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June 30, 2017

***VIA ELECTRONIC FILING***

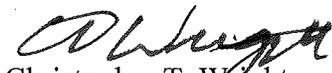
Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for filing is UGI Penn Natural Gas, Inc.'s Statement in Support of Joint Petition for Approval of Settlement of All Issues in the above-referenced proceedings. Copies will be provided as indicted on the Certificate of Service.

Respectfully submitted,



Christopher T. Wright

CTW/jl  
Enclosures

cc: Honorable Mary D. Long  
Certificate of Service

**CERTIFICATE OF SERVICE**  
**Docket No. R-2016-2580030**

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

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Date: June 30, 2017

  
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Christopher T. Wright

**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.	:	

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**UGI PENN NATURAL GAS, INC.**

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

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Date: June 30, 2017

**TABLE OF CONTENTS**

	<b>Page</b>
I. INTRODUCTION .....	1
II. STANDARD FOR APPROVAL OF SETTLEMENT .....	2
III. THE SETTLEMENT IS IN THE PUBLIC INTEREST .....	3
A. GENERAL .....	3
B. REVENUE REQUIREMENT .....	4
1. “Black Box” Revenue Requirement .....	4
2. Exceptions to “Black Box” Settlement .....	7
a. Interruptible Revenue .....	7
b. Environmental Remediation Expense .....	9
c. Billing Determinants .....	12
d. Repairs Allowance .....	13
e. Accumulated Deferred Income Taxes .....	13
f. Test Year Plant .....	14
g. Depreciation Rates .....	15
h. Distribution System Improvement Charge .....	16
i. Cloud-Based Program .....	17
C. REVENUE ALLOCATION/RATE DESIGN .....	18
1. Revenue Allocation .....	18
2. Rate Design .....	22
a. Rate R/RT .....	22
b. Rate N/NT .....	24
c. Rate DS .....	25
d. Rate LFD .....	25

3.	Technology and Economic Development Rider .....	26
D.	ENERGY EFFICIENCY AND CONSERVATION PLAN .....	27
1.	Allocation of New Construction Program Budget.....	29
2.	Nonresidential Program Spending .....	29
3.	Incentive to Reach EE&C Targets.....	30
4.	Low-Income Issues .....	32
E.	UNIVERSAL SERVICES .....	33
1.	CAP Enrollment.....	34
2.	LIURP Budget .....	36
3.	LIURP Coordination and Furnace Repair/Replacement.....	37
4.	Reconnection Fees .....	38
F.	NATURAL GAS SUPPLIER ISSUES.....	39
1.	Tariff Rules .....	39
2.	Capacity Assignment .....	40
IV.	CONCLUSION.....	43
	Customer Class Rate Impact Analyses.....	Attachment 1
	Response to Statement of Vice Chairman Place.....	Attachment 2

## **I. INTRODUCTION**

UGI Penn Natural Gas (“UGI PNG” or the “Company”) 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”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), the Commission for Economic Opportunity (“CEO”), and Direct Energy,<sup>1</sup> all Parties to the above-captioned proceeding (hereinafter, collectively the “Joint Petitioners”).<sup>2</sup> The Settlement represents a full resolution of all issues raised in the instant proceeding.

The Joint Petitioners unanimously agree that UGI PNG’s January 19, 2017 distribution base rate increase filing (“2017 Base Rate Case”) 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 \$11.25 million, based upon a Fully Projected Future

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<sup>1</sup> Direct Energy collectively refers to Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC.

<sup>2</sup> The United States Department of Defense and all other Federal Executive Agencies (collectively, the “DOD”) also intervened in this proceeding. On June 1, 2017, the DOD submitted a Notice of Nonparticipation in this proceeding. The DOD is not a signatory party to the Settlement, but has advised that it has no objection to the Settlement. Additionally, Michael Ochs, a residential customer, filed a formal complaint opposing the proposed rate increase. Mr. Ochs was not an active party in this proceeding and is not a signatory to this Settlement. A complete copy of this Settlement is being served on Mr. Ochs.

Test Year (“FPFTY”) ending September 30, 2018, to become effective for service rendered on and after October 20, 2017.<sup>3</sup>

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners. UGI PNG submits that the Settlement is in the public interest, just and reasonable, and supported by substantial evidence and, therefore, should be approved without modification. For the reasons explained below, UGI PNG respectfully requests that Administrative Law Judge Mary D. Long (“ALJ”) and the Commission approve the proposals set forth in UGI PNG’s 2017 Base Rate Case subject to the terms and conditions of the Settlement.

## **II. STANDARD FOR APPROVAL OF 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.

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<sup>3</sup> The rate impact of the settled revenue allocation is provided in the “Customer Class Rate Impact Analyses” attached here to as **Attachment 1**. Additionally, the Company’s response to the questions set forth in the Statement of Vice Chairman Andrew G. Place Issued February 9, 2017 are provided in **Attachment 2**.

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 PNG 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 Joint Petitioners agree that the Settlement is in the public interest. (Settlement ¶ 15) The Settlement was achieved only after a comprehensive investigation of UGI PNG's proposals set forth in its 2017 Base Rate Case. In addition to informal discovery, UGI PNG responded to approximately 775 formal discovery requests, many of which included subparts. The active parties filed four rounds of testimony, including UGI PNG'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.

The active parties to this proceeding undertook a tremendous effort to reach a full settlement of all issues. The active parties each had to compromise on many different and competing issues and proposals raised in this case. In some instances, and in exchange for reaching an agreement on other issues, the parties collectively agreed to accept/reject a certain party's litigation position or to meet somewhere in between competing litigation positions. As such, in order to determine whether it is reasonable and in the public interest, the Settlement must be viewed as a whole rather than from each individual Settlement term.

The Settlement reflects a carefully balanced compromise of the competing interests of all of the active Parties in this proceeding. 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. 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.

For these reasons and the more specific reasons set forth below, the Settlement as a whole is just, reasonable, and in the public interest. Therefore, the proposals set forth in UGI PNG's 2017 Base Rate Case should be approved subject to the terms and conditions of the Settlement. (Settlement ¶ 16)

## **B. REVENUE REQUIREMENT**

### **1. "Black Box" Revenue Requirement**

The Settlement provides for an annual distribution rate revenue increase of \$11.25 million, to become effective for service rendered or and after October 20, 2017. (Settlement ¶ 17) The distribution rate revenue increase of \$11.25 million is approximately 52% of the proposed revenue increase of \$21.7 million requested in UGI PNG's January 19, 2017 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 PNG 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); Statement 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 PNG filed its last general rate increase in 2009. Since that time, UGI PNG has made nearly \$400 million in system investments, increasing the Company’s rate base by nearly 31 percent. These investments were necessary to serve new residential and commercial customers; connect customers converting to natural gas; accelerate the replacement of aging gas plant infrastructure; upgrade and improve system segments and modernize facilities; and install and upgrade supporting information technology, all as part of growing and maintaining a safe and reliable distribution system and providing quality customer service. While UGI PNG has received a return on and of certain portions of these investments through its Distribution System Improvement Charge (“DSIC”), UGI PNG’s DSIC charge has reached the current cap of five percent (5%) of distribution revenues, effectively preventing a reasonable return on additional DSIC eligible investment amounts outside of filing a base rate case. Since its last base rate case, UGI PNG has adopted modest annual wage and salary adjustments and will continue to do so, where reasonable, and has experienced other general price increases for necessary products and services. (UGI PNG Statement No. 1, p. 6)

The revenue increase is essential to UGI PNG's continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI PNG has implemented significant cost containment measures, implemented efficiency enhancements including major strides toward integrating its operations with those of its affiliates UGI Utilities, Inc. – Gas Division (“UGI Gas”) and UGI Central Penn Gas, Inc. (“CPG”), 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 PNG to be unable to earn a fair rate of return on its investment, at present rate levels. (UGI PNG Statement No. 1, p. 7)

Absent rate relief, UGI PNG projected that, for the twelve months ending September 30, 2018, its return on common equity for the distribution business will fall to approximately 7.15%. (UGI PNG Statement No. 1, p. 7) Such a return is clearly deficient under any reasonable standard and would preclude UGI PNG 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 11.20% proposed by Mr. Moul in his testimony. (UGI PNG Statement No. 4, p. 43) Rate relief will allow UGI PNG 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 PNG Statement No. 1, p. 7)

In this proceeding, UGI PNG, I&E, and OCA presented testimony on revenue requirement issues.<sup>4</sup> The revenue increase of \$11.25 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 \$21.7 million (UGI PNG Statement No. 1, p. 5), which included a proposed return on equity of 11.20% (UGI PNG Statement No. 4, p. 41). I&E initially recommended a revenue requirement decrease of approximately \$1.6 million (I&E Statement No. 2, p. 63) with a return on equity of 8.72% (I&E Statement No. 1, p. 23). The OCA initially recommended a revenue requirement decrease of approximately \$1.6 million (OCA Statement No. 1, p. 4) with a return on equity of 9.25% (OCA Statement No. 3, p. 42-43). Through negotiations, the Joint Petitioners were able to reach a compromise within a range of their competing litigation positions.

The \$11.25 million proposed revenue increase under the Settlement falls well within the range of positions set forth by UGI PNG, I&E, and OCA and is clearly reasonable. The proposed revenue increase of \$11.25 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. 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 PNG currently provides interruptible gas service to approximately 33 customers under contracts voluntarily entered into that have

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<sup>4</sup> Although the OSBA also presented testimony on revenue requirement issues, including a return on equity of 9.5% (OSBA Statement No. 1, p. 34, the OSBA did not present an overall recommended revenue requirement.

