

UGI UTILITIES, INC.
UNIVERSAL SERVICE PROGRAM EVALUATION

An Independent Analysis of Universal Service Programs

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TABLE OF CONTENTS

FOREWORD

EVALUATION GOALS AND SCOPE.....	1
EXECUTIVE SUMMARY	4
LISHP	12
• NEEDS ASSESSMENT	
• PROGRAM DESCRIPTION	
• ADMINISTRATION	
• ENROLLMENT	
• RETENTION	
• CREDIT AND COLLECTIONS	
• BILL FORMAT	
• DATABASE	
LISHP BENEFITS.....	29
• AVERAGE BILL	
• MINIMUM BILL	
• AFFORDABILITY	
• ARREARAGE FORGIVENESS	
• SHORTFALL	
LISHP PROGRAM COSTS	37
• ADMINISTRATION	
• ARREARAGE FORGIVENESS	
• SHORTFALL	
• LISHP FUNDING	
CARES	41
• PROGRAM DESCRIPTION	
• ENERGY ASSISTANCE	
• OPERATION SHARE	
LIURP.....	48
• NEEDS ASSESSMENT	
• PROGRAM DESCRIPTION	
• PROGRAM PERFORMANCE	

APPENDIX

FOREWORD

This report serves as both impact and process evaluation of UGI Utilities, Inc.'s (UGI)(the Company) Universal Service programs for 2007. The most recent redesigned Universal Service and Energy Conservation Plan was submitted on June 1, 2004 for program years 2005-2007. Elements in this evaluation are based on the Company's most recent revisions.

Every three years, Pennsylvania jurisdictional gas and electric utilities are required to submit a redesigned Universal Service and Energy Conservation Plan (the Plan) to the Bureau of Consumer Services (BCS) for filing with the Pennsylvania Public Utility Commission (PUC). In addition, every six years, the companies are required to submit evaluations of their plans conducted by an independent third party evaluator.

Company Events Impacting IT Resources

Since the Plan submission on June 1, 2004 major changes to the Company's Low Income Self Help Program (LISHP) was undertaken. In November 2005, a PUC regulatory settlement, Docket No P-00052190 allowed for the expansion of the Company's LISHP enrollment from 4,000 to 8,000 customers, for the increase in its CAP discounts, and for the implementation of a funding mechanism to recover certain associated costs.

On August 24, 2006, UGI Corporation was granted approval for the acquisition of PGEnergy, a Southern Union company with headquarters in Wilkes Barre, PA. UGI merged its 307,000 customers serving 15 counties with PGEnergy's 158,000 customers serving 13 counties. Throughout the transition, each company maintains separately operated Universal Service and Conservation programs with funding mechanisms unique to each (i.e., UGI's LISHP Rider; PGEnergy's Rate Base).

Throughout 2004-2006 the Company's IT resources were dedicated to high priority acquisition and regulatory related (i.e., Chapter 14) programming requests. As a result, enhancements and fixes to the LISHP database were placed on hold.

Independent Evaluation Extension Filing

To allow for sufficient accumulation and tracking of LISHP data and continued identification and resolution of LISHP database fixes resulting from the Company's enhanced database initiative, UGI requested and was granted two extensions of the completion of their Universal Service Program evaluation: the first, December 1, 2006 to April 1, 2007 and the second, May 1 to June 1, 2007.

Data Sources

The data contained in this document was obtained from UGI management interviews and reports from UGI's mainframe and LISHP database.

EVALUATION GOALS AND SCOPE

Goals

Universal Service Programs must meet the following goals as outlined by the Pennsylvania Bureau of Consumer Services (BCS):

- To protect consumers' health and safety by helping low-income customers maintain affordable utility service.
- To provide for affordable utility service by making available payment assistance to low-income customers.
- To help low-income customers conserve energy and reduce residential utility bills.
- To ensure utilities operate Universal Service and Energy Conservation programs in a cost-effective and efficient manner.

Scope

Questions to be addressed in this evaluation include the following: ¹

1. Is the appropriate population being served?

See LISHP NEEDS ASSESSMENT PAGE 13

2. What is the customer distribution by CAP payment plan?
Payment plans are defined at 52 Pa. Code §69.265(2) of the CAP Policy Statement.

See LISHP: ENROLLMENT PAGE 21

Generally, do participants' energy burdens comply with the CAP Policy Statement at 52 Pa. Code §69.265(2) (i) (A)-(B)?
Energy burden is defined as the percentage of household income spent on energy services (electric or natural gas).

See LISHP BENEFITS: LISHP AVERAGE BILL PAGE 29

3. What are CAP retention rates? Why do customers leave CAP?

See LISHP: RETENTION PAGE 22

¹BCS Universal Service evaluation questions revised 2005.

EVALUATION GOALS AND SCOPE

4. Is there an effective link between participation in CAP and participation in energy assistance programs (LIHEAP, hardship funds, and other grants)?

See LISHP PROGRAM COSTS PAGE 38

5. How effective are CAP control features as defined in 52 Pa. Code §69.265(3) of the CAP Policy Statement, at limiting program costs?

Specific questions to be answered include the following:

- Number and percentage of customers who have minimum payments

See LISHP: MINIMUM BILL PAGE 30

6. How effective is the CAP and LIURP link? Is the company's procedure for dealing with excessively high usage effective? If not, how can it be improved?

See LIURP: PROGRAM PERFORMANCE PAGE 51

7. Has collection on missed CAP payments been timely?
Has the company followed its own default procedures in its Commission approved Universal Service Plan for CAP customers?

See LISHP: CREDIT AND COLLECTIONS PAGE 23

For the most recent 12-month period, provide findings for the following data requests:

- Number of CAP accounts that have missed 3 or fewer payments
- Number of CAP accounts that have missed 4-6 payments
- Number of CAP accounts that have missed 7-12 payments
- Number of CAP accounts that have missed more than 12 payments

See LISHP: CREDIT AND COLLECTIONS PAGE 23

8. Does participation in Universal Service Programs decrease service terminations?

See LISHP: CREDIT AND COLLECTIONS PAGE 26

9. Does participation in Universal Service Programs decrease collection costs?

See LISHP: CREDIT AND COLLECTIONS PAGE 26

EVALUATION GOALS AND SCOPE

10. Is the CAP program cost effective?

See LISHP PROGRAM COSTS: PAGE 37-38

11. How can Universal Service Programs be more cost effective and efficient?

See EXECUTIVE SUMMARY PAGE 4-11

12. Is the program sufficiently funded?

See LISHP PROGRAM COSTS: LISHP FUNDING PAGE 40

Evaluator Comments

During the evaluation process at UGI, the evaluator noted many of the processes already underway that supports the Company's commitment to improve the operations of LISHP and other Universal Service programs. Of particular mention is the expert resourcefulness of the Supervisor of Customer Outreach and Regulatory Compliance and her department to operate the Company's Universal Service programs during complex Company transitions.

The expansion of LISHP enrolled from 4,000-8,000 customers occurred within a parallel time period to the PGEnergy acquisition. The Company's IT resources were redirected to regulatory priorities in lieu of enhancements to the LISHP system. The supervisor hired and trained additional Customer Outreach Representatives to manually perform checks and balances on all LISHP customer billing protocols as a stop-gap measure until such time as IT resources could once again be dedicated to LISHP system fixes.

In addition, the Universal Service staff has been cross trained to respond to informal PUC complaints to address a backlog of compliance activities that grew out of recent regulatory changes.

2004 Universal Service Plan Compliance

In reviewing UGI's 2004 Universal Service Plan, I found the Company in compliance with the plan as originally filed with minor exceptions as listed below:

LISHP Recertification-Due to irregularities in the LISHP system, there has not been any routine or automatic recertification process in place for LISHP customers. Since the recertification process is listed in the 2004 Company plan and acts as the primary control factor for continued LISHP participation, the Company is prioritizing this activity in 2007.

LIURP Solar Water Heater Pilot-This pilot was unsuccessful due to the lack of identified eligible participants by the Commission on Economic Opportunity. The total Company investment was \$50,000.

LIURP Oil Swap Program-Funding was reserved at 10% (\$61,321) of the LIURP annual budget of \$613,212. The oil from UGI non-heat customers converting to gas was pumped and delivered to low-income, payment-troubled non-heat customers who were ineligible to receive LIURP. While the pilot program was a success, current market conditions do not make this a practical project and the pilot will be put on hold until conditions reverse.

LIURP Spending Levels-Due to the inability of the five contracted Community Action Agencies to increase weatherization production with their current staffing levels, there was an accumulation of \$170,286 in unspent LIURP money from 2006 rolled over to 2007. The recent increase in required Company spending levels for LIURP from \$613,212 to \$1,022,825 adds an additional \$409,613 to the required annual spending level. The Company is committed to a spending and production plan which spends the 2007 LIURP budget amount.

Major Findings and Recommendations

Needs Assessment

- A total of 8,000 customers are enrolled in LISHP. This is 67% of an estimated low income population of 11,969 who might be likely to apply for LISHP.

Recommendation: The Company should continue to enroll customers based on the projected need. However, no additional enrollment over the current numbered enrolled of 8,000 customers should be considered without increased LISHP Rider funding.

LISHP Enrollment

- Customer Outreach spends an excessive amount of time on manual checks and balances including LISHP account monitoring, customer correspondence, and corrections on final bills.

Recommendation: Synchronize LISHP system with Company mainframe. Ensure and test reliability of downloaded data. Convert all manual monitoring to automatic functions.

Establish a prompt on the Customer Information Center's (CIC) Automatic Attendant for LISHP customers.

The Company should consider analyzing the cost effectiveness of CIC representatives performing pre-qualification of customers for LISHP eligibility and telephonic enrollment. Customers would mail in proof of income to the Customer Outreach Department. This would create efficiencies with enrollment by reducing on site customer visits to agencies and in turn reduce agency costs.

- Over half (51%) of LISHP participants are within the 51%-100% of Federal Poverty Level income.

LISHP Recertification

- LISHP customer recertification remains on hold with the exception of known LIHEAP and Crisis grant recipients due to inaccuracies within the LISHP system relating to average bill amounts.

Recommendation: Recertify all active LISHP participants for household income eligibility, appropriate percentage of income amounts, and shortfall and arrearage forgiveness amounts by year-end 2007.

Each year thereafter, randomly select 25% of enrolled customers for recertification.

LISHP Retention

- The retention percentage of active LISHP customers who remained in the program in 2006 was 74% with the percentage of customers dropped from LISHP at 26%.

Recommendation: Create a LISHP Reason Dropped Customer Report by FPL in order to further evaluate customer behavior.

