

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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IRWINA. POPOWSKY  
Consumer Advocate

April 7, 2010

James J. McNulty  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

RE: Pennsylvania Public Utility Commission  
v.  
Columbia Gas of Pennsylvania, Inc.  
Docket No. R-2009-2149262, et al

Dear Secretary McNulty:

Enclosed for filing is the Prehearing Memorandum of the Office of Consumer Advocate, in the above-referenced proceeding.

Copies have been served as indicated on the Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Erin L. Gannon".

Erin L. Gannon  
Assistant Consumer Advocate  
PA Attorney I.D. # 83487

Enclosures

cc: Honorable Wayne L. Weismandel

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2009-2149262
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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PREHEARING MEMORANDUM  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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Pursuant to Section 333 of the Public Utility Code, 66 Pa.C.S. §333, and as directed by Prehearing Conference Order issued by Presiding Officer Wayne L. Weisman del on March 26, 2010, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On January 28, 2010, Columbia Gas of Pennsylvania, Inc. (Columbia or Company) filed Supplement No. 144 to Tariff Gas - Pa. P.U.C. No. 9 with the Pennsylvania Public Utility Commission (PUC or Commission) to become effective on March 29, 2010. In its filing, Columbia requests that the Commission approve rates and rate changes, which would increase the rates for all customers. The proposed rates reflect an increase in overall annual revenues of \$32.3 million, or approximately 7.0% over the Company's annual revenues at present rates.

Columbia provides natural gas service to more than 410,000 residential, commercial, industrial, resale and transportation customers in 26 counties in Pennsylvania.

## II. HISTORY OF THE PROCEEDING.

On February 4, 2010, the Office of Small Business Advocate (OSBA) filed a Formal Complaint and Notice of Appearance. On February 8, 2010, the OCA filed a Formal Complaint and Notice of Appearance. On February 14, 2010, Ban Bazzoui filed a Formal Complaint. On February 19, 2010, Dominion Retail, Inc., Interstate Gas Supply and Shipley Energy Company filed a Joint Petition to Intervene. On March 2, 2010, York Generation Company, LLC filed a Petition to Intervene and Betty M. Rogers filed a Formal Complaint. On March 29, 2010, the Office of Trial Staff filed a Notice of Appearance and Pennsylvania State University filed a Formal Complaint. On April 1, 2010, Columbia Industrial Intervenors filed a Formal Complaint and Hess Corporation filed a Petition to Intervene. Rate protests were filed by various individuals.

By Order entered March 25, 2010, the Commission suspended the Company's proposed tariff supplement pending investigation. The proceeding was assigned to the Office of Administrative Law Judge and, further, to Administrative Law Judge Wayne L. Weismandel. A prehearing is scheduled for Friday, April 9, 2010, in Harrisburg.

## III. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of Columbia's base rate filing, the Office of Consumer Advocate has compiled a list of issues, which it anticipates will be included in its investigation of the Company's request. It is anticipated that issues in addition to those enumerated below may arise and may be pursued once the answers to the OCA's interrogatories have been received and analyzed. The OCA reserves the opportunity to present any new or unanticipated issues at such time.

As soon as the OCA has had the opportunity to review the answers to interrogatories, the OCA anticipates that informal discovery meetings can be scheduled, and potential settlement discussions may take place. At those meetings and discussions, the OCA will be able to narrow the scope of additional information requests. Once the discovery process is complete, the OCA will file direct testimony setting forth the specific issues to be addressed in this proceeding. At that time the OCA will also be able to make and to quantify its specific recommendations.

The list of issues and sub-issues set forth below will be analyzed and presented as appropriate by the OCA with the assistance of OCA's expert witnesses:

A. Rate of Return

The OCA will perform a detailed analysis of the cost of common equity claimed by Columbia. The OCA will carefully examine the Company's methodologies and supporting data used to develop its final cost of common equity claim of 11.7%. In particular, the OCA will review the cost of equity models and how they have been implemented and will evaluate the theoretical and empirical foundations of the proposed leverage adjustment to the equity cost rate. The OCA will examine the capital structure and long-term debt proposed by Columbia so as to determine if they are appropriate.

