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April 27, 2023

Via Electronic Filing

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

Re: PA Public Utility Commission, et al., v. Philadelphia Gas Works
2023 PGW Base Rate Case – Docket Nos. R-2023-3037933, C-2023-3038846,
C-2023-3038885, C-2023-3039059, C-2023-3038727

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,

Sarah C. Stoner

Sarah C. Stoner

SCS/lww

Enclosure

cc: Hon. Arlene Ashton w/enc.
Hon. Eranda Vero w/enc.
Certificate 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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Philadelphia, PA 19132

Date: April 27, 2023

Sarah C. Stoner
Sarah C. Stoner Esq.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	R-2023-3037933
	:	
Office of Consumer Advocate	:	C-2023-3038846
Office of Small Business Advocate	:	C-2023-3038885
Philadelphia Industrial And Commercial Gas	:	C-2023-3039059
User Group	:	C-2023-3038727
Grays Ferry Cogeneration Partnership and	:	
Vicinity Energy Philadelphia, Inc.	:	
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 Administrative Law Judges Eranda Vero and Arlene Ashton.

I. PROCEDURAL HISTORY

On February 27, 2023, PGW filed Supplement No. 159 to PGW’s Gas Service Tariff – PA. P.U.C. No. 2 (Supplement No. 159) and Supplement No. 105 to PGW’s Supplier Tariff – Pa. P.U.C. No. 1 (Supplement No. 105) to become effective April 28, 2023, seeking a general rate increase calculated to produce \$85.8 million (10.3%) 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, 2023 (its fiscal year) in this proceeding.

By Order entered April 20, 2023 (“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. 159 and Supplement No. 105

were suspended by operation of law until November 28, 2023, unless permitted by Commission Order to become effective at an earlier date. The Suspension Order reflected that the Petition for Waiver is not separately docketed and shall be considered within this rate case proceeding.

The Commission’s Bureau of Investigation and Enforcement (“BIE”) filed a Notice of Appearance. Five formal complaints have been filed: the Office of Consumer Advocate¹ (“OCA”); the Office of Small Business Advocate² (“OSBA”); the Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”)³; Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (“Vicinity”)⁴ and James Williford⁵. In addition, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), Tenant Union Representative Network (“TURN”) and POWER Interfaith (“POWER”) filed Petitions seeking to intervene in this proceeding.

This matter was assigned to Administrative Law Judges Arlene Ashton and Eranda Vero (collectively, the “ALJs”). A Prehearing Conference Order was entered on April 20, 2023 scheduling a telephonic prehearing conference in this case for Friday, April 28, 2023 at 1:30 p.m.

At its April 20, 2023 public meeting, the Commission considered Exceptions filed by Vicinity on January 17, 2023, to the Initial Decision of Administrative Law Judge Marta Guhl served on December 27, 2022, in a separate Formal Complaint proceeding initiated by Vicinity.⁶

The Initial Decision dismissed Vicinity’s complaint and ruled that PGW should assign Vicinity to

¹ The OCA’s complaint was docketed at C-2023-3038846.

² The OSBA’s complaint was docketed at C-2023-3038885.

³ PICGUG’s complaint was docketed at C-2023-3039059.

⁴ Vicinity’s complaint was docketed at C-2023-3038727.

⁵ Mr. Williford’s complaint was docketed at C-2023-3039130.

⁶ *Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. v. Philadelphia Gas Works*, Docket No. C-2021-3029259.

an existing rate class under PGW’s existing tariff. In its April 20, 2023 Order (“April 20, 2023 Order”), the Commission granted, in part, and denied, in part, Vicinity’s Exceptions. The Commission referred to this rate case the determination of the just and reasonable rate for the provision of gas transportation service by PGW to Vicinity, based upon actual cost of service and applicable rate class under Section 1301 of the Public Utility Code.⁷ The Commission directed that PGW initiate a Chapter 13 filing to propose a rate increase for the provision of service to Vicinity and file either: (1) a direct supplement to its initial direct filing for a general rate increase, setting forth its expressly stated proposed new rate applicable to Vicinity, to take effect; or (2) refile the general base rate proceeding to address the inclusion of Vicinity into its overall cost of service and overall justification for the proposed rate increase.⁸ As reflected in the proposed litigation schedule in IV.A.1 of this Prehearing Conference Memorandum, PGW intends shortly to file a direct supplement to its initial base rate filing that identifies the proposed new rate applicable to Vicinity along with testimony supporting the proposed rate.

II. SERVICE OF DOCUMENTS

PGW requests that all documents be served on:

Daniel Clearfield, Esquire
Sarah C. Stoner, Esquire
Eckert Seamans Cherin & Mellott, LLC
213 Market St., 8th Floor
Harrisburg, PA 17101
717.237.6000; Fax 717.237.6019

Craig W. Berry, Esq.
Senior Attorney
Philadelphia Gas Works
800 W. Montgomery Ave.
Philadelphia, PA 19122

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:

⁷ April 20, 2023 Order, Ordering Par. 3.

