

December 12, 2011

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VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Bldg., 2nd Floor
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Penn Estates Utilities, Inc. – Water Division – Docket Nos. R-2011-2255159, C-2011-2268982, and C-2011-2271703

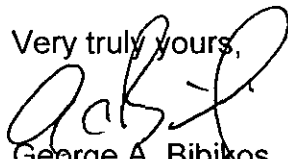
Dear Secretary Chiavetta:

Enclosed please find an original and three copies of Penn Estates Utilities, Inc. - Water Division's prehearing memorandum for filing in the above-captioned matter.

Copies of this document have been served on the Presiding Officer and parties to this matter as indicated on the enclosed Certificate of Service.

Should you have any questions, please feel free to contact me.

Very truly yours,



George A. Bibikos
PA Attorney I.D. 91249
Counsel for Penn Estates Utilities, Inc., Water Division

cc: Honorable Kandace F. Melillo
Honorable Joel Cheskis
Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, :
Office of Consumer Advocate, and :
Richard Ennis :
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R-2011-2255159
C-2011-2268982
C-2011-2271703

vs.

Penn Estates Utilities, Inc.
Water Division

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed, in accordance with the requirements of Section 1.54 (relating to service by a party).

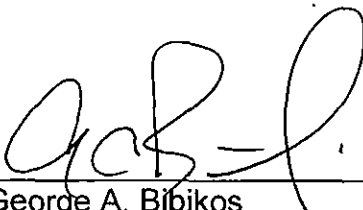
Via Email and U.S. Mail

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Counsel for Penn Estates Utilities Inc.

Dated: December 12, 2011

**BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
ADMINISTRATIVE LAW JUDGES KANDACE F. MELILLO
AND JOEL H. CHESKIS, PRESIDING**

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|---|---|----------------|
| Pennsylvania Public Utility Commission, | : | R-2011-2255159 |
| | : | |
| Office of Consumer Advocate, and | : | C-2011-2268982 |
| | : | |
| Richard Ennis | : | C-2011-2271703 |
| | : | |
| vs. | : | |
| | : | |
| Penn Estates Utilities, Inc. | : | |
| Water Division | : | |

**PREHEARING MEMORANDUM OF
PENN ESTATES UTILITIES, INC.**

Penn Estates Utilities, Inc. ("Penn Estates") files its prehearing memorandum pursuant to the Prehearing Order issued in the above matter on November 28, 2011.

PROCEDURAL HISTORY

On September 30, 2011, Penn Estates Utilities, Inc. - Water Division ("Penn Estates") filed Tariff Supplement No. 7, Pa. P.U.C. No. 3 – Water – containing proposed changes in rates, rules and regulations proposed to become effective November 29, 2011.

On or about October 25, 2011, the Office of Consumer Advocate ("OCA") filed a complaint against Penn Estates for the requested water rate increase (C-2011-2268982). On or about October 28, 2011, the Bureau of Investigation and Enforcement of the Pennsylvania Public Utility Commission ("BI&E") formally entered a notice of appearance in the matter. On or about November 8, 2011, Mr. Richard Ennis filed a complaint (C-2011-2271703).

By Public Utility Commission ("Commission") Order entered November 10, 2011, the proposed tariff was suspended by operation of law until June 29, 2012, pending an investigation to determine the lawfulness, justness and reasonableness of the rates, rules, and regulations contained in Penn Estates' proposed water tariff. On November 15, 2011, the Company filed letters with the Commission indicating that it would not respond to the complaints of the OCA or Mr. Ennis pursuant to 52 Pa. Code § 5.61(d).

By letter dated November 18, 2011, Penn Estates agreed to mediation of the case and voluntarily extended the suspension period identified in the Commission's November 2011 Order by 60 days. With the 60-day extension, the suspension period for the proposed tariff will expire on August 29, 2012.

The matter has been assigned to the Office of Administrative Law Judge. Mediation has been scheduled for December 16, 2011, before Mediator Cynthia Lehman. The prehearing conference is scheduled for the same day.

SERVICE

Documents should be served on the following counsel for Penn Estates:

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DISCOVERY

Both the OCA and BI&E are pursuing discovery concerning Penn Estates' requested water rate increases. Penn Estates is cooperating with those discovery requests and to date has served responses to several sets of discovery propounded by OCA and BI&E. Penn Estates has not yet served discovery on OCA or BI&E. Because of the short period to litigate the case, particularly the periods to file rebuttal and surrebuttal testimony, Penn Estates proposes that the parties agree to work cooperatively to provide timely responses to interrogatories or informal questions on the testimony filed by the Company, the OCA, and BI&E.

