

COMMONWEALTH OF PENNSYLVANIA



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June 30, 2017

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Statement in Support of Settlement in the above proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

Candis A Tunilo

Candis A. Tunilo
Assistant Consumer Advocate
PA Attorney I.D. # 89891
E-Mail: CTunilo@paoca.org

Enclosures

cc: Honorable Mary D. Long, ALJ
Certificate of Service

236295

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate’s Statement in Support of Settlement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 30th day of June 2017.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2016-2580030
Office of Consumer Advocate	:	C-2017-2585510
Office of Small Business Advocate	:	C-2017-2589092
Michael Ochs	:	C-2017-2596537
	:	
v.	:	
	:	
UGI Penn Natural Gas, Inc.	:	

STATEMENT OF THE OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR APPROVAL OF SETTLEMENT

I. INTRODUCTION

On January 19, 2017, UGI Penn Natural Gas, Inc. (UGI PNG or Company) filed Tariff Gas – PA P.U.C. Nos. 9 and 9-S with the Commission, to become effective March 20, 2017. The Company, by filing these tariff supplements, sought Commission approval of rates and rate changes that would increase the level of rates that it charges for providing service to its customers. If the proposed tariff supplements were to become effective, UGI PNG would have benefitted from an opportunity to recover an annual increase in base rate revenues of \$21.7 million from its customers. This represents an approximate 10.4% increase in UGI PNG’s annual operating revenues at present rates. Under the Company’s proposed increase, the monthly bill of a residential customer using 91.2 ccf per month would increase from \$78.53 to \$86.87 per month, or by 10.6%. UGI PNG provides natural gas service to approximately 166,000 residential, commercial, and industrial customers in over 13 counties throughout Pennsylvania.

On January 24, 2017, the Office of Consumer Advocate (OCA) filed a Formal Complaint and Public Statement. The following other parties filed either a Petition to Intervene or Formal Complaint in this proceeding: the Office of Small Business Advocate (OSBA); the Commission on Economic Opportunity (CEO); the U.S. Department of Defense (DoD); Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (collectively Direct Energy); and the Coalition for Affordable Utility Services and Energy-Efficiency in Pennsylvania (CAUSE-PA). On January 31, 2017, the Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance. Additionally, one (1) residential consumer filed a Formal Complaint against UGI PNG's requested rate increase.

The proceeding was assigned to Administrative Law Judge Mary D. Long (ALJ). By Order entered February 9, 2017, the Commission suspended the implementation of Tariff Gas – PA P.U.C. Nos. 9 and 9-S until October 20, 2017, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed in Tariff Gas – PA P.U.C. Nos. 9 and 9-S. A prehearing conference was held on February 17, 2017, and a litigation schedule was adopted in a subsequent Order entered on February 22, 2017.

The OCA conducted extensive discovery and submitted the following testimony in this proceeding:

Dante Mugrace

OCA Statement No. 1 – Direct Testimony (April 13, 2017)

OCA Statement No. 1-SR – Surrebuttal Testimony (May 26, 2017)

James S. Garren

OCA Statement No. 2 – Direct Testimony (April 13, 2017)

OCA Statement No. 2-SR – Surrebuttal Testimony (May 26, 2017)

David C. Parcell

OCA Statement No. 3 – Direct Testimony (April 13, 2017)

OCA Statement No. 3-SR – Surrebuttal Testimony (May 26, 2017)

Glenn A. Watkins

OCA Statement No. 4 – Direct Testimony (Public and Proprietary) (April 13, 2017)

OCA Statement No. 4-R – Rebuttal Testimony (May 12, 2017)

OCA Statement No. 4-SR – Surrebuttal Testimony (May 26, 2017)

Roger D. Colton

OCA Statement No. 5 – Direct Testimony (April 13, 2017)

OCA Statement No. 5-SR – Surrebuttal Testimony (May 26, 2017)

The parties to this proceeding agreed to stipulate to the admission of the OCA’s testimony into the record without cross examination, and the testimony was admitted at the evidentiary hearing on June 6, 2017.

