

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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March 24, 2014

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

RE: Pennsylvania Public Utility Commission
Office of Consumer Advocate
Office of Small Business Advocate

v.

Pike County Light & Power Company (Gas)
Docket Nos. R-2013-2397353;
C-2014-2405329; C-2014-2408756

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Lauren M. Burge".

Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. # 311570

Enclosures

cc: Honorable Christopher P. Pell
Certificate of Service

179397

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2013-2397353
Office of Consumer Advocate	:	C-2014-2405329
Office of Small Business Advocate	:	C-2014-2408756
	:	
v.	:	
	:	
Pike County Light & Power Company	:	
(Gas)	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333, the Prehearing Conference Order issued by Administrative Law Judge Christopher P. Pell, and in anticipation of the Prehearing Conference scheduled for Thursday, March 27, 2014, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION AND BACKGROUND

On January 17, 2014, Pike County Light & Power Company (Pike or the Company) filed Supplement No. 92 to Tariff Gas – Pa. P.U.C. No.8, at Docket No. R-2013-2397353. The company is engaged in the business of furnishing natural gas service to approximately 1,200 residential, commercial and industrial customers in Westfall Township and Matamoras Borough in Pike County, Pennsylvania. The Company proposes to increase rates to produce additional annual operating revenues of \$151,000 per year, or an overall increase of 10% in total gas revenues. For the residential customer class, the Company is proposing an overall increase in

rates of \$141,000 per year. A residential customer using 100 Ccf will see their average bill rise from \$109.78 to \$122.94 per month, or by approximately 12%. As part of this increase, the Company is proposing to increase the residential customer charge from \$6.00 to \$8.20. The Company's proposed rate increase, if approved, would produce an 8.21% overall rate of return on its original cost rate base, including a 10.25% rate of return on common equity.

On January 23, 2014, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance. On February 11, 2014, the OCA filed a Formal Complaint, Public Statement and Notice of Appearance. The Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, Notice of Appearance, and a Formal Complaint on February 25, 2014. In an Order entered March 6, 2014, the Commission suspended the Company's proposed Tariff until October 18, 2014. The parties have requested that the suspension be extended until October 31, 2014. The proceeding was assigned to Administrative Law Judge (ALJ) Christopher P. Pell, and a prehearing conference is scheduled for Thursday, March 27, 2014.

II. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of Pike'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 answer to the OCA's interrogatories have been received and analyzed. The OCA reserves the right to present any new or unanticipated issues at such time.

Thus far, the OCA has issued two sets of discovery to the Company. 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 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. Revenues and Expenses

The OCA will examine the Company's claimed revenues and any adjustments to the level of revenues, and will seek to ascertain whether the Company's claimed expenses are supported and appropriate. This will include an examination of the Company's claimed increases in operating and maintenance expenses, including wages, salaries, and the cost of providing employee health care and retirement benefits. The OCA will review the sales forecast utilized by the Company in order to project future test year sales and revenues, including the proposed normalization of future test year sales. The OCA will also examine the Company's proposed tax expenses, as well as the Company's proposed annualizations and pro-forma test year adjustments.

The OCA may explore additional revenues and expense issues after it has completed its review of outstanding interrogatory responses.

B. Rate of Return

The OCA will perform a detailed analysis of the cost of common equity claimed by Pike. The OCA will carefully examine the Company's methodologies and supporting data used to develop its final cost of common equity claim of 10.25%. 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 any proposed adjustments to the equity cost rate. Pike's investment risk

relative to that of the natural gas industry barometer group will also be evaluated. The OCA will examine the capital structure and long-term and short-term debt cost rates proposed by Pike so as to determine if they are accurate and appropriate.

C. Rate Base/Measure of Values

The OCA will examine the reasonableness and accuracy of the Company's filing as it relates to the rate base/measure of values. This will include an examination of the Company's plant in service claims in order to determine if they are reasonable and whether the plant claimed is used and useful in providing utility service. The OCA will also examine the Company's claims of 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 Pike.

