



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

June 30, 2017

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed please find an original copy of the Bureau of Investigation and Enforcement's (I&E) **Statement in Support of Joint Petition for Settlement** in the above-captioned proceeding.

Copies are being served on all active parties of record. If you have any questions, please contact me at (717) 425-7593.

Sincerely,

Scott B. Granger
Prosecutor

Bureau of Investigation and Enforcement
PA Attorney I.D. No. 63641

Phillip C. Kirchner
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. No. 313870

SBG/PCK/snc
Enclosure

cc: Certificate of Service
ALJ Mary D. Long

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : R-2016-2580030
 :
 UGI Penn Natural Gas, Inc. :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Statement in Support of Joint Petition for Settlement** dated June 30, 2017, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

Served Via Electronic and First Class Mail

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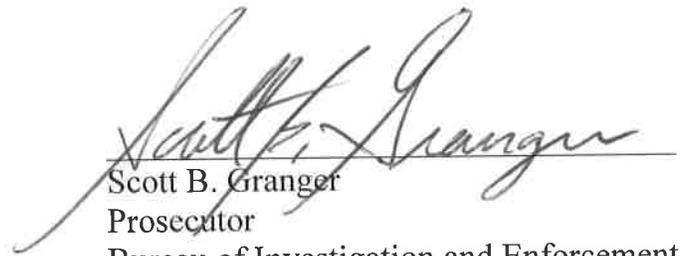
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	R-2016-2580030
	:	
UGI Penn Natural Gas, Inc.	:	
Base Rates	:	

**BUREAU OF INVESTIGATION AND ENFORCEMENT
STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT**

TO: ADMINISTRATIVE LAW JUDGE MARY D. LONG:

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor Scott B. Granger, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Approval of Settlement of All Issues (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, and reasonable balance of the interests of UGI Penn Natural Gas, Inc. (“UGI PNG” or “PNG” or “Company”) and its customers.

I. INTRODUCTION

1. On January 19, 2017, UGI PNG filed proposed Tariff Gas - PA. P.U.C. Nos. 9 and 9-S with a proposed effective date of March 20, 2017. The rates set forth in Tariff Nos. 9 and 9-S, if approved by the Pennsylvania Public Utility Commission, would have increased UGI PNG’s annual jurisdictional revenues by \$21.7 million, or by 10.4 percent (10.4%). Tariff Nos. 9 and 9-S proposed changes to a variety of general tariff rules and regulations. UGI PNG also is proposing a new Energy Efficiency and Conservation Program (“EE&C Plan”) for residential

and commercial customers to afford customers more options and incentives to manage their energy use, and a new Technology and Economic Development (“TED”) Rider for commercial customers, which will provide the Company and customers with more rate flexibility to expand the availability of gas service in a cost-effective manner.

2. The Bureau of Investigation and Enforcement (“I&E”) filed its Notice of Appearance on January 31, 2017. In addition to the I&E and the Company, parties actively participating in the case also include the Office of Consumer Advocate (“OCA”), Office of Small Business Advocate (“OSBA”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), the Commission on Economic Opportunity (“CEO”), the United States Department of Defense and all other Federal Agencies (“DoD”); and Direct Energy Services (“Direct Energy”), (collectively, the “Joint Petitioners” or “Parties”).

3. On February 9, 2017, pursuant to 66 Pa.C.S. § 1308(d), the Commission entered an Order suspending the implementation of proposed Tariffs 9 and 9-S by operation of law until October 1, 2017 (unless permitted by Commission Order to become effective earlier); and opening an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed Tariffs 9 and 9-S.

4. Together with the suspension Order, Vice Chairman Andrew G. Place issued a Statement dated February 9, 2017, directing the parties to address seven specific questions as part of this distribution base rate case. Vice Chairman Place’s questions addressed anticipated capital investment projects; projected facilities growth; projected sales growth; notice of the rate filing and the proposed changes to the DS rate schedule to the Natural Gas Suppliers; revenue projections related to interruptible service customers; a description of the treatment of GET Gas historical capital investments; the Combined Heat and Power (“CHP”) program as it relates to the TED rider and reporting requirements; and EE&C program rebate application deadlines.

I&E did not submit a written response to address the issues raised in Vice Chairman Place's Statement.

5. The case was assigned to Administrative Law Judge ("ALJ") Mary D. Long for purposes of conducting hearings and issuing a Recommended Decision. A telephonic prehearing conference was conducted on February 17, 2017, during which the parties agreed to a litigation schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings. No public input hearings were requested and no public input hearings were held.

6. All parties undertook comprehensive discovery in this proceeding. I&E commenced discovery within the first two weeks after the filing was made and continued to conduct discovery throughout the litigation process.

7. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties the following 9 pieces of testimony and accompanying 5 exhibits from 4 I&E witnesses addressing issues including, but not limited to, overall revenue requirement, rate of return, return on equity, operating and maintenance expenses, cash working capital, rate case expense, Energy Efficiency and Conservation Plan, rate base, annual depreciation expense, accumulated depreciation, use of the fully projected future test year, interruptible present rate revenue, cost of service, customer cost analysis, customer charges, rate structure, scale back, gradualism, universal service, environmental remediation, gas safety generally, pipeline replacement costs, and management performance:

I&E Statement No. 1 and I&E Exhibit No. 1 - the Direct Testimony of I&E witness Rachel Maurer;

I&E Statement No. 1-SR - the Surrebuttal Testimony of I&E witness Rachel Maurer;

I&E Statement No. 2 and I&E Exhibit No. 2 - PROPRIETARY and NON-PROPRIETARY - the Direct Testimony and Exhibit of I&E witness D.C. Patel;

I&E Statement No. 2-R - the Rebuttal Testimony of I&E witness D.C. Patel;

I&E Statement No. 2-SR and I&E Exhibit No. 2-SR - PROPRIETARY and NON-PROPRIETARY - Surrebuttal Testimony and Exhibit of I&E witness D.C. Patel;

I&E Statement No. 3 and I&E Exhibit No. 3 - the Direct Testimony and Exhibit of I&E witness Ethan H. Cline;

I&E Statement No. 3-SR and I&E Exhibit No. 3-SR - the Surrebuttal Testimony and Exhibit of I&E witness Ethan H. Cline;

I&E Statement No. 4 - PROPRIETARY and NON-PROPRIETARY - the Direct Testimony of I&E witness Jessalynn K. Heydenreich;

I&E Statement No. 4-SR - the Surrebuttal Testimony of I&E witness Jessalynn K. Heydenreich;

8. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple in-person and telephonic settlement discussions with the Company and other Joint Petitioners.

9. Following extensive settlement negotiations, the Joint Petitioners reached a full settlement of all of the issues as set forth in detail in the Joint Petition.

10. An evidentiary hearing was held on June 6, 2017 at which time the Parties moved their pre-served testimonies and exhibits into the record sans cross examination.

II. STANDARD FOR APPROVAL OF SETTLEMENT

11. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding may benefit the public interest and to ensure that the public interest is served. Resolution of any proceeding by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty. The very nature of a settlement requires a review and discussion of all issues raised in the parties' testimony and a negotiated

compromise on the part of all parties. It is the negotiated compromise on the part of all of the parties that must ultimately be found to be in the public interest.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. GENERAL (Joint Petition ¶¶ 15-16):

12. I&E submits that this Settlement balances the interests of the Company, its customers, and the Joint Petitioners in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest. Accordingly, based upon I&E's analysis of PNG's base rate filing; the testimonies and exhibits served by the Joint Petitioners; the specific reasons articulated below; and, in order to achieve the full scope of benefits addressed in the Settlement, I&E requests that the Settlement be recommended by the ALJ and approved by the Commission in its entirety and without modification.

B. REVENUE REQUIREMENT (Joint Petition ¶¶ 17-31):

1. "Black Box" Revenue Requirement (Overall Revenues and Expenses)

In the settlement, the Joint Petitioners agree that UGI PNG will be permitted to submit a revised tariff supplement designed to produce an annual distribution rate revenue increase of \$11.25 million to become effective for service rendered on or after October 20, 2017. The increase in annual distribution rate revenue is in lieu of the as filed net increase of approximately \$21.7 million. The Joint Petitioners also agree that the Settlement as to revenue requirement shall be a "black box" settlement, except for the items identified in paragraphs 18 through 31 of the Joint Petition and discussed *infra*.

I&E fully supports the negotiated level of overall distribution rate revenue increase as compared to PNG's original proposal. While the overall revenue requirement is a "black box" compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the parties. I&E's stated

recommendations on the identified issues were set forth in I&E's extensive direct, rebuttal and surrebuttal testimony.¹ And, as a "black box" settlement, unless specifically addressed below, the Settlement does not reflect agreement upon individual issues.

2. Exceptions to "Black Box" Settlement

a. Interruptible Revenue (Joint Petition ¶ 18)

In this Settlement, the Joint Petitioners agree that Proof of Revenue will be updated to include a total of \$2.583 million of interruptible revenue in present rates and \$2.583 million of revenue for settlement rates for these charges.

