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October 1, 2015

Via Electronic Filing

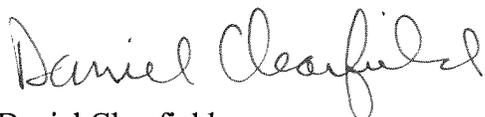
Rosemary Chiavetta, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Petition of Philadelphia Gas Works for Waiver of Provisions of Act 11 to Increase the
Distribution System Improvement Charge CAP and to Permit Levelization of DSIC
Charges; Docket No. P-2015-2501500

Dear Secretary Chiavatta:

Enclosed for electronic filing please find a Prehearing Memorandum of Philadelphia Gas Works with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Daniel Clearfield

DC/dsc
Enclosure

cc: Hon. Christopher P. Pell, w/enc.
Hon. Marta Guhl, w/enc.
Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Prehearing Memorandum upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

Via Email and/or First Class Mail

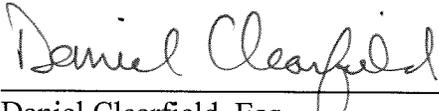
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Dated: October 1, 2015



Daniel Clearfield, Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION.**

Petition of Philadelphia Gas Works for :
Waiver of Provisions of Act 11 to Increase : Docket No. P-2015-2501500
the Distribution System Improvement :
Charge CAP and to Permit Levelization of :
DSIC Charges :

**PREHEARING MEMORANDUM OF
PHILADELPHIA GAS WORKS**

Pursuant to 52 Pa. Code §§ 5.72-5.75 Philadelphia Gas Works (“PGW”) submits this Prehearing Memorandum in accordance with the Pre-Hearing Order of the Presiding Officers dated September 30, 2015. This proceeding has been initiated by PGW in order to expedite the removal of its at risk mains. PGW’s initial Distribution System Improvement Charge (“DSIC”) Petition was approved in May of 2013 and, pursuant to the Commission’s Order, PGW was authorized to bill customers up to 5% of its non-gas revenues to fund the expedited replacement of its cast iron main.¹ In the past, PGW has removed 18 miles of high risk cast iron main each year, financed from funds provided from its base rates, and, since 2013, has been replacing another seven miles of cast iron main, financed through its DSIC. In addition to its DSIC being capped at 5% of distribution revenues, PGW’s current DSIC is also restricted to the recovery of plant placed into service in the prior quarter, which creates large swings in the allowable charge.

¹ *Petition of Philadelphia Gas Works for Approval of a Distribution System Improvement Charge*, PUC Docket No. P-2012-2337737, Opinion and Order entered on May 9, 2013 (“Final DSIC Order”).

Pursuant to the recommendation of Staff of the Pennsylvania Public Utility Commission (“Commission” or “PUC”), PGW is seeking approval to increase its current DSIC CAP above its current 5% level and levelize its DSIC charge, as further described below.² PGW submits that an accelerated main replacement program will result in more adequate, efficient, safe, reliable and reasonable natural gas distribution service. Accordingly, PGW believes that it is in the public interest to approve its petition as quickly as possible, so that it can initiate the acceleration of main replacement, as proposed in the Petition.

I. ISSUES

Act 11 of 2012 (“Act 11”) authorizes the implementation of a DSIC and it provides certain statutory limitations.³ Specifically, absent a Commission waiver, a natural gas utility’s DSIC may not exceed 5% of the amount billed to customers under the utility’s applicable distribution rates.⁴ In addition, Act 11 establishes that a DSIC will: (i) change each quarter; (ii) be calculated to recover the fixed cost of eligible property that has been placed in service during the prior quarter; and (iii) will be reset to zero as of the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the DSIC. Section 1358 of the Public Utility Code grants the Commission the legal authority to establish a maximum allowable DSIC at a percentage higher than 5% “in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.”⁵ In addition, and upon request, the Commission has the authority, pursuant to Section 2212 of the Public Utility Code, to “suspend

² *Staff Report: Inquiry into Philadelphia Gas Works’ Pipeline Replacement Program*, dated April 21, 2015 (“PUC Staff Report”).

³ 66 Pa. C.S. § 1353(a).

⁴ 66 Pa. C.S. § 1358(a)(1).

