

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560 (in PA only)

IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

September 7, 2012

Honorable Kandace F. Melillo
PA Public Utility Commission
Keystone Building
400 North Street
Harrisburg, PA 17101

Re: Pennsylvania Public Utility Commission, et al.
v.
Borough of Hanover/Hanover Municipal Water Works
Docket Nos. R-2012-2311725
C-2012-2314913
C-2012-2318816
C-2012-2320088

Dear Judge Melillo:

Enclosed please find copies of the Prehearing Memorandum of the Office of Consumer Advocate which was eFiled with the Secretary's Office today in the above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Amy Hirkakis".

Amy Hirkakis
Assistant Consumer Advocate
PA Attorney I.D. #310094

Enclosures

cc: Secretary's Office of the PUC
Certificate of Service
160129.doc

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2012-2311725
Office of Consumer Advocate	:	C-2012-2314913
Office of Small Business Advocate	:	C-2012-2320088
Hanover Foods Corporation	:	C-2012-2318816
	:	
v.	:	
	:	
Borough of Hanover	:	

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 Prehearing Conference Order issued by presiding Administrative Law Judge (ALJ) Kandace F. Melillo on August 31, 2012 in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

I. HISTORY OF THE PROCEEDING

On June 29, 2012, the Borough of Hanover (Borough or Hanover) filed Supplement No. 22 to Tariff Water – Pa. P.U.C. No. 3, to become effective August 28, 2012. This tariff seeks Commission approval of rates and rate changes that would increase rates that the Borough charges for providing service to its ratepayers outside of the Borough limits.

The proposed tariff contains changes in rates calculated to recover an estimated annual increase in base rate revenues of \$980,973 from customers outside the Borough. This is an approximately 31% increase in the Borough’s annual revenues from customers outside the Borough. A metered residential customer using 12,000 gallons of water per quarter would see an

increase in their bill from \$48.13 to \$60.27 per quarter , or by 25.2%. The total bill for a metered commercial customer using 39,000 gallons of water per month would increase from \$96.73 to \$136.11, or by 40.7%. The total bill for a metered industrial customer using 435,000 gallons of water per month would increase from \$988.75 to \$1,428.10, or by 44.4%.

The Borough serves approximately 9,941 customers that reside outside the Borough in portions of Penn Township, York County, Pennsylvania, and Conewago Township and McSherrystown Borough, Adams County, Pennsylvania.

On July 19, 2012, the OCA filed a Formal Complaint against the proposed increase in rates and a Notice of Appearance. The Bureau of Investigations and Enforcement (I & E) filed a Notice of Appearance on August 2, 2012. The Office of Small Business Advocate filed a Formal Complaint against the proposed increase in rates and a Notice of Appearance on August 6, 2012. Hanover Foods filed a Formal Complaint against the proposed increase in rates on August 13, 2012. The Commission issued an Order initiating an investigation into the lawfulness, justness and reasonableness of the proposed rates in Supplement No. 22 to Tariff Water – Pa. P.U.C. No. 3, and suspended the effective date until March 31, 2013 by operation of law.

The Commission assigned the case to Administrative Law Judge Kandace F. Melillo and notified the parties that a Prehearing Conference is scheduled for September 11, 2012.

II. ISSUES

The OCA has issued five sets of discovery upon the Borough to date. Based upon a preliminary review of the Borough's base rate filing, and the discovery received to date, the OCA provides this preliminary list of issues it will include in its investigation of the Borough's request. Additional issues may arise once all responses to interrogatories have been received and reviewed. The OCA reserves the opportunity to present such additional issues at that time.

A. Rate of Return

1. Return on Equity: The OCA will perform a detailed analysis of the Borough's claimed cost of equity, including the Borough's methodologies and supporting data used to develop its final return on equity claim.

2. Capital Structure: The OCA will examine whether the Borough's capital structure is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes.

3. Embedded Cost of Debt: The OCA will examine the Borough's embedded cost of debt.

B. Rate Base/Measure of Values

1. The OCA will examine the reasonableness and accuracy of the Borough's calculations as to the water utility plant in service at the time relevant to this proceeding.

2. The OCA will review the details of the Borough's calculations for plant additions during the future test year to determine if the Borough has demonstrated that all such costs are prudently incurred.

3. The OCA will investigate whether the Borough's adjustment to rate base for depreciation reserve is appropriate.

C. Revenues and Expenses

1. The OCA will examine whether the Borough's reported gains/losses of customers in the various classes is reasonable and accurate for the time relevant to this proceeding.

2. The OCA will examine whether the Borough's future test year projections for its expenses are reasonable and accurate for the time relevant to this proceeding.

3. The OCA will examine whether the Borough's historic test year expenses are reasonable and accurate for the time relevant to this proceeding.

4. The OCA will examine the appropriateness of the Borough's pro forma claim for rate case expense and the claimed normalization period.

5. The OCA will evaluate the reasonableness of the Borough's claimed personnel/employee expenses.

6. The OCA will evaluate other miscellaneous expense items.

D. Cost of Service/Rate Design

1. The OCA will examine the Borough's Cost of Service Study, with particular regard to appropriate and Commission-approved methods.

2. The OCA will examine the Borough's proposed allocation of its revenue requirement between inside-Borough and outside-Borough customers, as well as among customer classes within the outside-Borough group of customers. OCA's examination for outside-Borough customers will include a review of the apportionment of the revenue increase given cost of service results, as well as recognition of other relevant factors and ratemaking principles.

3. The OCA will examine the Borough's proposed rate design, including its proposed effects on residential customers and its ability to reflect the cost to serve different classes of customers.

