

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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March 20, 2018

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: Pa. Public Utility Commission
v.
UGI Utilities, Inc. – Electric Division
Docket No. R-2017-2640058

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script that reads "Hayley E. Dunn".

Hayley E. Dunn
Assistant Consumer Advocate
PA Attorney I.D. #324763
E-Mail: HDunn@paoca.org

Attachment

cc: Honorable Steven K. Haas, ALJ
Honorable Andrew M. Calvelli, ALJ
Certificate of Service

245201

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
v. : Docket No. R-2017-2640058
UGI Utilities, Inc. – Electric Division :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 20th day of March 2018.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Scott B. Granger, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Paul J. Szkyman
UGI Utilities, Inc.
2525 North 12th Street, Suite 360
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17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Mark C. Morrow, Esquire
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UGI Utilities, Inc.
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King of Prussia, PA 19406

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Post & Schell, P.C.
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Philadelphia, PA 19103-2808

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Jessica R. Rogers, Esquire
Post & Schell, P.C.
Suite 600
Washington, DC 20005-2006

/s/ Hayley E. Dunn

Hayley E. Dunn
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PA Attorney I.D. #324763
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Aron J. Beatty
Senior Assistant Consumer Advocate
PA Attorney I.D. # 86625
E-Mail: ABeatty@paoca.org

Dated: March 20, 2018
*245202

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

| | | |
|--|---|---------------------------|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No. R-2017-2640058 |
| | : | |
| UGI Electric Utilities, Inc. – Electric Division | : | |

PREHEARING MEMORANDUM OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333, and in response to the March 8, 2018 Prehearing Conference Order issued in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On January 26, 2018, UGI Utilities Inc. – Electric Division (UGI Electric or the Company) filed Tariff – Electric Pa. P.U.C. Nos. 6 and 2S with the Pennsylvania Public Utility Commission (Commission) and proposed an effective date of March 27, 2018. UGI-E Book I, Statement of Reasons at 1. UGI Electric is engaged in the business of furnishing electric service to approximately 61,832 residential, commercial, and industrial customers in portions of Luzerne County and Wyoming County, Pennsylvania. UGI Electric (UGI-E) Book I, Section 53.52 - Filing Requirements at 1. In Tariff – Electric Pa. P.U.C. Nos. 6 and 2S, the Company proposes to increase rates by \$9.254 million in annual operating revenues, or by 10.4% on an annual revenue basis. UGI-E Book III, Statement No. 1 at 3. The Company also proposes to increase its residential monthly customer charge from \$5.50 to \$14.00, an increase of over 150%. UGI-E Book IV, Statement No. 8 at 16.

Under the proposed Tariff, a residential customer using 1,000 kilowatt-hours (kWh) per month and receiving default service from UGI Electric would experience an 11.8% monthly bill increase, from \$112.28 to \$125.56. UGI-E Book I, Statement No. 1 at 3. In comparison, small commercial customers would experience no increase and industrial customers would experience a 1.4% increase. Id. In addition, if the Tariff is approved in its entirety, UGI Electric would be allowed a 10.95% return on common equity (ROE), including 0.20% in recognition of management effectiveness. UGI-E Book III, Statement No. 5 at 17. The Company further proposes a new Storm Expense Rider (SER) as well as a Universal Service Program (USP) Rider to replace its existing Customer Assistance Program (CAP) Rider for residential customers. UGI-E Book I, Statement of Reasons at 4. The Company also proposes a Rate EV (Electric Vehicle Services) intended for electric vehicle charging stations for non-residential customers. Id. at 5.

II. PROCEDURAL HISTORY

On February 5, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in this matter. On February 6, 2018, the OCA filed a Formal Complaint and Public Statement indicating its opposition to the Company's proposed rate increase. On February 12, 2018, the Office of Small Business Advocate (OSBA) also filed Formal Complaint. On March 1, 2018, the Commission entered an Order by which it suspended the proposed Tariff until October 27, 2018, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d), and initiated an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations in the Tariff.