B. Rate Base/Measure of Values

The OCA will examine the reasonableness and accuracy of the projections of Columbia pertaining to the natural gas utility plant in service at the time relevant to this proceeding including, but not limited to, whether the test year plant will be completed as claimed and whether retirements are accurately reflected. The OCA will review the Company's claim for plant additions during the future test year to determine if the Company has demonstrated that all such costs are prudently incurred. Further, the OCA will investigate the Company's proposal to

invest in its accelerated main replacement program and its proposal to commence Gas Technology Institute funding. The OCA will investigate whether the Company's claimed depreciation reserve reduction of rate base is appropriate. The OCA will examine the Company's claims of stored gas underground, cash working capital, deferred income taxes, customer deposits and customer advances for construction to determine whether they are at levels appropriate for use in setting base rates for Columbia. Also, the OCA will examine the Company's treatment of its FASB ASC Topic 715 changes.

C. Revenues and Expenses

The OCA will review the reasonableness and accuracy of the Company's revenue annualizations and normalizations, including but not limited to its weather normalization adjustment, consistent with appropriate levels of normalized customers and usage adjusted for known and certain rate year changes. The OCA will examine the appropriateness, reasonableness and accuracy of the Company's claims for wages and benefits, rate case expenses, service company charges, outside service, uncollectible accounts, pensions and OPEBs, as well as other categories of expenses. The OCA will also investigate the reasonableness of the Company's pro-forma income tax claim for consistency with the established precedent concerning consolidated tax savings and its proposed use of its Federal Tax Refund pertaining to the period 1988 - 2008.

D. Rate Structure/Cost of Service/Rate Design

The OCA will examine Columbia's Class Cost of Service (cost allocations) with particular regard to appropriate and Commission approved methods to allocate Mains investment and expenses, proper recognition of weighting of various Customer Service, Accounting, and Information expenses between classes, and proper cost assignment of pro forma Mains pipe

replacement costs. The OCA will examine the Company's Class Revenue responsibility and apportionment of the revenue increase given cost of service results as well as recognition of other relevant factors and ratemaking principles. Also, the OCA will examine the Company's proposed rate design, including the 46.78% increase to residential customer charges, zero increase to usage charges, and the universal service rate design. With regard to the customer charge, the OCA will consider the Commission-approved methodology for determining "customer costs," proper economic pricing signals for the efficient use of gas, conservation, revenue stability and risk reductions to Columbia, gradualism, and the impact on low volume users. The OCA will also examine the proposed HEEP incentive rider.

E. Universal Service and Conservation Programs and Cost Recovery

The OCA will review the Company's proposal to continue surcharge recovery of universal service program and conservation program costs, proposed base rate recovery of some program costs, and proposed changes to the level of funding, scope and eligibility criteria of the programs, including HEEP and IQEEP. The OCA's review will include an analysis of the existing CAP, CARES, LIURP, Emergency Repair Program and Hardship Funds.

F. DSIC

Currently, surcharge recovery of return and depreciation on gas utilities' capital improvement projects between rate cases is not lawful. Columbia has proposed a Distribution System Improvement Charge (DSIC) Rider conditioned on the enactment of a statute allowing a gas DSIC. The OCA will review the Company's proposed DSIC Rider and the evidence provided by Columbia in light of its request.

G. Other Issues

The OCA will examine the reasonableness and appropriateness of the Company's proposed tariff changes, any relevant issues that arise as a result of the Company's operations and will investigate to ensure that the Company is complying with all prior orders.

