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File #: 167561

February 16, 2017

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v. UGI Penn Natural Gas, Inc.  
Docket No. R-2016-2580030**

Dear Secretary Chiavetta:

Enclosed for filing is the Prehearing Conference Memorandum of UGI Penn Natural Gas, Inc. in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

  
Christopher T. Wright

CTW/jl  
Enclosures

cc: Honorable Mary D. Long  
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

### VIA E-MAIL & FIRST CLASS MAIL

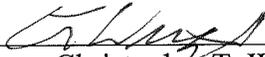
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Harrisburg, PA 17101  
*CAUSE-PA*

Date: February 16, 2017

  
\_\_\_\_\_  
Christopher T. Wright



2. UGI PNG agrees to receive service of documents electronically in this proceeding. Further, to the extent that materials are available electronically, it is requested that copies be served upon Kent Murphy at [murphyke@ugicorp.com](mailto:murphyke@ugicorp.com), Mark C. Morrow at [morrowm@ugicorp.com](mailto:morrowm@ugicorp.com), Danielle Jouenne at [jouened@ugicorp.com](mailto:jouened@ugicorp.com), David B. MacGregor at [dmacgregor@postschell.com](mailto:dmacgregor@postschell.com), and Garrett P. Lent at [glent@postschell.com](mailto:glent@postschell.com).

## **II. PROCEDURAL HISTORY**

3. This proceeding was initiated on January 19, 2017, when UGI PNG filed Tariff Gas – PA. P.U.C. Nos. 9 and 9-S with the Pennsylvania Public Utility Commission (“Commission”). Tariff Gas – PA. P.U.C. Nos. 9 and 9-S, issued to be effective for service rendered on or after March 20, 2017, proposes changes to UGI PNG’s base retail distribution rates designed to produce an increase in revenues of approximately \$21.7 million, based upon data for a fully projected future test year ending September 30, 2018 (“2017 Base Rate Case”). The filing was made in compliance with the Commission’s regulations and contains all supporting data and testimony required to be submitted in conjunction with a tariff change seeking a general rate increase.

4. On January 31, 2017, the Commission’s Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance.

5. On January 24, 2017, the Office of Consumer Advocate (“OCA”) filed a Notice of Appearance, a Public Statement and a Formal Complaint in the 2017 Base Rate Case, which was docketed at Docket No. C-2017-2585510.

6. On February 6, 2017, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”) filed a Petition to Intervene.

7. On February 9, 2017, the Commission issued a Notice scheduling a Telephonic Prehearing Conference in the 2017 Base Rate Case at 10:00 a.m. on February 17, 2017.

8. On February 9, 2017, Administrative Law Judge Mary D. Long (“ALJ”) issued the Prehearing Order that, among other things, directed the parties to submit Prehearing Conference Memoranda on or before noon on February 16, 2017

9. On February 9, 2017, the Commission issued an Order suspending Tariff Gas – PA. P.U.C. Nos. 9 and 9-S until October 1, 2017, unless permitted by Commission Order to become effective at an earlier date.

10. On February 15, 2017, the Office of Small Business Advocate (“OSBA”) filed a Notice of Appearance, a Public Statement and a Formal Complaint in the 2017 Base Rate Case.

11. Pursuant to 52 Pa. Code § 5.224(c) and the February 9, 2017 Prehearing Conference Order, UGI PNG hereby submits this Prehearing Conference Memorandum.

### **III. ISSUES**

12. UGI PNG intends to demonstrate that its request for an overall annual distribution revenue increase of approximately \$21.7 million, based on a fully projected future test year ending September 30, 2018, and proposed allowed rate of return on equity of 11.20 percent is just and reasonable and should be approved by the Commission.

13. UGI PNG intends to demonstrate that, although UGI PNG has implemented significant cost containment measures, implemented efficiency enhancements including major strides toward integrating its operations with those of UGI Utilities, Inc. - Gas Division (“UGI Gas”) and UGI Central Penn Gas, Inc. (“UGI CPG”), and has seen stable customer growth over time, the growth in operating and capital costs, along with experienced and anticipated declines

in per customer usage, have caused UGI PNG to be unable to earn a fair rate of return on its investment, at present rate levels.

14. The requested rate increase reflects the business environment the Company currently faces, particularly: (1) significant investment since its last rate case in 2009, increasing the Company's rate base by nearly 31 percent; (2) substantial increases to the Company's capital replacement and betterment program, including accelerated replacement of aging infrastructure; (3) implementation of the Company's new information technology system initiative (UGI's Next Information Technology Enterprise, or "UNITE"); (4) substantial investment in growth capital and other system infrastructure, including investments to expand gas service into unserved and underserved areas of the Commonwealth; (5) increased costs on the pricing of materials, supplies and services; and (6) wage and salary increases, along with an increased numbers of employees to continue providing safe and reliable service to customers.