Pursuant to the Commission’s policy of encouraging settlements that are in the public interest, the OCA, I&E, OSBA, CAUSE-PA, Direct Energy, CEO and UGI PNG¹ held numerous settlement conferences. These discussions resulted in this proposed Settlement. As discussed below, the OCA submits that the proposed Settlement is in the public interest, in the best interests of consumers, and should be adopted without modification.

II. STANDARD FOR APPROVAL OF SETTLEMENT

The Commission encourages parties in contested on-the-record proceedings to settle cases. See 52 Pa. Code § 5.231. Settlements save time, effort, and expense associated with litigation and potential appeals. Settlements benefit the individual parties, the Commission, and all ratepayers of a utility who otherwise may have to bear the financial burden that litigation entails. A Settlement, by definition, reflects a compromise of the parties’ positions. When active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the settlement suits the public interest. Pa. Public Utility Commission v. CS Water and Sewer Associates, 74 Pa. PUC 767, 711 (1991). When the settling parties have

¹ DoD did not participate in settlement negotiations. On June 1, 2017, DoD submitted a Notice of Nonparticipation in this proceeding. DoD is not a signatory party to this Settlement but does not object to the Settlement.

submitted their joint settlement petition for approval, the principal issue for the Commission is whether the agreement serves the public interest. Pa. Public Utility Commission v. Philadelphia Electric Company, 60 Pa. PUC 1, 21 (1985).

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. GENERAL

The terms and conditions of the Settlement satisfactorily address the issues raised in OCA’s complaint and further analysis of UGI PNG’s filing. The OCA recognizes that this Settlement contains modifications from the original recommendations proposed. It is the belief of the OCA that the agreed upon Settlement achieves a suitable compromise for UGI PNG and the ratepayers.

For these reasons, and those that are discussed in greater detail below, the OCA submits that the Settlement is in the public interest and the best interest of UGI PNG’s ratepayers, and should be approved by the Commission without modification.

B. REVENUE REQUIREMENT

1. “Black Box” Revenue Requirement (Settlement at ¶ 17)

The Settlement provides for an overall base rate revenue increase of \$11.25 million, about \$10.45 million less than the rate increase amount originally requested by UGI PNG of \$21.7 million. Settlement ¶ 17. The Settlement provides that the increase will become effective for service rendered on or after October 20, 2017. Id.

Based on the OCA’s analysis of the Company’s filings, testimony by all parties, and discovery responses received, the rate increase under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The OCA submits that the proposed increase, when accompanied by other important conditions contained in the Settlement, yields a result that is just and reasonable under the facts of this case.

2. Exceptions to “Black Box” Settlement

a. Interruptible Revenue (Settlement at ¶ 18)

The Settlement provides that the Company’s Proof of Revenue will be updated to reflect a total of \$2.583 million of interruptible revenue at present rates and \$2.583 million of revenue for settlement rates for the interruptible class. Settlement ¶ 18. This amount is identical to UGI PNG’s budgeted revenue from Interruptible customers for the FPFTY. In its filing, however, for purposes of revenue allocation, the Company attributed only \$945,000 of revenue to the interruptible class, an amount which matched the Company’s determination of the class’ cost of service. The Company’s rationale for this reduction in interruptible revenue was that these revenues are at risk of not materializing should alternative fuels (which interruptible customers are required to have) become less expensive than natural gas and customers convert to those fuels. The OCA and other parties testified, however, that historic revenues from the interruptible class well exceeded \$945,000 and allowing rates to be set on the basis of that amount would mean not only that the Company’s other customers would have to make up for the revenue not attributed to interruptible customers, but any interruptible revenue received in excess of \$945,000 would flow directly to the Company as profit. OCA St. No. 1 at 3. Providing as it does for interruptible revenues equal to the Company’s budgeted amount for the FPFTY, the Settlement avoids negative impacts on other rate classes, prevents potentially excessive Company returns and is consistent with the level of interruptible revenues experienced in recent years.

b. Environmental Remediation (Settlement at ¶ 19)

The Settlement provides for a \$1.25 million annual expense for environmental remediation costs. Settlement ¶ 19(a). This expense is reasonable because it represents an

average amount of expense that the Company is likely to incur annually under a Consent Order and Agreement (COA) entered into with the Pennsylvania Department of Environmental Protection (DEP). See UGI PNG St. 2 at 18-19. Additionally, the Settlement provides that annual differences above or below \$1.25 million will be deferred as a regulatory asset or regulatory liability, respectively, and accumulated for book and ratemaking purposes until the Company's next base rate case. Settlement ¶ 19(a). This corrective mechanism prevents consumers from overpaying for the Company's environmental remediation costs.

