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June 30, 2016

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 Utilities, Inc. - Gas Division
Docket Nos. R-2015-2518438**

**Office of Consumer Advocate, Office of Small Business Advocate, UGI Industrial
Intervenors, Joseph Sandoski, Vicki L. East and Tom Harrison
Docket Nos. C-2016-2527150, C-2016-2528559, C-2016-2529439, C-2016-2529638,
C-2016-2534010 and C-2016-2518438**

Dear Secretary Chiavetta:

Enclosed for filing is UGI Utilities, Inc. – Gas Division’s Statement in Support of the Joint Petition for Approval of Settlement of All Issues 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 Susan D. Colwell
Certificate of Service

CERTIFICATE OF SERVICE
Docket No. R-2015-2518438

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

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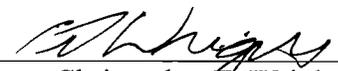
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Date: June 30 2016



Christopher T. Wright

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|--|---|----------------|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | R-2015-2518438 |
| | : | |
| UGI Utilities, Inc. – Gas Division | : | |
| | : | |
| Office of Consumer Advocate | : | C-2016-2527150 |
| Office of Small Business Advocate | : | C-2016-2528559 |
| UGI Industrial Intervenors | : | C-2016-2529436 |
| Joseph Sandoski | : | C-2016-2529638 |
| Vicki L. East | : | C-2016-2534010 |
| Tom Harrison | : | C-2016-2534992 |
| | : | |
| v. | : | |
| | : | |
| UGI Utilities, Inc. – Gas Division | : | |

UGI UTILITIES, INC. – GAS DIVISION

**STATEMENT IN SUPPORT OF
JOINT PETITION FOR APPROVAL OF
SETTLEMENT OF ALL ISSUES**

Date: June 30, 2016

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I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI Gas”) hereby submits this Statement in Support of the Joint Petition for Settlement of All Issues (“Settlement”) entered into by the Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Investigation and Enforcement (“I&E”), UGI Gas, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), UGI Industrial Intervenors (“UGI III”),¹ the Commission for Economic Opportunity (“CEO”), the NGS Parties,² the Retail Energy Supply Association (“RESA”), and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), all parties to the above-captioned proceeding (hereinafter, collectively the “Joint Petitioners”). The Settlement represents a full resolution of all issues raised in the instant proceeding.

The Joint Petitioners unanimously agree that UGI Gas’s January 19, 2016 distribution base rate increase filing should be approved, subject to the terms and conditions of the Settlement. The Settlement provides for increases in rates, as set forth in the *pro forma* tariff supplement attached as “Appendix A” to the Settlement and the proof of revenues attached as “Appendix B” to the Settlement, designed to produce a net increase in the annual distribution operating revenues of \$27 million, based upon a Fully Projected Future Test Year (“FPFTY”) ending September 30, 2017, to become effective for service rendered on and after October 19, 2016.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners. UGI Gas submits that the Settlement is in the public interest, just and reasonable, and supported by substantial evidence and, therefore, should be approved without modification.

¹ In this proceeding, ArcelorMittal Steelton, LLC, Carpenter Technology Corporation, and East Penn Manufacturing Company, Inc. collectively intervened as members of UGI III.

² Dominion Retail, Inc. d/b/a Dominion Energy Solutions, Shipley Energy Choice, LLC d/b/a Shipley Energy, Interstate Gas Supply, Inc. d/b/a IGS Energy, AMERIGreen Energy, and Rhoads Energy collectively intervened in the above-captioned proceeding as the NGS Parties.

For the reasons explained below, UGI Gas respectfully requests that Administrative Law Judge Susan D. Colwell (“ALJ”) and the Commission approve the proposals set forth in UGI Gas’s above-captioned January 19, 2016 distribution base rate increase filing subject to the terms and conditions of the Settlement.

II. COMMISSION POLICY FAVORS SETTLEMENT

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that parties must expend litigating a case and, at the same time, conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401.

The Commission has explained that parties to settled cases are afforded flexibility in reaching amicable resolutions, so long as the settlement is in the public interest. *Pa. PUC v. MXenergy Electric Inc.*, Docket No. M-2012-2201861, 2013 Pa. PUC LEXIS 789, 310 P.U.R.4th 58 (Opinion and Order entered Dec. 5, 2013). In order to approve a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. Windstream Pennsylvania, LLC*, Docket No. M-2012-2227108, 2012 Pa. PUC LEXIS 1535 (Opinion and Order entered Sept. 27, 2012); *Pa. PUC v. C.S. Water and Sewer Assoc.*, Docket No. R-881147, 74 Pa. PUC 767 (Opinion entered July 22, 1991).

As explained in the next section of this Statement in Support, UGI Gas believes that the Settlement is just and reasonable and in the public interest and, therefore, should be approved without modification.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. GENERAL

The Settlement reflects a carefully balanced compromise of the competing interests of all of the active Parties in this proceeding. The Joint Petitioners unanimously agree that the Settlement is in the public interest. (Settlement ¶ 15) The fact that the Settlement is unopposed in a major base rate proceeding, in and of itself, provides strong evidence that the Settlement is reasonable and in the public interest, particularly given the diverse interests of these Parties and the active role they have taken in this proceeding.

Moreover, the Settlement was achieved only after a comprehensive investigation of UGI Gas's proposals set forth in its January 19, 2016 distribution base rate increase filing. In addition to informal discovery, UGI Gas responded to over 1,000 formal discovery requests, many of which included subparts. The active parties filed four rounds of testimony, including UGI Gas's direct testimony, other parties' direct testimony, rebuttal testimony, and surrebuttal testimony. Further, the Parties engaged in numerous settlement discussions and formal negotiations which ultimately led to the Settlement.

Finally, the Parties in this proceeding, their counsel, and their expert consultants have considerable experience in base rate proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus in this proceeding on the settled issues.

For these reasons and the more specific reasons set forth below, the Settlement is just, reasonable, and in the public interest. Therefore, the proposals set forth in UGI Gas's January 19, 2016 distribution base rate increase filing should be approved subject to the terms and conditions of the Settlement.

B. REVENUE REQUIREMENT

1. “Black Box” Revenue Requirement

The Settlement provides for an annual distribution revenue increase of \$27 million. (Settlement ¶ 17) The distribution revenue increase of \$27 million is approximately 46% of the proposed revenue increase of \$58.6 million requested in UGI Gas’s January 19, 2016 filing.

The revenue requirement under the Settlement is a “black box” settlement, with certain exceptions discussed below. (Settlement ¶ 17) Under a “black box” settlement, parties do not specifically identify rate base, revenues and expenses and return that are allowed or disallowed. UGI Gas believes that the “black box” concept often facilitates settlement agreements because parties are not required to identify a specific return on equity or specifically identify rate base, revenues and/or expenses and return that are allowed or disallowed. This process allows a settlement without requiring parties to abandon or reverse their positions on important issues, which could impact their positions in later cases.

The Commission encourages black box settlements. *See, e.g., Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-2011-2267958, pp. 26-27 (Order entered June 7, 2012); *Pa. PUC v. Peoples TWP LLC*, Docket No. R-2013-2355886, pp. 27-28 (Order entered Dec. 19, 2013); *St. of Chairman Robert F. Powelson, Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Public Meeting, Aug. 2, 2012). Under a “black box” settlement, it is not necessary for the ALJ to decide individual rate base or revenue and expense adjustments proposed by the parties or determine the return on equity under the Settlement in order to determine the reasonableness of the proposed revenue increase under the Settlement.

UGI Gas last filed a general rate increase in 1995. Since that time, UGI Gas has experienced significant changes in several aspects of its business. (UGI Gas Book I, Statement of Reasons, pp. 1-2) As explained in the Statement of Reasons, these changes in the business

environment include: (i) a multi-year decline in natural gas commodity prices, resulting in substantial reductions in its customers' bills; (ii) increased costs of providing gas service to the public, which drive the need for an increase in base rates; (iii) since its last rate case in 1995, UGI Gas has made over \$1.0 billion in system investments, increasing the rate base by over 120 percent; (iv) substantial increases to the capital replacement and betterment program, including accelerated replacement of aging infrastructure; (v) implementing the new information technology system initiative (UGI's Next Information Technology Enterprise, or "UNITE"); (vi) substantial investment in growth capital and other system infrastructure, including investments to expand gas service into unserved and underserved areas of the Commonwealth; (vii) increased costs on the pricing of materials, supplies and services; (viii) wage and salary increases, along with an increased numbers of employees needed to continue providing safe and reliable service to customers; and (ix) a substantial reduction in average customer usage. Each of these issues is discussed in detail in the Statement of Reasons. (UGI Gas Book I, Statement of Reasons; *see also* UGI Gas St. 1, pp. 5-7) The revenue increase is essential to UGI Gas's continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI Gas has implemented significant cost containment measures, implemented efficiency enhancements including major strides toward integrating its operations with those of its gas utility subsidiaries UGI Central Penn Gas, Inc. ("CPG") and UGI Penn Natural Gas, Inc. ("PNG"), and seen substantial customer growth over time, the growth in operating and capital investment, along with experienced and anticipated declines in per customer usage, have caused UGI Gas to be unable to earn a fair rate of return on its investment, at present rate levels. (UGI Gas St. 1, p. 6)

Absent rate relief, UGI Gas projected that, for the twelve months ending September 30, 2017, its return on common equity for the distribution business will fall to approximately 4.30%. (UGI Gas St. 1, p. 6) Such a return is clearly deficient under any reasonable standard and would preclude UGI Gas from obtaining capital on reasonable terms to finance infrastructure improvements needed to maintain reliable service to customers. Moreover, such a return on equity for the FPFTY, absent rate relief, also would be significantly lower than the return on equity of 11.00% proposed by Mr. Moul in his testimony. (UGI Gas St. 3, p. 43) Rate relief will allow UGI Gas to continue to provide safe and reliable gas service and continue its capital investment strategy from a position of financial strength, which will allow the Company to make system investments that will enhance the reach and capacity of its distribution system and replace older, obsolete facilities, each of which is prudent to ensure continued system reliability, safety, and customer service performance. (UGI Gas St. 1, pp. 6-7)

In this proceeding, UGI Gas, I&E, and OCA presented testimony on revenue requirement issues. The revenue increase of \$27 million under the Settlement is within the range of litigation positions of these Parties. In its initial filing, UGI Gas proposed a revenue increase of \$58.6 million (UGI Gas St. 1, p. 5), which included a proposed return on equity of 11.00% (UGI Gas St. 3, p. 43). I&E initially recommended a revenue requirement decrease of approximately \$18.6 million (I&E St. 2, p. 35) with a return on equity of 8.90% (I&E St. 1, p. 23). The OCA initially recommended a revenue requirement decrease of approximately \$27.1 million (OCA St. 1, p. 3) with a return on equity of 9.15% (OCA St. 2, p. 36). Through negotiations, the Joint Petitioners were able to reach a compromise within a range of their competing litigation positions.

The \$27 million proposed revenue increase under the Settlement falls well within the range of positions set forth by UGI Gas, I&E, and OCA and is clearly reasonable. The proposed

revenue increase of \$27 million under the Settlement is supported by substantial evidence, is just and reasonable, is in the public interest, and should be adopted without modification.

2. Exceptions to “Black Box” Settlement

a. Transportation, Excess Take, and Rate N Minimum Bills

In this proceeding, UGI Gas proposed to eliminate the following capacity release and transportation service related fees: Pooling Fees, System Access Fees, and Information Service Fees. (UGI Gas St. 6, p. 11) UGI Gas also proposed to eliminate the revenues from Excess Take penalties and the Rate N minimum bill requirements. Because the revenues from these eliminated fees and requirements would not be received in the FPFTY, UGI Gas adjusted the FPFTY revenues to remove these fees and requirements. (UGI Gas St. 6, pp. 11-12; UGI Gas Exs. DEL-3(i), DEL-3(j), and DEL-3(l))

No parties opposed the elimination of the revenues for Pooling Fees, System Access Fees, Information Service Fees, Excess Take Penalties, and the Rate N minimum bill requirements. However, the OCA recommended that the revenue from these fees and requirements be included in the FPFTY operating revenues because they currently are included in present rates. (OCA St. 1, pp. 20-21)

In the Settlement, the Joint Petitioners agree that the proof of revenue will include \$2.348 million of additional revenues for deleted charges in present rate revenue, and \$0 in the proof of revenue for settlement rates for these charges. (Settlement ¶ 18) UGI Gas submits that this Settlement provision is in the public interest because it properly recognizes that these revenues are currently included in present rates, but will be eliminated and no longer received under the FPFTY settlement rates. UGI Gas submits that this Settlement term is consistent with the goal of ratemaking and use of a “test year” to reflect conditions/revenues to be in place during the period that new rates will be in effect. (UGI Gas St. 6-R, p. 32)

b. Interruptible Revenue

Unlike some other utility services, natural gas is subject to competition from alternative fuels, direct customer bypass and locational competition, and there are no uses for natural gas for which there are no other viable energy alternatives. UGI Gas currently provides interruptible gas service to approximately 320 customers, comprising over 40 percent of annual system throughput, under contracts voluntarily entered into that have rates based on the alternatives available to such customers, whether that is an alternate fuel option, an alternative natural gas solution, *i.e.* physical bypass, or a locational alternative, *i.e.* moving production to a different facility with lower energy costs. (UGI Gas St. 1, pp. 20-21)