The issue regarding the treatment of interruptible revenues was raised by I&E witness Ethan Cline.² I&E witness Cline noted the Company budgeted \$2,583,000 of Interruptible revenue in the FPFTY.³ Despite this budgeted amount, the Company only claimed \$945,000 which was determined by matching revenue to the cost to serve the interruptible class.⁴ The Company claimed this was done to protect the Company in case interruptible revenues change based on theoretical circumstances that could occur, such as customers leaving or switching to alternative fuel methods. I&E argued the Company had not demonstrated that any of those circumstances will actually occur; nevertheless, based on the mere potential, the Company only claimed \$945,000 of interruptible revenue in lieu of the \$2,583,000 budgeted in the FPFTY.⁵

I&E argued further that, as demonstrated by historical analysis, the Company has historically recovered far in excess of the claimed \$945,000.⁶ Setting the interruptible revenue artificially low, as the Company proposed, would allow it to keep any revenue received over the

¹ See I&E pre-served testimony identified in paragraph 7 *supra*.

² I&E St. No. 3, pp. 34-39.

³ I&E St. No. 3, p. 35.

⁴ UGI PNG St. No. 7, p. 24.

⁵ I&E St. No. 3, p. 35.

⁶ I&E St. No. 3, p. 37.

\$945,000 as profit. I&E recommended the Company reflect an increase of \$1,638,000 in interruptible revenue under present rates in the FPFTY ending September 30, 2018 to bring the total to \$2,583,000 in interruptible revenue.⁷

b. Environmental Remediation (Joint Petition ¶ 19)

In the Settlement, the Joint Petitioners agree that this Settlement includes an annual amount of \$1.25 million for recovery of future environmental costs. Annual differences between \$1.25 million and actual expenditures incurred after October 1, 2016 shall be deferred as a regulatory asset (where expenditures are greater than \$1.25 million per year) or as a regulatory liability (where expenditures are less than \$1.25 million on an annual basis) and accumulated for book and ratemaking purposes until UGI PNG's next base rate case in the manner described in the direct testimony of Kindra S. Walker.⁸

Further, the Joint Petitioners agreed that this Settlement includes an annual amount of \$639,000 for recovery, over a five-year amortization period, of a \$3.195 million deferred balance of environmental costs that has accumulated pursuant to the deferral reconciliation mechanism authorized by the Commission at Docket No. R-2008-2079660. Any under or over-amortized balance as of the end of the historic test year in the Company's next general rate filing shall be rolled into the accumulated deferred balance authorized in Paragraph 19(a).

The issue regarding the treatment of environmental remediation was discussed by I&E witness D.C. Patel.⁹ I&E witness Patel noted this claimed expense represents the Company's amortization of unrecovered environmental remediation costs that exceed the \$1,100,000 annual

⁷ I&E St. No. 3, pp. 37-38.

⁸ UGI PNG St. No. 2, p. 18.

⁹ I&E St. No. 2, pp. 24-28.

allowance approved in PNG's 2008 base rate case at Docket No. R-2008-2079660.¹⁰ Mr. Patel recommended a reduction of the Company's claim based on a correction to the total expense amount prior to amortization and a change in the number of years (from 3 years to 5 years) over which the excess expenses should be amortized.¹¹

c. Billing Determinants (Joint Petition ¶ 20)

In this Settlement, the Joint Petitioners agree that the PNG billing determinants will be based on the Company's original filing, UGI PNG Exhibit E, Proof of Revenue.

I&E witness Ethan Cline discussed proof of revenue along with present rate revenue, cost of service allocation, and customer cost analysis in his direct testimony.¹² Ultimately, I&E does not oppose the use of the billing determinants as set forth in UGI PNG's original filing.

d. Repairs Allowance (Joint Petition ¶ 21)

In this Settlement, the Joint Petitioners agree that for purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes as a reduction to UGI PNG's rate base.

I&E witness Ethan Cline touched on this issue in his overall discussion of rate base and plant in service in his direct testimony.¹³ Ultimately, I&E does not oppose the proposed treatment of repairs allowances.

¹⁰ See PNG's FPFTY claim for Unrecovered Environmental Remediation Expense at UGI PNG Book V, Exh. A-Fully Projected, Sch. D-8.

¹¹ I&E St. No. 2, pp. 26-27.

¹² I&E St. No. 3, pp. 25-49.

¹³ I&E St. No. 3, pp. 4-19.

e. Accumulated Deferred Income Taxes (Joint Petition ¶ 22)

In this Settlement, the Joint Petitioners agree that UGI PNG's ADIT pro-rationing methodology is adopted.

I&E witness D.C. Patel performed a comprehensive review of UGI PNG's claims for operating and maintenance expenses as well as the Company's rate base claims for the FPFTY.¹⁴ Ultimately, I&E does not oppose the proposed treatment of accumulated deferred income taxes.

f. Test Year Plant (Joint Petition ¶ 23)

In this Settlement, the Joint Petitioners agree that the Company shall submit an update to I&E Exhibit No. 3, Schedule 1 as well as UGI PNG's filing requirement Attachment SDR ROR-14, to I&E, OCA, and OSBA no later than January 1, 2018, which update should include actual capital expenditures, plant additions, and retirements by month from October 1, 2016 through September 30, 2017, and an additional update for actuals from October 1, 2017 through September 30, 2018 shall be filed no later than January 1, 2019.