With regard to the Company's deferred balance of environmental costs accumulated pursuant to the deferral reconciliation mechanism authorized by the Commission at Docket No. R-2008-2079660, the Settlement provides that UGI PNG will recover the balance over a five year amortization period. Settlement ¶ 19(b). The OCA did not take a position on this issue in testimony but submits that this recovery provision is just and reasonable.

c. Billing Determinants (Settlement at ¶ 20)

In its filing, the Company used a regression analysis to demonstrate a declining trend in use per customer. The OCA did not raise any issue regarding the Company's regression analysis. The Settlement provides that billing determinants will be based on the Company's original filing, UGI PNG Exhibit E, Proof of Revenue. Settlement ¶ 20. The OCA submits that the billing determinants result in realistic assumptions about trends in customer usage, and will result in rates that are just and reasonable.

d. Repairs Allowance (Settlement at ¶ 21)

The Settlement provides 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. Further, the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes (ADIT) as a reduction to UGI PNG's

rate base. The OCA submits that such treatment of all capitalized repairs deductions is reasonable and appropriate.

e. Accumulated Deferred Income Taxes (Settlement at ¶ 22)

The Settlement provides that UGI PNG's ADIT pro-rationing methodology is adopted. According to the Internal Revenue Service (IRS), this pro-rationing concept requires that utilities pro-rate their rate base ADIT deduction to account for the time during the fully forecasted test year that the ADIT related to plant additions will be accrued. See UGI PNG St. 11 at 7-8. The pro-rationing concept is required by the IRS in order for a utility company to use accelerated depreciation and not have a normalization violation. Id. at 8. The OCA did not take a position on this issue, and as such, the OCA submits that this provision is reasonable as part of this Settlement.

f. Test Year Plant (Settlement at ¶ 23)

The Settlement provides reporting requirements by UGI PNG regarding actual capital expenditures, plant additions and retirements. Settlement ¶ 23. The Company must provide a report by January 1, 2018 (for the future test year period October 1, 2016 through September 30, 2017), and an additional report by January 1, 2019 (for the forecasted future test year period October 1, 2017 through September 30, 2018). Id.

The OCA submits that this provision is standard in settlements of base rate cases post-Act 11, wherein fully forecasted test year rates are determined. The reporting requirements ensure that the Company's forecasted capital expenditures, plant additions and retirements were reasonable under the circumstances.

g. Depreciation Rates (Settlement at ¶ 24)

The Settlement provides that UGI PNG's as-filed depreciation rates are accepted. Settlement ¶ 24. The OCA's witness James S. Garren recommended changes to the Company's

depreciation rates in his testimony and an adjustment to depreciation expense. See generally OCA St. 2. Mr. Garren's recommended adjustment along with an additional recommended adjustment related the removal of two individual projects by the OCA's accounting witness, Dante Mugrace, resulted in a \$2,219,103 recommended decrease to the Company's proposed depreciation expense in this matter. See OCA St. 1 at 27 and OCA St. 1-SR at Sched. DM-24 SURR.

The OCA submits that the acceptance of the Company's as-filed depreciation rates in this matter is reasonable in light of other Settlement provisions and within the range of likely outcomes had this matter been fully litigated.

h. Distribution System Improvement Charge (Settlement at ¶ 25)

The Settlement provides that, as of the effective date of rates in this proceeding, UGI PNG will be eligible to include plant additions in the Distribution System Improvement Charge (DSIC) once eligible account balances exceed the levels projected by UGI PNG at September 30, 2018, the end of the fully forecasted future test year. Settlement ¶ 25(a). Because the revenue requirement was settled, ratepayers benefit from identifying the year-end balance to establish a certain level of plant additions for DISC calculation purposes. The Settlement is also clear that this provision is 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 filing utilizing a fully forecasted future test year. As such, the OCA reserves its rights to litigate this issue in future cases.