In this proceeding, UGI Gas proposed to continue its past practice in which it charges interruptible service customers value of service prices and retains or absorbs any difference between cost of service and value of service pricing between rate cases. (UGI Gas St. 1, p. 21) Specifically, UGI Gas annualized its interruptible revenues for the FPFTY based on the blended results of two reasonable cost of service studies, or \$4.9 million. (UGI Gas St. 6, p. 11; UGI Gas St. 4, pp. 8-11) Both I&E and OCA proposed to apply alternative cost of service principles to determine the cost of service attributable to interruptible customers and estimated test-year interruptible revenues based on historical levels. (I&E St. 5, p. 19; OCA St. 1, pp. 19-20; OCA St. 3, pp. 7-8) To resolve these significantly divergent litigation positions, the Joint Petitioners agree that the proof of revenue shall include a total of \$19.356 million of interruptible revenue in present rates and \$18.996 million of revenue for settlement rates. (Settlement ¶ 19)

c. Environmental Remediation

In its filing, UGI Gas claimed \$3 million for environmental remediation expense based on its plan to spend \$3-5 million per year as of the end of the FPFTY for remediation of manufactured gas plant (“MGP”) sites. (UGI Gas St. 9, p. 15) I&E recommended

approximately \$0.5 million for environmental remediation expense based on the historical level of expense. (I&E St. 2, pp. 28-29) The OCA recommended that UGI Gas's entire environmental remediation claim be eliminated. According to the OCA, UGI Gas's environmental remediation accrual does not represent an actual cost incurred and should be eliminated from expenses. (OCA St. 1, p. 22)

In rebuttal, UGI Gas explained that it had entered into a consent order agreement with the Pennsylvania Department of Environmental Protection, dated May 6, 2016, that provides that UGI Gas will be required to incur \$2.5 million per year beginning October 1, 2016, to remediate a number of former MGP sites that were used to render service to UGI Gas's customers when those plants operated. (UGI Gas St. 9-R, p. 5) Based on this requirement, UGI Gas adjusted its claim for environmental remediation from \$3 million to \$2.5 million. (UGI Gas St. 2-R, p. 21)

In the Settlement, the Joint Petitioners agree to an annual expense amount of \$2.0 million for environmental costs to remediate the MGP sites. (Settlement ¶ 20) The Joint Petitioners further agreed that, as described in UGI Gas St. 2, p. 29, any annual differences between \$2.0 million and actual expenditures shall be deferred as a regulatory asset (where expenditures are greater than \$2.0 million per year) or as a regulatory liability (where expenditures are less than \$2.0 million per year) and accumulated for book and ratemaking purposes, subject to recovery or refund in future base rate proceedings. (Settlement ¶ 20)

UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the consent order agreement from the Pennsylvania Department of Environmental Protection. (UGI Gas St. 2-R, p. 21) Additionally, the cost recovery mechanism agreed to in the Settlement will align the recovery of such expenses with the method of cost recovery previously adopted for CPG and PNG and other Pennsylvania gas utilities. (UGI Gas

St. 2, p. 28) Finally, this cost treatment should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. (UGI Gas St. 2, p. 29)

d. Billing Determinants

In its filing, UGI Gas annualized sales by developing sales and revenue adjustments reflective of projected customer counts and annual expected usage per customer as of September 30, 2017. (UGI Gas St. 6, p. 5) Usage per customer was projected based on a twenty-one year regression analysis of actual usage and degree day information for the period from January 1995 through September 2015. (UGI Gas St. 6, p. 8; UGI Gas Ex. DEL-3(c))

Both I&E and OCA criticized UGI Gas’s use of a 21-year regression analysis. I&E proposed to annualize residential usage per customer based on a five-year trend, and recommends that the commercial usage not be changed from the level experienced at the end of the HTY. (I&E St. 4, pp. 3-7; I&E St. 5, pp. 4-16) The OCA recommended that UGI Gas’s proposed adjustment to usage per customer be rejected based on five years of weather normalized data that suggests increasing usage trends. (OCA St. 1, pp. 15-19) I&E’s and OCA’s adjustments to UGI Gas’s use per customer claim are shown below:

| | UGI Gas | I&E | OCA |
|----------------------|-----------|------------|-----------|
| Residential Heat | 69.30 Mcf | 76.9 Mcf | 77.0 Mcf |
| Residential Non-Heat | 18.8 Mcf | 22.15 Mcf | 21.0 Mcf |
| Commercial Heat | 503.6 Mcf | 554.4 Mcf | 553.1 Mcf |
| Commercial Non-Heat | 307.9 Mcf | 325.45 Mcf | 339.3 Mcf |

(UGI Gas St. 6-R, p. 4)

In the Settlement, the Joint Petitioners agreed to specific usage per customer and customer class billing determinants. (Settlement ¶ 21) The billing determinants agreed to in the Settlement are reasonable, properly continue to reflect a decline in usage, and are within the range of billing determinants recommended by the Parties. UGI Gas submits that this Settlement

provision is a carefully considered compromise of competing positions, reflects a reasonable projection of future usage and, therefore, should be adopted.

e. Repairs Allowance

In its filing, UGI Gas proposed to continue to normalize the repairs tax expense deduction for federal income tax purposes over the book life of the plant giving rise to the deduction. This would continue the practice that UGI Gas has followed since the adoption of the repairs allowance in 2009. (UGI Gas St. 10, p. 10)

The OCA recommended that the federal repairs tax deduction be flowed through in its entirety in the determination of the income tax expense included in the cost of service. (OCA St. 1, pp. 26-29) In rebuttal, UGI Gas explained that it decided to normalize the repairs tax deduction, for federal purposes, from the time it first adopted the repairs tax method, because it believed that normalization was most equitable for its customers. (UGI Gas St. 10-R, pp. 4-8)

In the Settlement, the Joint Petitioners agree that the repairs allowance should be normalized with a corresponding increase in Accumulated Deferred Income Taxes and a related reduction to UGI Gas's rate base. (Settlement ¶ 22) The Settlement continues UGI Gas's repairs tax allowance approach, which is fully consistent with the approach taken by other major Pennsylvania utilities that also did not make base rate filings at the time they adopted the repairs allowance method. (UGI Gas St. 10-R, p. 7) Normalization benefits customers by ensuring that they receive a fair portion of the benefit of the repairs allowance deduction through rate base, over the life of the plant giving rise to the deductions, regardless of when UGI Gas files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI Gas that can be used to support UGI Gas's large, related capital spending program and reduce outside borrowing. (UGI Gas St. 10-R, p. 4)

f. Accumulated Deferred Income Taxes

In its rebuttal testimony, UGI Gas included a FPFTY accumulated deferred income taxes (“ADIT”) pro-rata calculation required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service (“IRS”) normalization requirements. (UGI Gas St. 10-R, p. 2) In the Settlement, the Joint Petitioners agreed to the ADIT pro-rationing methodology. (Settlement ¶ 23) This Settlement provision is in the public interest because it ensures compliance with IRS normalization requirements. Additionally, it is in line with other public utility FPFTY presentations, including that of Columbia Gas of Pennsylvania and PPL Electric Utilities Corporation. (UGI Gas St. 10-R, p. 2)

g. Rate Base

UGI Gas’s rate base claim in this case was based on the sum of the closing plant balances as of September 30, 2015 (“HTY”), plus the budgeted plant additions for the years ending September 30, 2016 (“FTY”) and September 30, 2017 (*i.e.* the FPFTY), less budgeted FTY and FPFTY plant retirements. (UGI Gas St. 2, pp. 12-13) Stated otherwise, UGI Gas claimed an end-of-test-year rate base for the FPFTY. The OCA recommended an average FPFTY rate base and a reduction in annual depreciation expense based on the use of the average balances of FPFTY depreciable plant in service. (OCA St. 1, pp. 8-10)

In the Settlement, the Joint Petitioners agree to accept UGI Gas’s as-filed end-of-year FPFTY rate base. (Settlement ¶ 27) UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the long-standing practice in Pennsylvania of using a test year-ending balance. (UGI Gas St. 2, pp. 29-30) Additionally, UGI Gas believes that this Settlement provision is consistent with the plain language of Section 315(e) of the Public Utility Code, which provides that “a fully projected future test year, which shall be the 12-month period beginning with the first month that the new rates will be placed in effect ... [and] the

commission may permit facilities which are projected to be in service during the fully projected future test year to be included in the rate base.” 66 Pa.C.S. § 315(e). Also, as explained in rebuttal, the use of an end-of-year FPFTY year avoids, among other things, complications with income tax calculations and UGI Gas’s ability to effectively and efficiently use the Distribution System Improvement Charge (“DSIC”). (UGI Gas St. 2-R, pp. 30-33)

Finally, as part of the Settlement, the Joint Petitioners agree that UGI Gas will submit updates to reflect the actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY. (Settlement ¶ 24) This is consistent with the results reached in other base rate cases and will assist the Parties and the Commission in reviewing the consistency of UGI Gas’s actual and budgeted capital expenditures for the FTY and FPFTY and the appropriate level of DSIC-eligible plant that UGI Gas will recover in the future through an approved DSIC surcharge mechanism.

h. UGI Gas’s Next Information Technology Enterprise

As explained in the direct testimony of UGI Gas witness Thomas N. Lord, UGI’s Next Information Technology Enterprise (“UNITE”) Program is a multi-phased, multi-year project designed to replace and update UGI’s core, non-financial computer systems including the Customer Information System (“CIS”), Work Management System, Asset Management System and Mobile Data Management System. Phase 1 of the UNITE Program, which entails the development and implementation of a new CIS to replace the two legacy mainframe CIS systems, will be implemented and in service before the end of the FPFTY. Phases 2 and 3 of the UNITE Program will not be placed in service until after the FPFTY. (UGI Gas St. 1, pp. 18-19; UGI Gas St. 8, p. 3)

The total capital cost for Phase 1 of the UNITE Program will be \$88.1 million. In its filing, UGI Gas was allocated \$43.0 of these Phase 1 capital costs. The annual cost of

maintaining the new CIS system with the previously described improved features will be \$1.76 million per year. UGI Gas will be allocated \$859,000 of these annual maintenance costs. (UGI Gas St. 8, pp. 6-7)

There are additional preliminary stage and business reengineering costs that were incurred in 2014 and 2015 and are expected to be incurred in 2016, which will also be included in plant additions. The preliminary-stage project costs and business technology reengineering costs for the UNITE Program are recorded as an expense under US GAAP, but fit into the definition of costs that should be capitalized once placed in service. In its initial filing, UGI Gas claimed a total of \$6.7 million for these preliminary stage and business reengineering costs, of which \$3.1 million was allocated to UGI Gas as plant additions. (UGI Gas St. 2, p. 32) In its rebuttal testimony, UGI Gas refined the level of costs which are properly capitalized under the FERC Uniform System of Accounts. The revised total amount of these costs is anticipated to be \$9.9 million for the new CIS project, of which \$4.8 million will be allocated to UGI Gas. (UGI Gas St. 2-R, p. 7)

No Parties opposed the UNITE Program or otherwise challenged the costs claimed in this proceeding for Phase 1 of the UNITE Program. In the Settlement, the Joint Petitioners agree that UGI Gas's accounting treatment for UNITE as explained above and in UGI Gas St. 2 and 2-R should be adopted. (Settlement ¶ 25)

i. Other Post-Employment Benefits Refund

Since its last base rate case in 1995, UGI Gas accumulated an Other Post-Employment Benefits ("OPEB") over-collection in the amount of \$10.027 million, net of the Commission-approved re-direction of certain OPEB funding to fund a portion of Customer Assistance Program ("CAP") program costs. UGI Gas proposed to return this over-collection to customers over 20 years, *i.e.* to return \$0.501 million annually to customers over a similar time period that

the OPEB recovery mechanism has been in place. (UGI Gas St. 2, p. 34; *see also* UGI Gas St. 2-R, pp. 24-25 (correction to over-collection amount)).

I&E recommended that the OPEB refund should be over a 10-year period rather than a 20-year period. (I&E St. 2, pp. 32-33) In rebuttal, UGI Gas explained that I&E's 10-year refund period is inconsistent with the Commission's Policy Statement at 52 Pa. Code § 69.351 and disregards the fact that the collection of the OPEB in rates during the period of 1995-2006 contributed to the net OPEB balance that exists today. (UGI Gas St. 2-R, p. 25)

The OCA recommended that the unamortized balance of the OPEB over-recovery be deducted from rate base during the refund period. (OCA St. 1, pp. 12-13) In rebuttal, UGI Gas explained that it would not be appropriate for UGI Gas to reduce rate base for the current over-recovery because the OPEB trust amount was never included in base rates and UGI Gas did not recover a return on the regulatory asset. (UGI Gas St. 2-R, pp. 26-27)

In the Settlement, the Joint Petitioners agree that the OPEB credit balance should be \$10.027 million and should be amortized using a 10-year schedule. (Settlement ¶ 26) This is a reasonable compromise of competing litigation positions that ensures the over-collection is refunded to customers over a reasonable period without penalizing UGI Gas for its adoption of Statement of Financial Accounting Standards ("SFAS") 106 in 1993.

j. Distribution System Improvement Charge

The Settlement provides that, as of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the DSIC once eligible account balances exceed the levels projected by UGI Gas at September 30, 2017.³ The Joint Petitioners agree that this provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY

³ UGI Gas's proposed DSIC mechanism is pending Commission approval at Docket No. P-2013-2398833.

filing. (Settlement ¶ 28) This provision fully complies with the requirements 66 Pa. C.S. § 1358 and the Commission's Model Tariff that the DSIC be set to zero as of the effective date of new base rates that include the DSIC-eligible plant.