I&E witness Ethan Cline discussed the Company's rate base claims and recommended reporting requirements for both the FTY and the FPFTY in his direct testimony.¹⁵ Witness Cline noted that since UGI PNG chose to use the FPFTY, as permitted by Act 11, the recommended reports would allow I&E and the Commission's Technical Utility Services to be updated with regard to "used and useful" facilities that the Company projected to be in service during the FPFTY.¹⁶ Ultimately, I&E does not oppose the proposed reporting requirements.

¹⁴ I&E St. No. 2, pp. 2-64.

¹⁵ I&E St. No. 3, pp. 2-11 and 22-26.

¹⁶ I&E St. No. 3, pp. 23-24.

g. Depreciation Rates (Joint Petition ¶ 24)

In this Settlement, the Joint Petitioners agree that for purposes of this Settlement, UGI PNG's as-filed depreciation rates are not opposed.

I&E witness Ethan Cline discussed both annual depreciation and accumulated depreciation rates in his direct testimony.¹⁷ Witness Cline noted that UGI PNG used straight line remaining life method, the remaining life basis, the average service life procedure for plant installed prior to 1992, and the equal life group procedure for 1992 and newer vintages.¹⁸ Ultimately, I&E does not oppose the proposed as-filed depreciation rates.

h. Distribution System Improvement Charge (Joint Petition ¶ 25)

In the settlement, the Joint Petitioners agree that as of the effective date of rates in this proceeding, UGI PNG will be eligible to include plant additions in the DSIC once DSIC-eligible account balances exceed the levels projected by UGI PNG at September 30, 2018 on UGI PNG Exhibit No. HGB-3. The foregoing 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 filing

For purposes of calculating its DSIC, UGI PNG shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities as updated each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

¹⁷ I&E St. No. 3, pp. 11-19.

¹⁸ I&E St. No. 3, p. 12.

I&E witnesses Rachel Maurer¹⁹ and Ethan Cline²⁰ reviewed generally the DSIC eligible accounts and the proposed DSIC plant additions claimed by the Company, as well as the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report. Ultimately I&E does not oppose the proposed treatment of DSIC eligible plant additions and the DSIC eligible account balances.

i. Cloud Based Program (Joint Petition ¶ 26)

In this Settlement, the Joint Petitioners agree that UGI PNG will be permitted to capitalize the development costs for cloud-based information systems, as described on pages 16-17 of the direct testimony of Megan Mattern, UGI PNG Statement No. 3, and the Company shall begin depreciation of the costs after the systems are placed in service.

I&E witness Ethan Cline discussed this issue in his pre-served testimony.²¹ Witness Cline originally recommended that Cloud Based Information Service plant addition be excluded from the Company's plant in service claim.²² The Company responded to Mr. Cline's testimony in the Company's rebuttal testimony.²³ In response to the Company's rebuttal, I&E witness Cline withdrew his recommendation regarding the Company's Cloud Based Information Service plant addition.²⁴

Finally, with regard to all of the non-"black box" revenue requirement issues discussed *supra*, I&E fully supports the Settlement provisions agreed to by the Parties as set forth in the Joint Petition regarding the Revenue Requirement issues identified as exceptions to the "black box." These include (a) Interruptible Revenue; (b) Environmental Remediation; (c) Billing

¹⁹ I&E St. No. 1, pp. 9-30.

²⁰ I&E St. No. 3, pp. 7-25.

²¹ I&E St. No. 3, pp. 9-11.

²² I&E St. No. 3, p. 9.

²³ UGI PNG St. No. 3-R, p. 15.

²⁴ I&E St. No. 3-SR, p. 5.

Determinants; (d) Repairs Allowance; (e) Accumulated Deferred Income Taxes; (f) Test Year Plant; (g) Depreciation Rates; (h) Distribution System Improvement Charge; and, (i) Cloud Based Program. I&E fully supports the negotiated provisions set forth in the Joint Petition. While the overall revenue requirement achieved in this Settlement is a “black box” compromise, the non-black box Settlement provisions are well within the parameters advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the Joint Petitioners. Further, I&E believes that this Settlement maintains the proper balance of the interests of all of the Joint Petitioners. Ratepayers will continue to receive safe and reliable service at reasonable rates while allowing UGI PNG sufficient additional revenues to meet its operating expenses and address its infrastructure needs while providing the opportunity to earn a reasonable rate of return.

