

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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March 19, 2015

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

RE: Pennsylvania Public Utility Commission  
v.  
Philadelphia Gas Works 1307(f)  
Docket No. R-2015-2465656

Secretary Chiavetta:

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

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Brandon J. Pierce".

Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. # 307665

Enclosures

cc: Office of Administrative Law Judge  
Office of Special Assistants  
Certificate of Service

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2465656
	:	
Philadelphia Gas Works	:	

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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 the Prehearing Conference Order issued by Administrative Law Judges Christopher P. Pell and Marta Guhl on March 12, 2015, the Office of Consumer Advocate (OCA) provides the following information:

**I. INTRODUCTION**

On January 30, 2015, Philadelphia Gas Works (PGW or the Company) filed its pre-filing information required for its annual 2015-2016 Purchased Gas Cost (PGC) Rate filing pursuant to Sections 1307(f), 1317, 1318 and 2212 of the Public Utility Code, and Sections 53.64 and 53.65 of the Commission's Rules and Regulations. 66 Pa. C.S. §§ 1307(f), 1317, 1318, 2212; 52 Pa. Code §§ 53.64, 53.65. On the same date, PGW filed a Petition for Special Permission to Depart from the Requirements of 52 Pa. Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i), and 53.68(a). Further, PGW requested to provide estimated data for January 2015 and February 2015 in the March 1, 2015 quarterly 1307(f) filing instead of actual data for January 2015.

On February 11, 2015, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. On February 13, 2015, the Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, Notice of Appearance, and a Formal Complaint. On February 17, 2015, the Philadelphia Industrial and Commercial Gas Users Group (PICGUG) filed a Petition to Intervene. On February 18, 2015, the Office of Consumer Advocate (OCA) filed a Formal Complaint, Public Statement, and Notice of Appearance.

On February 26, 2015, PGW filed its March 1, 2015 Section 1307(f) filing (March 1 or 1307(f) filing). On March 12, 2015, Administrative Law Judges Pell and Guhl issued a Prehearing Conference Order. In that Order, the ALJs also granted, as unopposed, PGW's Petition for Special Permission to Depart from the Requirements of 52 Pa. Code §§ 53.45(b), 53.64(c), 53.64(i)(5)(i), and 53.68(a). In its March 1 filing, the Company proposed a PGC rate of \$4.4901 per Mcf to be effective September 1, 2015. The Company's PGC rate has changed over the last three quarters, with a September 1, 2014 rate of \$5.8670 per Mcf, a December 1, 2014 rate of \$5.9976 per Mcf, and a March 1, 2015 currently effective rate of \$4.7059 per Mcf.

The Public Utility Code provides that no rates of a natural gas distribution utility shall be deemed just and reasonable unless the Commission finds that the utility is pursuing a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate, and reliable service to customers. 66 Pa. C.S. § 1318. The Commission must find, among other things, that the utility has (1) fully and vigorously represented ratepayer interests before the Federal Energy Regulatory Commission, (2) taken all prudent steps to negotiate favorable gas supply contracts and to relieve its obligations under contracts that may be adverse to ratepayer interests, (3) taken all reasonable steps to obtain lower cost gas supplies, and (4) not withheld or

caused to be withheld gas supplies that should have been utilized as part of a least cost fuel procurement policy.

## **II. ISSUES AND SUB-ISSUES**

Based upon a preliminary analysis of PGW's January 30, 2015 pre-filing and its February 26, 2015 definitive PGC filing, the OCA has compiled a list of issues and sub-issues that it anticipates will be included in its investigation of the Company's proposed rate changes. It is anticipated that the OCA will identify other issues upon further review of PGW's filing, and that other issues may arise and may be pursued after the answers to all of the OCA's interrogatories have been received and analyzed.