This Settlement provision also appropriately accounts for the fact that base rates in this case are based on a FPFTY and recognizes that the new base rates include the DSIC-eligible plant additions projected as of September 30, 2017. Because the new base rates are based on projected plant additions, which may be different than actual plant additions, this Settlement provision reasonably permits the DSIC to become effective once the DSIC-eligible account balances exceed the levels projected by UGI Gas at September 30, 2017. This will ensure UGI Gas is able to timely recover the reasonable and prudent capital costs incurred to repair, improve, or replace its aging distribution infrastructure that is placed in service between base rate cases, which, in turn, provides customers with enhanced gas-service safety and reliability benefits. Finally, UGI Gas notes that this settlement provision is identical to other settlement provisions the Commission has adopted for other public utilities using a FPFTY. *See, e.g., Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2406274 (Opinion and Order entered Dec. 10, 2014). For these reasons, UGI Gas submits that this settlement provision is just, reasonable, and in the public interest and, therefore, should be approved without modification.

k. Energy Efficiency and Conservation Plan

The Joint Petitioners have agreed that the \$27 million increase includes \$2.659 million for the incremental expenses incurred for the first year UGI Gas's EE&C Plan. (Settlement ¶ 29) This Settlement provisions simply confirms that the first-year EE&C Plan expenses are included in the \$27 million revenue requirement increase. Certain other aspects of the EE&C Plan are discussed in paragraphs 37 to 45 of the Settlement and Section III.D below.

I. Depreciation Rates

UGI Gas's depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI Gas St. 5 and UGI Gas Exhibits C (Historic), C (Future), and C (Fully Projected). The OCA proposed to reduce UGI Gas's claimed amount of depreciation expense of \$41.516 million by \$7.8 million based on testimony of its witness, Mr. Garren. (*See generally* OCA St. 5) The OCA's recommendation to reduce depreciation expense was based on two primary reasons: (1) the OCA recommended increasing the service lives for 14 distribution plant accounts even though UGI Gas plans to accelerate replacements of its gas plant assets over the next 14 to 30 years as part of its Long-Term Infrastructure Improvement Plan ("LTIIIP"); and (2) the OCA recommended a change in the longstanding, approved depreciation calculation procedure known as the Equal Life Group ("ELG") procedure to the Average Service Life ("ASL") procedure. (*See generally* OCA St. 5)

In rebuttal, UGI Gas explained that OCA's recommendation to increase service lives for 14 distribution plant accounts is incongruent with UGI Gas's LTIIIP, which plans to replace all cast iron mains within 14 years and all bare steel mains within 29 years as of March 2013, and that OCA's service life estimates are based on both a flawed methodology and erroneous data. (UGI Gas St. 5-R, pp. 10-46) UGI Gas also explained that OCA's recommendation to use the ASL procedure is inconsistent with the ELG procedure that was adopted for UGI Gas in 1984 at Docket No. R-832331, and that the ELG procedure has been used by most other Pennsylvania utilities for many years. (UGI Gas St. 5-R, pp. 46-59)

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas's as-filed depreciation rates. (Settlement ¶ 30)

C. REVENUE ALLOCATION AND RATE DESIGN

1. Revenue Allocation

UGI Gas relied upon a class cost of service study to allocate its proposed total jurisdictional revenue to each of the retail customer classes. (UGI Gas St. 6, pp. 20-29; UGI Gas St. 4, pp. 4-11; UGI Gas Exs. D, D-1, and D-2) UGI Gas, I&E, OCA, and OSBA all presented evidence regarding revenue allocation. All of these Parties had different proposals for how to allocate the revenue increase to the customer classes, as well as different proposals regarding how to scale back any reduction to the proposed increase.

UGI Gas proposed to move all rate classes closer to the overall system rate of return, consistent with the Commonwealth Court's decision in *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Cmwlth. 2006) ("*Lloyd*") and prior Appellate Court precedent regarding revenue allocation. (UGI Gas St. 6, pp. 20-21) With this in mind, UGI Gas's proposed revenue allocation would result in each class being closer to the system average rate of return based on the average of two class cost of service studies. (UGI Gas St. 6, pp. 22-26)

I&E did not have a specific revenue allocation and, instead, recommended the use of UGI Gas's Cost of Service Study provided as UGI Gas Exhibit D, Schedule C. (I&E St. 5, pp. 22-23) The OCA generally agreed with the revenue allocation proposed by UGI Gas. However, the OCA recommended that the increase to the residential class be limited to no more than 150% of the overall (system-wide) percentage increase, and proposed specific adjustments, *e.g.*, including interruptible revenues. (OCA St. 3, p. 37) The results of OCA's proposed allocation are summarized below:

| Class | UGI Proposed Allocation | | OCA Proposed Allocation | |
|---------------|-------------------------|------------|-------------------------|------------|
| | Increase \$ | Increase % | Increase \$ | Increase % |
| Rate R | \$43,332,429 | 39.9% | \$37,775,982 | 29.2% |
| Rate N | \$12,495,779 | 22.7% | \$8,486,075 | 15.4% |
| Rate DS | \$981,480 | 9.3% | \$666,538 | 5.3% |
| Rate LFD | \$1,754,237 | 7.0% | \$1,191,329 | 4.8% |
| Rate XD Firm | \$0 | 0% | \$0 | 0% |
| Interruptible | \$0 | 0% | \$0 | 0% |
| Total | \$58,563,925 | 26.6% | \$42,119,925 | 19.5% |

(OCA St. 3, pp. 37-38)⁴

The OSBA recommended no increase or decrease to Rate XD because, according to the OSBA, Rate XD customers are subject to negotiated rates that produce revenues in excess of costs. The OSBA also recommended adjustments to the class cost of service studies to eliminate perceived cross subsidies among Rates N, DS, and LFD. The OSBA also recommended that, with the exception of one very large customer, the rate increase for the interruptible class should be 1.5 times the system average. The results of OSBA's proposed revenue allocation are summarized below:

| Class | UGI Proposed Allocation | | OSBA Proposed Allocation | |
|---------------|-------------------------|------------|--------------------------|------------|
| | Increase \$ | Increase % | Increase \$ | Increase % |
| Rate R | \$43,332,429 | 39.9% | \$44,180,000 | 40.1% |
| Rate N | \$12,495,779 | 22.7% | \$7,270,000 | 13.2% |
| Rate DS | \$981,480 | 9.3% | \$1,430,000 | 13.5% |
| Rate LFD | \$1,754,237 | 7.0% | \$3,790,000 | 15.1% |
| Rate XD Firm | \$0 | 0% | \$0 | 0% |
| Interruptible | \$0 | 0% | \$1,900,000 | 38.7% |
| Total | \$58,563,925 | 26.6% | \$58,560,000 | 27.1% |

(OSBA St. 1, pp. 30-32)

Despite these differences, the Joint Petitioners were able to reach a full settlement on this issue. As a result of numerous settlement discussions, the following unanimous revenue allocation at the settled revenue requirement increase has been agreed upon:

⁴ The OCA's total figures did not match UGI Gas's as a result of the OCA's proposed increase to present rate and proposed pro forma interruptible revenues, which reduces the overall revenue requirement deficiency. (UGI Gas St. No. 6-R, p. 36)

| | Total | R/RT | N/NT | DS | LFD | XD Firm | Interruptible |
|-----------------------|-------------|-------------|------------|------------|------------|------------|---------------|
| Current Rates Revenue | 238,983,720 | 112,503,941 | 57,321,011 | 13,003,988 | 25,013,284 | 11,785,496 | 19,356,000 |
| Revenue Allocation | 27,000,000 | 19,000,000 | 5,681,249 | 924,514 | 1,754,237 | 0 | -360,000 |
| Percent Increase | 11.3% | 16.9% | 9.9% | 7.1% | 7.0% | 0.0% | -1.9% |
| Share of Increase | 100% | 70.4% | 21.0% | 3.4% | 6.5% | 0.0% | -1.3% |

(Settlement ¶ 32) The rate impact of the settled revenue allocation is provided in the “Customer Class Rate Impact Analyses” attached as Appendix A.

The resolution of the revenue allocation issue required significant effort and compromise by the Parties that submitted testimony on revenue allocation issues. The revenue allocation under the Settlement moves all classes closer to the system average return. Given these considerations, UGI Gas believes that the revenue allocation under the Settlement is fully consistent with the Commonwealth Court’s decision in *Lloyd* and prior Appellate Court precedent regarding revenue allocation.

In addition, in considering the *Lloyd* decision, it is important to recognize that *Lloyd* did not overturn prior judicial precedent with regard to revenue allocation and the applicability of cost of service studies. When allocating revenues to the rate classes, the Commission is not required to adopt a single cost of service study or strictly allocate revenues according to the study’s results. In *Executone of Philadelphia, Inc. v. Pa. P.U.C.*, 52 Pa. Cmwlth. 74, 79, 415 A.2d 445, 448 (Pa. Cmwlth. 1980), the Court stated as follows:

[T]here is no single correct cost study or methodology that can be used to answer all questions pertaining to costs; there are only appropriate and inappropriate cost analyses depending upon the type of service under study and the management and regulatory decision in question.

Likewise, in *Peoples Natural Gas Co. v. Pa. P.U.C.*, 47 Pa. Cmwlth. 512, 409 A.2d 446, 456 (Pa. Cmwlth. 1979), (“*Peoples*”), the Court stated as follows with respect to rate design:

. . . there is no set formula for determining proper ratios among the rates of different customer classes. *Natona Mills v. Pennsylvania Public Utility Commission*, 179 Pa. Super. 263, 116 A.2d 876 (1955). What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the commission to decide. This court's scope of review is limited.

In addition, the Commission has broad discretion in establishing a rate structure. In *Peoples*, the Court also stated:

It is well settled that the establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Pittsburgh v. Pennsylvania Public Utility Commission*, 168 Pa. Super. 95, 78 A.2d 35 (1951). Further, this court has continually recognized that the findings of the Commission, if supported by competent evidence, will not be disturbed. *United States Steel Corp. v. Pennsylvania Public Utility Commission*, 37 Pa. Cmwlth. 173, 390 A.2d 865 (1978); *Philadelphia Suburban Transportation Co. v. Pennsylvania Public Utility Commission*, 3 Pa. Cmwlth. 184, 192-94, 281 A.2d 179, 185 (1971).

Peoples, 47 Pa. Cmwlth. at 533, 409 A.2d at 456.

As *Lloyd* and the other cases cited above demonstrate, the Commission retains considerable discretion in designing rates, is not required to follow any particular cost of service study, and can consider other factors, including gradualism, in designing just and reasonable rates, as long as cost of service is the primary guiding factor. The agreed-upon revenue allocation under the Settlement provides very significant movement towards cost of service for all rate classes under UGI Gas's class cost of service study and is within the range of the Parties' litigation positions in this proceeding. As such, UGI Gas submits that the Settlement's proposed revenue allocation is fully consistent with the *Lloyd* decision and other relevant precedent regarding revenue allocation.

2. Rate Design

The primary objective of the proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. In its filing, UGI Gas proposed to continue movement toward distribution rates that are more reflective of how costs are incurred and to be competitive with prices of competing alternate-energy sources, including physical bypass of UGI Gas's system. (UGI Gas St. 6, pp. 20-22) The rate design proposed for each Rate Schedule is summarized in the direct testimony of Mr. David E. Lahoff. (See UGI Gas St. 6, pp. 22-29)

a. Rate R/RT Rate Design

UGI Gas proposed a Rate R customer-class customer charge of \$17.50 per month, as compared to the current charge of \$8.55 per month, to better reflect the customer component of customer service. (UGI Gas St. 6-R, p. 38) I&E, OCA, and CAUSE-PA all opposed UGI Gas's proposal to increase the residential monthly charge from \$8.55 to \$17.50.

Based on its own customer cost analyses, I&E recommended a Rate R customer charge of \$11.40. (I&E St. 5, pp. 26-30) The OCA argued that UGI Gas's proposed Rate R customer charge ignores the ratemaking concept of gradualism and should be limited to no more than \$11.25 per month. (OCA St. 3, pp. 41-42) The OCA and CAUSE-PA argued that UGI Gas's proposal hurts low-volume and low-income customers, as well as energy conservation. (OCA St. 4, pp. 24-26; CAUSE-PA St. 1, pp. 16-18) CAUSE-PA recommended that any increase for Rate R should be applied only to a volumetric charge. (CAUSE-PA St. 1, p. 18)

In its rebuttal testimony, UGI Gas provided extensive support for its proposal from a cost of service perspective. (See UGI Gas St. 4-R, pp. 4-8) UGI Gas also explained why an increase in the customer charge will not negatively impact conservation. UGI Gas further stressed that the majority of the total bill will continue to be usage based even if the UGI Gas's proposed

residential customer charge is adopted. UGI Gas further explained that although it fully supports appropriate incentives to encourage customers to conserve energy, UGI Gas does not believe that it is appropriate to design rates solely based on conservation. Rates driven solely by conservation efforts would go against the fundamental cost causation principles and put investment in utility infrastructure at risk. (UGI Gas St. 6-R, p. 40) Finally, UGI Gas noted that customer charges recommended by I&E and OCA would equate to the lowest residential customer charge in the Commonwealth of Pennsylvania, among major natural gas distribution companies (“NGDCs”). (UGI Gas St. 6-R, p. 41)

Despite the differences outlined above, the Joint Petitioners were able to resolve this issue through settlement. As a result of numerous settlement discussions, all of the Parties agree that the proposed customer charge for the Rate R/RT customer class should be \$11.75 per month. (Settlement ¶ 33) The \$11.75 per month residential customer charge under the Settlement is a reasonable compromise of competing litigation positions and within the range proposed by the Parties that presented testimony on the residential customer charge.