The Settlement also provides that for purposes of calculating the DSIC, UGI PNG shall use the equity return for gas utilities in the Commission's most recent Quarterly Report on the Earning of Jurisdictional Utilities. Settlement ¶ 25(b). The OCA submits that this is reasonable in a black box revenue requirement Settlement, as it provides a level of certainty in basis for the equity return that the Company will use in its DSIC calculation.

i. Cloud-Based Program (Settlement at ¶ 26)

The Settlement provides that the Company is permitted to capitalize the development costs for cloud based information systems and that the Company will begin depreciating the costs after the systems are placed in service. Settlement ¶ 26. The OCA submits that should UGI PNG implement a cloud based information system, ratepayers will benefit from the Company beginning depreciation upon placement of the system in service rather than deferring the costs and depreciation until a future base rate case.

C. REVENUE ALLOCATION/RATE DESIGN

1. Revenue Allocation (Settlement at ¶ 27)

Based on the OCA's analysis of the Company's filing and discovery responses received, the revenue allocation under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. Several parties, including the OCA, OSBA, and the Company, provided proposed varied revenue allocations, and this figure represents a compromise of a contentious issue. Pursuant to the Settlement, the residential class will receive a 5.7% increase in rates rather than the 10.6% increase proposed by the Company. The revenue allocation yields a result that is just and reasonable under the circumstances of this case.

2. Rate Design (Settlement at ¶ 28(a))

a. Rate R/RT

In its filing, UGI PNG proposed increasing the customer charge for residential customers from its current level of \$13.17 to \$18.50, an increase of 40%. The Company also proposed eliminating the declining block feature of residential distribution rates in favor of a flat volumetric charge for all gas consumed. The OCA opposed the increase in the customer charge because it did not comport with the regulatory principle of gradualism and would

disproportionally impact low volume customers that use small amounts of gas throughout the year and for virtually every residential customer during the non-heating months. The OCA recommended that the customer charge be maintained at \$13.17. The OCA also supported the elimination of the declining block distribution charge for the residential class. OCA St. No. 1 at 30-31. The Settlement provides for a residential customer charge of \$13.25, a modest 8 cent increase over the current charge, and for elimination of the declining block distribution charge for residential customers. Settlement ¶¶ 28(a), 29. The OCA submits that the small increase in the customer charge is a reasonable outcome of the compromise which underlies this settlement and is well within the result that might have been expected had the case been fully litigated.

b. Rate N/NT (Settlement at ¶ 28(b))

In its filing, the UGI PNG proposed an increase in the Rates N and NT monthly customer charge from \$32.41 to \$37.50. The Settlement provides for a customer charge for N and NT of \$34.00. Settlement ¶ 28(b). The OCA took no position on this change.

c. Rate DS (Settlement at ¶ 28(c))

The Company initially proposed an increase in the Rate DS monthly customer charge from \$174.91 to \$290. The Settlement provides for a customer charge for the DS class of \$229. Settlement ¶ 28(c). The OCA took no position on this change.

d. Rate LFD (Settlement at ¶ 28(d))

UGI PNG proposed in its filing that the monthly customer charge for Rate LFD customers be increased from \$499.91 to \$700. The Settlement provides for a \$700 monthly charge. Settlement ¶ 28(d). The OCA took no position on this change.

3. Technology and Economic Development Rider (Settlement at ¶ 30)

In its filing, UGI PNG proposed a five-year pilot program known as the Technology and Economic Development (TED) Rider designed to offer rate flexibility to attract new gas load that

might otherwise choose an alternative fuel. In 2016, the Commission approved a three-year pilot TED program for UGI PNG's sister company, UGI Gas.² Upon reviewing UGI PNG's proposal, the OCA took the position that, as with UGI Gas, a three-year timeframe is adequate for receiving, gathering and analyzing data as it relates to the cost effectiveness of the proposed program. Accordingly, the OCA recommended that the length of the pilot be reduced from five to three years. The Settlement provides that the TED pilot will be three years in length. Settlement at ¶ 30. The Settlement also provides for reporting and record-keeping requirements related to the pilot and for Company requirements should it file a base rate case during the pilot period. The OCA submits that it is reasonable to test the effectiveness of the TED Rider to determine whether in fact it will produce new gas load in a manner that benefits rather than burdens existing customers.

