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February 24, 2010

Via Electronic Filing

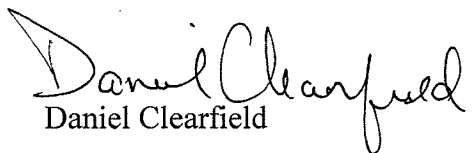
James McNulty, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v. Philadelphia Gas Works
Docket No. R-2009-2139884

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works enclosed please find its Prehearing Memo with regard to the above-referenced matter along with the electronic filing confirmation. Copies have been served in accordance with the attached Certificate of Service.

Very truly yours,


Daniel Clearfield

Enclosure

cc: Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of PGW's Prehearing Memo upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA E-MAIL &/OR FIRST CLASS MAIL

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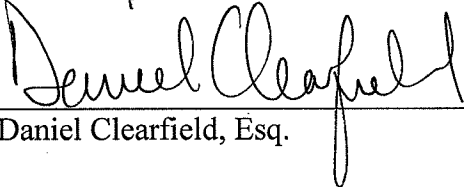
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Hon. Charles Rainey, Jr.
Administrative Law Judge
PA Pennsylvania Public Utility Commission
801 Market St., Suite 4063
Philadelphia, PA 19107
crainey@state.pa.us

Dated: February 24, 2010



Daniel Clearfield, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 : Docket No. R-2009-2139884
 v. :
 :
 Philadelphia Gas Works :
 :
 Philadelphia Gas Works' Revised Petition :
 for Approval of Energy Conservation and : Docket No. P-2009-2097639
 Demand Side Management Plan :

**PREHEARING MEMORANDUM OF
PHILADELPHIA GAS WORKS**

Philadelphia Gas Works (“PGW”) hereby submits this Prehearing Memorandum pursuant to 66 Pa. C.S. § 333 and the directives of Administrative Law Judge (“ALJ”) Charles E. Rainey, Jr.

I. PROCEDURAL HISTORY

On December 18, 2009, PGW filed a proposed revision to its tariff, Supplement No. 36 to Tariff Gas - Pa. P.U.C. No. 2,¹ that would implement a base rate increase designed to produce \$42.5 million (4.8%) in additional annual revenues to provide, among other things, funding for PGW’s Other-Post Employment Benefits (“OPEB”) liability on an accrual basis. Two formal complaints have been filed.

By Order entered February 11, 2010, the Pennsylvania Public Utility Commission (“Commission”) instituted an investigation into the lawfulness, justness and reasonableness of

¹ This filing was made in compliance with the Commission’s Order of December 19, 2008 in Docket No. R-2009-2139884. PUC v. PGW, Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order entered December 19, 2008) (“2008 Extraordinary Rate Order”).

the proposed rate increase. Pursuant to section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d), Supplement No. 36 to Tariff Gas – Pa. P.U.C. No. 2 was suspended by operation of law on February 16, 2010, until September 16, 2010, unless voluntarily extended or otherwise directed by Order of the Commission. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness and reasonableness of PGW’s existing rates. The matter was assigned to the Office of Administrative Law Judge for resolution by hearings and for issuance of a Recommended Decision.

The Suspension Order, entered February 11, 2010, also consolidated PGW’s proposed Five-Year Gas Demand-Side Management (“DSM”) Plan, Docket No. P-2009-2097639, with the investigation into the proposed Supplement No. 36 to Tariff Gas-Pa. P.U.C. No. 2. This consolidation was done in response to PGW’s previously filed Motion to Consolidate said proceedings.

In accordance with the Commission’s order, the matter was assigned to ALJ Charles E. Rainey, Jr.

II. ISSUES AND WITNESSES

A. Issues

The primary issue in this proceeding is what level of base rate increase is justified and just and reasonable by applying PGW’s required ratemaking methodology – the Cash Flow Method – and complying with Section 2212(e) and (f) of the Public Utility Code (regarding

PGW's bond covenants), as well as the Commission's recently issued Policy Statement,² which explains the way in which the Commission intends to apply the PGW Cash Flow Method.

Additional issues include: (1) the level of base rate increase justified as just and reasonable for PGW's compliance with Governmental Accounting Standards Board ("GASB") Statement No. 45, which is the government equivalent of the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS" or "FAS") No. 106 (applicable to investor owned utilities); and (2) PGW's proposed DSM programs, including the cost-effectiveness of these programs and the justness and reasonableness of the proposed cost recovery methodology.

B. Witnesses

PGW anticipates calling the following witnesses:

<u>Witness</u>	<u>Statement</u>	<u>General Subject Matter</u>
Mr. Steven P. Hershey Vice President – Regulatory and External Affairs Philadelphia Gas Works	PGW St. 1	Mr. Hershey provides an overview and roadmap of PGW's filing, including a summary of the reasons for the increase. He also explains PGW's proposal to help customers save money and conserve energy by implementing a multi-year DSM program.
Mr. Joseph Bogdonavage Senior Vice President – Finance Philadelphia Gas Works	PGW St. 2	Mr. Bogdonavage provides the financial details that support the need for the rate increase, shows the consequences of a failure to provide rate relief and displays PGW's financial results if it is granted the rate relief requested.