UGI Gas also proposed to replace the current declining block structure for the Rate R customer class with a single block volumetric charge. (UGI Gas St. 6-R, p. 38) Although OCA supported UGI Gas’s proposal to eliminate the declining block usage rate for the Rate R customer group (OCA St. 3, p. 41), I&E recommended that the declining block usage rate be retained and increased. (I&E St. 5, p. 34)

In the Settlement, the Joint Petitioners agree to eliminate the blocked design for Rate R/RT. (Settlement ¶ 34) The elimination of the blocked design and use of a single block structure for Rate R/RT will simplify customer bills and incentivize conservation, compared to a rate with a lower tail block for higher levels of usage. (UGI Gas St. 6-R, p. 42)

b. Rate N/NT Rate Design

UGI Gas proposed a Rate N/NT customer-class customer charge of \$32.00 per month, as compared to the current charge of \$8.55 per month, to better reflect the customer cost component of providing service to this class. (UGI Gas St. 6-R, p. 43) I&E and OSBA opposed UGI Gas's proposal.

Relying on specific customer cost analyses, I&E recommended a Rate N customer charge of \$14.00, and the OSBA recommended a Rate N customer charge of \$20.00 per month. (I&E St. 5, pp. 26-30; OSBA St. 1, p. 34) Both I&E and OSBA also argued that UGI Gas's proposed Rate N customer charge violates the ratemaking concept of gradualism. (I&E St. 5, p. 29; OSBA St. 1, p. 34)

In rebuttal, UGI Gas provided extensive support for the proposed Rate N/NT customer charge from a cost of service perspective and addressed I&E's and OSBA's customer cost analyses. (*See generally* UGI Gas St. 4-R) Further, UGI Gas addressed the gradualism concerns. (UGI Gas St. 6-R, p. 44)

In the Settlement, the Joint Petitioners agree to a Rate N/NT customer charge of \$16.00 per month. (Settlement ¶ 33) The settlement of the Rate N/NT customer charge is a reasonable compromise of competing litigation positions and provides a significant increase from the current, outdated rate, while recognizing gradualism in rate design.

UGI Gas also proposed to replace the current Rate N/NT declining block structure with a single block volumetric charge. (UGI Gas St. 6-R, p. 43) I&E recommended that the declining block usage rate be retained. (I&E St. 5, p. 34) The OSBA recommended a single \$3.6707 per Mcf commodity charge for Rate N. (OSBA St. 1, p. 34)

In the Settlement, the Joint Petitioners agree to eliminate the blocked design for Rate N/NT. (Settlement ¶ 34) The elimination of the blocked design and use of a single block

structure for Rate N/NT will simplify customer bills and promote conservation. (UGI Gas St. 6-R, p. 45)

c. Rates DS and LFD

For Rates DS and LFD, UGI Gas proposed to maintain the current monthly customer charges and to replace the current declining block structures with single block volumetric charges. (UGI Gas St. 6-R, pp. 45-47) The OSBA expressed concerns that the proposal for Rate DS may result in more current Rate DS customers opting for Rate N/NT. (OSBA St. 1, p. 35) I&E opposed the replacement of the current Rate LFD declining block structure due to concerns about gradualism and recommended that the four block rate design be reduced to two blocks. (I&E St. 5, pp. 35-36)

In the Settlement, the Joint Petitioners agree to retain the Rate DS and LFD monthly customer charges as proposed by UGI Gas, and to adopt a two block rate design. (Settlement ¶¶ 33-34) The settlement of the rate design for Rates DS and LFD is a reasonable compromise of competing litigation positions. UGI Gas submits that the Rate DS and LFD rate design, as modified by the Settlement, will help address the OSBA's concerns about customer migration, as well as I&E concerns about gradualism.

D. ENERGY EFFICIENCY AND CONSERVATION PLAN

In this proceeding, UGI Gas proposed a voluntary, five-year EE&C Plan, under which it would offer energy efficiency programs and a Combined Heat and Power ("CHP") Program to reduce customers' energy consumption. (UGI Gas St. 11, p. 2; UGI Gas Exhibit TML-2) Specifically, the energy efficiency programs are projected to reduce energy consumption by 7,385 Billion British Thermal Units ("BBtus") over the lifetime of the installed measures. (UGI Gas St. 11, pp. 2-3) Both the energy efficiency programs and the CHP Program are cost-effective on a Total Resource Cost ("TRC") Test basis, with benefit-cost-ratios ("BCRs") of 1.76

and 1.60, respectively. (UGI Gas St. 11, pp. 2-3) Collectively, the programs are estimated to provide \$67.9 million in net total resource benefits with an overall TRC BCR of 1.65. (UGI Gas St. 11, p. 3)

Several parties made recommendations and raised issues concerning the proposed EE&C Plan. The Energy Efficiency and Conservation Plan section of the Settlement (Section D) represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, this section of the settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions and resolves all issues related to UGI Gas's proposed EE&C Plan. It also provides significant refinements and improvements in the proposed plan and, to a substantial degree, addresses the concerns raised by the parties. For the reasons explained below, UGI Gas's proposed EE&C Plan, as modified by the Settlement, is just and reasonable and should be approved without modification.

1. Spending Caps

UGI Gas's EE&C Plan set forth the projected budget for energy efficiency programs and the CHP Program. (UGI Gas Exhibit TML-2, p. 12) UGI Gas projected to spend approximately \$27.6 million on energy efficiency programs and the CHP Program in 2015 dollars over the five-year Plan. (UGI Gas Exhibit TML-2, p. 12) UGI Gas, however, did not propose a specific spending cap.

OCA witness Watkins recommended a \$21.0 million total cap and certain annual caps on residential EE&C Plan spending. (OCA St. 3, p. 48) In addition, UGIII witness Trzesniowski argued that the EE&C Rider should only apply to those customers who opt-in to the EE&C Plan or, alternatively, that Rate Schedule LFD customers should be permitted to opt-out of the EE&C Plan. (UGIII St. 3, pp. 11-12)

Under the Settlement, the Joint Petitioners agree to a total spending cap of \$27 million for UGI Gas's proposed five-year EE&C Plan. (Settlement ¶ 37) In addition, Rate LFD customers shall be responsible for no more than \$1.1 million in EE&C costs over the five-year EE&C Plan. (Settlement ¶ 37) These settlement provisions help assure ratepayers as to the total cost of the EE&C Plan. Further, establishing a cap on total EE&C Plan spending is consistent with electric distribution companies' ("EDCs") EE&C Plans under Act 129. *See* 66 Pa. C.S. § 2806.1(g).

2. EE&C Rider

UGI Gas proposed an EE&C Rider, which will appear as a separate line item on customers' bills to recover program costs related to UGI Gas's EE&C Plan. (UGI Gas St. 6, p. 20) As initially proposed, the EE&C Rider would be computed separately for residential customers (Rate Schedules R and RT) and nonresidential customers (Rate Schedules N, NT, DS, and LFD). (UGI Gas St. 6, p. 20)

OSBA witness Knecht recommended that UGI Gas track costs and develop separate charges for small nonresidential customers and large nonresidential customers. (OSBA St. 1, p. 46) However, noting that Rates DS and LFD are not eligible for the CHP Program, Mr. Knecht argued that the EE&C Rider charges should be further divided between small and large nonresidential customers. (OSBA St. 1, pp. 45-46)

In rebuttal, UGI Gas agreed to develop four classes for purposes of the EE&C Rider. (UGI Gas St. 11-R, pp. 29-30) The Settlement provides that UGI Gas will accept the use of four EE&C rate classes: (1) R/RT; (2) N/NT; (3) DS; and (4) LFD. (Settlement ¶ 38) Each rate class will only be allocated the costs of programs for which it is eligible, as further described in UGI Gas Exhibit DEL-30. (Settlement ¶ 38) This will more accurately recover EE&C costs based on the projected participation rates for these customers in the CHP program. (UGI Gas St. 11-R, p. 30)

3. Multifamily Housing

OCA witness Colton argued that the proposed EE&C Plan does not adequately address customers living in multifamily buildings. (OCA St. 4, p. 52) Mr. Colton recommended that UGI Gas develop a residential program and designate a portion of that program's budget to specifically serve individually metered multifamily properties. (OCA St. 4, p. 59; UGI Gas Ex. TML-20)

Under the Settlement, UGI Gas will develop targeted marketing materials for existing residential multifamily customers and new multifamily residential construction, including master-metered multifamily residences, with such materials focused on targeting property management companies and landlords. (Settlement ¶ 39) UGI Gas agrees to track participation for buildings with more than one unit. (Settlement ¶ 39) UGI Gas also agrees to coordinate with the Pennsylvania Housing Alliance and the Pennsylvania Housing Finance Agency. (Settlement ¶ 39)

This Settlement provision is designed to help encourage customers that own or live in multifamily properties to participate in EE&C programs. Further, by tracking multifamily properties' participation in the EE&C programs, UGI Gas will gather valuable data on the EE&C Plan's success at addressing this market segment.

4. Coordination with LIURP

OCA witness Colton contended that the EE&C Plan should specifically target low-income customers and that UGI Gas should be required to achieve 4.5% of its savings from low-income customers. (OCA St. 4, pp. 46-47) In rebuttal, UGI Gas observed that although the EE&C Plan does not offer a low-income specific program, UGI Gas already offers its Low-Income Usage Reduction Program ("LIURP"), which is designed to improve low-income customers' energy efficiency. (UGI Gas St. 11-R, p. 21) Furthermore, UGI Gas determined that

implementing a low-income specific program would cost approximately \$5.0 million to \$8.8 million over the five years of the EE&C Plan. (UGI Gas St. 11-R, p. 22)

To address OCA's concerns, UGI Gas agrees to refer any LIURP-eligible customers to LIURP when they contact UGI Gas about participating in an EE&C program. (Settlement ¶ 40) This provision addresses the need to provide efficiency measures to low-income customers, while avoiding the substantial costs in developing a low-income specific program and savings target.

5. TRC Test

UGI Gas utilized a TRC Test to evaluate the cost-effectiveness of the EE&C Plan and programs. (UGI Gas St. 11, p. 9) This test compares the avoided cost of resources, including natural gas, electricity, and water, against the incremental cost of pursuing efficiency measures and any administration costs incurred under the programs. (UGI Gas St. 11, pp. 9-10)

OSBA witness Knecht disagreed with UGI Gas's inclusion of carbon taxes and demand reduction induced price effects ("DRIPE") in the TRC Test calculations. (OSBA St. 1, p. 42) In rebuttal, UGI Gas argued that the avoided cost benefits of carbon taxes and DRIPE should be included in the TRC Test because they are tangible benefits that would result from UGI Gas's EE&C Plan. (UGI Gas St. 11-R, p. 27)

Under the Settlement, UGI Gas will include TRC Test evaluations with and without the economic effects of carbon taxes and DRIPE in the evaluations of the programs' cost effectiveness. (Settlement ¶ 41) This provision enables UGI Gas to recognize these tangible benefits resulting from the EE&C Plan, while allowing other Parties, like OSBA, to evaluate the cost-effectiveness of these programs without those benefits.

6. Nonresidential Program Spending

OSBA witness Knecht questioned the amount a participant in a nonresidential EE&C program contributes to a project, and recommended that UGI Gas modify the EE&C Plan so that utility costs do not exceed 50% of the costs for any nonresidential EE&C program. (OSBA St. 1, pp. 43-44)

In rebuttal, UGI Gas presented support for the incentive levels for the Nonresidential Retrofit and New Construction Programs. (UGI Gas St. 11-R, pp. 27-28) Further, UGI Gas noted that the Nonresidential Retrofit Program's incentives are consistent with the best practices of similar nonresidential retrofit natural gas efficiency programs offered by Philadelphia Gas Works and other administrator-utilities in nearby states. (UGI Gas St. 11-R, p. 28)

Under the Settlement, the Joint Petitioners agree to specific limits on the recoverable utility costs (including incentives, program administration, marketing, inspections and evaluation but excluding portfolio-wide costs) for the Nonresidential Prescriptive Program, the Nonresidential Retrofit Program, and New Construction Program over the five-year life of the EE&C plan. (Settlement ¶ 42) These settlement provisions address OSBA's concern with participants' contribution to the costs of the EE&C Plan's nonresidential programs. They also clarify how those costs and contributions are calculated and give UGI Gas the flexibility to voluntarily grant incentives in excess of the 55% threshold without EE&C cost recovery. Further, the settlement provisions ensure that the costs and customer contributions for nonresidential EE&C programs that target multifamily properties are aligned with the residential EE&C programs for multifamily customers.

7. Measure Qualifications

OCA witness Watkins recommended that for the Residential Prescriptive Program, all equipment and appliances (except Wi-Fi thermostats) should exceed EnergyStar minimum

requirements. (OCA St. 3, p. 46) UGI Gas explained in its rebuttal testimony that most of the proposed measures in the Residential Prescriptive Program meet EnergyStar minimum requirements and that requiring this level to be exceeded would deprive UGI Gas of a valuable marketing tool and could be misleading to customers. (UGI Gas St. 11-R, p. 13)

Under the Settlement, all appliances and equipment qualifying for rebates or incentives under the EE&C plan must meet or exceed U.S. Department of Energy “EnergyStar” Minimum Standards to the extent such standards exist. (Settlement ¶ 43) This provision ensures that the EE&C Plan only provides incentives for more efficient appliances and equipment and enables UGI Gas to utilize EnergyStar as a marketing tool.