D. ENERGY EFFICIENCY AND CONSERVATION PLAN

The Settlement provides approval of UGI-PNG's proposed Energy Efficiency and Conservation Plan (EE&C Plan) with certain clarifications and modifications.

1. Allocation of New Construction Program Budget (Settlement at ¶ 32)

Under the Settlement, UGI PNG will allocate the New Construction Program Budget between Residential New Construction (RNC) and Non-Residential New Construction (NNC). A separate budget component will be established for each. Customers in the R and RT rate classes will be served from the RNC budget component and customers in the N and NT classes will be served from the NNC component. Settlement ¶ 32. The OCA supports this provision of the Settlement as it will ensure that funds budgeted for the New Construction Program are

² Pa. Public Utility Commission v. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438, Order (Oct. 14, 2016).

properly allocated between the Program’s two components and that customers in each will be served from the funds set aside for their component.

2. Nonresidential Program Spending (Settlement at ¶ 33)

Under the Settlement, UGI PNG 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 New Construction Program will 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. If UGI PNG deems that utility contributions in excess of 55 percent of overall program costs are required to achieve the Company’s desired participation levels, UGI PNG may voluntarily make the necessary contributions without EE&C cost recovery. Settlement ¶ 33. The OCA took no position on this matter, but has no objection to this provision of the Settlement.

3. Incentive to Reach EE&C Targets (Settlement at ¶¶ 34-35)

The Settlement provides that if at the end of the five-year term of the 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), it will forego recovery of 35% of the administrative costs expended by the Company over the five year period of the Plan. The Company also agrees that it will not seek recovery in rates of EE&C administrative costs that exceed the projections included in its filing. Settlement ¶¶ 34, 35. The OCA submits that this provision of the Settlement provides a substantial incentive for UGI PNG to achieve its EE&C Plan goals and, accordingly, is in the interest of customers generally.

4. Low-Income Issues (Settlement at ¶ 36)

In its filing, UGI PNG did not target any of its proposed EE&C programs specifically to low-income customers. In testimony, the OCA observed that low-income customers pay 19.4% of total residential revenue and that a substantial portion of those customers have usage that is 25% to 30% higher than non-low-income residential customers. OCA St. No. 5 at 31-33. Accordingly, the OCA recommended that the Company add a low-income program component to the EE&C Plan. *Id.* at 38-39. Under the Settlement, the Company agrees to designate \$100,000 per year of its EE&C Plan budget for low income projects that will be administered through the Company's Low Income Usage Reduction Program ("LIURP"). The Company will also increase its LIURP budget by \$50,000. These amounts will take effect on January 1, 2018, and will continue for each year of the EE&C Plan. Settlement ¶ 36. The OCA submits that dedicating some portion of the EE&C budget to low-income customers is essential to meeting the energy reduction (and consequently, budgetary) needs of this vulnerable population. This provision, when combined with other Settlement provisions increasing the annual LIURP budget, will provide meaningful additional assistance to this population and is in the interest of customers.

E. UNIVERSAL SERVICES

1. CAP Enrollment (Settlement at ¶¶ 38, 40-42, 45)

UGI PNG originally proposed a base participation of 7,643 CAP customers. OCA St. 5 at 11. Moreover, UGI PNG originally proposed a CAP offset of 9.1%. OCA St. 5 at 15. In his Direct Testimony, OCA witness Colton recommended a base CAP participation level of 6,500 participants. OCA St. 5 at 15. Additionally, OCA witness Colton recommended a CAP offset of 14.3%. OCA St. 5 at 20.

The Settlement addresses these issues as follows:

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%.

Settlement ¶ 38. The Settlement adopts OCA witness Colton’s recommended base CAP participation level and keeps UGI-PNG’s CAP offset at 14.1%, instead of the proposed change to the CAP offset to 9.1%. The OCA submits that this clause reasonably addresses the concerns raised by Mr. Colton in his Direct Testimony as to CAP enrollment and the CAP offset, is consistent with the public interest and should be approved.

