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March 27, 2017

Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Fl.
Harrisburg, PA 17120

Re: PA Public Utility Commission v. Philadelphia Gas Works,
Docket No. R-2017-2586783

Dear Secretary Chiavetta:

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

Sincerely,



Deanne M. O'Dell

DMO/lww
Enclosure

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

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Prehearing Memo 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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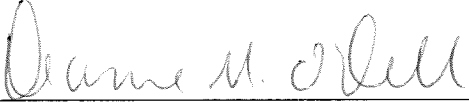
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Date: March 27, 2017



Deanne M. O'Dell, Esquire

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	Docket No. R-2017-2586783
	:	
V.	:	
	:	
PHILADELPHIA GAS WORKS	:	

**PREHEARING MEMORANDUM OF
PHILADELPHIA GAS WORKS**

Philadelphia Gas Works (“PGW” or the “Company”) hereby submits this Prehearing Memorandum pursuant to 66 Pa.C.S. § 333 and the directives of Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge Marta Guhl.

I. PROCEDURAL HISTORY

On February 28, 2017, PGW filed Supplement No. 100 to PGW’s Gas Service Tariff – PA. P.U.C. No. 2 (Supplement No. 100) to become effective April 28, 2017, seeking a general rate increase calculated to produce \$70 million (11.6%) in additional annual revenues. At that time, PGW also filed a Petition for Waiver seeking waiver of the application of the statutory definition of the fully projected future test year (FPFTY) so as to permit PGW to use a FPFTY beginning on September 1, 2017 in this proceeding.

By Order entered March 16, 2017 (“Suspension Order”), the Pennsylvania Public Utility Commission (“Commission” or “PUC”) instituted an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase. Supplement No. 100 was suspended by operation of law until November 28, 2017, unless permitted by Commission Order to become effective at an earlier date. The Suspension Order did not consider the Petition for Waiver.

The Commission’s Bureau of Investigation and Enforcement (“BIE”) filed a Notice of Appearance. Three formal complaints have been filed: the Office of Consumer Advocate¹ (“OCA”); the Office of Small Business Advocate² (“OSBA”); and the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”)³. In addition, the Retail Energy Supply Association (“RESA”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), and Tenant Union Representative Network (“TURN”) and Action Alliance of Senior Citizens of Greater Philadelphia (“Action Alliance,” together with TURN, “TURN *et al.*”), separately filed Petitions seeking to intervene in this proceeding. Consumer complaints have also been filed with the Commission.

This matter was assigned to Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge Marta Guhl (collectively, the “ALJs”). A Prehearing Conference Order was entered on March 17, 2017 scheduling a prehearing conference for in this case for Wednesday, March 29, 2017 at 10:00 a.m.

I. SERVICE OF DOCUMENTS

PGW requests that all documents be served on:

Daniel Clearfield, Esquire
Deanne M. O’Dell, Esquire
Eckert Seamans Cherin & Mellott, LLC
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Brandon J. Pierce, Esq.
Senior Attorney
Philadelphia Gas Works
800 W. Montgomery Ave.
Philadelphia, PA 19122

¹ The OCA’s complaint was docketed at C-2017-2592092.

² The OSBA’s complaint was docketed at C-2017-2593497.

³ PICGUG’s complaint was docketed at C-2017-2595147.

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:

Daniel Clearfield – dclearfield@eckertseamans.com
Deanne O'Dell – dodell@eckertseamans.com
Brandon Pierce – Brandon.Pierce@pgworks.com

Please note that Mr. Clearfield and Mr. Pierce will be PGW's lead attorneys for the purposes of this proceeding, including the prehearing conference.

II. ISSUES AND WITNESSES

A. Issues

The primary issue in this proceeding is what level of base rate increase is justified and just and reasonable by applying PGW's required ratemaking methodology – the Cash Flow Method – and complying with Section 2212(e) and (f) of the Public Utility Code (regarding PGW's bond covenants), as well as the Commission's Policy Statement,⁴ which explains the way in which the Commission intends to apply the PGW Cash Flow Method.

