



Fox Rothschild LLP
ATTORNEYS AT LAW

2000 Market Street, 20th Floor
Philadelphia, PA 19103-3222
Tel 215.299.2000 Fax 215.299.2150
www.foxrothschild.com

Barnett Satinsky
Direct Dial: (215) 299-2088
Internet Address: bsatinsky@foxrothschild.com

March 5, 2014

VIA ELECTRONIC FILING AND FEDERAL EXPRESS

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

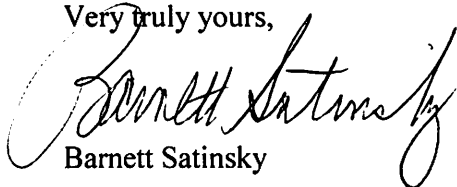
**Re: Pennsylvania Public Utility Commission v. Veolia Energy Philadelphia, Inc.
Docket Nos: R-2013-2386293, C-2014-2402292, C-2014-2407095 and C-2014-2407105**

Dear Secretary Chiavetta:

Enclosed for filing is Veolia Energy Philadelphia, Inc.'s Prehearing Conference Memorandum in the above captioned rate case and related complaint proceedings, together with a copy of the e-filing transmittal confirmation. Copies are being served on Administrative Law Judge Angela T. Jones, Mediator Herbert Nurick and the parties of record as reflected on the attached Certificate of Service. Kindly date-stamp and return to me the extra copies of this letter and the Prehearing Conference Memorandum in the enclosed self-addressed, stamped envelope.

Thank you for your cooperation.

Very truly yours,



Barnett Satinsky

BS:mo

Enclosure

cc: Angela T. Jones, Admin. Law Judge (w/encl.) *(via email & First Class Mail)*
Herbert Nurick, Mediation Coordinator (w/encl.) *(via email & First Class Mail)*
Parties of Record (w/encl.) (per attached Certificate of Service)
Lindsey Sands, Esquire, Corporate Counsel *(via email)*
Michael J. Smedley, Vice President & General Manager *(via email)*
Christine Soares, Esquire *(via email)*
Roman Petyk, Esquire *(via email & First Class Mail)*
Brian Kalcic *(via email & First Class Mail)*

California Colorado Connecticut Delaware District of Columbia
Florida Nevada New Jersey New York Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2013-2386293
v.	:	C-2014-2402292
	:	C-2014-2407095
Veolia Energy Philadelphia, Inc.	:	C-2014-2407105

**VEOLIA ENERGY PHILADELPHIA, INC.'S PREHEARING
MEMORANDUM TO ADMINISTRATIVE LAW JUDGE ANGELA T. JONES**

Barnett Satinsky, Esq.
Christine Soares, Esq.
FOX ROTHSCHILD LLP
2000 Market Street – 20th Floor
Philadelphia, PA 19103-3222
Telephone: 215.299.2088
Fax: 215.299.2150
bsatinsky@foxrothschild.com
csoares@foxrothschild.com
Attorneys for Veolia Energy Philadelphia, Inc.

**VEOLIA ENERGY PHILADELPHIA, INC.'S PREHEARING
MEMORANDUM TO ADMINISTRATIVE LAW JUDGE ANGELA T. JONES**

Veolia Energy Philadelphia, Inc. (“Veolia”) seeks approval for an increase of approximately \$3,400,000 in annual base revenues in Supplement No. 14 to Tariff Heating and Cooling – Pa. P.U.C. No. 4 (“Supplement No. 14”). Under 52 Pa. Code § 53.52, Veolia requests Commission approval to increase its revenues to allow it to continue operating its steam system in the City of Philadelphia (the “Steam System”) in a reliable and prudent manner, provide earnings which are sufficient to maintain system integrity and reliability and earn a fair rate of return on its capital, all commensurate with the size and nature of the Company's business, its financial risks and the competitive energy environment in which it must compete for customers. Veolia’s testimony will present, as described below, Veolia’s proposed rate increase is just, reasonable and non-discriminatory.

