

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 29, 2022

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

Re: Pennsylvania Public Utility Commission
v.
Valley Energy, Inc. – Supplement No. 59
to Tariff Gas – Pa. P.U.C. No. 2
Docket No. R-2022-3032300

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Aron J. Beatty

Aron J. Beatty
Senior Assistant Consumer Advocate
PA Attorney I.D. # 86625
E-Mail: ABeatty@paoca.org

Enclosures:

cc: The Honorable Marta Guhl (**email only**)
Certificate of Service

*331185

CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2022-3032300
 :
 Valley Energy, Inc. – Supplement No. 59 :
 to Tariff Gas – Pa. P.U.C. No. 2 :

I hereby certify that I have this day served a true copy of the following 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 29th day of June 2022.

SERVICE BY E-MAIL ONLY

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Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: June 29, 2022
*331408

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	R-2022-3032300
v.	:	
	:	
Valley Energy, Inc.	:	

PREHEARING MEMORANDUM OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to the Prehearing Conference Order of Administrative Law Judge Marta Guhl issued on June 17, 2022, Section 333 of the Public Utility Code, 66 Pa. C.S. Section 333, and in anticipation of the telephonic Prehearing Conference scheduled for June 30, 2022, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION AND PROCEDURAL HISTORY

Valley Energy, Inc. (Valley or the Company) is engaged in the business of furnishing natural gas service to approximately 7,300 residential, commercial, and industrial customers in Bradford County, Pennsylvania, and Tioga and Chemung Counties in New York. Valley’s Pennsylvania natural gas distribution includes over 170 miles of mains. The Company operates the Pennsylvania and New York system as an integrated system, with all natural gas injected into the system at points in Pennsylvania.

On April 29, 2022, Valley Energy, Inc. (“Valley” or Company) filed Supplement No. 59 to Tariff Gas - Pa. P.U.C. No. 2 (Supplement No. 59). In Supplement No. 59, the Company proposes an overall distribution rate increase of approximately \$1.00 million per year, or a

distribution base rate increase of 11.8%. The proposed rate increase would be effective June 28, 2022. According to Valley's filing, the total monthly bill for residential customers using 76 Ccf per month would experience an increase of \$7.23 per month, from \$65.35 to \$72.57. Valley also proposes to increase the residential monthly Customer Charge from \$11.79 to \$12.90. The Company states that its filing supports an 11.50% return on equity, producing a 7.97% overall rate of return on its original cost rate base for distribution service.

On May 12, 2022, the Office of Small Business Advocate (OSBA) filed a Formal Complaint and Notice of Appearance in this proceeding. The Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance on May 13, 2022. On May 19, 2022, the OCA filed a Formal Complaint, Public Statement and Notice of Appearance in this proceeding (Docket No. C-2022-3032533) to protect the interests of Valley's residential customers and to ensure that Valley is permitted to implement only a level of rates that is just and reasonable and in accordance with sound ratemaking principles. An individual consumer complaint was filed on May 23, 2022 by Larry E. Cole. Moreover, on June 23, 2022, the Borough of Athens and the Borough of South Waverly filed formal complaints.

On June 16, 2022, the Commission issued an Order initiating an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase in this filing, in addition to the Company's existing rates, rules, and regulations, and suspended the effective date of Supplement No. 59 until January 28, 2023, by operation of law. The case was assigned to the Office of Administrative Law Judge (OALJ) and further assigned to Administrative Law Judge Marta Guhl. A Prehearing Conference is scheduled for Thursday, June 30, 2022.

II. SCOPE OF THIS PROCEEDING

The Company made its base rate filing on April 29, 2022, pursuant to Chapter 13 of the Public Utility Code and the Commission's regulations governing base rate filings that request an increase of \$1 million in annual revenues.¹ This is the rate request and supporting materials which provide the basis for the Commission's June 16, 2022 Order directing investigation and suspension of the Company's proposed Supplement No. 337.

III. DISCOVERY

The OCA and other parties have commenced discovery of the Company's March 18, 2022 base rate filing. In order to effectively investigate and develop a record in this proceeding, the OCA requests certain modifications to the Commission's discovery rules be approved for all future and pending discovery requests. The OCA's requested modification are as follows:

(1) Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service. Discovery requests received after noon on a Friday will be deemed as served on the following Monday.

(2) Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served upon the ALJ within five (5) calendar days of service of the interrogatories.

(3) Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.

(4) Answers to motions to dismiss objections and/or answering of interrogatories shall be filed within three (3) calendar days of service of such motions.

¹ See, 66 Pa.C.S. § 1308(d) (General rate increases).

(5) Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days of service.