8. Fuel Switching

OCA witness Watkins argued that conversions from other fuel sources, such as electricity or oil, should not qualify for incentives under the Residential Prescriptive Program and the Residential Retrofit Program. (OCA St. 3, pp. 46-47) Mr. Watkins nevertheless recognized that conversions from alternative fuels promote resource conservation and may help reduce the carbon footprint. (OCA St. 3, p. 46) In rebuttal, UGI Gas explained that the incentives for its programs are designed to encourage customers who have already made the decision to choose natural gas to purchase higher efficiency appliances and are not designed to influence the initial choice of fuel. (UGI Gas St. 11-R, pp. 14-15)

The Settlement provides that incentives, rebates, or credits under the EE&C Plan are primarily intended to provide incentives to cover the cost difference between baseline gas and more efficient gas appliances. (Settlement ¶ 44) This addresses OCA’s concern with the intent of providing incentives to customers who convert their appliances from other fuel sources.

9. Monitoring and Reviewing the EE&C Plan

The EE&C Plan outlines several commitments by UGI Gas to monitor and review the EE&C Plan. (UGI Gas Ex. TML-2, p. 21; UGI Gas St. 11-R, p. 20) No Parties opposed UGI Gas's monitoring and review efforts, subject to program approval, but some Parties raised concerns about the EE&C Plan's projected spending and participation levels. (*See* UGIII St. 3, pp. 11-12; I&E St. 2, pp. 9-10; OCA St. 3, pp. 48-49)

The Settlement responds to those concerns by requiring UGI Gas to hold an annual stakeholder meeting to review and discuss the EE&C Plan's progress, as well as receive input from stakeholders on potential modifications to the EE&C Plan, if any. (Settlement ¶ 45) Each annual stakeholder meeting shall be held within three months after UGI Gas submits its annual EE&C Plan report to the Commission. (Settlement ¶ 45) UGI Gas will provide a copy of its annual EE&C Plan report to the stakeholders at the time it is submitted to the Commission and will review and discuss the report at the stakeholder meeting. (Settlement ¶ 45)

These settlement provisions will enable interested Parties to review and evaluate the EE&C Plan's success and to provide valuable feedback and suggestions to UGI Gas throughout the initial five-year phase. UGI Gas believes that such meetings should provide valuable information as it implements this voluntary natural gas EE&C Plan.

E. UNIVERSAL SERVICES

UGI Gas did not propose any changes regarding the administration, services provided, or funding levels of its universal service programs in this distribution base rate proceeding. (UGI Gas St. 7, pp. 10, 14) Rather than change any aspect of its Universal Service Programs in this case, UGI Gas simply proposed to adopt a Universal Service Plan ("USP") Rider similar to that approved by the Commission in the most recent PNG and CPG base rate proceedings at Docket

Nos. R-2008-2079660 and R-2008-2079675 and other Universal Service cost-recovery mechanisms implemented by other utilities in the Commonwealth. (UGI Gas St. 7, pp. 13-14)

Notwithstanding the foregoing, several Parties to this proceeding recommended a plethora of structural changes to UGI Gas's Universal Service programs, including: increasing LIURP funding; revising UGI Gas's income verification procedures under its winter termination policy; increasing CAP solicitation and enrollment; revising UGI Gas's low-income customer tracking and accounting practices; and clarifying UGI Gas's security deposit waiver policies and practices. As more fully explained in UGI Gas's rebuttal testimony, the changes proposed by OCA, CAUSE-PA and CEO were largely unrelated to the proposed rate increase and have been or could have been raised in the Docket No. M-2013-2371824 Universal Service proceeding. (UGI Gas St. 12-R, pp. 6-7) Notwithstanding the tenuous connection of these issues to the proposed rate increase, the Company indicated that it was willing to accept some of the proposals, but rejected others.

The Universal Services section of the Settlement (Section E) represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, this section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions that balances their interests and resolves all issues related to UGI Gas's Universal Service programs. In addition, the Settlement terms provide important and useful clarifications and improvements to UGI Gas's universal services programs. Therefore, UGI Gas's proposed USP Rider and Universal Service programs, as modified by the Settlement, are just and reasonable and should be approved without further modification.

1. LIURP Funding

CAUSE-PA recommended that UGI Gas's LIURP funding be increased at a percentage equivalent to the base rate increase resulting from this proceeding. (CAUSE-PA St. 1, pp. 24-

26) Similarly, CEO advocated for increased LIURP funding, but recommended that UGI Gas increase the current annual LIURP budget from \$1.1 million to \$1.35 million. (CEO St. 1, p. 16) CEO further recommended that UGI Gas be required to carry over unspent LIURP and other universal service program funds from year to year. (CEO St. 1, p. 11)

In rebuttal, UGI Gas responded that LIURP funding should not be increased as a part of this base rate proceeding, because it had recently doubled the program budget in its triennial filing and additional funding would require the company to re-evaluate the resources needed to ensure it could perform an increased number of weatherization jobs, and if it is capable, to increase the amount of LIURP funding to be recovered through the USP Rider. (UGI Gas St. 12-R, pp. 24-26) Additionally, UGI Gas recommended that unspent funds not be carried over year to year in order to avoid budget inconsistencies that would complicate program administration. (UGI Gas St. 12-R, pp. 26-27)

In the Settlement, the Joint Petitioners agree that UGI Gas will increase LIURP funding, and that UGI Gas will rollover unspent LIURP funds for the following year(s). (Settlement ¶ 47) LIURP weatherization projects help low-income customers reduce their natural gas usage and lower their monthly bills. This provision will allow UGI Gas to continue to increase the annual number of LIURP weatherization jobs it performs, while fully recovering the costs of administering the program. (UGI Gas St. 12-R, p. 25)

2. Winter Termination Policy Revisions

OCA contended that UGI Gas's income verification language in proposed Tariff Rule 9.1(b) was too restrictive and recommended that UGI Gas adopt language similar to that used in the Columbia and FirstEnergy Companies' tariffs. (OCA St. 4, p. 41) OCA also recommended that UGI Gas revise its tariff's winter termination policies to not require a previously confirmed low-income customer to re-certify or re-verify their low-income status. (OCA St. 4, pp. 42-43)

While UGI Gas disagreed with OCA's assertion, UGI Gas stated in rebuttal that it would adopt the OCA's proposed language and further clarified that it will not require any provision of customer information to prove income if the customer has established income within the past 12 months through receipt of Low-Income Home Energy Assistance Program ("LIHEAP") or if the customer is currently participating in CAP. (UGI Gas St. 12-R, p. 29)

Under the Settlement, UGI Gas will modify proposed Tariff Rule 9.1(b) to state that "UGI Gas will use financial information from the customer provided within the most recent twelve (12) month period to determine if a customer exceeds the 250% federal poverty level threshold." (Settlement ¶ 48) Further, UGI Gas will not require a customer to verify income if the customer has verified his or her income through receipt of LIHEAP funding with the past 12 months or if the customer is currently participating in CAP. (Settlement ¶ 48) This settlement provision clarifies UGI Gas's tariff requirements for income verification and is in the public interest. (UGI Gas St. 12-R, p. 29) Moreover, it incorporates Commission-approved language regarding income verification used by other Pennsylvania public utilities.

Additionally, OCA recommended that UGI Gas accept 30-day annualized income to establish eligibility for winter shutoff protections. (OCA St. 4, p. 41) UGI Gas indicated that it already uses "annualized income" (*i.e.* paystubs) to verify income under proposed Rule 9.1(b)(i) in its rebuttal testimony. (UGI Gas St. 12-R, p. 29) However, UGI Gas agrees to revise its tariff language to clarify that it accepts 30-day annualized income to establish winter shutoff protections. (Settlement ¶ 54) UGI Gas's winter termination protection procedures are designed to ensure its low-income customers are afforded proper protections against termination during the winter months. The tariff revisions as modified by the Settlement will provide greater clarity regarding the applicability of these protections.

3. CAP Enrollment and Solicitation

Both OCA and CAUSE-PA recommended that UGI Gas take additional active steps to increase the number of low-income customers enrolled in CAP. (OCA St. 4, p. 38; CAUSE-PA St. 1, pp. 3-4) UGI Gas responded that any additional steps were not necessary, and that it already holds two annual universal service stakeholder collaborative meetings that are open to suggestions to improve CAP enrollment. (UGI Gas St. 12-R, pp. 18-19) However, to address these concerns, UGI Gas agrees to encourage Community Based Organizations (“CBOs”) to conduct additional CAP solicitation efforts, and to include CAP outreach as an agenda item at its bi-annual Universal Service committee meetings. (Settlement ¶ 49) Encouraging outreach by its CBOs and further exploring outreach options in collaboratives as well as its next Universal Service filing will help expand CAP outreach to payment-troubled customers, while preserving the rights of interested Parties who are not participants in this proceeding to comment on any additional outreach measures. (UGI Gas St. 12-R, pp. 7, 18)

Regarding UGI Gas’s CAP-screening and referral practices, the Joint Petitioners agree that UGI Gas will continue to screen customers for eligibility and/or refer all individuals inquiring about a payment arrangement or similar credit-related issues to appropriate Universal Service programs. (Settlement ¶ 51) This provision recognizes UGI Gas’s current screening and referral practices adhere to the requirements of Chapter 14 of the Public Utility Code and Chapter 56 of the Commission’s Regulations, and also demonstrates UGI Gas’s commitment to leveraging its current practices and procedures to increase CAP enrollment.

Additionally, under the Settlement UGI Gas will consult with its CBOs and investigate the feasibility of using alternatives to process applications and verify income for purposes of security deposit waivers and enrollment in Universal Service programs. (Settlement ¶ 55) This settlement provision recognizes the important role played by CBOs in the customer verification,

education and enrollment processes. (UGI Gas St. 12-R, p. 19, 31) It also allows UGI Gas to leverage the specialized expertise of CBOs to coordinate, explore and evaluate the feasibility of methods to improve the Universal Service enrollment process. (UGI Gas St. 12-R, p. 19)

4. Low-Income Customer Tracking Practices

CAUSE-PA recommended that UGI Gas confirm whether a customer is low income upon establishment of an account. (CAUSE-PA St. 1, p. 31) CAUSE-PA also recommended that UGI Gas conduct a follow-up to confirm whether the customer has increased his or her income above 150% of the federal poverty level over a twelve-month period. (CAUSE-PA St. 1, p. 31) In the Settlement, the Joint Petitioners agreed that UGI Gas will request income information on the initial call to establish new service and/or to restore previously terminated service. (Settlement ¶ 50) Asking applicants and customers for income information on the initial call to establish service will help UGI Gas identify eligible low-income customers and efficiently refer them to UGI Gas's universal service programs.

OCA recommended that UGI Gas undertake greater efforts to enroll confirmed low-income customers not participating in CAP in deferred payment arrangements. Under the Settlement, UGI Gas will include customers who are in default of their payment arrangements, but who are still active customers, in its tally of customers enrolled in deferred payment plans. (Settlement ¶ 52) Revising its recordkeeping methods for customers enrolled in deferred payment plans will allow UGI Gas and interested parties to properly evaluate deferred payment plan enrollment figures on an "apples to apples" basis with other regulated utilities. (UGI Gas St. 12-R, pp. 17-18)

5. Security Deposit Waivers

CAUSE-PA recommended that UGI Gas revise its security deposit policies, so that UGI Gas would not require a customer to enroll in a customer assistance program in order to be

eligible to receive a security deposit waiver. (CAUSE-PA St. 1, pp. 33-34) In rebuttal, UGI Gas explained that it does not require a low-income customer to enroll in a Universal Service program to qualify for waiver of a security deposit, but it does require a customer to verify his or her income. (UGI Gas St. 12-R, p. 28)

Pursuant to the Settlement, UGI Gas will inform applicants and customers of the opportunity for security deposit waivers for income-qualified households and will request income information on the initial call to establish new service and/or to restore previously terminated service. (Settlement ¶ 50) Additionally, the Joint Petitioners agree that UGI Gas will revise its employee training materials regarding waivers of a security deposit for low-income customers. (Settlement ¶ 53)

UGI Gas designed its security deposit and waiver policies to ensure low-income applicants and customers do not face insurmountable hurdles to accessing natural gas service. (CAUSE-PA St. 1, p. 34) This settlement provision clarifies UGI Gas's commitment to this purpose and makes clear that certain perceived barriers do not actually exist.

F. LANGUAGE AND ACCESS ISSUES

In its direct testimony, CAUSE-PA recommended that UGI Gas be required to implement several revisions to its language access policies and procedures. CAUSE-PA's recommendations regarding UGI Gas's language access policy included: (1) that UGI Gas be required to conduct a language needs assessment based on its geographic service area, rather than affirmative customer requests; (2) that UGI Gas revise its language access policy to affirmatively ask callers whether they would prefer an interpreter at the start of a call; (3) that UGI Gas monitor CBOs and ensure the CBOs also have access to language services; and (4) that all Universal Service program documents be available in Spanish. (CAUSE-PA St. 2, pp. 7-11) UGI Gas explained in detail

why these recommendations were inappropriate or unnecessary in its rebuttal testimony. (UGI Gas St. 12-R, pp. 7, 39-41)

After extensive settlement discussions with CAUSE-PA and the other Parties, the Joint Petitioners settled all issues related to UGI Gas's language access and identification policies. In the Settlement, the Joint Petitioners agree that UGI Gas will: (a) translate into Spanish the LIURP and Operation Share universal service program documents that were not already translated; and (b) require its CBOs to have access to Spanish language interpretation services if 5% or more of the residents in the portion of the service territory serviced by the CBO speak Spanish, according to United States census data. (Settlement ¶ 57) This settlement provision represents a reasonable compromise on a number of issues related to UGI Gas's language access policies. Increasing access to Universal Service programs for limited English proficiency ("LEP") customers and applicants clearly benefits LEP customers in UGI Gas's service territory. UGI Gas is committed to providing excellent service to all customers in its territory and ensuring that its employees and contracted CBOs are properly equipped, where necessary, to handle the language needs of the populations they interact with.