ADDITIONAL PROPOSALS FOR DISCOVERY

The Company proposes the following modifications to discovery rules:

1. The Company agrees to electronic service of all documents.
2. The Company proposes that the parties agree to electronic delivery of documents to satisfy in-hand service requirements for discovery requests and responses.
3. The Company proposes that the parties agree to electronic delivery of documents with a follow-up hard copy provided by regular, first-class mail to satisfy in-hand service requirements for prepared testimony and briefs.
4. Answers to interrogatories to be served in-hand within ten (10) calendar days of service of the interrogatories. Interrogatories served after 12:00 p.m. on a Friday will be deemed served on the next business day.

5. Objections to interrogatories must be communicated orally within three (3) days of service of the interrogatories, unresolved objections to be served to the ALJs and parties in writing within five (5) days of service of interrogatories.

6. Motions to dismiss objections and/or direct the answering of interrogatories to be filed within three (3) days of service of written objections.

7. Answers to motions to dismiss objections and/or direct the answering of interrogatories to be filed within three (3) days of service of such motions.

8. Rulings over such motions will be issued, to the extent possible, within seven (7) days after the filing of the motion.

9. Responses to requests for document production, entry for inspection, or other purposes to be served in-hand within ten (10) calendar days.

10. Requests for Admission to be deemed admitted unless answered within ten (10) days or objected to within five (5) days of service.

11. Discovery served after 4:00 p.m. shall be deemed to be served the following business day. If a document subject to a three-day turn-around is due on a Monday, the due date shall be deemed to be Tuesday.

SETTLEMENT

The parties have not discussed settlement as yet. However, the Company has agreed to mediation and is willing to discuss settlement with the parties with the objective that the case be settled without litigation. The Company may request that the parties participate in informal settlement conferences.

STIPULATED PROTECTIVE AGREEMENT

In responding to discovery, Penn Estates has agreed to provide both OCA and BI&E with documents containing confidential and/or proprietary information. The parties have executed a stipulated protective agreement to maintain the confidentiality of proprietary documents marked confidential. To the extent necessary, Penn Estates may file an application for protective order and anticipates coordinating and cooperating with OCA and BI&E regarding the terms and conditions of any proposed protective order.

ISSUES

At the present time, Penn Estates has identified the following issues for resolution in this proceeding: (1) the lawfulness, justness and reasonableness of the existing water and sewer rates of Penn Estates; (2) the lawfulness, justness and reasonableness of the rates, rules and regulations contained in proposed Supplement No. 7 to Tariff Water – Pa. P.U.C. No. 3 and (3) whether the current and proposed water operations of Penn Estates comply with all existing Commission requirements. Penn Estates reserves the right to provide evidence and testimony on additional issues identified in this case.

SCHEDULE

With the approval of the Presiding Officers, the parties agree to defer the preparation of a litigation schedule. At a date to be determined at the prehearing conference, but within the mediation period, the parties agree to advise the Presiding Officers whether the parties have reached a settlement. If at that point the parties have not reached a full settlement, then the parties would propose a litigation schedule at that

time consistent with the deadlines set forth in the Presiding Officers' prehearing order and the Commission's existing suspension period.

WITNESSES

At the present time, Penn Estates anticipates presenting the following individuals as witnesses. Penn Estates reserves the right to present additional witnesses depending on the issues raised by the OCA and BI&E in this proceeding.

1. Brian Shrake – Mr. Shrake is Senior Regulatory Accountant with Utilities, Inc. Mr. Shrake will testify on the rate studies he has prepared for Penn Estates – Water, which will be introduced into evidence in these proceeding in support of the proposed water rate increase. Mr. Shrake's address is 2335 Sanders Road, Northbrook, IL 60062 (e-mail: bwshrake@uiwater.com).

2. Martin J. Lashua – Mr. Lashua is Regional Director of Operations for Utilities, Inc. Mr. Lashua will testify on the facilities and operations of Penn Estates. Mr. Lashua's address is 5701 Westpark Drive, Suite 101, Charlotte, NC 28217 (e-mail: mjlashua@uiwater.com).

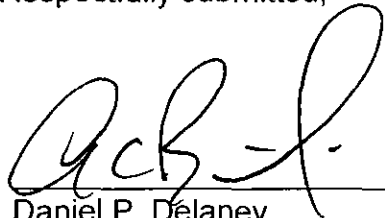
3. Pauline M. Ahern, CRRA – Ms. Ahern is a Principal of AUS Consultants. Ms. Ahern will testify on the rate of return for Penn Estates. Ms. Ahern's address is 155 Gaither Drive, Suite A, Mt. Laurel, New Jersey 08054.

4. Penn Estates anticipates distributing its direct testimony at or around the time of the prehearing conference.

PUBLIC INPUT HEARINGS

At the present time, no party has requested the scheduling of public input hearings. Penn Estates is willing to consider the scheduling of such hearings if adequate public interest is demonstrated.

Respectfully submitted,



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Dated: December 12, 2011

Counsel for Penn Estates Utilities, Inc.

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