² *Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method*, PUC Docket No. P-2009-2136508, Order of December 30, 2009.

Ms. Barbara Bisgaier
Managing Director
Public Financial Management, Inc.
2 Logan Square, Suite 1600
Philadelphia, Pennsylvania 19103

PGW St. 3 Ms Bisgaier testifies to the level of financial performance required to complete successfully PGW's essential financial transactions and to maintain PGW's investment grade bond rating. She also explains the dire consequences to PGW if the PUC were to rollback any portion of the extraordinary rate relief granted to PGW in December 2008.

Mr. Samuel Kikla
Brown & Brown Consulting
One Commerce Square
2005 Market Street, Suite 3510
Philadelphia, PA 19103

PGW St. 4 Mr. Kikla explains PGW's OPEB obligations and funding proposal in detail.

Mr. Ken Dybalski
Director of Gas Planning
Philadelphia Gas Works

PGW St. 5 Mr. Dybalski presents the proof of revenue, describes PGW's proposal for allocation of the rate increase, explains the proposed "Efficiency Cost Recovery Mechanism," describes two proposed tariff changes and explains the results of PGW's review of the level of gas supply-related costs in base rates.

Mr. Randy Gyory
Senior Vice President for
Operations and Customer Affairs
Philadelphia Gas Works

PGW St. 6 Mr. Gyory addresses certain tariff rule changes proposed by PGW.

Ms. Cristina Coltro
Vice President, Customer Affairs
Philadelphia Gas Works

PGW St. 7 Ms. Coltro describes PGW's existing universal service programs and provides data on cost offsets related to CRP requested by the PUC.

Mr. Howard Gorman
Principal Consultant
Black & Veatch Corporation
898 Veterans Highway,
Hauppauge, NY 11788

PGW St. 8 Mr. Gorman testifies to the unbundled, fully allocated class cost of service study that he performed as well as the assignment of PGW's total costs and other elements of the revenue requirements to each Rate Class.

Mr. Frank Hanley
Principal
Associated Utility Services
155 Gaither Drive, Suite A

PGW St. 9 Mr. Hanley discusses the results of a "comparable" financial metric study which PGW commissioned that justifies the need to maintain PGW's existing rates and grant

Mount Laurel, New Jersey 08054

PGW's proposed rate increase.

Mr. John Plunkett
Partner and President
Green Energy Economics Group
1002 Jerusalem Road
Bristol, Vermont 05443

PGW St. 10

Mr. Plunkett sponsors the DSM Plan and provides supporting detail and documentation.

Mr. Paul Chernick
President
Resource Insight
5 Water St.
Arlington, Massachusetts 02474

PGW St. 11

Mr. Chernick addresses cost recovery issues related to the DSM Plan.

PGW reserves the right to submit additional witnesses after the submission of the direct testimony of the other parties.

C. Admissions or Stipulations

There have been no admissions or stipulations finalized at this time. PGW is an active discussions with at least one party regarding the early implementation of the DSM Plan.

III. PROPOSED SCHEDULE AND DISCOVERY

A. Proposed Schedule

1. Litigation Schedule

PGW is working with the parties to arrive at a mutually agreeable schedule that also permits adequate time for discovery and litigation. At this time, PGW does not believe that a second prehearing conference will be necessary.

PGW's proposed, preferred litigation schedule is attached as Appendix A. All dates are in-hand delivery. Electronic mail for receipt and distribution will satisfy in-hand service dates, with follow-up hard copies provided by first class mail.

PGW is proposing a preferred schedule and an alternative schedule. The preferred schedule (Appendix “A”) proposes a reply brief deadline of June 28, 2010 with hearings scheduled for May 25-28. PGW acknowledges the direction in the ALJ’s Prehearing Order that this Reply Brief deadline should be set at June 11, 2010. However, in order to accommodate an extended reply brief due date, PGW is willing to extend the tariff supplement suspension end-date to September 17, 2010³ in order to permit a PUC decision on September 16, 2010. This voluntary extension of the suspension end-date, in PGW’s view, would permit an extension of the reply brief deadline (thereby permitting a more expansive and reasonable schedule for testimonial deadlines).

PGW has shared this preferred schedule with the other parties, and OCA, for one, has indicated that it supports the preferred schedule. The other parties have not expressed opposition. Accordingly, PGW respectfully requests that the preferred schedule be adopted. However, if the ALJ declines to revise the deadline for reply briefs, PGW has included an alternative schedule. That alternative schedule is set forth on Appendix “B.”

2. Public Input Schedule

PGW has had informal discussions with the other parties concerning a schedule for public input hearings. PGW will attempt to accommodate the public input hearing schedule that best meets the needs of the other parties. PGW’s proposed public input schedule is shown below and on Appendix A and B.

