



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

March 20, 2018

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, Second Floor
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
UGI Utilities Inc. - Electric Division
Base Rates
Docket No. R-2017-2640058

Dear Secretary Chiavetta:

Enclosed for filing please find the Bureau of Investigation and Enforcement's (I&E) **Prehearing Memorandum** for the above-captioned proceeding

Copies are being served on all active parties of record. If you have any questions, please contact me at (717) 425-7593.

Sincerely,

Scott B. Granger
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. No. 63641

SBG/wsf
Enclosure

cc: Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : R-2017-2640058
 :
 UGI Utilities, Inc. – Electric Division :
 Base Rates :

PREHEARING MEMORANDUM
OF THE
BUREAU OF INVESTIGATION AND ENFORCEMENT

**TO: ADMINISTRATIVE LAW JUDGES STEVEN K. HAAS AND
ANDREW M. CALVELLI:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”) respectfully submits the following Prehearing Memorandum in the above-captioned consolidated proceedings.

The Bureau of Investigation and Enforcement Prosecutor in these proceedings will be Scott B. Granger. Contact information is as follows:

By mail: Scott B. Granger
Pennsylvania Public Utility Commission
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Harrisburg, PA 17105-3265

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I. INTRODUCTION

On January 26, 2017, UGI Utilities, Inc. – Electric Division (“UGI Electric” or “Company”) filed its proposed Tariff - Electric - PA. P.U.C. Nos. 6 and 2S (“Tariffs 6 and 2S”) with a proposed effective date of March 27, 2018. UGI Electric states that it is requesting an increase in its annual jurisdictional distribution operating revenues by \$9.254 million.¹ UGI Electric claims the \$9.254 increase would produce an increase in total revenues (distribution, transmission and generation charges) of approximately 10.4%.² Additional review reveals, according to UGI Electric Exhibit E - Proof of Revenue, a total of \$9.237 million (99.8%) of the requested revenue increase will be borne by the Residential customer classes (R, RWT, RTU, CWH, and BLR).³ Further, the Proof of Revenue reveals this revenue increase will include a 155% increase in the Residential Customer Charge, from the current customer charge of \$5.50 to the proposed customer charge of \$14.00.⁴ Additionally, UGI Electric’s January 26th filing did not address the impact of the recently enacted Tax Cut and Jobs Act of 2017 (“TCJA”), which significantly reduced the corporate Federal Income Tax rate from 35% to 21%. UGI Electric indicated that it intended to file additional testimony once its analysis of the TCJA is complete. The supplemental testimony was eventually served on the parties on March 12, 2018.

I&E filed its Notice of Appearance regarding this proceeding on February 5, 2018.

¹ UGI Electric Statement of Reasons, p. 1.

² *Id.*

³ UGI Electric Exhibit E – Proof of Revenue, p. 1 of 19.

⁴ UGI Electric Exhibit E – Proof of Revenue, p. 2 of 19.

The Office of Consumer Advocate (“OCA”) filed a Formal Complaint and Public Statement in this proceeding on February 6, 2018. The Office of Small Business Advocate (“OSBA”) filed its Notice of Appearance, Complaint, and Public Statement on February 12, 2018.

On March 1, 2018, the Commission entered an Order suspending the implementation of proposed Tariffs 6 and 2S by operation of law until October 19, 2016, and opening an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed Tariffs 6 and 2S.

A telephonic Prehearing Conference is scheduled for March 22, 2018, at 10:00 am with Administrative Law Judges Steven K. Haas and Andrew M. Calvelli presiding.

II. ISSUES

The following list represents I&E’s preliminary determination of the potential issues in these proceedings. The listing is as complete as can be made at this time. I&E specifically reserves the right to address other issues, as it deems appropriate if any such relevant issues arise. The issues are as follows:

- Overall Rate of Return
- Cost of Debt
- Cost of Equity
- Management Performance
- Capital Structure
- Effects of Tax Cut and Jobs Act
- Use of Fully Projected Future Test Year
- Usage
- Number of Customers
- Cost of Service
- Customer Charge
- Rate Structure
- Rate Shock

- Storm Expense
- Storm Expense Rider D
- Cash Working Capital
- State Income Tax
- Federal Income Tax
- Taxes other than Income Taxes
- Rate Case Expense
- Act 40
- Uncollectible Expense
- Energy Efficiency & Conservation Plan
- Payroll, Payroll Expenses and Benefits
- Power Supply Expense
- Administrative & General Expenses
- Plant In Service
- Depreciation Expense
- Accumulated Depreciation
- Plant Additions for Future and Fully Projected Future Test Years
- Quarterly Earnings Reports
- Plant Retirements and Net Salvage
- Materials and Supplies
- Contributions In Aid of Construction (CIAC)
- Electric Safety Generally
- UGI LTIP
- Utility Pole Replacement
- Overhead Equipment
- Underground Cable

III. WITNESSES

It is currently expected that I&E may call the following expert witnesses without being limited thereto:

Anthony Spadaccio, Fixed Utility Financial Analyst
 Ethan Cline, Fixed Utility Valuation Engineer
 Brenton Grab, Fixed Utility Financial Analyst
 Kristofer Knittle, Electric Safety Engineer
 Christine Wilson, Fixed Utility Financial Supervisor
 Joseph Kubas, Fixed Utility Engineer Supervisor

The I&E witnesses may be contacted through the information listed above for Prosecutor Granger. The witness list is provided without the benefit of complete discovery or analysis of the positions of potential other parties to this proceeding. Accordingly, I&E reserves the right to call additional witnesses or withdraw the name of the witnesses listed above.