Credit and Collections

- Approximately 50% of LISHP customers are good paying customers, never missing a single payment. The payments are affordable and consistent.
- The Company has been adhering to the default for non-pay and termination procedures as outlined in their 2004 Universal Service Plan.
- 2,695 accounts received field service orders for termination.
- 1,495 customers paid their delinquent payments.
- 680 customers were terminated.

Recommendation: The Company should consider making reminder outbound phone calls to LISHP customers with one or more missed payments especially during the winter months December-March.

- The Company has not enforced their removal from LISHP policy for customers who increase their household usage, fail to apply for LIHEAP, or refuse participation in LIURP.

Recommendation: Track and enforce violators of the Company's LISHP default and removal policy.

- In the pre-LISHP vs. post-LISHP customer collection activity study, the number of ten-day notices increased significantly while the number of terminations increased slightly. As a result, there is no collection cost saving realized for this group of customers.

- Efficiencies were gained by the conversion from the Company's manual collection process to the automatic LISHP system resulting in earlier identification of missed customer payments and automatic generation of collection notices.

Bill Format

- The LISHP bill is confusing and hard to understand. There are no line items which make apparent the application of LIHEAP or Crisis grants, arrearage forgiveness amounts and shortfall forgiveness accrued.

Recommendation: Utilize bill messages on the LISHP bill which identifies customer forgiveness amounts during the month that shortfall and arrearage forgiveness occurs. This enables the customer to link their benefits directly to their monthly bill.

The Company would eliminate excess customer information LISHP benefit mailings and significant postage expense.

The Company should consider the feasibility of reformatting the LISHP customer bill by investigating utility best practices for CAP bills.

Database

- Of the 30 medium-to-high priority issues identified on the LISHP System Working Issues Log, 21 are reported as being fixed, four reported as work in progress, and five reported as no fix necessary.

Recommendation: The Company should resolve all remaining issues on the Log by the end of the third quarter 2007 and continue to provide enhancements to the LISHP system as issues are identified.

LISHP Average Bill

- The December 2006 LISHP average bill amount was \$95 an increase of 6% from 2004.

Minimum Bill

- Less than 1% (67) of the 2006 average number of enrolled LISHP customers were on a minimum payment. Of those customers, 36 were enrolled four months or longer.

Recommendation: Prioritize customers who have been enrolled in a monthly LISHP minimum payment plan for recertification of income every three months for continued participation in LISHP.

LISHP Affordability

- There is a significant number (899) of customers with LISHP payments greater than their average bill. Of the total, 45% (405) of the accounts have amounts greater than \$20 over their average bill.

Recommendation: Conduct an annual analysis of the LISHP accounts by income level, with payments greater than their average bill to determine affordability, success on LISHP, and actual benefit derived from arrearage forgiveness.

Arrearage Forgiveness

- The average pre-program arrearage benefit for active LISHP participants was \$206 for year-end 2006; \$179 for year-end 2005; and \$199 for year-end 2004.

Recommendation: Consider timelier arrearage forgiveness benefits: forgive customer program arrearage quarterly (every three months) by $\frac{1}{4}$ increments over a one-year period for balances under \$500 and by $\frac{1}{8}$ increments over a two-year period for balances over \$500.

Excess Shortfall

- Due to LISHP system irregularities, LISHP customer bills were not adjusted automatically to reflect higher LISHP payments based on higher than historical usage. Only accounts which were reviewed manually for final bills were adjusted with the correct excess shortfall amounts.

Recommendation: Continue to check and fix inaccuracies within the LISHP system to ensure proper application of LISHP customer shortfall amounts.

LISHP Administration Costs

- LISHP agency costs are a significant percentage of LISHP administration costs. To date, collections and compliance costs have not been included in the Company's allowable administration costs.

Recommendation: Track and incorporate costs relating to LISHP collections and compliance activities into Item #21 Program Costs-Administration of the annual BCS Universal Service Report.

LISHP Funding

- The revenue received from the LISHP Rider combined with customer payment and energy grant revenues is not adequate to fully fund all costs relating to LISHP.

Recommendation: The Company should seek regulatory opportunities to include program costs currently excluded from their LISHP Rider in order to adequately recover all LISHP related costs.

CARES

- In 2006, of the 1,204 customers accepted into CARES, 11 were referred to LIURP, 91 referred to LISHP, and 252 referred to Operations Share hardship fund.
- The CARES program is well managed and provides a significant financial benefit to those UGI customers with a temporary need.

Energy Assistance

- Comparing program year 2006 vs. 2005 the number of customers receiving LIHEAP grants increased by 26% (2,892 customers); however, the average grant decreased by 4% (eight dollars). The number of customers receiving Crisis grants increased by 27% (850 customers) with the average grant increasing by 14% (\$38) .

Operation Share

- The Company is not receiving full benefits from their matching dollar commitment. Unused matching dollars are lost and not rolled over into the next program year.

Recommendation:
Seek opportunities for fundraising to solicit additional employee and community donations.

- Eligibility guidelines for Operation Share are very narrow which restrict the number of customers who could potentially benefit.

Recommendation: Change the guideline requirements from “customer to pay 50% of their bill balance” to “customers to pay a minimum of three payments on their bill.”

Increase the size of the grants from \$200 to \$300.

Increase income eligibility from 150% to 200% of FPL.

The Company should consider contracting with an umbrella agency to act as the financial agent to coordinate the distribution of customer agency vouchers and customer contributions for all ten participating Operation Share agencies in order to reduce excess internal administration of the fund.

LIURP

- The furnace and water heater safety check is the last step in the weatherization process. If either heating appliance is unsafe, there is no knowledge of this upfront to prevent the auditor from installing aggressive air sealing and weatherization measures. This could exacerbate the safety issue.
- Service Department resources available to perform safety checks for LIURP jobs vary with other seasonal work.

Recommendation: Hire a third party contractor to perform all safety related heating appliance checks for LIURP. Move the safety check to the first step in the audit process.

Hire a third party contractor to perform post inspections at 25% of all annual LIURP completions.

- For program years 2005-2006, an average of 56% of all home weatherized were high usage LISHP customers.

Recommendation: Continue to prioritize LISHP high usage customers for LIURP.

- The Company’s heating equipment replacement program is well managed to prevent excessive LIURP budget expenditures.

- The average percentage of savings from LIURP completed jobs is significantly lower than PA peer gas utilities.

Recommendation: Analyze LIURP data tracking and compilation to ensure the correct methodology is applied to determine average savings percentages. Separate savings by agency to identify possible percentage variances.

- The Company faces a significant challenge in spending their LIURP budget in program year 2007.

Recommendation: The Company should contract with additional CBOs to increase LIURP production. Also, UGI should consider adding private insulation contractors to the Company's list of approved weatherization providers to achieve increased production.

Hire a full-time Customer Outreach Representative to coordinate the increased workload due to the increased size of LIURP.

Allow customers to apply for furnace and water heater replacements even when the Crisis program is open.

Hire contractors for all clean and tune and safety checks of furnaces and water heaters. Hire a contractor to perform post inspections.

NEEDS ASSESSMENT

CAP Population Target

According to the Policy Statement on Customer Assistance Programs 52 PA. Code §69.264, utility CAPs should be targeted to low-income, payment-troubled customers. The participation limit for CAP should reflect a needs assessment, consideration of the estimated number of low-income households in the utility's service territory, the number of participants currently enrolled in CAP, participation rates for assistance programs and the resources available to meet the needs of the targeted population.

Chronological Overview of LISHP Population

- In January 1995 UGI submitted a plan to the BCS for a LISHP Pilot to enroll up to 1,000 eligible customers. The first participant was enrolled in July 1997.
- In 2000 a CAP Needs Assessment was performed utilizing census data obtained from the same year. *See Appendix A: 2000 Census*
- In January 2001 a Restructuring Settlement granted the Company a CAP funding increase utilizing excess Other Post Employment Benefits (OPEB) funding in order to expand LISHP participation from 1,000-4,000 customers.
- In November 2005 the Company requested to expand LISHP to 8,000 customers, increase CAP discounts, and the implementation of a funding mechanism to recover certain associated costs.
- In 2007 a revised LISHP Needs Assessment was performed.

NEEDS ASSESSMENT

Table 1
2007 Needs Assessment

Description	Customers
Number of confirmed low-income customers All Level I and II customers with payment agreements reported in 2006 BCS Universal Service Report	21,276
Number of additional customers receiving LIHEAP and other energy assistance 2005-2006 Program Years	2,500
Average number of customers receiving LIURP on an annual basis who are non-LISHP	163
Total Identified Low-Income Customers UGI Database	23,939
Number of Estimated LISHP participants @ 50%	11,969*
Total Identified Low-Income Households 2000 Census 2000 Census estimates of Low-Income Households @150% FPL within Pennsylvania counties established the ratio of Low-Income Households in UGI Service Territory.	47,450
Number of estimated low-income customers who are low income and payment troubled at 40%	18,980**

*PA Bulletin, Vol 29, No. 19, states "current participation rates for government programs such as food stamps and LIHEAP are around 50%. We would not expect every payment troubled customer who is eligible for CAP to apply for enrollment."

** The Commission's Investigation of Uncollectible Balances Docket No. 1-9000002 found that 40% of the Commonwealth's low-income households are payment troubled.

Finding 1

A total of 8,000 customers (67%) out of an estimated low-income population of 11,969 identified on the UGI database are active LISHP participants.

Recommendation

The Company should continue to enroll customers based on the projected need. However, no additional enrollment over the current 8,000 customers should be considered without increased LISHP Rider funding.

PROGRAM DESCRIPTION

Overview

LISHP is a percentage of income program offered to eligible payment troubled, low-income customers who are unable to meet their monthly gas bill payment. In order to encourage energy conservation, a normalized average bill amount is factored into a formula that determines the customer’s monthly payment. In cases where a LISHP participant’s billing deficiency exceeds their previous year’s normalized average bill amount, the excess amount will be apportioned to the monthly LISHP payment. In no case will the allowable billing deficiency amount exceed \$1,146 annually per customer.

Program benefits include a shortfall forgiveness and pre-program arrearage forgiveness component

The goal of the program is to increase the number of payments from low-income customers through lower rates, payment monitoring by company representatives, conservation education, and linkages to all company and community income support programs.

**Table 2
LISHP Monthly Payment**

Percent of Poverty	Percentage of Customer Income
Income Level 1: 0-50%	7%
Income Level 2: 51-100%	8%
Income Level 3: 101-150%	9%

Eligibility

Eligibility criteria include the following:

- Household income must be verified at 150% of poverty or below at one of the participating LISHP intake administrative agencies.
- Applicants must be a UGI residential heating customer with active UGI gas service. Exceptions are granted for non-heating customers.