Additional issues include 1) the appropriate allocation of the rate increase among the customer classes; 2) the utilization of a ten year average of degree days in order to calculate normal weather for fully projected future test year purposes; 3) PGW's proposed pilot programs: the Technology and Economic Development ("TED") Rider and the Micro-Combined Heat and Power ("CHP") Incentive Program; and 4) PGW's tariff modifications which include (a) the elimination of three rate schedules, Cogeneration Service (Rate CG), Load Balancing Service (Rate LBS), and rate Boiler and Power Plant Service (Rate BPS), all of which have few or no customers and have adequate alternative rates; (b) revision to the rate formula for interruptible

⁴ 52 Pa.Code §§ 69.2701 to 69.2703; *Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method*, PUC Docket No. P-2009-2136508, Order of December 30, 2009.

transportation (“IT”) customers that better recognizes the value of the interruptible service compared to alternative energy options or firm services; and (c) the establishment of a new tariff provision to cover “back-up service,” where a customer’s primary energy source is something other than natural gas (e.g., steam or electricity).

B. Witnesses

PGW anticipates offering the following witnesses to testify in this proceeding on the following subject matters:

<u>PGW Statement</u>	<u>Witness</u>	<u>General Subject Matter</u>
1	Gregory Stunder, PGW’s Vice President, Regulatory and Legislative Affairs	Mr. Stunder provides an overview and roadmap of the PGW’s filing, including a summary of the reasons for the increase.
2	Joseph F. Golden, Jr., PGW’s Executive Vice President and Acting Chief Financial Officer	Mr. Golden provides documentation and supporting methodology for the schedules and exhibits that are included in PGW’s base rate filing. He describes PGW’s financial results for the FPFTY (comprised of the period from September 1, 2017 through August 31, 2018). He also details and provides supporting justification for PGW’s requested annual increase in existing base rate of \$70 million
3	Daniel J. Hartman, Managing Director and Partner with PFM Financial Advisors LLC (“PFM”) He is an expert on financial markets and financial instruments. PFM Financial Advisors LLC 4350 North Fairfax Road Arlington, Virginia 22203	Mr. Hartman testifies to the importance of obtaining the rate increase being sought, in order to maintain its bond ratings, access to the municipal capital markets at reasonable pricing, and to ensure there are not unforeseen impacts to PGW’s capital structure. Specifically, his testimony focuses on the adverse financial consequences to PGW, which could be considerable and

broadly based, if the Company does not receive full approval of its needed and requested rate increase

4 **Frank C. Graves,**
Principal with The Brattle Group

He is an expert on financial economics and specializes in regulatory and financial economics, especially for electric and gas utilities.

The Brattle Group
44 Brattle Street
Cambridge, Massachusetts 02138

Mr. Graves discusses the results of a comparable utility analysis. His testimony benchmarks the financial performance of PGW over the 2011-2015 time period, and he analyzes both average performance over the time period and also trends over the time period. The benchmarking, among other things, (i) indicates that PGW lags its peers on key metrics such as debt to total capitalization and Days Cash; (ii) shows that a failure to grant a rate increase would return PGW's financial position to pre-2009 levels; and (iii) shows that there is a continued need to support PGW's financial stability with timely and appropriate rate increases.

5 **Philip Q. Hanser,**
Principal with The Brattle Group

He is an expert in operational and strategic issues, such as transmission pricing, generation planning, and tariff strategies.

The Brattle Group
44 Brattle Street
Cambridge, Massachusetts 02138

Mr. Hanser presents the Company's class cost of service study ("CCOSS"), which is Volume III of the Filing. The primary purpose of the present CCOSS is to allocate the Company's costs of providing service to each Rate Class. The purpose of his testimony is to describe the principles, methodology, and data used in the present CCOSS, which was developed with the aim to move towards cost allocations and rate design that more closely reflect cost causation. Mr. Hanser also shows the monthly fixed customer cost per class. Finally, Mr. Hanser explains why normal weather for PGW is best reflected as the 10-year average of degree days experienced in PGW's service territory

6 **Kenneth S. Dybalski,**
PGW's Vice President - Energy

Mr. Dybalski describes and supports (i) the process used to develop the

Planning & Technical Compliance

sales forecast for the test year; (ii) the allocation of the proposed base rate increase by customer class; and (iii) the proposed customer charges by class

7 **Douglas A. Moser,**
PGW's Executive Vice President
and Acting Chief Operating Officer

Mr. Moser provides an overview of PGW's operations. He discusses PGW's initiatives taken to improve its overall safety and compliance efforts. In addition, he describes PGW's existing universal service programs and provides data on cost offsets related to CRP requested by the PUC. He also addresses certain tariff changes proposed by PGW including PGW's proposal to establish Interruptible Transportation rates on negotiated basis within a range of cost of service and the comparable firm transportation rate.