1. HISTORY OF THE PROCEEDING

Veolia owns and operates the Steam System that operates in the commercial business district in the City of Philadelphia, commonly known as Center City Philadelphia (which encompasses, inter alia, Pennsylvania Hospital, Penn Medicine at Rittenhouse, Thomas Jefferson University and Thomas Jefferson University Hospital, and the Wellington), and in an area immediately west of the commercial business district commonly known as University City (which encompasses, inter alia, the campuses of the University of Pennsylvania, the Hospital of the University of Pennsylvania and the Presbyterian Hospital).

Veolia is the largest operating facility owned by Thermal North America, Inc. (“TNAI”), a subsidiary of Veolia Energy North America Holdings, Inc. TNAI owns and operates over 40 industrial cogeneration and district energy systems across North America. Veolia, which originally was known as Philadelphia Thermal Corporation, was incorporated in 1986 as a

wholly-owned subsidiary of United Thermal Corporation (“UTC”), which itself had been formerly known as Catalyst Thermal Energy Corporation. In 1987, Philadelphia Thermal Corporation purchased the district steam system in Philadelphia from the Philadelphia Electric Company. In 1987, Philadelphia Thermal Corporation changed its name to Philadelphia Thermal Energy Corporation. The district steam system operated under the name of Philadelphia Thermal Energy Corporation until 1994, when it changed its name to Trigen-Philadelphia Energy Corporation.

Veolia filed Supplement No. 14 on December 18, 2013. On January 22, 2014, Thomas Jefferson University and Thomas Jefferson University Hospital (collectively “Jefferson”) filed a Petition to Intervene, which Veolia does not oppose. On February 11, 2014, Philadelphia Large Steam Users Group (“PLSUG”) filed a Petition to Intervene, which Veolia does not oppose.

On January 24, 2014, The Wellington, a steam customer of Veolia, filed a Complaint against the proposed rate increase, which was served by the Commission on Veolia on January 24, 2014. Veolia filed its Answer to The Wellington Complaint on January 31, 2014. On February 14, 2014, The Trustees of the University of Pennsylvania and The Hospital at the University of Pennsylvania, both steam customers of Veolia, filed a Complaint against the proposed rate increase, which was docketed at C-2014-2407105 (the “Penn Complaint”). The Penn Complaint was served by the Commission on Veolia on February 26, 2014. On the same day, Veolia filed its Answer to the Penn Complaint. On February 14, 2014, The Presbyterian Medical Center of the University of Pennsylvania Health System, Pennsylvania Hospital of the University of Pennsylvania Health System, and Penn Medicine at Rittenhouse, all steam customers of Veolia, filed a Complaint against the proposed rate increase, which was docketed at C-2014-2407095 (the “Presbyterian Complaint”). The Presbyterian Complaint was served by the

Commission on Veolia on February 26, 2014. On the same day, Veolia filed its Answer to the Presbyterian Complaint.

The Bureau of Investigation and Enforcement (“I&E”) filed its notice of appearance on January 10, 2014. The Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and a Notice of Appearance on January 17, 2014. On February 28, 2014, the Office of Consumer Advocate (“OCA”) notified the assigned Administrative Law Judge, Angela T. Jones, and the Parties that it would not be participating in the case.

On February 6, 2014, the Commission suspended Supplement No. 14 for a period of 6 months from its proposed March 1, 2014 effective date, until October 1, 2014. On February 11, 2014, Veolia filed Supplement 15 to Tariff Heating and Cooling – Pa. P.U.C. No. 4 extending the proposed effective date to October 1, 2014. During February, 2014, the Commission’s Mediation Coordinator invited the Parties to participate in mediation. All active participants agreed to participate in Commission-sponsored mediation. As required by the Commission’s mediation protocol, Veolia has agreed to extend the statutory deadline for final order in the case by 60 days. On February 26, 2014, Veolia filed Supplement No. 16 to Tariff Heating and Cooling – Pa. P.U.C. No. 4, extending the date of the proposed rate increase to December 1, 2014. By Notice dated February 26, 2014, a Prehearing Conference was scheduled for March 10, 2014, to be followed by a mediation session.