IV. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. Each witness will present testimony in written form and will also attach various exhibits, documents, and explanatory information, which will assist in the presentation of the OCA's case. In order to expedite the resolution of this proceeding, the OCA requests that copies of all interrogatories, testimony, and answers to interrogatories be emailed directly to the expert witness(es) responsible for the area of the case, as well as emailing and mailing a copy to counsel for the OCA.

Accounting/Regulatory Policy:

Richard Koda  
Koda Consulting, Inc.  
409 Main Street  
Ridgefield, CT 06877  
Telephone: (203) 438-9045  
Fax: (203) 438-7854  
E-mail: [rjkoda@earthlink.net](mailto:rjkoda@earthlink.net)

Rate of Return:

J. Randall Woolridge  
Penn State University  
120 Hammaker Circle  
State College, PA 16801  
Telephone: (814) 865-1160  
Fax: (814) 565-3362  
E-mail: [JRW@psu.edu](mailto:JRW@psu.edu)

Rate Design/Cost of Service:

Glenn Watkins  
Technical Associates, Inc.  
James Center III, Suite 601  
1051 East Carey Street  
Richmond, VA 23219  
804-644-4000 (phone)  
804-644-2977 (fax)  
[watkinsg@tai-econ.com](mailto:watkinsg@tai-econ.com)

Universal Service:

Roger D. Colton  
Fisher, Sheehan and Colton  
34 Warwick Road  
Belmont, MA 02478  
Telephone: (617) 484-0597  
Fax: (617) 484-0594  
[roger@fsconline.com](mailto:roger@fsconline.com)

The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case, the Presiding Officer and all parties of record will be notified promptly.

#### V. EVIDENCE

The OCA will rely on the direct, rebuttal, and surrebuttal testimony of its expert witnesses as well as the testimony of the other parties to the proceeding. The OCA will present relevant exhibits to support its own testimony, including but not limited to, materials obtained from the Company through discovery and cross-examination. As described above, the OCA's witnesses will present testimony in the following areas: accounting and regulatory policy, rate of return, rate design and cost of service and universal service.

#### VI. PROCEDURAL RULES / DISCOVERY

In order to effectively investigate and adequately develop a record in this matter, the OCA requests a modification of the Commission's procedural rules regarding discovery on a going-forward basis, as set forth below:

1. Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service.
2. Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served to the ALJ in writing within five (5) days of service of the interrogatories.
3. 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.
4. Answers to motions to dismiss objections and/or answering of interrogatories shall be filed within three (3) calendar days of service of such motions.
5. Ruling over such motions shall be issued, if possible, within seven (7) calendar days of the filing of the motion.
6. Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.
7. Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
8. Answers to on-the-record data requests shall be served in-hand within seven (7) calendar days of the requests.
9. The OCA proposes that any discovery served after 12 noon on a Friday will be deemed to have been served on the following business day for purposes of tracking due dates.
10. The OCA proposes that the due dates be “in-hand” and that electronic or fax service on the due date will satisfy the “in-hand” requirement, where such service is immediately followed by a hard copy sent by first-class mail.

## VII. PUBLIC INPUT HEARINGS

On February 24, 2010, the OCA received a request from Senator Mike Waugh that the Commission schedule a public input hearing in York, Pennsylvania. The OCA will work with the ALJ, the parties and Commission scheduling staff to determine an appropriate date and location for such hearing. The OCA requests that the hearing be held during the last week of April or first week in May in order to provide adequate time for customers to receive notice and to provide the OCA an opportunity to incorporate any additional issues raised during the hearings in its direct testimony. If a public input hearing is scheduled after the deadline for OCA direct testimony, the OCA requests approval to supplement its direct testimony at that later time.

Currently, the OCA is not aware of substantial consumer interest in convening public input hearings in other areas of Columbia's service territory. If substantial interest develops in other areas, the OCA will promptly notify the Administrative Law Judge and parties to request that a public input hearing be scheduled.