Also in the Settlement, the Company agrees to include in its USECP a provision to allow customers and applicants to apply and/or recertify for CAP over the phone, with provision of supportive documentation through mail or other means, including (but not limited to fax, email, or text messaging) that are reasonably available to the Company’s CBO serving that portion of the Company’s territory. Settlement ¶ 40. Furthermore, the Settlement states that the Company will indicate in its USECP which means of communication are available for which CBO, that the Company intends to use CBOs to assist in the implementation of its 2018-2020 USECP, and that the Company agrees to continue screening for eligibility and/or refer all individuals calling about a payment arrangement or similar credit-related issue to appropriate Universal Service Programs. Settlement ¶¶ 40-42.

Further, the Company will propose in its upcoming USECP that it directly provide CBOs with low-income indicated customer lists for direct CAP solicitation, starting in year two of the 2018-2020 USECP. Settlement ¶ 45. Additionally, customers will be informed of their ability to opt-out from providing their information to third parties by a general opt-out option on the Customer Information System portal and by information printed on bills. Settlement ¶ 45.

The OCA submits that these provisions are reasonable and in the interests of ratepayers, especially low-income ratepayers. Removing barriers to applying for or re-certifying for CAP allows those in need to more easily obtain assistance for which they qualify. Furthermore, the provisions providing CBOs with low-income indicated customer lists, subject to the customers' rights to opt-out, for direct CAP participation will lead to greater CAP participation for consumers who are eligible for CAP but are not enrolled in the program. The opt-out provision addresses privacy concerns for individual consumers.

2. LIURP Budget (Settlement at ¶ 39)

The Settlement provides that the Company will increase its annual LIURP budget for the residential customer class by \$48,450 conditioned on the full recovery of LIURP costs through the USP Rider mechanism proposed by the Company. Settlement ¶ 39. Moreover, under the Settlement this LIURP funding increase will take effect on January 1, 2018, and annual funds not expended will rollover and be added to the funds available for expenditure in the following year(s). *Id.* Furthermore, the Joint Petitioners agree to not challenge the Company'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 Commission or 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. *Id.*

The OCA submits that these provisions are in the interests of ratepayers. The increased LIURP budget and the provision providing that unspent amounts will carry over and remain in the account are in the interests of ratepayers, especially low-income ratepayers, who are disproportionately affected by energy costs. Programs such as LIURP are directed toward overcoming market barriers—such as lack of investment capital and the high hurdle rates implicit in energy efficiency investment decisions—that prevent such households from implementing usage

reduction measures on their own. Additionally, more low-income customers would be provided assistance to better manage their bills—resulting in lower bills, better ability to pay, and reduced CAP costs that are borne by non-CAP residential ratepayers.

3. LIURP Coordination and Furnace Repair/Replacement (Settlement at ¶¶ 43-44)

a. LIURP Coordination (Settlement at ¶¶ 43-44)

Additionally, the Company will host an in-person collaborative meeting to discuss inter-utility coordination of LIURP services within six (6) months of the date of settlement, and a second meeting within six (6) months of the first meeting. Settlement ¶ 44. Groups representing local interests will be invited to the meetings and one goal of the meeting will be to address the repair or replacement of inoperable furnaces in the Company’s service territory. *Id.* Under the provisions of the Settlement, the Joint Petitioners reserve the right to discuss additional funding for furnace repair and replacement prior to 2020. *Id.* Moreover, the Company would seek Commission approval for a USECP change to implement collaborative consensus terms. *Id.*

These provisions reserve an additional opportunity for stakeholders to discuss increased funding in regards to the furnace repair and replacement program, discussed below, via collaborative meetings. The OCA submits that these provisions are in the public interest.

b. Furnace Repair/Replacement (Settlement at ¶ 44)

The Settlement provides that the Company will include the following provisions in its USECP filing to address the repair or replacement of its residential customers’ inoperable furnaces within the Company’s service territory:

- (a) The Company will request that the Commission explicitly approve a waiver of the LIURP regulation payback requirements for furnace repair or replacement.
- (a) The Company will increase the per-job LIURP funding cap to \$11,000 where furnace replacement is necessary.