⁵ 66 Pa. C. S. § 1358(a)(2).

or waive the application to [PGW] of any provision of [the Public Utility Code], including any provision of [Chapter 22 (relating to Natural Gas Competition)] other than [Section 2212].”⁶

Accordingly, PGW requested in its Petition that the Commission: (i) waive the current DSIC cap of 5% of distribution revenues, pursuant to its authority in Section 1358 of the Code, a) approve a 2½ percentage point increase in the maximum allowed DSIC from 5% to 7.5% (not including reconciliation), and b) approve a total, 10% cap including any reconciliation recovery, for service rendered on or after January 1, 2016; (ii) waive or suspend the requirements of Act 11 so as to permit PGW to use an annual, levelized charge as the basis for establishing a DSIC, subject to subsequent true-up for PGW’s actual experience; (iii) waive the requirements of Act 11 to exempt PGW from the requirement of paying interest on DSIC overcollections; and (iv), authorize the filing, on one day’s notice, of a) a revised Long Term Infrastructure Improvement Plan and b) the proposed PGW tariff supplement attached to PGW’s Petition codifying these changes.⁷

II. SCHEDULE FOR SUBMISSION OF TESTIMONY, HEARINGS AND BRIEFS

The Commission has directed that a recommended decision on PGW’s DSIC Petition be filed by December 11, 2015. Accordingly, the Company proposes the following schedule in accordance with the Presiding Officers’ proposed schedule for hearings and briefs:

Other Parties’ Direct Testimony	October 13, 2015
Rebuttal Testimony	October 23, 2015
Surrebuttal Testimony	October 27, 2015

⁶ 66 Pa. C.S. § 2212.

⁷ *Petition of Philadelphia Gas Works for Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge CAP and to Permit Levelization of DSIC Charges*, Docket No. P-2015-2501500 (filed September 1, 2015).

Hearings for cross-examination of all witness, oral Rebuttal/Surrebuttal ⁸	November 4-5, 2015
Close of Record	November 5, 2015
Main Briefs Due	November 12, 2015
Reply Briefs Due	November 16, 2015
Recommended Decision	December 11, 2015

This schedule would be tentative and subject to revision by the presiding officers upon reasonable request of the parties.⁹

III. A PROPOSED PLAN AND SCHEDULE OF DISCOVERY

The parties are in the process of engaging in informal discovery. PGW is working to respond as timely as possible to all requests and appreciates the parties' patience to date. PGW proposes the following modification to the Commission's discovery rules due to the expedited nature of this proceeding: parties are to use their best efforts to serve Answers to written interrogatories in-hand within seven (7) calendar days of service of the interrogatories.

IV. AMOUNT OF HEARING TIME NEEDED

At this point, PGW estimates two days for hearings should be sufficient.

⁸ Mr. Murray is available for cross-examination on November 5 only.

⁹ Note, because of the limited time available to submit this pre-hearing memo, PGW has not had the opportunity to discuss this proposed schedule with the other parties.

V. WITNESSES

PGW anticipates submitting the testimony of the following two witnesses that prepared direct testimony included as attachments to PGW's Petition filed on September 1, 2015.¹⁰ PGW reserves the right to add additional witnesses or change the identity of its witnesses at any time upon appropriate notice to the Presiding Officers and the parties.

Kenneth S. Dybalski Director - Gas Planning & Rates, at Philadelphia Gas Works.	Daniel P. Murray Senior Vice President of Customer Affairs and Operations
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VI. POSSIBILITY OF SETTLEMENT

PGW would support the settlement of any or all issues and is committed to working the parties to reach any such resolutions as may be possible.

VII. SERVICE OF DOCUMENTS

PGW requests that all documents be served on:

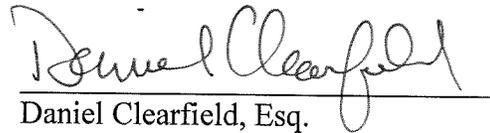
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Attorney ID # 26183
Carl Shultz, Esquire
Attorney ID # 70328
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
717.237.6000

¹⁰ PGW DSIC Petition, Exhs. 1 and 2.

PGW also agrees to receive service of documents electronically in this proceeding. To the extent that materials are available electronically, it is requested that copies be served upon:

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Deanne O’Dell – dodell@eckertseamans.com
Carl Shultz – cshultz@eckertseamans.com

Respectfully Submitted,



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Of Counsel:
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Chief Administrative Officer and General
Counsel
Philadelphia Gas Works
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Philadelphia, PA 19122

Dated: October 1, 2015

Counsel for Philadelphia Gas Works