4. The OCA will examine the reasonableness and appropriateness of the Borough's proposed tariff changes, as well as other terms and conditions of its tariffs.

E. Quality of Service

1. The OCA will examine whether the Borough's is providing its current and future residential customers with adequate, efficient, safe and reasonable service, including fire protection.

F. Other Issues

The OCA will investigate to ensure that the Company is complying with all prior orders.

III. 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 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 mailed directly to the expert witness responsible for that area of the case, as well as mailing a copy to counsel for the OCA.

Accounting/Regulatory Policy: Marilyn Kraus, Senior Regulatory Analyst
Office of Consumer Advocate
Forum Place, 5th Floor
555 Walnut Street
Harrisburg, PA 17101
MKraus@paoca.org

Rate of Return: Glenn A. Watkins
Technical Associates, Inc.
9030 Stony Point Parkway, Suite 580
Richmond, VA 23235
watkinsg@tai-econ.com

Rate Design/Cost of Service: Scott J. Rubin
333 Oak Lane
Bloomsburg, PA 17815
scott.j.rubin@gmail.com

Quality of Service: Terry L. Fought
780 Cardinal Drive
Harrisburg, PA 17111
TLFEngr@aol.com

IV. PROCEDURAL RULES / DISCOVERY

The OCA proposes the following modifications to the discovery rules:

- (1) The response period for replying to written interrogatories, requests for production and requests for admissions is ten (10) calendar days of receipt. Responses may be served electronically but hard copies must follow by first-class mail, unless otherwise agreed to by the parties.
- (2) Objections to written interrogatories, requests for production and requests for admissions are to be served to the party seeking the interrogatory within three (3) calendar days of receipt.
- (3) When an interrogatory, request for production, request for admission or motion is served after 12:00 p.m. on a Friday, or the day before a holiday, the appropriate response period is deemed to start on the next business day.

V. PUBLIC INPUT HEARING

The OCA requests that a public input hearing be held in the service territory. The amount of the proposed rate increase, the large number of customers affected, and the span of time that has elapsed since the last public input hearing (over ten years) necessitates a public input hearing being scheduled in this rate case. The OCA will work with the OALJ Scheduling office to identify a suitable location to enable the public input hearing to be held as soon as possible, while allowing for adequate notice to the customers.

VI. SERVICE ON THE OCA

Senior Assistant Consumer Advocate Christine M. Hoover and Assistant Consumer Advocate Amy E. Hirakis will represent the OCA in this case. Two copies of all documents should be served on the OCA as follows:

Amy E. Hirakis
Assistant Consumer Advocate
Christine Maloni Hoover
Senior Assistant Consumer Advocate
Office of Consumer Advocate

555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Telephone: (717) 783-5048
Facsimile: (717) 783-7152
Email: ahirakis@paoca.org
CHoover@paoca.org

VI. PROPOSED LITIGATION SCHEDULE

Attached is a proposed litigation schedule, which has been agreed to by the parties.

Respectfully Submitted,



Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50026
E-Mail: CHoover@paoca.org

Amy Hirakis
Assistant Consumer Advocate
PA Attorney I.D. # 310094
E-Mail: AHirakis@paoca.org

Counsel for:
Irwin A. Popowsky
Consumer Advocate

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

September 6, 2012
160395

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2012-2311725
Office of Consumer Advocate	:	C-2012-2314913
Office of Small Business Advocate	:	C-2012-2320088
Hanover Foods Corporation	:	C-2012-2318816
	:	
v.	:	
	:	
Borough of Hanover	:	

PROPOSED PROCEDURAL SCHEDULE
OF THE
OFFICE OF CONSUMER ADVOCATE

June 29, 2012	Distribution of Hanover’s Direct Testimony
September 11, 2012 at 10:00 AM	Prehearing Conference
October 4, 2012	Distribution of Other Parties’ Direct Testimony
November 2, 2012	Distribution of any Rebuttal Testimony
November 20, 2012	Distribution of any Surrebuttal Testimony
November 26, 2012	Rejoinder Outline
November 29, 30 and December 3, 2012	Hearings in Harrisburg
December 3, 2012	Close of Record
December 18, 2012	Main Briefs Due
January 4, 2013	Reply Briefs Due
February 5, 2013	ALJ will Issue Recommend Decision
April 5, 2013	Suspension Ends

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission, et al.
v.
Borough of Hanover/Hanover Municipal Water Works
Docket Nos. R-2012-2311725
C-2012-2314913
C-2012-2318816
C-2012-2320088

I hereby certify that I have this day served a true copy of 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 §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 7th day of September 2012.

SERVICE BY EMAIL AND HAND DELIVERY

Carrie B. Wright, Esquire
Bureau of Investigation & Enforcement
Pa. Public Utility Commission
400 North Street
Harrisburg, PA 17101

SERVICE BY EMAIL and FIRST CLASS MAIL, POSTAGE PREPAID

Jan P. Paden, Esquire
Paul J. Bruder, Esquire
Alicia R. Duke, Esquire
Rhoads & Sinon LLP
One South Market Square, 12th Floor
P.O. Box 1146
Harrisburg, PA 17108-1146

Christopher A. Lewis, Esquire
Christopher R. Sharp, Esquire
Blank Rome, LLP
One Logan Square
Philadelphia, PA 19103
Counsel for Hanover Foods Corporation

Elizabeth Rose Triscari, Esquire
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101



Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. #50026
Email: CHoover@paoca.org

Amy Hirakis
Assistant Consumer Advocate
PA Attorney I.D. #310094
Email: AHirakis@paoca.org

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

158671