Additionally, CAUSE-PA recommended that UGI Gas revise its identification policies to accept alternative forms of identification (*i.e.* other than social security numbers) from applicants and customers to establish service with UGI Gas. (CAUSE-PA St. 2, p. 13) CAUSE-PA subsequently recommended that the policy be further broadened, so it would include foreign documents and passports from any nation. (CAUSE-PA St. 2-SR, p. 7)

Under the Settlement, UGI Gas shall revise and further clarify its identification policy consistent with 52 Pa. Code § 56.32(c). (Settlement ¶ 58) This settlement provision balances UGI Gas's interest in ensuring that an applicant is not initiating service with UGI Gas while

carrying arrearages from another account and UGI Gas's duty to provide service to all customers in its service territory. The revised policy further clarifies the broad definition of government issued photo identification and makes clear that customers have alternative methods of proving their identity if they cannot provide a government issued photo identification.

G. MEDICAL CERTIFICATES

CAUSE-PA recommended that UGI Gas revise several aspects of its medical certification policy. (CAUSE-PA St. 1, pp. 34-38) UGI Gas provided a detailed explanation of why CAUSE-PA's evaluation of the medical certification policy was incorrect in its rebuttal testimony. (UGI Gas St. 12-R, pp. 37-39) Nonetheless, UGI Gas agreed to further clarify its medical certification procedures.

Specifically, the Joint Petitioners agree that UGI Gas will clarify its medical certification procedures to reflect its practice of faxing the medical certificate form directly to a physician's office when provided the fax number by the customer. (Settlement ¶ 59) The proposed clarification better informs customers of a convenient option for obtaining medical certifications, which also significantly reduces the chances for errors and delays.

The Joint Petitioners further agree UGI Gas will clarify that UGI Gas's medical certificate form is not the exclusive means of obtaining a medical certification and that UGI Gas will accept any writing that contains the information required by Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's regulations. (Settlement ¶ 60) This settlement provision recognizes UGI Gas's interest in reducing the potential for fraud and clarifies the additional writings a customer may submit to UGI Gas when applying for a medical certification. (UGI Gas St. 12-R, pp. 38-39)

H. PROTECTION FROM ABUSE PROCEDURES

As a part of its direct testimony, CAUSE-PA recommended structural revisions to UGI Gas's Protection From Abuse ("PFA") policies and procedures. (*See generally* CAUSE-PA St. 3) UGI Gas provided detailed explanations for its agreement, in part, and opposition, in part, to these recommendations in its rebuttal testimony. (UGI Gas St. 12-R, pp. 41-47) Ultimately, the Joint Petitioners fully settled all issues related to UGI Gas's PFA policies and procedures. For the reasons more fully explained below, UGI Gas's procedures are just and reasonable and should be approved subject to the terms and conditions of the Settlement.

Pursuant to the Settlement, UGI Gas will revise its PFA procedures, policies, and training materials to: (1) reflect that the PFA protections apply to both residential applicants and customers who are PFA plaintiffs as well as applicants or customers subject to a court order that provides clear evidence of domestic violence against the applicant or customer; (2) clarify its PFA procedures to state how it will confirm the validity of such orders; (3) clarify the applicable utility service protections for all demonstrated victims of abuse; (4) implement additional domestic violence training for its management and training department; (5) clarify its procedures regarding the transfer of balances to PFA holders; and (6) implement measures to further protect the confidential information related to a PFA or other order. (*See* Settlement ¶¶ 61-68) The revised procedures afford protections to applicants and customers who are victims of domestic violence that are above and beyond UGI Gas's current, reasonable policies. (*See, e.g.*, UGI Gas St. 12-R, p. 44)

I. INDUSTRIAL INTERVENOR ISSUES

As a part of its initial filing in this case, UGI Gas proposed several tariff revisions to standardize and harmonize, where applicable, its tariff provisions with those contained in the CPG and PNG tariffs, reflect best practices, add clarity, and update the UGI Gas tariff to reflect

certain proposed changes to UGI Gas's business practices. (UGI Gas St. 6, p. 33) UGI Gas's proposed tariff revisions are detailed and explained in the direct testimony of David E. Lahoff, and also summarized in the List of Changes section in UGI Gas Exhibit F – Proposed Tariff, both of which were included as parts of UGI Gas's initial filing. (UGI Gas St. 6, pp. 33-39; UGI Gas Exhibit F – Proposed Tariff)

In its direct testimony, UGIII recommended additional revisions to the UGI Gas Tariff and opposed several of the changes set forth in UGI Gas's filing and direct testimony. OCA also recommended revisions to UGI Gas's facilities expansion and extension rules, and RESA recommended UGI Gas revise the proposed balancing charges. UGI Gas fully addressed the additional revisions proposed by UGIII, RESA and OCA in its rebuttal testimony. (*See generally* UGI Gas St. 7-R; UGI Gas St. 13-R)

The Industrial Intervenor Issues section of the Settlement (Section I) represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, this section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions that reasonably balances their interests, and resolves all issues related to UGI Gas's large industrial customers and the disputed tariff provisions. Therefore, UGI Gas submits that its proposed tariff revisions are just and reasonable and should be approved subject to the terms and conditions of the Settlement.

1. Combined Billing – Proposed Tariff Rule 1.4

UGIII recommended several revisions to proposed Rule 1.4 in its direct testimony. UGIII witness Jason Davey of Carpenter Technology Corporation (“CarTech”) recommended that UGI Gas “remove the time limitation on electing to combine gas usage for billing purposes.” (UGIII St. 2, p. 7) Additionally, UGIII witness Michael Trzesniowski of Lehigh University recommended that UGI Gas eliminate proposed Rule 1.4's language that prohibits customers

from combining gas services into a single bill after initial service is established. (UGIII St. 3, p. 10)

UGI Gas opposed the revisions to Rule 1.4 suggested by both UGIII witnesses. (UGI Gas St. 7-R, pp. 15-19) UGI Gas explained that proposed Rule 1.4 was designed to ensure that customers pay for the cost incurred by UGI Gas to serve them; that the assumptions made in developing rate designs are reasonably adhered to in practice; and that UGI Gas has a reasonable opportunity to earn its revenue requirement. (UGI Gas St. 7-R, p. 16) UGI Gas recovers the cost of meters through a customer charge, so it is reasonable for UGI Gas to separately charge a customer for each meter the customer takes service from. (UGI Gas St. 7-R, pp. 16-17)

Pursuant to the Settlement, UGI Gas will add language to proposed Rule 1.4 that permits consideration of combined billing where a customer owns contiguous properties so long as the economics of the arrangement provide a revenue stream that justifies the arrangement, including any necessary investments by UGI Gas. (Settlement ¶ 69) UGI Gas further agrees that it will provide customers an explanation, in writing, regarding its economic analysis of the proposed combined billing arrangement. (Settlement ¶ 69) The proposed economic test for bill combination decisions allows UGI Gas to implement economical combination proposals and to reject uneconomical proposals that would result in subsidization of large customers' costs by other ratepayers. (UGI Gas St. 7-R, pp. 17-18) Moreover, providing customers a written explanation of UGI Gas's economic analysis will enhance communication between UGI Gas and its customers.

2. Facilities and System Access – Proposed Rule 2.3

UGIII witness B. Tucker Schreiber of East Penn Manufacturing Company (“East Penn”) recommended that proposed Rule 2.3 be eliminated from the proposed tariff or, at a minimum, that it be revised to enable UGI Gas to review customer plans for facilities development only for

system safety purposes. (UGIII St. 1, p. 9) Witness Schreiber further recommended that this review process should be clearly defined, the customer should be involved, and UGI Gas should be required to complete its review in a predictable and timely manner. (UGIII St. 1, p. 9) Similarly, UGIII witness Jason Davey recommended that proposed Rule 2.3 be eliminated or, at a minimum, be revised to provide customers with more transparency regarding the basis for UGI Gas exercising its rights and the charges it seeks to impose. (UGIII St. 2, p. 10) In rebuttal testimony, UGI Gas explained that proposed Rule 2.3 is not a new tariff rule; rather, it essentially restates existing obligations set forth in current Rule 17.3. (UGI Gas St. 7-R, p. 20) UGI Gas explained that proposed Rule 2.3 is designed to serve system reliability and safety purposes, and opposed UGIII's recommendations to eliminate or revise the rule. (UGI Gas St. 7-R, pp. 20, 22, 26)

The Joint Petitioners were able to fully settle all disputed issues related to proposed Rule 2.3. Under the Settlement, the Joint Petitioners agree UGI Gas will make four revisions to proposed Rule 2.3. (Settlement ¶ 70) These revisions reaffirm that the purpose of proposed Rule 2.3 is to maintain the safe and reliable operation of UGI Gas's distribution system. (UGI Gas St. 7-R, pp. 20, 22, 26) In summary, the modifications to proposed Rule 2.3 under the Settlement balance UGI Gas's interest in maintaining the safe and reliable operation of its system, and customers' interests in timely designing and constructing gas facilities to meet their needs.

3. Bypass – Proposed Rule 2.6

In its direct testimony, UGIII recommended that proposed Rule 2.6 be eliminated in its entirety from the proposed tariff. (UGIII St. 1, p. 9; UGIII St. 2, p. 10) UGI Gas explained that proposed Rule 2.6, similar to proposed Rule 2.3, is not a new tariff rule; rather, it carries over the language found in current Rule 17.6(d). (UGI Gas St. 7-R, p. 21) UGI Gas explained that proposed Rule 2.6 recognizes that if a customer elects to bypass UGI Gas's system, then it will

no longer be a reliable source of revenue which justifies existing and/or future investments. (UGI Gas St. 7-R, p. 21) UGI Gas provided a detailed explanation of its opposition to this recommended change in its rebuttal testimony. (UGI Gas St. 7-R, pp. 22-25, 26-27)

To resolve these issues, UGI Gas agrees to add tariff language to proposed Rule 2.6 that confirms UGI Gas will serve customers returning from a total bypass on the same basis as a new customer. (Settlement ¶ 71) The additional language also confirms UGI Gas will continue to serve the un-bypassed portion of a partial-bypass customer's load consistent with the terms of any existing service agreement and will negotiate new service agreements to continue service so long as the anticipated revenues justify any costs of providing the service. (Settlement ¶ 71) UGI Gas further agrees that proposed Rule 2.6 will be modified to provide that the "competitive market conditions" used to develop a customer's negotiated standby charge will reflect the costs of the customer's alternatives. (Settlement ¶ 71) The additional language proposed under this provision provides greater clarity to bypass customers regarding UGI Gas's obligations under current or new service agreements, and accounts for the economic consequences—for UGI Gas and its ratepayers—of a customer's partial or full bypass of the UGI Gas system.

4. Facilities Ownership – Proposed Rule 4.1

UGIII witness Davey recommended that UGI Gas work with customers impacted by proposed Rule 4.1 to confirm the ownership status of any gas facilities before claiming ownership of those facilities under the rule. (UGIII St. 2, pp. 12-13) In rebuttal testimony, UGI Gas responded to witness Davey's concerns and explained that proposed Rule 4.1 merely adopts language similar to that found in the tariffs of CPG and PNG, which accurately describes the general rules concerning ownership of facilities. (UGI Gas St. 7-R, p. 27)

Under the Settlement, the Joint Petitioners agree that UGI Gas will work with impacted UGIII members to confirm the ownership status of any disputed facilities before UGI Gas may

claim ownership. (Settlement ¶ 72) This settlement provision provides customers additional information regarding the applicability of Rule 4.1 and acknowledges UGI Gas's rights to operate and maintain facilities up-to the outlet side of its metering equipment. UGI Gas will also continue working with customers to determine the ownership of lines when questions and/or disputes arise. (UGI Gas St. 7-R, p. 27)

5. Special Utility Service – Proposed Rule 5.7

In direct testimony, UGIII recommended that proposed Rule 5.7 be modified to ensure that the protections of proposed Rule 5 apply to all negotiations, including those for special utility service. (UGIII St. 1, p. 10) OCA also recommended that UGI Gas establish “predefined constraints” for extending its mains to prevent economically infeasible extensions, the costs of which would ultimately be borne by existing ratepayers. (OCA St. 3, pp. 51-52) Responding to both UGIII's and OCA's recommendations, UGI Gas explained that proposed Rule 5.7 promotes UGI Gas's goal of unifying and harmonizing its tariff with the CPG and PNG tariffs by adopting language currently found in those Commission-approved tariffs. (UGI Gas St. 7-R, p. 28)

Under the Settlement, UGI Gas agrees to delete proposed Rule 5.7 so long as the economic test for extensions is preserved for all non-residential line extensions. (Settlement ¶ 73) This provision preserves the predefined constraints of UGI Gas's current economic feasibility test for all proposed line extensions. As such, customers are protected from uneconomical extensions, and UGI Gas remains able to determine whether a line extension is warranted according to its economic feasibility.