⁸ April 20, 2023 Order, Ordering Par. 4.

Daniel Clearfield – dclearfield@eckertseamans.com

Sarah C. Stoner – sstoner@eckertseamans.com

Craig W. Berry – Craig.Berry@pgworks.com

Please note that Ms. Stoner will be PGW’s lead attorney for the purposes of the prehearing conference. Mr. Clearfield will also be participating in the prehearing conference and Norman Kennard, Esq. may also participate.⁹

III. 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,¹⁰ which explains the way in which the Commission intends to apply the PGW Cash Flow Method. PGW’s testimony and exhibits fully support its full, \$85.8 million rate increase as vitally necessary in order to permit PGW to have the funds it needs to operate, to maintain its financial health and to continue its infrastructure modernization efforts which include the replacement of cast iron mains and other infrastructure, an effort that is essential to PGW’s continued provision of safe, adequate and reasonable service.

Additional issues include 1) the appropriate allocation of the rate increase among the customer classes; and 2) PGW’s tariff modifications which include (a) clarification of the payment of interest on Deposits for Temporary Heat, (b) modification of PGW’s Air

⁹ Eckert Seamans attorney Kennard will be filing an entry of appearance in this proceeding.

¹⁰ 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.

Conditioning Rider to more clearly detail changes in PGW’s internal process since the AC Rider was first implemented; (c) modification to PGW’s Gas Supplier and Gas Service Tariffs to clearly permit the interconnection of facilities that would seek to provide renewable natural gas onto PGW’s distribution system; and (d) the appropriate and reasonable modifications to PGW’s existing Weather Normalization Adjustment (“WNA”) tariff in light of the recent anomalous experience in May, 2022.

With regard to the Vicinity formal complaint case referred to this rate proceeding for resolution, the Commission identified the following issues to be addressed:

- a) the proper rate class for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., including, if necessary, whether a special rate class is appropriate;
- b) the appropriate methodology and evidence necessary to apply the methodology, to determine Philadelphia Gas Works’ actual cost of service for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.;
- c) consideration and resolution of the question of whether and, if so, to what extent Philadelphia Gas Works’ transportation service to Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., utilizes PGW’s low pressure distribution system, and if so, what impact does such use have upon the Philadelphia Gas Work’s actual cost of service and the resulting “just and reasonable” rate for Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc.; and
- d) consideration and resolution of the question whether Philadelphia Gas Works should be held to its prior position in base rate proceedings that Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc., do not utilize Philadelphia Gas Works’ distribution system.¹¹

The implementation of new cost based rates for Vicinity will likely result in a reallocation of costs between PGW’s various rate classes, but will not otherwise impact PGW’s requested rate increase.

¹¹ April 20, 2023 Order, Ordering Par. 6.

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 and 1-SD	<p>Denise Adamucci PGW’s Senior Vice President for Customer & Regulatory Affairs</p> <p>Philadelphia Gas Works 800 W. Montgomery Ave. Philadelphia, PA 19122 Tel. 215.684.6878</p>	<p>Ms. Adamucci provides an overview and roadmap of PGW’s filing, including a summary of the reasons for the increase.</p> <p>In her Supplemental Direct Testimony, Ms. Adamucci addresses the Weather Normalization Adjustment (“WNA”) clause in PGW’s Gas Service Tariff. She also testifies regarding PGW’s position on the recommendations offered by Ronald Amen, with possible modifications to PGW’s WNA. She also offers testimony to demonstrate the value of the WNA to PGW’s financial health and stability, and to ratepayers.</p>
2	<p>Joseph F. Golden, Jr. PGW’s Executive Vice President and Acting Chief Financial Officer</p> <p>Philadelphia Gas Works 800 W. Montgomery Ave. Philadelphia, PA 19122 Tel. 215.684.6878</p>	<p>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, 2023, through August 31, 2024). He also details and provides supporting justification for PGW’s requested annual increase in existing base rate of \$85.8 million.</p>

- 3 **James C. Lover,**
Managing Director and Partner with
PFM Financial Advisors LLC
("PFM")

11635 North Community
House Road,
Charlotte, NC 28227
Tel. 704.319.7922
- Mr. Lover testifies to the importance of obtaining the rate increase being sought, in order for PGW 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 the requested rate increase.
- 4 **Harold Walker III**
Manager, Financial Studies,
Gannett Fleming

Gannett Fleming Valuation and Rate
Consultants, LLC
P.O. Box 80794
Valley Forge, PA 19484
Tel. 610.783.3875
- Mr. Walker discusses the results of a comparable utility analysis. His testimony benchmarks the financial performance of PGW over the years 2017-2021, and analyzes both average performance over the time period and also trends over the time period. The benchmarking indicates that there is a continued need to support PGW's financial stability with timely and appropriate rate increases to enable PGW to further strengthen its credit profile.
- 5 **Constance E. Heppenstall,**
Senior Project Manager, Rate
Studies, Gannett Fleming

Gannett Fleming Valuation and Rate
Consultants, LLC
P.O. Box 80794
Valley Forge, PA 19484
Tel. 610.783.3785
- Ms. Heppenstall presents PGW's class cost of service study ("CCOSS"). The primary purpose of the present CCOSS is to allocate PGW's costs of providing service to each Rate Class. The purpose of her testimony is to describe the principles, methodology, and data used in the present CCOSS. Ms. Heppenstall also shows the monthly fixed customer cost per class.