PROGRAM DESCRIPTION

Arrearage Forgiveness

When a customer is accepted into LISHP the Company freezes their arrearage balance. This balance is defined as the pre-program arrearage and is factored into a forgiveness mechanism. The Company will forgive one-third of the pre-program arrearage after the participant has been in the program for a minimum of six consecutive months with six LISHP payments made in full. The balance of the pre-program arrearage will be forgiven in like amounts at the end of 18 and 30 months respectively, on the condition of continued full LISHP payments in the remaining consecutive months.

Recertification

UGI's June 1, 2004 Universal Service Plan describes a recertification policy for LISHP customers. For continued LISHP participation, customers must provide proof of income annually or upon request, which includes:

- Receipt of LIHEAP or Crisis grant within the most recent 12 months.
- Income documentation of household income at or below 150% of the Federal Poverty Guidelines.

Failure to comply within one billing cycle of customer notification results in adjusting the LISHP payment amount to the average usage bill amount. Once recertified, the LISHP payment reverts back to the percentage of income payment amount.

Due to inaccuracies discovered with the average bill amount in the LISHP system, UGI chose to temporarily eliminate the customer recertification requirement until the system is corrected and further tested. Currently, one Customer Outreach Representative manually checks an average of 60 accounts daily to compare the mainframe and LISHP system amounts for accuracy. In order to prevent customer removal from LISHP for failure to recertify, the representative overrides the recertification field so the system thinks the customer has recertified. Currently the only recert process in place is one in which customers receive LIHEAP, Crisis, or social security.

PROGRAM DESCRIPTION

Finding 2

LISHP customer recertifications remain on hold with the exception of known LIHEAP and Crisis grant recipients, due to inaccuracies in the reported average bill amount by the LISHP system.

Recommendation

Recertify all active LISHP participants for household income eligibility, appropriate percentage of income amounts, and shortfall and arrearage forgiveness amounts by year-end 2007.

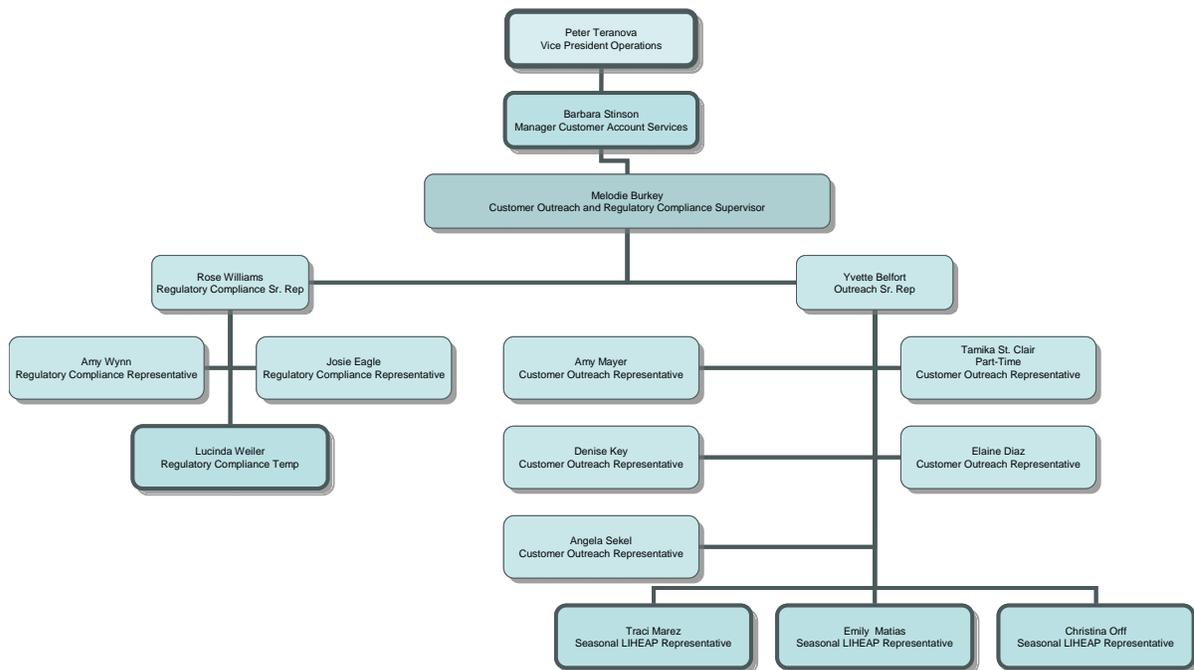
Each year thereafter, pull a 25% random set of enrolled customers for recertification.

ADMINISTRATION

LISHP Staff and Agency Administration

The Company’s Universal Service programs are administered and implemented by a team of six Customer Outreach Representatives, three seasonal part-time LIHEAP representatives and one Supervisor of Customer Outreach and Regulatory Compliance. The supervisor is responsible for LISHP oversight, contractor coordination, database updates and inquiries, account monitoring, customer billing, four regulatory compliance representatives and all Universal Service and associated regulatory reporting.

Figure i
UGI Customer Outreach and Regulatory Compliance Group



UGI contracts with nine community based organizations (CBOs) which coordinate LISHP customer outreach, intake, verification of customer income, customer contact and inquiries, and recertification.

ENROLLMENT

Overview

Low-income payment troubled customers who call the Customer Information Center (CIC) and ultimately enter the credit queue either have their service terminated, have received a termination notice, or are calling to make special payment arrangements. During the call, the credit representative may identify the customer as being LISHP eligible and may refer them to the Company's 1-800-WARM telephone line. Additionally, customers may be referred to the program by any of the Company's contracted CBOs.

After calling the 1-800-WARM telephone line, a customer is prescreened for LISHP income eligibility. Those customers who qualify are asked to schedule an appointment with a participating intake agency for further income verification and documentation. At the customer interview, agencies complete a LISHP application, review customer participation terms and conditions, and make referrals to additional community resources when appropriate.

LISHP Terms and Conditions

The LISHP payment must be paid each month on or before the due date.

Customers must apply for LIHEAP grants. These grants are applied to the customers' shortfall amount (i.e., the difference between the general service tariff rate and the LISHP customer payment).

If eligible, customers must apply for Crisis grants which are applied to past due LISHP payments. All other assistance may be applied to the customer's pre-program arrearage.

If eligible, customers must participate in UGI's Low Income Usage Reduction Program (LIURP) or other weatherization services offered through local and state agencies and agree to conserve energy and reduce gas usage.

Customers must report any change in family size, income, or address to UGI during their participation in LISHP.

Customers must agree to provide access to the meter for actual meter reads every other month and provide reading cards in the alternate months. UGI reserves the right to refuse shortfall and pre-program arrearage forgiveness if an actual meter read is not obtained.

Participants must agree to participate in all governmental or social assistance programs available to them.

Customers must recertify annually to remain active in LISHP.

ENROLLMENT

Upon completion of the customer interview, the agency sends the completed LISHP application electronically to a UGI customer outreach representative who reviews the application and payment amount for accuracy and updates the LISHP system. If accepted, a welcome letter is sent to the newly enrolled customer detailing their new LISHP payment amount, due date, and arrearage forgiveness component.

Monitoring of Accounts

The Customer Outreach Representatives spend an excessive amount of time on manual processes. Of 21 letters designed for mail out to LISHP customers, 15 letters are manually produced and mailed. Each account must be manually reviewed for correct balance amounts, shortfall forgiveness amounts, pre-program forgiveness amounts, customer usage overages and average bill amounts prior to the letters being sent. As of March 2007, the LISHP database system was not synchronizing with the Company's mainframe.

Table 3
LISHP Customer Letters

Letters Produced by LISHP System	Letters Manually Produced by Customer Outreach
Gas Recertification	Removal Confirmation-Over income as per Agency verification.
Electric Recertification	LISHP Removal-Credit found on customer account or no longer a benefit.
Electric 25 day Late LISHP pmt 25 days past due	Removal as per customer request.
Shortfall or Pre- Program Arrearage Forgiveness Amounts	Removal Confirmation-Over Income as per Customer Outreach.
Rebill-Cancelled Bill and Rebilled	Confirmation of Removal Letter Received from customer-Balance due.
Welcome Letter at Enrollment	Instructions to schedule income verification appointment with agency.
	Request for meter read in order to apply forgiveness amount to LISHP account.
	Electric recert-Non-LIHEAP-No change in LISHP amount.
	Gas recert-LIHEAP received-No change in LISHP amount.
	Increased LISHP amount after Increased Usage-Non-LIHEAP.
	Reduced LISHP amount-Received LIHEAP.
	Reduced LISHP amount-Non-LIHEAP.
	Removal-no longer active UGI account-sent final bill and balance owed.
	Write-off forgiveness amount.

UGI Customer Outreach Interview Data-2007

ENROLLMENT

Finding 3

Customer Outreach Representatives spend an excessive amount of time on manual checks and balances including LISHP account monitoring, customer correspondence, and final bills.

Recommendation

Synchronize LISHP system with Company mainframe. Ensure and test reliability of downloaded data. Convert all manual monitoring processes to automatic functions.

Establish a prompt on the Automatic Attendant for Universal Service programs.

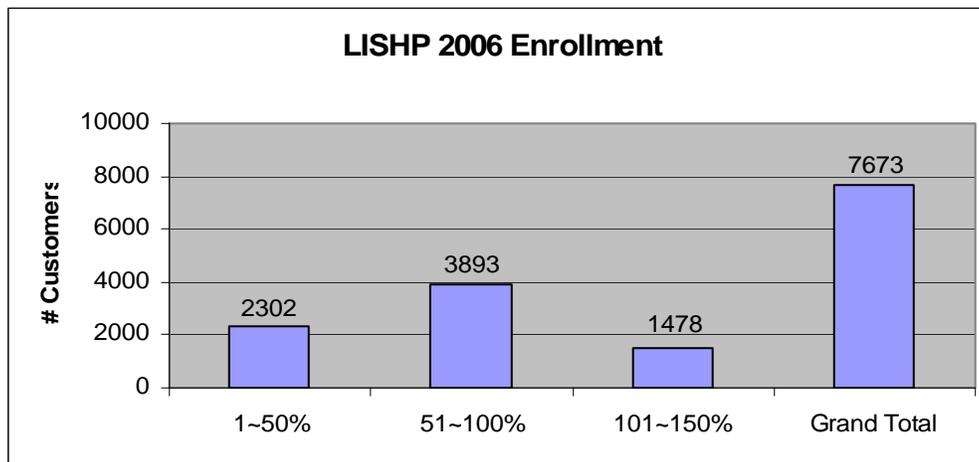
Consider feasibility and cost effectiveness of CIC representatives performing pre-qualification of customers for LISHP eligibility and telephonic enrollment as a one-stop shop. Customers would mail in proof of income to Customer Outreach. This would serve to reduce on-site visits to agencies and reduce agency costs.