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 PNG Statement No. 1, pp. 19-20)

In this proceeding, UGI PNG 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 PNG Statement No. 1, pp. 20-21) Specifically, UGI PNG annualized its interruptible revenues for the FPFTY based on the blended results of two reasonable cost of service studies, or \$0.945 million. (UGI Gas Statement No. 7, p. 24; UGI PNG Statement No. 5, pp. 8-11) Under this proposal, the Company would be at-risk if the actual level of interruptible revenue falls below \$0.945 million. Conversely, if the actual level of interruptible revenue is above \$0.945 million, the Company would retain the excess amount and could use it for capital projects to provide service to customers or use it to offset inflation and attrition between rate cases, and thereby avoid or delay future rate cases. (UGI PNG Statement No. 1-R, p. 27)

I&E, OCA, and OSBA 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. Specifically, I&E, OCA, and OSBA all argued that the historical interruptible revenues do not support the Company's claim in this case, and recommend an increase in the amount of interruptible revenue to \$2,583,000 under present rates in the FPFTY based on the budgeted amount. (I&E Statement No. 3, p. 38; OCA Statement No. 4, p. 7; and OSBA Statement No. 1, p. 14)

In exchange for resolving other issues, the Company agreed to the adjustments proposed by I&E, OCA, and OSBA on this issue and agreed that the proof of revenue will include a total of \$2.583 million of interruptible revenue in present rates and \$2.583 million of revenue for settlement rates. (Settlement ¶ 18)

**b. Environmental Remediation Expense**

**i. Annual Environmental Expense**

UGI PNG's environmental remediation expense claim enables the Company to fully recover the costs incurred in connection with its obligations under a Consent Order Agreement ("COA") with the Pennsylvania Department of Environmental Protection ("DEP") to remediate former manufactured gas plant ("MPG"). In its filing, UGI PNG claimed \$1.442 million for environmental remediation expense based on the simple average of the last three years of cash expenditures for MGP remediation expense. UGI PNG Statement No. 2, pp. 16-17).

I&E recommended an allowance of \$1.1 million for environmental remediation expense. I&E's recommendation was based on the belief that the COA between UGI PNG and the DEP capped the yearly environmental remediation expense at \$1.1 million. (I&E Statement No. 2, pp. 22-23)

In rebuttal, the Company explained that the \$1.1 million required under the COA is not a cap on the yearly environmental remediation expense. Rather, this amount is the annual minimum that the Company is required to spend under the COA. (UGI PNG Statement No. 10-R, p. 24) The Company also explained that its environmental remediation spend under the COA had exceeded that minimum in prior years. (UGI PNG Statement No. 2-R, p. 40)

The Settlement includes an annual amount of \$1.25 million for recovery of future environmental costs. (Settlement ¶ 19(a)) The \$1.25 million annual MGP remediation expense falls well within the range of positions set forth by UGI PNG and I&E and is clearly reasonable.

UGI PNG 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. Further, the Settlement provides that 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. (Settlement ¶ 19(a)) This cost treatment should protect customers from over-recoveries and UGI PNG from under-recoveries for this non-revenue producing and non-expense reducing category of expense.

**ii. Amortization of Environmental Expense Incurred Since Last Rate Case**

In the Company's 2009 rate case at Docket No. R-2008-2079660, the Commission adopted a reconciliation mechanism that permitted the Company to accumulate, defer and obtain ratemaking recovery for costs that exceeded the \$1.1 million annual level less any cost shortfall in years where actual expenditures fell below the \$1.1 million level. In this proceeding, UGI PNG proposed to recover \$3.939, over a three-year amortization period (\$1,313 million per year). This amount of environmental remediation expense claim represents the difference between the amount of manufactured gas plant remediation expenditures incurred by UGI PNG since the 2009 rate case and the \$1.1 million included in rates over the same period. (UGI PNG Statement No. 2, pp. 16-18).

I&E argued that the Company's claim should not include the amount of manufactured gas plant remediation expenditures to be spent in fiscal year 2017. I&E also recommended a five-year amortization period, rather than a three-year period based on I&E's contention that the

expected period between future base rate case filings will be 5 years rather than 3 years. (I&E Statement No. 2, pp. 26-27)

In rebuttal, the Company agreed with I&E that its current claim should not include budgeted expenditures for fiscal year 2017. However, accepting I&E's adjustment also requires the removal of the 2017 revenue credit from the calculation of the amount to be amortized. Additionally, the Company opposed I&E's recommendation that the MGP remediation should be amortized over 5 years rather than 3 years. (UGI PNG Statement No. 2-R, p. 41-42) In surrebuttal, I&E agreed that the 2017 revenue credit should be removed, but continued to advocate that the MGP remediation should be amortized over 5 years (\$0.639 million per year). (I&E Statement No. 2-SR, pp. 39-40)

In the Settlement, the Joint Petitioners agreed to include an annual amount of \$0.693 million for recovery, over a five-year amortization period. (Settlement ¶ 19(b)) This Settlement provision reflects that both I&E and UGI PNG agreed that there was a total balance of \$3.195 million of deferred environmental costs that had accumulated since the Company's last rate case. UGI PNG submits that this Settlement provision is in the public interest because it is consistent with the deferral reconciliation mechanism authorized by the Commission at Docket No. R-2008-2079660. Although I&E and UGI PNG disagreed on the proper amortization period, the Settlement provides that 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 and claimed in the Company's next rate case. (Settlement ¶ 19(b)) UGI PNG submits that this Settlement provision is in the public interest. This cost treatment should protect customers from over-recoveries and UGI PNG from under-recoveries for this non-revenue producing and non-expense reducing category of expense.

**c. Billing Determinants**

In its filing, UGI PNG annualized sales by developing sales and revenue adjustments reflective of projected customer counts and annual expected usage per customer as of September 30, 2018, by reviewing historic usage data and applying regression analysis techniques. (UGI PNG Statement No. 7, p. 4) Usage per customer was projected based on a fifteen year regression analysis of actual usage and degree day information for the period from December 1, 2003 through October 31, 2016. (UGI PNG Statement No. 7, pp. 7-8; UGI PNG Ex. DEL-3(c)) As part of its filing, the Company estimated a decline in usage per customer for Rates R/RT or N/NT due to the proposed EE&C Plan. (UGI PNG Statement No. 7, p. 10)

I&E recommended that the Company's proposed decline in usage per customer due to the EE&C Plan be rejected because I&E initially recommended that the EE&C Plan not be adopted in this proceeding. (I&E Statement No. 3, pp. 26-34) However, I&E also agreed that if the Commission approves the Company's EE&C Plan, the Company's proposed decline in usage per customer due to the EE&C Plan should be adopted. (I&E Statement No. 3, pp. 28, 32)

The OSBA argued that the Company's usage per customer forecast was based in part on a trend variable that was not statistically significant for some of the Company's regressions, and that the Company erred in assuming the weather normalized usage per customer, generally reflecting improved efficiency and conservation, would be a constant amount per month, regardless of time of year. The OSBA therefore performed its own regression analyses to determine its recommended usage per customer. (OSBA Statement No. 1, pp. 10-11) However, in rebuttal, UGI PNG identified several concerns and errors with the OSBA's usage per customer analysis. (UGI PNG Statement No. 7-R, pp. 6-9) The OSBA did not respond or otherwise address any of these technical concerns and errors with its usage per customer analysis. (See OSBA Statement No. 1-SR, p. 11)

In the Settlement, the Joint Petitioners agree that the billing determinants will be based on the Company's original filing, UGI PNG Exhibit E, Proof of Revenue. (Settlement ¶ 20) The billing determinants agreed to in the Settlement are reasonable and properly reflect a decline in usage as projected by the Company's historic usage data. Further, this Settlement provision is in the public interest because it properly reflects a decline in usage per customer due to the Joint Petitioner's agreement that the EE&C Plan be adopted. (See I&E Statement No. 3, pp. 28, 32; Settlement ¶ 31)

**d. Repairs Allowance**

In its filing, UGI PNG 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. (UGI PNG Statement No. 11, p. 8) No active Parties challenged or otherwise opposed the Company's proposal.

As part of the Settlement, the Joint Petitioners agree that the repairs allowance should be normalized with a corresponding increase in Accumulated Deferred Income Taxes ("ADIT") and a related reduction to UGI Gas's rate base. (Settlement ¶ 21) The Settlement continues the practice that UGI PNG has followed since the adoption of the repairs allowance in 2009. 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 PNG files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI PNG that can be used to support UGI PNG's large, related capital spending program and reduce outside borrowing.

**e. Accumulated Deferred Income Taxes**

In its filing, UGI PNG included a FPFTY 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 PNG Statement 11, pp. 6-8) Although it did not oppose using the ADIT pro-rationing methodology, the OCA recommended an adjustment to the Company’s ADIT claim based on an average of the FTY and FPFTY ADIT balances to be consistent with OCA’s proposal to use an average rate base test year balance. (OCA Statement No. 1, p. 11; OCA Schedule DM-9) In rebuttal, the Company explained use of an average ADIT for the Company’s FPFTY claim was not appropriate and inconsistent with longstanding Pennsylvania ratemaking practice and policy. (UGI PNG Statement No. 8-R, pp. 3-4; UGI PNG Statement No. 2-R, pp. 8-11)

As part of the Settlement, the Joint Petitioners agreed to the Company’s FPFTY ADIT pro-rata calculation ADIT pro-rationing methodology. (Settlement ¶ 22) This Settlement provision is in the public interest because it reflects that the Company’s claim is based on a FPFTY and ensures compliance with IRS normalization requirements.