## VIII. SERVICE ON THE OFFICE OF CONSUMER ADVOCATE

The OCA will be represented in this case by Senior Assistant Consumer Advocate Tanya J. McCloskey and Assistant Consumer Advocates Erin L. Gannon and Candis A. Tunilo. Two copies of all documents should be served on the OCA as follows:

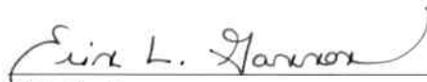
Erin L. Gannon  
Assistant Consumer Advocate  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923  
Telephone: 717-783-5048  
Fax: 717-783-7152  
Email: [egannon@paoca.org](mailto:egannon@paoca.org)

As a courtesy, the OCA would appreciate it if the following email addresses could also be included on any electronic correspondence: [ctunilo@paoca.org](mailto:ctunilo@paoca.org) and [jhorner@paoca.org](mailto:jhorner@paoca.org).

IX. PROPOSED SCHEDULE

It is the OCA's understanding that a number of the parties to this proceeding have agreed to the proposed deadlines for testimony, technical evidentiary hearings and briefs in the schedule attached as Appendix A. The OCA will continue to work with the parties to develop a litigation schedule that is acceptable to the Presiding Officer and active parties involved in this proceeding.

Respectfully Submitted,



Erin L. Gannon  
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Counsel for:  
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Consumer Advocate

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Dated: April 7, 2010  
124475

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2009-2149262
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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PROPOSED PROCEDURAL SCHEDULE  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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Public Input Hearing in York (requested by Senator Waugh)	week of April 26 or May 3
Active Parties (other than Columbia Gas) Serve Written Direct Testimony <sup>1</sup>	May 7 by noon
Written Rebuttal Testimony	June 2
Written Surrebuttal Testimony or Outline of Oral Surrebuttal	June 10
Outline of Rejoinder Testimony	June 14 by noon
Evidentiary Hearings in Harrisburg	June 15-18
Close of the record	June 18
Main Brief	July 7
Reply Brief	July 16
Suspension Ends	October 28

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<sup>1</sup> The OCA proposes that the schedule dates be “in-hand” and that electronic service on the due date will satisfy the “in-hand” requirement, where a hard copy is sent by first-class mail.

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	Docket No.	R-2009-2149262
Office of Small Business Advocate	:		C-2010-2157870
Office of Consumer Advocate	:		C-2010-2156929
Ban Bazzoui	:		C-2010-2160920
Betty M. Rogers	:		C-2010-2164559
	:		
v.	:		
	:		
Columbia Gas of Pennsylvania, Inc.	:		

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

Dated this 7<sup>th</sup> day of April 2010.

SERVICE BY E-MAIL and INTEROFFICE MAIL

Charles Daniel Shields, Esquire  
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Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
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Harrisburg, PA 17120  
Counsel for: *Office of Trial Staff*

SERVICE BY E-MAIL and FIRST CLASS MAIL

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Michael W. Hassell, Esquire  
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Complaint No.: *C-2010-2157870*

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Counsel for: *Columbia Industrial Intervenors*

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100 North Tenth Street  
Harrisburg, PA 17105-1778  
Counsel for: *Dominion Retail, Inc.; Interstate Gas Supply, Inc.; and Shipley Energy Company*

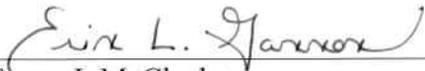
John F. Povilaitis, Esquire  
Matthew A. Totino, Esquire  
Ryan, Russell, Ogden & Seltzer, P.C.  
Suite 1010  
800 North Third Street  
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Counsel for: *York Generation Company, LLC and Hess Corproation*

Thomas J. Sniscak, Esquire  
Steven K. Hass, Esquire  
Hawke McKeon & Sniscak, LLP  
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100 North Tenth Street  
Harrisburg, PA 17105-1778  
Counsel for: *The Pennsylvania State University*

SERVICE BY FIRST CLASS MAIL

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Betty M. Rogers  
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Emigsville, PA 17318  
Complaint No.: C-2010-2164559

  
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