C REVENUE ALLOCATION/RATE DESIGN (Joint Petition ¶¶ 27-30):

1. Revenue Allocation (Joint Petition ¶ 27)

In the Settlement, the Joint Petitioners agreed to the Revenue Allocation set forth in the table in the Joint Petition at ¶27. The overall distribution revenue increase of \$11,250,108 represents a 5.4% overall increase. The increase of \$7,846,166 allocated to the R/RT rate class represents a 5.7% increase. The increase of 2,289,578 allocated to the N/NT rate class represents an increase of 6.8%. The increase of 848,427 to the DS rate class represents a 9.2% increase and the increase of 420,764 allocated to the LFD rate class represents an increase of 5.8%. There was a revenue reduction of (\$134,629) to the XD Firm rate class. And, there was a revenue reduction of (\$20,597) to the Interruptible rate class.

2. Rate Design (Joint Petition ¶ 28)

Also, the Joint Petitioners agreed to the following customer charges:

Rate R/RT: \$13.25;

Rate N/NT: \$34.00;

Rate DS: \$229.00;

Rate LFD: \$700.00.

And finally, the Company's proposal to eliminate blocked design for Rate R/RT is adopted.

The issues regarding revenue allocation and rate design were fully evaluated by I&E witness Ethan Cline.²⁵ After a full and complete review of all of the testimony and exhibits submitted by the Joint Petitioners; and after extensive negotiations between and among the Joint Petitioners; I&E fully supports the negotiated revenue allocation and rate design set forth in the Joint Petition as compared to UGI's original proposal. The final negotiated revenue allocations and rate design are well within the levels advanced on the evidentiary record and reflect a full and fair compromise of all revenue allocation and rate design related issues raised by the parties. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Furthermore, the agreed upon Settlement revenue allocation and rate design rates effectively moderates the increases initially proposed by the Company. Accordingly, I&E submits that the proposed revenue allocation and rate design is in the public interest.

3. Technology and Economic Development Rider (Joint Petition ¶ 30)

The Joint Petitioners agree that the TED Rider is approved as a three-year pilot program. Six months before the end of the three-year pilot program, UGI PNG will report on the economics of the TED Rider. UGI PNG will maintain records of all TED Rider investments and TED Rider negotiated rates. In the event that UGI PNG files a general base rate case during the

²⁵ I&E St. No. 3, pp. 42-59.

three-year TED Rider pilot program following the effective date of rates established in this proceeding, UGI PNG will provide information, as part of its initial filing, showing the pro forma rate of return on incremental investment for TED Rider customers as a sub-class in its filed cost of service study.

After a full and complete review of all of the testimony and exhibits submitted by the Joint Petitioners; and after extensive negotiations between and among the Joint Petitioners; I&E fully supports the negotiated Technology and Economic Development Rider as set forth in the Joint Petition. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Accordingly, I&E submits that the proposed revenue allocation and rate design is in the public interest.

D. ENERGY EFFICIENCY AND CONSERVATION PLAN (“EE&C”) (Joint Petition ¶¶ 31-37):

PNG proposed a portfolio of six energy efficiency (“EE”) programs and a Combined Heat and Power (“CHP”) program for residential and commercial customers to be established for a period of five years. The proposed EE&C Plan includes the following EE programs: Residential Prescriptive (“RP”); Non-residential Prescriptive (“NP”); New Construction (NC); Residential Retrofit (RR); Non-residential Retrofit (NR); Behavior and Education (BE); as well as a Combined Heat and Power program.²⁶ Although not statutorily mandated for natural gas distribution companies (“NGDCs”), the Company voluntarily proposed the EE&C Plan, citing the requirement of EE&C Plans mandated for the electric distribution companies (“EDCs”) in Act 129 of 2008 (“Act 129”) and the recently approved EE&C Plan (via settlement) of UGI Utilities Inc. - Gas Division (“UGI Utilities”), which is PNG’s parent company.²⁷

²⁶ UGI PNG St. No. 12, p. 7.

²⁷ UGI PNG St. No. 12, pp. 4-5.

PNG projects a five-year cost for its EE&C Plan of \$15,432,550 comprised of the EE programs' cost of \$14,020,050 and the CHP program's cost of \$1,412,500.²⁸ Furthermore, the Company is claiming a Fully Projected Future Test Year ("FPFTY") EE&C Plan expense of \$1,730,000²⁹ which is included in Sales Expense of \$2,274,000.³⁰

PNG proposes to recover the EE&C Plan costs for the fiscal years 2018-2022 from ratepayers via an EE&C Rider, which will appear as a separate line item on customers' bills.³¹ The proposed initial rider charge is set for Residential rates R and RT at \$0.0760/Mcf, Non-residential rates N and NT at \$0.0339/Mcf, DS customers at \$0.0429/Mcf, and LFD customers at \$0.0208/Mcf.³²

Finally, in the proposed Settlement, the Joint Petitioners agree that the Company's Energy Efficiency and Conservation ("EE&C") Plan is approved as revised below.