6. Obligation to Extend or Expand – Proposed Rule 5.1

UGIII recommended that proposed Rule 5.1 be amended to provide customers seeking expansion of gas facilities with greater information and transparency regarding the projects. (UGIII St. 1, p. 10) UGIII witness Rosenthal also generally recommended proposed Rule 5

should state the economic tests and contribution requirements that apply to customers seeking to move from interruptible to firm service or seeking to increase their daily firm requirement (“DFR”). (UGIII St. 4, pp. 10-11)

In response, UGI Gas explained that under both the existing and proposed tariff, large customers are free to attempt to negotiate whatever terms they think are appropriate for extensions. (UGI Gas St. 7-R, pp. 29-30) Additionally, UGI Gas explained that where negotiations for line extensions lead to fixed contribution amounts and settled DFR modifications, information about final upgrade costs and construction schedules becomes irrelevant because UGI Gas assumes 100% of the risk of cost overruns or construction delays. (UGI Gas St. 7-R, p. 30) UGI Gas also responded to UGIII witness Rosenthal’s direct testimony and explained that UGI Gas’s existing rate schedules already state that interruptible to firm service conversions and DFR increases are only available where existing on-system capacity is available. (UGI Gas St. 7-R, p. 31)

Pursuant to the Settlement, UGI Gas will add language to proposed Rule 5.1 that, upon request, UGI Gas will provide customers with a written explanation and reasonable detail of its cost-benefit analysis to determine whether an investment in a proposed facility expansion or extension is warranted. (Settlement ¶ 74) This settlement acknowledges both UGI Gas’s right to reject requests for uneconomical extensions and its customers’ interest in understanding why a rejected extension or expansion is uneconomical.

7. Pressure Correction – Proposed Rule 7.3

UGIII witness Davey recommended that UGI Gas amend the language of proposed Rule 7.3 to: (a) provide customers “equal leverage” in acquiring pressure correction services; (b) provide UGI Gas the ability to negotiate cost responsibility for installation of pressure mechanisms; and (c) provide that UGI Gas cannot unilaterally reject a customer request for non-

standard service at elevated pressure. (UGIII St. 2, pp. 13-14) UGI Gas responded to each of these recommendations in rebuttal testimony. (UGI Gas St. 7-R, p. 33)

To resolve this dispute, the Joint Petitioners agree to modify proposed Rule 7.3 to state that the method for determining the cost of pressure correction devices shall be estimated costs, inclusive of overhead amounts. (Settlement ¶ 75) The Settlement's proposed revision also provides that UGI Gas and a customer may negotiate cost responsibility for installing pressure correction devices upon mutual agreement. (Settlement ¶ 75) This settlement provision provides greater clarity regarding the costs associated with pressure correction services and retains UGI Gas's broad discretion to individually evaluate pressure correction service requests. Moreover, the provision continues to protect other customers from subsidizing the costs of pressure correction services.

8. Daily Flow Directive and Operational Flow Order

a. Method of Delivering DFD and OFO Notices

UGIII submitted extensive testimony regarding its members' experiences with and UGI Gas's use of Daily Flow Directives ("DFDs") and Operational Flow Orders ("OFOs"). UGIII made several recommendations regarding notice, communication, and reasons for DFDs and OFOs. (UGIII St. 1, pp. 11-17; UGIII St. 2, pp. 10-12; UGIII St. 4, pp. 4-10) UGI Gas first addressed concerns related to the form and method of communicating curtailments in its rebuttal testimony. (UGI Gas St. 7-R, pp. 35-37; UGI Gas St. 13-R, pp. 13-14) Additionally, UGI Gas addressed UGIII's recommendations that UGI Gas detail the reasons for a DFD or OFO to customers. (UGI Gas St. 13-R, pp. 12-13, 16-17)

In order to resolve these disputed issues, the Settlement provides that UGI Gas will deliver DFD and OFO notices via e-mail to customer-supplied email addresses and will prominently post such notices on the UGI Gas website. (Settlement ¶ 76) The Settlement also

provides that DFD and OFO notices will include an explanation of the cause of the DFD and OFO. (Settlement ¶ 76) This settlement provision modernizes UGI Gas's tariff and should enhance communication between UGI Gas and its customers. It also formalizes UGI Gas's current, informal practice of providing information regarding the DFD or OFO cause to customers. (UGI Gas St. 13-R, p. 7)

b. DFD and OFO Definitions

UGIII recommended in direct testimony that UGI Gas revise its definitions of DFD and OFO to: (1) include criteria that justify implementation of DFDs and OFOs; (2) state that UGI Gas will not use transportation constraints occurring outside of the Tariff's boundaries to issue a DFD or OFO; (3) require UGI Gas to clearly explain an emergency and how a DFD or OFO will solve the problem; and (4) reflect that only reliability issues will prompt the issuance of DFDs and OFOs. (UGIII St. 1, pp. 14-15; UGIII St. 2, pp. 11-12; UGIII St. 4, pp. 6-7) UGIII witness Rosenthal also recommended that UGI Gas engage in greater communication and coordination with customers regarding system planning and modeling. (UGIII St. 4, p. 10) UGI Gas fully explained its opposition to UGIII's recommended definitions changes. (UGI Gas St. 13-R, pp. 13, 15-16)

The Joint Petitioners resolved all issues raised by UGIII related to the DFD and OFO definitions under UGI Gas's tariff. Pursuant to the Settlement, UGI Gas agrees to remove the following language from its DFD and OFO definitions: "including UGI Gas's obligations pursuant to 1307(f) gas procurement activities, but not solely for other economic reasons." (Settlement ¶ 77) The revision proposed by the Settlement recognizes UGI Gas must comply with certain statutory and regulatory directives and obligations that necessitate the issuance of a DFD or OFO. (UGI Gas St. 13-R, p. 16) It also clarifies the grounds on which UGI Gas may call a DFD or OFO.

9. Maximum Daily Excess Balancing Charge – Proposed Rule 20.4

Three UGIII witnesses recommended that UGI Gas revise the Maximum Daily Excess Balancing Charge (“MDX”) penalty trigger criteria and penalty multiplier under proposed Rule 20.4. (UGIII St. 1, pp. 18-19; UGIII St. 2, p. 11; UGIII St. 4, p. 7) RESA also recommended that the penalty be reduced to 1.1 times the highest Gas Daily Index. (RESA St. 1, p. 8)

Responding to UGIII’s recommendations that the MDX penalty trigger criteria be revised, UGI Gas explained that if UGI Gas did not have discretion in imposing the penalty, it would have to impose the MDX in all instances. (UGI Gas St. 7-R, pp. 39-40) UGI Gas’s rules and penalties are designed to have sufficient scope to cover many types of behavior that cannot necessarily be anticipated and defined in advance. (UGI Gas St. 7-R, p. 40) UGI Gas further explained that this penalty is not designed to be cost based. (UGI Gas St. 7-R, p. 41) Rather, the penalty is designed to discourage damaging customer-behavior that can impact other customers and system reliability; it is also designed to encourage full compliance with UGI Gas’s tariff. (UGI Gas St. 7-R, p. 41) UGI Gas similarly responded to RESA’s recommendation and also noted that the possibility of substantial geographic price differences could result in significant arbitrage opportunities. (UGI Gas St. 7-R, p. 42)

The Joint Petitioners resolved all issues pertaining to UGI Gas’s MDX penalty structure as a part of the Settlement. Under the Settlement, the Joint Petitioners agree that UGI Gas will revise proposed Rule 20.4 to provide that the Non-Critical Days penalty structure will be a maximum of five times the Gas Daily Index for intentional imbalances. (Settlement ¶ 78) This provision recognizes UGI Gas’s interest in sufficiently deterring intentional customer behavior on Critical Days, which can negatively affect system reliability. It also recognizes that intentional imbalances on Non-Critical Days do not warrant as harsh a penalty.

10. Continuity of Service & Liability/Legal Remedies – Proposed Rule 6.5 and 1.5

UGIII recommended that UGI Gas retain the current language used in current Rule 6.5, rather than the new language in proposed Rule 6.5, related to continuity of service and liability. (UGIII St. 4, p. 13) UGI Gas explained in rebuttal that proposed Rule 6.5 merely carries over identical language that appears in the tariffs of CPG and PNG, establishes a reasonable standard for limiting damages for service interruptions, and sets reasonable expectations for service continuity. (UGI Gas St. 7-R, p. 31)

Under the Settlement, UGI Gas has agreed to withdraw its proposed changes regarding continuity of service and limits on liability under proposed Rules 1.5 and 6.5. (Settlement ¶ 79) UGI Gas believes the existing tariff provisions adequately address this issue.

11. Winter Planning Meetings

Citing concerns regarding communication about winter season system operations, UGIII witness Schreiber suggested that UGI Gas schedule, on or before October 1 of each year, a pre-winter meeting for large transportation customers. (UGIII St. 1, p. 17) Witness Davey similarly recommended that UGI Gas be required under its tariff to share any relevant system planning information with large customers each fall, so that they can plan for the winter manufacturing season. (UGIII St. 2, pp. 11-12) In addition, UGIII witness Rosenthal similarly recommended that UGI Gas engage in greater customer communication and coordination regarding system planning and modeling. (UGIII St. 4, p. 10)

In its rebuttal testimony, UGI Gas explained that it already holds supplier collaborative meetings in the fall and spring, which large industrial customers may attend, where the above-mentioned matters can be discussed. (UGI Gas St. 13-R, pp. 14-15) UGI Gas also noted it has no way of predicting restrictions that might be called by interstate pipelines or other upstream

supply sources, or on-system issues (*e.g.*, line hits or regulator station problems) that might occur. (UGI Gas St. 13-R, p. 15)

Under the Settlement, the Joint Petitioners agree that UGI Gas will commence annual winter planning meetings with its large transportation customers, to occur on or before October 1 of each year. (Settlement ¶ 80) For the first meeting scheduled for October 2016, the Joint Petitioners further agree UGI Gas will hold a special training session to explain, answer questions and obtain comments about UGI Gas's new and revised tariff provisions. (Settlement ¶ 80) This settlement provision creates additional opportunities for large customers to meet with UGI Gas and discuss its seasonal plans and possible constraints. Greater coordination between UGI Gas and its customers enhances UGI Gas's ability to efficiently and reliably operate its distribution system during the critical winter months.

12. OFO/DFD/Balancing/NNS Relationship Revisions

UGIII proposed revisions to the interrelated provisions of UGI Gas's tariff that address OFOs, DFDs, Balancing, and No Notice Service. (UGIII St. 4, pp. 4-10) UGIII witness Rosenthal asserted that the proposed tariff contains internally inconsistent language. (UGIII St. 4, p. 5) UGI Gas fully explained in its rebuttal testimony that UGIII witness Rosenthal's concerns and recommendations were without merit. (UGI Gas St. 7-R, pp. 34-38)

In addition to other tariff revisions regarding OFOs, DFDs, Balancing and No Notice Service proposed in the Settlement, UGI Gas agrees to expand its existing operational and capacity council to address the above-referenced issues. (Settlement ¶ 81) This settlement provision leverages UGI Gas's existing resources to provide UGIII members additional information regarding UGI Gas's operational and capacity constraints.

J. COMPETITIVE SUPPLIER ISSUES

As a part of its initial filing, UGI Gas proposed several revisions to its Choice Supplier Tariff, Tariff 6-S, to standardize and harmonize, where applicable, its tariff provisions with those contained in the CPG and PNG supplier tariffs, reflect best practices, add clarity, and update the UGI Gas tariff to reflect certain proposed changes to the Company's business practices. (UGI Gas St. 6, pp. 37-39; UGI Gas Exhibit F – Proposed Tariff) The Company also proposed to update its Merchant Function Charge (“MFC”) and Gas Procurement Charge (“GPC”). (UGI Gas St. 6, p. 30; UGI Gas Exhibit Nos. DEL-11, DEL-12)

The NGS Parties and RESA recommended additional revisions to the UGI Gas Choice Supplier Tariff and opposed several of the tariff changes set forth in the Company's filing and direct testimony. OSBA also recommended revisions to UGI Gas's calculation of the GPC. UGI Gas fully addressed the criticisms and additional recommendations proposed by the NGS Parties, RESA and OSBA in its rebuttal testimony. (UGI Gas St. 1-R; UGI Gas St. 6-R; UGI Gas St. 7-R)

The Competitive Supplier Issues section of the Settlement (Section J) represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, this section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions that balances their interests and resolves all issues related to UGI Gas's proposed Choice Supplier Tariff, MFC and GPC. Therefore, UGI Gas's proposed Choice Supplier Tariff, MFC and GPC are just and reasonable and should be approved subject to the terms and conditions of the Settlement.