ENROLLMENT

Enrollment Trends

Enrollment trends from the 2006 program year indicate that the majority of LISHP participants fall into the 51%-100% of FPL. Company data further reveals that participation levels are highest in the months of January through March, when heating bills tend to be the highest.

Figure ii
LISHP Customers by FPL



UGI Ad Hoc Report-February 10, 2007

Finding 4

51% of LISHP participants (3,893) are customers within 51% -100% FPL

30% of LISHP participants (2,302) are customers within 0% - 50% FPL

19% of LISHP participants (1,478) are customers within 101% -150% FPL

RETENTION

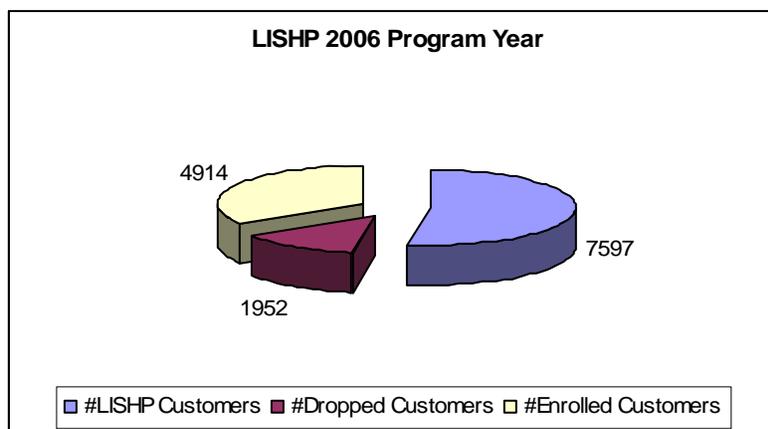
LISHP Dropped Customer Trend

In any given month the percentage of LISHP participants who remain active and who do not get dropped from the program varies. Despite UGI's best efforts to maintain their enrollment levels at 8,000, customers who have been dropped from the program have a definite program impact on the overall number of annually reported LISHP participants.

Company information regarding the reasons for customers leaving LISHP was not available in a detailed breakdown. Typically customers leaving LISHP include those who move, default from the program, and/or are over income.

The Company's churn rate (the percentage of customers who leave LISHP) and the retention rate (the percentage of customers who stay in LISHP) are two key factors when evaluating the number of required enrollments for maintaining active participant levels on an annual basis.

Figure iii
LISHP Dropped Analysis
2006



UGI Ad Hoc Report 2006: Data reported to BCS for April Universal Service Report

Finding 5

In 2006 the churn rate of the percentage of customers dropped from LISHP compared to the year end active participant total was 26%.
The retention percentage of active LISHP participants was 74%.

Recommendation

Create a LISHP Reason Dropped Customer Report by FPL to further evaluate customer behavior.

CREDIT AND COLLECTIONS

Impact on Collection Costs

Utility CAP collection costs are greatly impacted by the following three factors:

- CAP customer payment frequency/delinquency.
- Company's strict adherence to credit and collection procedures.
- Number and frequency of collection activities.

Payment Frequency

The premise of LISHP is that by providing low-income, payment-troubled customers with affordable budget plans, all customers will make consistent monthly bill payments. The Company provided payment frequency data on 8,606 LISHP customers as of February 27, 2007. Approximately half (4,326) of these customers are considered good paying customers, never missing a single payment.

Table 4
Frequency of Payments
February 27, 2007

Number of Customers	Missed Payments
4,326	0
2,777	=<3
867	4 to 6
493	7 to 12
143	>12

UGI Ad Hoc Report- February 27, 2007

Finding 6

Approximately 50% of LISHP customers are good paying customers who never miss a single payment. The payments are affordable and consistent.

Percentage of LISHP customers who missed three or less payments	= 32%
Percentage of LISHP customers who missed four to six payments	= 10%
Percentage of LISHP customers who missed seven to twelve payments	= 06%
Percentage of LISHP customers who missed over twelve payments	= 02%

CREDIT AND COLLECTIONS

LISHP Credit and Collections

Prior to November 2006 collections and terminations were handled as a manual process and was quite burdensome. With the Company's new LISHP system, all delinquent LISHP customers over 40 days are tracked and ten-day, three-day, and shutoff notices are automatically generated. The termination procedure is stopped if payments are made, if medical certifications are obtained, or if there are opened PUC termination customer disputes.

LISHP Collections Procedures

Upon the second missed LISHP payment the ten-day notice is mailed which advises the customer of the date of termination and the amount the customer owes to prevent termination. Typically, the amount is the total of two missed payments to be paid prior to the termination date to avoid shutoff.

The three-day notice is made by telephone call. Two calls are attempted, one in the AM and one in the PM on two different days.

In there is no response to the three-day notice telephone call, a notice is issued to the field for a premise visit to post a three-day hang tag.

The account is terminated. The defaulted customer has up to 109 days to pay the full catch-up LISHP amount including any LISHP bills that may have come due during the termination process. Upon receipt of the full catch-up amount, the customer is returned to LISHP.

After 109 days, if the defaulted customer does not pay the full catch-up amount, the full LISHP balance owing (including any missed LISHP payments accrued while the service was off plus any fees for restoring service) becomes due. Upon full payment and service restoration, the customer may return to LISHP.

Table 5
2006 Collections Activity

Description	Number of Accounts
Accounts Handled	2,696
Accounts Paid	1,495
Service Orders –Non-Complete Non-access-No Curb Valves	214
Accounts Closed	216
PUC Hold on Accounts	81
UGI Hold on Accounts	10
Terminations	680

UGI Ad Hoc Report

CREDIT AND COLLECTIONS

Finding 7

The Company has been adhering to the default for non-pay and termination procedures as outlined in their 2004 Universal Service Plan. Of the 7,336 total number of average LISHP participants in the 2006 program year, 37% (2,696) of the accounts received field service orders for termination. Of those, 56% (1,495) of the customers paid their delinquent payments and only 25% (680) of the customers were terminated.

Recommendation

The Company should consider conducting reminder outbound phone calls to LISHP customers with one or more missed payments especially during the winter months December 1 through March 31.

Other Default Conditions

In addition to non-pay, the Company's 2004 Universal Service Plan lists other conditions upon which a customer is considered to be in default with possible removal from LISHP. These include income exceeding 150% of FPL, continued increase in household gas usage after three Company warnings to reduce, refusal to participate in the Company's LIURP, failure to apply for LIHEAP, theft of service, non-access to meter, and bankruptcy.

Finding 8

The Company has not enforced their removal from LISHP policy as consequences to customers who increase their household usage, fail to apply for LIHEAP, or refuse to participate in the Company's LIURP.

Recommendation

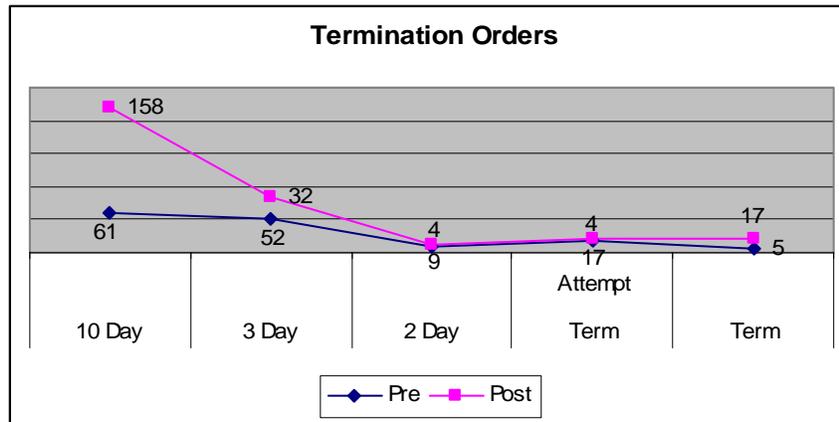
Track and enforce violators of the Company's default and removal policy.

CREDIT AND COLLECTIONS

Number and Frequency of Collection Activities

Once customers have been enrolled into LISHP and are making consistent on-time payments the theory is that the number of collection activities should decrease as well as the resultant number of accounts terminated. Since data to test this theory was limited to manual extraction, a sample was drawn on a random set of 50 customers with a 24-month company payment history; 12 months pre-LISHP and 12 months post-LISHP.

Figure iv
Pre-LISHP vs. Post-LISHP



UGI Ad Hoc Report

Finding 9

In the pre-LISHP vs. post-LISHP customer comparison study on collections activities, the number of ten-day notices increased significantly while the number of terminations increased slightly. Efficiencies were gained by the conversion from the Company's manual collection process to the automatic LISHP system through earlier identification of missed payments and the automatic generation of collection notices. There was no collection cost saving benefit realized from the customers sampled in this study.

BILL FORMAT

Many Pennsylvania utility companies have redesigned their residential tariff bills to include CAP benefit information for enrolled CAP participants either as a separate CAP bill or as part of their tariff bill. Because this information is provided on a monthly basis in plain language, it provides the customer with a clear understanding of the benefits they are receiving while active in CAP and acts as an incentive to remain enrolled.

Several LISHP bills were reviewed including:

- Customer bills which were current. *See Appendix: B LISHP Bill*
- Customer bills with one or more missed payments.
- Customer bills with shortfall and arrearage forgiveness.
- Customer bills which were finalized.

Finding 10

The LISHP bill is confusing and hard to understand. There are no line items which make apparent the application of LIHEAP or Crisis grants, arrearage forgiveness amounts, and shortfall forgiveness accrued.

Recommendation

Utilize bill messages on the LISHP bill which identifies forgiveness amounts during the month that shortfall and arrearage forgiveness occurs. This enables the customer to link their benefits directly to their monthly bill. The Company would eliminate excess customer information LISHP benefit mailings and significant postage expense.

The Company should consider the feasibility of reformatting the LISHP customer bill by researching utility best practices for CAP bills.

Impacts on IT Resources

Throughout the 2004-2006 interval, the Company's IT resources were dedicated to high priority acquisition and regulatory related issues. As detailed in the Foreword section of this document, UGI experienced considerable changes to both their distribution company and to their LISHP operations.