1. Allocation of New Construction Program Budget (Joint Petition ¶ 32)

The Joint Petitioners and the Company agree that the Company agrees to allocate the New Construction ("NC") Program Budget between a Residential New Construction ("RNC") budget component and a Non-Residential New Construction ("NNC") budget component. All customers taking service under the N or NT rate classes will be served out of the NNC budget component. All customers taking service under the R or RT rate classes will be served out of the RNC budget component.

OCA and CAUSE-PA raised this issue and were the main drivers behind the negotiations with the Company during the settlement negotiations. I&E monitored, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals

²⁸ I&E St. No. 2 PROPRIETARY, pp. 6-7, and Table, p. 7. See also UGI PNG St. No. 12, p.18.

²⁹ I&E St. No. 2 PROPRIETARY, p. 8. See also UGI PNG Book V, Exh. A – Fully Projected, Sch. D-19.

³⁰ *Id.* See also UGI PNG Book V, Exh. A - Fully Projected, Sch. D-2.

³¹ I&E St. No. 2 PROPRIETARY, p. 8.

³² *Id.* See also UGI PNG St. No. 7, pp. 17-18 and Exh. DEL-7.

offered by the parties throughout the settlement negotiations regarding the allocation of the EE&C new construction program budget. I&E's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in this Joint Petition as a full and fair compromise that provides OCA and CAUSE-PA, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

2. Non-residential Program Spending (Joint Petition ¶ 33)

The Joint Petitioners and the Company agree that the Company agrees that, over the five-year term of the EE&C Plan, recoverable utility costs (including incentives, program administration, marketing, inspections and evaluation but excluding portfolio-wide costs) for the non-residential prescriptive ("NP") program, the non-residential retrofit ("NR") program and the NNC component of the NC program shall be limited to 55 percent of the overall aggregated costs for the NP program, NR program, and NNC component of the NC program. Grant funding will be considered a source of participant funding. To the extent that UGI PNG deems that utility contributions in excess of 55 percent of overall program costs are required to achieve UGI PNG's desired participation levels, UGI PNG may voluntarily make the necessary contributions without EE&C cost recovery.

OCA and CAUSE-PA raised this issue and were the main drivers behind the negotiations with the Company during the settlement negotiations. I&E monitored, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals offered by the parties throughout the settlement negotiations regarding EE&C non-residential program spending. I&E's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides OCA and CAUSE-PA, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

3. Incentive to Reach EE&C Targets (Joint Petition ¶¶ 34-35)

The Company agrees that if, at the end of its five-year EE&C Plan, the Company does not achieve a minimum of 75% of the aggregated projected Total Resource Benefit Cost Ratio of the total EE&C Portfolio of 1.29 (inclusive of CHP) as set forth in table 16 of its EE&C Plan, it will forego recovery of 35% of the administrative costs expended by the Company over the five year period of the EE&C Plan. In determining compliance with this provision, any LIURP projects completed using the \$100,000 in EE&C funding identified in Paragraph 36 below, shall be deemed to have a TRC value equal to the average projected residential TRC value of 1.56 identified in the EE&C Plan filing. The Company further agrees that it will not seek to recover in rates EE&C administrative costs in excess of the projections included in its filing.

I&E did not originally support the Company's proposal to establish an EE&C Plan for the five reasons more fully discussed by I&E witness D.C Patel³³ and set forth *infra*. I&E recommended that the Company's proposed EE&C Plan be disallowed in its entirety. The five reasons for rejection of the Company's proposed EE&C Plan, as argued by I&E, were as follows:

(1) PNG's parent, UGI Utilities, has just begun implementing its identical EE&C Plan in 2017. PNG presently has limited data to determine whether its parent's EE&C plan is succeeding in attaining its projected goals.³⁴ (2) NGDCs are under no mandate to develop

³³ I&E St. No. 2, pp. 5-19.

³⁴ I&E St. No. 2, pp. 11-12.

EE&C Plans and are therefore subject to no civil penalties for a failure to meet stated goals. PNG compares its proposed EE&C Plan to those required of electric distribution companies (“EDCs”) by Act 129, but specific usage reductions were mandated by Act 129 and the EDCs were subject to fines of up to \$20,000,000 if they did not comply.³⁵ (3) EE&C Plans are not essential to the provision of safe and reliable natural gas service. EE&C Plans may produce environmental and societal benefits, but they generally fall outside the scope of services necessary for the provision of safe and reliable service. (4) The current cost of natural gas service may not encourage customers’ participation in conservation measures. Natural gas prices are at historic lows, thus even significant usage reductions will not translate into significant annual savings to individuals implementing conservation measures; and; (5) UGI Central Pennsylvania Gas (“CPG”) was given an opportunity and the funding to develop an EE&C Plan³⁶ but failed to meet the burden of proof necessary to go forth with its proposed plan. The Commission specifically noted that an NGDC must clearly demonstrate that a proposed EE&C Plan is in the public interest.³⁷ I&E concluded by arguing that any one of the five reasons cited above standing alone could support I&E’s conclusion to recommend the rejection of the Company’s EE&C Plan.³⁸

After extensive negotiations, I&E fully supports the negotiated incentives to reach EE&C targets as set forth in this Joint Petition. The negotiated incentives are within the levels advanced on the evidentiary record and reflect a full compromise of all EE&C target incentive related issues raised by the Parties.