Subsequently, the Company's base rate filing was assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judges (ALJs) Steven K. Haas and Andrew M. Calvelli. On March 8, 2018, the Office of Administrative Law

Judge issued a Notice scheduling a Call-In Telephonic Prehearing Conference for March 22, 2018, at 10:00 a.m. Additionally, on March 8, 2018, ALJs Haas and Calvelli issued a Prehearing Conference Order directing the parties to prepare and distribute prehearing memorandums by March 20, 2018, at 12:00 p.m.

On March 12, 2018, the Company submitted Supplemental Direct Testimony, which included Statement No. 2SD, Statement No. 5SD, Statement No. 6SD, Statement No. 8SD, and Statement No. 9SD. Concurrently, the Company provided revised Exhibit A (Fully Projected), Exhibit A (Future), Exhibit D (Cost of Service Study), and Exhibit E (Proof of Revenue).

III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of UGI Electric's base rate filing, the OCA identified several significant issues that require further review and will be included in the OCA's investigation of the proposed rate increase. These issues include the following:

A. Rate of Return

The OCA will perform a detailed analysis of the cost of debt and common equity claimed by UGI Electric. The OCA will examine the methodologies and supporting data used to develop the Company's final cost of common equity claim of 10.95%, which includes 0.20% in recognition of management effectiveness. In particular, the OCA will review the cost of equity models and how the Company implemented those models. The OCA will further evaluate the capital structure proposed by UGI Electric.

B. Rate Base/ Measure of Values

The OCA will examine the reasonableness and accuracy of UGI Electric's projections pertaining to the utility plant in service during the periods relevant to this proceeding. In this regard, the OCA will review, *inter alia*, whether the test year plant

will be completed as claimed and whether retirements are accurately reflected. The OCA will evaluate the Company's claim for plant additions during the test year to determine whether the Company has demonstrated that all such costs are prudently incurred. In addition, the OCA will investigate whether the Company's claimed adjustment to rate base for depreciation reserve is appropriate. The OCA will also examine the Company's claims of cash working capital, deferred income taxes, and customer deposits to determine levels appropriate for use in setting base rates for UGI Electric.

C. Revenues and Expenses

The OCA will examine UGI Electric's sales projections and revenues. The OCA will evaluate the reasonableness of the Company's claims regarding revenues, including the various inputs and assumptions used by UGI Electric. The OCA will review, *inter alia*, the Company's depreciation expense, labor expense, pension and employee benefits, and environmental remediation costs. In addition, the OCA will evaluate the Company's proposal for an SDER.

D. Taxes

On March 15, 2018, the Commission entered a Temporary Rates Order concerning the impact of the Tax Cuts and Jobs Act of 2017 on rates. See Tax Cuts and Jobs Act of 2017, Docket No. M-2018-2641242 (Temporary Rates Order entered March 15, 2018). In that Order, the Commission stated that it expected each public utility currently before the commission with a base rate filing to address the effect of the tax rate reduction on the justness and reasonableness of rates. *Id.* at 4-5. The OCA will review the Company's filing to ensure that tax expense is properly reflected in rates and that any 2018 tax expense savings are properly returned to customers on a timely basis.

E. Rate Structure/ Cost of Service/ Rate Design

The OCA will fully examine the Company's cost of service study and evaluate cost allocations for reasonableness. The OCA will also investigate the Company's proposal to increase the customer charge from \$5.50 to \$14.00. Additionally, the OCA will review the Company's proposed distribution of the revenue increase among customer classes. The OCA will examine the Company's proposal to eliminate or consolidate some current rate schedules. Moreover, the OCA will examine the reasonableness of UGI Electric's proposed rate design and proposed tariff changes.

F. Universal Service Programs

The OCA will examine the Company's proposed USP Rider, including the structure of the Rider and the costs that the Company proposes to collect through the Rider. The OCA will also review the proposed universal service offsets to determine the reasonableness of the offsets. Further, the OCA will evaluate the impact of the proposed \$14.00 customer charge on low-income customers and the effect of the Company's various tariff changes on both low-income and residential customers.

IV. SERVICE ON THE OCA

The OCA will be represented in this matter by Senior Assistant Consumer Advocate Aron J. Beatty and Assistant Consumer Advocate Hayley E. Dunn. Two copies of all documents should be served on the OCA as follows:

Hayley E. Dunn
Assistant Consumer Advocate
E-Mail: HDunn@paoca.org

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

The OCA requests that Aaron J. Beatty (ABeatty@paoca.org) and Paula Smith (PSmith@paoca.org) be included on the e-mail distribution list. The OCA will extend the same courtesy to other parties requesting that additional persons be included on the distribution list.

V. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of its witnesses. The OCA's witnesses will present testimony in written form and will attach various exhibits, documents, and explanatory information to assist in the presentation of the OCA's case. In order to expedite the resolution of this matter, the OCA requests that copies of all interrogatories, testimony, and answers to interrogatories be mailed directly to the OCA's witnesses at the below addresses as well as counsel for the OCA:

Rate Design and Accounting
Jerome D. Mierzwa
Lafayette K. Morgan
Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044
E-Mail: jmierzwa@exeterassociates.com
lmorgan@exeterassociates.com

Depreciation
Michael J. Majoros, Jr.
James Garren
Snively King Majoros & Associates, Inc.
P.O. Box 727
Millersville, MD 21108
E-Mail: mmajoros@snively-king.com
jgarren@snively-king.com

Rate of Return
Aaron L. Rothschild
Rothschild Financial Consulting
15 Lake Road
Ridgefield, CT 06877
E-Mail: aaron@rothschildfinancial.com

Universal Service Programs
Roger D. Colton
Fisher, Sheehan & Colton
34 Warwick Road
Belmont, MA 02478
E-Mail: roger@fsconline.com

The OCA specifically reserves the right to call additional witnesses as may be necessary. As the time at which the OCA determines that additional witnesses are necessary for any portion of its case, the OCA will promptly notify the ALJs and all parties of record.

VI. DISCOVERY

The OCA has engaged in discovery, serving six (6) sets of interrogatories on the Company as of the date of this Prehearing Memorandum. The OCA awaits responses to some interrogatories and continues to investigate this matter. In order to effectively investigate this matter, the OCA supports a shortened discovery response time and requests the following modifications to the discovery regulations:

- A. Answers to interrogatories shall be served in-hand within ten (10) calendar days of service of the interrogatories.
- B. Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.
- C. Requests for admission will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
- D. Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections be served to the ALJ in writing within five (5) days of service of the interrogatories. Objections to interrogatories served on a Friday shall be communicated orally

within four (4) calendar days of service, and unresolved objections shall be served to the ALJ in writing within six (6) days of service of the interrogatories.

- E. Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of the written objections.
- F. Answers to motions to dismiss objections and/or direct the answering of interrogatories be filed within three (3) calendar days of service of such motions.
- G. Discovery and discovery-related pleadings propounded after 12:00 noon on a Friday or after 12:00 noon on any business day immediately preceding a state holiday be deemed served on the next business day for purposes of determining the due date of responses and responsive pleadings.

VII. PUBLIC INPUT HEARINGS

The OCA notes that, as of the date of this Prehearing Memorandum, fifteen (15) customers submitted informal complaints to the Commission in opposition to UGI Electric's proposed rate increase. In addition, three (3) customers filed Formal Complaints with the Commission. Due to public interest and the magnitude of the requested rate increase, the OCA requests that an in-person Public Input Hearing be held in the Company's service territory to receive comments from customers impacted by the rate increase. The OCA further requests that, at minimum, UGI Electric notify customers of any Public Input Hearings by placing advertisements within its service territory as well as publications in local newspapers and on the Company's website. The OCA will work with the parties as well as ALJs Haas and Calvelli to reach a mutually agreeable hearing date for an in-person Public Input Hearing.

VIII. LITIGATION SCHEDULE

The OCA is presently working with the parties to reach a mutually agreeable litigation schedule in this matter. The OCA supports the following schedule:

| | |
|---------------------------------|---|
| Other Parties' Direct Testimony | April 26, 2018 |
| Rebuttal Testimony | May 25, 2018 |
| Surrebuttal Testimony | June 7, 2018 |
| Evidentiary Hearings | June 8, 2018 – ROE June 11-12, 2018 – Remaining Issues |
| Main Briefs | July 2, 2018 |
| Reply Briefs | July 18, 2018 |

IX. SETTLEMENT

The OCA will fully participate in settlement discussions with the parties at the appropriate time during this proceeding.

Respectfully Submitted,



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Senior Assistant Consumer Advocate
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Dated: March 20, 2018

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