³ PGW is willing to consider a longer extension if the ALJ believes that such is necessary to accommodate the preferred schedule.

PGW's proposes to use the same places (subject to availability) for the public input hearings in this proceeding that were used in PGW's last litigated rate proceedings. Specifically, PGW is proposing:

6:00 p.m., March 23, 2010

Dorothy Emanuel Recreation Center – gym
8501 Provident Ave.
Philadelphia, PA 19150

1 and 7 P.M., March 24, 2010

Community College of Philadelphia
Conference Room c2-28
18th and Callowhill streets
Philadelphia, PA 19130

7 p.m., April 7, 2010

George Washington High School– auditorium
10175 Bustleton Ave.
Philadelphia, PA 19116

B. Discovery

The parties have ample time to conduct discovery before the filing of their direct testimony. PGW has received several hundred formal discovery requests from the parties (with multiple subparts) and is discussing holding informal discovery sessions. PGW has either responded or is the process of responding to these requests. PGW is also willing to work with the parties to provide information through informal discovery conferences.

At this time, PGW does not believe that modifications to the Commission's discovery rules are necessary or appropriate. The Commission's Discovery Rules already provide for shortened timeframes for responses for rate proceedings. *See* 52 Pa. Code §§ 5.432(d) (written interrogatories), 5.349(d) (requests for documents, entry for inspection and other purposes). There is no practical need to reduce these times further. Nor is there a practical need to reduce

the timeframe for other discovery responses. The proposed schedule gives the parties more than 3 months to conduct discovery before they need to file their direct testimony, and there is at least one additional month after direct testimony is filed before the commencement of the hearings.

C. Protective Order

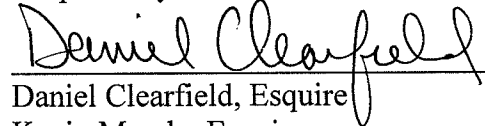
At this time, PGW is not requesting a Protective Order in this proceeding. If PGW believes that a Protective Order is necessary, PGW will file a Motion requesting such an order.

IV. SETTLEMENT

PGW is willing to discuss the settlement of its claims, and will be initiating such discussions as soon as the parties indicate that they have had sufficient time to review PGW's direct case.

PGW has proposed a partial settlement of its DSM proposal that would result in early approval and implementation of a portion of its Plan: the residential DSM programs. PGW hopes to be able to provide an update on this potential agreement at the prehearing conference.

Respectfully submitted,



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Philadelphia, PA 19122
Date: February 24, 2010

Attorneys for Philadelphia Gas Works

PGW
PROPOSED PROCEDURAL SCHEDULE
R-2009-2139884; P-2009-2097639

With Extension of Briefing Date:

Filed Date	December 18, 2009
Suspension Order	February 11, 2010
Last Day of 60 Day Notice Period 66 Pa. C.S. § 1308(a)	February 16, 2010
Prehearing Conference	March 2, 2010
Public Input Hearing	March 23, 2010
Public Input Hearing	March 24, 2010
Public Input Hearing	April 7, 2010
Direct Testimony - Company	December 18, 2009
Direct Testimony - Other Parties	March 26, 2010
Rebuttal Testimony - PGW	April 23, 2010
Surrebuttal Testimony - Other Parties	May 4, 2010
Hearings	May 25, 2010
Hearings - Continued	May 26, 2010
Hearings - Continued	May 27, 2010
Hearings - Continued	May 28, 2010
Main/Initial Briefs - All Parties	June 18, 2010
Reply Briefs - All Parties	June 28, 2010
Recommended Decision	July 28, 2010
Exceptions	August 9, 2010
Reply Exceptions	August 16, 2010
End of Suspension Period	September 16, 2010
Public Meeting (Proposed Date)	September 16, 2010
End of Extended Suspension Period	September 17, 2010

PGW
PROPOSED PROCEDURAL SCHEDULE
R-2009-2139884; P-2009-2097639

No Extension of Briefing Date:

Filed Date	December 18, 2009
Suspension Order	February 11, 2010
Last Day of 60 Day Notice Period 66 Pa. C.S. § 1308(a)	February 16, 2010
Prehearing Conference	March 2, 2010
Public Input Hearing	March 23, 2010
Public Input Hearing	March 24, 2010
Public Input Hearing	April 7, 2010
Direct Testimony - Company	December 18, 2009
Direct Testimony - Other Parties	March 26, 2010
Rebuttal Testimony - PGW	April 23, 2010
Surrebuttal Testimony - Other Parties	May 4, 2010
Hearings	May 18, 2010
Hearings - Continued	May 19, 2010
Hearings - Continued	May 20, 2010
Hearings - Continued	May 21, 2010
Main/Initial Briefs - All Parties	June 4, 2010
Reply Briefs - All Parties	June 11, 2010
Recommended Decision	July 12, 2010
Exceptions	July 21, 2010
Reply Exceptions	July 26, 2010
End of Suspension Period	September 16, 2010
Public Meeting (Proposed Date)	August 26, 2010