IV. EVIDENCE

I&E expects to present all written direct, rebuttal and surrebuttal testimony and accompanying exhibits at the evidentiary hearing. Moreover, I&E intends to rely on the Company's filing, supplemental testimony, answers to data requests and interrogatories, annual reports and other documents submitted to the Commission, other relevant Commission filings, any other relevant Commonwealth agency letters or reports, general financial market information sources and other public documents and reports.

V. DISCOVERY

Discovery in these proceedings will be conducted according to 52 Pa. Code §§5.321 et. seq. No modifications to the rules of discovery have been proposed by I&E. I&E will give due consideration to any discovery modifications proposed by any other party. Also, pursuant to 52 Pa. Code §§5.322 and 5.331(b), discovery has begun and is ongoing.

VI. SCHEDULE

I&E is currently working with the parties to develop a schedule in this proceeding. However, I&E's ability to agree to a litigation schedule has been hampered by UGI Electric's decision to file the requested increase prior to completing its analysis of the full

impact of the TCJA. The TCJA significantly reduced the corporate Federal Income Tax rate from 35% to 21% effective January 1, 2018. UGI Electric witness McKinney, the Manager of UGI Electric's Tax and Regulatory Accounting, explained that her testimony does not take into consideration the recently enacted changes to the tax code that were signed into law on December 22, 2017.⁵ Ms. McKinney stated that UGI Electric was conducting an analysis of the impact of the tax reform legislation and will supplement the tax schedules and any testimony "as needed" later in this proceeding.⁶ UGI Electric's supplemental testimony and its supplemental tax schedules were eventually served on the parties on March 12, 2018.

It is the opinion of I&E that the analysis of the impact of the tax reform legislation was "needed" as part of UGI Electric's January 26th filing. I&E notes that UGI Electric had full control over the filing date for this requested base rate increase and chose to file for an increase prior to completing its full analysis of the impact of the TCJA. UGI Electric did not provide this analysis until March 12, 2018, which was 45 days after the Company filed its base rate case. I&E will continue to work with the parties to develop a mutually agreeable litigation schedule; however, if no agreement is reached, I&E maintains that the litigation schedule should reflect that the Company's supplemental testimony regarding the effects of the TCJA was not included in the Company's January 26, 2018 filing.

⁵ UGI Electric St. No. 9, Direct Testimony of Nicole M. McKinney, p. 2.

⁶ *Id.*, pp. 2-3.

VII. PUBLIC INPUT HEARINGS

I&E is not aware of any requests or consumer interest with respect to public input hearings. I&E, therefore, does not propose that any public input hearings be held absent substantial public interest in the Company filing. Should public input hearings be deemed necessary, I&E recommends the Commission consider the use of “smart hearings.”

VIII. SERVICE OF DOCUMENTS

For purposes of satisfying in-hand requirements for discovery responses, prepared testimony and briefs, I&E will accept electronic delivery of documents with a follow-up hard copy provided by regular first-class mail.

IX. SETTLEMENT

I&E is willing to make good faith efforts to successfully resolve this matter through settlement. I&E is concerned that its ability to complete a full investigation and negotiate a reasonable settlement will be severely hampered as discussed *supra*.⁷ In the event settlement discussions fail to result in a full and complete resolution of the matter, I&E is prepared to fully or partially litigate this proceeding.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Scott B. Granger / AKK". The signature is written in black ink and is positioned above the printed name and title.

Scott B. Granger

Prosecutor

PA Attorney I.D. # 63641

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 787-1976

Dated: March 20, 2018

⁷ See *supra*, pp. 6-9.

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Pennsylvania Public Utility Commission :
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CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Prehearing Memorandum** dated March 20, 2018, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

Served via First Class and Electronic Mail

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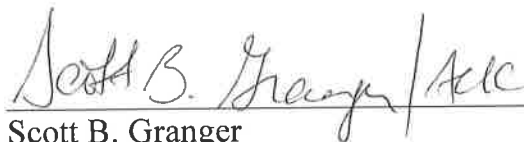
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A handwritten signature in cursive script that reads "Scott B. Granger / Alc". The signature is written in black ink and is positioned above a horizontal line.

Scott B. Granger
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. No. 63641