**f. Test Year Plant**

UGI PNG’s rate base claim in this case was based on the sum of the closing plant balances as of September 30, 2016 (“HTY”), plus the budgeted plant additions for the years ending September 30, 2017 (“FTY”) and September 30, 2018 (*i.e.* the FPFTY), less budgeted FTY and FPFTY plant retirements. (UGI PNG Statement No. 3, p. 5) Stated otherwise, UGI PNG claimed an end-of-test-year rate base for the FPFTY. Both the OCA and OSBA recommended an average FPFTY rate base. (OCA Statement No. 1, pp. 6-8; OSBA Statement No. 1, pp. 4-5)

As part of the Settlement, the Joint Petitioners agree that UGI PNG will submit updates to reflect the actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY. (Settlement ¶ 23) This Settlement provision is consistent with other base rate cases and will assist the Parties and the Commission in reviewing the consistency of UGI PNG’s actual and

budgeted capital expenditures for the FTY and FPFTY and the appropriate level of Distribution System Improvement Charge (“DSIC”) eligible plant that UGI PNG will recover in the future through an approved DSIC surcharge mechanism.

**g. Depreciation Rates**

UGI PNG’s depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI PNG Statement No. 6 and UGI PNG Exhibits C (Historic), C (Future), and C (Fully Projected). The OCA proposed to reduce the Company’s claimed amount of depreciation expense of \$23.794 million by \$4.283 million, based on testimony of its witness, Mr. Garren. (*See generally* OCA Statement No 2) The OCA’s recommendation to reduce depreciation expense was based on two primary changes: (1) increasing the service lives for 11 distribution plant accounts; and (2) changing the longstanding, approved depreciation calculation procedure known as the Equal Life Group (ELG) procedure to the Average Service Life (ASL) procedure. (*See generally* OCA Statement No 2)

In rebuttal, UGI PNG explained that OCA’s recommendations to increase service lives for 11 distribution plant accounts is incongruent with the Company’s outlook and plans, including Company’s plan to accelerate replacements of its gas plant assets over the next 10 to 25 years as part of its Long-Term Infrastructure Improvement Plan (“LTIIIP”). (UGI PNG Statement No. 6-R, pp. 3-9) 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 PNG Statement No. 6-R, pp. 48-62)

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas’s as-filed depreciation rates. (Settlement ¶ 24) UGI PNG submits that this Settlement provision is in the public interest because it properly accounts for the Company’s outlook and plans, including the

Commission-approved LTIIP, and is consistent with the depreciation procedure used by most other Pennsylvania utilities.

**h. Distribution System Improvement Charge**

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 DSIC once eligible account balances exceed the levels projected by UGI PNG at September 30, 2018. 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 filing. (Settlement ¶ 25(a)) 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, 2018. 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 PNG at September 30, 2018. This will ensure UGI PNG 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 PNG 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); *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-

2518438 (Opinion and Order entered Oct. 14, 2016). For these reasons, UGI PNG submits that this settlement provision is just, reasonable, and in the public interest and, therefore, should be approved without modification.

The Settlement further provides that, 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). (Settlement ¶ 25(b)) This Settlement provision is in the public interest because it satisfies the Commission's request that parties to a rate case settlement identify a return on equity for DSIC computation purposes. *See Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438, p. 27 (Opinion and Order entered Oct. 14, 2016).

**i. Cloud-Based Program**

In its filing, UGI PNG proposed to capitalize certain costs incurred to develop new data base assets in connection with the Company's use of cloud-based information services. Under generally accepted accounting principles ("GAAP"), such costs are ordinarily accounted for as operating expenses. In this case, however, the Company is requesting Commission approval to record these costs as a long-lived capital asset. (UGI PNG Statement No. 3, pp. 15-16)

I&E recommended that the Company's FPFTY rate base claim should be reduced to remove the Company's cloud-based information services because the Company had not taken steps to begin implementation of the project. (I&E Statement No. 3, p. 9-11) In rebuttal, UGI PNG explained the various steps it was taking to acquire and implement the cloud-based information services by September 2018. (UGI PNG Statement No. 3-R, p. 15) I&E accepted

the Company's explanation and withdrew its recommended cloud-based information services adjustment in surrebuttal testimony. (I&E Statement No. 3-SR, p. 5)

No active Parties challenged or otherwise opposed the Company's proposed accounting treatment for the cloud-based information services. As such, the Joint Petitioners agreed that the Company shall 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. (Settlement ¶ 26) This Settlement provisions is in the public interest because it recognizes that the new data bases will provide benefits to customers over extended periods of time and not just the period in which the costs are incurred. UGI PNG's cloud based services will offer many advantages to traditional on premise software such as enhanced security, reliability, and flexibility. The data bases created for the cloud-based services will be used by the Company to optimize various aspects of the utility service provided to its customers over, at a minimum, the life of the cloud based service agreement. Moreover, the Company will retain ownership and control of these data bases after the close of the cloud based service for which they are being created and likely will use the information in subsequent applications. Accordingly, the costs for these cloud-based services should be capitalized and depreciated over the life that the data bases will remain used and useful.

## **C. REVENUE ALLOCATION/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 PNG Statement No. 7, pp. 19-27; UGI Statement No. 5, pp. 3-11; UGI PNG Exs. D, D-1, and D-2) UGI PNG, 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 PNG 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. 20-21)

I&E did not have a specific revenue allocation and, instead, recommended the use of UGI PNG’s Cost of Service Study provided as UGI Gas Exhibit D, Schedule C. (I&E Statement No. 3, p. 41) The OCA developed its own revenue allocation that included interruptible revenues and allocated a significant increase to Rate XD charges even though the Rate XD rates are based on negotiated rates and are impacted by factors related to competitive alternatives. (OCA Statement No. 4, pp. 26-30) The OSBA also developed its own revenue allocation that included interruptible revenues but recommended no increase or decrease to Rate XD and Rate IS because, according to the OSBA, these customers are subject to negotiated rates that produce revenues in excess of costs. (OSBA Statement No. 1, pp. 56-58) The results of the proposed revenue allocations are summarized below:

Class	PNG Proposed Allocation		OCA Proposed Allocation		OSBA Proposed Allocation	
	Increase \$	Increase %	Increase \$	Increase %	Increase \$	Increase %
Rate R	\$15,014,217	10.9%	\$11,519,911	8.33%	\$15,038,000	10.9%
Rate N	\$4,765,285	14.1%	\$2,480,620	7.32%	\$3,414,000	10.1%
Rate DS	\$1,623,487	17.5%	\$805,167	8.70%	\$1,242,000	13.4%
Rate LFD	\$420,764	5.8%	\$734,471	10.15%	\$409,000	5.7%
Rate XD Firm	(\$134,629)	-0.8%	\$3,437,102	20.60%	\$0	0.0%
Interruptible	(\$28,262)	-3.0%	\$0	0.0%	\$0	0.0%
<b>Total</b>	<b>\$21,660,861</b>	<b>10.5%</b>	<b>\$18,977,271</b>	<b>9.20%</b>	<b>\$20,103,000</b>	<b>9.7%</b>

(UGI PNG Statement No. 7-R, pp. 19, 23; OCA Statement No. 4, p. 29; OSBA Statement No. 1, p. 58)

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:

Rate Class	Customers	Sales	Present Revenue	Proposed Revenue	Revenue Change	Percent Change from Present Revenue	Percent of Total Rate Increase
R/RT	152,184	16,108,797	\$ 138,272,302	\$ 146,118,468	\$ 7,846,166	5.7%	69.7%
N/NT	16,243	6,583,326	\$ 33,888,852	\$ 36,178,830	\$ 2,289,978	6.8%	20.4%
DS	439	3,955,641	\$ 9,259,646	\$ 10,108,072	\$ 848,427	9.2%	7.5%
LFD	138	5,422,994	\$ 7,238,568	\$ 7,659,332	\$ 420,764	5.8%	3.7%
XD - Firm	15	132,893,895	\$ 16,684,990	\$ 16,550,361	\$ (134,629)	-0.8%	-1.2%
Interruptible	33	1,214,816	\$ 2,603,597	\$ 2,583,000	\$ (20,597)	-0.8%	-0.2%
<b>Subtotal</b>	<b>169,052</b>	<b>166,179,469</b>	<b>\$ 207,947,955</b>	<b>\$ 219,198,063</b>	<b>\$ 11,250,108</b>	<b>5.4%</b>	
Other Operating Revenue			\$ 2,278,000	\$ 2,278,000	\$ -		
<b>Total</b>			<b>\$ 210,225,955</b>	<b>\$ 221,476,063</b>	<b>\$ 11,250,108</b>	<b>5.4%</b>	

(Settlement ¶ 27) The rate impact of the settled revenue allocation is provided in the “Customer Class Rate Impact Analyses” attached here to as **Attachment 1**.