I&E has served 69 Data Requests to Veolia, of which 63 already have been answered, and the remaining 6 are due to be answered by March 7, 2014. Veolia has propounded to The Wellington a set of 26 Interrogatories and Document Requests on February 3, 2014, to which The Wellington has not objected but has not answered.

In its response to two of I&E's Data Requests, Veolia has withheld, but agreed to provide certain information upon agreement to protection of confidential information in the form of a Proposed Stipulated Protective Order. A draft of the Proposed Stipulated Protective Order was circulated to counsel for the Parties on February 28, 2014. As of the date and time of this filing, Counsel for PLSUG and The Wellington have expressed that these parties do not object to the proposed terms, but no response has yet been received from other Counsel.

2. ISSUES TO BE PRESENTED IN THE CASE

The specific purpose of this application, pursuant to 52 Pa. Code § 53.52, is to seek the Commission's approval to (a) increase Veolia's annual base rate revenues by approximately \$3.4 million; (b) add language to the Availability section of the Registered Demand Rider ("RDR"); and (c) depart from the Commission's requirement that Veolia maintain audited financial statements separate from its parent company Veolia Energy North America Holdings, Inc.

a. The Requested Rate Increase

Since Veolia acquired the Steam System in 1987, it has systematically upgraded the Steam System, from steam production to steam delivery. The successes of these upgrades are reflected by certain critical operational data, most notably energy efficiency and reliability. In the twenty-six (26) years that Veolia has owned and operated the Steam System, distribution system line losses have been reduced from over 1,000,000 mlbs of steam in 1987 to a recent three (3) year average of 784,123. (One mlb of steam equals one thousand pounds of steam.) This results in over \$7 Million in annual fuel cost savings to our customers. During the same time period, Steam System reliability, as measured by the number of occurrences of pressure reductions in the system, dropped from 23 in 1988 to an average of two (2) per year for the past

ten (10) years. For a system that provides energy that is critical for operating hospital and research facilities, heating apartments and university dormitories, providing humidification, sterilization and other process uses, the uninterrupted and efficient flow of steam is critical to system users.

Despite the enormity of these achievements, and even while it was making major system and operational improvements, Veolia has improved its efficiency and controlled its own costs. Yet throughout more than two decades of successful operations, Veolia has strictly limited its requests for base rate relief. Veolia's first general rate increase was effective September 1, 1992. Its second base rate increase was implemented in two phases, effective July 1, 2002 and July 1, 2003. The most recent base rate increase was implemented December 21, 2009. As measured by the Consumer Price Index ("CPI"), prices generally increased by close to 9% since the test year from the Company's 2009 rate case, while overall operating expenses for Veolia have been held relatively constant from 2009 to 2012 when adjusting for inflation: \$13,083,774 and \$13,270,440 respectively, a 1.5% increase.

Veolia's net operating income since the last general rate increase was fully phased in has dropped significantly. Net operating income for the year ended December 31, 2010 was \$1,841,446. Net operating income for 2012 at current rates is a loss of \$1,333,964. The 2012 results indicate a return on rate base of negative 5.73%. Without prompt rate relief, further degradation is expected as the Company cannot continue to sustain net losses.

Under its present rates for steam service, Veolia would sustain a loss from steam operations of approximately \$3.4 million in 2014, and a revenue shortfall of approximately \$5.5 million to produce a return on rate base of 8.7%. In the interest of moderating the effect on customers, Veolia is requesting an increase of approximately \$3.4 million, which is an increase

in steam service revenues of 5.37% over comparable revenues for the year ended December 31, 2012. The \$3.4 million increase is required to produce a break-even on steam operations in 2014.