15. UGI PNG intends to demonstrate that its proposed 11.20 percent return on equity is the minimum required for the Company to attract the capital needed to make system investments that will enhance the reach and capacity of its distribution system and to replace older, obsolete facilities, each of which is prudent to ensure continued system reliability, safety, and customer service performance. UGI PNG intends to demonstrate that the proposed return on equity is particularly appropriate in view of the Company's management effectiveness.

16. UGI PNG further intends to demonstrate that its proposed class cost allocation study is reasonable and consistent with long-standing Commission precedent, and that its proposed allocation of the requested revenue increase is just, reasonable, non-discriminatory, and consistent with principles established by the Commonwealth Court in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Cmwlth. 2006). UGI PNG intends to demonstrate that, except for competitive rate classes, each major rate class's relative rate of return will be moved towards the system

average rate of return, with no class receiving an average rate increase that exceeds 1.5 times the system average rate increase.

17. The Company also plans to demonstrate that its proposal to modify its existing tariff to both harmonize the UGI PNG tariff with those previously approved by the Commission for UGI Gas and CPG and to implement best practices and procedures is just, reasonable, and should be approved by the Commission. UGI PNG also intends to demonstrate that its proposal to update its tariff rules to clarify the Company's business relationship with its customers in a variety of areas, and to modify its transportation service offerings to ensure that rates for service are more aligned with the cost of serving the customers served under the rate is appropriate, just and reasonable, and should be approved by the Commission. UGI PNG also intends to demonstrate that its proposal to increase the level of its customer charges to more accurately reflect the customer component of cost of service is just, reasonable, and should be approved by the Commission.

18. The Company also intends to demonstrate that its proposed new five-year energy conservation program, the Energy Efficiency and Conservation ("EE&C") Plan, designed to promote efficient use of natural gas, is just, reasonable, and should be approved. This program is patterned off the EE&C plan recently approved for UGI Gas.

19. Finally, the Company intends to show that its proposed Technology and Economic Development ("TED") Rider pilot will, among other things, provide rate flexibility needed to encourage developing technologies, and address competitive conditions and customer preferences in seeking to expand the availability and use of the Commonwealth's abundant natural gas supplies. UGI PNG's TED Rider pilot is patterned off the TED Rider pilot recently approved for UGI Gas.

**IV. WITNESSES**

20. UGI PNG presently intends to offer the following witnesses to testify in this proceeding on the following subject matters:

| Statement No. | Witness  | Subjects Addressed   |
|---------------|--|--|
| 1             | Paul J. Szykman<br>Vice President – Rates &<br>Government Relations<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3470 | Rate Filing Overview<br>Need for Rate Relief<br>UGI-1 Initiative<br>UNITE Systems Improvement Initiative<br>Interruptible Revenues<br>Management Performance |
| 2             | Kindra S. Walker<br>Senior Director, Finance<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3443                        | Budget Process<br>Revenue Requirements<br>Operating Revenues and Expenses  |
| 3.            | Megan Mattern<br>Controller and Principal<br>Accounting Officer<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-5154     | Accounting<br>Historic Costs<br>Rate Base<br>Accounting for Data Preparation Costs for<br>Cloud Based Services   |
| 4             | Paul R. Moul<br>Managing Consultant<br>P. Moul & Associates<br>251 Hopkins Road,<br>Haddonfield, NJ 08033-3062<br>Tel: 856-428-7515  | Cost of Common Equity<br>Rate of Return  |
| 5             | Paul R. Herbert<br>President<br>Gannett Fleming Valuation<br>and Rate Consultants, LLC<br>207 Senate Avenue<br>Camp Hill, PA 17011<br>Tel: 717-763-7211                          | Cost of Service Allocation   |

| Statement No. | Witness   | Subjects Addressed  |
|---------------|---|---|
| 6             | John F. Wiedmayer C.D.P.<br>Project Manager, Depreciation<br>and Valuation Studies<br>Gannett Fleming Valuation<br>and Rate Consultants, LLC<br>1010 Adams Avenue<br>Audubon, PA 19403<br>Tel: 610-650-8101 | Depreciation  |
| 7             | David E. Lahoff<br>Manager, Tariff & Supplier<br>Administration<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3520                                | Test Years Sales/Revenues<br>Rate Structure and New Riders<br>Revenue Allocation and Rate Design<br>GET Gas Reporting<br>Tariff Changes                 |
| 8             | Robert R. Stoyko<br>Vice President – Marketing<br>and Customer Relations<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3499                       | Technology & Economic Development Rider<br>Large Customer Usage Projections<br>Bypass Risk<br>Customer Service<br>Energy Efficiency & Conservation Plan |
| 9             | Chris Ann Rossi<br>Director – Customer Services<br>UGI Utilities, Inc.<br>225 Morgantown Road,<br>Reading, Pennsylvania 19611<br>Tel: 610-736-5555  | Universal Service and Energy Conservation<br>Plan<br>Universal Service Plan Rider<br>Customer Service Policies and Procedures                           |
| 10            | Hans G. Bell<br>Vice President of Engineering<br>and Operations Support<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3450                        | System Operations<br>Capital Planning<br>System Reliability and Safety<br>Environmental Program and Remediation<br>Costs                                |
| 11            | Nicole M. McKinney<br>Principal Tax Analyst<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3445  | Taxes and Tax Adjustments   |