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 PNG 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. PUC*, , 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. PUC*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979), 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*, 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*, 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*, 390 A.2d 865 (1978); *Philadelphia Suburban Transportation Co. v. Pennsylvania Public Utility Commission*, 92-94, 281 A.2d 179, 185 (1971).

*Peoples*, 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 PNG's class cost of service study and is within the range of the Parties' litigation positions in this proceeding. As such, UGI PNG 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 PNG 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 PNG Statement No. 7, pp. 19-21) The rate design proposed for each Rate Schedule is summarized in the direct testimony of Mr. David E. Lahoff. (*See* UGI PNG Statement No. 7, pp. 21-27)

### **a. Rate R/RT**

UGI PNG proposed a Rate R customer-class customer charge of \$18.50 per month, as compared to the current charge of \$13.17 per month, to better reflect the customer component of customer service. (UGI PNG Statement No. 7, p. 22) I&E did not oppose the Company's Rate R customer group customer charge, but recommended that the customer charge for the Rate R customer group be scaled back proportionally to the usage charge based on the determined revenue requirement. (I&E Statement No 3, p. 51) The OCA, CAUSE-PA, and CEO all opposed UGI PNG's proposal to increase the residential monthly charge. The OCA argued that the Company's proposed Rate R customer charge ignores the ratemaking concept of gradualism, and CAUSE-PA and CEO argued that the Company's proposal hurts low-volume and low-income customers as well as energy conservation. (OCA Statement No. 4, p. 31; CAUSE-PA Statement No. 1, p. 8; CEO Statement No. 1, p. 6)

In its rebuttal testimony, UGI PNG provided extensive support for its proposal from a cost of service perspective. (See UGI PNG Statement No. 5-R, pp. 4-8) UGI PNG also explained why an increase in the customer charge will not negatively impact conservation. UGI PNG further stressed that the majority of the total bill will continue to be usage based even if the UGI PNG's proposed residential customer charge is adopted. UGI PNG further explained that although it fully supports appropriate incentives to encourage customers to conserve energy, UGI PNG 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 PNG Statement No. 7-R, pp. 25-26)

Despite the differences outlined above, the Joint Petitioners were able to resolve this issue through settlement. As a result of numerous settlement discussions, and in exchange for acceptance of other settlement terms, the Company agreed that the proposed customer charge for the Rate R/RT customer class should be \$13.25 per month (an increase of \$0.08). (Settlement ¶ 28(a)) While Company believes that a higher customer charge is justified, UGI PNG agreed to the \$13.25 per month residential customer charge in light of OCA's agreement on other issues and in the context of reaching a settlement of all issues. The \$13.25 per month residential customer charge under the Settlement addresses the concerns raised by OCA, CAUSE-PA, and CEO.

The Company also proposed to replace the current declining block structure with a single block volumetric charge. (UGI PNG Statement No. 7, p. 22) No parties opposed the Company's proposal and, as such, the Joint Petitioners agreed to eliminate the blocked design for Rate R/RT. (Settlement ¶ 29) 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 PNG Statement No. 7, p. 22)

**b. Rate N/NT**

UGI PNG proposed a Rate N/NT customer-class customer charge of \$37.50 per month, as compared to the current charge of \$32.41 per month, to better reflect the customer cost component of providing service to this class. (UGI PNG Statement No. 7, p. 22) I&E did not oppose the Company's Rate N customer group customer charge, but recommends that the customer charge for the Rate N customer group be scaled back proportionally to the usage charge. (I&E Statement No 3, p. 52)

The OSBA opposed UGI PNG's proposal. Based on its own cost of service study, and using the residential class customer costs as a proxy for his smaller-sized Rate N customers, the OSBA calculated a customer charge of \$29.92 per month for the smaller-sized Rate N customer charge and, therefore, recommended that the Rate N customer charge remain at its current level of \$32.41. (OSBA Statement No. 1, pp. 59-60)

In rebuttal testimony, the Company provided extensive support for its Rate N customer charge proposal from a cost of service perspective, and explained why the results of the OSBA's cost of service study should be rejected. (UGI PNG Statement No. 5-R, pp. 16-19). The Company also explained that the OSBA's calculation of the Rate N customer charge was at odds with the principles of cost causation, in that it entirely fails to account for the costs incurred by the Rate N customer group as a whole, and it was not appropriate for the OSBA to treat the residential and rate N/NT classes as the same and to use the residential costs as a proxy for the rate N/NT customers. (UGI PNG Statement No. 7-R, pp. 29-30)

In the Settlement, the Joint Petitioners agree to a Rate N/NT customer charge of \$34.00 per month. (Settlement ¶ 28(b)) The settlement of the Rate N/NT customer charge is a

reasonable compromise of competing litigation positions and is within the range proposed by the Company and OSBA.

**c. Rate DS**

UGI PNG proposed to increase the current Rate DS monthly customer charge of \$174.91 per month to \$290 per month. (UGI PNG Statement No. 7, p. 23) Both I&E and OSBA argued that that the Company's proposed Rate DS customer charge ignores the ratemaking concept of gradualism. I&E recommended a Rate DS customer charge of \$220.00 per month. (I&E Statement No. 3, p. 54) OSBA recommended that the increase to the Rate DS customer charge be limited to no more than 1.5 times the class average increase, which would result in a customer charge of \$229 per month. ( OSBA Statement No. 1, p. 61)

In rebuttal, rebuttal testimony, the Company provided extensive support for its Rate N customer charge proposal from a cost of service perspective, and explained why the results of the OSBA's cost of service study should be rejected. (UGI PNG Statement No. 5-R, pp. 16-19) The Company also explained how it addressed gradualism when establishing the revenue allocation among rate classes. (UGI PNG Statement No. 7-R, p. 32)

In the Settlement, the Joint Petitioners agree to a Rate DS monthly customer charge of \$229.00 as proposed OSBA. (Settlement ¶ 28(c)) The settlement of the rate design for Rates DS is a reasonable compromise of competing litigation positions. UGI Gas submits that the Rate DS rate design, as modified by the Settlement, will help address I&E's and OSBA's concerns about gradualism.

**d. Rate LFD**

UGI PNG proposed to increase the current Rate LFD monthly customer charge of \$499.91 per month to \$700 per month. (UGI PNG Statement No. 7, pp. 23-24) I&E did not oppose the Company's Rate LFD customer group customer charge, but recommended that the

customer charge for the Rate LFD customer group be scaled back proportionally to the usage charge. (I&E Statement No. 3, p. 55) The Joint Petitioners agree to a Rate LFD customer charge of \$700 per month as proposed by UGI PNG. (Settlement ¶ 28(d)) The settlement of the Rate LFD customer charge is a reasonable compromise and provides a significant increase from the current, outdated rate, while recognizing gradualism in rate design.

### **3. Technology and Economic Development Rider**

UGI PNG proposed to implement a five-year pilot “Technology & Economic Development” or “TED” Rider identical to one recently proposed in UGI Gas’s most recent base rate case at Docket No. R-2015-2518438, and approved as three-year pilot under a Commission-approved settlement in that proceeding. (UGI PNG Statement No. 8, pp. 6-7) Both the OCA and OSBA recommended that the proposed TED Rider pilot be limited to three year, instead of five years. (OCA Statement No. 4, p. 37; OSBA Statement No. 1, p. 62) In rebuttal, UGI PNG explained that it was proposing a five-year pilot rather than a three-year pilot because the negotiation of complicated commercial agreements where the TED Rider might be expected to be applied takes some time, and often is followed by a facilities construction phase that will require additional time for the collection of meaningful data. (UGI PNG Statement No. 8-R, p. 13)

In the Settlement, the Joint Petitioners agreed to adopt the TED Rider as a three-year pilot program. In addition, the Joint Petitioners agreed that six months before the end of the three-year pilot program, UGI PNG will report on the economics of the TED Rider. Finally, the Joint Petitioners agreed that in the event that UGI PNG files a general base rate case during the three-year TED Rider pilot program, 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. (Settlement ¶ 30)

As stated in a Joint Motion of Chairman Brown and Commissioner Sweet issued at Docket No. R-2015-2518438, the TED Rider is consistent with the important public policy of expanding the availability of natural gas:

Lastly, included in the Settlement is a three-year Technology and Development (TED) Rider pilot program. The TED Rider allows UGI commercial customers to negotiate a mutually acceptable contribution in aid of construction amount and distribution rate, so long as, in tandem, they achieve a positive projected net-present value for the utility's investment. This novel pilot proposal should increase access and expand the use of natural gas. We commend UGI for including a mechanism which avails larger customers more options to obtain natural gas.

UGI PNG submits that this Settlement provision is in the public interest because it is consistent with the three-year TED Rider pilot adopted in UGI Gas's most recent base rate case, and will allow the parties to track the economics of the TED Rider.

#### **D. ENERGY EFFICIENCY AND CONSERVATION PLAN**

In this proceeding, UGI PNG 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 PNG Statement No. 12, p. 3; UGI Gas Exhibit TML-2) The proposed EE&C Plan is largely based on the UGI Gas EE&C Plan approved by the Commission at Docket No. R-2015-2518438. (UGI PNG Statement No. 12, p. 10).