³⁵ See generally 66 Pa.C.S. § 2806.1.

³⁶ See Commission Order at Docket No. R-2010-2214415 (Order entered July 23, 2012).

³⁷ *Id.*, p. 15.

³⁸ I&E St. No. 2, p. 19.

4. Low Income Issues (Joint Petition ¶ 36)

The Joint Petitioners and the Company agree that the Company agrees to designate \$100,000 per year of its EE&C Plan, to be collected through the EE&C Rider, for low income projects that will be administered through the Company's Low Income Usage Reduction Program ("LIURP"). The Company also will increase its LIURP budget by \$50,000, which amount will be recovered through the Universal Service Plan ("USP") Rider mechanism. These amounts will take effect on January 1, 2018, are in addition to the increase in LIURP budget agreed to in Paragraph 39 below, and will continue for each year in which the EE&C Plan remains in place.

OCA and CAUSE-PA raised this issue and were the main drivers behind the negotiations with the Company during the settlement negotiations. I&E monitored, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals offered by the parties throughout the settlement negotiations regarding EE&C low income issues. I&E's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides the OCA and CAUSE-PA, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

Finally, in consideration of all of the EE&C related Settlement provisions discussed *supra*, I&E supports the negotiated EE&C Plan as described by the terms set forth in the Joint Petition. The Joint petitioners discussed and negotiated the merits of the contested issues and reached a compromise within the parameters advanced in the evidentiary record that reflects a

full and fair compromise of the issues raised by the parties. Accordingly, I&E submits that the settled upon EE&C Plan is in the public interest.

E. UNIVERSAL SERVICES (Joint Petition ¶¶ 38-47):

In the Settlement, the Joint Petitioners agree that PNG will address Universal Service issues regarding (1) CAP Enrollment; (2) LIURP Budget; (3) LIURP Coordination and Furnace Repair/Replacement; and, (4) Reconnection Fees. OCA and CAUSE-PA raised these issues and were the main drivers behind the negotiations with the Company during the settlement negotiations.

1. CAP Enrollment (Joint Petition ¶ 38)

The Company agrees to a base Customer Assistance Program (“CAP”) participation of 6,500 participants for the purpose of assessing CAP cost offsets. For any and all CAP customers exceeding the 6,500 participation level on an average annual basis, UGI PNG shall offset the CAP Credits and actual pre-program arrearages by 14.1%.

2. LIURP Budget (Joint Petition ¶ 39)

The Company will increase its annual LIURP budget by the percentage distribution rate increase for the residential customer classes reflected in the Revenue Allocation set forth in Paragraph 27 above (\$48,450 [7.5% x \$850,000]).

This increase in LIURP budget is conditioned on full recovery of LIURP costs through the USP Rider mechanism as proposed by the Company.

If approved as part of this settlement, the Joint Petitioners agree that this funding increase will take effect on January 1, 2018.

Annual funds not expended will rollover and be added to the funds available for expenditure in the following year(s).

The Joint Petitioners agree to not challenge UGI PNG’s LIURP funding level in effect for the Company’s 2018-2020 USECP period, except in the event that the Company files an intervening base rate case or the Public Utility Commission or the General Assembly take action affecting LIURP, in which case the Joint Petitioners are free to propose any recommendation including an additional increase in LIURP funding.

3. LIURP Coordination and Furnace Repair/Replacement (Joint Petition ¶¶ 40-45)

UGI PNG agrees to propose to implement services and provisions connected to its Universal Service and Energy Conservation Plan (“USECP”) and its LIURP services as more fully set forth in paragraphs 40 through 45 of the Joint Petition. Certain of these proposals will apply to the Company’s Customer Assistance Program and its Community Based Organization serving certain portions of its service territory. Other proposals will address payment arrangement and credit-related issues. Further, UGI PNG will propose provisions related to the repair and replacement of residential customer’s inoperable furnaces. The Company will also propose to host a collaborative meeting to discuss inter-utility coordination of LIURP services.

The Joint Petitioners agree and understand that these proposed provisions are subject to and conditioned upon Commission approval as part of the Company’s USECP.