While Veolia would like to continue to avoid seeking any rate increases, it recognizes that its ability to maintain reasonable earnings by cost containment and increased productivity has reached its practical limit. The Commission's approval of this filing will prevent a further erosion of Veolia's already significantly reduced net income (in fact, Veolia has incurred net losses), and enable Veolia to maintain the system integrity and reliability that are essential to the retention of customers in this competitive energy environment. Conversely, a continuation of net losses will affect Veolia's ability to fund capital improvements to the Steam System and to perform all the maintenance and repairs necessary for the Steam System's efficiency and reliability.

As important as its need for immediate rate relief, Veolia is mindful of the financial impact on its customers. Customers and potential customers are constantly presented with competitive energy alternatives by far larger companies, such as PECO Energy and the Philadelphia Gas Works. In addition, more and more customers are also now exploring alternative forms of energy, including cogeneration, solar and heat pumps. Given those constraints, and the energy alternatives available to customers, the Company has filed requests for general rate relief only when absolutely necessary to sustain system and operational integrity. The increase being requested in 2014 is no exception.

b. The Registered Demand Rider

Read in conjunction with the Rate S Steam Rider and the Backup Steam Rider, customers purchasing less than their full steam demand or seeking to use backup steam cannot purchase

steam under the RDR. To clarify this application of the RDR, Veolia has proposed a revision to the RDR's Availability section to include the following language: "This Rider is not available to a Customer (i) for less than the Customer's full steam demand or (ii) for use of steam as backup for other methods of producing or purchasing thermal energy."

Although Veolia serves 17 customers under the RDR, there will be no change to the bills of those customers by reason of the clarification in eligibility criteria.

c. Veolia's Financial Statements

Pursuant to the Commission's Order and Opinion entered April 7, 2005 at A-130375F5000, the Commission approved Veolia's Application to transfer control of all of its stock and approve a Corporate Services Agreement between Veolia and its affiliate, ThermalSource, LLC, now known as Veolia Energy North America Holdings, LLC. The Commission's approval of the transfer included a requirement that Veolia maintain annually audited financial information available for review by the Commission. Although Veolia has maintained such standalone audited financial statements at a cost of approximately \$100,000 per year since 2005, the Commission has not raised any issues with respect to inter-company fees paid under the Corporate Services Agreement. Thus, Veolia seeks a waiver of this condition of its service, but will rely on Veolia Energy North America Holdings, LLC's consolidated audit results in the public filings of its indirect parent, Veolia Environnement, S.A., which is publicly traded on the Paris Stock Exchange, also known as NYSE Euronext, and proposes to provide to the Commission consolidating information presented in Veolia Holdings' financial statements as such consolidating information relates to Veolia.

3. WITNESSES TO BE PRESENTED BY APPLICANTS

Veolia will present four witnesses in its case in chief:

1. Michael J. Smedley, Vice President of Veolia, will discuss (a) the nature of Veolia's business; (b) the history of the company; (c) the initiatives Veolia has taken in an effort to provide a cost effective energy commodity to customers; and (d) the loss and projected losses in net operating income since the date of the last rate increase in 2009.
2. Steve R. Weafer, Vice President Controller, Veolia Energy North America, LLC, will explain (a) Veolia's affiliated interest agreements and how the revenues and expenses associated with those agreements are treated in this rate filing; (b) Veolia's request for waiver of the Commission's requirement that Veolia maintain standalone audited financial information; and (c) the treatment by Veolia of federal income taxes, which are paid at the parent company level.
3. Howard Gorman, President of HSG Group, Inc., will discuss (a) the supporting data as to the revenues, expenses, rate base, and rate of return claims of Veolia; and (b) the proposed rate design.
4. Robert Hevert, Managing Partner, Sussex Economic Advisors, LLC, will discuss (a) the appropriate overall rate of return, including common equity cost rate which Veolia should be afforded the opportunity to earn on its jurisdictional rate base.

4. ELECTRONIC SERVICE

Veolia proposes that service of documents in this proceeding should be made via electronic mail with the "date of service" being the date of electronic transmission so long as the electronic mail is transmitted before 4:30 PM, Monday through Thursday and before noon on Friday. Service made after these times shall be deemed effective on the next business day. Further, if a recipient's mailbox rejects an electronic transmission, upon notification to the

sender, the sender will serve an electronic copy of the documents on a compact disk via federal express for next day delivery.