- 2004 Increase in LISHP enrollment from 4,000-8,000 customers.
- 2006 Acquisition of PGEnergy.
- Regulatory related high priority programming requests (i.e., Chapter 14).

Unfortunately enhancements and fixes to the LISHP system were put on hold. In February 2007, the evaluator examined the Company's LISHP System Working Issues Log (the Log) and discovered approximately 30 medium-to-high priority items left unresolved since 2004. As a result the Customer Outreach Department resorted to excessive manual checks and balances of the system in order to ensure accurate customer billing, shortfall, arrearage forgiveness, delinquency, and customers dropped from the program for each LISHP customer on an individual basis.

Since the LISHP increased enrollment is now complete, the acquisition of PGEnergy is complete and regulatory programming requests are complete, the Company is diligently refocusing its IT resources on the resolution of all issues on the Log.

Finding 11

Of the 30 issues identified on the Log, 21 are reported as fixed, four reported as work in progress, and five reported as no fix necessary.
A test of the complete system is expected to be run by the end of April 2007.

Recommendation

The Company should resolve all remaining issues on the Log by the end of third quarter 2007 and continue to provide enhancements to the LISHP system as issues are identified.

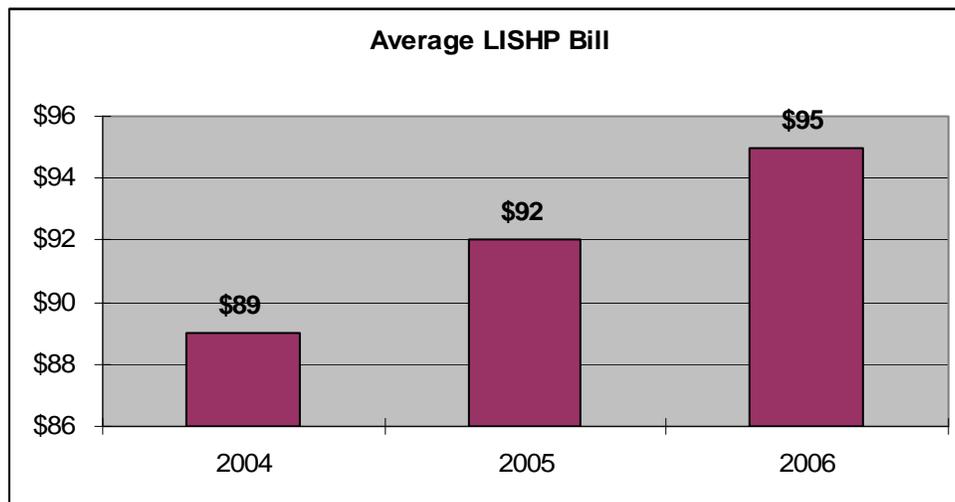
LISHP AVERAGE BILL

Average Monthly LISHP Bill

The LISHP budget bill amount is calculated based on a formula which includes the customer's percentage of household income amount (7%-8%-9%) and the average bill amount derived from the household's previous year's normalized usage. In order to encourage energy conservation, the Company's 2004 Universal Service Plan calls for a review and adjustment of this amount should the usage increase from the previous year. Customers who receive LIHEAP are credited that amount to their LISHP shortfall. Crisis grants are applied to past due LISHP amounts.

The average monthly LISHP bill is calculated from the total dollar amount of LISHP billed amount divided by the number of LISHP bills rendered each year as reported in the annual BCS Universal Service Programs and Collections Performance Report.

Figure v
Three Year Comparison of Average LISHP Bill



2004-2006 data as reported to the BCS

Finding 12

The December 2006 LISHP average monthly bill amount was \$95, an increase of 6% from 2004.

MINIMUM BILL

Cost Control Factor

A minimum payment amount becomes a cost control feature for utility CAPs with percentage of income and percentage of bill plans. The Company reports that some of their customers do not have the income to support a percentage of income plan factored with their previous years normalized annual. In these cases, a monthly minimum bill amount of \$12 for non-heat customers and \$18 for heat customers is charged.

For purposes of responding to the BCS question on CAP minimum payments, the evaluator requested data on LISHP participants with monthly payments equal to or less than \$12 and \$18 and corresponding length of time customers were on a minimum payment agreement.

Table 6
LISHP Customers on Minimum Bill

# Months On Minimum	# Customer Accounts
<=3	31
4-6	15
7-12	18
13-16	3
Total	67

UGI Ad Hoc Report- March 2007

Finding 13

Less than 1% of the 2006 average number of enrolled LISHP customers were on a minimum payment. Of those customers, 36 were enrolled four months or longer.

Recommendation

Prioritize customers who have been enrolled in a monthly LISHP minimum payment plan for recertification of income every three months for continued participation in LISHP.

AFFORDABILITY

Bill affordability issues which are outside §69.265 guidelines continue to be tracked by the Company. Energy burden is defined as the percentage of household income spent on energy services (natural gas or electric).

The Company describes the following circumstances whereby customers may be enrolled in LISHP with payments higher than their average bill:

- A customer carrying a significant unpaid account balance might benefit from LISHP due to the arrearage forgiveness component of LISHP. Upon forgiveness of the account balance, the customer would be reviewed for return to their average bill payment plan.
- A customer with increased normalized monthly usage over their previous twelve months would have their LISHP payment amount increased as an adjustment to cover the overage.

**Table 7
Distribution of Gas Accounts with LISHP Payments
Greater Than \$20 over the Average Bill***

Monthly LISHP Amount > Monthly Average Bill	# Customer Accounts
\$20.01-\$30	131
\$30.01-\$40	98
\$40.01-\$50	67
\$50.01-\$60	34
\$60.01-\$70	20
\$70.01-\$80	19
\$80.01-\$90	10
\$90.01-\$100	5
\$100.01-\$110	3
\$110.01-\$120	6
\$120.01-\$130	1
\$130.01-\$140	4
\$140.01-\$150	0
\$150.01-\$160	1
\$160.01-\$170	0
\$170.01-\$180	2
\$180.01-\$190	2
\$190.01-\$200	1
\$246	1
Total	405

UGI Ad Hoc Report February 10, 2007

*Gas accounts with LISHP payments less than \$20 include 59 heating accounts and 435 non-heating accounts.

AFFORDABILITY

Finding 14

There is a significant number (899) of customers with LISHP payments greater than their average bill. Of the total, 45% (405) of the accounts have amounts greater than \$20.

Recommendation

Conduct an annual analysis of the LISHP accounts by income level, with payments greater than the average bill to determine affordability, success on LISHP, and actual benefit derived from arrearage forgiveness.

ARREARAGE FORGIVENESS

Arrearage forgiveness benefits are dependent on five variables including:

1. Length of time over which forgiveness occurs.
2. Length of time customer is enrolled into LISHP.
3. Frequency of forgiveness (i.e., monthly, quarterly, annually).
4. Amount of pre-program arrears (balance) customer brings into LISHP.
5. Consistency of monthly, on-time LISHP payments.

LISHP Pre-Program Arrears

During the 17-month period from October 2005 to February 2007, the average pre-program arrears for LISHP customers at the time of enrollment was \$682. However, as customers defaulted by missing payments, they were ultimately dropped from LISHP and returned to regular credit and collections activity. During this same 17-month period, 2,649 customers were dropped from LISHP and carried average balances forward of \$1,254; arrearages which were almost double that of when they were enrolled in LISHP. During periods of missed payments, no forgiveness occurs until such time as the LISHP customer makes catch-up payments and once again is current. At this time, further forgiveness resumes.

In order for the customer to regard pre-program arrearage forgiveness as a benefit, the evaluator recommends more immediate results. Some Pennsylvania utilities forgive pre program arrearages monthly in 1/12 or 1/24 increments, quarterly in 1/8 increments, or annually in 1/2 increments for a period of 12 or 24 months.

**Table 8
LISHP Pre-Program Arrearage Forgiven**

Program Year	Dollars	Customers
2004	\$497,000	2,499
2005	\$427,306	2,389
2006	\$963,034	4,675

UGI Ad Hoc Report--Data reported as of calendar year-end 2004-2006

ARREARAGE FORGIVENESS

Finding 15

The average pre-program arrearage benefit for active LISHP participants was \$206 for year-end 2006; \$179 for year-end 2005; and \$199 for year-end 2004.

Recommendation

Consider timelier arrearage forgiveness benefits: forgive customer pre-program arrearage quarterly (every three months) by 1/4 increments over a one-year period for balances under \$500 and by 1/8 increments over a two-year period for balances over \$500.

SHORTFALL

LISHP customers who remain current with their LISHP payment amount receive shortfall forgiveness up to a maximum of \$1,146 annually or \$95.50 monthly. Shortfall is forgiven every three months of continuous customer participation.

The Company calculates the monthly LISHP payment based on a formula which incorporates customers' prior twelve months of normalized usage multiplied by the Purchased Gas Cost (PGC) to determine the maximum allowable shortfall.

Shortfall calculation where usage is over the max shortfall limit:

$$\begin{aligned} 1500 \text{ ccf} \times \$1.0893 &= \$1,633.95 \\ \text{Allowable shortfall} &= \underline{\$1,146.00} \\ \$ 487.95 \text{ divided by } 12 \text{ months} &= \$40.66 \end{aligned}$$

This customer's max shortfall would be \$1,146.
The percentage of income payment is calculated at 7%, 8%, or 9%.

The \$40.66 is added to the customer's percentage of income amount to cover the overage.

Shortfall calculation where usage is lower than the max shortfall limit:

$$\begin{aligned} 939 \text{ ccf} \times \$1.0893 &= \$1,022.85 \\ \text{Allowable shortfall} &= \underline{\$1,146.00} \\ \$ 124.00 \text{ Amt of usage lower than max shortfall} & \end{aligned}$$

This customer's max shortfall would be \$1,023.

The percentage of income payment is calculated at 7%, 8%, or 9%.

Example: Monthly income for four people

$$\$1,500 \times 8\% = \$120 \text{ is the monthly LISHP payment.}$$

If at any time the Company determines that the customer is likely to exceed their previously established maximum allowable shortfall, the system will have the capability to raise the monthly LISHP payment to meet the maximum shortfall amount.

Other LISHP Shortfall Control Factors

In addition to managing the customer shortfall amounts through normalized usage calculations, the Company is successful in reducing shortfall through usage reduction and the application of LIHEAP grants to the shortfall amount. Company data for program year 2006 supports the following:

- Of the 246 customers weatherized under the Company’s LIURP, 173 (68%) were high usage LISHP customers.
- Of the 7,336 LISHP customers, 5,011(68%) received an energy assistance grant.

