
21 the bottom.

22 Nobody says it better than
23 investigative reporter and climate
24 activist Naomi Klein. So I want to share
25 a few excerpts from an article of hers

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2 that I'll leave for you to read in full
3 later.

4 On the second day of the
5 now-infamous United Nations climate
6 summit in Copenhagen, a document was
7 leaked showing that governments were on
8 the verge of a target that would cap
9 global temperature rise at 2 degrees
10 Celsius, not enough to save some
11 low-lying small island states from
12 annihilation. And in Africa, the target
13 would translate into a full-scale
14 humanitarian disaster.

15 But African delegates weren't
16 standing for it. You think holding up a
17 sign is something? When the text was
18 leaked, the sterile hallways of the
19 conference center came alive with shouts
20 of, "We will not die quietly" and "2
21 degrees is suicide."

22 The highly racialized
23 discounting of certain lives does not
24 play out just between countries but also,
25 unfailingly, within them - perhaps most

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2 dramatically within the United States.

3 During Katrina, it was
4 overwhelmingly New Orleans's black
5 residents who were abandoned on the
6 rooftops and in the Superdome, who were
7 labeled refugees in their own country and
8 who were shot on the streets of their
9 city.

10 When Superstorm Sandy hit New
11 York City, a similar combination of
12 forces showed its brutal face.

13 Racism is what has allowed the
14 worst health impact of digging up,
15 processing, and burning fossil fuels,
16 from cancer clusters to asthma, to be
17 systematically dumped on the
18 neighborhoods where people of color live,
19 work, and play.

20 If we committed ourselves to
21 responding to the climate crisis on the
22 basis that black lives matter, it would
23 mean unprecedented economic and
24 technological investments in some of the
25 most neglected parts of the world, from

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2 Kenya to Ferguson to Pine Ridge and, dare
3 I add, many parts of Philadelphia,
4 bringing greatly improved services,
5 increased democracy and
6 self-determination, real food security,
7 and countless good jobs.

8 In Copenhagen 2009, African
9 governments argued that if black lives
10 matter, then 2 degrees of warming was too
11 high. By disregarding this basic
12 humanistic logic, the biggest polluters
13 were making a crude cost-benefit
14 analysis. They were calculating that the
15 loss of life, livelihood, and culture for
16 some of the poorest people on the planet
17 was an acceptable price to pay to protect
18 the economies of some of the richest
19 people on the planet. That, my friends,
20 is the twisted logic of the Phil Rinaldis
21 of the world. The question is, will
22 Philadelphia City Council side with the
23 brutal calculus of corporate looters or
24 with the people of our great city?

25 Thank you. And here are copies

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2 of the full articles for your
3 consideration.

4 COUNCILMAN NEILSON: If you
5 hand it to the Sergeant-of-Arms, he will
6 grab that off of you. Thank you, Susan,
7 for your testimony. Thank you for your
8 patience.

9 MS. SAXE: While he's here,
10 Moon Smith had to leave and wanted to
11 submit her testimony as a nurse and
12 midwife on the impact of chemical and
13 fossil fuel pollution on babies and
14 families.

15 COUNCILMAN NEILSON: Thank you,
16 and we will put that into the record for
17 her as well.

18 MS. SAXE: Thank you.

19 COUNCILMAN NEILSON: Thank you.

20 THE CLERK: Peter Winslow.

21 COUNCILMAN NEILSON: So for the
22 record, we're going to put Moon Smith's
23 testimony into the record.

24 (Witness approached witness
25 table.)

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2 COUNCILWOMAN TASCO: Good
3 afternoon. I'm sorry. Please proceed.

4 MR. WINSLOW: Chairwoman Tasco,
5 Councilman Neilson, Councilman Oh, I
6 appreciate the opportunity to participate
7 in this conversation. The hour is late.
8 I'll be brief.

9 My name is Peter Winslow. I'm
10 the President of the Evolve Foundation.
11 Evolve was founded by Rob Stuart, who is
12 a public citizen and known to many
13 members of the Council, and I carry out
14 his legacy. I'm also here as a member of
15 the Board of the Philadelphia and the
16 Pennsylvania Interfaith Power and Light.
17 Evolve has been the fiscal sponsor for
18 some of the organizations that have been
19 mentioned previously, specifically
20 Protecting our Waters.

21 As we reflect on -- as you
22 reflect on much of what has been heard
23 today, I'd like to share some
24 observations that I have in reaction to
25 what I heard. I was impressed very much

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2 by Mr. White and the position that he
3 took as a fiduciary responsible for
4 assuring that the citizens of
5 Philadelphia have adequate heat and other
6 resources that are supplied by PGW. He
7 seems like a very good CEO for the
8 Council to be entrusting that aspect of
9 its operations in the City's assets, and
10 I applaud the activity of the Council and
11 not giving away such a valuable asset as
12 PGW in a deal that was not a good one.

13 He did, however, say that the
14 problem of his infrastructure was under
15 control, and that was refuted by people
16 who spoke later on. And I think I would
17 agree with those who spoke later that the
18 state of the infrastructure of PGW is not
19 good. From the standpoint of direct
20 public safety, of accidents, and loss of
21 life through explosions and such, it's a
22 moderate risk, but the ongoing
23 detrimental effects of the atmosphere
24 from leakages, many leakages, from a very
25 substandard system is really quite

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2 serious. And one of the things that I
3 understand is on the mind of the Council
4 is finding a way to have sufficient
5 resources, financial resources, to solve
6 this problem, and I appreciate the
7 efforts that are being put into finding
8 that kind of a solution.

9 The other reaction I'd like to
10 make is to what Mr. Rinaldi had put
11 forth, and this seems to me to be relying
12 on a field of dreams approach. If you
13 build it, they will come, asserting facts
14 that are not in evidence that
15 manufacturing would flow from the
16 availability of energy. I think that's
17 really putting the horse before the cart
18 and if in fact --

19 THE CLERK: Thank you, sir.

20 COUNCILMAN NEILSON: Those are
21 your three minutes.

22 MR. WINSLOW: It goes by fast.

23 COUNCILMAN NEILSON: It does.

24 It goes fast.

25 MR. WINSLOW: Thank you so

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2 much. Have a good weekend.

3 COUNCILMAN NEILSON: Thank you
4 for your testimony. Thank you for being
5 patient today.

6 MR. WINSLOW: My pleasure.

7 COUNCILMAN NEILSON: You can
8 leave your testimony here.

9 MR. WINSLOW: These are not
10 prepared marks.

11 COUNCILMAN NEILSON: Okay.
12 Thank you.

13 THE CLERK: The final speaker
14 is Coryn Wolk.

15 (No response.)

16 COUNCILMAN NEILSON: Is there
17 anyone else here to testify before us
18 today on the public comment?

19 (No response.)

20 COUNCILMAN NEILSON: If not,
21 this Committee is in recess until the
22 call of the Chairs. That's it. Have a
23 great weekend, everybody.

24 (Special Committee on Energy
25 Opportunities concluded at 5:30 p.m.)

CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
contained fully and accurately in the
stenographic notes taken by me upon the
foregoing matter, and that this is a true and
correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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