UGI PNG's proposed energy efficiency programs are projected to reduce energy consumption by 4,161 Billion British Thermal Units ("BBtus") over the lifetime of the installed measures. (UGI PNG Statement No. 12, p. 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 1.44 and 1.22, respectively. (UGI PNG Statement No. 12, p. 3) Collectively, the programs are estimated to provide \$15.8 million in net total resource benefits with an overall TRC BCR of 1.29. (UGI PNG Statement No. 12, p. 3)

Several parties made recommendations and raised issues concerning the proposed EE&C Plan. (I&E Statement No. 2, pp. 10-19; OCA Statement No. 4, pp. 34-36; OCA Statement No. 5, p. 31, 40-44; CAUSE-PA Statement No. 1, p. 38; CEO Statement No. 1, p. 11; OSBA Statement No. 1, pp. 66-65, 69-70) The Joint Petitioners agreed that the Company's EE&C Plan should be approved as revised below. (Settlement ¶31) The EE&C Plan, as revised by this Settlement 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 PNG's proposed EE&C Plan. It also provides refinements and improvements in the proposed plan and, to a substantial degree, addresses the concerns raised by the parties.

The Commission has previously noted that there are benefits from energy efficiency measures and provided guidelines for Act 129-exempt companies if they choose to develop and implement voluntary EE&C Plans. *See* Secretarial Letter dated December 23, 2009, issued at Docket No. M-2009-2142851. Indeed, Chairman Brown and Commissioner Sweet issued the following Joint Statement in conjunction with the Commission's approval of the 2016 UGI Gas base rate case settlement in UGI Gas's 2016 base rate case:

Included in UGI's rate case and the Settlement, among other things, is a voluntary, five-year Energy Efficiency and Conservation (EE&C) Plan. This approximately \$27 million plan will provide rebates and incentives to residential, non-residential and multifamily customers for the installation and retrofitting of efficient equipment and the implementation of behavioral measures to reduce energy consumption. *We commend UGI and the parties for developing a voluntary EE&C Plan, one of only few operated by the natural gas distribution companies (NGDCs) in the Commonwealth. With natural gas service expanding within Pennsylvania, it is important that consumers are educated about, and provided with, opportunities to be energy conscious and to conserve their natural gas usage, similar to that which is provided in the electric industry.*

Joint Statement of Chairman Gladys M. Brown and Commissioner David W. Sweet, Docket Nos. R-2015-2518438, et al. (Sept. 1, 2016) (emphasis added).

For these reasons, as well as those explained below, UGI PNG's proposed EE&C Plan, as modified by the Settlement, is just and reasonable and should be approved without modification.

### **1. Allocation of New Construction Program Budget**

The proposed New Construction ("NC") Program aims to address natural gas efficiency in new construction and rehabilitation projects. The NC program targets both residential and non-residential participants by providing incentives for going beyond just meeting applicable building codes. (UGI PNG Statement No. 12, pp. 22-23) In the Settlement, the Joint Petitioners agreed that the Company will allocate the NC Program budget between a Residential New Construction ("RNC") budget component and a Non-Residential New Construction ("NNC") budget component. (Settlement ¶ 32) As a result, all customers taking service under the N or NT rate classes will be served out of the NNC budget component, and all customers taking service under the R or RT rate classes will be served out of the RNC budget component. This Settlement provision is in the public interest because it ensures that NC Program costs are properly allocated among the residential and non-residential classes, *i.e.*, avoids interclass subsidies.

### **2. Nonresidential Program Spending**

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 ¶ 33) This Settlement provision addresses OSBA's concern with

participants' contribution to the costs of the EE&C Plan's nonresidential programs. (OSBA Statement No. 1, pp. 69-70)

It also clarifies how those costs and contributions are calculated and give UGI PNG the flexibility to voluntarily grant incentives in excess of the 55% threshold without EE&C cost recovery. Further, this Settlement provision ensures 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. Finally, this Settlement provision is consistent with the EE&C Plan adopted in the UGI Gas 2016 base rate case Settlement.

### **3. Incentive to Reach EE&C Targets**

I&E recommended that the Company's proposed EE&C program and associated cost estimates be rejected. Specifically, I&E recommended that the Company's EE&C Plan be disallowed for the following five reasons: (1) UGI Gas just implemented its EE&C Plan and has no data on activity yet; (2) NGDCs are not statutorily required to implement EE&C; (3) the EE&C Plan is not "essential" for the provision of safe and reliable service; (4) the current cost of natural gas may not encourage participation in EE&C measures; and (5) UGI PNG's affiliate, UGI CPG, did not implement an EE&C Plan in its 2010 base rate proceeding. (I&E Statement No. 2, pp. 10-19)

In rebuttal, UGI PNG explained that it is inappropriate and inconsistent with Commission practice for I&E to try to make the Commission's approval of UGI PNG's EE&C Plan contingent on the results set forth in UGI Gas's first annual EE&C Plan report. (UGI PNG Statement No. 12-R, pp. 4-6) The Company also explained that I&E failed to recognize that the Commission has supported and approved voluntary EE&C Plans for small EDCs otherwise exempt from Act 129, and for NGDCs, such as UGI Gas and PGW. (UGI PNG Statement No. 12-R, pp. 7-9) Additionally, the Company explained that no Pennsylvania public utility has had

to demonstrated that its EE&C Plan is essential” for the provision of safe and reliable service in order to be approved by the Commission. (UGI PGN Statement No. 12-R, p. 11) The Company further explained that, while there are abundant natural gas reserves in Pennsylvania, it behooves NGDCs like UGI PNG to engage in conservation efforts to appropriately manage this resource. (UGI PNG Statement No. 12-R, pp. 11-15) Finally, the Company explained that I&E’s reliance on the EE&C Plan proposed in UGI CPG’s 2010 base rate proceeding is misplaced and not relevant to the EE&C Plan proposed in this case. (UGI PNG Statement No. 12-R, pp. 15-16)

To address I&E’s concerns with the proposed EE&C Plans, the Joint Petitioners agreed to specific provisions that would incentivize the Company to reach its EE&C participation targets over the life of the five-year EE&C Plan. Specifically, the Settlement provides 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.<sup>5</sup> (Settlement ¶ 34) Further, the Joint Petitioners agreed that the Company will not seek to recover in rates EE&C administrative costs in excess of the projections included in its filing. (Settlement ¶ 35) Similar to the penalty provisions in Act 129 applicable to electric distribution companies that fail to reach their EE&C targets, the Settlement provisions will provide a financial incentive for the Company to administer, monitor, and revise, if necessary, its EE&C Plan to ensure that the voluntary programs are cost-effective.

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<sup>5</sup> In determining compliance with this provision, the Joint Petitioners agreed that any LIURP projects completed using the \$100,000 in EE&C funding identified in Paragraph 36 of the Settlement, 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. (Settlement ¶ 34)

#### 4. Low-Income Issues

The OCA proposed a dedicated low-income program component be included in the EE&C Plan. Specifically, the OCA proposed that the low-income program be a direct install, weatherization program similar in design to the current Low Income Usage Reduction Program (“LIURP”) program, but with additional, unspecified measures. (OCA Statement No. 5, pp. 34-39) Both CAUSE-PA and CEO argued that UGI PNG should either exempt its confirmed low-income customers from paying the EE&C Rider or increase LIURP funding by the amount collected from low income customers. (CAUSE-PA Statement No. 1, pp. 38; CEO Statement No. 1, p. 11)

In rebuttal, the Company explained that it already offers LIURP, which is designed to improve low-income customers’ energy efficiency. Unlike the EE&C Plan, LIURP is not subject to the TRC Test. (UGI PNG Statement No. 12-R, pp. 20-21) Additionally, if confirmed low-income customers are fully exempted from the EE&C Rider, all other residential customers will have to bear their costs, even if low-income customers participate in the EE&C programs. (UGI PNG Statement No. 12-R, p. 27)

In recognition that there is not a separate low-income EE&C measure and that low-income customers will be required to pay the EE&C Rider, 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 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. (Settlement ¶ 36) Importantly, these LIURP amounts are in addition to the increase in LIURP budget agreed to in Paragraph 39 of the Settlement, and will continue for each year in which the EE&C Plan remains in place. In addition, UGI PNG agreed to revise written applications and marketing materials for the EE&C Plan to inform

customers that free, comprehensive usage reduction services are available to income-qualified households and provide a direct phone number to contact UGI PNG to pursue enrollment if the customer believes that they may qualify. (Settlement ¶ 37)

These Settlement provisions are in the public interest because they recognize that low-income customers are required to pay the EE&C Rider and that there is not a separate low-income program available under the EE&C Plan. These Settlement provisions will make additional funding for energy efficiency and conservation measures available for low-income customers, as well as increase customer awareness of the availability of such measures for low-income customers.

#### **E. UNIVERSAL SERVICES**

UGI PNG 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 PNG Statement No. 9, p. 8) Rather than change any aspect of its Universal Service and Energy Conservation Plan (“USECP”) in this case, PNG simply proposed to update (i) its CAP enrollment and (ii) offset to CAP credits and pre-program arrearages for customers receiving shortfall credits above the projected enrollment. (UGI PNG Statement No. 9, p. 8) PNG also explained that it voluntarily incorporated certain customer service-focused practices and procedures that were agreed to in the Commission-approved settlement of the UGI Gas 2016 base rate proceeding at Docket No. R-2015-2518438. (UGI PNG Statement No. 9, pp. 4-8)

Notwithstanding the foregoing, several Parties to this proceeding recommended structural changes to UGI PNG’s Universal Service programs. With the exception of OCA’s recommendations on CAP enrollment and CAP working capital adjustments, the OCA, CAUSE-PA and CEO made several proposals to the Company’s universal service offerings that were largely unrelated to the proposed rate increase and could have and should have been raised in the

Company's next USECP filing to be made on or about July 1, 2017, as more fully explained in UGI PNG's rebuttal testimony. (UGI PNG Statement No. 9-R, pp. 2-4) 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 represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. While UGI PNG believes that these issues are better dealt with in triennial Universal Service Program filing,<sup>6</sup> in order to reach a settlement the Company agreed to address and adopt certain proposed changes to UGI PNG's Universal Service programs.