As soon as the OCA has completed its review of the Company's filing, including issuing additional discovery and review of the Company's responses, it is expected that informal discovery meetings can be scheduled. At those meetings, the OCA will be able to narrow the scope of information requests. After the discovery process has been completed, the OCA will file its Direct Testimony, which will set 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 following list sets forth a more specific identification of the issues that OCA anticipates it will investigate and may raise, in addition those discussed above:

1. Reasonableness and prudence of historic purchased gas costs, and assessment of compliance with Commission Orders in prior 1307(f) cases;
2. Reasonableness and accuracy of estimating gas costs during the interim and prospective periods;

3. Reasonableness and prudence of the Company's gas supply mix, including purchases of local gas suppliers, the use of LNG, and price volatility risk management programs and policies;
4. Reasonableness and prudence of the Company's mix of demand entitlements, storage and local production, to include an assessment of the reasonableness of the Company's estimate of design day requirements;
5. Reasonableness and prudence of contracts with pipelines and suppliers, and in particular, long-term contracts that provide for special reservation charges, minimum take commitments, or other fixed contract requirements, especially in light of any other subsidies or unreasonable discrimination between customer classes;
6. Reasonableness and prudence of the Company's use of capacity release, off-system sales and interruptible sales, and the crediting of such revenues to PGC ratepayers and PGW;
7. Assessment of the value of the purchased gas cost incentive mechanisms as components of a least cost fuel procurement policy. These may include incentive mechanisms for off-systems sales and capacity release;
8. Reasonableness of sales volumes projections;
9. Technical issues pertaining to the gas cost recovery mechanism, including computation of quarterly adjustments to purchased gas costs, treatment of supplier refunds, provision of carrying costs associated with gas in storage, interest on gas overcollections, and proper computation of the E-factor and migration riders; and
10. Reasonableness of hedging transactions and strategies entered into under the terms of previous PGC settlements.

The OCA will examine each of these issues and all changes proposed in the Company's filing to ascertain if they comply with the Public Utility Code and sound ratemaking and cost allocation principles. The OCA will recommend any appropriate changes to ensure that customers pay only reasonable purchased gas costs and to address customers' reliability needs.

### **III. WITNESSES**

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of Jerome D. Mierzwa in this proceeding. Mr. Mierzwa will present testimony in written form and will also attach various exhibits, documents, and explanatory information that 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 its expert witness at the following address, as well as mailing a copy to counsel for the OCA:

Jerome D. Mierzwa  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Columbia, MD 21044  
Telephone: 410-992-7500  
E-mail: [jmierzwa@exeterassociates.com](mailto:jmierzwa@exeterassociates.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, all parties of record will be notified.

### **IV. SERVICE ON THE OCA**

The OCA will be represented in this case by Senior Assistant Consumer Advocate Aron J. Beatty and Assistant Consumer Advocate Brandon J. Pierce. Two copies of the documents should be served on the OCA as follows:

Aron J. Beatty  
Senior Assistant Consumer Advocate  
Office of Consumer Advocate  
5<sup>th</sup> Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048  
Fax: (717) 783-7152  
E-mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)  
[BPierce@paoca.org](mailto:BPierce@paoca.org)

The OCA requests that any documents served electronically also be directed to the OCA's consultant, Mr. Mierzwa, and to our Legal Assistant, Denise Smith at [DSmith@paoca.org](mailto:DSmith@paoca.org).

#### **V. PROPOSED REVISED RULES / DISCOVERY**

Because time for preparation of complainant testimony is limited, the OCA submits that a shortened discovery response time in this proceeding is necessary to enable complainant parties to have adequate time to investigate the Company's claims and present testimony. The OCA, therefore, requests the following modifications to the timeframes specified by the Commission's regulations for discovery matters on a going-forward basis. All parties have jointly agreed to these discovery modifications as follows:

- a. Answers to written interrogatories will be served in-hand within ten (10) calendar days of service of the interrogatories except that service of interrogatories on a Friday shall be deemed service on the following business day;
- b. Objections to interrogatories will be communicated orally within three (3) days of service; unresolved objections shall be served to the ALJs in writing within five (5) business days of service of the interrogatories;
- c. Motions to dismiss objections and/or direct the answering of interrogatories will be filed within three (3) business days of service of written objections;

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

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

f. Requests for admission will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) business days of service;

g. Answers to on-the-record data requests will be served in-hand within seven (7) calendar days of the request;

h. Rulings over motions shall be issued, if possible, within seven (7) calendar days of the filing of the motion;

i. Any discovery or discovery related pleadings such as objections, motions, answers to motions served on a Friday or on any business day preceding a state holiday shall be deemed to have been served on the following business day for purposes of tracking responsive due dates; and

j. That 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.

## **VI. PUBLIC INPUT HEARINGS**

The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. If the OCA becomes aware of substantial consumer interest, however, the OCA will promptly notify the Administrative Law Judges and parties to request a public input hearing.

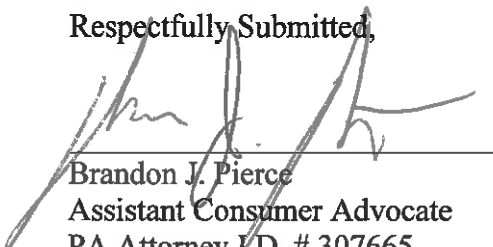
**VII. PROPOSED SCHEDULE**

It is the OCA's understanding that the proposed schedule attached as Appendix A of the OCA's Prehearing Memorandum is not opposed by the parties.

**VIII. SETTLEMENT DISCUSSIONS**

At present, settlement discussions have not been scheduled. The OCA will fully participate in any proposed settlement discussions throughout the course of this proceeding.

Respectfully Submitted,



Brandon J. Pierce  
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PA Attorney I.D. # 86625  
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Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate

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Dated: March 19, 2015

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Appendix A

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2465656
	:	
Philadelphia Gas Works	:	

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PROPOSED PROCEDURAL SCHEDULE

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Prehearing conference	Tuesday, March 24, 2015
Non-Company Direct Testimony	Tuesday, April 14, 2015 at noon
All parties' Rebuttal Testimony	Monday, April 27, 2015
Surrebuttal Testimony	Tuesday, May 5, 2015
Oral Rejoinder	Friday, May 8, 2015 (at hearing)
Hearings	Friday, May 8, 2015
Close of Record	Friday, May 8, 2015
Main Briefs	Monday, May 18, 2015
Reply Briefs	Thursday, May 28, 2015

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :  
v. : Docket No. R-2015-2465656  
Philadelphia Gas Works 1307(f) :  
:

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Prehearing Conference 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 19<sup>th</sup> day of March 2015.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Richard Kanaskie, Esquire  
Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL

Gregory J. Stunder, Esquire  
Philadelphia Gas Works  
800 West Montgomery Avenue  
Philadelphia, PA 19122

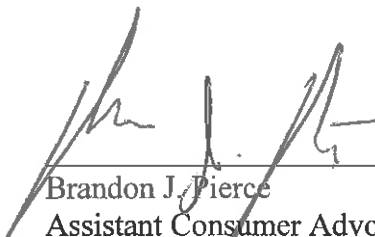
Sharon E. Webb, Esq.  
John R. Evans  
Office of Small Business Advocate  
Commerce Building, Suite 202  
300 North Second Street  
Harrisburg, PA 17101

Charis Mincavage, Esq.  
Adeolu A. Bakare, Esq.  
Elizabeth P. Trinkle, Esq.  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108

Robert Ballenger, Esq.  
Community Legal Services  
1424 Chestnut Street  
Philadelphia, PA 19102

Daniel Clearfield, Esq.  
Eckert Seamans Cherin & Mellott, LLC  
213 Market Street 9<sup>th</sup> Fl  
Harrisburg, PA 17101

Robert Knecht  
Industrial Economics, Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140



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