To the extent that the official service list is limited to one counsel for each party, Mr. Satinsky should be designated as Veolia's counsel for official service purposes. However, Veolia respectfully requests that Ms. Soares be included on email distribution lists. Veolia has no objection to affording the same accommodation to the other Parties and their respective co-counsel.

5. DISCOVERY

Veolia proposes that for purposes of this proceeding, no deviation from the Commission discovery regulations be made, particularly given the extensive discovery already conducted between the parties.

6. ISSUES TO BE ADDRESSED AT THE PREHEARING CONFERENCE

The issues to be addressed at the March 10, 2014 Prehearing Conference are as follows:

1. Rule on Thomas Jefferson University's and Thomas Jefferson University Hospital's Petition to Intervene (unopposed by Veolia).
2. Rule on PLSUG's Petition to Intervene (unopposed by Veolia).
3. Enter an Order establishing a proposed testimony, hearing and briefing schedule.
4. Enter an Order directing The Wellington to file answers and documents in response to Veolia's February 3, 2014 Interrogatories and Document Requests.
5. Rule on Veolia's request regarding service by electronic mail.

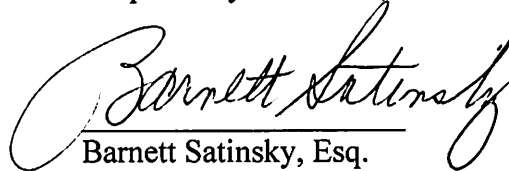
7. PROPOSED SCHEDULE

On March 3, 2014, Veolia suggested to the Parties that three days of hearings be scheduled during the four-day period from June 16 through June 19, 2014. Counsel for I&E and

Counsel for PLSUG and The Wellington have advised that these proposed hearing dates are acceptable. As of the date and time of this filing, no response has yet been received from other Counsel. Based on these proposed hearing dates, Veolia proposes the following schedule:

May 2, 2014	Non-Company Written Direct Testimony
May 23, 2014	Written Rebuttal Testimony
June 3, 2014	Written Surrebuttal Testimony
June 10, 2014	Written Rejoinder Testimony
June 16-19, 2014 (3 of the 4 days)	Evidentiary Hearings
August 1, 2014	Main Briefs
August 11, 2014	Reply Briefs
September 10, 2014	Recommended Decision

Respectfully submitted,



Barnett Satinsky, Esq.
Christine Soares, Esq.
FOX ROTHSCHILD LLP
2000 Market Street – 20th Floor
Philadelphia, PA 19103-3222
Telephone: 215.299.2088
Fax: 215.299.2150
bsatinsky@foxrothschild.com
csoares@foxrothschild.com
*Attorneys for Veolia Energy Philadelphia,
Inc.*

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket Nos. R-2013-2386293
v.	:	C-2014-2402292
Veolia Energy Philadelphia, Inc.	:	C-2014-2407095
	:	C-2014-2407105

CERTIFICATE OF SERVICE

I hereby certify that I have this 5th day of March 2014, served a copy of Veolia Energy Philadelphia, Inc.'s Prehearing Memorandum to Administrative Law Judge Angela T. Jones upon the participants listed below in the manner stated, pursuant to 52 Pa. Code §1.54, postage prepaid:

Carrie B. Wright, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
Via e-service and first class mail

David P. Zambito, Esquire
Joshua L. Belcher, Esquire
Cozen O'Connor
305 North Front Street
Suite 400
Harrisburg, PA 17101
Via e-service and first class mail

Charis Mincavage, Esquire
Elizabeth P. Trinkle, Esquire
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
Via e-service and first class mail

Sharon E. Webb, Esquire
Office of Small Business Advocate
Department of Community and
Economic Development
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17120
Via e-service and first class mail

ALJ Angela T. Jones
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia PA 19107
Via email and first class mail

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
Via electronic filing and Federal Express


Barnett Satinsky, Esq.