#### **1. CAP Enrollment**

In its filing, UGI PNG I projected that the CAP enrollment at September 30, 2018 will be 7,643. UGI PNG also proposed an offset to CAP credits and pre-program arrearages of 9.1% for CAP participants in excess of the proposed CAP base participation of 7,643. (UGI PNG Statement No. 9, pp. 8-9) The OCA asserted that the Company's projected CAP participation rate was overstated due to temporary increases attributable to unusually cold weather and, therefore, recommended a base participation rate of 6,500 CAP participants for the purpose of assessing CAP cost offsets. (OCA Statement No. 5, pp. 12-15) The OCA also recommended a total CAP offset of 14.3% for CAP participants in excess of OCA's proposed CAP base participation of 6,500. (OCA Statement No. 5, pp. 16-19)

In the Settlement, the Joint Petitioners agreed to base CAP participation of 6,500 participants for the purpose of assessing CAP cost offsets. For any and all CAP customers

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<sup>6</sup> By design, the Commission has established an entirely separate process to evaluate issues regarding universal service and energy conservation programs. *See* 52 Pa. Code § 54.74. The Commission has declared that "Commission practice is to address all aspects of [Universal Service Programs] through the triennial filing process and to collect all revenues through a rider to base rates." *Pa. PUC v. PPL Elec. Utils. Corp.*, Docket Nos. R-2012-2290597, et al., at p. 51 (Order Entered Dec. 28, 2012).

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 of the CAP enrollment adopts the OCA's position to address the concerns that the Company's projected CAP participation rate was overstated due to unusually cold weather. The settlement of the CAP offset is reasonable and consistent with the Company's current CAP offset of 14.1%.

Both OCA and CAUSE-PA recommended that UGI PNG take additional steps to increase the number of low-income customers enrolled in CAP. (OCA Statement No. 5, pp. 20-26; CAUSE-PA Statement No. 1, pp. 25-394) UGI PNG responded that any additional steps were not necessary, and that OCA and CAUSE-PA already have a forum for commenting on CAP enrollment procedures at the Company's next triennial USECP filing to be made on or about July 1, 2017. (UGI PNG Statement No. 9-R, pp. 14-20) However, to address these concerns, UGI PNG agreed to allow customers to apply for CAP using additional alternative methods that are available and acceptable to the Company's Community Based Organizations ("CBOs"). (Settlement ¶ 40) Additionally, the Company will propose in its upcoming USECP that it directly provide CBOs with low-income indicated customers lists for direct CAP solicitation, unless the customer opt-out. (Settlement ¶ 45) Finally, UGI PNG agrees that it will continue to use CBOs to assist in the implementation of its 2018-2020 USECP. (Settlement ¶ 41)

These Settlement provisions recognize the important role played by CBOs in the customer verification, education and enrollment processes. These Settlement provisions are in the public interest because they help to increase the number of low-income customers solicited by CBOs for participation in CAP and will provide alternative methods for low-income customers to confirm their eligibility to participate in CAP, which should increase the number of low-income customers enrolled in CAP.

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 ¶ 42) This provision recognizes UGI PNG'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 PNG's commitment to leveraging its current practices and procedures to increase CAP enrollment.

## **2. LIURP Budget**

CEO recommended an increase to the annual LIURP budget from \$850,000 to \$1,214,000 million. (CEO Statement No. 1, p. 9, lns. 1-4) CAUSE-PA recommended that the LIURP budget be increased proportionate to the base rate increase for residential customers. (CAUSE-PA Statement No. 1, p. 22, lns. 9-13)

In rebuttal, the Company explained that LIURP funding should not be increased as a part of this base rate proceeding. The Company's proposed base rate increase has no impact on the qualifying criteria for participation in the Company's LIURP, such as meeting certain usage thresholds or residing in properties suitable for weatherization. Further, the Commission reviewed these same needs assessment figures and concluded that \$850,000 was an appropriate annual budget in approving the Company's current USECP. Should the Commission determine that a change to the Company's LIURP budget is appropriate in the future, it may do so in the context of the upcoming USECP proceeding. (UGI PNG Statement No. 9-R, pp. 21-22)

In the Settlement, the Joint Petitioners agree that UGI PNG will increase LIURP funding, effective January 1, 2018, and that UGI PNG will rollover unspent LIURP funds for the following year(s). (Settlement ¶ 39) LIURP weatherization projects help low-income customers reduce their natural gas usage and lower their monthly bills. This Settlement provision will

allow UGI PNG to continue to increase the annual number of LIURP weatherization jobs it performs, while fully recovering the costs of administering the program.

### **3. LIURP Coordination and Furnace Repair/Replacement**

The OCA recommended that UGI PNG adopt and fund a “de facto heating” program as a component of the Company’s EE&C Plan, which would be administered by the Company’s LIURP CBOs. (OCA Statement No. 5, p. 49) According to the OCA, there are customers in the Company’s service territory with broken gas furnaces that are using less efficient electric and other types of heat in lieu of gas. The OCA asserts that such customers would benefit from a targeted program aimed at repairing those furnaces. (OCA Statement No. 5, p. 45)

In rebuttal, the Company explained that electric distribution companies (“EDCs”) are best poised to identify those customers who have inordinately high electric usage for non-heating accounts because UGI PNG does not have access to the electric bill of its natural gas customers. The Company further explained that it already participates in a referral program with the EDCs that overlap its service territory, and is prepared to look into any referrals passed on from these EDCs that suggest that LIURP weatherization is needed without the unnecessary steps of creating a new administrative framework. (UGI PNG Statement No. 9-R, p. 23)

In the Settlement, the Joint Petitioners agreed that UGI PNG will propose in its USECP filing certain waivers and requests necessary to address the repair or replacement of its residential customers’ inoperable furnaces within the UGI PNG service territory. (Settlement ¶ 43(a)-(c)) The Joint Petitioners also agreed that, beginning January 1, 2018 and subject to Commission approval, UGI PNG will set aside \$150,000 annually out of the general LIURP budget for furnace repair and replacement projects. Any unused amounts in the first two years will rollover to the next year’s budget for furnace repair and replacement projects, and any remaining amounts after the first two years will rollover to the Company’s general LIURP

budget. (Settlement ¶ 43(d)) These Settlement provisions are in the public interest because they properly recognize that certain waivers and approvals are required under current LIURP regulations to implement repair or replacement program. Additionally, these Settlement provisions are in the public interest because, upon Commission approval as part of the USECP, they will provide additional funding to repair or replace the broken gas furnaces of customers that are using less efficient electric and other types of heat in lieu of gas. (OCA Statement No. 5, p. 45)

The Joint Petitioners also agreed that the Company will host two collaborative meetings, open to all interested parties, including applicable EDCs, to discuss inter-utility coordination of LIURP services. One of the goals for the collaborative will be to work towards a solution to reduce inoperable gas furnaces in the UGI PNG service territory. Based on the result of the collaborative, the Company, if appropriate, will seek Commission approval for a USECP change to implement collaborative consensus terms. (Settlement ¶ 44(a)-(d)) These Settlement provisions are in the public interest because it properly recognizes the need to coordinate LIURP efforts with other utilities serving customers in UGI PNG's service territory. (UGI PNG Statement No. 9-R, p. 23) Through this collaborative process, the interested parties will be able to identify, evaluate, and address issues related to inter-utility coordination of LIURP services to further improve the availability of such services to low-income customers. This inter-utility coordination will be a benefit to both gas and electric customers located within the Company's service territory.

#### **4. Reconnection Fees**

CAUSE-PA opposed the Company's proposal to increase the reconnection fee from \$37 to \$73. (CAUSE-PA, Statement No. 1, p. 23) In rebuttal, the Company explained that it was proposing to adopt the same reconnection charge approved for UGI Gas in its 2016 base rate

case at Docket No. No. R-2015-2518438. The Company explained that the reconnection charge/fee was set at that time on a half hour of standard non-emergency technician labor costs that was based on a sampling of market prices at that time that equates to a \$73.00 charge for a half hour. The increase in the reconnection fee is reasonably calculated to recoup some portion of the Company's costs in reconnecting service. (UGI PNG Statement No. 9-R, p. 28-29)

In the Settlement, the Joint Petitioners agreed that 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. (Settlement ¶ 46) This Settlement provision is in the public interest because it will mitigate the impact of the increased reconnection fee on low-income customers that, according to CAUSE-PA, are more likely than non-low income customers to have their service involuntarily terminated. (CAUSE-PA, Statement No. 1, p. 23)

## **F. NATURAL GAS SUPPLIER ISSUES**

### **1. Tariff Rules**

As a part of its initial filing, UGI PNG proposed several revisions to, among other things, its General Terms for Delivery Service for Rate Schedules DS, LFD, XD, and IS (original Tariff Rule 16, proposed Tariff Rule 20), and its Choice Supplier Tariff (original Supplier Tariff 8-S, proposed Supplier Tariff 9-S) to standardize and harmonize, where applicable, its tariff provisions with those contained in the UGI Gas and UGI CPG tariffs, reflect best practices, add clarity, and update the UGI PNG tariff to reflect certain proposed changes to the Company's business practices. (UGI PNG Statement No. 7, pp. 29-32; UGI PNG Exhibit F – Proposed Tariff) Although no parties presented any testimony in opposition to the Company's proposed

Tariff Rule 20 or proposed Supplier Tariff 9-S, Direct Energy raised certain issues and concerns during settlement negotiations.