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

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

IV. ISSUES

Based upon a preliminary analysis of Valley's April 29, 2022 base rate filing, the OCA has compiled a list of issues which it anticipates will be included in its investigation of Valley's proposed rate changes. The OCA anticipates that other issues may arise and may be pursued as responses to interrogatories are received and analyzed.

With regard to all issues, the OCA takes the position that the proposed increases or changes must be justified, reasonable, and in accordance with sound ratemaking principles in order to protect the interests of Valley's customers. Additionally, the OCA has identified several issues that may require further review. They are as follows:

A. Revenues and Expenses: The OCA will examine the Company's claimed revenues and any adjustments to the level of revenues. The OCA will seek to ascertain whether the Company's claimed expenses are supported, reasonable, and appropriate. Among others, the following issues will be addressed:

- The sales forecast utilized by Valley in order to project future test year and fully forecasted test year sales and revenues;
- Valley's proposed depreciation expense;

- Valley's wages and benefits, rate case expenses, service company charges, outside service, uncollectible accounts, and pensions;
- B. Rate Structure/Rate Design: The OCA will examine Valley's cost of service study, its proposed allocation of any rate increase to the customer classes, and its proposed design of the rates. The OCA will also examine other tariff issues raised by the filing.
- C. Universal Services: The OCA will assess the impact of the Company's proposed rate increase on universal service, including the overall Customer Assistance Program (CAP) cost as affected by the Company's rate design. The OCA will review the Company's CAP outreach efforts. The OCA will also assess customer service quality.
- D. Rate of Return: The OCA will perform a detailed analysis of the methodologies and supporting data used to develop the cost of common equity claimed by Valley. The OCA will also evaluate Valley's investment risk relative to that of similarly situated natural gas companies and examine the capital structure and long-term and short-term debt cost rates proposed by Valley to determine if they are accurate and appropriate.
- E. The OCA reserves the right to raise additional issues.

V. WITNESSES

The OCA intends to present the direct, rebuttal, and surrebuttal testimonies, as may be necessary, of the below witnesses. Each witness will present testimony in written form and will attach various exhibits, documents, and explanatory information, as may be necessary. In order to expedite the resolution of this proceeding, the OCA requests that copies of all interrogatories, testimony, and answers to interrogatories be mailed and/or emailed directly to the OCA's group email formed particularly for this proceeding.

Accounting and Regulatory Policy: Karl Pavlovic
PCMG and Associates LLC
22 Brookes Ave.

Gaithersburg, MD 20877
OCAValley2022@paoca.org

Cost of Service and Revenue Structure:

Dante Mugrace
PCMG & Associates
90 Moonlight Court
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OCAValley2022@paoca.org

Revenue Requirement and Policy:

Morgan N. DeAngelo
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Office of Consumer Advocate
555 Walnut St., 5th Floor
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The OCA specifically reserves the right to call additional witnesses, as necessary. If the OCA determines that additional witnesses will be necessary for any portion of its case, it will notify all parties of record immediately.

VI. PROPOSED SCHEDULE AND AMOUNT OF TIME NEEDED FOR HEARINGS

The Parties have reached a mutually agreeable procedural schedule as presented below:

Other parties' direct testimony	July 25, 2022
Rebuttal testimony	August 16, 2022
Surrebuttal testimony	September 1, 2022
Rejoinder outlines	September 7, 2022
Hearings and oral rejoinder	September 8-9, 2022
Main Briefs	September 29, 2022
Reply Briefs	October 11, 2022

The OCA requests that the dates included in any litigation schedule in this matter be considered "in-hand" dates and that electronic service on the due date will satisfy the "in-hand" requirement.

VII. PUBLIC INPUT HEARINGS

Given the requested rate increase and the customer opposition and complaints received thus far in this matter, the OCA respectfully requests that one telephonic public input hearing be held for Valley's consumers in this matter. The OCA further requests that telephonic public input hearings be conducted in the evening. The OCA is able to use its call center staff to sign up Valley consumers who want to testify or listen to the public input hearing. The OCA will be prepared to discuss public input hearings at the prehearing conference.

The OCA also requests that the Company be directed to advertise the public input hearing in a local newspaper and on the Company's website. Other methods of informing its customers of the public input hearing, including social media and the Company's website, should be utilized as well.

VIII. SERVICE ON THE OCA

The OCA will be represented in this case by Senior Assistant Consumer Advocate Aron J. Beatty and Assistant Consumer Advocate Harrison W. Breitman. Aron J. Beatty will act as the lead attorney for purposes of participating in the Prehearing Conference. All documents should be served on the OCA as follows:

Aron J. Beatty
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IX. SETTLEMENT

The OCA will participate in settlement discussions in this matter.

Respectfully submitted,

/s/ Harrison W. Breitman
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