| Statement No. | Witness   | Subjects Addressed  |
|---------------|---|---|
| 12            | Theodore M. Love<br>Senior Analyst and Data<br>Scientist<br>Green Energy Economics<br>Group, Inc.<br>147 South Oxford Street,<br>Brooklyn, NY 11217<br>Tel: 718-395-9458  | Energy Efficiency & Conservation Plan and<br>Total Resource Cost Implementation |
| 13            | Angelina M. Borelli<br>Director - Gas and Electric<br>Supply<br>UGI Utilities, Inc.<br>2525 North 12th Street<br>Suite 360<br>Reading, PA 19612-2677<br>Tel: 610-796-3431 | Capacity Release Program  |

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

21. UGI PNG also reserves the right to call and present additional witnesses to address any issues that may arise during the course of the proceeding.

## V. DISCOVERY

22. To date, I&E, OCA, and CAUSE-PA have served interrogatories on UGI PNG and the Company has been diligently preparing timely response.

23. Based on the litigation schedule to be adopted in this proceeding, UGI PNG proposes the following modifications to the standard timelines for discovery set forth in the Commission's regulations: is necessary or appropriate.

- (a) Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service.

- (b) Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.
- (c) Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
- (d) Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served to the ALJ in writing within five (5) days of service of the interrogatories. Objections to interrogatories served on a Friday shall be communicated orally within four (4) calendar days, and unresolved objections shall be served to the ALJ in writing within six (6) days of service of the interrogatories.
- (e) Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of the written objections.
- (f) Answers to motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.
- (g) Discovery and discovery-related pleadings propounded after 12:00 noon on a Friday or after 12:00 noon on any business day immediately preceding a state holiday will be deemed served on the next business day for purposes of determining the due date of the responses and responsive pleadings.

UGI PNG understands that the above-described modifications to the standard timelines for discovery are acceptable to I&E, OCA, and CAUSE-PA.

24. UGI PNG also encourages the use of informal discovery to expedite the discovery process.

25. Finally, UGI PNG proposes the use of electronic service of discovery responses. Specifically, UGI PNG proposes to post all discovery responses to its Data Request Easy Access Management System (“DREAM”) website. UGI PNG will file and serve a letter notifying the parties when the applicable discovery responses have been posted to the DREAM website. Once posted, parties will be able to access, review, download, and/or print the discovery responses as needed.<sup>1</sup>

## **VI. LITIGATION SCHEDULE**

26. UGI PNG has discussed the schedule with the parties that have intervened in the 2017 Base Rate Case as of the time of this writing. Based on these discussions, UGI PNG proposes that the following schedule be adopted for resolution of this matter:

|  |                               |
|--|-------------------------------|
| Filing                                     | January 19, 2017              |
| Prehearing Conference                      | February 17, 2017             |
| Public Input Hearings                      | The week of March 27-31, 2017 |
| Direct of Other Parties                    | April 13, 2017                |
| First Settlement Conference                | By April 17, 2017             |
| Rebuttal                                   | May 12, 2017 by noon          |
| Second Settlement Conference               | By May 15, 2017               |
| Surrebuttal                                | May 26, 2017                  |
| Evidentiary Hearings<br>and Oral Rejoinder | June 6-8, 2017                |

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<sup>1</sup> This is the same electronic discovery process used in the UGI Utilities, Inc. – Gas Division 2016 base rate case at Docket No. R-2015-2518438.

|                |                 |
|----------------|-----------------|
| Main Briefs    | June 23, 2017   |
| Reply Briefs   | July 3, 2017    |
| Public Meeting | October 5, 2017 |

UGI PNG understands that the above-described schedule is acceptable to I&E, OCA, and CAUSE-PA.

**VII. PUBLIC INPUT HEARINGS**

27. UGI PNG proposes that the public input hearings be telephonic and live-streamed from the Commission offices rather than held on multiple dates in multiple locations throughout UGI PNG's service territory.

28. The Commission's use of telephonic and live-streamed public input hearings has been successful in prior cases, and promotes transparency in public proceedings.

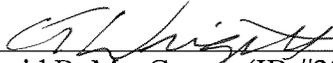
**VIII. SETTLEMENT**

29. As of this time, no settlement discussions have been held. UGI PNG remains open and available for settlement discussions with the other parties and would support initiatives to begin settlement discussions at the earliest possible date.

Respectfully submitted,

Kent Murphy (ID # 44793)  
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Date: February 16, 2017

  
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