To address the concerns raised by Direct Energy, UGI PNG agrees to make several revisions to its balancing rules set forth in proposed Tariff Rule 20. First, UGI PNG agrees to reduce the intentional imbalances penalty in proposed Tariff Rule 20.4 from GDI x 10 to GDI x 5. (Settlement ¶ 48) Second, UGI PNG agrees to reduce the penalty charge in proposed Tariff rule 20.5 for failure to comply with Operational Flow Orders and Daily Flow Directives from \$50.00 per Mcf to \$25.00 per Mcf. (Settlement ¶ 49) Finally, UGI PNG agrees to keep the charge for Unauthorized Overruns at \$27.50 per Mcf rather than increasing it to \$50.00 per Mcf. (Settlement ¶ 50) These Settlement provisions balances UGI PNG'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.

## **2. Capacity Assignment**

In its filing, UGI PNG proposed, consistent with the practice of its affiliate, UGI Gas, to include all projected Rate DS (Delivery Service) customer demands up to their contracted aggregate Maximum Daily Quantity ("MDQ"), and projected Rate LFD (Large Firm Delivery) customer demands for those customers electing to receive releases of UGI PNG capacity up to their contracted aggregate Daily Firm Requirement ("DFR"), in designing its supply portfolio, and would then release pipeline capacity from this supply portfolio to all Rate DS and participating LFD customers or their natural gas suppliers ("NGSs") up to their MDQ or DFR levels at the weighted average costs UGI PNG's pipeline capacity to prevent cost shifting to or from Purchased Gas Cost ("PGC") customers. The Company explained that its proposed Capacity Release Program will facilitate retail choice by providing NGSs with access to pipeline capacity having primary firm delivery rights to meet the needs of Rate DS customers and certain

Rate LFD customers. Certain NGSs may be serving such customers with capacity having a lower priority of delivery rights, which potentially could expose such NGSs to contractual or replacement supply cost risks in the event of interstate pipeline deliverability restrictions. Other NGSs might not make service offerings at all because they are unwilling to take such a risk. UGI PNG's proposal will help minimize this risk by providing NGSs with access to pipeline capacity having primary firm delivery rights. (UGI PNG Statement No. 13, pp. 6-9)

On 71 of his direct testimony, OSBA expressed concern with UGI PNG's efforts to consult with either its customers or NGSs with respect to the proposed Capacity Release Program. (OSBA Statement No. 1, p. 71) In rebuttal, the Company explained there is no requirement for rate case concepts to be vetted with potentially affected customer or NGS groups before they are proposed in base rate proceedings. Instead, the Commission has proscribed detailed rate case notice requirements that are designed to alert potentially affected customers and interested parties of a base rate case, and that the Company followed these same procedures. The Company also explained that, while its practice is to conduct a supplier collaborative twice a year to provide an additional channel of communication with NGSs, the incident that led to the proposed Capacity Release Program did not occur in time for UGI PNG to address its capacity release proposal during the fall supplier collaborative, which occurred before the current base rate filing. Finally, the Company explained that the lack of NGS or transportation customer interest or concern with the proposed Capacity Release Program is not surprising given the considerable financial risks they might have faced if there were not have sufficient levels of primary firm capacity and because UGI PNG's capacity release proposal would help them mitigate this risk. (UGI PNG Statement No. 13-R, pp. 5-7)

The OSBA also expressed concern that the Capacity Release Program could require UGI PNG to acquire additional gas supply assets that could be at above system average cost, leading to upward pressure in PGC rates. (OSBA Statement No. 1, p. 27) In rebuttal, the Company agreed that as a result of this proposal UGI PNG will almost certainly have to procure additional gas supply assets, and that incremental gas supply assets generally cost more than that average of all system assets. However, UGI PNG explained that any such incremental costs are worth avoiding the potential problems that would result from a sustained and prolonged reduction in deliverability on an interstate pipeline system serving its system. Further, such a major potential disruption of service to smaller transportation customers could also result in increased gas supply costs if, for example, smaller volume customers by permitting them to shift to available rate schedules during a sustained and prolonged reduction in deliverability on an interstate pipeline system serving the Company's system. Finally, the Company explained that in an era of significantly reduced overall PGC costs resulting from the shale gas revolution, any increased costs would be a small price to pay to help ensure the reliability of gas supplies for smaller volume customers. (UGI PNG Statement No. 13-R, p. 7)

In the Settlement, the Joint Petitioners agreed that Company's proposed Capacity Release Program should be adopted. (Settlement ¶ 51(a)) This Settlement provision is in the public interest because the Capacity Release Program will facilitate retail choice by providing NGSS with access to pipeline capacity having primary firm delivery rights to meet the needs of Rate DS customers and certain Rate LFD customers. (UGI PNG Statement No. 13-R, pp. 5-7) The Joint Petitioners also agreed that: (i) UGI PNG 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, and (ii) issues pertaining to the assignment of capacity to

Rate DS and LFD customers will be addressed in the Company's annual Purchased Gas Cost proceedings or a base rate case. (Settlement ¶ 51(b)-(d)) These Settlement provisions are in the public interest because they address any concerns regarding notice provided to potentially affected customer or NGS groups, as well provide a forum to address any concerns that potentially affected customer or NGS groups may have with the Capacity Release Program.

#### **IV. CONCLUSION**

The Settlement is the result of a detailed examination of UGI PNG's proposals, substantial discovery requests, multiple rounds of testimony, numerous settlement discussions, and compromise by all active parties. UGI PNG 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 PNG fully supports this Settlement and respectfully requests that Administrative Law Judge Mary D. Long 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 PNG's above-captioned January 19, 2017 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, and Michael Ochs as satisfied and closed; and
- (vi) Mark the investigation at Docket R-2016-2580030 closed.

Respectfully submitted,

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Date: June 30, 2017

Attorneys for UGI Utilities, Inc. – Gas Division

## **Attachment 1**

### **Customer Class Rate Impact Analyses**

**UGI Penn Natural Gas, Inc.**  
**Customer Class Rate Impact Analyses**

**Residential Heating**

Under the Settlement Rates, the monthly Rate R/RT customer charge will increase \$0.08 (or 0.6%) from \$13.17 to \$13.25. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$18.50, which represented a \$5.33 increase (or 40.5%). In addition, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 91.2 Ccf per month will increase by \$4.46 per month, from \$78.53 to \$82.99 (or 5.7%), 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 91.2 Ccf per month would have increased by \$8.34 per month from \$78.53 to \$86.87 (or 10.6%), including purchased gas costs and other surcharges.

**Commercial Heating**

Under the Settlement Rates, the monthly Rate N/NT customer charge will increase \$1.59 (or 4.9%) from \$32.41 to \$34.00. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$37.50, which represented a \$5.09 increase (or 15.7%). In addition, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 29.6 Mcf per month will increase by \$10.78 per month, from \$194.25 to \$205.03 (or 5.6%), 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 29.6 Mcf per month would have increased by \$22.35 per month from \$194.25 to \$216.60 (or 11.5%), including purchased gas costs and other surcharges.

**Industrial General**

Under the Settlement Rates, the monthly Rate N/NT customer charge will increase \$1.59 (or 4.9%) from \$32.41 to \$34.00. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of \$37.50, which represented a \$5.09 increase (or 15.7%). In addition, under the Settlement Rates, the bill for a typical Industrial General customer that uses 97.4 Mcf per month will increase by \$35.16 per month, from \$561.06 to \$596.22 (or 6.3%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial General customer that uses 97.4 Mcf per month would have increased by \$65.17 per month from \$561.06 to \$626.23 (or 11.6%), including purchased gas costs and other surcharges.