1. Modified Financial Security Provisions (Choice Tariff Section 8.2)

In direct testimony, the NGS Parties' witness James L. Crist recommended that the UGI Gas “financial security requirement should be reduced to one-tenth of the current amount,” based

on the financial security requirements for other Pennsylvania NGDCs. (NGS Parties St. 1, pp. 19-20) UGI Gas explained in rebuttal testimony that it proposed no changes to its financial security requirements, which were established by Commission Order at Docket No. P-00032054. (UGI Gas St. 6-R, p. 56) Its financial security requirements were established according to 66 Pa. C.S. § 2207(k), which based these requirements on “the commodity price risk.” (UGI Gas St. 6-R, pp. 56-57)

Pursuant to the Settlement, UGI Gas has agreed to add back in the call option method of providing security, to modify its security requirements to set financial security for residential customers at \$60 per customer, and to set financial security for non-residential customers at \$94.24/Dth multiplied by the Design Day Requirement. (Settlement ¶ 83) This settlement provision updates UGI Gas’s financial security requirements to account for the modern realities of the decreasing price of natural gas and decreasing usage per customer. It also acknowledges UGI Gas’s interest in establishing financial security requirements that account for the varying commodity price risk underlying these requirements. (UGI Gas St. 6-R, pp. 56-57) Moreover, the Settlement preserves the rights of interested parties to challenge the newly established financial security levels in a later proceeding. (Settlement ¶ 83)

2. Merchant Function Charge

Under the Settlement, UGI Gas will adjust its Rate N MFC to 0.36% and its Rate N Purchase of Receivables (“POR”) discount to 0.50%. (Settlement ¶ 84) This Settlement provision incorporates a correction of an error identified by UGI Gas in its MFC calculation, which also affected the uncollectible component of the POR discount. (UGI Gas St. 6-R, p. 69) No other parties filed testimony questioning or challenging the corrections to the MFC and POR.

3. Gas Procurement Charge

In direct testimony, the NGS Parties recommended that the Company's requested decrease of the Gas Procurement Charge ("GPC") be denied, and that the GPC be set at \$0.1701/Mcf.⁵ (NGS Parties St. 1, pp. 8, 16) Specifically, the NGS Parties asserted that UGI Gas's proposed GPC did not include any allocation of certain costs incurred for applicable gas supply. (NGS Parties St. 1, p. 11-16) The NGS Parties subsequently proposed an additional increase to the GPC and recommended it be set at \$0.2375/Mcf. (NGS Parties St. 1-SR, p. 14) Additionally, OSBA described an "inconsistency" between the Company's "cost allocation method and its derivation of the [GPC]." (OSBA St. 1, p. 25) Specifically, OSBA recommended that gas supply and gas storage related working capital costs should be included in the Company's GPC. (OSBA St. 1, pp. 26-27)

UGI Gas opposed the NGS Parties' recommendation that the Company's GPC should include all working capital costs, labor charges, information technology and other related costs in its rebuttal testimony. (UGI Gas St. 6-R, p. 61) UGI Gas fully explained the flaws in the NGS Parties' analysis of the GPC. (UGI Gas St. 6-R, pp. 61-66) UGI Gas also responded to OSBA's recommendations regarding the GPC in its rebuttal testimony. (UGI Gas St. 6-R, pp. 66-67) While UGI Gas rejected the inclusion of gas storage inventory working capital in the GPC, it agreed with OSBA's proposal to include \$843,869 in purchased-gas related cash working capital costs in the GPC calculation. (UGI Gas St. 6-R, p. 67) The inclusion of these costs increased the GPC by approximately 3.1 cents, from \$0.0146/Mcf to \$0.0459/Mcf. (UGI Gas St. 6-R, p. 67; UGI Gas Ex. DEL-32)

⁵ RESA similarly opposed the filed GPC and generally recommended that the Commission "examine UGI Gas's proposed GPC rate." (RESA St. 1, pp. 8-9)

The Parties were able to resolve all issues related to UGI Gas's GPC as part of the Settlement. In the Settlement, the Joint Petitioners agree that UGI Gas will increase the GPC from the proposed level of \$0.0146/Mcf to \$0.09/Mcf. (Settlement ¶ 85) The GPC under the Settlement is within the range of values proposed by the parties that submitted testimony on the issue.⁶

4. Customer Choice Switching Fee

The NGS Parties recommended that the Company's switching fee be disallowed and that the Company revise its tariff to exclude this fee. (NGS Parties St. 1, pp. 16-17) The NGS Parties explained that the switching fee was no longer required because the tasks it was implemented to cover were no longer completed manually; the administrative tasks are now automated. (NGS St. 1-R, p. 8) UGI Gas opposed elimination of the switching fee in rebuttal testimony. (UGI Gas St. 6-R, pp. 55-56) In the Settlement UGI Gas agrees to eliminate the customer choice switching fee. (Settlement ¶ 86)

5. Monthly Balancing

RESA recommended that UGI Gas be required to transition to monthly balancing with consolidated pools consistent with the other UGI NGDCs (*i.e.* CPG and PNG). (RESA St. 1, p. 5) To achieve this new process, RESA also proposed that transportation customers who do not have automatic meter reading ("AMR") devices installed should be required to install an AMR device to remain on their current rate. (RESA St. 1, p. 5) If such customers did not install an AMR device, then RESA further recommended these customers be moved to a monthly balancing pool, using delivery requirements forecasted by UGI Gas. (RESA St. 1, p. 5) RESA also noted that if UGI Gas could not move customers in this fashion, then it should estimate

⁶ See UGI Gas St. 6-R, p. 67 and UGI Gas Ex. DEL-32 (proposing a GPC of \$0.0146/Mcf); OSBA St. No. 1, p. 27 (proposing a GPC of \$0.1003/Mcf); and NGS Parties St. 1-SR, p. 14 (proposing a GPC of \$0.2375/Mcf).

consumption and aggregate the load into a monthly period so that NGSs would only be required to balance one pool per month for each affected rate schedule. (RESA St. 1, p. 5)

In its rebuttal testimony, UGI Gas explained that it does not have the same infrastructure as UGI CPG, which permits end-of-month balancing and, therefore, needs different pooling rules. (UGI Gas St. 6-R, p. 58) UGI Gas noted that it has required, and will continue to require, its larger customers to install AMR devices, but has not proposed in this proceeding, or incorporated into its revenue requirement, the significant costs associated with universal AMR device adoption for all transportation customers. (UGI Gas St. No 6-R, p. 58) Further, the Company stated it was unsure whether smaller transportation customers would be willing to pay for the costs of universal AMR installation to ease administrative, pool-management costs incurred by marketers. (UGI Gas St. 6-R, pp. 58-59)

Under the Settlement, UGI Gas agrees to make several revisions to its Monthly Balancing rules. (Settlement ¶ 87) This Settlement provision provides NGSs with a more efficient balancing pool method that productively leverages UGI Gas's existing infrastructure. Importantly, the proposed method alleviates an administrative burden for UGI Gas's competitive NGSs, without requiring investment or subsidization by UGI Gas's ratepayers.

Additionally, the Settlement provides that UGI Gas shall make a filing with the Commission, by no later than June 1, 2017, that proposes all Rate DS and IS transportation customers must install operable AMR/Metrotek equipment by a date certain. (Settlement ¶ 87(b)) This Settlement provision acknowledges both the competitive suppliers' interests in moving all large transportation customers to AMR/Metrotek devices, and UGI Gas's interest in preserving non-party transportation customers' rights to participate in the development of such a plan. A separate proceeding is the most appropriate forum to explore and evaluate these options.

6. Balancing Charges

In its direct testimony, RESA also noted that “[p]unitive balancing transfer fees are charged to move scheduled gas between customer pools further increasing the overall cost to serve customers.” (RESA St. 1, p. 4) Regarding charges for imbalances that occur on OFO dates, RESA opposed UGI Gas’s current penalty multiplier (*i.e.* 10 times the GDI) and noted that “[s]o long as a penalty is set above the highest market price, deliberate arbitrage by an NGS is a no-win proposition.” (RESA St. 1, p. 8) The NGS Parties acknowledged and agreed with RESA in their rebuttal testimony. (NGS Parties St. 1-R, p. 9)

UGI Gas opposed RESA’s recommendation and also noted that the possibility of substantial geographic price differences could result in significant arbitrage opportunities. (UGI Gas St. 7-R, p. 42) UGI Gas explained the balancing charges are designed to discourage customers’ actions that can impact other customers and system reliability. (UGI Gas St. 7-R, p. 41)

In the Settlement, the Joint Petitioners agree that UGI Gas will make three revisions to its Balancing Charges. (Settlement ¶ 88) First, the Settlement states that UGI Gas will reduce the \$50.00/Mcf charge to \$25.00/Mcf for imbalances that occur on OFO dates. (Settlement ¶ 88(a)) Second, for transactions larger than 750 Mcf, UGI Gas will waive the imbalance trade fee (\$125) that is imposed when one pool is out of balance and an NGS arranges a trade with another NGS. (Settlement ¶ 88(b)) Third, for transactions larger than 750 Mcf, UGI Gas will waive pool-to-pool transfer fees that are imposed when an NGS transfers between its own customer pools. (Settlement ¶ 88(c)) The provision balances UGI Gas’s interest in preventing deliberate arbitrage through supplier imbalance transfers, and its suppliers’ interests in cost-effectively balancing customer pools in response to curtailment requests.

7. Compliance with Standards of Conduct

In direct testimony, RESA offered hypothetical situations in which UGI Gas and its affiliates potentially may not be complying the Commission's Chapter 62 Standards of Conduct, and Section 10.1 of the UGI Gas supplier tariff. (RESA St. 1, pp. 9-11) Although RESA recognized that this rate case was not a suitable vehicle to investigate UGI Gas's standard of conduct practices, RESA nonetheless recommended several changes to UGI Gas's and its supplier affiliates' marketing materials, communications and advertising, UGI Gas consolidated bills, and information disclosed to NGSs. (RESA St. 1, pp. 11-16) RESA also recommended that UGI Gas revise its training materials and guidance to its employees to make clear that they cannot represent an affiliate NGS is superior to other non-affiliate NGSs. (RESA St. 1, p. 16)

UGI Gas fully responded to RESA's recommendations in its rebuttal testimony. (UGI Gas St. 1-R, pp. 37-38) UGI Gas indicated its ongoing willingness to entertain recommendations to improve its Code of Conduct training and compliance programs. (UGI Gas St. 1-R, p. 37) However, UGI Gas opposed RESA's recommendations because, as RESA conceded, this rate case is not a suitable vehicle to address these issues, and RESA presented no actual evidence of a Code of Conduct violation. (UGI Gas St. 1-R, pp. 37-38)

Pursuant to the Settlement, UGI Gas commits to inform all NGSs of the availability of any special discounted rates that are offered to UGI Gas's affiliate NGSs. (Settlement ¶ 89) UGI Gas also commits to revise its training materials to make clear that UGI Gas employees may not represent that an affiliate NGS is superior to other NGSs. (Settlement ¶ 89) The revisions to UGI Gas's materials and guidance adopted by the Settlement will further enhance its employees' understanding of the Commission's regulations to ensure that the potential, hypothetical violations described by RESA do not actually occur.

IV. CONCLUSION

The Settlement is the result of a detailed examination of UGI Gas's proposals, substantial discovery requests, multiple rounds of testimony, numerous settlement discussions, and compromise by all active parties. UGI Gas believes that fair and reasonable compromises have been achieved on the settled issues in this case, particularly given the fact that the active parties have such diverse and competing interests in this proceeding and have reached an agreement on all issues. UGI Gas fully supports this Settlement and respectfully requests that Administrative Law Judge Susan D. Colwell and the Pennsylvania Public Utility Commission:

- (i) Approve Joint Petition for Settlement of All Issues without modification;
- (ii) Approve the proposals set forth in UGI Gas's above-captioned January 19, 2016 distribution base rate increase filing subject to the terms and conditions of the Joint Petition for Settlement of All Issues;
- (iii) Approve the *pro forma* tariff attached to Joint Petition for Settlement of All Issues as Appendix A;
- (iv) Approve the proof of revenues attached to the Joint Petition for Settlement of All Issues as Appendix B;
- (v) Mark the Formal Complaints filed by OCA, OSBA, UGIII, Joseph Sandoski, Vicki L. East, and Tom Harrison as satisfied and closed; and
- (vi) Mark the investigation at Docket R-2015-2518438 closed.

Respectfully submitted,



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Date: June 30, 2016

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UGI Utilities, Inc. – Gas Division
Customer Class Rate Impact Analyses

Residential Heating

Under the Settlement Rates, the monthly Rate R/RT customer charge will increase \$3.20 (or 37.4%) from \$8.55 to \$11.75. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$17.50, which represented an \$8.95 increase (or 104.7%). In addition, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 60.8 Ccf per month will increase by \$4.42 per month, from \$54.42 to \$58.84 (or 8.1%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer that uses 60.8 Ccf per month would have increased by \$10.27 per month from \$54.42 to \$64.69 (or 18.9%), including purchased gas costs and other surcharges.

Commercial Heating

Under the Settlement Rates, the monthly Rate N/NT customer charge will increase \$7.45 (or 87.1%) from \$8.55 to \$16.00. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$32.00, which represented a \$23.45 increase (or 274.3%). In addition, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 43.9 Mcf per month will increase by \$5.79 per month, from \$365.42 to \$371.21 (or 1.6%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer that uses 43.9 Mcf per month would have increased by \$18.70 per month from \$365.42 to \$384.12 (or 5.1%), including purchased gas costs and other surcharges.

Industrial Heating

Under the Settlement Rates, the monthly Rate N/NT customer charge will increase \$7.45 (or 87.1%) from \$8.55 to \$16.00. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$32.00, which represented a \$23.45 increase (or 274.3%). In addition, under the Settlement Rates, the bill for a typical Industrial Heating customer that uses 149.8 Mcf per month will increase by \$29.41 per month, from \$1,199.01 to \$1,228.42 (or 2.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial Heating customer that uses 149.8 Mcf per month would have increased by \$34.87 per month from \$1,199.01 to \$1,233.88 (or 2.9%), including purchased gas costs and other surcharges.