8 **Florian Teme,**
PGW's Vice President, Marketing
and Sales

Mr. Teme explains and provides support for the Company's proposed TED Rider and the pilot Micro-CHP Incentive Program.

PGW previously filed copies of these statements. The testimony and exhibits fully support PGW's proposed rate increase, allocation of that increase among customer classes, and the design of rates to recover that increase from customers.

PGW reserves the right to submit additional witnesses after the submission of the direct testimony of the other parties in rebuttal, surrebuttal or rejoinder.

C. Admissions or Stipulations

There have been no admissions or stipulations finalized at this time.

III. PROPOSED SCHEDULE AND DISCOVERY

A. **Proposed Schedule**

1. Litigation Schedule

A proposed schedule is set forth below. This schedule has been discussed with the statutory advocates, BIE, OCA and OSBA, as well as parties that have participated in past PGW proceedings, CAUSE, PICGUG, RESA and Community Legal Services of Philadelphia. Based on those discussions, PGW represents that all of these entities either support or acquiesce to the following schedule and request that it be adopted:

<u>Item</u>	<u>Proposed Schedule</u>
Public Input Hearings	May 9-11, 2017
Non-Company Direct	May 16, 2017
Rebuttal	June 9, 2017
Surrebuttal	June 22, 2017
Evidentiary Hearings/ Rejoinder	June 28-30, 2017
Close of Record	July 5, 2017
Main Briefs	July 21, 2017
Reply Briefs	Monday, August 4, 2017
Public Meeting	Wednesday, November 8, 2017

All dates are in-hand delivery. Electronic mail for receipt and distribution will satisfy in-hand service dates.

2. Public Input Schedule

PGW has had informal discussions with the other parties concerning a schedule for public input hearings. PGW will attempt to accommodate the public input hearing schedule that best meets the needs of the other parties.

PGW's proposes to use cyber hearings for the public input hearing in this proceeding that were used in PGW's last litigated rate proceeding. Cyber hearings will save money, allow greater participation, and be generally more efficient for all parties. In the event that the Commission requires an in-person hearing, the following is a location that was used in PGW's last litigated rate proceeding.

Community College of Philadelphia
Conference Room c2-28
18th and Callowhill streets
Philadelphia, PA 19130

B. Discovery

The parties have ample time to conduct discovery before the filing of their direct testimony. PGW has already received a large number formal discovery requests from the parties (with multiple subparts). PGW has either responded or is the process of responding to these requests. PGW is also willing to work with the parties to provide information through informal discovery conferences.

PGW is willing to consider reasonable modifications to the Commission's discovery rules. However, PGW notes that the Commission's Discovery Rules already provide for shortened timeframes for responses for rate proceedings. *See* 52 Pa. Code §§ 5.432(d) (written interrogatories), 5.349(d) (requests for documents, entry for inspection and other purposes).

In addition, PGW has established a cloud-based, secure site for the assistance of the parties. Discovery responses including attachments are available at ESCM Share File site. To receive access, please contact Deanne O'Dell (dodell@eckertseamans.com) or 717-255-3744 and provide the name and email address of the person seeking access.

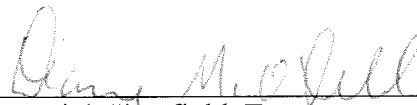
C. Protective Order

PGW is submitting a separate Motion for Protective Order to protect proprietary information of any party.

IV. SETTLEMENT

PGW is willing to discuss the settlement of its claims, and will be initiating such discussions as soon as the parties indicate that they have had sufficient time to review PGW's direct case.

Respectfully submitted,



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Carl R. Shultz, Esq.
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Dated: March 27, 2017

Counsel for
Philadelphia Gas Works