D. Rate Structure/Cost of Service/Rate Design

The OCA will examine the Company's proposed distribution of revenue increase among customer classes, as well as the Company's proposed customer charge. The OCA will assess whether the rate design proposed by the Company is reasonable and appropriate. The OCA will also examine the cost of service study, including the methodology used and the reasonableness of the allocations. Additionally, the OCA will review the reasonableness and appropriateness of the Company's proposed tariff changes and any other relevant issues that arise as a result of the Company's operations.

III. WITNESSES

The OCA intends to present direct, rebuttal, and surrebuttal testimony, as may be necessary. 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 responsible for that area of the case, as well as emailing and mailing a copy to counsel for the OCA.

Accounting:

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Rate of Return:

Aaron Rothschild
Rothschild Financial Consulting
15 Lake Road
Ridgefield, CT 06877
Telephone: (203) 894-1028
E-mail: aaronlr71@gmail.com

Rate Design/Cost of Service:

Scott J. Rubin
333 Oak Lane
Bloomsburg, PA 17815
Telephone: (570) 387-1893
E-mail: scott.j.rubin@gmail.com

The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as the 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.

IV. 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, sales, revenue forecasting, rate design, cost allocation, return on equity, and capital structure.

V. PUBLIC INPUT HEARINGS

At this time, the OCA has not received any requests for public input hearings in the electric base rate proceeding. However, the OCA reserves the right to request a public input hearing if interest arises.

VI. SERVICE ON THE OFFICE OF CONSUMER ADVOCATE

The OCA will be represented by Assistant Consumer Advocates Aron J. Beatty and Lauren M. Burge. Two copies of all documents should be served on the OCA as follows:

Aron J. Beatty
Lauren M. Burge
Assistant Consumer Advocates
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
Telephone: (717) 783-5048
Facsimile: (717) 783-7152
E-mail: ABeatty@paoca.org
LBurge@paoca.org

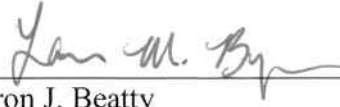
VII. PROPOSED SCHEDULE

The OCA has worked with the parties to develop an agreed upon litigation schedule for the ALJ's consideration. It is the OCA's understanding that the proposed litigation schedule attached hereto as Appendix A has been agreed to by the parties and requests approval from the ALJ.

VIII. SETTLEMENT

The OCA is willing to engage in settlement discussions with the Parties.

Respectfully Submitted,



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Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

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Phone: (717) 783-5048
Facsimile: (717) 783-7152

Dated: March 24, 2014

PROPOSED PROCEDURAL SCHEDULE
OF THE
OFFICE OF CONSUMER ADVOCATE

Prehearing Conference	March 27, 2014
Due Date for the filing of Direct Testimony of other Parties	April 29, 2014
Due Date for the filing of Rebuttal Testimony	May 19, 2014
Due Date for the filing of other Parties' Surrebuttal Testimony	June 4, 2014
Due Date for the filing of Rejoinder Outline	June 11, 2014
Evidentiary Hearings	Week of June 16, 2014
Close of Record	June 20, 2014
Due Date for the filing of Main Briefs	July 11, 2014
Due Date for the filing of Reply Briefs	July 21, 2014
Public Meeting	October 23, 2014
End of Suspension Period	October 31, 2014

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	R-2013-2397353
Office of Consumer Advocate	:	C-2014-2405329
Office of Small Business Advocate	:	C-2014-2408756
	:	
v.	:	
	:	
Pike County Light & Power Company	:	
(Gas)	:	

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Prehearing Memorandum, 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 24th day of March 2014.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Charles Daniel Shields, Esq.
Pa. Public Utility Commission
Bureau of Investigation & Enforcement
P.O. Box 3265
Harrisburg, PA 17105-3265

SERVICE BY E-MAIL & FIRST CLASS MAIL

John J. Gallagher, Esq.
Light & Power Company
711 Forrest Road
Harrisburg, PA 17112

Daniel G. Asmus, Esq.
Office of Small Business Advocate
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300 North Second Street
Harrisburg, PA 17101

Enver Acevedo, Esq.
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