## **Attachment 2**

**Response to Questions Set Forth in  
Statement of Vice Chairman Andrew G. Place  
Issued February 9, 2017**

**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.	:	

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**UGI PENN NATURAL GAS, INC.  
RESPONSE TO QUESTIONS SET FORTH IN  
STATEMENT OF VICE CHAIRMAN ANDREW G. PLACE  
ISSUED FEBRUARY 9, 2017**

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UGI Penn Natural Gas, Inc. (“UGI PNG” or the “Company”) herein submits the following responses to the questions set forth in the Statement of Vice Chairman Andrew G. Place issued February 9, 2017. In the February 9, 2017 Statement, Vice Chairman Place directed the parties to address seven questions as part of the above-captioned distribution base rate case. On March 2, 2017, UGI PNG submitted the supplemental direct testimony of Paul J. Szykman, UGI PNG Statement No. 1-SD, that responded to the questions set forth in Vice Chairman Place’s Statement. Pursuant to the on-the-record request of Administrative Law Judge Mary D. Long, the Company will also answer each question directly below in question and answer format and/or provide an appropriate reference to the record where the question has been addressed. (See June 6, 2017 Hr’g Tr. 54)

1 **Q. UGI PNG anticipates investing \$168 million in capital projects to upgrade its system**  
2 **over the next two years, which are included in the Fully Projected Future Test Year**  
3 **(FPFTY) inclusive of the Company's pipeline replacement capital and customer**  
4 **information system (CIS) investment, and other used and useful infrastructure to**  
5 **support growth and service reliability. Please provide individual categories of, per**  
6 **year, capital investments for each capital cost category, including, at a minimum,**  
7 **LTIP investments, CIS investments, safety related investments, market growth**  
8 **investments, including Get Gas and TED investments, and other market growth**  
9 **investments, as well as any other annual capital investment categories greater than**  
10 **\$3 million. Please provide this information for the Historical Test Year, Future Test**  
11 **Year, and the FPFTY.**

12 **A.** Itemized budgets by investment category, along with project level detail where available,  
13 have been provided for the historic test year, future test year, and fully projected future  
14 test year. Additional supporting detail is set forth in the direct testimony of Hans G. Bell,  
15 UGI-PNG statement No. 10, Exhibit HGB-3 and the supplemental direct testimony of  
16 Paul J. Szykman, UGI PNG Statement No. 1-SD, Exhibit PJS-2.

17  
18 **Q. If the FPFTY includes facilities needed for growth, is any consequent growth in**  
19 **sales included in the sales projections that are used for revenue and rate**  
20 **determinations? If so, please describe how the growth associated with new sales is**  
21 **estimated.**

22 **A.** Capital investments in facilities needed for growth are included in the FPFTY budget.  
23 Additional supporting detail is set forth in the direct testimony of Hans G. Bell, UGI-

1 PNG statement No. 10, Exhibit HGB-3 and the supplemental direct testimony of Paul J.  
2 Szykman, UGI PNG Statement No. 1-SD, Exhibit PJS-2.

3 Growth in customers due to conversions to natural gas and to new construction is  
4 included in sales projections for the base rate case. A general description of the budget  
5 process and how the Company develops sales and revenue, including the various factors  
6 and trends that are considered to project growth in sales and revenues in the FTY and  
7 FPFTY is provided in the direct testimony of David E. Lahoff, UGI PNG Statement No.  
8 7, pp. 5-6.

9 Growth trends in key mass market segments are assessed in conjunction with  
10 competitive assumptions to estimate expected growth by mass market segments. Large  
11 contract customer growth is estimated on an individual customer basis. A general  
12 description of the budget process and what assumptions are utilized to estimate new  
13 growth is provided in the direct testimony of David E. Lahoff, UGI PNG Statement No.  
14 7, pp. 5-6.

15  
16 **Q. The Company proposes to notify customers of the rate filing. Will the Company**  
17 **also provide notice to Natural Gas Suppliers in light of the fact that there are**  
18 **changes to the DS rate schedule which imposes capacity supply costs on business**  
19 **customers and changes to the NGS tariff? What steps will be taken to notify these**  
20 **business customers of this specific proposal so as to provide them adequate time to**  
21 **comment on this change?**

22 A. UGI PNG followed the requirements set forth in the Commission's regulations at 52 Pa.  
23 Code § 53.45 regarding service and notice of the rate filing. Specifically, the Company:

1 posted a notice of the rate filing in each of its offices; notified customers of the rate filing  
2 by means of a bill insert; and published a description of the rate filing in major  
3 newspapers serving the Company's service territory. Additionally, UGI PNG served  
4 complete copies of its filing on the Commission's Bureau of Investigation and  
5 Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate,  
6 counsel for the UGI Industrial Intervenors, the Retail Energy Supply Association, and  
7 The Procter & Gamble Paper Products Company. UGI PNG also posted notice of and an  
8 electronic copy of the entire rate filing on its website. Additionally, Direct Energy  
9 Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing,  
10 LLC intervened in the case and was an active participant in settlement negotiations. A  
11 description of the Company's efforts to notify customers and natural gas suppliers is  
12 provided in the supplemental direct testimony of Paul J. Szykman, UGI PNG Statement  
13 No. 1-SD, pp. 6-7 and the rebuttal testimony of Angelina M. Borelli, UGI PNG  
14 Statement No. 13-R, pp. 5-7.

15 Additionally, the Joint Petition for Approval of Settlement of All Issues provides:  
16 (i) UGI PNG will hold a collaborative open to all interested parties no later than 30 days  
17 from the date of the final order approving this settlement to address any concerns  
18 regarding capacity releases, and (ii) issues pertaining to the assignment of capacity to  
19 Rate DS and LFD customers will be addressed in the Company's annual Purchased Gas  
20 Cost proceedings or a base rate case. (Settlement ¶ 51(b)-(d)) These Settlement  
21 provisions will address any concerns regarding notice provided to potentially affected  
22 customer or natural gas supplier groups, as well provide a forum to address any concerns

1 that potentially affected customer or natural gas supplier groups may have with the  
2 Capacity Release Program.

3  
4 **Q. Interruptible Service (IS) customers — What were the IS customer revenues over**  
5 **the last 3 years? Does the Company have future IS new customer revenue projection**  
6 **information for IS customers not included in capital projects estimated in the future**  
7 **test year for the FPFTY, and for new IS customers included in the capital projects**  
8 **estimated for the FPFTY? If so, please provide such revenue projections in the**  
9 **evidentiary record of this proceeding.**

10 A. UGI PNG's fiscal year runs from October 1 through September 30 of the following year.  
11 The Company's Rate IS customer revenues over the last three fiscal years were:

12 Fiscal Year 2014 = \$2,656,422

13 Fiscal Year 2015 = \$1,468,582

14 Fiscal Year 2016 = \$2,636,887

15 The Company does not have any new IS customers projected for the FPFTY that are not  
16 already included in either (i) the capital projects estimated in the future test year ending  
17 September 30, 2017, or (ii) the capital projects estimated for the FPFTY. See  
18 supplemental direct testimony of Paul J. Szykman, UGI PNG Statement No. 1-SD, pp. 7-  
19 8.

20  
21 **Q. The Company's Get Gas program is relatively new, yet the Company asserts it**  
22 **rolled related investment into rate base, less deductions for depreciation and the**  
23 **applicable principal portion of the GET Gas surcharge. This appears to socialize**

1        **these long term investments into the overall rate base after a very short period of**  
2        **operation, thus, potentially causing existing customers to pay for new customer**  
3        **related investments. Please provide a comprehensive description of the treatment of**  
4        **these costs. Does the Company currently track or propose to track revenues and**  
5        **costs for these historical Get Gas investments after they are rolled into rate base?**  
6        **Please provide the relevant accounting and ratemaking treatment of these capital**  
7        **investment costs.**

8    A.    The proposed rate treatment of the GET Gas investments and surcharge revenues is  
9        addressed in the direct testimony of David E. Lahoff, UGI PNG Statement No. 7, p. 29  
10       and in UGI PNG Exhibit DEL-14. UGI PNG will continue to track the portions of  
11       investments rolled into base rates as well as the total GET Gas revenues collected. A  
12       detailed response to these questions concerning the Company's GET Gas program is  
13       provided in the supplemental direct testimony of Paul J. Szykman, UGI PNG Statement  
14       No. 1-SD, pp. 8-12.

15  
16    **Q.    UGI-PNG noted that an additional Combined Heat and Power ("CHP") program is**  
17        **also being proposed as a separate fuel-switching program in addition to the six**  
18        **programs that comprise the EE&C Plan. Is this part of the TED rider and the**  
19        **EE&C Plan? If the CHP program is not under the TED rider, is UGI proposing to**  
20        **provide information in response to the reporting requirements as required by the**  
21        **Commission in the proceeding at Docket No. R-2015-2518438?**

22    A.    The Company's proposed TED Rider pilot and EE&C Plan are different programs. The  
23        proposed CHP program is part of the EE&C Plan, not the TED Rider pilot. UGI PNG

1 will comply with the EE&C reporting requirements required by the Commission in the  
2 proceeding at Docket No. R-2015-2518438. Additional supporting detail is set forth in  
3 the supplemental direct testimony of Paul J. Szykman, UGI PNG Statement No. 1-SD,  
4 pp. 13-14.

5  
6 **Q. UGI-PNG's EE&C program appears not to establish any rebate application**  
7 **deadlines as prescribed by Act 129 plans for the purposes of minimizing free rider**  
8 **impacts. Please provide information on whether the Company intends to include**  
9 **such rebate application deadlines in its EE&C Plan.**

10 A. UGI PNG's proposed EE&C Plan does not establish any rebate application deadlines as  
11 prescribed by Act 129 plans. The Company is, however, sensitive to the Commission's  
12 concern over free ridership, whereby a customer would receive a benefit for an energy-  
13 efficiency measure he or she has already planned to implement, irrespective of any  
14 incentive provided by the Company's EE&C Plan. The Company's EE&C Plan is  
15 proposed for a fixed period of time from January 1, 2018- September 30, 2022. Only  
16 qualifying measures installed during the pendency of the Plan will qualify for rebate. No  
17 measures installed prior to the commencement of the Plan will qualify for rebate.  
18 Therefore, it is believed application deadlines are not necessary to prevent free ridership.  
19 See the supplemental direct testimony of Paul J. Szykman, UGI PNG Statement No. 1-  
20 SD, pp. 14-15.