The Company reported a total of \$2,174,252 in shortfall forgiven for a total of 7,336 average enrolled LISHP customers in 2006. This offers a shortfall benefit of \$296 on average.

**Table 9
Shortfall Forgiveness
2006**

	\$ Shortfall	\$ Excess Shortfall	Total Shortfall
	\$1,766,635.00	\$407,617.00	\$2,174,252
Number Customer Transactions	13,808		
Number of Customers		511	3,767 *
Average Shortfall		\$798	\$577

UGI Ad Hoc Report Shortfall Expenses 2006

*Represents the total number of customers current on LISHP and receiving shortfall as of year end 2006.

In cases where customers exceeded their calculated allowable maximum shortfall, 511 customers where afforded an additional \$798 on average in additional excess shortfall benefits.

Finding 16

Due to LISHP system irregularities, LISHP customer bills were not adjusted automatically to reflect higher LISHP payments based on higher usage. Only accounts which were reviewed manually for final bills were adjusted with the correct forgiveness amount as a result of excess shortfall.

Recommendation

Continue to check and fix inaccuracies within the LISHP system to ensure proper application of LISHP customer shortfall amounts.

LISHP Administration Costs

Includes Customer Outreach Department labor, agency expenses, IT maintenance and programming costs and postage.

As LISHP enrollments increase each year, the accompanying administrative agency costs increase proportionately. In program year 2005, IT programming maintenance and programming costs were greatly reduced.

According to the BCS Universal Service Reporting Requirements Data Dictionary and Clarifications, utility companies may include all costs relating to LISHP compliance and collections as administration costs. The Company was able to provide collections and compliance costs for 2006 as indicated in the table below.

**Table 10
LISHP Administrative Costs**

LISHP Administration Costs	2004	2005	2006
Administration-General	\$87,911	\$66,202*	\$118,153**
Agency	\$77,515	\$107,295	\$123,024
IT Maintenance/ Programming	\$77,042	\$19,928	\$18,167
Collections /Compliance	n/a	n/a	\$45,870***
Total	\$242,468	\$193,390	\$305,214

UGI Ad Hoc Report
2004-2006 Universal Service Report

*Includes \$10,164 in postage

**Includes \$24,038 in postage

***Includes \$41,756 in collections costs captured from October to December 2006 + \$4,114 compliance costs
The collection costs only represent a partial year since collections was not automated until Oct 2006.

Finding 17

LISHP agency costs are a significant percentage of LISHP administration costs. To date, credit and collections and compliance costs have not been included in the Company's allowable administrative costs.

Recommendation

Track and incorporate costs relating to LISHP collections and compliance activities into Item #21 Program Costs-Administration of the annual BCS Universal Service Report.

Arrearage Forgiveness Costs

One-third of the pre-program arrears are forgiven after the sixth month of LISHP participation and consistent bill payment. Forgiveness occurs again after the 18th month and 30th month of participation in one-third increments.

With the ramp up of enrolled customers in 2006, arrearage forgiveness costs per enrolled customer have increased significantly.

Table 11
LISHP Arrearage Forgiveness Costs

	2004	2005	2006
Arrearage Forgiveness	\$497,000	\$427,036	\$963,036
Average # LISHP Enrolled Customers	4132	4315	7336
Costs per Average # Enrolled Customer	\$120	\$99	\$131

Compiled from BCS Universal Service Report 2004-2006

LISHP Shortfall

*Difference between tariff billed amount and LISHP billed amount.
LIHEAP grants are applied to shortfall amount and help with offsetting shortfall.*

Due to the increase in enrollment of LISHP customers from 4,000 to 8,000, shortfall amounts have risen dramatically in 2006. Typically, these costs comprise the largest percentage of total CAP costs for utilities.

Table 12
LISHP Program Costs Summary

	2004	2005	2006
Average # LISHP Enrolled Customers	4,132	4,315	7,336
LISHP Shortfall	\$1,159,341	\$1,238,096	\$2,174,013
LISHP Arrearage Forgiveness	\$497,000	\$427,036	\$963,036
LISHP Administration	\$242,468	\$193,390	\$259,344
Collections and Compliance	n/a	n/a	\$45,870*
Total Costs	\$1,898,809	\$1,858,522	\$3,442,263
Cost per Average # Enrolled Customer	\$460	\$431	\$469

Compiled from BCS Universal Service Report 2004-2006

*\$41,756 in collection costs only represent a partial year's data October to December. Collections were automated in October 2006. \$4,114 represents compliance costs.

LISHP FUNDING

Enrollment and Funding Mechanisms

- Costs for approximately 1,000 LISHP customers as part of a pilot program were included in UGI's base rate case in 1995.
- In October 2000 during Choice restructuring, there was a settlement whereby the Company agreed to increase their LISHP customer enrolled/participant number from 1,000 to 4,000 customers. In order to cover the increase costs for enrollment, UGI was permitted to use redirected excess funding of OPEBs and if necessary, base rate increases up to \$1.5 million per year.
- In December 2005, Pennsylvania's Stay Warm program was introduced by the Governor's office. Utilities were encouraged and offered incentives to develop additional programs for payment troubled customers. UGI increased its LISHP enrollment a second time from 4,000 to 8,000 customers. A quarterly adjusted CAP Rider was applied at .125 cents/Mcf for all residential customers except those who were active participants in LISHP. Currently, that amount is .10 cents/Mcf.

Calculation of the CAP Rider

The Rates Department looks at the entire database of 8,000 LISHP customers each November and reviews their past winter annual bills of twelve months or more to establish their average annual normalized usage pattern. Currently, this amount is 128 Mcf annual usage. Due to anticipated customer defaults and churn rate, the database in 2006 consisted of an average participant number of 7,336 customers.

Next the average usage of 128 Mcf is applied to UGI's rate blocks to establish the average annual LISHP bill at residential tariff rates totaling \$1,888.

The total gas bill at tariff rates minus revenues from LIHEAP payments plus actual customer payments = the Total Annual Shortfall. On December 1, 2006, this amount was \$2,701,832.

The Total Annual Usage of 21,625,731 Mcf is spread out among 280,000 residential customers (excluding LISHP customers) to arrive at the Rider amount.

$$(\$2,701,832)/(21,625,731) = \$0.125$$

The annual Rider LISHP filing is filed at the same time as the Company's Purchased Gas Cost (PGC), December 1, March 1, June 1, and Sept 1.

LISHP PROGRAM COSTS

LISHP FUNDING

In order to establish the adequacy of LISHP funding, the evaluator included on the expense side revenues billed, shortfall unbilled, arrearage forgiveness, write-offs at the time the customer was dropped from the program, collection and compliance expenses relating to LISHP, and LISHP administration costs. On the revenue side, customer payments, LIHEAP grants, and LISHP Rider recovery was totaled.

Table 13
LISHP Funding Analysis
2006

LISHP Expenses	Included in Rider	Excluded in Rider
Revenues Billed	\$7,892,777	
Shortfall (unbilled)	\$2,174,252	
Shortfall Company Liability*		\$1,674,770
Collections**		\$41,756
Compliance Expense		\$4,114
LISHP Administration	\$259,344	
Arrearage Forgiveness		\$963,034
Arrearage Forgiveness Company Liability*		\$2,701,832
Write-offs***		\$463,003
Total Expenses	\$10,326,373	\$5,848,509
LISHP Revenues		
Customer Payments	\$6,515,788	
Grants Applied	\$1,649,266	
Funding from LISHP Rider	\$1,923,546	
Funding from OPEB Credit	\$1,500,000	
Total Revenues	\$11,588,600	
Total LISHP Expenses	\$16,174,882	
Net over (under) funding	(\$4,586,282)	

UGI Ad Hoc Report-2006

Compiled from BCS Universal Service Report 2006

*Company liability accrued year end 2006 for shortfall and arrearage forgiveness-not yet forgiven.

**Collection costs of \$41,756 represent a partial years data October to December. Should be included in admin costs and treated as a recoverable cost in the Rider. This amount was not included in 2006. Collections were automated in October 2006.

***Assumes entire balance is written off when customers leave LISHP.

Finding 18

The revenue received from the 2006 LISHP Rider combined with customer payment and energy grant revenues is not adequate to fully fund all costs relating to LISHP.

Recommendation

The Company should seek regulatory opportunities to include program costs currently excluded from their LISHP Rider in order to adequately recover all LISHP related costs.

PROGRAM DESCRIPTION

Overview

The Customer Assistance and Referral Evaluation Services (CARES) program is intended for special needs customers who have an immediate need such as loss of income, loss of head of household, illness, or any other special need resulting in a temporary inability to pay. CARES assists customers for the short term by referring them to energy conservation, budget counseling and fuel assistance programs. Once the temporary problem has been resolved, the customer is returned to full ratepayer status.

The CARES program has expanded to include the oversight of the Gatekeeper Program, (for customers 65+ years in age with coded accounts identifying third parties for notification in the event of a termination notice), and LIHEAP outreach.

Referrals

Customers are referred to CARES primarily by UGI employees of the Credit and Collection, Customer Accounting, Customer Service and Meter Reading departments. In addition, any CBO within UGI's service territory may refer potential customers to CARES. Once the customer is referred a Customer Outreach Representative contacts the customer to obtain information on their special need.

Acceptance into CARES

Six Customer Outreach Representatives share in the responsibility of identifying appropriate customers for CARES, reviewing income and expenses, providing referral services, and offering a budget plus payment arrangement, if appropriate. After the need is satisfied, the customer is still held accountable for the remainder of the bill balance. If the customer is deemed to be long-term payment troubled, they are referred to LISHP. In 2006, there were 1,204 customers accepted into CARES. Most of these customers were referred and identified as "quick fix" accounts.

Finding 19

Of the 1,204 customers accepted into CARES, 11 were referred to LIURP, 91 referred to LISHP, and 252 referred to Operation Share hardship fund.

PROGRAM DESCRIPTION

CARES Benefits

Important health and safety benefits are provided CARES customers upon enrollment including protection from termination of service on a temporary basis. The Customer Outreach Representative seeks appropriate financial assistance and refers customers to specific services which could result in cash assistance for the household. Assistance offered to the customer may include establishing a realistic payment agreement, aiding in applying for all eligible energy assistance grants, making referrals to appropriate social service agencies, and/or a personal visit to the customer's home in cases where the customer is elderly, home bound, or lacks understanding of the necessary application processes.

**Table 14
CARES Benefits**

	2005	2006
LIHEAP \$	\$80,727	\$67,240
# Customers	379	328
Crisis \$	\$44,616	\$32,314
# Customers	169	107
Direct \$	\$127,724*	\$132,774*
# Customers	415	544
Average	\$308	\$244

Compiled from BCS Universal Service Report 2005-2006

* Includes total of LIHEAP, hardship funds, and/or agency grants.