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| 6 | <p>Florian Teme,
PGW’s Vice President, Marketing
and Energy Planning</p> <p>Philadelphia Gas Works
800 W. Montgomery Ave.
Philadelphia, PA 19122
Tel. 215.684.6463</p> | <p>Mr. Teme describes and supports (i) the process used to develop the 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. Mr. Teme also explains and provides support for tariff revisions.</p> |
| 7 | <p>Robert Smith,
PGW’s Senior Vice President for
Operations and Supply Chain</p> <p>Philadelphia Gas Works
800 W. Montgomery Ave.
Philadelphia, PA 19122
Tel. 215.684.6726</p> | <p>Mr. Smith provides an overview of PGW’s efforts to improve safety and reliability.</p> |
| 8-SD | <p>Ronald J. Amen,
Managing Partner,
Atrium Economics, LLC
10 Hospital Center Commons
Suite 400
Hilton Head Island, SC 29926
Tel. 425.765.9385</p> | <p>Mr. Amen introduces and summarizes Atrium Economics Report, Philadelphia Gas Works: Weather Normalization Adjustment Review.</p> |

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. Pursuant to the Commission’s April 20, 2023 Order in Vicinity’s complaint case, PGW will submit supplemental direct testimony on the various issues directed to be addressed by the Commission.

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

IV. PROPOSED SCHEDULE AND DISCOVERY

A. **Proposed Schedule**

1. Litigation Schedule

PGW supports adoption of the schedule below for this proceeding based on the current November 28, 2023 end of the suspension period.

<u>Item</u>	<u>Proposed Schedule</u>
PGW Supplemental Direct Testimony (on Vicinity Related Matters)	No later than May 5, 2023
Public Input Hearings	May 10-11, 2023
Non-Company Direct	May 18, 2023
Non-Company Direct in Response to PGW's Supplemental Direct Testimony (on Vicinity Related Matters)	June 1, 2023
Rebuttal	June 13, 2023
Surrebuttal	June 23, 2023
Evidentiary Hearings / Oral Rejoinder	June 27, 28, and 29 (Telephonic)
Main Briefs	July 25, 2023
Reply Briefs	August 7, 2023
Recommended Decision	September 6, 2023
Public Meeting	November 9, 2023

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

2. Public Input Schedule

PGW will attempt to accommodate the public input hearing schedule that best meets the needs of the other parties and will confer with the interested parties in this regard prior to the Prehearing Conference.

PGW's proposes to use cyber hearings for the public input hearing in this proceeding. Cyber hearings will save money, allow greater participation, and be generally more efficient for all parties.

B. Discovery

The parties have ample time to conduct discovery before the filing of their direct testimony. PGW has already received a large number of 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, fifteen days. *See* 52 Pa. Code §§ 5.432(d) (written interrogatories), 5.349(d) (requests for documents, entry for inspection and other purposes). Due to the large number of requests and additional difficulties created by the necessity to work remotely in many cases, PGW requests that the 15 day time frame be maintained.

In addition, PGW has established a cloud-based, secure site for the assistance of the parties. Discovery responses including attachments are available at Eckert Seamans Cherin & Mellott's ShareFile site. To receive access, please contact Sarah Stoner at

sstoner@eckertseamans.com or 717-237-6026 and provide the name and email address of the person seeking access.

C. Protective Order

On April 24, 2023, PGW filed a Motion for Protective Order to protect proprietary information of any party.

D. Petition for Waiver

PGW filed a Petition requesting the PUC to waive 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, 2023, in this proceeding (PGW’s fiscal year). The Suspension Order reflected that the Petition for Waiver is not separately docketed and is to be considered within this rate case proceeding. The granting of the Petition is necessary in order to permit PGW to utilize its fiscal year, the twelve months ending August 31, 2024, as its Fully Projected Future Test Year. This same request has been granted by the ALJ(s) as part of the Pre-Hearing Order in prior PGW base rate cases. Accordingly, PGW requests that the Petition similarly be granted by the ALJs.

V. **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,

/s/ Sarah C. Stoner

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Attorney I.D. 313793
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Dated: April 27, 2023

Counsel for
Philadelphia Gas Works