- (b) The Company will request that the Commission explicitly approve a waiver of the LIURP high use criteria for customers needing furnace repair or replacement.
- (c) Beginning on January 1, 2018, and subject to Paragraph 44 below, the Company will set aside \$150,000 annually out of the general LIURP budget for furnace repair and replacement projects. For the first two years, any unused amounts will rollover to the next year's budget for furnace repair and replacement projects. Should there continue to be amounts to rollover after two years, any remaining rollover amounts will rollover to the Company's general LIURP budget. The Joint Petitioners agree and understand that these provisions are subject to and conditioned upon Commission approval as part of the Company's USECP.

Settlement ¶ 43.

In his Direct Testimony, OCA witness Colton proposed a furnace repair/replacement program due to the harms arising from low-income customers relying on inefficient and expensive electric space heaters, which contribute to unpaid bills, higher working capital, and more bad debt from Confirmed Low-Income customers. OCA St. 5 at 45. As discussed by Mr. Colton, everyone loses when less expensive natural gas heating is replaced with space heaters; the Company loses sales, the low income customer faces unaffordable bills, and the electric company faces increased universal service costs. OCA St. 1 at 45. The provisions in the Settlement create a furnace repair and replacement program that will directly benefit consumers for the reasons discussed by Mr. Colton in this testimony.

4. Reconnection Fees (Settlement at ¶ 46)

The Settlement provides 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. The use of Hardship Funds to pay for reconnection fees will provide assistance to low-income households in order to ensure essential utility service. Extending these Hardship Funds to individuals who are income-qualified for CAP regardless of

their enrollment status further extends the assistance provided to consumers. The OCA submits that these provisions are in the public interest.

F. NATURAL GAS SUPPLIER ISSUES

1. Tariff Rules (Settlement at ¶¶ 48-50)

The Settlement makes changes to several Tariff rules proposed by the Company relative to natural gas suppliers and the penalties that would be imposed on them under certain conditions. It also maintains the charge for unauthorized overruns by customers in Rate Schedules LFD and XD rather than increasing it. Settlement ¶¶ 48-50. In each case, these changes were made to keep penalty provisions in line with those in place under UGI Gas' tariff. The OCA took no position on these tariff rules and penalty provision changes but submits that maintaining consistency in these provisions across the UGI companies is reasonable.

2. Capacity Assignment (Settlement at ¶ 51)

In its filing, UGI PNG proposed releasing pipeline capacity to certain of its customers or their designated natural gas suppliers. Specifically, the Company proposed to release capacity to all Rate DS customers up to their Maximum Daily Quantity level, and to participating Rate LFD customers up to their Daily Firm Requirement level, at the weighted average cost of UGI PNG's cost of capacity to prevent cost shifting to or from Purchase Gas Cost (PGC) customers. All of the revenues from such releases are to be credited to UGI PNG's PGC and would not be part of UGI PNG's revenue sharing incentive mechanism. See UGI St. No. 13 at 6-7. The Settlement provides that the Company's capacity release proposal is approved. Settlement ¶ 51(a). The Settlement also provides that: (1) the Company will hold a collaborative open to all interested parties no later than 30 days after the Settlement is approved to address any concerns regarding capacity release issues; (2) issues pertaining to capacity assignment to DS and LFD customers may be addressed in either a base rate case or the Company's annual Purchased Gas Cost (PGC)

case; and (3) any changes resulting from the collaborative, a base rate case or a PGC case will apply prospectively only. Settlement ¶¶ 51 (b), (c), and (d). The OCA submits that these provisions of the Settlement are important as they will permit an open discussion of concerns stemming from capacity assignment generally and will allow concerns over calculation of the weighted average cost of capacity to be addressed in PGC proceedings. Having these provisions included in the Settlement is protective of consumer interests.

IV. CONCLUSION

The Office of Consumer Advocate, one of the signatory parties to the Joint Petition for Approval of Settlement, submits that the proposed terms and conditions of the Settlement are in the public interest. The OCA respectfully requests that the Pennsylvania Public Utility Commission approve the Settlement without modification for the reasons discussed above.

Respectfully Submitted,



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