Finding 20

The CARES program is well managed and provides significant financial benefits for those UGI customers with a temporary need.

ENERGY ASSISTANCE

Outreach Efforts

UGI routinely budgets \$16,000 annually for LIHEAP advertising and customer information. LIHEAP has been advertised in bus terminals, billboards, radio and in customer bill inserts. The total annual outreach budget is \$70,000 which includes the salaries of three LIHEAP temps who answer the 1-800-WARM telephone line. LIHEAP customer information and application assistance is offered from the last week of October until the end of March.

The 1-800-WARM automatic dialer runs reminder messages regarding LIHEAP application enrollment for the following:

- Customers who received LIHEAP for the last three years.
- Customers who are LISHP Level I and Level II.
- Customers who are on a fixed income.
- Customers who have received Operation Share.
- Customers who have received LIURP.

**Table 15
Energy Assistance Comparisons-All UGI Customers
2005-2006**

Program Year	LIHEAP Dollars	# Customers	Avg. Grant	Crisis Dollars	# Customers	Avg Grant
2006	\$2,891,935	14,090	\$205	\$1,219,147	4,031	\$302
2005	\$2,380,253	11,198	\$213	\$841,120	3,181	\$264

BCS Universal Service Report 2005-2006

Finding 20

Comparing program year 2006 vs. 2005, the number of customers receiving LIHEAP grants increased by 26% (2,892 customers) however, the average grant decreased by 4% (eight dollars). The number of customers receiving Crisis grants increased by 27% (850 customers) with the average grant increasing by 14% (\$38).

OPERATION SHARE

Overview

UGI’s fuel fund, Operation Share, has been in operation since 1983 providing assistance to customers facing a hardship in paying their energy bill. Recently, Operation Share was granted a Certificate of Registration from the Commonwealth of Pennsylvania, Department of State, and Commission on Charitable Organization as a charitable organization. Within each of the ten CBOs partnering with UGI, is a designee titled Director of the Fund who has the primary function of processing applications for assistance, determining eligibility, and disbursing Operation Share energy vouchers or checks.

Grant Amounts

Eligibility criteria follow very strict guidelines for customer consideration of an Operation Share grant. During the LIHEAP program year, non-heat customers are eligible to receive grants from the fuel fund. Heat customers are first referred to LIHEAP, and then to Operation Share as the fund of last resort. The maximum grant for gas and electric heat customers is \$200; the maximum grant for non heat gas customers is \$50; the maximum grant for non-heat electric accounts is \$100.

Impacts on Customers’ Ability to Pay

Due to rising energy costs, an increasing number of customers, on an annual basis, have been identified as payment troubled. Other reasons included:

- Unfavorable economic climate within UGI’s service territory resulting in unemployment or underemployment.
- Sudden death or illness to the head of household and primary contributor to family income.
- Cutbacks to State and Federal funds: Fewer dollars available to fewer customers.
- Elderly susceptible to hypothermia requiring higher home thermostat settings.

OPERATION SHARE

Eligibility Criteria

Customers must:

- Be an active residential heat or non-heat customer.
- Have income <= 150% FPL.
- Demonstrate good pay effort: Customer must pay a minimum of 50% of bills accumulated within the past twelve months minus any pervious year's (if any) assistance amount.
- Verify income and expenses at a participating community agency.
- Be on an active payment arrangement if delinquent.

Ineligible Customers

- Employees who are active UGI customers or who are customers of any of the Company's subsidiaries.
- Employees of an Operation Share contractor.
- Customers active in LISHP

Customer Referrals-Intake-Approval

The Company solicits customers via bill inserts for Operation Share. Memos are sent from the CIC to the Customer Outreach Department advising them of potentially eligible customers. Representatives advise the customer to take a copy of their bill, proof of income and expenses, and identification to the nearest Operation Share agency in their neighborhood. Upon completion of the customer application, it is faxed by the agency to the UGI Customer Outreach Department with the recommended grant amount. The Customer Outreach Department reviews the account for final eligibility and approval. For customers with a termination notice, the agency calls the Customer Outreach Department directly to determine the amount the Company requires to maintain service. Agencies are not paid a fee for completing Operation Share applications.

OPERATION SHARE

Funding

Energy Vouchers

UGI donates \$50,000 annually in energy vouchers (\$40,000 for the Gas Division serving 292,000 residential customers in fourteen counties and \$10,000 for the Electric Division serving 54,000 residential customers in two counties). These voucher payments are applied directly to UGI customers eligible for Operation Share.

Matching Funds

The Company also commits up to \$20,000 (\$16,000 for the Gas Division and \$4,000 for the Electric Division) to be utilized as matching funds. UGI customer and employee solicitations generate additional donations for Operation Share. Hardship funds are distributed back to the area from where the contribution originated but only up to the limit of the percentage of low-income customers in the area, with the excess distributed to other regions. For every two dollars received, the Company will issue one dollar in energy vouchers. Typically Operation Share contribution appeals are made twice a year via bill inserts.

**Table 16
Operation Share Fuel Fund
Contributions vs. Company Match
2004-2006**

Source	2004	2005	2006
UGI Initial Grant	\$40,000	\$40,000	\$80,000*
UGI Customers	\$33,867	\$14,545	\$60,611
UGI Match Available	\$16,000	\$16,000	\$32,000
UGI Match Actual	\$15,894	\$7,272	\$30,306
Unused Match	\$106	\$8,728	\$1,694

Compiled from BCS Universal Service Report 2004-2006

* UGI response to the PA State Stay Warm initiative doubled its initial grant and matching dollars for 2006.

Finding 21

The Company is not receiving full benefit of their matching dollar commitment. Unused matching dollars do not get rolled over into the next program year.

Recommendation

Seek opportunities for fund raising to solicit additional employee and community donations.

OPERATION SHARE

**Table 17
Operation Share
Available Benefits vs. Actual Benefits
2004-2006**

	2004	2005	2006
UGI Cash Benefits Maximum Amount Available*	\$79,867	\$60,545	\$172,611
UGI Cash Benefits Actual	\$90,435	\$56,727	\$64,957
Over spent/ Under spent	\$10,568	\$3,818	\$107,654
# Customer	478	413	462
Average Grant per Customer	\$189	\$137	\$141

Compiled from BCS Universal Service Report 2004-2006

*Includes the total of Initial company grant committed + company matching grant amount committed + actual customer contributions.

Finding 22

Eligibility guidelines for Operation Share are very narrow which restrict the number of customers who could potentially benefit. All unspent initial grant dollars are rolled over into the next program year.

Recommendation

Change the guideline requirements from “customers to pay 50% of their bill balance” to “customers to pay a minimum of three payments on their bill.”

Increase the size of the grants from \$200 to \$300.

Increase income eligibility from 150% to 200% of FPL.

The Company should consider contracting with an umbrella agency to act as the financial agent to coordinate the distribution of customer energy vouchers and customer contributions for all ten participating agencies in order to reduce excess internal administration of the fund.

NEEDS ASSESSMENT

Methodology

In establishing a needs assessment of the number of customers who may still need LIURP services and the cost to serve that number, the following data was obtained: ²

1. The number of identified low-income customers obtained from UGI's database.
27,776
2. An estimate of low income customers in counties served by UGI service obtained from 2000 Census.
47,450
3. The number of identified *payment- troubled*, low-income customers. (No. 3 is subset of No. 1)
18,980
4. An estimate of *potentially* payment-troubled customers. (Subtract No. 1 from No. 2) minus 4,000 customers already receiving LIURP).
15,674
5. The number of customers who still may need LIURP services and the cost to serve them.

UGI records show that there are 3,000 low-income customers with usage =>125 Mcf annually. In 2006, the average cost per weatherized home was \$ 2,090 x 3000 customers = \$6,270,000.

² Data obtained from 2007 LISHP: NEEDS ASSESSMENT

PROGRAM DESCRIPTION

Overview

The Company's Low Income Usage Reduction Program (LIURP) was established in 1988 for the purpose of reducing the high usage of low-income customers through the installation of whole house weatherization measures, safety and efficiency checks on heating equipment, and energy conservation education. The assumption made is that once usage is reduced, bills become more affordable, and payment frequency increases.

Customers eligible for LIURP must meet the following criteria:

- The customer must be an active UGI customer.
- Household income must $\leq 150\%$ of FPL income guidelines with 20% of customers $\leq 200\%$ of FPL income guidelines.
- Annual customer usage of 125 Mcf or greater.

Customers are referred to LIURP through an annual review of customer records to identify high usage, high arrearage, low-income customers. In addition, referrals may come in through the CIC, the Credit and Collections department, customer request and CBOs.

LIURP services provided to customers may include some or all of the following:

- Energy audit.
- Furnace and Water Heater Safety Check.
- Furnace and Water Heater Replacement/Repair.
- Blower Door Guided Air Sealing for Infiltration.
- Water Conservation Measures.
- Post Inspection.

There is one part-time Customer Outreach Representative who coordinates LIURP with five CBOs contracted to provide weatherization services to UGI customers. These agencies prescreen for LIURP eligibility, contact the customer by phone to schedule an audit, obtain landlord approvals if the customer resides in a rental property, performs the energy audit and conducts education visits. Those agencies who act as installers utilize a Company approved list of weatherization measures with pre approved set prices.

PROGRAM DESCRIPTION

Safety Checks and Post Inspections

UGI's Service Department performs safety checks on all furnaces and water heaters upon completion of weatherization measures installed. In some cases, both the furnace and water heater is replaced due to unsafe and hazardous conditions. During the same visit as the safety check, the Service Department performs a visual check (i.e. post inspection) of 100% of all homes weatherized. Customer Outreach reports that routinely there are seasonal lags with respect to Service completing these remaining steps in the weatherization process.

Finding 23

The furnace and water heater safety check is the last step in the weatherization process. If either heating appliance is unsafe, there is no knowledge of this upfront to prevent the auditor from installing aggressive air sealing and weatherization measures. This could exacerbate the safety issue.

Service Department resources available to perform safety checks for LIURP jobs vary with other seasonal work.

Recommendation

Move the safety check to the first step in the audit process.

Hire a third party contractor to perform all safety related checks for LIURP.

Hire a third party contractor to perform post inspections at 25% of all annual completions

PROGRAM PERFORMANCE

LIURP Enrollment

Company provided customer lists, pre-screened for eligibility are distributed to the participating agencies for scheduling.