Finally, regarding the provisions set forth in paragraphs 40 through 45 of the Joint Petition, CAUSE-PA and OCA raised these issues and were the main drivers behind the negotiations with the Company during the settlement negotiations. I&E monitored the negotiations, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals offered by the parties throughout the settlement negotiations. I&E’s interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides the affected PNG ratepayers, the remaining PNG ratepayers, the Company, and the remaining interested Joint Petitioners with a proposed resolution of these issues, all of which is in the public interest.

4. Reconnection Fees (Joint Petition ¶ 46)

The Joint Petitioners agree that, in addition to the current uses, Hardship Funds through Operation Share may be utilized to pay for reconnection fees for customers or applicants who are otherwise income-qualified for the program, regardless of the customer or applicant's prior or current enrollment in the Company's CAP.

Finally, regarding the provisions set forth in paragraphs 38 through 47 of the Joint Petition, CAUSE-PA and OCA raised these issues and were the main drivers behind the negotiations with the Company during the settlement negotiations. I&E monitored the negotiations, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals offered by the parties throughout this proceeding and the settlement negotiations. I&E's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides the affected PNG ratepayers, the remaining PNG ratepayers, the Company, and the remaining interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

F. NATURAL GAS SUPPLIER ISSUES (Joint Petition ¶¶ 48-51):

1. Tariff Rules (Joint Petition ¶ 48-50)

In this Settlement, the Company shall be permitted to make the following adjustments and edits to the applicable Tariff Rules and provisions.

Tariff Rule 20.4 - Maximum Daily Excess Balancing Charge. Reduce the Intentional Imbalances penalty from GDI x 10 to GDI x 5.

Tariff rule 20.5 - Operational Flow Orders and Daily Flow Directives. For failure to comply with Operational Flow Orders and Daily Flow Directives, reduce the penalty charge from \$50.00 per Mcf to \$25.00 per Mcf.

Unauthorized Overrun. Rate Schedules LFD and XD (Original Pages 82 and 85). Keep charge for Unauthorized Overruns at \$27.50 per Mcf rather than increasing it to \$50.00 per Mcf.

I&E monitored, but did not play an active role, regarding the proposals and counter proposals offered by the parties regarding the Tariff Rules and provisions throughout this proceeding and the settlement negotiations regarding the Tariff Rules and provisions as referenced *supra*. I&E's interests and concerns regarding these issues pertain to the effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides the natural gas suppliers, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

2. Capacity Assignments (Joint Petition ¶ 51)

In this Settlement, the Joint Petitions agree that the Company's capacity release proposal, as described in UGI PNG Statement No. 13, is approved. The Company will hold a collaborative open to all interested parties no later than 30 days from the date of the final order approving this settlement to address any concerns regarding capacity releases. Issues pertaining to the assignment of capacity to Rate DS and LFD customers may be addressed in the Company's annual Purchased Gas Cost proceedings or a base rate case. Except for issues pertaining to least cost procurement review, any changes to the Company's capacity release program resulting from the collaborative, the annual Purchased Gas Cost proceedings or a base rate case will apply prospectively only.

I&E monitored, but did not play an active role, regarding the proposals and counter proposals offered by the parties regarding capacity assignments throughout this proceeding and referenced *supra*. I&E's interests and concerns regarding these issues pertain to the effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, I&E does not oppose the settled upon terms as stated in the Joint Petition as a full and fair compromise that provides the natural gas suppliers, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

IV. CONCLUSION

13. I&E has reviewed and does not oppose the proposed Findings of Facts, the proposed Conclusions of Law, and the proposed Ordering Paragraphs attached to the Joint Petition as Attachments C, D, and E. .

14. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. Joint Petitioners have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this rate filing complete.

15. Based upon I&E's analysis of the filing, acceptance of this Settlement is in the public interest. Resolution of this case by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty.

16. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all parties agree benefits their discrete interests.

17. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Joint Petitioner.

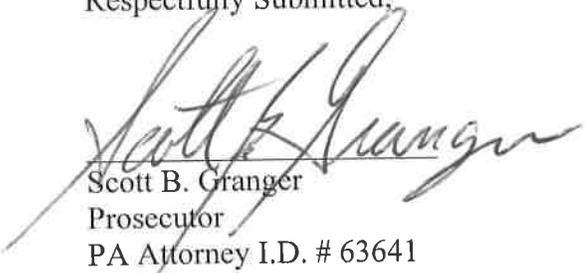
18. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any other parties to the Settlement.

19. If the ALJ recommends that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by the ALJ in her Recommended

Decision. I&E also does not waive the right to file Replies in the event any party files Exceptions.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the Joint Petition for Settlement as being in the public interest and respectfully requests that Administrative Law Judge Susan D. Colwell recommends, and the Commission approves, the terms and conditions contained in the Joint Petition for Settlement.

Respectfully Submitted,



Scott B. Granger
Prosecutor
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