**Table 18
LIURP Completions
2005-2006**

	2005	2006
LISHP Completions	114	173
Total Completions	237	254
LISHP % of Total Completions	48%	68%

UGI Ad Hoc Report-2007
BCS Universal Service Report 2005-2006

Finding 24

For program years 2005-2006, an average of 56% of all homes weatherized were high usage LISHP customers.

Recommendation

Continue to prioritize LISHP high usage customers for LIURP.

LIURP Heating System Replacement

The Company adheres to a strict policy when considering a LIURP customer for an unsafe, inoperable furnace or water heater replacement. To be eligible, the customer must be an active UGI customer, homeowner and income eligible up to 200% of FPL income guidelines.

Customers are not eligible for replacements when the LIHEAP Crisis program is open (November - March), unless they are over income for Crisis guidelines. The maximum amount for funding through LIURP is \$2,500 and is a one-time event for the property. For customers at 151%-200% of FPL income guidelines, the maximum funding for furnace replacement is \$1,500.

PROGRAM PERFORMANCE

Table 18
LIURP Heating Equipment Replacements
2003-2006

Furnace and Water Heater Replacements	2003	2004	2005	2006
Total Dollars	\$4,049	\$14,297	\$11,834	\$61,862
# Customers	2	7	5	27

UGI Ad Hoc Report-2007

Finding 25

The Company's heating equipment replacement program is well managed to prevent excessive LIURP budget expenditures.

Usage Reduction

UGI households receiving full weatherization services benefited annually from reduced consumption. However, the usage savings were below utility average of 22% as reported in the 2005 BCS Universal Service and Energy Conservation Report. One reason for this may be that few opportunities exist to install sidewall insulation where significant savings might occur. There are many instances of row houses where sidewall insulation is not appropriate.

Table19
Household Consumption Savings
2003-2005

	2003	2004	2005
Number of Homes Completed	212	282	240
Average Mcf Reduction/Customer	10	19	10
Average % Savings	6%	11.6%	6.2%

UGI Ad Hoc Report

Finding 26

The average percentage of savings from LIURP completed jobs is lower than Pennsylvania peer gas utility averages of 22%.

Recommendation

Analyze LIURP data tracking and compilation to ensure the correct methodology is applied in determining average savings percentage. Separate savings by agency to identify possible percentage variances.

PROGRAM PERFORMANCE

Funding

Funding for LIURP was recently increased from \$613,212 annually to .02 of one percent of annual revenues or \$1,022,825 in 2007. Upon review of the Company's LIURP spending performance, there is \$170,286 in unspent money which has been rolled over into the 2007 LIURP program year.

**Table 20
LIURP Spending**

	2007
LIURP Budget	\$1,022,825
Unspent Carryover Dollars From 2006	\$ 170,286
Total	\$1,193,111

UGI Ad Hoc Report-2007

Finding 27

The Company faces significant challenges in spending their LIURP budget for program year 2007.

Recommendation

The Company should contract with additional CBOs to increase LIURP production. Also, UGI should consider adding private insulation contractors to the Company's list of approved weatherization providers to achieve increased production.

Hire a full time Customer Outreach Representative to coordinate increased workload due to increased size of LIURP.

Allow customers to apply for furnace and water heater replacements even when the Crisis program is open.

Hire contractors for all clean and tune and safety checks of furnaces and water heaters. Hire a contractor for post inspections.

APPENDIX A

2000 CENSUS

County	Households	150%	% of	UGI-Gas	UGI-Gas	Census	UGI-Gas	UGI-Gas
	Census	Census	Households	Households	150%	150-200%	150-200%	<=200%
Adams	33,647	5,001	0.14863138		-			
Allegheny	537,405	106,443	0.1980685		-			
Armstrong	28,932	6,922	0.23925066		-			
Beaver	72,664	13,626	0.18752064		-			
Bedford	19,800	4,409	0.22267677		-			
Berks	141,609	22,070	0.15585168	65,165	10,156	0.076	4,953	15,109
Blair	51,622	12,543	0.2429778		-		-	-
Bradford	24,427	5,316	0.21762803		-		-	-
Bucks	218,773	19,515	0.08920205	7,009	625	0.052	364	990
Butler	65,929	11,159	0.16925784		-		-	-
Cambria	60,568	15,047	0.24843151		-		-	-
Cameron	2,468	514	0.2082658		-		-	-
Carbon	23,729	4,835	0.20375911	65	13	0.1039	7	20
Centre	49,336	13,068	0.26487757		-		-	-
Chester	158,025	14,104	0.0892517	54	5	0.0456	2	7
Clarion	16,011	4,247	0.26525514		-		-	-
Clearfield	32,792	8,074	0.24621859		-		-	-
Clinton	14,804	3,879	0.26202378		-		-	-
Columbia	24,982	5,753	0.23028581		-		-	-
Crawford	34,695	7,914	0.22810203		-		-	-
Cumberland	83,047	10,266	0.12361675	30,355	3,752	0.0694	2,107	5,859
Dauphin	102,667	16,920	0.16480466	45,133	7,438	0.0827	3,732	11,171
Delaware	206,372	28,782	0.13946659		-		-	-
Elk	14,105	2,337	0.16568593		-		-	-
Erie	106,488	23,108	0.21700098		-		-	-
Fayette	60,047	18,744	0.31215548		-		-	-
Forest	1,996	559	0.28006012		-		-	-
Franklin	50,574	8,108	0.16031953		-		-	-
Fulton	5,659	1,225	0.21646934		-		-	-
Greene	15,081	4,128	0.2737219		-		-	-
Huntingdon	16,778	3,827	0.22809632		-		-	-
Indiana	34,098	9,815	0.28784679		-		-	-
Jefferson	18,396	4,285	0.23293107		-		-	-
Juniata	8,580	1,731	0.20174825		-		-	-
Lackawanna	86,204	19,002	0.22043061		-		-	-
Lancaster	172,780	23,088	0.13362658	57,970	7,746	0.0844	4,893	12,639
Lawrence	37,136	8,630	0.23238906		-		-	-
Lebanon	46,611	7,135	0.15307545	14,939	2,287	0.0958	1,431	3,718
Lehigh	121,947	19,371	0.1588477	44,082	7,002	0.0795	3,505	10,507
Luzerne	130,703	29,855	0.22841863	7,730	1,766	0.1004	776	2,542
Lycoming	47,040	10,598	0.22529762		-		-	-
McKean	18,027	4,106	0.22776946		-		-	-
Mercer	46,755	9,530	0.20382847		-		-	-
Mifflin	18,446	4,639	0.25149084		-		-	-
Monroe	49,508	7,893	0.15942878	171	27	0.0816	14	41
Montgomery	286,255	25,210	0.08806833	1,732	153	0.048	83	236
Montour	7,107	1,192	0.16772196		-		-	-
Northampton	101,631	14,973	0.1473271	42,783	6,303	0.0716	3,063	9,366
Northernumberland	38,894	9,465	0.24335373		-		-	-
Perry	16,742	2,707	0.16168916		-		-	-
Philadelphia	590,283	190,461	0.32266049		-		-	-
Pike	17,447	2,603	0.1491947		-		-	-
Potter	6,988	1,690	0.24184316		-		-	-
Schuylkill	60,500	13,549	0.22395041	9	2	0.1042	1	3
Snyder	13,643	2,807	0.20574654		-		-	-
Somerset	31,193	7,645	0.24508704		-		-	-
Sullivan	2,667	667	0.25009374		-		-	-
Susquehanna	16,543	3,886	0.23490298		-		-	-
Tioga	15,942	3,981	0.24971773		-		-	-
Union	13,191	2,284	0.17314836		-		-	-
Venango	22,788	5,600	0.24574337		-		-	-
Warren	17,700	3,314	0.18723164		-		-	-
Washington	81,129	15,860	0.19549113		-		-	-
Wayne	18,300	4,121	0.22519126		-		-	-
Westmoreland	149,870	27,704	0.18485354		-		-	-
Wyoming	10,822	2,301	0.21262244		-		-	-
York	148,288	19,906	0.13423878	1,294	174	0.0772	100	274
Total/Avg.	4,779,186	924,047	0.1933482	318,491	47,450		25,031	72,481
					14.90%		7.86%	22.76%

0000700



Utility Resources for Service to

Rate Classification:
Residential Heating
Billing Period:
03/22/2007 to 05/01/2007 (40 days)
Final Read

Questions?
Call 810-887-8571 or write to UGI at
PO BOX 13000
Reading, PA 19612-8000

*Your current UGI charges include
State taxes totaling \$ 2.21.
CPT

Q

Past Bill Information - UGI UTILITY

The account balance on your last bill was	\$ 546.60
Payments	0.00
Adjustments	-88.70
Year balance as of 05/02/2007	457.19
LISHP Balance	-5.00

Customer Number

Current Bill Information - UGI UTILITY

Customer Charge	11.40
Commodity Charge (40 CCF at \$1.05460)	42.18
Distribution Charges	15.18
PA State Tax Surchage	-0.12
Total Current Charges - UGI UTILITY	68.64
LISHP Amount	22.00

UGI UTILITY charges owed this bill \$ 110.64

Current Bill Information - UGI SERVICES

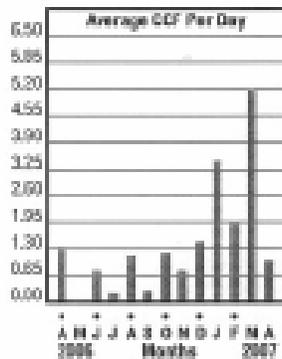
Turn On/Shot Off Fee	22.00
Total current UGI Services Charges	22.00

UGI Services charges owed this bill \$ 22.00

Total Amount Due, Please Pay by Due Date (05/24/2007) \$ 142.64

Adjustment - 308.62

Total \$ 148.91



• = Estimated Usage

Average	Last Year	This Year
CCF/day	1.34	1.00
Daily temperature	30°F	30°F

Meter Reading Information

Meter Number	Previous Reading	Present Reading	CCF Used
1385177	563 (company)	603 (final)	40

Messages from UGI

- *Your total annual usage is 552 CCF. Your average monthly usage is 46 CCF.
- *When you participate in UGI's Low Income Self Help Program, LISHP, your reduced monthly payment will help to keep your energy bills more affordable. On-time payments can over time reduce any past due balance. Thank you for your prompt payment.
- *Thank you for your business. You have maintained an excellent payment history with UGI. This bill may be used as a credit reference for obtaining future utility service.
- *Help prevent pipeline damage, accidents and service disruptions. If you see someone digging near your home please call UGI.

If you pay at a payment agent please take your entire bill. Make check payable to UGI. Keep this part for your records. Important information is on the back of this bill.